Intervening with Aging Owners to Save Industrial Jobs: A Study Update

A National Survey of Literature and Practice and a Preliminary Assessment of the Successorship Needs and Plans of Chicago's Aging Manufacturing Entrepreneurs

A Report Prepared for
The Manufacturing Renaissance
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I. EXECUTIVE SUMMARY

Preface

This report presents the results of an update to a 1989 study titled "Intervening with aging owners to save industrial jobs" that assessed "the feasibility of retaining manufacturing jobs in Chicago by matching aging company owners who need successors with qualified minority and female entrepreneurs as buyers" (Intervening with aging owners to save industrial jobs, 1989 p.5). Additionally, it extends analysis of family-owned manufacturing SMEs to Cook County and its collar counties (Cook, DuPage, Kane, Lake, McHenry, and Will).

In line with the previous study, the more specific objectives are: (1) to examine the business transfer potential of small and medium-sized enterprises (SMEs) with up to 250 employees owned by founders in the age group of 55 years or more, (2) to explore the approaches of incumbent owner-manager towards intra-family succession, and (3) to establish the business transfer related challenges experienced by the potential sellers and the need for external advisors in business transfer processes.[1]

For most family owned businesses, the link between their continuity and the life of their founding owner is assumed to be self-evident.[2] However, the family business sector is characterized by low "survival rates".[3] In the US, only about 30% of family businesses survive to the second generation and only 15% make it to the third.[4] Invariably, most if not all family-owned businesses face the unique strategic issue of change in ownership, whether by family succession, sale or closure. These disturbing statistics has led researchers to focus on succession as an explanation of firm mortality. It is assumed that succession problems can result in economic losses when viable businesses cannot find new owners. Clearly, maintaining a successful business in the community minimizes disruption of jobs, business relationships, and local pride.[5] However, research suggests that sale to external buyers prevails over family succession, although

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[1] Varamaki, E., Tall, J. and Viljamaa, A. (2014). "Business Transfer and Successions in Finland from the Potential Seller's and Predecessors Perspectives" in *Advancing European entrepreneurship research: entrepreneurship as a working attitude, a mode of thinking and an everyday practice*, Luca Gnan, Hans Lundberg, Lucrezia Songini, Massimiliano Pellegrini (editors), Charlotte, NC: Information Age Publishing, Inc., pp. 55-82.

[2] Sam, M. A. (2003). When Founding Entrepreneurs Leave: The Problem of Succession in Small Firms in Nigeria, 1971-1980. *The Journal of Modern African Studies, 41*(3), 371-393.

[3] Wang, Y., Watkins, D., Harris, N. & Spicer, K. (2004) "The relationship between succession issues and business performance: Evidence from UK family SMEs*", International Journal of Entrepreneurial Behavior & Research*, Vol. 10 Issue: 1/2, pp.59-84, p. 59.

[4] Astrachan, J. H., & Allen, I. E. (2003). *MassMutual/Raymond Institute American Family Business Survey*; Leach, P., & Bogod, T. (1999) *The BDO Stoy Hayward guide to the family business*. London: Kogan Page Ltd.

[5] Kenyon-Rouvinez, D. & Ward, J. L. (2005). *Family Business: Key Issues*, Basingstoke, Hampshire and New York, N.Y.: Palgrave Macmillan, pp. 1-2.

the family business literature focuses almost exclusively on internal succession[6] with little attention paid to successions by external parties.[7]

Therefore, the focus of this update as with 1989 study is on the retention of manufacturing firms owned by family entrepreneurs without capable successors in an attempt to explore the extent to which the succession problem is a closure threat to long-established family owned manufacturing firms as well as providing substantial opportunities to increase minority entrepreneurship (or traditional entrepreneurship) in the manufacturing sector.

Similar to the previous report, the present study involves a national survey of literature and practice and an assessment of the successorship needs and plans of aging manufacturing entrepreneurs in Chicago and its Collar Counties. The goal is to put in place schemes for matching transferable businesses with potential new owners by matching aging company owners who need successors with qualified minority and female entrepreneurs as buyers. This concept was labeled the “Minority Leveraged Buyout” or “MLBO” program.

In addition, this update fills-in gaps in the previous study such as inadequate labor statistics on the precise percentage of manufacturing workers employed by family-owned businesses. It also includes an analysis of the range of possible economic impacts attributable to this population of manufacturing firms to determine their contribution to the regional economy. This includes an economic impact analysis focuses on direct, indirect, and induced effects. The multipliers used in the analysis will estimate three components of total change within Chicago and its Collar Counties:

- *Direct effects* represent the initial change in the industry in question.
- *Indirect effects* are changes in inter-industry transactions as supplying industries respond to increased demands from the directly affected industries.
- *Induced effects* reflect changes in local spending that result from income changes in the directly and indirectly affected industry sectors.

Results

The study sample was a list of 363 businesses in Chicago and its collar counties obtained from Dun & Bradstreet on manufacturing firms in Cook and the collar counties.

The total number of completed interviews was 89, with 69 by phone and 20 returned by mail. The overall response rate for this study was **28.0**%. and the refusal rate 25.7%;

[6] Howorth, C., Westhead, P., & Wright, M. (2004). Buyouts, information asymmetry and the family management dyad. *Journal of Business Venturing, 19*(4), 509-534.
[7] Klöckner, O. (2009). *Buy-outs in Family Businesses: Changes in Corporate Governance, Instruments of Managerial Control, and Financial Practices*, Wiesbaden: Gabler.

Of all the respondents, the largest groups of manufacturers were in the NAICS categories of Fabricated Metal Product Manufacturing (26 respondents), Machinery Manufacturing (13), Food Manufacturing (9), Printing and Related Support Activities (8), and Miscellaneous Manufacturing (9).

The majority of firms that responded to the survey were located in Cook County (44) with Du Page (18) and McHenry (10) being the next two highest counties in terms of respondents. Lake (7) Kane (6) and Will (4) had less respondents, this is in line with the location of all family-owned manufacturers.

Most firms (37) had between 20 to 49 employees, with companies between 50 to 99 employees being the next largest group (21) surveyed. Interestingly, by the time they were surveyed, several of the firms had employment numbers that had changed from those previously recorded Dun & Bradstreet database. One company has grown to 450 employees, while 19 firms had downsized to under 20 employees.

The majority of firms surveyed are between 21-30 (17), 31-40 (18) and 41-50 (19) years old. Notably, over the age of 51 years the number of family-owned firms is substantially lower and there is an even lower number of younger firms between 1-20 years old. Nine firms that responded to the survey were over the age of 101.

73% of survey respondents indicated that they were over the age of 55 years old, indicating a high likelihood of retirement in the next few decades. However, 48.3% indicated that they plan to retire more than 5 years from now. 19.1% plan to retire in 3 to 5 years, and 12.4% plan to retire in 13 months to 2 years from now.

Of the family-owned firms surveyed, 86.5% of them had one or more family members working for the company. 38 firms had one or more sons working for the company, 23 firms had one or more daughters, and 19 firms had the owner's spouse working for the company. 22 companies had one or more brothers of the owner working for the company, 10 had one or more sisters, and 12 companies had one or more in-law(s) working for the company.

Of the respondents, 48.3% of firms have made plans for succession while 50.6% have not yet made plans for succession. 61.8% of firms surveyed had no successor indicated. Of those that did have a successor chosen, 6.7% chose a family member currently working in the company, 12.4% chose a family member from outside of the company, 7.9% chose a family member but didn't not indicate whether they work for the company or not, 6.7% chose a non-related successor from within the company, one firm had chosen a non-related successor from outside of the company, and the remaining firms indicated they had other succession plans such as selling the company or transferring ownership to another entity.

31.5% of firms surveyed had a successor chosen under the age of 55 years old. 4.5% had a chosen successor that was 55 years or older. 64% of firms either had no chosen successor or did not share the successors age.

Preliminary Comparative Analysis

These findings support one of the central working assumptions of the previous study and a major rational of the MLBO concept: that most family business owners look first within their families for successors, then within their management ranks. In what follows, results from the previous study are compared to analysis from this update.

Employment Size Distribution

In the previous study 59% of the firms surveyed had between 20 and 49 employees. In this updated study 41.6% of the firms surveyed have between 20 and 49 employees. 18% of the firms had 100 or more employees while in the updated study it is 13.5%.

Age of Firm Distribution

In the previous study fully 53.7% of the firms are 30 years old or less. In this updated study it is 30%. 20.8% are between 31 and 40 years of age while in the updated study it is 20.2%. 25.5% are 41 years old or older while in the updated study it is 52.8%.

Chosen Family Successor

In the previous study fully 38% of all those owners failed to identify a chosen successor. In this updated study it is 61.8% %.

Non-Family Successors

[FORTH COMING]

Introduction

Family-owned businesses play a significant role in public and policy debates of employment growth and economic prosperity. They make a significant contribution to economic development and employment generation to local communities and national economies.[8] Around 14.4 million of the 15 million businesses in the United States are family-controlled.[9] In addition, family-owned enterprises account for a majority of the jobs and about 40 percent of the gross national product of the U.S.[10] Therefore, maintaining successful family-owned businesses "in the community minimizes disruption of jobs, business relationships, and local pride."[11] This necessitates a public policy focus on family-owned enterprises and the issue of business succession.

There is an implicit assumption that most family businesses want to carry the business into the next generation. Irrespective of geography or culture most businesses are managed by their founders, or their families and heirs.[12] This unity of ownership and management in the hands of the family is what gives family businesses one of its distinctive characteristics. The majority of family business owners would like to see their business transferred to the next generation.[13] For most businesses, the link between their continuity and the life of their owners is self-evident.[14] Herein lies the tension inherent to most if not all family-owned businesses: their character as family businesses is irrevocably "tied to inter-generational succession of family members as owners, managers and in other roles in the company."[15]

The mortality of family owned businesses due to closure is often attributed in the business and management literature to the lack of succession planning and adequate preparation of a successor.[16] Therefore, succession is seen to present a serious and

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[8] Smallbone, D. and Wyer, P. (2000), "Growth and development in the small firm", in Carter, S. and Jones-Evans, D. (Eds), Enterprise and Small Business, Pearson Education, Financial Times Prentice-Hall, Harlow, pp. 579-594.

[9] It should be noted however that while family ownership of privately held firms is nearly universal, it is also dominant among publicly traded firms (see Burkart, M., Panunzi, F., & Shleifer, A. (2003). Family Firms. *The Journal of Finance, 58*(5), 2167-2201, p. 2167).

[10] Beckhard, R., & Gibb Dyer, W. (1983). Managing continuity in the family-owned business. *Organizational Dynamics, 12*(1), 5-12, p. 5.

[11] Kenyon-Rouvinez, D. and Ward, J. L. (2005). *Family Business: Key Issues*, Basingstoke, Hampshire and New York, N.Y.: Palgrave Macmillan, pp. 1-2.

[12] Burkart, M., Panunzi, F., & Shleifer, A. (2003). Family Firms. *The Journal of Finance, 58*(5), 2167-2201; Bennedsen, M., Nielsen, K. M., Perez-Gonzalez, F., & Wolfenzon, D. (2007). Inside the Family Firm: The Role of Families in Succession Decisions and Performance. *The Quarterly Journal of Economics, 122*(2), 647-691.

[13] Walsh, Grant (2011). Family Business Succession: Managing the All-Important Family Component, KPMG Enterprise, p. 2.

[14] Sam, M. A. (2003). When Founding Entrepreneurs Leave: The Problem of Succession in Small Firms in Nigeria, 1971-1980. *The Journal of Modern African Studies, 41*(3), 371-393.

[15] Ibid., pp. 371-372.

[16] Trow, D. B. (1961). Executive succession in small companies, *Administrative Science Quarterly* 6, 228-39; Ward, J. L. (I987). *Keeping the Family Business Healthy: how to plan for continuing growth, profitability and family leadership*. San Francisco, CA: Jossey-Bass.

unique problem for small businesses because they are characterized by the fusion of ownership and control in the owner-entrepreneur/founder.[17] Here, a distinction needs to be made between voluntary succession in which the founder-owner has some control over the succession process either through family succession or sale and succession due to death or serious illness which are beyond the control of the incumbent owner's.[18]

It is often claimed that the failure to plan and manage succession well is the greatest threat to the survival of family business.[19] Therefore, business successions play a vital role in promoting economic stability and growth by reducing the obvious threats to local economies brought about by business closures, even if closure is a probable exit strategy.[20] The lack of succession planning is the major reason for the low survival rates of family firms.[21] Leading to what Danco (1982) calls "corporeuthanasia."[22]

Aging Factory Owners

A significant social and economic challenge facing the United States and other advanced western economies, is the aging of the population. The percentage of the American population 65 years and over is projected to increase 68.67% from 2012 to 2030.[23] This aging of the United States translates into the aging of the first generation of entrepreneurs. This implies that the volume of business transfers is expected to become increasingly significant in the coming years. This will have an impact not only on the ownership of enterprises but also on employment and growth prospects.

