

Report on the Use of Social Enterprise in Business Retention and Succession planning for CFDCs

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Table Of Contents

Table Of Contents-----	2
The Purpose of this Report -----	3
<i>Definitions</i> -----	3
Overview -----	4
Tools for Business Retention and Succession Planning-----	5
The Early Warning System -----	5
<i>Identifying Opportunities in communities</i> -----	5
<i>How the Early Warning System Works</i> -----	6
Social Enterprise and Succession Planning -----	8
<i>The Role of Succession Facilitator</i> -----	8
<i>The Use of Co-ops in Succession Planning</i> -----	9
Developing the Use of Social Enterprise -----	10
When is Social Enterprise Appropriate?-----	10
Increasing the Use of Social Enterprise for Business Retention -----	13
The role of the intermediaries -----	15
Conclusion -----	16
Appendix 1: Social Enterprise and succession planning groups -----	17
Appendix 2: Canadian Social Enterprise Case Studies -----	19
Appendix 2: Key Informational Interviews -----	20
Appendix 4: Business Retention Discussion with CFDCs -----	21

The Purpose of this Report

This report is part of the CCE Development Wheel Project. This project was funded by the Rural Secretariat in order to determine the extent to which various tools and approaches could increase capacity for social enterprise (SE) in BC and francophone Ontario. In BC, one of the activities of the project involved working with Community Futures Development Corporations (CFDCs - with an interest in SE) to determine what resources or tools might be most useful to them in supporting SE development.

Business retention was an issue identified by many CFDCs as a key issue in their regions. We knew that in the US and other places, social enterprise (usually in the form of co-ops) had been a successful tool in business retention. This report summarizes the key points from a series of interviews and other research related to the use of SE as part of a business retention strategy. The sources of information are listed in an appendix.

The report is also intended to stimulate a discussion with CFDCs related to their capacity for implementing these steps, or using various tools, and to identify specific regions where there are targets identified and a sense of readiness, that would support applying these tools and processes.

Definitions

- *Social Enterprise:* A social enterprise is a revenue generating business with primarily social or environmental objectives, whose surpluses are re-invested in those objectives, in the business or the community.
- *Early warning system:* A formal process created to ascertain any upcoming ownership changes in local business. Uses a local council to proactively engage with the business community and to conduct research on local business.
- *Succession planning:* Succession planning in this context is used to refer to a change in ownership of a business. Specifically, the strategic process used to ensure that ownership of a business is passed into qualified hands in order to ensure the continued effective operation of the business.
- *Employee Stock Ownership Program (ESOP):* From the ESOP Canada website, an ESOP allows “employees, who qualify, to purchase shares in their employer’s company, with or without the monetary assistance from the company. Employees can acquire shares, and ownership through and ESOP that can range from one per cent to 100 per cent”¹

¹ <http://www.esop-canada.com/> December 13, 2007.

- *Co-op*: An enterprise that is cooperatively owned and managed by its membership to achieve maximum benefits for co-op members. For our research we are referring to worker co-ops. Shares in a worker co-op are owned by employees.

Overview

Research was conducted through the use of a questionnaire and over-the-phone interviews with leading academics and practitioners in social enterprise and succession planning (which is a means to achieve business retention). The results from the interview process have shown that there are several major trends encouraging this type of business development.

1. Succession planning has been identified as an increasingly important issue for both rural and urban communities. Dan Swinney reported that in a survey compiled in Chicago several years ago, of business owners over the age of 55, over 40% had no succession strategy. Several of those we interviewed reported that in the next 10-15 years, the estimated value of companies facing ownership change through retirement or sale of the business will be over 1 trillion dollars in North America alone.
2. Social Enterprise is a term that is well understood in the academic and community economic development community, but has little acceptance or awareness with business leaders. Social Enterprise has been embraced within the social services sector, and is generally seen as a tool to be used to meet a community need that existing providers cannot. The lack of awareness of what social enterprise is and how it can be used is slowing down its adoption.
3. The conscious use of social enterprise in succession planning is uncommon, for reasons mentioned in the above point. However, there is a growing body of evidence that points towards succession planning as an opportunity for re-localization and strengthening of economies through supporting local ownership, retaining employment, etc. This work is not termed "social enterprise", but is frequently focused on both the social and financial returns.
4. The concept of re-localization of rural and urban economies is gaining strength. The growing mistrust of multinational corporations, the loss of jobs due to regional specialization, and the increased reliance on supplies (such as food) and investment from outside of a regional economy is prompting a renewed focus on strengthening regional economies to be more self-reliant. There is a growing sense of the demand for a "better way of doing things", but community leaders don't always have access to the information about "what" the alternatives are.

The use of social enterprise was identified by many of those we talked to as essential for rebuilding local economies. It is important to remember however, that its use needs to be as one piece in an array of tools that are used specifically for the purpose of business retention and more generally, to strengthen rural communities.

Tools for Business Retention and Succession Planning

The Early Warning System

Identifying Opportunities in communities

The tool most frequently referred to by interviewees when asked about proactively identifying opportunities was the Early Warning System developed out of the Centre for Labour and Community Research (CLCR) in Chicago, Illinois.

