

# **Intervening with aging owners to save industrial jobs:**

**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 to**

**The Strategic Planning Committee**

**of the**

**The Economic Development Commission Foundation of Chicago**

**by the**

**Midwest Center for Labor Research**

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## I. EXECUTIVE SUMMARY

### Preface

This report covers the first phase of a two-phase study to assess the feasibility of retaining manufacturing jobs in Chicago by matching aging company owners who need successors with qualified minority and female entrepreneurs as buyers. This concept has been dubbed the "Minority Leveraged Buyout" or "MLBO" program.

The purpose of this first phase was to determine the scope of the problem and assess the actual successorship plans of the City's small and medium-sized family manufacturers. The study also included a national survey of literature and practice on successorship planning assistance for aging owners, particularly programs funded by state agencies and/or involving non-profit organizations. Finally, a trial workshop was held for owners, based on the other states' models.

This study is driven by the fact that minority workers have suffered disproportionately during Chicago's decade of rapid deindustrialization and that minority owners account for less than one half of one percent of the region's manufacturing employment or sales. The second, final phase of this study will involve the recruitment and training of minority and female entrepreneurs to become buyers for firms needing successors.

### Results

A national survey reveals that work with aging owners is emerging as a major niche of opportunity for industrial job retention. Four states -- New York, Massachusetts, Ohio and Washington -- have targeted programs seeking to avert

plant closings by assisting aging owners with succession planning. A fifth, Michigan, has just begun targeted work on succession. Two of these states' programs are carried out on a contract basis by non-profit organizations; the two others are based in state agencies that work with various non-profits. In addition, one non-profit group which works state-wide in North Carolina has amassed considerable experience on succession issues. Other non-profit groups in Portland OR, Cleveland, southwestern Connecticut, and Seattle have performed retention work with aging owner firms, in some cases under contract to local economic development agencies.

These programs typically involve systematic outreach efforts -- in the form of half-day seminars -- publicized through regional business and labor networks, followed up by company-specific interventions as requested. Some include elaborate groundwork to identify target companies and one was paired with a specific financing program. None of the programs surveyed had performed a succession needs survey as included within this study.

This work in the various states is unusual in many respects: it counters the prevailing ideology among technical assistance providers and academics that only in-family succession is a "successful" outcome; and it confronts a powerful web of psychological denial that causes many aging owners to fail to plan for their succession. It reflects a rational-empirical approach, based on the fact that only 30% of family firms succeed from the founder to the second generation, and that firms with viable successors are worth more to heirs, to the community and to the employees than those lacking successors.

Nearly all of the non-family succession assistance we discovered has employee ownership as the desired outcome, rather than minority entrepreneurship (or traditional entrepreneurship), reflecting the fact that approximately one half

Access to ownership of manufacturing firms is effectively denied many of Chicago's qualified minority entrepreneurs by a constellation of factors, including: exclusion from the "old boys network" of bankers and brokers who assist in the transfer of business ownership; the City's underdeveloped minority banking industry; low minority business formation rates; low business growth rates; and high business failure rates. Minority business enterprises are disproportionately concentrated in the services and retail sectors; only 2.2% of minority firms are in manufacturing, half the rate for non-minority firms (4).

All of these facts suggest two policy imperatives to address the issue of minority involvement in Chicago's manufacturing economy: retention and opportunity. All efforts to retain the City's existing factory jobs will directly benefit minority worker/residents, and substantial opportunity exists for greater minority business ownership in manufacturing. In order to participate democratically in the City's economy as they do in Chicago's political arena, minorities need ways to progress from being victims of plant closings to partners in retaining and renewing the City's good-job factory sector. Hence the Minority Leveraged Buyout Concept.

#### B. AGING FACTORY OWNERS:

##### An Emerging Niche of Opportunity in Economic Development Policy

Wary of or stung by the "Industrial Sweepstakes" mentality of "smoke-stack chasing" which characterized so much state economic development activity through the late 1970s and early 1980s, many states, especially those hardest hit by deindustrialization, have shifted their policy emphasis from attraction to to retention. This shift has been paralleled by the emergence of a growing

number of non-profit, community-based organizations with the newly-defined mission of preserving factory employment, as best exemplified by the 1988 birth of the 20-member national Federation for Industrial Retention and Renewal (FIRR), based in Chicago.

This shift is now being reinforced by the 1988 Economic Dislocation Worker Adjustment Assistance Act (EDWAA, which took effect July 1, 1989) which not only replaces Title III of the Jobs Training and Partnership Act (JTPA), but also mandates a more pro-active posture by the states' Dislocated Worker Units to seek out and identify plants at risk before dislocation occurs. In March and April, 1989, the Midwest Center for Labor Research gave presentations to three regional EDWAA training conferences of the 50 states' Dislocated Worker Unit staffs, sponsored by the U.S. Department of Labor's Employment and Training Administration, in which we stressed the family business with aging owner as one primary area of concern for their EDWAA-mandated economic monitoring.

Generally, then, federal labor policy has formally begun to bridge the traditional gap between employment and training and economic development, as EDWAA mandates that state employment and training agencies enter into areas of analysis and networking formerly reserved by state commerce departments. This shift reflects a "trickling up" of best state practice, as best exemplified by the State of Massachusetts Industrial Services Program.

Among the growing number of plant closings experts emerging within both the economic development and non-profit fields, there has developed a working consensus that some plant closings are preventable, prominent among them being factories that closed because they were owned by a family entrepreneur who lacked a capable successor. A large body of anecdotal evidence has emerged



from interviews with union leaders, local political and development officials and other concerned observers, indicating that a substantial proportion of smaller plant closings were attributable to aging owners who lacked successors.

Inadequate labor statistics do not allow us to state precisely what percentage of manufacturing workers are employed by family-owned businesses. However, 25.1% of of all U.S. manufacturing workers are employed at single-unit establishments of less than 100 employees, nearly all of which can safely be presumed to be family-owned. Of the remaining three-fourths who work for multi-unit companies, an unknown percentage work for family-owned businesses, though it is certainly a minority. (Family control extends to much larger firms, of course; 150 of the Fortune 500 are family-controlled, but firms of that size are less likely to face basic management problems on the departure of a single individual and are not in the scope of this report.) We conclude that at least one third of the U.S. manufacturing workforce is employed at family-owned businesses, which may face successorship problems. (5)

### C. THE "ALL IN THE FAMILY" FIXATION:

#### Addressing Gaps in Existing Technical Assistance

In much the same manner that the romanticized stereotype of the four-member nuclear family has misshapen many public policies towards children and families, the prevailing "all in the family" fixation among business schools and consultants is warping business assistance policy. Despite the fact that only 30% of U.S. family-owned businesses survive the transition from first to second-generation ownership, and only 15% succeed to the third generation, the

predominance of the nation's leading assistance providers continue to work under the assumption that only succession within the founding family is a "successful" outcome for an aging owner. (6)

This ideology has been reinforced by the increase in family-owned start-ups, a spate of new publications such as Inc. magazine, and by the growing number of family business assistance centers operated either as entrepreneurial companies or as appendages of business schools. These publications and centers devote a substantial portion of their energies to educating family entrepreneurs on such issues as conflict resolution, estate planning, and board development as ways to improve the likelihood of in-family succession. Perhaps the best-known book on this "family or fail" approach is Keeping the Family Business Healthy, by Loyola University's Dr. John Ward. A typical family business conference held in May, 1989 at Baylor University focuses specifically on succession, but its workshops cover only the in-family option.

While laudable, these approaches ignore the realities of many family factory owners as revealed both anecdotally and in a small body of scholarship. Many owners simply do not have children or a partner to whom ownership might logically pass. Others who do have children find them unwilling to consider succession: the children have obtained a higher level of education than their fathers and are pursuing professional careers; the family moved from the racially-changing neighborhood where the factory is located to a suburban development and the plant is viewed by the children as an undesirable workplace; or the children consider the manufacturing work "dirty" or beneath them. In one of the few studies on the subject of why companies are not transferred to the founder's children, 72.5% of a sample group of owners told a Baylor University researcher that their children were not interested or had their own careers; another 7.5% said they had no heirs. (5)

The MLBO concept, then, must be properly viewed as a subset of a small but growing school of thought within the family business field which argues that the "all in the family" fixation is grossly inadequate and that alternative outcomes for succession must be identified, analyzed and nurtured.

As we outline below, the burgeoning employee ownership field is dominating new work on non-family succession, because approximately one half of the new-ESOP activity in the U.S. today consists of retiring owners of closely-held corporations selling shares to their employees.

#### D. THE CONSPIRACY OF DENIAL

As outlined in two seminal articles by Prof. Ivan Lansberg, there exists within many business families a quiet but rigid set of values which effectively prevents the aging owner from planning for his succession, whether or not the family includes logical heirs to the business. (8)

For the founder/owners, acknowledging the need for succession planning is to face one's own mortality and to alter one's workday self-identity, two especially difficult tasks for willful, entrepreneurial personalities. Among the children, the subject of succession is complicated by the fact that Western culture dictates a "share and share alike" inheritance plan rather than the "eldest son takes all" or similarly defined custom of other cultures. As well, approaching the father or talking about succession may be deemed to be ghoulish or opportunistic by the children. Wives often double as bookkeepers or office managers and are similarly bound up in the corporate self-identity which would be threatened by talk of retirement. Business associates are often of the same age and face the same denial issues for their

own families. Subordinate managers, who often have an informal relationship with their bosses and enjoy a very personalized system of supervision and benefits, dislike the idea of a more formal relationship they would have with a successor. (In the absence of the founder, functions such as personnel and budgeting will need to be institutionalized, reducing managers' autonomy.) Managers may also have their own family members employed at the firm. Customers, accustomed to getting predictable responses from the founder based on their personal history, do not look forward to succession either.

Leon Danco, another acknowledged succession planning expert and author of the widely-read Beyond Survival, echoes many of Lansberg's concerns. Owner/entrepreneurs, Danco observes, see retirement as "somewhere euthanasia and rejection." They therefore put off planning for succession -- whether management or ownership or both -- for as long as possible, and often never do so at all. Danco's experience as a consultant to entrepreneur/owners leads him to conclude that they are simply fearful of giving up control of their companies -- companies to which they have often devoted 30 years. Based on this fear, they keep the affairs of the business secret, avoid outside review and planning for the longer term, and distrust others, including potential successors whom they perceive as having neither the same experience with or investment in the business as they do. (9)

Because factors such as these stand in the way of entrepreneur/owner planning, the continuity of the family business is often in jeopardy, whether succession would be within the family (the approach Danco prefers) or under the leadership of professional managers. Given the important role family businesses play as sources of employment, they are also factors which make family businesses important targets for an MLBO approach.

## E. INTERVENING IN THE STREAM OF FAMILY BUSINESS TECHNICAL ASSISTANCE:

### One Emerging Approach

Acknowledging the family-bound conspiracy of denial, a small number of family business consultants say that more attention should be paid to "outsiders" who enjoy the confidence of aging owners, specifically those lawyers and accountants whose clienteles are made up largely of family businesses. By educating these assistance providers, the theory goes, the need to plan for a non-family succession can be introduced to the aging owner by a respected source who also has an intimate knowledge of the business through handling of taxes and legal matters.

There is further consensus among those family business consultants that accountants are a better potential source of influence than are lawyers, because accountants are seen on a more regular basis by the owners (at least annually for taxes), because they are more likely to be conscious of the higher price an owner can receive for his business while he is still alive and able to train a successor, and because they are privy to the company's most sensitive financial data, which may reveal that the owner is faltering in his ability to manage the company effectively.

One family business expert has developed a rudimentary "early warning" checklist for accountants to use, with questions such as: Has the owner identified a successor? Does the company have a buy-sell agreement in place? Has the owner executed a will? Does the company have a written (and defensible) 5-year business plan?

As of this writing, this approach is more an idea than a practice; although some attorneys and accountants participate in the outreach activities

described below, we have yet to learn of any systematic program being targeted specifically to accountants or attorneys in how to identify and disarm the denial conspiracy. While the idea has merit, it is much less direct than working with the owners themselves.

We conclude that such an approach is a laudable but long-term educational agenda, best pursued through professional associations of lawyers and accountants, rather than an immediate approach for current practice. We do not recommend it as a high programmatic priority for MLBO in Chicago.

#### F. THE STATE OF AN EMERGING ART:

##### A Survey of Current Practice in Non-Family Succession

As evidenced by the large number of co-sponsors for a June, 1989 conference in Chicago on aging owners (see Appendix), this area is rapidly attracting a large body of skilled practitioners, most of whom are specialists in worker ownership. The actual number of practitioners who have field experience is much smaller, however. While we do not claim that the narrative below is definitive, we believe that it does cover all of the nation's major state-assisted efforts for non-family succession as well as the work of some of the most reputable non-profit organizations in this field.

#### New York

The State of New York's Center for Employee Ownership and Participation (NYCEOP), an agency of the New York State Industrial Cooperation Council, is the nation's largest (nine staff) state agency promoting worker ownership; it is also the most accomplished in the field of promoting non-family succession

among aging owners. The Center estimates that 50% of its work is on successor-related deals.

Devoting 60% of one staff person's time during 1988, the Center conducted ten "marketing" workshops around the State, eight targeted at business audiences and two for labor. Besides using mailing lists produced by the local co-sponsors, the NYCEOP purchased a data base of approximately 7,000 New York firms with principals over 55 years of age from Dun & Bradstreet as its primary mailing list base for the seminars. The workshops were co-sponsored locally by local chambers of commerce, local business publications, and industrial development authorities and conducted either as breakfast or luncheon meetings with a 3-hour duration. Packaged on the agenda with the Center's director were a banker, a lawyer, an ESOP valuator and an executive from a case study providing a testimonial. While these business workshops were open to all local businesses, the majority attending were family-owned.

As follow-up to these conferences, the Center provides free of charge 15 to 20 hours of viability assessment to help the owner decide whether his firm is suitable for sale to its workers. A typical "customer" of the center has \$1 to \$4 million in sales. The NYCEOP is also carrying on an informal educational campaign among lawyers, accountants and chambers of commerce to urge them to advise their clients and constituents about the need for succession planning.

Replacing the aging owner with a minority or female entrepreneur is beyond the purview of the New York Center's mission; a firm must be willing to establish an ESOP with 51% or more employee ownership in order to qualify for assistance. However, the Center's large body of recent experience in reaching out to owners makes it a valuable resource in the non-family succession field.

## Massachusetts

Activity in the State of Massachusetts was spurred especially by a non-profit group based in Somerville, the Industrial Cooperative Association (ICA, an affiliate of the Federation for Industrial Retention and Renewal) the oldest and largest non-profit dedicated to democratic forms of worker ownership in the country. The State's Industrial Services Program (ISP) and the ICA have recently completed a series of three workshops in smaller cities. The workshops, conducted as three-hour breakfast seminars, were co-sponsored by local chambers of commerce and state representatives. Panels included the ICA, a banker, and an attorney, with much time left for questions and answers. Based on these workshops, the ICA developed a new brochure designed specifically for retiring owners (see Appendix) which explains the benefits of selling the business to the workforce. Because the focus of these pilot sessions was employee ownership, the MLBO concept was not tested, however leads resulting from the workshops have proved that the outreach model itself was valid.

## Washington

Impetus for work on aging owners in Washington State came from two highly-publicized plant closings which were the direct result of companies falling into the hands of unqualified heirs. One, the loss of an 84-employee lumber mill in a town of only 600 residents, forced the state to realize that it could have avoided a very painful "mopping up " operation if it had been alert and pro-active at the time the firm's founder needed a capable successor.



The Washington State Employee Ownership Program (WSEOP), a one-staff agency of the State's Department of Community Development, currently has a two-track program in place targeted at aging owners. In cooperation with the Seattle Workers Center (an affiliate of the Federation for Industrial Retention and Renewal), the WSEOP maintains a technical assistance team ready to help owners needing succession assistance. This team includes an accountant, a representative from the Economic Development Council, an attorney, the WSEOP staff, and the Workers Center business analyst.

Their pool of companies is derived from responses to a series of confidential mailed surveys to Seattle-area companies put out by the Workers Center (on the Governor's letterhead, over the signature of the King County executive, under contract to the King County Department of Economic Development) which ask a series of questions (largely based on the Midwest Center for Labor Research's Early Warning Manual Against Plant Closings) aimed at identifying faltering businesses or those who are interested in succession. As companies express an interest, the team is called in to begin an interview/pre-feasibility process, with additional resources as the cases merit.

The WSEOP is also joining the Seattle Workers Center, along with CESCO, a non-profit community development corporation in Portland, Oregon, and the School of Business at Oregon State University to organize a bi-state series of workshops to be held this fall on succession options.

Planning for the conferences as of this writing does not indicate whether non-employee buyout options such as MLBO will be featured, however, those states' minority populations are much smaller than Chicago's, so that policy option appears to be less urgent for them.

## Ohio

The State of Ohio currently supports two non-profit organizations which are doing active successorship work. The Northeast Ohio Employee Ownership Center, a two-staff office within Kent State University's political science department, is approximately 20% funded by Ohio's Department of Development. It sponsors 7 or 8 conferences each year around the state, drawing on chambers of commerce, non-profit community development corporations with industrial missions, regional employer associations, and labor unions for their audiences. The programs are packaged either as part of the local sponsor's regular meeting or as a special luncheon event. Approximately two-thirds of the center's 60 annual inquiries are from potential sellers, including aging owners, and a third from potential buyers, mostly employee groups. The Center refers inquiries to an established network of technical assistance providers and their references. The Center's mission is defined as employee ownership; it has not approached successorship from an MLBO perspective.

