Why do founders exit their firms by transferring them to employee ownership?

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Abstract

Every founder who establishes a business must, at some point in their life, exit from it. The ageing population of business owners and the consequences that arise from their exits is increasingly bringing into view the significance of this issue for society and the economy. However, whilst much is known about the considerable heterogeneity that founders demonstrate in their motivation and behaviour at venture start-up, little is known about this heterogeneity at exit.

This thesis considers the current state of knowledge in relation to entrepreneurial exit. It examines the reasons why founders exit their firms by transferring them to employee ownership in preference to other exit choices. The results of its research, generated by inductive, qualitative enquiry with theory building as its goal, describe how founders pursue transfer of their firms to employee ownership as a legacy outcome. The desire to create a legacy through the continuance of the business, in a form that is consistent with the self-concept of the founder, outranks financial maximisation considerations at exit.

The lens of identity theory is utilised to view individual-level legacy motivation and actions at exit, incorporating legacy orientation, stewarding the legacy into being and protecting the legacy from loss. Identity theory is appearing with greater frequency in the entrepreneurship literature but is largely absent in studies of entrepreneurial exit.
The concept of 'entrepreneurial legacy imprinting', introduced by this thesis, is informed by three identity-based theoretical constructs (social identity, role identity and loss aversion, including identity loss) as a novel contribution to better understand the exit motivation and behaviour of business founders.

The thesis highlights the need for business support policy and practice to address the widespread ignorance towards employee ownership as a founder exit outcome and the scepticism held towards it by many professional advisers. Failure to do so will continue to exclude an otherwise viable exit pathway to those who desire a legacy solution for the continuance of their business.

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Tables and Figures

Abbreviations

CEO	Chief Executive Officer
CGT	Capital Gains Tax
EBT	Employee Benefit Trust
EMI	Enterprise Management Incentives
EO	Employee Ownership
EOA	Employee Ownership Association
EOT	Employee Ownership Trust
ESOP	Employee Stock Ownership Plan
EU	European Union
G20	Group of 20 (Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, México, Russia, Saudi Arabia, South Africa, Korea, Turkey, the United Kingdom, United States and European Union)
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
HMRC	Her Majesty's Revenue and Customs
MBI	Management Buy-In
MBO	Management Buy-Out
MD	Managing Director
OECD	Organisation for Economic Co-operation and Development

ONS	Office for National Statistics
SIP	Share Incentive Plan
SME	Small and Medium-sized Enterprise
RBV	Resource-based View
U.K.	United Kingdom
U.S.	United States of America

Chapter 1: Introduction

1.1 Purpose and context

The purpose of this thesis is to examine why business founders make the decision to exit their firms by transferring them to employee ownership. Entrepreneurial exit is understudied in the literature (Morris et al., 2018) and studies have paid scant attention to transfer to employee ownership as an exit choice for founders. This thesis presents an inductive, qualitative study with founders who have made this choice. It utilises identity theory as a theoretical lens to explain their motivation and behaviour as being driven by their desire to create and imprint an entrepreneurial legacy through their businesses.

Successful founders make a critical contribution to the economy (Ucbasaran et al., 2010). Therefore, understanding the factors and processes that are inherent to founding and sustaining a business is arguably at the heart of much of the entrepreneurship literature (Shane and Venkataraman, 2000; Shane, 2012). However, one day, e*very single individual* who is involved in founding a business must also, at some point, exit from it. This exit may be dictated by choice, by events or by death (DeTienne and Cardon, 2012). Nonetheless, as opposed to the wealth of literature that exists about the act of starting up a venture, far fewer studies have been undertaken about exiting from it - the 'other end of the spectrum' (DeTienne, 2010; Forster-Holt, 2013).

Knowledge and understanding of entrepreneurial exit have, therefore, been hampered by a lack of attention (DeTienne, 2010; Hessels et al., 2018; Morris et al., 2018). The literature is focused on entrepreneurship as a process of individual opportunity at start-up and pays far less attention to it being something that, ultimately, must come to a close (Morris et al., 2020). Consequently, there is a growing awareness of the need for more research into entrepreneurial exit, i.e. "the process by which the founders of privately held firms leave the firm they helped to create; thereby removing themselves, in varying degrees, from the primary ownership and decision-making structure of the firm" (DeTienne, 2010, p.203).

The importance of the need to address this situation is given added impetus by the ageing population of SME business owners and the significance of the fate of their firms to the global economy (von Bonsdorff, 2018). Traditionally, founders would exit their firms by passing them on through inter-generational family business transfer (Dehlen et al., 2014). However, the evidence suggests that family business succession is in relative decline (e.g. van Teeffelen, 2012). Nonetheless, the literature has neglected exits of founders who choose non-family destinies for their firms, whether through choice or force of circumstances (Chirico et al., 2019).

One such exit choice is to transfer the ownership of the business to its employees. The viability of this option was extended in the U.K. by the advent of legislation to introduce Employee Ownership Trusts (EOTs) in 2014. EOTs currently account for a small proportion of transfers, but their incidence is growing rapidly and is projected to increase further (Robinson and Pendleton, 2019). However, employee ownership as a transfer option for exiting owners has not been examined by the nascent entrepreneurial exit literature in any consequential way, whether in terms of its antecedents or its processual manifestations.

In this context, the central research question addressed by this thesis is "why do founders exit their firms by transferring them to employee ownership"? The significance of this question is considered by the thesis in relation to the economy and to contemporary society. To provide a better understanding, the thesis also explores a set of associated questions that flow from it, specifically: 'What are the main drivers that orientate founders towards this exit choice?'; "how are these drivers reflected in founders' exit behaviours?" and "what factors lead them to reject the alternatives?" To this end, the thesis also conducts a critical review of the extant literature and theory of entrepreneurial exit and business transfer. It presents the results of a qualitative research study that explores commonalities and heterogeneity in the exit experiences of those who have transferred their firms to employee ownership.

Ultimately, this thesis seeks to make an original and important contribution to knowledge in entrepreneurship, by introducing the concept of 'entrepreneurial legacy imprinting' to the literature. This concept explains the heterogeneity that exists in the motivation and behaviour of founders who exit their firms through transfer to employee ownership. It proposes that, for certain founders, the creation of a legacy through their continuance of their business in a form that is consistent with their sense of self-concept is an important driver at exit that outranks considerations of financial maximisation.

1.2 Thesis outline and structure

The thesis is set out over eleven chapters. Following this introductory chapter, the remainder are organised as follows:

Chapter 2: *Employee Ownership in context.* This chapter introduces the concept of employee ownership, in terms of its historical roots and its conceptual location in the literature. It describes how contemporary developments, such as changes to employee stock ownership plans (ESOPs) in the U.S. and the introduction of Employee Ownership Trusts (EOTs) in the U.K. are providing new choices for exiting business owners to transfer their ventures to their employees.

Chapter 3: *The issue at hand: exit and the business transfer imperative* examines the implications that are arising from the ageing population of business owners. It also describes the decline of family business succession, which has been the traditional exit pathway chosen by business owners for the transfer of their businesses. The chapter considers the imperatives that arise from the coming together of these factors, together with the significance for contemporary society and the economy of increasing levels of business transfer failure. It points to the need for greater research attention to be given to non-family business transfer alternatives.

Chapter 4: *Entrepreneurship and exit: towards a new research agenda.* This chapter presents a critical review of the extant literature in entrepreneurial exit and non-family business transfer. It highlights how understanding has been obscured by a series of conflations and insufficiency in differentiating between exit and failure, distinguishing individual exits from firm exits and separating out the destiny chosen for the firm and the exit choices available to the individual. It describes how the volitional exit of the individual from their firm has been recognised as a discrete phenomenon and has emerged as a distinct strand within the entrepreneurship literature. The chapter concludes by drawing attention to the limitations of extant theoretical and conceptual perspectives applied in studies of entrepreneurial exit, highlighting the need for new research approaches.

Chapter 5: *Entrepreneurial legacy: identity theory*. Given the limitations of the entrepreneurial exit literature to offer explanatory perspectives for the thesis topic, this chapter provides the results of a literature quest undertaken to illuminate the research findings. Identity theory is appearing more frequently in the entrepreneurship literature. However, along with concepts of legacy, it has not been used to any consequential extent in studies of entrepreneurial exit. The chapter sets out legacy concepts and identity theory, their relationship to one another and their extant location in the literature of entrepreneurship, providing the theoretically-grounded framework upon which the conceptual contribution of this thesis is developed.

Chapter 6: *Research Methodology* considers the choice made in this thesis to address the research question through a qualitative study, conducted through cross-sectional research design and inductive enquiry. It provides a detailed description of the planning, sampling and data collection with business founders. It sets out the analytical strategy that was deployed as the codes and themes evolved, leading to the creation of a structure that grounds emergent concepts in the data. This data structure provides the analytical framework for organising and presenting the findings.

Chapter 7: *Results: Participant Profile; ownership and management exit, legacy inclination.* This is the first chapter in which the empirical material of the thesis is presented. It commences with a detailed profile of the research participants. The importance of distinguishing ownership exit and management exit in situations of business transfer is uncovered. Ownership and management exit operate on trajectories that are connected but can also occur separately and at different paces. The chapter also reveals the centrality of the desire to create and imprint a legacy in the founders' decisions to transfer their firms to employee ownership.

Chapter 8: *Results: Legacy Orientation through Social Identity* presents the research findings in relation to connections between the founders' values, beliefs and self-concepts and their decision to exit by transferring their firms to employee ownership. In doing so, it draws upon the typology of the 'pure' founder social identities– 'Communitarians', 'Missionaries' and 'Darwinians'. This typology, developed by Fauchart and Gruber (2011), has been used to explain the heterogeneity of founder motivation at venture start-up. However, its use in explaining heterogeneity in relation to exit orientation and motivation towards business legacy creation is new.

Chapter 9 - *Results: Stewarding Legacy* sets out how the founders adopted a 'stewarding' role identity in their exit behaviours to pro-actively facilitate their exit and achieve their desired legacy objective of employee ownership. It describes the 'exit effort' they had to put in, the impetus that was provided to do so by advancing age and how they dealt with the low level of understanding of employee ownership held by professional advisers. Particular attention is paid to the unique way by which the founders had to 'shepherd' the pecuniary aspects of the transfer, given that the EOTs had no prior financial means to purchase the firms from their founders.

Chapter 10 - *Results: Protecting Legacy.* This chapter examines how founders avert the prospect of loss of legacy and the associated loss of self-identity by rejecting the closure or sale of their firm in favour of employee ownership transfer. It also identifies and interprets the self-protection mechanisms deployed by founders to safeguard their legacy. These represent the 'flip side' of the stewarding roles described in Chapter 9 and comprise offsetting anxieties linked to loss of identity and control and maintaining financial leverage and influence in their firms.

Chapter 11: *Discussion and contributions to the literature.* The thesis closes with a chapter that sets out its conceptual model of 'entrepreneurial legacy imprinting'. The model aims to improve understanding of founder motivation and behaviour at exit by introducing the importance of legacy creation when they transfer their firms to employee ownership. The chapter discusses the theoretical contribution of the thesis to the literature of entrepreneurship and presents its findings for business transfer policy and advisory practice. It concludes with a statement of its limitations and a call for a research agenda that places greater emphasis on identity-based motivations and legacy-focused behaviour at exit to complement the current prominence of financial motivation in the literature.

1.3 A note on terminology: founders as the unit of analysis

This thesis is concerned with the experiences of exiting individuals, whose perspective is largely neglected in the literature (Eisenhardt, in Gehmen et al., 2018). Commonly, when individuals are the unit of analysis in entrepreneurship research, the terms 'entrepreneur' and 'founder' are used interchangeably (Murnieks et al., 2019). Nonetheless, entrepreneurs, founders and venture owners operate across a continuum of characteristics. They have different levels of approach to innovation, risk and growth, displaying variable motivational drivers that stem from value orientation and desires for independence, authority and achievement (Mason, 1983; Carland et al., 1984). Thus, many individuals or groups that own a business do not necessarily act in an 'entrepreneurial' fashion (Shailer, 1994; Shane and Venkataraman, 2000; Thurik and Wennekers, 2004). Studies also point to differences that exist between the motivations and behaviours of founders and business owners who are non-founders (e.g. Busenitz and Barney, 1997; Wasserman, 2003; Stewart and Roth, 2007; Hoang and Gimeno, 2010; Simsek et. al., 2015). Nonetheless, too often, studies do not differentiate between these factors, which has contributed to the overgeneralization of results across and within heterogeneous settings (Wiklund, 2011).

Consequently, entrepreneurship has been defined "umpteen" times, due to the heterogeneity of entrepreneurial phenomena (Davidsson, 2016, p.629). Hence, in entrepreneurship research, it is beneficial to define and be consistent with the use of the terms being used when it is central to the research question being addressed

(Davidsson and Shepherd, 2019). It is also important to be consistent to avoid unmeasured heterogeneity when individuals are the unit of analysis (Davidsson, 2016). The issue of consistency is also present in studies of entrepreneurial exit, which has inhibited clarity and the coherent development of theory (DeTienne, 2010; Rocha et al., 2015).

In this thesis, therefore, the term ‘founder’ is used to describe those who participated in the research. Otherwise, the use of terms such as ‘founder’, ‘entrepreneur’ and ‘(business) owner’ is accordant with the context in which they appear in the literature being referenced. On those occasions where this context is not specified, or is not relevant to the narrative, the term 'owner' is preferred.

Chapter 2: Employee Ownership in Context

2.1 Introduction

This chapter introduces the concept of employee ownership to the thesis, in order to provide relevant context to the research question. Transfer to employee ownership is emerging as a new exit choice and is being turned to by a rising number of exiting business owners (Robinson and Pendleton, 2019). However, it has not been studied in this context by the literature and knowledge of it amongst professional advisers as an exit choice for exiting owners remains low (EOA, 2018).

The chapter has three objectives: first, to locate the origins of employee ownership and the definitions that are applied to it; second, to review the main theoretical perspectives that have been applied to the efficacy of employee ownership and the extent to which they have been borne out by empirical studies; third, to review the impact of the emergence of 'indirect' employee ownership and, in particular, the model of employee trusts, given the specific context they provide to the research question of this thesis.

The chapter commences with a short review of how employee ownership has been defined and understood. It locates these definitions and the historical roots of employee ownership within two traditions: industrial democracy and corporate operations. The next part of the chapter considers how human capital theory, the resource-based view (RBV) and agency theory provide the main theoretical lenses through which the concept of employee ownership is viewed. The chapter also reviews the contemporary perspective provided by legislative developments that are specifically relevant to the current study. Notable amongst these is the initiation of Employee Ownership Trusts (EOTs) in the U.K., which have become a new ownership transfer option for business founders in the last few years and provide the specific exit pathway explored in this thesis.

2.2 Defining employee ownership

There is no universally established or legal definition for the terms 'employee ownership' or 'employee-owned company'. These terms can be applied by virtue of some, most or all its employees owning part, most or all the shares in the firm for which they work. For instance, the wide-ranging definition of employee ownership publicised by the National Center for Employee Ownership in the U.S. refers to "any arrangement in which a company's employees own shares in the company's stock."[1]

However, the terms 'employee ownership' and 'employee-owned business' have come to signify a more substantial condition in comparison with those where incidental share options are granted to employees. For example, the U.K. government refers to employee ownership as a state of affairs in which *all* employees have a 'significant and meaningful' stake in a firm, *both* in terms of having a monetary stakeholding through share ownership as well as a say in how the firm is run.[2]

The Employee Ownership Association (EOA), the membership body established in 1979 to represent employee-owned firms in the U.K. states that "Employee-owned businesses are totally or significantly owned by their employees."[3] Moreover, in 2013, the U.K. government issued a guidance publication stating that "A business in which a controlling stake is held by or on behalf of all employees is called an employee-owned business" (Department for Business, Innovation and Skills, 2013 p.4).

2.3 Industrial democracy, employee ownership and the co-operative movement

Employee ownership in the U.K. can be considered to have its roots in the history of British industrial democracy. The political struggles that took place during the

[1] See https://www.nceo.org/employee-ownership/id/12/
[2] At https://www.gov.uk/employee-ownership
[3] At https://employeeownership.co.uk/

development of the industrial revolution and capitalism witnessed the creation of collectivist forms of organisation that were based upon workers being able to make decisions, share responsibility and co-determine authority in the workplace (Thompson, 1968). Before this time, 'companies' were originally government-created firms that were established to pursue a public purpose as separate, legal entities to their members. It was only from the mid-nineteenth century that it became more widespread for companies with limited liability to be privately owned (Gamble and Kelly, 2000 in McDaniel and Berry, 2017). Adam Smith considered the division of labour, capitalism and its regulation by the market, in his writings at the time (Boutillier and Uzunidis, 2014). He viewed the creation of private companies with suspicion, seeing them as less worthy and efficient in the marketplace than the ownership and control exercised directly by individuals (Gamble and Kelly, 2000 in McDaniel and Berry, 2017).

Historians have written extensively about how this period also witnessed the origins of worker and consumer cooperatives. Such organisations, founded with collectivist ownership principles, were set up to counter the detrimental societal and economic effects of capitalism, where wealth became concentrated in the few hands of those who owned private companies. These organisations included other institutions with collectivist purposes, such as mutual societies, credit unions and building societies (Thompson, 1968).

However, despite the cooperative movement having its roots in the U.K., British cooperatives are less prevalent than in many other developed countries. A 2016 study for Co-operatives U.K. estimates that there are between 500 and 600 employee-owned worker cooperatives in the country. This compares with approximately 25,000 in Italy, 17,000 in Spain (employing 210,000 people) and 2,600 (employing 51,000) in France (Pérotin, 2016). The situation is similar when other co-ownership models are included, such as those based on membership. For example, there are estimated to be towards 6,800 U.K.-based cooperatives, employing some 223,000 people.[4] This compares unfavourably to the average across the G20, where the cooperative movement accounts for towards 12% of employment of the active workforce, employing some 250 million people globally (CICOPA, 2014 in McDaniel and Berry, 2017). Some variances can be

[4] Co-operatives U.K., *The U.K. cooperative economy* (2016), at http://reports.uk.coop/economy2016/

explained by definitional, regulatory and contextual differences in the data between countries (Pérotin, 2016). Nevertheless, these statistics point to the U.K. cooperative sector being relatively small, in comparison with its neighbours in Europe and the average across the G20.

Employee-owned firms, such as those owned by an EOT, are not commonly classified as cooperatives. However, it is arguable that the collective nature of ownership structures in employee-owned firms enables them to 'sit' comfortably, alongside cooperatives and other forms of mutual enterprise, within the traditions of social enterprise and the industrial democracy movement. Employee-owned firms may also advance a social purpose through their product or service portfolios in a way that is common to many cooperatives and social enterprises, although most offer mainstream products and services to the commercial market (EOA, 2018).

Nonetheless, a unique feature of the majority of employee-owned firms in the U.K. is that most were previously built up by private individuals. Hence, unlike most cooperatives and mutuals, the 'wellspring' of such EOT-controlled firms originates from ventures that were previously held in private ownership by a founder, a founding team or a family.[5] These individuals retained all, or a majority, of the equity and the generated profits, prior to conversion to EOT ownership – a process the EOA refers to as 'transitioning'.[6] Thus, the combination of their origins, non-conventional ownership structures and, for most, the transition from private and individual ownership to being owned by a trust makes employee-owned firms unique. As such, they display characteristics of 'hybridity' in organisational typologies, which are emerging more widely in modern economies (Doherty et al., 2014).

[5] A representative of the EOA, in an email to the author dated 7th November 2019, states that they do not hold precise data on the proportion of employee-owned firms that are spin-offs, or were employee-owned at start-up, but they estimate that between 75-80% of all current employee-owned firms transitioned from having been founder or family owned.

[6] At https://employeeownership.co.uk/wp-content/uploads/EO-guide-to-structuring-employee-ownership1.pdf The EOA also states that employee ownership structures are suitable vehicles for spin-off ventures that are set up to take over responsibility for delivering a public service, or in some instances at venture start-up.

2.4 Employee ownership, corporate operations and market economies

The hybrid characteristics of employee-owned firms can also be viewed as a mode of organisational incentive driven by corporate human resource strategies (Müller-Jentsch, 2008). This mode views employee ownership as a mechanism operated by companies as a reward scheme for employees, one which is approached as a structure to facilitate monetary participation (Kaarsemaker et al., 2009) as opposed to the conceptualisation of employee ownership as a form of ideological co-determination or industrial democracy that has origins in its 'socialist embeddedness' (Müller-Jentsch, 2008).

In accordance with strategic and human resource management perspectives, a pecuniary stake provided to employees through an element of ownership of the company in which they work, leads to improvements in company performance (Kim and Patel, 2017). Higher levels of ownership can contribute to higher levels of 'psychological ownership' being generated on the part of the employees. This is manifested through enhanced employee identification with firm objectives which, in turn provides employees with incentives to enhance performance and commitment at work (Pierce et al., 2003). Psychological ownership is characterised by identification and attachments that are developed from something that 'feels' as if it is 'mine' or 'ours' rather than just 'someone else's' (Pierce et al., 2003).

Therefore, employee ownership is fostered by firms that wish to encourage pro-organisational behaviours amongst their employees. It encourages their employees to 'feel' like owners to complement the *actuality* of legal or physical ownership that they gain by becoming 'co-owners' (Avey et al., 2009; Kim and Patel, 2017). Such perspectives also hold that additional stimulus is provided to capitalist economies by greater employee motivation and the wider distribution of wealth. As a result, a broader-based approach to company ownership that enables employees to benefit financially is often viewed positively at government and policy levels (Freeman, 2007).

2.5 Employee ownership, the resource-based view and agency theory

Given the contextual issues set out above, studies that are concerned with employee ownership have struggled with definitional consistency. In consequence, the concept is relatively under-theorised (Brown et al., 2019). Conceptual understanding in the management literature is largely derived from human capital theory. This posits that the justification for the adoption of employee ownership initiatives is the enhancement of the efficacy of human capital (Kim and Patel, 2017). Therefore, the resource-based view (RBV), which views human capital in terms of its capacity to generate profits as a key resource in the competitiveness of firms, is widely applied. Viewed through the lens of RBV, human capital is improved by employees having a greater stakeholding in decision-making within their organisations (Kim and Patel, 2017).

Agency theory provides another perspective to the concept of employee ownership. Agency theory assumes the existence of an ultimate conflict of goals between 'principals' and 'agents'. 'Principals' own the firm, whilst the 'agents' are those with whom they contract to perform services and act on their behalf (Jensen and Meckling, 1976). Agency theory proposes that these different agendas of self-interest inherently contain the potential for conflict. As a result, they generate agency costs because of the resulting need to monitor employees to dissuade dysfunctional behaviour and provide motivational incentives (Eisenhardt, 1989a). Similarly, shareholder theory presents the owners of the firm as being motivated by profit maximisation, whereas the managers in the firm are motivated by maximising utility, such as increases in salary, benefits and status (Williamson, 1981).

According to this line of reasoning, share-owning employees and the principal owner(s) all stand to gain from profit-sharing, enhanced share prices and asset accruals (Eisenhardt, 1989a; Pendleton, 2006; Kaarsemaker, 2007). Thus, when employees become shareholders in the firms that employ them, agency theory-based reasoning suggests that goal conflicts and agency costs reduce as the interests of employees and owners become aligned. It posits that employee ownership achieves the benefits of enhanced human capital envisaged by RBV. Consequently, firms benefit from enhanced performance and the dysfunctional aspects highlighted by agency theory in organisational management are overcome (Kim and Patel, 2017).

2.6 The efficacy of employee ownership

The theoretical perspectives outlined above point to the potential efficacy of strategies that are designed to implement wider share ownership amongst the employees of firms. Employee ownership is advocated by those who assert that there is an unambiguous evidence base for its efficacy as a 'better way of doing business.' As such, it is proposed as an attractive solution for business founders who are looking to exit and transfer their firms (e.g. EOA, 2018).

However, the picture painted by the literature, in terms of the efficacy of employee ownership, is a mixed one. Lampel et al. (2017) conclude that the performance of employee-owned firms across a range of indices is either similar or superior to that of non-employee owned firms. They find that the beneficial impact of employee ownership is found in firms where the employee stake is greater, particularly in SMEs and is more observable the longer it has been in place. In addition, a meta-analysis of 102 studies covering 56,984 firms finds small but significant effect sizes that show a positive relationship between employee ownership and firm performance (O'Boyle et al., 2016).

A separate study of almost 1,800 European firms finds that, while there is evidence of small but significant gains when employee ownership is allied to contextual factors (e.g. country, period and industry effects, firm culture and human resource practices), the relative variance explained by employee ownership as a single variable is not statistically significant (Kim and Patel, 2017). Another study challenges the existence of evidence to support the 'conventional wisdom' that participating in an employee share ownership scheme inevitably generates the psychological ownership amongst employees that is said to lead to a range of performance benefits (McConville et al., 2016). Basterretxea and Storey (2018) find that employee ownership can be linked to higher productivity and lower employee turnover, but it can also be linked to higher absenteeism and mixed effects on employee attitudes. Besides, the conclusion that the benefits of employee ownership are greater for SMEs (Lampel et al., 2017) is contested by Kim and Patel (2017). They argue that, whereas the small percentage gains they evidence in certain employee ownership scenarios could translate into absolute gains in larger firms, the absolute benefits of such gains in smaller firms can be questioned.

A major challenge to the drawing of uncontested research conclusions concerning the efficacy of employee ownership is that studies do not distinguish clearly between situations of lower levels of employee share ownership and employee majority control (Brown et al., 2019). For instance, much of the earlier literature, prior to the 1990s, focused on organisational situations where most of the share ownership was in the hands of employees. Since then, the literature has tended to examine situations where employee ownership is at more modest levels (Kaarsemaker et al., 2009). Moreover, the deployment of employee share ownership as a remuneration and reward initiative does not necessarily bring with it the expectation that employees will be more involved in company governance. However, in firms where employees have a controlling interest, there is a much stronger sense of ownership and a higher expectation of deeper involvement in firm governance and management (Kaarsemaker et al., 2009).

2.7 Employee ownership mechanisms: direct and indirect ownership

There are three ways by which employees can own shares in their firm; *direct* employee ownership, whereby individuals own the shares; *indirect* ownership, where shares are held through a collective vehicle, such as a trust; alternatively, firms can deploy a 'hybrid' model, which is a combination of the two. The distinctions between direct and indirect ownership are described further below.

2.7.1 Direct ownership

Employees can come to acquire direct share ownership in their firms in several different ways. There are opportunities that are available to any member of the public to buy shares in firms that are publicly quoted on the stock-market, whether or not they work for them. In addition, any owner of an enterprise can, if they wish, grant or offer for purchase shares in their firm to individual employees. However, all such transactions, whether gifted or sold, are subject to the levy of taxes and can be closely scrutinised by tax authorities. In the U.K., for instance, there are currently several share schemes that firms can make available directly to individual employees that are approved by HM Revenue and Customs (HMRC).[7] They are 'approved' in that they confer tax advantages to one or both parties in certain circumstances.

Two of these schemes - Save as you Earn (SAYE) and Share Incentive Plans (SIPs)[8] must be made available to all eligible personnel within a business. On the other hand, firms have discretion over which individuals they wish to benefit in two others - Company Share Option Plan (CSOP) and Enterprise Management Incentives (EMIs), the latter of which has several excluded sectors and is aimed specifically at SMEs.

2.7.2 Indirect ownership

A trust is the most common mechanism utilised to facilitate indirect employee ownership. A trust is a legal relationship, whereby assets are placed under the control of a trustee, as the nominal owner of the trust, for a specified purpose that operates for the benefit of one or more beneficiaries. In the case of employee ownership, the purpose of a trust is to hold shares in a company on behalf of its employees. It is the trust, therefore, that holds the ownership, rather than individual employees.

In the U.S., arrangements of this type commonly occur through an employee stock ownership plan (ESOP),[9] whereby shares are placed in a trust, which is in turn underwritten by the company. ESOPs have their origins in the earlier part of the twentieth century, when tax legislation enabled well-known firms at the time to

[7] A description of each of HMRCs employee share schemes is provided at https://www.gov.uk/tax-employee-share-schemes

[8] SIPs are not to be confused with SIPPs (Self-invested Pension Plans). Founders and key informants referred to both SIPs and SIPPs in the interviews for this study. Care has been taken in the analysis of transcriptions and quotations to ensure the correct one that was being referenced (normally SIP).

[9] The terms 'stocks' and 'shares' are used interchangeably in this thesis and largely used in this way in the U.K. and the U.S. to describe financial equities. There can be minor contextual differences – for instance 'shares' can be described as comprising units of 'stock' - but rarely vice versa. See https://www.investopedia.com/ask/answers/difference-between-shares-and-stocks/

establish equity ownership and profit-sharing mechanisms as employee incentive schemes (Menke and Buxton, 2010). The first significant ESOP-based transaction, where firm ownership was transferred to its employees to facilitate business succession, was initiated by two elderly founders of a publishing company, Kelso, in 1956. ESOPs were formally established in law in 1974 and were introduced primarily to facilitate the exit of business founders for retirement purposes and to build pension plans for employees (Menke and Buxton, 2010). As of 2016, according to the National Center for Employee Ownership, there were 6,660 ESOPs with a total of almost $1.4 trillion in assets in existence. These ESOPs and closely related schemes involve over 14 million participants, including almost 10.7 million people who are currently employed.[10]

ESOPs have been criticised for placing at risk the retirement security of the very employees that they are designed to benefit, because they are tied to the financial well-being of the company that employs them (Anderson and Morrison, 2019). Nonetheless, the recent advent of the Main Street Employee Ownership Act 2018 has the specific intention of encouraging and supporting employee-owned businesses. Crucially, for the first time, it now permits employee-owned firms to have access to Small Business Administration financing guarantees. This allows 85% of bank loans up to 5 million dollars to be guaranteed by the government, enabling many more firms to facilitate business succession through employee ownership by overcoming the barrier of funding the transfer through access to finance.[11]

In the U.K., it has been possible for many years to establish trusts for the benefit of employees. For example, the John Lewis Partnership has a recognised place in the history of its employee ownership movement, being the largest and arguably most widely recognised employee-owned business in the U.K. It started in 1929, when John Spedan Lewis established a trust in order to distribute the firm's profits to its work force. He signed over the firm twenty years later to a trust, in which the firm was held as the property of its employees.[12]

[10] At https://www.nceo.org/articles/esops-by-the-numbers
[11] Dubbs, S. 'Historic Federal Law Gives Employee-Owned Businesses Access to SBA Loans', Non-Profit Quarterly, August 14, 2018, at https://nonprofitquarterly.org/employee-owned-businesses-sba-loans/
[12] At https://www.johnlewispartnership.co.uk/content/cws/about/our-founder.html

In the 1980s, Employee Benefit Trusts (EBTs) became more widespread as a vehicle to hold assets for the benefit of company employees. EBTs became an important vehicle to facilitate employee ownership for collective ownership and certain types of individual share ownership. However, they have also been used for a wide range of reasons, due to the tax benefits they are granted, as professional advisers have taken advantage of these benefits for their clients. As a result, HMRC has increasingly viewed many EBTs with suspicion, with one source claiming that EBTs have been the subject of 12,000 investigations in the last five years.[13] It is not known to what extent the attention from HMRC has acted as a disincentive to the formation of EBTs for bona fide employee ownership purposes.

2.8 The advent of Employee Ownership Trusts (EOTs)

In 2014, the U.K. government introduced Employee Ownership Trusts (EOTs) under Section 290 and Schedule 37 of the 2014 Finance Act.[14] Previously, where majority employee ownership in companies had been established in the U.K. (or in the U.S.) it had generally occurred through the establishment of some form of employee benefit-based trust (Kaarsemaker et al., 2009). However, EOTs were designed to provide a clear and unambiguous framework to enable employee ownership. The 2014 Act followed the 2012 publication of the report 'Sharing Success: The Nutthall Review of Employee Ownership',[15] an independent review into advancing the concept of employee ownership within the mainstream British economy. The Nutthall Review contained a series of recommendations to government to facilitate its wider take-up. These recommendations concerned areas such as increasing awareness, reducing complexity and providing monetary and other incentives to overcome the barriers that existed.

EOTs are a specific form of EBT with various unique and specific features. Capital Gains Tax (CGT) is usually applied at a rate of 20% on redeemed, non-residential chargeable

[13] At https://www.personneltoday.com/hr/hmrc-intensifies-crackdown-on-employee-benefit-trusts/
[14] The 2014 Finance Act explanatory notes, which describe the relevant provisions in detail, can be found at http://www.legislation.gov.uk/ukpga/2014/26/notes/division/1/131?view=plain
[15] At https://www.gov.uk/government/publications/nuttall-review-of-employee-ownership

assets. Under various conditions, business owners benefit from a reduced capital gains tax rate of 10% when they sell, give away or otherwise dispose of the shares in their business. Known as 'entrepreneurs' relief', this is available for up to £10 million of lifetime gains.[16] However, the 2014 Act reduced this to zero, in relation to any shares transferred by business owners that result in an EOT owning at least 51% of the firm and therefore majority control of the firm. Moreover, in each tax year, there is an income tax exemption for EOT-controlled companies, whereby each individual employee can receive up to the amount of £3,600 tax free, linked to company-wide bonuses or profit-sharing. There is the proviso that any distribution or benefit must operate for every employee and be equitably applied (i.e. the same percentage of salary, or a flat rate amount). It can only differ 'pro rata', tied to the employees' hours worked, remuneration or length of service.[17]

Thus, in order to be compliant with the legislation, EOTs must be established for the benefit of *all* the employees of the company, and they must treat them on an equitable basis. The significance of this development is that the control that is exercised by an EOT cannot only exist for the benefit of senior management, or selective individuals. Rather, it must operate for every company employee and operate on the same basis for each of them. For the first time, therefore, the 2014 Act had the specific intention of encouraging company owners to sell to their employees a *controlling* stake in their company, by providing a purposefully-designed trust vehicle accompanied with tax incentives to do so.

2.9 Current levels of employee ownership in the U.K.

Data produced by the EOA in 2019 indicates that the three largest employee-owned firms in the U.K. are the John Lewis Partnership, with 84,500 employees and an annual

[16] At https://www.gov.uk/entrepreneurs-relief. The U.K. Chancellor of the Exchequer, in the Budget announcement of 11 March 2020, reduced these lifetime gains to £1m. This will result in a differential of 20%, rather than 10% for anything above £1m between CGT and the tax-free provisions for EOT transfers. All other things being equal, this increase in the differential will make EOTs comparatively more attractive on financial grounds than at present.
[17] The Employee Ownership Association has produced a guide that includes a more detailed summary of the tax arrangements that apply to various employee ownership schemes. This guide is available at https://employeeownership.co.uk/wp-content/uploads/EO-guide-to-structuring-employee-ownership1.pdf

turnover of £10,204 million.[18] This is followed by the engineering and management group, Mott Macdonald (£1,548 million and 14,730 employees) and the design and engineering company, Arup (£1,509 million and 13,346 employees). Approximately 20% of the U.K.'s largest 50 employee-owned companies are SMEs, employing 500 or fewer staff. They are reported to have annual revenues of £19.8 billion, employing some 171,000 employees, which comprises 1% of the U.K. private sector workforce. Other estimates from the EOA suggest that the employee-owned sector in its totality contributes more than 4%, or over £30 billion annually of U.K. GDP (EOA, 2018). Firms becoming employee-owned are drawn from diverse sectors; for instance, manufacturing accounts for 17%, wholesale and retail almost 10%, health and social care 8.4% and construction 6%. Half are professional service firms, with 30% of those from technical and scientific sectors (Robinson and Pendleton, 2019).

Whereas the proportion of firms in the U.K. that are employee-owned is relatively small, the latest data show that the number of companies transitioning to this arrangement is rising steeply. A recent paper estimates that, as of June 2019, there are 370 employee-owned businesses in the U.K., of which over 60% became employee-owned since 2014, the year of the Finance Act (Robinson and Pendleton, 2019). Furthermore, the rate at which firms are becoming employee-owned is continuing to accelerate, by 17.2% in 2017 and 18.5% in 2018 (see Figure 1). This indicates that the advent of EOTs that were introduced by the 2014 Act has provided a significant impetus to the creation of employee-owned firms.[19]

[18] The figures comprise independent U.K.-registered unquoted companies that are at least 25% owned by employees and U.K. subsidiaries of non-U.K. companies which are more than 75% employee-owned. The data are available at https://employeeownership.co.uk/wp-content/uploads/Employee-Ownership-Top-50-2019.pdf

[19] In an email to the author dated 7th November 2019, a representative of the EOA states that, at current trends, the number of employee-owned firms will be more than 900 by 2030. However, as a result of the national '#1millionowners' campaign that they launched this year, along with other initiatives, they expect this to be exceeded.

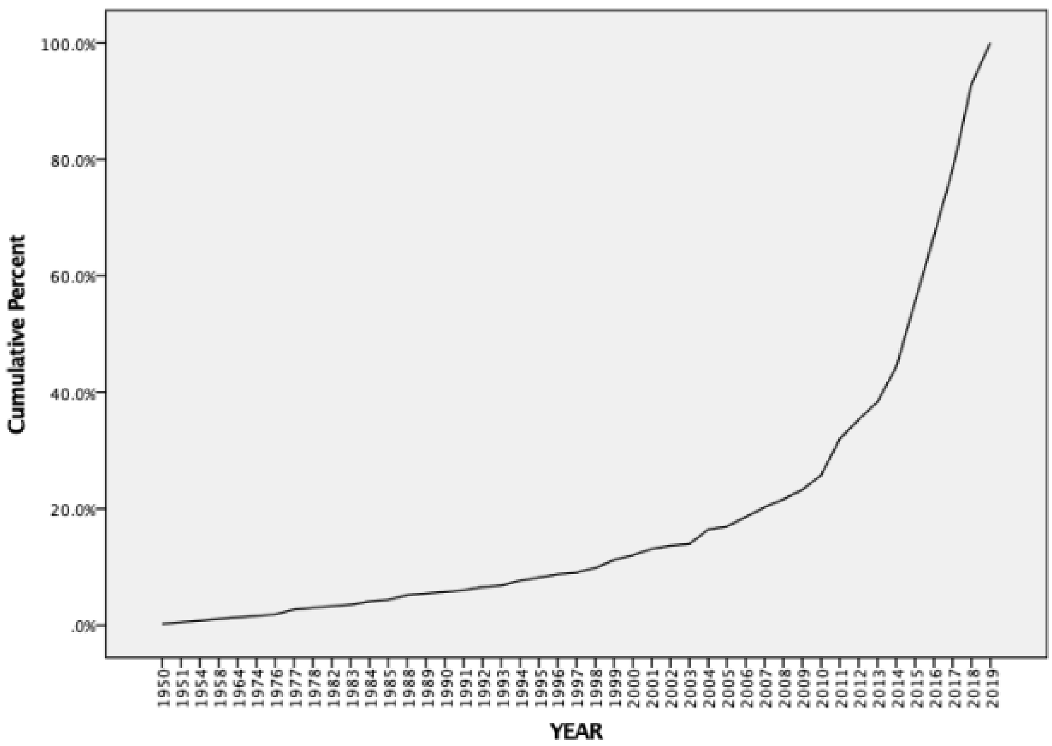

Figure 1: Profile of employee-owned companies in Britain
Source: White Rose Employee Ownership Centre, June 2019

2.10 Employee ownership, policy and profile in the U.K.

The 18 months to the end of 2019 witnessed the publication of many new features about employee ownership in the mainstream press and media. During this time several well-known companies, some with a high-profile founder, transitioned to employee ownership. They included Aardman Animations (creators of the 'Wallace and Gromit' series), Sawday's travel company, Riverford Organic Farmers and Richer Sounds, the hi-fi and TV retail chain.[20] Furthermore, commentators observe a societal trend towards the advancement of wider share ownership through increasing access to share ownership in the workplace, rather than the public share ownership championed by the Conservative government in the 1980s.[21] This trend is not restricted to the U.K.; in May

[20] E.g. The Guardian, 14th May 2018. Available at https://www.theguardian.com/business/2019/may/14/richer-sounds-staff-julian-richer

[21] E.g. The Independent, 30 June 2018, available at: https://www.independent.co.uk/news/business/comment/government-push-investing-equities-share-owning-democracy-stock-market-a8422866.html

2019 a survey of the U.S. public by YouGov found that 69% of Americans would support the right of first refusal in law allowing workers an opportunity to purchase their workplace in the event of a sale.[22]

The rising level of media interest and commentary since the 2012 Nutthall Review and the 2014 Finance Act has been accompanied by a series of initiatives at the policy level. For instance, in November 2016 the U.K. government announced its intention to explore measures to enhance connections in firms between company directors and others with a stakeholding, including employees.[23] It was widely reported in June 2018 that the Government had tasked a former Minister to explore how employee share ownership could be widened.[24] In August 2018, following a tripling of employee-owned firms in Scotland in recent years, the Scottish Government extended its support for employee ownership with a series of initiatives. They included the launch of a new investment fund to increase the number of employee-owned firms from 100 to 500 by 2030.[25]

At the political level, there have been new undertakings on employee ownership pledged by political parties. For instance, the Liberal Democrats included a 'right to request' entitlement for employees to be able to acquire shares through a trust and to have employee representation on the board of the company for which they work as part of its manifesto for the 2017 election. Most recently, in September 2018 the opposition Labour Party announced a new policy to impose a mandatory 'inclusive ownership fund' on firms employing more than 250 for to up to 10% of the shares to be owned and managed by its employees (smaller firms would be encouraged to do so, but on a voluntary basis). This pledge also featured in its November 2019 General Election Manifesto.[26]

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[22] At https://thenextsystem.org/learn/stories/wide-margin-americans-support-inclusive-ownership-funds

[23] Department for Business, Strategy and Industrial Strategy, Corporate Government Governance Reform, Green Paper, (November 2016)

[24] E.g. https://www.standard.co.uk/business/sir-michael-fallon-returns-to-revive-shareholder-democracy-dream-a3875761.html

[25] Scottish government announcement, 27th August 2018. At https://news.gov.scot/news/new-leadership-group-for-employee-ownership

[26] See https://www.bbc.co.uk/news/business-50508369

2.11 Conclusion

The purpose of this chapter has been to introduce the concept of employee ownership to the thesis. Given the focus of the research question, it has sought to place employee ownership in context, by examining its historical roots and conceptual development. It highlights that the literature has insufficiently differentiated between situations of employee majority ownership and control and those where there are lower levels of employee share ownership (Brown et al., 2019). Therefore, in order to provide consistency and clarity from this point onwards in this thesis, the term employee ownership, unless stated otherwise, refers to the situation where the majority of shares in the firm are owned by its employees (Kaarsemaker et al., 2009).

The chapter has described how contemporary developments in employee stock ownership plans (ESOPs) in the U.S. and the advent of Employee Ownership Trusts (EOTs) in the U.K. have provided a new impetus as business transfer choices for exiting business owners. The chapter that follows attests to the decline in the traditional exit and transfer pathway of family business succession, combined with the rapidly ageing population of business owners. Consequently, many more will need to find an alternative transfer solution if they are to be able to exit and see their firms continue.

As set out in this chapter, one such alternative is represented by the emergence of employee ownership as a strategy or exit pathway for business founders. Yet, employee ownership has received scant attention as a business transfer choice in the context of entrepreneurial exit. This alternative, and the reasons why founders are choosing it in preference to other exit and transfer choices, provides the focus of this thesis. Hence, this chapter has sought to develop a link between entrepreneurial exit and employee ownership. This is a novel connection that has not hitherto been addressed in the literature.

Chapter 3: The issue at hand: exit and the business transfer imperative

3.1 Introduction

The purpose of this chapter is to examine the importance of entrepreneurial exit and business transfer to contemporary society and the economy. The chapter has three objectives: first, to examine the challenges presented by the rapidly ageing population of business owners, who are eventually confronted with the need to choose an exit pathway that will determine the destiny of their firms; second, to examine how this situation is exacerbated by the decline of family business succession; third, to provide an assessment of the implications of business transfer failure to the economy.

The chapter begins by setting out the data that demonstrate the significance of business transfer as an outcome of entrepreneurial exit. Its significance is given added impetus by the ageing population of SME business owners and the importance of the fate of their firms to the global economy. Scholars of entrepreneurial exit are cognisant of this situation and contend that it is important (e.g. von Bonsdorff, 2018) but rarely produce specific data about it. Therefore, the chapter examines the evidence that underlies this situation.

The next part of the chapter presents the case that family business transfer, the pathway traditionally chosen by exiting business owners, is in relative decline. Again, this is a trend that has been observed by the literature (e.g. van Teeffelen, 2012). However, the existence of data that demonstrate this decline warrants a deeper look, since the extent to which it is taking place has rarely been quantified.

The chapter proceeds with a critical review of academic perspectives and public policy imperatives concerning the relative merits of supporting successful business transfers when set against fostering new venture creation. Finally, the chapter concludes with a summary of its key findings. It returns to significance of the thesis research question, as those who have founded a business and wish to see it continue after their exit increasingly find themselves searching for alternative transfer solutions.

3.2 The ageing population

3.2.1 The demographics of the ageing population

The average age of populations in western and advanced economies is rising, owing to a combination of improving healthcare, lifestyle and the increase in births during the post-war 'baby boom' years. Ageing populations pose mounting societal and economic pressures, including a lower proportion of people being economically active in labour markets and a greater number in retirement. As a consequence, the implications presented by the ageing population comprise one of the four 'grand challenges' set out in the current U.K. government's Industrial Strategy.[27]

Entrepreneurship scholars recognise that the ageing population presents the economy and society with such challenges. However, they rarely provide specific data to calculate or quantify the scale of these challenges. The extent to which the population is ageing, particularly in advanced economies, is highlighted in data published by OECD, the European Commission and ONS. For instance, the percentage of the population aged 65 and above across the EU increased from 11.46% in 1970 to 18.3% in 2013. This is echoed by the situation across the G7 (10.33% to 17.93%) and the U.S. (9.81% to 14.5% in 2014 (OECD, 2019). In the U.K., the corresponding figures were 13.03% to 17.46% in 2014 (OECD, 2019) and are projected to be 20.7% by 2027 (ONS, 2018).

The implications are particularly stark when the international situation is examined in relation to the working age population (classified as those aged 15-64). Across the EU the working age population is projected to decrease significantly, from 333 million in 2016 to 292 million in 2070, with the ratio of people aged 65 and above increasing from 29.6% to 51.2% (European Commission, 2018a). In 1980, on average, there were

[27] At https://www.gov.uk/government/publications/industrial-strategy-the-grand-challenges/industrial-strategy-the-grand-challenges

approximately 20 people aged 65 and over for every 100 of working age across the OECD. This had risen to 28 by 2015 and is projected to increase exponentially to 53 by 2050 (OECD, 2017). Consequently, economists are forecasting a significant increase in labour market participation by older people in the future, with many remaining in employment for longer (European Commission, 2018).

Figure 2 illustrates how the age structure of the U.K. has changed from the beginning of the twentieth century until 2010:

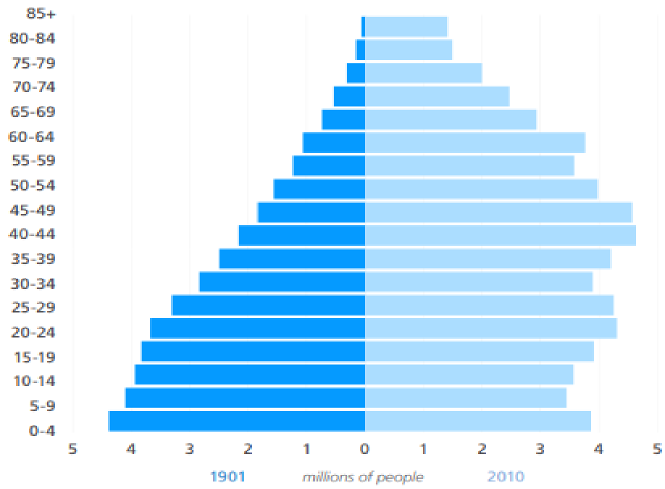

Figure 2: Changes in the U.K. age structure 1901-2010
Source: Olympic Britain, House of Commons Library, 2012[28]

Moreover, as illustrated by Figure 3, the number of those in the U.K. population who are now typically aged between 55 and 65 years is rising, given that the mid-1950s and mid-1960s were the years during which the 'baby boom' was at its greatest (ONS, 2018).

[28] Gavin Thompson, Oliver Hawkins, Aliyah Dar, Mark Taylor (2012) Olympic Britain: Social and economic change since the 1908 and 1948 Olympics, House of Commons Library.

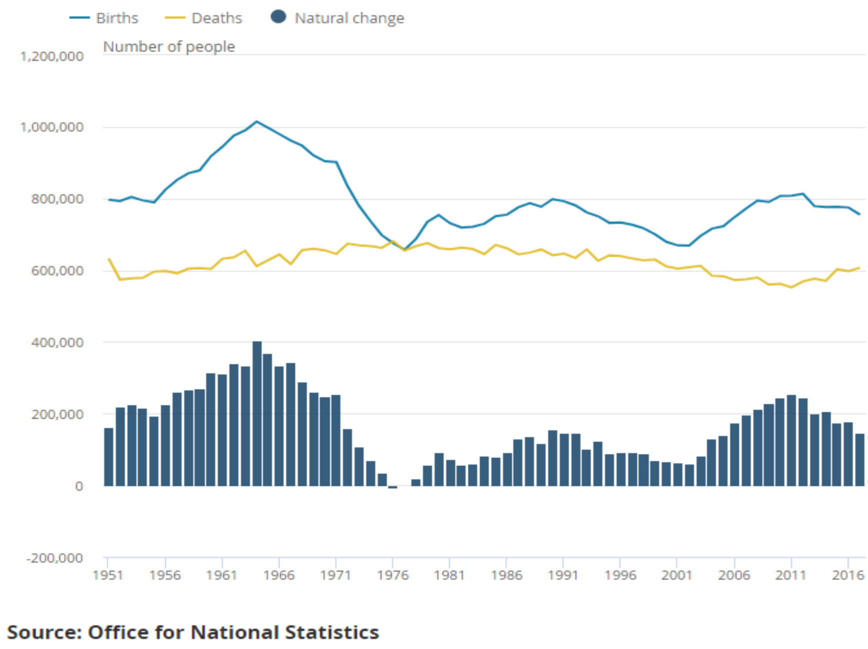

Figure 3: U.K. births, deaths and natural change, 1951 to 2017 (ONS, 2017)

3.2.2 The ageing profile of business owners

The increase in the average age of the population is bringing with it an ageing population of business owners. Economies are faced with an increase of ageing business owners approaching retirement age, who are being confronted with the issue of what to do with their firms (DeTienne and Cardon, 2012; van Teeffelen, 2012; von Bonsdorff, 2018). If they do not wish to see their businesses shut down, they must address how, and to whom, they will arrange the transfer of the business (DeTienne and Cardon, 2012).

In the U.S., the highest rate of established business ownership as a proportion of people of the same age, at 12%, is to be found amongst those aged 55-64. This compares to 10% of those aged 35-54 (GEM U.S., 2017). There is also significant business ownership activity amongst those aged 65–74 (8%), reinforcing the disproportional extent to which older Americans own established businesses. This pattern is exacerbated by the acceleration of business creation and ownership, which rose exponentially in the U.S in the 1970s and the UK in the 1980s (van Stel, 2006).

In the U.K., the ageing profile and the population of ageing business owners are also increasing rapidly. Thus, in January 2018, a survey[29] of over 5 million people registered at Companies House compared the age distribution of U.K. business owners[30] to that of the general population. The results, displayed below in Figure 4, show that 2.92% of all 51-year olds are business owners, compared to 1.45% of the general population. It is not until the age of 71 that the average age of business owners declines below the average age of the population. Approximately 11% of the working age population are currently business owners, of whom 6.6% own 'established' businesses (those that have been in existence for more than 42 months). This compares to, for instance, 7.7% in the U.S., 6.1% in Germany and 3.6% in France (GEM U.K., 2018).

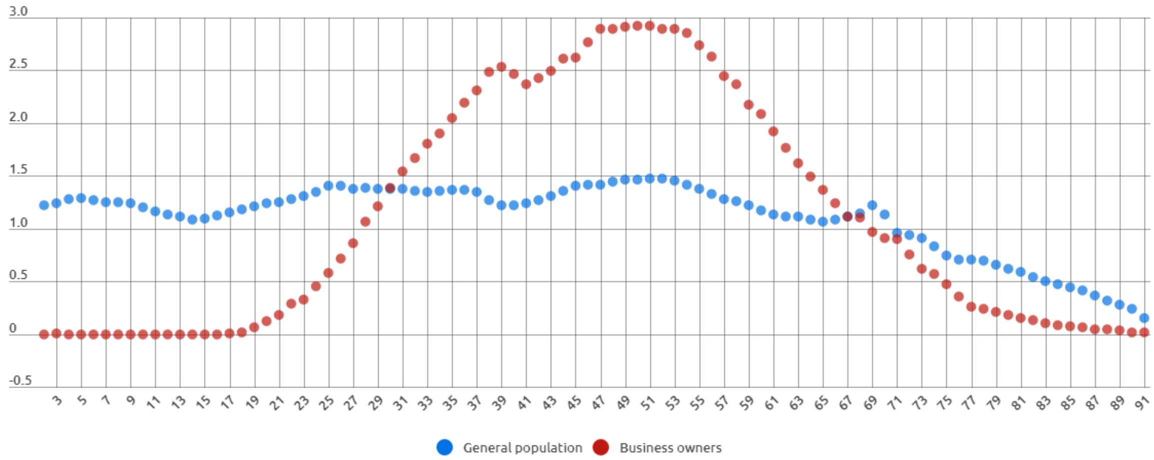

Figure 4: Age distribution of U.K. business owners and the general population (Source: finder.com)

Whereas academic scholarship has been slow to calculate and specify the extent of these trends, the commercial literature actively highlights them, particularly when addressing exiting business owners who are seeking a financial harvest from the wealth that is tied up in their firms. Project Equity, for instance, states that that almost half of SME business owners in the U.S. are aged 53 to 71, with those classed as 'baby boomers' owning 2.34 million firms, employing 24.7 million people with combined annual sales of $5.14 trillion. However, some 85% have no succession plan in place for what will

[29] At https://www.finder.com/uk/business-owners-uk

[30] The survey classified business owners as those listed on the 'People with Significant Control (PSC) register as having one or more of the following; having more than 25% of a company's shares; having 25% or more of a company's voting rights or having the right to appoint or remove the majority of directors.

happen in the event of the exit of their owner.[31] Additionally, the volume of businesses that are becoming available on the acquisition market is increasing substantially, threatening to overwhelm the number of available and willing purchasers.[32]

Such demographic trends are expected to see many older people remaining economically active in the labour market for longer and leaving it later to retire than in previous times (European Commission, 2018a). It is, therefore, likely that older business owners will stay at the helm of their firms for longer, which will have the effect of increasing the ageing profile of business owners further. However, it can only postpone the point at which they each have to face the inevitability of exit or retirement. As a result, unless they close their businesses down, they will need to transfer them through the family, sell them or find another way for someone else to take them over.

3.3 The decline of family business succession

3.3.1 Family business succession as the traditional exit path

Family business succession, whereby individual entrepreneurial exit occurs through the transfer of the firm to one or more family members, has been the preferred and traditional exit pathway for business founders and owners (Le Breton-Miller et al., 2004; Ryan and Power, 2012; Dehlen et al., 2014). The transfer of businesses within the family is significant in overall levels of business succession, given that firms owned and controlled by families are globally prevalent in both privately-owned and publicly traded firms (Chirico et al., 2019). Some estimates put family businesses as representing between 60 and 80 percent of all firms (e.g. DeTienne et al., 2015; van Hilbert and Nordqvist, 2018).

The abiding nature of familial dynamics within ventures is an enduring topic of interest to scholars. There is no undisputed definition as to what, precisely, comprises a 'family

[31] At https://www.project-equity.org/communities/small-business-closure-crisis/
[32] E.g. https://www.genequityco.com/insights/baby-boomer-business-owners-the-retirement-conundrum

business' (van Hilbert and Nordqvist, 2018). Nonetheless, there is an extensive body of literature that examines the distinctive characteristics of family firms, in terms of financing, leadership, the management of resources, and governance (van Hilbert and Nordqvist, 2018). This literature also examines the business issues that arise from the affective needs, emotional attachments and social ties that exist in family businesses and how they relate to the dynamics of financial, economic and corporate logic (Gómez-Mejía et al., 2007; Miller et al., 2011; DeTienne and Chirico, 2013; Akhter et al., 2016; Chirico et al., 2019).

Consequently, there is a substantial body of scholarship in the family business literature regarding the intra-family succession process (Nordqvist et al., 2013; Richards et al., 2019). For some scholars, the handing down of the firm to the next or subsequent generations is both the key defining attribute of a family business and its principal *raison d'être* (Morris et al., 2010; Richards et al., 2019; Chirico et al., 2019). Family business owners identify more personally with their firms than other owners (Gómez-Mejía et al., 2007). They treat succession as a strategy to retain socio-emotional wealth, as well as monetary value, within the family (Gómez-Mejía et al., 2007; Zellweger et al., 2012a). They have superior knowledge about potential succession candidates from within the family as opposed to those from elsewhere (Dehlen et al, 2014; Kammerlander, 2016). They also prefer family succession because of the premium they place on idiosyncratic knowledge that family members build up about the business (DeTienne et al., 2015; Chirico et al., 2019).

Interest in intra-family business transfer in academia continues to grow at a rapid rate (Nordqvist et al., 2013). There is an ever-widening number of authors and universities across the world becoming active in this field (Cisneros et al., 2018). For example, a bibliometric study of every significant academic article published in the years between 1937 and 2017 concerning family business succession finds that 50% of them appeared between 2010 and 2017.

Studies of family business succession continue to dominate the wider study of entrepreneurial exit and business transfer (DeTienne and Wennberg, 2016). The failure of intra-family business succession has always been of interest to family business scholars (e.g. DeMassis et al., 2008; Dehlen et al., 2014; Richards et al., 2019). Conventionally, succeeding generations have been deterred from abandoning the family business because of affective and practical reasons (DeTienne, 2010; Salvato et al., 2010; Jaskiewicz et al., 2015). Some 70 per cent of businesses transferred within the family do not survive past the first 'succession' generation, which increases to 90 per cent by the third generation (Ryan and Power, 2012).

3.3.2 Transfers within the family are decreasing

The increasing levels of academic attention that are being paid to family business succession represent something of a paradox. This is because the proportion of businesses passed on through intergenerational business succession is *decreasing,* in favour of transfer to parties outside of the family (Leroy et al., 2008). Family business scholars have not yet quantified the extent of this decline or measured it in any detail, but scholars suggest that family business transfers may now be in the minority (van Teeffelen, 2012).

At the macro-economic level, wider demographic patterns in many OECD countries are likely to be contributing to the decline in family business transfer. In the years following 1975, since the 'baby boom' subsided, families have become progressively smaller in many OECD countries, because of the persistently low and declining fertility rates (OECD, 2011; ONS, 2015). This is, in part, a result of the tendency, since the 1970s, for couples to delay the age at which they start a family (Garrison et al., 1997). In the U.K., for example, the average age of parents has increased by four years in the last four decades and 20% of women born since 1964 are childless (compared to, for instance, 12% of women born in 1937). Moreover, the number of women giving birth to four or more children during the same years has been one in ten, compared to one in five in their mothers' generation (ONS, 2015).

Having children later in life increases the gap between the ages of business founders and those of the children that they would otherwise intend to take over the business. Couples have increasingly delayed parenthood over the last four decades for many reasons, placing a greater premium on economic stability and an emphasis on their careers (Garrison et al., 1997). In this context, starting and growing a venture can place all-consuming demands placed upon an individual's psychic and physical energies (Hsu et al., 2016). It can, therefore, conflict with the requirements of starting a family, leading business founders to postpone having children until they feel more secure that their venture is fully established (Jennings and McDougald, 2007). These factors offer evidence to support the occasional appearance of assertions in the literature that business owners have fewer children to choose from as potential successors than in previous times (e.g. Parker and van Praag, 2012).

