(photo) Retirement ends three generations of jewellery-making in Vernon, B.C. Photo: CCE.

Get Ready for the Big One

Succession facilitation & the coming demographic wave of change

By Jason Boyce

The baby-boomer generation is rapidly approaching a milestone – the age of retirement. The largest and richest generation of North Americans will slowly leave the work force, and many of our society's fundamental services, such as health care and housing, will come under growing pressure to meet an unprecedented level of need.

Many politicians and community leaders are actively planning for this oncoming wave. However, there is one area where more attention is urgently needed: helping small business manage the transition from one owner to the next. In the next five years, a whopping 500,000 small business owners will be retiring, according to a 2006 report by the Canadian Imperial Bank of Commerce. In the next 15 years, the report goes on, fully half of Canada's current small business owners expect to retire.[1]

That's a staggering figure, and it has some powerful implications, like the fact that $1.2 trillion in business assets is poised to change hands by 2010 – the largest turnover of economic control in generations. If the right approach is taken, this transfer of wealth could occur in ways that provide a net benefit to the communities where the businesses reside. If the wrong approach is taken, or none at all, the transfer could work untold mischief, especially in small town and rural Canada.

So it's no surprise that succession planning is one of the fastest growing services for business owners nowadays. Traditionally, this service provides the legal and financial expertise to help sell, move, or dissolve a business. What may come as a surprise is that most of prospective retirees have yet to take any action. According to one study, fewer than half (45.5%) of those expecting to retire in five years and fewer than a third (29%) of those expecting to retire within the next 6-11 years have selected a successor.[2]

Is that because many business owners don't want to think about it? Or is it because they don't want what financial planners traditionally sell? Surveys of business owners show that both answers may be true.

Either way, for small towns this situation represents a real dilemma … and a unique opportunity. To grasp it firmly, we have to take a far more systematic and community-based approach to succession planning and business retention than is currently on offer. An appreciation of the full range of succession options that is available to a business owner, especially social enterprise, is also essential. Social enterprise, with its structural flexibility and its attention to social and environmental values, is very applicable to the complex

In 16 years the Victoria Women In Need (WIN) Society opened three resale shops. When its founders wished to retire, they created a co-operative, staffed and governed by shop employees, to take over its businesses and programs. (The co-op has since opened a fourth shop, shown here.) Photocredit: Victoria WIN Community Cooperative.

needs, aspirations, and circumstances that succession nowadays has to resolve.

The Succession Dilemma

The transition of a business from one owner to another is a unique period in the lifespan of a company. Sometimes, it's the end of that lifespan. The retiring business owner just sells off the assets to the highest bidders.

When that isn't the case, you can bet that the retiring and the future owners have found a common interest in the future health of the company. They may want the company to continue to prosper and provide value to customers. An owner may want to ensure that staff can still have jobs there 5, 10, and 15 years into the future, or that the company remains a part of the community that supported it for years gone by. Perhaps, to support a favourite cause, the owner would like to sell the business on easy terms to a local nonprofit or charity.

How can such complex goals best be met? Under current arrangements, few business owners are likely to find out. For most, succession planning is the last thing they are likely to address in their time with the company. Some go to their lenders or lawyers and tax specialists to get advice on the steps they need to take. These advisors make sure the owner gets the best *financial* result from the succession. What the closure or departure of that business will mean to family, employees, and to the community as a whole is usually outside of the scope of succession planning.

This is inadequate to the wishes and needs of retiring baby-boomers and their communities. We need a very different approach to succession planning if the interests of many business owners are to be fully met. This is an approach enriched with information about owners' wishes, about the range of options to choose from, and with higher levels of inter- and intra-sectoral collaboration. Here are three examples.

Nanaimo's Municipal Succession Planning

The City of Nanaimo has taken a lead in British Columbia around the question of succession planning. Realizing how this issue might affect the community, staff at the municipal Economic Development Office in partnership with the regional Community Futures Development Corporation recently took steps to develop a succession planning program of their own. They have identified an important part of meeting the succession challenge – being proactive and being prepared.

