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Principal Topic

There is a sizable literature focused on the role of embeddedness in entrepreneurship (e.g. Uzzi, 1997, Jack & Anderson, 2002; Kalantaridis & Bika, 2006). The literature has primarily focused on why embeddedness, in the form of social networks, is important for explaining who starts a business (e.g. Aldrich & Zimmer, 1986), where (e.g. Romanelli & Bird Schoonhoven, 2001) and the effects of networks on venture performance (e.g. Stearns, 1996). Despite the importance of entrepreneurial exit little is known about the exit process and outcome (DeTienne and Cardon 2007). We consider that embeddedness affects intentional entrepreneurial exit outcomes, where exit is defined as the founder exiting the firm but the firm staying in the market (DeTienne, 2010). For purposes of this research, individual embeddedness is the nature, depth, and extent of an entrepreneur’s ties to the firm (a la Jack & Anderson, 2002) whereas firm embeddedness is the interaction between the firm and the local milieu (Audretsch, 2003).

Method, Results and Implications

Our model consists of a 2x2 matrix in which high and low entrepreneur embeddedness are considered against high and low firm embeddedness. During 2010 – 2012 we gathered examples of intentional business exits from business brokers and found 34 usable examples. Using 20 examples plus guidance from embeddedness and M&A literatures we hypothesized likely exit outcomes in each of the matrix boxes. We then used the model to predict the outcomes for 14 more examples and found the model to have predictive value.

Using the Kauffman Firm Survey (KFS) we tested the dependent variable of exit outcome against independent variables that capture high and low degrees of firm and individual embeddedness. The KFS is a panel study of 4,928 businesses founded in 2004 and tracked over early years of operation. There are 522 usable permanent exits over the life of the panel. We find that differences in the embeddedness of the firm and the differences in the embeddedness of the entrepreneur allowed us to distinguish between the mergers, acquisitions, temporary closure, and permanent closure. The boxes of most interest are the mixed embeddedness resulting from low-high and high-low designations. The paper offers implications for entrepreneurs, policymakers, advisors, researchers and educators.

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