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A Conceptual Model of Small Business Owners' Unique Retirement Decisions: Multilevel Antecedents and Retirement Adjustment Consequences

Abstract

The research on small business owners' (SBOs') retirement process has been very limited in the literature. In this commentary, we first outline SBOs' four specific retirement decision options, including family succession, retire from management while maintaining ownership, independent sale, and liquidation. We then examine their unique multilevel antecedents that may shape SBOs' retirement decisions at the individual (e.g., psychological ownership), relational (e.g., business-related family conflict and potential successor), and business (e.g., presence of business partners and business financial value) levels. Next, we explain how SBOs' specific retirement decisions may shape their retirement adjustment in terms of both psychological and financial well-being. The overall purpose of this paper is to provide a conceptual model of SBOs' unique retirement decisions to support the understanding of SBO's retirement process and help the literature move forward on this topic.

As a growing number of countries face the demographic challenge of an aging population, retirement has emerged in the last decade as an important area of research (e.g., Wang & Shultz, 2010). Specifically, retirement refers to the developmental process through which individuals gradually exit the workforce, physically and psychologically withdrawing from work (Wang, Henkens, & van Solinge, 2011). A major limitation in both conceptual and empirical retirement research is that it has mostly focused on employed older workers. Another major limitation in the firm market literature is that research on market exit is much scarcer than on market entry (Elfenbein & Knott, 2015; Gielnik, Zacher, & Schmitt, 2017). For these reasons, the retirement process of small business owners (SBOs) has only received very limited attention (for an exception, see Wennberg & DeTienne, 2014). Specifically, SBOs establish and manage a business "as an extension of the individual's personality to further personal goals and to produce family income" (Stewart, Watson, Carland, & Carland, 1999, p.191).

The lack of consideration for SBOs' specific retirement process in the current literature is surprising given that it differs from that of typical employees in that their retirement will not only affect themselves but also their businesses. Considering its specific features and circumstances, it is necessary to investigate SBOs' retirement process for at least three reasons. First, SBOs are typically not only owners, but also managers of the business. As such, they are responsible for day-to-day operations and have intimate knowledge that renders the business difficult to function without them as they retire. Relatedly, they may develop some personal attachment to their business, which is likely to impact their retirement process in a unique way. Second, SBOs' retirement decision options can involve various degrees of business ownership and/or engagement in the business daily operations. For this reason, relational factors (e.g., conflict in family and presence of a successor) may become especially important in shaping this process.

Third, the less rigid organizational structure of small business may provide SBOs with unique advantages and disadvantages as they plan for their retirement (Brinckmann, Grichnik, & Kapsa, 2010). Notably, oftentimes employees of large businesses benefit from specific opportunities forcing them to act (e.g., monetary incentives to retire), as well as assistance with their formal financial planning (i.e., retirement calculators, seminars, and financial expert experience; Lusardi & Mitchell, 2005; Taylor-Carter, Cook, & Weinberg, 1997). Therefore, SBOs, who typically lack this type of organizational support, may be at a disadvantage. Nevertheless, the lack of rigid organizational structure may also act as a benefit for SBOs because given that they are usually in charge, SBOs have control over the timing and decision chosen when it comes to firm exit. Indeed, previous research found that 65% of owners-managers were responsible for all major decisions in most business areas (Feltham, Feltham, & Barnett, 2005).

Given the above reasons, the overall purpose of this paper is to provide a conceptual model of SBOs' retirement process. First, we jointly consider SBOs individual exit from work and their different options to separate from their businesses in terms of four specific retirement decision options, including family succession, retire from management while maintaining ownership, independent sale, and liquidation. Second, we clarify their specific context by highlighting unique antecedents at the individual, relational, and business levels, which may shape SBOs' retirement decisions. Third, we explain how SBOs' concrete retirement decisions may shape their retirement adjustment in terms of both psychological and financial well-being. Figure 1 illustrates our conceptual model.

[Insert Figure 1 about here]

Consequently, this paper contributes to the current literature in several important ways. Overall, we offer a first conceptual model on SBOs' retirement process. First, we suggest four retirement decision options that can be arranged as keeping one's business from closest to farthest to oneself (i.e., family succession, retire from management while maintaining ownership, independent sale, and liquidation). In particular, we suggest that the option to *retire from management while maintaining ownership* may constitute the specific equivalent of bridge employment for SBOs. Second, we suggest concrete antecedents that have not been examined in the general retirement literature (Wang & Shultz, 2010; Wang et al., 2011), but are uniquely tied to small business exit options. Third, we connect two separate bodies of literature—the retirement literature (Wang & Shultz, 2010; Wang et al., 2011) and the firm market exit literature (e.g., DeTienne, 2010)—as we tie firm market exit to SBOs' retirement process. As such, we suggest that business exit option at the firm level, and SBOs retirement decisions at the individual levels, are indeed intertwined.