DeTienne et al. (2015) highlight survey findings conducted in the commercial literature to support their contention that family business succession is in relative decline. Only 41% of business owners globally who plan to retire within 10 years intend or expect to pass on their firm to the next generation. One U.S. survey highlights that, whilst 70% of businesses would like to pass their business on to their offspring, only 30% will be successful in doing so.[33] DeTienne and Cardon (2012) paint an even starker picture, reporting on U.S. surveys suggesting that, while 80% of all business owners expect their succession to occur internally through family members or company employees, just 20% of businesses successfully do so. In the U.K., the insurer Legal and General finds that 57% of family-run firms would have to close within a year if their owner died or suffered a serious illness because of a lack of succession possibilities (EOA, 2018).

The reported decline in the incidence of family business succession may also be explained by the increasing reluctance of the children that remain available to continue the family legacy (Small Business Service, 2004; Parker and van Praag, 2012; Ryan and Power, 2012; Chirico et al., 2019). Greater conflicts between incumbents and their offspring may be a contributing factor, with the younger generation increasingly assertive about their own ideas for the firm (Matser, 2013 in Weesie and van Teeffelen, 2015). Tensions can arise from their desire to change outdated business operations inherited from the previous generation (Ryan and Power, 2012).

[33] *Peak Family Business Survey (2011). Retrieved June 2014 by Conway Center for Family Business, available at:* https://www.familybusinesscenter.com/resources/family-business-facts/

Changes in cultural attitudes and behaviour on the part of more recent generations to family business inheritance may also play a role. The management literature points to differences in career motivations and behaviour between 'Generation X', 'Generation Y' and the 'baby boomers' that preceded them. However, this work is not specific to entrepreneurship and is, in any case, highly inconclusive (Parry and Urwin, 2011). Nonetheless, younger people's career horizons have been broadened by higher levels of participation in further education, compared to earlier generations. This leads many to look beyond the family business for their futures (Parker and van Praag, 2012). For example, a study of 34,000 next-generation family business members from across the world finds that just one in five college students from family business backgrounds were now willing to consider taking responsibility for the family firm (Zellweger et al., 2012b).

The picture painted by the overall decline in the average size of families, the increase in the average age of parenthood, women giving birth to fewer children and an increase in childless families in the U.K., has been very similar to that in the U.S. (Pew Research Center, 2015). It is difficult to be precise regarding the extent to which this combination of factors is leading to fewer family business transfers, because of the lack of data that are available about transfer of ownership in SMEs (Burlingham, 2014; Alba et al., 2016). Nonetheless, they point to family business succession being in decline, when combined with evidence that points to members of younger generations being not only less in number but also less willing to take over the 'family firm'.

3.4 The business transfer imperative

3.4.1 The implications of business transfer failure

The combination of an ageing population of business owners and the decline in family business succession is creating a dynamic that has considerable implications, both for those directly involved and for the wider economy (Morris et al., 2020). A contributory factor is the rising aggregate transaction costs incurred in transfer activity. This arises from the greater number of firms taken over by 'outsiders', as more owners find that family business succession is not available to them, (Parker and van Praag, 2012).

There are considerable costs to the economy that are associated with firms that cease to operate as a result of being unable to successfully transfer, since privately-owned SMEs contribute substantially to the economy (European Commission, 2013).[34] The economic costs associated with unmanaged exits lead to a failure to transfer knowledge and wealth and disrupt regional economic competitiveness (Morris et al., 2020). At the European level, some 450,000 firms, employing in the region of 2 million employees are successfully transferred each year (European Commission, 2011). However, given that 1.7 million firms close each year, it has been estimated that 150,000 firms and 600,000 jobs that could be transferred are lost because of inefficiencies in Europe's business transfer systems (European Commission, 2011).

Table 1 below illustrates the level of economic contribution made to the economies of the U.K. and Europe, whereby SMEs provided just over half (U.K.) and two-thirds (EU) of total employment:

Table 1: Economic contribution and employment by size of enterprise in 2017 (European Commission, 2018)[35]

Class size	Number of enterprises			Number of persons employed			Value added		
	United Kingdom		EU-28	United Kingdom		EU-28	United Kingdom		EU-28
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	1 930 179	90.0 %	93.1 %	3 657 105	18.3 %	29.4 %	234.8	18.3 %	20.7 %
Small	177 953	8.3 %	5.8 %	3 902 046	19.5 %	20.0 %	208.8	16.3 %	17.8 %
Medium-sized	28 873	1.3 %	0.9 %	3 237 231	16.2 %	17.0 %	212.2	16.5 %	18.3 %
SMEs	**2 137 005**	**99.7 %**	**99.8 %**	**10 796 382**	**54.0 %**	**66.4 %**	**655.8**	**51.2 %**	**56.8 %**
Large	6 546	0.3 %	0.2 %	9 200 319	46.0 %	33.6 %	628.2	48.9 %	43.2 %
Total	**2 143 551**	**100.0 %**	**100.0 %**	**19 996 701**	**100.0 %**	**100.0 %**	**1 284.0**	**100.0 %**	**100.0 %**

[34] Throughout this thesis and in the table referenced above, SMEs are categorised according to the U.K. and EU definition as firms that employ up to 249 persons. Firms are categorised further as follows: micro-enterprises (employing 0-9 persons), small firms (10-49), medium-sized firms (50-249) and large firms (250+).
[35] The U.K. figures provided in this table differ in quantum to those produced by ONS, which reports that there were some 2,659,005 SMEs employing just over 13 million people in March 2017 (ONS 2017). Furthermore, those produced by the House of Commons (2018) claim that there are 5.7 million U.K. private sector businesses, an increase of 63% since 2000, although this includes the growth of individuals in self-employment being included in the total (House of Commons, 2018).

3.4.2 Public policy and business transfer

Given the increasing significance of business transfer failure, business transfers have become an important priority for the European policy agenda (Aaltonen et al., 2010; van Teeffelen, 2012). In the context of industrial restructuring and economic development, the end of the last century witnessed a convergence in public policy in the U.S. and Europe towards the advantages of entrepreneurship. In particular, a consensus developed towards the beneficial nature of the 'entrepreneurial economy', despite ambiguity and a lack of empirical understanding about the precise and sustainable nature of these benefits (Thurik and Wennekers, 2004; Ferreira et al., 2017). Nonetheless, entrepreneurship became a critical component of achieving the political objectives of the European Council's Lisbon Declaration 2000, for instance. It has been widely viewed in modern times as increasingly important to knowledge, competitiveness, growth and employment, as well as contributing to human well-being, development and social cohesion (Thurik and Wennekers, 2004).

In public policy terms, the importance of business transfer to the 'entrepreneurial economy' was first highlighted by the European Commission in 1994.[36] Business transfers were subsequently included as a priority measure for entrepreneurship in the European Commission's Small Business Act 2008,[37] a priority upheld in 2012 through its full integration into the European Commission's 2020 Strategy.[38] Business transfer remains an important issue at the European level, in terms of its policy for SME competitiveness (European Commission, 2013) and as an area for action in relation to SME development and innovation (European Commission, 2019). The European Commission calls for support for business transfers as well as start-ups, because they are considered to be equally important to the economy of the European Union.[39] Its 2015 'Report on the public consultation of the New SME Policy' highlights as a key theme the challenges presented to the European economy by business transfer and the

[36] 94/1069/EC: Commission Recommendation of 7 December 1994 on the transfer of small and medium-sized enterprises.
[37] Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions 'Implementing the Lisbon Community Programme for Growth and Jobs: Transfer of Businesses - Continuity through a new beginning' COM(2006) 117 final of 14.03.2006.
[38] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions Entrepreneurship 2020 Action Plan 'Reigniting the entrepreneurial spirit in Europe' COM/2012/0795 final.
[39] At https://ec.europa.eu/growth/smes/promoting-entrepreneurship/advice-opportunities/transfer-business_en

need for accompanying support measures. The report notes the existence of schemes to support successful transfers in more than half of the EU member states.[40]

In the U.K. policy context, a government-sponsored report in the mid-2000s considered the issue of business transfer barriers and how best to facilitate the effective transition of business ownership (Small Business Service, 2005). It stated that 30% of all business closures were of viable businesses that could be avoided if a suitable successor could be found. It concluded that this rendered business transfer and succession as a pressing matter for government, making a series of recommendations for the attention of different government departments and agencies, as well as other stakeholders.

However, in contrast to the situation at the European level, this initiative has not been subsequently followed up by U.K. government policy. Studies have been unable to identify specific policy measures or incentive mechanisms in place that increase the attractiveness of purchasing a viable small business to potential buyers in the U.K. (Ryan and Power, 2012).[41] The official website that is officially promoted as "the single place to go for help from government"[42] makes no reference to business transfer. Moreover, neither the U.K. Parliament's 2015 report into government support for business,[43] nor the U.K. government's response document to this report[44] make any mention of the ageing population of business owners or the issue of business transfer.

The business transfer market in the U.K. is largely self-regulating and operates in an environment with a very low level of licensing and regulatory complexity when compared to other EU member states (European Commission, 2011). Moreover, an active European business transfer network, 'Transeo', has no U.K. members,[45] and a study of European business transfer matching systems finds no relevant U.K.

[40] Ref. Ares (2015) 812234 - 25/02/2015.

[41] The exception to this statement is the 2014 Finance Act and its provisions to incentivise employee ownership, which is addressed in the chapter that follows.

[42] At http://www.greatbusiness.gov.uk/,

[43] House of Commons, Business, Innovation and Skills Committee (2015) Government Support for Business, Eighth Report of Session 2014–15, 24 February 2015, House of Commons, London.

[44] Government Support for Business: Government Response to the House of Commons, Business, Innovation and Skills Committee Eighth Report of Session 2014–15. Presented to Parliament by the Secretary of State for Business Innovation and Skills, March 2015.

[45] At http://www.transeo-association.eu/

organisation that operates in this field in the public or academic sectors (Viljamaa et al., 2015).[46]

3.4.3 Exit and entry, business transfer and economic dynamism

Whereas the significance of business transfers for the economy is acknowledged in policy, at least at the European level, the value of business transfers compared to start-ups at the macro-economic level is the subject of scholarly debate. Entrepreneurship, as an important and impactful force on economies and societies, has been long-since recognized in the literature (Davidsson, 2015). Innovations that result from new products, services and business processes create and sustain employment and nourish the economic and societal advancement of nations (Schumpeter, 1934; van Praag and Versloot, 2007 in Baum, 2014; da Silva et al., 2017). In this context, economists observe that the exit and entry of firms are inter-related processes, as there is a limited number of businesses that any market can support (Saridakis et al., 2008). Some older, established firms will exit due to changing market conditions, which in turn free up resources and space for the creation of new firms (Albiol-Sánchez, 2016).

The work of Schumpeter and his concept of 'creative destruction' has been highly influential on thinking about the role of new and existing firms in economies. This work describes the processes and dynamics by which innovation, economic conditions and market dynamics will ensure that firms will come and go (Schumpeter, 1934). Indeed, new firms do not need to wait for market conditions to change. They can provoke markets into states of disequilibrium through the innovations that they introduce (e.g. Burke and van Stel, 2014). Moreover, the loss of uneconomic firms, including those that fail to transfer, while having negative effects on those directly involved, can be a positive manifestation of a dynamic economy (Blackburn and Kovalainen, 2009). The entry of new firms into the marketplace can eliminate bad or outdated ideas that are being maintained by existing firms (Aldrich, 2015). It can stimulate economic renewal and add value to the resources that are released as a result by redeploying and adding more productive value to those resources, particularly where the firms being lost are of

[46] There are commercial platforms in existence in the U.K. However, these are operated by private business brokers and are primarily aimed at relatively low value businesses, being dominated by micro enterprises and franchise offers that are for sale.

low or marginal value (Morris, 2006; Pe'er and Vertinsky, 2008). From this perspective, public policy aimed at the preservation and transfer of existing firms for its own sake is to be discouraged (Fackler et al., 2013).

On the other hand, the creation of higher densities of new small businesses is not, in itself, a sign of entrepreneurial vigour, nor is it necessarily a sign that exiting firms are being replaced by those that provide economic and innovative dynamism. It can also be an indication of economic stagnation, because of a lack of alternative employment opportunities being available to those who are setting them up, or because new ventures are simply replicating or copying the business activities of others (Henrekson and Sanandaji, 2014). Hence, without a clear understanding of the factors that generate entrepreneurial success, policy measures with benevolent goals that promote new venture start-up can create unduly low start-up entry barriers. This leads to bad public policy-making, whereby the value of supporting small firm creation in society through policy measures is assumed rather than questioned (Blackburn and Kovalainen, 2009). For example, lifestyle ventures and self-employment may be generated as a result, but little by way of sustainable employment or economic growth (Thurik and Wennekers, 2004; Rocha et al., 2015).

Moreover, Lazonick (2015) argues that Schumpeter's concept of 'creative destruction' is often mistakenly equated with the desirability of new firms entering the market at the expense of existing firms. Instead, creative destruction can be viewed as a process of industrial mutation, whereby it is the economic *structure* that is continuously destroyed and created from within, rather than necessarily the destruction and creation of individual firms. Besides, established firms develop innovation and ripen ideas through their research and development functions, which are the well-springs of much that is subsequently exploited by successful start-ups. By contrast, compared to established firms, start-ups are often not the vehicles that create, but are better vehicles for exploitation (Lazonick, 2015).

Thus, for Morris (2006), a high rate of successful business transfers in an economy is a sign of good health. Whereas larger firms may have tangible assets that can be more easily transferred, much of the economic value of SMEs is lost if they fail to transfer, being tied up in the founder's individual networks and idiosyncratic know-how (Parker and van Praag, 2012). Contrary to the notion that business transfer can lead to stagnation or a lack of innovation, it can mean that new alliances are formed. This can result in enhanced efficiencies, leading to enhanced competitiveness through innovation, new products and new market penetration (Morris, 2006; Cefis and Marsili, 2012).

Business transfers can lead to the loss of jobs and assets, as well as their preservation, particularly in the short term. However, successful transfers reduce the levels of firm closure and increase the number of active firms, supporting economic and employment growth (Morris 2006; Ryan and Power, 2012; Albiol-Sánchez, 2016). Whilst it can be difficult to reliably predict the comparative macro-economic impacts, there is evidence that successfully-transferred businesses outperform start-ups with respect to survival, turnover, profit, innovativeness and employment. As a result, they may be more important to the well-being of many economies than start-ups (Parker and van Praag, 2012; van Teeffelen, 2012; Viljamaa et al., 2015).

3.5 Conclusion

The purpose of this chapter has been to examine the imperatives and importance of exit and transfer to contemporary society and the economy. It has sought to position the relevance of the research question within contemporary debates that surround the significance of business transfers that arise from entrepreneurial exit. The chapter finds that, whilst scholars debate the relative contributions to the economy of promoting measures that support venture start-up and business transfers, the impact of business transfer failure is substantial. This has been acknowledged in public policy at the European level for some time and remains an important priority for the European Commission with reference to SME policy and measures. In the U.K., however, whereas business transfer was identified in the mid-2000s as an economic issue of some consequence by the Small Business Service (2005), there is little evidence that it has been the subject of subsequent or consequential government attention.

The chapter points to a ‘double whammy’, whereby greater numbers of ageing business owners are seeking a transfer solution for their exits, yet there is a decline of the traditional exit choice of intergenerational business transfer within the family. Previously, the extant entrepreneurship literature has referred to the importance of both phenomena but has rarely provided specific data to justify that they exist. Nonetheless, this chapter suggests that both their existence and significance is supported by evidence. Yet, despite the relative decline of family succession as a business transfer outcome, the incidence of intra-family business transfer studies is increasing (Cisneros et al., 2018). Consequently, family business transfer continues to dominate the study of entrepreneurial exit (DeTienne and Wennberg, 2016) and there has been insufficient research of situations where no family transfer is viable or possible (van Teeffelen, 2012; Dehlen et al., 2014; Richards et al., 2019).

As set out in Chapter 2, transfer to employee ownership represents one such alternative for founders who find themselves in this position. However, it is little considered by the literature. Nonetheless, researchers cannot assume that lessons from studies of family succession apply to other exit and transfer contexts. They must exercise considerable caution in this respect because of the distinct and unique nature of family businesses (Leroy et al., 2008; DeTienne and Chirico, 2013; van Hilbert and Nordqvist, 2018). As a consequence, scholars highlight the pressing need for more study of exit situations and transfer alternatives outside of family business succession (e.g. Chirico et al., 2019).

This thesis represents a direct response to calls for research of this nature. It is concerned with the exit of business founders and the transfer of their firms to the non-family succession outcome of employee ownership. Before presenting its empirical results, however, the chapter that follows provides a critical review of the entrepreneurial exit literature, paying specific attention to non-family business succession.

Chapter 4: Entrepreneurship and exit: towards a new research agenda

4.1 Introduction

This chapter presents a critical review of the extant literature in the field of entrepreneurial exit, with an emphasis on exits that lead to non-family business transfers. The chapter has four objectives: first, to define entrepreneurial exit and its relationship to conceptualisations of entrepreneurship in the literature; second; to 'untangle' entrepreneurial exit from business failure and firm exit; third, to distinguish the exit destiny of the individual from that of the firm that they exit; fourth, to examine the current state of play in relation to extant theory in entrepreneurial exit and consider the implications for a new research agenda in the field.

The chapter commences with an examination of how entrepreneurial exit is defined. Exit is a topic of interest to both scholarship and practice (DeTienne, 2010; Aldrich, 2015; Strese et al., 2018). Yet, despite the imperatives that are identified in Chapter 3, this is not reflected in the literature (DeTienne, 2010; Rocha et al., 2015; Morris et al., 2018). Over the years, scholars have highlighted that exit is under-researched and fundamental questions remain (e.g. Birley and Westhead, 1993; Gimeno et al., 1997; Stokes and Blackburn, 2002; Shepherd, 2003; Wasserman, 2003; Blackburn and Kovalainen, 2009; Wennberg et al., 2010a; Marlow, 2014 in Wennberg and DeTienne, 2014; Morris et al., 2018). Moreover, little is understood about the exiting individual in business transfer situations, such as acquisition, where attention is generally focused on those who are taking over (Eisenhardt, in Gehmen et al., 2018). As a consequence, the perspective of the *persona causa* (Hessels et al., 2011) behind exit processes was almost invisible until a decade ago (Aaltonen et al., 2010; DeTienne, 2010).

The lack of attention to exit is particularly striking when compared to other fields of research in entrepreneurship, particularly the start-up process (Mason and Harrison, 2006; Blackburn and Kovalainen, 2009; Mason and Bothelo, 2016). It is also in stark contrast to how business founders view the issue of exit, investing considerable time and resources examining different options to achieve a successful exit for themselves and a secure future for their firms (DeTienne, 2010; Strese et al., 2018).

The second part of the chapter examines the historical tendency in the literature to equate business continuance with ‘success’ and exit with ‘failure’. Again, the contrast between this 'negative' perspective of exit and that held by practising owners is striking. Many entrepreneurs see exit as a positive and volitional choice (DeTienne, 2010), one which provides the opportunity to harvest monetary value in the firms that they have built up (Wennberg and DeTienne, 2014; Casas and Hilb, 2016). Moreover, a significant service portfolio offered by professional advisers is targeted towards the identification of exit strategies and execution of commercial exits. Consequently, there is an active and thriving commercial exit literature that is replete with books, articles and advice aimed at business owners (DeTienne and Cardon, 2012; Wennberg and DeTienne, 2014).

The third part of the chapter reviews a further tendency in the literature, which has been to treat the exit of business owners as indistinguishable from the exit of their firms. Therefore, it considers multi-level nature of exit, which operates at the individual, firm and macro-economic level. This is, in turn, followed by a section in the chapter that differentiates between the exit channel of the individual – i.e. the decision to start-up again, re-enter entrepreneurship in a different way, or retire - and the exit channel they choose for their business – i.e. whether it is sold, passed on or closed down.

The final part of the chapter reviews the theoretical and conceptual perspectives that are present in extant entrepreneurial exit studies. It concludes with an assessment of the lacuna that is indicated by the current situation and points to the need for a new research agenda, including the research question addressed by this thesis.

4.2 Entrepreneurship and entrepreneurial exit

4.2.1 Defining entrepreneurial exit

‘Entrepreneurial exit’ distinguishes itself from ‘firm exit’ by placing the exit of the individual as the unit of analysis (DeTienne, 2010). One of the earliest attempts to define entrepreneurial exit using this differentiation is represented by “the end of an owner's participation in the business, as in the search for ‘exit routes’ by entrepreneurs wishing to sell up or exit from a business” (Stokes and Blackburn, 2002, p.18). Another definition points to “the exit of the entrepreneur through discontinuance of the firm or through sell-off, in the case the firm continues operating with a different owner” (Amaral et al., 2007, p.1). For Aaltonen et al. (2010, p.147), entrepreneurial exit is “a situation in which a former (or present) business owner has exited from the business, which may or may not continue through ownership changes”. Other definitions of entrepreneurial exit refer solely to the individual and make no reference to the presence of the firm, such as “the decision to quit an entrepreneurial career” (Stam et al., 2010, p.1113). By contrast, it is the firm that is the focus of entrepreneurial exit for Dehlen et al. (2014, p.194), as in “the transfer of control over an entrepreneurial firm to one or several individuals or an organization, alternatively the liquidation of the firm.”

Ultimately, the literature has coalesced around the definition of entrepreneurial exit provided by DeTienne (2010; p.203), specifically:

> “the process by which the founders of privately held firms leave the firm they helped to create; thereby removing themselves, in varying degrees, from the primary ownership and decision-making structure of the firm.”

DeTienne’s definition has been widely adopted in the literature (e.g. Ryan and Power, 2012; Leroy et al., 2015; Atker et al., 2016; Hsu et al., 2016; Koładkiewicz and Wojtyra, 2016; Mathias et al., 2017; Chevalier et al., 2018; Morris et al., 2018; Strese et al., 2018; Chirico et al., 2019; Hsu et al., 2019; Morris et al., 2020). It specifies *founders* at the individual level of analysis, whilst the prominence of individuals “removing themselves” points to the exit of the individual as a *volitional* act, unlike the ‘forced’ exit that arises from, for instance, failure or bankruptcy (DeTienne, 2010).

4.2.2 The individual's exit perspective is little understood

Individual ownership and decision-making are central to entrepreneurship (Ucbasaran et al., 2008; Brundin and Gustafsson, 2013). 'Founder centrality' is a critical force in the *modus operandi* of new firms as they establish themselves and become 'imprinted' by the decisions of the founder (Hoang and Gimeno, 2010; Fauchart and Gruber, 2011). Thus, founders exercise more control over organisational decisions than non-owners (Gimeno et al., 1997). Even in more mature entrepreneurial firms, the founder typically remains the primary equity holder and decision-maker (Wasserman, 2003). Hence, the decisions made by exiting founders and owners with controlling authority are the ones that determine the fate of their firms (Leroy et al., 2008; DeTienne and Wennberg, 2014; Guenther et al., 2016). Founders are still at the helm at many 'mid-market' firms (those valued up to $500 million) when they are transferred and the global value of such transactions in 2012 was estimated at $858 billion (DeTienne et al., 2015). Therefore, the effects of exit are not only of central concern to every individual entrepreneur (Strese et al., 2018) but have an impact upon the company that they exit, its stakeholders and, more broadly, the economy (DeTienne and Cardon 2012; Aldrich 2015).

Nonetheless, the decision-making authority of founders has often been overlooked in exit research (DeTienne and Wennberg, 2014). Many business founders, particularly those that have built up a business over time and have developed an attachment to it, are concerned about the prospects for their companies following their exits (Graebner and Eisenhardt, 2004; Cardon et al., 2005; DeTienne, 2010). However, outside of the family business succession literature, there remains a lack of comprehensive understanding concerning the factors that determine the choice of specific exit strategies, including to whom the business is transferred by its owner (Dehlen et al., 2014). Consequently, whereas succession and transfer are explored extensively in the corporate management literature, much less is known about founder exits from the 'micro, small and middle market' (DeTienne and Wennberg, 2016).

As the 'selling party', individual owners who transfer their businesses to others represent one-half of the buying and selling equation. However, their perspective is under-represented in the literature and, as a result, is poorly understood (Halter et al., 2009; DeTienne, 2010; Dehlen et al., 2014). Indeed, according to Eisenhardt (in Gehmen et al., 2018, p.287), "95% or more of studies are from the point of view of the buyer". Ultimately, because of the association between those performing the acquisition with growth and success, the perspective of the 'buyer' is deemed by the literature to be more important and of greater interest to researchers (Graebner and Eisenhardt, 2004; Decker and Mellewigt, 2007; Wennberg et al., 2010a). For this reason, relatively little is known about the factors that influence the decisions that individuals make when they exit a successful venture. However, overcoming the 'one-eyed' view taken by much of the literature, by developing a better understanding of these factors, would likely contribute to improving the incidence of successful transfers (Ryan and Power, 2012; Wennberg and DeTienne, 2014).

4.2.3 Recognising exit as an entrepreneurial process

To consider further the question as to why entrepreneurial exit has received relatively little attention in the literature, it is necessary to take into account its relationship with the wider conceptualisation of entrepreneurship. Entrepreneurship has achieved legitimacy as an academic field (Shepherd, 2015). However, in comparison with other disciplines, it has been considered a relatively young field of enquiry that does not benefit from a consistent definition or a unifying theoretical framework (e.g. Low, 2001; Bygrave 2007). Scholars of entrepreneurship have found the search to establish its own intellectual identity and distinctive paradigm an elusive one (Shane and Venkataraman 2000; Ma and Tan, 2006; Bygrave 2007; Wiklund et al., 2011; Shepherd and Patzelt, 2017). On the one hand, there is an inherent value in the diversity and scholarly dynamism that derives from more permeable boundaries in entrepreneurship (Blackburn and Kovalainen, 2009). On the other, it presents challenges for research, since there is no boundary consensus to provide a foundation for theoretical comparisons and knowledge accumulation (Shepherd and Patzelt, 2017).

A strong characteristic of the earliest writings in western literature about entrepreneurship is a focus on the individual (e.g. Cantillon, c. 1700 in Carland et al., 1984). Schumpeter highlights the *Unternehmergeist* ('entrepreneur-spirit') of lone, heroic individuals, creating and capitalising upon new innovations in the means of production (Schumpeter, 1942, in Pe'er and Vertinsky, 2008; Ma and Tan, 2006; Murnieks et al., 2017). The concept of a market-making, risk-taking, decision-making individual, pursuing profit in the face of uncertainty is intrinsic to being an entrepreneur for Knight (1921), Schumpeter (1934), and to Hayek's (1945) 'man on the spot' (Boudreaux and Holcombe, 1989; Boutillier and Uzunidis, 2014). Hence, it would appear to be entirely consistent to embrace entrepreneurial exit as a concept concerned with volitional choice and the individual entrepreneur within entrepreneurship scholarship.

On the other hand, the work of Shane and Venkataraman (2000) has been highly significant in 'shaping' entrepreneurship as a field of study. This work emphasises entrepreneurship as a process; one that focuses on the formative aspects of the creation of new economic activities and organizations, investigating how, by whom and with what new opportunities of goods and services are identified, assessed and exploited. Central to this conceptualisation are the presence of connections - the 'individual-opportunity nexus' - between "enterprising individuals" and "lucrative opportunities" (Shane and Venkataraman, 2000, pp.218-220). As such, it looks beyond the individual to present entrepreneurship as a mode of exploitation (Shane, 2012), placing 'opportunity' as a quintessential component and directing itself towards new activities and the earliest stages of venture creation (Dimov, 2011; Kautonen et al., 2013; Morgan and Sisak, 2016).

This work remains highly influential in entrepreneurship scholarship to the current day (e.g. Parker and van Praag, 2012; Kautonen et al., 2013; Brundin and Gustafsson, 2013; da Silva et al., 2017). Much of the literature takes these cues to treat entrepreneurship as a transition into new venture creation (Parker and van Praag, 2012; Selden and Fletcher, 2015). Studies that focus on the earliest phases of the entrepreneurial process are the most common (Baum et al., 2014) and it is where entrepreneurship research has been trending over time (Wiklund et al., 2011; Davidsson, 2016). A very recent article by a group of highly influential scholars declares that “Entrepreneurship research has been interested in explaining the *initiation of entrepreneurial endeavours—the first steps* (cognitively, affectively, and/or behaviourally) of identifying and evaluating a potential opportunity *before full-scale exploitation*” (Shepherd et al., 2019, p.163).

Thus, the emphasis placed on entrepreneurship as a new venture process may have distracted scholars from the fact that entrepreneurship also represents an activity that eventually ends (Morris et al., 2018). This view persists in many quarters, despite entrepreneurial exit being wrought with uncertain outcomes (Wennberg and DeTienne, 2014), something it shares with the wider field of entrepreneurship (Venkataraman, 1997; McMullen and Shepherd, 2006; Brundin and Gustafsson, 2013; Collewaert et al., 2016). Hence, whilst entrepreneurial processes have been studied extensively (Hjorth et al., 2015), entrepreneurial exit holds limited promise for those whose standpoint defines entrepreneurial process as being complete once the new venture has been created and is market-ready (DeTienne, 2010).

Nonetheless, scholars have observed that the construct of ‘opportunity’ within the conceptualisation of entrepreneurship requires expansion and elaboration if it is to remain a pivotal one (Dimov, 2011; Wiklund, 2011; Davidsson, 2015; Vogel, 2017). From the perspective of this thesis ‘opportunity’, as it is presented in the ‘new creation’ domain and the entrepreneurship literature, is rarely connected with the opportunities that arise from the dynamics of the individual’s entrepreneurial exit. However, the process of exit and transfer can represent an entrepreneurial opportunity for the regeneration of the firm (Salvato et al., 2010), adding “new capital and resources that have consequences for business outcomes” (Nordqvist et al., 2013 p.1090). Therefore, a more holistic understanding of entrepreneurship may arise from extending the ‘individual-opportunity nexus’ to recognise that entrepreneurial opportunities are also presented at exit and transfer.

4.3 Failure and exit

4.3.1 Performance, persistence and exit

The recognition of entrepreneurial exit as a distinct domain within entrepreneurship research is also inhibited by presumptions that often surround it. Much of the entrepreneurship literature has operated with the underlying and dichotomous assumption that business continuance and survival are proxies for success; and that exit arises from poor business performance, being a proxy for failure, (Gimeno et al., 1997; Headd, 2003; Wennberg et al., 2010b; Wennberg and DeTienne, 2014; Khelil, 2016). Hence, in much writing about entrepreneurship, exit is associated as a negative characteristic and persistence as a positive characteristic (Stam and Schutjens, 2006; Ucbasaran et al., 2013).

The establishment of clear and incontrovertible measures to assess business performance is one of the challenges faced by the wider entrepreneurship literature (Carree and Verheul, 2012; Carter, 2011; Wiltbank et al., 2015). Heterogeneity exists across the characteristics that surround exit, performance and persistence, in that well-performing firms both persist *and* are sold to others, whereas poorly performing firms are *both* closed and kept afloat (Gimeno et al., 1997; Amaral et al., 2007; Shepherd and De Castro, 2008; Wennberg et al., 2010b). This is of considerable significance to the study of entrepreneurial exit, since neglecting to control for relative failure or success in financial performance risks overlooking what may be the most critical explanatory exit variable (Amaral et al., 2007; Wennberg et al., 2010b; Wennberg and DeTienne, 2014; Strese et al., 2018).

For example, many individuals decide to exit from firms that are in financial distress, but others choose not to exit from firms that are performing poorly (Gimeno et al., 1997; Shepherd et al., 2015; Yamakawa and Cardon, 2017). Moreover, some recognise the onset of 'distress signals' that indicate under-performance and decide to exit relatively soon after identifying that this situation is unlikely to improve (Hsu et al., 2019). Others, on the other hand, continue in the face of chronic and persistent under-performance, well past the point when it becomes clear that the venture's exit is inevitable (DeTienne et al., 2008). They commit time, money, psychological and emotional resources over drawn-out periods without any realistic prospect of longer-term sustainability (Yamakawa and Cardon, 2017), existing in a 'living death trap' of failing without having failed completely (Casas and Hilb, 2016). Some persist with this existence despite the significant pecuniary costs incurred, in that the longer the firm survives in these circumstances, the greater the monetary burden that accrues upon its owner [Gimeno et al., 1997; Shepherd et al., 2009). There are also those who will persist in business for considerable periods of time despite having strong regrets about having entered entrepreneurship in the first place (Hsu et al., 2019).

Consequently, objective performance is not a clear predictor of entrepreneurial exit routes (Graebner and Eisenhardt, 2004; Wennberg et al., 2010b). There are wide divergences in the relationships between the actual performance of the firm and the decision to exit, to persist or to close the firm altogether (Headd 2003; Wennberg et al., 2010b; DeTienne and Wennberg, 2014). Subjective expectations regarding sales, profit, market share and other firm level indicators play a key role in the decision to persist with or exit from a business (Decker and Mellevigt, 2007; Xie et al., 2016; Bhawe et al., 2017; Ma et al., 2019). Hence, business closure is not always the consequence of a lack of economic viability (Stam and Schutjens 2006; Wennberg et al. 2010a), whilst a significant proportion of businesses are closed despite being successful (Headd, 2003).

4.3.2 The conflation in the literature of business failure and entrepreneurial exit

The possibility of business failure is inherent to entrepreneurship (Cacciottti and Hayton, 2015) and, therefore, the prospect of business failure is intrinsic to the pursuit of entrepreneurial endeavours (Mantere et al., 2013; Cacciotti and Hayton, 2015). Nonetheless, entrepreneurial failure is widely viewed as a negative phenomenon in society (Ucbasaran et. al., 2013; Walsh and Cunningham, 2016). Consequently, for those who found ventures, failure is to be avoided (Cardon et al., 2011).

Research into the reasons that underlie business failure is a major feature of the entrepreneurship literature and there is a large body of literature on its causes and consequences (Stam et al., 2010; Ucbasaran et al., 2013). Unprofitability is the main reason given by entrepreneurs globally for their decision to exit from their ventures (GEM, 2019) and failure rates are at their highest at the nascent and early stages of venture creation (Audretsch, 1994; Rocha et al., 2015; Wicker and Davidsson, 2015). Those who embark on entrepreneurship face the 'liability of newness' (Stinchcombe, 1965) in their early years, in that it takes time for new founders to learn how to construct effective and sustainable customer management, organisational roles, functional tasks and social relationships (Stinchcombe, 1965; Guenther et al., 2016). Indeed, up to sixty percent of new ventures are estimated to fail within the first five years (Caree and Verheul, 2012).

Business failure has been conceptualized in several ways, with constituent dimensions at environmental, firm and individual level (Khelil, 2016). However, despite the extensive literature on failure, studies are frequently characterised by insufficient exploration of the underlying reasons and surrounding mechanisms that explain why firms leave the market (Blackburn and Kovalainen, 2009; Wennberg et al., 2010a; DeTienne and Cardon 2012; Walsh and Cunningham, 2016). As a result, failure and exit have frequently been treated as being synonymous in the literature, both at the level of the firm (Stokes and Blackburn, 2002; Stam and Schutjens, 2006; Blackburn and Kovalainen, 2009; Ucbasaran et al., 2013; Wennberg and DeTienne 2014; Coad, 2014; Jenkins and McKelvie, 2016) and the level of the individual (DeTienne, 2010; Cardon et al., 2011; Ucbasaran et al., 2013; Mason and Bothelo, 2016; DeTienne and Wennberg, 2016).

Exits occur when businesses fail. However, entrepreneurs also choose to exit from firms that are performing well (Headd, 2003; Stam and Schutjens 2006; Wennberg et al., 2010b; Wiltbank et al., 2015). Far from having failed, therefore, their exits arise volitionally and for the opposite reason: business success (Wennberg et al., 2010b; DeTienne and Cardon, 2012; Wiltbank et al., 2015; Rouse, 2016).

4.3.3 Deferring exit through the fear of failure

Aside from a business failure coming to pass, those who create a venture will generally experience some level of fear of failure. This fear has heterogeneous effects in entrepreneurship, acting as both a motivating and an inhibiting force (Cacciotti et al., 2016; Morgan and Sisak, 2016). Individuals can be fearful not only of the immediate financial consequences but the shame that they perceive will result from business failure, arising from loss of legitimacy and the stigma that is associated with it (Hessels et al., 2011; Shepherd et al., 2019).

The fear of stigmatisation manifests itself both formally, through the unfavourable legislative and monetary consequences of failure and informally, with those who it affects finding themselves being judged negatively by others (Simmonds et al., 2014; Shepherd and Patzelt, 2017; Simmons et al., 2019). Perceptions held towards stigma arising from business failure have both cultural (Cardon et al., 2011; Wennberg et al., 2013; Shepherd et al., 2016) and gender-based (Justo et al., 2015; Simmons et al., 2019) manifestations. Many individuals, consciously or otherwise, will mitigate their fear of the prospect of business failure by delaying exit through long and drawn-out periods of persistence (Corner et al., 2017). Others persist to defer the experience of grief that they expect to have to cope with as a consequence of a failure event (Shepherd et al., 2009).

4.3.4 Exit through dissolution

Bankruptcy and insolvency are frequently used as concrete measures to define business failure, since they represent the 'death' of the firm (Stam et al., 2010; Shepherd and Haynie, 2011; Coad, 2014). Bankruptcy is a significant business outcome that results in business closure and its use as a measure of failure in empirical studies provides a firm-level, objective definition (Jenkins and McKelvie, 2016; Shepherd and Patzelt, 2017). Its use also has the advantage that data on business closure are easily obtainable for research purposes (Blackburn and Kovalainen, 2009).

However, dissolution in the form of business closure is not always forced upon the entrepreneur and does not always result from bankruptcy. Dissolution can be the result of a proactive decision to exit through volitional choice (Gimeno et al., 1997; Amaral et al., 2007). Closing down a business is an outcome that can be achieved successfully and with foresight (Headd, 2003). Many individuals close their ventures for a range of personal and volitional reasons (Headd, 2003; Stam and Schutjens, 2006). Thus, liquidation is not determined in every case by firm performance. Many such situations are subject to considerable complexity (DeTienne and Wennberg, 2014), rather than being the outcome of a simple “success v. failure equation” (Battisti and Okamuro, 2011, p.3). Amaral et al. (2007) consider that failure is represented only by involuntary exits, and that all other business closures arise from voluntary exits. Hence, for Walsh and Cunningham (2016) research findings can be skewed by automatically associating discontinuance and business failure.

However, this picture is disputed by Coad (2014), who argues that all business closures should be equated with failures, because invariably the businesses concerned are unviable. Moreover, pre-emptive voluntary exits from under-performing firms are far more common than exits through bankruptcy (Wennberg et al 2010; DeTienne and Wennberg, 2016). Some of the business closures that are reported as ‘voluntary’ exits are of the ‘jump before pushed’ variety, where the owner had little choice but to shut down in anticipation of inevitable failure (Marlow et al., 2011, in Coad, 2014; Khelil, 2016). Therefore, ‘successful’ exits, such as those that result from sale or transfer, should not be considered as business closures, as they are instances of business continuation (Coad, 2014). In a similar vein, exits that arise from being acquired or from selling a firm must be distinguished from exits that arise from bankruptcy (Coad, 2014; Aldrich, 2015).

4.3.5 Broader concepts of business failure

Given the challenges that are inherent to restricting definitions of business failure to the ‘hard’ and quantifiable firm level measure of closure (Headd, 2003), authors propose a range of ‘softer’ considerations that can capture the subjective nature of failure (Justo et al., 2015; Jenkins and McKelvie, 2016). For example, threshold theory has been used to define business failure as a firm’s inability to meet its owner’s wider level of expectation (Gimeno et al., 1997; Ucbasaran et al., 2010). In pecuniary terms, failure has been proposed to represent “the cessation of involvement in a venture because it has not met a minimum threshold for economic viability as stipulated by the (founding) entrepreneur“ (Ucbasaran et al., 2013, p. 175).

From the individual's perspective, success or failure is primarily and relatively determined by their own view of their entrepreneurial experience, rather than through any set of universally-applied measures (Aaltonen et al., 2010; Cardon et al., 2011; Strese et al., 2018). Thus, Khelil (2016) extends the phenomenon of failure to a subjective, multiform domain, incorporating elements such as 'entrepreneur's disappointment' and 'the transfer of activities to something else considered more suitable'. One of the broadest definitions used to describe the concept of business failure is "a deviation from expected and desired results" (Cardon et al., 2005, p.300). However, as a signifier for business failure this definition is rejected by Walsh and Cunningham (2016), since anyone operating a venture is likely to encounter it at some point.

The extension of the concept of business failure beyond insolvency to one that embraces social and psychological costs implies that the relationship between failure and exit in the literature is a dynamic one. However, defining failure by exaggerating its definitional boundaries goes against the grain of recent scholarship. This argues for stronger conceptual distinctions between exit and failure (Coad, 2014; Justo et al., 2015; Jenkins and McKelvie, 2016), pointing to the need for a nuanced understanding of the differences and a greater consensus that failure should be considered as a distinct form of exit (e.g. Coad, 2014; Wicker and Davidsson, 2015; Khelil, 2016; Jenkins and McKelvie 2016; Walsh and Cunningham, 2016). Consequently, it is critical to stress that failure and exit are different constructs (Ucbasaran et al., 2013; Jenkins and McKelvie, 2016) and that "concepts of failure and exit derive from different theoretical perspectives" (Justo et al., 2015, p.776).

4.4 Levels of analysis in exit research

4.4.1 Individual level and firm level analysis in entrepreneurship research

In entrepreneurship studies it is acceptable to adopt the firm or the individual as the level of analysis, since either perspective can be taken by the researcher (Perren and Ram, 2004). Individuals are frequently involved in more than one business (Flores-

Romero and Blackburn, 2006; Akhter et al., 2016) while firms often have more than one founder or owner (Davidsson, 2016). Some authors suggest that the literature tends to favour the perspective of the individual (e.g. Dannreuther and Perrin, 2013) while others argue that it is firm-level perspectives that dominate (e.g. Hessels et al., 2011). Irrespective, many studies pay insufficient attention to this question, interchangeably using terms such as 'entrepreneur',' founder' or 'owner', on the one hand with '(small) business', 'venture' or '(small) firm' on the other (Mason, 1983; Thurik and Wennekers, 2004; Chatterji, 2012 in Forster-Holt, 2013).

It has proven elusive in academia to establish uniformity, consistency and clear differentiation in the use of these terms (Curran and Blackburn, 2001; Shailer, 1993; Dannreuther and Perrin, 2013). In research, however, it is critical for studies to recognise and define the differences that exist if studies are to provide an unambiguous focus and robust conclusions (Thurik and Wennekers, 2004). Indeed, failure to distinguish between individual and firm level is, for Davidsson, "the most important past mistake" that has been made across the field of entrepreneurship research design (Davidsson, 2016, p.629).

4.4.2 Distinguishing the firm and the individual in exit research

In a similar vein, it can be difficult for exit research to disentangle individuals and their firms, mainly because of the interdependence between them (Battisti and Okamuro, 2011; Jenkins and McKelvie, 2016). Exit is a multidimensional phenomenon that can be studied at the firm level, the individual level or the macro-economic level. There are connections between these levels, but there are also critical distinctions that need to be differentiated in conceptual terms (Holland and Shepherd, 2013; DeTienne and Wennberg, 2014; Aldrich 2015; Xie et al., 2016; Ma et al., 2019). Although the entrepreneurship literature has come to recognise the previous tendency to conflate individuals and their ventures, the exit literature has commonly treated the exit of the individual and the firm as synonymous (Decker and Mellewigt, 2007; DeTienne, 2010; Rocha et al., 2015).

As a result, many studies of exit are unclear as to whether their research focus concerns the exit of the firm or the exit of the individual (Wennberg et al. 2010a; Coad, 2014). To this day, studies that persist with the interchangeable use of 'entrepreneurial exit', 'business exit', 'firm exit' and 'market exit' (e.g. Albiol-Sanchez, 2016). However, the theoretical perspectives for exit that operate at firm, individual and indeed macro-economic levels are distinct (DeTienne and Wennberg, 2014; Aldrich, 2015; Ma et al., 2019). Understanding the multi-dimensional nature of exit is critical to its understanding (Holland and Shepherd, 2013; Xie et al., 2016). Therefore, if Davidsson's 'most important mistake' is to be avoided, exit studies must conceptually differentiate the exit of the firm from the exit of the individual (Wennberg et al., 2010b; Battisti and Okamuro, 2011; Strese et al., 2018).

4.4.3 Firm level exit

A central tenant of entrepreneurship is that firms, and the individuals that establish them, operate in an environment of risk and uncertainty (Knight, 1921; Hayek 1945). It is, therefore, inevitable that the many firms will exit from the market, providing the research community with a rich environment to study the multitudinous factors involved. Theoretical perspectives of exit at firm level are located primarily in the economics and organisational strategy literature. They are focused on exogenous factors, such as the relationship between firm exit and industry environment, levels of competition and capital investment (Aldrich, 2015). Consequentially, they emphasise the independent existence of firms from their owners (Flores-Romero and Blackburn, 2005; Saridakis et al., 2008; DeTienne and Wennberg, 2014; Hessels et al., 2018).

Studies have identified various firm level exit predictors, such as temporal and environmental factors, that can result in some sectors being more prone to firm exit than others (Stokes and Blackburn, 2002; Ryan and Power, 2012). They have examined factors such as the age and size of the business (Audretsch, 1994; Fackler et al., 2013) and product and process innovation (Cefis and Marsili, 2012). Venture closure rates are highest in the early post start-up years (Shane and Venkataraman, 2000; Stokes and Blackburn, 2002; Headd 2003; Wiklund et al., 2011, Ucbasaran et al., 2013; Aldrich, 2015; Jenkins and McKelvie, 2016; Walsh and Cunningham, 2016). One study finds that

50% of new ventures close in the first two and a half years of their existence (Aldrich, 2015). In addition to longevity, firm level indicators such as the number of customers and employees, financial resources, and the size of the venture have also been found to be important predictors of exit outcomes (van Teeffelen and Uhlander, 2013). For instance, smaller firms are more likely to exit than those that are larger (Stokes and Blackburn 2002; Amaral et al., 2007; Wennberg et al., 2010b; Guenther et al., 2016).

It is the entrepreneurship literature, however, that is the most likely to acknowledge the role and behaviour of the individual owner as a reason for firm exit (Berryman, 1983 in Stokes and Blackburn, 2002). It highlights that founder exits are especially critical for firm survival in the first years of a firm's existence (Guenther et al., 2016) whereas they are less critical when a firm both ages and grows (van Teeffelen and Uhlander, 2013). It also considers the impact of the familial dimension on firm exit, whether in terms of the failure of family succession or the family-work interface (e.g. Salvato et al., 2010; Battisti and Okamuro, 2011; Ryan and Power, 2012; van Teeffelen and Uhlaner, 2013; DeTienne and Chirico, 2013; Hsu et al., 2016). There are also studies that consider individual level factors alongside other levels and explicitly separate endogenous and exogenous factors. For instance, Harada (2007) explores categories such as 'economic forced' and 'non-economic forced', whilst 'business-related' and 'person-related' have also been used (Aaltonen et al., 2010) when exploring the reasons behind firm closure.

4.4.4 Exit at the macro-economic level

Exit occurs not only at the individual and firm level, but also at industry level and amongst entire populations of firms (Aldrich, 2015). Typically, such exits result from industrial and technological changes that impact on production, profitability and growth (Saridakis et al., 2008). Economic theory proposes that economies have a limited capacity to sustain the number of firms that operate within them. Therefore, whilst new firms will enter the market, it is inevitable that many will exit, either from specific markets in which they operate (Audretsch, 1994; Decker and Mellewigt, 2007; Ma et al., 2014) or by closing down altogether (Headd, 2003; Stam and Schutjens, 2006; Burke and van Stel, 2014; Coad, 2014).

At the macro-economic level, the interplay between the exits of firms through business 'death' and the birth of others represent a significant factor in the entrepreneurial dynamics that are taking place in economies. The data suggest that in the U.K., for instance, the rate of business deaths has been exceeded in recent times by the rate of business births. However, 2017 saw the narrowest gap since 2012; 12.2% of all firms ceased to trade in 2017, representing 357,000 firms compared to 2014, when the figures were 246,000 and 9.7% respectively (ONS, 2017). In comparison with the U.S., the annual closure rate of firms with employees has been between 7–9% over the past 25 years (U.S. Small Business Administration, 2018) which has been slightly exceeded by the number of new firms that were created over the same period. In the year to September 2017, 871,000 private firms in the U.S. closed, representing an increase from the 776,000 that closed in 2012 (U.S. Bureau of Labour Statistics, 2019).

4.5 Exit channels for the individual

4.5.1 Distinguishing the exit destiny of the individual and that of the firm

Entrepreneurial exit is an individual-level phenomenon (DeTienne, 2010). Therefore, it leads to two exit destinies that it is necessary to distinguish; the fate of the individual who exits; and the fate of the firm from which they exit. They each represent a distinct and separate exit channel (Blackburn and Kovalainen, 2009). Given that the failure at times to distinguish between different exit channels has contributed to inconsistent findings in research (Wennberg et al., 2010a) each one is considered separately. In the first instance, this section considers the exit choices that determine the destiny of the individual who makes them.

4.5.2 Abandoning, continuing or returning to entrepreneurship post-exit

When individuals exit their ventures, they can abandon entrepreneurship and retire from economic life altogether (Foster-Holt, 2013; Chevalier et al., 2018; Morris et al., 2018). Alternatively, they may decide to remain economically active by continuing in, or by returning to entrepreneurship, or to exit from it for alternative options in the labour market (Aaltonen et al., 2010; Baum et al., 2014; Simmons et al., 2016). However, the literature has paid scant attention to the exit fates and life choices that are made by individuals after they exit their firms (DeTienne and Wennberg, 2014; Cumming et al., 2016).

Entrepreneurial exit and (re)entry are important processes that are often linked, which make a significant contribution to economic development through the re-allocation of resources and the refreshment of innovation (Saridakis et al., 2008; Fackler et al., 2013; Aldrich, 2015). As such, entrepreneurs that exit a business and remain in or re-engage with entrepreneurship, in whatever form that takes, make a contribution that has significant consequences for society and the economy (Stokes and Blackburn, 2002; Pe'er and Vertinsky, 2008; Ucbasaran et al., 2010; Hessels et. al., 2011; Rouse, 2016; Simmons et al., 2016; Mason and Bothelo, 2016; Cumming et al., 2016).

4.5.3 Exit for habitual, serial or portfolio entrepreneurship

For many founders, the venture that they create is an only-time encounter with entrepreneurship. Thus, exit is a unique event that they will only deal with once (Carbonara et al., 2019). On the other hand, starting or acquiring another business is one of the channels that is available to those that exit their firms (Ucbasaran et al,, 2003; Simmons et al., 2014; van Gelderen et al., 2015). Many engage in 'habitual' or 'repeat' entrepreneurship, by which an individual becomes involved in multiple entrepreneurial engagements (Westhead and Wright, 1998; Simmons et al., 2019). There are entrepreneurs who appear to find the process of repeat entrepreneurship as habit-forming, thriving on starting and building a business and then passing it over to others to run so that they can become involved in setting up another (Stokes and Blackburn, 2002).

The human capital that has been accumulated from previous business experience means that ventures set up by habitual entrepreneurs differ in many ways from those formed by novice entrepreneurs (Ucbasaran et al., 2003; van Gelderen et al., 2015). Several factors play a role in whether individuals that have exited a venture decide to start again. They include the recentness of previous exit, gender, the nature of acquired networks, access to finance, the perceived performance of the exited venture and the quality of the exit experience (Hessels et. al., 2011; Strese et al., 2018).

Habitual entrepreneurship can take various forms. For instance, 'portfolio' entrepreneurship denotes those that are involved with the simultaneous ownership of more than one business, whereas 'serial' entrepreneurship (also referred to as 'sequential') refers to the phenomenon where entrepreneurs who have established a business subsequently establish or purchase one or more others (e.g. Westhead and Wright, 1998; Stokes and Blackburn, 2002; Ucbasaran et al., 2003; Flores-Romero and Blackburn, 2006; Pe'er and Vertinsky, 2008; Ucbasaran et al., 2010; Parker, 2014; Akhter et al., 2016; Jenkins and McKelvie, 2016). 'Serial' entrepreneurship implies exit and re-start (Amaral et al., 2011; Hessels et al., 2011) whereas portfolio entrepreneurship does not require an exit to occur as it involves the ownership of more than one business simultaneously. Some individuals become both serial and portfolio entrepreneurs, whilst those that own multiple businesses may exit some of them while replenishing their portfolio with others (Ucbasaran et al., 2013; Akhter et al., 2016).

4.5.4 Starting again after an exit through failure

Whereas some entrepreneurs start new ventures after a successful exit, there are others who do so following a failure experience. Failure can be a highly traumatic experience for many individuals with far-reaching effects on their subsequent entrepreneurial intentions, requiring time to recover before considering whether to try again (Shepherd, 2003; Shepherd et al., 2009). The experience of failure can, for instance, disproportionately deter women from deciding to re-enter entrepreneurship due to issues such as the failures that are present in entrepreneurial ecosystems (Simmons et al., 2019).

On the other hand, there are also individuals who demonstrate considerable resilience and resume entrepreneurial activities with little or no emotional or psychological disruption (Corner et al., 2017). Indeed, failure is not automatically seen as negative by those that experience it. Many entrepreneurs who close their firms have restart intentions (Stam and Schutjens, 2006; Simmons et al., 2016), believing that the experience leaves them better informed (Stokes and Blackburn, 2002; Stam et al., 2010). Therefore, the entrepreneur's own view of their previous experience as having been a success or a failure, irrespective of the exit outcome, can impact on their future entrepreneurial activities (Shepherd, 2003; Aaltonen et al., 2010; Strese et al., 2018).

Human capital theory would posit that the accrued human capital that results from previous entrepreneurial experiences, negative or otherwise, are an asset when starting again. In this respect it is complemented by social learning theory, which proposes that 'learning by doing' is one of the most powerful ways of learning (Wennberg et. al., 2010). Therefore, scholars suggest that learning from exits through failure can help individuals to make sense of events and try their hands at starting again (e.g. Shepherd et al., 2009; Cardon et al., 2011; Ucbasaran et al., 2013; Byrne and Shepherd, 2015; Shepherd and Patzelt, 2017; Fang He et al., 2018).

Conversely, self-serving attribution biases hinder the potential to learn valuable lessons from previous business failure. Individuals can explain failure away by assigning positive outcomes to their own actions, while attributing negative outcomes to exogenous causes separate to their own agency (Shepherd, 2003; Mantere et al., 2013; Nielsen and Sarasvathy, 2016; Yamakawa and Cardon, 2017). Furthermore, authors cast doubt on the existence of empirical or conceptual evidence that failure in business leads to specific learning outcomes (e.g. Frankish et al., 2013; Mueller and Shepherd, 2016; Boso et al., 2019). For instance, Coad (2014, p.726) asserts that "the possible existence of learning effects after previous business failure does not have strong empirical support".

Irrespective of whether a previous venture was considered successful or not, starting a new venture can also be a way of moving on psychologically from the experience (Hsu, 2013). Aaltonen et al. (2010) map the reasons for exiting (whether personal or business related) against the experience of exit, to form a taxonomy of positive and negative exit reasons and experiences (see Figure 5 below). They find that those who have a positive exit experience and a positive exit reason are encouraged to continue with entrepreneurship, being keen to apply the lessons learned. This also applies to a majority of those with a positive exit experience, despite having negative exit reasons. Those that exit for poor reasons (e.g. finance, health) and who also have negative exit experiences are the least likely to start again, being "neither willing nor capable" (Aaltonen et al., 2010, p.163). Those who have a positive reason for exit but a poor experience of it were retiring or had other options outside of entrepreneurship.

Exit experience / Exit reason	**Poor** (Discouraged from continuing in entrepreneurship	**Good** (Encouraged to continue in entrepreneurship)
Negative exit reasons (personal and business related)	Lack of financial rewards and health	Learners and 'fighters'
Positive exit reasons (personal and business related)	Other viable options available	Positive experience and open to changes

Figure 5: Taxonomy of exit reasons and experiences
Aaltonen Blackburn and Heinonen (2010)

4.5.5 Entrepreneurial recycling

Another mode of re-engagement with entrepreneurship after exit is represented by individuals who direct their energies and resources to support other entrepreneurs (Koladkiewicz and Wojtyra, 2016). Individuals who have successfully 'cashed out' rarely leave entrepreneurship entirely, preferring instead to 'recycle' their money, time and experience through other economic activities that contribute to the wider entrepreneurial ecosystem (Mason and Harrison, 2006; Spigel and Harrison, 2018). 'Entrepreneurial recycling' (Mason and Harrison, 2006) describes the post-exit entrepreneurial activity of those that have benefitted from a successful sale of their business and have newly acquired wealth.

These activities may include habitual entrepreneurship, but also extend to other forms of pecuniary involvement, such as angel investing and venture capital financing (Mason and Bothelo, 2016; Warnick et al., 2018). They also incorporate activities that support entrepreneurs in other ways, such as providing coaching and mentoring, giving advice, deal-making and using their experience, networks and the contacts that they have accumulated prior to exit to benefit others (Spigel and Harrison, 2018).

4.5.6 Exiting 'entrepreneurship' to return to the labour market

Alternatively, individuals can decide to leave entrepreneurial activity entirely after exit, and one reason to do so is to take up or return to waged employment (Blackburn and Kovalainen, 2009; Dillon and Stanton, 2017). Returning to the labour market is the most common post-entrepreneurship path for those that remain economically active (Hessels et al., 2011). It usually results from an economic choice calculation, based on the prospect of the relative risks and rewards of remaining in business (Wennberg, 2009; DeTienne and Wennberg, 2014). Leaving entrepreneurship for employment is more likely to occur when less the time has been spent in it, with approximately half of new entrepreneurs resuming payroll-based earnings within seven years (Luzzi and Sasson, 2014). When doing so, many will earn less than if they had not engaged with entrepreneurship, because of the time taken out of career structures (Failla et al., 2017). Nonetheless, some choose to replace it with waged employment because of the pressures involved with starting up and sustaining a venture, particularly from the demands placed on family life and health (Hsu et al., 2016).

Sørensen and Phillips (2011) argue that, in comparison to those who were previously employed in large firms, those that had been previously employed in smaller firms are less likely to exit from entrepreneurship to return to a job. They suggest that working in a smaller firm puts the individual closer to the realities of entrepreneurial opportunity. This provides better insight and more realistic expectations about what is involved in entrepreneurship and reduces the likelihood of becoming disappointed by it. Those who were previously employed in large firms are often less proximate in this respect and are, therefore, more likely to be unprepared for the realities of the entrepreneurial experience. Moreover, since larger firms generally offer superior pay and conditions than smaller firms, providing a familiar and secure environment, returning to employment in a large firm can be attractive for those that have had a taste of working in them, particularly if they become ambivalent about their venture (Sørensen and Phillips, 2011).

In the context of entrepreneurial exit research, however, it is important to exercise caution with the results of studies that use 'entrepreneur' as an occupational category. Doing so makes sampling easier when conducting surveys and drawing results from datasets (da Silva et al., 2017). Such studies frequently include self-employed and freelance workers, as well as those running miniscule and part-time businesses in their definition of 'entrepreneur' (Parker and van Praag, 2012; Rocha et al., 2015). Similarly, studies may include franchise operators, although influential entrepreneurship scholars are divided as to whether they should be considered as entrepreneurs (Ketchen et al., 2011).

However, distinctions between employment and self-employment have become increasingly blurred by legislative de-regulation in labour markets (Aaltonen et al., 2010). In research terms, 'entrepreneurial' exits that result from moving between or out of occupational categories that are defined this way are relatively trivial (Gimeno et al., 1997; DeTienne, 2010; Wennberg et al., 2010a). They call into question the use of 'entrepreneur', in terms of the nature of the 'entrepreneurship' involved from which they are 'exiting' (Aaltonen et al., Heinonen, 2010). Studies that aggregate such exits with the exits of those who have, for instance, invested significant personal and monetary resources in starting and building up a firm (e.g. staff, plant, machinery, wider liabilities, customers, stakeholder relationships) distort the validity of their conclusions (Fackler et al., 2013). Indeed, the exit literature has not considered why business founders who have built a successful and substantial venture would choose to exit from it to return to the waged labour market (DeTienne and Wennberg, 2014). It is, therefore, likely that different theoretical and conceptual approaches are required for different exit contexts (Morris et al., 2018).