The Focus on Inter-Generational Succession

There is an implicit assumption that the life and continuity of a family-owned firm is inextricably linked to inter-generation succession perhaps based on the typical size and ownership structure of such businesses.[24] Hence most definitions of family-owned business reflect a consensus in the field of family business research that succession is the most important issue that most family firms face. Narrowly speaking, succession

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[17] Sam, M. A. (2003). When Founding Entrepreneurs Leave: The Problem of Succession in Small Firms in Nigeria, 1971-1980. *The Journal of Modern African Studies, 41*(3), 371-393, pp. 372-373.

[18] Sharma, P., Chrisman, J.J. & Chua, J.H. (2003a). Predicitors of satisfaction with the succession process in family firms. *Journal of Business Venturing*, Vol. 18, pp. 667-87.

[19] Aronoff, C. E., McClure, S. L. & Ward, J. L. (2011). *Family Business Succession: The Final Test of Greatness*, Basingstoke, Hampshire and New York, N.Y.: Palgrave Macmillan, p. 1.

[20] Ip, B., & Jacobs, G. (2006). Business succession planning: a review of the evidence. *Journal of Small Business and Enterprise Development, 13*(3), 326-350.

[21] Handler, W. C. (1990). Succession in family firms: A mutual role adjustment between entrepreneurs and next-generation family members. *Entrepreneurship Theory and Practice*, 15(1), 37-51; Handler, W. C. (1991). Key intergenerational relationships of next-generation family members in family firms. *Journal of Small Business Management*, 29(3), 21-32.

[22] Danco, L. (1982). *Beyond survival: A business owner's guide for success*. Cleveland, OH: University Press.

[23] Ortman, J. M., Velkoff, V. A. and Hogan, H. An aging nation: the older population in the United States: *population estimates and projections*, *Current Population Reports*, Issued May 2014.

[24] Sam, M. A. (2003). When Founding Entrepreneurs Leave: The Problem of Succession in Small Firms in Nigeria, 1971-1980. *The Journal of Modern African Studies, 41*(3), 371-393, p. 372.

means the transition of family business leadership and ownership from one generation to the next. More broadly, succession involves a wide range of steps designed to maintain the continuity of the business across generations. Clearly, the transfer of leadership from one generation to the next is a unique strategic issue shared by all family firms is succession.[25]

While the retirement of the business owner is one of the main reasons for a family-owned business transfer, there can be other drivers such as the pursuit of other opportunities by the founder, the sale of the business to set up a new enterprise, or unanticipated events. Irrespective of the reason, closure of economically viable SMEs as a result of challenging business transfers can bring about job losses, flow-on effects on local businesses and suppliers, and the loss of specialized knowledge.

To maintain the vitality and performance of local and national economies, change in firm ownership is essential [26] Yet, local economic development policies tend to focus on start-ups and growth rather than on the contribution business transfers could make to promoting business and growth.[27] Drawing on research of firms in the European Union (EU) (Viljamaa, etal., 2015 pp. 5-6), claim that transferred businesses perform better than "start-ups with respect to survival, turnover, profit, innovativeness and employment." [28] They claim further that "approximately 20–25 % of SMEs will find a successor inside the family while almost 40 % of firms are looking for external buyers." For example, Meijaard (2005) claims transferred firms in the Netherlands which remained in business contributed "three times as much to overall employment than the direct employment effects of start-ups." In addition, contingent on the economic environment, survival over a five-year period generally varies between 35-50% for start-ups and 90-96% for transferred firms.[29]

More attention is being paid to the many family-owned firms that need to find new owners when it is not certain that they will be found from within the family.[30]
To maintain employment, protect the value of assets and safeguard continuity in production processes and business relations requires the successful business transfer of viable SMEs at different phases of their life cycle.

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[25] Ibrahim, A. B., Soufani, K., & Lam, J. (2001). A Study of Succession in a Family Firm. *Family Business Review, 14*(3), 245-258, p. 245.
[26] Dyck, B., Mauws, F., Starke, A., & Mischke, G. (2002). Passing the baton: The importance of sequence, timing, technique and communication in executive successions. *Journal of Business Venturing*, 17(2), 143-162.; Van Teeffelen, L. (2012). *Avenues to improve success in SME business transfers: Reflections on theories, research and policies*. Utrecht: Hogeschool Utrecht.
[27] Viljamaa, A., Tall, J., Varamäki, E., Singer, S. and Durst, S. (eds.) 2015. *Business Transfer Ecosystems and Awareness Raising Activities: Situation Analysis of Five European Countries*. Publications of Seinäjoki University of Applied Sciences B. Reports 108.
[28] Van Teeffelen, Ibid.
[29] Geerts, A., Herrings, W., & Peek, M. (2004). *Change of ownership creates new prospects in SME sector*. SME special 2004. Amsterdam: ING.
[30] Grundström, Öberg & Öhrwall Rönnbäck, ibid.

II. Part 1: National Survey of Literature and Practice

Introduction to the MLBO Research Project

The uniqueness of this study lies in its focus on non-intra-family succession of manufacturing firms in the Chicagoland area with the goal of matching aging company owners who need successors with qualified minority and female entrepreneurs as buyers. In the previous study, this concept was labelled the “Minority Leveraged Buyout” or “MLBO” program. The report is informed by a belief that in addition to employee ownership as the desired outcome of non-family succession, it is also presents a substantial opportunity to increase minority entrepreneurship (or traditional entrepreneurship) in the manufacturing sector.

The previous study found that men and women of color accounted for less than one half of one percent of the region's manufacturing employment or sales.

Nationwide, based on 2010 data:

- 16.69% of manufacturing firms were owned by racial and ethnic minorities (Black or African American, American Indian & Alaska Native, Asian, Hispanic or Latino, Native Hawaiian & Other Pacific Islander).
- 3.37% were owned by Black or African American.
- 7.46% were owned by Hispanic or Latino.
- In Illinois, based on 2010 data:
- 0.0% to 1.0% of manufacturing firms were owned by racial and ethnic minorities (Source: Minority Business Development Agency based on U.S. Census Bureau, 2007 Survey of Business Owners, June 2010*).*

Race of Manufacturing Firm Owners in Chicago, 2012	
Race of Owner	**Number of Paid Employees**
White	36471
Black or African American	*500-999
American Indian and Alaskan Native	*20-99
Asian	1346
Asian Indian	268
Chinese	663
Filipino	*20-99
Korean	222
Some other Race	*250-499
*Data suppressed to no disclose individual firm data	

(Source: Economic Census, U.S. Census Bureau).

Ethnicity of Manufacturing Firm Owners in Chicago, 2012	
Ethnicity of Owner	**Number of Paid Employees**
Hispanic	2522

Mexican, Mexican American, Chicano	2378
Puerto Rican	18
Other Hispanic, Latino, or Spanish	*20-99
Non-Hispanic	36518
*Data suppressed to no disclose individual firm data	

(Source: Economic Census, U.S. Census Bureau).

Gender of Manufacturing Firm Owners in Chicago, 2012	
Gender of Owner	**Number of Paid Employees**
Female-owned	4892
Male-owned	31713
Equally male-/female-owned	2515
*Data suppressed to no disclose individual firm data	

(Source: Economic Census, U.S. Census Bureau).

Intervening in the Stream of Family Business

Few family owned firms successfully transfer ownership to the next generation of family members.[31] Besides, the majority of business transfers are actually non-family.[32] Nevertheless, researchers and practitioners have neglected to explore in any meaningful way alternatives to intra-family succession, such as sale to a third party, management buy-out [MBO] or buy-in [MBI], public quotation or liquidation.[33]

Business transfers are essential to the vitality and performance of local and national economies. [34] Yet, local economic development policies tend to focus on start-ups and growth rather than on the contribution business transfers could make to promoting business and growth.[35] Drawing on research of firms in the European Union (EU) (Viljamaa, etal., 2015 pp. 5-6), claim that transferred businesses outperform start-ups with respect to survival, turnover, profit, innovativeness and employment. [36] Survival for five years, depending on the economic climate, generally ranges somewhere between 35–50 % for start-ups, while the figure for transferred firms is 90–96 %. They claim further that approximately 20–25 % of SMEs will find a successor inside the family while almost 40 % of firms are looking for external buyers.

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[31] Lansberg, I. (1999). *Succeeding Generations: Realizing the Dream of Families in Business*. Harvard Business School Press, Boston.

[32] Durst, S. and Katzenschlager, S. (2013-2014). Preparing for internal non-family succession.

[33] Howorth, Westhead & Wright, ibid., p. 511.

[34] Dyck, B., Mauws, F., Starke, A., & Mischke, G. (2002). Passing the baton: The importance of sequence, timing, technique and communication in executive successions. *Journal of Business Venturing*, 17(2), 143-162.; Van Teeffelen, L. (2012). *Avenues to improve success in SME business transfers: Reflections on theories, research and policies*. Utrecht: Hogeschool Utrecht.

[35] Viljamaa, A., Tall, J., Varamäki, E., Singer, S. and Durst, S. (eds.) 2015. *Business Transfer Ecosystems and Awareness Raising Activities: Situation Analysis of Five European Countries*. Publications of Seinäjoki University of Applied Sciences B. Reports 108.

[36] Van Teeffelen, Ibid.

Transferred businesses outperform start-ups with respect to survival, turnover, profit, innovativeness, and employment[37]. Survival for five years, depending on the economic climate, generally ranges somewhere between 35-50% for start-ups, while the figure for transferred firms is 90-96%.[38] For example, Meijaard (2005) claims transferred firms in the Netherlands which continued in business meant three times as much to overall employment than the direct employment effects of start-ups.

In addition to MBOs and MBIs, other types of business transfers apart are: Co-Operatives, provide another form of ownership transfer: benevolent successions/disposals – when the owner gives the business to employees, or sells it to them under favourable conditions.[39] Hence, this study focuses on non-family succession, deviating from current succession research which mainly concentrates on intergenerational succession.

II. Part 1: National Survey of Literature and Practice

This update reviews programs and policies in the four states – New York, Massachusetts, Ohio and Washington that the previous study found had targeted programs that sought to avert plant closings by assisting aging owners with succession planning. This includes Michigan, which at the time had just begun targeted work on succession. In addition, the updated study reviewed the evolution of the non-profit group which worked state-wide in North Carolina and had amassed considerable experience on succession issues. The work of other non-profit groups in Portland, Cleveland, southwestern Connecticut, and Seattle that had performed retention work with aging owner firms, in some cases under contract to local economic development agencies was also reviewed.

Manufacturing Succession: Former/Current Programs Programming at the State Level (Practice Surveys).

New York

The New York Center for Employee Ownership and Participation (highlighted in Midwest Center for Labor Research 1989 report), established in 1984 by Governor Mario Cuomo, appears to have been disbanded.

However, Rutgers University has since established the New Jersey / New York Center for Employee Ownership (NJ/NYCEO). The institute is affiliated with the 501(c)3 National Center for Employee Ownership (NCEO), and brings together scholars, service providers, and volunteer representatives of ESOP companies in the region.

"The objectives of the NJ/NYCEO are as follows:

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37 Van Teeffelen, Ibid.

38 Geerts, A., Herrings, W., & Peek, M. (2004). *Change of ownership creates new prospects in SME sector*. SME special 2004. Amsterdam: ING.

39 Ip and Jacobs, ibid., pp. 328-329.

1. Raise awareness. Promote greater awareness of employee ownership as a form of business succession planning among various stakeholders in New Jersey and New York.
2. Create more employee ownership. Increase the number of new, and percentage ownership of existing employee-owned companies in each state.
3. Improve New Jersey and New York's economy. Strengthen New Jersey and New York's economy by retaining and expanding the local workforce though employee ownership."

In addition to research and outreach, NJ/NYCEO recently hosted their first Employee Ownership Strategies Conference in July 2017. Speakers focused on evidence-based strategies for successful employee ownership, and on methods of using ESOP's as a succession tool.

Massachusetts

The Industrial Cooperative Association (ICA), mentioned in the Midwest Center for Labor Research 1989 report, has been helping develop and grow employee ownership ventures since 1977. ICA's mission is focused on helping individuals and communities root economic livelihood and wealth locally via democratic ownership, in which every worker has a voice in their own economic future. According to their website, they have helped form over thirty worker-owned cooperatives and democratically-owned community ventures; assisted dozens of corporations with the transition to ESOP's or other employee ownership; created and saved over 10,000 jobs in their 38-year history.

