Entrepreneur as “End”repreneur: The Intention to Retire

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This research addresses a gap in the entrepreneurial research literature by exploring the retirement of entrepreneurs. We adopt the term “endrepreneur”, referring to the entrepreneur who faces issues beyond the startup phase. What informs an endrepreneur’s intention to retire? Perhaps retirement is a thoughtful, meaningful path illuminated by objective indicators and proactivity. Or, perhaps the endrepreneur is reactive, driven by the notion of the ‘right’ age to retire, ready or not. Using the theory of planned behavior and with contributions from the fields of entrepreneurial exit, business valuation, and retirement, this research contributes to an understudied area. We enlist data from a 2005 retirement survey of business owners by the National Federation of Independent Businesses. Consistent with previous studies of exit intention, the intention to retire is influenced by subjective factors, in this case a generational cohort and the belief that one can control an exit using a phase out period. We do not find support for the intention to retire using objective factors such as company profitability or barriers to exit. We tentatively suggest that the intention to retire is informed by subjective factors and perhaps there is a reliance on the subjective clues of the retirements of wage and salaried workers. Acknowledging and understanding this significant subset of exit by endrepreneurs from their companies has implications for business owners themselves, their employees, policy makers, business advisors, and the educators of students who may start, work for, or else advise smaller companies.

“Plans are only good intentions unless they immediately degenerate into hard work.”- Peter Drucker

Small businesses employed almost 50 percent of all workers or 55 million employees in 2010 (U.S. Small Business Administration 2011). As a topic more suited to practice than theory, the exits of small business owners and entrepreneurs from their companies has recently gained attention in academic literature (DeTienne, 2010 & 2012); e.g. Wennberg, Wiklund, DeTienne, Cardon, 2009). Some connections – between the intention to exit and subsequent actions taken – are not measured nor understood (Leroy, Manigart & Meuleman, 2008). Referred to as ‘entrepreneurial exit’, ‘small business owner exit’, or even ‘business exit’ in the literature, this understudied area is one that affects the owners of roughly 99 percent of all United States businesses.

As compared with research on entrepreneurial entry, less energy is spent on understanding the processes that lead to exit and on educating entrepreneurs and small business owners about the exit (Moore, 1989). In the U.S., the focus on business entry is almost systematic. Business starts are celebrated by events, such as business plan competitions, Start Up weekends, elevator pitches and reality shows, but also enabled by structures, such as venture capital, angel networks, tax incentives, incubation, and seed capital. In economic downturns people go into business for themselves due to the push from a job rather than from the pull of a genuine business idea or opportunity (van Wissen, 2002). Business entry is challenging, risky and dynamic – and well understood. An outcome of the focus on the startup is that many firms are started without much thought to exit (DeTienne, 2008). Exit decisions are made in late stages with little lead time for adequate study and analysis (e.g. Porter, 1975; Warrillow, 2010; McKaskill, 2010).

Understanding and teaching about the exit of small business owners and entrepreneurs from their companies has implications for educators and students -- anyone who will start, advise or supply smaller companies. In the U.S., advisors include lawyers, bankers, and accountants, as well as organizations such as the Small Business Institute (SBI) and the Small Business Development centers (SBDC) that provide
recommendations that can lead to better small business performance (Sonfield, 2008). SBIs and SBDCs are typically housed at or otherwise integrated with a university. The outreach, education, and practical research that are the cornerstone of their mission engages students and faculty in business counseling. The important and overlooked topic of the intention of business owners to exit presents opportunities for advisors to engage clients with discussion, counseling and education.

In particular, the skill set required for a successful retirement is quite different than the skill set for starting a company. Even when retirement does not involve company ownership, i.e. for wage and salaried workers, the path to retirement is difficult to navigate (Ekerdt & Clark, 2001). With our exploration, we ask what would inform an entrepreneur’s intention to retire. Is retirement a thoughtful, meaningful path illuminated by objective indicators and proactivity? Or, is it reactive, perhaps informed by subjective factors and clues, such as the notion of the ‘right’ age to retire, ready or not? We posit our research question: is an entrepreneur’s intention to exit moderated by objective factors?

Retirement of the wage and salaried worker has been studied extensively (e.g. Ekerdt, Kosloski, & DeViney, 2000; Kim, Kwon, & Anderson 2005; Wang & Schultz, 2010) and we address a gap in understanding the intention to exit, or in this case, to retire. It is likely that owners of smaller companies will be less sophisticated and possibly less prepared for retirement (Lichtenstein, 2010). Neither the definition of nor the notion of ‘retirement’ are clear cut issues. Traditional models of retirement are being challenged given recent economic and market conditions. In the U.S. blends of work and leisure as well as delayed retirement are being used by an aging population as a way to create a bridge from full time work to full time retirement. There is growing reference in the popular media to such concepts as, “the new face of retirement,” referring to those wage and salaried workers who have left full time employment but who still work, in a part time capacity (e.g. Knowledge @ Wharton, 2013).