SBOs' Retirement Decisions: A Joint Consideration with Business Exit Options

In this paper, we define SBOs' retirement as a process through which the owner of a small business exits work – often from the firm that he or she created and built (DeTienne, 2010). In the next section, we first consider different options that SBOs can have with their businesses when they retire.

Retirement Decision Options

Our conceptual model suggests four decision options for SBOs to separate from their businesses as they retire (i.e., SBOs' retirement decisions). Importantly, these four options represent more of a process than a single event through which SBOs transfer the ownership of their business. Expanding DeTienne's (2010) work, below we outline these four options basing on the extent to which the business remains close to the SBO (i.e., using a criterion of "proximity"). Specifically, we suggest that retirement decision options, from the closest to the farthest to oneself, are family succession, retire from management while maintaining ownership, independent sale, and liquidation.

Family succession. Family succession represents the process through which SBOs transfer the ownership of their business to their family members, mostly their children (Sharma, Chrisman, & Chua, 2003). This option for SBOs' retirement is adopted around about 20% of the time, although surveys show SBOs would prefer this to be higher (Knott & McGrath, 2004). One of the major issues concerning family succession is the low survival rate of the businesses, as few of them continue existing into the second or third generation of family ownership (Lee, Lim, & Lim, 2003). Although these researchers suggest that family businesses are highly idiosyncratic because the institutionalized knowledge is often individual-specific rather than firm-specific, other researchers suggest that family successions leads to effective knowledge transfer between incumbents and successors due to typically close family ties (Cabrera-Suarez, De Saa-Perez, & Garcia-Almeida, 2001).

Retire from management while maintaining ownership. SBOs can also decide to retire without relinquishing ownership of the business, thus hiring an external person to manage the business (Gómez-Mejía, Hoskisson, Makri, Sirmon, & Campbell, 2011). According to previous literature, this option often allows to bring more objectivity and increased professionalization to business operations (Salvato, Chirico, & Sharma, 2010). Research has also shown that compared to family members of SBOs, who tend to engage in escalation of commitment toward under-performing business activities, non-family members are more successful in managing businesses especially in terms of avoiding profit loss and negative growth (Woods, Dalziel, & Barton, 2012). Nevertheless, SBOs who opt to retire from management while maintaining ownership will still have to decide when to relinquish the ownership of the business down the road, thus signaling a full exit from their business-related activities. For this reason, this retirement option may represent a specific type of bridge employment (i.e., "stay[ing] in the labor force and maintain[ing] certain levels of work engagement as [one] leave[s a] career job and move[s] toward complete work withdrawal"; Zhan & Wang, 2015, p. 203) applied to the case of SBOs—instead of its traditional application to employees.

Independent sale. Among small and medium-sized businesses, the most common exit strategy is the sale of the business to an individual or another firm (DeTienne, 2010). In fact, independent sale, often using a business broker, is one that primarily occurs in the low-end market where business valuations are usually under $5 million (DeTienne & Cardon, 2012). The independent sale exit strategy provides SBOs with the opportunity to decide to whom to sell their business: Either to a local business, or to a strategic buyer. Such decision will likely depend on the subjective importance of distinct criteria: While a local buyer may offer a faster transaction, a strategic buyer may offer a higher profit for the sale but take significant longer time to complete the transaction (Minor, 2003).

Liquidation. Liquidation refers to the termination of the business and the distribution of the value of its assets to stakeholders. Unlike bankruptcy wherein SBOs have little choice, liquidation typically represents voluntary cessation where SBOs disband the firm at their own will. Among all the potential business exit options associated with retirement, liquidation is probably the least desirable one for SBOs because of the costs involved with liquidation (e.g., administration costs), in addition to the asset's loss, and as such often leads to financial losses (Mitchell, 1994). For example, in Sweden, liquidation is a cumbersome process and may lead to greater taxation than independent sales for SBOs (Wennberg, Wiklund, DeTienne, & Cardon, 2010). Despite liquidation often considered as the last resort for recouping residual value of a business, this option is adopted around 44% of the time (Balcaen, Manigart, Buyze, & Ooghe, 2012).