Washington

No information was available online for the Washington State Employee Ownership Program (WSEOP), Seattle Workers Center, or CESCO (community development corporation based in Portland, OR), all of which were highlighted in the Midwest Center for Labor Research report.

Washington State is however served by national ESOP Association's Northwest Chapter, which provides education, advocacy and technical assistance to companies desiring to move to or maintain ESOP ownership.

Ohio

The 1989 report mentions Kent State University's Northeast Ohio Employee Ownership Center, which now operates as the Ohio Employee Ownership Center. Since its inception in 1987, the OEOC has provided education and technical assistance to companies considering employee ownership. Additionally, it provides a succession planning toolkit for business owners to explore if they are facing succession and interested in forming an ESOP. The toolkit includes webinars and downloadable resources, among other information.

The Cooperative Work Relations Program (CWRP), also mentioned in the Midwest Center for Labor Research report, appears to have been disbanded, as no information was found online.

North Carolina
The Center for Community Self-Help, mentioned in the 1989 report, still exists today. The Center operates several credit unions, a nonprofit loan fund, and a research and advocacy institute for fair and ethical lending practices. In addition to community development and individual lending and advocacy work, Self-Help has maintained their original focus on supporting employee-owned business models and cooperatives. They recently helped develop food cooperatives in Durham and Greensboro, NC, continuing decades of work focusing on building and maintaining wealth in communities.

Michigan
The Michigan Center for Employee Ownership and Gainsharing, established in 1986 and mentioned in the 1989 report, was disbanded in the early 1990's.

Programming by Nonprofit Groups
Naugatuck Valley Project (NVP), Southern Connecticut
The Naugatuck Valley Project, established in the 1980's to counteract large-scale regional loss of manufacturing jobs, still exists today to provide community- and faith-based economic development services. Their recent initiatives have included job training programs; tax relief for low-income households; brownfields remediation; and housing assistance. NVP was successful in assisting with an employee buyout of the Seymour Specialty Wire Company in the 1980's, but their website does not list any more recent succession planning initiatives.

WECO, Cleveland
WECO appears to still exist and operate in Cleveland, although a website was not available. From other press and local businesses, it appears that WECO now largely focuses on microlending and consumer financial education initiatives. There was no mention of recent succession planning involvement.

Themes from Interviews of Family Business Center Directors
Ten Directors and staff members at Family Business Centers around the United States and Canada were interviewed. Common themes emerged, including:

Objectively Facilitating Difficult Conversations. Many Directors highlighted their skills with objective facilitation of the challenging and complex conversations surrounding ownership transfer and succession planning. This is accomplished through:

- **"Age and Stage"-Focused Programming**, in which different generations of family businesses are separated during forums and events, with facilitators leading conversations unique to the generation's experience. Directors found that this made responses more honest and ownership transitions ultimately more successful, as individuals were able to speak openly and not fear conflict from family members.

- **Best Practices Consulting**, which proves objective expertise on a range of issues facing family businesses (e.g., Creation of Advisory Boards; Governance Structures; Ownership Transitions). This equips family businesses to make more informed decisions on what is best for their *business* without the emotion of what is best for their *family*.
- **Communication and Conflict Resolution**, as facilitators can guide families through difficult decisions by providing an objective "outsider" voice.
- **Understanding that Succession Planning is an Ongoing Process**, in which *initiating* the difficult conversations surrounding succession planning is only the first step.

Family Business Centers Benefit Family Businesses the Most
Nearly all of the Directors agreed that their clients – family businesses attending events – benefit the most from their programming.

- 2 Directors said that the current generation of leadership benefits the most.
- 2 Directors said that the incoming generation benefits the most.
- 4 Directors said both generations benefit.
- 2 Directors mentioned benefits to other employees of the family business who also attend programming with the business owner, as well as those in related industries (e.g., accounting, business law).

Several Directors mentioned the benefit to the larger business community of their region, and to communities that are home to the family businesses they serve. This was particularly true in rural regions, in which family businesses are true cornerstones of communities and account for a large piece of the regional economy (e.g., the western U.S. and Canada).

Examples of Highly Successful Programming
The bulk of the Directors highlighted their robust programming, both overall and as it relates to Succession Planning. Successful Succession Planning programming encompassed:

- Speaker series or semi-annual meetings focused on Succession Planning
- Peer Group discussions
- Self-study materials and continuing education workshops

4 of the Family Business Centers contacted offer **succession planning training specifically oriented towards the Next Generation** of family business ownership. These "institutes" tended to involve:

- Assessments on extent of leadership skills
- Multi-step programs to build foundations for succession planning and successful transitions

- Confidential conversations on the challenges of ownership transfer, held in a supportive environment
- Testimonials from local businesses who have gone through ownership transfer to answer common questions and provide support
- Discussions on ethics, shareholder responsibilities, and governance methods

Robust Participant Base
Family Business Centers contacted had between 40 and 350 member businesses. In terms of event attendance, the number of event attendees was between 200 and 2,000, depending on the Center. The extent of the Center's reach appeared to be based on capacity (see below) as well as on regional location. Participant base appears to be growing with the rise of webinars and online content that can be accessed remotely.

Outreach
Outreach strategies varied, but common successful strategies included:

- Email- and print-based listservs and newsletters
- Face-to-face networking within local business community, and referrals from current members
- Social media presence
- Partnerships with Chambers of Commerce and local business groups
- Print and radio advertisements (This was a common response, indicating the need for several Centers to expand their technological capacity, as noted below)

Need for Technology Upgrades and Expanded Capacity
Several directors expressed the need for expanded technology (and associated funding and staff) to maintain and expand their online presence and digital marketing skills; record and archive in-person training sessions for future use; and offer webinar-based sessions to participants. The common theme was that many Family Business Centers have been functioning for 10-20 years, but due to leadership changes and the overall pace of technology, many are still working with antiquated systems (e.g., paper-based membership lists, outmoded advertising methods) and disseminating information through face-to-face sessions. Directors want to be able to provide content to their audiences digitally, and then hold face-to-face programming to discuss material covered in webinars. Additionally, several mentioned the need to expand their capacity and logistical ability to be able to host larger, more complex sessions reaching a greater audience.

Snapshot of Family Business in the United States

- There are 5.5 million family businesses in the United States.
- Family owned businesses contribute 57% of the GDP and employ 63% of the workforce.
- More than **30%** of all family-owned businesses survive into the **second generation**.

- **12%** will still be viable into the **third generation**, with **3%** of all family businesses operating at the **fourth-generation level and beyond**.

85% of family-owned firms that have identified a successor say it will be a **family member.**[40]

Research Methodology
The same research methodology including survey instrument (updated where necessary) as the previous study was used for this updated study.

The mortality or survival rates of businesses before and during transitions remain largely unknown. In the United States, there are no dedicated public datasets about ownership transfers. The Bureau of Labor Statistics (BLS) provides a data series with quarterly estimates of business births and deaths under its Business Employment Dynamics (BED). It does not provide a count of the creation of a holding for the purpose of buying a target as transfers but as creations from scratch.

III. Part 2: Successorship Survey of Aging Owners
Survey Methodology
The companies were to be grouped into four categories using criteria developed for the previous study. The four groups would be:

Group A = Companies which do not belong to the project universe.
Group B = Companies with principals (e.g., President, CEO) age 55 or over, but with Young Apparent Successors.
Group C = Companies with Principals age 55 or over, with Aging Apparent Successors.
Group D = Companies with Principals age 55 or over, with No Apparent Successor.

Based on this four-category sort, the study, in line with the previous study would attempt to survey 100% of those company principals in Group D (the highest risk category), 50% of those in category C (the next highest risk), and 10% of those in Category B.

However, the datasets obtained from Dun & Bradstreet on manufacturing firms in Cook and the collar counties did not provide the age of firm Principals or any information on successors. This data was collected using the survey.

Data Acquisition
Data was acquired from the company Dun & Bradstreet on manufacturing establishments that were privately-held independent or parent companies with between 20 and 250 employees in Cook County and the Collar Counties (DuPage, Kane, Lake, McHenry, and Will). Public companies or branch plants and companies larger than 250 or smaller than 20 employees were eliminated. This list totaled 3,111 companies. In contrast to the August, 1989 report "Intervening with aging owners to save industrial

[40] Raymond Institute/MassMutual, American Family Business Survey, 2003.

jobs", Dun & Bradstreet no longer tracks the age of owners for companies below 250 employees, therefore to initiate a survey the list of companies was filtered in three ways to reduce the list to the highest priority for surveying.

Primary Data Sorts

The first method used was to filter companies whose owner was also the highest executive officer, indicating strong family-control of the company. These were identified as 1st matches for surveying and consisted of 168 companies.

The second method used was to filter the remaining companies whose owner had a matching surname with the highest executive officer, indicating possible family relations and therefor also a strong family-control of the company. These were identified as 2nd matches for surveying and consisted of 84 companies.

The third method used was to filter the final remaining companies and search for more company information that would indicate strong family-control of a company. These were identified as 3rd matches for surveying and consisted of 113 companies.

The final filtered list of companies for surveying included 365 companies.

Questionnaire Design

In consultation with the University of Illinois at Chicago's Survey Research Lab (SRL), updated the survey instrument to elicit the highest possible rate of response (i.e., a format that would alienate or offend the fewest number of aging principals), and at the same time elicit the greatest possible amount of relevant information on the succession issue (see Appendix X).

Phone Surveying

The screener included an introduction, several questions on the company structure and whether the company representative listed in the sample file was in fact the person is primarily in charge of the business. If not, the interviewers asked to speak to the person in charge. Businesses who were not family-owned or closely-held corporations were dispositioned as ineligible. A copy of the screener is included in Appendix B.

Interviewing was conducted on weekdays during business hours to increase the probability of successful contact with respondents. Interviews averaged 3.4 minutes in length. The average number of contact attempts for completed interviews was 3.8, and for non-completes was 7.3.

Survey Penetration Rates

Table 1 shows the disposition of sample and Table 2 shows the response, cooperation, and refusal rates for the main study sample. **Appendix C** provides a description of disposition codes, while **Appendix D** provides a description of completion rates. Tables 1 and 2 show the disposition of sample and the rates, respectively.

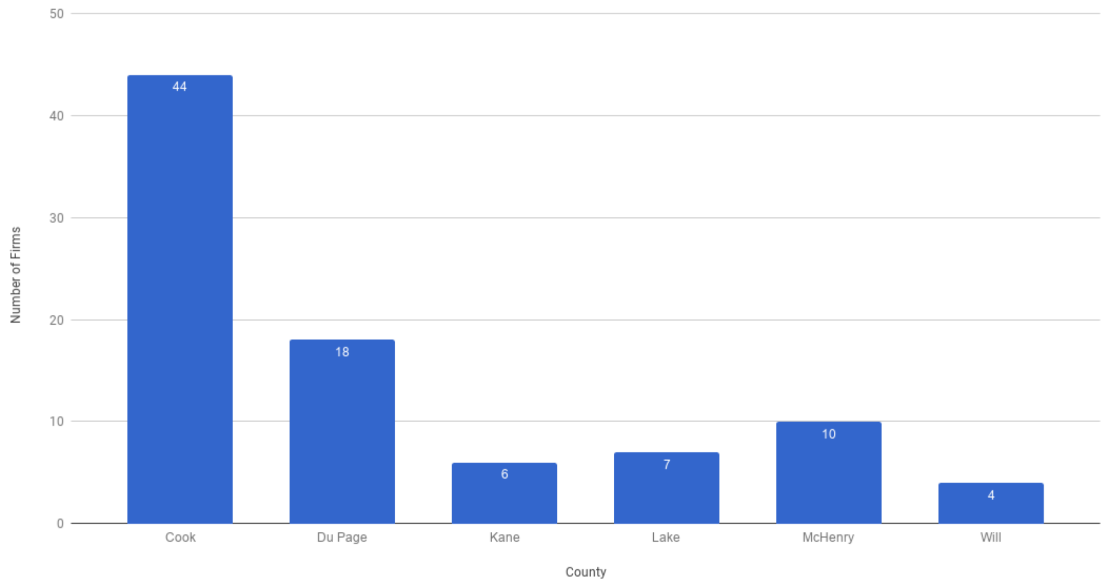
Table 1. Final Disposition of Sample			
Code	**Disposition**	**Number**	**Percent**
(1)	Completed interview - phone	69	19.0%
(2)	Completed interview - Mail	20	5.5%
(30)	No answer/busy	2	0.6%
(31)	Answering machine/answering service	20	5.5%
(32)	Eligible R not available	7	1.9%
(33)	Unscreened R not available	118	32.5%
(40)	Final refusal before screener completed	67	18.5%
(41)	Final refusal interview	23	6.3%
(55)	Not able to interview during survey period	3	0.8%
(56)	Never able to interview	2	0.6%
(57)	Unable to locate	15	4.1%
(70)	Ineligible, not family owned or closely held corporation	13	3.6%
(71)	Ineligible, business closed	2	0.6%
(88)	Ineligible foreign language	1	0.3%
(90)	Other ineligible	1	0.3%
	Total	**363**	**100.0%**

