

# BUSINESS RECOVERY, STABILIZATION AND SUCCESSION



COVID-19 threatens to accelerate the retirement of business owners across rural Atlantic Canada. This is a real challenge. Co-operatives and Social Enterprise may offer a solution.

## The Scope of the Problem

**Without intervention, vast numbers of small businesses are expected to close across Atlantic Canada in the next 10 years. Many have no viable succession plan.**

This wave of retirements has been on the radar for years. The communities involved, especially those in rural areas, face a serious loss of key goods, services and jobs. While daunting, this challenge has been predictable – most of the business owners are aging Baby Boomers. Then came COVID-19. It has massively disrupted an already difficult situation.

A research team led by members and partners of the Canadian Community Economic Development Network (CCEDNet) has examined the challenge and options to address it. Reports, needs assessments and surveys all indicate how hard Atlantic Canada is likely to be hit. Many retiring business owners have no viable succession plan. What's more, certain factors will likely keep key segments of the population from stepping up to buy the retirees' businesses.

Social succession presents an historic opportunity for collective ownership models to address this oncoming challenge.

## Succession planning in Atlantic Canada

Atlantic Canada has 76,000 companies. It is estimated that almost 55,000 (72%) of them will be seeking a transition in ownership between 2017 and 2027. Now add to that a finding of the Canadian Federation of Independent Business (CFIB). It surveyed 2500 of its members, and over half of them say that they have no formal succession plan<sup>1</sup>. This information turns a troubling forecast into an alarming one.

Two factors are at work here: the preparedness of owners and the size of their businesses. In many cases, the owner is ready to retire, but the business is not ready to be sold. Exiting a business takes some planning. Financial reports need to be brought up to date and cash flow maximized. This is essential if the business is to appeal to buyers and weather the ups and downs of a change in management.<sup>2</sup>

Many owners of very small businesses (those with less than 20 employees) are unaware of this. Larger companies (with 20-99 employees) say they are better prepared, and less likely to sell anytime soon. But very small businesses are particularly common in rural areas. So rural areas are the places most at risk of losing businesses in the coming years.

The challenge also has a generational aspect. On average, small business owners are in their 50's, putting them firmly in the Baby Boomer generation. Gen Xers (people born between 1964 and 1979) are the people most likely to be ready and able to buy such businesses. But they are too few in number (only half as numerous as Boomers) to fill the gap on their own. Millennials (born between 1980 and 1995) are more numerous, but they may not have enough experience to fill the gap either.

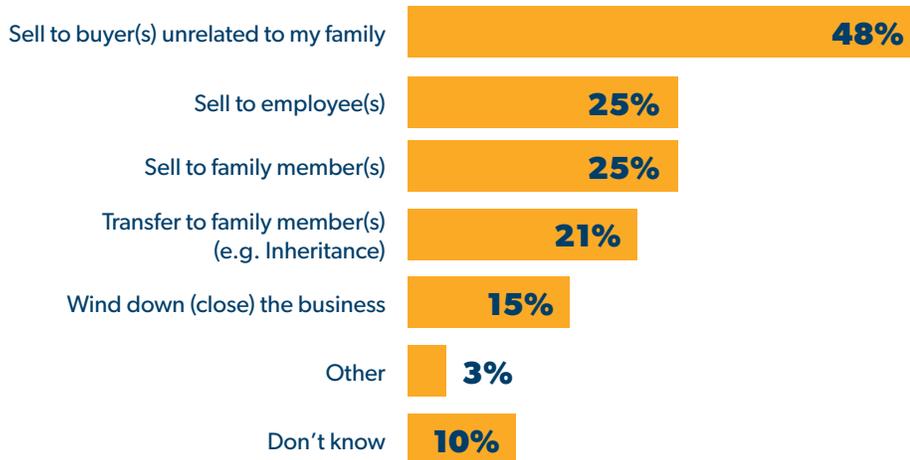
There is yet another wrinkle to consider. The industries in Atlantic Canada hit hardest by the pandemic are tourism and accommodations, retail, and restaurants and bars. They have been major employers of Gen Xers and Millennials in rural areas, as well as youth, women, and racialized people. This means that many people most deeply impacted by COVID are the same ones who already were living on the margins. For sure, they have received emergency support from the government. But their old jobs may be gone for good since the industries that used to employ them are going to have to innovate significantly to recover. That could mean cutting jobs through automation and digital services.