First, they surveyed Nanaimo business owners. A survey form tucked in the mail with the annual business license renewal garnered a great response. On a par with other Canadian research, they found that 26% of owners plan to exit their business within the next five years, and 21% within the next 6-10 years.[3] Over two-thirds have no succession plan in place. They also found that many business owners don't want to know how to close their businesses, but what resources the city has to help them expand and grow.

Now the two organizations are compiling a set of resources to meet these needs. The survey has helped them achieve real engagement with business owners. It has also made it easier to define and justify the investment that's needed to ensure a thriving economy in the years to come.

That's one approach. Two more from the United States show just how far communities can go to influence the oncoming transfer of wealth.

More Choices from Ohio

As part of its approach to succession planning, the Ohio Employee Ownership Center (OEOC) provides a multi-week seminar for business owners, bringing in experts on the different aspects of succession planning to share their experiences and to help participants find reassurance and comradeship.

What the training curriculum also incorporates is a discussion about different forms of ownership. As a leader in the field of social enterprise, the OEOC presents worker ownership side by side with traditional succession planning alternatives. As Canadian and American researchers have discovered, 70% of family businesses do not survive to the next generation. The odds for businesses sold to outside buyers are little better – 50%. By contrast, successions that involve leveraged employee buyouts and are supported by key managers, succeed in about 80% of cases."[4]

The OEOC's impact on the wealth of Ohio has been dramatic. Since 1987 the OEOC succession planning program has been attended by 526 business owners and managers from 421 companies representing over 31,000 employees. As a result of OEOC assistance, the state has seen over 14,400 jobs retained or created. Over US$300,000,000 in equity has been created for worker owners and over $10,000,000 has been paid out annually in benefits to employee owners.

One example of OEOC's approach is the Chilcote Company. This major Ohio corporation is involved in the production and design of high-end design, presentation, and photograph paper. As part of its succession plan Chilcote made the transition to employee ownership in 1984. Since then the company's value has risen five fold, a pattern of growth in which the new structure played a vital role. "All one has to do is drive up to Chilcote's main facility near downtown Cleveland, Ohio, and step through the door to know it is a very special place," says Association President, J. Michael Keeling."From top to bottom, Chilcote's employee owners are 'getting it,' while it continues to make ownership through an Employee Share Ownership Plan real."

The success of the Ohio Center notwithstanding, a community's first line of defence in business retention is generally the business owners themselves. The city what has done the most to engage proactively with business owners for purposes of business retention is Chicago.