This system was developed by the CLCR in the 1980's in response to the loss of economic drivers due to business closures or businesses relocations. This trend was seen to be due to a presiding ideology in the business community of seeking the highest return in the shortest possible time². This is similar in many ways to the loss of resource dependent industries that are traditionally focused on removal of resources for the most profit, and not as concerned with sustainable long-term growth.

In Chicago, the CLCR developed the Chicago Manufacturing Renaissance Council (CMRC), with one of the goals of that council to act as an early warning system. An important aspect of the Chicago example is that the CLCR and the CMRC focus their work on those companies that they have researched and determined to be viable in the long term. The biggest mistake that community economic developers make is to act on an emotional attachment to the business or to retaining employment, rather than on solid information about the current and future viability of the business.³

The Early Warning System promotes the creation of an "Economic Retention Council", whose goal is the retention of existing viable businesses. As well, they act to facilitate the maintenance of local ownership. The tools and techniques needed to do this work are fully outlined in "Early Warning/Business Development System Manual". The steps described in this approach include:

² "Early Warning System: A Proactive Tool for Labour in the Regional Economy" Dan Swinney, 2002 Presented to the Third International Congress of the Work and Labour Network May 22 – 25, 2002 pp. 2

³ D. Swinney, personal communication, November 23 2007

1. Develop a multi-stakeholder group containing community residents, employees, locally owned businesses and local and provincial government and involve research and technical assistance organizations, community development corporations, professional business consultants and monetary institutions.
2. Develop education programs and build network relationships within the business community.
3. Through the use of community connections and public and private data source, as well as surveys of local business owners, begin monitoring local businesses to assess any possibilities of closure, retirement of principal owners, or re-location.
4. Create action teams to address possible business loss. These teams are built from within the economic retention council, pulling in outside expertise as needed. This team is tasked with exploring four possible actions with the company in question:
 - Ownership Transition Assistance
 - Financial Assistance
 - Management Assistance
 - Intervention – actively developing alternative ownership strategies for the company

How the Early Warning System Works

One of the biggest challenges that many CFDCs face in business retention efforts is resistance from businesses towards sharing information. Frequently, community members and employees only hear about impending closures or relocation once it is too late to do anything. Companies have an interest in not disclosing their plans, and are wary of outsiders “sticking their noses in”. Due to this lack of information from management “early warning focuses on two other types of information: published and unpublished⁴”.

Published information is frequently more easily available for publicly traded companies. Information can be obtained from annual reports, website information, newspaper articles, CSR reports, and government reports. Unpublished information requires a lot more leg work and a significant commitment of time and resources. This information is freely available in the community, and comes from people with first-hand knowledge of the company; employees, customers, residents, service providers, local development officials, and local government. The role of the Early Warning System is to gather together these scattered pieces of information and look for patterns, patterns that might hint at impending change at a company. The CFDCs’ community development role affords them a position where they can access these multiple flows of information. Frequently, people in the community and people connected to businesses are seeing signs of impending change in a company, but they do not recognize them. Therefore,

⁴ “Early Warning System: A Proactive Tool for Labour in the Regional Economy” Dan Swinney, 2002 Presented to the Third International Congress of the Work and Labour Network May 22 – 25, 2002 pp. 1

the CFDC's role is to educate community members about how to recognize the signs of trouble in a company. That is an important aspect of an Early Warning System needed for success.

An important part of building an Early Warning System is that you do all the work openly. Transparency and accountability are essential in order to build trust within the business community. This work should be done in collaboration with the local business community. The aim of the Early Warning System is to provide early notice that a company in the community may be in trouble, or that owners are considering moving operations. This knowledge provides the community with the time necessary to develop any options that can be used to attempt to retain the company as part of the community. However, the decision always rests in the hands of the owners.

With these two forms of information, published and unpublished, you can develop a sense of what may be occurring within sectors and within companies in a community. Working with the business community to verify any information, you can then begin to develop a set of options and steps to take in order to retain a business. As well, you may also discover that the basic fundamentals of a business are unsound, and that effort should not be put into retaining it in the community. The Early Warning System provides a framework in which to approach this work with a systemically, in order to provide several years notice of any potential problems, instead of several months.

About The Early Warning System Manual

Below is an overview of the manual, taken directly from *The Early Warning/Business Development System Manual*. This is a general overview of the contents of the manual, and the tools provided.

Chapter 1: **What Is Early Warning** - serves as an Introduction.

Chapter 2: **Building An Effecting Network** - contains a brief discussion of the types of organizations you should seek to include in your network but does not go into detail about forming the network or funding its work. Instead, the chapter focuses on how to make the network work together to be an effective monitoring, assistance, and intervention team.

Chapter 3: **Monitoring Businesses** - devoted to training network members to use their access to sources of unpublished information about companies to identify those that the network should approach.

Chapter 4: **Researching Corporations** - provides a quick review of the conventional sources of corporate information. You will see the scope and limits to the information available from conventional sources. The assumption is that your network includes members who have experience gathering corporate data from traditional sources and this manual will not serve as a guide to traditional corporate research. It will indicate how information from official and unofficial sources can work together to enable the identification of at-risk plants.

Chapter 5: **Taking Action** - discusses possible responses the network can use to help a business in need of assistance, or prevent a business from closing.