The retirement of entrepreneurs is defined for purposes of this paper as the owner of a small business ceasing to be fully employed and no longer owning the business. For many entrepreneurs, retirement will be their one and only exit from the business they own (N.F.I.B., 2005). Using the theory of planned behavior and with contributions from the fields of entrepreneurship, business valuation, and retirement, this research brings insight to an understudied area, extending the research efforts and the logic of two studies of entrepreneurial exit. Headd (2003) studied types of exit, debunking the long held assumption that business closures are due to failure. He found that data are limited in capturing the reasons for closure, and that successful business closure can involve foresight and planning. A second study introduced the theory of planned behavior to explain the intentions of the owners of micro businesses (employees fewer than 10) who had already exited their companies (Leroy et al., 2008). Because both studies involved entrepreneurs that already exited, the authors acknowledge survivor bias in evaluating the antecedents to the intention to exit. With this study, using responses from entrepreneurs who have not yet exited, we consider whether the antecedents are objective, subjective, or both.

In defining the sample frame, the term ‘small business’ presents complications because there are different qualitative and quantitative definitions and assumptions, depending on the source. ‘Small business’ defines a company with one employee or 500, formed as a sole proprietor or legally more complex as a corporation, across many industries and locations. Some definitions are based on the number of employees, asset size, market capitalization and annual revenues (Forster-Holt, 2009). To answer the question, what makes a business “small”? (Forster-Holt, 2009) this section of the paper adopts an operational definition of micro, small and medium companies to justify the sample frame of employees less than 249, used by this research. Firms of less than 20 employees represent 90 percent of small firms in the U.S. and firms of less than 250 employees represent 99 percent of small firms in the U.S., according to the Small Business Administration. Previous studies suggested the use of companies with more than 10 employees in order to test how business owners approach intention to exit (Leroy et al., 2008).
Entrepreneurship, as a phase of a business, generally relates to the span of time and the related activities between the business idea and the business inception, typically not linked with exit (e.g. Moore, 1989). Challenges to developing a theory of entrepreneurial exit begin with the definition of some terms. The term ‘entrepreneur’ is overused and unclear, sometimes including small business owners, sometimes not (Chatterji, 2012). ‘Entrepreneurial exit’ is generally used in the literature to refer to the exit of the entrepreneur from the business; ‘exit’ can mean sale, closure, or transfer; can be planned or unplanned; at the early, middle or late stage, by founders or owner/managers (Headd, 2003; e.g. Moore, 1989). We suggest the use of a short hand reference to gather the various terms that refer to exiting business owners. This paper adopts the term “endrepreneurship” (“END-ruh-preneurship”, that is, the focus is “end”) (Forster-Holt, 2010), defined as the progression of time, effort and risk toward exit and underlies the entire period of association the entrepreneur has with the business as its primary owner. This suggests that more of an entrepreneur’s association with a business is spent on exit than on entry. By extension, the term “endrepreneur” is used to represent the exiting owner (Forster-Holt, 2010). Not all business owners see themselves as entrepreneurs, but all business owners will become endrepreneurs. In contrast with the uneven labeling of entrepreneurs versus business owners – are they entrepreneurs or not? (Chatterji, 2012) -- endrepreneurship encourages a common language of owner exit for conversations to be held by policy makers, those in economic planning and development, investors, academics, practitioners, business owners, their families, and their employees.

LITERATURE REVIEW

ENTREPRENEURIAL EXIT

In exploring the exit process and defining domains for theory building, researchers in the entrepreneurship exit literature have focused on several important areas. These include motivations for exit and types of exits (e.g. Cardon, Zietsma, Saporito, Matherne, & Davis 2005; DeTienne & Cardon, 2012) and the impact of the human capital of the founder on exit likelihood (e.g. DeTienne & Cardon, 2006). Exit has been suggested as a phase of the business life cycle. DeTienne (2008) proposed that phases of the exit process reflect a founder’s exit strategy; any outcome that is planned for is desirable (Headd, 2003). Studies have tended to focus on who the entrepreneur or founder is, and use theoretical frameworks focused on the entrepreneur such as threshold theory, goal-setting theory, and human capital theory (Justo & DeTienne, 2008; DeTienne, 2008).

The exit of business owners falls into the two broad categories of voluntary and involuntary exits and range from unsuccessful (closure with losses) to successful (reaching owner’s tangible and intangible goals, with no loss) (Headd, 2003). Wennberg et al. (2010) suggest four exit outcomes: exit by harvest sale or distress sale, and exit by harvest liquidation or distress liquidation – each based on different levels of firm performance and influenced by entrepreneurial experience, but not linked with the intention to exit nor to the intention to retire.