Unique Antecedents for SBOs' Retirement Decisions

In order to better understand the retirement process of SBOs, it is essential to understand the drivers behind SBOs' retirement decisions. As theoretical development in SBOs' retirement is scant, we rely on the multilevel perspective of antecedents of the retirement process (Szinovacz, 2013), which suggests micro- (i.e., individual), meso- (e.g., organizational, family), and macro-level (i.e., societal, economic) antecedents. Accordingly, in this paper we include three levels of antecedents, each including specific factors: the individual level (e.g., psychological ownership), relational level (e.g., business-related family conflict and potential successor), and firm level (e.g., financial value of the business and presence of business partner).

Psychological ownership. Psychological ownership refers to a state of mind in which the possessiveness of a particular object is psychologically tied to one's identity (Pierce, Kostova, & Dirks, 2001). In fact, SBOs often refer to their business as their "baby," thus implying that "exit is more than the relinquishment of equity ownership, but also has psychological implications as well" (DeTienne, 2010, p. 205). Put differently, SBOs' businesses are often felt as extensions of their identities. This is in line with self-expansion theory (Aron & Aron, 1986), which suggests that SBOs include their businesses as part of the definition of themselves. Specifically, control of the business, intimate knowledge of the business, and self-investment have been viewed as three major contributors to business owners' identity (Pierce et al., 2001). Indeed, SBOs not only have a high degree of control over the firm but also deep intimate knowledge due to their initial design of the firm (Pierce et al., 2001). Overall, the more of oneself that an individual has invested into a firm, the higher degree of psychological ownership the individual is likely to experience toward the firm (DeTienne, 2010). Thus, there is no doubt that SBOs often have a strong psychological tie to the firm that they have created or built.

Accordingly, as SBOs are usually deeply emotionally involved with their business (i.e., high psychological ownership), retirement is likely to be perceived as a difficult decision (DeMassis, Chua, & Chrisman, 2008). For this reason, we suggest that psychological ownership will affect SBOs' type of retirement decision and business exit strategy. More specifically, SBOs who have a strong sense of psychological ownership may be more likely to choose a retirement option that allows them to keep their firm close. In this regard, family succession can become the preferred business exit option for SBOs because it allows them to sustain their strong psychological ownership (DeTienne & Chirico, 2013). Alternatively, as SBOs often own all of the firm's equity as business founders, they may also be more likely to choose to retire from management while maintaining ownership as a way to preserve their psychological ownership, while at the same time releasing them from the day-to-day business operation.

Proposition 1: Psychological ownership increases the preference for retirement options that keep the business close (i.e., family succession and retire from management while maintaining ownership) and reduce the likelihood for farther away options (i.e., independent sales and liquidation).

Business-related family conflict. Family sphere often interacts with the work sphere to shape one's employment and retirement decision-making (DeTienne, 2010). A first important family-level factor that can influence the retirement decision process for SBOs is family conflict. Indeed, family members usually have different needs and goals for the business, which may lead to a struggle within the family for control of the firm ownership (Dyer & Handler, 1994). For instance, in some cases, SBOs' family members may see the founder as the only person able to manage the business, or they may not be interested in managing the business themselves. Relatedly, Salvato et al. (2010) found that if business owners perceive their family members as distant from the founding roots of their firm, they would prefer independent sales as the retirement and business exit strategy. Accordingly, when experiencing significant business-related family conflict, SBOs may not wish for family succession as they transition into retirement. Rather, they may be more likely to opt into independent sale, liquidation, or retire from management while maintaining ownership so that family conflict would not interfere with the continuous operation of the business after they retire.

Proposition 2: Business-related family conflict decreases the preference for family-related retirement options (i.e., family succession) and as such increases the likelihood of the other retirement decision options.

Potential successor. Literature has shown that SBOs are often interested in grooming their family members, usually their children, to develop relevant skills and learn to manage business as potential family successors (Neubauer, 2003; Palmer, Fasbender, Kraus, Birkner, & Kailer, 2019). However, when SBOs do not have a child willing to become their successor, they may also find a successor among extended family members (e.g., nephew or niece, godson or goddaughter) or someone external to the family (e.g., a former apprentice, a younger colleague). Indeed, “letting go” is the biggest problem in succession (Mitchell, 2020), but SBOs often do so across 5-15 years as to adequately identify, train, and transfer ownership to the chosen successor. In fact, the presence of a potential family successor represents a necessary condition for SBOs’ interest in the business exit option of family succession. Similarly, having a successor would also allow SBOs to retire from management while maintaining ownership, as they train their successor to become the best manager for the firm but keep their share of the business.