Social Enterprise and Succession Planning

The Role of Succession Facilitator

Succession planning was identified by many of the interviewees as a key skill set that is lacking from many small and medium sized businesses in both rural and urban settings. The general viewpoint among business owners is that succession planning is largely a legal issue. Frequently, it is a question handled by lawyers or tax attorneys. However, the question of succession of ownership for a retiring or departing business owner is one that has much more involved than a simple legal inquiry. Succession planning is about the continued healthy operations of a business that has been built over a lifetime. It is about ensuring that the value that a business provides to a community continues to exist after the current owners depart. It is also an issue that is rapidly become urgent in communities across North America, and the world; “studies in places as diverse as Australia and Quebec have demonstrated that well over 50 per cent of small and medium sized businesses will face this challenge in the next ten to 15 years⁵”.

One of the major challenges facing any business owner that is planning to retire or sell their business is that they frequently are unaware of all the options open to them. Current succession planning training courses generally focus on service offering by major banks and financial institutions⁶. They provide a business owner with a variety of services offered by that institution, generally falling into three major categories:

1. Business valuation services
2. Legal advice and services
3. Business ownership transfer advice and services

These services *can* result in a narrow view of the options available in succession planning. In the interviews conducted for this report, the major skill set that was identified as missing from current succession planning services was the role of *succession facilitator*. Several of the interviewees noted that most companies require longer term (2-3 year) assistance in determining what services they require, what options exist for their business, and the pros and cons of all the options. Once that is determined, then the owner can approach financial institutions and acquire the services they need in order to achieve their succession goals.

The role of succession facilitator is ideal for CFDCs. The facilitator is not a service provider, but a service coordinator. Depending on the goals of the

⁵ “Succession Planning Using the Worker Co-op Option” Hough, Peter, March 31 2005 *Canadian Worker Co-Op Federation* pp.5

⁶ Peter Hough, personal communication, December 12 2007

organization acting as succession facilitator, they could provide one or both of the following functions.

1. *Educator*: The facilitator organizes training seminars for groups of business owners where the basic knowledge behind succession planning can be taught. The goal is not to make the owners experts, but to give them enough knowledge so that they can make informed decisions. As well, these seminars can help owners identify which skills they currently have in-house, and which they will need to outsource for their succession plans.
2. *Guide*: Working individually with business owners, the succession facilitator can help them review their options for ownership transfer. The facilitator then connects the business owner to associations and succession service providers that best fit their goals. They guide them through the process, identifying and helping the owner access the resources that they need.

An excellent example of an effective succession facilitator program can be found at the *Ohio Employee Ownership Centre* run out of Kent State University (<http://dept.kent.edu/oec/index.htm>). Their focus is on the promotion of worker ownership and social enterprise, they provide a comprehensive Succession Planning Program that includes 5 seminar sessions over 5 weeks, covering the following topics

1. Seven Essential Steps to Successful Succession: An Introduction to Business Succession Planning
2. Succession/Estate Planning Techniques
3. The ABCs of Valuation
4. Selling to Your Employees: Management Buyouts, Employee Stock Ownership Plans (ESOPs), and Co-ops
5. Family Issues in Succession Planning ⁷

As well, they provide a comprehensive succession planning guide for program attendees. Several BC CFDCs, most notably CFDC Nanaimo, are beginning to develop a succession planning program. If resources created and lessons learned can be shared between regions, there exists significant opportunity for a new and much needed service to be provided to businesses in BC by CFDCs.

The Use of Co-ops in Succession Planning

One of the important tools identified that outlines the effective use of social enterprise in succession planning is the "Succession Planning using the Worker Co-Op Option" manual developed by Peter Hough at the Canadian

⁷ OEOC, <http://dept.kent.edu/oec/spp/upcomingseminars.htm> Accessed February 12th 2007

Worker Co-op Federation. The following quote from the manual demonstrates the value that the co-op option offers to retiring business owners:

“The experience of RoyNat Capital Inc., a Canadian merchant bank, should interest those considering succession options. “Our experience as a merchant bank, which is supported by U.S. studies, is that 70% of family businesses do not survive to the next generation. The odds are little better – just 50/50 – when the business is sold to an outside buyer.” (R. Reynolds, Financial Post). These statistics are sobering news for business owners who are planning for a family succession. The challenges are significant if they hope to see their children and enterprise succeed well into the future. On the positive side, there is another succession option that has a significantly greater chance of success – the employee/management buyout. “Successions involving leveraged employee buyouts, supported by key managers, succeed in about 80% of the cases.” (Ibid.) This option has the potential to serve the retiring owners and their families, as well as their existing employees”⁸.

The manual is an excellent tool for assisting business owner’s work through all of the issues and challenges that traditionally exist when starting a succession plan, as well as providing the added information necessary to consider the worker co-op option. For CFDCs, this manual is a hands-on tool that can help in the understanding of succession planning in a general sense. As well, it outlines how the use of a worker co-op can help ensure the long term viability of a local business after the successful transfer of ownership to employees.

More research on how to identify opportunities for social enterprise is currently underway. The Canadian Worker Co-op Federation is currently compiling case studies on the use of co-ops in succession planning in Quebec and eastern Canada. The result will be compiled into a manual of “best practices”, and will be completed by April 2008. This will provide a score of Canadian case studies on the use of social enterprise and workers co-ops in succession planning in the field.