The theory of planned behavior. In Ajzen’s theory of planned behavior (1991), subjective attitudes drive intentions, and intentions drive behavior. Shown in figure 1, subjective attitudes are a combination of social norms, desirability of the action, and perceived behavioral control over the action. Together these influence one’s intentions and presumably subsequent behaviors (Ajzen, 1991). Attitudes toward the behavior refer to a person’s evaluation of the behavior, and subjective norms refer to the perception of social pressure that will influence the desirability to perform or not perform the behavior. Intention was assumed by Ajzen to be the immediate antecedent of behavior. Intention to perform a behavior (in our case, exit to retirement) is strongest when attitude and subjective norm are favorable, and when perceived control is strong (Ajzen, 1988).
The theory of planned behavior assumes that a significant amount of behavior is under the control of the actor, and can explain behavior that is hard to observe or has unpredictable time lags (MacMillan & Katz, 1992). The theory of planned behavior has been used by entrepreneurship scholars to explain entry decisions (Kolvereid & Isaksen 2006; Krueger, Reilly, & Carsrud, 2000) and exit intentions based on founder age and experience. Specifically Leroy et al. (2008) applied the theory of planned behavior in a study of the owner’s intention to transfer a company as an exit strategy. Intentions to exit were shown to have a mediating effect on outcome, but business related characteristics explained the companies that would have a higher probability of transfer to a new owner, instead of closure. This suggests the inclusion of business valuation factors.

Business valuation. The business valuation literature suggests that managers must recognize and factor exit barriers into their decisions to enter businesses (Porter, 1975). This is largely an objective set of topics. The same factors that create barriers to entry can act as barriers to exit, resulting in three broad classes of exit barriers: structural or economic, corporate strategy exit barriers, and managerial exit barriers (Porter, 1975). Examples of exit barriers for smaller companies might include a high level of capital investment, or obtaining a professional degree or licensing (McKaskill, 2010, Warrillow, 2010). Higher levels of intangible assets and especially tacit knowledge lead to a lower probability of business transfer (Leroy et al., 2008). The entrepreneur must consider the barriers to exit when intending to retire, especially if the sale of the business is an important vehicle for funding retirement.

Endrepreneurs who plan to sell their companies would ideally manage for value. That is, strategic decisions would be based on objective indicators. Some endrepreneurs believe they can rely on the sale of the business to partially or fully fund their retirement, and some of them may be right, but the timing and valuation of a sale make it a risky portion of retirement planning (N.F.I.B., 2005). Each year a few small and mid-sized companies are sold, and most sell for less than the owner’s estimation of what it is worth (Warrillow, 2010). Valuations of small companies in certain industry sectors have decreased in recent years, and there has been an increase in seller financing in order to sell the business (McCarthy, 2009). Older entrepreneurs are more likely to prefer the sale of the business over continued operations and liquidation (Wennberg et al., 2010). The length of time a person has owned a company may provide clues to the timing of the exit, ready or not. According to a Kauffman Foundation report, the average age that a person starts a company, 40, and a typical length of ownership is estimated to be at least 20 years (Wadhwa, Aggarwal, Holly, & Salkevel, 2009).

Retirement. In the retirement preparedness literature, we see objective topics such as financial steps toward retirement, and we see subjective topics, such as when to retire. For the most part the endrepreneur has been overlooked; instead there is a bias toward the wage and salaried worker.
Although retirement age is an individual decision, homogeneity exists among age cohorts: among wage and salaried workers, retirement activities generally increase with proximity to retirement age (Atchley, 1982). The ages of 59 ½, 62, 65, 67, and 70 ½ form what are generally accepted “retirement ages” in the U.S., defined by the government in its tax code and other policy directives toward Individual Retirement Account (IRA) investment and withdrawal, the receipt of Medicare, and the early, normal and delayed receipt of Social Security benefits (Modigliani, 1988). Together, these ages provide an administered, systemic tool to move wage and salaried workers through financial and human capital life cycles and provide signals and clues as to a “normal” retirement age (Modigliani, 1988). For example the retirement decisions of wage and salaried workers generally reveal systemic effects and empirical regularity in general, as well as the use of heuristics (Benartzi & Thaler, 2007).

Wage and salaried workers divide along age cohorts who exhibit workforce exit patterns. For example, within the same company, wage and salaried workers take their cues from each other as to what constitutes accepted timing of retirement preparation behaviors (Ekerdt & Clark, 2001). In general for wage and salaried workers, data shows that although retirement rates rise steeply at the ages that workers become eligible for Social Security (62 and 65), many people remain in the workforce, either full time or part time, and the structure and availability of pensions strongly influence the decision about when to retire (National Institute on Aging, 2007). According to the 2012 U.S. report from the Global Entrepreneurship Monitor, 42.7 percent of working Americans are so-called owner-managers of a business (owners who work for themselves) (Kelley, Ali, Brush, Corbett, Majbouri, & Rogoff, 2012). Specifically, small business owners in 2010 reported that they would retire on average at age 72.6, while the expected retirement age among employees was age 68.4 (Gurley-Calvez, Kapinos, & Bruce, 2012).