The Cooperative Work Relations Program (CWRP, founded as an umbrella regional labor-management cooperation group) in Plains, Ohio is also supported by the Ohio Department of Development to promote worker ownership to aging owners. The CWRP is currently conducting a series of six workshops in its 22-county area of southern Ohio, jointly sponsored by county chambers of commerce and its labor-management cooperation affiliates, promoting worker ownership, especially to retiring owners. The programs usually consist of a 90-minute slide and lecture presentation by the Center's staff, and they are scheduled flexibly according to the normal meeting time of the local labor-management cooperation committee. Based on its experience that aging owners present a much-higher success ratio for company survival than do plant closing crises, the CWRP is currently shifting its emphasis towards aging owner work and away

from plant closing crisis intervention. All of the CWRP's work to date on aging owners has been aimed at worker buyout outcomes, rather than an MBO approach.

### North Carolina

The Center for Community Self-Help (CCSH), a non-profit group which is supported by foundations, churches, private donations and fees for service, works on a state-wide basis. Since 1985, much of the Center's work in promoting employee ownership has involved conversion of family-owned firms. CCSH has three financing affiliates with assets totaling over \$17 million, for employee-owned, minority-owned, and female-owned enterprises as well as for housing and non-profit development activities. CCSH targeted family-owned firms with aging owners that would sell in the \$1 to \$5 million price range.

(10)

The Center's first marketing phase involved extensive outreach to business brokers, regional banks and investment banks, ESOP consultants, state and local economic development agencies, minority ESOPs (i.e., those with less than controlling employee interest) accountants, lawyers, appraisers, and the state's business media. The Center's subsequent experience indicated that banks and professionals (lawyers, accountants, appraisers) were not good sources of information because of their confidentiality requirements with their clients. The state's economic development agency, whose resources are focused heavily upon recruitment rather than retention, and upon assistance to very small firms, was also a poor source. The media coverage was not sufficiently targeted to the audience of aging owners.

The Center's most useful contacts turned out to be its friends and board members; business brokers supplied a larger volume of potential deals, but of very uneven quality. Despite examining more than 50 firms, the Center did not close a deal, primarily because the retiring owners did not have a trained manager within the company's ranks and the Center could not present a qualified manager to the owner. The center concluded that it was unlikely to close a deal unless it could develop a pool of potential managers to present to the owners, who wanted to meet with a manager, not a financier, when they went to sell their business. The Center also decided on a much more direct outreach approach: making cold calls on owners of retirement age, accompanied by a successor/management candidate. This revised strategy resulted in several purchase offers being made over the next year, though none resulted in deals, primarily because owners were demanding highly-inflated prices (due to a spate of North Carolina LBOs which produced a mass of dislocated executives with large severance checks shopping for businesses. The Center found many such executives to be "unfair" bidding competitors, because they were not sizing up deals as a bank would, but were instead "buying a lifestyle," willing to accept very low rates of return for their investment.)

The Center finally did equity financing for a minority ESOP which went 100% employee-owned as its founder planned to retire. The financing subsidiary which CCSH spun off for financing such deals has also financed several small-firm startups. The project resulted in several family-owned firms starting a gradual transition process to majority employee ownership. The outreach also resulted in several other deals below \$500,000 which were not retiring owners, but which were retained with local ownership. The effort also resulted in extensive publicity and education about the retiring owner issue and enabled CCSH to assemble a pool of management expertise for future opportunities.

Given the unusual prevailing market conditions in North Carolina at the time, the Center deems its four-year project a success, both programatically and financially.

### Michigan

Although the State of Michigan has had employee ownership legislation since 1979, it only staffed the effort at the start of 1989. However, the program already has as one of its stated objectives a targeted effort for retiring owners. The Center for Employee Ownership & Gainsharing expects to do outreach through local and regional Business Development/Assistance Centers, local Chambers of Commerce, and trade associations.

### Non-Profit Groups

Various types of not-for-profit organizations, ranging from traditional community development corporations to community/labor projects founded by dislocated workers, have played and continue to play a prominent role in the development of non-family succession policy. Besides the above-mentioned groups (the Seattle Workers Center, the Northeast Ohio Employee Ownership Center, the Center for Community Self-Help, the Cooperative Work Relations program, CESCO, and the Industrial Cooperative Association), two others deserve mention.

The Naugatuck Valley Project (NVP, an affiliate of the Federation for Industrial Retention and Renewal), is a community/labor-based project in Southern Connecticut which promotes employee ownership as an alternative to plant closings. However, the NVP's overriding mission is retention, so it is also interested in assisting transitions of ownership to qualified

entrepreneurs (minority or non-minority). To date, such an opportunity has not presented itself, but NVP has positioned itself to respond to a potential succession problem at a large regional bakery. WECO, a community development corporation located on the West End of Cleveland, has as its primary mission industrial retention and expansion. As part of a 1988 survey to area companies, WECO subtly included several useful questions, such as the owner's age, the likelihood that the company will change ownership, and the likelihood that the company will go out of business. Twenty-two percent of the area's 346 firms responded initially, and 63% of the respondents said they are facing changes in ownership, relocation or closure, enabling WECO to target its resources on those firms.

### III. PART 2: SUCCESSORSHIP SURVEY OF AGING OWNERS

#### A. SURVEY METHODOLOGY

##### Data Acquisition

Two sets of target-company data were acquired from the Dun & Bradstreet company to initiate this survey. The first was a computerized sort of every Duns-listed manufacturing company within the Chicago city limits whose principal was born in the year 1934 or later (i.e., age 55 or older) and whose employment levels were between 20 and 250. This was a broad, low-detail sort which merely began to define the project's universe but did not provide any information on each company beyond rudimentary data such as address, SIC, employment and name of principal.

This first set of companies totaled 786 in number, slightly fewer than the 850 to 900 we had projected, because Dun's attempted, with a considerable degree of success, to eliminate from the sort those plants which were branch plants of larger parents and therefore not family-owned and not of interest to this study. This basic company list is appended to this report as Appendix A.

The second data purchase from Dun & Bradstreet was derived by taking every other company listed in the original sort and purchasing a more detailed report on them, which included an outline of the company's history, a list of its officers with brief biographies including family relations, their years of birth, whether the officer is actively engaged in managing the company, and in some cases general information about the stock ownership of the company (The reports are based on Illinois Secretary of State corporate registration filings, which do not require precise disclosure beyond whether the officers, in general, own all of the stock or not.)

### Preliminary Data Sorts

On the second, more detailed data set, we performed basic statistical sorts, categorizing them by SIC, by ZIP code location, by employment size, and by age of principal. Results of those sorts are included and discussed in the Results narrative. We also scrutinized the company reports and grouped them into four categories, three of which were based upon the apparent risk of closing each company exhibited due to lack of a viable successor. Our criteria for these four groups were as follows:

Group A = Companies which do not belong to the project universe because:

1. they are branch facilities of larger corporations which either:
  - a. employ more than 250
  - b. acquired what was formerly a family-owned business
  - c. are headquartered outside of Chicago
  - d. are not family-owned (or closely-held); or
2. they are not located in Chicago (have moved, or are in Chicago ZIP code but actually are outside city borders); or
3. the principal is under age 55; or
4. the company is not (or is no longer) a manufacturer (e.g., a company that is now only a distributor).

Group B = Companies with principals (e.g., President, CEO) age 55 or over, but with Young Apparent Successors

A young apparent successor in this case is a company officer who is:

1. under age 55; and
2. active in the management of the company; and
3. an owner of some portion of the company's stock; or
4. related to the principal (e.g., son, daughter, etc.).

These criteria would apply to wives, children, partners, or any other officers listed on the company report.



(In some cases, the company report only states that 100% of the stock is owned "by the officers" but does not break out who owns how much. In such cases, our working assumption was that the principal and/or his spouse or other immediate family members own 100% of the stock, and that other, non-family officers own none of the stock. While that is not always true, it is most often true, and therefore formed our working basis for the sort.)

Group C = Companies with Principals age 55 or over, with Aging Apparent Successors

An aging apparent successor in this case is a company officer who is:

1. age 55 or older; and
2. active in the management of the company; and
3. an owner of some portion of the company's stock, or
4. related to the principal.

Group D = Companies with Principals age 55 or over, with No Apparent Successor  
Companies in this category:

1. have no one active in the management of the company who owns some portion of the company's stock or who is an apparent heir to ownership of the principal's shares.

Using these criteria enabled us to remain as gender-blind as possible in our sort. Given the substantial number of female-headed manufacturing firms in the Chicago area (most of them apparently through succession), we felt it was critical to count wives as potential successors if the reports indicated they were engaged in the company's day-to-day activity. So for example, a wife who is over 55 years of age, is an officer of the corporation, and is active with the company, would be counted as an aging successor, whereas a brother who is under 55 years of age, is an officer of the corporation, but who is an accountant by trade and is active instead with an unrelated firm, would not be counted as a potential successor.

In other words, being active with the company was the determining criteria in our initial sort for whether family members were potential successors, not simply whether they were listed as company officers or were apparent heirs.

Based on this four-category sort, we proceeded to 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. In some cases, primarily due to the emergence of family successors who were not evident on the company reports, companies were found to be at lower risk than was apparent from the initial report. Conversely, some companies' apparent successors turned out not to be successors in fact.

#### Questionnaire Design

Based upon our experiences performing telephone surveys of companies on other occasions, and upon our national practice and literature survey, we sought to design a questionnaire which would elicit the highest possible rate of participation (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.

In terms of maximizing participation, we stressed several aspects of the survey. In addition to all the normal assurances about anonymity and the explanation of the City's commissioning of the study, our strategy was to ask as many questions as possible in "generic" ways and therefore make them less personal or potentially invasive-feeling. So, for example, even though we knew the principal's birth year, we asked him or her to categorize their age as either under 55 or 55 or over. When discussing successors themselves, we asked for their relationship to the principal (e.g., son, daughter, etc.) and

their current job title with the company, but we did not ask their name. The question sequencing was designed to ask less-difficult "housekeeping" questions first, in order to allow the interviewer to establish some rapport with the principal before getting to the more-sensitive successorship questions. In our introduction of the survey to the principals, we also stressed that the survey was specifically for family owners and that its purpose was to enable the City to better assist family-owned companies. The survey was designed so that it could be administered in three minutes or less; indeed, in the case of a few principals who expressed impatience, we completed some interviews in well under three minutes. All four project staff participated in the questionnaire design; as well, two outside market research professionals commented on drafts, and small final revisions were made after a total of 15 trial calls were made by three staff to test the form. (Survey form attached in Appendix B)

While the form suggests a scripted interview, staff were permitted to put the three brief narrative sections of the survey into their own words so as to permit a more natural oral style, with the stipulation that the narratives' ideas had to be clearly transmitted.

A somewhat more "user-friendly" version of the questionnaire, containing all of the same questions and in the same sequence, was also prepared for use with principals who declined a phone interview but requested that the survey be mailed to them. (Also attached in Appendix B)

In support of the survey, the Executive Director of the EDCF wrote a "To Whom It May Concern" letter, directed to principals who requested certification about the survey's auspices or confidentiality, which was used with mail packages to principals who declined phone responses. (Attached in Appendix B)

#### 4. Phone Surveying

Principals were telephoned at their worksites, primarily between 9 a.m. and 2 p.m. Callers stated their names and informed the receptionist that they were phoning on behalf of the City of Chicago with a 2 to 3-minute survey for family business owners which was to be answered by the company's owner. If more details were requested, the caller stated that the general subject of the survey was the owner's succession plans. Sometimes, the principals' assistants offered to answer the survey on his behalf; callers politely declined, stressing that the survey should only be answered by the principal himself. Occasionally, incidental information about the company's ownership or succession line came out in the conversations with receptionists, who were sometimes family members themselves.

If the assistant stated that the principal was not available, the caller asked when a better time would be to call back and reach him; the caller left his name and number and a message explaining the survey purpose of the call. If calls on three different days failed to reach the principal, the caller offered to mail the survey; the survey was mailed unless the assistant stated that it would not be answered.

In some cases, assistants stated that the principal was rarely on the property. This was especially common among the oldest principals, many of whom apparently no longer have day-to-day management responsibilities. If such a statement was made and the principal's functional phone number was not forthcoming, the caller offered to mail the survey, asking the assistant to forward the survey to the principal. The survey was mailed unless the assistant stated that it would not be answered.

If the assistant firmly blocked the caller access to the principal, stating that the principal does not, as a matter of policy, respond to phone surveys, or to surveys in general, the caller offered to mail the survey. The survey was mailed unless the assistant stated that it would not be answered.

Mailed surveys were sent with a cover letter from the caller (example attached in Appendix B), a copy of the "To Whom It May Concern" assurance letter from the EDCF Executive Director, and a stamped, MCLR-addressed envelope. If no response by mail was received after 5 to 7 business days, a reminder call was made to encourage the principal to respond.

In a majority of instances, however, the principal accepted the call. When that occurred, the caller initiated the survey, first explaining the survey's purpose and confidentiality, and then starting the opening "housekeeping" questions. If the principal terminated the interview at that time, or at any time short of completion, the caller offered, depending upon the tenor and substance of the denial, to either mail the entire survey to the principal, or to mail the principal a cover letter plus the "To Whom It May Concern" assurance letter from the EDCF Executive Director, with a follow-up call made by the caller seeking to complete the interview after the explanatory letters were received.

Generally, we were persistent with receptionists and other company officers that the interview needed to be conducted with the owner himself, even though the party answering the phone sometimes offered to answer the survey on the owner's behalf, an apparently routine task which some owners have delegated to their subordinates. In a small number of cases where the principal was not available, another family member (such as a wife or child), when told the general nature of the survey, offered to supply the needed information on

behalf of the principal. If the available respondent was a family member and this appeared the only chance we had to get the necessary information (due to three unsuccessful calls or clear "turndown" signals from the available respondent), we conducted the interview with that family member on the principal's behalf.

Interviews were conducted in a crisp manner in order to minimize the inconvenience to the principal. Side discussions of details on individual questions occurred only if the principal initiated them. Principals who completed the survey were thanked heartily for their time and their contribution to the City's survey.

## B. COMPANY DATA ANALYSIS RESULTS

### Preliminary Company Universe

Criteria for inclusion in the preliminary company universe were: manufacturing firms, employment between 20 and 250, located in Chicago, with principal age 55 or over. This list, made up of 786 companies, was, as stated, slightly smaller than the 850 to 900 we had estimated because Dun's partially succeeded in excluding branch plants of larger corporations. The list gave each company's name, address, SIC number, name of principal and phone number.

### Half-List Company Sort

Ordering more complete business reports on every second name on the original 786-company list (minus those we could eliminate by name as corporately-owned branch plants) gave us the subset of the project universe that we studied most intensively: the 385 companies that we sorted into four categories based on their apparent successorship risk, per the above discussion.

Tabulations from the 337-company subset of this list (companies in Categories B, C, and D) confirmed many of our expectations: the majority of the firms are bunched in the smaller employment brackets; geographically, the companies' employment is most heavily concentrated in ZIP codes on the city's Near Northwest, Downtown/Near South, and Southwest sides; by industry they are most heavily represented among the printing and publishing, fabricated metals, food, and non-electrical machinery sectors; and the ages of their principals shows an enormous spread of more than 30 years above age 55.

### Sort By Risk Category

The 385 companies for which individual reports were purchased were sorted by the above-described criteria, including three degrees of successorship risk.

#### SURVEY SAMPLE BY RISK CATEGORY

Category	A	B	C	D	
	Companies Excluded From Study	Young Apparent Successor	Aging Apparent Successor	No Apparent Successor	Totals
Number of companies	48	133	66	138	385
Percent of companies	12.5%	34.5%	17.1%	35.8%	
Number of employees	3,710	8,781	3,643	7,426	23,560
Percent of employees	15.7%	37.3%	15.5%	31.5%	

The total employment for Categories B, C and D is 19,850. Multiplied by two for the whole project universe indicates total employment of 39,700. Fully 17.1% -- or one out of six of the City's factory workers -- are employed at small and medium-sized manufacturing worksites with aging owners. Fully 35.8% of the firms fell into Category D, which is to say they apparently lack anyone who is actively involved in the firm's management and either owns or is in line to own a portion of the company's stock. An additional 17.1% fell into the Aging Successor Category C, that is, they have an apparent successor, but that person is also 55 years of age or older (most often a wife, partner, or brother, but occasionally even a son).

Combining Categories C and D indicates that more than half -- 52.9% -- of the target firms had either no apparent successor or an aging successor and therefore appear to present an opportunity for assistance.



Since the 48 companies in Category A do not properly belong in the study's universe, the remainder of our statistical discussion excludes those firms and focuses exclusively on those 337 companies that were verified (via a reading of the Dun & Bradstreet and/or interview) as in Chicago and family-owned, with principals age 55 or older.

#### Firm Demographic Sorts

Further analysis of companies in Categories B, C and D is summarized in the chart below:

#### COMPANY DEMOGRAPHICS BY CATEGORY

Category	B	C	D
	Young Apparent Successor (N=133)	Aging Apparent Successor (N=66)	No Apparent Successor (N=138)
Average number of employees	66	55	54
Average age of principal	66	67	66
Average age of firm	31	35	28

We developed these statistics to seek to determine if apparent successorship problems are more common among smaller or larger firms, among firms that are older or younger, or among firms that have younger or older principals. While we know of no other directly comparable research, our review of the successorship literature would lead us to believe that larger firms are less

likely to have successorship problems because they necessarily have developed larger management groups, and that older firms more often have already made one successful ownership succession and are therefore statistically more likely to succeed in making another.

The literature did not suggest how the relative age of the principal might reflect upon the successorship risk, nor did we have a working assumption on this. While on its face a very elderly principal would seem to indicate a company whose leader is refusing to delegate or train a successor, anecdotally we knew that many such principals retained their position in title (and/or stock ownership) only and had already passed at least the management reins to a successor or successors.

