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Entrepreneurs' exit and paths to retirement – Theoretical and empirical considerations

Monika E. von Bonsdorff, Jukka Lahtonen, Jan von Bonsdorff and Elina Varamäki

Abstract The number of ageing entrepreneurs in micro- and small-sized companies is rapidly increasing in Finland and other European Union countries. Over half a million jobs, in over one hundred thousand companies within the EU, are lost annually due to unsuccessful, predominantly retirement-related transfers of businesses. This challenge coincides with EU Grand Challenges and has been highlighted in the Entrepreneurship 2020 Action Plan (European Commission 2013). It has been estimated that in Finland, some 8,000 jobs are lost yearly due to the ageing of entrepreneurs. Therefore, entrepreneur ageing has implications not only for the ageing individual but also for the company and the society at large. As entrepreneurs age it becomes more essential for them to start planning when and how they transition into retirement. While they may experience several exits and subsequent re-entries into working life via buying or starting new companies, exiting ones entrepreneurial career due to old age retirement differs from exits that occur earlier during the career. In this chapter, we provide a short overview of the entrepreneur retirement and exit literature from an age perspective. Furthermore, we present a theoretical conceptualization which combines entrepreneur retirement process with exit theories. This will enable scholars to better understand the retirement process, including decision-making, transitioning, and adjustment to retirement. We also provide empirical evidence using data collected among Finnish entrepreneurs in 2012 and 2015, where we outline the types of exits and assess several factors, including age, in association with exit intentions.

1 Introduction

Age structures are changing and global ageing of the workforce is evident. Consequently, the number of ageing and retiring entrepreneurs in micro- and small-sized companies, i.e. companies employing ten or fewer individuals (European Union 2013), is rapidly increasing in the Western countries. As entrepreneurs age, they need to start planning their exit, i.e. liquidation, sale, or succession (Wennberg et al. 2010). Succeeding in the company exit is important, because over half a million jobs, in over one hundred thousand companies within the EU, are lost annually due to unsuccessful, predominantly retirement-related transfers of businesses. This challenge coincides with EU Grand Challenges and has been flagged in the Entrepreneurship 2020 Action Plan (European Commission 2013). For example, it has been estimated that in Finland, some 8,000 jobs are lost yearly due to the ageing of entrepreneurs (Varamäki, Tall, Joensuu and Katajavirta 2015). Therefore, entrepreneur ageing has implications not only for the ageing individual but also for the company and may even hinder economic growth.

As entrepreneurs age it becomes more essential for them to start planning the transition into retirement. Similar to wage-and-salary employees, their retirement process is likely to gradually unfold over a period of several years (Wang and Shi 2014). Furthermore, it is likely that entrepreneurs start the process by planning retirement as they approach the age of retirement eligibility. Previous studies have theorized that the factors driving entrepreneur retirement may be characteristic for entrepreneurs. Specifically, it was proposed that certain individual identity, such as entrepreneurial personality, psychological ownership, perceived autonomy, and generativity may be associated with retirement intentions (Soleimanoff, Morris and Syed 2015). However, thus far only little empirical evidence exists to back these suggestions up.

In contrast to employees, entrepreneurs are mainly responsible for organizing their pension along with other forms of income in old age. Securing financial well-being in old age is one of the central goals of retiring entrepreneurs. In addition, eventually entrepreneurs need to exit working life and discontinue running their business. While they may experience several exits and subsequent re-entries into working life via buying or starting new companies, exiting ones entrepreneurial career due to old age retirement differs from exits in early career (DeTienne and Wennberg 2014). Furthermore, the exit process may be very different for solo entrepreneurs compared to those who employ several hundred employees. The industry they operate in or the geographical location may also be significant in terms of exit. Along with the individual characteristics of the entrepreneur, these factors may play a significant role in the timing and the means of exit (Chevalier et al. 2017).

Based on the existing literature on entrepreneur retirement and exit, it is likely that in order to transition into retirement and withdraw from working life, entrepreneurs need to retire (i.e. organize their pension) and exit from their company (DeTienne 2010). In many ways, this retirement process is more complicated and contains much more uncertainty compared to employee retirement. For instance, receiving pension benefits and exiting the company do not necessarily happen simultaneously. Hence, bridge employment, where the retired entrepreneur continues working, is relatively common among entrepreneurs (von Bonsdorff et al. 2017).

Previous studies have reported on the process of becoming self-employed at older ages and the factors that drive the decision to enter self-employment after retiring from wage-and-salary employment (Sing and DeNoble 2003; Zissimopoulos and Karoly 2009; Kerr and Armstrong-Stassen 2011; Kautonen et al. 2012). However, these studies have considered whether or not older individuals entering self-employment have actually retired from a self-employment career (Sapleton and Lourenço 2015; von Bonsdorff et al. 2017).

In this chapter, we will briefly review the current literature regarding entrepreneur retirement and firm exit due to old age. Furthermore, we will present a theoretical conceptualization which combines the entrepreneur retirement process with individual level exit theories. This will enable us to better understand individuals' retirement process, including decision-making, transitioning, and adjustment to retirement, as well as identify relevant antecedents of retirement on the individual, company, and societal level. We use the term "entrepreneur" to describe the individual, regardless of the type of business she/he runs. Using empirical data collected in 2012 and 2015 among Finnish entrepreneurs, we explore the role of age in entrepreneurs exit intentions.