Developing the Use of Social Enterprise

When is Social Enterprise Appropriate?

The use of social enterprise as a tool for business retention through succession planning should be viewed as one option among a spectrum of options. A company must be evaluated fully before determining which structure would be most appropriate. In interviewing the current practitioners

⁸ “Succession Planning Using the Worker Co-op Option” Hough, Peter, March 31 2005 *Canadian Worker Co-Op Federation* pp.5

of this work in the field, there were three steps in the determination process that all agreed on:

Step 1: Determine the viability of the business. No matter what good the business offers to the community, or the passion for keeping it in the community, if it does not have a viable business model then it should not be considered for development, or transfer into a social enterprise/collective ownership model.

Step 2: Identify leadership internally and externally. The development of a social enterprise takes years of labour. Without leadership internally to drive the process, success is rarely found.

Step 3: Evaluate the current staff and management. Do the current staff and management believe in the business? Are they supportive of its vision? Is there a union and are they supportive of a social enterprise model for ownership? What type of organizational structure do they currently use and what other systems are they aware of? How much training would be needed in a transition to a different form of ownership? An understanding of the culture that exists in the enterprise will largely dictate what options are appropriate for the ownership transition.

These three steps also act as red flags for practitioners that identify when the business in question is *not* a good option for social enterprise development. If the business model is not viable, if leadership cannot be identified, and if employees are not supportive of the company, then frequently the best option is to walk away from the project and look for a different type of solution.

An important note to reinforce is that social enterprise should be considered as only one tool among a spectrum of possible options for any one business. The steps above are applicable for any business under any ownership model; however they are particularly true for social enterprise because of the additional complexity in this model. All practitioners interviewed stressed the importance of not entering into business retention work with only one model in mind for ownership. There are a range of options going from a sole proprietorship to a fully worker-owned co-operative. Other solutions (for a viable business) can include, but are not limited to, seeking an outside investor, mentoring one or several employees to take over, rather than transforming the business into a social enterprise, etc. All the options should be on the table. The focus should be on determining which model will most effectively retain this business as a successful part of the community.

What Sectors Are Using this Model?

The current efforts in social enterprise development have largely focused on providing services to fulfill a community need, frequently in the health

services and community services sector. However, there are examples of social enterprise that have been developed that compete with traditional businesses but that also have a primarily social objective. One example is the Inner City Development Inc in Winnipeg (www.icdevelopment.ca). A contracting company that is collectively owned by several non-profits, it was developed to provide job training and high wages and benefits to the underserved and underemployed communities in Winnipeg. They successfully compete with existing construction companies, and are able to use profits to both pay a higher wage and support the work of the non-profits. As well, the non-profit ownership allows them to receive grants and foundation support to provide skills training and life-skills coaching to employees. The building of a social enterprise in the construction industry was a strategic decision. Marty Donkervoot, the founder of this company, shared 3 key attributes that should inform any decision maker when attempting to determine if a sector is suitable for the development of social enterprise:

1. *Pre-existing service providers are in the community.* Ensure that service providers such as non-profits or community groups are active in the community and are currently working on the same social objective as your social enterprise. They can provide many supports, from grant and foundational funding to acting as guaranteed customers to your services.
2. *The sector traditionally pays fair wages.* Most social enterprises will focus on providing fair wages to their employees. If this is not standard practice in the sector, then the high costs of labour for your business will allow you to be easily outcompeted.
3. *The sector is booming across multiple regions.* Inner City Development Inc. decided to build a contracting company because of the booming housing market. The conditions in a booming market will ensure that your enterprise has more than adequate demand for its services and is not facing overwhelming competition for limited customers.

If these conditions exist, and the three steps outlined earlier are positive, then the opportunity for development of a successful social enterprise should exist. Although the size of the enterprise was not explicitly outlined by any of our interviewees, most agreed that the work is best suited for small to medium sized businesses. Dan Swinney with the Centre for Labour and Community Research indicated that in Chicago they focus on the small businesses that traditionally support larger industries. Not only is it much simpler from an organizational development standpoint, but these smaller companies also are traditionally more effective at preventing economic leakage and provide more value to the community beyond the jobs and wages.

Increasing the Use of Social Enterprise for Business Retention

The research interviews identified 6 clustered efforts that are required as steps towards achieving higher use of Social Enterprise in business retention and succession planning. These steps are intended to be broad based in the community in question, and focused on providing the support structures and awareness level necessary for success. The 6 clusters are:

1. Gather and develop tools for Business Retention

- a. *Succession Facilitators* – Beyond the role of legal and financial advice, the facilitator role is to assist the current owner in evaluating their options, determining the viability of the operation, to facilitate organization development needs, and find the resources needed for a successful completion of the succession process.
- b. *Traditional business tools* – Tools for proper business valuation, legal advice, tax expertise, and traditional business support services as required.
- c. *In-depth training on succession planning for business owners* – Modelled on the workshops developed by the Ohio Employee Ownership Centre⁹. The workshops are several weeks in length, with separate seminars on the essential tools needed in succession plan development. The focus is not to educate business owners only on *what* succession planning entails, but to provide them the capacity to do this work themselves.
- d. *Mentorship training for departing owners* – provide training and support for departing or retiring owners to ensure that they are able to play a mentorship role in their business as they leave, ensuring that their knowledge is usefully captured for new owners.