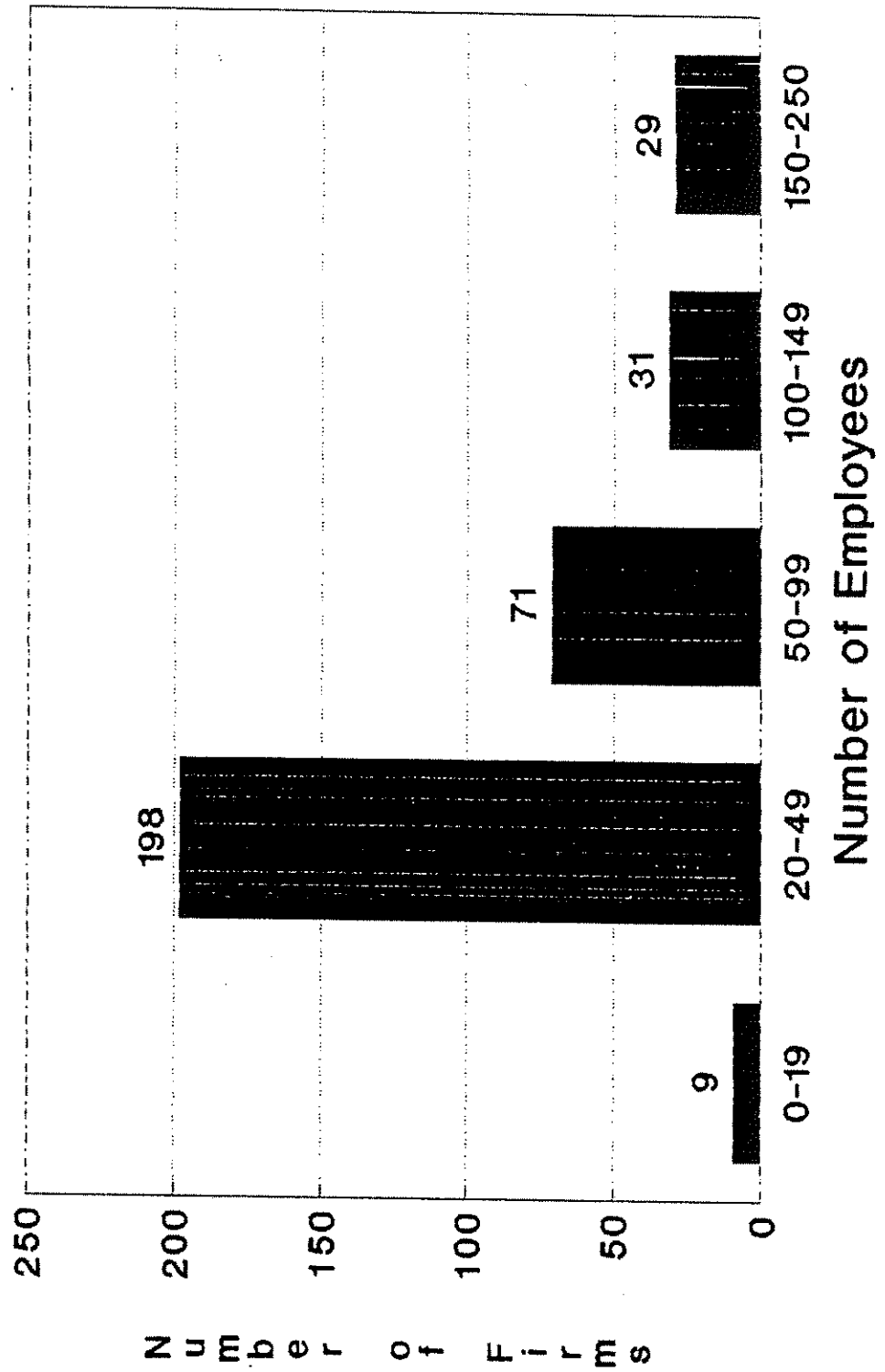
The results tend to confirm our expectations: firms in the higher-risk Category D do tend to be smaller (by 18.2% in average employment) and slightly younger (by 9.7% in age of firm) than firms in the lowest-risk Category B (young apparent successor). Companies in Group C, aging apparent successors, also tend to be smaller than those in category B, and they have the highest average age of all the groups.

#### Employment Size Distribution

The accompanying chart breaks out the companies by total employment. The overwhelming majority -- 59% -- have between 20 and 49 employees. Only 18% of the firms have 100 or more employees. This clearly indicates that the successorship issue is of primary concern among smaller firms. This result is consistent with our expectations and with the City's overall industrial profile.

# COMPANY SIZE

## Half Sample of Family Owned Firms



## Geographic Concentrations

Geographically, the employment of the 337 subject companies shows a concentration of 52.7% in just 12 of City's 39 ZIP codes. The greatest bunching of employment is centered on Chicago's Near Northwest Side, where three contiguous ZIP codes (60622, 60647 and 60639), and two adjoining zones, (60612 on the Near West Side and 60614 in the Lincoln Park area) account for fully 21% of the employment of the companies studied. The second largest cluster is on the City's Southwest Side, where three contiguous ZIP codes (60638, 60632 and 60650) contain 13.6% of the employment base of the studied companies. The other geographic concentration of employment is within two ZIP codes (60607 and 60616) which cover the outer central business district to the west southwest and to the south; they account for 9.6%. The Stockyards ZIP code (60609) accounts for 5.8% of employment. Four of the ZIP codes form a corridor which roughly parallels Archer Avenue from Downtown all the way to the western city limits. The accompanying map indicates these clusters with employment percentages. The three accompanying charts list the results for each ZIP code and detail the concentrations.

Sorting the companies geographically by number of firms (rather than by total employment) yields quite similar results: 11 of the City's 39 ZIP codes are required to reach a 50% concentration total; 6 ZIP codes appear within the top 7 of each list; and 9 ZIP codes appear on both lists. The two ZIP codes which newly appear on the firm-concentration list, (60641 and 60618) adjoin and extend the Near Northwest Side cluster to the north and west.

We conclude from these mappings that in terms of geographic targeting of resources, the City should, through its Local Industrial Retention Initiative/ Delegate Agency system, target future training and outreach efforts on the

subject of aging owners and succession among organizations working on the City's Near Northwest, Southwest, Near South Side/Southwest Central Business District, and Stockyards areas. Collectively, these 14 ZIP codes contain 57.9% of the workers and an identical proportion of the studied firms.

## GEOGRAPHIC CONCENTRATIONS

### By Employment

ZIP	Name	Area	Workers	% Total	Cumulative
60639	Cragin	Northwest	1,392	7.0%	7.0%
60607	Main Post Office	Outer Bus. Ring	1,266	6.4%	13.4%
60638	Clearing	Southwest	1,261	6.4%	19.7%
60609	Stock Yards	South	1,154	5.8%	25.6%
60647	Logan Square	North	1,027	5.2%	30.7%
60632	Elsdon	Southwest	720	3.6%	34.4%
60650	Cicero	Southwest	708	3.6%	37.9%
60616	22nd Street	South	639	3.2%	41.1%
60612	Midwest	West Central	607	3.1%	44.2%
60622	Wicker Park	West Central	571	2.9%	47.1%
60614	Lincoln Park	North	562	2.8%	49.9%
60631	Norwood Park	Northwest	558	2.8%	52.7%

All ZIPs: 19,850

### By Number of Firms

ZIP	Name	Area	Companies	% Total	Cumulative
60607	Main Post Office	Outer Bus. Ring	26	7.7	7.7
60639	Cragin	Northwest	23	6.8	14.5
60647	Logan Square	Northwest	18	5.3	19.8
60609	Stock Yards	South	16	4.7	24.5
60622	Wicker Park	West Central	16	4.7	29.2
60638	Clearing	Southwest	15	4.5	33.7
60650	Cicero	Southwest	14	4.2	37.9
60612	Midwest	West Central	12	3.6	41.5
60618	Kedzie-Grace	Northwest	12	3.6	45.1
60632	Elsdon	Southwest	11	3.3	48.4
60641	Irving Park	Northwest	10	3.0	51.4

All ZIPs: 337



# NUMERICAL LISTING: ZIP CODES

ZIP	Number of Companies	Number of Workers
60601	1	25
60602	1	30
60604	2	41
60605	7	326
60606	5	368
60607	26	1,266
60608	7	530
60609	16	1,154
60610	8	435
60612	12	607
60613	8	255
60614	7	562
60616	8	639
60617	2	135
60618	12	555
60619	4	406
60620	2	95
60621	1	93
60622	16	571
60623	9	556
60624	6	250
60625	3	88
60626	2	94
60627	2	85
60628	1	100
60629	1	47
60630	4	378
60631	7	558
60632	11	720
60634	5	555
60635	2	150
60636	4	112
60637	1	37
60638	15	1,261
60639	23	1,392
60640	6	196
60641	10	477
60643	4	269
60644	5	265
60645	3	209
60646	4	150
60647	18	1,027
60648	5	416
60650	14	708
60651	9	402
60655	1	58
60656	7	523
60657	4	374
60658	4	230
60659	1	35
60660	1	35
<u>Totals</u>	<u>337</u>	<u>19,850</u>

### Industry Sector Analysis

By industry sector, the 337 studied companies show even higher concentration patterns. More than half of the firms' employment is to be found in just four of the 20 manufacturing Standard Industrial Classification (SIC) two-digit groups: 27 (printing & publishing); 34 (fabricated metals); 20 (food); and 35 (non-electrical machinery). An additional four of the two-digit groups yield another quarter of the total employment: 36 (electronic equipment); 30 (rubber & plastic); 23 (apparel); and 33 (primary metals).

Concentration analysis by number of firms (rather than employment) within industries yields very similar results. The same four SIC groups comprise the top four and total more than half of the studied companies. The same additional four industry sectors plus the catch-all category of "miscellaneous manufacturing" make up the bottom half of the list, comprising more than an additional quarter of the firms.

### INDUSTRY SECTOR CONCENTRATIONS

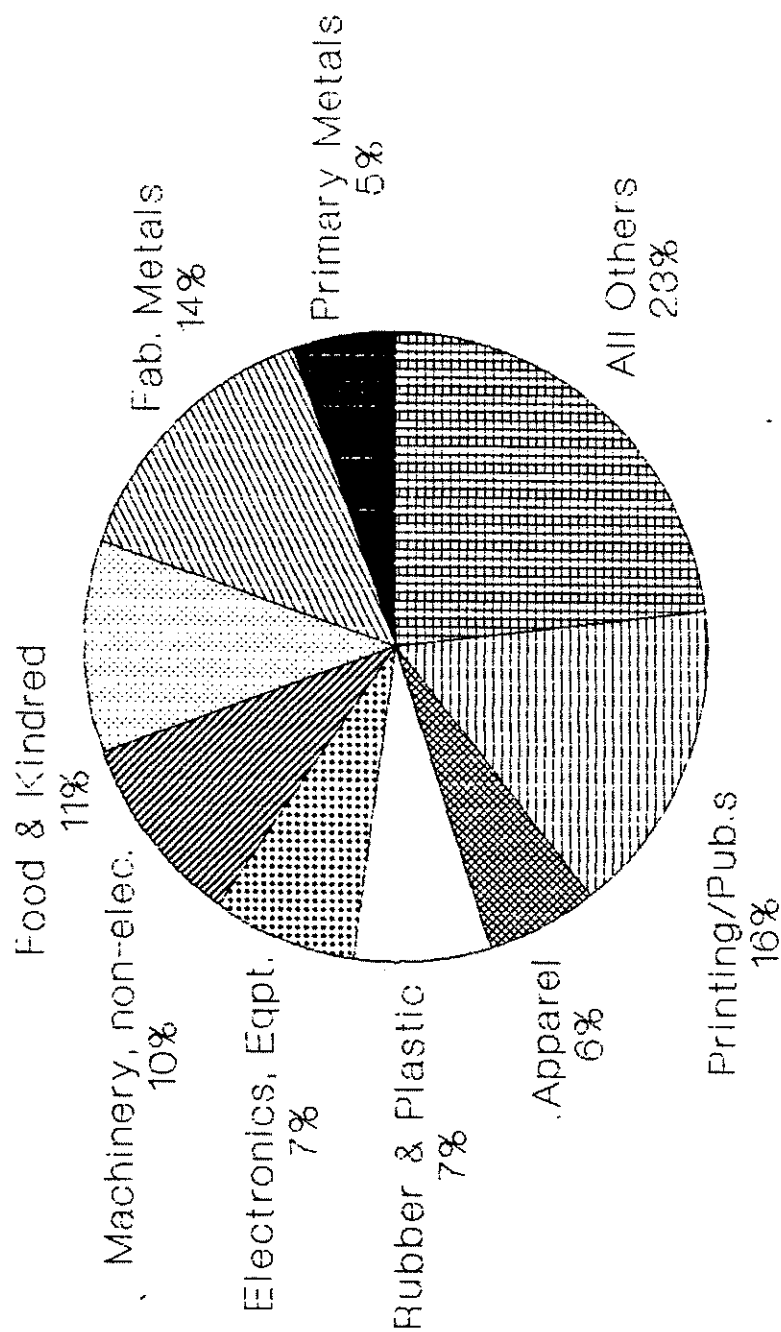
#### By Employment, Top Three-Fourths

SIC	Description	Employment %	Cumulative
27	Printing & Pub.	16.3%	16.3%
34	Fabricated Metals	14.3%	30.6%
20	Food & Kindred	10.9%	41.4%
35	Machinery, non-elec.	9.8%	51.2%
36	Electronics/Eqpt.	7.5%	58.7%
30	Rubber & Plastic	7.1%	65.8%
23	Apparel	5.8%	71.5%
33	Primary Metals	5.4%	76.9%



# INDUSTRY CONCENTRATIONS

## % by Total Sector Employment



By Number of Establishments, Top Three-Fourths

SIC	Description	% of Firms	Cumulative
34	Fabricated Metals	16.6%	16.6%
27	Printing & Pub.	15.7%	32.3%
35	Machinery, non-elec	11.3%	43.6%
20	Food & Kindred	8.0%	51.6%
36	Electronics/Eqpt	6.8%	58.4%
23	Apparel	5.6%	64.0%
39	Misc. Manufacturing	5.6%	69.6%
33	Primary Metals	5.3%	74.9%
30	Rubber & Plastic	5.3%	80.2%

All Industries, By SIC, Numerically

SIC	Description	Companies	Workers
20	Food & Kindred	27	2,157
21	Tobacco	0	0
22	Textiles	3	167
23	Apparel	19	1,144
24	Lumber & Wood	5	178
25	Furniture	9	420
26	Paper & Allied	10	855
27	Printing & Pub.	53	3,227
28	Chemicals	13	754
29	Petroleum & Coal	0	0
30	Rubber & plastic	18	1,408
31	Leather	4	235
32	Stone, Clay, Glass	7	350
33	Primary Metals	18	1,073
34	Fabricated Metals	56	2,841
35	Machinery, non-elec.	38	1,938
36	Electronics, Eqpt.	23	1,482
37	Transportation Eqpt.	6	373
38	Instruments	9	344
39	Misc. Manufacturing	19	904
Totals		337	19,850

We performed an additional industry sector analysis of the 337 companies to determine whether any of these concentrations of family owned/aging owner companies represented variations within their particular industries. That is, we wanted to know if certain industries are statistically more or less likely to have these kinds of firms. To do this, we weighted the employment bases of our population against Chicago's overall employment distribution among the manufacturing SICs. The results are charted below:

# INDUSTRIAL CONCENTRATIONS, CONTINUED:

## CONCENTRATION QUOTIENTS BY SECTORS

SIC	A Aging Owners Workers	B % of Total	C Chicago 1986 Workers	D % of Total	E (=A/C) Aging Owners % Chicago	F (=B/D) Aging To Chicago%
20 Food	2,157	10.9%	35,881	15.0%	6.0%	72.6%
22 Textiles	167	0.8%	825	0.3%	20.2%	244.4%
23 Apparel	1,144	5.8%	7,607	3.2%	15.0%	181.6%
24 Lumber/Wood	178	0.9%	2,558	1.1%	7.0%	84.0%
25 Furniture	420	2.1%	4,846	2.0%	8.7%	104.6%
26 Paper/Ald.	855	4.3%	11,084	4.6%	7.7%	93.1%
27 Print/Pub.	3,227	16.3%	40,686	17.0%	7.9%	95.8%
28 Chemicals	754	3.8%	14,009	5.8%	5.4%	65.0%
30 Rbr/Plast.	1,408	7.1%	8,046	3.4%	17.5%	211.3%
31 Leather	235	1.2%	2,441	1.0%	9.6%	116.2%
32 Stn/Cly/Gls	350	1.8%	2,991	1.2%	11.7%	141.3%
33 Prmy Mtls.	1,073	5.4%	11,801	4.9%	9.1%	109.8%
34 Fabr Mtls.	2,841	14.3%	28,181	11.8%	10.1%	121.7%
35 Machinery	1,938	9.8%	18,057	7.5%	10.7%	129.6%
36 Electronics	1,482	7.5%	25,803	10.8%	5.7%	69.3%
37 Trans Eqpt.	373	1.9%	8,513	3.6%	4.4%	52.9%
38 Instruments	344	1.7%	5,950	2.5%	5.8%	69.8%
39 Misc Mfg.	904	4.6%	7,995	3.3%	11.3%	136.5%
Ttl	19,850	100.0%	239,649	100.0%	8.3%	100.0%

Note: The sum of Column C, total for city, exceeds listed SICs because it also includes other SICs with no aging owner plants as well as unclassified plants.

Source for Column C: Illinois Dept. of Employment Security, Where Workers Work 1985-86.

Column F renders the equivalent of a location quotient, (hence our term "concentration quotient") but in this case it is for the relative employment concentration of family-owned/aging principal firms. A 100% figure in that column would indicate that the number of people employed in such firms is, for a given industry on a weighted basis, precisely the same proportion of employment which that industry represents generally within the City's manufacturing economy. A figure of less than 100% indicates that such firms are less heavily represented; more than 100% indicates higher weighting.