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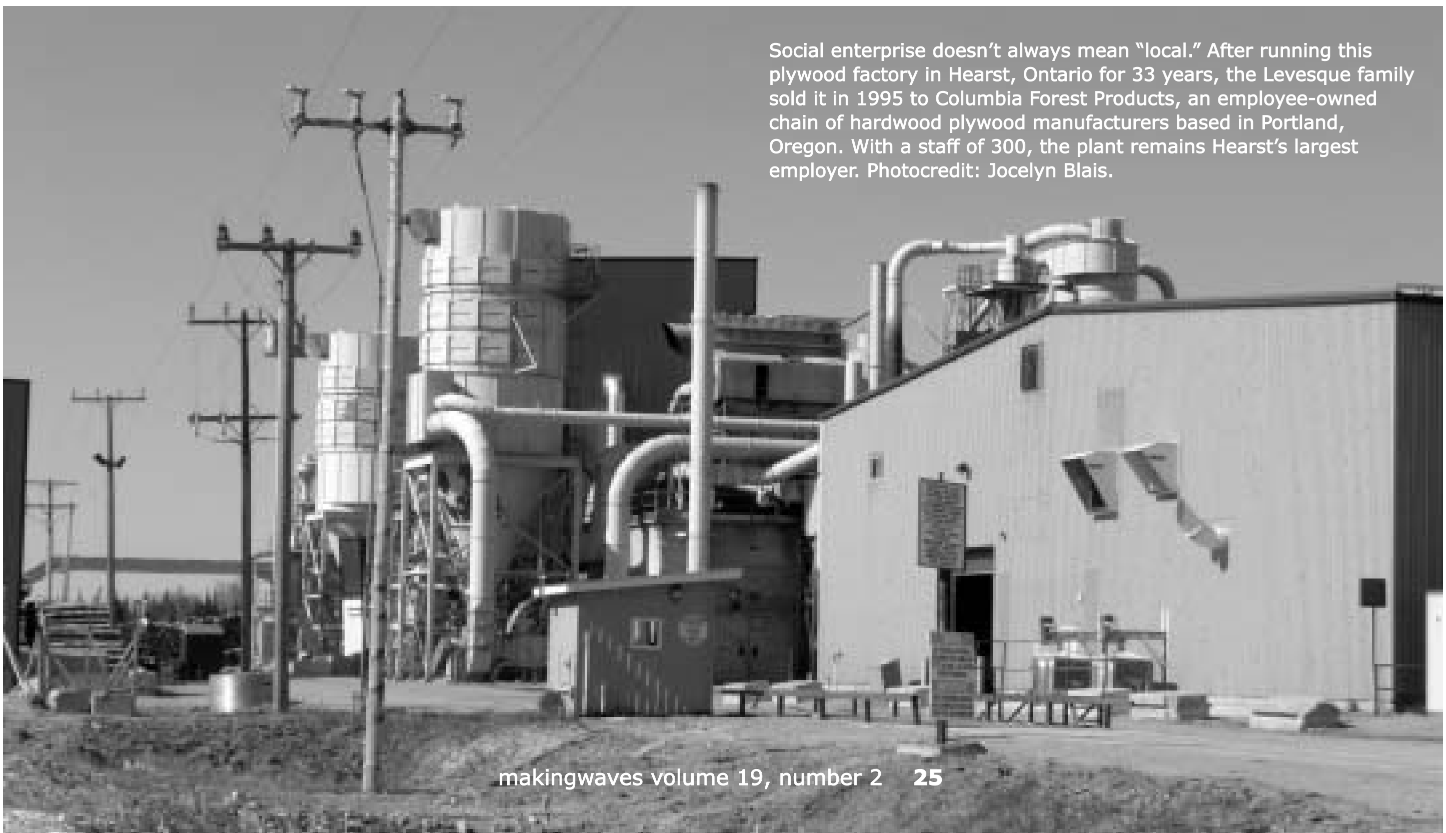

Social enterprise doesn't always mean "local." After running this plywood factory in Hearst, Ontario for 33 years, the Levesque family sold it in 1995 to Columbia Forest Products, an employee-owned chain of hardwood plywood manufacturers based in Portland, Oregon. With a staff of 300, the plant remains Hearst's largest employer. Photocredit: Jocelyn Blais.

Intersectoral Partnership in Chicago

A powerful hub of the U.S. economy, Chicago was hit hard by the termination of thousands of high-paying manufacturing jobs in the 1980s. Business, labour, and other voluntary associations realized that these were not one-time events. They needed to prepare for the next wave of closures, buy-outs, and company relocations. But how? How can community groups with no equity share, but plenty of stake in the local manufacturing sector help maintain local ownership?

Dan Swinney, Executive Director of the Centre for Labour and Community Research (CLRC), realized that one of the biggest challenges to preventing business closures is the fact that community members and government leaders are frequently the last to know that a company is in trouble. Even company managers frequently find out that their company is to close or move too late to do anything about it.

Time, CLCR concluded, was the crux of the problem. There never seemed to be enough of it. That's why CLCR developed the Early Warning System for business development.

The concept is relatively simple. The Early Warning System is essentially a council made up of representatives from employees, management, government, community groups, and owners. What's innovative is that the council conducts *proactive* research, looking for signs that local companies are be in trouble or looking to move, and then takes action before things come to a head. The council interviews local employees, studies published information about businesses, and gleans private information from informal networks as well. The council's role is to determine what action, if any, can be taken to retain the current local ownership or transfer the ownership of the business to a local group.

