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Business exit as a deliberate strategy for incumbent firms

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"Please bear in mind, the nearest exit may be behind you!"

This message is perhaps as important for CEOs as it is for airline passengers, with the key point being to plan your exit in advance, so that, if needed, action can be taken as quickly and smoothly as possible. Too often firms cling to once prized parts of their businesses long after their prime, and the results could range from the traumatic, such as being acquired by a competitor, to the disastrous, such as bankruptcy. There is, however, an alternative, as firms can leave certain businesses in a more deliberate, effective, and timely manner. To help companies achieve this, the current work aims to provide a framework and set of guidelines to enable managers to make better business exit decisions.

NOKIA AND GOOGLE: TWO TALES OF EXIT

First, consider two recent examples of business exits in the ever-changing mobile telecom industry: Nokia's folding into Microsoft and Google's flipping of Motorola. In its heydays during the end of the 20th century, Nokia proudly witnessed its market value peak at over $200 billion. Once a reigning giant in mobile communication, Nokia then saw its Symbian OS gradually lose steam, lagging far behind Apple and Samsung, the trendsetters in the smartphone era. When Nokia finally unloaded its mobile phone business to Microsoft in 2013, the deal was priced at just $7.2 billion. Nokia began life as a riverside paper mill in Finland, and reinvented itself many times during its 150-year history, retreating from declining businesses and entering promising new ones. This time, however, it tumbled. Rather heavily.

In January of 2014, Google decided to sell Motorola Mobile to Lenovo for $2.91 billion, two years after it had been acquired for $12.5 billion. While the quick sale of Motorola may at first seem confusing and financially inadequate, Google may have obtained a number of benefits from its brief ownership of the firm. For example, the experience thus gained in the handset business may have helped Google to leverage its core competences, such as those in maps and online searches, so that these can be better integrated into smartphones. Moreover, by raiding Motorola's enormous collection of patents, Google was able to enhance the technical and legal credibility of its Android OS. In helping revitalize Motorola's handset business, Google also created a viable

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counter-balance to Samsung's dominant position in the Android eco-system. Similarly, by locating a suitable buyer in Lenovo, an expert in low-margin manufacturing, Google helped to make Motorola handsets more accessible in the mid- to low-end market, further consolidating the reach and influence of the Android platform, while providing assurances to hardware manufacturers that it did not wish to remain a direct competitor. In short, Google is not really a manufacturing company, and its sale of Motorola ensured that it could continue to focus on its core businesses.

BUSINESS EXIT: A GUIDING FRAMEWORK

Why should a firm hang on to a particular business, and when should it decide to make an exit? While management practitioners and business observers typically focus on firms' entry into certain businesses, much less attention is paid to why and how firms' exit from incumbent businesses. Like entry decisions, we believe that business exits should also be seen as a key part of a firm's strategic planning, and thus as purposeful endeavors that can be deliberately designed and systematically managed. Indeed, in some cases exit plans need to be clearly articulated and well prepared even before a firm actually enters a particular business.

Based on our extensive research efforts, drawing on samples from both the developed world and emerging economies, and spanning over half a century, we posit that a successful exit strategy hinges on three important pillars: the active championing by visionary and disciplined corporate leaders; the establishment and exercise of *a priori* institutional procedures for exit audits; and the tactful execution of the exit deal itself. For the purposes of this article we treat business exits as the withdrawal from an established business by an incumbent firm, typically a diversified concern operating in multiple product domains and/or geographic locations. As such, the dissolution or closing of an entire firm is beyond the immediate scope of our core discussion. Please see Table 1 for a summary of our overall research framework.

Table 1 Exit strategy: championing, audit, and execution.

Exit championing
Alignment of corporate vision with the changing reality
Does the CEO regularly recalibrate his or her vision based on environmental changes?
How valid is the CEO's vision in terms of its resonance with reality?
Necessary acumen and prior experience of business exit
Does the CEO habitually consider the potential need to exit while making an entry decision?
Does the CEO have prior experience in executing an exit strategy?
The courage and discipline to make tough exit decisions
Does the CEO have the courage to admit that a business is failing or no longer suitable to belong in the corporate portfolio?
Can the CEO withstand the pressure from various stakeholders when making tough exit decisions that are unpopular at the time?
Exit audit
Establishment of criteria and procedures for an exit audit
Do we have clear criteria for making exit decisions?
Do we have institutional procedures that allow us to evaluate exit decisions in a timely manner?
Four essential tests for exit audits
The external fit test: does the business conform to the current or future trends in the external environment?
The business competence test: do we have what it takes to make the business succeed?
The alternative opportunity test: are there more promising opportunities that compete for the same limited resources and capabilities that underlie the current business?
The internal conflicts test: are there internal conflicts among the incumbent businesses or between the incumbent businesses and the new businesses to be entered?
Pulling the trigger on business rxits
Does the business fail to meet the preset criteria, and thus warrant an exit?
Have we fulfilled our goals set at the time when we entered the business?
Exit execution
Can you locate a proper buyer in time?
Could we locate a proper buyer for the business we are exiting from?
Could we locate a buyer in a timely fashion?
The careful appeasement of external stakeholders
Could we defuse any external opposition against our exit?
Could we appease external stakeholders when we exit a business?
The satisfaction of internal stakeholders
Could we settle the exit to the satisfaction of the internal stakeholders?
Could we prevent or control any interruptions to or negative impact on the remaining business or the entire corporation caused by an exit?

EXIT CHAMPIONING

Successful exits are often actively championed by CEOs with a clear vision of the future, and who are disciplined enough to make tough decisions, even when these may be unpopular, controversial, and against the conventional wisdom. Of course, prior experience in managing exits also helps in this regard.

The alignment of vision with the changing reality

Business leaders must work to consciously and carefully recalibrate their corporate visions in order to deal with an ever-changing environment, so that their firms can continue to meet or even anticipate consumer needs. This means capitalizing on new opportunities as well as leaving undesirable businesses. Way back in 1962, Sam Walton retreated from the variety store business, where he was doing very well amongst his peers, and took on the emerging trend of discount retailing, eventually building Wal-Mart Stores into the world's largest retailer. As this story illustrates, a business exit does not necessarily mean failure, but instead may serve as a stepping-stone toward a much brighter future.