Financial gerontologists, those who study the lifetime wealth cycle, expect that generational experiences, as well as differing longevity and life expectancy will influence the five major categories of those alive and in the workforce today. Carlson (2009) has noted that contrasts in childhood, size of generations, historical and cultural events, socioeconomic conditions, macroeconomic conditions, and longevity are factors that affect each generation differently. This uniqueness becomes the mark on the generation, and is manifested in the generational divide seen in political, social and consumptive choices (Cutler, 2005). Carlson (2009) has labeled four of these generations: the good warriors (birth years 1902-1928), the lucky few (birth years 1929-1946), the baby boom (birth years 1946-1964), and those born post baby boom (birth year after 1964).

Both the self-employed and wage and salaried workers have important responsibilities for retirement preparation. Wage and salaried workers have for some time been exposed to employer-sponsored defined contribution and tax deferred retirement plans, and a standardization of private firm retirement planning has evolved. Pension coverage rates are much lower for business owners than for non-business owners (Lichtenstein, 2010). According to the N.F.I.B. survey discussion (2005) thirty percent of small businesses sponsor a pension plan for their employees, most commonly a self-directed 401(k) plan, and typically, such plans were instituted about five years after the business was started. Of those businesses not offering a pension plan, the majority cited that the priority to offer health insurance precluded their ability to offer retirement planning for their employees.

Lusardi and Mitchell’s (2007) work showed low levels of financial literacy in U.S. adults, and leads us to question what makes a person qualified to judge when she or he can stop working. In a study released by the N.F.I.B., 46 percent of small business owners indicated that they never intend to fully retire (N.F.I.B., 2005). Entrepreneurs may have access to the general rules of thumb for retirement age, but the ownership of a company adds a layer of retirement preparation that is not faced by employees. Considered mostly a positive attribute, entrepreneurs are risk-averse toward market demand but are over confident in their own abilities, have longer range planning horizons, and are more optimistic than non-entrepreneurs (Wu & Knott, 2005). However, as entrepreneurs, they are financially vulnerable (i.e.
wealth and income derived from the same source) and also generally hold a more conservative household wealth portfolio than wage and salaried workers (Hurst & Lusardi, 2004). Endrepreneurs allocate a lower percentage of their wealth to retirement accounts than non-business owners do; instead the business comprises the bulk of their wealth (Lichtenstein, 2010).

The estimation of when a person is ready financially to retire may demonstrate the influence of attitude and optimism for economic choice. (Puri & Robinson, 2005). The most common sources of expected income that business owners envision as funding retirement, identified by 80 percent of respondents, was the sale of the business (N.F.I.B. 2005). The timing of the sale therefore becomes a risk for successful retirement, especially in situations where a sale needs to occur with little or no notice, such as for health reasons. The burden may be on the owner to become a debt holder in the event of the sale of the company. To take on the financing of the sale constitutes a risky basis for retirement planning, yet as much as 90 percent of sales of small business involve some sort of owner financing (US Small Business Administration, 2012).

**Hypotheses.** In hypothesis development, the dependent variable is the intention to retire. The first hypothesis considers the theory of planned behavior where intention depends on one’s reliance on subjective variables. We also draw from the subjective areas, such as heuristics, as noted in the review of the retirement literature. We then test for variables that moderate the intention to retire using objective elements from the literatures of entrepreneurial exit, business valuation and retirement.

Hypothesis 1: Subjective factors will positively influence the intention to retire.

Hypothesis 2: Subjective plus objective factors will positively influence the intention to retire.

Hypothesis 3: Objective factors will positively influence the intention to retire.

**METHODS**

Due to the exploratory nature of this paper, we tested the hypotheses using the 2005 Retirement Survey by the National Federation of Independent Businesses (N.F.I.B.). The survey data was gathered by interviews conducted between July 11 and August 2, 2005 by the N.F.I.B. Research Foundation in partnership with the executive interviewing group of the Gallup Organization. The 2005 survey focused on retirement intentions and some exit behaviors of smaller entrepreneurs (employees fewer than 250). The sample of 753 companies was selected from Dunn and Bradstreet files, and is considered by the N.F.I.B. to be representative of the small business population with the exception that the random stratified sample design avoided oversampling the smallest of firms. That is, if a random sample had been selected, a larger percent of respondents would have represented businesses with 1-9 employees.

