
ANALYSIS OF BUSINESS EXIT DECISION IN SMALL AND MEDIUM ENTREPRISES (SMES)



Novita Ratna Satiti
Universitas Muhammadiyah Malang, Malang, Indonesia
satiti@umm.ac.id

Abstract

This study aims to examine the influence of exit intention, firm performance, and motivation on business exit decisions in SMEs in the non-agricultural sector in Malang City. In addition, this study also evaluates the role of exit intention moderation on the relationship between company performance and motivation and business exit decisions. The population in this study is non-agricultural sector SMEs in Malang City which totals 37,715 SMEs based on data from the East Java Province Cooperatives and MSMEs Office in 2019. The results show that the intention to exit and the company's performance have a significant positive influence on the decision to leave the business, while motivation has a significant negative influence on the decision to leave the business. Further, exit intent does not significantly moderate the relationship between company performance and business exit decisions, but significantly moderates the relationship between business exit motivation and the decision to leave the business with negative influences. These findings provide important insights for SME management in managing the factors that affect business exit decisions so that they can take strategic steps to reduce the possibility of unwanted exits.

Keywords: Exit Intention, Firm Performance, Motivation, Business Exit

INTRODUCTION

Indonesia's economy is currently experiencing promising growth. This is evidenced by the growth of the average income level (GDP) of the community over the last fifteen years which has increased, which is above 4% (2007-2019). Although it declined in 2014-2015, Indonesia's GDP showed an increase from \$285.9 million in 2007 to \$861.9 million in 2019 (World Bank data in the Global Entrepreneurship Monitor, 2019). This economic growth is inseparable from the government's program in empowering people to be entrepreneurs.

Business growth in Indonesia is one of the driving factors for economic improvement. The increase in the number of business actors or businesses in Indonesia by 17.6% or from 22.7 million businesses in 2006 to 26.7 million businesses in 2019 (Economic Census 2019, Central Statistics Agency) shows that more and more business people in Indonesia will affect economic activities, such as money circulation in the market, banks, and other financial institutions. Smooth money circulation in business and economic activities can create a healthy economic climate so that economic growth can also be optimized.

Based on the Easy of Doing Business Index data from the 2019 Global Entrepreneurship Monitor, Indonesia has indeed experienced growth from the previous year, namely ranked 106 compared to 120 in 2018. However, Indonesia is still lagging compared to other countries in ASEAN such as Singapore, Malaysia, Thailand, Vietnam, and the Philippines.

Entrepreneurial entry in entrepreneurship is indeed very influential on the entrepreneurial cycle (Aldrich in DeTienne & Wennberg, 2016). The wheel of entrepreneurship activities starts from entry or when they enter the business world. This is also supported by studies related to entrepreneurship or literature about business. These studies discuss more about entry and growth of business. However, the entrepreneurial cycle will not be complete with only entry and growth without exit. However, most entrepreneurs equate exit with business failure or failure, although this is not always the case (Simmons et al., 2014). Discontinuance or business termination is not always the same as exit. The little

understanding related to exit in business or commonly called business exit is due to the lack of studies or discussions of exit in entrepreneurship literature, especially in Indonesia.

Business exit itself is an example of intentions and planned actions driven by certain variables. According to DeTienne & Cardon (2010), business owners have a desire to exit their business influenced by their previous entrepreneurial experience, industry experience, age, and education level. Based on the literature on business exit, some factors underlie business owners' choice to exit, some of which are entrepreneurial orientation, psychological ownership, company performance or firm performance, motivation, and intention to exit.

Discussion about business exit is still very little done in Indonesia. Therefore, this study will focus on the factors that affect entrepreneurs exit, especially on company performance factors or firm performance, motivation, and intention to exit. Understanding business exit is considered as important as understanding business entry and growth because some entrepreneurs who stay in their business longer can be influenced by the individual's ability to run a business. Capable entrepreneurs will experience less potential business failure that requires them to forcibly close their business. So, understanding business exit will be very helpful for entrepreneurs in terms of improving the quality of performance, especially in Indonesia.