2 Ageing entrepreneurs and the transition into retirement

2.1. Defining and operationalizing retirement among entrepreneurs

Retirement has typically been viewed as a natural life course transition that all those who participate in working life face in old age (Elder 1995). However, retirement can be defined in several ways. The most commonly one used in psychological research is defining retirement as "an individual's exit from the workforce, which accompanies decreased psychological commitment to and behavioral withdrawal from work" (Shultz and Wang 2011). As many as eight different

operationalizing of retirement have been identified. These include exit from the labour force, reduction in work hours or earnings, work hours or earnings below a minimum cutoff, receipt of retirement pension or other retirement income, exiting one's job from their main employer or career, changing careers or employment in later life, self-assessed retirement, or some combination of the above definitions (Denton and Spencer 2009; Fisher et al. 2016).

Retirement has increasingly become a process that unfolds over time and may include several exits and entries in and out of working life (Wang and Shi 2014). Furthermore, many retirees now stay in the labour force and maintain certain levels of work engagement in wage-and-salary work or as self-employed as they leave their career jobs and move toward complete work withdrawal. This labour force participation status is defined as bridge employment (Shultz 2003). A recent study based on the Health and Retirement Study data found bridge employment to be relatively common among individuals who retired from an entrepreneurial career (von Bonsdorff et al. 2017).

While the retirement process of those older individuals who retire from an entrepreneurial career has not previously been studied in detail (DeTienne and Wennberg 2014; von Bonsdorff et al. 2017), we start by defining retirement among entrepreneurs and self-employed and how it differs from employee retirement. As described earlier, retirement can be defined in many ways and by using several measures. For instance, while psychologists typically focus on exit from a job career, economists see retirement in terms of receiving a retirement pension or exiting the workforce (Beehr and Bowling 2013). Entrepreneur retirement was defined in a recent study as "the owner of a small business ceasing to be fully employed and no longer owning the business" (Chevalier et al. 2017). Yet in some cases, the entrepreneur may continue to be a shareholder in the company.

In this study, we combine both economic and psychological perspectives by taking into account both official retirement age and receiving pension benefits as well as the cognitive-emotional process of withdrawing from working life through exiting the company. First, much like wage-and-salary employees, entrepreneurs in most industrialized countries today are entitled to a pension and social security. However, social security systems in many OECD countries do not offer disability or unemployment benefits to self-employed. Furthermore, due to short-sightedness and ineffective pension policies, in some countries entrepreneurs and self-employed do not contribute enough to the pension system (OECD 2015). Therefore, in many industrialized countries, entrepreneurs need to take out pension insurance and manage the contributions themselves. In some European countries, such as Finland, the level of pension remains significantly lower for entrepreneurs compared to wage-and-salary employees. In Finland in year 2014, 70 percent of those individuals who retired

under the statutory pension insurance for self-employed workers transitioned into old age pension, while 19 percent transitioned into disability pension (Finnish Center for Pensions 2015).

Second, retirement among entrepreneurs may be defined as ceasing to participate in working life and no longer running the company. Hence, in order to exit their entrepreneurial career, entrepreneurs must arrange the exit from their company. These arrangements typically include assessing the company's value and the status of the employees, identifying possible successors and potential buyers, and planning how the entrepreneur could be replaced in the company (Wennberg et al. 2010; Foster-Holt 2013). Consequently, entrepreneurs are a heterogeneous group in terms of the business they run. Some may be self-employed solo entrepreneurs who do not require significant infrastructure or other resources in order to operate. For these solo entrepreneurs, retirement is likely to be relatively similar compared to employees. In contrast, many entrepreneurs run micro, small, and medium-sized businesses with various numbers of employees and large operating facilities. According to the Structural Business Statistics Database (Eurostat), the majority, nearly 92 % of companies in the EU are micro companies that employ less than ten people. However, these companies provide jobs for nearly 30 % of those employees working in the EU private sector companies (European Commission 2016).

When conceptualizing retirement as a decision-making process (Feldman 1994; Wang and Shultz 2010) among employees, researchers typically rely on the informed decision-making process. Nonetheless, the aspect of voluntariness of retirement is highlighted by the nature of entrepreneurship. On the one hand, entrepreneurs might seem have greater freedom of choice; but on the other hand, many of them experience financial restrictions when considering retirement (Foster-Holt 2013). Furthermore, they might have a sense of obligation towards their employees, especially if selling the company and succession are not viable options to secure the future of the company and workplaces.

Parallel to employees, entrepreneurs can also be assumed to make decisions based on their subjective evaluation of their own characteristics and their work and nonwork environments (Wang and Shi 2014). Beyond these evaluations, it is likely that the decision to retire or otherwise withdraw from work is dependent on the possibilities to disengage oneself from the company. While the rational choice theory suggests that the retirement decision among employees is the result of comparing the accumulated financial resources and the financial resources needed in the retirement (Laitner and Sonnega 2013), this might not apply in entrepreneurs. More specifically, the entrepreneurs' financial resources are likely to be intertwined with the company finances. Even if selling the company would ultimately secure sufficient finances for retirement, potential buyers

may not be interested in the company if they do not see the possibility of keeping up the profitability of the company. Entrepreneurs may also be forced to give up their business and retire due to economic or health circumstances, despite poor financial prospects (van Solinge and Henkens 2007). Taken together, while entrepreneurs may seem to have greater freedom of choice, the majority of entrepreneurs experience financial restrictions when considering retirement.