Proposition 3: Having a potential successor increases the preference for retirement options that keep the business close (i.e., family succession and retire from management while maintaining ownership) and reduces the likelihood for farther away options (i.e., independent sales and liquidation).

Presence of business partners. At the business level, research has shown that high-growth ventures (i.e., opportunistic ventures in which the goal is typically value creation and wealth; Haynes, Becherer, Helms, & Jones, 1999; De Bettignies, 2008) are often created by a team of entrepreneurs rather than an individual person (Brush, Greene, & Hart, 2001; Friar & Meyer, 2003). Indeed, to achieve higher levels of growth and lower levels of business risk, it is often more efficient to start a business venture with partners to establish and manage the business together. This kind of ownership structure often makes it difficult for SBOs to pass the business to their family members – either intentionally on the part of the SBOs or unintentionally in the event of the SBOs' death or disability. Further, as DeTienne, McKelvie and Chandler (2015) argued, "larger founding teams must—by necessity—be more focused on financial performance" (p. 262). As such, SBOs share control of the firm with their business partners and must try to return financial rewards to their partners. Consequently, independent sale or retire from management while maintaining ownership are the most likely retirement options for SBOs because they can bring more financial income or benefit for the firm's growth.

Proposition 4: Presence of business partners increases the preference for retirement options that are the most financially rewarding (i.e., independent sales and retire from management while maintaining ownership) and reduces the likelihood of family succession and liquidation.

Business financial value. While previous research has noted that entrepreneurs may have many unique motivations for maintaining their businesses, wealth creation is often viewed as a defining objective for entrepreneurship (Certo, Covin, Daily, & Dalton, 2001). Accordingly, financial measures have been used to gauge the success of a businesses (Wennberg et al., 2010). As such, the valuation of the business is an important factor that can shape SBOs' decision to retire in the form of an independent sale (Morris, Soleimanof, & White, 2018). Specifically, the independent sale option allows SBOs to increase their net income, which represents a desirable return on investment, and to fund their retirement. Moreover, the financial success of the business, especially its growth potential, may lead SBOs to decide to retire from management while maintaining ownership. When having to choose between these two options, previous research has shown that SBOs were more likely to sell their firms in order to fund their retirement than taking the path of bridge employment (i.e., retire from management while maintaining ownership; Cahill, Giandrea, & Quinn, 2013). On the other hand, if the business is incurring losses and SBOs are unable to turn the situation around, they may only have the option to liquidate. Finally, a business with poor financial value will likely be perceived as a burden for family members, thus reducing the likelihood of family succession.

Proposition 5: Business financial value increases the preference for retirement options that are the most financially rewarding (i.e., independent sales and retire from management while maintaining ownership) and reduces the likelihood of family succession and liquidation.

Retirement Decisions and Retirement Adjustment

Retirement adjustment refers to the process during which older workers get used to the changed aspects of life resulting from work-to-retirement transition and achieve psychological comfort with their retirement life (van Solinge, 2013; Wang et al., 2011). As work provides significant resources associated with either instrumental or symbolic values (e.g., income, recognition, time structure and activities, interpersonal relationships; Froidevaux, Hirschi, & Wang, 2018), complete work withdrawal may present difficulties to SBOs as they adjust to retirement. Specifically, this process is likely to have two major outcomes (Wang et al., 2011): financial well-being and psychosocial well-being. In this section, we consider how the four SBOs' retirement/business exit options may be associated with these two outcomes.

Psychosocial well-being. Retirement adjustment research has been largely informed by Atchley's continuity theory of aging (1989). As Atchley suggested, individuals try to maintain existing patterns, relationships and structures when they make decisions regarding their retirement. Applied to SBOs' emotionally charged work, continuity theory would thus suggest that partial or complete changes to their identity as business owners (i.e., "rolelessness"; Hornstein & Wapner, 1985; Richardson & Kilty, 1991) due to firm exit may result in low levels of psychosocial well-being during retirement. In addition to facing the challenge of preserving business owner identity, SBOs may also need to deal with significant daily activity changes when entering retirement. Before retirement, SBOs typically engage heavily in day-to-day business operations. Therefore, the business operation environment manifests as an environment that offers a large number of meaningful social ties for SBOs and retirement is likely to reduce their access to those social ties.