Small and Medium Enterprises or SMEs are examples of businesses or businesses that are experiencing an increase in interest in the community, where SMEs are also a suitable platform to apply entrepreneurship. The increasing public interest also shows that the government's efforts to empower SMEs are not in vain. SMEs have great potential to drive the wheels of the Indonesian economy because SMEs can absorb labor, reduce poverty, and contribute to the country's Gross Domestic Product (GDP). Moreover, the great potential of SMEs can also contribute to the income and development of the SME area.

Judging from the geoeconomic position, East Java is the center of gravity, where East Java is a province that influences the economies of other regions in Indonesia based on the Interregional Input-Output Model delivered by the Head of the East Java Provincial Regional Planning and Development Agency (BAPPENAS), Prof. Bambang Brojonegoro in the Forum on Industrial Development and Trade in East Java. The economy of East Java

Province experienced growth of 5.57% in 2019, showing an improvement from the previous year of 5.44%.

The productivity of a business or business such as an SME is inseparable from the owner's ability and strategy in managing his business. Entrepreneurial skills, including the ability to 'harvest' in business exits, can provide benefits for Malang City SME owners to be more productive in running their businesses, moreover, the ability of SME owners to manage their business will determine the sustainability of their business in the future. If the productivity of SMEs increases, it will improve the economy of East Java as well. However, the small number of business people who implement business exit indicates a lack of understanding regarding business exit itself. The factors underlying the decision of business owners to exit may not necessarily be applied entirely in business organizations such as SMEs, but the factors underlying the decision of SME owners to make a business exit are considered important to be researched and applied in the future by SMEs in Malang City.

REVIEW OF LITERATURE

Business Exit

Business Exit can be interpreted in many ways. According to Decker & Mellewig (2007), Business Exit focuses on the level or level of the business, which is then divided into three types: market exit, technological exit, or firm exit (business closure). Meanwhile, Schaper and Volery (2007) use the term 'harvesting' or what is interpreted as 'harvesting'. Van Praag in De Hoe (2016) argues that Business Exit means the entrepreneur's decision to leave self-employment. Furthermore, DeTienne (2010: 203) argues that Business Exit as: *The process by which the founders of privately held firms leave the firm they helped to create; thereby removing themselves, in varying degree, from the primary ownership and decision-making structure of the firm".*

The definition emphasizes the process of an entrepreneur's decision to exit or leave their business in a variety of ways and focuses on the entrepreneur rather than the firm or business. Based on the understanding of the concept of Business Exit from some of the experts above, it can be concluded that Business Exit is an entrepreneur's decision to leave their business, by utilizing the value or use value of their investment in their business.

Firm Performance on Business Exit

Company performance (firm performance) is one of the factors that determine the desire of business owners to exit their business. As Leroy et al. (2007) say an increase in a company's financial impulse can increase the desire of business owners to plan and prepare for exits. Furthermore, businesses with good performance will attract more interest from other companies to take over, this is because company performance is seen as an indicator of the company's survival. The survival of a company shows how much progress the company has, so good progress explains that the company has the potential to be further developed. The better the company's performance will attract other business entities to take over, the more other business entities that want to take over, indicating the greater the chances of the business owner exiting. This explains the relationship between company performance and business exit.

Motivation for Business Exit

Motivation is the process of influencing a person to do something they want (Alma, 2009). Meanwhile, according to G.R. Terry (2008), motivation is the desire that exists in the individual that stimulates him to take an action. If viewed from the definition of motivation according to experts, it can be concluded that motivation is an encouragement from within the individual to do the things he wants. There is still little discussion or study on the relationship between motivation and business exit, but in entrepreneurship literature, motivation means the entrepreneur's initial drive to do his business. The measure of motivation in entrepreneurship is seen in why business owners are motivated to carry out entrepreneurial activities.