4.5.7 Retirement

Retirement is the leading reason for exiting from entrepreneurship altogether (Soleimanof et al., 2015). For entrepreneurs, there are unique psychological as well as legal attachments to their ventures (Zanger et al., 2015). Their retirement decisions are, therefore, affected by the interdependency between the two (von Bonsdorff, 2018; Morris et al., 2020). However, the retirement literature has paid little specific attention to the retirement of entrepreneurs, since it is primarily concerned with those who are employees (Chevalier et al., 2013; Forster-Holt, 2013). Consequently, recent studies that have sought to address this situation have had to draw upon the retirement literature that is related to the employed workforce to inform their findings (e.g. Chevalier et al., 2018; Morris et al., 2020).

Different factors 'push' and 'pull' entrepreneurs into determining the timing of retirement, such as health, identity, pecuniary standing and type of business, depending on if they are eager or ready to retire, or are ambivalent or reluctant to do so (Chevalier et al., 2018). Advancing age is the most important imperative in the decision to retire. However, it does not, in itself, determine whether they ultimately transfer the venture to the ownership of another or close it down, in terms of the specific exit destination they choose for their firms on retirement (Battisti and Okomuro, 2011).

4.5.8 Exit timings

The timing of when individuals decide to exit may be affected by whether their venture is in its infancy, adolescence or maturity (Wennberg et al., 2009; DeTienne 2010). Exits frequently occur because those who enter entrepreneurship abandon it at the nascent stage (Rocha et al., 2015; Wicker and Davidsson, 2015; Bhawe et al., 2017; Brändle et al., 2018). Indeed, some exit from entrepreneurship before commencing it at all because they believe that they will be unable to overcome the negative and detrimental effects that they anticipate from 'imagined markets' (Stam et al., 2010).

Otherwise, little is known about when those who found and grow a successful venture begin to seriously consider their exit. Scholars speculate that exit intentions vary over time and may be linked to the ebb and flow of business dynamics (DeTienne and Cardon, 2012; Chirico et al., 2019). They may also be linked to the degree of passion that the founder feels for the venture, which can also change over time (Cardon et al., 2013). There are founders who start-up with a specific plan for exit, particularly where there is a relatively short window of opportunity to 'cash out' (DeTienne et al., 2015). A financial 'harvest' exit event is also targeted by investors who fund start-ups (DeTienne, 2010; Wiltbank et al., 2015; Mason and Bothelo, 2016). On the other hand, most founders start their firms without giving any thought to exit at all (DeTienne, 2010) and only turn their attention to it in the late stages of their ownership (Forster-Holt, 2013).

4.6 Entrepreneurial exit and the destiny of the firm

4.6.1 Business transfer as an exit mode

The fate chosen for the firm by the exiting individual is a separate channel to the post-exit destiny they choose for their own life (DeTienne and Cardon, 2012; Coad, 2014; Cumming et al., 2016). The widely-adopted definition of entrepreneurial exit provided by DeTienne (2010, p.203) foresees the *continued existence* of the firm, under a different "*primary ownership and decision-making structure*." The reasons behind the exit choices that lead to the continuation of the firm from amongst the various options to sell or pass it on have become of particular interest to scholars of entrepreneurial exit. Along with exit decisions that lead to the closure of the firm, they determine the nature of its future destiny (Battisti and Okomuro, 2011; Dehlen et al., 2014; DeTienne and Wennberg, 2014; Wennberg et al., 2014).

'Business transfer' is defined as a change of ownership of any firm to another person or legal entity in a way that assures the continuous existence and commercial activity of the enterprise. A business is transferred to the control of another party when more than 50% of the ownership of its equity and assets are transferred (van Teeffelen, 2010). Business transfers occur through family succession, sales and acquisitions (buy-outs and buy-ins) and, in rare cases, mergers, but exclude transactions where operations cease because of the death of the business (Coad, 2014).

The subject of business transfer has been covered extensively in the literature with respect to corporate mergers and acquisitions amongst larger and publicly-traded firms but much less attention has been given to transfer as an exit route for business founders in SMEs (Battisti and Okamuro, 2011; DeTienne and Wennberg, 2016; Chirico et al., 2019). Moreover, the study of business transfer has rarely been extended to situations where no family transfer is viable or possible (Wennberg et al., 2010a; van Teeffelen, 2012; Dehlen et al., 2014; Richards et al., 2019).

4.6.2 Pathways for business transfer

DeTienne and Cardon (2012) identify a set of discreet exit paths that are available to owners to exit by transferring their business to others. Aside from family business succession,[47] these are categorised as follows: initial public offering (IPO),[48] acquisition, employee buy-out[49] and independent sale.[50] It may also be viable for a founder to exit via a merger, whereby they integrate their firm with another and exchange risk, cash and ownership (Graebener and Eisenhardt, 2004). However, mergers have had little attention as an exit option for founders of unquoted firms. Both mergers and IPOs are rare amongst SMEs and are little studied outside of the corporate sector (Cefis and Marsili, 2012; Chirico et al., 2019).

An IPO, which takes the form of a stock market acquisition, is a highly complex and risky process, one which is out of reach for most SMEs (Howarth et al., 2004; Battisti and Okomuro, 2011; DeTienne and Cardon, 2012; DeTienne and Chirico, 2013). Just a tiny proportion of ventures (approximately .05%) find their way to the stock market (Wiltbank et al., 2015). Therefore, outside of family business succession, the most desired transfer strategy among SME owners is the sale of the firm (DeTienne, 2010). Selling a firm enables its owners to generate pecuniary returns through a 'financial harvest' (Decker and Mellewigt, 2007; DeTienne, 2010; Wennberg et al., 2010b; Chirico, 2019).

[47] Family business transfer was considered in detail in Chapter 2.
[48] The term 'initial public offering' refers to where shares are issued through a stock market launch for the first time. This is also widely known in the U.K. as a 'flotation'.
[49] DeTienne and Cardon (2012) do not explore different types of 'employee buy-out'. This is a relevant point that is examined in the findings and conclusions in this thesis.
[50] 'Independent sale' and 'acquisition' are distinguished from one another in DeTienne and Cardon (2012) by factors of complexity. Acquisition is treated as the purchase of one business by another company or business entity, whereas an independent sale is treated as a 'low end' transaction typically via a broker, to another private individual.

‘Cashing out’, through the successful sale of the venture after building up its financial value, offers the individual entrepreneur the prospect of a profitable return (DeTienne et al., 2015; Kammerlander, 2016; Siepal et al., 2017; Strese et al., 2018). However, transferring a firm by selling it is a complex, non-trivial and costly affair (Leroy et al., 2015). Despite being a preferred outcome, a successful business sale is only achieved by a minority of owners (Battisti and Okomuro, 2011). The dominant assumption in the entrepreneurship literature is that ventures are created to generate monetary rewards for their founders, yet intentional exits through firm sales have been rarely studied (Albert and DeTienne, 2016). There are remarkably few studies that are devoted to the financial harvest event itself (Mason and Harrison, 2006; DeTienne, 2010; Carter, 2011, Mason and Bohtelo, 2016) and little attention has been paid to the levels of financial returns that are harvested through such events (Wiltbank et al., 2015).

Business owners have the option to sell or transfer their firms ‘internally’, rather than through a sale to an external party. Outside of family business succession, the next preferred option is for the owner to transfer the business to a trusted employee (Battisti and Okamuro, 2011). Employee buy-outs, a management buy-out (MBO) and a management buy-in (MBI) have been identified in the exit literature as transfer options (e.g. Howorth et al., 2004; DeTienne and Cardon, 2012; DeTienne et al., 2015; Kammerlander, 2016). In MBOs/MBIs, a group of individuals (commonly the senior management) purchase the ownership of the firm. In a typical MBO situation, the management group ‘buy-out’ the founder through a combination of external finance, such as bank loans, together with their own funds (Howarth et al., 2004). If the transaction substantially involves entrepreneurs or financiers from outside the firm, it is sometimes described as a ‘Management Buy-In’ (MBI). In terms of the distinctions between the two, MBIs are led by exogenous parties, whereas MBOs are driven by internal management (Howarth et al., 2004).

4.6.3 Barriers to business transfer

Achieving a successful transfer requires careful planning to overcome technical barriers, such as legal, pecuniary and legislative matters (Bruce and Picard, 2006). It has to take into account market conditions and the prospects of being able to connect the quality and quantity of firm buyers and firms for sale. Thus Morris, (2006) defines a 'high quality' transfer as one that is timely, benefits both parties, preserves or enhances firm assets and competitiveness, incurs reasonable transaction costs and has positive effects on the economy.

Transfers are complex affairs that generally occur over a long period of time (Ryan and Power, 2012). Transfers outside of the family face the challenge of asymmetry in terms of trust and information, since founders know much more about family members than potential non-family successors (Dehlen et al., 2014). Owners will often defer attending to the arrangements involved in preparing the business for transfer to facilitate their exit because of the operational demands of simultaneously having to run the business (Blackburn and Stokes, 2000). In addition, the idiosyncratic knowledge of the founder, the subsuming of business operations to meet their personal goals and the absence of plans for the business can all play a role in preventing a positive transfer outcome (Ryan and Power, 2012).

Hence, many of the barriers to successful business transfer are 'soft', rather than technical (Bruce and Picard, 2006). There are a variety of intrinsic and extrinsic factors at play in transfers that are not exclusively monetary, nor entirely determined by the desire to maximise utility (Gimeno et al., 1997; Saridakis et al., 2008; Holland and Garrett, 2015; Ma et al., 2019). They include the amount of time, emotional attachment and psychological resources that have been invested in the business; levels of human capital and prior entrepreneurial experience; the benevolence and volatility of environmental conditions; and the psychological, affective and financial costs of switching to an alternative project (Cardon et al., 2005; DeTienne et al., 2008; Shepherd et al., 2015; Casas and Hilb, 2016; Yamakawa and Cardon, 2017).

Founders and owners also find themselves avoiding the need to attend to transfer because of the effects of the 'psychological ownership' (Pierce et al., 2003) that they develop alongside their legal ownership of their firm. This manifests itself by the development of a personal sense of attachment with the business (Bruce and Picard, 2006). Psychological ownership can make it progressively harder to step back as the length of their ownership tenure increases (DeTienne et al., 2008; DeTienne and

Cardon, 2012; Dehlen et al., 2014; Weesie and van Teeffelen, 2015; Kammerlander, 2016). Many come to see the firm as their 'baby', to the point where it causes separation anxiety and inhibits 'letting go' of the venture to others (Boeker and Karichalil, 2002; Cardon et al., 2005; Hsu, 2013). It can be felt so strongly that some business owners struggle to accept at all the need to attend to their succession (Hsu, 2013; Weesie and van Teeffelen, 2015; Kammerlander, 2016).

4.7 Theoretical perspectives in entrepreneurial exit

4.7.1 Theory development in entrepreneurship

There is a meta-level discourse on whether entrepreneurship can be seen to stand in its own right as a paradigmatic field of study. The work of Shane and Venkataraman (2000) argues that entrepreneurship has its own distinct and separate intellectual identity and that there are limited gains to be made by observing entrepreneurial phenomena from the standpoint of other disciplines (e.g. Bygrave, 2007; Sarasvathy and Venkataraman, 2011; Shane, 2012).

This perspective is challenged by those that assert that entrepreneurship owes its academic foundations to its relationship with other fields, particularly the social sciences (Gartner, 2001; Steyaert, 2005; Sorenson and Stuart, 2008, Blackburn and Kovalainen, 2009; Gartner, 2013; Brändle et al., 2018). They hold that entrepreneurship theory has been developed through integration with theories and constructs from other fields of scholarship, rather than being entirely endogenous (Leitch and Harrison, 2016). Consequently, knowledge of entrepreneurship is enhanced when exogenous knowledge is drawn upon (Gartner, 2013; Shepherd and Wiklund, 2020).

With regards to entrepreneurial exit, the literature has utilised theoretical perspectives drawn from research domains outside of entrepreneurship in its search for explanatory perspectives, including sociology, psychology and organizational studies. The results of this research have provided greater clarity, by distinguishing firm and individual level exit (Aldrich, 2015; Strese et al., 2018) and conceptually separating and distinguishing exit from business failure (Coad, 2014 Jenkins and McKelvie, 2016). Nonetheless, theory development in entrepreneurial exit is somewhat lacking (DeTienne and Wennberg, 2016; Morris et al., 2018).

4.7.2 *Human capital theory*

Until recently, extant studies have concentrated on the utilisation of factors of human capital for explanatory perspectives and their relationship with economic rationality at exit. Human capital theory (Becker, 1975) is widely utilised in entrepreneurship studies (Hessels et al., 2011; Lee and Lee, 2015). It encompasses the intrinsic qualities of individuals, incorporating knowledge, educational attainment, skills, age and prior experience. It provides explanatory insight and correlations in the relationships between factors of human capital and entrepreneurial intentions, entry, behaviour and performance.

As entrepreneurial exit has emerged as a distinct domain, prior exit studies have also concentrated on aspects of human capital to provide their theoretical base (Hessels et al., 2018). These studies consider the extent to which factors of human capital affect the decision to exit. They also examine links between human capital and the type of exit strategy that owners intend to pursue and relationship between factors of human capital and the exit choices ultimately made by founders and owners (e.g. Wennberg et al., 2010b; Hessels et al., 2011; Ryan and Power, 2012; DeTienne and Cardon, 2012; van Teeffelen and Uhlaner, 2013; Guenther et al., 2016; Lee and Lee, 2015).

For example, Wennberg et al. (2010b) use human capital theory to examine the relationship between factors such as age, experience and education with the type of exit route chosen. They specify a taxonomy of four distinct exit routes (see Figure 6) which are defined as a 'harvest sale', where some or all of the monetary value of firm is harvested and the firm continues after the owner exits; a 'distress sale' sees the owner sell the firm due to poor financial performance; a 'distress liquidation' is one where the owner liquidates the firm for reasons of financial difficulty; and a harvest liquidation is one where a profitable firm is closed (e.g. for reasons of expediency, retirement or to realise assets which are not marketable).

This study suggests that age and entrepreneurial experience are positively associated with either harvest route, compared to either form of distress route, whereas having entrepreneurial experience and being an older entrepreneur is more likely to lead to an exit by harvest sale than any other route. Higher levels of education are associated with an increased probability that exit occurs via a distress route.

Performance: / **Exit route:**	**High**	**Low**
Exit by Sale	Harvest Sale	Distress Sale
Exit by Liquidation	Harvest Liquidation	Distress Liquidation

Figure 6: Human capital and exit routes, Wennberg et al. (2010b)

DeTienne et al. (2015) map founder human capital characteristics and motivation against founder exit strategies (Figure 7). They differentiate between exit strategies, which they define as the future-oriented intentions held by founders who have not exited, and actual exit outcomes. They develop a typology of 'higher level' exit strategies, which comprise voluntary cessation, financial harvest and stewardship.

Exit strategies: / *Founder characteristics and motivation:*	**Financial harvest**	**Stewardship**
Age	Younger due to lower opportunity costs	
Education	More education	Less education
Extrinsic rewards	Motivated by financial rewards or desire to establish a profitable firm	Less motivated by financial reward
Desire for autonomy		Strong desire to be independent and retain control of the company

Figure 7: A typology of exit strategies (extract), DeTienne et al. (2015)

Financial harvest exit strategies are characterised as those that prioritise, or maximise, personal monetary returns over other exit goals and are most likely to be realised through an IPO or an external acquisition. A stewardship-based exit strategy is one where personal financial gain is not maximised at the expense of the prospects for firm continuity and its future well-being. It incorporates family business succession, 'employee buy-outs' and 'independent sales' of ventures (which are distinguished from acquisitions largely by being low-end value transactions).

4.7.3 Threshold theory

Within the realm of human capital theory, threshold theory (Gimeno et al., 1997) poses that the decisions of entrepreneurs to exit or persist with their venture are not determined solely by objective measures of economic performance but also by subjective perceptions. The owner's human capital attributes (previous entrepreneurial experience, industry know-how, age, educational attainment) combine with maximising monetary returns, status, identity, alternative economic opportunities and life options to determine their performance threshold. Unmet expectations can determine if the individual decides to exit from their business (Decker and Mellewigt, 2007). Specific exit decisions are determined by whether the venture is experienced as a gain or a loss (Wennberg et al., 2010b). Therefore, individuals will exit if their experience falls below their desired threshold and will keep the firm operating if performance is above it (Gimeno et al., 1997).

4.7.4 Theory of planned behaviour

Entrepreneurial exit research has also drawn widely on the theory of planned behaviour (TPB) which states that the likelihood, or otherwise, of a particular behaviour coming to pass is determined by the intention of the individual to perform it (Ajzen, 1991). Intentions explain only a proportion of the variation in entrepreneurial actions (van Gelderen et al., 2015). Nevertheless, TPB has been shown to be an important predictor of firm creation, performance, growth, and firm survival (Hessels et al., 2011). TPB has been used in studies of entrepreneurial exit to demonstrate that the exit intentions of the individual are an important predictor of the exit outcome they ultimately choose (Blackburn and Stokes, 2000; Leroy et al., 2008; Ryan and Power, 2012; DeTienne and Cardon, 2012).

In DeTienne and Cardon (2012), human capital theory is combined TPB and threshold theory to assess the impact of business founder experience on intentions to exit. The results of their research indicate that human capital, in terms of experience is positively related to the intention to pursue an IPO or acquisition strategy and negatively related to an independent sale or liquidation. Age is positively related to liquidation and, marginally, to family succession. The study concludes that entrepreneurs' exit intentions are an important predictor of the actual outcome*,* which accords with the results of a study by Ryan and Power (2012).

4.7.5 Limitations of human capital theory and labour theory

The relationship between human capital and exit outcomes is challenged by Lee and Lee (2015). They accept that human capital is known to affect the choice of exit strategy that is intended by those that are the owners of ventures, but argue that it has little explanatory power to explain the actual exit outcomes achieved. They find no support for the hypotheses that industry experience or education level is positively related to a successful entrepreneurial exit. Therefore, they speculate that those who exit successfully may demonstrate different characteristics at exit than at start-up. Exit often takes place some considerable time after start-up and occurs through different processes. Whereas the explanatory power of human capital theory to explain aspects of the start-up process has been demonstrated by the literature, its power may be more limited at exit. Thus, as opposed to factors of human capital factors, the contribution of labour theory should be considered, since it is the 'hard-working characteristics' of the owner that lead to the achievement of successful exit outcomes (Lee and Lee, 2015).

4.7.6 Economic and non-economic drivers in exit

Exit studies commonly stress pecuniary yardsticks when making a determination as to whether an exit is deemed to have been successful or unsuccessful (e.g. van Teeffelen and Uhlaner, 2013; Lee and Lee, 2015; Wiltbank et al., 2015; Simmons et al., 2016; Marvel et al., 2016). Venture performance is known to have an influence on founder exit (Wennberg et al., 2010b) and, in this context, monetary gain is an important personal motivation (Graebner and Eisenhardt, 2004; DeTienne and Castro, 2008). As a result, theory in entrepreneurial exit remains largely focused on financial outcomes (DeTienne and Cardon, 2012; Strese et al., 2018).

Nonetheless, in exit, as with venture start-up, founders have both economic and non-economic drivers (DeTienne, 2010; DeTienne and Chirico, 2013; Wennberg and DeTienne, 2014; Kammerlander, 2016). Founders use non-financial and affective criteria, as well as monetary criteria, to judge themselves in terms of their success in business (Strese et al., 2018). These criteria do not necessarily substitute for economic objectives but are complementary to them (Walker and Brown, 2004; Carree and Verheul, 2012; Alsos et al., 2016). Moreover, non-economic aspects become more important to the founder, the longer they own the firm (DeTienne, 2010; Dehlen et al., 2014).

The sale price of the firm and, therefore, the prospect of an effected transfer is affected by asymmetric information, Founders will favour transfers to known quantities within the family, or to trusted individuals (Ryan and Power, 2012). Kammerlander (2016) uses behavioural finance theory to demonstrate that exiting owners discount the sale price of their firms to achieve the transfer the business to a familiar and preferred source. Stewardship exit strategies, such as family business transfer or employee buy-out, enable the owner to reward those who worked with them in the business and are negatively related to extrinsic reward motivations (DeTienne et al., 2015).

Moreover, studies have identified 'Psychological ownership' (Pierce et al., 2003) as a significant factor that can affect the behaviour of founders and owners at exit (see section 4.6.3). Where psychological ownership is high, founders will often avoid exit unless forced to do so (Justo et al., 2015). Psychological ownership has been identified as a base from which to develop theory in exit, such as psychological disengagement theory (e.g. Rouse, 2016), which proposes that the act of exit requires the founder to not only leave the firm physically, but to psychologically leave it behind too.

Founder actions at exit that are linked to psychological disengagement manifest themselves through affective experience, management and identity-related tactics. Founders with serial entrepreneurship intentions 'de-identify' from their current firms to 'let them go' to start again (Rouse, 2016). Emotional disengagement also facilitates the intention to exit, as the entrepreneur reduces the emotional bond they feel towards their firm, by creating emotional distance between themselves and their venture to make exit easier (Afahri and Blackburn, 2019).

4.7.7 Overview

Entrepreneurial exit research is now established as a recognised domain in the entrepreneurship literature (DeTienne and Wennberg), 2016). Nonetheless, the prevailing approach in the exit literature has been to seek associations between variables based on characteristics of human capital with categories of exit intentions or exit outcomes. It draws mainly upon standpoints that are embedded in economic rationality – e.g. human capital, threshold, prospect, behavioural finance and labour theory and the theory of planned behaviour. Table 2 provides an overview of the theoretical and conceptual frameworks that have been applied in extant studies of entrepreneurial exit and business transfer.

Table 2: Entrepreneurial exit – theoretical and conceptual frameworks

Concept/theory	Originator, entrepreneurship adoptions and exit author(s)	Description	Exit and Transfer Perspectives
Human Capital	Becker (1967). Wennberg (2010), DeTienne (2010), DeTienne and Cardon (2012), Ryan and Power (2012), DeTienne et al (2015), Lee and Lee (2015)	Human beings accrue a 'stock' of capital through their life. Human capital is acquired and accrued and, in turn, exploited by entrepreneurs. The theory considers both general human capital and specific human capital.	Human capital factors can be linked to exit strategies, intentions and in some cases outcomes, although this is disputed (e.g. Lee and Lee, 2015). Human capital is the main theory to date applied in exit studies, hypothesised and tested through surveys and quantitative analysis. It can offer relatively easily identifiable and quantifiable factors (age, gender, education level, industry experience etc) and correlate them to exit variables (intentions, plans, and outcomes).
Theory of Planned Behaviour (TPB)	Ajzen (1991), Ryan and Power, (2012), DeTienne and Cardon (2012), Leroy et al. (2015); Soleimanof et al. (2015).	An individual's attitude towards behaviour, subjective norms, and the extent to which they perceive they have behavioural control collectively shape an individual's behavioural intentions and in turn their actual behaviour. Used extensively in entrepreneurship to study the antecedents of intentions and the link between intention and behaviour (e.g. start-up).	TPB is another commonly applied conceptual framework in the entrepreneurial exit literature. It lends itself well to research through surveys that seek to quantify factors in terms of the extent to which exit intention is an antecedent to exit behaviour; and planning for specific exit/transfer results and the extent to which that exit/transfer occurs.
Threshold theory	Gimeno et al. (1997), Wennberg et al. (2010b), Caree and Verheul (2012), Ucbasaran	A range of personal and environmental factors may increase or lower an entrepreneur's willingness to persist with their business despite	The owner will keep the firm open if the' threshold' is operating above these factors and will exit from it if it is below them. The role of firm performance in founder

	et al. (2013), Wennberg and DeTienne (2014), Siepel et al. (2017).	poor performance. The owner may possess objectives aside from maximising their financial return on equity (e.g. status, identity, alternative economic opportunities and life options). These thresholds are, in turn, a function of human capital and determine the extent to which individuals can consider alternative opportunities.	exit may be the critical component of determining whether an exit is successful or unsuccessful (Wennberg et al., 2010b). Non-founder human capital can also affect founder exit thresholds (Siepel et al., 2017). However, exit is 'trivial' when thresholds are applied to exits from sole proprietorships and part time businesses (Gimeno, 1997) and between waged and self-employment (Akola, 2007 in Aaltonen et al., 2010).
Labour theory (of value)	Gintis and Bowles (1981) in Lee and Lee (2015).	Originating with Adam Smith and a feature of Marxian economics. The economic value of a good or service is determined by the total amount of socially necessary labour required to produce it, rather than by the use or pleasure its owner gets from it.	Lee and Lee (2015) argue that it is labour effort that characterizes those entrepreneurs who make successful exits. Although human capital might help an entrepreneur choose the proper exit strategy, their propensity for hard work is key. Therefore, post-entry labour effort and not pre-entry human capital determines if the founder/owner achieves a successful exit.
Social feminism theory	Ahl (2006) in Marlow and Swail (2015), Ahl and Marlow (2012), Justo et al. (2015).	Entrepreneurial processes are gendered processes. Entrepreneurial literature sets male norms as the norm.	Exit is a gendered process. Studies assert that female entrepreneurs fail more often than male, when in fact they exit more often but for a variety of reasons. This may also relate to the issue of conflation of failure and exit in the literature. Females do not fail more often than males but are more likely to exit voluntarily for personal reasons.
Work-family interface theory (from border and boundary theory)	Greenhaus and Allen (2011), in Hsu et al. (2016).	There are role conflicts between work and private life which impact upon the interface between work and family and upon the roles that entrepreneurs play. Boundary theory and border theory are the two fundamental theories that researchers have used to study these role conflicts. Other theories	The interface between business and family (and family and business) affects the intention to exit. Hsu et al. (2016) examine linkages between the family and business domains (e.g., business-to-family interference, business-to-family enrichment, family-to-business interference, and family-to-business enrichment) and exit intentions, which are stronger

		are built on the foundations of these two theories.	for female than male entrepreneurs experiencing interference between the business and family.
Economic career choice theory	Evans and Jovanovic (1989), van Praag (2003), Giannetti and Simonov (2004) - all referenced in DeTienne and Wennberg (2014).	Entrepreneurship is but one choice amongst many that individuals can make in the labour market.	A conceptual article, which posits that the decision to exit from entrepreneurship is a choice that individuals can make if they envisage the opportunities to be greater for themselves elsewhere in the labour market.
Emotions and entrepreneurship (1)– parenting metaphor	Cardon et. al. (2005).	Metaphors can aid understanding in entrepreneurship, given the extreme heterogeneity of entrepreneurs. Applying the metaphor of parenting to entrepreneurship, the venture is the founder's 'baby' and entrepreneurial and parenting metaphors apply at different stages – birth, growth, nurturing.	In the context of exit, founders can struggle with 'letting go' of their 'baby', given common problems of separation anxiety (Cardon et al., 2005).
Emotions and entrepreneurship (2)- Psychological Ownership (PO)	Pierce and Kostova (2003), Avey et al. (2009), Justo et al., 2015, Soleimanof et al. (2015), Weesie and van Teeffelen (2015).	Founders own their firms financially and legally. However, they also have PO of them too. Attitudes and behaviour of the owner towards their venture depend on the strength of their PO. PO is created by drivers including control, creation and intimacy – all of which are present in founding a venture.	Founders adopt emotion-driven transfer and 'coping strategies' at exit (Weesie and van Teeffelen, 2015). The greater the PO of and personal identification with the firm, which grows over time, the harder it is to let go (Soleimanof et al., 2015). When PO is high entrepreneurs will avoid exit unless forced to do so (Justo et al., 2015).
Emotions and entrepreneurship (3) – Behavioural finance theory	Akerlof, 1970 in Ryan and Power, (2012), Kammerlander (2016).	Behavioural finance theory combines behavioural and cognitive psychological theory with conventional economics and finance to provide explanations for why people make 'irrational' financial decisions as opposed to 'rational'	At exit, financial utility is not always maximised at the expense of other, non-economic motivations. This can lead to 'emotional pricing" (Kammerlander, 2016) whereby founders/owners discount the sale price of the firm to ensure that it ends up in what the

		decisions for wealth maximisation.	founder sees as ‘safe hands’.
Emotions and entrepreneurship (4) love metaphor	Sternberg triangular love theory (1986) in Wicker and Davidsson (2015).	Underpinning framework: Sternberg, typology of presence or absence of intimacy, passion and commitment to the venture, linked to entrepreneurial passion; feelings and identity centrality in relation to the venture, and differences for inventors, founders and developers (Cardon et al., 2013).	Conceptual article, observes that Cardon’s work on entrepreneurial emotion and passion does not consequentially look at exit and therefore asks: does a loss of passion contribute to exit? Focuses on nascent entrepreneurs only (ongoing but not yet completed start-up process) and why they exit.
Structuration theory	Giddens (1979, 1984) in Sarason and Hanley (2015).	Structuration theory offers insights into the entrepreneurial process re inter-dependence between context/structure (opportunity) and agency (entrepreneur) – two constructs that cannot separate from one another. Discovery, evaluation and exploitation of opportunities occur through structures of signification, legitimisation and domination at each stage.	Conceptual article that is concerned with social entrepreneurs and their exits ‘selling out’ or ‘selling in’. “Structuration theory helps examine the entrepreneurial ventures as recursive processes that evolve as the entrepreneur interfaces with the sources of opportunity and engages in the venturing process” (Sarason and Hanley, 2015. p.216).
Agency theory (1) Stewardships	Jensen and Meckling (1976), Boeker and Karichalil (2002), Eisenhardt (1989a), DeTienne et al. (2015), Lortie (2015);	In firms, parties have different goals (principals, agents) and therefore transactional costs arise to control and monitor them. Agency costs are lower in new and family firms since ownership and management is less separated.	Family succession, employee buy-out and independent sale are categorised as 'stewardship' exits by DeTienne et al. (2015). Boeker and Karichalil uses agency theory with founders exiting new ventures; Lortie considers why social entrepreneurs exit their ventures and if these exits are different to commercial exits and acquisitions, arising from the ‘clash’ between social entrepreneur exit and the perspectives of the acquiring party.
Agency theory (2) - Information asymmetry	Jensen and Meckling (1976), Eisenhardt (1989a), Howorth et al. (2004), Graebener (2009) in Dehlen et. al. (2014), Battisti	Information asymmetry perspective related to agency theory, in that theories of trust and negotiation and different parties have access to	Successful exits through ownership transfer are more likely to occur where the relationship between vendors and purchasers of firms is characterised by low information asymmetries. Founders prefer a

	and Okamuro (2011), Ryan and Power (2012), Kammerlander (2016).	different levels of relevant information.	family successor first, followed by a trusted employee or internal succession (rather than an external/third party succession) since parties are closer in terms of known information about each other and the firm, resulting in higher levels of trust
Ageing 'theory'	Beckhard (1977) in Mallet and Wapshott (2015), Battisti and Okomuro (2011), Chevalier et al. (2013); Wainwright et al. (2015), Chevalier (2018).	Individuals place increasing value on emotionally meaningful goals and activities as they get older – derived from the psychological literature. With older age comes economic disengagement.	Features in studies of older entrepreneurs in start-up studies but also in context of retirement as an exit choice. Advancing age is an important factor in the decision to exit but may not affect the specific exit choice made for the firm by the owner. Entrepreneurs experience a variety of forces that either 'pull' them towards retirement or 'push' them away from it, depending on a range of business and non-business influences (Chevalier, 2018).
Discrepancy theory	Cooper and Artz (1995) in Carree and Verheul (2012), Khelil (2016).	Introduces notion of 'entrepreneurial satisfaction' as a psychological measure of success. Two aspects – 'goal-achievement gap theory' (initial goal and actual performance) and 'expectation-reality gap theory' (perceived gap) as to whether entrepreneur persists or exits.	Said by Khelil (2016) to be wider than threshold theory as entrepreneurs' goals and expectations make no reference to their preferences for a minimum level of performance, as is implied when examining performance thresholds and exit. There is a difference for economically motivated and non-economically motivated entrepreneurs. Used in the context of exit as a basis for broadening definitions of 'failure'.
Psychological Disengagement Theory / Emotional disengagement	Rouse (2016), Afahri and Blackburn (2019)	Based upon psychological ownership (PO) theory which is put 'into reverse', leading to psychological disengagement as part of the strategy required to achieve volitional and successful exit. Draws on role identity theory (founder identity) and literature on role transitions and emotions, including loss.	In order to exit a firm to start again, founders must 'de-identify' from their current firms in order to 'let go' and exit them (Rouse, 2016). Exiting involves physically leaving the firm – but also psychologically leaving it too. Emotional disengagement sees the entrepreneur 'disconnect' with their venture, which facilitates their exit and affects their intentions in certain exit routes (Afahri and Blackburn, 2019).

Moreover, empirical exit research is dominated by quantitative methods. Studies are mainly concerned with the statistical analysis of variables drawn from factors of human capital and their correlations with categories of exit intentions, exit outcomes and business transfer choices. This situation leads Wennberg and DeTienne (2014, p.12) to observe that “It is surprising that there has been little qualitative work used to explore, challenge and build theory on exit.” Consequently, there remains a lack of theory in entrepreneurial exit (Strese et al., 2018) and the conceptual and theoretical perspectives that surround it remain at a relatively early stage (DeTienne, 2010; Wennberg and DeTienne, 2014; DeTienne et al., 2015; Morris et al., 2018).

4.8 Conclusion

This chapter set out to critically examine the extant literature in the field of entrepreneurial exit, in the context of the research question of this thesis. It finds that entrepreneurial exit has been consolidated as a distinct field within entrepreneurial research (DeTienne and Wennberg, 2016). This has been aided by DeTienne's widely-adopted definition (2010, p.213), leading to greater clarity in distinguishing individual and firm exit, and volitional exit from business failure.

This thesis contends that entrepreneurship is not solely confined to the creation of a new venture (Ucbasaran et al., 2003; DeTienne, 2010). Entrepreneurship, understood broadly, is a heterogeneous and multidimensional concept (Ucbasaran, 2008; Brändle et al., 2018), one that goes beyond a single act and which resists unambiguity as to its beginning and its end (Birley and Westhead, 1993; McMullen and Dimov, 2013). As a field of research, entrepreneurship is not a fixed target with an immovable label, but rather a vibrant research field, in which its boundaries are likely to change continually (Blackburn and Kovalainen, 2009: Shepherd, 2015) A more dynamic, fine-grained, and immersive picture of the entrepreneurial process is offered by an emphasis on entrepreneurial activities (Shepherd, 2015) and a recognition of entrepreneurship as a journey that culminates in exit (e.g. Lewis and Churchill, 1983; DeTienne, 2010; Baum et al., 2014).

Entrepreneurial exit is, therefore, presented in this thesis as a purposeful goal that is pursued volitionally by individuals with a specific outcome in mind, such as a successful transfer of their business (DeTienne, 2010; DeTienne and Cardon, 2012; Ryan and Power, 2012; Justo et al., 2015; Strese et al., 2018). Hence, it supports the view of scholars who recognise entrepreneurial exit as being part of the entrepreneurial process (e.g. DeTienne, 2010; Dehlen, et al., 2014; Leroy et al., 2015; Cumming et al., 2016; Guenther et al., 2016; Morris et al., 2018; Chirico et al., 2019).

The final part of this chapter finds that, despite this recognition, exit remains a relatively novel area in entrepreneurship research. Consequently, theory in relation to entrepreneurial exit is lacking (e.g. Blackburn and Kovalainen, 2009; DeTienne, 2010; Wennberg et al., 2010b; Marlow, 2015 in DeTienne and Wennberg, 2015; Morris et al., 2018). Extant studies have been dominated by the analysis of surveys and datasets and the testing of hypotheses, which has left little room for theory development (Wennberg and DeTienne, 2014; Morris et al., 2018). By contrast, qualitative research has been notable by its absence, despite the relative novelty of entrepreneurial exit and the infancy of theory to explain it (Morris et al., 2018).

This chapter has been able to identify themes and concepts in the extant literature that would prove to be relevant in the analysis of the research data generated for this thesis. However, the lack of theory in entrepreneurial exit meant that there was relatively little provided by way of explanatory power to draw upon in the results. Moreover, whereas the exit literature has identified 'employee buy outs', such as MBOs and MBIs, as exit options (e.g. DeTienne and Cardon, 2012; DeTienne et al., 2015) it has not differentiated between them, nor specifically considered business transfer to collective forms of employee ownership, as represented by EOTs, which are at the centre of this thesis.

The results of this chapter, therefore, attest to the justification for a new research agenda in entrepreneurial exit research - one that can enhance conceptual understanding and contribute to building new theory, based upon more widespread use of qualitative methods and inductive research design. This is best achieved by giving greater emphasis to those who have experienced the exit process, since they are the 'persona causa' (Hessels et al., 2011), yet their perspectives remain under-represented (Eisenhardt, in Gehmen et al., 2018).

This thesis is offered as a contribution to address this lacuna. In the chapters that follow, it presents the results of a qualitative research study with business founders who have transferred their ventures to employee ownership. Before doing so, however, the chapter that follows presents the results of a renewed quest with the wider entrepreneurship literature to search for relevant and explanatory theory to explain the findings that emerged through the analysis. It uncovers the emergence of identity theory in entrepreneurship research, which has enabled this thesis to form a new concept of 'entrepreneurial legacy imprinting'. The development of this concept offers the prospect of a new research agenda, to widen understanding about the motivations and behaviours of founders as they transfer their firms to employee ownership and embark upon their exits.

Chapter 5: Entrepreneurial legacy: identity theory

5.1 Introduction

The thesis began with a broad research question, namely 'why do business founders exit by transferring their firm to employee ownership?' It did not start from the perspective of identity theory. However, there were no *a priori* beliefs or hypotheses that presented themselves from the review of entrepreneurial exit and business transfer in Chapter 4 to address the research question. As the data were analysed and compared to the theoretical situation in the extant literature, concepts were identified that were relevant to specific themes that were emerging in the data. Nonetheless, it became increasingly clear that the lack of theory in entrepreneurial exit was providing little by way of holistic explanatory power. [51]

On the other hand, it became evident during the analysis that the interviews had provoked a revealing set of findings concerning the beliefs and values that surrounded the founders' exit motivations, decisions and behaviours. These findings are set out in the subsequent Chapters 7-10. They unveil a range of founder roles and behaviours aimed at securing their legacy by transferring their firm to the ownership of its employees. They centre upon the founders' desire to leave an entrepreneurial legacy after their exits, in the form of the successful continuance of their venture.

Before considering these findings in detail, however, the purpose of this chapter is to examine the conceptualisation of legacy in the literature in order to provide the groundwork for the analytical approach adopted by this thesis. It centres upon identity theory and its relationship with the concept of legacy creation (Fox and Wade-Benzoni, 2017). Concepts of legacy have only a passing presence in the entrepreneurship literature. Therefore, it became necessary for the thesis to undertake a new quest for explanatory perspectives for legacy-driven motivations and behaviour. This chapter provides the results of that quest.

[51] The analytical strategy adopted by this thesis is described in Chapter 6.

The chapter commences with an exploration of the concept of legacy creation in human existence and how this has manifested itself in the entrepreneurship and management literature. It finds that, surprisingly, the legacy motive and legacy-related behaviours have barely been considered in studies of entrepreneurial exit.

The next part of the chapter introduces identity theory to the thesis. It does so, first, with regards to its relationship with the concept of legacy and, second, its emergence in studies of entrepreneurship. The appearance of identity theory in entrepreneurship research is accelerating (Pan et al., 2019). However, identity theory has not been utilised in studies of entrepreneurial exit (Leitch and Harrison, 2016). The chapter closes with an examination of the distinctions between role identity theory and social identity theory and the link between identity-related concepts and entrepreneurial exit.

5.2 Entrepreneurship and legacy creation

5.2.1 The legacy motive

The desire to leave a legacy is, perhaps, one of the most powerful of human motivators (Wade-Benzoni, 2019). The desire to pass on personal beliefs and values through some form of legacy following a lived existence is an intrinsic human characteristic (Hunter, 2007 in Soleimanof et al., 2015). Legacy, as an individual–level construct, has its roots in psychosocial theories concerning how individuals are affected by the salience to make life 'count' (Hammond et al., 2016). As a construct, legacy had been under-explored in the psychology literature from where it originates (Hunter and Rowles, 2005). However, this has changed over the last decade, as psychological studies have examined more closely how and why individuals have legacy motivations that are intended for the future benefit of others (Wade-Benzoni, 2019).

The entrepreneurship literature has paid scant attention to legacy (Fox and Wade-Benzoni, 2017) but the psychology literature has posited, albeit solely in conceptual articles, that entrepreneurship can be an outlet for the legacy motive. These articles suggest that entrepreneurs assign importance to creating a legacy, based upon an association between their ventures and their own sense of self and personal identity (e.g. Coombs et al., 2008; Fox and Wade-Benzoni, 2017). In relation to legacy motivations and work, entrepreneurs are psychologically motivated in ways that are different in comparison to the wider population (Coombs et al., 2008). Many hold the desire to safeguard or sustain values that they consider to be essential to their own identity beyond their presence in the business (Fox et al., 2010). The concept of founder legacy is, therefore, distinguished from the drivers that many entrepreneurs have to 'make an impact' because it is attached specifically to that which endures after their exits (Fox and Wade-Benzoni, 2017).

5.2.2 Imprinting and legacy

The situation in the entrepreneurship literature with regard to the concept of legacy is very different compared to that in the management and organisational literature. Here, legacies that are bequeathed to organisations by their founders have been studied extensively, in terms of their impacts on corporate sustainability (e.g. Schein, 1983; Boeker, 1997; Marquis and Tilcsik, 2013; Ahn, 2018). Legacies are manifested through the process of 'imprinting', whereby an entity develops distinct characteristics that are imprinted by their founders.

In an entrepreneurial context, founders 'imprint' their firms by embedding their 'stamp' upon the purpose, values, culture and identity of their venture, as well as upon its routines and standards. Founder imprints are at their most impactful through 'triggering events' and at 'sensitive' transitional points in the firm's life during, of which the most profound is the founding phase (Stinchcombe, 1965; Schein, 1983; Boeker, 1989; Geroski et al., 2010; Marquis and Tilcsik, 2013; Simsek et al., 2015). The imprinting approach taken by those who create new ventures can be influenced by critical incidents in life, such as earlier career experiences (Breugst et al., 2015; Mathias et al., 2015; Suddaby et al., 2015).

Imprints help overcome the 'liability of newness' that causes the early business failure that leads to firm exit by increasing the efficiency of venture operations and (Stinchcombe, 1965; Guenther et al., 2015). Nonetheless, organisational characteristics that result from imprinting commonly endure beyond the start-up phase, despite the passing of time and environmental changes (Marquis and Tilcsik, 2013; Mathias and Williams, 2018). Moreover, imprints can be sustained after the founder has exited (Kimberly and Bouchikhi, 1995; Geroski and Mata, 2010; Mathias et al., 2015). They can also endure beyond the tenure of the immediate successors who worked with the founder (Marquis and Tilcsik, 2013) and even be sustained for generations or decades afterwards (Boeker, 1997; Jaskiewicz, Combs and Rau, 2015; Ahn, 2018). As such, adherence to the legacies left behind in organisations from founder imprints can have both positive and negative outcomes for long-term prospects (Ahn, 2018).

5.3 Legacy and entrepreneurial exit

There are two contexts where legacy, as a concept affixed to that which is purposefully sustained following the founder's exit, have been considered in the entrepreneurship literature. The first is featured in studies that examine the philanthropic gifts made by wealthy entrepreneurs. Many entrepreneurs who have been financially successful give away substantial portions of the wealth that they have accrued following a lifetime in business (Coombs et al., 2008).

Leaders often develop an 'edifice complex', in the form of a preoccupation to leave behind a legacy 'monument' (De Vries, 2003; Levinson, 1971 in Cannella et al., 2015). The 'edifice complex' can become more pronounced with age (Hunter and Rowles, 2005; Coombs et al., 2008). As wealthy entrepreneurs enter later life, they begin to consider philanthropic gifts and legacy actions that will pass on their values or beliefs (Coombs et al., 2008). Examples can be found in the legacy behaviour of some of the world's wealthiest entrepreneurs, such as Rockefeller and Carnegie in the past, and Warren Buffet and Bill Gates in contemporary times (Coombs et al., 2008; Mathias et al., 2017).

Legacies that are created and bequeathed through philanthropic giving typically arise from an entrepreneurial 'harvest' event, in which the entrepreneur 'cashes out' their investment by selling their business (Wennberg and DeTienne, 2014; Mathias et al., 2017). However, empirical studies of entrepreneurial exits and financial endowments are few, being restricted to those made by a handful of individuals with ultra-abundant wealth (Mathias et al., 2017). Besides, in these situations, the focus of the entrepreneurs' legacy is not manifested through their firms and the imprints they stamp on them. Instead, the entrepreneurial legacy occurs through financial endowments and the institutions, such as trusts and foundations, that are set up in their names. These institutions are separate to the firms they once owned and can come to eclipse how the entrepreneurs' business achievements, as legacies, are remembered in popular society (Coombs et al., 2008). As such, therefore, philanthropic giving through separately-established foundations, as a manifestation of entrepreneurial legacy, has less resonance for the present study.

The second context where the entrepreneurship literature acknowledges legacy creation arises in relation to transgenerational family business succession. Nurturing the well-being of family members is a core function of a family firm (Miller et al., 2011; Cannella et al., 2015). Familial logic and familial identities shape the nature of family business succession and ensure the longevity of family founding traditions (Le Breton-Miller et al., 2004; Richards et al., 2019). Their primary function is to preserve dynastic family control to protect the socio-emotional wealth derived from the business for the family (Gómez-Mejía et al., 2007; Salvato et al., 2010; Zellweger et al., 2012a). However, scholars have rarely defined or explained in detail the nature of family business legacy, deeming it to be a behavioural outcome that, as a construct, requires little elaboration (Jaskiewicz et al., 2015; Hammond et al., 2016).

Studies have not explored legacy creation through business transfer in circumstances where socio-emotional family wealth is not present. For initiatives such as the present study, the unique dynamics of family businesses and the centrality of family orientation within family business succession processes suggest that conceptual insights developed in family contexts have limited transferability outside of them (DeTienne and Chirico, 2013; van Hilbert and Nordqvist, 2018; Chirico et al., 2019).

5.4 Legacy and identity theory

Since ancient times, Philosophy has been concerned with fundamental questions about identity. It considers the 'self' and its meaning in society, leading scholars over centuries of discourse to consider identity as "being more fundamental to humanity than any other notion" (Gioia, 1998, p.17). Therefore, identity theory has been developed to provide "a general, if individualized, framework for understanding oneself that is formed and sustained via social interaction" (Gioia, 1998, p.19). In its broadest sense, identity theory is concerned with the nature of self-concept, in terms of who one is, who one may wish to become, and how identity shapes an individual's normative behaviour. The self, in this context, emerges from the meanings that individuals attach to the multiple roles they play, as identities are embedded in, and influenced by, social structures (Stets and Burke, 2000). Identity theory can predict behavioural choices and actions, since individuals strive to behave and act in ways that are congruent with the self-worth that they associate with their self-concepts and identities (Tajfel and Turner 1979; Stets and Burke 2000), which in turn vary across individuals and contexts (Stryker and Burke, 2000). Identity, therefore, can influence the desire to create a legacy, as well as the nature of the legacy and the values that surround it (Fox et al., 2010).

Within the entrepreneurship literature, albeit solely in the context of family firms, it has been speculated that the concept of legacy could be explored through the lens of identity theory (Hammond et al., 2016). A conceptual article in the psychological literature makes a link between identity and entrepreneurship as a vehicle for legacy, defining legacy as "an enduring meaning, connected to the identity of an individual actor, apparent in behaviours that are intended to have an impact after the actor is gone" (Fox and Wade-Benzoni, 2017, p.169) For both Coombs et al. (2008) and Fox et al. (2010), the construct of legacy is built upon the salience of the connection between the identity of the individual and their desire that key aspects of their identity endure beyond their presence in their ventures.

5.5 Identity theory and the heterogeneity of business founders

The heterogeneity displayed by entrepreneurs has long since provided rich territory for study (e.g. Carland et al., 1984; Shane and Venkataraman, 2000; Shepherd and Haynie, 2009; Fauchart and Gruber, 2011; Wennberg et al., 2010b; Fauchart and Gruber, 2011; Davidsson, 2016). Entrepreneurs are often characterised as having a differentiated identity to non-entrepreneurs, encompassing features such as innovation and risk-taking (Shepherd and Haynie, 2009). Theoretical and empirical evidence is replete with studies, meta-analyses and theoretical contributions that explore how, and in what ways, entrepreneurs are different to managers, non-entrepreneurs and the general population (Mathias and Williams, 2017).

Thus, identity-based theories have been used to explain the distinctions in motivation and characteristics between those in society who start their own businesses and those that do not (Murnieks and Mosakowski, 2007; Shepherd and Haynie, 2009; Hoang and Gimeno, 2010; Farmer et al., 2011; Murnieks et al., 2019). Such studies emphasise differences in psychological traits, higher levels of motivation and confidence, different patterns of behaviour, decision-making and cognition, or the desire to be distinctive and individualistic (e.g. Scase and Goffee, 1980; Busenitz and Barney, 1997; Baron, 1998; Stuart and Roth, 2007; Farmer et al., 2011; Baum et al., 2014; Gorgievski, et al., 2016; da Silva et al., 2017; Murnieks et al., 2017). Nonetheless, using identity theory to explore the heterogeneity in meanings that founders associate with their entrepreneurial endeavours was largely absent in the literature until relatively recent times (Murnieks and Mosakowski, 2007). However, identity theory is increasingly providing new insights into the motivations and behaviours of business founders (Kašperová et al., 2018; Murnieks et al., 2019; Jones et al., 2019).

It is generally posited in studies of identity and venture start-up that the 'self' drives entrepreneurship and not entrepreneurship that drives the self (Pan et al., 2019). There are those who posit that entrepreneurial identity is intrinsic to the individual and relatively stable (e.g. Cardon et al., 2013; Collewaert et al., 2016). Kašperová and Kitching (2014) suggest that individual-level properties constrain the extent to which entrepreneurial identity is changeable. Others contend that it can develop as part of the entrepreneurial journey (Marvel et al., 2016; Mathias and Williams, 2017), according to the fluidity of temporal and environmental factors (Gioia, 1998; Gielnik et al., 2015; Leitch and Harrison, 2016). Entrepreneurial identity may develop from the learning involved to make the venture distinctive and successful (Baker and Nelson, 2005; Shepherd and Haynie, 2009; Casas and Hilb, 2016).

Scholars are increasingly researching the connections between entrepreneurial behaviour and activities and how these are "infused with meaning because they are an expression of an individual's identity or concept of self" (Fauchart and Gruber, 2011, p. 935). These connections both complement and challenge traditional conceptualizations of entrepreneurial phenomena that equate entrepreneurial motivation and behaviour with a narrow view of economic rationality and utility maximization (Pan et al., 2019). Whereas the potential for financial reward is recognized as an important motivation for entrepreneurial behaviours (e.g. Shepherd and DeTienne, 2005; DeTienne, 2010; Kammerlander, 2016; Strese et al., 2018), its motivational primacy is being increasingly disputed. Scholars argue that its prominence is not justified by empirical support (Fox and Wade-Benzoni, 2017) and does not adequately explain the heterogeneity of entrepreneurs' motivations and actions that go beyond economic goals (Cardon et al., 2005; Fauchart and Gruber, 2011; Shepherd et al., 2015; Gruber and MacMillan, 2017; Powell and Baker, 2017).

Consequently, identity-based theories are becoming more prevalent in entrepreneurship. They are utilised to explain how business founders strive to act and behave in ways that are consistent with their self-concept and how founder identities are linked to motivations, behaviours and outcomes in new firm creation (Sieger et al., 2016; Pan et al., 2019). They are also used to explore a range of dimensions concerned with, for instance, the antecedents and construction of entrepreneurial identity (Kašperová et al., 2018); typologies of identity that impact upon the nature of the created venture (Cardon et al., 2009; Fauchart and Gruber, 2011) or the type of entrepreneurial opportunities pursued (Mathias and Williams, 2017); and identity processes in nascent ventures with multiple founders (Powell and Baker, 2017). Identity theory has also been used to explain the link between identity-based drivers and the aspiration to acquire the identity of becoming a business founder (Hoang and Gimeno, 2010; Farmer et al., 2011); entrepreneurial self-efficacy (Brändle et al., 2018); causal and effectual behaviour at founding (Alsos et al., 2016); dealing with adversity (Powell and Baker, 2014); emotion in entrepreneurship (Murnieks et al., 2019) and passion for entrepreneurship (Cardon et al., 2012; Murnieks et al., 2014; Yitshaki and Kropp, 2016) as moderated by gender (Murnieks et al., 2018); emotional disengagement and re-entry for serial entrepreneurs (Rouse, 2016) and the interplay between commercial and social logic in identity creation at the start-up phase of social or environmental enterprises (Wry and York, 2017; Wagenschwanz and Belz, 2018; Pan et al., 2019).

Powell and Baker (2014, p.1409) define a founder's identity as comprising "the set of identities that is chronically salient to a founder in her/his day-to-day work." Thus, founders build salient and idiosyncratic sets of identities that are derived from their own aspirations, circumstances, backgrounds and values (Powell and Baker, 2014). Founders are heterogeneous in the extent to which they self-identify with their venture (Justo et al., 2015; Wagenschwanz and Belz, 2018) but frequently maintain a strong psychological identification with their firms (Pierce et al., 2003; Rouse, 2016). They can also put a lot of 'themselves' into their business Murnieks et al., 2014) coming to see in it an extension of themselves as their 'baby' (Cardon et al., 2005). Thus, being the founder of a venture is seen by them as a fundamental part of 'who they are' (Cardon et al., 2009). As a consequence, the venture that they create is both an important manifestation of their own identity, as well as a representation of the meaning that they attach to their entrepreneurship (Fauchart and Gruber, 2011; Sieger et al., 2016; Murnieks et al., 2019).

There are two main branches of identity theory; role identity theory, which has its origins in sociology (Stryker and Burke, 2000) and social identity theory, which originates from social psychology (Tajfel and Turner, 1979). The burgeoning entrepreneurship literature that is concerned with identity has echoed sociology and social psychology by drawing predominantly upon role identity theory and social identity theories (Leitch and Harrison, 2016; Mathias and Williams, 2017). In order to understand their distinct perspectives and their relevance to the thesis, each is considered in turn.

5.6 Entrepreneurship and role identity theory

Role identity theory is centred upon the meanings attributed by an individual to the roles that they occupy and perform in society such as 'entrepreneur', 'teacher' or 'parent' (Stets and Burke, 2000). Initially, role identity theory was the dominant identity perspective applied in studies of entrepreneurship. It focuses on role-related views of the self, highlighting characteristics that distinguish an individual who performs an entrepreneurial role as distinct from other roles (Murnieks and Mosakowski, 2007; Hoang and Gimeno, 2010; Farmer et al., 2011; Powell and Baker, 2014). It contrasts the role identity of a founder as a creator of organisations, as opposed to the role identities performed by those employed in organisations, such as 'worker' or 'manager' (Shepherd and Haynie, 2009; Hoang and Gimeno 2010; Farmer et al., 2011).

Role identities in society reflect a set of expectations and associated behaviour, in terms of goals, values and beliefs, driven by the salience and centrality to the individual of those identities (Stets and Burke, 2000). Accordingly, the role of entrepreneur, or business founder, becomes part of an individual's self-concept (Powell and Baker, 2014; Mathias and Williams, 2018). Therefore, the adoption of a role identity lens in research emphasises that roles that founders undertake as being formative to their self-concept when creating and developing a venture (Cardon et al., 2009; Hoang and Gimeno, 2010; Yitshaki and Kropp, 2016; Collewaert et al., 2016; Mathias and Williams, 2017).

The value and meanings attached to the status of 'being a business founder' by the individual(s) concerned, those around them and society at large are also influenced by exogenous factors. For instance, public policies that uncritically value increased levels of entrepreneurship in society consider 'becoming an entrepreneur' to be a virtuous undertaking (Hindle and Klyver, 2007; Blackburn and Kovalainen, 2009). Media portrayals also influence the values and norms associated with entrepreneurs in mainstream societal culture and discourse (Achtenhagen and Welter, 2007; Boyle and Magor, 2008). In the U.K., for example, entrepreneurs are frequently and increasingly portrayed as representing positive role models for society, being characterised by individuals whose business activities result in honourable and meritorious achievements (Boyle and Magor, 2008; Levie et al., 2010).

However, individuals do not have the luxury of a role identity that is just ‘being an entrepreneur’. Starting and developing a venture necessitates performing various roles and adopting different role identities (Mathias and Williams, 2017). Thus, Cardon et al. (2009) propose three role identities - *Inventor, Founder* and *Developer* - that are salient to those engaged in the process of creating and running a firm. The ‘Inventor’ role identity is connected to identifying and creating products and services as opportunities for exploitation in the marketplace; the ‘Founder’ role is intrinsic to the creation and establishment of a mechanism, typically a venture, to commercialise the identified or invented opportunity. Finally, the ‘Developer’ role is related to those activities required to elaborate, nurture and grow the venture in order to capacitate it to take the fullest advantage of the opportunities available.

Entrepreneurs can display different levels of passion towards each of these distinct identities, as each requires different types of activities (Cardon et al., 2013). These activities can account not only for the extent of the individual’s feelings towards each identity but also for the centrality of these activities and the roles that accompany them in shaping aspects of their self-identity (Cardon et al., 2009; Murnieks et al., 2014; Farmer et al., 2011; Fauchart and Gruber, 2011).

The critical point is that, while individuals have preferences for specific roles in the entrepreneurial start-up process in terms of what they 'have to do’, these roles are also an important part of ‘who they are’ (Powell and Baker, 2014). Hence, they are meaningful to their identity, which in turn shapes the nature of the passion they feel for different aspects of their venture (Cardon et al., 2009; Cardon et al., 2013; Murnieks et al., 2014). Role identity theory can, therefore, explain differences in perceptions and behaviour between individuals when performing different entrepreneurial roles, as well as the impacts that result on their ventures (Mathias and Williams, 2017). As they evolve, the requirements of firms are known to impact upon the dynamics of the role identities to which founders must adapt (Powell and Baker, 2017; Mathias, 2018).

Nonetheless, the impact of exit on the role identity of entrepreneurs in relation to their ventures has received little attention. Recent studies posit that exit from entrepreneurship in order to retire involves a role transition, one which is viewed positively or negatively depending on the individual's perspective on the prospect of retirement (e.g. Chevalier et al., 2018; Morris et al., 2020). However, founder role identity transitions through the roles adopted by exiting founders to facilitate business transfers and legacies have not been studied.

5.7 Entrepreneurship and social identity theory

Social identity theory focuses on the formative impact of self-concept, as manifested by the individual's values, feelings, and behaviours that are derived from social attributes and interactions with social relationships. As such, social identity emphasises the antecedents and consequences of identities that are shared with others, as well as the salience of group memberships and intergroup relations (Tajfel and Turner, 1979). Since its introduction to entrepreneurship by Shepherd and Haynie (2009) and Fauchart and Gruber (2011), it has been used to provide a theoretical lens for an accelerating number of studies (e.g. Cannella et al., 2015; Akhter et al., 2016; Sieger et al., 2016; Alsos et al., 2016; Gruber and Macmillan, 2017; Powell and Baker, 2017; Brändle et al., 2018).

Social identity theory explains how differences in social motivation affect new firm creation, as founders' behaviour in relation to their new ventures is shaped by how they perceive themselves in relation to others. Shepherd and Haynie (2009) apply social identity theory to entrepreneurship through group behaviour dynamics that focus on the human need to 'belong', by being in the 'in-group' and the need to be distinctive by being in an 'out-group' (Tajfel and Turner, 1979). They posit that entrepreneurs experience an intrinsic tension between their need to be members of an 'out-group' because, to be successful, their venture has to be distinctive to others in the market, whilst also self-identifying as being a type of entrepreneur belonging to an ‘in-group’ that they value (Shepherd and Haynie, 2009).