Table 2. Final Sample Numbers and Rates		
	Number	**Rate**
Total sample	363	
Nonduplicates	363	100.0%
Contact to screener	341	93.9%
Cooperation to screener	136	39.9%
Eligible	119	87.5%
Contact to final	112	94.1%
Cooperation to final	89	79.5%
Response rate		**28.0%**
Refusal rate		25.7%
Cooperation rate		52.2%

Preliminary Data Analysis of Family-Owned Manufacturing Firms in Cook and Collar Counties

Number of Employees by Firm

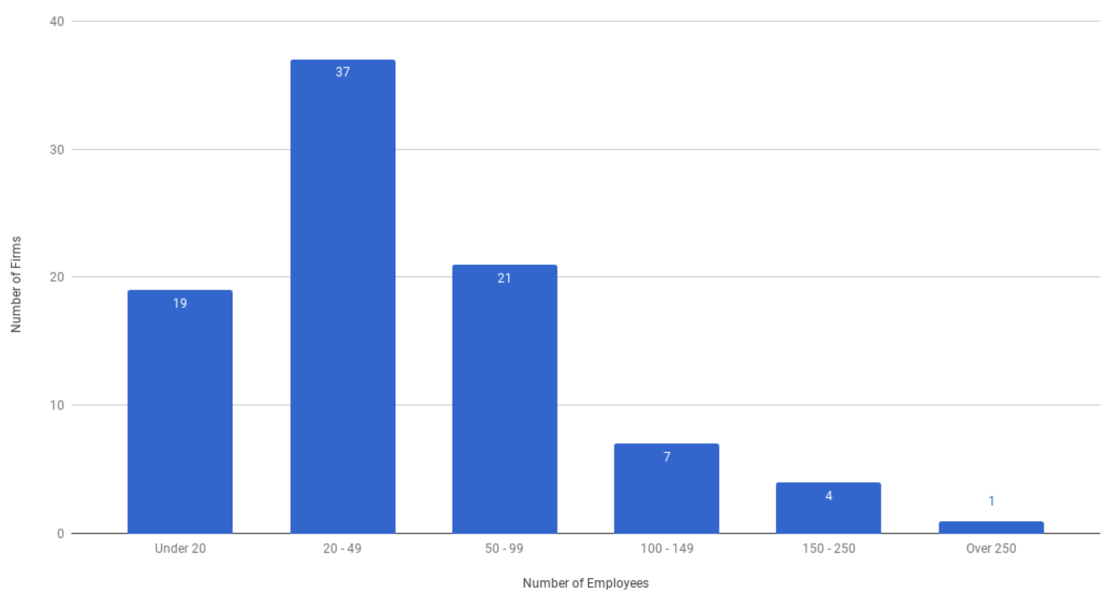
Family-owned Private Manufacturing Companies with between 20 and 250 employees in Cook County and the Collar Counties



Employment Size Distribution

Company Size for Family-owned Private Manufacturing Companies in Cook County and the Collar Counties

* When surveyed, 19 companies had less than 20 employees and one company had over 250 employees. Previous Dun & Bradstreet data indicated these companies had between 20 and 250 employees.



Age of Firm Distribution

Number of Family-Owned Manufacturing Companies with up to 250 Employees by County:

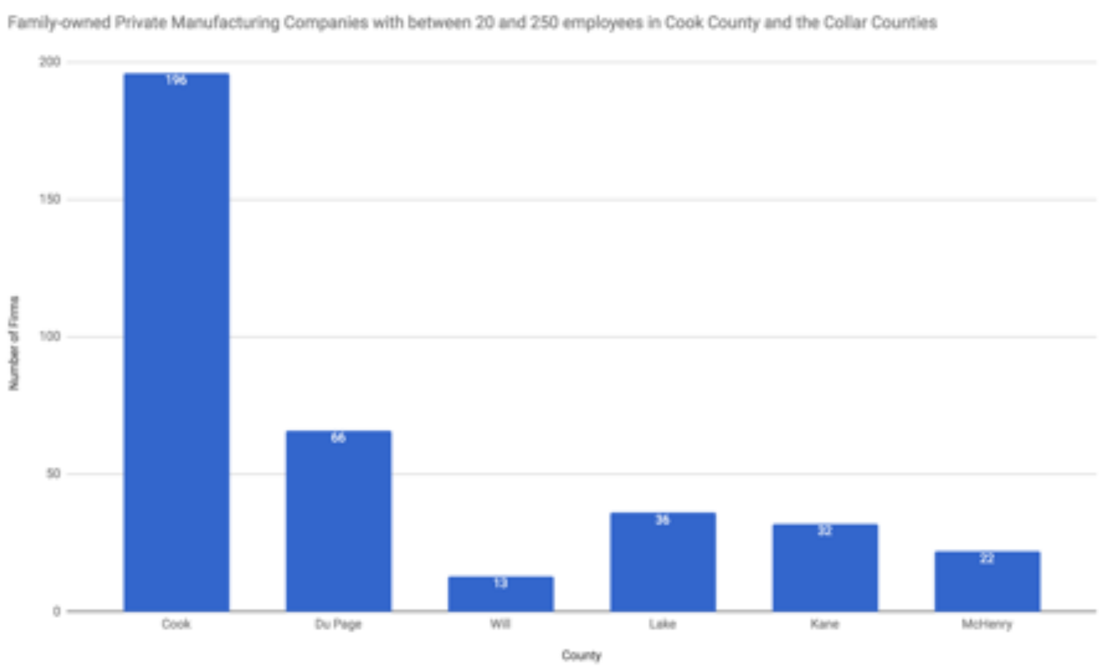
- Cook County: 196
- DuPage County: 66
- Kane County: 32
- Lake County: 36
- McHenry County: 22
- Will County: 13