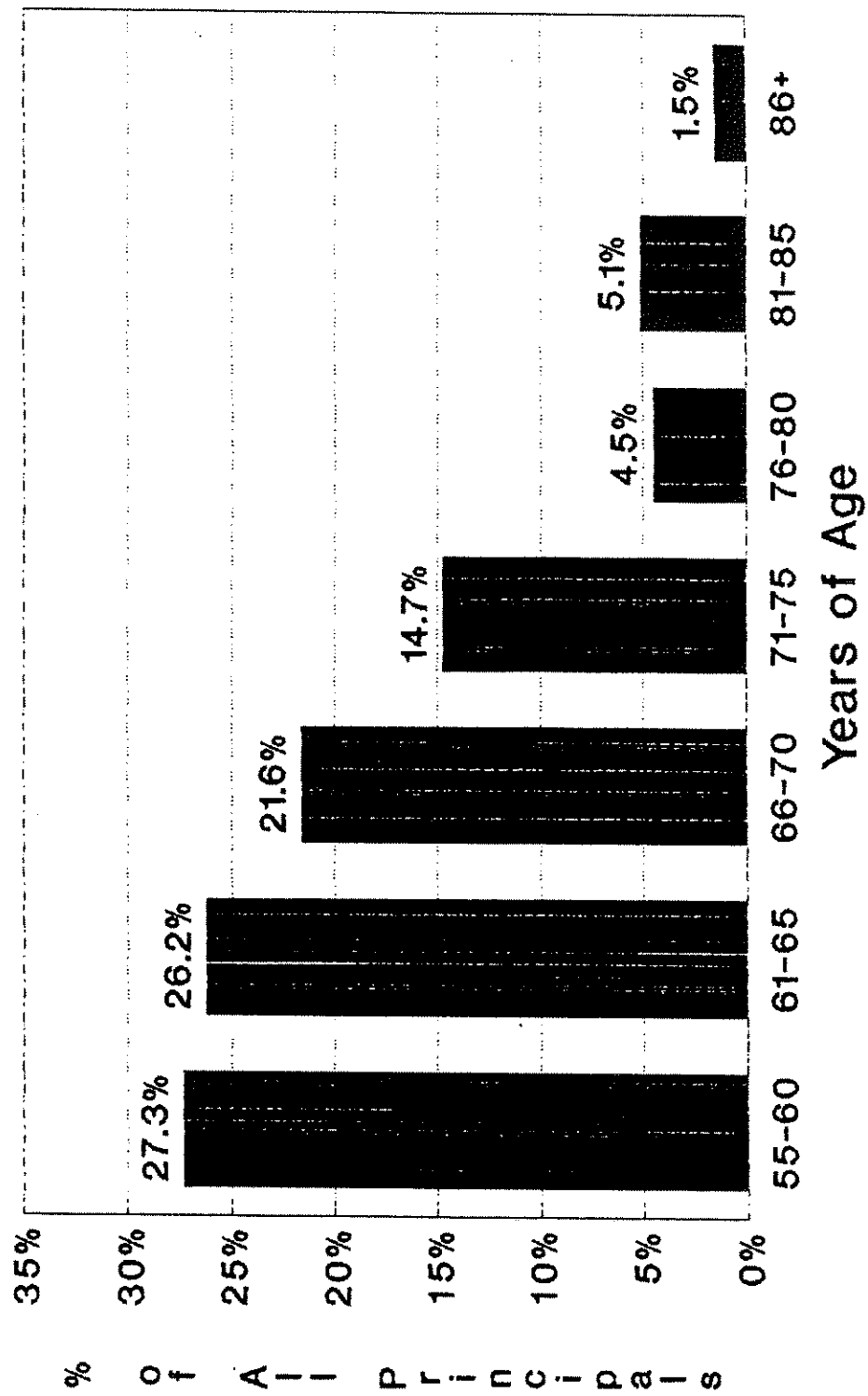
The figures indicate that several industries have high employment concentrations in their family-owned/aging principal firms. The highest-ranked sectors include: textiles (244.4%); rubber & plastic (211.3%); apparel (181.6%); stone, clay, glass (141.3%); non-electrical machinery (129.6%); and fabricated metals (121.7%). In terms of those sectors which rate high on this scale and also have significant employment, the most important of these are rubber & plastic, apparel, non-electrical machinery and fabricated metals.

The City of Chicago has a successful recent history in convening targeted industry Task Forces to identify and address issues specific to particular industries; the steel, printing and apparel industries have to date been the City's targeted Task Force sectors. Our three tests for industrial concentration support the choice of those three industries for focused attention regarding family-owned/aging principal companies.

In addition, our three tests for industrial concentration -- two on absolute grounds and one based on relative measures -- lead us to conclude that five additional manufacturing groups -- fabricated metals, food, non-electrical machinery, electronics/equipment, and rubber & plastic -- deserve targeted attention for their concentrations of family-owned firms with aging principals.

# AGE DISTRIBUTION OF PRINCIPALS

## Half Sample of Family Owned Firms



### Age of Principal Distribution

Charting the 337 companies by the age of the principal indicates a broad distribution; almost half of the principals, for example, are past the age of 65 and over 11% are over 75 years of age. Since our project universe is only those companies with principals age 55 or over, what we are seeing here is, of course, only a truncated view of the whole owner population's age curve. The accompanying chart graphs the distribution of the principals' ages.

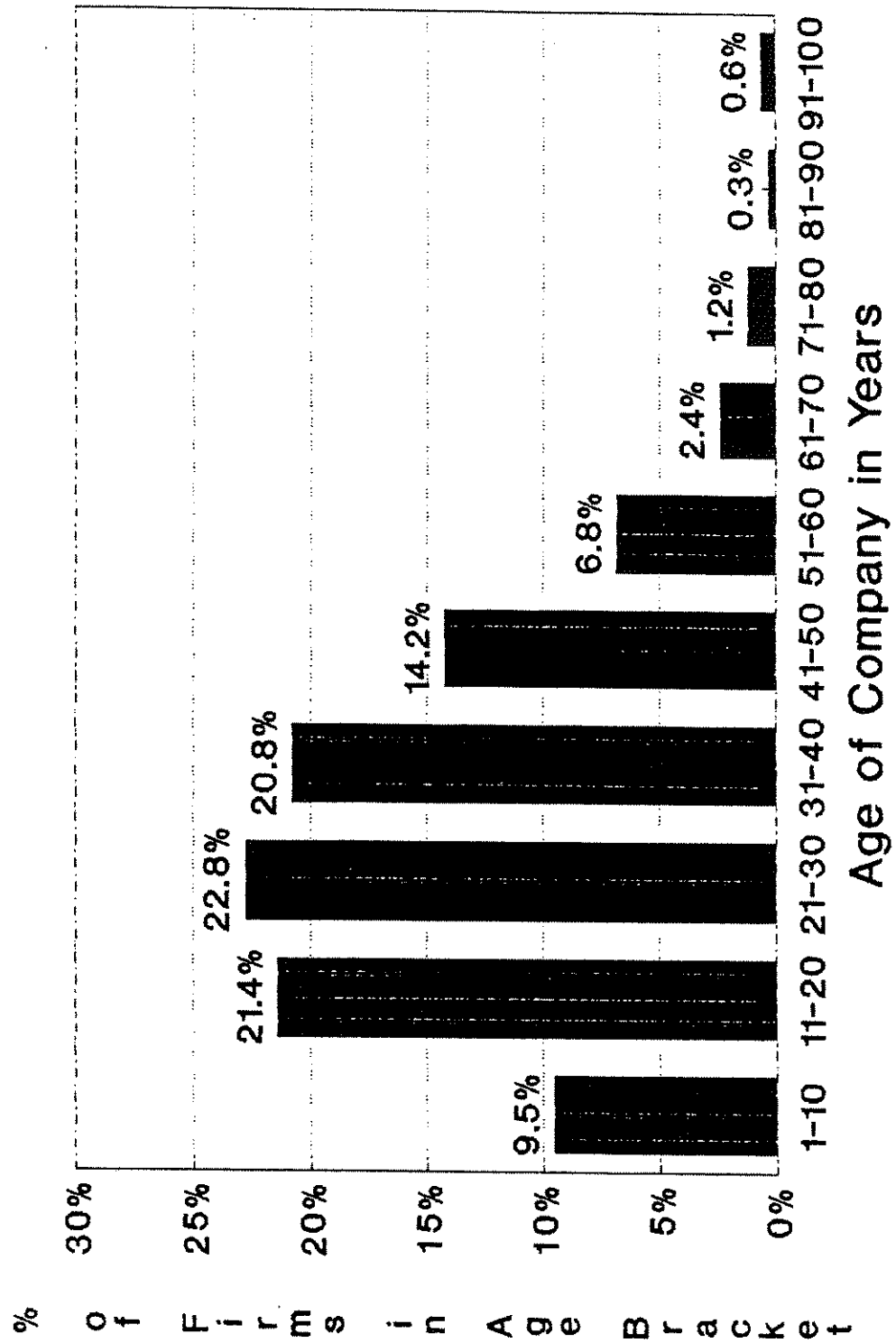
### Age of Firm Distribution

We also charted a distribution of the companies by the age of the firm. The accompanying chart breaks out the firms in 10-year age brackets. According to various studies, the average life of a family-owned firm is between 24 and 30 years, which basically coincides with the tenure of the founder, and reflects the fact that many firms live much shorter lives, and only 30% of firms succeed to the second generation. Our sample firms appear to fit this general picture. Fully 53.7% of the firms are 30 years old or less, another 20.8% are between 31 and 40 years of age, and only about one fourth (25.5%) are 41 years old or older. The cluster of three age brackets (ages 11 to 40 years) around the average life-span period account for fully 65% of the studied firms.

(We should add, regarding this data, that the Dun & Bradstreet firm age reports appear to sometimes be based upon a prior company reorganization or past ownership change, so that in some cases, the firm's physical operations have been in place longer than the firm's age would indicate. This fact is not of concern to this study, however, since we are concerned with the viability of family-owned businesses under their ownership as it exists today.)

# DISTRIBUTION OF AGE OF FIRM

## Half Sample of Family Owned Firms



## C. TELEPHONE SURVEY RESULTS

### Survey Penetration Rates

The project targeted various rates of telephone survey penetration, depending on the degree of apparent successorship risk. The project targets were as follows:

Category B: Young Apparent Successor - 10%

Category C: Aging Apparent Successor - 50%

Category D: No Apparent Successor - 100%

Contact rate results of the phone survey are as follows:

### SURVEY PENETRATION RATES

Category	B	C	D
	Young Apparent Successor (N=133)	Aging Apparent Successor (N=66)	No Apparent Successor (N=138)
Surveys Attempted	32	52	138
% of Companies Attempted	24%	79%	100%
Surveys Completed	18	34	78
% of Companies Completed	14%	52%	57%

In order to try to achieve the 10% and 50% targets for Categories B and C, respectively, we attempted a higher percentage of the companies. For Category D, we could only attempt 100% and seek the best possible final response rate.



The 57% rate the study achieved for that group is a much higher rate than is typically achieved for business information surveys.

Regarding the issue of psychological denial as a contributing factor to lack of successorship planning, we take note of the fact that those owners in Category D exhibited less willingness to answer the survey than did owners in Category C. Whereas 65.4% of principals with an Aging Apparent Successor who were polled responded to the survey, only 56.5% of those with No Apparent Successor did so. On its face, this certainly suggests (as much of the literature argues) that those companies with the greatest succession problems are those whose principals are in greatest denial. If refusal to respond to a successorship survey can be considered as one measure of such denial, then our characterization of those companies in Category D being at the greatest risk is further supported. We can draw no further inferences about the meaning of this lower response rate; however, it does suggest to us that if we were able to get accurate successorship planning information from those non-responding Category D companies, it would show them overall to be at even higher risk status than our survey results already indicate.

#### Unionization Rates

Aside from questions related to the company's employment and product line, the other "housekeeping" question we asked of the principals was whether the company had a union, and if so, the name of the union. We viewed this as useful information for future targeting because it would indicate whether a substantial proportion of the target firms were unionized and which unions they had. That, in turn would indicate to the City whether or not future industrial retention work aimed at aging owners should also include educational components for Chicago unions, and if so, which unions.

Like geographic and industrial sector targeting data, unionization data would better enable future retention efforts aimed at the subject companies to more narrowly target educational and outreach resources. The rates of unionization among the companies surveyed within the three categories are summarized below:

#### UNIONIZATION RATE BY CATEGORY

Category B (N=18): Young Apparent Successor: 33%

Category C (N=34): Aging Apparent Successor: 50%

Category D (N=78): No Apparent Successor: 45%

Total of all firms surveyed (N=130): 45%

We would not expect any correlations here or draw any conclusions from these differences. (We would only expect the rate of unionization to correlate instead with the size of firm, larger companies being more likely unionized.) However, the data do strongly confirm our expectation based on extensive anecdotal evidence that a substantial share -- 45% -- of Chicago's family-owned manufacturing firms with aging owners are unionized. This is a far higher ratio than the overall U.S. rate of unionization (17% of employment) or of U.S. manufacturing unionization (approximately 24% of employment).

Therefore, we conclude that future policies and programs aimed at aging-owner firms should include components specifically designed for industrial unions, as a cost-effective way of targeting constituencies within almost half the affected firms. The City's labor movement clearly has a mutual self-interest along with the City's economic development community in preserving employment at family-owned manufacturing firms with aging principals.

The most commonly-reported unions among all of the surveyed firms were:

Union Name	Number of Firms
International Brotherhood of Teamsters	11
Toy, Doll & Novelty Workers (Plastic Workers)	9
International Ladies Garment Workers Union	4
United Brotherhood of Carpenters & Joiners	4
United Food & Commercial Workers	4
United Steelworkers of America	3
Graphic Communications International Union	3
International Association of Machinists	3

We conclude that future educational efforts on this subject aimed at Chicago's unions should be targeted to the Chicago-region bodies (such as district or regional offices) of the above-listed unions.

#### Working Family Members

The survey's opening family-oriented questions (#7 and #8) asked if the principal had any family members working with him or her at the company, and if, so, which ones. The results to these questions were as follows:

# FAMILY MEMBERS WORKING BY CATEGORY

Category	B	C	D
	Young Apparent Successor (N=18)	Aging Apparent Successor (N=34)	No Apparent Successor (N=78)
#7. Family Members Working With You At The Company?	94%	85%	64%
#8. Spouse?	6%	29%	15%
Son(s)?	83%	50%	37%
Daughter(s)?	22%	18%	17%
Nephews(s)?	0	6%	9%
Nieces(s)?	0	0	3%
Grandchild?	0	0	4%
Brother?	17%	26%	3%
Sister?	0	3%	0
In-Law?	17%	18%	15%
Other?	6%	3%	5%

Note: the sums of the columns for question #8 exceed the percentage for question #7 because some companies reported more than one type of family member working at the company.

The results clearly confirm the information we were able to glean from the business reports. That is, the companies in Category B show the highest rate of working family members, 94%, while Categories C and D show less, 85% and 64%, respectively. That pattern of ascending family involvement in the business holds for both major groups of next generation successors (i.e., sons

and daughters), and it also holds very strongly between Category C and D among same-generation successors (i.e., spouses and brothers).

(The significance of family involvement in lowering succession risk is underscored by correlations we ran between family involvement and actual succession plans, which are detailed below in the discussion of chosen successors.)

These data also indicate the reports' limitations. Specifically, if the principal has working family members, but they do not appear as corporate officers on the Dun & Bradstreet (either because they are not yet officers or because they have become officers since the last report was written), then we had no way of knowing of their presence prior to the interview, and such companies were categorized accordingly. Of course, to a certain degree, elevation to officer status is a measure of the family member's likeliness as a successor; on the other hand, the interviews, as discussed below, sometimes revealed the presence of a well-qualified family successor who simply does not yet have an officer's title. Such a situation might reflect the fact that a principal has merely failed to formalize the successor's status within the corporation's registration, even though he has effectively prepared, by management training and estate planning, for succession.

#### Chosen Family Successors

If the principal had working family members at the company, question #9 asked if he had chosen one of them as his successor, and if so, which one, and whether the chosen successor was under 55 years of age or 55 or older. The results are shown below:

# CHOSEN FAMILY SUCCESSORS BY CATEGORY

Category	B	C	D
	Young Apparent Successor (N=18)	Aging Apparent Successor (N=34)	No Apparent Successor (N=78)
Yes- Have Chosen a Family Successor	56%	47%	41%
Spouse	0	0	0
Son	39%	24%	23%
Daughter	6%	3%	5%
Nephew	0	3%	3%
Niece	0	0	0
Grandchild	0	0	0
Brother	0	15%	0
Sister	0	0	0
In-Law	6%	9%	9%
Other	12%	0	3%
Percent of Those Chosen Family Successors Who Are Under Age 55	80%	67%	81%

Note: the sum of columns may exceed total positive responses to the fist part of the question because some principals indicated joint succession by more than one family member.

Again, the results tend to confirm what we would expect from the preliminary category findings. The rate of chosen family successors declines substantially from Category B to C to D. Sons were by far the most commonly-chosen family successors, followed by in-laws and daughters. As would be expected the Aging Successor Category C had the highest rate of brothers chosen as successors. Sometimes, the chosen successors were apparent from the Dun & Bradstreet report, but a substantial portion of those successors identified were not company officers and therefore not listed in the corporate registrations.

Regarding the age of the Identified family successors, the results indicate that for Categories B and D, four out of five chosen successors are under age 55, but only 67% for Aging Successor Category C. This difference would appear to be accounted for almost entirely by the brothers chosen as (aging) successors, so that if Category C's young successors are added to its chosen brother successors, the total is virtually identical (82%) to those results for young successors for the other two categories.