However, the findings are not all bad. That survey of CFIB members also

<sup>1</sup> Marvin Cruz, *Getting the Transition Right: Survey results on small business succession planning* (Toronto: Canadian Federation of Independent Business, November 2018), p. 6

<sup>2</sup> Tom Corner and Sylvie Ratté, *The Coming Wave of Business Transitions in Canada: Are Entrepreneurs Ready to Exit Their Company?* (Montreal: Business Development Bank of Canada, September 2017), p. 1

**Figure 9: Method of Exiting from a Business<sup>3</sup>**



showed that a lot of business owners would like to sell their businesses to their employees. That may be tough for one employee to handle. But if employees team up as a co-operative or social enterprise, they could make it happen. When a retiree's business is purchased by a co-operative or social enterprise, or by an Indigenous community or local municipality, it's called *social succession*.

## The social succession opportunity

**Social succession is a good way to breathe new life into a business when retirement threatens to close it. It can help rural areas recover from COVID. It can also enable youth & historically disadvantaged groups to find jobs and get ahead.**

In rural Atlantic Canada, the business owners ready to retire far outnumber the people who typically might be expected to buy their businesses. Consequently, to protect these businesses and their communities, people are beginning to think seriously about "social succession."

Social succession is fairly straightforward. It means that a privately-owned business

gets turned into a collectively-owned business. This is a very important option for rural communities that rely heavily on certain "keystone" businesses. They provide vital goods and services (grocery stores, for example) or are major employers (a fish plant or lumber mill, for example). When such businesses go up for sale, but are unlikely to find another private owner, the whole community is put at risk.

Social succession may offer a solution.

In fact, it may address other local issues and needs as well. Social enterprises and co-operatives can be designed to address such crucial matters as pay equity, gender inequality, climate change and systemic racism. While creating jobs, goods and services, these organizations also can make the economy more inclusive and creative. This may be of real interest to many young people, especially those in rural and marginalized communities.

Collective ownership of any type takes training and practice. So what resources are available to explain social succession? What additional resources are needed? Which strategies can help make social succession a viable and

attractive option in Atlantic Canada? What support can agencies, associations, government, and other stakeholders provide to make that happen?

These questions are the focus of the rest of the research team's reports.

## Social Succession Research

In fact, social succession is already the subject of several research projects.

At the universities of Toronto and Sherbrooke, the CoopConvert Project has been studying the conversion of private businesses into co-operatives. Experiences to date suggest that many people are poorly informed about co-operatives, their strengths and their benefits.<sup>4</sup>

At the University of Waterloo, the Legacy Leadership Lab is working on how to make social succession more compelling to business owners and how to build momentum around this model. To do so, it has collected a range of case studies and conducted an in-depth set of labs and discussions with stakeholders over the past couple of years.<sup>5</sup>

### Two Important Definitions:

**Co-operatives** and **social enterprises** are often defined differently from place to place. In this report, a **co-operative** is understood as any business that is owned and run jointly by its members, who share the profits or benefits. It is also owned and run democratically: each member has one share and one vote. A **social enterprise** is a non-profit or charity that operates a business in order to fulfill a social purpose. Generally, the purpose is to create a benefit to society that for-profit businesses do not provide.

<sup>3</sup> Marvin Cruz, *Getting the Transition Right: Survey results on small business succession planning* (Toronto: Canadian Federation of Independent Business, November 2018), p. 5

<sup>4</sup> For more, <https://www.coopconvert.ca/>

Scale Collaborative and Royal Roads University are examining the challenges facing rural communities.<sup>6</sup> Their reports note that buyers in rural area are few, and so are workers and business supports. As a result, public services and private businesses often pack up and leave. Social succession may be a way to break that pattern.

Research by Memorial University highlights the importance of community-owned social enterprises to the remote communities of Labrador and Newfoundland's Northern Peninsula. They are the best option when viable businesses go up for sale, but find few or no private buyers. Memorial recommends that the university and federal and provincial governments together look for ways to grow and support social enterprises in those regions.<sup>7</sup>

The New Brunswick Association of Community Business Development Corporations commissioned a survey of business owners.<sup>8</sup> Fully 33% of respondents say that they will likely exit from their business in under five years. But 74% say that they have no succession plan. Unlike the respondents to the CFIB survey, however, very few New Brunswickers are interested in selling their businesses to employees (2.56%) or to a co-operative (0%).

