A MATTER OF TRUST. THE INFLUENCE OF ENTREPRENEUR-INVESTOR TRUST ON FOUNDERS’ EXIT INTENTION AND EXIT STRATEGY (SUMMARY)

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CORPORATE ENTREPRENEURSHIP

SUMMARY

A MATTER OF TRUST. THE INFLUENCE OF ENTREPRENEUR-INVESTOR TRUST ON FOUNDERS’ EXIT INTENTION AND EXIT STRATEGY

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Principal Topic

Given its popularity in the public media, it is surprising that researchers have only recently gained interest in entrepreneurial exit as a critical component of the entrepreneurial process (DeTienne, 2010). There is general agreement on the fact that stakeholder relations and in specific, the entrepreneur-investor dyad, play a crucial role for new venture creation and success (MacMillan, Kulow & Khoylian, 1989; Cable & Shane, 1997). However, to the best of our knowledge, merely Collewaert (2011) has investigated investor relations in the light of entrepreneurial exit, approaching the topic from a conflict perspective.

Trust is considered an important trigger and precondition for cooperative relationships between entrepreneurs and investors (Shepherd & Zacharakis, 2001). Thus, focusing on the last stage of the entrepreneurial process, this research analyzes the role that trust between entrepreneurs and investors plays for founders’ exit intentions and exit strategies.

Method

This study is based on a survey conducted among CEOs of young, privately-held, German SMEs active in the IT services and mechanical engineering industries.

To analyze entrepreneur-investor trust, we employ a 7-item instrument borrowed from Schoormann and Ballinger (2006). Entrepreneurs’ overall exit intentions and strategies as dependent variables are measured on a 7-point Likert scale according to Leroy, Manigart, Meuleman and Collewaert (2013) and DeTienne, McKelvie and Chandler (2014) respectively. To test our hypotheses, we use hierarchical linear regression to predict the determinants of entrepreneurs’ exit intentions and exit strategies. Among others, we control for different types of funding sources, firm size and performance as well as for founder ownership, age and education.

Results and Implications

With this study, we provide new empirical insights to the development of the entrepreneurial exit literature. Our analysis exposes a U-shaped relationship between entrepreneur-investor trust and founders’ exit intentions. In addition, we show that high entrepreneur-investor trust influences entrepreneurs’ exit strategies towards a sale to financial investors and IPO, whereas low entrepreneur-investor trust favors liquidation strategies.

For practitioners, our research contributes to both investors’ and entrepreneurs’ awareness of how a cooperative relationship based on mutual trust influences entrepreneurial intentions, strategies and ultimately, decision-making up to the final stage of the entrepreneurial process.

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