#### Non-Family Successors

Questions #10, #11, and #12 were only answered by those principals who said they had no family members working with them in the company, or if they stated that the working family member was not their chosen successor. The questions ask instead if the principal has a chosen non-family successor either inside or outside of the company, such as a manager, partner, outside buyer, or employee group. The results are tabulated below:

# CHOSEN NON-FAMILY SUCCESSORS BY CATEGORY

Category	B	C	D
	Young Apparent Successor (N=18)	Aging Apparent Successor (N=34)	No Apparent Successor (N=78)
Companies with non-family successor working inside company	6%	18%	18%
Percent of those successors who are under age 55	0	50%	57%
Companies with non-family successor working outside company	0	0	0
Percent of those successors who are under age 55	0	0	0
Companies with other non-family successors	6%	0	1
Percent of those successors who are under age 55	NM	0	NM

nm = Not Meaningful. (Responses included ESOP and sale to a competitor.)

By far the most common result we found for those companies with non-family successors was the intention of the owner to be succeeded by someone now working inside the company. Around one in six of those companies in Categories C and D indicated such plans. None of those owners responding indicated a chosen successor who is non-family and working outside of the



company, and a very small number -- less than 2% of all firms surveyed -- indicated other non-family chosen successors. Only around half of those chosen non-family successors in all the firms surveyed were under age 55.

We also asked for the current job title of the chosen successor within the company. The most common responses were:

Vice President - 8

Partner - 3

Manager - 2

President - 2

These findings are significant because they support one of this project's central working assumptions and a major rationale of the MLBO concept: that most family business owners look first within their families for successors, then within their management ranks, but that they have few tangible successorship resources outside of those two groups. Therefore, the possibility of supplying a new body of potential successors -- minority and female entrepreneurs -- would clearly meet a need currently not being met by the marketplace or by existing technical assistance support systems.

The sum result of questions #7 through #12, then, was to ascertain whether or not the company owner had an identified successor. The following tabulation shows how many principals failed to answer affirmatively to any of the successor-identity questions and therefore, by their own account, have no successor should they become unable to continue to manage the company.

Tabulated along with this is a summary of the data from the positive answers to the successor-identity questions.

## SUCCESSION SUMMARY BY CATEGORY

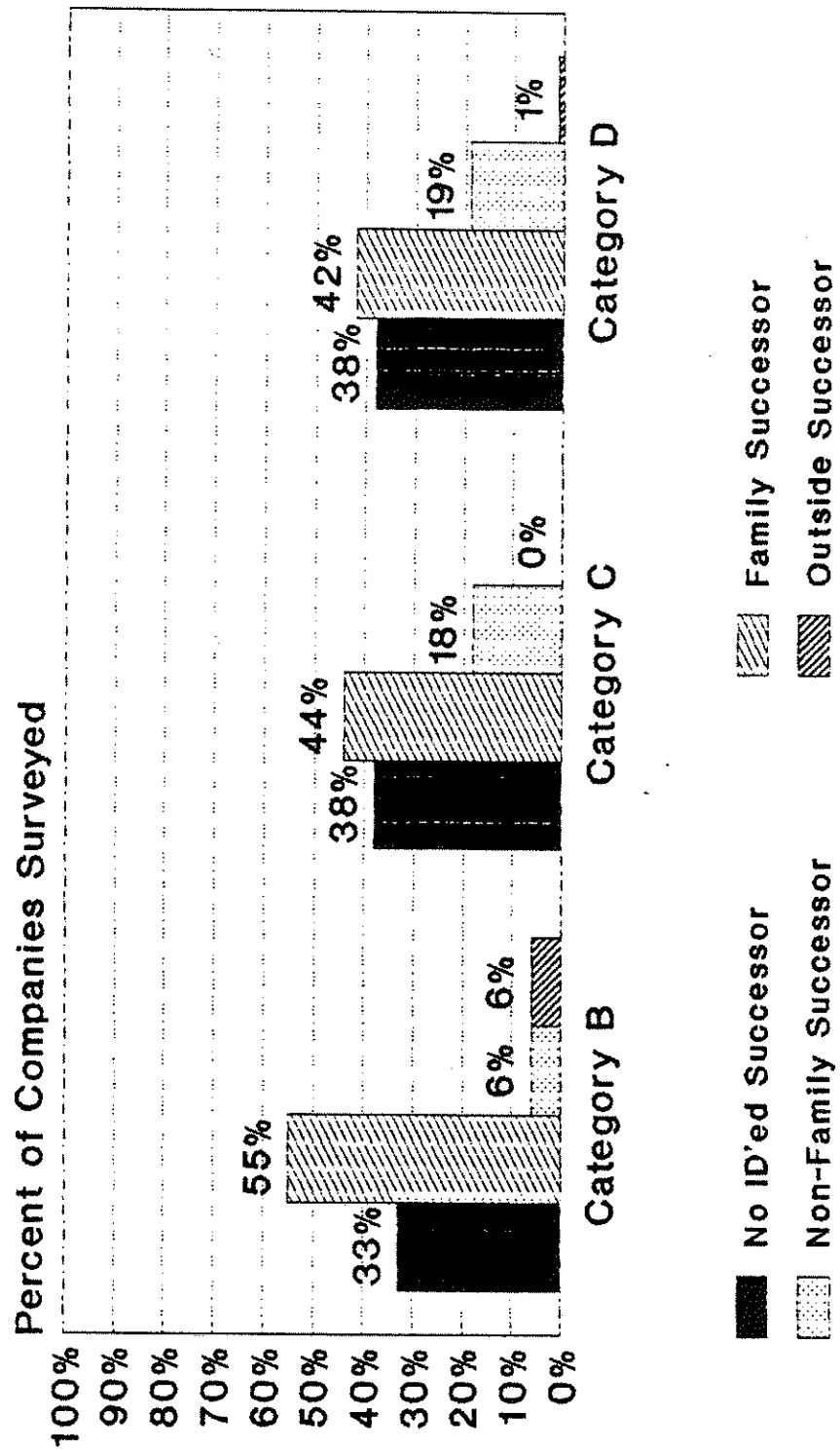
Category	B	C	D
	Young Apparent Successor (N=18)	Aging Apparent Successor (N=34)	No Apparent Successor (N=78)
Owners failing to identify a successor of any kind	33%	38%	38%
Owners stating they have family successor	55%	44%	42%
Owners stating they have non-family successor in company	6%	18%	19%
Owners stating they have non-family successor outside of company	6%	0	1%

These results strongly confirm one of this project's central arguments, dating back to our less-detailed 1985 study of West Side family owners: a significant number of aging owners -- 38% of those in both Categories and D -- have no chosen successor. For companies in Category B, the ratio is only slightly less -- 33%.

Aside from the matter of how the responses vary by Category, the major finding to underscore here is that fully 38% -- almost two out of five -- of all those owners responding failed to identify a chosen successor. Such companies present a clear danger to the employment security of their employees and to the employment and tax base of the City of Chicago.

# SUCCESSION SUMMARY

## By Category



Based on a reverse sort of several factors, we developed the following profile of the typical surveyed company which failed to identify a successor of any kind:

#### PROFILE OF AGING OWNER WITHOUT A CHOSEN SUCCESSOR

Average Age of Principal: 64

Average Age of Firm: 29

Most Common Two-Digit SICs: 27 (printing) and 34 (fabricated metals)

Average Firm Employment: 45

Indeed, conducting the interviews with these principals provided our staff with some of the project's most difficult and poignant moments. One respondent stated: "There will be no successor." Two others stated they had no retirement plans: "I will retire with my toes in the air," or: "I will retire when they haul me out of here."

#### Further Analysis of Succession Planning Traits

We performed additional sorts to further refine our image of those owners failing to plan for succession, so as to determine if certain company traits could be shown to correlate with succession planning behavior and therefore be used as predictors for further targeting of future resources.

First, we sorted companies by the age of principal and held that against whether the owner had a chosen successor. The results are charted below:

## AGE OF OWNER AND SUCCESSION PLANNING

Principal's Age	# of companies	% of companies with chosen successor
55-60	38	55%
61-65	29	59%
66-70	30	63%
71+	32	69%

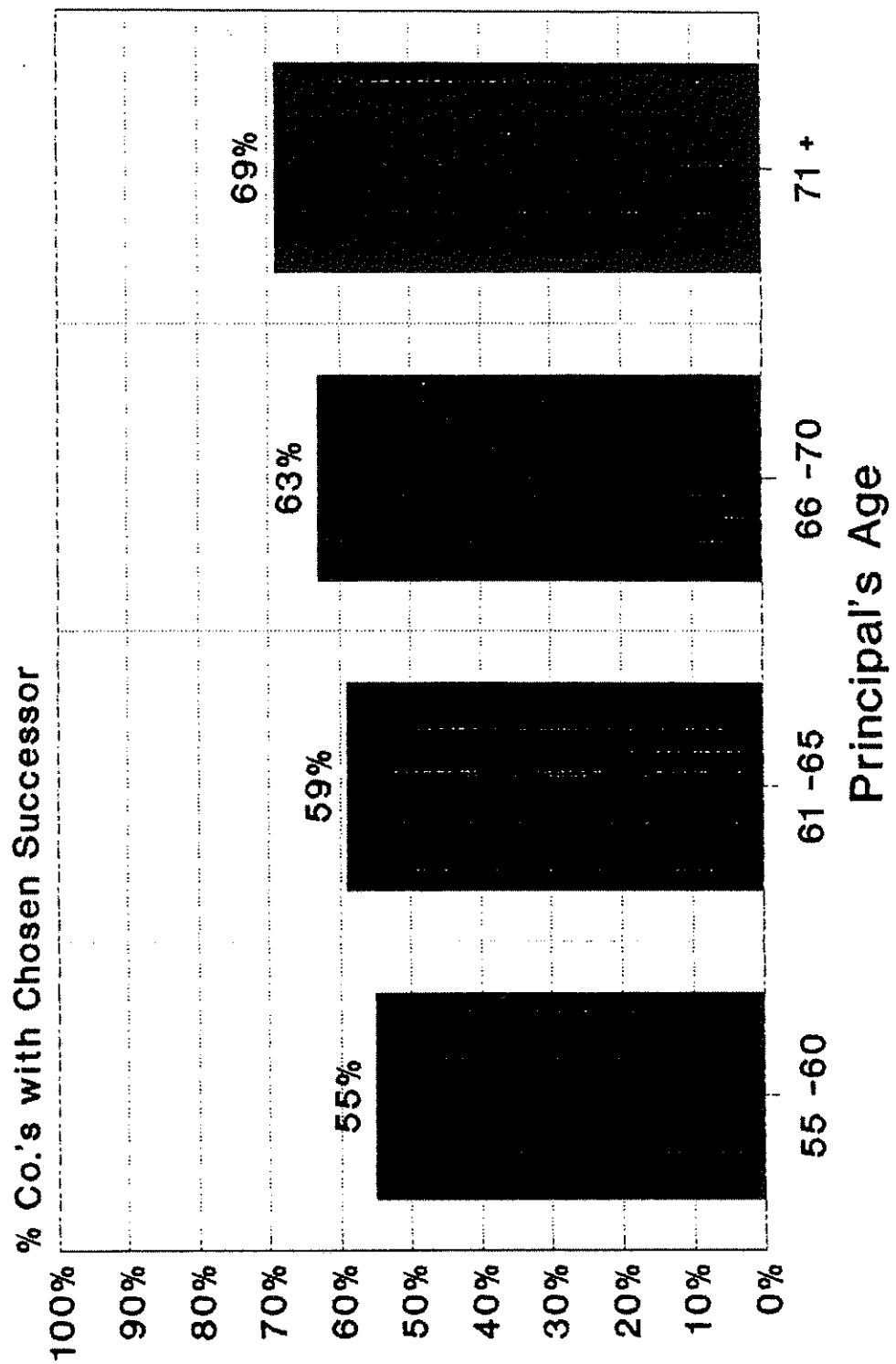
Not surprisingly, as owners grow older, they are more likely to have chosen a successor. However, that trend continues only modestly even after the principals reach the normal retirement age of 65. The proportion of those owners age 70 and over who have chosen successors is only 10% higher -- 69% vs. 59% -- than those owners ages 61 to 65. Looking at the two highest-age brackets indicates that one third of those principals past normal retirement age do not have chosen successors, and that many of them tend not to choose successors even in later years. Next we sorted the companies by size and chosen successor status.

## COMPANY SIZE AND SUCCESSION PLANNING

Company Employment	# of companies	% with chosen successor
0-39	68	56
49-100	51	67
100+	11	64

The data indicate that owners of smaller companies are somewhat more likely to not have a chosen successor, but this is not a strong trend and therefore not a useful predictor. Next we sorted age of the firm against successor status.

# **% COMPANIES WITH CHOSEN SUCCESSOR** **By Age of Principal**



## AGE OF FIRM AND SUCCESSION PLANNING

Age of Company	# of companies	% with chosen successor
0-20	38	45%
21-30	26	77%
31-40	30	57%
41-91	36	69%

With the exception of the 21 to 30-year bracket, the findings show that older companies are generally more likely to have a chosen successor. We believe that the results for the 21-30 year bracket are erroneous due to some anomaly in the sample; another sort we ran with 15-year brackets showed a gradual increase with age (54%, 56%, 63% and 74%).

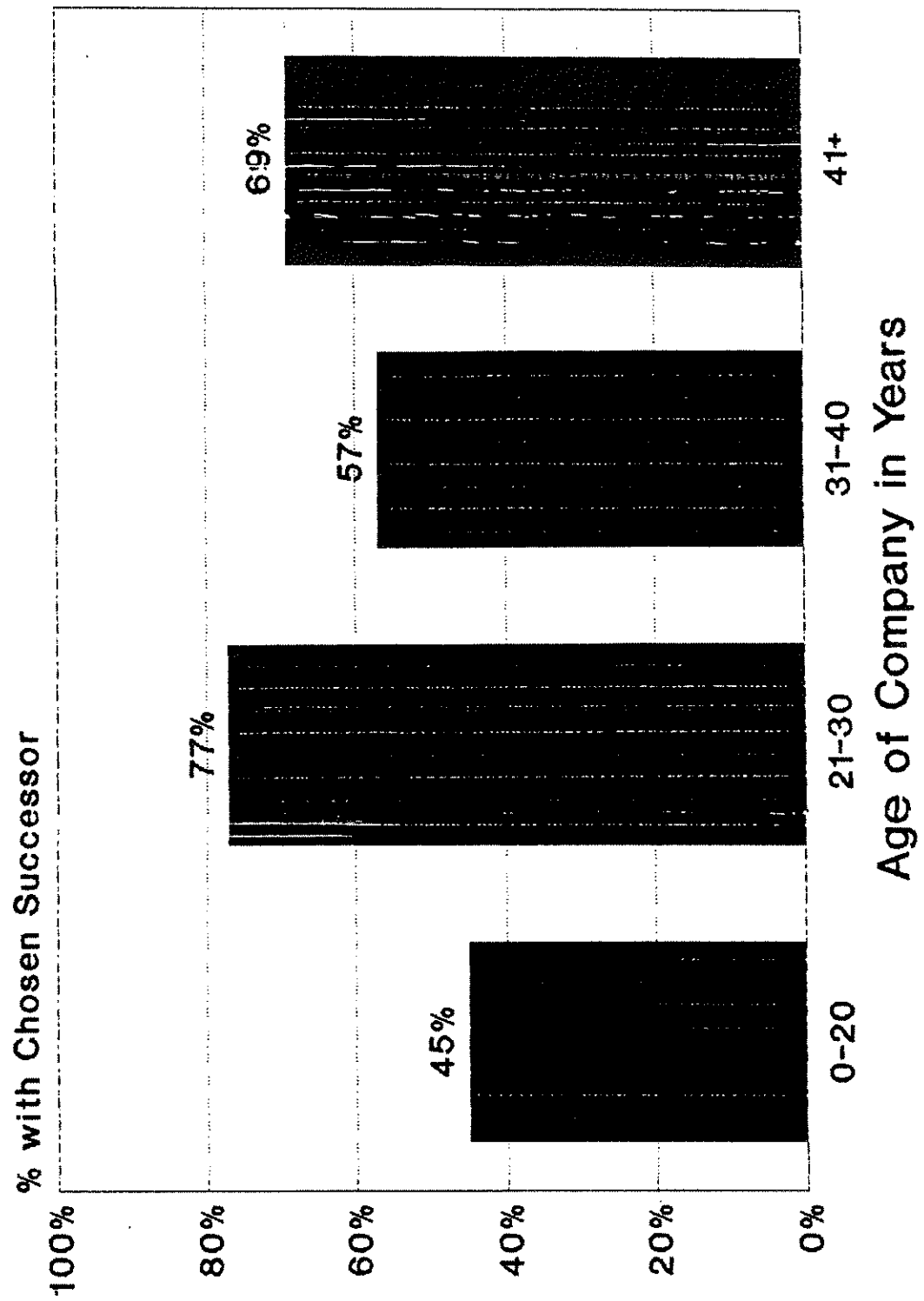
We should also add a tautology shown by this chart: firms that succeed in making generational transitions live longer, and vice versa. Those firms in the highest age bracket (46 years and above) have in all likelihood already made one succession transition, and they exhibit the greatest readiness to make the next, as their higher rate of chosen successors shows.