2.2. The retirement process and age – timing of transition and antecedents

The retirement process can be divided into consecutive phases, including planning, decision-making, and transitioning and adjustment to retirement. While the paths to retirement may be very different, the process will ultimately result in complete withdrawal from working life and ultimately adjustment to life in retirement (Beehr 1986; Shultz and Wang 2011).

According to the temporal process model of retirement (Wang and Shi 2014), as individuals age, they start to plan and prepare for retirement. This planning phase includes envisioning what life looks like in retirement and discussing these plans with family and friends. Preparing for retirement has typically meant securing financial independence in old age. In addition to several personality factors, such as future time perspective and financial risk tolerance, cognitive and motivational factors, as well as income base and general economic conditions, play a role in determining the level of planning and saving for retirement (Hersey et al. 2007). Individuals retire from different types of jobs, some with a sufficient pension, others with low levels of pension and insufficient financial resources. Similar to employees, the focus of retirement planning among entrepreneurs is likely to be in securing financial independence in old age. In addition to income from various pension plans, entrepreneurs are likely to view their company as a source of equity. Therefore, they may plan to harvest the company, i.e. realize the full value of the time, energy, and money they have invested in the company, as they transition into retirement (DeTienne and Wennberg 2014). One of the basic tenants of a business transfer is that the buyer can envision continued growth for the company.

The next phase in the retirement process is the decision-making and transitioning, where the older individual weighs the values of work and leisure over time against their individual circumstances to make the retirement decision (Wang and Shi 2014). Transitioning into retirement is probably one of the most significant changes in late adulthood. For many entrepreneurs this transitioning includes retirement through receiving pension benefits as well as exiting the company.

This decision-making process is likely to entail some form of thought-change brought on by the cognitive process that guides the individual through retirement (Feldman and Beehr 2011). The theory of planned behaviour (Ajzen 1991) is frequently used to study entrepreneur retirement (Foster-Holt 2013). This theory states that attitudes towards retirement and work, subjective norms, and perceived control over the retirement transition shape employees' retirement intentions and retirement decisions. Hence, it highlights the importance of employees' retirement attitudes in retirement decision-making. In the context of entrepreneurs, the theory of planned behaviour has been applied in some studies, such as a study of the underlying reasons of French entrepreneurs' decision to terminate their career (Chevalier et al. 2017).

The final stage of the retirement process is adjusting to life in retirement. This phase typically involves significant changes in daily activities, as work responsibilities are replaced with other activities such as leisure activities, formal volunteer work, and other care responsibilities (Adams and Rau 2011; Wang and Shi 2014). During the adjustment process, many retirees have to make the decision whether or not to engage in bridge employment, which has been defined as the transition into some part-time, self-employment, or temporary work after retirement (Feldman 1994; Wang and Shultz 2010). There are several reasons behind the decision to engage in bridge employment, such as maintaining health and well-being and sufficient financial well-being, and facilitating the retirement adjustment process. For ageing entrepreneurs the company may or may not have an effect on the adjustment process in terms of the continued time commitment in case of delayed exit. It may also provide financial security in case of a successful exit.

The timing of retirement refers to the point of time when the individual enters retirement via leaving the main job and/or withdrawing from working life altogether. Timing is typically operationalized using age in relation to some standard definition of "on-time" retirement age, such as eligibility for retirement or mandatory age of retirement (Fisher et al. 2016). Following this logic, we can define retirement as "early" if it occurs before and "late" if it occurs after the individual becomes, e.g. eligible for retirement (Beehr 1986). While the age of eligibility may vary between countries, it is in most European countries and the United States around 65 and 67.

Early retirement has been defined as exiting the workforce before an individual is eligible for receiving social security benefits and/or pension (Feldman 1994; Kim and Feldman 1998; Damman et al. 2011). In many countries, such as the United States, early retirement can be operationalized as retiring before age 62. This is the earliest age one can start receiving social security benefits. In addition to the age defined by the retirement system, it has been argued that one's status of early retirement is at least partly subjective as well (Feldman 2013). In other words, whether a person

retires early also depends on whether retirement happens at an age that is younger than one's expected retirement age (Potocnik et al. 2010). Late retirement, which is encouraged in many Western countries, can be defined as retiring after age 65 and 67, depending on the age of eligibility (OECD 2015; US Social Security Administration 2017).

The timing of exit and length of work careers is in many ways relevant for the individual and the society in general, due to the economic consequences of population ageing. Therefore, in recent years as many as half of the OECD countries have taken measures to improve the financial sustainability of their pension systems by raising the statutory retirement age, tightening early retirement provisions, and introducing new financial incentives to work longer (OECD 2015).

The multilevel model of retirement can be used to identify factors driving the retirement process on the micro-level (age, gender, health, financial conditions, family network), meso-level (work characteristics, career attitudes), and macro-level (cultural norms, retirement eligibility policies) (Wang and Shultz 2010; Szinovacz 2013). This model allows us to identify factors that drive the retirement process among entrepreneurs. Some of the unconventional factors associated with entrepreneur retirement may include the role of family-related factors in terms of succession and other financial aspects, such as responsibilities of continuing to work after transferring the business (Dyck et al. 2002; Malinen 2004). Furthermore, the role of gender is likely to be significant in entrepreneurs' retirement processes. The majority, i.e. 66 percent of Finnish entrepreneurs aged 45 years and older, are men (Statistics Finland 2012). Women typically function in services and retail, while men operate in industry and transportation (Ministry of Employment and Economy 2008). Taken together, these facts may shape the retirement process.