2. Build Community Leadership and identify opportunities

- a. *Identify opportunities through community engagement* - As outlined in the preceding section, the development of an Early Warning System ensures readiness and resiliency to economic downturns. *See identifying opportunities on page 2.*
- b. *Engage the community in social enterprise development* – Nelson BC was cited by several interviewees as an example of a community that is engaged in social enterprise development. One area where they have been particularly successful is with community engagement in the development and success of the Nelson Community First Health Co-op. One of the reasons for this success is their focus on engaging the community in the decision making process. .

⁹ <http://dept.kent.edu/oeoc/spp/index.htm>

- c. *Identify community leadership* – The development of social enterprise in a community depends on support and engagement from the community. Identification of individual leaders that can provide financial and operational support, are passionate about social enterprise, and live in the community, has proven to be a harbinger of success. Engaging leaders in the work can ensure that the community support exists once the new enterprise is up and running
- 3. Provide intermediary support for staff and community leaders**
- a. *Provide training for staff and management in collective ownership* - Partnering with the BC Co-op Association as a service provider, provide the staff and management with the tools they will need surrounding
 - i. Management
 - ii. Negotiation
 - iii. Organizational development
 - b. *Build capacity for support in banks and financial lenders* – Obtaining the necessary capital for any enterprise is a challenge, but there exists extra challenges with a business built with a social enterprise model. The unfamiliarity of by traditional lenders the business model makes access to capital a significant concern. Building that awareness as well as finding support structures within the existing financial community is of utmost importance.
- 4. Support cooperative economic planning initiatives**
- a. *Engage government in policy development* – Government support, through policy, of local social enterprise development. This can entail a spectrum of support initiatives, from providing financial support through tax incentives to incorporating social enterprise into educational curriculum
 - b. *Support Cluster Development* – Support the formation of industry clusters that are able to develop significant costs savings through collective planning, and not competition. This will provide fertile ground for social enterprise service providers and a stable source of economic growth. The BC Co-op Association has knowledge about successful cluster development in Emilia Romagna region of Italy, and there are recent examples in BC (College of the Rockies Tourism Cluster) of efforts to increase sector based collaboration and development.
- 5. Build awareness of social enterprise**
- a. *Education of the community* – Provide free seminars and resources for community members about social enterprise.
 - b. *Promote successful social enterprises regionally* – Conferences and workshops that highlight successful examples in the

community of social enterprise, as well as promotion of social enterprise in local publications.

- c. *Incorporate social enterprise into business education* – Incorporate social enterprise training into classrooms to demonstrate it as an equally viable option as traditional enterprise formation.
- d. *Train staff and employees in social enterprise* - The employees of the enterprise need to be provided the tools necessary to manage newly developed social enterprises. Ensure education and training program are available for this function.

6. Access to financial aid and support

- a. *Develop an endowment fund of grant fund for initial stage of enterprise development* – One area of social enterprise development that generally receive inadequate funding is the initial stages, where feasibility studies are completed and initial viability is assessed. Due to this, many enterprises fail in the beginning stages. Developing a Social Enterprise Fund similar to what has been created in Edmonton is a model that should be explored in the future.
- b. *Provide training in business financing for social enterprise* – Training new business owners or co-ops in the skills needs for gaining access to capital
 - i. Grant writing
 - ii. Business plan development for a social enterprise
 - iii. Skill development for presentations to investors.

The role of the intermediaries

The steps outlined above require involvement of all levels of a community, from the provincial government down to individual citizens. The community intermediaries, such as the CFDCs, play an essential role as capacity builders and service providers in this process.

- Provider of broad based public education resources for educators
- Facilitate the formation of the Business Retention council
 - Train the council in the information needed and how to research existing businesses
 - Provide operational guidance for the council
 - Act as a service provider to the council for technical assistance and training workshops
 - Assist in the identification of potential opportunities
- Provide seed capital for feasibility and assessment stages
- Provide access to knowledgeable lenders who can provide start-up capital to the enterprise

- Provide or give access to legal services around ESOP's, co-ops or non-profit enterprise formation
- Act as a network builder for social enterprise practitioners
- Act as a service provider for skills training
 - Succession planning workshops
 - Building community leadership in social enterprise
 - Traditional business skills
 - Management and organizational development for collective ownership

The intermediaries overall role is to identify the gaps in the knowledge base that need to be filled and act as the connector between groups and individuals. Social enterprise requires a collective effort and planning to be successful, which is not supported in today's marketplace focused business ideology. The intermediaries are the gap in the bridge between where we are today and where many communities would like to move towards.