For Fauchart and Gruber (2011, p. 935) the “social aspects of a founder's self-concept are likely to be of importance in entrepreneurship because firm creation is an inherently social activity and organizations are themselves social constructions.” Thus, social identity theory is deployed by them to propose that a founder with a frame of reference that is related to their social identity will use the same frame of reference when making entrepreneurial decisions. They propose three ‘pure types’ of founder social identity - *Darwinian, Communitarian* and *Missionary* – each with their own distinct characteristics that drive the founder in their venture creation through their own sense of self-concept - and which have important imprinting effects on new firms (see Figure 8 below).

Darwinian founders are driven by the pursuit of economic gain and by self-interest (Fauchart and Gruber, 2011; Gruber and Macmillan, 2017). Presented with the prospect of greater pecuniary gain in other markets, they may switch or set up new ventures in different areas of business, since they derive little meaning from the specifics of their products, services or making a wider contribution through their venture beyond their pursuit of financial self-enhancement (Alsos et al., 2016). Their self-worth is therefore derived by an orthodox ’business school’ approach, whereby their primary reference in the social space is the competition. As a result, their efforts are directed towards themselves, or the ‘I’ (Fauchart and Gruber, 2011; Sieger et al, 2016; Pan et al., 2019).

Communitarian founders, on the other hand, are driven by supporting and being supported by those with whom they identify personally, that they see as their ‘known’ community (Fauchart and Gruber, 2011; Gruber and Macmillan, 2017). This is typified by the communities of employees, customers and stakeholders that they build up and who they would not want to disappoint (Brändle et al., 2018). Since their known community is their focus, they have little interest in switching products or services, but instead look to different ways by which they can improve the way they work with their community (Alsos et al., 2016). Their self-worth is, therefore, derived from contributing to that community, which is their primary reference in the social space. As a result, their efforts are directed towards those that are known to them, or the 'personal We' (Fauchart and Gruber, 2011; Sieger et al, 2016; Pan et al., 2019).

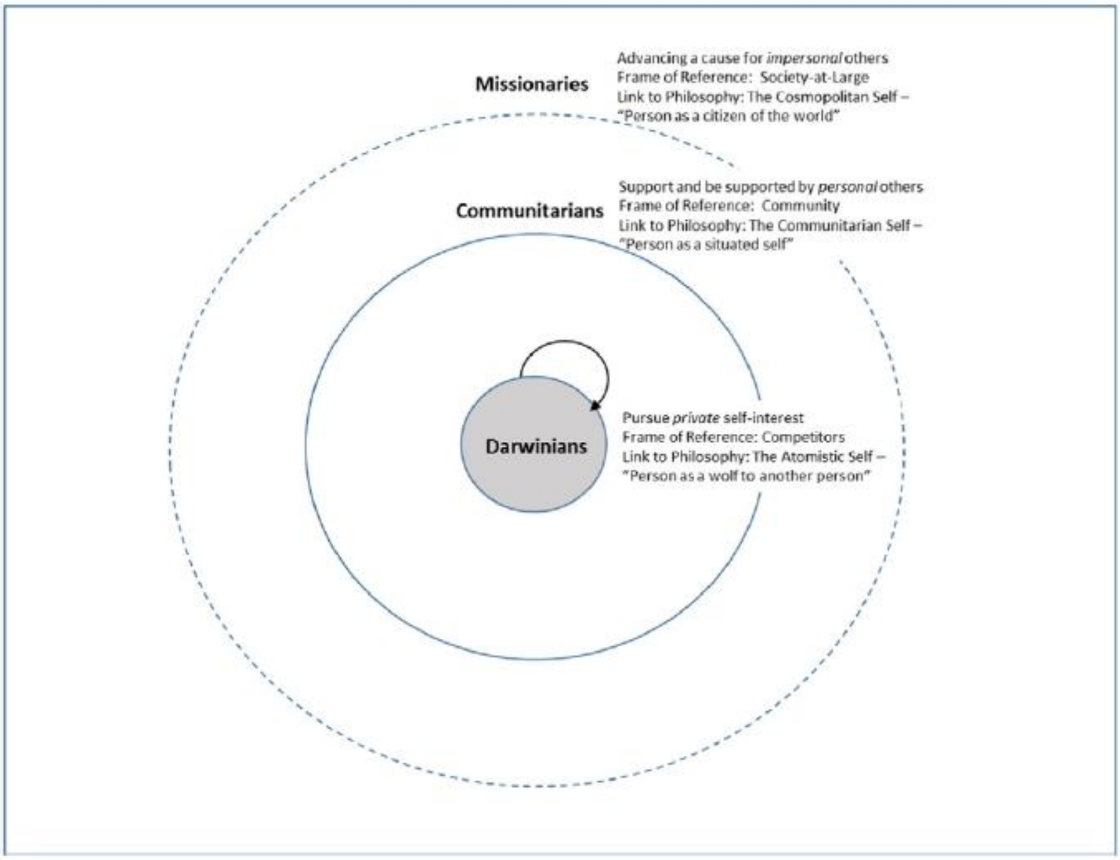

Figure 8: Missionary, Communitarian and Darwinian Social Identities Fauchart and Gruber, 2011 in Gruber and Macmillan, 2017)

Finally, *Missionary* founders are driven by advancing a business cause that contributes to the enhancement of society at large (Fauchart and Gruber, 2011; Gruber and Macmillan, 2017), such as the promotion of social justice or the protection of the environment (Brändle et al., 2018). Their mission surrounds the well-being of others beyond those they know personally through their immediate social communities. Their business projects are, therefore, shaped primarily by their concern to advance a greater cause (Alsos et al., 2016). Consequentially their self-worth is derived from how their venture can contribute to making the world a better place and their social space is represented by wider society. As a result, their efforts are directed towards the 'impersonal We' (Fauchart and Gruber, 2011; Sieger et al, 2016; Pan et al., 2019).

Part of the rationale for the introduction of social identity theory into entrepreneurship is that, as founding a venture is a social activity, the ventures created by founders are themselves social constructions (Whetten and Mackey, 2002 in Fauchart and Gruber, 2011). In the context of this thesis, it can be argued that founders engage in more social activities as they develop their ventures than they do at the founding stage. They do so for a longer period of time with their employees, customers, stakeholders and the wider marketplace. To date, however, there have been no empirical studies that have examined how social identity-based drivers impact upon entrepreneurial decision-making over time and, specifically, the relationships between social identity and entrepreneurial exit, succession and legacy.

5.8 Integrating identity theories in entrepreneurship

There is considerable overlap between the role and social versions of identity theory. Individual identities are formed and maintained through interactions with surrounding social structures, which include the roles that people perform. Moreover, social structures affect the self which, in turn, affects social behaviour such as how people relate to the roles to which they aspire or occupy (Tajfel and Turner, 1979; Stets and Burke, 2000; Stryker and Burke 2000). In entrepreneurship, motivational and behavioural drivers may be dominated by a single founder role identity or social identity. However, identities are not monolithic in nature (Murnieks et al., 2014) and many entrepreneurs display elements of multiple identities (Shepherd and Haynie, 2009).

Founders have to resolve tensions between the different role identity requirements of 'Inventor', 'Founder' and 'Developer' that confront them in venture start-up and the identities that they prefer (Cardon et al., 2009; Cardon et al., 2017). In a similar vein, entrepreneurs commonly display 'hybrid' social identities that incorporate different elements of the 'Darwinian', 'Communitarian' and 'Missionary typologies, making their behaviour more difficult to predict (Fauchart and Gruber, 2011; Powell and Baker, 2014; Alsos et al., 2016; Gruber and Macmillan, 2017). Therefore, scholars are increasingly combining or integrating role and social identity constructs to provide a more holistic identity perspective when examining specific aspects of entrepreneurship. For instance, studies examine variations in role identities within social identities and how they impact upon the ventures that founders create (Farmer et al., 2011; Miller and Breton-Miller, 2011; Powell and Baker 2017; Rouse, 2016; Powell and Baker, 2017; Wry and York, 2017; Gruber and Macmillan, 2017; Pan et al., 2019). Others examine how identity fuels the passions that people express for different aspects of entrepreneurship, in terms of staff and customers, products, dealing with competition or contributing to a social cause (Cardon et al., 2013; Cardon et al., 2017).

At the micro level, individual entrepreneurs have personal identities that are based on sets of individualised meanings that differentiate each person as unique (Burke and Stets, 2009 in Yitshaki and Kropp, 2016). Hence, where entrepreneurial motivation and behaviour are concerned, the idiosyncratic and personal features that are intrinsic to each individual are part of the identity equation (Powell and Baker 2014; Yitshaki and Kropp, 2016). Correspondingly, studies argue that entrepreneurial identity perspectives in start-up research have limited powers of explanation unless they incorporate an adequate understanding of the individual-specific and embodied concerns that motivate individuals (Kašperová and Kitching, 2014; Kašperová et al., 2018). However, some scholars consider social and role identities to have 'superior' explanatory and predictive prowess compared to personal identities. They argue that behavioural expectations associated with personal identities are more diffuse when unconnected with particular role identities and social relations, such as those intrinsic to entrepreneurship and venture creation (Wry and York, 2017; Wagenschwanz and Belz, 2018).

5.9 Identity theory and entrepreneurial exit

Despite the gathering momentum in the appearance of identity theory over the last decade in the entrepreneurship literature, there is little that has specifically explored the extent to which self-identity is relevant to founders when designing their exit strategies and pursuing exit decisions. Studies that examine identity and entrepreneurship are focused almost exclusively on founder heterogeneity demonstrated through start-up behaviour and motivation. Interactions between the evolving venture, founder identity and the entrepreneurial behaviour and outcomes that it drives, such as exit, remains relatively unexplored (Leitch and Harrison, 2016).

Some question whether it is possible to do so, because of the unique and individualised nature of individual exits are driven by deep and idiosyncratic personality characteristics (e.g. Strese et al., 2018). Nonetheless, concepts that are linked to identity do appear in the exit literature. For example, there is a growing presence in entrepreneurship studies of the links between affective decision-making and concepts such as emotion and passion (e.g. Cardon et al., 2005; Cardon et al., 2012; Jennings et al., 2015; Cardon et al., 2017). Passion, for instance, has its roots in identity theory (Murnieks et al., 2014) and the passion that a founder feels for their venture - whether it ebbs away, is maintained or increases over time - should have a motivating function in all phases of the entrepreneurial process (Baum et al., 2014). Furthermore, the relationship between emotion, which is liked with identity (Stets and Burke, 2000) and exits arising from business failure has been studied extensively. Such studies focus on the extent to which entrepreneurs grieve, recover and learn from failure (e.g. Shepherd et al., 2009; Frankish et al., 2013; Byrne and Shepherd, 2015; Fang He, 2018). However, little is known about the emotional processes that take place in volitional and successful exits (Shepherd, 2015; Shepherd and Patzelt, 2017).

'Psychological ownership' (Pierce et al., 2003) is partly grounded in identity theory (Justo et al., 2015). It is manifested by the sense of ownership that is derived from personal and emotional attachment to the firm, as opposed to the possession of financial and legal ownership (Bruce and Picard, 2006; DeTienne, 2010; Dehlen et al., 2014; Zanger et al., 2015). The more a founder invests resources in their venture, in terms of their time and energy, alongside their monetary resources, the more they develop psychological ownership of it. The attachment that develops as a result increases with their length of tenure, as their self-identity becomes progressively interlinked with that of the firm (Cardon et al., 2005; DeTienne et al., 2008). The extent to which a founder's sense of self-concept is bound up with their enterprise can become so powerful that they can become fearful of the loss of self-identity they believe will accompany their exit (Cardon et al., 2005; Justo et al., 2015). Fear of loss of self-identity can, therefore, cause owners to persist with their firms rather than exit from them even where they are consistently failing (Shepherd, 2003; Shepherd et al., 2009; Justo et al., 2015). It can also lead them to defer retirement, for fear of the loss of self-construct and self-esteem they associate with being personally identified with their venture (Chevalier et al., 2018; Morris et al., 2020).

5.10 Conclusion

This chapter set out to examine the potential of legacy concepts and identity theory in entrepreneurship, to provide a holistic conceptual foundation for this thesis. It finds that concepts of legacy creation have been little referenced in studies of entrepreneurial exit but have considerable promise in terms of explaining the exit motivation and behaviour of business founders.

Exit is part of the entrepreneurial process (DeTienne, 2010) and the self-concept and self-identity of many founders is tied up with their firm (Cardon et al., 2005). The chapter finds that identity theory is established in the entrepreneurship literature (Pan et al., 2019) and underpins legacy constructs (Fox et al. 2010; Fox and Wade-Benzoni, 2017). Therefore, it has considerable untapped potential for theorized outcomes that explain the heterogeneity of exit choices and decisions made by individual founders that determine the destiny of their firms.

Nonetheless, prior to this thesis, neither role identity theory nor social identity theory have been deployed in studies of entrepreneurial exit and business transfer. Similarly, legacy concepts have received little more than passing reference in relation to entrepreneurial motivation and behaviour at exit. This chapter has, therefore, supplied the groundwork for doing so, providing the foundation for introducing the concept of 'entrepreneurial legacy imprinting' presented in this thesis. The next chapter sets out the research methodology and the analytical approach to the qualitative data generated by the research that is, in turn, interpreted in subsequent chapters of this thesis through the lens of identity theory.

Chapter 6: Research Methodology

6.1 Introduction

This chapter presents the research methodology that generated new empirical material for this thesis. Within the understudied realm of entrepreneurial exit, the thesis research question addresses a novel topic by asking why business founders exit their firms by transferring them to employee ownership. Therefore, the chapter begins by justifying the use of an inductive research strategy, implemented through qualitative enquiry, in order to address the research question.

Qualitative research has no theory, paradigm or distinct set of methods that are entirely its own (Mäkelä and Turcan, 2007; Denzin and Lincoln, 2011). Unlike quantitative methods, it does not have catalogued rules of operation (Ritchie et al., 2014). Nonetheless, it should operate quality criteria that demonstrate its trustworthiness and authenticity (Guba and Lincoln, 1994; Creswell, 2013). However, qualitative research is frequently criticised for failing to demonstrate conceptual and analytical rigour in its procedures (e.g. Suddaby, 2006; Gioia et al., 2013; Gehmen et al., 2018; Reay et al., 2019). Therefore, the next part of the chapter chronicles, in detail, the steps involved in the adoption and operationalisation of its cross-sectional research design, based upon semi-structured interviews. This detail is provided not only to demonstrate rigour, but also to relate how the researcher's choice of a cross-sectional research design and the approach taken to its implementation overcame the considerable practical difficulties inherent to the study of entrepreneurial exit, which have contributed to why it is under-researched (Morris et al., 2018).

As set out in Chapter 5, the thesis did not start with a view towards identity theory, but it became apparent during the analysis that the state of theory described in Chapter 4 was providing little by way of explanatory power. Therefore, the next part of this chapter describes the analytical strategy adopted by the thesis and how this approach is drawn from the "big tent" of grounded theory building (Eisenhardt et al., 2016, p. 1119;

Gehmen et al., 2018, p.288). As the analysis undertook constant comparisons between the data and the literature, the constructs developed by this thesis were inducted from the research data to build grounded, higher order concepts (Eisenhardt et al., 2016) drawn from identity theory.

Finally, the chapter concludes by setting out the data structure (Gioia et al., 2013) that was produced to support this process. This structure comprises the codes and themes that emerged from the analysis, which provide the framework that underpins the conceptual development of this thesis.

6.2 Entrepreneurship studies and qualitative research

6.2.1 The under-representation of qualitative research in entrepreneurship studies

Entrepreneurship research is a growing field of academic enquiry, which is studied through both quantitative and qualitative techniques (Bygrave, 2007; Blackburn and Kovelainen, 2009; Davidsson, 2016). Nonetheless, it is dominated by quantitative studies (Hindle, 2004; Chalmers and Shaw, 2017). William Bygrave, revisiting his earlier seminal work on the 'enterprise paradigm'[52] observes that entrepreneurship research continues to be dominated by statistics, limiting understanding of the essence of the entrepreneurial experience (Bygrave, 2007, p.22). Indeed, 90% of the articles published in the main international entrepreneurship journals between 1985 and 2013 were based upon the use of statistical analysis (McDonald et al., 2015).

The predominance of quantitative methods in entrepreneurship can result in self-referential research, whereby studies chosen for publication are dominated by well-trodden paths that easily befit statistical measurement (Shepherd and Patzelt, 2017). Authors are rarely called upon to justify their choice of research method and, as a result, the entrepreneurship research agenda is shaped disproportionately (McDonald et al., 2015). Its focus on categorical variables, which are easier to measure, leads to a

[52] Churchill, N. and Bygrave, W.D. (1989) 'The Entrepreneurship Paradigm(I): A Philosophical Look at Its Research Methodologies', *Entrepreneurship Theory and Practice*, *14*(1), pp.7-26.

narrower range of entrepreneurial objectives being designed for study (Marvel et al., 2016). In consequence, the knowledge base in entrepreneurship and small business research remains over-dependent upon quantitative research “as the main tool for generating theories and in seeing isomorphic relationships between statistical and theoretical models” (Blackburn and Kovalainen, 2009, p.130).

When research is concerned with novel subjects, qualitative research methods can be ideal. They contribute to developing an understanding of episodes or interactions, which can make connections to the social world through the identification of broader patterns and meanings (Yin, 2014). A wide range of under-explored and novel topics continue to be identified in entrepreneurship, for which qualitative methods are particularly well-suited (Jennings et al., 2015; Suddaby et al., 2015). For example, non-pecuniary concepts, such as emotion and identity are becoming increasingly important, but do not lend themselves in a straightforward way to quantifiable measurement (Eisenhardt et al., 2016; Shepherd and Patzelt, 2017). Hence, entrepreneurship scholars call for greater use of qualitative methods in order to expand the perspectives and insight offered to academic enquiry (e.g. Low, 2001; Hindle, 2004; Suddaby et al., 2015),

More widely, qualitative researchers across multiple disciplines have begun to equip themselves with enhanced systematic approaches and an increase in rigour, which are better suited to tackle the methodological criticisms they face from non-qualitative sources (Gehmen et al., 2018). As a consequence, qualitative methods are more widely accepted within the mainstream of entrepreneurship research, despite the continuing domination of statistics (Shepherd, 2015; Marvel et al., 2014; Kovalainen, 2018).

6.2.2 Entrepreneurial exit and qualitative research

Entrepreneurial exit remains a relatively novel field of study (Blackburn and Kovalainen, 2009; Marlow, 2014 in DeTienne and Wennberg, 2014; Morris et al., 2018) although it has been the subject of increased attention in recent years (DeTienne and Wennberg, 2016; Morris et al., 2018). This has, in turn, led to the identification of new aspects of exit that currently await research attention (Morris et al., 2018).

Given the ability of qualitative research to make valuable contributions in under-researched areas (Leedy and Ormrod, 2013; Bryman and Bell, 2015), it could, therefore, be anticipated that qualitative studies feature significantly in the emerging stream of entrepreneurial exit literature. However, this is not the case.

Therefore, exit research mirrors the wider domination of quantitative analysis in entrepreneurship research. As identified in Chapter 4, extant studies are characterised by the statistical analysis of datasets and surveys, which are almost exclusively deductive and hypothesis-testing in nature. Thus, not only is entrepreneurial exit under-researched in quantum, but it has also received comparatively little attention in terms of qualitative and explorative enquiry (Wennberg and DeTienne, 2014; Morris et al., 2018).

Qualitative research is particularly valuable when the question being addressed is concerned with aspects of process (Creswell, 2013). However, the results of a literature review that identifies 32 process-based theories of entrepreneurship (Moroz and Hindle, 2012) finds that barely a third are empirically derived (Chalmers and Shaw, 2017). None are concerned directly with entrepreneurial exit. Consequently, relatively little light has been shed by the extant literature on the 'how' and 'why' of the entrepreneurial exit process. Yet, if the processes involved in entrepreneurship are to be fully understood, qualitative research approaches need to be more prominent amongst those deployed (Blackburn and Kovalainen, 2009).

6.2.3 Qualitative research and the research question

Having thus far considered the under-representation of qualitative research in entrepreneurship, together with its ability to enlighten understanding in novel areas, there remains the matter of its appropriateness to the unique characteristics of the research question addressed by this thesis. In this context, Leedy and Ormrod (2013) set out three conditions where qualitative research can be particularly valuable: first, information about the topic is relatively scarce; second, the variables to be used in research are unclear; third, a relevant theory is missing.

Each of these conditions is demonstrably present in the current study. First, not only is the wider field of entrepreneurial exit a novel research area, but the specific topic of business founder exit through transfer to employee ownership has not been researched. Second, whilst the importance of studying the processes behind entrepreneurial phenomena is widely understood (Hjorth et al., 2015), the variables that are at play in the process whereby founders exit their firms through transfer to employee ownership are not known. Third, theoretical development in entrepreneurial exit remains at the emergent stage and there is no extant theory to explain why founders exit by choosing to transfer their firms to employee ownership.

Therefore, the thesis research methodology seeks to avoid academic tendencies to initialise empirical research in newly emerging research fields before developing a sufficient level of understanding through exploratory investigation (Blumer, 1969 in Blaike, 2009). Moreover, there is the straightforward point that the research question addressed by this thesis does not seek answers through measurement by quantification; nor does it lend itself to probability testing or validation through quantitative research. Instead, the thesis explores a novel area for research, one where the relevant processes and variables are relatively invisible. In such situations, qualitative research has an intrinsic capability to make such worlds visible, by interpreting and contextualising meanings from people's beliefs and practices (Denzin and Lincoln, 2011).

The adoption of a qualitative, inductive approach enables the examination of the exit of business founders, as the unit of analysis in this thesis, *as it is experienced* (Cacciotti et al., 2016). The qualitative data provided by the founders offer rich descriptions, which reflect exit through transfer to employee ownership as a subjective 'lived experience' (Miles and Huberman, 1994). In this thesis, by placing the business founders who are presently exiting their firms or have recently done so as the unit of analysis, founders are treated as 'knowledgeable agents' who are able to insightfully explain their thoughts, emotions, intentions, and actions (Gioia, in Gehmen et al., 2018).

6.3 Research design and data collection

6.3.1 Collecting exit data: practical challenges

Business founders can be very willing to participate in research when they can narrate their business achievements (Neergaard, 2007). Nonetheless, gathering data from SME business owners for research purposes can be a difficult task (Curran and Blackburn, 2001; Blackburn and Kovalainen, 2009). Research methods that require time and engagement from firm owners to secure their participation are particularly challenging to implement successfully (Blackburn and Stokes, 2000; Neergaard, 2007). Moreover, business founders and owners, particularly from SMEs, can be particularly reluctant to engage with 'cold' contact from academic researchers (Curran and Blackburn, 2001).

For researchers who embark upon the study of entrepreneurial exit, there are specific and additional challenges that must be overcome. At the firm level, most of the exit literature is concerned with publicly traded enterprises rather than the privately owned firms which characterise the SME market (Chirico et al., 2019). The vast majority of SMEs are unlisted and there is no easy way to find out which firms are currently for sale (Alba et al., 2016). Simply identifying the number of SMEs that have been sold or transferred is difficult to establish. For instance, in the U.K. and the U.S., there is no obligation placed upon private firms to report their sale (Burlingham, 2014). Moreover, whereas extensive and accessible data on the quantum, size and characteristics of ventures that close down is easily available in several countries (Fackler et al., 2013), obtaining comparative and consistent data about changes of ownership in SMEs across Europe is hindered by definitional challenges arising from different approaches to national reporting and legislation (European Commission, 2011).

It is difficult, therefore, for researchers to identify individual entrepreneurs with an exit experience (Stam et al., 2010; Eftekhari and Timmermans, 2015; Yamakawa and Cardon, 2017). Data limitations also inhibit extensive consideration of what happens to individual entrepreneurs and founders after entry, notably in terms of their exits (DeTienne 2010; DeTienne and Cardon, 2012; Rocha et al., 2015). Contact information for those who exit an entrepreneurial career is not available from any public database

(Fang He et al., 2018). Timing can also be a challenge to identify research subjects, since the relationship between the length of business ownership and the occurrence of individual exits, in terms of whether the venture is in its infancy, adolescence or maturity, is unclear (Wennberg et al., 2009; DeTienne, 2010). It can, therefore, be highly problematic for researchers to anticipate which business owners are considering an exit in the near future, are in the midst of an exit process or have recently completed one (Harada, 2007; Blackburn and Kovalainen, 2009; Rocha et al., 2015; Walsh and Cunningham, 2016; Morris et al., 2018).

The widely applied assumption in the commercial literature is that entrepreneurial exits occur in the latest stages of ownership. If so, researchers have limited lead-in time for study between exit decisions and exit events (Forster-Holt, 2013). Many entrepreneurs are uneasy about exiting their firm under less than ideal conditions (Simmonds et al., 2016), which can make it difficult for researchers to plan for when exits will take place. Moreover, little is known about the factors that influence the duration of the exit process (Yamakawa and Cardon, 2017), which complicates the scheduling of exit research.

Exit research planning must also take into account the presence of significant commercial confidentialities and sensitivities. The business owner's intention to exit, or the imminence of their exit may not yet have been shared with management colleagues, employees and customers. However, attempts to surmount these difficulties by restricting research to those who have exited their firms some time previously is highly problematic, because of the effects of recall bias on the trustworthiness and authenticity (Guba and Lincoln, 1994) of study results. Reliance upon retrospective accounts from founders whose exits occurred longer ago in the past is singularly vulnerable to recall bias (Cacciotti et al., 2016; Walsh and Cunningham, 2016). Retrospective accounts from entrepreneurs are subject to cognitive biases and self-reporting errors, brought on by imperfect memory, attribution, simplification and rationalisation. Moreover, the extent of recall bias becomes greater the longer the period that has lapsed since the exit (Baron, 1998; Cacciotti et al., 2016; Walsh and Cunningham, 2016; Fang He et al., 2019).

The range of practical challenges faced by exit researchers is, therefore, considerable. It also makes it difficult for them to respond positively to scholarly calls to re-orientate entrepreneurship research towards concrete examples, rather than sustaining the academic tendency that prioritises abstract theoretical models over practice (Chalmers and Shaw, 2017). Nonetheless, the inability to do so contributes to the lack of qualitative enquiry in exit research, which would otherwise provide a richer understanding of the exit phenomenon (Morris et al., 2018).

6.3.2 Design and purposeful sampling

Taken together, the challenges inherent to exit research described above represented a considerable array of practical hurdles for this thesis to overcome. Therefore, it was vital to consider carefully, from the outset, the most appropriate research design that would be able to address the research question and identify and access relevant participants.

In order to minimise the risks to the quality criteria of trustworthiness and authenticity in qualitative research that are inherent in recall bias (Guba and Lincoln, 1994), founders were sought who were in the process of currently transferring their firm to their employees or had done so and exited their firms within the last two years. Therefore, a cross-sectional approach was undertaken to research design, conducted through a semi-structured interview framework (see 6.3.4 below). The research design enabled multiple cases to be recruited and examined during a fixed period of time, so that variation amongst the founders as research participants could be explored (Bryman and Bell, 2015). Interviews with founders, as the unit of analysis, were the primary method of data collection utilised in this study. The interview is arguably the most widely adopted method in qualitative research (Bryman and Bell, 2015). Interviews are commonly designed as a 'pipeline' to transmit knowledge (Silverman, 2000) and to elicit data through a purposeful discussion between the interviewer and the participant (Saunders et al., 2009).

Theory building and the development of transferable concepts in research rely upon strategic, rather than probability-based random sampling (Eisenhardt 1989b; Bryman and Bell, 2015). In this thesis, the research participants were chosen for theoretical, not statistical purposes to yield in-depth understanding and insights rather than empirical generalizations. Therefore, the thesis deployed a purposeful sampling strategy for data collection, since participants were recruited for the study based on their appropriateness to the research question (Patton, 2014). Purposeful sampling is widely used in qualitative research as a technique to identify and select informants that are knowledgeable about or experienced with a phenomenon of interest who are 'information rich' and offer insights into issues of central importance to the purpose (Patton, 2014).

In addition to ensuring that participants were currently experiencing exit, or had a recent experience of exit, the sampling strategy was designed to be purposeful to the research question in two respects. First, the study focuses on individuals who are business founders, or who could be described in different ways as having a close or personal relationship with the founding of the business. Second, the firms that were connected to the founders were privately owned (i.e. not publicly listed). In order to uncover, confirm or qualify the basic processes or constructs that underpin the study. Miles and Huberman (1994) advise setting boundaries around the sample to define what can be studied and connect directly to the research question. Thus, a sampling frame was constructed from which the recruitment and selection of research participants would be governed (Figure 9).

From experience developed through commercial practice,[53] the researcher has found that an effective way to recruit business owners is through brokered introductions from trusted intermediaries or through trade associations. In the first instance, therefore, the researcher contacted and met with representatives of the Employee Ownership Association (EOA) in the autumn of 2017 to explain the purpose of the research and to request assistance with the identification of suitable participants. The EOA subsequently made various enquiries amongst their membership and passed on the details of individuals who indicated that they were willing to be contacted.

[53] The researcher has over 25 years of running advisory services for small and medium-sized enterprises (SMEs) as well as directing commercial consultancy studies and market research with SMEs.

Unit of analysis: Exiting Business founder(s)

Transfer not completed	Transfer completed (within 2 years)
• Exiting with a defined EO transfer plan • Exiting to EO – transfer plan not yet fully defined • Has attempted to exit via EO transfer but has not yet done so • Considered but rejected exit via an EO transfer	• Fully exited from ownership and management via transfer • Partially exited (from ownership, not management) via transfer • Partially exited (from management not ownership) via transfer • Exited and re-engaged/not re-engaged with entrepreneurship

Figure 9
The framework for purposeful sampling of participants

One of the challenges with adopting a purposeful sampling strategy based on information-rich informants is that the range of variation amongst the potential sample was not known (Miles and Huberman, 1994). Therefore, for this study, the researcher was concerned to 'widen the net' as far as possible to garner the broadest set of perspectives, including from those outside EOA-connected networks. Hence, a set of interviews were arranged with 10 well-connected professional advisers at various locations around the U.K. in the early stages of the fieldwork (November 2017 to February 2018). They comprised accountants, lawyers and business advisers with specialist experience of service provision in business succession planning. These individuals were able act as expert 'key informants' to the study, providing valuable insights and ideas as well as specialist expertise (Neergaard, 2007). They also acted as intermediaries for recruitment of the sample, in that each was asked to contact any of their clients or associates who would be willing to participate in the research and who were relevant to the sampling profile (Figure 9).

In order to complement these sources, two further avenues were explored. First, the researcher spoke to individuals directly at networking meetings. They included people who were business founders that were considering or were actively in the process of a transfer to employee ownership. Second, the researcher wrote directly to founders who had been featured in the press and social media as having transferred their firms to employee ownership.

Finally, the researcher collected and drew upon various sources of contemporary data regarding employee ownership, including blogs, published features, books and other commercial literature as well as information and financial accounts published by the founders' companies. He attended several events and seminars organised and hosted by the EOA, at which a wide range of information was presented concerning employee ownership, including two annual Robert Oakeshott lectures and the EOA National Conference held in Birmingham on the 19th and 20th November 2018.

6.3.3 Initial contact, research ethics and undertakings to participants

The location for each interview was arranged at the convenience and preference of the participants, who were advised in advance that interviews would be recorded and of the desirability of privacy (Bryman and Bell, 2015). Participants were contacted by email, to which a letter of introduction was attached. This included a short summary of the purpose of the research (Appendix 1), together with an endorsement letter from the research supervisors at Kingston University (Appendix 2). Participants were also issued with a Consent Form (Appendix 3).

A high level of confidentiality and anonymity is expected in most qualitative research where individuals are interviewed (King and Horrocks, 2010). In this study, there were additional issues arising from commercial confidentiality and highly restrictive legal covenants in business transfer processes that require individuals not to divulge confidential information to any third party. The extent to which this would present an issue in EOT transfers was not initially known. Nonetheless, participants were provided with formal undertakings regarding anonymity, confidentiality and data protection that would not put them at risk of breach of legal covenants.

These undertakings were made in accordance with Willig (2001, in King and Horrocks, 2010), Ritchie et al. (2014) and Kvale and Brinkmann (2015) with respect to: *informed consent* – participants were provided information about the research study and formally gave their consent to data collection; *debriefing* – participants were appraised of the research aims and how the results were to be used; *right to withdraw* – participants were entitled at any stage to withdraw from the study, without any form of sanction; *confidentiality* – information provided as part of the research is treated as confidential at all times and is fully anonymised so that it cannot be attributed. The process also incorporates the research ethics standards set out by the Economic and Social Research Council (2015).[54] It was designed to comply fully with Kingston University's policies regarding research conduct and integrity, specifically concerning ethics and procedures for human subjects.[55]

6.3.4 Designing the interview framework

The interview framework designed for this study is provided at Appendix 4. It comprised a topic guide of indicative questions, prompts and points to follow up, developed by the researcher (Ritchie et al., 2014). The interviews were, therefore, semi-structured in that they were approached according to pre-set topics (unlike an unstructured interview). However, they differed from structured interviews by being flexibly designed to explore avenues of thought that were dependent upon the responses of the participants (Neergaard and Leitch, 2015). The emphasis of each interview was, therefore, on the participants' perspectives (Bryman and Bell, 2015) whilst focusing, nonetheless, on the implications of those responses for the research question (Gioia et al., 2013). The interviews also allowed for unstructured elements, in that the participants were encouraged to raise anything about their life or experience outside of specific prompting that they believed to be relevant (Blaikie, 2009).

[54] At http://www.esrc.ac.uk/files/funding/guidance-for-applicants/esrc-framework-for-research-ethics-2015
[55] At http://www.kingston.ac.uk/research/policies-and-guides

The design of inductive research strategies does not prevent drawing upon the extant literature to inform the approach to data collection and analysis (Hammersley, 2000; Suddaby, 2006; Yin, 2014; Gioia, in Gehmen et al., 2018; Eisenhardt, in Gehmen et al., 2018). Indeed, for Eisenhardt (1989b; Gehmen et al., 2018) theory building needs to start with a clear research focus in areas that are theoretically less developed. For Hammersley, some calibration from theory is required to avoid the danger of being overwhelmed by data (Hammersley, 2000). Therefore, the approach taken to the design of the interview framework took its starting point conceptual themes that had been identified in extant studies of entrepreneurial exits, as set out in Chapter 4. The version appended to this thesis contains an added column to indicate, where relevant, the literature sources that informed specific aspects of its design and content.

6.3.5 Conducting the interviews

When conducting the interviews, the researcher was mindful of following good practice identified in the qualitative research literature. The researcher utilised active listening, while avoiding leading or loaded questions or interjecting during replies (e.g. Arksey and Knight, 1999; King and Horrocks, 2010; Roulston, 2010). Before exploring the topics in detail, the interviews commenced with an open question on the lines of "What are you doing now, in terms of life and work?" to ease the participant into the process (Ritchie et al., 2014).

Participants had been made aware from initial contact and by the University endorsement letter that the researcher is a business founder who has had experience of business transfer to employee ownership. This may have helped to overcome the difficulties that can arise in entrepreneurship and SME research from differences in world views and knowledge gaps between business owners and researchers (Curran and Blackburn, 2001; Blackburn and Kovelainen, 2009). It may also have helped with rapport-building and putting the participants at ease (Ritchie et al., 2014), which can contribute to internal validity in qualitative research (Arksey and Knight, 1999).

On the other hand, the researcher was mindful of 'double hermeneutics', where researchers influence the interpretations of the study participants (Giddens, 1984 in

Blaikie, 2009). An interview is unavoidably a manufactured process that generates 'researcher-provoked' data rather than material that arises from a natural setting (Speer, 2002; Denzin and Lincoln, 2011). It is also a form of social interaction between interviewer and interviewee (Bryman and Bell, 2015). Thus, Neergaard (2007) argues that a degree of co-evolution of data is inevitable, particularly during less structured elements. Nonetheless, the researcher did not discuss his own experience with the participants before or during the interview. It was only after the interview was concluded and the voice recorder switched off that the researcher conversed in unstructured dialogue on this and other topics with the participants.

In the event, 20 participant interviews were conducted with individuals whose profile was consistent with the sampling framework (Figure 9). Three other individuals had agreed to participate but withdrew because of poor health or logistics. The interviews were undertaken at various locations across England. Of these, 18 were conducted face-to-face, 14 of which were conducted in private spaces at the participant's current or former place of work; 2 interviews were conducted in a private meeting room at the researcher's offices in London, one at a participant's home and one in a café which offered reasonable privacy. Due to reasons of logistics and constraints, 2 interviews were not conducted face-to-face; one took place by telephone and one by video (Skype).

6.4 Analytical Strategy

6.4.1 Inductive reasoning

When designing the analytical strategy, the researcher drew upon a range of perspectives and widely-utilised analytical procedures used to inform inductive, qualitative theory-building research (e.g. Miles and Huberman, 1994; Strauss and Corbin, 1998; Eisenhardt and Graebener, 2007; Creswell, 2013; Corley et al., 2013). Inductive research processes have many similarities, being based upon the iteration of activities between data-gathering, making constant comparisons between, and seeking creative insights into emerging and existing findings, whilst engaging with the literature to build grounded, higher order concepts (Eisenhardt et al., 2016).

Therefore, much of what is undertaken by qualitative researchers who use inductive approaches to generate concepts sits within the "big tent" of grounded theory building (Eisenhardt et al., 2016, p. 1119; Gehmen et al., 2018, p.288). Many of the inductive methods used by scholars ground their conceptual development in the data, irrespective of whether they utilise the exact steps and terminologies of orthodox grounded theory (Suddaby, 2006).

This thesis was not conceived and designed according to the orthodoxies of grounded theory. It conducted a review of the entrepreneurial exit literature prior to data collection and analysis (Chapter 4) and used the results to inform the design of the semi-structured interview framework used to gather the data (Appendix 4). As referenced at various points in this thesis, there was little that came from the review of the extant state of theory in the exit literature that enhanced understanding in relation to the research question. Nonetheless, the research was not approached according to a grounded theory orthodoxy that requires "some suspension of belief in the received wisdom of prior work" (Gioia et al., 2013, p.23).

However, the use of existing literature to provide a starting point for inductive research is a matter of some contention amongst grounded theorists and existing literature can be applied in different ways. Grounded theorists such as Gioia emphasise that knowledge of the literature should not "get in the way" (Gehmen et al., 2018, p.291). Others consider the widely-held notion that the literature should be ignored in grounded theory to be a myth. Suddaby (2006, p.634), for instance, emphasises that in grounded theory building, "the idea that reasonable research can be conducted without a clear research question and absent theory simply defies logic."

Fundamentally, the approach to analytical strategy and the 'theory-method fit' in this thesis is consistent with the inductive and grounded approaches of Eisenhardt (in Gehmen et al., 2018) and Gioia (in Gehmen et al., 2018). For both Gioia and Eisenhardt (in Gehmen et al., 2018), as in this thesis, neither theory nor hypotheses should be fixed at the outset in inductive research but should emerge from the data. The thesis approach uses inductive reasoning, grounded in the data, to build an emergent concept.

It is generated from the perspective and through the interpretations of those who are living the phenomenon of theoretical interest (Corley and Gioia, 2004; Gioia et al., 2013).

6.4.2 *Organising and analysing the data*

The next stage of the methodology required the organisation of the data. Qualitative enquiry can generate an enormous amount of data in a format that than make data management and data analysis extremely time-consuming (Bryman and Bell, 2015). Therefore, in order to ensure that data were processed in a manageable way, the sound files from the voice recorder were transferred for storage on a secure personal computer. Each of the sound files was transcribed verbatim onto a separate document file that was digitally and securely stored. The recordings generated more than 150,000 words for transcription, alongside supplementary data generated from blogs, commercial literature and interview notes with key informants. It was, therefore, necessary to reduce and display this data as part of the analytical process (Miles and Huberman, 1984).

In order to enhance the general understanding developed during the meetings, events and interviews, the researcher listened to each of the audio recording of the interviews and read through each of the transcriptions, the notes taken from the key informant meetings, blog extracts and commercial literature. The purpose was to look for themes that were occurring in the data. As these themes were identified, organising and labelling the data began with the production of a 'start list' (Miles and Huberman, 1994), which evolved into an iterative and non-linear process of data organisation, reduction and analysis as the transcriptions and data were reviewed further.

This process was supported by using NVivo, a leading computer-assisted qualitative data analysis software package (CAQDAS). Despite their reference to 'data analysis', such software-based packages are designed to support the organisation, retrieval and presentation of data rather than undertake analysis (Bazeley and Jackson, 2013). Nonetheless, the research benefitted from the ease and rigour by which large amounts of data were able to be managed, retrieved and visually displayed in NVivo.

Furthermore, using NVivo generates an audit trail which can help to demonstrate the trustworthiness and authenticity of the research (Guba and Lincoln, 1994) given that, in qualitative research, replication is difficult to do and not generally sought in terms of demonstrating its validity (Bryman and Bell, 2015).

The start list was consolidated into a set of 'nodes' in NVivo, in which references are stored to the exact location of the relevant text in the software. These nodes enable the software to link data and swiftly locate and retrieve them from the wider data repository (Bazeley and Jackson, 2013). The nodes, in turn, evolved further as the transcriptions were analysed, giving rise to the identification of sub-themes that could be grouped together. This process was facilitated expediently by NVivo, in relation to the development of analytical structuring, categorisation and pattern-searching (Ritchie et al., 2014). Once each of the transcriptions had been analysed, a set of 30 nodes were consolidated in NVivo, labelled by themes and sub-themes that had been initially identified in the data.

This process provided a set of nodes in NVivo, providing a new baseline against which the data were to be further analysed (Figure 10). From this point, a more detailed analysis of the data was conducted, leading to a series of patterns, themes and concepts that were identified from deeper insight into the raw data (Eisenhardt, 1989b). The themes that began to emerge from the data references that were stored in the NVivo nodes were subsequently refined and collapsed (Strauss and Corbin, 1998).

6.4.3 Analytical strategy

The analytical strategy adopted by this thesis was designed as a systematic and grounded methodology for inductive research and concept development. As set out in Chapter 5, the thesis did not set out with identity theory in mind. However, as can be common in inductive research (Mathias, 2017), as the data were analysed more deeply and as patterns began to emerge, the rich descriptions provided by the participants in the interview data were pointing to a range of themes that had not been anticipated. Consequently, the analysis moved continuously and iteratively between the literature and the data collection, organisation and analysis.

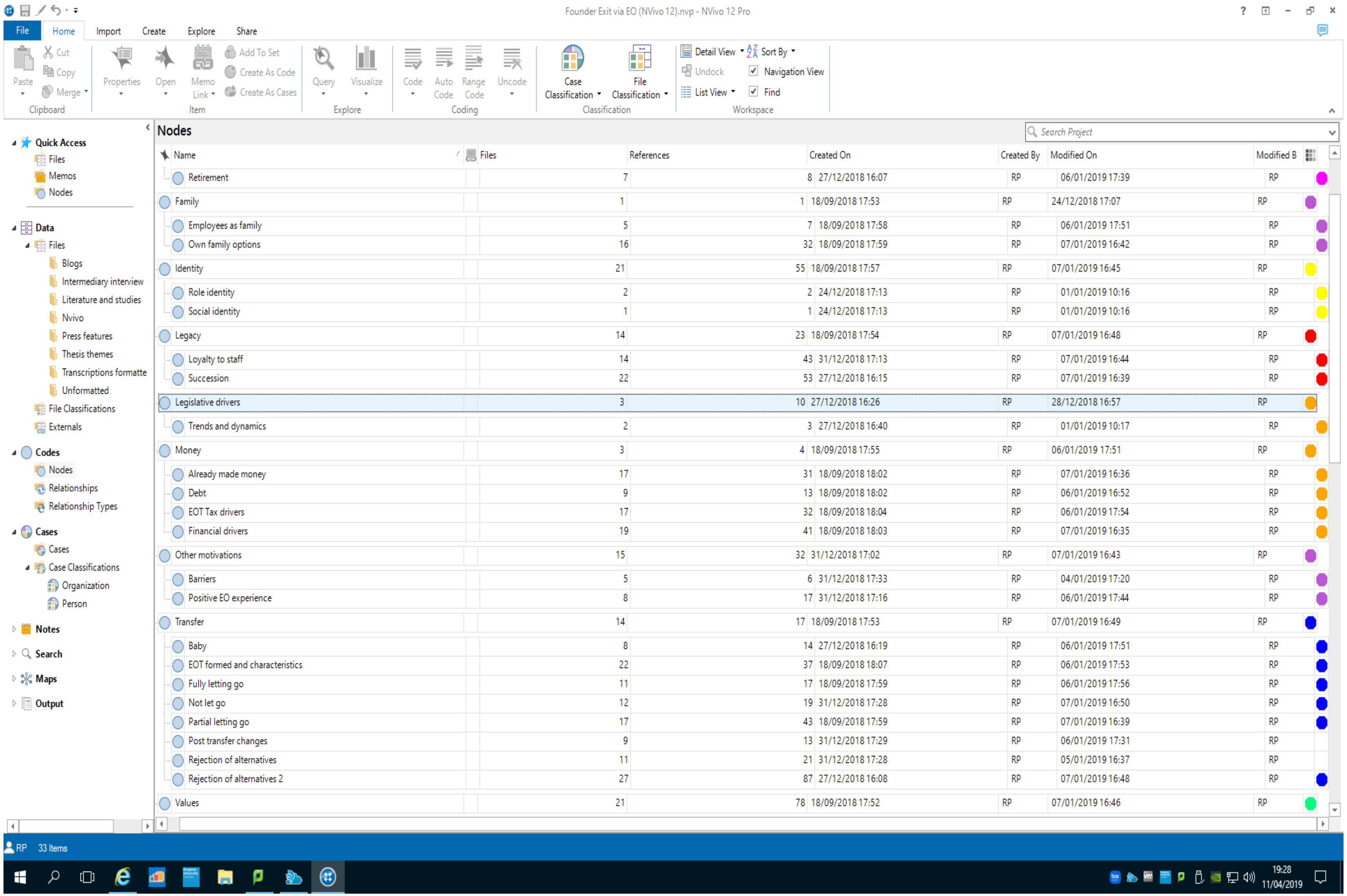

Figure 10: Baseline Nodes established in NVivo

Whilst constantly comparing the analysis with extant theory, it became apparent that the theoretical constructs in the extant entrepreneurial exit literature identified in Chapter 4 were providing limited explanatory insight of the data. These constructs had provided the basis for the design of the interview framework used to gather the data (Appendix 4). The analysis was pointing to the significance of, for instance, DeTienne et al. (2015), who point to employee buy-outs as a stewardship exit strategy. Kammerlander (2016), who had used behavioural finance, information asymmetry and prospect theory, offers insights into why owners would discount the transfer price of their firms to those they are familiar with, which was also proving to be relevant. Nonetheless, the analysis progressively revealed that extant theories in entrepreneurial exit were unable to address the research question with holistic explanatory power.

Hence, it became necessary to widen the search for theoretical elements that would contribute to a fuller understanding the emergent themes. This process is described by Eisenhardt as "enfolding literature" (1989b, p.544) and by others as "theoretical triangulation" (e.g. Denzin, 1978 in Ritchie, 2014, p. 358). This 'second phase' of engagement with the literature, the results of which are set out in Chapter 5, was driven entirely by induction from the data and led to the identification of the relevance of identity theory and concepts of legacy. The initial ignorance of identity theory and the lack of explanatory power generated by extant theory in entrepreneurial exit (as set out in Chapter 4) enabled the analytical strategy to develop categories that were not driven by concepts that were more suited to different areas (Glaser and Strauss, 1967). As a result of this process, the relevance of legacy creation to the analysis became apparent and the coding began to map onto various related aspects of identity theory.

'Theoretical saturation' is of primary importance in qualitative methods, whereby sampling continues until no new substantive information is acquired during analysis (Glaser and Strauss, 1967; Miles and Huberman, 1994; Saunders et al., 2018). In terms of sample size, there is no correct number of participants for a qualitative study (Creswell, 2013; Patton, 2014). The number of participants in this study (20) is consistent with or exceeds the sample sizes used in other inductive, qualitative entrepreneurship studies (e.g. Haynie and Shepherd, 2011; Powell and Baker, 2014;

Shepherd et al., 2017). It is estimated that the 20 research participants comprised some 15-20% of the total population in England whose profile was consistent with the sampling frame (Figure 9).[56] The interviews continued to the point where sources were exhausted since, given this level of penetration, it became progressively difficult to secure new research participants. Nonetheless the analysis was unable to reveal the occurrence of new nodes or codes and additional data being secured was not leading to any new emergent themes or the generation of added conceptual insights (Urquart, 2012; Given, 2015). One final interview was arranged and conducted some six months after the main body of interviews had been completed, which also served to support this conclusion (Saunders et al., 2018).

6.4.4 The data structure

The analytical approach follows the 'Gioia methodology' (e.g. Corley and Gioia, 2004; Gioia et al., 2013). This has become widely established in recent years and is extensively utilised in high-ranking business and management journals where qualitative research articles are presented (Gehmen et al., 2018; Reay et al., 2019). It specifies the identification of a set of 'first-order' codes, derived from informant-centric terms; and the generation of 'second-order' themes, derived from themes shaped by the researcher from the first order codes. Ultimately, these codes and themes are aggregated through conceptual analysis, which led to the aggregate domains that provide the theoretical dimensions claimed by this thesis.

Figure 11 sets out, in diagrammatic form, the 'Gioia data structure' chart (Gioia et al., 2013) that was constructed by and for the analysis in this thesis. It illustrates how the theory developed by the research was structured through inductive reasoning, which was driven by constant comparison with the extant entrepreneurship literature. This led to the conceptual dimensions and theoretically significant themes that emerged from this process, whilst simultaneously grounding the account in empirical observations of the data (Glaser and Strauss, 1967).

[56] Section 7.2.2 of Chapter 7 describes how this estimate was calculated.

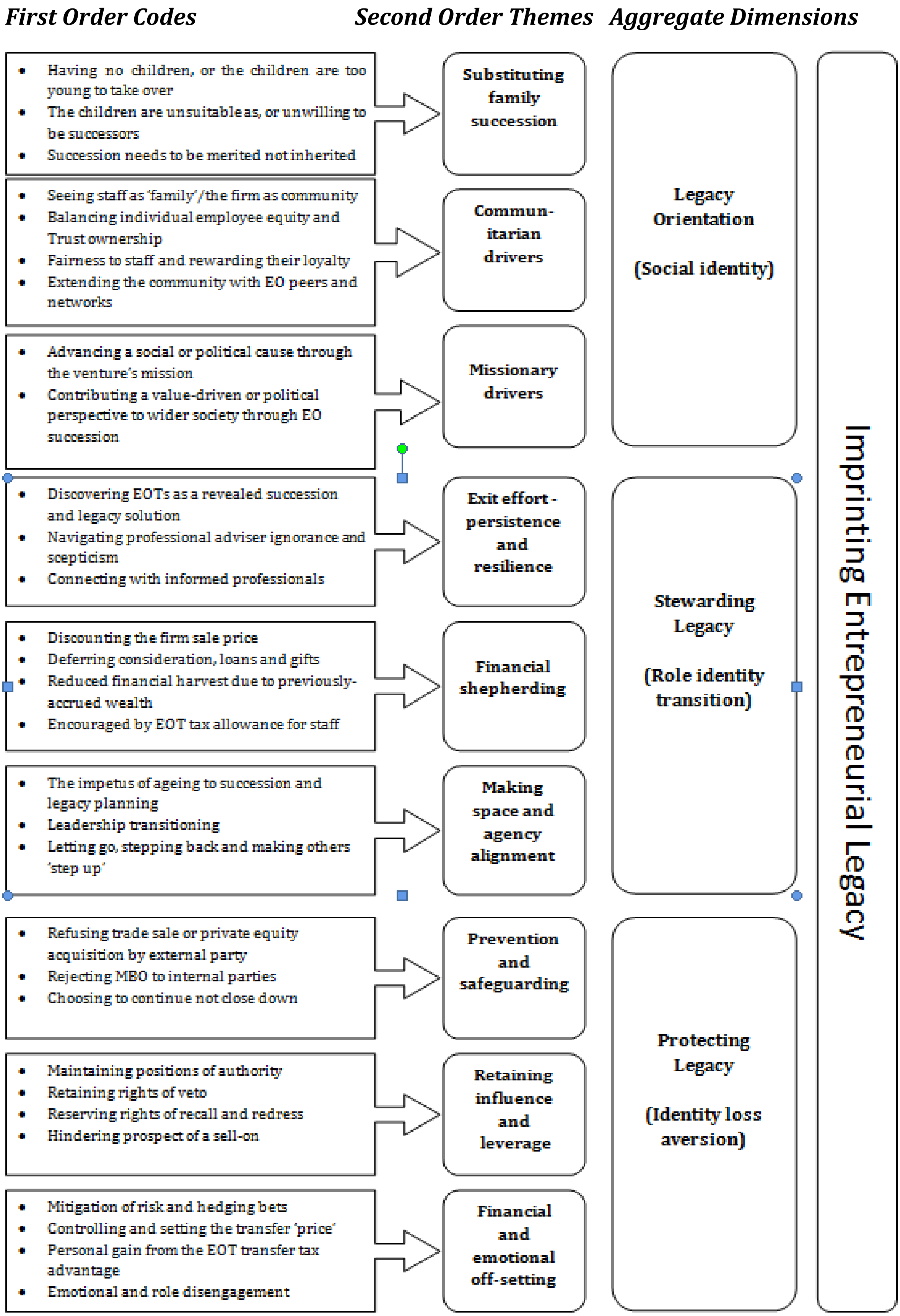

Figure 11: Overview of data structure and findings

In the first column, Figure 11 sets out a series of 'first order codes' that are found in the raw data. These are derived from points raised and, in many cases the terms used by the participants. They are grouped together through the researcher's identification of the links that exist between them. They are, in turn, clustered into a broader set of 'second-order' themes, shaped by the researcher's interpretation of their collective meaning. Finally, these broader themes are themselves clustered and aggregated into the three aggregate dimensions that comprise the underlying mechanisms identified by the analysis.

These mechanisms - legacy *orientation*, *stewarding* legacy and *protecting* legacy – provide the basis of the theoretical dimensions that are claimed by this thesis which are, in turn, derived from different aspects of identity theory. The mechanisms have been specified and analysed to provide a deeper understanding and a theoretical account of the underlying mechanisms of imprinting entrepreneurial legacy, as manifested by the founders' exit from the ownership of their firms through transfer to employee ownership.

6.4.5 Quantification in the analysis and presentation

The use of numbers when presenting data in qualitative research is a controversial subject, with no consensus amongst scholars as to how it should be approached (Maxwell, 2010). Some completely reject quantification or semi-quantification in the presentation of qualitative findings (e.g. Ritchie et al., 2014), whereas others argue for quantification to be more widely adopted (e.g. Bryman and Bell, 2015). The debate surrounds, in part, the differences between variance theory, which is concerned with variables and the correlations amongst them to establish 'whether' and 'to what extent'; and process theory, which is concerned with 'how' and 'why' questions and the analysis of processes, in which some events influence others (Maxwell, 2010).

In earlier chapters of the thesis and the preceding sections of this chapter, numbers are used to establish the significance of the research question and quantifying, where appropriate, what is known about relevant contextual factors. Numbers are also used in

Chapter 7 to describe the characteristics of the sample and the frequency with which each participant is quoted in the analysis.

However, the sampling in this research was purposeful, not random. The thesis is concerned with analytical, rather than causal and statistical, generalisation (Yin, 2014) and process, rather than variance theory (Maxwell, 2010). Hence, this thesis does not use quantification in its qualitative analysis (Chapters 7 to 11). It excludes misleading or unsubstantiated causal claims that arise in qualitative analysis from the overuse or misuse of numbers (Sandelowski et al., 2009; Maxwell, 2010; Patton, 2014; Ritchie et al., 2014). Occasionally, it deploys non-specific terms of 'semi-quantification' (Ritchie et al., 2014) such as 'some', 'several' or 'many'. When it does so, this use is restricted to being a narrative device that indicates patterns and characteristics in the analysis (Miles and Huberman, 1994).

6.6 Conclusion

This chapter sets out the thesis research methodology, which was conducted by an inductive research strategy, operated through qualitative enquiry. It describes how the exploratory nature of the research question and the novelty of the research topic provide sufficient justification for the adopted research strategy. It also responds to calls from scholars to make greater use of qualitative research in entrepreneurship, and for greater attention to be given to the mechanisms underlying entrepreneurial social and economic phenomena (e.g. Blackburn and Kovelainen, 2009).

The research adopted a purposeful sampling strategy, as the thesis is concerned with analytical, rather than causal and statistical generalisation. It targeted the recruitment of founders as 'information rich' research participants who had recently exited their firms through transfer to employee ownership or were in the process of so doing. At a practical level, it elicited the support of the EOA and a network of professional intermediaries, in order to identify a range of exiting founders and secure their participation. This approach was specifically designed to overcome the obstacles that are faced by researchers who seek to study entrepreneurial exit. These obstacles are considerable and the inability to overcome them is a significant reason for why there is a profound lack of qualitative research in this area, which has contributed to a lack of exit theory (Morris et al., 2018).

The research methodology sought to ensure rigour throughout, from research design and data collection through to an analytical strategy that demonstrates the progression from raw data to first-order codes, second order themes and, ultimately, its theoretical dimensions. The data structure (Figure 11), generated through constant comparisons between data and the literature, was able to build grounded, higher order concepts (Eisenhardt et al., 2016) drawn from identity theory. This data structure provides the basis for a systematic presentation of the findings, while ensuring the groundedness of the conceptual claims that emerged through empirical observations of the data (Glaser and Strauss, 1967; Gioia, in Gehmen et al., 2018; Reay et al., 2019). These findings are presented in the chapters that follow.

The next chapter describes the profile of the research participants and examines their exit status and their inclination towards creating a legacy in their firms through employee ownership. This is followed by three further chapters that consider, in turn, the three underlying mechanisms in the concept of entrepreneurial legacy imprinting proposed by this thesis - legacy *orientation*, *stewarding* legacy and *protecting* legacy.

Chapter 7: Participant profile, ownership and management exit, legacy inclination

7.1 Introduction

This chapter introduces the empirical results from the research study. Its purpose is threefold; first, to provide a descriptive profile of the research participants; second, to examine the exit status of the participants, which leads the chapter to differentiate between ownership exit and management exit; third, to reveal the centrality of legacy creation in the decisions made by the founders to transfer their firms to employee ownership.

The first part, therefore, begins by describing the research participants, in terms of their founding status, gender and age. It indicates their length of ownership tenure, the size of their firms in terms of the number of employees and the industrial sectors in which the firms are located. The second part examines the extent to which the founders had exited from leadership and management in their firms, in relation to the extent and timing of their replacement by employee ownership. The third and final part of the chapter draws out the data that first pointed to legacy creation as a motivational driver for founders' inclination to exit by transferring their ownership to their employees.

Throughout this chapter and those that follow, the findings are presented by a narrative that is structured according to the domains that are theoretically significant. This narrative incorporates 'vignettes', in the form of quotations (Glaser, 2017). It is reinforced by additional data that is quoted from the interviews, summarised and presented in tabular form (Reay et al., 2019). Consequently, the empirical results are aligned with the aggregate theoretical dimensions that emerged from the analysis and are presented by the data structure set out at Figure 11 in Chapter 6. This approach is widely used in grounded theory-based qualitative research (Gioia et al., 2013; Reay et al., 2019) and in several qualitative research studies published recently in the entrepreneurship literature (e.g. Jaskiewicz et al., 2015; Akhter et al., 2016; Yitshaki and Kropp, 2016; Shepherd et al., 2017; Mathias and Williams, 2018).

7.2 Participant Profile

7.2.1 Founders as the unit of analysis

In accordance with the entrepreneurial exit definition provided by DeTienne (2010, p.203) the thesis set out to explore the exit of the *founders* from the firm "they *helped to create*".[57] Hence, it set out to recruit participants who were specifically business founders (and who were in the process of exiting their firm by transferring it to employee ownership or had done so within the last two years).

Aside from being a business founder, there are different means by which an individual can come to own a firm. They may fully, or partially acquire it (Ucbasaran et al., 2003; Parker and van Praag, 2012; Aldrich, 2015), invest in it for a proportion of equity (Wiltbank et al., 2015; Mason and Bothelo, 2016) or inherit it through the family (Stewart and Roth, 2007). Enterprises are frequently created by a founding team rather than a sole individual (Ucbasaran et al., 2003; Powell and Baker, 2017), although two-thirds of these teams are dissolved by one of the founders, who emerges as the leading individual (Shepherd and Haynie, 2009).