Exit Intention Towards Business Exit

The definition of intention or intention according to Engel et al. (1999) is an individual competence that refers to the desire to perform a certain behavior. There are 2 (two) theoretical models that are relevant to the context of intention, namely the Theory of Planned Behavior (TPB) developed by Icek Ajzen and Shapero's Entrepreneurial Event (SEE) developed by Rich Shapero, both of these models were researched and discussed by Krueger et al. (2000).

(1) Theory of Planned Behavior (TPB)

TPB is one of the most widely used theories in the study of entrepreneurial behavior, and previous studies have proven its usefulness for business exit studies (Krueger et al., 2000, Leroy et al., 2007).

(2) Shapero's Entrepreneurial Event (SEE)

The model used in SEE is more likely to discuss entrepreneurial entry than exit. Krueger et al. (2000) argue that the SEE model is based on an idea where the intention to start a business is obtained from an individual's perception of desirability, feasibility, and propensity to act on opportunities. Perceived desirability leads to a personal interest in starting a business; Perceived feasibility is the degree of confidence of an individual in his or her ability to deal with certain phenomena such as starting a business; Propensity means the individual's desire to act on a particular phenomenon (Krueger et al. 2000).

RESEARCH METHOD

This study uses a type of exploratory research with a quantitative approach. Exploratory research is research conducted on a problem that has not been studied, prioritization, developing operational definitions, and improving the final research design (Shield, 2013). Meanwhile, a quantitative approach was chosen to examine samples that met the criteria for selected samples. The researcher used Confirmatory Factor Analysis (CFA) in analyzing the research data.

The reason why the researcher uses the exploratory research method with this quantitative approach is to explore studies related to business exit which are still rarely researched in Indonesia, and the selection of Confirmatory Factor Analysis (CFA) as the data analysis method is carried out to confirm the construct of variables that have been studied before, such as Firm Performance, Motivation, and Exit Intention. The researcher chose these variables because they are considered to be factors that have a significant relationship with the decision of business owners or SME owners in Malang City in determining the exit path.

Population is a generalization area consisting of objects or subjects that have certain qualities and characteristics that are determined by the researcher to be studied and then draw conclusions (Sugiyono, 2013). The population in this study is 37,715 SMEs in the non-

agricultural sector in Malang City based on data from the East Java Provincial Cooperatives and MSMEs Office in 2019.

Variable Operational Definition

An operational definition is a definition of a variable that is formulated based on the characteristics of observable variables (Azwar, 2010). The operational definitions of the variables in this study are: a. Firm Performance, b. Motivation, c. Exit Intention which can be measured using the following statement scale:

- a. Firm Performance, the items are: (1) The number of employees indicates the size of the business, (2) The change in the number of employees indicates the change in the size of the business, (3) Product sales increase from year to year, (4) The profit of the business or business increases from year to year
- b. Motivation, the items are: (1) Starting a business to generate income for daily needs, (2) The business that is run is the main source of income, (3) The business that is run as a fulfillment of needs, (4) Starting a business because of an opportunity to generate additional income, (5) Starting a business because of a hobby, (6) Additional income from the business is more profitable than the main income, (7) Starting a business because the added value is in line with the opportunities that identified, (8) Starting a business with the belief that it can optimize the value of assets in the future, (9) Starting a business because of opportunities to sell in the future
- c. Exit Intention, the items are: (1) Have the thought of selling the business, (2) Get an approach from another person who wants to buy the business, (3) Approach another person to sell the business, (4) Have the desire to exit and pass it on to children, (5) Have the desire to exit in the first 3 years of running a business, (6) Have the desire to exit in the last 3 years since the business started.

The data analysis technique in this study uses Partial Least Square (PLS). PLS is a Structural Equation Modeling (SEM) equation model with a variance-based approach or component-based structural equation modeling. According to Sarstedt et al., (2020), the purpose of PLS-SEM is to develop a theory or build a theory (prediction orientation). PLS is used to explain the existence or absence of relationships between latent variables (prediction).

PLS is a powerful analysis method because it does not assume current data with a specific scale measurement, and the number of samples is small (Hair et al., 2019).