Finally, we analyzed the relationship between family involvement in the company and the firm's chosen successor status. The results are charted below:

## FAMILY INVOLVEMENT AND SUCCESSION PLANNING

	# of companies	% with chosen successor
Yes - Other Family Members Active in the company	96	69%
No Other Family Members Active in the Company	34	38%

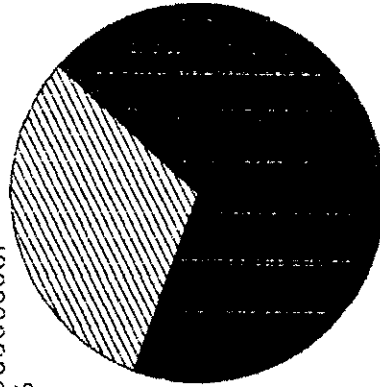
# COMPANY AGE AND SUCCESSION STATUS





# **% COMPANIES WITH CHOSEN SUCCESSOR** **By Presence of Other Family Members**

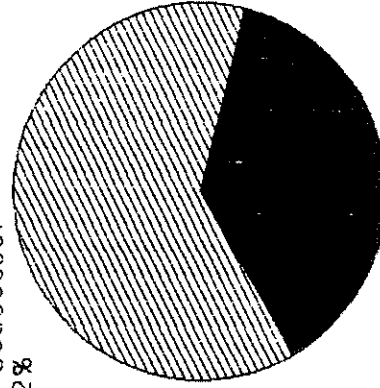
No Chosen Successor  
31%



Has Chosen Successor  
69%

With Family Members Active

No Chosen Successor  
62%



Has Chosen Successor  
38%

No Family Members Active

These are very strong results: those companies with a family member active in the firm are almost twice as likely to have a chosen successor; 69% of such firms have a designated successor. By contrast, only 38% of those firms without an active family member are so prepared.

This is by far the single strongest correlative trait we found with chosen successorship status, and indicates that those firms without an active family member should be targeted for attention. This was, of course, the working basis for our original risk Category breakdowns, and it is very clearly confirmed by the evidence from the owners themselves. We conclude that those family-owned firms without active working family members should be targeted for greatest successorship assistance.

#### Retirement Plans and Succession Status

Question #13 of the survey asked the principal how soon he or she expected to retire, and gave four time brackets to choose from: within the next year, one to two years, three to five years, or more than five years, or the answer "no retirement plans". Based on our first set of test calls, we added an additional category: "plan not to retire."

Correlating the answers against chosen successor status renders the following results:

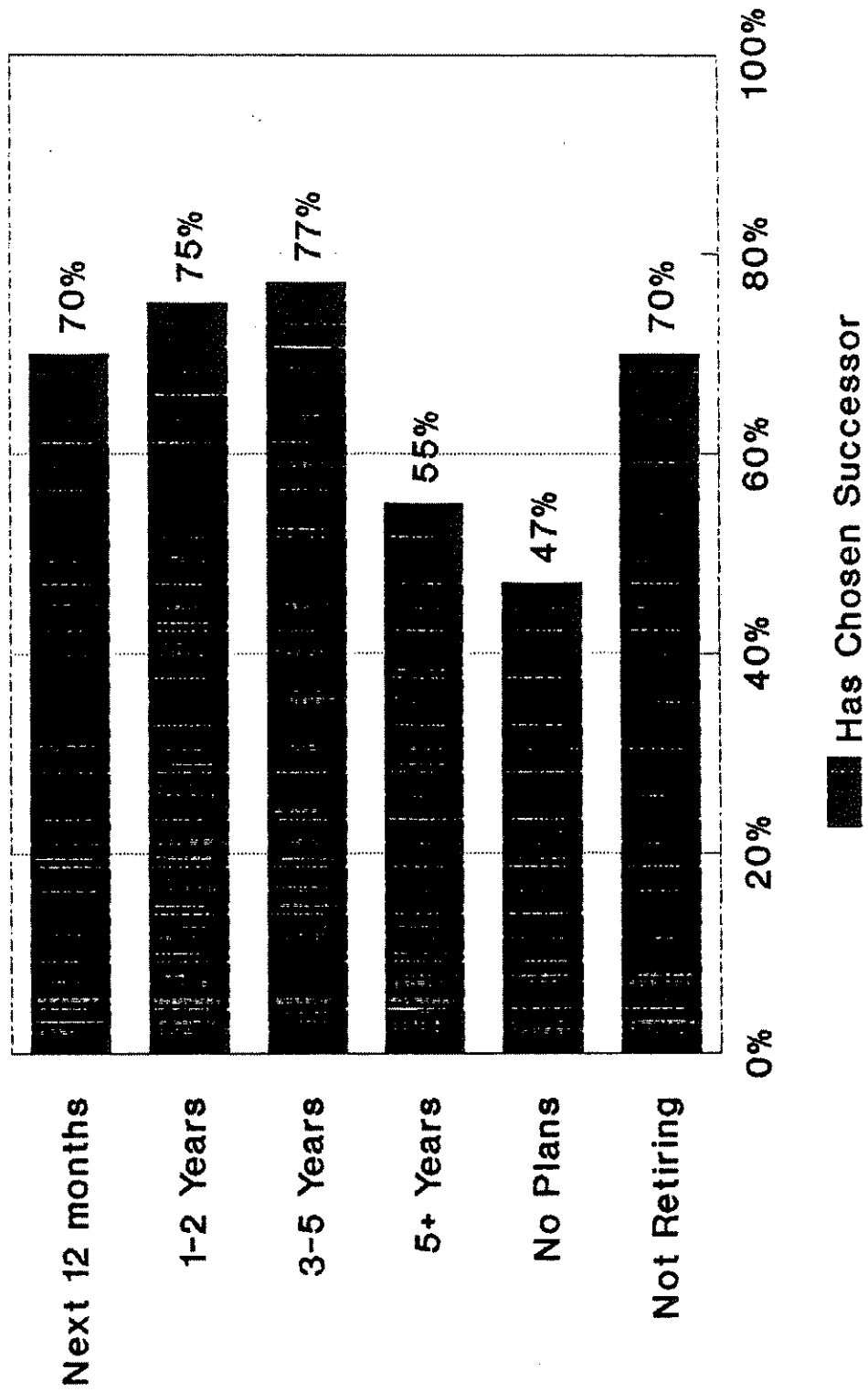
## RETIREMENT PLANS AND SUCCESSION PLANNING

Plan to Retire	# of companies	% with chosen successor
Next 12 months	10	70
1 - 2 years	8	75
3 - 5 years	22	77
5 + years	18	55
No retirement plans	46	47
Plan not to retire	17	70
Did not answer question	9	55

These results indicate that those owners who can state they they have plans to retire within the next five years are significantly more likely to have a chosen successor than those owners who do not foresee retirement within five years or who have not made retirement plans at all yet. Obviously, the decision to retire and the process of planning for retirement necessarily involves attention to succession, so this correlation is not surprising. However, over one third of companies responding -- 46 out of 130 -- said they had no retirement plans, and as a group, they represent the riskiest set; only 47% of them have chosen successors. For those owners who stated that they plan not to retire, however, the rate of having a chosen successor is just as high as for those planning to retire within the next year. Apparently, these owners, who so closely identify themselves with their work that they can state that they intend to work as long as they are able, are not all oblivious to the company's succession needs.

## RETIREMENT PLANS AND SUCCESSOR STATUS

### Retirement Plans



### Interest in Successorship Assistance

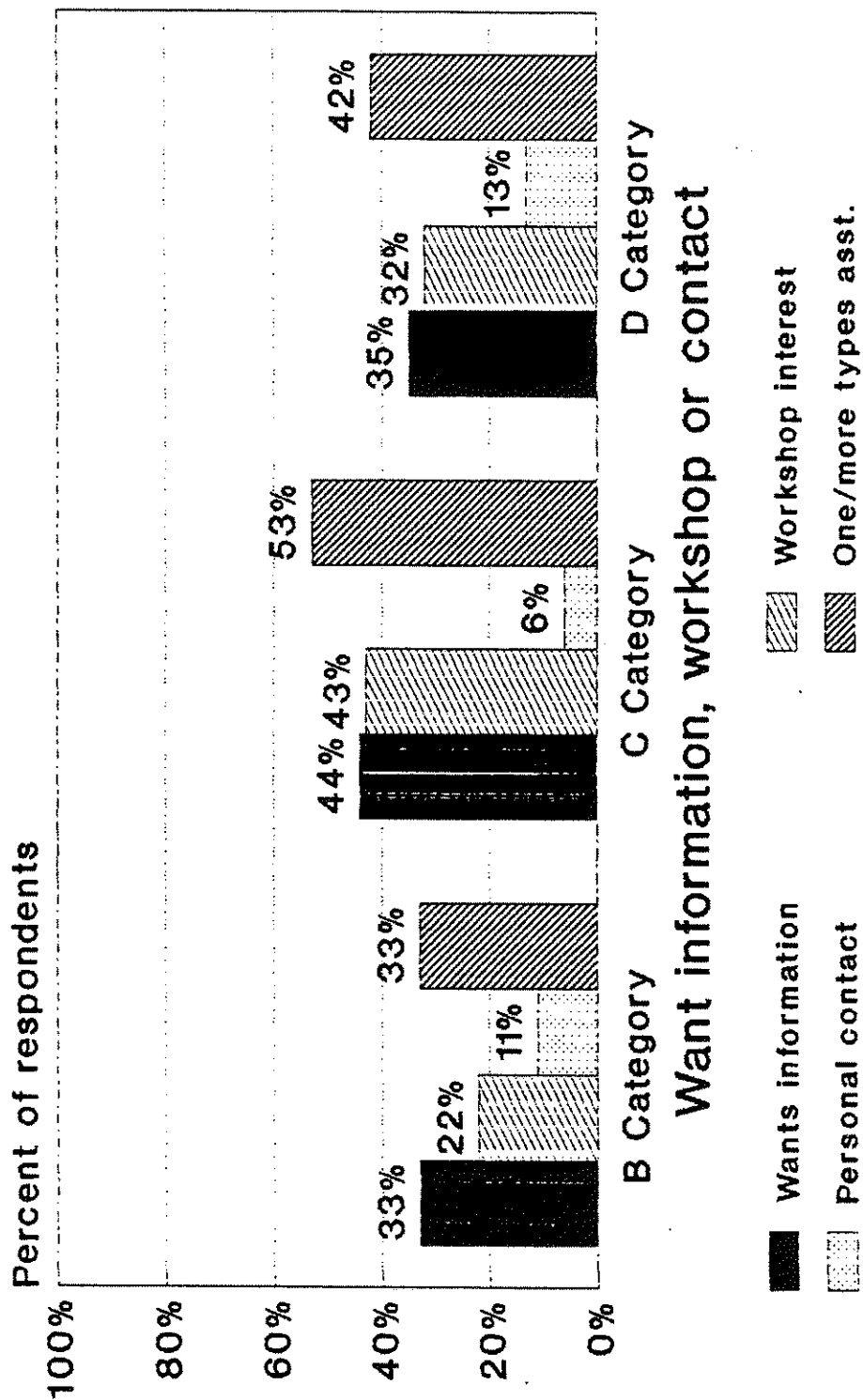
The final set of questions, #15, #16 and #17 were designed to gauge the principal's interest in engaging the issue of successorship. Question #15 asked if the principal would be interested in simply receiving information about planning for succession. Question #16 stated that a workshop would be offered later this year for business owners on the topic of succession, and asked if the principal would be interested in attending the workshop. Question #17 asked if the owner wished to be contacted by someone who specializes in succession planning. The results are tabulated below:

#### INTEREST IN SUCCESSORSHIP ASSISTANCE BY CATEGORY

Category	B	C	D
	Young Apparent Successor (N=18)	Aging Apparent Successor (N=34)	No Apparent Successor (N=78)
Principals interested in receiving information about successorship planning	33%	44%	35%
Principals interested in attending workshop on succession planning	22%	32%	32%
Principals interested in being contacted by succession specialist	11%	6%	13%
Principals interested either in succession information, workshop or specialist contact	33%	53%	42%

# INTEREST IN SUCCESSORSHIP ASSISTANCE

## By Category



These results are "soft," in that they do not accurately reflect the owners' general predisposition or willingness to engage the subject of succession planning. Some of the respondents, for instance, answered all of these questions "no" because they have already initiated an estate planning and ownership transition process with the assistance of their chosen lawyer or accountant. Many of the principals who informed us that they do have a chosen successor, of course, expressed a low level of interest in succession planning information or assistance. Instead, these answers may properly be viewed as a "snapshot" in time, indicating what share of the principals are interested at this time in engaging the subject.

Given these limitations on the data's meaningfulness, it is remarkable to note that between a third and a half of the owners in each Category -- and 44% of all owners surveyed -- answered "yes" to at least one of the questions, and that fully one-third of both the Aging Apparent Successor group and the No Apparent Successor group expressed an interest in attending a seminar on succession planning. We take these results as an indication that a substantial proportion of those surveyed are not in active denial and that many family business owners are inclined to respond favorably to succession assistance programs. We conclude that there is generally a substantial degree of openness within the target population to offers of information and assistance in the area of succession planning.

#### D. INCIDENTAL COMMENTS

A number of colleagues, when told of this project, expressed skepticism that we could obtain meaningful rates of participation in the survey, because of the personal nature of the subject matter. Our review of the literature about the entrepreneurial personality also gave us concerns that the surveying would be very difficult. While we do not want to say that conducting the survey was easy or painless, overall we do wish to report that it was far less difficult than some had led us to expect.

To be sure, we had some curt moments with owners who hung up on us as they do with any survey; a few others aborted the interviews when we got into the family or succession questions. For every discouraging episode such as , these, there was another owner who answered the questions thoughtfully and conscientiously, or who asked us after the interview about the project's overall direction, or who expressed gratitude that the City was paying attention to this aspect of small business needs. Some owners who themselves had successors alluded to friends who do not.

Although we generally found it was positive to present the study as a City-sponsored project, we did catch some complaints directed towards the City; the head tax seemed to be a common concern. In a few cases, we spoke with companies that were in the process of leaving the City; taxes such as worker's compensation, the City's economic health and the need for better truck access were cited as reasons.



We found a high degree of loyalty to the City and to the companies' employees in many instances. One owner told us that he could close his plant tomorrow and outsource the whole product line and merely act as a distributor and make higher profits than he currently does, but because his employees helped him build up the business, he maintains production in Chicago.

As stated before, there were some poignant moments. One owner over 80 years old, who answered his survey by mail, wrote that he would retire "upon death or total disability." Another told us "I wouldn't know what to do if I retired." A couple of owners were obviously quite ill and had trouble speaking on the phone. One company answering the phone said that the company had recently closed up because "the old man just died." One owner who was carefully grooming his son to succeed him lamented that all his plans might get scuttled by his partner, who, he feared, will be unwilling to accept a note from the son for the value of the partner's half of the company, thereby precipitating a sale of the company to someone from outside with more cash or credit than the son.

Our survey also resulted in four referrals to the Department of Economic Development for other forms of assistance: two companies wanted information about financing assistance for expansion or modernization; one company needed help with a blocked street preventing truck access; another company needed help with a land use problem. Written referral reports were executed to DED's field services section, with letters sent to the owners confirming the referrals.

#### IV. PART 3: FOLLOW-UP ASSISTANCE, PILOT PROGRAMS

We concluded this phase of the project by offering follow-up assistance to those owners who responded affirmatively to the survey questions on various forms of available assistance.

To those who stated that they would be interested in receiving an information packet about succession, we mailed 54 such packets to owners. The packets included two journal articles, one by Dr. John Ward and the other by Dr. Nancy Bowman-Upton, on the basic issues facing owners planning for succession. The packets included a cover letter offering further assistance upon request.

For those who stated that they would be interested in attending a succession workshop, we offered a half day workshop in downtown Chicago on September 12. We publicized the workshop to the 42 owners expressing an interest in such a workshop, as well as to 209 companies in our half-sample who were not queried or who failed to respond to the original survey, and to the 385 companies (the other half of the universe) not selected for closest analysis. Only three owners attended, a disappointing result, but positive assistance was provided each of them. Workshop presenters included psychologist Margaret Hellie Huyck, attorney Zane M. Cohn, accountant Gerald Lopatka, and consultant Victor von Schlegell. From the perspective of each of their professions, the presenters outlined the issues aging owners must address in planning for succession.

In retrospect, we feel that the handout publicizing the workshop was not sufficiently focused in its appeal to catch the attention of busy company owners. The very modest workshop fee (\$20) also probably caused some owners to suspect that the workshop was of lower caliber than it was.

We also feel it may be more useful to target future workshops more specifically by outcome, i.e., workshops for transferring ownership within the family, to an employee group, or to an outside investor. Since owners bring this range of outcomes to the seminars, narrowing the focus will allow greater in-depth treatment of each scenario.

## V. FOOTNOTES

1. "The Deindustrialization of Chicago," a report issued by MCLR, January, 1989.

2. Economic Dislocation and Equal Opportunity, U.S. Civil Rights Commission, Midwest Advisory Committee, 1981. 3. Midwest Center for Labor Research, 10/17/88 memo to MLBO partners, based on U.S. Department of Commerce 1982 Census of Minority-Owned Business Enterprises.

4. Minority Business Enterprise Today: Problems and Their Causes, U.S. Department of Commerce, Minority Business Development Agency, June, 1982.

5. U.S. Department of Commerce, 1982 Census of Manufacturers.

6. Nancy Bowman-Upton, Baylor University, "Family Business Succession: Issues for the Founder," Proceedings, U.S. Association for Small Business and Entrepreneurship, October, 1987.

7. Ibid.

8. Ivan Lansberg, "The Succession Conspiracy: Mapping Resistance to Succession Planning in First-Generation Family Firms," Yale School of Organization and Management, Working Paper #70 (unpublished), and "The Succession Conspiracy," Family Business Review, Volume 1, Number 2, Summer, 1988.

9. Leon Danco, Beyond Survival, 1975, Denton Publishing.

10. Schall, Robert. "Converting Family-Owned Businesses to Employee-Owned Firms: Experience of the Center for Community Self-Help," paper to Democratic Ownership Working Group Conference on Retiring Owners, June, 1989.

## VI. OTHER SELECTED REFERENCES

Berolzheimer, Michael G. "The financial and emotional sides of selling your company," Harvard Business Review, January-February, 1980.