Specifically, consistent with continuity theory, bridge employment helps retirees to maintain part of their pre-retirement social resources and social support (Froidevaux et al., 2018) and has been shown to be positively associated with post-retirement mental health (Zhan, Wang, Liu, & Shultz, 2009). Moreover, previous research has argued that achieving identity congruence is important for retirees to successfully transition from work to retirement (Froidevaux et al., 2018). Given that the business owner identity is salient for SBOs (Pierce et al., 2001), the better they can preserve it, the more likely they would be able to psychologically adjust to their retirement.

In particular, SBOs taking a *family succession* option can decrease the discrepancy between their pre-retirement and post-retirement identities, facilitating the maintenance of their identity congruence. Due to typical long-term relationships cultivated between incumbent and successor, SBOs may continue to be engaged and have some influence over the future of the firm as a trusted advisor even after succession has occurred (Neubauer, 2003; DeTienne, McKelvie, & Chandler, 2015). Alternatively, SBOs *retiring from management while maintaining ownership* may offer the similar beneficial effect as bridge employment to SBOs' psychosocial well-being that has been observed in the context of general workforce retirement (Zhan & Wang, 2015). These benefits are directly related to SBOs' continued access to resources that were available to them prior to retirement (e.g., tangible resources, social resources; Leung & Earl, 2012).

Differently, an *independent sale* may represent a more abrupt change to SBOs' identities as business owners than would family succession or retirement from management while maintaining ownership. On the one hand, the individual would no longer be involved in the business operations, and relinquishing the business ownership has negative psychological implications (DeTienne, 2010). On the other hand, after spending their time, money, and effort on building their businesses, independent sales allow SBOs to materialize their business' wealth, resulting in a sense of deep pride about this accomplishment (Certo et al., 2001). Altogether, an independent sale may represent a less positive psychological outcome than the first two retirement decisions, yet also a less negative one than *liquidation*, which has often been equated with SBOs' worst case alternative (Wennberg et al., 2010). In addition, it is possible that SBOs with a liquidation pathway for retirement may experience feelings of failure (Pasanen, 2005), which could lead them to have worse psychosocial well-being in retirement as compared to other retirement decision options. In conclusion, we argue that the "closest" retirement options (i.e., family succession and retirement from management while retaining ownership) allow for much greater continuity than the farther ones (i.e., independent sale and liquidation), and as such, we propose the following:

Proposition 6: SBO's post-retirement psychosocial well-being is the highest for retirement options that keep the business close (i.e., family succession and retire from management while maintaining ownership), moderate for independent sales, and low for liquidation.

Financial well-being. From a consumption's perspective, "the retirement decision is a result of comparing the financial resource accumulated and financial resource needed in retirement" (Wang & Shultz, 2010, p.175). Accordingly, whether the business exit decision can help SBOs gain sufficient financial resources to support their retirement consumption has important implications for their post-retirement financial well-being. In this sense, *independent sale* may seem like the option that is most likely to accomplish this goal, especially if SBOs are willing to wait for a strategic buyer that may offer a higher profit compared to a convenient buyer (Minor, 2003). In addition, *retirement from management while maintaining ownership* should provide a similar level of financial resources for the SBO compared to their pre-retirement status because it ensures continued income in retirement due to the maintained ownership. *Family succession*, unlike independent sale, may include predetermined arrangements between the incumbent and the successor. These arrangements may often result in less than ideal financially for the SBO (e.g., the successor may purchase the firm at a discounted price or even receive the firm as a gift; White, Krinke, & Geller, 2004). Finally, *liquidation* is often stemmed from a firm's poor performance, symbolizing an overall low business value which would result in the lowest profit for the SBO (Wennberg et al., 2010).

Nevertheless, SBOs' financial well-being is not only dependent on the resulting profit at the time of firm exit, but rather it is closely tied to individuals' income during retirement. Indeed, individuals' level of income may fluctuate depending on the post-retirement activities that they engage in. These activities may range from unpaid (e.g., volunteering) to paid (e.g., bridge employment) work, depending on SBOs' motivations. For instance, older individuals who lack financial security may be motivated to pursue new paid opportunities via bridge employment or self-employment (Halvorsen & Morrow-Howell, 2017). Such paid opportunities would increase retirees' level of income and consequently, their financial well-being. As such, we propose:

Proposition 7: SBO's post-retirement financial well-being is the highest from a high level of income earned from the retirement decision option (i.e., independent sales), moderate from retirement from management while maintaining ownership, and low from family succession and liquidation.