Validity and Reliability Test

Validity and reliability tests are carried out to ensure that the measurements used are accurate and reliable. Validity and reliability testing can be seen in: First, Convergent Validity is a metric that assesses the correlation between item/component scores and construct scores, as seen in standard loading factors that describe the magnitude of the correlation between each item measured and its construct. If correlated Individual reflex measurements are said to be high if > 0.7 .

Second, Validity discrimination is a measurement model with a reflection index that is assessed based on size and cross-loading construct. Discriminatory validity, which compares the extracted root mean square of variance (AVE), a tool is declared valid if the AVE value is > 0.5 .

Third, Composite reliability is a measure of a structure that can be seen in terms of latent variable coefficients. In this measurement, if a $>$ value of 0.70 is achieved, the construction can be said to have high reliability. Fourth, Cronbach's Alpha is a reliability test designed to reinforce composite reliability results. A variable can be declared reliable if Cronbach's alpha value > 0.7 .

RESULTS AND DISCUSSION

The Results provides a detailed overview of the findings from the study. as a further elaboration of the results that have been explained in general in the Results Chapter through existing sub-chapters.

Evaluation of Measurement Model (Outer Model)

Four measurement criteria for the out-of-model Convergent Validity, Validity of Discrimination, Composite Reliability, and Cronbach Alpha were considered during the evaluation of the out-of-study model. The following image shows the research model.

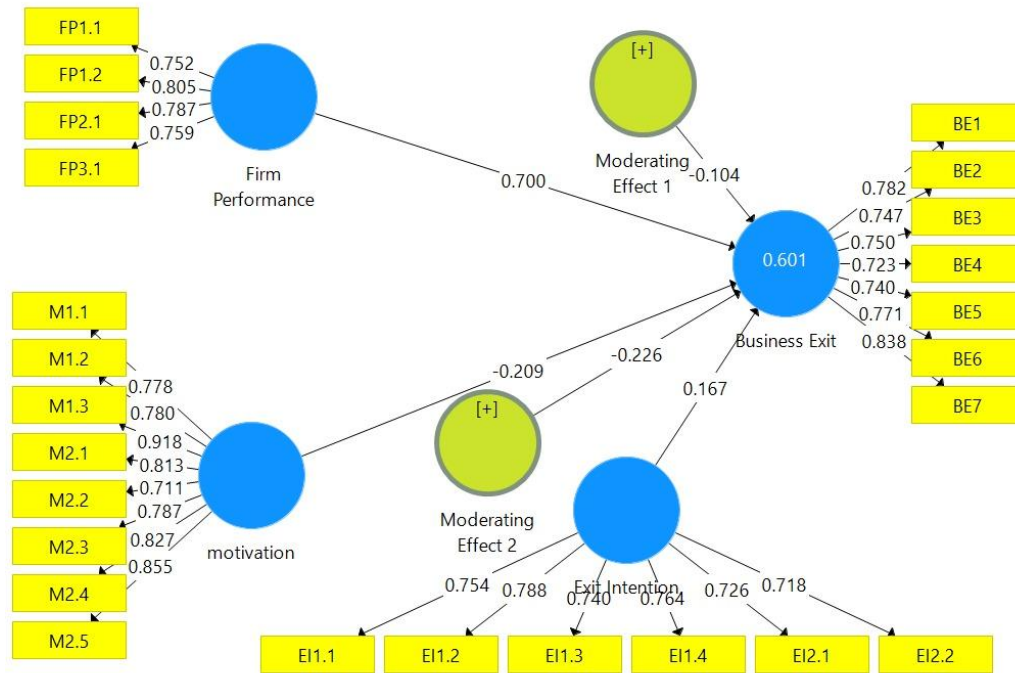


Figure 1
Outer Model

Figure 1 explains the outer loading value possessed by the variables in the study. In the figure, all outer loading values meet the validity criteria because they have exceeded 0.7

Validity Test

The Validity Test is used to measure the validity or validity of a questionnaire. In this study, validity testing was carried out using convergent validity and AVE. Validity used convergent validity where the measurement model with indicator reflection was assessed based on the correlation between item scores/component scores calculated with PLS. The size of individual reflections is said to be high if it correlates more than 0.7 with the measured construction. However, according to Dahri, (2017) For the initial stage of research from the development of the Niali Loading measurement scale, 0.5 to 0.6 is considered adequate.