2.3. Entrepreneur exit - definition, theoretical perspectives, and relation to age

All entrepreneurs will eventually exit their companies, some a great deal before the usual retirement age, others not much before their death. Entrepreneur exit has received less attention compared to the startup phase, entry in the market, growth, and innovation (e.g. DeTienne and Cardon 2012). Furthermore, entrepreneur exit due to old age and retirement has not been thoroughly studied (Wennberg et al. 2010; Foster-Holt 2013). Entrepreneurial exit can be defined 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" (DeTienne and Wennberg 2014).

In order to better understand entrepreneurial exit in the context of retirement, we need to define who or what is exiting and what are the means used to exit the company or market. Here we focus on the exit of small business owners. When studying firm exit, there are at least two dimensions we need to distinguish between. First, the company may exit the markets via various routes. Second, the small business owner may exit the firm for various reasons, one of which is retirement. These exits may be the result of either poor or strong performance (Wennberg et al. 2010). Specifically, poorly performing firms might exit the market through bankruptcy or liquidation due to financial reasons (Balcaen et al. 2012; DeTienne and Wennberg 2014).

There are many ways in which a firm can be acquired. Specifically, strong performing firms might be acquired and subsumed into an existing organization, or they can be broken apart for their valuable properties (DeTienne and Wennberg 2014). Small business owners may also exit through founder succession or harvesting. Harvesting refers to the entrepreneur exiting the firm by realizing the firm in order to cash in on the entrepreneurs' investment, such as time, money, and energy (Mason and Harrison 2006; Wennberg et al. 2010). Founder succession refers either to planned succession, where the firm is transferred to next of kin, or to forced succession. Depending on the financial situation of the company, the family situation and the time-window of exit, each of these strategies can be used in the retirement situation.

Entrepreneurial exit has been studied in several different fields of science including economics, sociology, organization studies, and entrepreneurship research. Recently, three theoretical perspectives have been used to study entrepreneurial exit, namely 1) economic career choice theory, 2) strategy and organizational studies, and 3) entrepreneurship research (Wennberg et al. 2010; DeTienne and Wennberg 2016). *The economic career choice theory* focuses on individuals' occupational choices and conditions under which certain choices are made among several alternatives. The theory indicated that among others, entrepreneurship is one of the possible occupations to employ individuals' labour. However, this occurs within the range of certain constraints, such as wealth, employment, and age. One of the most influential examples of this line of theorizing is the self-employment choice model presented by Evans and Jovanovic (1989). According to this theory, those who are wealthier are more inclined to become entrepreneurs and have more opportunities to enter into and exit entrepreneurship.

Strategy and organizational studies have focused on the organization instead of the individual. The interest is often in studying the circumstances under which some organizations survive while others do not. A study using strategy and organizational theories found that under-performing, highly persistent firms may partly exist because of how munificent the environment is, how

successful the organization has been in the past, the firm's collective efficacy, and the founders' personal investment and commitment to the firm (DeTienne, Shepherd and De Castro 2008). These findings are of direct relevance to understanding the timing of entrepreneur retirement.

Finally, *entrepreneurial research* is based on the view that there are individuals and opportunities and individuals pursue opportunities to create new ventures. Thus, this approach includes both the individual and firm level at its core. Specifically, according to the theory, exit is dependent on multiple factors, and exit may occur for reasons other than financial failure (DeTienne and Wennberg 2014). Instead, when founding a firm, entrepreneurs' goals, and time horizons are likely to diverge: depending on their age, education, experience, and other preferences, some may want a lifestyle business; some are trying to build high-growth firms that they can divest of in a few years; and others desire to avoid unemployment, etc. (Wennberg et al. 2010; DeTienne and Cardon 2012).

The literature regarding the drivers behind entrepreneur exit strategies have recently drawn on theories such as prospect theory and behavioural finance (Wennberg et al. 2010). In the context of exit due to retirement, the prospect theory may be the most relevant one of the theories (Kahneman and Tversky 1979). This theory states that in decision-making under risk, an individual tends to overweight certain outcomes relative to those that are merely probable. Based on controlled experiments, it was concluded that individual's choices in the decision making situations could be interpreted using a model that "a) converted the outcomes of gambles into subjective values, i.e., the pleasure the outcome provides and b) weighted these subjective values by decision weights, i.e. the impact of probabilities on choice" (Holmes et al. 2011, p. 1074).