If a business is thought to be facing closure, sale, or a move, a range of actions may be taken. They fall into four broad categories: ownership transition assistance, financial assistance, management assistance, and intervention.

Ownership transition means helping the current owners understand *all* the succession options for their business. Financial assistance helps the owners find the funding they need to keep their doors open. It is also a key opportunity to provide funding from a local source, like a local credit union, development office, or from the workers themselves through the formation of an employee share ownership plan or co-operative. Management assistance connects the owners to management consultants and technical assistance that can help them turn their business around.

Intervention is the step beyond, when business owners' resistance to help clashes with strong need from the community for business retention. Intervention openly confronts the desires of the business with the needs of the community.

The experience of Brach Candy tells a little about all four options. In 1987, a European billionaire took control of this firm, Chicago's largest candy company. Two years later, 1,000 workers had been laid off and over $100 million in sales had been lost. The company was facing closure, but the new management was taking advice from nobody. The CLCR initiated community-wide resistance to it. After years of struggle CLCR stick-handled a partnership between the unions, the community, and the past management to save the company.

It is a rare opportunity to see the crest of a wave of change long before the tidal surge hits. We have before us such an opportunity, to ride the unprecedented transfer of wealth from one generation to the next, & use it to build more resilient local economies.

(photo) Paul Wong is a Business Partner at Lemon & Allspice Cookery, a catering service that has provided meaningful employment to Torontonians with intellectual disabilities since 1998. Originally, the parents of Cookery Partners provided much guidance and supervision. Two years later, parents and others launched Common Ground Co-operative to raise capital, do market development, and provide administrative assistance to this business and others like it. What might have been left a parental responsibility now belongs to a wider community of 130 people. Photo credit: Common Ground Co-operative.

The Early Warning System is essentially a safety net, catching businesses before they "fall" to ensure that they remain in the community, either with the same owners or with new ones who share a commitment to the local economy. July 2005 saw the launch of the Chicago Manufacturing Renaissance Council, a macro-sized version of the Early Warning System. With support from the city and local business councils, the Council has set off to invent creative solutions to more of the city's economic issues.

From Planning to Facilitation

Communities and organizations across North America face the challenge of a changing demographic in the next 5-10 years. For large corporations, the prospect looms of top executives retiring in droves. Educational institutions from primary schools to universities will confront a shortage of experienced teachers. For small- and medium-sized businesses, the question isn't if there is going to be a surge of retirements and businesses for sale, but when.

From the examples of Nanaimo, Ohio, and Chicago, however, it is plain that the situation doesn't require more succession planning so much as succession *facilitation*. Succession facilitators are trainers and relationship builders. Their network of contacts can provide a business owner with the technical, financial, and management assistance s/he needs for a full range of succession options.

A succession facilitator can fulfill many roles. S/he can act as an educator for the concept of worker ownership, a promoter of local financing solutions, a negotiator for the fair return of investment to the community that supported a business, and a technical assistant to train owners in the skills they need. Effective succession isn't accomplished through changing municipal regulations or through community protests and demonstrations, but through proactively identifying companies, entrepreneurs, or workers who might want to engage in the business in question and ensure further success and growth. Making that connection is the task of a succession facilitator.

It is a rare opportunity to see the crest of a wave of change long before the tidal surge hits. We have before us such an opportunity, to ride the unprecedented transfer of wealth from one generation to the next, and use it to build more resilient local economies. Now is the time to begin to test new models for engaging with the business community, to establish the idea of worker ownership, nonprofit and social enterprise, and co-operative ventures in the range of options that retiring business owners may consider. Some models will work, and others will not.

The succession facilitator is one idea in prototype, an answer to a need that is not being met. If we as economic development professionals act quickly enough, we will be able to establish ourselves in that marketplace.

One thing you can be sure of: we will not see a wave such as this again in our lifetimes. Whether our communities sink or swim depends on our own readiness and ability to act proactively and in a spirit of innovation.

References

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