Conclusion

In this paper, we propose a conceptual model to understand SBOs' retirement process. In particular, we highlight the unique aspects of this process, especially in terms of the business exit decisions that SBOs could make in tandem with their retirement decisions. Consequently, this unique feature of SBOs' retirement calls for new research regarding antecedents and outcomes that are different from those in the general workforce retirement literature. We offer a first conceptual model including unique antecedents that had not been examined yet and tie them to four retirement decision options that can be arranged as keeping one's business from closest to farthest to oneself. We also propose that these options have important implications to SBOs' psychological and financial well-being.

It is important to note that research on this topic has been quite limited, which could reflect the difficulty in sampling and collecting data from SBOs. Such scarcity could also be due to the lack of theoretical guidance in conceptualizing the SBOs' retirement. Albeit our attempt to provide a cohesive model based on the characteristics of SBOs, we acknowledge that there may be other relevant unique antecedents (e.g., urgency of retirement) and outcomes (e.g., physical well-being) that can add to our understanding of SBOs' retirement process. We hope this paper inspires more rigorous empirical studies to advance our understanding of SBO's retirement process and helps the literature move forward on this topic.

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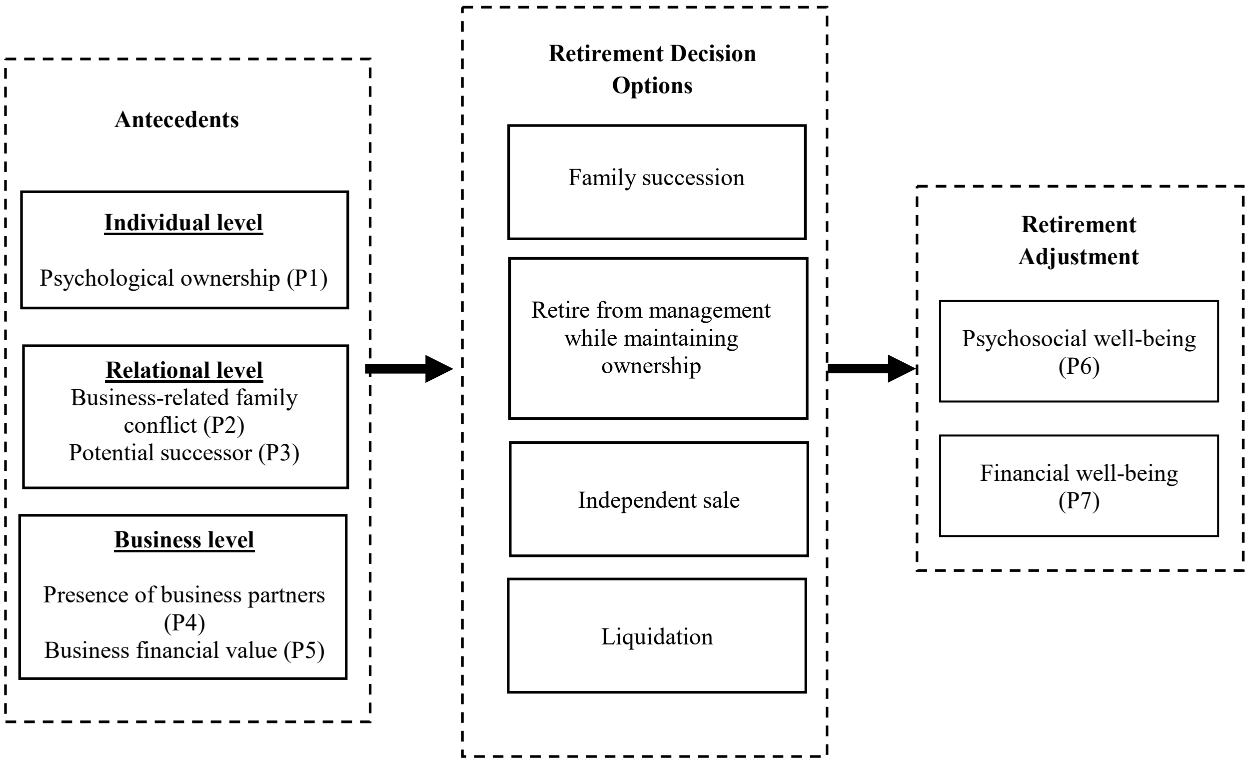

Figure 1. Conceptual Model of SBOs' Retirement Process