Number of Employees by Firm by County

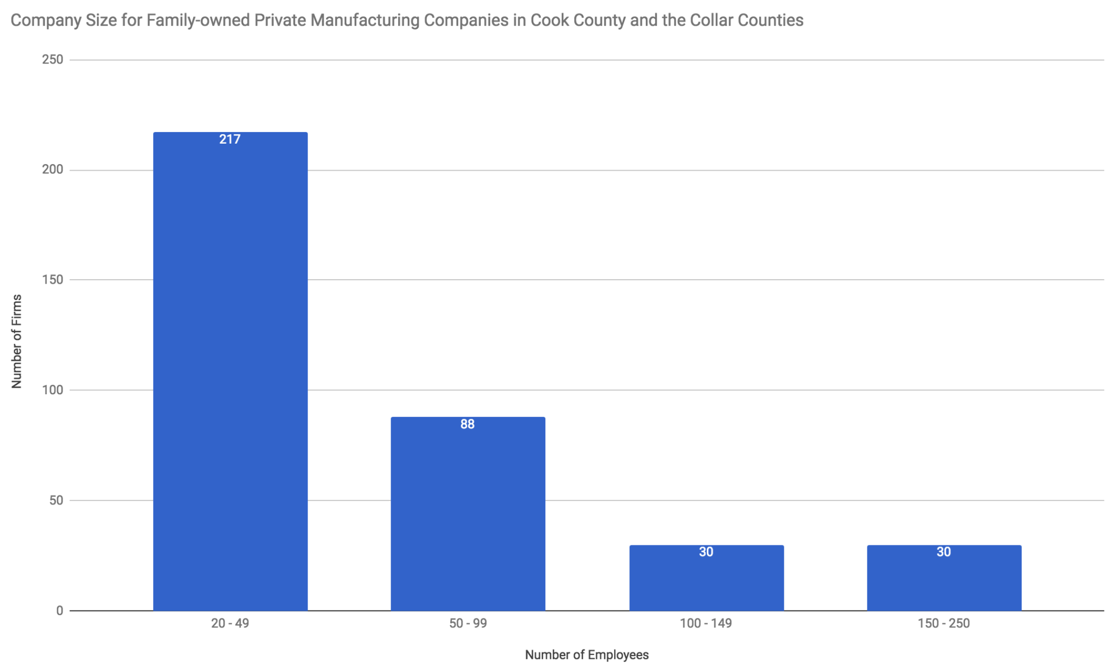
- 20-49: 217
- 50-99: 88
- 100-149: 30

150-250: 30

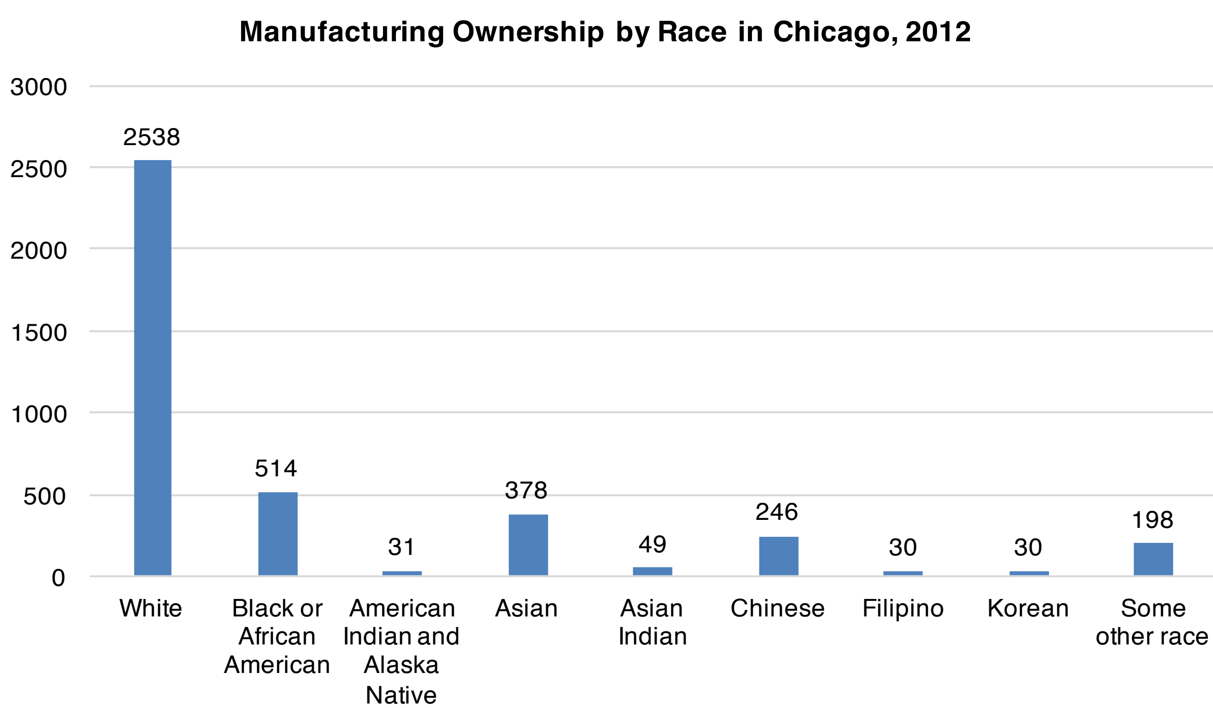
Number of Firms by County



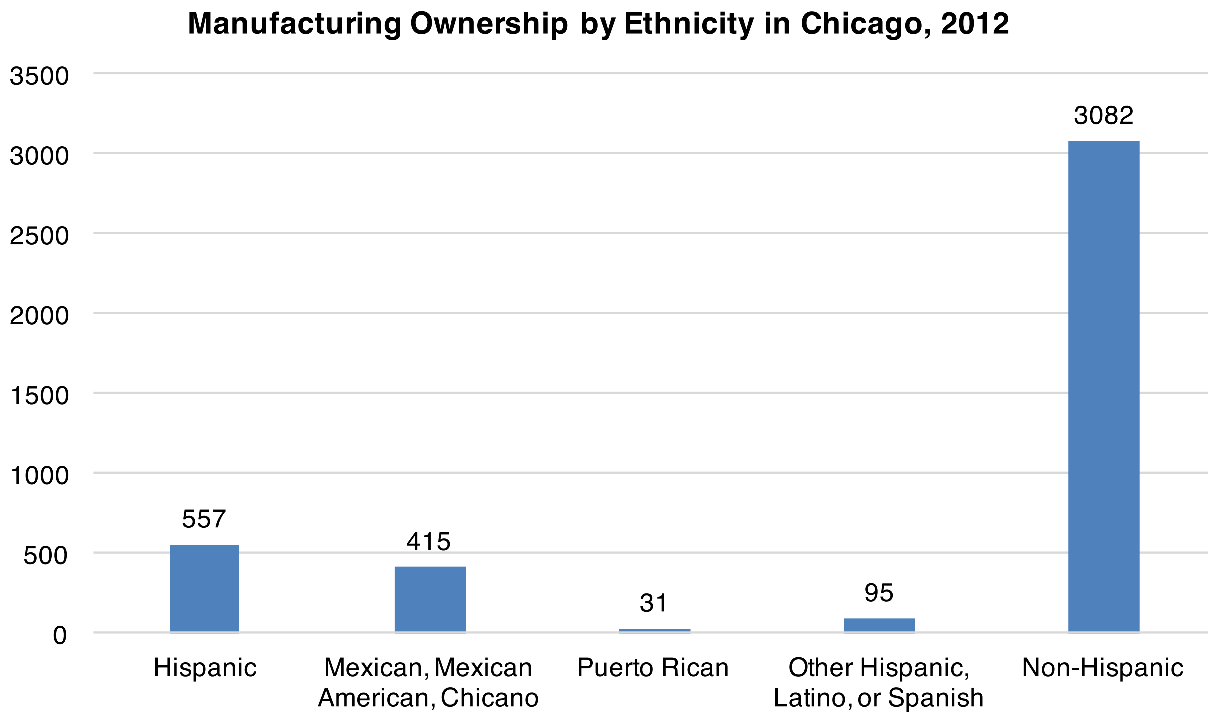
Number of Employees by Firm Size



Manufacturing Firm Ownership, Chicago

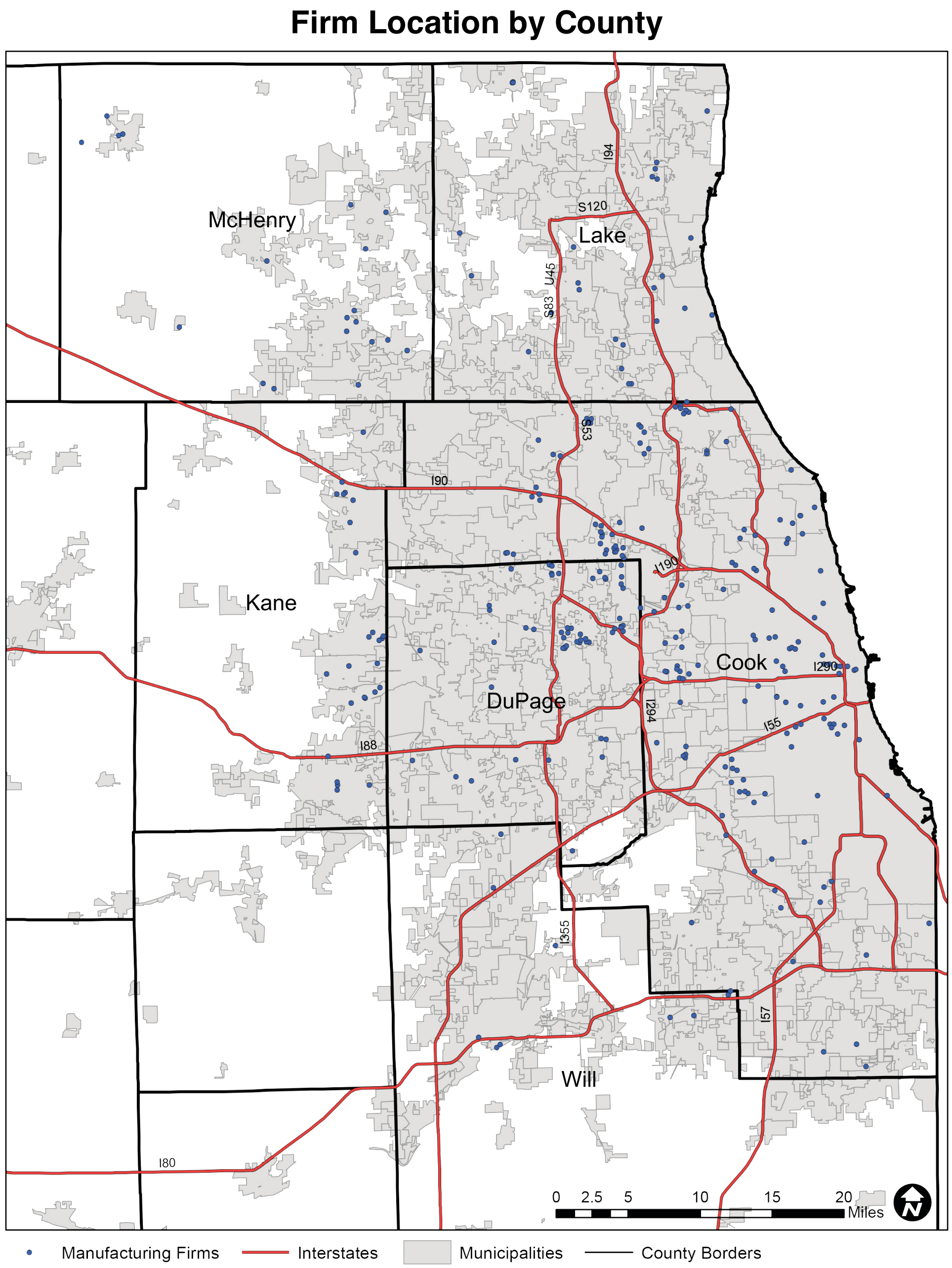


(Source: Economic Census, U.S. Census Bureau).

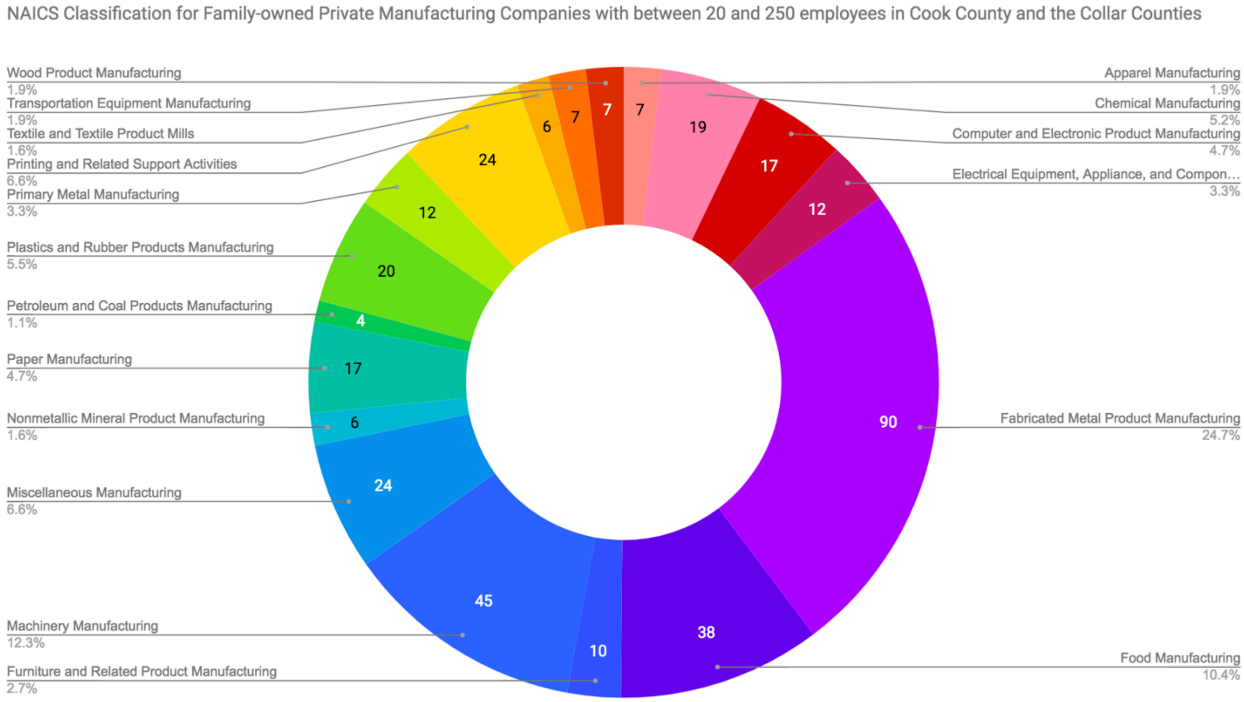


(Source: Economic Census, U.S. Census Bureau).