Much like the factors associated with retirement decision-making, these drivers can be identified on several levels. Specifically, some of these are individual (entrepreneur age, education, and experience), and other organizational or societal (company age, size, and field of industry) level variables. Preliminary evidence regarding the association between human capital factors and entrepreneur exit strategies has been found in recent studies (Wennberg et al. 2010; Van Teeffelen et al. 2011). Furthermore, while the role of older age can in the light of theories be associated with choosing to exit, the empirical evidence has been mixed (Holz-Eakin et al. 1994; Gimeno et al., 1997; Van Praag, 2003). A study based on Swedish data collected among 1,735 new ventures and their founders with an 8 year follow-up explored entrepreneur exit and several factors associated with the exit (Wennberg et al. 2010). While the study did not explicitly focus on exit due to retirement and ageing, it showed that higher entrepreneur age was associated with harvest or distress sale relative to continuation or liquidation. Another study found that the drivers behind

entrepreneur exit can be identified both on the individual and organizational level, depending on the financial situation of the company (van Teeffelen et al. 2011). In firms doing well, human capital factors prevail as key drivers, whereas in those that struggle, the firm characteristics, such as dependency on the owner and/or too few customers predict exit strategy.

2.4. Integrating entrepreneur retirement and exit processes

In order to better understand entrepreneur retirement, it is important to explore the role of the company in retirement plans, decision-making, and adjustment in detail. Thus far, the literature has shown that taking on self-employment at older ages may be a viable option to engage in bridge employment (Zissimopoulos and Karoly 2009; Cahill et al., 2013). Studies have also shown that bridge employment is more common among those who have retired from a self-employment career, compared to wage-and-salary employees (von Bonsdorff et al. 2017). The retirement literature has also suggested that company-level variables are typically associated with retirement-related decision-making (Szinovacz 2003; Wang and Shi 2014) and that entrepreneur and wage-and-salary employees' retirement antecedents differ from each other (von Bonsdorff, et al. 2017). Previous studies have also focused on entrepreneur exit strategies, both in a situation of financial stress and when the company is prospering (Wennberg et al. 2010; DeTienne & Wennberg, 2014). However, previous studies have been concerned with entrepreneurial exit focusing on management succession and business survival (Chevalier et al. 2017) and have not explicitly incorporated the retirement and exit perspectives. By incorporating these perspectives, we mean taking timing and multilevel retirement antecedents into consideration.

In this study, we integrate retirement and entrepreneur exit processes from an age-perspective. Specifically, we maintain that parallel to early, on-time, and late retirement (Wang and Shultz 2010; Fisher et al. 2016), entrepreneur exit may be characterized as early, on-time, and late, according to individuals' chronological age. In the retirement context, early exit would mean using any of the exit strategies available in order to decrease work commitment and withdraw from working life before the eligible retirement age. In terms of exit, this would mean age 60-62, while on-time exit would take place anywhere between ages 65 and 67. Those entrepreneurs who are in charge of running their business at age 67 and older can be defined as those who exit late. In terms of exit intentions, it may be good to start considering the options and making the exit plans in advance.

In sum, successful transition into retirement means separating one's own career trajectory from that of the company's.

3 Materials and Method

We used data from the National Barometer of Business Transfers collected by the Seinäjoki University of Applied Sciences, Finland. The data was collected in May 2012 and 2015 as a web-based survey. The target group of the surveys was entrepreneurs, who were members of the Federation of Finnish Enterprises aged 55 years or more. That particular age was chosen as a cut-off because the aim of the study was to investigate the future plans of firms owned by ageing entrepreneurs. In Finland, older employees typically retire between ages 60 and 64. Therefore, it is reasonable to assume that the entrepreneurs' plans to exit the company are more credible as retirement age becomes more proximal. This makes entrepreneurs aged 55 and older as a relevant target group.

Our data comprises 4,629 responses. In 2012, altogether 2,843 responses were obtained, whereas the corresponding number in 2015 was 1,786. The response rates of the 2012 and 2015 surveys were 19.8 and 12.9, respectively. Despite the intended target group, some of the respondents revealed to be younger than 55. We excluded them from the analysis, as well as those whose age information was missing. These exclusions left us with a total of 4,401 observations.

Descriptive statistics are reported as percentages for categorical values and means, and standard deviations for continuous variables are presented in Table 1. The mean age of the respondents was 61 years ($sd= 4.5$, range 55 to 93, 27 % women). The respondents reported to have worked as entrepreneurs between 0.3 and 62 years. The average experience is due to the nature of the target group exceptionally high, around 24 years. A further indication of the extensive entrepreneurial experience is the significant proportion of portfolio or serial entrepreneurs (37 %) in the sample. Portfolio or serial entrepreneurs have possessed a controlling interest in more than one firm during their entrepreneurship career. Examining the educational background of the respondents revealed that most of them have a vocational degree (45 %), but a considerable number also has a higher education degree (33 %). The firms are 35 % one-person enterprises. 34 % have 2–4, 18 % have 5–10, 8 % have 11–20, and 5 % have over 20 employees.

Table 1: Data characteristics

	All participants				Survey 2012					Survey 2015					
	mean%	(SD)	min	max	n	mean%	(SD)	min	max	n	mean%	(SD)	min	max	n
age	61.0	(4.5)	55	93	4401	60.9	(4.4)	55	93	2753	61.1	(4.7)	55	81	1648
experience	23.7	(11.0)	0.3	62	4345	22.7	(11.0)	0.3	60	2733	25.4	(10.8)	1	62	1612
women	27				4345	27				2732	28				1613
portfolio	37				4335	37				2698	37				1637
Education					4380					2746					1634
- primary	18					18					17				
- matriculation	4					3					5				
- vocational	45					43					47				
- higher	33					34					30				
- else	1					1					1				
Num. of workers					4318					2693					1625
- 1	35					38					31				
- 2-4	34					33					37				
- 5-10	18					17					20				
- 11-20	8					7					8				
- 21-50	4					4					3				
- 51-250	1					1					1				
- over 250	0					0					0				

Although not reported in Table 1, the biggest industries of the firms are: 37 % professional, scientific, technical or other services, 18 % retail trade, 13 % construction and 12 % manufacturing.