Studies point to differences in the entrepreneurship experience and behavioural characteristics between individuals that found businesses or are part of the founding entity and those that are non-founders (Busenitz and Barney, 1997; Wasserman, 2003; Stewart and Roth, 2007; Hoang and Gimeno, 2010; Fauchart and Gruber, 2011; Simsek et. al., 2015). The process of founding a venture is a highly individual experience and is one that surrounded by high levels of uncertainty (Venkataraman, 1997; McMullen and Shepherd, 2006; Morris et al., 2010; Collewaert et al., 2016). It requires a degree of entrepreneurial immersion and challenge that is qualitatively different to that faced by

[57] Italics are used by the thesis author for emphasis of context. In terms of the definition used by DeTienne (2010) referred to in this chapter, it should be noted that italics are not present in the original quotation.

acquirer entrepreneurs and family members that purchase or inherit a pre-existing enterprise (Stewart and Roth, 2007; Morris et al., 2010). A founder who was the original 'owner manager' is more likely to stay longer at the helm and exit later than other types of owner (Boeker and Karichalil, 2002; Rocha et al., 2015).

The robustness of research conclusions is enhanced by looking beyond the term 'entrepreneur' as a highly polysemous description (Carland et al., 1984; Stewart and Roth, 2007). However, with some specific exceptions, (e.g. DeTienne and Cardon, 2012; DeTienne et al., 2015; Rouse, 2016), the literature rarely distinguishes between owners that are founders and non-founding owners, or whether the exiting owner has full or partial ownership (e.g. Leroy et. al., 2008; Battisti and Okamuro, 2010; Aaltonen et al., 2010; Ryan and Power, 2012; Forster-Holt, 2013). Therefore, in the sections that follow, the profile of the participants is described in detail, with specific reference to their status as 'founders'.

7.2.2 Anonymity in the analysis and presentation of results

During the research, founders shared considerable detail with the researcher about family and personnel issues of a sensitive nature. They also shared specific information about financial matters, which can subject to strict commercial confidentiality and the strictures of legal covenants. Moreover, some are well-known in their networks and in associated professional circles, often presenting their experiences at public events. Some author 'blogs' and write about employee ownership and have appeared in media features. Consequently, there is a risk of deductive disclosure as information given by the participants, in confidence, could be indirectly attributed (Kaiser, 2009).

It is a common challenge for qualitative researchers to consider how best to protect the identities of individuals when presenting their findings (Wiley et al., 2008). It can be impractical to guarantee complete anonymity in qualitative studies, so authors should carefully determine an approach to anonymising data that is contextually contingent (Saunders et al., 2015). Beyond the use of pseudonyms, however research method textbooks provide scant advice as to how to do this in practice (Wiles et al., 200; Kaiser, 2009). For instance, guidance from Qualidata (the ESRC qualitative data archiving service) and the British Sociological Association offer little that is specific by way of guidelines (Saunders et al., 2015).

It was necessary in this thesis to pay specific attention to ensure that data provided in the strictest confidence are not attributed to individuals in the presentation of findings. Hence, the adoption of anonymity is complemented by two specific presentational mechanisms in the sections and chapters that follow. Firstly, in order to minimize the attribution of quotations to specific individuals, the profile of participants presented in this chapter does not provide an indexed link to the individual case numbers used when presenting vignettes from the data. Thus, each quotation is linked to its source by the attribution of 'Founder 01', abbreviated as 'F01' 'F02' etc but these attributions are not listed by numbering the participant profiles presented at Table 4 and Table 5. Secondly, these tables display numerical data through range clusters, rather than ordinal numbers, when describing the founders' ages, the duration of their ownership or the size of their firms.

7.2.3 Research participants

The interviews were held between November 2017 and June 2018.[58] Twenty founders of companies based across England took part in the research as participants. It is estimated that this number represents approximately 15-20% of all founders that transitioned their firms to employee ownership in the U.K. (and therefore a higher proportion in England) between the Finance Act of 2014 and June 2018. Precise data on the prior ownership characteristics of this wider population of firms is not available (i.e. if they were previously founder owned, family or non-founder owned, were a spin-off or were formerly public sector-based). The EOA estimates that between 75-80% of all employee-owned firms transitioned from a previous status of founder, private ownership or family ownership.[59] Therefore, the estimate of 15-20% of the available population being represented by the 20 research participants is arrived at by extrapolating from available data (Robinson and Pendleton, 2019) an approximation of some 130 firms becoming employee-owned over that period, of which between 97 -110

[58] There was one exception, in that one interview was delayed and finally held in December 2018.
[59] Provided by the EOA in an email dated 7th November 2019, as a response to a question from the author,

(75-80%) were privately owned. However, allowing for some of the private owners to be non-founders and other variables, the actual proportion could be higher or lower.

The analysis obtained from the interview data is presented in this chapter and those that follow subsequently (Chapters 8-10). Data was drawn from across the research participants. Table 3 below provides the frequency (*n*) with which each founder is quoted in the analysis.

Table 3: Frequency of quotations from individual research participants in the analysis

Founder	***n***	**Founder**	***n***	**Founder**	***n***	**Founder**	***n***
F01	10	F06	27	F011	16	F016	12
F02	21	F07	10	F012	14	F017	19
F03	21	F08	27	F013	09	F018	19
F04	19	F09	11	F014	20	F019	15
F05	18	F010	17	F015	07	F020	15

7.2.4 Founding status and firm profile

A profile of the interview participants is presented in Table 4. Each of the individuals that were the sole founder of their firm, or a member of the original founding team had, effectively, grown the venture from scratch to the point when they transferred ownership of their company. The firms owned by individuals who are described in Table 4 as being a 'family founder' and a 'MBO acquirer' had established some degree of scale before the point at which the incumbent who was interviewed became the primary owner.

The data provided in Table 4 illustrate that all the founders had owned their firms for a considerable period prior to their ownership exit. More than half of the individuals had founded their firm or had otherwise been its owner in for more than 20 years. None had owned the firm for less than 12 years, whereas there were 4 founders whose ownership extended to 30 years or more.

Table 4: Profile of participants: age, business details and founding status

Age Group	Gender	Business Sector	Business Size (no. of employees)	Founding status	Years since founder establishment
50-59	Male	Manufacturing	21-49	Family founder (second generation)	30+
50-59	Male	Engineering (Technology)	21-49	Founder	16-20
45-50	Male	Financial Services	10-20	Founder	11-15
60-69	Male	Engineering (Science and Technology)	21-49	Founder	16-20
50-59	Male	Office services (equipment supply and maintenance)	Up to 9	Founder	20-30
45-50	Male	Equipment and IT supply services	21-49	Founding partner	20-30
45-50	Male	Pharmaceuticals	100-249	Founding partner	16-20
50-59	Male	Marketing and Communications	21-49	Founder	20-30
60-69	Male	Design and Engineering (Medical services)	50-99	Founding partner	20-30
50-59	Male	Residential and Social Care	100-249	Founder (following re-launch of failing firm)	16-20
60-69	Male	Industrial Plant and Tool Hire and Sales	100-249	Founder (spin off)	20-30
50-69	Male	Office supply and warehousing services	250+	Acquirer (MBO lead)	11-15
60-69	Male	Hospitality	250+	Founding partner	20-30
60-69	Male	Equipment and IT supply services	21-49	Founding partner	20-30
45-50	Male	Recruitment and Employment Services	100-249	Founder	16-20
50-59	Male	Energy Supplies and Services	10-20	Founder	11-15
60-69	Male	Retail and Distribution	250+	Founding partner	30+
60-69	Female	Science Technology Engineering	21-49	Family founder (Second generation)	30+
60-69	Male	Manufacturing	50-99	Acquirer (MBO lead)	30+
45-50	Male and Female	Management Services	Up to 9	Founders (founding partners)	11-15

The founding status of more than two-thirds of those presented in Table 4 is unequivocal. Fourteen of those interviewed are unambiguously ‘founders’, in that they were either the sole founder of the firm, or one of the original founding partners that initiated the venture. However, the analysis uncovered that, amongst the remainder, their relationship to the founding of the firm was more ambiguous. Thus, 2 individuals are included in the founder classification in that, many years previously, they assumed ownership of a failing firm and re-launched it. There were also 2 individuals who had been referred to the researcher as founders, who had been the long-standing public face and senior leader of their companies. However, the interviews revealed them to have led an MBO that had taken over the firm from a previous founder (in one case more than 30 years previously, in the other between 11 and 15 years before).

There were 2 other participants who were not the original founders of the firm but are indicated on Table 4 as ‘family founders’, in that they had inherited ownership and responsibility for the management of the business within the founding family. They are also included as founders in the research as it was apparent in the interviews that they retained a strong sense of the family founding ‘identity’ in terms of perpetuating the firm’s purpose and business values (Le Breton-Miller et al., 2004; Salvato et al., 2010). Three others had ‘recreated’ their firm, in that the venture that they set up was otherwise unrecognisable or had been completely re-launched from a version which existed previously. Research has established that business owners and founders with lengthy tenure develop increased personal identification and attachment to their firms (DeTienne, 2010; Zellweger et al., 2012a; Hsu, 2013; Dehlen et al., 2014). Therefore, as they had been in positions as owners for very many years, they were all included.

In terms of firm level characteristics, all were privately owned, both prior to and after the transfer to employee ownership. Therefore, none were listed on the stock market. All but 2 of the firms were SMEs, with fewer than 250 employees. With reference to the number of people employed in the firm, 2 of the firms in question were classified as micro-enterprises (fewer than 10 employees); 8 were small firms (between 10-49 employees, of which 2 were 10-20 and 6 were 21-49); 7 were medium-sized firms, employing between 50 and 249 people, whereas 3 had grown to the point where they were now classified as a large firm (250+ employees). The firms represented by the founders in this sample, therefore, display considerable heterogeneity in terms of size. They also demonstrate heterogeneity across industry sectors, being drawn from the founders of firms in manufacturing, engineering, retail and hospitality, medical and professional services.

Each of the founders stated that the firms they owned before transferring them to an EOT had been profitable for many years and were fully viable as ongoing concerns. None of the firms were described by their founders as 'failing' or being financially unviable in any way. A review of the accounting information submitted by the founders' (former) firms to Companies House confirmed this picture.

7.2.5 Gender and age

As the research proceeded, it became clear that almost all the participants identified as fitting the sampling framework were male. Despite every effort being made to target a higher proportion of female founders, the research was unsuccessful in doing so. A specific request in this regard was made to the EOA, but they were unable to identify additional female founders. As a result, no specific data were generated that enabled analysis to be undertaken from a gender perspective. In the event, 21 people were interviewed in relation to 20 firms that were or were becoming employee-owned. [60]

Two of those that were interviewed were female.[61] Given the difficulties described earlier with identifying female founders who have transferred their firm to employee ownership as research participants, women would appear to be under-represented amongst this cohort of exiting business owners. However, the extent to which this situation is unrepresentative of the U.K. population of female SME business owners that employ people (as opposed to sole traders without employees) is less clear, since it is difficult to obtain authoritative statistics concerning female SME ownership. For instance, whilst 19% of SMEs were 'led' by women in 2017, this figure drops

[60] One of the interviews was held with a male and female couple together at their request. They are co-founders of the business and life partners. They are combined in the analysis in Table 3 and in the quotations as one entity.
[61] A third female founder agreed to participate but, in the event, was unable to do so due to logistical reasons.

significantly (but is not stated) when enterprises without employees are excluded (House of Commons, 2018). Furthermore, a 2019 government-sponsored review of female entrepreneurship concludes that women in the U.K. are five times less likely than men to grow a business that has an annual turnover of £1 million+.[62]

In terms of age, the longevity of ownership described previously was reflected in the ageing profile of the founders. Eight of them were approaching, or had passed, the traditional retirement age of 65. Everyone who was interviewed was aged 45 or above.

7.2.6 Exit status and transfer to employee ownership

Table 5 summarises the position at the time of the interviews with regard to the proportion of the firm transferred to employee ownership and, therefore, the extent to which the founder had exited from ownership.[63] In 18 of the 20 cases, the founder had transferred or was about to transfer a majority (i.e. 51% or more) or the totality of the equity in the firm to an EOT. All but 2 of the founders had exited from majority ownership or were about to do so and had, therefore, legally ceded majority or complete control to the EOT.

In some instances, those not yet in 100% EOT ownership were due to become so in the foreseeable future (i.e. within two to five years). In terms of the 2 founders that had not transferred their ownership to an EOT, one had established employee ownership through an employee benefit trust, which owned a minority share of the equity in the firm. Additional shares had also been made available directly to individual staff. It was intended in the longer-term intention to transfer the majority to an EOT but, at the present time, most of the shares were retained by the interviewee and their co-founder. In the other case, the founder had not established any form of employee-based trust, but since founding the company, more than 30% of the equity of the firm had allocated directly to individual staff through share schemes.

[62] 'The Alison Rose Review of Female Entrepreneurship' (2019), at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/784324/RoseReview_Digital_FINAL.PDF

[63] In most cases, where the EOT does not own 100% of the shares in the firm the remaining percentage or almost all of it was retained by the founder or the co-founders. There were some instances where members of the founders' family, or other individual shareholders retained a separate and residual element of the total equity in the firm.

Table 5
Ownership and management exit: Employee Ownership transfer arrangements

Business in EO	**EOT Status**	**Current Position of Founder**	**Exit status (leadership, management and governance)**
2-3 years	100% EOT-owned	MD/CEO and Chair of EOT Board	Not exited – fully active in management
3-5 years	51- 75% EOT-owned before, now moving to 100%	Board Member	Partial exit – successor MD in place. Transition with timetabled end but interrupted for project work
0-6 Months	51 - 75% EOT owned	Chair	Partial exit; part time; transition plan with no timetabled end; leading wholly-owed subsidiary.
3-5 years	100% EOT-owned	EOT Board Trustee	Fully exited/retired (≤6 months)
1-2 years	100% EOT-owned	Board Member	Partial exit; management succession in place, gradual withdrawal progressing towards full exit
Imminent	100% EOT-owned	Chair	Partial exit. Transition commenced / handover plan in place
3-5 years	No EOT but Employee Benefit Trust and individual share ownership (less than 51%) established together with individual share ownership. Intention to grow the Trust proportion to 51% in the coming years.	MD/CEO	Not exited – fully active in management.
6-12 Months	51-75% EOT-owned	Chair	Partial exit – successor MD in place, transition plan in progress with agreed schedule/end date
3-5 years	Earlier MBO, then EOT conversion to majority ownership; now moving to 100% EOT ownership	Chair (Non-Executive)	Partial exit. 2 days per month. Responsible for governance.
Imminent	100% EOT-owned	MD/ CEO	Not exited– fully active in management
2-3 years	51- 75% EOT-owned	MD/CEO	Not exited– fully active in management
6-12 Months	100% EOT-owned	Not Applicable	Fully exited/resigned(≤6 months) Active elsewhere in entrepreneurship
3-5 years	51- 75% EOT-owned	Not Applicable	Fully exited/retired (≤6 months)
1-2 years	51- 75% EOT-owned	MD/CEO	Not exited – fully active in management
5+ years	No EOT: Individual share options (c. 30% minority share ownership)	Executive Chair	Partially exit – working part-time, but active in management
Not yet in EO	Plans to transfer majority to EOT within the year; not yet formalised.	MD/CEO	Not exited – fully active in management
5+ years	Majority EO established some years ago, now moving to 100%	Chair (Non-Executive)	Partial exit: retained position, 2 days per week. Transition with agreed target end date to be reviewed
2-3 years	100% EOT-owned	Board Member / Senior Executive	Not exited. Working full time in same executive position. No scheduled end date.
2-3 years	100% EOT-owned	Board Member/Director and EOT Board Trustee	Partial exit: 2 days per week moving to 1 day per week. No executive responsibilities; some retained technical functions
0-6 Months	51- 75% EOT-owned	MD/ CEO	Not exited – fully active in management

Of the 18 that established a majority-owning EOT, 6 transfers occurred within two years of the interview, 4 had taken place between two and three years previously and 4 more between three and five years beforehand. In 2 cases the legal transfer to the EOT had not yet occurred, but the structure had been established and the transaction was imminent (within a matter of days or weeks). In one further case the founder had not yet got to this point. However the decision to transfer ownership to an EOT had been made, with professional advice having been engaged and its announcement to the employees was due the day after the interview. In the remaining instance, the founder had transferred majority control of the firm to an EOT more than five years earlier. However, this founder retained a minority share and was still engaged in the process of fully exiting by transferring the remainder of the retained shareholding to 100% EOT ownership.

Table 5 also indicates the status of the individual founder in terms of the extent to which they had exited from the leadership, management or governance of the firm. Where applicable, it describes the organisational positions held by the founder (if any) at the time of the interview. Just 3 of those interviewed had exited fully and completely from ownership and management. Of these, 2 individuals had withdrawn from all ownership and management activity within the last six months, following a long transition period and had retired completely. The other had transferred their shareholding to the EOT and exited from ownership one year beforehand. Having resigned from all involvement in the firm, they were finishing up completely in the week that the interview was held.

Therefore, in 17 instances, despite all but 2 presently or imminently no longer being the majority owner of the firm, the founders were still involved in its management, leadership or governance. Several were occupying the leadership position that they held pre-ownership transfer, whether as Executive Chair (of the Board of Directors), Chief Executive Officer (CEO) or Managing Director (MD). In some cases, these arrangements were envisioned as temporary, pending a planned hand-over of management responsibilities but in other cases there was no specific management transfer plan in place. In at least 2 cases the founders did not equate their ownership exit with their exit from leadership of the firm. It was their stated intention to remain fully involved in its management for the foreseeable future.

7.3 Distinguishing ownership exit and management exit

One of the first significant findings emerging from the research is that it became clear at an early stage that the initial boundaries set to inform the sampling approach (Figure 9) did not hold. Although the empirical literature tends to treat entrepreneurial exit as a binary variable, as in 'exited or 'not exited', it became apparent that the picture was far less clean-cut and considerably more fine-grained. As observed by one of the key informants, who specialises in tax and legal affairs in relation to employee ownership transfers, "*The exit of the owner brings two issues with it – management succession and ownership succession. Employee ownership takes one issue off the table.*"

Closer examination of the data in Table 5 reveals that many exits were still 'in process', occurring at multiple levels in relation to their ownership exit and management exit. Some did not view their exit from ownership as being automatically accompanied by exit from leadership. This finding, which is explored further in Chapter 9, had one unanticipated benefit, in that recall bias proved to be less of a factor than anticipated, since almost all of those who were interviewed were still engaged, at one level or another, in their exit process.

In the context of exits from SMEs and privately owned, unquoted firms this finding appears to be new. DeTienne and Wennberg (2014, p.16) refer to the existence of 'partial' exits, whereby owners do not fully exit from their firms but remain engaged in some way. They refer to this as a "new form of exit" that is in need of study.[64] A very recent article finds that "founders can also engage in partial exits, including a managerial partial exit in which the founder leaves management but keeps ownership and a financial partial exit in which the founder divests ownership but remains in

[64] At her keynote presentation to the British Academy of Management seminar 'Understanding Business Exit' at the University of Nottingham on the 20th April 2016, which was attended by the researcher, Dawn DeTienne highlighted that partial exit can be a "muddy area" that poses conceptual and definitional challenges for researchers.

management" (Souitaris et al., 2020). However, this article is concerned solely with those who exit via a stock market flotation, which is relevant to just a small fraction of all exits (Wiltbank et al., 2015). Alternatively, there is an extensive body of research that explores the exit dynamics of management succession, whereby family managed businesses call upon professional management that is unavailable within the family (e.g. Nordqvist et al., 2013) or where 'Founder CEOs' hand over to professional management (e.g. Boeker and Karichalil, 2002; Wasserman, 2003). Otherwise, the extant entrepreneurial exit literature rarely distinguishes between ownership exit and leadership exit (DeMassis et al., 2008; Wennberg et al., 2010a). Hence, scholars have paid little attention to these distinctions, in terms of their relationship with one another and with the dynamics of succession.

According to the widely-cited definition proposed by DeTienne (2010, p.203) entrepreneurial exit sees founders "*leave* the firm they helped to create; thereby removing themselves, in varying degrees, from the primary ownership *and* decision-making structure of the firm." However, as demonstrated by the findings in Table 5, several remained in significant positions of management and leadership despite no longer being the primary owner of their firms. In some cases, they retained the most senior decision-making position in the company. Furthermore, whereas most of the founders transferred their firm with explicit intention to exit from both ownership and management in the foreseeable future, this was not the case for all. There were those who either considered it impractical to leave the management of their firm any time soon or had no desire to do so.

These findings indicate that founders can position themselves at different points in relation to two exit trajectories; one moves them towards their exit from ownership, while the other moves them towards their exit from management. In many cases the processes that occur in each are intricately connected to one another, whereas in other cases they occur independently and to varying degrees. Founders can therefore exit from the ownership of their firms while not *leaving* them; they can also exit from ownership while *remaining* as a substantial and even primary component of the firm's structures for decision-making.

Figure 12 summarises the founder ownership and management exit trajectories uncovered by this research. It illustrates different stages through which a founder can move in each direction. They can progressively 'step away' from management and 'phase out' their ownership but can also move immediately or suddenly from the centre of the figure to its extremities. Thus, the journeys that are taken along these trajectories can occur in one direction only, both directions simultaneously, concurrently and at different speeds.

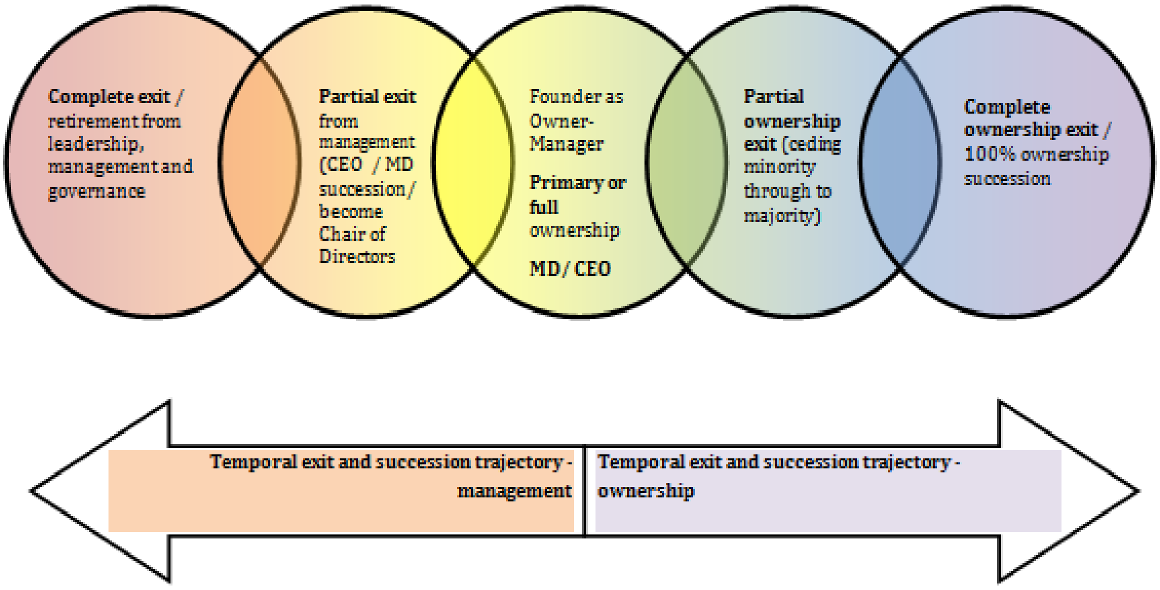

Figure 12
Spectrum and trajectory of ownership and management exit

Despite the above, these findings do not, in themselves, contradict or undermine the definition provided by DeTienne (2010, p.203), since it also recognises that exit is a "process" that occurs "in varying degrees." Nevertheless, they do suggest that entrepreneurial exit can be better understood when studies make explicit the distinctions between ownership exit and management exit, as well as between ownership succession and management succession. By extension, this analysis supports the contention that exit is a complex and multilevel phenomenon, whereby management and ownership exits that lead to succession (as opposed to exits that lead to firm closure) operate at different levels and should be conceptually separated (Wennberg et al., 2010a).

7.4 Legacy inclination

> *"His presence is still very strongly felt in that organisation. Sometimes in management meetings, the way people talk, it's as if Spedan Lewis is still sitting in the room."*[65]

Having established that the exit processes being pursued by the founders placed each of them at different points on the ownership and management exit trajectories set out above, the analysis proceeded to consider the main reason behind their decision to transfer the ownership of their firms to their employees.

19 of the 20 founders stated during the interviews that it was their desire to support the firm to be sustainable and prosper in the future, after their exit that was the fundamental reason why they had decided upon employee ownership transfer. Furthermore, of those 19, 16 indicated that they were motivated, explicitly or implicitly, by a desire to create, build or leave a legacy for the benefit of others through the continued existence of the firm after their exit from being its primary owner.

This inclination towards the creation of a business legacy was expressed in different ways across the sample. Four of the founders explicitly used the term 'legacy' when discussing their reasons for transferring to employee ownership. Of these, one made a direct connection between their individual identity as the founder of the firm and their personal identification with a desire of a business legacy that would endure beyond their tenure:

[65] A quotation from one of the key informants to the research, speaking about the enduring impact on the organisational culture of John Lewis from the legacy of John Spedan Lews, the former proprietor who passed on the firm to employee ownership in 1950.

I'm proud what I've set up. I wanted in 20 years to be known as a guy that started [company]. My ego is such and that is important to me. It's important to be honest about that … I wanted my story as a business owner to end in a way that would give me my cake and allow me to eat it as well. What I wanted to achieve was the business to last forever … I wanted to leave a legacy. Legacy, that word, it's an important word in this. F03

In other instances where founders directly referred to the term 'legacy', they focused less upon the connection between their self-identity and their business. This emphasis reflected their desire to see their firm continue following their exit from ownership. However, they specifically extended the object of their legacy ambitions to one which centred upon, or at least incorporated, their employees:

[Employee ownership] in is reality being built in for life. Our employees get that because they worked in the firm many years and they understand the benefits of it as well, but still it gives you a feeling of legacy. F010

[My company] deserves to be as well-managed into legacy … We owe it to our loyal staff and customers to make this our primary business goal … If we were to just take the money and then in 5 years' time finding that the business closes, yes, we would have the same amount of money out of it, but we wouldn't have that warm feeling that the thing we've created continues and has a life of its own. F06

I want to leave a legacy. I want to train and grow young people. I want to attract the right young people in … In order to take this business to the next level it needs empowered, young people with guidance. F016

Otherwise, founders who had chosen the EOT route for their exit described the core of their decision in ways that, without explicitly using the term 'legacy' itself, were centred upon motivations and ambitions that indicated that they were legacy-based. Broadly, they echoed the statements above, by articulating elements concerning the desire for the firm to continue in a way with which they could personally identify and their desire to pass on the firm to their employees.

For one set of founders, their tendency was to emphasise the continuance of the firm itself as the object of their legacy ambitions. Thus, the well-being and continuance of the firm represented their main reason for building up employee ownership or transferring their ownership to the EOT. Their concept of legacy was primarily bound by their desire to leave behind a successful business with which they were personally associated, manifested by their sense of self-concept and identification with the values and purpose of the firm that they had founded and built up over many years:

> *That's our hundred-year plan. Now whether we get there or not who knows, it could be beyond my life. What we're trying to do is put the building blocks for a sustainable business model … and employee ownership as a key plank to it. F07*

The second set of founders tended to emphasise legacy in terms of it being a 'reward' to the employees for the contribution they had made over the years to making the business a success. The EOT transfer was intended to represent recognition of their loyalty, providing the staff with the opportunity to collectively take over the business and benefit from it:

> *The primary motivator wasn't money. It was about sustainability of the business, keeping the business going, looking after the people that had helped us to establish it. We're doing our best to give them a future. F014*

At times, founders drew distinctions between, on the one hand, their firms as entities with a purpose and mission and, on the other, the employees that worked for them. There were also those who referred throughout to both interchangeably and statements made throughout the interviews indicate founders' legacy ambitions overlapped both elements:

> *Pride in what we've built up, you've built a successful business. You've got your name above the door. You've built it with the help of other people. F017*

> *We'd like to continue to have the name and the reputation going ahead with it, and our staff were quite keen on that as well. F018*

A third theme that characterised and indicated the desire for legacy that emerged strongly was the determination of the founders to exit in a way that would protect their firms from harm. They viewed their exit via the transfer of employee ownership as a way of doing so. Thus, they were concerned to protect their legacy by ensuring that it was not lost, an outcome they considered intrinsic to other exit choices for their firm:

> *The pinnacle of my career is creating [firm]... After working so hard to set it up, I wanted the company to be sustainable. I wanted, "what did you do in your life?" I didn't want to say "Oh, well, it made some money and the company got sold to somebody and now look at it. It's rubbish." F04*

One set of founders did not refer explicitly or implicitly to a desire to create or leave a legacy following their exit as their main reason for the employee ownership transfer. Nonetheless, of these, all but one made statements that indicated they were motivated to see the successful continuance of their firm. One, who had decided to leave entrepreneurship entirely because of a faith-based calling, claimed that there was no personal attachment to the firm as such. However, the ownership of the firm was transferred to an EOT, rather than close it down, so that the staff would have the opportunity to retain their employment, which they would otherwise have lost.

Two others were not immediately considering the issue of their legacy as they had no plans to entirely exit their businesses: in the first of these, the founder established an EOT to facilitate exit from ownership only and planned to remain in position as Managing Director for the long-term; the second had no forthcoming plans to exit from majority ownership, but had always set aside a substantial share ownership directly for the staff, primarily for reasons of fairness and to incentivise the staff team.

There was just one instance where the founder stated that they had no interest in the well-being or continuance of the firm in the future, post-exit, beyond its ability to service an outstanding element of debt that was owed. In this case, the founder transferred to EOT ownership primarily as a 'cash out' harvest, in order to extract a personal share of the firm's substantial cash holdings in a tax-efficient way.

Table 6 provides further examples from the 16 founders whose central concern in their decision to transfer their ownership to an EOT was to create a legacy, in terms of the continuance of the firm, the opportunity for employees and their aversion to loss.

Table 6
Founder statements of emphasis in their legacy inclination

Perpetuating the firm as the emphasis in legacy
It's given the company a long-term future. You like to think you've made a significant contribution to something. F02
We just love the company and what we've created, and a huge feeling of satisfaction at heart that it's moving on. F09
Employee opportunity as the emphasis in legacy
We've done this thing [transfer to employee ownership] so they've got a guaranteed shot at the future. They've got a stake in a profitable business. F019
It would be nice for them to continue to make a success to the business, and if we get a benefit from that as well then that's quite fortunate. F020
Critical [to pass it on to] people who cared about it, really important. That is what it's all about. We've got very strong company values. F08
Aversion to loss as the emphasis in legacy
In a way it's one's life work and you don't want to see it just go down the pan. It really had still lots of potential. F012
I'm passionate about the business ... The idea of seeing it being, what's the word? Reconfigured, streamlined, synergies being applied to that; all the modern speak ... It didn't sit well with me. F011

7.6 Conclusion

The purpose of this chapter was to present the profile of the research participants, in terms of their characteristics and their exit status. Returning to the central question posed by this thesis, "Why do founders exit their firms by transferring them to employee ownership?", close examination of the data uncovers that, far from having implemented a 'clean break' exit, the participants were still connected with the firms that they founded at various levels and in different ways.

This is the first significant finding in this chapter that provides a novel contribution to the literature, since the distinctions between ownership and management exits are insufficiently acknowledged by exit studies (DeMassis et al., 2008). It reveals the importance of distinguishing between ownership exit and management exit in situations and studies of business succession and transfer. As illustrated by Figure 12, these exits operate on trajectories that are commonly connected but also occur separately and at different paces.

The second finding in this chapter that provides a novel contribution to the entrepreneurship literature is revealed by the association between the exit pathway of employee ownership chosen by the founders and their inclination to create and imprint a legacy through the firm. As demonstrated in Chapter 5, the legacy motive, including legacy creation as an exit motive, has received little more than passing reference in the extant entrepreneurship literature. However, founders' legacy statements, explicitly or implicitly made, articulated the centrality of their desire to create and imprint a legacy through their business, or at least safeguard its existence, for the benefit of others.

The statements from founders concerning their inclination and desire towards creating a legacy through their firms were accompanied by others in the data that provide further revelations. The analysis uncovers a complementary range of insights into the mechanisms that create and imprint entrepreneurial legacy. These are set out and categorised in the data structure provided at Figure 11 in Chapter 6. Thus, having established the existence of the founders' legacy inclination in this chapter, the next chapter examines legacy *orientation,* the first of the identity-based mechanisms that underpin the concept of entrepreneurial legacy imprinting and orientate exiting founders towards their preferred business legacy solution.

Chapter 8: Legacy Orientation through social identity

8.1 Introduction

This is the first of three chapters that present the empirical findings relating to the mechanisms underlying entrepreneurial legacy imprinting. The previous chapter addressed the research question by identifying the existence of the founders' inclination to create a legacy through their business. This chapter digs deeper, in order to understand the drivers behind this inclination. Its purpose, therefore, is to explore the founders' motivational orientation towards legacy creation, by examining the connections between their values, beliefs and self-concepts and their decision to exit by transferring their firms to employee ownership.

In doing so, the chapter draws upon the typology of founder social identities - 'Communitarians', 'Missionaries' and 'Darwinians' - developed by Fauchart and Gruber (2011) and described in Chapter 5. Several recent studies in entrepreneurship have applied this typology to inform their empirical findings (e.g. Alsos et al., 2016; Sieger et al., 2016; Gruber and Macmillan, 2017; Powell and Baker, 2017; Brändle et al., 2018) but this thesis is the first to do so in relation to entrepreneurial exit. Given that the thesis is located within the sphere of entrepreneurship, as opposed to social psychology, it does not attempt to evaluate the social identities of the founders or consider their antecedents. Instead, it examines how the mechanisms that underlie the founders' legacy orientation, as manifested by their exit decision to transfer their firm to employee ownership, are derived from drivers that are based on social identity-derived characteristics.

The chapter comprises four parts: first, it begins with a section that accounts for why the founders chose employee ownership as their exit and transfer route rather than the traditional legacy mechanism in privately-owned SMEs of inter-generational transfer through family succession; second, it examines the data that point to 'communitarian' identity-based drivers in the choice of employee ownership transfer as a legacy solution for their firms; third, the chapter proceeds to consider the same, in relation to those data that indicate the presence of 'missionary' identity based drivers; fourth, the chapter considers Darwinian social identity-based drivers and employee ownership transfer, before drawing its conclusions for social identity and legacy orientation as one of the three mechanisms specified in entrepreneurial legacy imprinting.

8.2 Substituting family succession

8.2.1 Results

The choice of successor for the business is a choice that is made at the behest of founders who remain the owners of their firms (DeTienne and Chirico, 2013). Retaining the firm in the family through inter-generational succession is generally the first option they consider (Dehlen et al., 2014; Chirico et al., 2019), particularly if they identify emotionally or personally with the venture (Dehlen et al., 2014) and in situations where family involvement has had a positive impact on the business (Butler et al., 2001).

Moreover, finding successors from outside the family can be a costly and time-consuming process (Parker and van Praag, 2012). Founders have lower levels of information asymmetry to tackle when family business succession takes place, since they possess greater insight and knowledge about prospective successors who are family members, as opposed to external candidates (Howorth et al., 2004; Dehlen et al., 2014). Thus, the traditional predilection has been for businesses to be passed on by founders within their family (Chirico et al., 2019). Having a willing and capable child to whom they can hand over the business is the preferred exit option for business owners (Butler et al., 2001; Le Breton-Miller et al., 2004; Ryan and Power, 2012; Richards et al., 2019). despite evidence that indicates that many businesses that are passed on to other family members perform less well than those that are transferred to exogenous parties (Wennberg et al., 2011; Berent et al., 2009 in van Teeffelen, 2012).

Fundamentally, establishing a business is an opportunity taken up by many founders to create a family dynasty, one which creates and cascades wealth within the family through economic growth, generated by ambition and innovation (Uhlaner et al., 2012; Le Breton-Miller and Miller, 2018). There are also founders who are less innovative or growth-driven but are motivated nonetheless by building a family business identity, through personal and emotional attachment from family ties in the business (Gómez-Mejía et al., 2007). Consequently, founders with strong family imperatives in their business often view business transfer to outside parties as a loss of family legacy (Gómez-Mejía et al., 2007; Zellweger et al., 2012b; Chirico et al., 2019) and even as family failure (Zellweger et al., 2012a).

Nonetheless, having a willing and able child to take over the business is not always available to the incumbent owner, necessitating an alternative exit and transfer solution (Dehlen et al., 2014; Richards et al., 2019). In this research, there were founders for whom inter-generational family succession was impossible, as they had no offspring. For others, family business succession was considered impractical or unrealistic. Given the age of the founder and their desire to arrange a business transfer, their children were too young for the founder to wait for them to become old enough to be considered as successors:

> *"I haven't got any children. It was always a question what do you do with the company. … I've got nothing to do with the shares really. I've got no one to leave them to. So, what's the point in keeping them?" F01*

> *If I was to retire early there wasn't time to bring [family] into the business and get them engaged with it. F017*

> *I've had children quite late. I have a son that's 15; what's he going be like when he's 25, I don't know. F011*

> *[My son] regards himself as being the future leader. However, he's only just gone 16. So no, that was a never possibility. F010*

Others concluded that their children were unsuitable to be their successor and had, therefore, disregarded them as an exit option. These founders considered their children to be incapable of taking over the business, or that would have been inappropriate to pursue succession through them as an option, because they had not demonstrated any interest in, or commitment to, the firm:

One's very academic and younger, about 20 .... The older child ... works hard, but I don't think owning and running a business is the right thing for her ... So, for me it [employee ownership] offers an option. F016

None of my kids were options. My daughter worked with me for a while ... but she was a musician ... none of the others worked for anything more than school holidays. It was never something that was ever nurtured, or there was never any interest to take the firm over, in the family way. F012

These issues were alluded to by the founder of Richer Sounds, whose transfer of his business to an EOT in 2019 was widely reported in the press, when he said, "*My life's work is my legacy and I haven't got a spoilt child to run the business."* [66] By contrast, there were cases of founders who did have children that they considered to be capable and suitable to become their successor and who would have considered or pursued this option further if their children had been willing to take over the firm. For a variety of reasons, however, the children had opted to take a different career path rather than put themselves forward to run the business. This situation extended to cases where the founders had children who had followed them by being involved professionally in a similar field. Despite their familiarity with both the parent's firm and the wider industry in which it operates, however, these children had opted not to take over the 'family business':

I would like it to be that way but although my son actually is an engineer, he's working as a contractor. He isn't interested coming in and doing the business unfortunately. F018

I had to wait a couple of years of seeing if my kids wanted to be involved. It was a possibility that my son could have, but ... he didn't want to. He wouldn't earn enough here. He's on the high-flyer route. He's ... working one below the guy who founded Skype. So, my little business is not really where he wants to go. F08

One group of founders explained that they were reluctant to put any pressure on their children to take the firm over. One reason given was that they had spent many years

[66] Julian Richer, as quoted in The Independent, 14 May 2019.

working hard to build a successful business precisely so that their children could pursue their own interests and passions in their lives, separate to those of the business:

> *I wanted them to do their own thing. They're lucky that because I've been relatively successful, they can do what they want to do rather than what they have to do. I wanted to play football, but I didn't have that choice. F016*

Another reason arose from concerns about the potential impact of nepotism, both in terms of the effect it would have on the firm as well as on the well-being of their child. For instance, they were deterred from initiating family involvement in the business from having witnessed the consequences of family-led business succession in other firms. The quotes below provide examples that illustrate the type of unfavourable outcomes they feared would result from passing the firm on in the family:

> *I'd have been delighted [for them] to come into the business, but I'm not a fan of forcing children into it. They'd got to want to come into the business. Otherwise I've seen in so many other family businesses, it can be awful. F017*

> *I've got friends who have taken over their fathers' or their father in laws' businesses. They've always had a chip on their shoulder that they didn't start the business. ... You go "Really? That's your problem? You've made it really successful." And they go; "Oh yeah, but it's not the same" They definitely carry that. They're all very rich though, very well off. F08*

Finally, the research uncovered the existence of founders whose reluctance to consider family business succession went beyond considerations as to whether it would be a good choice or not for their children or for the business. They also had personal beliefs that led them to reject the notion of inheritance. They felt strongly that they had made their own way in the world and that their children should also do so based on their own merits. For this group, passing on their business within the family for reasons of favouritism or privilege that would undermine the values they had sought to imbue in their firms. Taken together, these considerations led them to reject on principle the option of family business succession altogether:

My daughter … She loves it here, but she hasn't done anything to deserve that. She wants to be a part of the business. That's absolutely fine, but she has to justify it. She has to be good enough. There were thoughts of … I'm selling my daughter's inheritance … but ultimately, I don't believe in entitlement in that way. F03

I'm not sure it would be right for anybody. I would rather recruit my own leaders in house. I'm not great believer in financial inheritance let alone company inheritance. That could get in the way of what we have as an organisation. We employ the very best people we can and if you start bringing family members … People have to find their own feet, and their own careers and their own businesses. F010

8.2.2 Interpretation

The findings in this section demonstrate a wide range of reasons why founders substituted inter-generational succession with the transfer to employee ownership as their exit pathway. On the one hand, family succession was not practical, given that the children were too young or disinterested. On the other hand, others were strongly influenced by the outlook for their firm's future, balancing the well-being of the firm alongside family considerations when considering their succession options. Hence, individual founders chose to reject family business succession because they considered their children to be unsuitable, or because bringing their children into the firm would produce negative effects.

The results are consistent with the literature that finds that owner-managers and founders have an inherent preference for exiting through family business succession (e.g. Dehlen et al., 2014; Richards et al., 2019). Generally, they pursue this option before they consider transfer solutions outside the family (Gómez-Mejía et al., 2007; DeTienne et al., 2015; Chirico et al., 2019). Nonetheless, the pursuit of family business succession is not inevitable and, as with the participants in this research, they may reject it when they are doubtful about the children's capability and commitment (Weesie and van Teeffelen, 2015). Moreover, the age profile of the study participants was at the older end of the range, and the intention to pass the firm on to the next generation is known to be positively related to the ageing of the business founder (DeTienne et al., 2015). However, the age gap can be such that founders are not always willing or able to wait for their children to become old enough to take over (Ng, 2004 in DeTienne and Cardon, 2012).

Otherwise, the extant literature does not appear to recognise that business owners may choose to reject choosing family business succession for their business legacy as a matter of principle. In this study, there were founders who were either indifferent or hostile to the notion of family business succession altogether. They had personal beliefs that passing the firm on to their offspring was not the 'right' thing to do. They did not believe, in principle, in the virtues of family inheritance and favoured employee ownership for their succession. This appears to be a new finding that has not been hitherto stated. It also provides support for DeTienne and Chirico (2013), who challenge the implicit assumption that sees any form of non-family business succession as family failure (Zellweger et al., 2012a).

8.3 Communitarian drivers

8.3.1 Results

One of the three typologies of founder social identity defined by Fauchart and Gruber (2011) is that associated with the 'pure' communitarian identity. This group is motivated in their entrepreneurial endeavours by the desire to support and be supported by those they consider as their 'social community' – i.e. others who are 'known' to them (the personal 'we'). This social community is primarily represented by their employees. It may also comprise customers and other stakeholders with whom they are directly connected through their venture. Communitarians view their social community as their primary frame of reference in the social space. In this respect, communitarian drivers in founder identity are those that generate self-esteem for the founder by virtue of the venture being the embodiment of their social community, one with which they express and share their values (Gruber and Macmillan, 2017).

In an announcement to the press, the co-founders of Aardman Animations provided an account of their decision to transfer their firm to employee ownership that displays communitarian characteristics:

> *"The creation of an employee trust is the best solution we have found for keeping Aardman doing what it does best, keeping the teams in place and providing continuity for our highly creative culture. And of course, those that create value in the company will continue to benefit directly from the value they create."* [67]

A similar sentiment was expressed by the founder of Sawaday's, the travel company. He stated that he had always viewed his firm, in part, as being a vehicle for the happiness of his employees. Thus, he described his decision to exit via a transfer of ownership to his employees via an EOT as *"an act of faith, but well-rooted faith."* [68]

Founders who displayed communitarian-based drivers in their decision to transfer their firm to an EOT saw their employees as comprising the essential component of the social community they had built up through their business. This dynamic was sufficiently strong that there were various references made in quasi-familial terms to the employees as a 'business family'. As with family businesses, they had developed shared norms, values and a sense of common purpose with their employees over several years. They saw the processes of exiting via transfer to an EOT and family business succession in analogous terms:

> *[Choosing the EOT route] We appreciate that we couldn't have got anywhere near … where we were without the staff … After the family succession planning this was the next best that tied in with our family values. F017*
>
> *We've always treated our staff like a big family … if you like, a business family, and they will carry on … they have the same ethos and they understand that's the way they want to run the company, or most of them*

[67]Peter Lord and David Sproxton, 10th November 2018 https://www.aardman.com/oscar-winning-studio-aardman-determines-its-own-future-through-employee-ownership/

[68] Alastair Sawday, speaking at the EOA annual conference, 20th November 2018.

anyway, They feel like children to us, because a lot of them have worked for us for a long time. F018

Others found different analogies to describe their firm as a social community:

Growing a business is a bit like farming, you develop an attachment to the business. The business isn't a thing, it's a living creature almost, and it has its own needs and you want to make sure that it continues. F012

Nonetheless, whereas one set of founders equated the firm itself with the staff employed by the firm as representing their social community, another set drew a distinction between the firm as an entity and the people that were employed by it:

I'm very proud about what we do, what we achieved and I'm sentimental about the people but I just find myself unable to be sentimental about the business. F01

For these founders, the decision to transfer the firm to the EOT was a way of preserving this 'community' of employees, as opposed to the institution for its own sake. In contrast, others extended their 'business family' concept to include wider stakeholders with whom they were engaged. Here, the transfer to the EOT was not only for the benefit of the employees, but for other stakeholders too, as a way by which the business would continue to preserve the well-being of its 'wider' social community:

I feel responsibility to our employees, to our customers and our future customers, and employee ownership serves both those two groups very well. F010

The important thing about the business is the people within it and the customers and the suppliers and the other, I hate the word, stakeholders, to make sure they're all looked after properly. F01

You cut us in half, and we are [company] all the way through. We've lived it for so many years. It's partly the reason we're wishing not to sell it to anybody else. F09

A strong theme that emerged in the research was that founders were strongly motivated see the firm continue in the way that it had beforehand. In this context, they viewed the establishment of the EOT as a way to be 'fair' to their employees:

> *[What] ... mattered to us more than money was ... the people who have been in the business for 10 or more years, who are the reason that we've been successful. I was talking instantly about employee ownership, but I didn't know what it was called, the idea of giving it to the staff. F06*

> *It's fairness. You're trying to be fair, trying to think "hang on; I haven't generated all this cash. It's not a great skill of mine, I've contributed my share - and the other Directors felt that as well. F02*

Thus, founders saw their decision to create an EOT and transfer ownership of the firm as a 'reward' for their employees. It was a 'reward' in that they saw it as a way of recognising the loyalty demonstrated by the employees to the founder during their quest to build the firm over the years. Founders also saw it as a reward for the contribution the employees had made to the profitability of the firm which had generated their personal wealth or comfort:

> *We've got a fantastically loyal staff; they're loving the business. Since it's started, the company was successful, not exclusively, but partly because of their efforts. I wanted to reward their loyalty and enthusiasm. F014*

In a similar vein, founders referred to the transfer to an EOT as being an arrangement that accorded to their wider business values. They set this against narrower considerations that were in their own economic self-interest, believing that the employees should share the benefits when the succession arrangements were executed. Founders displaying strong communitarian drivers considered the EOT to be a form of endowment, one they were granting to those they considered to be core members of their social community, for the contribution they had made to building it as a community:

> *It fitted with my values. The people who have worked here, they've put a lot in, so they're maintaining the independence of the business, maintaining some kind of control of what was gonna happen to the business. Well, a lot of control. F019*

> *We've got core values that run through the business. We use them in everything. Our core values are integrity, dependability and education ... If they are truly your core values everything you do will be aligned to them. F06*

Nonetheless, it should be borne in mind that founders continued to have a pecuniary stake in the on-going performance of the firm after their exit. Several acknowledged that they continued to have a financial interest in the firm post-ownership, whilst wishing to be 'fair' to their staff by recognising and rewarding their loyalty. They believed that the ownership transfer to the EOT would lead to the continued success of the venture, as the employees would be well-motivated to make a positive contribution:

> *Part of this option is ethics ... They are now running the business for me, effectively making sure that I get my money and they will get their reward for doing so. That seems to me a much fairer way of going forward. F05*

> *Without the people, you don't really have a business ... We wanted also to acknowledge their loyalty and I would much rather see them benefit. I'd much rather see [company] keep going and have them benefit. And we benefit as well. F020*

> *I think it would give us a great USP in a very, very, very competitive market ... that's my driving force for going down this route. Getting the right people in, the business with the USP that the EOT gives, the ability to retain and acquire staff, because our business is all about people, quality people. F016*

It was invariably the case that founders' need to consider their exit options and determine the future ownership of the firm provided the catalyst to pursue the EOT transfer. However, some claimed that it had always been their intention to provide some form of employee ownership in their firms. They reported that they had previously investigated the possibility of doing so, whether at the start of their venture or at a subsequent stage of its development. Nonetheless, many had not implemented any significant level of employee ownership prior the EOT transfer. The reasons given were various. Founders provided accounts of how they had explored taking up various official schemes that were available to enable individual share ownership. However, in the event, prior to the advent of the EOT legislation in 2014, they had struggled to find a way of doing so:

> *I wanted that partnership type culture, because that's how we are, but we'd looked at share schemes and my accountant's going "Oh, for Christ sake, it's too f-ing complicated and it'll cost you much money". Then you've got to value of the company every time someone joined, or every time someone leaves. You've got to buy their shares. You're gonna spend the whole time administering the system. F08*

> *I'd made a mistake in setting it up … always had this niggling problem that every review time a couple of people had said "you've always mentioned about can I have some shares" and we looked into it and of course it's impossible, because by then the company is worth millions. Well alright, I can give you some shares but you're gonna pay a lot of tax. F02*

Founders highlighted that the nature of these schemes were designed to provide some employees with equity in the firm and not others. Typically, such schemes are designed for the purpose of retaining or incentivising designated management staff. However, they had not found the schemes or mechanisms that were available and intended to facilitate employee ownership to be user-friendly or financially helpful to the parties involved. Moreover, implementing the available schemes, to the benefit of some and not all, was seen as being both complicated and divisive. Hence, there were concerns that the schemes could undermine their wider objectives, by being counter-productive to the coherence of the 'social community' that founders were aiming to build through their venture:

> *I always wanted to give equity of some form to staff in the business, but I could never work out a way of doing it … I just started reading about giving out the shares and stuff and I thought oh, this is gonna do me in. It's either gonna be divisive, or complicated, or whatever. I chose the trust route because I wanted the simplest, straightforward group. I didn't want individual shared ownership. F014*

> *There's an element of them feeling "Well, I've worked here all this time and helped build up this company, and I'm not gonna get any more than anybody that hasn't." But the reality is they probably earn more anyway. F018*

However, one group of founders had set aside an element of the equity in their firm for their staff before they reached the point at which they were considering their succession. For this group, doing so was an integral part of contributing to their vision of building the company as a social community. In one instance, for a founder who had built in individual share ownership from the outset, it was a way of incentivising certain employees to stay with the company and share in its success as it grew:

> *There are very low barriers to entry in our business. It's very easy to leave and set up your business, which make it very difficult to grow the company ... What's the best way to deal with that? Oh one; to pay them fairly, but two: give them a slice of the company and then they're less likely to leave. They were gonna be more interested in building it with you. F015*

Another founder had issued individual share ownership and set up an employee benefit trust (but not an EOT). This founder felt strongly that a combination of individual share ownership and trust ownership was the most effective way of balancing the communitarian goals that he had for his firm, whilst also contributing to the wider social mission that he had set himself:

> *Joint employee and community ownership is probably the best way forward for a sustainable business model. The other 50 % should be in the employees' individual ... ownership to give this wealth creation, because I do have a slight issue with employee owners' trusts, from a philosophical point of view. They're great organisations, but I don't think they will create the wealth creation that our organisation will create. F07*

In the event, founders were asked to reflect on the extent to which the new ownership arrangements established through the EOT had met their aspirations. At the time of the interviews, they remained largely positive about their decision to transfer to employee ownership. They were confident that the firm would continue in a way that was consistent with the values and purpose that they had instilled into its staff and management. They felt that most of their employees had positively embraced the new ownership arrangements:

> *If I was to be run over by the proverbial bus, apart from the fact that they would be sorry that I got run over by a bus, it wouldn't actually alter the business. F011*

> *It's definitely more fun running a business like this because you've got a challenge, there's more put in to getting things sorted out, as opposed to if it's been on just on 2 or 3 people. F01*

> *I'm quite happy to share the experience, because I'm definitely a fan of employee ownership … when you look at it, from the perspective of the alternatives for succession, it's fantastic. F02*

On the other hand, there were those who were disappointed with how some of their former employees had responded to becoming 'co-owners'. Nonetheless, they felt that this was to be expected to some extent. They pointed to the relative novelty of the EOT as a concept unfamiliar to most. It would require continuing attention and investment for it to achieve its full potential:

> *The biggest challenge to any of the hoops of the employee ownership and how the staff actually get their head around how that works, how people like John Lewis, the people who mind the tills are not running the business but it is quite difficult for … people who are not in a management tier to work out how they can be part of owning the company, but not running it. F018*

> *When we talk about our own experience in employee ownership, the concept of the trust is quite difficult to get a grip of. The disappointment is not everybody understands employee ownership and there's still a bit of them and us. There are some people they just can't seem to make that step in their minds. F019*

> *Some people take that on full board and go overboard with it and think they are the boss of the company and other still, have the mentality, of coming in and thinking "I'm 9 to 5 person, this doesn't mean anything to me" but that's just nature of various kinds of people. F05*

It should be borne in mind at this juncture that the experience of transfer was still at a relatively early stage in terms of providing a 'post-ownership exit perspective'. Almost all the EOT transfers had taken place less than three years prior to the interview. As described in the previous chapter, founders were still actively engaged in the management or leadership of their businesses.

Finally, many founders described how they had participated in various employee ownership networks and events. They were introduced to representatives of firms that were employee-owned and other founders who had transitioned into employee ownership, with whom they felt strongly 'value-aligned'. They had found these encounters to be both valuable and validating, having been able to share experiences and learn from one another about a range of issues connected with making employee ownership a success. Founders contrasted the nature of these experiences sharply with their experiences over the years in 'mainstream' business operations and when networking:

> *[It} was incredibly helpful and an eye opener to the culture that seems to exist within what I call the EOA, the employee ownership community as opposed to the normal, commercial community, where it's very much hands held close to your chest, don't want to share too much, don't want to say too much. F011*

> *What is really nice is every other employee-owned business that we've come across so far, we're an instant hit with them from a cultural perspective. There are businesses and businessmen and women out there that I don't wanna work with, because they are not gentlemen, or they don't play fair, and we don't wanna work with those people. F08*

8.3.2 Interpretation

The results in this section reveal the presence of a wide range of communitarian-based drivers within the founders' exit motivations. Many had always been desirous of sharing equity with their staff, although some had not done so until the advent of the EOT. In these cases, the dynamics arising from their exit and the need to arrange their succession had provided the impetus to do so.

At the heart of these communitarian-based drivers was the founders' desire to see the continuance of the 'social community' that they had built through the transfer to employee ownership. Founders considered employee ownership to be an entrepreneurial legacy consistent with their desire to ensure the continuing health and well-being of the firm as the embodiment of their social community. They conceived this community as being centred on their employees, although founders also included other stakeholders with whom they were engaged.

A distinct and unintended part of this legacy arose when founders joined networks facilitated by the EOA and met founders and representatives from other firms that had become employee-owned. As a result, they extended the boundaries of their social community to incorporate like-minded founders and employee-owned firms that had undertaken a similar journey to themselves. By meeting and cooperating with those with whom they shared a commitment the concept of employee ownership, they became part of a wider 'in-group', with individuals with whom they shared common norms and values (Tajfel and Turner, 1979).

8.4 Missionary drivers

> *"'We are creating a microcosm of the world I have always wanted to live in.' At which point I became tearful and had to leave."* [69]

8.4.1 Results

The second of the three typologies of founder social identity defined by Fauchart and Gruber (2011) is associated with the 'pure' missionary identity. This group is motivated to advance a social or political cause through their entrepreneurial endeavours, one they see as being of benefit to the wider community and extending beyond those that are 'known' to them (the impersonal 'we'). This is expressed through the 'mission' of the business, in terms of the products and services offered, or by the way the firm operates. Missionary drivers are characterised by those whose purpose is to improve wider society and others with whom they share their humanity, contribute to social justice and environmental well-being or to address inequality or social exclusion. Missionaries

[69] Guy Singh-Watson, Founder, Riverford Organic Farmers, quoting the reaction of one of the new co-owners to the establishment of the EOT in the firm. Referenced in a letterbox-drop newsletter about the recent transfer to employee ownership, circulated by Riverford Organics, 10th December 2018.

view the wider community as their primary frame of reference in the social space. In this respect, missionary drivers in founder identity are those that generate self-esteem for the founder by virtue of the venture being the embodiment of their aspirations, to contribute to the betterment of society at large (Gruber and Macmillan, 2017).

Founders made direct or indirect reference to having started their businesses with explicit social or political goals in mind. They had developed their business models and the services that they offered to their customers through propositions that were strongly driven by their personal values and beliefs. In this respect, they distinguished their services to customers as being value-driven in ways that were different to those that were widespread in the marketplace:

> *[This] is gonna sound a little pompous, but I want to change the world and the work we do around financial well-being; it's about happiness not money. F03*

> *I would like to make a world a better place. That is my main driver … I've realised right at the start that capitalism is wrong in a way … that it causes inequality … If you can give an opportunity for an asset ownership that can create real wealth that can move whole families in what we call in New Zealand 'Whānau', the wider family and improve and counteract inequality. I see as a way of changing the world. F07*

> *I'm in a privileged position to running a company that makes a difference to people every day. Many companies do great things, but actually does it really matter a jot to their customers, really? Well, it does for us. It's a very substantial part of what we're doing. F010*

Others founded companies that had less overtly political or social missions and were more 'mainstream' in terms of their service or product portfolio. Nonetheless, they viewed their business as being strongly value-orientated. They were keen to emphasise that their pursuit of profit was not at the expense of other values that they held and they were not solely motivated by maximising the economic benefits accrued through their business. Various statements were made that were intended to illustrate this point, where founders contrasted how they saw the 'right' way to be in business with the 'wrong' way. One described an example of poor business values of the type that were anathema to them:

By paying people late, suppliers late, ever so late … He was just boasting he was putting people out of business. Small firms, even slightly larger firms, and it incensed me. I thought; "That just isn't the way to do business. You don't do it like that." F09

Others described the importance to them of ensuring that their service was not compromised by maximising pecuniary benefits:

We make enough money … but that's not our focus. We're not looking at every job and seeing how much money we could make out of it, which is how a lot of companies work. F018

None of the shareholders are particularly money focused. I mean we're engineers. We do it, because we enjoy doing it, and the money is the bonus. F02

Irrespective of the nature of the services or products offered by their firms, founders who displayed strong missionary drivers saw a strong connection between the values that they associated with employee ownership and those that they had embedded in their venture. The examples below are from founders who had established a form of employee ownership in their firms at the founding stage. In the first two cases they were founders who had not yet established an EOT and were also still actively engaged in ownership and management, whereas the third had established a degree of employee ownership early on, and then consolidated it through the EOT with their ownership exit. Irrespective, they had considered it integral to their mission in business to share ownership with their employees from the outset:

The person that started a company took the risk. Sure. It's reasonable for them to claim 60%, but a 100%? Or 95%? It just seemed a little bit exploitative … I set up the company on that basis … that nearly half of the business was going to be owned by the employees … I'm not sitting and doing it on my own. From a moral perspective it seemed like the right thing to do, but also from a business perspective it seemed to make sense. F015

I had in my mind a sort of cooperative ideal right from the start … I didn't even know employee ownership societies existed. That was just sort of a way of doing business that I was interested in exploring … The model *that we've got at [our company] makes a huge difference to people's lives. F07.*

On day one, it was only me. I owned 100% of the shares… Am I gonna set up a conventional company? No, I'm not … I've been in these other companies and I've seen how things are done. I don't want to do it that way.... I want to have a company which is owned by the people who work there. F04

However, it was the advent of their impending exits from their firms that provided the catalyst for many of the founders to implement a formal programme of employee ownership through the establishment of the EOT. They equated collective ownership and profit-sharing through the EOT, whether implicitly or explicitly, as being aligned with the values that they had always pursued as the founder prior to their exits. In this respect, their transfer of ownership to the EOT was viewed in terms of its ability to ensure their legacy through the continuation of these values:

We have a very socially conscious ethos as a company and we've always had it, which is why it fitted with becoming employee-owned. F014

Employee ownership isn't really about ownership. It's about a culture of the way you do things in the business. We had that culture, and I wanted that culture to carry on. That was a great thing in this world. F04

This point was echoed by Alastair Sawday, the founder of Sawday's, who drew a direct comparison between the strong environmental values that were deeply rooted within his firm and the values of employee ownership. He described them as a "really good fit" that required little by way of value shifts in his firm arising from his exit and transfer.[70]

Amongst the research participants, there were those who described how their discovery of EOTs had 'struck a chord' with them as an exit solution. However, they found that, when discussing exit options with other business owners, their enthusiasm for employee ownership and their desire to see the integrity of the mission of their firm continue was not necessarily shared by others:

[70] Quotation from a presentation given by Alastair Sawday, at the EOA annual conference, 20th November 2018.

