

Succession Planning

Description

Succession planning seeks to shape the transfer of ownership of local businesses or facilities to assure the most fruitful outcome for the community. The most usual scenario for using this strategy occurs when the long-time owner of a local business is retiring (or ailing). At that point the business (and its jobs) can be in jeopardy, as far as the community is concerned. The business may be liquidated because other members of the family do not want to continue it, or, just as bad, a new owner may very well move it to a new setting. Such businesses often have been an important feature of the local social economy in many ways, not only for the jobs and products or services, but also because the owners have been active and contributing members of the community. Even small or medium enterprises may have played a significant role in the full fabric of the community. The case of Midland, South Dakota, described in the entry for [Business Visitation/Mentoring](#), offers insight on the significance of succession planning in a small community.

The threat inherent in a change of leadership and ownership can be considerable for the home community, and therefore many alert communities take pains to see that a process of ownership succession is planned for the best possible outcome. Essentially, the problem to be handled is how to transfer ownership and management so that there is the least damage to the local economy and perhaps even a major positive effect.

Quite often the original owners will be sympathetic to the community problem posed by their retirement and will be willing to go an extra distance to make the change in the most helpful manner. CEDOs that maintain good relations with local businesses will be in a position to discover and take advantage of that willingness in order to gain benefits for the local economy.

There is a second scenario in which succession can pose a threat to a community. This may occur when a local or distant corporate owner in the normal course of business decides to sell to another corporate owner that is not a part of the community, or perhaps with a poor reputation. New and distant owners frequently do not make good local citizens, at least without assiduous courting and monitoring by community leadership. However, such transfers may be virtually impossible to influence, except under the circumstances of regulatory restrictions. That is, certain industries (such as media or resource-based) may require regulatory permission for a transfer of ownership of facilities or other assets. When the community is host to one or more of such industries, it can consider a strategy of succession planning using such regulatory strategies. However, this is by far the least likely

scenario in problems of succession and will not be dealt with in detail here. (See, however, Appendix A for the story of the Revelstoke Community Forest.)

Benefits

The major potential benefit of good succession planning is the retention of jobs and of the commitment to the full fabric of the community that long-term resident-owners represent. Moreover, with proper succession planning the business can avoid the natural weakening effect of an elderly or ailing owner's gradual lessening of effort and attention, so that when transfer does take place it is the transfer of a still strong company. And finally, the new ownership may be spread throughout the community, making the company an even more integral part of it. That can happen both with worker buyouts or with sales of shares to local residents.

Major challenges

Time is sometimes critical, especially if a commercial broker is involved and the owner is contemplating sale to an outside buyer/corporation. CEDOs are better prepared if, with an **Early Warning System**, they are able to foresee the potential threats of ownership transfer.

Also, it is only natural that an owner who may have built the business himself or herself is reluctant to face the facts of age and health and the necessity to make plans. (It's like everyone's reluctance to make a will.) Thus it may be a delicate task to approach such an owner, and that task will require the careful choice of just the right person or persons to start the discussions.

Some practical steps

1. Create a working team or committee that takes responsibility for succession planning issues.
2. Establish a system by which local firms can be surveyed and analyzed for possible succession problems. This should be integrated with the CEDO's **Early Warning System**, if any such is in effect. Depending upon the size of the community, the identification of potential problems can be relatively informal, or it can take the shape of a carefully designed survey of all local firms. (For a free copy of a sample survey and methodology, contact Commonworks, 821 Euclid Avenue, Syracuse, NY 13210.)
3. If a formal survey is adopted, use it as a means of publicizing the CEDO's interest in offering succession planning; and offer introductory information in specially arranged meetings. The CEDO may find that some owners will approach the group spontaneously on their own.
4. Identify the specific firm or firms that should be approached to offer succession planning.

Tools & Techniques

5. Choose the appropriate representative to initiate contact with the firm in question.
6. Ascertain, insofar as possible, whether the owner (or owners) are indeed contemplating giving up the basic ownership. (Some owners may also be considering partial ownership, as long as they have no responsibility for management.)
7. Offer explicit assistance in the task of succession planning, being candid about the CEDO's motivations. This assistance will vary with the situation to include: introductions to specialists (lawyers, accountants, business brokers, etc.), outlining possible transfer scenarios (employee buy-outs, a joint venture with the CEDO, etc.), locating some potential local buyers, helping to assemble a reasonably accurate valuation of the business, designing the specific transfer plan, and so forth.
8. In all this, take the necessary actions to keep the community and the workers in the firm appropriately apprised of what is happening.

Resource organizations & contacts

- Some provinces, like British Columbia, have supportive programs (including tax credits) for successions that follow certain provincial guidelines. For British Columbia the provincial Job Protection Commission can be key (604-775-0168).
- To review a model program of brokering and assisting in succession transfers, check with Chicago Focus, a for-profit group with church ties (at 312-332-5100).
- For communities dealing with a transfer in forestry, the Enterprise Centre (Revelstoke) is the key organization (Doug Weir at 250-837-5345).
- The British Columbia provincial Employee Share Ownership Program (George Kennedy at 604-660-1045) deals with the succession tax benefit for worker buy-outs.

Publications

Intervening with Aging Owners to Save Industrial Jobs (1989). Published by Midwest Center for Labor Research, 3411 West Diversey Avenue, Chicago, IL 60647.