Family Business Review, a quarterly journal of the Family Firm Institute, New Haven CT.

Ward, John. Keeping the Family Business Healthy: How to Plan for Continuing Growth, Profitability and Family Leadership.

Weiser, John and Brody, Francis. "Family Businesses and Employee Ownership," Family Business Review, Spring 1988.

## VII: SAMPLE EXEMPLARY MATERIALS

1. Announcement to Aging Owners Conference, Chicago, June 1 and 2, 1989.
2. Industrial Cooperative Association pamphlet: "4 Reasons to Sell Your Business to the Employees."
3. Industrial Cooperative Association/Massachusetts workshop flyer, Natick, MA, 2/28/89.
4. New York Center for Employee Ownership and Participation workshop brochure, Jamestown, NY, 3/2/89.
5. Seattle Worker Center/King County Successorship Business Retention Team flyer.
6. Ohio Employee Ownership Education Project flyer, including "ESOP follows owner retirement: an Ohio success story."
7. WECO "Dollars and Jobs" confidential business survey form (Cleveland, OH).
8. Baylor University Baugh Center for Entrepreneurship newsletter including "Succession Named Top Family Business Concern: Part II" and Family Business Conference Schedule
9. Cooperative Work Relations Program, Inc. (Ohio) "The Retiring Owner" handout.

**ANNOUNCING:  
A WORKING CONFERENCE  
FOR  
TECHNICAL ASSISTANCE PROVIDERS**

**\*\*\* EMPLOYEE OWNERSHIP FOR RETIRING OWNERS \*\*\***

**Dates: June 1-2, 1989**

**Place: Chicago, Illinois**

In October of last year a group of worker ownership technical assistance providers, predominantly from the Midwest, came together in Madison to learn from each other's experiences. Presentations were made by several organizations about their respective strategies, and how they developed.

The success of last year's conference encouraged some of us to give ourselves a tentative name, "The Democratic Ownership Working Group", and to plan for another gathering this Spring. The theme of this year's conference will be Employee Ownership Services for Retiring Owners.

**PLEASE RESERVE THE ABOVE DATES  
ON YOUR CALENDAR**

**TODAY!**

**Background:** Since its inception, the worker-ownership movement has understood that conversions of healthy operating companies to worker-ownership -- particularly in retiring owner situations -- was a strategy that held great promise for building a stable worker-owned sector of the economy. Yet, for a variety of reasons related to our non-profits status, our anti-corporate backgrounds, and our recognition of some of the abuses of ESOPs, we have shied away from this retiring owner market. For most of us, plant closing, start-ups, and existing "intentional" cooperatives still constitute the bulk of our work.

Several TA organizations -- in both the private and public sector -- have now begun to target this retiring owner market more aggressively. These organizations include MCLR, the Northeast Ohio Center for Employee Ownership, Steiker & Associates, ICA, and, in the public sector, the New York Center for Employee Ownership. As these and many other organizations gain experience in this market, they are confronting many new issues and questions, such as how to work in a way which promotes democratic-ownership while not over-constricting the universe of possible clients, and the consequences of working as sellers' representatives for relationships with organized labor.

**Content:** This working conference will serve as an opportunity to:

- o discuss various marketing strategies and tactics;
- o share results, both positive and negative;
- o identify common problems groups have encountered and how they have coped with these problems;
- o attempt to draw strategic conclusions about how to do this work while preserving our democratic identities/focus; and
- o share materials and discuss possible areas of cooperation.

**Process:** The conference is being planned as a working conference. As such, only organizations who have a history of (or interest in) assisting in the development of democratic worker-owned firms have been invited. While there will be several presentations by (yet-to-be-determined) groups regarding their own experiences as consultants/TA providers, every attempt will be made to ensure maximum dialogue and interaction. Open sharing of materials, experiences, questions -- and doubts -- will be encouraged.

**Conveners:** The ad-hoc planning committee for this conference included the following organizations and individuals:

- o Emily Anderson, North Country Development Services
- o Dan Broughton, MCLR
- o Jim Converse, Common Wealth
- o Seth Evans, ICA
- o Maureen Fenlon, Lydia



# 4 REASONS TO SELL YOUR BUSINESS TO THE EMPLOYEES

*When it comes time for you to sell all or part of your business, either because you want to retire or to diversify your investments, you have several choices:*

- Sell to a competitor
- Sell to a corporate or financial buyer
- Liquidate the assets
- **SELL TO YOUR EMPLOYEES**

This last option is not one that most owners think about, but it can be very attractive, especially when you use the valuable tax advantages available to Employees Stock Ownership Plans (ESOPs).

## Thanks to favorable tax treatment, you can realize a higher gain selling to an ESOP than with any other technique.

For many closely held businesses, there is no ready market for company stock. Employees are natural buyers, and federal tax law now makes a sale to employees especially lucrative.

- The money you receive from an ESOP sale can be rolled over into qualified replacement securities, deferring any capital gains tax until you sell those securities. If the replacement securities pass into your estate, *capital gains tax can be avoided entirely*.
- The money used by your company to pay off the ESOP loan is *fully tax-deductible — including the principal*. Repaying the loan with pre-tax dollars greatly improves the company's cash flow and the willingness of lenders to finance the deal.
- Bank rates on ESOP loans are *lower than traditional loans*. It is not uncommon for the company to receive ESOP loans at below prime, even in highly leveraged deals. Banks can loan money to the ESOP to buy your company without having to pay taxes on one-half the interest they receive from the loan. They are willing, therefore, to lend at favorable rates.

Taken together, these advantages can help ensure that you get the best possible price for your company, while deferring the capital gains tax for many years.

## When you sell to your employees, you can do so gradually — at a pace that suits your needs and that you can control.

You do not have to sell all at once with an ESOP. And you do not have to give up control of the company until you are ready to do so. In addition, if you wish, your partners or your family can retain an interest in the company indefinitely. These features make a sale to an ESOP an extremely flexible way to sell a business.

## Employee-owned companies are more profitable and faster growing than traditional companies.

Research has shown that profits, productivity, job satisfaction and growth are higher in employee-owned firms. This is particularly true in companies that combine communication and participation programs with stock ownership. This means that if you retain some shares in the business, your shares should appreciate, making your potential return even higher. Similarly, seller financing is more secure in an employee-owned company.

## When you sell to your employees, valued employees are rewarded, and you ensure that their future is in their own hands.

Selling to an outsider can often result in the facility being closed, or existing management being replaced. Selling to employees leaves control to those who have helped you build your business for years — those who know it best. This rewards them, and ensures that the people you have depended on are in control of your company and their futures. It also makes it more likely that your company will continue to live and grow as an independent business.

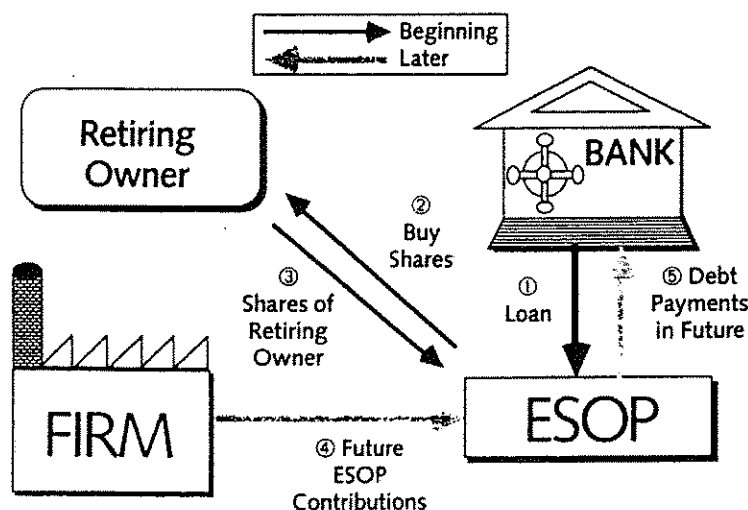
# Employee Ownership Works!

There are more than 9,000 companies in the U.S. with ESOPs and the number is growing steadily (10% per year). ESOPs exist in all industries and in all sizes from large service companies like Avis, to manufacturing companies like Weirton Steel, to small, closely held retail businesses, such as supermarkets and dry-cleaners. As long as there are roughly fifteen (15) employees on your payroll, and the company is profitable, there is no reason that an ESOP could not work for you.

More than one-third of the ESOPs in existence were formed by retiring owners of closely held businesses, taking advantage of the extraordinary tax benefits outlined above. And because an ESOP is flexible, it can be tailored to the seller's need, the company's management structure, and the characteristics of the workforce. This flexibility means that there is certain to be a model appropriate for your situation.

Be assured that the concept can and does work. It is doing so today, all across America. Still, the concept is relatively new, and while it is not overly complicated, you will need qualified professional help to plan and implement a sale to your employees.

## Leveraged ESOP Buy-Out of Retiring Owner



- ① Loan: Bank loans money to ESOP (Usually guaranteed by the firm).
- ② ESOP uses loan money to buy shares from retiring owner.
- ③ The retiring owner transfers stock to the ESOP.
- ④ Firm makes ESOP contributions each month equal to the loan payments.
- ⑤ ESOP passes contributions through as loan payments to bank.

## How ICA Can Help

Every business is unique, and so are the objectives of owners who wish to sell their business. With more than ten years of experience, ICA is one of the foremost companies designing employee ownership for small businesses. We have been instrumental in transactions in a variety of industries and companies, ranging from \$1 million to \$9 million in value.

We can also help to finance an employee ownership transaction through the ICA Revolving Loan Fund. The Loan Fund not only makes loans directly to worker-owned businesses, but it also will use its contacts with banks and other financial institutions to help you put together a deal as quickly and efficiently as possible.

Our services include:

### 1. Exploration of Succession Options.

We can help you clarify your objectives, explore the employee ownership option, and compare it to other available options.

### 2. Transaction Planning.

Once you have decided to pursue employee ownership, we can help you conduct a preliminary valuation of your company; assess the interest of your workforce in the plan; negotiate price ranges and general terms of the transaction; recommend an appropriate legal structure; and devise a complete transition or "conversion" plan.

### 3. Implementation of the Conversion Plan.

Once you have approved a conversion plan, we can provide legal documentation and assist in the plan's implementation. We can also help you create a detailed business plan and secure financing, if necessary.

### 4. Post-Conversion Services.

Once the plan has been implemented, we can conduct employee education to assure that everyone understands the employee ownership program and its benefits. We can also calculate repurchase liabilities and provide ongoing management training, if necessary.

## A BRIEF WORD ON WHO WE ARE

The Industrial Cooperative Association, Inc. is a nonprofit consulting organization dedicated to providing business services, education and financial support to employee-owned companies. Founded in 1978, ICA is the oldest organization of its kind in the country. ICA consists of business professionals, lawyers and education specialists. We have been instrumental in hundreds of employee ownership transactions involving retiring owners, corporate divestitures and start-ups.

The ICA Revolving Loan Fund (RLF) provides debt and equity financing to employee-owned businesses, often on more favorable terms than might be available through commercial banking sources. The Loan Fund also has extensive working relationships with other lenders and financial institutions which specialize in ESOPs and employee-owned businesses.

### THE FIRST STEP:

The first step in exploring the employee ownership option is to give us a call. We can arrange an initial interview at no charge. Then, if you like what you hear, we can perform a more detailed review of your situation and determine whether employee ownership may help you achieve your goals.

*Call us at (617) 629-2700 to find out more.*



**Industrial Cooperative Association**

58 Day Street, Suite 203  
Somerville, MA 02144  
(617) 629-2700

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RECEIVED MAR 6 1989

EMPLOYEE STOCK OWNERSHIP PLANS:

An attractive option for owners of closely held companies

Tuesday, February 28, 1989

Helm Auditorium

Leonard Morse Hospital

67 Union Street, Natick

7:30 - 9:30 a.m.

\$10.00 members/\$15.00 non-members

Coffee & Danish will be served

This seminar will introduce owners of closely held companies to the benefits of a sale of all or part of their business to their employees. Topics include:

- \* Basic structure of an ESOP company
- \* Tax benefits for the seller
- \* Flexibility of the terms of sale
- \* Sources for ESOP financing

The panel will be available to answer your questions

PROGRAM PARTICIPANTS:

Michelle L. Flaherty, CCE  
President  
Metrowest Chamber  
of Commerce

David Magnani  
State Representative  
(D) - Framingham

Janet Saglio  
Director of Field  
Services, Industrial  
Cooperative Assn.

PANEL PARTICIPANTS:

Patricia Hanratty  
Executive Director  
Industrial Services Program

Clark Arrington  
Director of Legal Services  
Arrington & Pitegoff, P.C.

Alisa Levitt  
Vice President  
United States Trust Co.

Vickie Grove  
Vice President  
ICA Revolving Loan Fund, Inc.

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ALL RESERVATIONS MUST BE RETURNED WITH FULL PAYMENT  
\$10.00 MEMBERS/\$15.00 NON-MEMBERS

Please reserve \_\_\_\_\_ spaces for me at the Employee Stock  
Ownership Plan Seminar on February 28, 1989 at Leonard Morse Hospital.

Name(s) \_\_\_\_\_

Company \_\_\_\_\_

Enclosed is: \$ \_\_\_\_\_ Telephone: \_\_\_\_\_  
No show reservations must be paid unless cancelled by February 26, 1989  
Please return to: Metrowest Chamber of Commerce, 600 Worcester Road,  
Framingham, MA 01701 (508) 879-5600

## About the New York Center for Employee Ownership and Participation

### WHY COMPANIES SHOULD ATTEND:

- \* To improve employee motivation and productivity
- \* To be a convenient buyer for stock of a closely held company
- \* To insure the perpetuation of a closely held company after the departure of its principal owner
- \* To strengthen the market for stock of a publicly traded company
- \* To substitute rigid employee compensation schemes with a more flexible program
- \* To finance growth, or an acquisition
- \* To divest a no longer wanted subsidiary
- \* To give employees a deferred compensation plan much less burdensome than a defined benefit pension plan
- \* To aid in estate planning, or relieve the problems of an unplanned estate
- \* To fend off an unwanted takeover attempt



## THE NEW YORK CENTER FOR EMPLOYEE OWNERSHIP AND PARTICIPATION

Governor Mario M. Cuomo

*is pleased to invite you to attend a seminar  
addressing*

## ESOP's

## EMPLOYEE STOCK OWNERSHIP PLANS

Thursday, March 2, 1989

Holiday Inn  
150 West 4th Street  
Jamestown, New York

The New York Center for Employee Ownership and Participation was established in 1986 by Governor Mario Cuomo to promote employee ownership and participatory management as an economic development strategy in the State of New York.

As a program of the New York State Industrial Cooperation Council, the Center acts as an advocate for employee ownership and is the first state program of its kind in the nation.

The Center promotes employee ownership initiatives in existing businesses and new ventures.

The Center staff, as well as outside experts, provide a range of technical assistance to businesses which include feasibility studies, accessing public and private financing, and developing workforce participation and training programs.

For additional information about the Center's services, please call (212) 930-0108.

.....  
co-sponsored by

Jamestown Area Labor Management Committee

Business First

Jamestown Area Chamber of Commerce

Manufacturers Association of the Jamestown  
Area

Cattaraugus County  
Industrial Development Agency

County of Allegany  
Office of Economic Development

Southern Tier West  
Regional Planning & Development Board

# REGISTRATION FORM

## EMPLOYEE STOCK OWNERSHIP PLANS Thursday, March 2, 1989

Name(s) and Title(s) of Attendees:

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Type of Business Number of Employees

Name of Company

Company Address

City

State

ZIP Code

( )

Telephone Number

*A Fee of \$8.00 is required for each Seminar participant. Fee covers Breakfast and basic Seminar materials. Please make check payable to "Jamestown Area Labor Management Committee." The deadline for registration is FEBRUARY 23, 1989.*

For Registration, Mail this Registration Form to:  
Jamestown Area Labor Management Committee  
Post Office Box 819  
Jamestown, NY 14701  
(716) 665-3654

## AGENDA (Continued)

### Financial Advantages/ Leveraged ESOP's 9:15 - 9:45

- \* Leveraged ESOP's
- \* Deductibility of Dividends
- \* Deductible Employer Contributions
- \* Estate Planning
- \* Deferring Taxation for Owners
- \* Greater Employee Benefits - Higher Contribution Limits
- \* Distributions from ESOP's
- \* Repurchase Liability

### Technical Considerations 10:00 - 10:30

- \* Voting Rights
- \* SEC, Regulatory Concerns
- \* Stock Valuations
- \* Low-interest Loans
- \* Dilution of Stock Value
- \* Fiduciary Issues

### Employee Response: A Case History 10:30 - 11:00

An executive from a company that has implemented an ESOP will discuss his company's experiences.

- \* Improved Employee Job Performance
- \* Compensating Employees Through the ESOP
- \* Communicating the ESOP
- \* Educating the Employees

## EMPLOYEE STOCK OWNERSHIP PLANS

Thursday, March 2, 1989  
8:00 a.m. to 11:00 a.m.  
Holiday Inn  
Jamestown, New York

## AGENDA

Breakfast  
8:00 - 8:30

Legislative Overview  
8:30 - 8:45

The Basic ESOP Concept  
8:45 - 9:15

- \* What is an ESOP?
- \* How ESOP's Work
- \* Advantages/Problems
- \* Implementation & Annual Administration
- \* Transfer of Ownership to Employees
- \* Raising New Capital at a Low Cost
- \* Alternative to Going Public
- \* Divestitures
- \* Refinancing Existing Debt
- \* Takeover Defense

THE KING COUNTY LOCAL BUSINESS AND JOB RETENTION PROGRAM  
Successorship Business Retention Team

Background of the Program: This business retention team is part of the King County Local Business and Job Retention Program. The Program is funded by a grant from the Washington Department of Trade and Economic Development to the Seattle Worker Center and Seattle-King County Economic Development Council.