I was suggesting that there's another way and I'm looking at the John Lewis thing thinking surely people can just get on together. I was accused of being a communist, which I've ever been only a capitalist; that maybe the ideals I had weren't workable in the real world. F06

I was in a discussion forum and there were 6 or 7 owners at the table and they said, "what do you do to increase a value of your business?" They came to me first and I said, "I'm really sorry, but you've asked the wrong person." F03

Finally, there were founders who participated in the research who were putting extensive efforts into proselytising the merits of employee ownership to audiences outside of their immediate networks, with the specific purpose of promoting the concept more widely. They were doing so through a wide variety of activities, such as speaking and presenting at various business events, offering media commentaries, publishing books, and setting up 'blogs'. Founders that had explicitly established their firms with employee ownership as part of their mission at the outset stated that they had always been advocates of employee ownership as an integral part of their way of doing business. Others described having become highly energised by their discovery of the EOT model, adopting a commitment to employee ownership as a new 'mission'. They remained enthusiastic about this mission, despite some mixed experiences thus far in terms of advancing their missionary-driven legacy objectives:

Capitalism … it works brilliantly, because it works on the basis of self-interest and on the principle of shareholder value, growth, capital events and short-term thinking, but … I think that employee ownership might actually be the way to save humanity. F03

If you set up a system that you think it works, then other people might follow it and you can inspire others. It all might take you a generation; we'll play the long game. F07

I do think it's a great model. One of the besetting sins of our world today is 26 people in the world own the same amount as half of the people in the world. It's just completely against my morals. F014

One of the things in the trust is that that we should try to spread the EO word to other people. I don't think we're succeeding in doing that enough. They've become a little bit inward looking ... That's a disappointment to me intellectually. F012

8.4.2 Interpretation

The results of this section reveal the presence of a wide range of missionary-based drivers within the founders' motivations to establish a legacy from their exit through transferring their firm to employee ownership. In missionary terms, employee ownership was chosen to ensure the sustainability of the founders' distinctive sense of purpose and values. This sense of purpose underpinned the business models. It was expressed either through the distinctive nature of the services or products offered by the business or through the way that the business was organised in terms of shared ownership. For some, employee ownership had been an intrinsic feature of the distinctiveness of their business model from the outset. For others, the discovery of the EOT as an ownership replacement vehicle offered them the best legacy solution for the continuance of the missionary aspects of their firms' values in the market.

Those who emphasised missionary-based drivers in their desire to leave a legacy were distinguished from those who emphasised communitarian-based drivers in two notable respects. First, for missionaries, the continuance of the firm through employee ownership is considered to be something virtuous because it is best placed to contribute to the betterment of society, beyond the social community represented within the firm. Moreover, missionary-based drivers share with their communitarian counterparts a focus on 'doing business differently'. However, proselytising the virtues of doing so to the wider world is less about being part of an 'in-group' social community and more about being distinguished from the effects resulting from the 'out group' of Darwinian-driven approaches to business and society. Thus, the model of employee ownership is advocated beyond their immediate social community, as a wider redress to the dysfunctional and iniquitous outcomes in society arising from traditional business ownership approaches.

8.5 Darwinian drivers

8.5.1 Results

The third and final of the three typologies of founder social identity defined by Fauchart and Gruber (2011) are those drivers associated with the 'pure' Darwinian identity. This group is represented by founders who are primarily motivated by economic self-interest in their entrepreneurial endeavours. In this context, the firm exists so that business is conducted for the most part for financial self-gain, or the 'I'. Those with a strongly Darwinian social identity personify the entrepreneur evoked by the traditional 'business school' perspective (Fauchart and Gruber, 2011), i.e. an individual who derives self-worth by pursuing traditional business logics and who views the competition as their primary frame of reference in the social space. Darwinian drivers in founder identity are those that generate self-esteem for the founder by virtue of the venture being a vehicle that is primarily concerned with the maximisation of monetary wealth (Gruber and Macmillan, 2017).

In the event, one founder who participated in the research identified themselves in unambiguous terms with drivers characterised by the 'Darwinian' type. With respect to exit motivation and behaviour surrounding the EOT transfer, they were not legacy motivated but were concerned with financial maximisation. There was little or no interest held in the future of the firm following their exit, beyond the matter of ensuring that the firm was in a position to repay outstanding debts that they were owed. For this founder, the transfer of ownership to the EOT represented an exit outcome that was more financially expedient than any of the other exit alternatives available. It was exercised as the preferred choice because of its ability to enable the extraction of the considerable amount of cash held by the business on its balance sheet in a tax-efficient manner. The EOT transfer was viewed almost exclusively in terms of being a harvest transaction that crystallised and maximised the monetary gain available:

> *It was not an altruistic move on our part I have to say. The main thing was to get a tax re-cash out of the business and it just happened to be a nice way of doing it … I personally feel very proud of what I've built at [the company] and everybody takes a bit of credit for that as well, but ultimately I've got the cash out in a tax efficient manner for everybody. I say maybe 95% of the shareholders feel the same way. F013*

8.5.2 Interpretation

It is necessary to be cautious at this point with drawing any conclusions when there is a sole participant whose contribution accorded unequivocally with Darwinian social identity drivers. As described in Chapter 6, every effort was made to secure a sample of exiting founders from as many sources as practical, by reaching out beyond participants in known employee ownership networks to gain the widest a range of perspectives on the decision to transfer to employee ownership. Nonetheless, the research only uncovered one whose social identity-based drivers were unambiguously Darwinian. It can be speculated that such founders are less likely to participate in networks comprising members of the 'in group' who advocate employee ownership as a value-driven exit choice. As their drivers are focused on financial maximisation and self-interest, Darwinian-driven founder motivations belong to what would be seen by both communitarian and missionary-driven founders as the 'out-group' (Tajfel and Turner, 1979). They may, therefore, be more difficult to track down and be less willing to participate in research and speak about their motivations.

On the other hand, they will be less concerned with entrepreneurial legacy at exit since, unlike those whose social identity-based drivers are 'other' orientated, Darwinian drivers emphasise pecuniary self-interest. Thus, it can be speculated that there are likely to be far fewer Darwinian-driven founders in existence who have transferred their firms to an EOT. The nature of Darwinian social identity drivers suggests that EOTs would be considered at exit only when they represent the most financially expedient or lucrative option available. This situation may result from lower transactional costs, an absence of alternative buyers in the market, the exploitation of current or forthcoming trading circumstances, EOT tax benefits (i.e. as a (tax-efficient) mechanism to extract cash reserves, or a combination of the above. Otherwise, Darwinian-driven founders will make choices for their entrepreneurial exits, including business transfers, that are not legacy-based but will, instead, maximise their financial 'harvest'.

Table 7 provides additional examples in relation to Chapter 8 as a whole. It sets out further evidence for the founders' legacy orientation, in relation to substituting family business succession with employee ownership transfer and the presence of communitarian and missionary-based drivers.

Table 7
Additional examples: Legacy orientation through social identity

Substituting family succession	Communitarian drivers	Missionary drivers
My daughter loves business studies. She's doing A Levels at the moment, but realistically for her to take over the business ... she would be 7, or 8 years away and my son wouldn't be interested. F03	*It's a bit like a family thing really. They're sort of family. That will come into the discussion on why we've chosen employee ownership of course. F02*	*I love my business. I'm very proud of it. We've got a really strong sense of purpose. F03*
She's not yet got a work ethic. I don't know how long we'd have to wait for a 22-year-old daughter to be somebody that we would hand the business over to. F06	*I've been able to pass it on in a sustainable way to people who I know will look after it. F04*	*They do really good work in an area that benefits people in all kinds of ways. It makes money, turns the money machine around the community, all that living for whole variety of people. F09*
I've got kids who could and are that age, but neither my son, nor daughter, they just wouldn't be interested. They did come in and work in the business to get holiday money. None of them took any interest. F019	*The values are about people should be rewarded fairly and if the business is more profitable, then the employees' benefit ... It's just makes sense, doesn't it? It makes business sense. It's incentive. F019*	*We don't just sell cans of beans. We look after people. The reality is that most people are working in social care not for the money. Its fulfilment. F010*
None of them [younger family members] had shown the sort of the burning passion for [the industry] that I had done. F017	*Employee ownership was one of those options that I had considered all along, or some of our staff taking over the business, let's put it that way. F018*	*I'd seen different systems from around the world and I had a bit of a social conscience ... I didn't want to have run a traditional company where we're the top dogs and everyone else just was employees working for us for no real benefits. F07*
My children, they didn't have any interest in it. They're 21 and 22 now. Their interests are in different directions. If that had not been the case, then I might have had to reconsider. F04	*This is gonna sound rich, but it's a sense of satisfaction that we've done the right thing for our people. F06*	*One of our values is about sustainability. It's not a coincidence that I am a bit of an eco-warrior ... That's not just because it suits customers, which it does, but it's also because it's part of my personal belief system. F010*
My son would be fantastic in this industry, but he wouldn't work for his father. F02	*For years there'd been quite a healthy profit share even before we become employee-owned. So, becoming employee-owned fitted in exactly with our ethos. F014*	*That's a fundamental thing you have to have in your make up isn't it? You can't just do it just for the money, because there are things you have to do to give a bit. It sounds a bit highfalutin now, but anyway. F08*
One of my sons did work for the business and he was very good ... Then he decided he wanted to pursue a career ... more related to his Master's specialism rather than our stuff ... My other son is much more entrepreneurial and business focused. He could run a company, but he was firmly established in a totally different career. F014	*There are only three stakeholders for us. Shareholders are there, but they're not the ones we concentrate on. We concentrate on clients, staff and suppliers. F09*	*I have had contact with some very wealthy people in our time. I think it's fair to say in average their levels of happiness are no higher than anyone else's. F020*
	I think in recruitment as well, to have kept the people we have. That's great. F020	
	They stay because they like company and the way it's run. So, I generally get positive messages back. F02	
If all the shares were in his hands, history tells us that when	*I spend 5 days out of 7 at work. If I can help make that environment more enjoyable through the sense of shared*	*We hear all these terrible stories of fantastic technical start-up companies in the U.K. getting flogged off to Americans*

the business passes down the generations it only takes so many changes before something goes wrong. Just because mum or dad might have been very entrepreneurial and run a good business doesn't mean that a son or a daughter falls into the same. F011 *That would have probably done more damage to the business than it would have helped. I'd been better off adopting one of the people who are here. F06*	*ownership of us being in it together, that's a good thing for me as a boss. Hopefully that's a good thing for everybody else in the long term. F015* *It is the way of the world for some people, but all you can do is to make everything as open as possible, to engage them as much as possible and to use the language that shows them that they're in control as much as anybody else. F05* *Like a lot of employee ownership people, they were very generous both with the time and experiences and their openness. F011* *I go to quite a lot of the business conferences … This was very different. The whole atmosphere and ethos of the event was much more collegiate, much more supportive …. It had an energy that I really liked and for me that was the tipping point. Just going to that conference, seeing all other people that did it, feeling it was doable.F017*	*and Japanese. It's just awful. I don't think it's the right thing for U.K. PLC and I certainly didn't want that to happen when I put so much into it. F04* *I decided that the only way to change the world is to do it from inside the system … Employee ownership on an individual basis and as an employees' owners trust is perfect for that. F07* *My rose-tinted glasses bit of it, which is partly why I did it, has got slightly blurred, because you see the way humans are … to the way it was intended. F019*

8.6 Conclusion

The purpose of this chapter has been to establish the legacy orientation of the founders, in terms of the connections they made between their own values, beliefs and self-concepts and their decision to exit by transferring their firms to employee ownership. Its novel contribution lies in its finding that social identity theory, and specifically the typology of social identities put forward by Fauchart and Gruber (2011) to explain the heterogeneity of founder motivation at business start-up - 'Communitarians', 'Missionaries' and 'Darwinians' - provides considerable explanatory power in terms of the heterogeneity of the founders' legacy orientation at exit. This typology has been adopted in several studies of entrepreneurship. However, this thesis is the first to do so in relation to entrepreneurial exit and business transfer. It finds that communitarian and missionary-based drivers were widely present. These drivers oriented founder motivation towards creating an entrepreneurial legacy by transferring their firms to employee ownership.

In their typology, Fauchart and Gruber (2011) point to the existence of hybrid social identities, where motivations or behaviour may have an emphasis that is oriented towards one social identity, but they also contain elements of others. There were many examples of hybridity across the missionary and communitarian drivers uncovered by this research, given that both are 'other oriented'. In common with those who displayed communitarian-based drivers, employee ownership was also an exit choice focused on legacy creation for those with missionary goals. There were, for instance, participants whose missionary-based drivers oriented them towards employee ownership transfer. They were focused on making a social or political contribution to wider society, so employee ownership was not only concerned with fair treatment of the members of their social community, as with communitarian-driven founders, but also as a demonstration of how a more equitable and better world should be organised. By being 'other' oriented, both sets of drivers differentiate themselves from the 'out-group' (Tajfel and Turner, 1979) of business owners who display Darwinian-based drivers at exit, i.e. those who are primarily motivated to maximise their personal gain through a financial harvest.

Earlier, the chapter considered why the founders transferred their firms to employee ownership, rather than through the traditional mechanism in privately-owned SMEs of inter-generational transfer through family succession. In accordance with stewardship theory, both family business succession and 'employee buy outs' have been categorised in the literature as ‘stewardship exits’ (DeTienne et al. 2015). Such exits occur due to a sense of obligation and concern for others, beyond their desires to maximise their financial utility. This chapter finds that in some circumstances, founders turned to employee ownership as the 'next best solution' to a transfer within the family as a stewardship exit, because of the unavailability or unsuitability of their children as successors. However, it also finds that founders can reject family business succession as a stewardship exit. The research uncovered founders who actively chose to exit via transfer to employee ownership in preference. In some cases, they rejected family succession on principle as a legacy outcome because of their personal objections to bestowing privilege through inheritance. This is a novel finding that does not appear to have been identified previously in the extant literature.

Having examined the social identity-based drivers in legacy orientation as one of the three mechanisms specified that underlie entrepreneurial legacy imprinting, the next chapter turns to the second mechanisms - *stewarding* legacy - in terms of the behaviours and roles that founders adopt to bring the transfer to employee ownership into being.

Chapter 9: Stewarding Legacy: A role identity transition

9.1 Introduction

This is the second of three chapters that present the empirical findings relating to the mechanisms underlying the concept of entrepreneurial legacy imprinting. Its purpose is to examine the role behaviours and identities adopted by founders to achieve the transfer of their firms to their chosen legacy destination of employee ownership. Whereas the previous chapter addressed the research question by establishing the social identity-based drivers orienting the founders' legacy motivations, this chapter explores the stewarding behaviours and role transitions adopted by the founders to imprint their firms with a legacy of employee ownership.

This chapter describes how the founders approached the tasks involved with identifying employee ownership as an exit option and the various role behaviours they performed to 'steward' their succession towards their desired legacy outcome. As identified in Chapter 5, role identity theory has been extensively used in the entrepreneurship literature. It has examined the role transitions that occur when aspiring to become a business founder (Hoang and Gimeno, 2010; Farmer et al., 2011) and the roles that founders navigate when establishing and developing different aspects of their ventures (Cardon et al., 2009; Cardon et al., 2013; Powell and Baker, 2014; Mathias and Williams, 2018). However, role identity theory has not been used in relation to the behavioural roles that founders adopt in order to exit their ventures or secure their business legacy.

The chapter comprises four parts that each examine an aspect of exit role identity at play: first, it begins with a section that considers the 'exit effort' discharged by the founders to uncover and persist with employee ownership as a viable transfer choice; second, it examines how founders shepherded the EOTs into existence and financially equipped them, as newly formed entities, with the means to purchase the firm's ownership; third, it considers the impact of the founders' advancing age on being able to 'let go' of their firms, adopting a transfer role to facilitate an effective transition by aligning their interests with those of their employees and rescinding aspects of their authority. It closes by drawing its conclusions for stewarding legacy through role identity transition as one of the three mechanisms specified in entrepreneurial legacy imprinting.

9.2 Exit effort: resilience and persistence

9.2.1 Results

There is a considerable amount of 'exit effort' that needs to be expended by founders in order to achieve a successful exit (Soleimanof et al., 2015; Morris et al., 2018). The effort required is inevitable, time consuming and expensive (Morris, 2006; Leroy et al., 2015), involving many matters that are highly complex (Dyck et al., 2002; Salvato and Corbetta, 2013). It incorporates many activities, ranging from prospecting, identifying and appraising exit options to procuring tax and legal advice, making arrangements and putting business affairs in order (Soleimanof et al., 2015).

As one of the founders highlighted, the decision to undertake an exit through transfer to employee ownership brings with it a number of demands. Not only does it have to be weighed up as one exit choice amongst others, but there are many different options and formulations to consider in the type of employee ownership to be implemented:

> *It was a process rather than an incident moment. Choosing the EO route is not a 5-minute thing. It needs a lot of thought and a lot of homework before you made a decision and decide which is the best way to do it and there are so many options. F05*

As the ultimate decision-making authority in a firm, such matters can only be decided upon by the owner. However, for those who have only ever founded one venture, the exit experience is unique (van Teeffelen, 2010; Carbonara et al., 2019). Making these decisions requires knowledge and competences that are different to those typically built up by the owner through business ownership and management (Viljamaa et al., 2015).

Therefore, exit effort invariably requires the services of professional advisers, who become critical stakeholders in the process (Bruce and Picard, 2006; van Teeffelen, 2012).

Yet, the research findings reveal that when the founders approached their usual advisers to discuss the exit options, transfer to an EOT was rarely mentioned. A common theme that arose in the interviews was the low level of awareness amongst accountants, professional advisers, banks, colleagues and peers about the existence of employee ownership or what it entails. For instance, a founder described having actively searched for a succession option for some time, having had several conversations with professional advisers. He had attended a variety of seminars aimed at people in his position on the theme of arranging exits and selling business ventures. However, the possibility of an exit through transfer to an EOT had never been mentioned:

> *The conversations everybody was having with me focused upon the value of the shares, on capital events … Every advisor, every accountant, every solicitor, every single person who doesn't run a business was telling me things to solve my problems by way of sale of shares. F03*

Another in a similar position feared that, in the absence of an obvious individual successor in his firm, his only practical exit option appeared to be to close it down. However, to do so would have resulted in the loss of employment for his long-standing workforce, several of whom were older and would struggle to find work again. In the absence of advice pointing him to other choices, he embarked upon his own research into possible options, through which he uncovered the existence of EOTs:

> *I was completely unaware of this option even being available at the time. It was only my searching online to see what I could do to escape this conundrum that I came across the EOT. F02*

In a further case, the founder became aware of the EOT option after having spent several years attempting different ways to set up share ownership schemes for individual employees. He had become frustrated by the tax implications and the complexities involved. It was his desire to find an alternative solution that eventually led him to discover the existence of employee trusts:

> *It really became very difficult. Eventually, I'd heard of the employee ownership and I'm not quite sure where I'd heard of it. Maybe reading a paper … that there were possibilities, but I didn't know anything about it. F04*

Some referred to their interest in employee ownership having been provoked by the example of John Lewis, the U.K.'s most widely known employee-owned company:

> *I'd read the history of John Lewis. I'd read probably 4 or 5 books about employee ownership. I said [to a colleague] "This looks like a possibility to me. What do you think?" He's a bit reluctant, but he listened. F012*

> *[To his accountant} I'd like you to explore all possibilities, but I'd like you to explore employee ownership, because I understand it's why the John Lewis, well, I don't understand exactly how it works, or how we might do it, but I'd like you to explore that as one of the possibilities. F017*

In the event, founders discovered the option of the EOT as a succession vehicle largely from their own research and endeavours once they discounted other options. Frequently, founders only became aware of it from a chance conversation with colleagues or with other business owners. However, once the founders came across the existence of EOTs, they discovered that their professional advisers knew little or nothing about them:

> *I phoned our bank manager and said, "Do you know any companies that have gone down the route of employee buy-outs and employee ownership?" and he said "Oh, yes, we know." Yeah, he didn't know, he just knew one company that had talked about it. F02*

> *I'd never heard of an Employee Ownership Trust before. I didn't know anything about it. And embarrassingly my accountant didn't either. F08*

Moreover, several went on to describe that their professional advisers were not only unaware of the option but counselled against the idea, when the founders suggested that EOTs could be the solution to the exit and succession strategy that they had been looking for:

At the time, the accountants they said "Wow! I'm gonna advise you that won't be the best thing for you to do." I said "Well, that's what I'm gonna do". F04

I just thought "This is it! Bloody brilliant", so went back to the accountant and said, 'This is what I wanna do." We'd had the company valued by now as well by three different methods. And he's saying "Look. You should sell the company. Don't do this. You're not gonna make as much money." And I'm saying "I don't care. I want to do this." F08

Indeed, finding that the first reactions of their current professional advisers ranged from ignorance to scepticism and hostility was a common experience. Founders had to insist to their advisers that they set aside their opinions and look into the matter further. One described how he had had to correct the advice he received from an adviser when he first suggested a transfer to a trust. Having investigated the matter himself, he discovered he already knew more about the tax treatment of EOTs than his accountant:

My accountant said, "I think there are implications with that, because the shares in the business, when they go to the staff, they'll get taxed on them, so that's an issue." I was saying "but they'll be in trust, they won't own them directly because when they leave the company they won't have them anymore." And my accountant didn't understand it. And my accountant is telling me why it can't work. And my accountant has always been very good at telling me why things won't work. F06

The situation was markedly different when founders were able to access professional advisers that specialise in employee ownership. Often, they did so as a result of word-of-mouth referrals from business contacts and colleagues. This process sometimes led to a discussion with company founders who had completed the process, which provided the impetus to pursue the avenue further:

A tax boutique we had done some work with said they couldn't really help us but they knew a man who could … and immediately I got a vibe that they knew exactly what they were talking about and could help us though an effective transaction quite smoothly. F013

> *They [another company founder] said "we had some very good advisers and they've explained what it was really about" … so I then I call them and had an interview. We got someone down and they talked through it and it just felt right. It felt exactly right. F02*

Others initially accessed specialist advice after contacting the Employee Ownership Association (EOA). Whereas some contacted the EOA once they had found the specialist advice that they needed, others did so first. Contacting the EOA proved to be both an energising experience and an important source of information and guidance. By doing so they were able to access various specialist services, whilst being introduced to advisers who possessed the specialist understanding that they had been looking for:

> *{The EOA] have been very fundamental. Other professional advisors who we had involved, we had corporate finance. We had our accountant. We had [specialist] solicitors and we had the EOA. So the EOA pointed me to the right people. F08*

Founders also referred to their attendance at networking events that are organised by the EOA, which include its annual conference as well as its regular programme of regional seminars. They reported that these events were particularly useful, as they facilitated access to other companies that had made the transition from being founder-owned to employee-owned:

> *I went along to one of their regional meetings and that was an absolutely hallelujah moment. I found employee ownership which gave me the final part of my jigsaw … I was literally, walking out of the room, decided to start the Employee Ownership Trust. I literally, that day, went to and said to my wife "I found the answer." F03*

> *I then got my tickets to the Employee Ownership Association conference where I then met an awful lot of people who have done this already. At that point you realise you're unstoppable because there's a path that's already been, well not very well walked, but actually exists, that's not all through abracadabra now. I actually see where I'm going. F06*

9.2.2 Interpretation

Founders that wish to exit their firms, yet also wish to ensure their continuation, face an environment with incomplete information about the possible options (Morris, 2006). The findings in this section reveal that the founders had to undertake considerable 'exit' effort as part of the role identity that they adopted to steward their firms towards a succession solution that was consistent with their desired legacy outcome (Soleimanof et al., 2015; Morris et al., 2018). This exit effort comprised, first, the discovery of employee ownership transfer as a viable and ultimately a preferred option and, second, being persistent and resilient in its pursuit in the face of considerable doubt and discouragement from their professional advisers.

The possibility of transfer to employee ownership, and specifically doing so through the vehicle of an EOT was not initially known to the founders. More surprising and, perhaps, more significant is that this was also the case amongst the professionals that initially advised them. Conventionally, when seeking assistance with exit effort, business owners initially turn to the same advisers they use for other affairs (Howorth et al., 2004; Bruce and Picard, 2006; Strike, 2012; Michel and Kammerlander, 2015). These are, primarily, the firm’s accountants, followed by lawyers and bank advisers (Halter et al., 2009; Nicholson et al., 2010 in Strike, 2012). However, founders generally discovered the EOT option as a result of their own endeavours, or though the serendipity of a chance conversation.

The lack of awareness and understanding of employee ownership held amongst professional advisers is described as the first barrier to the greater take-up by the EOA (2018). Professional advisers are familiar with family business succession processes (Strike, 2012) and can provide expertise and new insights for the benefit of both incumbents and successors (Salvato and Corbetta, 2013). Information asymmetry and agency costs are lower than in external transfers because the latter commonly leads to greater goal divergence between the parties (Michel and Kammerlander, 2015). Therefore, family firms rarely need to seek specialist succession advice beyond that offered by their usual advisers (Bruce and Picard, 2006; Halter et al., 2009). However, unlike in instances of family business succession, using specialist professional advisers was commonplace. Even though the EOT transfer was seen by the founders as an 'internal' affair, they became reliant upon advisers who were specialists in employee ownership, rather than their regular advisers, to successfully achieve their exits and transfers. This situation has more in common with the situation in company mergers and acquisitions rather than family business transfer, where specialist consultancy services are normally required (Halter et al., 2009).

Traditionally, business owners place a premium on the value of the advice they receive from professional advisers with whom they have long-standing and trusting relationships. This can often survive negative perceptions of the advisers' performance (Kautonen et al., 2010). Nonetheless, the analysis finds that founders encountered widespread ignorance and scepticism on the part of those to whom they first turned for advice. According to the resource-based view, the additional resources offered by professional advisers should be an asset to the process but, as predicted by agency theory, advisers can prioritise their own interests when acting as agents in the transfer process (van Teeffelen, 2012). Thus, founders had to demonstrate a considerable degree of resilience and persistence in their role transition to overcome this situation. It was not until they were able to connect with others who were knowledgeable or experienced about the process - such as the EOA, other founders who had been through the process, or specialist professional advisers - that they became confident about expending their time and resources to take the process further.

This finding offers support for Michel and Kammerlander (2015) who state that it is only when trust enhances the relationships between incumbents, successors and advisors that the benefits of advisor involvement are likely to outweigh its additional costs. It also supports the conclusions of Kuhn et al. (2016), who find that founders make substantial use of informal advice and recommendations from their peers, including those with whom they have had little or no prior contact, particularly where they do not see one another in competition.

9.3 Financial Shepherding

9.3.1 Results

Having made the decision to go ahead with the transfer to employee ownership, the founders commissioned advisers to arrange the establishment of the EOTs. As the research revealed, the EOTs did not exist beforehand and were set up specifically for the purpose of transfer. Consequently, it was necessary for the founders to adopt role identities that created provisions for the EOT to be financially capacitated to purchase the firm.

In particular, it was necessary to establish the 'sale price' that the EOT would have to pay for the purchase of the shares. There were no exogenous or third-party buyers with whom founders negotiated the terms of sale. Instead, the value of the shares in the firm used to set the transfer 'price' was calculated through a separate valuation exercise. This was typically undertaken for the founder by the firm's accountants or by specialist accountancy and tax advisers. Founders were keen to stress that this process resulted in a 'fair' valuation.

At the same time, they also took the view that the sale price used to govern the transaction was effectively discounted to the benefit of the EOT. One of the founders explained that it was justified to consider that the sale price operated at a discount. For instance, various factors that could have been considered in arriving at the valuation were waived, effectively leading to an indirect discount:

> *We came up with the fair evaluation, which although we didn't discount the price as such, it is effectively discounted because we're not paid for a long time, and there's inflation and everything. And there's a most significant risk that you don't get paid. F019*

Others stated that the transfer to the EOT was priced at a discount by virtue of it not being the most lucrative option available. The founders stood to make considerably more money or be paid on more favourable terms had they taken the sale of their firm to the open market:

The fact is that the way we're structuring it we certainly would have sold the company for a higher price externally - and I would receive the money upfront. F010

Some founders went on to indicate, in quantifiable terms, the extent to which they considered themselves to have discounted the value of the firm for the EOT transfer. In some instances, they compared the sale price that they used to the outcome of the estimates that had been conducted to establish the firm's market valuation:[71]

We were advised … that the business was worth £48 million on these two independent evaluations and we had assets of around 40 million, net assets. … But basically we sold the business for £40 million, which was the asset value. So there's a 20% discount. F017

We went to a third-party accountant. He valued this company at arm's length. Told us how much it's worth and it was something like, let's say, £4.50 a share. Then we had to have a shareholders' meeting where all the shareholders came and I said, "What about £3?" You know, let's be fair to the company. F04

Once the founders had completed their valuation exercises and settled upon the sale price that would govern the transaction, they also had to address how the EOT would be provided with the necessary financial means to purchase the shares. EOTs are created to purchase all or most of the shares in the firm and, therefore, to assume majority control. However, they start life with no funds of their own, nor any initial assets they can use to provide security to borrow the necessary funds to acquire the equity.

Therefore, the use of 'deferred consideration', or some variant of it, was a near-universal feature of the financing arrangements put in place by the founders to facilitate the transfer to the EOT. 'Deferred consideration' refers to a situation whereby some, most or all the money owed to the founder from the transfer is not paid up-front. Instead, the balance of funds owing to the founder for the purchase of their equity is financed from the firm's future profits. As such, deferred consideration acts as a form of debt that is paid back over time, according to a payment schedule set out in the purchase agreement. From the date that the ownership of the firm passes to the EOT,

[71] In the Financial Times (18th July 2019), for example, it was reported that the Founder of Riverford Organic Farmers, Mr Guy Singh-Watson, transferred his firm to an EOT for £6m, after KPMG had valued the firm at £22.5m.

the relevant proportion of the profits (i.e. between 51% and 100%) that are now in the ownership and control of the EOT are, in turn, used to pay the founder for their shares:

> *It's magic money. It's money that doesn't exist. It's because the vendor doesn't need to … well, it's not money that exists. It's all deferred consideration. F06*

> *We have a repayment schedule, but you know it can be nothing. So in theory, it is 7, or 8 years. 70% has been sold to the trust. The net result is that's now 70% EOT, 25% me, 5% my wife. F03*

In almost every case, founders received an element of the sale price in terms of cash paid up-front. Therefore, not all the funds owed to the founder from the settlement were deferred. This arrangement was possible either because the founder personally lent the EOT the funds to pay them 'back', or the founder arranged for their firm to lend money from its cash assets to the EOT which, in turn, used this money to make an initial payment to the founder:

> *100% of the shares of [the] company are owned by [the] employee ownership trust. My wife and I lent to the trust of the company. So basically they owed me and my wife a couple of hundred thousand pounds. We were bought out by the trust company with the money I lent the trust company. F01*

> *There wasn't any bank money in there or anything like that. We didn't want to do that. … Money makes the world go around … we'd decided to build up a cash pile. … On the day when we did the transaction, we had enough money to pay half the value of the shares and the previous shareholders essentially entered into a loan agreement and would be paid out over the next 6 or 7 years for the rest. F04*

There were also examples where founders part-enabled the EOT to meet the requirements of the transaction by providing it with an element of the required cash alongside the loan finance. They did this on favourable terms, either in the form of a direct donation, or through beneficial interest terms on loans, or by waiving the interest due on the loans altogether:

> *I'd built up this pot, which enabled us to have a lump sum to start with. So it was minority shareholders within my family who we paid off initially, then three of us who owned the remaining shares. It's basically in effect a*

loan to the company from us and they're paying us out … The first bit, the tranche was paid, that wasn't a loan, but the balance what they owe, what they going to pay us, is over, I don't know how long it takes. F018

The trust was gifted money by the company and lent money by the former shareholders. I've lent the company money, half of the loan of my shares and they're paying that back. F04

Irrespective of the precise formula that was adopted, some element of debt-based mechanism formed the core of the various EOT transactions. However, founders had a quite different perspective towards the nature of these debts in comparison with private equity-derived debt. The latter has become a widespread method to finance the purchase of companies (Officer, 2007; Jaffe et al., 2019). In sales that are based on private equity, the debt is owed to exogenous investors, who simultaneously own the equity and use the company profits to both repay their debts and service the interest that is incurred on these debts. In the EOT scenario, as with private equity-backed sales, a debt is created to pay the seller and is in turn recovered from future profits. However, the debt is created by the founder and incurred by the trust, in order to 'internally' enable the employees to take immediate ownership of the firm, while repaying the debt through future earnings.

One founder stated that an additional attraction of EOT transactions is that EOT debt is shown differently to other forms of debt in the company's accounts. In private equity arrangements, the debt is shown on the company's balance sheet as a liability (owed to an external financier). However, the debt owed by the EOT is shown as an asset (owed to the firm) and would not, therefore, be detrimental of the company's financial standing.,

The company doesn't carry the debt, which is another important point. The trust is carrying the debt. There's a commitment from the company to the trust and it owns it so it could get its money, but the point is that the books don't show the debt … This is important because we've never had any debt. F08

In addition, founders highlighted that the financial mechanisms that they had agreed to that would facilitate the transfer to the EOT included in-built flexibilities in the payment, or repayment schedule. These arrangements were at the behest of the founder in question and were in place to cover eventualities such as a downturn in the performance of the firm, liquidity demands or other difficulties that the firm may encounter during the repayment period. Therefore, founders indicated that they had the discretion to support the firm by granting a facility to suspend or reduce payments from the EOT until it was better placed to resume them. This is unlike a typical bank loan or other forms of exogenous finance, where late payment or non-payment is commonly treated as an automatic default that can lead to sanctions or recall from the debt holder:

> *It means it's no stress on the company. The employees eventually own the company. Well they own the company now. I mean, obviously, the debt, but they can choose to pay off the debt whenever they like. … If the company doesn't do so well then the debt extends almost forever. F02*

Founders who provided preferential terms to finance the transfer transaction indicated that they were in a position of considerable material comfort. They had accrued wealth from their business success, through the profits that had been generated by the firm over several years. Thus, they were able, as well as willing, to wait for their monetary settlement to be paid, in some cases over a considerable period, in order to facilitate the transfer. Given their pecuniary standing, they were not dependent upon an immediate financial harvest:

> *We were just embarrassingly cash rich, in a company that is fortunate enough to have lots of money. F02*

> *I would receive it in 25 years. I'm not somebody that would drive a Lamborghini or buy a yacht. I've no desire to change the way I live, so what am I gonna do with it? … I don't think it made a difference to me at all I suppose. I'm not sure what I'd do with it all either. F010*

For many, it also meant that they were not motivated by a desire to maximise the financial value of their firm at the point of their exit. In addition to deferring their sale receipts, they were willing to transfer their firm to the EOT at a price lower than they could otherwise obtain for it:

> *You look at it you go 'Bloody hell, I don't need to be doing this. I'm alright now." That helps you make the decision where you stand back and you go 'This is the right thing to do". F08*

> *I'm at one level a terrible entrepreneur, because let's say they'd said; "Right, we wanna buy your business for 3 million pounds." And I don't want 3 million pounds. I am sure I could re-invest it and do lots of whatever. I'm quite happy with life as it is. F014*

However, founders also identified themselves as exceptions with respect to having accrued considerable affluence before embarking on the EOT transfer. They stated that, whilst their enterprises had been reasonably successful and profitable, as individuals they were not yet independently wealthy. Therefore, despite no longer having control of the ownership of the firm because of the EOT transfer, they were still at the point of being financially reliant on it to some extent. Thus, their future monetary well-being was contingent on the success of the arrangement and the ability of the EOT to meet the deferred consideration payments:

> *It all depends on what you consider you need in terms of passive income to be happy … One thing that does appears to be true whilst the lack of money can make you unhappy once your basic needs are met extra money doesn't really buy you extra happiness - unless you're extremely adept at spending it. F020*

> *I'm not wealthy man. I haven't taken that much money out. A lot of people who do EO do it when they have already made their pile. I haven't. So those payments over 7 or 8 years are bloody important. Actually bloody important doesn't even do it justice. Does it? F03*

Finally, founders referred to the extent to which their motivation was influenced by the tax benefit available to the employees of the company arising from their decision to take the EOT route. The 2014 Finance Act introduced an annual tax-free allowance of up to £3,600 per employee in relation to bonuses that are paid out by an EOT-controlled company. Founders were unanimous that, irrespective of the identity-based nature of their drivers behind their establishment of the EOT, the employee tax benefit acted as an incentive and was seen as a highly valuable feature of the legislation:

> *It [the tax advantages of EOT transfer} was only a driver in a sense that the attraction of the distribution to the employees was attractive. And that was a consideration. F012*

It's better psychologically for all the staff … The clincher for employee ownership structure was the fact that it's a nice thing to do. F013

Some considered that the beneficial tax treatment afforded to staff bonuses would provide an extra boost to staff motivation, enhancing the financial value of the profits to be shared amongst the staff once the EOT was established. Founders believed that this would provide employees with an additional financial incentive to make a success of the EOT arrangement. Adding to the monetary value of bonus payments through this tax benefit was welcomed by those who saw the transfer to the EOT as a reward for loyalty and commitment. It was also valued for its simplicity, being a mechanism that overcomes the complexities bound up in fiscal legislation compared to other schemes that offer tax benefits through share ownership for individual employees, whereby employees are taxed on shares that they come to own. Under the EOT legislation, the employees do not pay tax to receive the shares, since the shares are owned by the trust rather than individual employees:

I like to give some people some opportunity to do well in the life as well and you've got tax-free bonus part that goes to the staff. I think it sort of gives that payback back. F016

The finance bill included all these tax concessions to employees … The previous arrangement was that I personally could have sold my shares to the employee trust and I would just pay 10% capital against tax, but the people working with me would have to pay capital gains tax at the full rate, which didn't seem right. So that was a clincher for us. F04

9.3.2 Interpretation

The results of this section indicate that most founders wishing to exit the ownership of their firms through EOT transfer call upon their wealth or their personal position of financial comfort in the role identities they adopt to 'shepherd' the arrangement. This enables them to provide various combinations of discounts, loans, gifts, deferred consideration and flexibility in the terms of settlement. Founders created the trusts themselves and provide the newly-formed EOTs with the financial capability to purchase shares for the benefit of the employees, which EOTs could not have done otherwise.

Founders claimed that they financially shepherded the sale prices that applied to their firms through discounting. Many of the financial and technical arrangements that were deployed by the founders were complex and highly confidential in nature, requiring the services of professional advisers who specialise in legal and tax planning. Some aspects of these transactions, such as where company funds were used as EOT loans that are paid back to the founder(s) occur on terms that are monetarily more favourable than if the funds were withdrawn from the company by them as dividends.[72]

There is no single formula that determines the selling price in the open market for SMEs and privately held firms (Officer, 2007; Kammerlander, 2016). One common method that is used to establish a starting point for negotiations between the parties is to calculate a value based on a multiple of the profit figure posted by the firm in its annual accounts, averaged over a set number of years. However, many other factors are taken into account, such as liquidity, industry sector, type of business, future potential and prevailing market conditions (Officer, 2007).[73] The process of acquisition is also a social exchange between buyers and sellers, where long-term 'fit is often shaped by considerations such as employee well-being and the identity of the firm, as well as the price generated by the transaction (Graebener and Eisenhardt, 2004).

It has been posited that the sale prices of privately owned and unlisted firms are often discounted in any case, compared to the pricing of public firms (e.g. Officer, 2007), although a recent study finds to the contrary (Jaffe et al., 2019). On the other hand, discounts that are provided by business owners to their successors are rooted in non-economic considerations, with higher discounts applied where the successors are well known and trusted by the owner, offering a pair of 'safe hands' (Kammerlander, 2016). Moreover, founders pointed to the various risks that they were taking, given the prospect of a shortfall on repayment, as well as their willingness to be flexible while waiting for their money. It was the founders' contention that extracting maximum monetary value from the transfer of their business was not their priority.

[72] This point is referenced in detail at Chapter 9.
[73]Typically, firms are valued by specialists in order to establish a basis for negotiations (e.g. https://crownbiz.com/determining-the-purchase-price-when-buying-a-company/).

As such, these findings are consistent with studies that find that many seek the best succession solution, rather than maximization of sale price, particularly solutions that offer a good 'fit' for the employees (Graebner and Eisenhardt, 2004; DeTienne et al., 2015). Similarly, discounts are offered by founders to favour preferred internal successors in exit and transfer. Familiarity, knowledge and trust play a critical part in exit, since founders seek solutions that will continue to operate the business in a way that they approve (Kammerlander, 2016). Therefore, price expectations are a significant determinant of exit outcomes (van Teeffelen and Uhlaner, 2013) and 'emotional pricing' will result in the firm being sold at a discount compared to its market value (Kammerlander, 2016).

Finally, of particular interest in this study is that the EOTs, whilst acting as the 'buyers' in the transfer transaction, were newly-formed entities that were established at the instigation of the founders themselves. Normally, the terms of sale, including the price, is a matter for discussion and settlement between the buyer and the seller. Firms can be purchased through MBO/MBI arrangements, in which the original owners are the vendors and may also be part of the purchasing entity, thus being involved in both sides of the transaction (Howarth et al., 2004). Nonetheless, in the transfer arrangements to the EOT, founders' role identities saw them acting as both the 'seller' of their firms and as the creator, as well as the financier, of the entity that becomes the 'buyer' (i.e. the EOT). This approach appears to be unique amongst sale and acquisition transactions, as there is no clear and separate agency between 'buyer' and 'seller' prior to the transaction.

9.4 Making space for agency alignment

9.4.1 Results

9.4.1.1 Ageing and the impetus to exit

As with all individuals, an unavoidable factor in the life of any business founder is the eventual advent of advancing age, which eventually forces those who have not already done so to decide what to do with their firm (Zanger et al., 2015; von Bonsdorff, 2018). Although there is a lack of empirical research in this field (Morris et al., 2020), it is established that there is a positive relationship between advancing age and the willingness, as well as the intention, of the individual to exit their venture (e.g. Wennberg et al., 2010b; Battisti and Okomuro, 2011; DeTienne and Cardon, 2012). Studies have also suggested that factors such as the longevity of owner tenure, the size of the business (DeTienne et al., 2015) or whether the firm can be considered a family or non-family business (Chevalier et al., 2018) may be linked to the role played by advancing age in exit.

For most of the founders, the onset of advancing age was the determining factor that initially 'pushed' founders towards the need to consider their own exit which, in turn, led to the actual or planned transfer of their firm to their employees. The onset of advancing years meant they were more willing to make space to let go of the management of the firm and enable others to take over this role. In fact, almost all the founders described how their age was, to one extent or another, a factor that drove them to address the need to plan for succession:

> *Age. Yeah, as simple as that. F02*
>
> *It was existential, you know, I wasn't getting any younger. F04.*
>
> *We're all older people. We're not young. Not spring chickens. F05*

Recent studies of older entrepreneurs have drawn upon the psychological literature to demonstrate how, with advancing age, individuals place increasing value on emotionally meaningful goals and activities (e.g. Wainwright et al., 2015). For others, placing greater importance on aspects of life outside of their business often brings a degree of economic disengagement (Mallet and Wapshott, 2015) as their balance of priorities in life changes (Chevalier et al., 2013). Furthermore, owners of SMEs consider themselves to have the ability and authority to control the timing and nature of their exit or retirement (Forster-Holt, 2013; Chevalier et al., 2013; Morris et al., 2020). These factors were evident in those founders who stated that life goals outside of the business, such as spending more time with family or pursuing personal projects and interests, were a driver in their exit considerations:

> *Three and half years ago we had a granddaughter and I thought I don't wanna be at work all the time. I was fortunate. I did see my kids grow up a lot more than some people, but I thought she only lives around the corner. If I can't enjoy spending some time with her, then what's the point really? F014*

> *We decided "'Right, I would like to stop working at 60." … I don't wanna be working my nuts off. I don't mind working for the company, but I'm not gonna be working full-time. F08*

For others, age had brought physical challenges, which meant that they were no longer able to continue actively in their role as they had previously:

> *I was diagnosed with [health] problems so that was in part prevalent. I had done what I could do. I have, and I had, a limit. It was not in terms of I was running out of drive, or anything else, but it's ability. F09*

In addition, they recognised that, sooner or later, the roles that they occupied would need to be replaced and that they should make the space for others to take over to facilitate the future of the firm. Some had arrived at this point earlier than others (towards the age of 50 rather than 60 or above) for various reasons:

> *One thing that comes out of reading around is something called 'One More Year Syndrome', which is awful, just keep working another year: we'll have this much extra, be this much safer, we'll be this much more resilient against the future …. If we had the opportunity to consider perhaps retiring early that we should take it and if we didn't start to put things in motion we could very well end up wishing we had. F020*

> *[My partner and I] have plans. We both have parents that didn't make old bones. So we decided that from 50 to 60 we would explore the world. If we could from 50 to 60 go and do some of those holidays that we'd be better off doing before we're be 60 than after we'll be 60 particularly if we don't make 70. That would be a good thing. F06*

Others embarked upon the EOT arrangement, in part, as they had no obvious ownership successor. Often, their senior management members were unsuitable as they were also ageing, having been their colleagues together in the firm for many years. Together with their own advancing age, this provided a further impetus to consider their succession and the destiny of their firm:

> *We were tasked to create a 'Business Legacy Plan'. Of course we all hope to live until we are 101 years old, but this very much served as a wake-up-call to the knowledge that the founding owners won't be here forever. F06*

> *I'm 65 today and I don't have any intention of giving up work, but there needed to be some plan and people were asking within the business "Well, what you're gonna do?" "What is he going to do?" "What effect is it going to have on us? Are we gonna be working for some international group, or something like that?" F011*

One of the key informants provided an example of the relationship between the advancing age and retirement of an individual in business and their exit route. The example is intended to illustrate the difference between a founder who owns a firm and a senior practitioner who has operated their career in business through a partnership structure:

> *"When a partner in a partnership retires, they just retire, but when a founder is looking for some kind of exit they have to think about their equity, so employee ownership is attractive from that point of view."*

9.4.1.2 Leadership role transitions

As described in the profile of the research participants set out in Chapter 7, most of the participants had exited the majority ownership of their firms but still retained some level of management, functional or governance responsibility in the business. The interviews revealed that the founders held many different perspectives on the relationship between their ownership exit and management succession. For instance, there were founders stated explicitly that despite their ownership exit via transfer to the EOT, they had no intention of exiting from their leadership roles in the near future. Instead, they intended to continue to steward the firm from the management position that they currently occupied:

> *I don't see it as my exit as a leader, I see it as my exit as an owner. We have talked about recruiting a Managing Director [but] I'd be quite tricky to work for having been MD for 23 years ... I have a very clear view what the company should be doing and of course it's not necessarily a very attractive position for a Managing Director either. F010*

> *It was never intended as an exit strategy. I'm only 51 ... I've got no intention of leaving the business. It was the way of exiting being a shareholder … because I've got nothing to do with them [the shares] really. I've got no one to leave them to, so what's the point in keeping them? F01*

Founders viewed their management and ownership roles, and their exits from each, as separate matters. They had decided to exit the role as the majority owner because they envisaged that the business would benefit from more widespread distribution of the equity in the firm. They foresaw enhanced staff retention, more employee engagement in decision-making and greater commitment from their employees as a result.

A different group had, to varying extents, already separated out their ownership and management roles before the EOT transfer. During the growth and development that had taken place in their firms over the years, the founders built up leadership teams and assigned management successors. Correspondingly, much of their 'management exit' had been partially or fully secured before the EOT transfer. They were focused instead on the roles that they need to perform to enable their ownership exit and facilitate a successful transition in terms of the legacy succession:

> *I truly am non exec and I absolutely keep it that way. I'm supporting the CEO and I coach the exec of the company and I'm responsible for governance and so on and so forth. Notionally two days a month, but it always works out to be more than that. F09*

In these circumstances, they no longer considered themselves to be indispensable to the firm's operations. Instead, they remained in management and leadership roles, notwithstanding their exit intentions, largely in order to support the ownership transition by using their experience and know-how to support the post-exit arrangements:

It's up to me really. I could just walk out tomorrow which I couldn't have done before, and that's the difference really. We could just walk out and say, "Here you are chaps you're on your own now, you should sort out what you gonna do", whereas we couldn't have done that before. F018

Nonetheless, some felt that irrespective of who much they delegated their management roles, as the owner they would always feel responsible for their firms. Consequently, they were fully prepared to relinquish the sense of responsibility that they felt was intrinsic to their ownership of the firm and pass it on instead to others through their exit and transfer to the EOT:

It's a lot of responsibilities on your head. How many managing directors do you know who go on holiday and don't take their laptop with them? It's always there, isn't' it? And that's in what's great for me ... I just don't have that responsibility anymore. F04

The bottom line was it's not the money. It's not the doing the work. It's the responsibility. It's knowing, every night, for 20 years that 34 people depend on you for their salaries ... it is very stressful and that's with you all the time. You don't ever, as an employer, get rid of that. F08

By contrast, there were those who continued to perform their organisational management role as they had previously as the 'owner manager'. It had been their intention, as well as their expectation, prior to the transfer that their staff, now being in possession of the firm's ownership would 'step up' to assume greater management responsibility. This would enable the founders to 'step back' and exit more completely or retire. However, as one key informant, who specialises in organisational leadership transitions in EOT transfers pointed out, this process does not happen automatically. In his experience, founders tend to concentrate on the legal and financial elements of the EOT transaction. However, they attend insufficiently to the cultural and behavioural dimensions that are intrinsic to leadership transfer. He added that "*transferring to employee ownership and succession are not the same thing – even if that is the reason it is being done."* Indeed, several of the founders described how they were still at the helm of their firms to some extent:

People then pointed out "…Who's gonna manage the business if you leave?" Obviously, there is a trust and trustees, they don't manage the business, who day to day is gonna manage it? I just keep saying that employee ownership was a very neat solution for the ownership angle of the business. It wasn't a solution to the management aspect … So that's one of reasons I'm still struggling with completely exiting. F014

I'm not exited entirely. I'm still involved, but to a far lesser degree … Oh, it's tough actually. Sometimes I wonder if I've made the right decision because sometimes I have to be a bit more involved than I want to be because there are some aspects where my skillset is the only place where those skills are. F05

There were those for whom the retention of a leadership role in the venture was an on-going situation with no immediate end in sight. For others it was intended, and in some cases formalised, as a time-limited role transition, while they were 'winding down'. One group felt strongly that it was important to recognise that, ultimately, this process would need to come to an end. Consequently, a fixed and time-limited transition was a key plank of their plans. Many were also attempting to strike a balance by exiting from firm ownership whilst using their experience and knowledge to support the transition. However, they were wary of being involved too closely in the business in case it was counter-productive to their exit and legacy objectives. They believed it to be legitimate to facilitate the transition at the present time, whilst they still had a financial stake in the well-being of the firm. However, at the same time they wished to limit the extent to which they should expect to have a say on the longer-term future of the firm, or continue to be able to influence matters:

In 5 years' time when they've paid us off, they could collectively decide that they wanted to move the business on and then they could make that trade sale we didn't want to. I think we can't control it from the grave; we can only control it so far from where we're sitting, which is giving them the next 5 years of continuous employment. F06

On the other hand, there were those who were not working to a fixed time frame. They were still active in the business, encouraging staff to take on more of their roles and responsibilities but leaving open the question of when they would finally and fully step aside. Their expectation was that the employees would be progressively more motivated to make the company sustainable and profitable. If the transfer were to be a success, the staff would own the firm for their own benefit, while the founders would benefit by seeing it continue post-exit in the way that they wanted:

> *Did we want the trust to own 51% of the shares? Did we want to own more? What percentage did we want to end up with? Obviously, there is whole gamut of pros and cons to each, but the key thought behind it was aligning the interest of the employees and the interests of ourselves. F020*

One founder believed that he needed to continue in his position as CEO because the firm was not yet ready to fully stand on its own two feet. He drew an analogy with having raised his own family:

> *You're always a parent of a child, aren't you? I've got two kids who are 31 and 29, or whatever, but they're still your kids, aren't they? They still finally say "What we ought to do about this dad?" I suppose I look on the company now much more like a nearly mature adult almost capable of doing its own thing, whereas before it was your child, now it's probably 20 something ... They've probably got no great experiences and they haven't got a lot of money. F014*

However, perspectives such as this were rejected by founders who, while also using parenting analogies to describe the dynamics of transition, did so in different ways:

> *One of the employees said to me ˝Oh, you're like our father. You keep an eye on it all you know and make sure everything goes right" and I thought ˝No, this is not what it's about.˝ ... It's not about a paternalistic structure. ... A lot of the EO organisations still have the former owners in the background as a sort of comfort blanket ... Sometimes they're still quite dominant and I didn't feel that was the right way to go. In the end the reason I packed in altogether as I felt that I was getting in the way. F012*

> *If I go in too much and I'm present, then it's funny. It's like children. Suddenly they're "Oh, can you show me how to do this? Can you…?" I stay away for that reason. F05*

There were founders who considered it necessary to exit completely from both ownership and management in the firm. They believed that being involved in either capacity would inhibit the new employee owners from assuming full responsibility:

> *I don't have a key to the front door anymore I don't think. You've got to pass on the mettle and get out of their way. The worst possible thing when you're talking to founders is the founders who get in the way. "You see I wouldn't have done it that way." Just shut up! People have got to do it their own way according to their own personality and experience. F04*

> *If I go the 51% route, I wasn't really giving it up. I still hold on to control. I was holding onto it and actually I didn't really want to hold on to it. I always wanted to enable them really. I don't think you can do it and say, "I'm giving you effective control, but only just and I'm still taking a big, big chunk out of it." It's all or nothing as far as I'm concerned. F05*

There was a mixed picture at the time when the interviews were held with respect to the extent to which the role transitions that had taken place since the transfer to EOT ownership had met the founders' expectations. On the one hand, there were those who had either fully or largely exited from their operational functions in the business. Where they were involved, it was likely to be in leadership coaching, support or governance roles. They saw their continuing involvement in the firm largely in terms of adding value and facilitating an effective transition, where their experience or expertise could be of benefit. In such instances, the founders concerned were invariably highly satisfied with the outcomes that had been achieved. On the other hand, there were others who found themselves more involved in the running of the firm than they had either anticipated or expected. Amongst this group, they held a level of disappointment towards employees who appeared to be ambivalent about their new status as co-owners and had struggled to meet the founders' expectations.

One key informant interviewed for this research, who had acted as a professional adviser in many employee ownership transitions, made the observation that, in this respect, founders sometimes had unreasonable expectations of behavioural change. He stated that "*Command and control SME owners often call for the new ownership to operate differently to how they did."* Nonetheless, founders considered ownership by an EOT to be a concept that was relatively novel for both themselves and their employees and would, therefore, take time to fully settle down. It was generally expected that the post-transfer ownership and management arrangements would be accompanied by a set of new challenges:

> *It's taken a while for them to get to grip of this whole concept … I've spoken to other companies that have been in this process for longer than me, some never take that on board, and they always see themselves as employees [but] I think it takes about a year or two to settle in for people to start treating it as if they were the owner. F05*

> *I needed to reiterate the point that the trust doesn't run the company. The operating board does that and the exec in particular and it's a difficult concept … You only go with the trust if there's something that really should be happening and it's not. F09*

However, the one participant whose exit was primarily driven by 'Darwinian' perspectives (see previous chapter) decided to leave the firm after the sale once he found himself in a situation of conflict with some of the new EOT representatives. The absence on his part of any legacy objectives meant that he had no desire, nor any incentive, to remain with the firm once he had 'cashed in':

> *I've got enough money in the bank not to have to worry about arguing every day. So, effectively, I've negotiated a deal to leave the business. It's sort of related to the Employee Ownership Trust in my view psychologically. It had a big effect on that … so that's why I'm throwing the towel in. F013*

This aside, founders were largely satisfied in overall terms with the outcomes of the process as they had experienced them so far, regardless of their perspectives and irrespective of any reservations that they held. They were encouraged by being able to point to various signs of change in their organisation where their employees had started to respond positively to the transfer of ownership:

> *I want to try and get that link between it's theirs, it's an attitude of ownership we're calling it. I go into meetings now and customers, they love it and they go "'What's it like just to be an employee now?" and I'm going "I'm loving it." You know? Because it's his problem now, then I point to the other staff in the room. F08*

> *It's been brilliant having them challenging, because they keep challenging about things and now they are pushing us to be more ambitious, to have more of a plan, to go for growth, because they see that there's fantastic opportunity in the company, but they acknowledge that it's probably not appropriate or right that I could do that, because I'm trying to* exit. *F014*

9.4.2 Interpretation

According to Wennberg et al. (2010b) ageing owners are more likely to sell their firm to capitalise on their assets, whether the firm is profitable or, in distress conditions, to secure its residual value, rather than lose it from liquidation. DeTienne and Cardon (2012) find the intention to liquidate the business, for instance, is positively related to the owner's advancing age and that older entrepreneurs are more likely that others to consider an 'employee buy-out'. However, this is contested by Battisti and Okamuro (2011) who find no such associations. Whereas the owner's age is important to determining their exit timeline, they conclude that it makes the actual achievement of a sale less likely. Moreover, they also conclude that the owner's age does not in itself affect their intention to exit by selling the business.

In this research, advancing age was commonly stated as the main factor that 'pushed' the founders into new role identities to attend to their succession. However, there was little evidence that, by itself, it was the principal factor in choosing employee ownership over other exit options. This finding would appear to concur with Battisti and Okomuro (2011) in terms of the relationship between age and the exit choice. However, if EOT transfers are treated as 'sales', the research offers support for the link posited by Wennberg et al. (2010b) between advancing age and the increased likelihood of a sale. Otherwise, the existence of pressure from family and peers being a factor in the decisions of entrepreneurs to retire, found elsewhere in the literature (e.g. Forster-Holt, 2013) did not emerge as a theme in the interviews. Instead, in accordance with Morris et al. (2020), the founders considered their exit decision to be theirs alone to make.

Prior research in identity theory tends to suggest that the role identities that founders possess when launching their venture are enduring (Cardon et al., 2009; Farmer et al., 2011; Murnieks et al., 2014). The nature of this identity and the strong connections they develop towards their firms over time from psychological ownership (Cardon et al., 2005) requires that they disengage psychologically in order to successfully exit (Rouse, 2016). Founders also facilitate their exits through emotional disengagement from their ventures, which positively affects stewardship exit strategies, including employee buy outs (Afrahi and Blackburn, 2019).