Conclusion

There is significant value from using social enterprise in succession planning and business retention. In the interviews conducted with leaders in this field across North America, the general consensus was that there is a lack of knowledge in the business community about the options available to them. As well, the paradigm of today's economic reality resists the idea of community involvement and control over economic decisions. However, both of these obstacles can be overcome through using the skills practiced by community development practitioners; engagement with the community, openness of process and inclusion of all stakeholders, and leading through consultation and education. As intermediaries, CFDCs can play an important role in acting as service providers and facilitators. The goal is an overall increase in business retention in the communities that CFDCs live in and work, and the tools introduced in this paper outline some of the methods that can be used in order to do that. An important aspect of this work is the purposeful inclusion of social enterprise *as one option* among a range of options available to any business owners. The key to increasing the use of social enterprise in business retention and succession planning activities is to build the understanding and support structures needed for its success, but to also make clear that it is not a silver bullet solution. While it will be a suitable option for some companies it won't be for others, for a myriad of reasons. Through working purposefully and thoughtfully on the systemic issues that prevent the growth of the social enterprise sector, there exists real opportunity for building a business community that better reflects the needs and concerns of rural and urban Canadians.

Appendix 1: Social Enterprise and succession planning groups

- **BC Co-operative Association (BCCA)**

<http://www.bcca.coop/>

The BCCA is a full service provider focusing on supporting the growth of the co-operative economy in BC. The website provides information and training opportunities for individuals interested in co-ops, and a thorough review of the state of the co-operative economy in BC and Canada. Their Co-op Developers Network is a professional resource pool that supports co-op development in BC through sharing information and assisting in collaboration on projects throughout the province.

- **Community Ownership Solution (COS)**

<http://communityownershipsolutions.com/what/et/intergraph.html>

COS is a not-for-profit development corporation that is focused on changing workplace culture through the use of non-profit enterprise and social enterprise solutions. The focus is to create market-driven enterprises that employ low income Manitobans, as well as working with established businesses to enhance and support empowerment-based and participatory business cultures. Initially, they also focused on the use of social enterprise in succession planning, but this arm of their work has not been strongly sought after by local businesses. This website gives an overview of some of the business that COS has supported the creation of, as well as links to important funders and supporters of their work.

- **Employee Share Ownership Plan (ESOP) association of Canada**

<http://www.esop-canada.com/>

ESOP-Canada is a non-profit organization founded to promote the concept of employee ownership in Canada. The founder, Perry Phillips, is one of the leaders in ESOP building in Canada, and has worked with numerous businesses across Canada assisting them in their transition to ESOP status in their succession planning. A very popular social enterprise solution in the United States, an ESOP does allow a business to move towards worker ownership while retaining a traditional business model. The website provides links to ESOP groups nationally and internationally, and provides limited information on ESOP formation. The association, however, is extremely helpful and open to contact for enquires.

- **Employee Share Ownership Plan (ESOP) Builders Inc.**

<http://www.esopbuilders.com/index.html>

ESOP Builders Inc. is a full service consultation and education provider to business ownership wishing to implement ESOP plans and exit

strategies for succession planning. They have a network of contractors throughout Canada and can provide expert advice to businesses. The website provides a full overview of their services and contact information, as well as links to resources and a national network or contacts.

- **Chicago Manufacturing Renaissance Council (CMRC)**
<http://www.chicagomanufacturing.net/>

An example of the successful use of the Early Warning System in Chicago, the CMRC is a committee built of local business leaders, community leaders, workers, and state and municipal government. The council's focus is the retention of Chicago's manufacturing sector, and overall re-localization of Chicago's economy. Their extensive website provides overview of their ongoing projects and work done in the community, as well as a thorough review of the structure and policies of the council. Links to CMRC's partners in each area (labour, community, education, government, and business) are available, as well as their goals in each of those areas.

- **Ohio Employee Ownership Centre (OEOC)**
<http://dept.kent.edu/oec/index.htm>

The most comprehensive web-resource for employee ownership questions, the OEOC provides training and support to social enterprise and worker ownership practitioners across North America, focusing on Ohio and surrounding states. However, their website contains an incredible resource library containing case studies and reports pertaining to all aspects of worker ownership (co-ops, ESOP's, non-profit enterprise, etc) and succession planning. They also are the leading provider of succession planning training using social enterprise in the US. Their succession planning program, outlined on the website, is recommended as one of the best succession training program for business owners in the US.

- **Social Capital Partners**
<http://www.socialcapitalpartners.ca/index.asp>

Social Capital Partners is an investment capital firm that seeks out social enterprises in Canada that focus on employing populations outside the economic mainstream. It provides those enterprises with the capital that allows them to get to scale without external subsidy, while expecting a realistic return on their investment over the long term. The website is an excellent resource for self-assessment of a social enterprise, as well as being a much needed financial resource provider for social enterprise.

Appendix 3: Canadian Social Enterprise Case Studies

- **Inner City Development Inc. (ICD)**

<http://www.icdevelopment.ca/>

Inner City Development Inc. was initiated by Community Ownership Solutions Inc. as a social enterprise focusing on providing jobs in the construction and contracting industry to low income Winnipeg residents. ICD is an excellent case study of a company built to compete against traditional industry players, while still being able to meet their social goals. Owned by several non-profit housing corporations, ICD is able to provide on-the-job training to staff while still remaining competitive. The website provides a review of the projects they have competed and the overall success of the company since 2002.

- **Community First Health Co-op in Nelson BC**

<http://www.healthco-op.ca/>

"The Mission of the Community First Health Co-op is to enhance the health and wellness of communities, families and individuals by providing services through a co-operative partnership of consumer and health service providers". Nelson BC was mentioned by many academics across Canada as a strong example of how to create the conditions necessary for the development a strong social enterprise sector. The Community First Health Co-op is held as an example for how rural communities can address social needs through cooperative solutions. The website provides a through history of the initiatives, and provides full access to financial data.