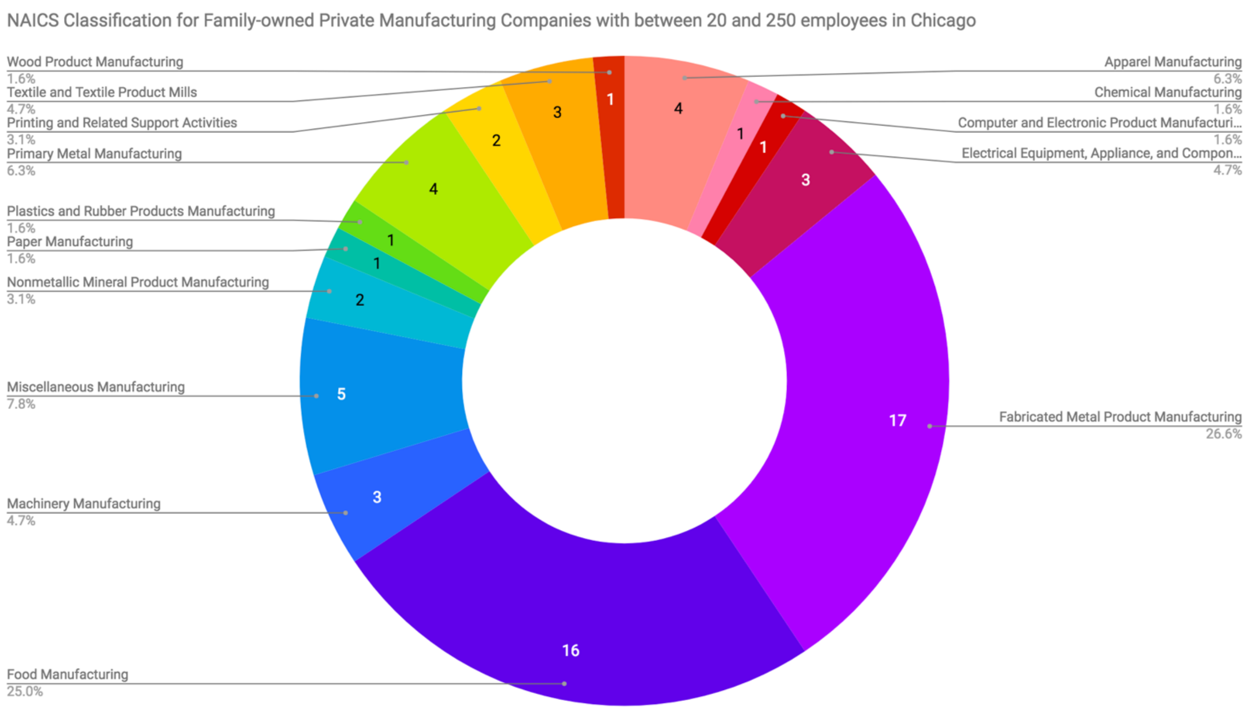
Geographic Concentrations



NAICS Classifications for All Counties

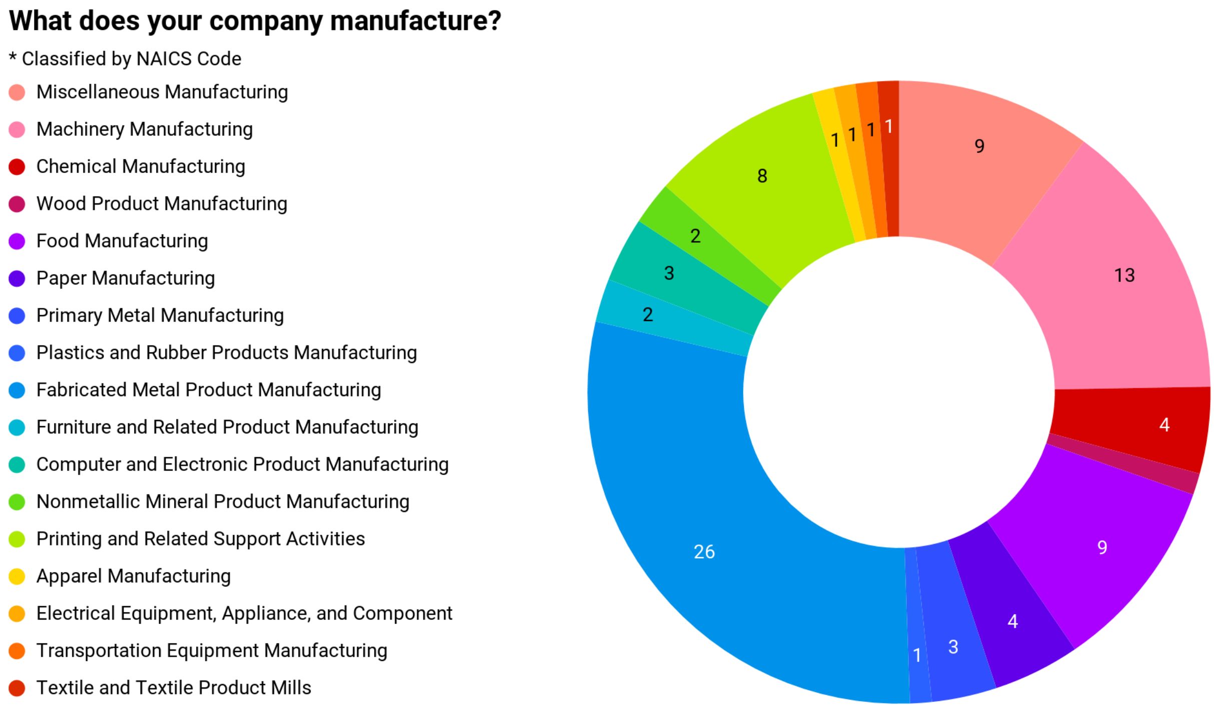


NAICS Classifications for Chicago



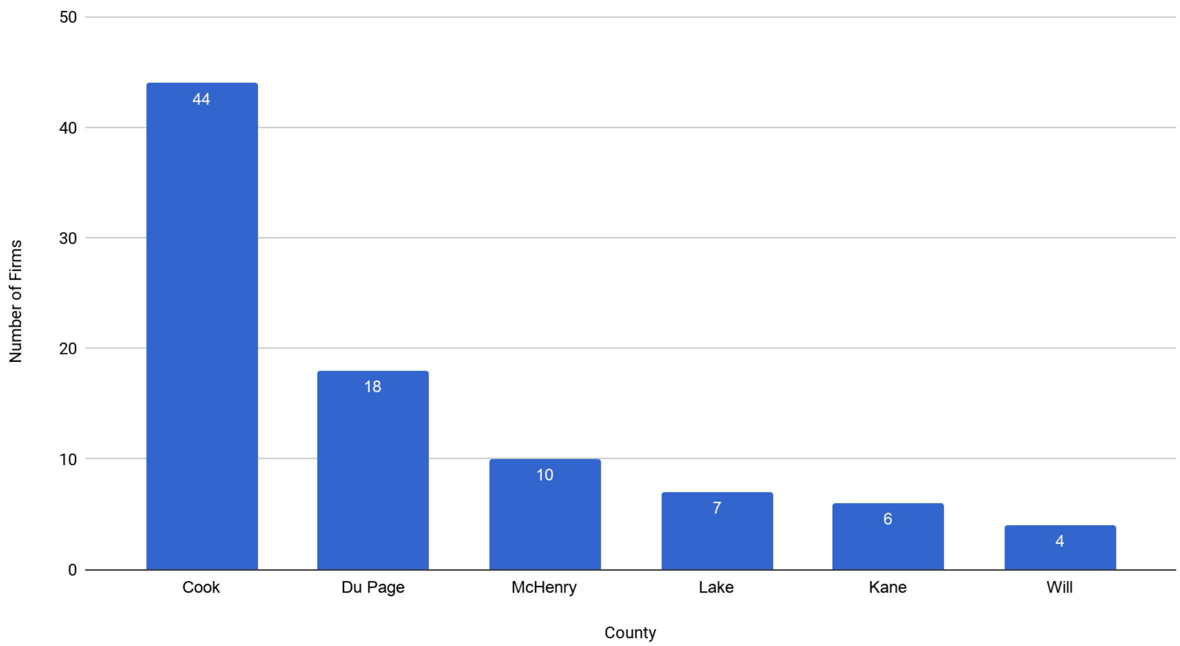
Telephone/Questionnaire Survey Results

Industry Sector Analysis



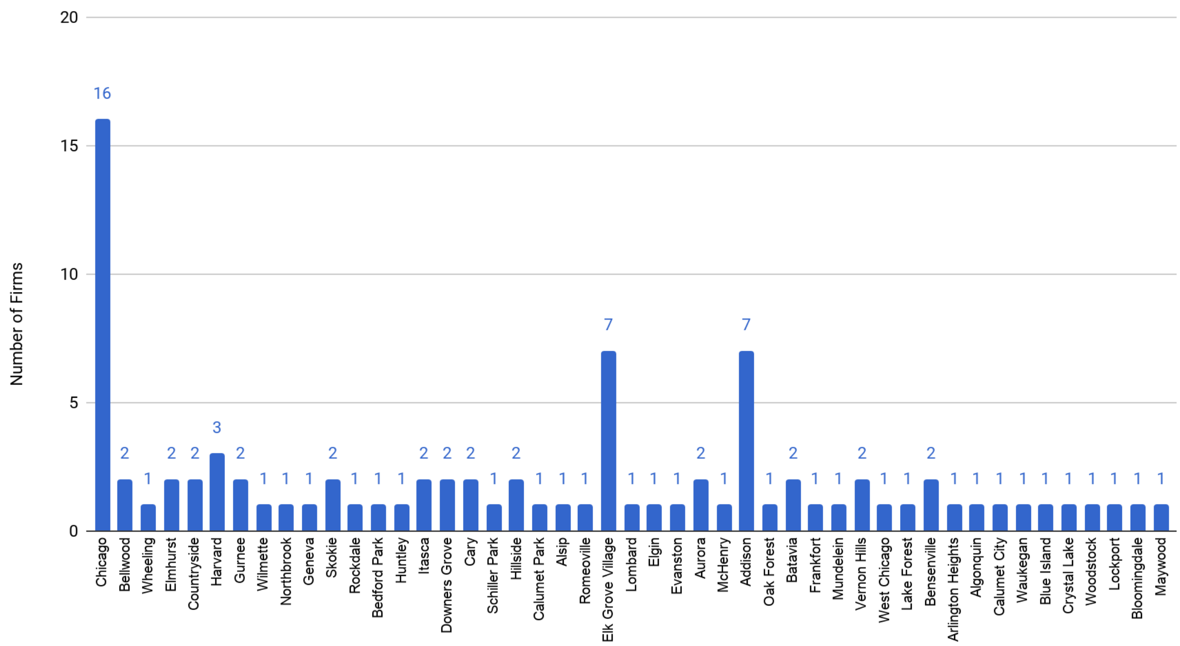
Survey respondents were fairly representative of family-owned manufacturers with between 20 and 250 employees in Cook County and the Collar Counties. The largest groups of manufacturers that responded to the survey were in the NAICS categories of Fabricated Metal Product Manufacturing (26 respondents), Machinery Manufacturing (13), Food Manufacturing (9), Printing and Related Support Activities (8), and Miscellaneous Manufacturing (9).

Location of Firms by County for Survey Respondents



The majority of firms that responded to the survey were located in Cook County (44) with Du Page (18) and McHenry (10) being the next two highest counties in terms of respondents. Lake (7) Kane (6) and Will (4) had less respondents, however this is in line with the geographic distribution of all family-owned manufacturers.

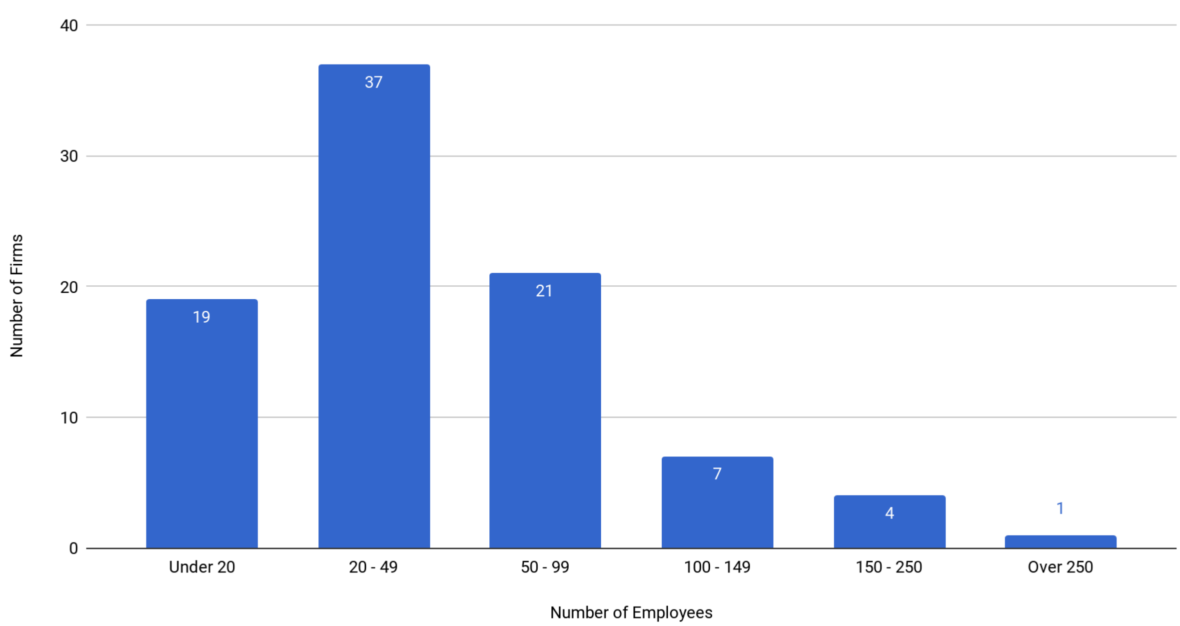
Location of Firms by City for Survey Respondents



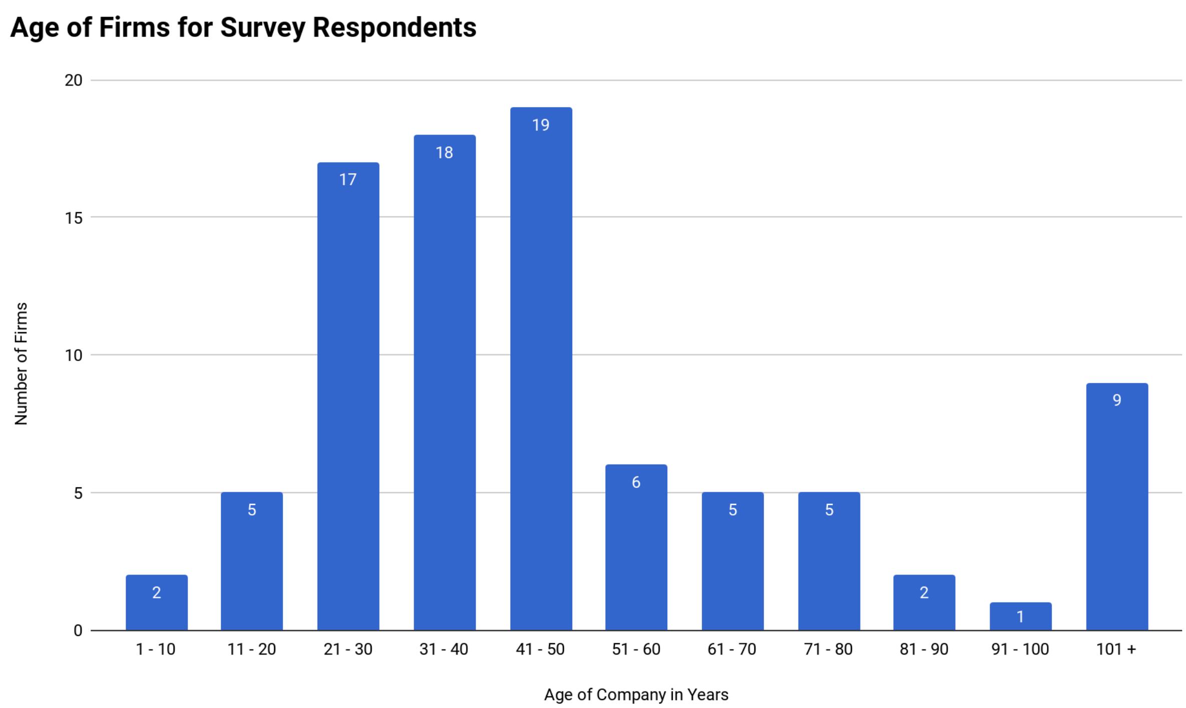
Chicago had the largest share of survey respondents (16), with concentrations in the towns of Elk Grove Village (7) and Addison (7), which was also representative of the locations for all family-owned manufacturers.

Number of Employees by Firm for Survey Respondents

*19 companies had less than 20 employees and one company had over 250 employees. Previous Dun & Bradstreet data indicated these companies had between 20 and 250 employees.