However, in this research, founders remained fully engaged with the process to facilitate their own exits and the succession of the business into legacy. The discovery of employee ownership appeared to provide many of the founders with a new impetus and renewed sense of purpose. They made rational and planned decisions about which of the roles they held formerly to give up and hand over to others, which roles to retain, and which new roles to adopt in order to support the process of exit and transition to the EOT. Founders held a wide range of perspectives in terms of how best to adapt their role and functions within the firm to facilitate the transition to employee ownership. Nonetheless, they were willing to undertake various arrangements, notably by shepherding the financial arrangements. They also willingly adopt a 'transfer steward' role identity within their organisations, manifested by behaviours whose objective was to steward the firm towards their chosen legacy outcome. This finding is consistent with recent studies that suggest that founders are prepared and willing to adopt role identities that are salient to their requirements at different stages in the lifetime of their involvement with their ventures (Powell and Baker, 2017; Mathias and Williams, 2018). It also provides further explanation for the thesis finding at Figure 12 in Chapter 7, in that ownership exit and management exit operate on different trajectories that are related to, but distinct from, one another.

Table 8 provides additional examples in relation to Chapter 9 as a whole. It sets out further evidence that illustrate the exit effort, financial shepherding and making space to align agency as founders adopted to their role identity of ‘transfer steward’ in the transition of their firms to employee ownership.

Table 8 *Additional examples: Stewarding Legacy*		
Exit effort – persistence and resilience	**Financial shepherding**	**Making space for agency alignment**
I went to see [my accountants]. They were moderately helpful ... they had very little experience of employee ownership. F011 *Actually we talked to one or two banks. They were completely hopeless. It's a non-starter. F04* *I said, "What's that? Tell me more." They said "Oh, you get a trust and it does this and that." I said "Well that's what we're looking for. That's what I've always wanted. It's something where the guys can get it and there's a mechanism. F08* *I remember saying to my mum at that time that I had enjoyed my time at John Lewis, Waitrose and thought that their business values were very good. F017* *We went to an employee ownership seminar run by John Lewis for their suppliers, because we supply for them. Met an accountant who then took us through the whole process. F01* *Some of the big consulting engineers Mott MacDonald's, Arup are also employee-owned, which gave me some confidence, ... the kind of people who are less interested in profit margins, they're more interested in service. F018* *We spoke to several advisers and I've also read about the solution. We spoke to a lot of big accountancy firms, medium size accountancy firms and turns out that nobody had [experience of] conducting any*	*We heavily discounted the MBO shares on the basis that they weren't getting control. And so they had 70, 75% discount on their shares. F08* *We weren't going to get a maximum value out of the business. We undertook two independent evaluations ... if we were going to go down the employee ownership route, we were going to get a significant discount to that value. F017* *Effectively the business is worth £3 million. I figured out you could effectively take whatever percentage you sold at, 60%, of that over the period of time depending if the business could afford it. F016* *The repayment schedule ... it's really not difficult. It's actually set ... in order they can also have bonuses themselves during that period. F03* *The whole agreement needed to be doable ... Essentially what will happen is the trading company will give the trust various monies. The trust would then give those to me as the deferred consideration. F011* *Obviously I've done very well at the end of it. It's made my life quite comfortable and the rest of my life will be comfortable. F02* *We had £40million of assets. We borrowed £20 million against it, and the company used that money they'd*	*My wife had always said that she wanted me to retire early and she and my GP concocted a scheme where they thought I should retire at 50, which seemed to me to be miles too young. I said I'd aim for 55. F017* *When's the good time? I'm 56 - would it be better if I'm 66? Or 60? Or...? I don't know. F010* *[After] ... years of extraordinary effort you can't go on forever doing that and I was getting older. F019* *We were getting of a certain age. I was heading for 65 and my brother, he's two years younger than me. F012* *It's probably something I am happier doing as I approach 50 than if I was approaching 60 ... I've still got a life to go to. If I was handing it over and going home to wait to die, that would be very different to the life I've got ahead of me. F06* *The business is a wonderful thing, but it's also a bit of a burden, a lot of responsibility. F019* *As opposed to this kind of slightly exploitative, traditional relationship. ... I will enjoy the journey, because there won't be the normal, adversarial relationship between the owners and the workers. F015* *It takes all of your life, doesn't it? ... If you start being away for two weeks it starts to get complicated. F014*

transactions of a similar nature. F013 *I researched and read about the EOTs and approached, through a recommendee, another company that has gone down this route. F016* *The EOA were very helpful. Really, really helpful, and this list [of advisers] that we used was fantastic, was really good. F014* *I've learned from these people [the EOA]. They've produced some excellent documents and I spoke to all the people who really knew what they were talking about. So I knew that a trust model would be a good model. F04* *I came across the EOA and the idea of the trust and I thought; "Oh, wow, that sort of solves my problems, because no-one owns the shares. There's the trust that owns the shares." There's no individuals who are involved, but it is still their business. F014*	*borrowed and gave it to the trust. The trust used it to buy the shares and that transferred 55% of the equity to the employees. F017* *We had a lot of money in the bank. That enabled us to make an initial payment … I put together a repayments scheme. It's repaid over 13 years. I think we've got 12, 10 to go now. F019* *The three exiting founding partners are lending the trust the money to buy-out … the money, it's 1, 1.5 million, which will take them … just short of 5 years to pay off. F06* *I've made my money. I've done very well. F016* *My plans are more and more about "So what do I do with the money I've got to make a difference?" I'm finding ways I could use that money. I'm not a guy who's particularly edacious or anything. I don't do ostentatious. F019* *We've always had staff bonuses … Now they've got a little bit which is tax free, which is just one of the bonuses, because of the way we've gone into this EOT. F018* *And then when they said it's tax free and that bonuses get to be extra above then I said "Oh, this is it! It's perfect!" F08*	*The ownership future that I have is pretty irrelevant really. It's my position and contribution to the organisation that is really important as long as I feel like I can contribute. F06* *[The management] were very suspicious that I was gonna be there in the background, interfering and fiddling about and it took quite a while for them to come to terms with the fact that I genuinely was not gonna do that. F017* *The only frustration we have with it, there's only one or two people who just don't get it to be honest. They don't understand they've got responsibility in owing the business as well as having all the benefits of hopefully getting the profit share and stuff like that. F01* *People in the company, and me, we're both learning. We're getting better at saying; "OK, you own this. It's your responsibility really. You gotta sort it out between yourselves. I'm not doing that". F014* *It's quite complicated for the staff to understand to be fair. The way I'd explained it to them was; if you work for a big company …most of profits go to shareholders. We don't have any shareholders. You would own all the company. You wouldn't work for anybody other than ourselves. I can get my head around thinking about it like that. F018* *I probably have too much responsibility still. I'd still like other partners and employees, co-owners we call ourselves actually, to step up, but they're still quite young. F06*

9.5 Conclusion

The purpose of this chapter was to examine the role behaviours and role identities adopted by founders to achieve the transfer of their firms to their chosen legacy destination of employee ownership. It finds that founders are willing to undertake actions and behaviours that will 'steward' the firm towards the legacy objective, by undertaking the necessary effort to discover the solution to their succession and by adopting a stewarding role that will see them act in a financially benevolent way and create space in the organisation for others to take over, as they withdraw to see through the transition. Whilst the advancing age of founders brought thoughts of legacy to the fore, it did not in itself lead to the EOT exit choice in preference to others. However, it did provide an impetus to 'let go' of aspects of their previous role identity to facilitate an effective transition.

Founders changed, adopted, and performed organisational roles that were intended to align agency between themselves and their employees and 'steward' the firm to imprint their entrepreneurial legacy through the transfer to employee ownership. The behaviours and actions that comprised this changing role identity were extensive and varied. They incorporated the necessary 'exit effort' to discover the EOT solution; overcoming trusted adviser resistance and working with knowledgeable professional advisers to bring the EOT into being; financially shepherding the pecuniary arrangements to capacitate the EOT to 'pay' for the transfer; and adapting or relinquishing role they traditionally performed in the company.

Role identity theory is well-established in studies of venture start-up and development (e.g. Cardon et al., 2009; Hoang and Gimeno, 2010; Farmer et al., 2011; Cardon et al., 2013). This thesis introduces role identity theory to the entrepreneurial exit literature by describing to the actions and behaviours that founders adopt as role identity transitions in order to exit their ventures and steward them towards employee ownership to secure their business legacy. In doing so, the chapter offers support for Powell and Baker (2017) and Mathias and Williams (2018), who find that founders adopt role identities that are salient to their requirements at different stages in the lifetime of their involvement with their ventures.

The concept of founders adopting a 'steward' role identity at exit provides a novel contribution to role theory and the manifestation of role transitions in entrepreneurship. It incorporates a set of behaviours and actions performed by founders seeking to align agency between their exit motivations and interests with those of the employees through the EOT transfer. Many of the founders continued to derive a sense of fulfilment from their continuing engagement with the firm, and the new ‘stewarding’ role identity that they were adopting. This finding provides support for Mathias and Williams (2018) who, in contrast to Rouse (2016) find that founders do not have to psychologically disengage to withdraw from their founder identity as the requirements of a venture change or to facilitate their exits. It also offers a counterpoint to the perspective that is, arguably, widespread in the literature of founder behaviour; one that is characterised by notions of owners struggling to 'let go' and 'getting in the way' of an effective succession (e.g. Sharma et al., 2003; Cardon et al., 2005; Bruce and Picard, 2006; Halter et al, 2009; Hsu, 2013; Wessie and van Teeffelen, 2015; Zanger et al., 2015).

Having examined stewarding as the second mechanism that underlies entrepreneurial legacy imprinting, the next chapter turns to the third - *protecting* legacy - to consider the exit and transfer choices that founders reject and the behaviours they adopt to safeguard their identity and interests against loss.

Chapter 10: Protecting Legacy: aversion to identity loss

10.1 Introduction

"It's a big deal to give up your baby."
Alastair Sawday, Founder, Sawday's [74]

This is the third and final chapter that presents the empirical findings relating to the mechanisms that underlie entrepreneurial legacy imprinting. Its purpose is to examine how founders protected their business legacy through the transfer to employee ownership and averted the loss of self-identity they feared would result should the firm be transferred to a non-legacy destination. At its most fundamental level, they did so by rejecting exogenous exit choices, such as sale to an external party, which they believed would destroy their legacy prospects. However, they also performed actions intended to mitigate or alleviate factors they associated with identity loss in the transition to employee ownership. They also adopted specific measures aimed at safeguarding their financial interests, by holding on to pecuniary leverage and organisational influence in their firms to offset their loss of control. Thus, whereas the previous chapter examined the founders' 'enabling' role identity transitions and stewarding behaviours, this chapter considers the 'flip side' – the 'defensive' or averting behaviours targeted towards imprinting their entrepreneurial legacy

As set out in Chapter 5, roles and social categories held by individuals are central to their own self-image and sense of identity (Tajfel and Turner, 1979; Stryker and Burke, 2000). Identity theory predicts that the more central they are to the self-esteem a person derives from them, the more that person will be affected by the prospect of their loss (Teuscher, 2010). Moreover, given the self-identity that founders develop from

[74] Quotation taken from plenary session discusson with Alastair Sawday at the EOA annual conference, 20th November 2018.

their attachment to their venture, they can find it difficult to separate from it (Cardon et al., 2005). They can also find pressures to change the identity of the firm to be personally threatening (Cardon et al., 2009; Fauchart and Gruber, 2011).

The links between self-identity and concepts of legacy in entrepreneurship have been observed in the literature (Coombs et al., 2008; Fox et al., 2010; Hammond et al., 2016; Wade-Benzoni, 2017). However, they have not been used to explain how exiting founders prevent the loss of legacy prospects through the choices that they make for their firms. Therefore, this chapter considers how the founders avert the threat to sense of self-identity and self-concept and protect their legacy aspirations by transferring their firms to the ownership of their employees.

The chapter comprises four parts: first, it begins with a section that considers the founders' aversion to, and rejection of the alternatives for firm transfer that were available to them as exit options; second, it explores how, having decided upon employee ownership, they safeguarded their personal requirements as well as their legacy ambitions, by continuing to exercise influence and leverage once they had ceded control of their firm; third, it examines how the founders experienced aspects of the employee ownership transaction as 'trade-offs', setting gains that they secured against losses that they envisaged. Finally, it closes by drawing its conclusions with regards to protecting legacy and aversion to identity loss as being one of the three mechanisms specified in entrepreneurial legacy imprinting.

10.2 Rejecting sale and closure as exit choices

10.2.1 Results

Selling the firm to another company, an investor group or specific individuals drawn from the management of the firm are, aside from family business succession, the most common exit choices for SME owners (Shepherd and Zacharakis, 2001; Officer, 2007; Battisti and Okamuro, 2011). Another option is exit via a stock market sale (DeTienne and Cardon, 2012) or a merger (Graebener and Eisenhardt, 2004). However, IPOs are an extremely rare outcome for SMEs (Wiltbank et al., 2015) as are mergers (Cefis and Marsili, 2012). None of the participants in this study made any reference to having considered either as a possibility. One founder succinctly summarised the options that he considered to be available to those in his position:

> *There are only typically five ways considered when it comes to leaving a business. Trade sale, management buy-out, merger, turn it into a cash-cow and liquidate and close it. Clearly from one extreme to the other, none of these really work. F06*

10.2.1.1 Rejection of trade sales

In a 'trade sale', which represents one form of acquisition, the business is purchased by another, often a competitor or a larger firm from the same industry or sector (Ryan and Power, 2012). Almost all the founders had considered, and some had been offered a trade sale as an exit route, but each had rejected it. There were those who did so having had personal experience of a trade sale from previous situations before starting their venture. Earlier in their careers, they had worked as managers in firms that had been acquired by external parties. In consequence, their outlook towards a trade sale for their own firm had been heavily influenced by the behaviour and actions they had witnessed in those earlier experiences from those taking over the firm:

> *The company came out of me and my team being made redundant at the last company, which was a little bit of a shock decision. They were investor owned and, well, VC owned actually and they were instructed to lose 50 people … People lose their jobs very, very easily*. F02

> *It was totally alien to me to have these people come in with completely different mind sets, more financial engineering and treating people just like assets. It wasn't my cup of tea at all. F04*

One founder described his experience in a firm that he had joined at an early stage in his working life and helped to build, as one of its first managers, which was sold through a flotation on the stock market. He had found the behaviour and actions of those who owned the firm and sold it highly distressing. It was a formative experience that led him to build a substantial element of employee ownership into the venture he subsequently founded from the outset:

> *That sense of building something together and the friendships that had developed .... Suddenly it seemed to be flushed down the plughole of a public listing. And unnecessary, because they were rich beyond their wildest dreams … They just were very, very greedy about it. F015*

Another founder had already experienced setting up and selling a previous venture through a trade sale, before subsequently building up their current successful venture. Despite the personal wealth generated from the previous sale, there was no desire to repeat the experience:

> *The trade sale, as I've been through it … The whole process was very invasive … you sold the business that you spent 10, 12 years growing ... I spoke to lots of entrepreneurs who have done similar things … The term seller's remorse always comes to mind in a lot of these cases, and the situation where the business then gets sold on for more money. The whole thing, the whole process, it's not a nice process. F016*

A different perspective was provided by a founder who had been through the process, more than once, from the 'other side', as a buyer. This set of experiences and the insight that they provided had been discouraging to when it came to the possibility that the currently owned venture could be acquired by another party:

> *Even where we've taken on and acquired other businesses, however good your intention … there's always a mismatch and there're always more casualties than you would like. Almost any option, there were gonna be a large number of casualties amongst the people that worked for us for years. F017*

However, for most founders, the current venture was the only one they had founded. Hence, they had no prior experience of selling a firm in their possession to another party. Nevertheless, they had heard about the realities of acquisitions in other situations from their peers and networks, which had deterred them from considering a trade sale. For some, the problems inherent to a trade sale would begin even before it were to take place:

> *I've never sold the business before but I know what the negotiations are like. I've heard stories of some of the things that go on if you're putting your business out for sale … Customers know perhaps if the sale doesn't*

> *happen and know you want to sell and you're not interested anymore and they're not gonna be dealing with you anymore. F05*

> *If we were going for a trade sale one of the first things we know we need to do is reduce our costs. Stop investing in training because the pay for training is quite long-term …. social events … then don't replace the vehicles quite as often, don't make investments in new tools, don't replace the engineers, the laptops quite as frequently. We could improve the profitability for 3 years [which] would allow us to get a maximum valuation for a trade sale.*[75]*F06*

A founder described a situation where he had received an offer to sell his firm to another organisation, which he had viewed as a good 'fit'. The transaction did not ultimately go ahead, after which some changes occurred at the business that had made the acquisition approach. Seeing these changes take place, and thinking about the effects they could have had if the sale had gone ahead were reasons for concluding that the EOT represented a better future for the firm:

> *We did take one of them seriously, because they offered a lot of money. The same organization who I actually liked and had very appropriate values … Interestingly they've now sold out and they are owned by a big institution … So my lesson from that is you never know who you really sell to. The Chief Exec is not there anymore, the Chairman is not there anymore. It's a completely different company. F010*

Another considered it worth transferring the firm to the EOT for half of what may have been made through an external sale, in order to avoid the feelings that it would generate and the impacts on the staff and the firm:

> *The trust bought the business for one and a half million pounds. I don't want 3 million from some company who could then just completely asset strip it, sack our staff or do whatever. I don't know if I could live with myself. F014*

Ultimately, being fearful about what would happen to the firm in the event of external acquisition was the main reason why the founders had rejected a trade sale and chosen in preference to exit through transfer to employee ownership. As a key informant who

[75] The point being made here is that by cutting back on investment costs, headline profits will be higher in the shorter term, leading to a higher sale price valuation.

advises business owners on tax planning observed "*A lot of them have seen so many firms trashed by third parties. They don't want that to happen to their baby.*" Indeed, the prospect of a trade sale was widely associated with the likelihood that many of their employees would lose their jobs. Many foresaw the complete destruction of their business altogether, in terms of its assets, customers and reputation:

> *I'd had a number of interested parties who were very keen to have a conversation and I just pushed that away. … We have a unique business model, which would not be readily accepted by a larger company. Some of [our branches] would be regarded as being uneconomic. They are in fact profitable. F011*
>
> *There was absolutely no way that we wanted to sell the company, because other companies in our situation … they've gone down the route of selling and the companies are destroyed … You could just walk away with pile of cash from someone, who then closed it down, just take the IP and that's it. So there's no way we would done that. F02*
>
> *The downside of the trade sale … You walk away with your money … but during that lock in they, pardon the expression 'rape the company' for the clients and make all your staff that you've worked with some of them for 16, 17 years redundant. F08*

10.2.1.2 Rejection of private equity involvement

Acquisitions can be conducted through a 'leveraged buy-out', led by external private equity investors. Typically, this option involves a specialist private equity firm financing the sale, through a formula that is usually dependent upon a substantial component of third-party debt finance, rather than the use of its own funds (Kaplan and Stromberg, 2009).

The level of hostility amongst the founders towards exiting through selling control of their firm to investors led by private equity was particularly high. Many had been averse to debt finance when running their firms and had avoided external borrowings when setting up. Over the years, they had built up significant cash reserves in their businesses. They took the view that a private equity-backed acquisition would extract these reserves and replace them by saddling their firms with debt, while adding little of value to the company's prospects:

Private equity was gonna involve gearing the business up and taking a lot of money out of it and wasn't gonna be in the long-term interest of the employees, the health of the business, or the customers as far as we could see … That's just their spiel, private equity. It's always about taking money out, always. If there's ever any money put in it's only because it's a way to take more money out. F012

Founders who had rejected the private equity option were also deeply suspicious of the changes that would result in organisational culture and focus. They considered private equity investors to have no wider interest in the business beyond their drivers to extract cash from it and service and repay the debts incurred to purchase it:

We were offered that, but I've got another client of mine. He gets his phone call on a Friday from his VC banker. 'How is it going?' What are the figures? Blah, blah, blah.... And you just go; 'Really? Do you want that all the time?' F08

It was acknowledged by founders that transferring ownership of the firm to EOT would also result in changes to accountability and reporting. However, this prospect was viewed very differently and much more favourably in comparison to the changes involved with reporting to private equity investors:

There is a cultural issue, because once you've been your own boss, working for a larger corporate particularly one that's been funded from the City of London, I think it's a total game changer. Yes, it's been a game changer in terms of accountability to the trust, but that's much easier to deal with. F011

One founder rejected entirely the notion that, when it came to arranging their exit and the destiny of the firm, founders could treat their businesses simply as commodities to be disposed of:

Anybody who's built the business wouldn't say that. Somebody who buys and sells businesses might say that. F012

10.2.1.3 Aversion to the 'earn-out' requirement

'Earn-outs' are a common requirement in acquisition transactions. A significant proportion of the agreed sale price negotiated between the buyer and seller of the firm is contingent upon the business achieving specified performance metrics from the date of sale. Typically, earn-outs are based upon the achievement of profit targets for a set period (i.e. for the next two or three years). However, earn-outs are a major source of friction and litigation between those who have acquired the business and wish to run it as they see fit; and the seller's desire to protect their pecuniary interests and maintain current operations (Handler and Hirsch, 2014).

There was widespread dismay expressed by founders at the prospect that they would have to remain in the firm during an 'earn-out' period following a trade sale or private equity acquisition. One reason why the founders rejected the prospect of an earn-out was their aversion to the risk that the element of the financial consideration that had to be 'earned' during this period would invariably fall short:

> *One of the other things about trade sales is they rarely succeed the earn-out. With trade sales typically you're gonna be offered two-thirds upfront and a third of it you're going to get in a fixed period of time. It's not unusual to find that that then fails … Generally they would have broken the business. F06*

> *Oh, there will be an earn-out. That's what I've had in a couple of offers before. I call it a lock-in ... Yeah, I could get.... x million pounds for the company, but I wouldn't necessarily get all of it. F08*

Furthermore, they were loath to stay in their firm and witness the type of negative impacts that they feared, whilst simultaneously being required to defer to the authority of the incoming buyers:

> *If I'd have sold it to a company, I imagined that they'd probably said they wanted me around for two years to handle the transition and then go. Having talked to some people who've done that sort of thing, a lot of them had a pretty horrid time at doing that. So that didn't thrill me, that sort of thing, a lot of pressure with a lot of responsibility, but no authority. F014*

> *To sell it to somebody else, because inevitably what you've worked quite hard on building … probably at best gets damaged and the worst gets destroyed whilst you often find yourself in a situation of your*

consideration depends on the promise of the company when you've ceased to have control over it. F020

Their aversion to remaining in the firm during an earn-out transition was in stark contrast to the enthusiasm that was widely expressed about continuing to be involved in the firm to facilitate the transition towards employee ownership. Despite having to wait to receive their sale proceeds from an EOT transfer, usually for a longer period than would be required from an 'earn out', they were willing to remain in their firms following the EOT 'take-over':[76]

The other 'light bulb' moment was; if I sold the company and leave, I'd probably have a lock-in for a couple of years but ... now, I'm doing those couple of years while I've still got a lot of energy ... I hand over in a month's time. I don't have that responsibility and I get to enjoy doing the client work. It's pretty cool actually. F08

10.2.1.4 Rejecting a Management Buy-Out (MBO)

Exit via an MBO is distinct from a trade sale or private equity-based acquisition, in that it is a form of internal, rather than external transfer. As in an EOT transfer, MBOs see the managers involved change their status from being employees, with no or lower levels of ownership, to becoming the new owners of the firm (Weir and Lang, 1998). However, MBOs differ from the EOT route in that, in the latter, none of the employees who are beneficiaries of the EOT individually own the shares. Thus, unlike with MBOs, they do not individually pay the founder or existing shareholders to purchase them. Moreover, the EOT controls the firm and owns the shares on behalf of *all* the employees, whereas in MBOs it is invariably a select group of employees/managers who take over the firm.

Founders who had considered a MBO explained the various reasons why they rejected it in favour of transferring their firm to an EOT. In the first instance, they were concerned about the level of debt that the staff buying the firm would incur as individuals, for which the staff concerned would be personally liable. Even if there were enough of them willing to consider it, which was often not the case, the sale would require those

[76] Chapter 9 contains an exploration of this factor in relation to the founder role transitions.

individuals to provide security, such as their homes, when underwriting an external loan to 'buy-out' the founder. However, in an EOT transfer, no individual employees carry personal debts and exogenous borrowing is either not required at all or is kept to a minimum:[77]

> *The total MBO route? I said … "If you wanna do it, this is the price you have to raise" and they all would all have to mortgage their house. One of them has got two under the age of 3 and other one has got an 11-year-old. … They just don't wanna take the risk. F08*

> *Traditional ways of selling your shares are to your management team. That didn't work for me. They didn't have any money. I didn't want to put it into debt and those that had the security to put up weren't the ones that I wanted to take over the business. Plus if I did that I'd just be handing my problem to somebody else. So a management buy-out didn't work for me. F03*

Moreover, as with exiting through an external sale, the founders would no longer be the determining authority over the firm's destiny once the MBO assumed control. Although the same would apply in an EOT transfer, there were two reasons why this was considered a specific problem with MBO-based transactions. Firstly, the MBO would be performed only by those who could afford to finance the transaction themselves, in part or by taking out loans. Consequently, the founders had no guarantees that the MBO members would behave any differently than an external buyer towards the wider employee group who were not part of the MBO:

> *It wouldn't be all of them anyway. It would just be the one or two that's got any money, that would get together and buy and then the others will be staff and for all I know they'll just get the sack anyway. So that didn't seem a fair route. F05*

Secondly, founders could not prevent the MBO group from subsequently selling the firm on to an exogenous party. However, by transferring to an EOT, they believed that 'selling on' was much less likely to happen. They reasoned that, since all the employees, rather than a select few, would have a stakeholding in the ownership arrangements, a

[77] The EOT financing arrangements are detailed in Chapter 9 and describe the various mechanisms used to finance the EOT transfers.

future sale would only be entertained if it were in the longer-term interests of the firm, with the entire staff group standing to benefit:

> *I wasn't overly keen, because an MBO wouldn't necessarily guarantee the future of the business. The ones that perhaps could afford to buy more shares than others would perhaps be tempted to cash in their chips and the business would end up effectively as a trade sale …. The majority of the employees within [the company] are blue collar workers. F011*

> *What's the end game? Suppose I gave, or sold my shares to the staff is that a good model? Half a dozen people each year come and say, "Can we buy you?" and when I'm not there to say "no," that's a temptation, isn't it? "Would you like several million pounds and your share of it will be several hundred thousand pounds." … I wanted those people to carry the business on, but I didn't want them to have the opportunity of just flogging it off to somebody else. F04*

10.2.1.5 Rejection of exit by closing down the firm

A different kind of exit option available to business owners is to cease trading and close the firm down entirely, by entering voluntary liquidation (Battisti and Okomuro, 2011; Coad, 2014). Various studies have demonstrated that it is not only firms that fail which cease to exist through closure, as many owners exit viable and profitable firms by simply closing them down (e.g. Headd, 2003; Battisti and Okamuro, 2011).

There were founders amongst the research participants who indicated that they had actively considered the closure of their firms in order to exit from the business. They had been reluctant to do so as it would mean that nothing would remain, including employment for the staff. Therefore, discovering the exit option of transferring the firm to the EOT provided them with an alternative and preferred solution:

> *You could wind it down, but that's an on-going liability … We did look at closing the business down, just shutting it down, but it did seem a shame. We've got lots of software contracts and we paid for all this software, which is very expensive and to just throw all that away also seemed a bit wasteful to say the least. F018*

> *Otherwise I would have dissolved it. That would be the end of the story, but the ethics of that is not very satisfactory and so the EOT route*

> *provides a solution that allows you to make transition to step out and actually have a clear conscience about what you have done. F05*

Despite an aversion to exit choices that put the future of the firm at risk, there are founders who would have rather close their firm down than sell it on in circumstances that do not sufficiently meet their requirements (Akhter et al., 2016). In the experience of one of the key informants, the EOT path had opened up a new option for founders who were otherwise concerned about the legacy of their 'body of work' if they passed it on to the wrong people. Exiting via transfer to an EOT enabled them to ensure the business continued as, otherwise "*they would rather run the firm down to avoid it being trashed.*"

10.2.2 Interpretation

In the event, every one of the founders who participated in the research who had transferred their firm to an EOT had previously rejected the option of either exiting through an exogenous sale or by shutting down. Instead, founders chose EOTs as an exit route that would preserve their legacy, as represented by the continued existence of their firm in a manner that was consistent with their values and identity. The type of losses that they envisaged from a transfer to an exogenous party ranged from redundancies and disruption to the loss of the firm's identity as they knew it, or even its destruction. Moreover, EOTs offer exiting founders an alternative to winding up the firm altogether, in situations where they would rather close the firm rather than pursue a succession or transfer route that they consider unacceptable.

In this study, it is noteworthy that none of the founders needed to contend with the presence of external investors, such as angel investors or venture capitalists in their firms at the point of their exits. Founders were highly hostile to the prospect of their firms incurring debts as a result of their exits. Many had always been debt-averse, having declined to borrow finance at the start-up or growth phases of their firms. Founders who are used to autonomy and authority may repel institutional investors because of the latter's requirements to be able to influence business strategy (Cannella et al., 2015). The requirements of such investors are known to have an impact upon exit decisions (Collewaert and Fassin, 2013; Mason and Botelho, 2016; Wiltbank et al., 2015). The findings of this section indicate that it more straightforward for founders to decide upon and create their own business legacies when there is no need to consider their financial demands external investors or debt holders. By implication, they suggest that founders who do have to contend with the requirements of significant debt holders may, as a result, find it more complicated to transfer their firms to employee ownership.

Founders are significantly less likely to transfer their businesses to individuals outside the family (Dehlen et al., 2014). Nonetheless, when considering acquisition, they consider the long-term prospects for their firms, in areas such as employee well-being and the identity of the firm alongside the price generated by the transaction (Graebener and Eisenhardt, 2004; Howorth et al., 2004; DeTienne and Chirico 2013; Kammerlander, 2016). Thus, founders can overcome their aversion to the risks that are inherent in external succession, due to information asymmetry, by choosing the EOT route. They are more knowledgeable and trusting of the employees that become their successors and who comprise the trust membership.

'Stewardship exits' are defined as those where considerations beyond personal financial utility at exit are significant, arising from a sense of obligation and a concern for others (DeTienne et al. 2015). In this study, the rejection of alternatives to employee ownership demonstrates a desire for a stewardship exit. Stewardship theory puts prosocial and pro-organisational behaviours above those of narrow economic maximisation objectives (Contrafatto, 2014). DeTienne et al. (2015) refer to 'employee buy outs' as a stewardship exit outcome but do not distinguish between different types of employee buy-out. A 'sale to employees' is treated as synonymous with an MBO by Kammerlander (2016), with no further distinction being drawn.

According to Howorth et al. (2004), MBOs are favoured by exiting owners because of the greater probability that that the firm's identity and values will remain the same post-exit. However, founders in this study had fears that the opposite would occur. Hence, they had a less favourable view of MBOs as a stewardship exit than the EOT. They stated that there was little to prevent an MBO that was executed by a group of individuals to 'cash in' at a later date and sell the firm to an exogenous party. By contrast, they considered the EOT transfer as one that was of benefit of all of the employees, rather than a select few. They also regarded the arrangement as one that effectively 'locked in' the firm ownership in a form that would significantly inhibit an external sale for the foreseeable future. Furthermore, aside from practical aspects such as the inability of a MBO in their firm to raise the necessary finance, they were concerned about the personal debts that a MBO would place on the involved individuals. The founders preferred the collective nature of the EOT as a vehicle that holds the control of the firm on behalf of all employees, rather than the selective ownership of a MBO arrangement.

Therefore, in terms of selling their firms to their employees, founders drew a distinction between transfer to MBO and transfer to employee ownership in terms of their respective standing as stewardship exit choices. Specifically, they rejected the MBO option as an exit choice because of their scepticism that it would achieve their desire for a legacy outcome. This appears to be a new finding that has not been featured previously by the literature.

10.3 Retaining influence and leverage

10.3.1 Results

Chapter 9 describes that, having decided to transfer the ownership of their firms to the EOT, founders performed various behaviours intended to support and facilitate the transfer for the benefit of the employees. By contrast, this section describes various actions undertaken by founders that were intended to protect their personal position during the transfer.

The participant profile in Chapter 7 describes how almost all the founders retained a position of authority in the management or governance of the firm after the ownership transfer to the EOT. This was to be expected in situations where the founders were exiting from ownership but remaining in management for the foreseeable future. However, it emerged that many who were intending a more comprehensive exit were, nonetheless, concerned to be able to continue to exercise influence and maintain some degree of control:

> *Ultimately, we wanted to make sure that nothing much changed to the business, and that the existing management structure would continue … I didn't want to put my deferred consideration or loan notes to risk by trusting my business to anybody else, so we wanted a considerable say on how the business was going and was gonna be run. F013*

There were various and diverse ways through which the founders sought to maintain their influence and leverage post-transfer within the firm. As one key informant observed, "*For some of them, transfer to employee ownership is a halfway house to letting go fully. It is safer than a trade sale or an equity deal etc because they still have some control mechanisms in place*". Indeed, most had insisted on retaining a position in the governance of the organisation. They were concerned to ensure that personal financial interests and those of the firm would not diverge whilst their loans or deferred consideration were outstanding:

> *I've felt it's the right thing for me to stay on, just because in a way I'm safeguarding the family's interests in those loan notes. F017*

Consequently, situations where the founders remained on the board of directors of the company, or being trustees of the new EOT were widespread:

> *I haven't thought through if it's going badly wrong, and I'm not thinking if it was done wrongly, because I'm still chairman of the board. I'm the chairman of the trust. So if the trust doesn't feel that the company has not been run properly it can ask for things to be changed. So that's my lever on it. F08*

> *Whilst there's debt outstanding, I have the right to be a director. So that's like that. F019*

More substantially, many retained the right, in circumstances where they deemed it necessary, to be able to exercise aspects of authority they possessed previously before ceding majority control. In some cases, the legal agreements between the founder and the trust enabled them to veto certain decisions or retain control of specific areas of the business whilst funds that they were owed were not yet fully settled:

I'm lending the trust the money to do the transaction through a loan … I have limited security on that though. It's essentially an unsecured loan. I have some rights to protect me. One of which is that I can choose to be a trustee for as long as it owes me money. I can veto certain things happening as well. F010

We've got in the budget an allowance for them to bring somebody else in a Chairman role. During the earn-out I would expect that not to be the case. I would expect them still have me there because I clearly want to make sure they're running it to deliver the earn-out. I would insist on that. F06

Some referred to their right to regain control of proceedings were the trust unable or unwilling to meet the terms of the loan repayment or deferred consideration payments. In such an event, they are variously entitled to step back into directing the firm, replace its current leadership or, ultimately, reassume control of the company entirely from the EOT:

There's the clear financial reason because the company owes me the money from the transition. If I just left it and it just disappeared and failed, they wouldn't get their rewards, but they might not bother, because they're not paying for it, but I certainly wouldn't get the money that was due … It has been ticking over fine, but I guess if it hadn't been then I would have had to step in. I wouldn't have just sat by the side and just let it all to fall to pieces. F05

If the company gave me all of the money that I need, my family was financially secure and they went bust I would be really sad, but it wouldn't be disastrous. If it went bust before that it would be disastrous. … That's why I'm not letting this go until you're ready, because of financials … It pays back whatever. If it doesn't, I have every right to come back and swamp the Board. F03

In addition, there were those who made arrangements when transferring the firm to the EOT that would, in effect, prevent the firm from being sold on to a third party in the longer-term. Having rejected selling the firm in this way themselves, they were determined to ensure that the EOT transfer would not lead to this outcome once they lost control of the firm. For instance, in the well-publicised case of the transfer of Riverford Organics to employee ownership, the founding deeds that established the EOT contained provisions that were intended to ensure its independence in the long term, in that "*The model of employee ownership Riverford is opting for protects it from predators, and makes it virtually impossible for the business to be sold*".[78] In a similar vein, several of the founders had inserted various stipulations to this effect in the deeds that governed the transfer agreement, making it difficult for the trusts to sell on the firm to others:

> *We have a shareholders' agreement and employee ownership trust deed that really make it impossible for anyone to sell off the company now … We did not want, a big offer to come in, turn heads … if we went to the open market it would be close on double the price. I would never agree to it, but if I'm not you know, in control… F07*

> *There's some quite powerful value stuff in there [the trust deed] ... We can improve the profitability of the business tomorrow, by bringing up some of our fees and reducing some of our costs. But our customers would notice that. So that was one of the things is built into the trust and into the trust deed, as a prerequisite to any financial promises. F010*

Founders drew attention to their belief that, by passing the firm on through the establishment of the EOT model, employees had every reason to sustain their ownership of the business. Consequently, the EOT encouraged a long-term approach since the collective staff group would have little interest in selling it and losing the stakeholding that they now had in the firm:

> *Employees who are thinking 30-year careers, you're changing the focus from a short term to a long-term sustainable profit. I genuinely believe that this could bring a societal change. F03*

One founder added to this perspective by pointing out that the EOT also had the effect of 'locking in' employee ownership for the long-term. He believed that his company was safe in legacy because even if the employees sought to sell-up in the future, in practical terms they would find it very difficult to do so:

> *If they choose to sell it … they will probably struggle because who wants to buy a business with 20 bosses? Who wants to buy a business where everybody's got a sense of entitlement, because they got used to a sense of entitlement? F06*

[78] See https://www.fieldfisher.com/media/5599028/eo-case-studies-eo-day-2018.pdf

10.3.2 Interpretation

The previous chapter describes how founders, acting as 'stewards', shepherded the transition to EOT control through a range of financial mechanisms - loans, deferred consideration, flexible payment arrangements and gifts. This section shows, perhaps, the 'flip side' of those financial arrangements, whereby they were by various mechanisms designed to safeguard the founders' monetary interests. Moreover, there were instances where arrangements were put in place that limited the ability of the EOT to take unilateral actions in certain areas of business activity or placed restrictions on a 'sell on'. These arrangements were aimed at alleviating the founders' aversion to changes, post-transfer, that they felt would undermine their desired legacy purpose.

Studies of owner managers who exit their ventures and seek an effective succession generally focus their theoretical attention on issues such as power replacement and influence (Boeker and Karichalil, 2002) and uncertainty resolution (Wasserman, 2003). However, as demonstrated by this section, founders can also be concerned to ensure that the hard-won legitimacy that that they achieved over many years for their firms is protected during periods of transition and change (Fisher et al., 2016).

10.4 Financial and emotional offsetting

10.4.1 Results

10.4.1.1 Mitigating risk

Founders described their exit through EOT transfer as being a low-risk option compared to some of the alternatives that were available to them. Some described themselves as having been risk averse more widely throughout their business careers, and did not identify themselves as risk-takers:

I don't like risk. That's really relevant to the employee ownership journey … I'm not an entrepreneur. I don't consider myself an entrepreneur in that way. I'm all about mitigating risk wherever I can. F03

As highlighted previously, by being prepared to wait for their money through deferred consideration arrangements, there was a risk that they might not receive their full monetary settlement. Hence, they had established various mechanisms to protect themselves from this eventuality. However, this aside, the founders felt that their role in the process, particularly the extent to which they were in control of it, gave them a degree of comfort that some of the risks apparent in routes such as an external sale would be averted:

Not only did it fit with my moral values about what I should be doing, but I think it's the safer route as well. I don't tell anybody that, but I think it was a less risky route as well. And I'm in control. F08

There's no debt, no external finance, we never had borrowed money. There's just a transfer without any risk. F02

Founders observed that the process of valuing the business by external and independent advisers enabled them to settle a sale price, without the issues that are associated with third party sales negotiations:

Advantage of employee ownership is there's nobody to bully you for your valuation. So you don't come out with an inflated valuation ready to be knocked. You can actually come up with a valuation that is the price. The price is the price. That is what the new owners are going to be buying it at. F06

When the business was valued, it didn't take on board any negotiations that might have happened in the real-world sale. It was just 'this is the value of the business'. F05

The thesis also noted at an earlier point that, unlike in most situations where firms are bought and sold, the transfer of a firm to an EOT does not involve a process of negotiation between the 'buyer' and the 'seller' – i.e. between the founder and any other current shareholders on the one side, and the newly-formed EOT on the other. Founders reported that their employees were advised that the price had been established this way. Instead, the sale price was established partly through a valuation exercise and then at the founders' discretion, albeit a discretion where discounting or other supportive terms were added. In effect, this meant that the EOT and the employees had no significant role in negotiating or establishing the sale price:

> *The way that the structure works is effectively we didn't have to get buy in from the staff. So like it or not the employees were always going to own the company. They have not really much say in the matter. Everybody was excited about it, but [from my perspective] the primary driver was tax efficient cash out of the business. F013*

There were founders who had decided to retain a minority share in their firm. EOTs can be established with 100% of the total ownership or at any level of ownership through to 51%. Therefore, founders did not have to transfer all of the firm's shares to the trust to establish employee ownership. Whilst many had done so, others decided to keep some equity in the firm as minority shareholders. Amongst the reasons given were that by doing so they were offsetting the loss of future opportunity if the staff were to 'cash in'. Alternatively, they were offsetting an element of the financial risk they incurred when lending the EOT the funds to purchase their shares:

> *I was trying to protect if in the first 3 or 4 years of becoming employee-owned, somebody came in and said "Oh [X] is a fantastic company. I want to buy if for 10 million pounds", some absurd amount. I thought "If the trust's gonna get 10 million quid, that's only fair I get some of that." F014*

> *We lent about 55% of the consideration to the trust to pay us back, so we personally lent it. The idea was that we've got quite a lot of money at risk here, so we ought to have some sort of potential upside, so we'll keep 25%. We felt that was balancing the risk of lending that amount of money. F012*

Furthermore, the processes involved in the transfer to employee ownership involved internal matters that were considered and conducted within the boundaries of the firm. Therefore, founders were able to prevent the situation arising whereby the firm's customers get to know their intentions. They felt that if their customers discovered that they were considering exiting the business and selling up, it could have a detrimental effect on the business. Thus, by controlling the process of setting up the EOT and putting in place the financial arrangements, the founders did not have to face the anxiety or uncertainty of an external sale event. Moreover, there was no risk that the costs that they would have to incur in an external sale event would be lost because of the 'buyer' withdrawing before the transaction was completed.

> *It might not go through and you've done all the anxiety that goes with that. F08*

> *You start losing customers. It just seemed like a route that was fraught with dangers. F05*

10.4.1.2 EOT transfer tax relief

The research also explored the extent to which the decision to exit from ownership via the EOT transfer was influenced by the advent of the tax advantages introduced by the 2014 Finance Act. For founders to gain from tax-free proceeds, they must transfer their controlling interest (at least 51% of the shares) in the company to the EOT. Everyone interviewed who had engaged with the EOT process was fully aware of these tax benefits. However, they expressed divergent views regarding the degree to which they acted as an incentive in their transfer decision. At one end of the spectrum, the founder whose motivations were 'Darwinian'-driven (see Chapter 8) stated that the tax benefits were the main determinant for his decision:

> *The more we thought about employee ownership, the better the tax advantages for the outgoing shareholder. We were largely debt free and wanted a solution to crystallise some gains out of the business. And we came upon employee ownership as a vehicle to do so, very tax efficient vehicle ... F013*

Other founders indicated that being able to crystallise financial assets that they owned through favourable tax arrangements was attractive. They had built up cash assets over the years on their company balance sheets. By granting or loaning these company funds to the EOT to, in turn, pay the founder for the transfer of equity they were, in a sense, being 'recycled' back to them. However, they were doing so with the advantage that the funds involved were fully exempt from entrepreneurs' relief-related CGT, which would otherwise apply:

The distribution and the tax advantage of the trust in that scenario was obviously a benefit. We could otherwise have got that money out in event of winding out the company and had probably a 10% raise of tax on it but that's still a fairly substantial sum. So yes, the tax advantage status of it was certainly attractive. F020

Another significant impact of the EOT tax provisions was that they 'forced' founders to transfer a controlling interest in their firms if the relevant tax advantages were to apply. Otherwise, there were founders who would have chosen a more gradual employee ownership succession strategy by initially transferring a minority of shares. However, the requirement to transfer at least 51% to the trust for the founders to gain from the tax exemption provided a 'tipping point', 'pushing' them to ceding majority control to the EOT straight away:

55% of the shares are with the employee benefit trust and I've retained 45%. I'm not sure what I'm gonna do with the 45%! But it needed to be 51% because of the tax and the benefit. F011

At first I was thinking of not selling all of the business, but the more I deliberated on it and then the Finance Act basically says, "You've only got one chance at this." If you only sell 50% first time, you can't come back this route and do the other 50, well, not with the tax benefit. We thought "We'll be back here in another 5 years." F019

By contrast, there were others who stated that, while they were encouraged to discover that the EOT transaction would confer a tax advantage, it had not made any difference at all to their decision:

It's the obvious capital gains tax benefits, which I mean I knew of entrepreneurs' relief and obviously I was happy with that, but when they guy said, "Oh you know, it's nil" it's like "Well, I'm gonna do it anyway." F019

[Our advisers] did talk to us about whether we wanted to start playing about, because of the new legislation they said, "Should they explore whether we could reverse the original transaction and then do it at 100% tax free?" We said no. We are perfectly happy to pay 10% and thought that was a right thing to do. F017

10.4.1.3 Disengagement and distancing

One group of founders acknowledged that they had struggled for some time with the realities that were involved in 'letting go' and passing their firms on to others. They had wanted to exit for some time beforehand but had not found a suitable way forward before discovering the employee ownership option. There were those who had previously given consideration to some form of externally-appointed management or internal individual to take over their responsibilities. However, they rejected this option because they believed that it would not achieve their objectives. If they were to have brought in external management, they would not be able to escape being responsible for the firm whilst they remained as the firm's owners:

> *If you want to leave a company you've got to do it some way … You really could have continued having shares and just giving it to someone else to run it …but you're never really free of it. It's your responsibility and … we didn't want to have that responsibility when we were older. F018*

> *One of the things that concerned me was what would happen to the business if we appointed professional management and just continued with it, whether I would ever really retire, because I might be called back in at any point. F017*

There were others who had spent some considerable time feeling frustrated by not having been able to find a succession solution. As a result they had had to retain the responsibilities that they held due to a sense of obligation. However, this situation had become increasingly and had prevented them from being able to pursue other interests or make changes in their lives:

> *I couldn't just walk away from it [but] I was bored. I was trapped … a lot of people think if you run, own your own business, say "Oh you're so lucky. You've got so much freedom." There was completely the opposite because I couldn't just resign and go and work somewhere else. I spent 12 years of my life building up this business. F03*

> *It was becoming a bit like a prison. One year, I meant to go on holiday … then something happened at work and I had to cancel it all. That really annoyed me because I didn't want to be working. I just had to carry on working. F05*

On the other hand, one set of founders continued to be enthusiastic, committed and engaged with their ventures both before and following their ownership exit. Amongst this group, there were those that acknowledged that they had struggled to come to terms with the need to plan their exit. Some had also found it very difficult at times to adjust to the new situation under employee ownership.

> *The cruel reality is … life would have been made uncomfortable for me. Eventually, I would have been squeezed out of the business because that's what tends to happen. F011*

> *I've realised that I was finding it very hard … to let go. That meant I had to sit down and start to think about it. It was just an on-going process. I thought if [the venture] is going to continue to thrive it needs somebody else in that seat. I have to let go and then it was difficult for a bit. F09*

> *I said to one of the Directors "Why doesn't [name] sell his shares to one of you guys? And just retire?" and she replied "Because now he's [name] and Chairman of [X]. As soon as he sells his shares he's just [name]. And that stuck in my head for years. F03*

Nonetheless, many recognised that it was necessary to go through a process of disengagement or relinquish certain aspects that, all other things being equal, they would have preferred to retain. The process was made easier by being able to remain active in the business and perform specific roles or functions that they enjoyed. Nevertheless, the prospect of these functions coming to an eventual end caused some trepidation:

> *To some extent I'm still the public face of the company … I'm relatively well known within the industry … Their [the EOT trustees] indication at the moment is that they want me to stay on, but should that change and it could do, I think I'd feel disappointed, because I like what I'm doing. F017*

> *I really have to move on … But I enjoy business. I enjoy the challenges in the opportunity. I often get a buzz from getting the new customers in and getting the identity that you get from that. F016*

One founder described how he had been affected by the experience of having seen others who had exited successfully, in terms of harvesting considerable financial wealth, but had subsequently struggled with life post-exit. As a consequence, when considering what they wanted to achieve from their own exit, this founder was aware that financially-driven exits did not necessarily bring the benefits envisaged, as he had seen individuals in this situation who did not need to return to entrepreneurship for monetary reasons, but had done so nonetheless:

> *They sell, have no income and no sense of purpose, so end up becoming angel investors in something they know about to get a return and a sense of purpose, doing what they did originally. F03*

Founders reported that they were aware of the danger of being unable to step back from their ventures if they were to make a success of their exit process and the transfer to employee ownership. It required both self-awareness and a degree of discipline on their part if they were to see it through and achieve their exit and legacy objectives:

> *Emotionally it was very hard to walk away in September, very hard, but it was the only thing to do. I haven't quite got over that emotionally yet. F012*

> *If I left this for ten more years, I think the separation anxiety would be greater than it will be now. I already have work planned that would give me a reason to get out of bed in the morning. ... I'm aware that there might be emotional trauma that I need to face up to. It could be that's gonna hit me hit me later when the alarm's gone off in the morning and I realise I probably didn't need to set the alarm*. F06

10.4.2 Interpretation

As described in Chapter 9, founders considered that the price established through the arranged valuation exercises were fair and applied on terms in the employees' favour. They also asserted that exit choices such as selling to an external party would have been more lucrative. At the same time, however, they acknowledged that choosing the EOT transfer conferred to them certain commercial advantages, notably the mitigation of financial risk and lower transactional costs. They also acknowledged that the process of transferring the firm to the EOT helped to offset the anxieties they held arising from ceding ownership and no longer being able to control the changes that were arising.

The findings in this section demonstrate that, even when they had secured their business legacy destination, founders did not always find it easy to step back from or, ultimately, relinquish control of their firms. They attested to a range of anxieties and worries about the future that were tied up in so doing. This phenomenon, whereby business owners make it challenging for others to succeed them by struggling with the process of 'letting go', is well-recognised in studies (e.g. Sharma et al., 2003; Boeker and Karichalil, 2002; De Massis et al., 2008). It is particularly difficult for those who develop strong psychological and emotional attachments to their firm (Cardon et al., 2005; Bruce and Picard, 2006; Avey et al., 2009; Hsu, 2013; Zanger et al., 2015; Rouse, 2016).

Emotions associated with loss, such as fear and grief, have been considered in the context of business failure (e.g. Shepherd, 2003). However, the emotional processes that are at play when a founder volitionally exits a successful venture have not been examined (Halter et al., 2009; Cardon et al., 2012). Managing the role transition from 'founding entrepreneur' to 'being retired' can be a challenging one. It is invariably viewed negatively when seen terms by those involved as loss of identity (Forster-Holt, 2013; Wessie and van Teeffelen, 2015; Chevalier et al., 2018; Morris et al., 2020). Founders can be highly averse to this prospect when the connotations at exit can seem overwhelmingly negative; loss of status, loss of recognition, loss of income, physical ageing and the end of one's life's work (De Vries, 2003; Halter et al., 2009). As a result, many prefer exit solutions that enable them to remain involved with the firm (DeTienne 2010; Chevalier et al., 2018).

The active pursuit of creating and building a legacy is a good counteract to the negative connotations that arise from identity loss at exit (De Vries, 2003). Nonetheless, founders recognised that unless they did step back from conducting the role functions and identities that they had held within the firm, there was a danger that they would undo, or at least undermine, their efforts. For some, taking steps to psychologically disengage (Rouse, 2016) or emotionally disengage from their ventures (Afrahi and Blackburn, 2019) was a necessary pre-requisite to doing so. Others felt that it was a question of self-discipline, so that their employees would not remain dependent upon them or be inhibited from taking over. Failure to do so effectively would ultimately hinder the efficacy of the employee ownership succession and prevent the creation of a successful and sustainable legacy.

Founders held a strong sense of the relative upsides and downsides of the contributions required from them, when ceding control of their firms, to achieve their legacy goals. The ability to be able to set the sale price and the personal tax gain from the 2014 Finance Act contributed to mitigating founders' anxieties and their aversion to the risks that were involved with the EOT transfer. On the other hand, there were founders who chose the EOT pathway because they saw it as a lower risk than the alternatives. These findings are consistent with behavioural finance theory, whereby there are economic and non-economic considerations to consider in situations characterized by uncertainty, such as the sale and transfer of an owned firm (Kammerlander, 2016). It is also consistent with prospect theory, which emphasizes the human desire to avoid losses (Kahneman and Tversky, 1979).

Table 9 provides additional examples, in relation to Chapter 10 as a whole. It sets out further evidence that illustrates how the founders protected their legacy from loss, in relation to the rejection of an external sale of closure of the firm; retaining influence and leverage within the firm; and offsetting their aversion to loss, including loss of self-identity.

Table 9 *Additional examples: Protecting Legacy*		
Rejecting sale and closure	**Retaining influence and leverage**	**Financial and emotional offsetting**
We weren't willing to sell to anybody else. The company could easily turn into the sort of company that I personally detested. I just think it's immoral and it would lose all its character. F09 *I've seen … 3 or 4 companies I've seen where that happened and if you do the reading on it, 50% of these things don't work F08* *Having seen sales of companies in the past that this was a difficult thing to pull off in a satisfactory way and not something we were hugely enthusiastic about. F020* *In our industry they just take the client back and lump it in with theirs and then make all the employees redundant. I didn't want that. F03* *If we would be taken over by a larger business, a lot would go and people would be then just a cog in a wheel. F018* *I don't think you get that satisfaction if you sold it with some clauses you have to stay for two years, and then they re-organise it. There will be a lot of anonymity and then it would just disappear … Alright, I would be rich, but how well would you feel?* F02 *What if I go walk pass these guys on the street? I live in the village and they're all going "Oh, you've sold the company.' … Because without them, there's no company. I feel it's selling them down the swanny. F08* *Had we not gone down the employee ownership route, we'd have gone to a trade sale and a business of our size, it would have been sold to private equity, or a larger competitor and the culture would have been quite different. F011*	*I didn't wanna suddenly disappear out of it and risk any of its business either from suppliers, or with customers, but I wanted to try and empower staff more. F014* *My role as Chairman and a coaching role would be to float up whether or not they've got other things that should be their priority rather than things they're looking to do. F06* *I know I'm gonna get my money out if I wanna look at it from that point of view and also, I can retain some skin in the game for quite a while … I wanna get the right team to allow me to still be involved, but not on a day to day basis. So I still get money and dividends and the buzz of seeing people to grow and develop and the business moving on. F016* *There's some quite powerful value stuff in there … The trust is being set up with some of those values built into it. For example, there's a level of customer satisfaction prior to any allowances being paid … that was one of the things built into the trust deed as a prerequisite to any financial promises. F010* *"You can have that with us staying on if that's what you want or you can have it with us leaving, 100%" There was no doubt about the consensus … I did that because I wanted a moment where everybody and I could refer back to it later."* F019 *12 years of my life building up this business. I couldn't just walk away from it. That transfer of control was the biggest challenge in the whole process for me … It was letting go of everything that I've worked for in the past and my financial future and handing it over to people that I don't know what's gonna happen. F03*	*We were very conservative company in the way we managed things, because we don't like risks. None of the shareholders are particularly money focused. F02* *I could have that financial security that was still there, or if I've sold the business … but I felt quite comfortable with this idea. It seemed like a good solution. Good halfway. F05* *As with any situation I don't want to not get the value for my asset. F016* *I've had a return from the company separately, which makes considerably easier for me to make the decision I am now making because I have had some back from that as well. F010* *I came up with this employee ownership trust because I then discovered this is beneficial to all of us, because there are some tax benefits to us and there are some tax benefits to you, which made it good thing to do. F018* *It provided me financially with tax-free revenue which is a big plus.* F05 *We didn't have any capital gains tax problem to resolve anyway. So it wasn't in any way a driver because we didn't have any capital against tax liability. F012* *We can always come back. So if I find out I have trouble letting go, or I find it hard, because you never know how much your identity is, I define myself quite strongly by what we do here, and we're still going 15 years later. F020* *We could have kept it. I could have stayed in a Managing Director, or a Chairman role and just having send the money to us wherever we are in the world. But … I'm not sure if I*

You think about venture capital coming in, or a trade sale. Then you know that it was gonna be carnage. F017 *I'm looking at private equity options and they're not particularly attractive. They just lure you into debt. F015* *If I went and asked the staff to stand and put the money to buy the business, I think they've all would have said no. So that wasn't an option. F01* *I thought we would struggle to recruit significant numbers of managers and put their paying money in. The bank would want to see them before they would fund anything. F012* *We dismissed management buy-out … we don't have managers who've got a lot of money, and that wouldn't necessarily have protected the interests of the service personnel who couldn't raise money to be stakeholders F06* *I didn't want a management buy-out … If you read about it lasts about two years then they always sell on. I don't want that to happen, because we'd like to continue the name and the reputation. F018*	*We were in control. That was other thing; we were in control as opposed to somebody else telling us what we have to do.* F018 *It has some protection built in, if the existing team aren't strong enough to run it, to lead it properly, I can't take that step back, not the transfer of leadership. F010* *It's probably not something that's terribly likely to happen. The reality of this type of the business is that the value is in the people and the relationships. F020* *You can inspire others and it all might take you a generation, will play the long game. [This] form of joint employee and community ownership is probably the best way forward for a sustainable business model. F07*	*can actually be hands off … One of the problems with the way I am as a person is I'd want to be able to see the numbers going forwards. The guys here know, they're cutting off my access to everything but my email. F06.* *Initially I was "Oh yes, I have Mondays and Fridays off." And the reality of it, which is slightly depressing is that I didn't know what to do myself on Monday and Friday! F015* *I've been through the process of drawing myself away from [the firm] being my identity. I've been through this now in the last few years. [My fellow founder] still likes to be involved. It gives him a sense of identity, that's how it is. F09* *The future fills me with a little bit of trepidation. Every day for the last, well certainly every week for the last 20 years I've made a journey to [work] and obviously that's a big concern. I know this business inside out. … I'm probably too young to retire F013.*

10.5 Conclusion

The purpose of this chapter was to examine the actions and behaviours adopted by founders to protect their legacy. Specifically, it has examined how founders averted the prospect of a loss of business legacy by rejecting exit options for the sale or transfer of their venture in favour of employee ownership. They rejected transfer choices that left little or no prospect of their firm being left into legacy in a way that was consistent with their values, beliefs and sense of self-identity. As a result, the founders prevented the loss of self-identity and meaning that they attached to their firms. The findings of this chapter suggest that rational choices rather than heuristics underpinned the decisions to exit through EOT transfer. The founders were fully aware of the exit choices available and the issues that were inherent to each of them.

Moreover, the chapter finds that, having decided upon employee ownership as the transfer route, they adopted 'protective' behaviours aimed at safeguarding their legacy. These behaviours were characterised by those designed to exercise influence and leverage to protect their personal requirements and imprint their legacy ambitions. Despite having been successful in 'berthing' the firm at their chosen legacy destination, there remained aspects of risk, uncertainty and identity transition that were anxiety-causing and required careful navigation. Founders, therefore, adopted various strategies and behaviours aimed at offsetting their anxieties and averting negative impacts that were bound up in the changes to their role, status and the ceding of control. They had a strong sense of the losses and gains that were available to them through the different exit pathways and the consequences, particularly in terms of their legacy ambitions.

These findings can be viewed, in conceptual terms, as aversion to identity loss, with respect to both role identity and social identity theory: first, there is the loss of a dominant role identity (e.g. 'founder', 'proprietor'), i.e. one which has been performed through much of the founders' adult life, and to which they have attached importance and self-esteem; second, in terms of social identity, there is the loss of a dominant social category (e.g. (successful) 'entrepreneur'), i.e. one that is viewed positively by society and through which the founder has developed their self-concept and generated their sense of self-esteem. This line of reasoning would propose that the loss of identity of 'being a (successful) entrepreneur', or the prospect of identity loss makes founders averse to behaviours or decisions that negatively impact upon their sense of self-concept.