- **Nelson Leafs Bottle Depot – Nelson, BC**

<http://www.leafsbottledepot.com/>

Another example of the use of social enterprise to provide an important community need, the Nelson Leafs Bottle Depot provides funding to the local junior hockey team in Nelson. A simple concept, the bottle depot allows the community to directly support the financial needs of the local team, which in turn provides an important community asset to Nelson. The website provides contact information as well as recycling information for customers.

Appendix 4: Key Informational Interviews

Name	Company	Focus of Interview	Key Recommendation
Seth Askimos	Saint John Community Development Corp	The challenges facing the growth and use of social enterprise	The systemic issues facing businesses that prevent the understanding and use of social enterprise, and the growing need to succession planning
Marty Donkervoort	Community Ownership Solution, INC	The use of worker ownership and social enterprise to achieve business and social goals	Contact the Nelson Community First Health Co-op and recommendations on what industries are good candidates for the creation of market driven social enterprises
Peter Hough	Canadian Worker Co-op Federation	The use of co-ops in succession planning	Introduced the Succession planning and worker co-op manual and informed us of the future succession planning case studies currently being created
John Restaskis	BC Co-op Association	The use of coops and the value of purposeful economic planning activities	Explore the creation of industry clusters and systemic approaches to supporting social enterprise, and look at the Early Warning System developed in Chicago
Doug Stoddart	Nelson Community First Health Co-op	The importance of community support for social enterprise in order to achieve success	Explore the relationship between communities with Social Enterprise efforts and the level of community involvement
Dan Swinney	Centre for Labour and Community Research	The use of business councils in economic planning activities	Introduced the Early Warning System Manual, the Ohio Worker Ownership Centre and the current face of business retention and succession planning in North America

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Appendix 5: Business Retention Discussion with CFDCs

Participants

Lori Camire/Alberni Clayoquot,
Sherree Walters/Nanaimo,
Herb Thiessen/South Fraser,
Al Mullholand/Sunshine Coast,
Art Lew/Haida Gwaii,

Jerry Botti/Nadina,
Bud Sweeney/Prince George
Regrets: Jane Lister/North
Okanagan

Introduction

The Development Wheel (DW) project is concerned with advancing social enterprise capacity among CFDCs and within their regions. Business Retention was identified as a common and growing issue in all CF regions, but there was not a great deal of awareness of co-operative, employee ownership, or other social enterprise formats within the menu of options for business succession and retention. The DW project undertook research to gather tools and information that would inform us more about the role of social enterprise within successful retention programs in Canada and the US.

The focus of the research was to gather the best practice related to succession and retention programs in general, and then to explore the role of social enterprise structures within those programs. We wanted to be able to identify particular assessment tools (how do we know when a co-op structure might be the best retention strategy), development and mentoring approaches and examples.

The purpose of this discussion was to get reaction to the Business Retention research paper and discuss the current situation and potential opportunities and challenges for CFDCs. The notes that follow are a summary of that discussion and are organized by the six primary clusters of activities required to increase the use of social enterprise in retention programs that emerged from the research.

Discussion by Activity Cluster

7. Gather and develop tools for succession planning
 - a. Succession Facilitators
 - b. Traditional business tools for valuation, tax structures, etc.
 - c. In-depth training on succession planning for business owners
 - d. Mentorship training for departing owners

And

8. Build Community Leadership and identify opportunities

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- a. Identify opportunities through community engagement in an Early Warning System
- b. Engage the community in social enterprise development
- c. Identify community leadership

We found several primary resources that were continually referred to as the best that was available. The manuals and organizational resources will be shared.

- **Early Warning/Business Development System Manual**, 1996 by the Centre for Labour and Community Research (www.chicagomanufacturing.net)
- **Succession Planning Using the Worker Co-op Option**, 2005 by the Canadian Worker Co-op Federation (www.canadianworker.coop)
- **Using an Employee Share Ownership Plan in Canada**, (book) and the Employee Share Ownership Plan (ESOP) Association of Canada (www.esop-canada.com) accompanied by its sister organization ESOP Builders (www.esopbuilders.com) that provides consultants for this work.

The discussion on community awareness & warning systems:

- In very small areas like Haida Gwaii and Nadina there either isn't the social capital to support a formal **Early Warning Council**, or there isn't the range of businesses to warrant it. In these communities there is a strong word of mouth network, everyone knows everyone else's business (or can find out through someone else). In these situations it makes sense to support the local Chamber of Commerce or some such group to play a more proactive role in identifying businesses pending a closure or sale and/or to focus on educating businesses themselves to plan for succession.
- It was mentioned that some business people are adverse to "poking their noses" into other businesses. This suggests that while a Chamber might take on the Early Warning Council role, there is still a need for an **expert facilitator** who can take the next steps with any given business. This is a key role for CFDCs that builds on their expertise.
- There are other ways to start however – such as **educating the business community** about the issue of business retention, about succession planning as something they can get help with, and about the range of options for succession including employee ownership, etc.
- Other communities, like those in the Okanagan, will need to put in place their own **Early Warning system** and given the scope of the business community it needs to be formalized. Without this first step – which identifies opportunities for succession or retention interventions – there is no way to take the next step that might identify a social enterprise opportunity. The manual can help communities do this work, and every CF will need to determine their own role in that process, partners, etc.