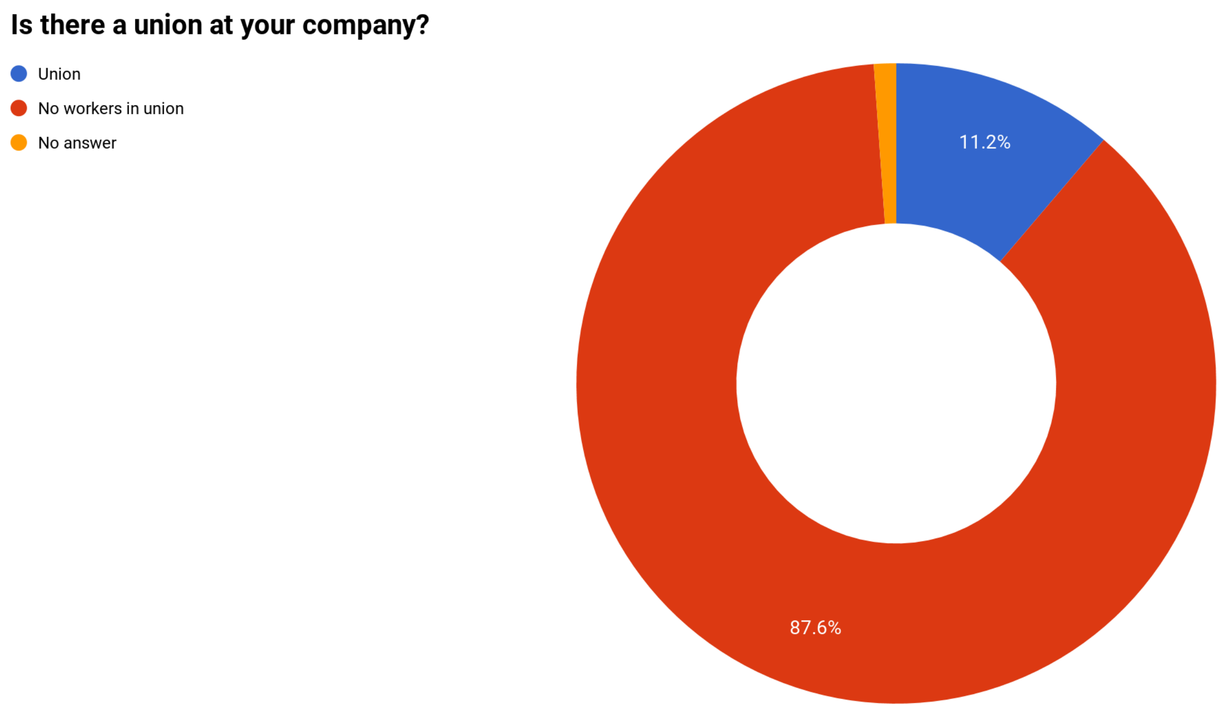


Most firms (37) had between 20 to 49 employees, with companies between 50 to 99 employees being the next largest group (21) surveyed. Interestingly, by the time they were surveyed, several of the firms had employment numbers that had changed from those previously recorded in the Dun & Bradstreet database. One company has grown to 450 employees, while 19 firms had downsized to under 20 employees.

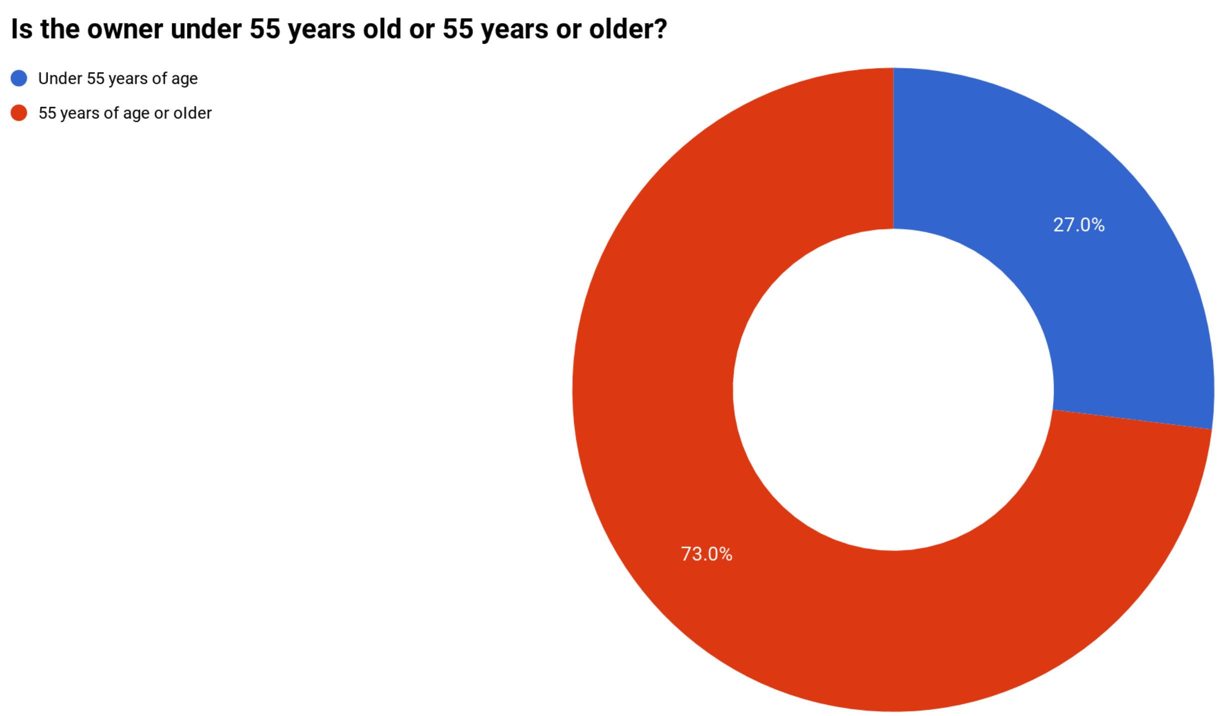


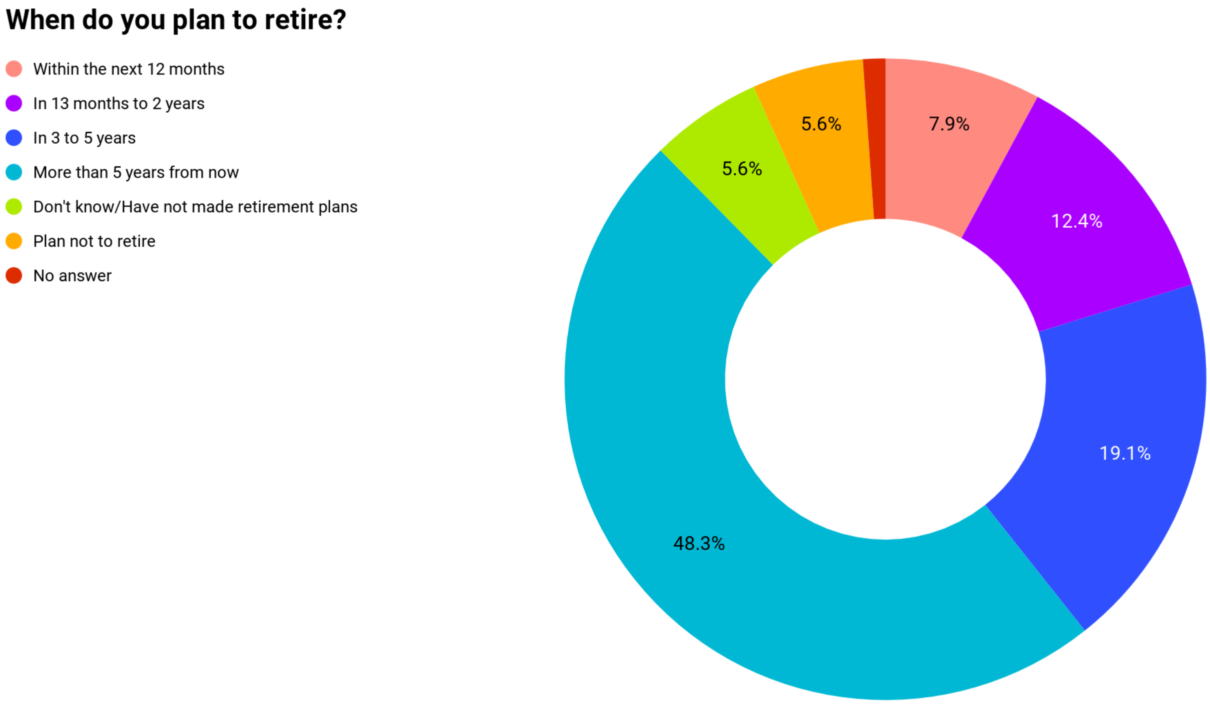
The majority of firms surveyed are between 21-30 (17), 31-40 (18) and 41-50 (19) years old. Notably, over the age of 51 years the number of family-owned firms is substantially lower and there is an even lower number of younger firms between 1-20 years old. Nine firms that responded to the survey were over the age of 101.

Unionization Rates



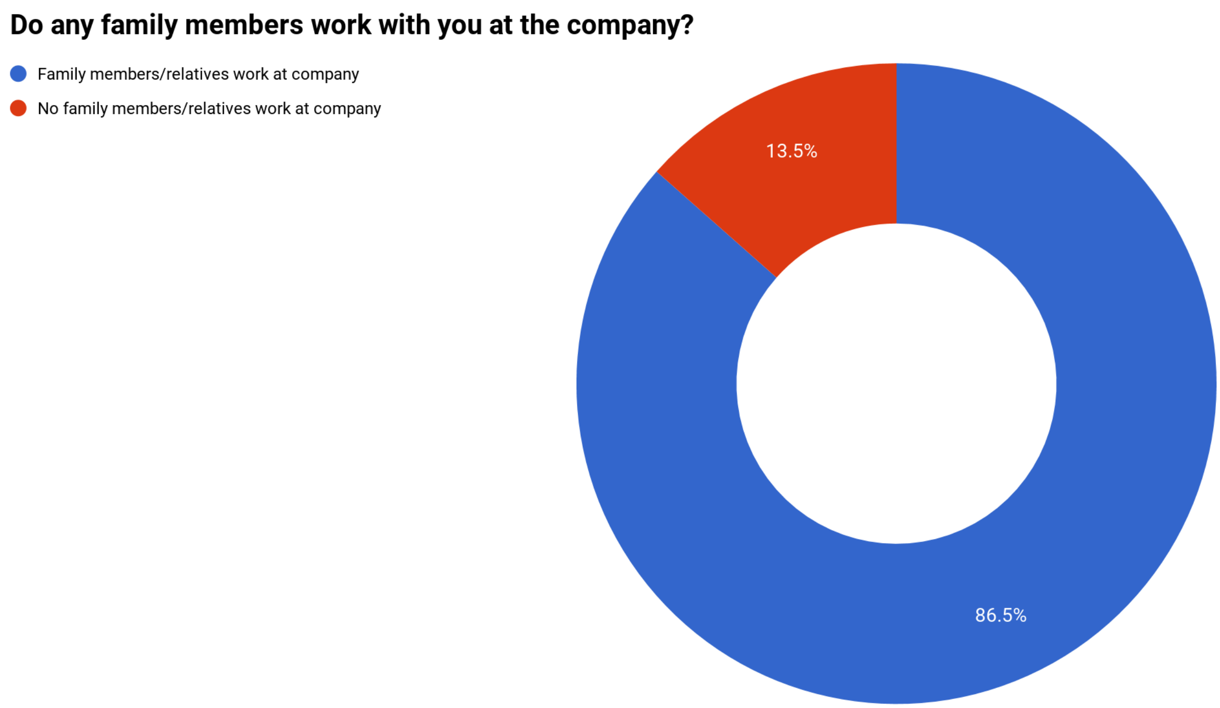
Only 11.2% of the surveyed firms had an employee union at the company.