3.1. Measures

Our dependent variable measured entrepreneur's exit plans from their company. The respondents were asked the question: "What do you think your firm's future will be after you have given up the main responsibility of it?" Please choose the most probable option: (1) succession inside the family, (2) other owner will continue the company, (3) selling the firm outside the family, (4) closing down the firm, and (5) other. We named this variable "firm_future".

We also measured several factors which have been associated with the exit plans (Wennberg et al. 2010; Ryan and Power 2012). Entrepreneur's age is calculated from respondent's year of birth and time of the interview. The variable was coded into groups for the regression analyses. These groups are aged (1) 55-60 years, (2) 61-63 years, and (3) over 63. Of the respondents 52 % belong to the youngest age group and 21 % in the middle group, and 27 % are 64 or older; see Table 2. In order to exit the firm, the entrepreneur must start planning the exit strategy. In case of succession or selling the company to an outsider, the exit process is likely to take time, sometimes even several years. In this study, we operationalized early exit intentions to take place at age 55 to 60 and on-time exit intentions at age 60 to 63 years. Following this logic, we operationalized late exit intentions to take place at age 63 and over.

The level of education, educ, is determined by the question where respondents were asked to indicate the highest educational level they have achieved among the categories: (1) primary, (2) high school/matriculation, (3) vocational, (4) higher, and (5) something else. The variable “entr_expr” measures entrepreneurs experience in years. Another variable representing the experience of an entrepreneur is the indicator variable portfolio, which gets the value (1) if responder has been or currently is an entrepreneur or majority owner in more than one firm at the same time or (0) otherwise.

The variable “industry” indicates the main industry of the firm. The categories of the variable are (1) agriculture and forestry; (2) manufacturing; (3) construction; (4) transportation; (5) professional; scientific and technical services; (6) other services; (7) retail; and (8) others. The size of the firm is controlled by the number of employees, including the entrepreneur her/himself. The variable is categorized as (1) 1, (2) 2-4 and (3) 5, and more.

As indicated in Table 2., almost 40 percent of the entrepreneurs think their firm will be sold outside of the family when they retire. The second biggest group consists of those who think their firm will be closed down. Their share is almost 30 percent. The third major exit option is succession inside the family, which over 20 percent of the entrepreneurs had planned to execute. We were left with a study sample of 4,213 persons, after excluding those who had not reported on their retirement status (n = 33) and those who had responded “something else” to the question regarding their exit plans (n=155).

Table 2: Descriptive statistics of model variables

	All participants		Survey 2012		Survey 2015	
	%	n	%	n	%	n
firm future		4368		2743		1625
- succession inside the family	21		20		23	
- other owner will continue the company	8		9		7	
- selling the firm outside the family	39		38		39	
- closing down the firm	28		28		27	
- other or missing	4		4		3	
age categories		4401		2753		1648
- 55-60	52		52		51	
- 61-63	21		22		20	
- over 63	27		26		28	

3.2. Analytical strategy

Our main interest was to estimate how change in age changes the probabilities of intended retirement paths, paths being (1) succession inside the family, (2) other owner will continue the company, (3) selling the firm outside the family, and (4) closing down the firm. The model which our empirical analyses build on is the standard multinomial logit (MNL) model; see, e.g. Greene 2008 for general presentation of the model. It is an extension of the binary logit, which uses the linear regression model to explain binary outcome, to more than two response categories. The outcome in the current study contained four response categories.

In MNL, the probabilities of response categories are assumed to be determined by the set of explanatory variables x_i , where subscript i refers to the individual. Similar to the linear regression model, the dependence is assumed to be of the linear index form $x_i' \beta_j$, where β_j , $j=(1, \dots, 4)$, is the outcome-specific vector of parameters that are to be estimated. The outcome-specific parameters allow the effect of one explanatory variable to be different for each outcome probability. In addition, since the probabilities must lie between 0 and 1, and add up to unity, MNL uses a specific link function to tie the probabilities of retirement paths and the linear index $x_i' \beta_j$.

Given that our dependent variable, FIRM_FUTURE, contains four unordered outcomes, we can write the model with the link function as the following:

$$P(FIRM_FUTURE_i = j | x_i) = \frac{\exp(x_i' \beta_j)}{\sum_{r=1}^4 \exp(x_i' \beta_r)}$$

The left-hand side of the equation denotes the probability that individual i chooses alternative j (of the four possibilities) given her characteristics x_i . The right-hand side specifies the relationship between the probabilities and the vector of individual characteristics. By definition of the exponential function, all probabilities are greater than zero. By construction, they are less than one and add up to unity over all categories.

The unknown beta-parameters can be estimated by maximum likelihood. However, since the interpretation of the parameters of MNL model itself is difficult, we report only marginal effects. That is, we calculate marginal probability effects due to the changes in elements in x_i by fixing other elements at their means.