Development Wheel Project

The discussion on potential opportunities:

- Nanaimo is in the middle of their Business Retention survey, but they found approximately 300 area businesses that were prepared to turn off the lights and walk away over the next five years, rather than try to sell the business. It isn't clear what factors are prompting this attitude. The CF has increased staff skills in business valuation as well, and are developing workshops on this for local businesses. Apparently Nelson has done some workshops or surveys as well? (Jason should call Paul)
 - The Island/Coastal CFs are going ahead with a regional, multi-year skills training/labour market effort that is targeting businesses as well as employee/employer matches. They think that a part of this could be a data base of businesses for sale that they can then use to match with likely entrepreneurs from anywhere in the region. Supporting existing owners in their mentoring of these prospective buyers might be another task.
 - Nadina is working with several businesses that might be options for a social enterprise transition and Prince George has 2 mills in their region (pulp and paper and lumber) who either have or likely will announce closures. They can assess the business viability, but need some tools to help them identify if there is openness and readiness for an employee or co-operative solution.
 - In Alberni they see some potential for several smaller businesses being combined under the umbrella of one co-op, but don't have the co-op knowledge to be able to assess the feasibility of that kind of structure.
 - While there is a desire to build knowledge related to social enterprise options, it is important to remember that Business Retention and Succession Programs use a range of structures and options from recruiting or matching individual entrepreneurs or investors to more collective forms. This means that while succession planning education needs to include social enterprise, it is more broadly focused on the issues and opportunities for business succession in general.
9. Provide intermediary support for staff and community leaders
- a. Provide training for staff and management in collective ownership
 - b. Build capacity for support in banks and financial lenders
- **CFDCs want training for their staff** (business analysts) related to understanding the co-op model, esop's, etc. and knowing when it is appropriate as an approach to retention, and how to facilitate those transitions. This training needs to be presented as a Business Retention tool – there continues to be resistance to co-ops within the network.
 - The provincial CF training is in Kelowna April 30 – May 2. This would be an ideal time, but it is past the end point of the DW project. Is there a way to develop the training now and deliver it then? If we can do a

Development Wheel Project

training session it might need to be prior to March 31 – Michelle will look into this.

- CFDCs will get the manuals, but they need to have attention drawn to the **checklists of questions** at the back of the manuals. These are simple, very practical tools that they can use to orient their staff and start to think through opportunities.

10. Support cooperative economic planning initiatives

- a. Engage government in policy development
- b. Support Cluster Development

- The CFs discussed their ideal position for **liaising with Economic Development officers and with municipal government**. While they may not do this regularly, they are generally well connected enough to have easy access, and to be taken seriously. Making sure there is awareness of retention issues locally, and possible responses is important. Linking these groups into the early warning system and/or as business advisors is also important.

11. Build awareness of social enterprise

- a. Education of the community
- b. Promote successful social enterprises regionally
- c. Incorporate social enterprise into business education
- d. Train staff and employees in social enterprise

- **Newspaper articles** – can we develop a one pager that communities can adapt locally that describes the trend among business owners retiring – the impact on communities – loss of business services – and the need for early identification in order for potential solutions to be developed – that some of the options include employee ownership or co-op structures, etc. Something that introduces this concept to communities.
- It would also be useful to have several **short handouts** on what a co-op is, what an esop is, etc.
- CCE will have the **Introduction to Social Enterprise package** ready by the end of January. This includes a series of one-page handouts that CFs can use to orient their boards, community or clients to this business model.
- CCE didn't find any **examples of social enterprise being used specifically as a retention tool**, other than the few mentioned in the Worker Co-op Manual. The Canadian Co-op Federation is working on some Canadian case studies and we will forward these when we get them. While there are a number of good co-op examples in Canada, there are additional steps and challenges involved in a succession, as opposed to a new/start-up.

12. Access to financial aid and support

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- a. Develop an endowment fund of grant fund for initial stage of enterprise development
 - b. Provide training in business financing for social enterprise
- This wasn't discussed – it is a later stage question.

Next Steps

1. Jason will package the manuals and list of resources and email to participating CFDCs as well as to Cordelia at the CFDA. We can ask Cordelia to share these with all CFDCs in BC. We will also finalize where links to these resources might be made available – perhaps the BCCA website and ENP?
2. Jason will follow-up by phone with Jerry Botti and Bud Sweeney to get more details about opportunities in their regions and what stage they are at.
3. Jason will draft a press release, and one pagers on Worker Co-ops, ESOPs and Non-profit ownership of a social enterprise – the three key structures that may be useful as part of a Business Retention effort.
4. Michelle will talk with Mary-Ellen about Kelowna training and potential for a one day pre or post session on these models.
5. Michelle will explore within the DW project what can be done prior to March 31, and/or look at funding sources to support a post project training session. This could include asking Cordelia to survey CFDCs about interest in a training, talking with John Restakis and the Canadian ESOP Association about their role in a training in BC, etc.