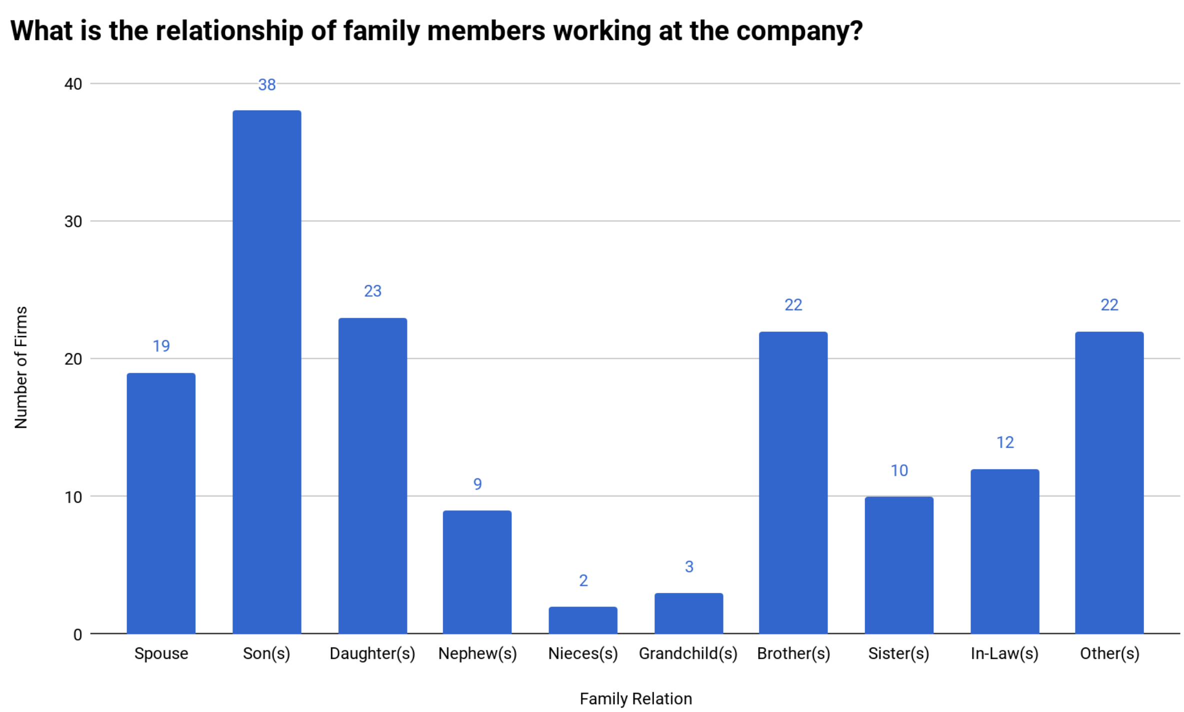




73% of survey respondents indicated that they were over the age of 55 years old, indicating a high likelihood of retirement in the next few decades. However, 48.3% indicated that they plan to retire more than 5 years from now. 19.1% plan to retire in 3 to 5 years, and 12.4% plan to retire in 13 months to 2 years from now.

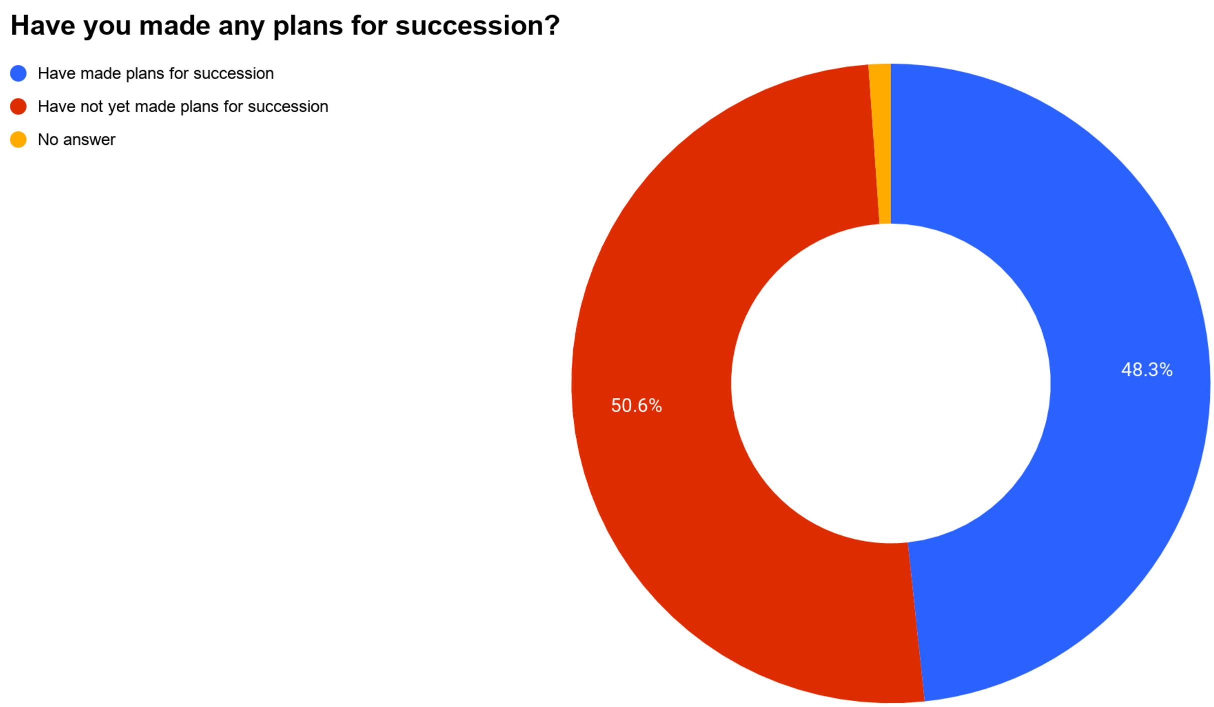
Working Family Members





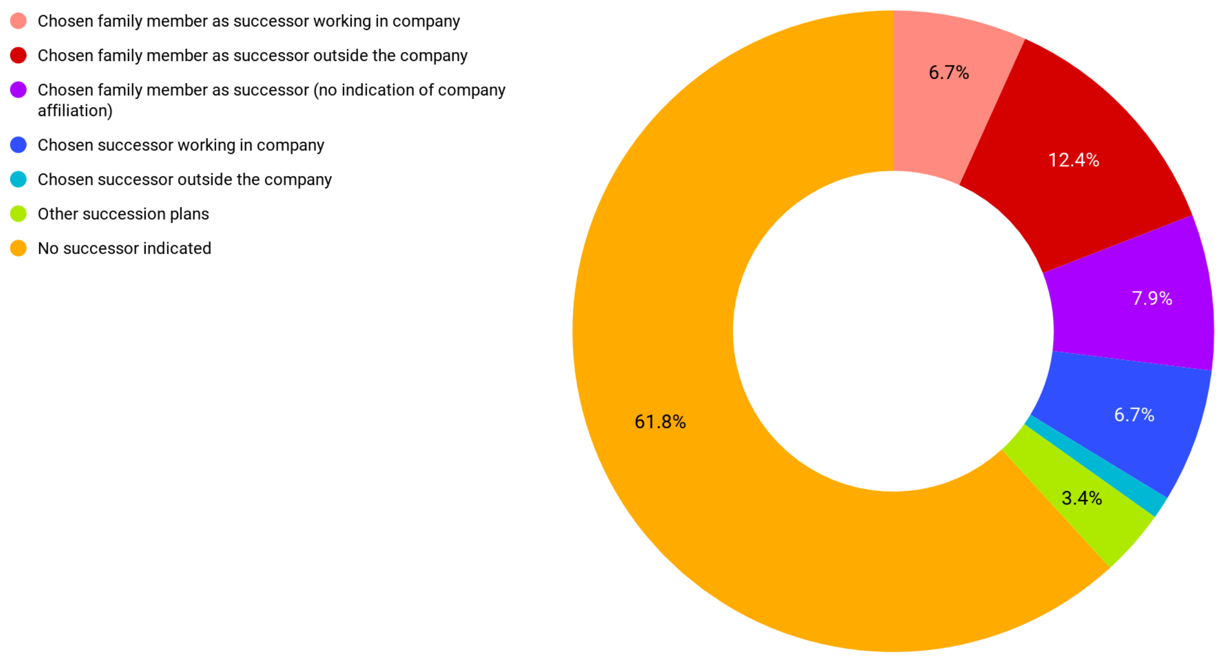
Of the family-owned firms surveyed, 86.5% of them had one or more family members working for the company. 38 firms had one or more sons working for the company, 23 firms had one or more daughters, and 19 firms had the owner's spouse working for the company. 22 companies had one or more brothers of the owner working for the company, 10 had one or more sisters, and 12 companies had one or more in-law working for the company.

Chosen Family Successors

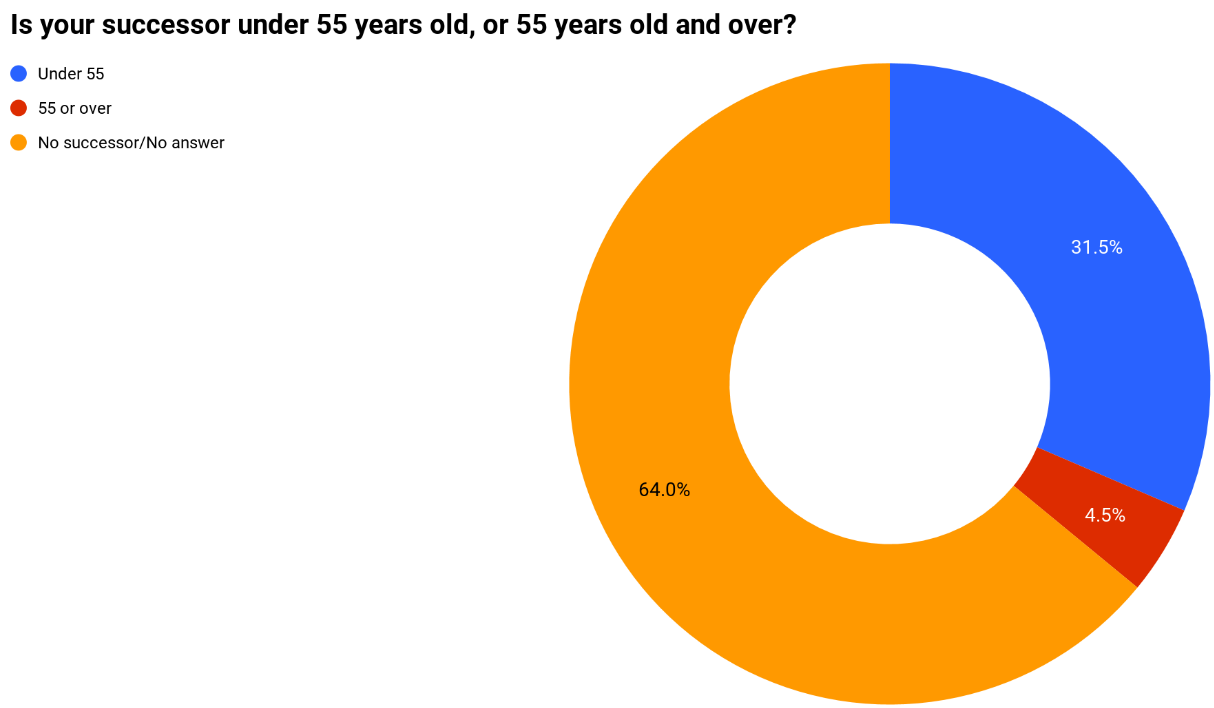


48.3% of firms surveyed have made plans for succession. 50.6% have not yet made plans for succession.

Have you chosen a successor for ownership of the company?



However, 61.8% of firms surveyed had no successor indicated. Of those that did have a successor chosen, 6.7% chose a family member currently working in the company, 12.4% chose a family member from outside of the company, 7.9% chose a family member but didn't not indicate whether they work for the company or not, 6.7% chose a non-related successor from within the company, one firm had chosen a non-related successor from outside of the company, and the remaining firms indicated they had other succession plans such as selling the company or transferring ownership to another entity.



27% of firms surveyed had a successor chosen under the age of 55 years old. One firm had a chosen successor that was 55 years or older. 71.9% of firms either had no chosen successor or did not share the successors age.

Conclusion

As an economic development opportunity, this study focuses on the retention of manufacturing firms owned by family entrepreneurs without capable successors in Chicago and its collar counties (Cook, DuPage, Kane, Lake, McHenry, and Will). This requires addressing gaps in policy and existing technical assistance and other programs designed to avert plant closings by assisting aging owners with succession planning.

This report is informed by a belief that in addition to employee ownership as the desired outcome of non-family succession, it is also presents a substantial opportunity to increase minority entrepreneurship (or traditional entrepreneurship) in the manufacturing sector.

It is hoped that the results of the study will help advance policy aimed at promoting the recruitment and training of minority and female entrepreneurs and firm employees to become buyers for firms needing successors.

There is a need for business transfer services, business transfer promotion including awareness raising and business transfer research, and policies that focus not only on start-ups but also on business transfers in promoting business.

IV. Part 3: Follow-Up Assistance, Pilot Programs

Transferring a business can be a complex task, which demands adequate planning and competencies. The complexity arises from financial institutions, contract arrangements and tax law, the valuation of the enterprise, and the requirement for financial capital.

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