CDR-Acadie wants to learn how much Atlantic Canada's Francophones know or care about social succession. It convened 12 business succession scouting committees to identify opportunities for social succession in a variety of regions. It also hosted conferences to raise awareness of co-operatives as strategy for business succession. CDR-Acadie

found no shortage of French-language resources to assist the development of co-operatives. Yet few people realize how co-operatives can be applied to business succession.<sup>9</sup>

## Resource Assessment

The research team assessed 84 tools, resources, and learning opportunities concerned with succession planning.

In terms of conventional business succession planning, resources are fairly plentiful.

For example, people who want to buy or sell businesses can get lots of assistance. Most of it is online, free of

Across Atlantic Canada there are agencies whose purpose is to support the development of social enterprise and co-operatives. Some know how to apply these models to business succession; others do not. Co-operatives are particularly well-supplied with development and training resources. Several co-op associations offer a wealth of information online. Québec's many co-operative organizations offer excellent French-language resources. Despite this there is a resource challenge as outside of the big cities, the pools of people trained in co-operative development are getting smaller and smaller. (Many of their best staff are themselves retiring.)

As well, lots of self-training and self-development resources are available for both social enterprises and co-operatives. However, when it comes to the conversion of a privately-owned business into a co-op or social enterprise, little is available. It also was discovered that businesses that are collectively owned by municipalities or Indigenous communities may have needs unlike those of co-operatives and social enterprises. The same resources may not be suitable for every kind of social succession.

Finally, the research team noted how important professional services are to succession planning. Lawyers, accountants, financial planners and business valuers are all "intermediaries" with a critical role to play in the process. Many are available across Atlantic Canada. Once again, though, a lot of these intermediaries are unaware of social succession or are uncomfortable with it.



charge and backed up by organisations with professional staff. There are how-to guides, presentations and other materials created by business development agencies and business schools.

However, few of these resources explain that co-operatives and social enterprises also are options for the retiring business-owner. It makes sense to add this information to these platforms, or to connect them with platforms that specialize in these subjects.

<sup>5</sup> For more, <https://uwaterloo.ca/legacy-leadership-lab/>

<sup>6</sup> For more, [www.scalecollaborative.ca](http://www.scalecollaborative.ca)

<sup>7</sup> Dave Leogh, *Succession Planning for Small and Medium-sized Business in Labrador and the Northern Peninsula* (St. John's: Memorial University of Newfoundland, August 2018), p. 31

<sup>8</sup> *Succession Planning: Survey Analysis* (Fredericton: Stiletto Consulting, March 2018), p. 3

<sup>9</sup> *Succession Planning: Environmental Scan* (Fredericton: Stiletto Consulting, March 2018)

## Stakeholder Analysis

Next, leveraging additional funds through CCEDNet, the research team identified key stakeholders in the business succession process - potential business buyers, sellers and professionals. Their expertise was sought to determine how best to move forward on social succession. They conducted 15 interviews and held two different focus groups, including people from all 4 provinces and a range of related sectors.

All the focus group members recognized the urgency of the issue of business succession in the Atlantic region. They all said that awareness and education had to be increased. But they stressed how important it is to bolster knowledge of social succession with actual practice.

These stakeholders also recognized the tremendous opportunity that social succession represents. It could increase economic equity across diverse communities. It could help to reduce youth out-migration. It even could attract youth by enabling newcomers to Canada and international students to connect with rural communities. It could stimulate women to become entrepreneurs, and retirees to contribute valuable skills to their communities.

## Action Research

The action research portion of this project had two parts. The first part was to develop and test an online workshop and resource guide for business development professionals. These materials aim to boost understanding of the roles that social enterprise and co-operatives can play in rural business succession. The second part was a series of engagements with a variety of communities at different stages in succession efforts, who learned how social enterprise and co-operatives can benefit their economies over the long term.