Founders who have become long-standing business owners generate self-esteem from having built a successful business (Cardon et al, 2005; Morris et al., 2020), one which can constitute an all-consuming aspect of their lives (Hsu et al., 2016). The prospect of identity loss will lead them to exit choices, behaviours and actions that avert the negative impacts that they foresee and fear. Thus, founders deployed a range of behaviours and mechanisms aimed at averting the threat of loss to the aspirations that they held for an entrepreneurial legacy. They ensured the preservation of their sense of self-identity and self- concept by choosing employee ownership over other exit choices. At the most fundamental level, founders protected their entrepreneurial legacy by rejecting exit choices that would prevent their legacy from coming into being. They also protected and imprinted their entrepreneurial legacy through actions and behaviours that enabled them to offset their loss of control in their firms by retaining financial leverage and influence.

Chapter 11: Conclusions and contributions

11.1 Recapitulation of the thesis context and purpose

This thesis set out to advance knowledge of the reasons why business founders transfer the ownership of their firms to employee ownership. Its purpose was to examine commonalities and heterogeneity in the exit orientation, behaviour and experiences of those who have transferred their firms to employee ownership. As set out in Chapter 3, the thesis research question was posed in the context of a rapidly ageing society. This brings with it an ageing and growing population of exiting business owners, who require an exit and transfer solution if their firms are to continue. However, they are less able to turn to the customary exit and transfer pathway of succession through family business transfer. Chapter 3 also sets out the reasons that are contributing to this situation. They centre upon the declining size of families, leading to a reduction in the number of prospective family successors available and the growing reluctance of those from succeeding generations to take over the 'family firm'. Together, these factors have significant implications for society and the economy, given the implications that result from increasing levels of business transfer failure.

The links between exit intentions, motivations, exit strategies and the pathways that are ultimately chosen by individuals are complex and have existential implications both for the individual and for the firm (Dehlen et al, 2014; DeTienne et al., 2015). For most individuals, the experience of exiting the firm that they founded is a unique one (Viljamaa et al., 2015; Carbonara et al., 2019). For the firm, the exit of the founder is a significant and potentially disruptive event, which has a direct impact on the activities and prospects of the venture (Wennberg et al., 2010b). It can also impact upon a wide range of stakeholders and the wider economy (Morris et al., 2020).

Hence, exit and transfer are major concerns for the economy, policy-makers, the individuals concerned as well as those involved with the process. As a consequence, succession is frequently viewed negatively, as a ‘problem’ that must be overcome (Howorth et al., 2004). Yet, succession and transfer represent a dyadic process of exit and entry (Wennberg et al., 2010a). It is one that is complex and occurs at multiple levels (Richards et al., 2019), involving much more than simply ‘passing on the baton’ (Blackburn and Stokes, 2000; Dyck et al., 2002). As opposed to being a problem, therefore, it can provide a potential entrepreneurial opportunity for venture regeneration (Salvato et al., 2010).

Nonetheless, one such opportunity - exit through business transfer to employee ownership - is scarcely acknowledged by the literature. This is despite the existence of studies that point to succession via a trusted employee as being the next-preferred option after family business succession (Battisti and Okamuro, 2011; Dehlen et al, 2014; Kammerlander, 2016; Chirico et al., 2019). In studies where 'employee buy-outs' are referenced as an exit option for founders (e.g. DeTienne et al., 2015), they are treated synonymously with MBOs and MBIs.

It remains the case that theoretical development in the domain of entrepreneurial exit domain is lacking (Strese et al., 2018) and there is relatively little by way of published qualitative research (Wennberg and DeTienne, 2014; Morris et al., 2018). Therefore, this thesis set out to explore entrepreneurial exit by transfer to employee ownership through a qualitative research study, with a view to the induction of new theory in this field. To provide a better understanding, the research purposefully sought to garner the perspectives and experiences of founders, in order to understand entrepreneurial phenomena from the individual's viewpoint (Rauch and Frese, 2007; DeTienne, 2010; Strese et al., 2018). The thesis also chose to focus on founders, since the perspective of the individual who transfers the firm has received little attention in the acquisition and transfer literature (Eisenhardt, in Gehmen et al., 2018).

By way of conclusion, this chapter synthesises the main findings of this thesis. It introduces to the literature the conceptual model of 'entrepreneurial legacy imprinting' developed by the thesis and sets out the contributions it offers to theory. It considers the implications that arise for business support policy and practice, before discussing the limitations of the thesis and pointing to suggestions for further research.

11.2 Entrepreneurial legacy imprinting: conceptual model

The primary contribution of this thesis to the lacuna of theory in exit is represented by the development of its theoretically-grounded framework of 'entrepreneurial legacy imprinting'. Theory, in this context is “a statement of concepts and their interrelationships that shows how and/or why a phenomenon occurs” (Corley and Gioia, 2011, p.12). Entrepreneurial exit is part of the entrepreneurial process (DeTienne, 2010), as is the dyadic process of exit and succession (Nordqvist et al., 2013). The results of this thesis emphasize that the decision of founders to exit their firms by transferring them to their employees is driven by their desire to create an entrepreneurial legacy. This desire and the imprinting behaviours performed during the transition to employee ownership are driven by identity characteristics.

Figure 13 sets out the conceptual framework of entrepreneurial legacy imprinting developed by this thesis. The themes and dimensions contained in the data structure provided at Figure 11 are fully represented. However, the model at Figure 13 is extended to make the relational dynamics between them transparent, in terms of founder motivation and behaviour. There are three principal mechanisms that underlie the concept of entrepreneurial legacy imprinting. These mechanisms were identified through the analysis of the data and emerged as a result of the search for explanatory perspectives and engagement with identity theory in the extant entrepreneurship literature. Each of the three mechanisms was, in turn, analysed and interpreted in Chapters 8, 9 and 10, namely:

Legacy orientation - The conceptual model of entrepreneurial legacy imprinting incorporates social identity-based drivers that explain the decision of founders to exit their firms by transferring them to the ownership of their employees. Founders are motivated to create and imprint their entrepreneurial legacy in ways that are consistent with their self-concept, values and beliefs. Social identity theory provides a conceptual lens to explain their orientation towards the creation of a legacy through their business and the motivational drivers that orientate the founders to exit their firms through employee ownership.

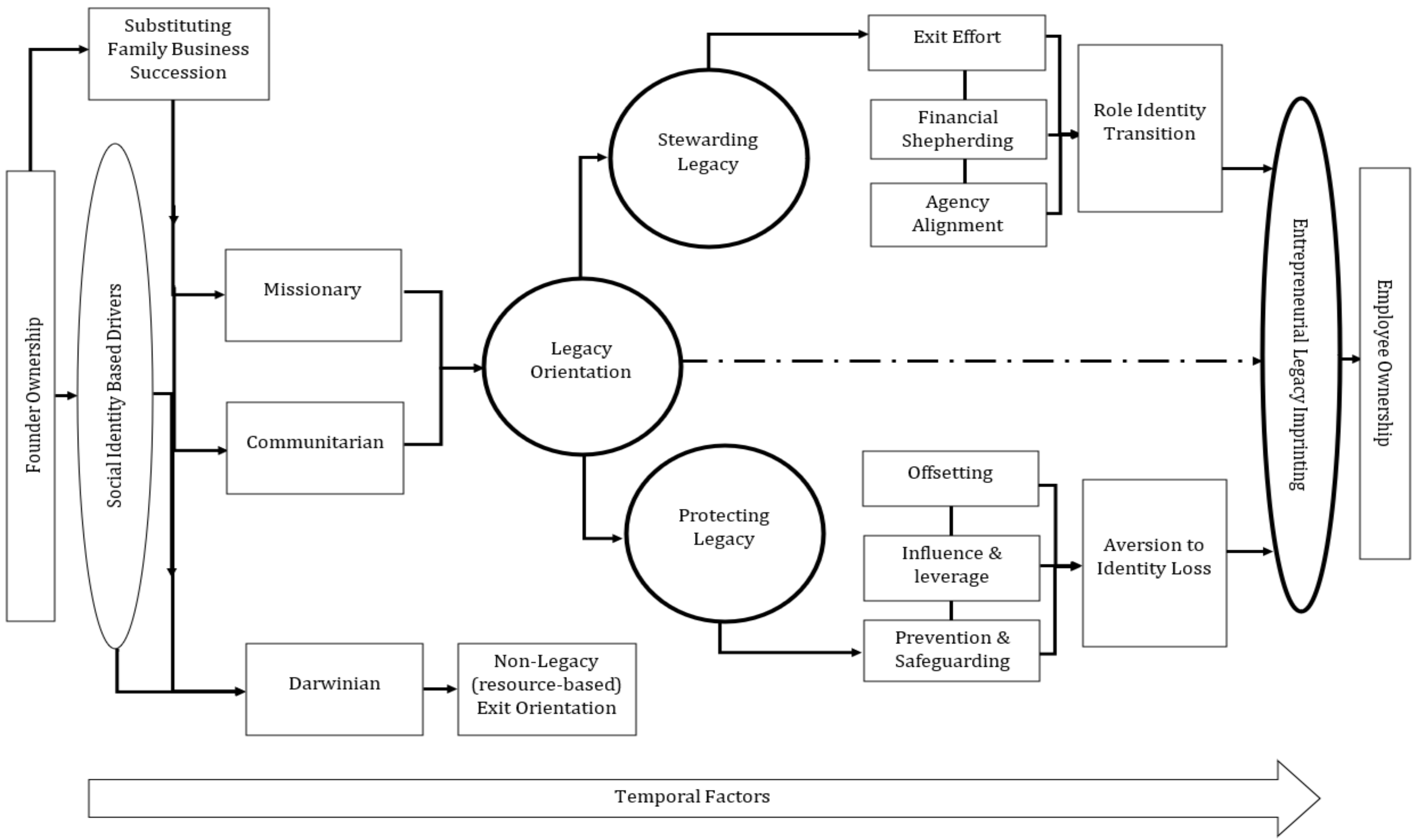

Figure 13: Conceptual model; Entrepreneurial legacy imprinting through transfer to employee ownership

Stewarding Legacy – The conceptual model of entrepreneurial legacy imprinting incorporates founder adoption of 'proactive' stewarding behaviours and facilitative measures to successfully imprint their firm through their chosen entrepreneurial legacy destination of exit via transfer to employee ownership. Founders adapt their role identity at exit to that of 'transfer steward', typically as their final entrepreneurial role transition within the venture. Role identity theory provides a conceptual lens to explain the role identity transition performed by founders, adopting stewarding roles and behaviours at exit in order to imprint the firm with their desired legacy characteristics.

Protecting Legacy – The concept of entrepreneurial legacy imprinting incorporates founders' rejection of exit choices that would result in the loss of entrepreneurial legacy. Founders reject exit outcomes for the destiny of their firms that are not consistent with their self-identity, in terms of their self-concept, values and beliefs. Their aversion to this prospect leads them to protect their legacy by rejecting other exit choices in preference to employee ownership transfer. The mechanism of legacy protection provides insight into 'defensive' imprinting behaviours, which centre upon the retention of leverage and control. These behaviours afford the founders a degree of pecuniary self-protection, mitigating and offsetting the prospect of identity loss. They are aimed at the protection of the founders' legacy, as they relinquish control of their firms through the transition process to employee ownership transfer.

The conceptual model set out at Figure 13 poses that the desire for an entrepreneurial legacy outranks founder requirements to achieve a financial harvest at exit. It drives founders to reject futures for their firms that would result in a loss of legacy. Their desire to achieve a legacy outcome and the identity drivers behind their legacy orientation underpin their exit motivation and behaviour. Thus, as illustrated by the 'dotted line arrow' at Figure 13, characteristics associated with missionary and communitarian-based social identity drivers motivate founders towards the desire for an entrepreneurial legacy outcome. Darwinian-based drivers at exit are non-legacy oriented.

Legacy orientation is mediated through two sets of behaviours. They comprise 'proactive' stewarding behaviours, adopted through a role identity transition and 'defensive' protecting and averting behaviours, applied to safeguard the legacy footing of employee ownership. Each of these behaviours comprise actions aimed at imprinting the continuing firm with the founder's desired legacy characteristics post-exit. Both sets of behaviours are complementary to the achievement of this objective and were present to varying degrees in legacy-oriented founders.

Much of the impetus in the entrepreneurial exit literature arising from DeTienne's seminal work (2010) has come from her focus on volitional exit (i.e. not failure), motivated by a successful financial 'harvest' event being 'the point of it all'. However, in this thesis, succession and legacy through business continuance appeared to be at least as great, if not of greater concern to the research participants. As with venture start-up, entrepreneurial exit and business transfer involves gains and losses (Kammerlander, 2016). The findings presented in this thesis suggest a nuanced view of entrepreneurial decision-making at exit, in that the sampled founders frequently applied criteria that related to how well they matched their sense of self-concept. Nonetheless, it should be borne in mind that, relatively speaking, the participants are successful founders – they had already 'harvested' a degree of wealth through the accrual of profit over the years. This is an important point for two reasons. First, the balance between motivational considerations of legacy and 'harvest' may differ amongst founders whose entrepreneurial careers have been less financially lucrative. Second, entrepreneurship theory benefits when the research that informs it distinguishes between individuals who are particularly successful at entrepreneurship in comparison to others (Davidsson, 2016).

This thesis offers the prospect that the extent to which founders have a desire to create a legacy through their business that is consistent with their concept of self-identity is a significant factor in the determination of exit choices made by founders. These choices determine the destiny of their firms and the extent to which they are imprinted at exit through behaviours that are driven by the founder's self-concept. The introduction of the concept of entrepreneurial legacy imprinting introduced by this thesis offers a new explanation for heterogeneity amongst founders in their entrepreneurial motivation and behaviour at exit. The primary contribution offered by this concept stems from its ability to shed new light on the processes involved by making a novel link between entrepreneurial legacy, identity and entrepreneurial exit. Moreover, the thesis makes a number of further contributions to the literature, as described in the section that follows.

11.3 Contributions to the literature

11.3.1 Weaknesses in the literature

This thesis identifies significant and structural weaknesses in the extant literature of entrepreneurial exit and business transfer. It highlights how scholarship in entrepreneurial exit is dominated by the family business literature and studies of family business succession (DeTienne and Wennberg, 2016). Despite the evidence pointing to the decline of family business succession (e.g. van Teeffelen, 2012), there remains a lack of literature that is concerned with entrepreneurial exit and non-family business transfer (Chirico et al., 2019; Richards et al., 2019). This continues to be the case and, if anything, the domination of exit studies represented by those of family business succession is becoming more prevalent (Cisneros et al., 2018). Furthermore, firms that are not publicly owned are often assumed to be family firms, or are treated indistinguishably from them, even where there is no familial dimension to the venture. This is despite the existence of evidence that, at both individual owner and firm level, they operate in different ways (Miller and Le Breton-Miller, 2011; Miller et al., 2011, Cannella Jr et al., 2015). Therefore, the thesis also contributes to a growing recognition in the literature of the differences between publicly quoted firms and privately owned SMEs, through its focus on the growing significance of non-family business succession.

The critical review conducted in Chapter 4 finds that, outside of family business succession, entrepreneurial exit studies pay scant regard at times to precisely *who is exiting* – in terms of the type of owner, entrepreneur, business founder or non-founder (DeTienne and Cardon, 2012; DeTienne et al., 2015; Rouse, 2016); *what is exiting* – with considerable conflation between the exit of the individual and the exit of the firm (Battisti and Okamuro, 2011; Strese et al., 2018); *the reasons for exit* – due to the lack of differentiation between volitional and successful exits from those due to business failure or underperformance (Headd, 2003; DeTienne, 2010; Khelil, 2016); and *post-exit outcomes* - in terms of the distinction between the post-exit destinies of the individual and those of their firm (Blackburn and Kovalainen, 2009; Cumming et al., 2016). The lack of attention paid at times by exit studies to these critical distinctions and differentiations leads to a lack of definition as to the nature of the concepts under consideration. As a result, the extant exit literature displays a profound weakness through its inability to be coherently applied to the results of studies, which has severely impacted upon conceptual and theoretical development in the field of entrepreneurial exit.

Moreover, the literature is somewhat inattentive to *how exit manifests itself* – with respect to differentiating between exit from ownership and exit from management (DeMassis et al., 2008; Souitaris et al., 2020). However, founders themselves are clear about the importance of this distinction (see Chapter 9). Exit is a complex and multilevel phenomenon, but it is conceptually important to research for management exit and succession and ownership exit and succession to be understood as separate concepts (Wennberg et al., 2010a). Thus, the thesis describes how these exists take place through separate trajectories and illustrates this process at Figure 12 in Chapter 7.

It is arguable that weaknesses identified in the extant exit literature are compounded, if not caused by, the domination of quantitative research and the premature testing of hypotheses before there has been sufficient conceptual development. This is a tendency in the academic community that can be observed in emerging research fields (Blumer, 1969 in Blaike, 2009). It is a tendency that is observable in entrepreneurial exit. Despite having established itself as a distinct research domain in recent years (DeTienne and Wennberg, 2016), there is little by way of qualitative research and the field lacks theoretical development (Wennberg and DeTienne, 2014; DeTienne et al., 2015; Morris et al., 2018). Hence, the thesis addresses this weakness in the literature through its conceptual contribution, generated by its use of a qualitative research strategy.

11.3.2 Legacy and identity theory

In this thesis, identity theory has been utilised to provide the framework against which the underlying mechanisms that imprint entrepreneurial legacy are developed. Founders can spend many years of their lives creating, building, nurturing and developing their firms, as well as planning for their eventual exits. The desire to create or leave a legacy has been posited through conceptual articles in the psychology literature as a potential moderator of entrepreneurial behaviour (Coombs et al., 2008; Fox et al., 2010; Fox and Wade-Benzoni, 2017). It is, therefore, somewhat surprising that legacy motivation has received scant attention from entrepreneurship scholars. It may be that, for some, concepts of legacy and exit point to entrepreneurial process that are 'over'. Consequently, they may not be so prominent on the radar of an entrepreneurship research community that is often, by its very nature, focused on understanding concepts associated with the individual's entrepreneurial journey 'ahead' (Graebener and Eisenhardt, 2004; Decker and Mellewigt, 2007). However, knowledge generated by concentrating exclusively on new venture creation leads to partial understanding of something that, for everyone involved, must come to an end (Forster-Holt, 2013; Morris et al., 2020).

It is particularly surprising that the entrepreneurial exit literature, as it has evolved over the last decade has barely acknowledged, let alone studied, legacy motivation and legacy imprinting behaviours at exit. On the other hand it is, perhaps, less surprising that the mechanisms that drive motivation and behaviour towards the creation of a business legacy are located in identity constructs. Contemporary studies in social science are asserting with increasing frequency the relevance of identity in the motivation of human behaviour, whilst issues of identity and context have broader implications for entrepreneurship scholarship and practice (Jones et al., 2019). It is argued by some that entrepreneurship is better understood through the application of concepts drawn from psychology and sociology (e.g. Shane et al., 2003; Cardon, 2008), whilst there is increasing scholarly attention to the cognitive processes of entrepreneurs (Shepherd et al., 2015; Rouse, 2016). Nonetheless, identity issues have only begun to gain currency relatively recently in entrepreneurship studies (Fauchart and Gruber 2011; Leitch and Harrison, 2016).

The focus on individual entrepreneurs that characterised early entrepreneurship literature was challenged by the seminal and highly influential work of Shane and Venkataraman (2000). Here, entrepreneurship is construed as a process, one which operates at the individual-opportunity nexus (Davidsson, 2016). Efforts towards the wider adoption of identity theory in the entrepreneurship literature may be viewed, therefore, as a tentative re-balancing 'back' towards the importance, or perhaps the primacy, of the motivational drivers and behaviours of individuals. Thus, a focus on the entrepreneur as the unit of analysis is necessary to generate a better understanding of the dynamism that is inherent in entrepreneurship (Westhead and Wright, 1998; Ucbasaran et al., 2003). It would hold that entrepreneurship is fundamentally personal (Baum et al., 2007), being defined by the actions of the entrepreneur (Baum and Frese, 2014; Shepherd, 2015), in a context where ownership and decision-making are central (Ucbasaran et al., 2008).

Studies that focus on the individual are, however, not without disadvantages. There is no such thing as an ‘average’ entrepreneur and research based on personality traits can lead to a dead end (Rauch and Frese, 2007). Nonetheless, taking a person-centred approach in research does not need to be to the exclusion of all else. Entrepreneurship is better understood through the dynamic interactions and processes that occur between the immediate context of the entrepreneur and their environment (Gorgievski and Stephan, 2016). These dynamics are not static, but change over time (McMullen and Dimov, 2013; Shepherd et al., 2015), which is of some consequence when the focus is on exit, rather than start-up.

Hence, this thesis contributes to the identity literature in entrepreneurship by responding to calls to extend the scope of identity theory to provide new insights into different aspects of the entrepreneurial process (Gruber and Macmillan, 2017; Jones et al., 2019). It responds to those who seek more research on the cognitive dispositions of experienced entrepreneurs and the choices they make at the latter stages of the entrepreneurial process (Simmons, et al., 2016). It also addresses the calls from scholars for research that focuses its attention on the 'identity relevance' of entrepreneurial behaviours (Gruber and Macmillan, 2017), the entrepreneurial processes through which identity in entrepreneurship is manifested (Brändle et al.,

2018) and the relationship between founder identity and its impact on organisations (e.g. Leitch and Harrison, 2016). It also acknowledges that identity theory-based research in entrepreneurship should not focus on "identity as entity per se" (Leitch and Harrison, 2016, p.179) since, ultimately, “its usefulness for research on entrepreneurship depends on its ability to explain entrepreneurship phenomena” (Alsos et al., 2016, p.239).

In this context, this thesis is the first to apply identity theory to explain the results of empirical research within the domain of entrepreneurial exit. Identity theory is central to the concept of legacy and to the theoretical construct of entrepreneurial legacy imprinting proposed by this thesis. Identity theory has demonstrated its explanatory potential in relation to the choices and behaviour of founders who are primarily concerned with legacy, in the form of continuance and well-being of their firm, or the preservation of its mission, after their exits, It explains the presence of identity-based drivers in their desire to ‘leave something behind’ through transfer to employee ownership as an exit choice that is consistent with their sense of self-concept, It also explains the various manifestations of their role identity transition through proactive and facilitative behaviour as 'transfer stewards', as well as 'defensive', protective behaviours that are driven by aversion to loss of self-identity.

11.3.3 Economic and non-economic motivations in entrepreneurship theory

The application of identity theory and the developed theory of entrepreneurial legacy imprinting contributes to the literature of the role played by non-economic considerations in the entrepreneurial exit process (Cardon et al., 2005b; DeTienne, 2010; DeTienne and Chirico, 2013; Kammerlander, 2016; Strese et al., 2018). For the founder, the exit process is influenced by both economic and non-economic factors (Graebner and Eisenhardt, 2004; DeTienne, 2010; DeTienne and Cardon, 2012; Wennberg and DeTienne, 2014, Kammerlander, 2016) as many have both personal and non-pecuniary reasons for choosing to exit their businesses (Forster-Holt, 2013).

Increasing levels of recognition of these reasons has led to calls for additional research into the effects of a broader set of motivational drivers of entrepreneurship (Shepherd et al., 2015). How founders judge their personal satisfaction with their firms, in terms of financial and non-financial metrics, depends on the extent to which there is a discrepancy between their expectations and their perception of the outcomes (Cooper and Artz, 1995; Khelil, 2016; Strese et al., 2018). Thus, the entrepreneur's perception of what is important for their exit to be considered as successful is crucial to the exit decisions that they make (DeTienne, 2010; DeTienne et al., 2015; Strese et al., 2018). Exit involves multiple dimensions amongst its outcomes that can be perceived as both positive and negative by those going through the exit process (Wennberg and DeTienne, 2014; Aldrich, 2015; DeTienne and Wennberg, 2016). Therefore, this theses addresses calls that research on volitional exits should focus more strongly on the criteria that they develop for themselves, as well as the contextual issues that surround them when they exit (Ma, et al., 2019).

The results of this thesis support the view that the beliefs and values held by founders are highly relevant to understanding entrepreneurial activity (Davidsson and Wiklund, 1997). Values are critical to what is considered important by those in a given social system, such as is represented by a firm (van Hilbert and Nordqvist, 2018). Therefore, the thesis contributes to calls for research that examines "prosocial motivation to entrepreneurs' compassionate venturing and the enhancement of the entrepreneur's well-being" (Shepherd, 2015, p.490). The appeal of ethical capitalism is a significant factor in the growth of social entrepreneurship (Haugh et al., 2018) and the importance of values is especially visible in social and sustainable entrepreneurship and philanthropy (Grenier, 2010). Many employee-owned companies consider themselves to be a form of social enterprise and writings from literature associated with the employee-owned sector claim that commitment to prosocial values and ethics are stronger in employee-owned companies than others (Steare et al., 2015). Whilst the founders who transferred their firms to employee ownership were not doing so as an entirely philanthropic act, they did see it as a value-driven form of succession. Thus, those with communitarian and missionary-based identity drivers display prosocial motivations behind their decision to choose employee ownership as their succession route.

Using exits as a measure that determines the extent of business success achieved is standard in the venture capital literature (Brander et al., 2010). Yet, it is striking how little entrepreneurship research has been concerned with establishing the individual and ultimate monetary rewards and consequences of entry and venture creation (Carter, 2011). Whereas the prospect of monetary reward is a well-established motivation for entrepreneurial activity (Walker and Brown, 2004; Shepherd and DeTienne, 2005), evidence about the financial returns of entrepreneurship is rare (Wiklund et al., 2011). Despite theoretical interest in this area, and contentions that entrepreneurship is deeply concerned with wealth creation (Ma and Tan, 2006; Mason and Bothelo, 2016) researchers have relatively little data about the harvested value that arises from exit (Mason and Harrison, 2006; DeTienne, 2010; Carter, 2011; Wiltbank et al., 2015). Consequently, extant theory has been over-dependent upon its focus on the financial outcomes of exit and their association with the exit route chosen for the firm (Lee and Lee, 2015; Marvel et al., 2016; Strese et al., 2018). Moreover, limiting entrepreneurship study to new venture creation, or excluding exit from scholarship of entrepreneurial opportunities runs the risk of making assumptions about, or at least being uninformed by, the ultimate realities of the monetary returns involved.

11.3.4 Imprinting theory

The theory of entrepreneurial legacy imprinting developed in this thesis provides novel insights for the link between entrepreneurship, entrepreneurial exit and the literature on organizational imprinting. At the level of the firm, the imprinting effects of founder legacies have long-since been identified in the management literature. Imprinting theory considers how entities form and develop their own unique characteristics and how these characteristics manifest themselves in organisational evolution and impacts (Marquis and Tilcsik, 2013; Simsek et al., 2015). As such, the imprinting literature has stressed the importance of founders to the imprinting of organisations during 'sensitive' periods – predominantly during the founding stage (Stinchcombe, 1965; Marquis and Tilcsik, 2013).

However, the imprinting literature has not identified or examined the exit of the founder as representing a 'sensitive' transitional phase or a triggering event in organisational imprinting. The research undertaken for this thesis has not revealed any scholarly work that highlights the fundamental influence that the founder's identity-based drivers and their desire to leave a legacy have on imprinting a firm at exit. This is despite the fact that founder succession is one of the most crucial events in the life of any company, given the substantive and symbolic importance of the founder's role (Wasserman, 2003).

In a similar vein, research in both the management and entrepreneurship literatures focuses on organizations as recipients of imprinting (Marquis and Tilcsik, 2013; Mathias et al., 2015; Ahn, 2018). In this respect, it pays attention to the legacy of the past in explaining present and future business activities (Kimberly and Bouchikhi, 1995; Corley and Gioia, 2004). However, much less attention is given to the motivations and behaviour of founders as 'imprinters', outside the start-up period (Mathias and Williams, 2018). The extant literature has highlighted the importance of the exit of the founder to the destiny of the firm (e.g. DeTienne and Cardon, 2012; Strese et al., 2018) but it has not yet identified the role of founder exit drivers and choices as powerful antecedents to organisational imprinting.

The thesis, therefore, offers a bridge between the entrepreneurship literature on founder motivation, behaviour and identity as the origins of imprints (e.g. Fauchart and Gruber, 2011) and the management and organisation literature which examines the impact of those imprints (e.g. Schein, 1983; Boeker, 1989; Geroski et al., 2010; Marquis and Tilcsik, 2013; Simsek et al., 2015). By choosing employee ownership as their exit pathway, 'stewarding' their firms towards this destination and by retaining authority and influence within the business after their exit, founders' desire to secure a legacy that is consistent with their sense of self-concept represents a significant force in organisational imprinting, one that is intended to endure beyond their exits.

11.3.5 Stewardship theory

The thesis offers a novel role identity perspective as a contribution to stewardship theory. It builds upon studies that extend stewardship theory outside of its employee – organisation context into the behaviour of entrepreneurs at exit (DeTienne et al., 2015;

Mathias et al., 2017). Stewardship in organisational and management theory emphasises motives aimed at preserving, protecting and maintaining social and economic assets for the benefit of stakeholders and communities (Contrafatto, 2014) It portrays individuals as stewards, intrinsically motivated to put the interests of the organization and stakeholders ahead of self-serving interests (Davis et al., 1997).

Stewardship theory offers a counterpoint to agency theory, which foresees an inevitable and structural conflict between those that own businesses and those that they employ to run them (Jensen and Meckling, 1976). Thus, 'employee buy outs', have been identified as a type of 'stewardship exit' (DeTienne et al., 2015), whereby financial utility is not maximised at exit at the expense of the on-going wellbeing of the organisation. However, scholarly work prior to this thesis has not differentiated collective forms of employee ownership transfers (i.e. ownership by employee trusts) from MBOs (or MBIs).

The results of this thesis are the first to suggest that founders can view these 'stewardship exits' quite differently. Founder participants in this research did not necessarily view a MBO outcome in stewardship terms. Whilst a MBO would initially result in a degree of 'internal' continuity in the firm, founders were concerned that there was nothing to stop those who lead a MBO selling on the firm subsequently to an exogenous party - an outcome the founders rejected. They also believed that, unlike the transfer to the EOT, such a sale would occur for the private gain of those involved at the expense of those employees who were not part of the MBO. As a result, they were sceptical about the extent to which business transfer to a MBO outcome would represent a true solution for their entrepreneurial legacy.

Business owners are often subject to negative portrayals at exit in terms of being driven by separation anxiety and being unwilling to let go of their 'baby' (Cardon et al., 2005). This behaviour is frequently characterised by the literature in negative terms, as a significant factor that hinders the prospects for a successful business transfer (e.g. Sharma et al., 2003; Bruce and Picard, 2006; Halter et al, 2009; Hsu, 2013; Wessie and van Teeffelen, 2015; Zanger et al., 2015). The literature posits that founders need to disengage from their ventures psychologically or emotionally in order to exit (e.g.

Rouse, 2016; Afrahi and Blackburn, 2019). It also extensively explores the emotional impact of exits arising from business failure, notably in terms of how the individual affected by failure makes sense of the experience (e.g. Cardon et al., 2011; Byrne and Shepherd, 2015; Corner et al., 2017; Fang He et al. 2018). However, studies do not consider the affective outcomes, whether positive or negative, that arise from volitional exits that are considered to be successful (Cardon et al., 2012; Walsh and Cunningham, 2016; Shepherd and Patzelt, 2017), nor their emotional impact on the individual owner (DeTienne and Wennberg, 2014).

The findings in this thesis offer a more positive counterpoint to negative characterisations of founder behaviour during the exit process. They suggest that such portrayals should be balanced with the recognition of stewardship intentions held by founders to facilitate the post-exit well-being of the firm and its employees. Moreover, as opposed to psychological disengagement, founders can become willing and committed to enhance their engagement, by adopting role identity transitions and stewarding behaviours to achieve their desired legacy outcome. Thus, whereas emotional disengagement from the venture may make a stewardship exit strategy more likely to occur (Afrahi and Blackburn, 2019), this thesis finds that the pursuit of a desired legacy outcome can also provide founders with a new sense of purpose to pursue a stewardship exit. They can enthusiastically adopt stewardship behaviours to make it happen, discovering a new 'lease of life' and become emotionally (re) engaged with their firms. These findings offer support for Powell and Baker (2017) and Mathias and Williams (2018), who find that founders adopt salient role identities when required at different stages at different phases in their enterprises.

Finally, Mathias et al. (2017) draw upon stewardship theory to explain the motivation and behaviour of founders who steward legacies into being by forming philanthropic foundations for charitable giving. Having accrued extreme wealth through their business careers and financial 'harvest' exits, founders adopt the role of 'steward manager', whilst society as a whole is defined as being the principal beneficiary of their stewardship arising from their philanthropic giving. This thesis offers support for those findings, in that it also uncovers founders who are willing to adopt stewarding roles and behaviours to achieve a business legacy. However, it does so by demonstrating how a more 'typical' group of successful, if not ultra-wealthy, entrepreneurs approach the concept of stewarding their business legacy, by seeking business continuance for communitarian or missionary-driven purposes.

11.4 Implications for business support policy and practice

Policymakers attach considerable importance to the promotion of entrepreneurship as a means of achieving economic and employment growth. Yet this growth is only achieved by those who are successful at it.[79] Each of the founders who participated in this research could be considered as such, having established businesses that were financially successful and sustainable and were all in a position to consider a profitable transfer.

The research findings point to the existence of a growing cohort of highly experienced, knowledgeable business owners who are approaching or passing retirement age each year. Those with previous and successful entrepreneurial experience, when provided with the opportunity to do so, can impact beneficially on the economy in ways that are also meaningful to them (Albiol-Sánchez, 2016; Morris et al., 2020). For instance, they can use this experience to provide coaching and mentoring or make contacts for other entrepreneurs (Mason and Bothelo, 2016; Spigel and Harrison, 2018). In many cases, however, the intellectual and human capital they have accrued is not being utilised effectively by society (European Commission, 2013). Consequently, one reason why many older entrepreneurs choose exit strategies that enable them to remain involved with their firms is because they lack alternatives for using their experience and knowledge (DeTienne and Cardon, 2012).

Yet, the ability of a founder to exit their firm can be inhibited or prevented by a lack of access to appropriate human capital (Siepel et al., 2017). Thus, according to social learning theory there is much to be gained from founders being able to access the

[79] A point made by Professor Colin Mason, 'Business Angel Perspectives on the Exit Process', presentation to the British Academy of Management seminar 'Understanding Business Exit' at the University of Nottingham on the 20th April 2016, attended by the author.

knowledge of other founders who have been through this unique experience (Wennberg et. al., 2010). Founders make substantial use of informal advice and recommendations from their peers, particularly where firms do not see one another in competition (Kuhn et al., 2016). The thesis research points to an increase in the number of those who have exited through transfer to employee ownership and a growing demand from those who require specialised assistance with employee ownership-based transfer and succession. Therefore, business support policies should consider structured initiatives to foster peer-based coaching and mentoring between founders who are interested in exploring employee ownership and those who have had experience of it.[80]

It was often striking, as the data were analysed, how succession by employee ownership revealed itself to be a 'solution' to a 'problem' that the founders had been wrestling with, i.e. what to do with their successful business, particularly as they approached a certain age, to ensure that it continued in 'safe hands', with family succession ruled out for various reasons. However, founders were, at least initially, largely 'on their own' when it came to arranging a successful transfer. Support for individuals at the final stage of venture ownership lifecycles is rare, whilst only a minority of founders achieve a satisfying transfer outcome (Battisti and Okomuro, 2011). Yet, the loss of knowledge, employment and productivity that results from the failure of firms to successfully transfer is a substantial and rising cost to society and the economy (European Commission, 2011; Morris et al., 2020). This situation suggests that those who are responsible for the design and implementation of business support policies are more likely to achieve their aims of economic growth through entrepreneurship if they give greater priority to supporting business transfer.

Consequently, there have been widespread calls over the years to enhance public policy to support exiting business owners with business transfer and to provide them with a level of attention comparable to that given to support for business start-up (e.g. Small Business Service, 2004; European Commission 2011; European Commission, 2019). When doing so, the thesis results suggest that the effectiveness of business transfer advisory services would be enhanced by a greater understanding of the existence of

[80] In the U.K., for instance, the EOA enables this process by putting such individuals in touch with each other and through its regular programme of regional networking events.

distinct social identity-based missionary, communitarian and Darwinian drivers amongst founders as they approach their exits. Professional advisers who become acquainted with these drivers and how they orient founders differently in exit motivation will be better placed to provide more insightful, empathetic and customised services. This would be of particular benefit to exiting business owners who prioritise considerations of legacy over the maximisation of monetary return.

It can be anticipated that, irrespective of the specific national or legislative context in which they were conducted, the role of identity and legacy-based drivers at exit set out in this thesis would be echoed in research studies of founder exits and employee ownership transfers. Nonetheless, the research for this thesis operated in a specific context, with founders of firms from across England and the advent of the U.K. Finance Act of 2014 that led to the creation of EOTs. It may be that certain aspects of the findings that are context specific, such as the fiscal nature of the EOT tax treatment and the organisation of business advisory services, may have resonance elsewhere. Nonetheless, given the practical nature of these issues, the remaining part of this section emphasises implications for business support policy and practice in the U.K.

The research results suggest that the extent to which the tax benefits introduced by the 2014 Finance Act in the U.K. influenced founder decisions to transfer the firm to employee ownership, rather than to another destination, was mixed. With the exception of the founder who displayed largely Darwinian social identity-based drivers, founders judged that the EOT tax advantages that accrue to themselves made little or no difference to their decision to choose employee ownership succession.

The findings produce mixed support for the view that enhancing the EOT tax incentive available to founders would encourage greater take-up of employee ownership for those that are legacy oriented. There was little evidence to suggest that the tax benefit available to founders made the difference between the decision to transfer to an EOT and other choices for those whose drivers were missionary or communitarian-based, particularly given its marginal nature when compared to entrepreneurs' tax relief. However, its existence did encourage founders to ‘make the step’ to immediately transfer their firms to majority EOT control, rather than to do so incrementally by transferring lower levels of ownership. Moreover, the fiscal incentives embodied in the EOT arrangements are attractive to those who are not legacy oriented and are Darwinian-driven at exit. The greater such monetary incentives, the more such founders may take greater interest in EOTs - not least as recent legislation has had the effect of increasing their value in relative terms.[81]

Conversely, there was universal encouragement derived from the EOT tax exemption that applies to employee remuneration. Consequently, the findings from this thesis suggest that the EOT employee tax benefit should be retained as an incentive to promote employee ownership. Indeed, it could be increased, given that its monetary value has not been revised since its introduction in 2014.

There is a wide degree of political consensus in the U.K. on the desirability and importance of widening employee ownership in the British economy. As set out in Chapter 2, the Conservative government has announced its intention to explore how employee share ownership can be widened. Commitments to the extension of employee ownership in the U.K. economy have also featured in recent manifestos published by the Liberal Democrats and the opposition Labour Party. Nonetheless, at the present time, there is neither a Minister at any level of government with responsibility for employee ownership nor a civil servant with responsibility for its advocacy or promotion, despite the recommendations of the Nutthall Review in 2012.[82]

It is, therefore, unclear how greater levels of employee ownership will be achieved from policy arrangements beyond those already in place in the 2014 Act. For instance, none of the founders, all of whom were operating in England, referred to the existence of any publicly-enabled advice or support programme to assist them with their transfer or succession planning. In the absence of such services, founders turned to their accountants or spoke to other professional advisers, who had no experience and considerable ignorance of employee ownership as a transfer option. It was not until

[81] As a result of the reduction in lifetime gains for entrepreneurs' tax relief announced by the U.K. Chancellor of the Exchequer on 11th March 2020, for any transfer to an EOT where the sale value is above £1m the cash value hereon of this tax benefit will double. This may alter the balance of considerations in favour of an EOT transfer choice for founders who place a greater onus on financial harvest when they come to consider their exit options.
[82]Aditya Chakrabortty, The Guardian, 14th March 2018. 'Want to save your job and make more money? Buy out your boss.' At https://www.theguardian.com/commentisfree/2018/mar/14/workers-bosses-new-economics-series-employee-ownership?CMP=Share_iOSApp_Other

founders connected with the EOA or with specialist advisers, usually as a result of their own efforts or from a serendipitous conversation, that they were able to progress.

Therefore, in order to overcome this endemic imbalance of information asymmetry, there is a pressing need to increase the levels of awareness amongst professional business advisers of the existence of employee ownership as a practical succession solution for business owners. However, whereas advocacy organisations such as the EOA, Cooperatives U.K. and Social Business Wales are actively promoting employee ownership, at U.K. governmental level, it is only in Scotland where specific publicly-funded advice and support for those who wish to transition to employee ownership can be found. If the increasing number of ageing business owners and the successful firms that they have built up are to be properly supported and sustained through effective business transfer, as exists in Scotland and in many EU states, a much wider publicly-facilitated system of information, advice and guidance in England is required.

11.5 Limitations and suggestions for future research

As with any research project, the thesis has several limitations. Chapter 6 describes how it addressed the methodological challenges that are present in any study where the main source of data is provided by interviews. Specifically, there are considerable practical issues concerning access to data that must be contended with in studies of entrepreneurial exit. These issues contribute to its under-representation in the literature and in qualitative research (Morris, 2018). The research approach that was designed and adopted for this thesis was able to successfully overcome many of the data issues. Nonetheless, there remains a risk of bias, including recall bias on the part of the participants, that must be considered.

The thesis draws upon contextual information from the EU and the U.S. concerning business transfer and employee ownership, as well as global studies in relation to entrepreneurship and exit. However, the founders who participated in the research had established their firms across England and the legislative context of the thesis is provided by that of the U.K., specifically the advent of EOTs. Future exit research will need to consider the precise legislative and cultural contexts in which these issues manifest themselves outside of the U.K.

The operationalisation of the research commenced in the autumn of 2017. It took place, therefore, at a time when the impact of the 2014 legislation was in its infancy and founders who had transitioned their firms to employee ownership were scarce. Since then, from this relatively small base, the number of firms becoming employee-owned has been increasing exponentially (Robinson and Pendleton, 2019). This is relevant to future empirical research in this area, since it offers researchers the prospect of a larger population from which to draw samples than was available at the time of this study.

This thesis is unable to offer a perspective in relation to gender. Chapters 6 and 7 describe the efforts that were made to add to the female participants that were interviewed, whilst noting that it is not necessarily the case that females were under-represented in terms of the population available for the research sampling. There is some evidence in the literature that there are differences in the patterns and rates between men and women across different exit categories, including exit for positive and volitional reasons as well as family, health and retirement (e.g. Justo et al., 2015). Furthermore, studies that have considered entrepreneurship and identity have been criticized for a lack of attention to gender (Ahl and Marlow, 2012). The psychological and social psychology literature contends that there are differences between male and female gender identities in self-construal (Murnieks et al., 2018) which may, therefore, impact on legacy orientation and actions in entrepreneurship. However, the extent to which gender identity dimensions are manifested in entrepreneurial exit and business transfer has not been considered, despite the presence of gendered aspects in these processes (Marlow and Swail, 2015; Simmons et al., 2019). Therefore, gender identity in exit remains an area that awaits focused research attention.

This thesis is unable to provide insights into the link between heterogeneity in the identity drivers that manifest themselves at exit and those that surround founder motivation and behaviour before and during firm creation. It has been speculated in a conceptual article in the psychology literature that the desire to create a legacy in business is present not only at exit, but also at the start-up stage (e.g. Wade-Benzoni, 2017). Albert and DeTienne (2016) suggest that founding resources influence the strategies that are adopted when exit is pursued through a deliberate transfer, whilst others have speculated (e.g. Littunen, 2000 in Stokes and Blackburn, 2002) that the individual's entrepreneurial entry motivations can also provide explanations for their exit motivations. However, nothing is known about the link between entry mind-sets and those that are present at exit (Shepherd et al., 2019).

In the context of this thesis, it may be that the social identity-based drivers that were evident at exit, which orientated the founders toward employee ownership transfer, were present in the individual at founding. The extent to which this would have been the case among the research participants is, however, impossible to know. Entrepreneurship scholars who have drawn upon identity theory appear divided between those who consider entrepreneurial identity as being intrinsic to the individual and relatively stable (e.g. Cardon et al., 2013; Collewaert et al., 2016), is constrained by individual-level properties (Kašperová and Kitching, 2014), can develop during the entrepreneurial journey (Marvel et al., 2016; Mathias and Williams, 2017) or be changeable according to the fluidity of temporal and environmental factors (Leitch and Harrison, 2016). Moreover, the interviews conducted with founders invariably took place at a moment in time which was long after they founded their ventures (typically between 20 and 30 years). Founders were asked about the circumstances and motivations surrounding the creation of their ventures and the 'business journey' that they had undertaken since, which provided valuable insight into their business values and their sense of self-identity. None referred specifically to the presence of legacy motivations at the time of founding. Nonetheless, no specific conclusion is drawn from this finding. Whilst the centrality of legacy motivation at exit emerged from the analysis, it was not apparent at the outset of the research and its presence at start-up was not pursued as a line of enquiry. Furthermore, recall bias would be a substantial factor in any attempt to do so, given the length of time between the interviews and the founding phases in question.

In an ideal world, entrepreneurship studies would make more use of longitudinal approaches that follow founders through their ventures over time. They could, for example, examine how founders capture the point at which the desire to create an entrepreneurial legacy begins to form and how they consider or change their exit intentions during the ebb and flow of venture development (Corner et al., 2017). Doing so from start-up to exit would be particularly enlightening, providing novel and valuable insights into the role of exit on other stages of the entrepreneurial journey (DeTienne et al., 2015). Evidently, however, this would be an enormously challenging endeavour in the case of founders who go on to spend many years or decades leading and owning their firms.

Finally, from a strategic management perspective, future research is warranted into the extent to which, post-exit, the legacy aspirations held by the founders and the efficacy of their imprinting behaviour to create their entrepreneurial legacy through the transfer to employee ownership were sustained. A longer-term view would examine the nature and extent of 'second-hand imprinting' (Marquis and Tilcsik, 2013; Mathias and Williams, 2018), whereby those who have been 'imprinted' by their association with a founder are able, in turn, to impact upon organisations as agents of imprinting. It is known, for instance, that a founder's passion for their venture can be transmitted to their employees (Cardon, 2008; Breugst et al., 2015). Therefore, case studies that explore the perspectives of the founder, employees and other stakeholders during and after the transition of firms from being founder-owned to employee-owned could be particularly enlightening. Such an approach would build upon the efforts of this thesis to provide a novel link between the entrepreneurship and the imprinting literature, by extending that link to studies in strategic management that consider the dynamics of organisational identity change (e.g. Gioia, 1998; Corley and Gioia, 2004).

11.6 Conclusion

This thesis has developed a link between entrepreneurial exit and employee ownership. This is a novel connection in research that has not hitherto been addressed in the literature. By focusing on the exit of business founders through the mechanism of transfer to employee ownership, this thesis is a direct response to the many calls for exit and business transfer research to go beyond its current focus on intergenerational succession (e.g. Salvato et al., 2010; Wennberg et al., 2011; DeTienne and Cardon, 2012; DeTienne and Chirico, 2013; Dehlen et al., 2014; Chirico et al., 2019). Moreover, given the importance attached to exit by business founders and its prominence in the commercial literature, it responds to calls from contemporary entrepreneurship scholars for studies that contribute not only to academic understanding, but also generate results that are relevant outside of scholarly circles (Shepherd and Wiklund, 2019).

The analysis presented in this thesis has sought to generate new conceptual insights into entrepreneurship, by drawing upon identity theory to explain the heterogeneity of founder motivations and behaviour in the transfer of their firms to employee ownership. It suggests that a more holistic understanding of entrepreneurship may arise from extending its present focus on the realisation of initial opportunities and the 'individual-opportunity nexus' to recognise that entrepreneurial opportunities arise from the dynamics of the individual's entrepreneurial exit and business transfer. It also suggests that the present domination of pecuniary motivation in entrepreneurship research should be complemented by a better understanding of founder orientation towards entrepreneurial legacy creation.

In conclusion, the primary contribution of this thesis to the entrepreneurship literature is the introduction of its concept of entrepreneurial legacy imprinting. This concept offers a new platform from which the wider study of entrepreneurial exit can be viewed and upon which understanding of entrepreneurship can be expanded. Further study of entrepreneurial legacy drivers and the imprinting behaviours that surround them will enhance knowledge of heterogeneity in entrepreneurial motivations and behaviour particularly at exit. Research that builds upon the concept of entrepreneurial legacy imprinting can contribute to the development of an identity-based counterpoint to that of financial gain as the raison d'être of entrepreneurship.

List of Appendices

Appendix 1: Letter of introduction to participants

(Date)

(Addressee)

Dear ………………………………

Business Founders and Transfer to Employee Ownership

(a) It was a pleasure to meet you at …………………….. where we were able to discuss my research.

<u>OR</u>

(b) Thank you for expressing an interest to take part in the above study. As you know, your name was passed on to me by ………………………………..

<u>OR</u>

(c) I understand from Hannah Welch of the Employee Ownership Association that you have indicated that you can be contacted about the above study.

I am grateful for your interest. The purpose of the study is to find out more about the process whereby business founders transfer some or all of their business to employee ownership. I am particularly interested in the process from the founder's point of view and would like to explore questions such as:

- Why do founders exit the firms that they have founded via employee ownership?

- At what stage did you start to consider the process of exit?

- What alternatives did you consider?

- Did the decision affect the way that the business was run, prior to the transfer to employee ownership being completed?

My name is Richard Parkes, and I would conduct the interview. I am a business founder, and a PhD candidate and researcher at the Faculty of Business and Law at Kingston University.

I would take some brief notes during the interview, but I would ask your permission to record the interview so that a transcript can be made of what you have said, to be used for the study.

Any information that you provide, including the recording and the transcription will be handled and stored in the strictest confidence. The write-up of the study will not identify you or any other interviewee by name, and all data will be anonymised and stored on password-protected files. Only me, my research supervisors at the University, the person undertaking the transcription of the interview and the examiners of my thesis would have access to this information and anything that can identify you personally will be destroyed after the completion of the study.

If, for whatever reason, you wish to withdraw from the study, you can do so at any time. If you would like to see the research study once it is completed, I can make a copy available to you.

I estimate that the interview will take approximately 90 minutes. The interview would be at a venue of your choice and convenience, if you are able to suggest a venue where we can conduct the interview in private.

If you agree, I will contact you again to discuss the location and confirm the interview date and time. In the meantime, I would be grateful if you would review the enclosed Consent Form and, if you are willing to proceed, please sign it and return it to me at the contact details below.

Best wishes,

Richard Parkes

Researcher

My contact details are:

[Redacted]

A short summary of the research

A great deal of attention has been paid to the start-up and development of firms in academic studies within the field of entrepreneurship and business. However relatively little attention has been paid to the later part of the business cycle, particularly in terms of the experience of the founder(s) of the firm – such as how they pass on or exit the firm that they founded.

There is one exception to this, which is in terms of family businesses – where there have been many studies over the years about businesses that have been passed down through or inherited within the family.

However, in the specific field of transfer to Employee Ownership, very little is known about the reasons why founders transfer their businesses into the partial or full ownership of their employees – and the extent to which this is part of the exit strategy of the founder, or whether there are other reasons.

Therefore, the purpose of this research study is to explore this phenomenon and to find out more – with the focus on the experience and perspective of business founders themselves.

Appendix 2: Endorsement letter from Kingston University

Kingston University London

Small Business Research Centre
Director
Professor Robert A Blackburn BA MA PhD

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Kingston Hill
Kingston upon Thames
KT2 7LB
UK

Re: Endorsement Letter: Richard Parkes, Doctoral Candidate

1st September, 2017

To whom it may concern:

This letter certifies that Richard Parkes is presently a Doctor of Philosophy (PhD) candidate in the Faculty of Business and Law at Kingston University. Richard is undertaking advanced doctoral research in relation to business founders who transfer some or all of their company to employee ownership.

Richard is a mature student who has embarked on a PhD following a successful career in business. He recently completed a Masters Degree in Research Methods (MRes) at the University, in which he achieved a Distinction and the MRes Course Director's Prize.

It is our expectation that the research will be of considerable theoretical and practical interest to all of those that have an interest in entrepreneurship and employee ownership, in both commercial and academic circles.

Thank you in advance for agreeing to participate in this study. If you have any queries or you would like to know more about the work of the University, please do not hesitate to contact us.

Appendix 3: Consent Form

WRITTEN CONSENT TO PARTICIPATE IN THE RESEARCH STUDY

Statement by person agreeing to be interviewed

- I confirm that I have received, read and understood the letter of invitation for this study from Richard Parkes.
- I understand that my participation is entirely voluntary, and that I can withdraw at any time without any further consequences for myself.
- I have been provided with an undertaking that any information that I provide will be in the strictest of confidence and will be handled according to the undertakings set out in the letter of invitation.
- I agree that the information that I provide for the study may be used for the analysis in the research study and will be stored before and after the examination process, provided that I cannot be personally identified.
- I have been provided with the researcher’s contact information and I may contact the researcher at any time with regard to the study.
- I understand that if I wish to make a complaint about any aspect of the study, I can do so by contacting Professor Robert Blackburn, who can be contacted at [redacted]

Signature……………………………………………………………………………………………..

Name of Participant………………………………………………………………………………..

Date………………………………………………..

Statement by Richard Parkes, Researcher
I have provided the above-named person with the letter of introduction, in which I have explained the purpose of the research study and set out a series of undertakings. I believe that the consent that has been offered above is of an informed nature and that the signatory above understands the undertakings given to them.

Signature ……………………………………………………………………………………………

Date…………………………………………………..

Appendix 4: Interview Framework

BUSINESS FOUNDER EXIT AND TRANSFER TO EMPLOYEE OWNERSHIP

INTERVIEW FRAMEWORK (Topic guide, with interview questions, prompts and theory notes)

(Following a general introduction and recapitulation of the consent form and purpose of the research before recording):

Thank you for agreeing to be interviewed for this study. I would like to start by asking a few general questions about you, and about the business that you founded.

Questions	Prompts	Literature notes
Opening Questions • Firstly, what are you doing now (with your life/in relation to work)? • Your background - what did you do before you founded the business?	• *Exited business completely or any new business interests?* • *Business background – was this your first attempt at starting a business / the first company that you founded?* • *Employment background – type and level of jobs: in the same field or different? Number of years in work and business*	*(Becker, 1967; DeTienne and Cardon, 2012; various drawing upon factors of human capital)*

	• *Education background and family circumstances*	
2. Founding the business • Could you tell me all about the company that you founded?	• *The 'story' and timelines* • *When founded* • *Sector and markets* • *Products or services* • *How many staff/personnel; how has this changed since founding* • *Turnover / main figures*	*Firm level predictors (number of employees customers, financial resources, the degree to which the firm operates independently of its owner) are important predictors of exit outcomes (van Teeffelen and Uhlander, 2013) as is performance (DeTienne and Wennberg, 2014)*
• Why did you decide to found the business? • Did you found the company on your own?	*Follow up if yes:* • *Did you consider founding the company with a partner?* • *If so, what happened? If not, why not?* • *(If not covered above) What kind of business background did you have before you founded the company?* *Follow up if no:* • *Who did you found it with?*	*Founder identity (Fauchart and Gruber, 2011); exit from employment to entrepreneurship (Hoang and Gimeno, 2010).*

	• *How would you describe your role and their role(s)?* • *Did you complement each other? How?* • *How did things develop with them/him/her over time?* • *Probe for the status of the relationship with the founding partner(s). If it has ended, ask when it ended and on what basis. If appropriate, ask if this was a factor in pursuing an exit or a transfer to employees.*	
• Did you have a financier? Have you borrowed finance since (i.e. to finance growth, working capital, other)?	• *Did you / your business owe money to anyone when you exited (Bank, VC, other)?* • *Was debt a factor in your reason to exit?*	*The dynamics of debt finance (or its absence) in terms of the VCs/ investor(s)) and their role in exit (Mason and Bothelo, 2016)*
• Did this affect the decisions you made when running your business? • Did you give any thought to your exit when you founded the business?		*Some founders start-up with a specific plan for exit (DeTienne et al., 2015). Founding resources may impact on chosen exit strategies (Albert and DeTienne, 2016). However, many founders start their firms without giving much thought to exit at all (DeTienne, 2010).*
• (if not covered already) Had you previously founded a business(es) or was this the first business that you founded?	• *(If so) did that experience affect you how you approached your current / last venture?*	*Failure literature and re-start literature (emotion, sensemaking). Serial and portfolio entrepreneurship literature is*

• Have you founded any other businesses since founding this one?	• *(If so) can you tell me about that? How do you see the relationship between them?*	*referenced in exit studies. Serial v portfolio founders act different in exit (Rouse 2016)*
3. Exiting the business		
• Why did you decide to exit the business?	• *How was the business doing when you first started thinking about exit?*	*Exit intentions depending on performance (Gimeno 1997) and whether the business is in its infancy, adolescence or maturity (Wennberg et al., 2009; DeTienne 2010). Psychological disengagement; Work-family interface. Ageing.* *Also 'love' metaphor (falling out of); 'parenting' metaphor (letting go of the baby) – Cardon, 2005.*
• When did you first think about exiting the business?	• *How did you feel about the way the business was performing at the time?*	*Importance of emotions in entrepreneurial processes and passion– stages in the 'human and entrepreneurial procreation processes' (Cardon et al, 2005). Commercial literature implies that exit decisions are often made in the later stages of founder ownership (Forster-Holt, 2013).*
• How and when did you decide on your exit strategy/plan?	• *Did you do anything about it when you started to think about it?*	*Barriers to business transfer and advice (Transeo, Van Teeffelen 2010)*

	• *Did you seek any sources of advice? If so, where from?*	
• Did you consider passing the business on in the family?	• *Why did you decide not to?*	*Few succession studies outside of family business literature - Family business succession and barriers to intergenerational transfer (van Teeffelen, 2010)*
• What options did you consider / reject: MBO? Sale? Close? • What were your priorities?	• *Why were they rejected?*	*DeTienne and Cardon (2012) exit strategies– IPO/sale, MBOs. Close. DeTienne et al. (2015) – Harvest, stewardship, close; Harvest and utility maximisation. Retirement, thresholds, Psychological Ownership; Kammerlander (2016) 'Safe hands' with aversion loss.*
• To what extent did you want to remain involved in the business once you started to plan your exit? • How did you feel about 'letting go' of the business that you founded? • Did your exit occur according to the overall plan or strategy that you originally intended? • Are you still involved? In what way?	• *Was this your first attempt to exit? Had you tried to exit previously?* • *Why?* • *How do you view your exit process once it was completed / transacted?*	*Psychological disengagement (Rouse 2016). "We have no known work on the emotional process that occurs when entrepreneur positively exits a venture"(Cardon 2012)* *Harvest: Psychological ownership and disengagement (Rouse, 2016), Psychological ownership (positive and negative aspects, Shepherd and Patzelt, 2017) theory; imprinting literature. The company as their 'baby' – parent metaphor (Cardon 2005)*

4. Transferring to employee ownership		
• Why did you choose to transfer your business (fully or partially) to employee ownership?	*Why did you choose this model?*	*Outside of family and corporate business literature, succession as an exit route for business founders has been the subject of much less attention (DeTienne 2010, Battisti and Okamuro, 2011).*
• How did you find out about EO as an exit option?		*Information asymmetry (Akerlof, 1970, Ryan and Power, 2012, Dehlen et al., 2014).*
• Tell me about the EO model that you have transferred to	*Prompts:* *- Indirect (i.e. an Employee Ownership Trust) or Direct equity transfer* *- Partial or full equity transfer* *- Full, majority or minority control* *-Purchased, discounted, financed*	
• What benefits were there to you in going down the employee ownership route?	*Did you see what you were doing as being different to an MBO / MBI? How?*	*Kammerlander 2016; MBO / MBI increasingly being considered as viable exit routes by owners (Howorth and Westhead 2004; Battisti and Okamuro, 2011).*
• How important was it for you to feel that the business was transferred to safe hands?	*Follow up:*	

Why? **5. Closing Questions** • What are your plans for the future? • Is there anything you would like to raise that I didn't cover? **Closing protocols** (consent, contacts)	*- Did the process achieve what you wanted it to?* *- Any regrets?*	

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