The respondents were distributed as follows:

- 1-9 employees (352 interviews, 47 percent of total)
- 10-19 employees (200 interviews, 27 percent of total)
- 20-249 employees (201 interviews, 27 percent of total)

A strength of the N.F.I.B. survey is its focus on retirement, allowing us to make tentative observations about whether the intention to retire is influenced by objective factors as well as subjective ones. The survey directly asks about retirement and has variables to measure or else proxy objective and subjective factors and captures the owner’s perception of control. The survey was not designed to follow the entrepreneur from the stated intention through outcomes thereby avoiding the survivor bias acknowledged by previous studies (Headd, 2003; Leroy et al., 2008).
The unit of analysis is the entrepreneur who intends to retire. In the survey, retirement is defined as the entrepreneur/owner of the business ceasing to be fully employed by, and no longer owning the business. Roughly half the respondents, 46 percent, replied that they would never retire and over half (54%) replied that they would. Though the N.F.I.B. survey was not originally designed as a questionnaire to test the theory of planned behavior, we feel that it meets with Ajzen’s (2006) guidance for such a survey. The moderating variables are used to test for indications that the owner has demonstrated connections to the objective financial concepts that lead to exit, for example an awareness of business valuation concepts.

Figure 2: Model for Testing the Intention to Retire

Description of the variables. Figure 2 shows the model for testing and Table 1 relates the descriptions of the variables, means, and standard deviations. Here we briefly discuss the variables and the methods for analysis.

a. Subjective norm. When considering when to exit the workforce, wage and salaried workers are faced with decisions such as how much to save, where to invest monies in retirement plans, and what age to exit the workforce. Subjective norms such as the owner’s retirement planning can be represented by beliefs, cohorts, and heuristics, or rules of thumb, each serving as a proxy for variables that explain social desirability. In the N.F.I.B. survey, subjective norm is demonstrated by the owner indicating ‘buy in’ to the social institution of retirement. The owner is asked if they have given thought to retirement, with a yes or no response. Another variable that measures subjective norm is the use by the owner of a heuristic for retirement age and by the generational clues provided by the entrepreneur’s cohort group. The retirement age heuristic is operationalized by coding a “1” for the normalized age of retirement for a wage and salaried worker, such as 62, 65, 67, and 70; all other answers were coded “0”.

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b. Desirability of the action. Wage and salaried workers divide along age cohorts who exhibit workforce exit patterns. In the base model, the moderating variable of cohort group is operationalized into a discreet variable representing cohort using the birth years of owners according to guidance by Carlson (2009). Other variables that indicate the desirability of the action are the presence of a pension plan and adequate retirement savings.

c. Perceived control. Variables that proxy for Ajzen’s desirability and perceived control over retirement are: has the owner saved for retirement, are they planning to phase out, and are they planning to sell the business. Though entrepreneurs don’t take uncalculated risks, they have a comfort with risk and especially exhibit confidence in their own abilities (Evans & Jovanovic, 1989; Puri & Robinson, 2005). As with Leroy et al., (2008), this survey contains variables to measure perceived controls represented by the entrepreneur’s belief of the ability to control the timing and transfer of the business. Phasing out an owner’s exit (so called ‘bridge employment’) is not often an option that is within the control of an entrepreneur but instead is dependent on the needs of the succeeding owner of the business (Warrillow, 2010).

d. Objective variables. The selection of moderating variables was influenced by business valuation literature. Moderating variables that are of interest include barriers to exit, recent trends in profitability of the business, recent downturn of the stock market as a proxy for general economic conditions, and the number of years as the business owner.

Moderating, objective variables were operationalized as follows: barriers to exit were indicated by NAICS codes using a dichotomous variable created around the industry within which the firm competes. Firms competing in capital intensive industries or where requiring a professional license or a trade were assigned a 1. These are represented by NAICS code 11, 21, 22, 23, 33, 42, 45, 49, 51, 52, 53, 54, 55, 56, 61, 62, 71, 72, and 81. All other industries were assigned a 0. Other variables captured direct answers: have sales been down last 2 years (yes/no), have recent downturns in stock market affected intention (yes/no), and what is the number of years they owned the business (0-19 years, and 20 plus years).