## Action Research Projects

Observations by the research team from these action research initiatives ground their recommendations:

- The Atlantic Association of **Community Business Development Corporations** (CBDC) piloted a bilingual online workshop and resource guide with CBDC staff and board members
- The **Acadia Entrepreneurship Centre** hosted a workshop with potential sellers including a live case study
- **Co-operative Enterprise Council of New Brunswick** (CECNB) coached intermediaries, sellers, buyers and other community stakeholders in the Tantramar Region around a real-life succession opportunity
- **CDR-Acadie** engaged Francophone youth for their perspective as potential buyers

Detailed research findings are contained in the project Final Report.

In addition to grounding the overall findings of this project, these efforts pinpointed gaps in the range of resources available to support social succession.

- Video resources accessible to a variety of audiences.
- An online hub of information and resources.
- “Matchmaking tools” to connect sellers and buyers.
- Culturally-appropriate information designed specifically for marginalized or racialized people.
- Resources that are engaging and designed specifically for youth.
- Resources about the role social succession can play in the preservation and enhancement of local and rural economies in Atlantic Canada.
- A larger pool of experienced co-op and social enterprise developers.

## Conclusion

**The scope of the business succession challenge facing Atlantic Canada is very great. Social succession presents a solid solution. But, the lack of awareness of social succession as an option and resources to support people who choose that option is substantial.**

In light of this, a comprehensive strategy is needed. It would target key stakeholders (buyers, sellers and intermediaries) in order to:

1. increase their awareness of the scope of the business succession challenge in the region;
2. demonstrate how social succession can help address this challenge; and

3. build resources, knowledge, skills and capacity to support social succession.

The strategy would also necessarily support capacity building for buyers and developers and aim to move interested stakeholders from broad awareness and engagement towards pilot projects where expertise is applied to support real social successions. Given the limited development and intermediary resources in the region, it will be important to conserve the most focused expertise for viable succession opportunities.

Essential to the success of such a strategy are the following principles:

- In all communications to all audiences, stress the vital role that social succession can play in preserving local, rural economies.
- Ensure that messaging and media are appropriate to different groups of stakeholders. Each requires resources that are accessible and tailored to their needs. The

same applies to marginalized and racialized people, to groups who are traditionally excluded and to different age groups.

- Intermediaries need a simple, straightforward introduction to business succession to share with their clients. It should concern business succession in general, but include social succession as an option. Make resources about business succession and social succession available on a variety of economic development websites.
- Many 'on ramps' for learning about business succession and entrepreneurship are already available. Make the most of them, while also promoting social succession as an option.
- A lot of experience has been gained from helping family farms to pass from one generation to the next. Consider building on this experience to create succession strategies specific to other sectors, like tourism and hospitality.

## Moving Forward

**The research team is developing a strategy based on these findings focused on raising awareness, building capacity and piloting supported social successions.**

In this way, the project team and its regional partners hope to move stakeholders to recognize social succession as a valuable and practical option. Their general awareness of this option will give way to perceiving actual opportunities, which then will culminate in business sales supported by professionals and customized coaching. Growing awareness will be matched by a growing set of successes.

Ultimately, this real alternative to traditional business succession will capture the energy and creativity of diverse, often-excluded groups. Together they will take action to protect keystone businesses across rural Atlantic Canada.

### Additional information:

This project is led by Atlantic members and partners of the Canadian Community Economic Development Network. The project leaders were Laurie Cook and Andy Horsnell with Flourish Community Development Co-op. Marc Henrie and Gabrielle Gagnon with CDR-Acadie, Wendy Keats (former ED) and other staff from the Co-operative Enterprise Council of New Brunswick also made significant contributions. Many others helped with the research design, with reports and tools or other research, or took part in the stakeholder analysis.

CCEDNet and the project partners thank everyone who contributed.

The full interim and final reports can be found on the CCEDNet website: [ccednet-rcdec.ca](http://ccednet-rcdec.ca). Or, contact Regional Networks Director, Sarah Leeson-Klym at [sleesonklym@ccednet-rcdec.ca](mailto:sleesonklym@ccednet-rcdec.ca).

This report is funded by the Atlantic Canada Opportunities Agency (ACOA) under the Atlantic Policy Research Initiative, which provides a vehicle for the analysis of key socioeconomic policy issues in Atlantic Canada. The views expressed in this study do not reflect the views of ACOA or of the Government of Canada. The authors are responsible for the accuracy, reliability and currency of the information.