Psychological Ownership within the Context of Business Succession of SMEs

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Principal Topic and Research Question

Age-related business succession, the transfer of ownership and leadership to a designated successor for reasons of advanced age, is an issue of increasing practical and scientific relevance. In Germany, over the next few years thousands of SMEs face failure if they do not succeed in overcoming the challenges of business succession (Kay, Suprinovič 2013). Many problems of age-related business succession arise from factors at the individual level of ownership (Handler, Kram 1988; Frey et al. 2005). SME owners feel highly attached to their enterprises. They often even compare their company to their own baby (Cardon et al. 2005) and cannot emotionally free themselves from it.

Nevertheless, within the context of business succession of SMEs, psychological issues are under researched. Until now, the focus has primarily been on financial and legal aspects. Thus our approach was to use findings from literature on psychological ownership to gain new insights about the process of age-related business succession from a psychological perspective.

The construct "psychological ownership" is defined as a "*state in which individuals feel as though the target of ownership (material or immaterial in nature) or a piece of it is 'theirs' (i.e., 'It is MINE!'). The core of psychological ownership is the feeling of possessiveness and of being psychologically tied to an object. One's possessions are felt as extensions of the self (Belk, 1988; Dittmar, 1992; Furby, 1978a,b)—"what is mine becomes (in my feelings) part of ME" (Isaacs, 1933: 225)—and, thus, the state of psychological ownership emerges.*" (Pierce, Kostova, Dirks 2001: 299).

The construct was developed and predominantly researched for employees of an organization (Pierce, Jussila 2011) that do not have (a lot of) legal ownership. The question was if and how the construct of psychological ownership could be transferred from the employee context, for which it was developed, to business owners who already have ownership of the organization contrary to previously investigated employees.

Another aim of our research is to define practical implications from a psychological point of view for different stakeholders. On the one hand, more knowledge about the psychological aspects of age-related business succession processes should help the incumbent himself let "his baby" go. On the other hand, also (potential) successors, consultants and employees should receive some invaluable hints to successfully realize the transfer process.

Sample and Methodology

To answer these research questions, an exploratory study was conducted based on principles of *grounded theory methodology*. We collected data for this study through interviews in Germany in the period between March and July 2014 with four independent entrepreneurs and one potential successor.

To shed light on the process of business succession, we started with two respondents that already transferred ownership and leadership to a successor (sales to a third party and to an employee). According to *grounded theory* and *theoretical sampling*, we then looked for an interview partner that differed from the first in that way that he founded the company himself. Additionally, we also interviewed his son and potential successor to reveal unconscious activities of the incumbent. We chose our final interview partner as one being described by others as a rational person. Although he did not found the company himself, he had also been trying to transfer ownership and leadership over a longer period of time.

The resulting empirical data was openly coded with *MAXQDA*-software according to *grounded theory*.

Results / Contributions

The phenomenon of psychological ownership could be identified in the empirical data for the context of business owners within their business succession process. Three main contributions were made. These concern the (1) intensity of psychological ownership, (2) targets of psychological ownership and the (3) type of psychological ownership.

On the one hand, it was found that respondents differ with regard to their psychological ownership intensity. Thus, some of them describe their company with “my beloved”, “my first child” or “our creature, we love” whereas others are more pragmatic as they compare it with a person that “has a lot of ideas” and “is continuous and reliable”.

On the other hand, we could identify different targets for which the incumbents felt strong psychological ownership. This applies above all to the organization itself (organization-based psychological ownership) and the job (job-based psychological ownership). However, a new form of psychological ownership was identified with respect to employees as a target of psychological ownership. Incumbents felt a strong attachment and responsibility for their personnel and called them for example “my staff” or “my people”. Therefore we introduce a new form of psychological ownership following the former terms: employee-based psychological ownership.

It should be noted that our data suggests that individuals with a low organization-based psychological ownership nevertheless could exemplify high employee-based psychological ownership. This appears to especially be the case if there were formative experiences in the history of the business owner such as increased layoffs and redundancies.

Finally, in accordance with previous research, we also found differences between individual and collective psychological ownership. Our data suggests that one should specify who is meant by this. Sometimes respondents talked about “our company” and meant “me and my staff”, others however “me and other co-owners”.

Implications

Both theoretical as well as practical implications could be derived from the results of this study. One theoretical implication is that the intensity of psychological ownership in this context should be specified depending on the target of psychological ownership based on our evidence of possible differences. Furthermore, it should be clarified which group a business owner means if he or she references collective psychological ownership. Finally, an operationalization of the construct should exactly capture the intensity, the target and the type of psychological ownership.

Some practical implications that can be noted are the following: in consulting cases of transferring ownership, employees and the potential successor should be sensitized to the incumbents' mental apprehension in letting go "his baby" to increase their tolerance of frustration. On the other hand, employees and successor should be tolerant and indulge in any otherwise unusual practices the incumbent may have at the end of his career. Both parties need to realize the significant loss of identity the incumbent might suffer due to the loss of ownership.

Furthermore, the successor should find ways that allow the former incumbent to maintain satisfaction of his individual needs after the transfer of ownership and leadership. This might be realized through soft exit options that prevent him from losing all of his social involvement and contacts. For example, both could make agreements for continued office usage, advisory integration in decision-making committees or the forwarding of invitations of third parties such as business partners.

During the transfer process, the successor should make his own thoughts transparent to the incumbent and employees, looking for supporters in and outside the company for the proposed changes. Moreover, he should demand clear steps for ownership and leadership succession.

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