Table 1. N.F.I.B. Survey Summary Statistics

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Min and Max</th>
<th>Mean</th>
<th>Mode (frequency)</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intention (dependent)</td>
<td>753</td>
<td>0 – 1</td>
<td>.55</td>
<td>0 (46%)</td>
<td>.497</td>
</tr>
<tr>
<td>Subjective variables:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cohort (social norm)</td>
<td>753</td>
<td>1 – 4</td>
<td>2.97</td>
<td>3 (57%)</td>
<td>.702</td>
</tr>
<tr>
<td>Heuristic (social norm)</td>
<td>753</td>
<td>0 – 1</td>
<td>.358</td>
<td>1 (32%)</td>
<td>.723</td>
</tr>
<tr>
<td>Thought about retire (desire)</td>
<td>753</td>
<td>0 – 1</td>
<td>.289</td>
<td>1 (61%)</td>
<td>.454</td>
</tr>
<tr>
<td>Phase out (control)</td>
<td>753</td>
<td>0 – 1</td>
<td>.288</td>
<td>1 (37%)</td>
<td>.453</td>
</tr>
<tr>
<td>Plan to sell (control)</td>
<td>753</td>
<td>0 – 1</td>
<td>.604</td>
<td>1 (39%)</td>
<td>.490</td>
</tr>
<tr>
<td>Pension in place (desire, control)</td>
<td>753</td>
<td>0 – 1</td>
<td>.834</td>
<td>1 (61%)</td>
<td>.372</td>
</tr>
<tr>
<td>Adequate savings (desire, control)</td>
<td>753</td>
<td>0 – 1</td>
<td>.395</td>
<td>1 (31%)</td>
<td>.489</td>
</tr>
<tr>
<td>Objective variables:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Years owned &gt; 20</td>
<td>753</td>
<td>0 – 1</td>
<td>.410</td>
<td>1 (59%)</td>
<td>.492</td>
</tr>
<tr>
<td>Barriers to exit</td>
<td>753</td>
<td>0 – 1</td>
<td>.190</td>
<td>1 (19%)</td>
<td>.392</td>
</tr>
<tr>
<td>Market downturn</td>
<td>753</td>
<td>0 – 1</td>
<td>.575</td>
<td>1 (29%)</td>
<td>.495</td>
</tr>
<tr>
<td>Profit down last 2 yrs</td>
<td>753</td>
<td>0 – 1</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Certain variables from the survey were considered but discarded because the usable detail was masked in the final presentation of the responses. For example, zip code data was consolidated into regions and the location was masked as simply “urban” or “non-urban”. Another interesting but unused question asked owners if they planned to stay in the region or leave upon retirement but answers to this question were neither included by the N.F.I.B. in the final survey write up nor made available upon request.

**Data Analysis.** We used logistic regression to determine a model which best predicts the intention to retire. Previous data used was a part of a previously published survey of the retirements of business owners in the U.S. The resulting model identifies those variables which influence intention to retire as well as identifying the variables which have little or no effect on intention. Since the dependent variable, the intention to retire, is a binary variable, the hypotheses were tested using binary logistic regression. Binary logistic regression is a preferred methodology by researchers of social sciences when the dependent variable is dichotomous and the variables are a mix of continuous and categorical (Vardhan & Biju, 2012). Binary logistic regression estimates the probability of an event happening and estimates the variables that influence or help predict the dependent variable. In the binary logistic regression, the independent variables were treated as follows. We test three models: one includes only theory of planned behavior variables (subjective), the second model adds objective variables to the subjective variables, and the third model strips the subjective variables away, leaving only objective variables.

Table 2 shows the results of the binary logistic regression models. The results of binary logit regression show that models 1 and 2 outperform model 3. Model 2 edges out model 1 slightly in overall model fit (Chi square and R square) and the percent of correct predictions. The Nagelkerke-R2 reflects the amount of variation in the intention to retire. In model 1, using subjective variables accounts for 74.2 percent of variation in intention to retire, in model 2 the subjective plus the objective variables accounted for 75.9 percent of the variance of intention to retire, and in model 3 using only the objective variables accounts for only 4.5 percent of the variance. The results are significant at the .01 level. With model 2, there was a small gain in but there was a significant drop in model performance when the subjective variables were removed, in model 3.

**Table 2. Results of binary logistic regression on dependent variable of intention to retire.**

<table>
<thead>
<tr>
<th>N=753</th>
<th>Model 1: subjective only</th>
<th>Model 2: subjective + objective</th>
<th>Model 3: objective only</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Subjective: social norm</strong></td>
<td>Coeff.</td>
<td>Wald</td>
<td>sig</td>
</tr>
<tr>
<td>Cohort variables:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>good warrior (born 1902-28)</td>
<td>0.28</td>
<td>0.19</td>
<td>.66</td>
</tr>
<tr>
<td>lucky few (born 1929-45)</td>
<td>-0.18</td>
<td>0.224</td>
<td>.65</td>
</tr>
<tr>
<td>boomer (born 1946-64)</td>
<td>-0.88</td>
<td>7.21</td>
<td>.01</td>
</tr>
<tr>
<td>Gen X (born after 1964)</td>
<td>11.03</td>
<td>.012</td>
<td></td>
</tr>
<tr>
<td>Other subjective variables:</td>
<td>21.54</td>
<td><strong>0.00</strong></td>
<td>.99</td>
</tr>
<tr>
<td>Owner has thought about retirement</td>
<td>-0.48</td>
<td>3.67</td>
<td>.06</td>
</tr>
<tr>
<td><strong>Subjective: Desirability, perceived control</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>pension is in place</td>
<td>-0.213</td>
<td>0.58</td>
<td>.44</td>
</tr>
<tr>
<td>adequate retirement savings</td>
<td>0.26</td>
<td>0.78</td>
<td>.38</td>
</tr>
<tr>
<td>will the owner will likely sell</td>
<td>0.94</td>
<td>0.105</td>
<td>.76</td>
</tr>
<tr>
<td>will the owner phase out</td>
<td>20.98</td>
<td><strong>0.00</strong></td>
<td>.99</td>
</tr>
<tr>
<td><strong>Objective variables:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Barriers to exit high</td>
<td>0.039</td>
<td><strong>0.022</strong></td>
<td>0.88</td>
</tr>
<tr>
<td>sales down last 2 years</td>
<td>0.39</td>
<td>2.27</td>
<td>.13</td>
</tr>
<tr>
<td>Affected by stock market</td>
<td>-0.31</td>
<td>0.80</td>
<td>.37</td>
</tr>
<tr>
<td># years owned &gt;= 20 years</td>
<td>0.01</td>
<td><strong>0.00</strong></td>
<td>0.97</td>
</tr>
<tr>
<td><strong>Model performance</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>41.94</td>
<td>0.00</td>
<td>.99</td>
</tr>
<tr>
<td>Nagelkerke R-squared</td>
<td>74.2%</td>
<td>75%</td>
<td></td>
</tr>
<tr>
<td>% correct predictions</td>
<td>88%</td>
<td>89%</td>
<td></td>
</tr>
</tbody>
</table>