Table 1
Validity Test Results

Variable		Outer Loading	AVE	Information
Business Exit	BE1	0.782	0.586	Valid
	BE2	0.747		Valid
	BE3	0.750		Valid
	BE4	0.723		Valid

	BE5	0.740		Valid
	BE6	0.771		Valid
	BE7	0.838		Valid
Exit Intention	EI1.1	0.754	0.561	Valid
	EI1.2	0.788		Valid
	EI1.3	0.740		Valid
	EI1.4	0.764		Valid
	EI2.1	0.726		Valid
	EI2.2	0.718		Valid
Firm Performance	FP1.1	0.752	0.602	Valid
	FP1.2	0.805		Valid
	FP2.1	0.787		Valid
	FP3.1	0.759		Valid
Motivation	M1.1	0.778	0.657	Valid
	M1.2	0.780		Valid
	M1.3	0.918		Valid
	M2.1	0.813		Valid
	M2.2	0.711		Valid
	M2.3	0.787		Valid
	M2.4	0.827		Valid
	M2.5	0.855		Valid
Firm Performance * Exit Intention		1.522	1.000	Valid
motivation * Exit Intention		0.920	1.000	Valid

Based on the results of the instrument validity test, all outer loading values meet the validity criteria because they have exceeded 0.

Reliability Test

This study uses 2 types of reliability tests, namely the Cronbach Alpha test and the Composite Reliability test. Cronbach Alpha measures the lowest value (lower-bound) of reliability. The data is declared reliable if the data has a Cronbach alpha value of > 0.7 . Composite reliability measures the actual reliability value of a variable. The data is stated to have high reliability if it has a composite reliability score of >0.7 .

Table 2
Reliability Test Results

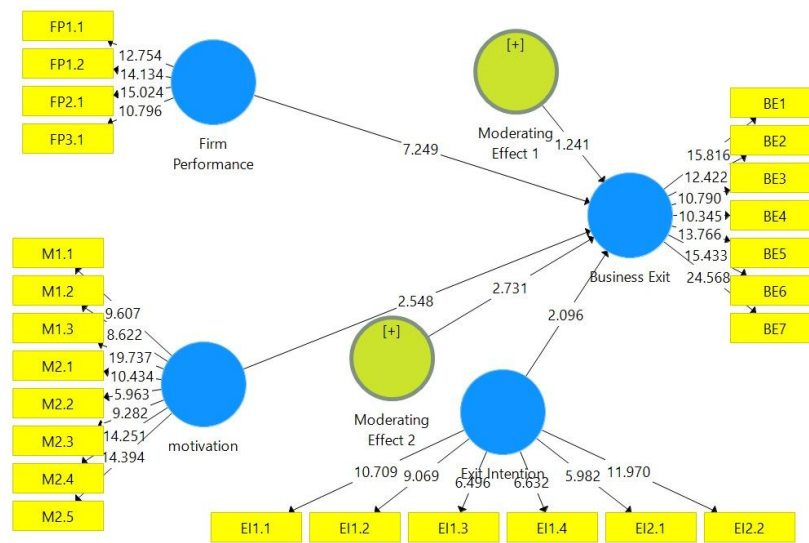
	Cronbach's Alpha	rho_A	Composite Reliability
Business Exit	0.882	0.886	0.908
Exit Intention	0.851	0.884	0.884

Firm Performance	0.781	0.790	0.858
Moderating Effect 1	1.000	1.000	1.000
Moderating Effect 2	1.000	1.000	1.000
Motivation	0.925	0.958	0.938

The test results showed that all instruments were declared reliable with a Cronbach Alpha score and Composite reliability > 0.7.