4 Results

In order to examine the association between entrepreneur age and exit strategy, we estimated several regression models. In Table 3a we report the crude model in which the vector of independent variables consists of age groups 55-60, 61-63, and older than 63. The oldest age group was set as the reference group in the estimations and is omitted from the estimated model to avoid perfect linear collinearity. The results indicated that entrepreneur age was statistically significantly associated with succession plans. Specifically, being aged 55 to 60, rather than over 63, decreases the probability of planning succession by three percentage points. Furthermore, being 61-63 years old decreases the probability of planning to execute succession by 3.5 percentage points. These results are statistically significant at the 10% level. Taken together, the findings indicate that the intention of executing succession inside the family is strongest for those who are planning to exit late, at age 64 and older.

The results also indicated that entrepreneur age was not statistically significantly associated with planning all other exit strategies. We can see that in case of the second alternative “other owner will continue the company”, the changes from the base category aged over 63 do not have statistically significant effects. In addition, the point estimates are rather small, being less than one percentage point. Therefore, the probability of having intentions of other owner to continue the company is not so dependent of entrepreneur age.

The probability of the entrepreneurs' intention to sell the company increases by 0.075 if respondent is aged 55-60 compared to those over 63 and by 0.051 if respondent is 61-63 rather than over 63. This effect is statistically significant at the 1% and at the 5% level, respectively. It seems that selling intentions are at the population level more strongly related to the two younger age groups, compared to those who have planned to exit late.

Finally, as can be observed from the last column, being 55-60 decreases the probability of closing down intentions compared to both of the younger age groups. The result is statistically significant at the 5% level.

Table 3: Average marginal effects age and entrepreneur exit intentions¹

a) crude model				
	Succession	Other owners	Selling	Closing
aged 55-60	-0.0279*	0.0	0.0747***	-0.0375**
	(0.061)	(0.361)	(<0.001)	(0.023)
aged 61-63	-0.0363*	-0.00634	0.0514**	-0.00872
	(0.050)	(0.612)	(0.020)	(0.662)
n	4213	4213	4213	4213
b) fully adjusted model				
	Succession	Other owners	Selling	Closing
aged 55-60	-0.0272*	-0.0283***	0.0631***	0.0007
	(0.088)	(0.010)	(0.001)	(0.638)
aged 61-63	-0.0323*	-0.0202	0.0389*	0.0136
	(0.088)	(0.111)	(0.084)	(0.459)
socio-economic control variables	yes	yes	yes	yes
industry dummies	yes	yes	yes	yes
n	3947	3947	3947	3947

Note: p-values computed by the delta method in parentheses, * p<0.10, ** p<0.05, *** p<0.01. ¹Adjusted for entrepreneurial experience, gender, portfolio entrepreneurship, year of survey, number of workers in a firm and industry

We present the fully adjusted model in Table 3b. In order to control for the effect of variables that are likely to affect the focal variables, we added several socio-economic explanatory variables into the model. These independent variables were entrepreneurial experience, gender, indicators for portfolio entrepreneur and year of survey, and factor variables for the number of workers in a firm and industry. The regression analyses showed, with the exception of the closing down exit strategy, that adjusting the models did not attenuate the association between entrepreneur age and exit intentions. However, for those who intended to sell the business to other owners of the company, the marginal effects for the age groups 55-60 and 61-63 are now somewhat higher, -0.028 (p=.001) and 0.021, respectively.

5 Discussion

Previous studies have to the best of our knowledge not conceptualized entrepreneur exit in the context of timing of retirement. This study sat out to explore entrepreneur retirement and exit processes from an age perspective. We used age as the focal variable to tie the two processes together. The current results showed that planning to exit via selling the firm to a nonfamily

member was more probable in age categories 55-60 and 61-63 than over 63. Furthermore, the probability of succession inside the family was highest among those aged 64 or more. These findings mean that after adjusting for covariates that typically are associated with entrepreneur exit plans, age seemed to be differently associated with the exit strategies. While previous studies have identified several important factors that are associated with entrepreneur exit (Soleimanof et al. 2015), the role of age has remained unclear (van Teeffelen et al. 2011). The exit strategies are likely to differ according to firm performance (Wennberg et al. 2010). One reason for the mixed findings regarding age as a determinant of exit may be the financial circumstances the exits take place. Specifically, different types of resources (e.g. owner human capital vs. firm resources), contingent on the situation of the firm, predict exit choice.

The current findings may be understood in the light of transitioning into retirement. It may be that those who plan to exit the company by selling it to a nonfamily member are planning to retire earlier and withdraw from working life altogether. On the other hand, selling the company may not be entirely voluntary, especially the timing of the transition. Those who have plans for succession are likely to continue working longer in the company. In addition to securing the transfer of business to the next generation, an underlying motivation for continuing to work may be generativity intentions (Soleimanoff et al. 2015). Generativity can be expressed through nurturing, teaching, leading, and promoting the next generation (McAdams, de St. Aubin and Logan 1993).

5.1. Theoretical contributions

The findings of this study help us understand the role of age both in entrepreneur retirement and exit processes. Timing of retirement has typically been tied to individuals' age, and more specifically, age of eligibility (Fisher et al. 2016). Furthermore retirement has been identified as one of the central transitions in life (Elder 1995). While retirement often means decreasing ones work activities, a significant number of individuals continue working after retirement (Wang and Shi 2014). This dynamic process is common especially among entrepreneurs and may also have an effect on entrepreneur exit as well (von Bonsdorff et al. 2017). However, in order to better understand the current findings of retirement among entrepreneurs, we need to define carefully what we mean by "retirement". If retirement is defined as receiving pension, the relationship with entrepreneur exit is very much different compared to defining retirement as decreasing work hours significantly. In terms of timing, receiving any form of pension at younger than 63-65 usually means accepting a permanently lower level of pension (OECD 2016).