**Bold** figures indicate Wald (t-stat) of <.05 and indicate the parameter’s usefulness in the model.
We show support for hypotheses 1 and 2, but not 3. In models 1 and 2, the strongest variable to predict the intention to retire was belonging to the baby boomer cohort. The magnitude of the variables for “using an age heuristic” and “planning to phase out” show these variables to be influential in predicting whether an owner will state an intention to retire. In model 3, owning the business for more than 20 years was the most significant variable, followed by adequate retirement savings and not being influenced by the recent negative stock market performance.

**DISCUSSION AND IMPLICATIONS OF RESULTS**

The reasons for measuring the retirement of small business owners are compelling from both macro and micro perspectives. If we know how small business owners retire, then can we learn what impacts the timing of the retirement of a small business owner? The results of testing supported the theory of planned behavior in predicting the intention to exit, connecting subjective variables to intention. We contribute to the earlier findings of Headd (2003) and Leroy et al. (2008) with our study in that we explored whether the intention to retire was an informed, objective path and our results suggest that it was not. These responses reflect homogeneity in thinking about retirement. An entrepreneur may be socialized to think about exit but lack any real understanding about how to undertake exit. For example some owners intend to exit because they are getting older or have owned a business a long time, and not necessarily because they have planned or prepared for exit. Entrepreneurs may be exhibiting psychological attachment to the business, blocking the ability to objectively assess the intention to exit. We tentatively suggest that the exit intentions of the small entrepreneur may not be grounded in actions that demonstrate connections of financial, valuation or strategic concepts to the intention to retire.

The macroeconomic implications of small business exit include effects to “pay as you go” pension plans such as Social Security, as well as microeconomic impacts to retirement planning and prospects for owners and their employees. As they approach retirement, entrepreneurs may not be so different than anyone else who is not prepared and perhaps avoids planning for the latter phases of their lives. The influence of heuristics and subjective norms suggest adherence by entrepreneurs to the traditional retirement model of wage and salaried workers. The valuation field tells us that objective measures such as profitability and barriers to exit should be significant predictors of the intention to exit and yet in our testing they were not. This study suggests that there might be weakness bordering on financial illiteracy in understanding the financial concepts involved with planning and executing an owner’s exit from the business.

In suggesting future opportunities for selected audiences it appears that the work of understanding the entrepreneur is just beginning. These results are presented with caution as the outcomes deserve closer inspection using data that specifically measures these connections. Though worrisome in terms of predicting wellbeing in retirement, the results provide opportunities for entrepreneurs themselves as well as researchers, business advisors, and teachers.

Endrepreneurship is an area that lends itself well to collaboration by researchers, educators and practitioners (DeTienne. 2008). Results suggest collaborative opportunities for local and regional economic development efforts that support business retention activities, including discussions and early interventions by accountants, lawyers, bankers and business brokers with the businesses in their areas. In all 50 states there are advisors that are funded with state and federal monies – the S.B.I. with its university connections, the Service Corp of Retired Executives (S.C.O.R.E.) and the S.B.A. are groups that provide counseling to entrepreneurs usually on an ad hoc basis and typically in the realm of business start-up and continuing operations. If these groups had access to a better understanding as to what is behind an entrepreneur’s retirement intentions, it would provide another touch point in the business lifecycle.
Although exit is a personal decision and is the responsibility of the entrepreneur, stakeholders include local economies, employees, suppliers, and customers. The story of entrepreneurial retirement may be quite sobering, and future research will direct these audiences to consider that there are cognitive blind spots concerning entrepreneurial exit (Leroy et al., 2008). Researchers can take the lead in informing a national discussion on what the entrepreneur means and therefore what actions they take, when they state an intention to exit to retirement. Those who study and teach about entrepreneurship need to consider that they are focusing on only half of the story. The front loaded focus on entrepreneurship should be balanced with the understanding that exit comes throughout the life of the company in the form of decisions that lead or do not lead to options for exit. Without a coherent theory and lacking a strong conceptual approach of how owners approach the exit from their business, researchers, academics and policy makers may have helped to create entrepreneurs who know just enough to be dangerous, focusing in the ‘now’ and not the ‘later.’ Future research would include investigating whether the answer of ‘never retire’ by small entrepreneurs has any basis in theories of work and leisure, in business exit and valuation, in economic development, or in behavioral economics in other industrialized countries. Not all entrepreneurs are the same and interesting differences in retirement approaches may be tucked away in such differentiators as the age that the owner entered business, and the consideration of dual earning couples, where the significant other is not employed by the same company. In this study, only U.S. companies were considered, and family business versus nonfamily business was not delineated. There would be value in comparing best practices of data collection across countries where the family business is much more prevalent than in the U.S. Family business issues of exit relate directly to succession planning, sometimes involving three or more generations.