Inner Model Structural Model Evaluation

Evaluating the hypothetical relationship between latent constructs is at the heart of the deep model assessment. The evaluation of the inner model can be explained as follows:



R-Square Test

The R-Square Coefficient determination (R-Square) test is used to measure how much endogenous variability is affected by other variables. Based on data analysis carried out through the use of the smartPLS program, the R-Square value is obtained as stated in the following table:

Table 3
R-Square Test

	R Square	R Square Adjusted
Business Exit	0.601	0.580

Based on the test results, the R-Square score for business exit was obtained of 0.601 which means that business exit is influenced by exit intention, firm performance, and motivation by 60.1% and 39.9%, the other is influenced by variables that have not been explained in this study.

Hypothesis Test

The results can be used to answer research hypotheses based on data processing that has been carried out. Examination of T-Statistics and P-Values was carried out to test the hypothesis in this study. We can say that the research hypothesis is accepted if the P-values are less than 0.05. The following are the findings from testing research hypotheses obtained from the inner model:

Table 4
Research Hypothesis Test

	Original Sample (O)	T Statistics (O/STDEV)	P Values
Exit Intention -> Business Exit	0.167	2.096	0.037
Firm Performance -> Business Exit	0.700	7.249	0.000
Moderating Effect 1 -> Business Exit	-0.104	1.241	0.215
Moderating Effect 2 -> Business Exit	-0.226	2.731	0.007
motivation -> Business Exit	-0.209	2.548	0.011

Exit Intention -> Business Exit

The results of the first hypothesis test, namely exit intention on business exit, obtained a Positive Beta score (0.167) with a statistical T of 2.096 ($p > 1.96$) and p values of 0.037 ($p < 0.05$) resulting in a significant positive influence where exit intention can affect business exit

Firm Performance -> Business Exit

The results of the second hypothesis test, namely firm performance on business exit, obtained a Positive Beta score (0.700) with a statistical T of 7,249 ($p > 1.96$) and p values of 0.000 ($p < 0.05$) resulting in a significant positive influence where firm performance can affect business exit.

Motivation -> Business Exit

The results of the third hypothesis test, namely motivation for business exit, obtained a negative Beta score (-0.209) with a statistical T of 2.548 ($p > 1.96$) and p values of 0.011

($p < 0.05$) resulting in a significant negative influence where motivation can affect business exit.

Moderating Effect 1 -> Business Exit

The results of the fourth hypothesis test, namely firm performance in exit intention moderation against business exit, obtained a Positive Beta score (-0.104) with a statistical T of 1.241 ($p > 1.96$) and p values of 0.215 ($p < 0.05$) resulting in an insignificant negative influence where firm performance in exit intention moderation could not affect business exit.

Moderating Effect 2 -> Business Exit

The results of the fifth hypothesis test, namely motivation in exit intention moderation for business exit, obtained a Positive Beta score (-0.226) with a statistical T of 2.731 ($p > 1.96$) and p values of 0.007 ($p < 0.05$) resulting in a significant negative influence where motivation in exit intention moderation can affect business exit.

CONCLUSION

Based on the results of hypothesis testing, it can be concluded that exit intention has a significant positive influence on business exit, indicating that exit intention is an important predictor in determining the likelihood of business exit. Firm performance also showed a significant positive influence on business exits, indicating that companies with good performance were more likely to experience business exits, likely because more strategic options were available to them. On the other hand, motivation has a significant negative influence on business exit, which means that high work motivation can reduce the desire to leave the company. Meanwhile, exit intention did not significantly moderate the relationship between firm performance and business exit, but significantly moderated the relationship between motivation and business exit with negative influences. This suggests that when the intention to exit is high, the influence of high motivation on the reduction of the desire to exit becomes weaker. This conclusion provides important insights for company management in understanding the factors that affect business exits and how they can manage motivation and performance to reduce the likelihood of unwanted exits.

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