Entrepreneur exit is a process which typically means selling or liquidating the company. Selling the company is likely to benefit employees and economies (Gimeno et al. 1997). Securing the business transfer is therefore essential, as the intention to exit do not necessarily equal exit outcome (van Teeffelen et al. 2011). The risk of a failed business transfer can be increased by many factors, such as delaying the transfer process because of emotional reasons (Sharma et al. 2001). While not frequently cited in the exit literature, entrepreneur health is a factor that should be considered in retirement-related exit processes. As individuals age they are often faced with a decline in important physical and mental resources (Jex, Wang, & Zarubin 2007; Wang, Olsen, & Shultz 2013).

Considering the literature regarding both retirement and entrepreneur exit, we argue that retirement planning and decision-making should not simply be considered as an antecedent of entrepreneur exit. First, retirement may take place independently from exit. While these processes are connected to chronological age, they are not necessarily dependent on each other. For instance, it is common for retired entrepreneurs to enter bridge employment (von Bonsdorff et al. 2017) and continue running their business. On the other hand, the entrepreneur may transfer the business already before retirement age and enter, e.g. wage-and-salary employment. Second, we maintain that parallel to the timing of retirement, entrepreneur near-retirement exit may be defined as early, on-time, and late, based on the entrepreneur's age. Considering the chance of a failed business transaction and entrepreneur's increased health risks associated with late exit, on-time exit is in many ways the preferable alternative. However, many older entrepreneurs could not imagine a life without running their companies (DeTienne 2010). For them, the exit process will become inevitable only when they are faced with, e.g. severe illnesses.

Interestingly, the retirement legislation in most of the Western countries is increasingly concerned with promoting longer work careers (OECD 2017). Therefore, the retirement eligibility age is being currently raised in many OECD countries. These changes concern both wage-and-salary workers and entrepreneurs. As for entrepreneur exit, the situation is in many ways the opposite. Entrepreneurs are actively encouraged to start planning their exit already well in advance (van Teeffelen et al. 2011). Despite these efforts, many transfers do not succeed for reasons such as not finding a successor, delaying the transfer due to emotional reasons, not getting financed, etc.

5.2. Limitations

As with all studies, there are some limitations to this study that need to be discussed. First, all data used in this study were self-reported. This may lead the study results to be affected by self-report

bias. Therefore, future studies should concentrate and rely partly on register data regarding e.g. transfer of business or company performance indicators. Second, due to the archival data at hand, some relevant variables were not at our disposal. For instance, future studies should include several retirement-related variables, such as retirement and bridge employment intentions. Third, the response rate for the National Barometer of Business Transfers surveys was relatively low (Ryan and Power 2012). Therefore, the current results should be generalized carefully. Fourth, the data included only those entrepreneurs who were 55 years and older in both the 2012 and 2015 surveys. This allows us to focus on retirement-related exits, as the odds for retirement increases in older age. However, it must be noted that we do not know if these individuals withdraw from working life altogether after the intended exit for their current company. It is likely that they continue in some form to be present, especially in the case of succession.

5.3. Practical implications and future research directions

The current findings offer several practical implications to the entrepreneur and society. First, based on previous studies, we can conclude that not all business transfer intentions materialize (Wennberg et al. 2010). According to the current findings, older entrepreneurs who are nearing their retirement age are more likely to have plans to sell the company, compared to their older counterparts. However, these plans may not be always realized. One of the main reasons for the failure of selling the company is the unrealistic perceptions regarding the value of their company (van Teeffelen et al. 2011). In general, the perspective of the buyer should be taken more into consideration when preparing the company for the transfer. These steps may include making oneself redundant to the company. This way, the company is not too dependent on the seller and is therefore able to better attract buyers. One further reason for the larger proportion of younger respondents who are considering to sell the company may be the larger general awareness of the business transfer market.

Preparing for retirement is essential because the age-related health represents a risk factor that increases with age. On the societal level, it is important to understand that the process of retirement and entrepreneur exit is not the same. Conceptualizing entrepreneur exit in terms of age may help them prepare for retirement more effectively.

6 Conclusions

As entrepreneurs age, they need to start making plans regarding their retirement and exit from the company and working life altogether. These plans are typically intertwined and may take place within several years. While applying for old age pension is often planned and follows the norms of the pension system, arranging ones exit from the company entails much more elements of uncertainty and surprise. Furthermore, as the entrepreneur ages, she/he is more likely to face health- and personal resource-related challenges. The findings of the current study provide us with preliminary insight on entrepreneur exit from their company in the context of exit at older ages. Of both theoretical and practical significance is the finding that entrepreneur exit may be defined in relation to age and that different exit strategies may differ according to age. Finding the optimal time and strategy to withdraw from working life at older ages is likely to require years of careful planning. This may leave decision-makers faced with challenges. On the one hand, recent developments in the pension systems facilitate longer work careers. On the second hand, it has been acknowledged that entrepreneurs need to plan their exit well in advance so that the future of the company is secured.

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