Certainly in owning a company over the course of one or more business cycles an entrepreneur will deviate from both strategic plans and intentions. Hmieleski and Corbett (2006) suggest that improvisation, one of the ways that entrepreneurs act depending on the novelty of the situation and resource constraints, can extend to entrepreneurship. Longitudinal or case-based qualitative data may shed light on the path from intention to action. Other research would include a survey of best practices of data collection about small business owners in other industrialized countries.

Researchers may even need to do some work in order to get the field to the starting line, such as inquiries into the meaning of exit to an entrepreneur. One future research direction is to measure how much of the exit decision is influenced by the identity one derives from being an entrepreneur. Entrepreneurial motivation may play a role in exit, and research that considers the roles on exit behaviors that is played by the pull into entrepreneurship of a good business idea, or the push into entrepreneurship by the loss of another job, may be more relevant as people become entrepreneurs in economic downturns. Gender was not considered in our study. In the N.F.I.B. survey, ownership was 82% male and 12% female; it would be interesting and useful to understand whether there are differences in retirement intentions between genders.

LIMITATIONS TO THE STUDY

As with previous studies (e.g., Leroy et al., 2008) our research confirmed that Ajzen’s theory of planned behavior is a factor in entrepreneurship, in this case, the intention to retire. With our results we extend previous research and tentatively suggest that objective variables are not significant in the retirement intention. Our study is not designed to examine the workplace exit behaviors of wage and salary workers per se, but rather to compare entrepreneurs’ intention to retire against the normative yardsticks that we find in wage and salaried workers, whose retirement does not involve a company they own. This is also not a comparative analysis of small companies with large companies and as such no “larger small” companies (employees greater than 249) were included in the study. While this data did not suffer from survivor bias in an obvious way, the snapshot survey has the limitation of not measuring the outcomes of intentions to retire – individuals tend to be overly optimistic and perceive
certain outcomes to be within their ability to control. If the N.F.I.B. could revisit this same group today, and then going forward at regular interval then we might know the outcome of the intention to retire. Our results are tentatively offered for consideration of discussion and research direction. We feel that we indeed found important talking points in the exploration of the intention to retire. We feel that the type of data and the goals of testing were well served using binary logistic regression. If the goal of testing were to prove the theory of planned behavior, we could consider the methods of previous researchers who used a more rigorous method such as structural equation modeling (e.g. Leroy et al., 2008). Porter (1976) found exit barriers based on location, and in a perfect world we could have explored whether there are differences in retirement intention according to location. In the N.F.I.B. survey however, certain locational data were masked, and other questions were not included in the final results, in order to protect the identity of companies.

Even with such limitations, the data set combined with the methodology provides interesting and informative results about entrepreneurship. The survey used the term 'retirement' and this may have been interpreted differently had the term ‘exit’ been used on its own. It may be the case that entrepreneurs attach neither real meaning nor meaningful actions to the intention to retire, deflecting the topic with an answer of “never retire.” Exploring the distinctions between ‘retirement’ and ‘exit’ is a future research direction.

CONCLUSION

This exploratory research using the N.F.I.B. survey data serves an important role in filling a research gap and suggesting future directions for research and discussion. The realities of exit should be made an integral part of starting a business. There is no excuse for cognitive blind spots – not knowing what we don’t know – about entrepreneurship. This research contributes to the gap of understanding how an entrepreneur forms the intention to retire. This research suggested that there might be similarities between workers and entrepreneurs facing retirement – both may not understand the decisions and skills needed to maximize the exit experience, yet the entrepreneur is not part of the national discussion. As a result they may retreat to the retirement structure of a world that is known to them but not available to them – that of the wage and salaried worker. The irony is that for the bulk of the business’s and owner’s life the entrepreneur largely sidesteps the confines of that world, instead facing the risks and reaping the rewards of business ownership – until confronted with exit.

REFERENCES