Objectives of the Successorship Team: The team will assist the owners and their advisors of selected companies understand the options available for their company and to assist them in establishing a comprehensive successorship plan.

Members of the Successorship Team:

Bob Bell, President  
The CEO Institute  
- Organizational change

Richard Feldman, Economic Development Specialist  
Seattle Worker Center  
- Employee cooperatives

Cheryl French, Attorney-at-Law  
Hafer, Price, Rinehart & Schwerin  
- ESOPS

Bill Hughlet, Program Manager  
Arthur Anderson & Co.  
- Estate planning, taxation

Jim Keogh, Program Manager  
Employee Ownership Program - Washington Department of Community Development  
- Employee ownership

Laurie Owen, Manager  
Business Assistance - Seattle-King County Economic Development Council  
- Business assistance

Mary Jean Ryan, Director  
Evergreen Community Development Association  
- Financing

Florence Stier, Professor Emeritus  
University of Washington - School of Social Work  
- Family, interpersonal dynamics

Confidentiality: Any information provided by companies, owners, and their representatives will be treated with confidentiality. Access to documentation, case studies, financial analysis, discussions, etc. will be limited to team members and staff of the Worker Center and the Seattle-King County EDC.



### For more information:

The Ohio Department of Development has helped fund the Ohio Employee Ownership Education Project housed at two state university Centers. The goal of these Centers is to contribute to job creation and retention in the state of Ohio through education concerning employee ownership as an economic development strategy, regardless of scenario (plant closing, retirement buy-out or corporate divestment of a subsidiary) or financial structure (ESOP or worker cooperative). The Centers are committed to working closely and cooperatively with labor, management, public officials, community-based organizations and technical assistance providers.

The Centers can provide you or your organization with:

- A complete referral list of attorneys, financial experts and technical assistance providers in the field.
- Information on:
  - ESOPs;
  - worker cooperatives;
  - employee buyouts;
  - stock transfers upon retirement.
- Pre-feasibility studies to determine the viability of an employee-ownership project.
- Presentations or training workshops for:
  - those interested in a buyout or a start-up;
  - community and civic groups;
  - union locals;
  - economic development groups;
  - others interested in employee ownership.

For assistance or information contact the Center nearest you.

## Employee Ownership

### An Idea that Works for Ohio

- To create and retain jobs
- To raise and anchor capital
- To improve corporate performance

Ohio Department of Development  
Ohio Employee Ownership  
Education Project

**Northern Center**  
Kent State University  
N.E. Ohio Employee Ownership Center  
Department of Political Science  
Kent, OH 44242  
(216) 672-3028  
Director: John Logue  
Contact: Catherine Ivancic

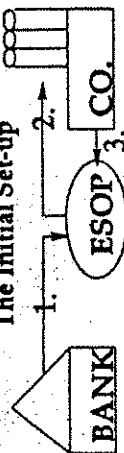
**Southern Center**  
Ohio University  
Cooperative Work Relations Program  
1 President Street  
Athens, OH 45701  
(614) 593-1953  
Director: Mark Larson  
Contact: Amy Borgstrom

Greg Leroy  
Midwest Center Labor Res.  
3411 W. Diversey, Ste 13  
Chicago IL 60647

Ohio Employee Ownership Education Project  
c/o Northeast Ohio Employee Ownership Center  
Department of Political Science  
Kent State University  
Kent, OH 44242

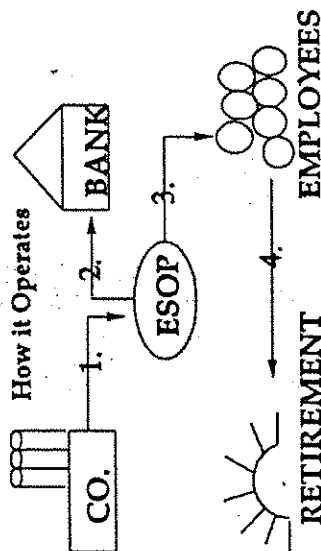
## How a Leveraged ESOP Works

### The Initial Set-up



1. Bank lends money to ESOP. 2. ESOP passes loan to company ... 3. ... in return for an equivalent amount of company stock, which is held in trust for employees.

### How it Operates



1. Company makes annual payment to ESOP from revenues and deducts the full amount from taxable income. 2. ESOP uses company contribution to pay off loan. 3. Stock is allocated to each employee's ESOP account as loan is paid off. 4. When employees quit or retire, they withdraw their stock or sell it back to the ESOP.

## How do ESOPs work?

To establish an ESOP, a company sets up a trust which holds stock and other assets contributed by the company for the employees. Employees receive their share of stock in the company either when they leave the firm or retire. Stock held in trust must be allocated to employee accounts on a non-discriminatory basis. The recent increase in the number of ESOPs is in a large part due to significant tax advantages associated with ESOP contributions. The company can deduct from its taxable income the full value of the stock or cash contribution.

## Employee Ownership can:

### Create and retain jobs

Although most employee-owned firms today are restructured from profitable ongoing businesses, the most dramatic examples of employee ownership are those in which employees purchase a company which would otherwise close. Employee buyouts have the potential of preserving the economic base of a community and saving local jobs. In many cases, with accurate information on the feasibility of the project and quality technical assistance, employees can turn a distressed business into a viable company.

### Raise capital

A company can borrow the money to purchase newly-issued stock through an ESOP. Using an ESOP a company may borrow money at rates 15 to 20 percent below market rates because lenders receive tax breaks on ESOP loans. The company can then use the proceeds from this sale of stock for its own growth. The company contributes enough money to the plan to cover the loan repayments. Through the ESOP the company is able to deduct both the principal and the interest from its taxable income.

### Improve corporate performance

Employee ownership has been consistently associated with improved corporate performance. One study indicates that employee-owned businesses are 1.5 times as profitable as comparable firms. ESOPs also provide employees a meaningful financial reward which has been linked to improved employee morale and productivity. This effect is enhanced in companies which provide a structure for including employees in corporate decision-making.

## ESOP follows owner retirement: an Ohio success story

Upon retirement the owners of a closely held business can defer the capital gains tax on the sale of stock if they sell 30% or more of the firm to the employees. The company makes tax deductible contributions to an ESOP, which the employees then use to buy out the owner. Here's how it worked for one Ohio firm:

Fastener Industries in Berea, Ohio, became employee-owned when the owner, Roderick Whelan Jr., decided to retire. The company's profit sharing plan for 120 employees was converted to an ESOP, allowing the Whelan family to pass its business on to those who helped make the weld fastener company a success.

"After all, it was the productivity of the employees that was responsible for profits. And by sharing ownership democratically, I figured the company could improve on its already successful track record. And in fact, it has," notes President, Richard Bleimack.

Ownership at Fastener is unusually broad. The company is 100% employee-owned, yet no one employee owns more than 4% of stock. The firm's board is elected directly by the employees every two years. Any employee can be nominated to run for the board.

Employee-ownership has demonstrated its potential to promote entrepreneurial spirit in employees, as well as improve employee attitudes and increase productivity. For employees, ownership has also meant substantial financial reward upon retirement.

Employee ownership at Fastener Industries has served as a positive strategy for the Whelan family to retire profitably, while ensuring the continued existence of a viable business, benefitting the employees and the community.

Copy

\*\*\*CONFIDENTIAL\*\*\*

\*\*\*CONFIDENTIAL\*\*\*

" D O L L A R S   A N D   J O B S "   -   A   S U R V E Y

Today, there are 10,000 jobs and annual gross sales of \$2½ billion in the southeast WECO Cleveland Area. The data from this survey will be used to develop an economic development strategy to bring more jobs and more dollars into this area.

Your cooperation could result in direct benefits to your company. Thank you for your participation.

The survey will take only 10 minutes to complete.

Please return the survey in the self-addressed envelope by October 7, 1988.

////////////////////////////////////

1. Name of Owner: \_\_\_\_\_ Age: \_\_\_\_\_

Name of Contact Person (if different): \_\_\_\_\_

Title: \_\_\_\_\_

2. Name of Company: \_\_\_\_\_

Address: \_\_\_\_\_

Phone #: \_\_\_\_\_

3. Name of Personnel Director: \_\_\_\_\_

4. Number of years your company has been on the southeast side: \_\_\_\_\_

5. Do you own or lease your company's present location?: \_\_\_\_\_

6. Current number of employees:

Full time (over 35 hours) \_\_\_\_\_ Part time (under 35 hours) \_\_\_\_\_

7. Have you added or lost employees over the last year?

Added full time \_\_\_\_\_ Added part time \_\_\_\_\_

Lost full time \_\_\_\_\_ Lost part time \_\_\_\_\_

"DOLLARS AND JOBS" - A SURVEY  
(continued)

8. Is the company family owned?: \_\_\_\_\_
9. Give the aggregate total gross sales for your company over the last five years. (This information will be held in total confidence.)

<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
\$ _____	\$ _____	\$ _____	\$ _____	\$ _____

BUSINESS PLAN

Answer the following questions using a scale from 0 to 5.

- 0 means NO OPINION/DO NOT KNOW  
1 means VERY UNLIKELY  
5 means VERY LIKELY

Circle one number for each question.

- |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|
| 10. How likely is it that your company will expand during the next 2 yrs.?                                  | 0 | 1 | 2 | 3 | 4 | 5 |
| 11. During the next 5 years?  | 0 | 1 | 2 | 3 | 4 | 5 |
| 12. How likely is it that your company will relocate out of the WECO area during the next 2 years?          | 0 | 1 | 2 | 3 | 4 | 5 |
| 13. During the next 5 years?  | 0 | 1 | 2 | 3 | 4 | 5 |
| 14. How likely is it that your company will have a significant change in ownership during the next 2 years? | 0 | 1 | 2 | 3 | 4 | 5 |
| 15. During the next 5 years?  | 0 | 1 | 2 | 3 | 4 | 5 |
| 16. How likely is it that your company will go out of business during the next 2 years?                     | 0 | 1 | 2 | 3 | 4 | 5 |
| 17. During the next 5 years?  | 0 | 1 | 2 | 3 | 4 | 5 |

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# Succession Named Top Family Business Concern: Part II

by Nancy Bowman-Upton

In our survey of family business founders, less than 20 percent had a succession plan and less than 30 percent had discussed succession with their families. This lack of planning, which is a major contributor to family business failure, was a concern for the founders. Many expressed a desire to plan but were not sure how to do it or what the plan should include.

While there is no agreed upon cookbook approach to succession planning, some general guidelines do exist. John Ward's book, *Keeping the Family Business Healthy*, provides excellent guidelines for the would be planner. In addition, the overall process is outlined in the *Succession Planning Model*. At first glance, the process may look overwhelming; but it can be accomplished. It is critical for the process to contain certain elements. First, it should involve the entire family, as well as key nonfamily employees. This will allow for open communication, less uncertainty and greater trust between all the involved parties. Second, planners should realize that a plan is not rigid or fixed. It should be evaluated periodically, updated or changed as circumstances warrant.

There are a number of critical tasks involved in planning for continuity. The family, especially the founder and his or her spouse, must decide if the business will continue as a family business. If so, why? What are the advantages? The family should determine if it can withstand the process. Succession and transition can be a painful process. Is the family strong enough to

work through it?

An important determinant of the success of succession planning is the attitude of the founder or owner/manager toward the management and development of the continuity plan and the transfer of power. This should be an honest goal of the founder. He or she must be willing to give the next generation space to learn and to make its own mistakes.

A structure to manage the succession process should be developed. Your board of directors can assist in strategic planning, the development of succession goals, conflict resolution and successor training. One instrument that has been beneficial to many family businesses undergoing the succession process is the family council. A family council is comprised of all family members who are affected by the business. A time is set aside for these family members to meet and discuss issues of concern to all in a nonconfrontational atmosphere. A succession task force, comprised of key nonfamily managers and family members, can monitor the succession process and provide valuable feedback.

Succession planning should contain a business strategy plan which includes a historical element, a current operation evaluation and a forecast of future operations. The historical element should include the organization's history from the founder's role in the firm's origination to the firm's progression to date. Instilling a sense of history to the next generation may help to clarify family and business goals. A

critical element of the current operations evaluation is the development of an organizational chart. It lists all family members and key managers as well as any factors which may effect their involvement (now or later) in the organization. The forecast of future operations answers such questions as: "What kind of company are we going to be?" and "What kind of management do we need?"

Another plan which must be developed in the succession process is the estate plan. How ownership of the firm will be divided must be determined.

A process for transferring power and authority should be developed. This transition should be timed carefully. A key element of a smooth transition is that it is timed. Time frames need to be established with regards to successor training and the eventual relinquishment of control. Utilizing this time frame also allows for the formulation of a retirement plan which provides a schedule of the founder's activities upon exiting the firm.

It has been found that four factors contribute to a smooth transition. First, it is a timely transition with regard to trained management and established policy. Second, the transition is unequivocal. The founder exits the firm and distances himself or herself from the day-to-day business activities. Third, the founder must be publicly committed to an orderly succession plan. Fourth, the founder articulates and

*continued on page*

13. Do you think you will retire...

13a. within the next 12 months

13b. in 1 to 2 years

13c. in 3 to 5 years

13d. more than 5 years from now

13e. have not made retirement plans

13f. plan not to retire

15. Would you be interested in receiving more information about planning for succession?

15a. Yes

15b. No

16. We will be offering a workshop for business owners later this year on the whole topic of succession and how you might plan for it. Would you be interested in attending this workshop?

16a. yes

16b. no

17. Would you be interested in being contacted by someone who specializes in succession planning?

17a. Yes

17b. No

# The Midwest Center for Labor Research

3411 West Diversey Avenue Room 10 ■ Chicago, Illinois 60647 ■ (312) 278-5418

June \_\_, 1989

Mr. \_\_\_\_\_, President  
Company Name \_\_\_\_\_  
Street Address \_\_\_\_\_  
Chicago, IL 606\_\_

*SAMPLE*

Dear Mr. \_\_\_\_\_,

I am sorry that we have been unable to reach you by phone. Per your assistant's suggestion today, here is your copy of the survey we are conducting for the City of Chicago. For your convenience, we have also enclosed a stamped, return-addressed envelope.

For your information, I have also enclosed a letter from the Executive Director of the Chicago Economic Development Commission certifying the purpose of the survey and its confidentiality.

We would greatly appreciate your taking just two or three minutes to fill this out. If you have any other questions about this, please feel free to phone me at 278-5418.

Sincerely,

Greg LeRoy  
Research Director

enclosures

THE ECONOMIC DEVELOPMENT COMMISSION OF THE CITY OF CHICAGO

---

June 12, 1989

To Whom It May Concern:

This is to certify that the Economic Development Commission of the City of Chicago has retained the Midwest Center for Labor Research, a non-profit research group based in Chicago, to conduct a survey of family-owned businesses in Chicago. The purpose of this survey is to better enable the City of Chicago to assist family-owned companies to remain viable and in Chicago. The City is interested in retaining businesses. The information you provide for this effort is strictly confidential and will be combined in statistical form with the results of more than 200 other surveys.



We would greatly appreciate your cooperation in this survey. If you have any questions about the survey, please call Milton Hill, of our staff, at 744-9886.

Sincerely,

Mayor  
Richard M. Daley

Chairman  
Ronald J. Gidwitz

Commissioners  
Robert Belcastor  
Michael Bennett  
William E. Brazley

Alderman  
Edward Burke  
Jacoby Dickens  
Alderman  
Bernard J. Hansen

Robert Healey  
Joseph James  
John A. Kennedy  
Donald Langenberg  
Philip B. Miller

David R. Mosena  
George Munoz  
Maurice Parrish  
Robert Pritzker  
Barry Sullivan

Executive Director  
Joseph H. Abel

A handwritten signature in dark ink, appearing to read "Joseph H. Abel".  
Joseph H. Abel  
Executive Director

---

SUITE 1505 THE MERCHANDISE MART CHICAGO, ILLINOIS 60654

TELEPHONE 512-744-9550



## CHICAGO FAMILY-OWNED BUSINESS ASSISTANCE SURVEY

Company Name \_\_\_\_\_

Principal's Name \_\_\_\_\_

Surveyor's Name \_\_\_\_\_ Survey Date \_\_\_\_\_

This survey is being conducted on behalf of the City of Chicago. This is a confidential survey, and it should take no more than three minutes to fill out. This research effort will help the City provide better assistance to family-owned companies in Chicago. Your answers to all of these questions are strictly confidential and no salespeople will contact you at any time.

1. First, please confirm that your company is family-owned or a closely-held corporation (circle one answer)

1a. Yes

1b. No

And the structure of the company is a (circle one)

1c. partnership

1d. proprietorship

1e. closely-held corporation

2. Are you the primary person in charge of the business?

2b. Yes

2b. No (if the answer is no, please give this form to that person and ask them to fill out the remaining questions)

3. Your company manufactures \_\_\_\_\_

3a. Yes

3b. No (correction \_\_\_\_\_)

4. You have about \_\_\_\_\_ employees

4a. yes

4b. no (correction \_\_\_\_\_)

5. Is there a union at your company?

5a. Yes (please indicate union name \_\_\_\_\_)

5b. No

The City is especially concerned about family-owned companies whose founders may be nearing retirement age. Research indicates that there is a very large number of family-owned companies founded since World War II where this may be the case. The following questions are about the future of your company and your eventual retirement. We want to emphasize that your answers to these questions are strictly confidential.

6. You are : (circle one answer)

6a. Under 55 years of age

6b. 55 years of age or older

7. Do you have any family members working with you at the company?

7a. Yes (continue)

7b. No (skip ahead to question #10)

8. Please indicate which family members currently work at the company and their position with the company.

			If yes, Please Indicate Position Held in Company
Spouse...	Yes	No	_____
Son(s)...	Yes	No	_____
Daughter(s)...	Yes	No	_____
Nephew(s)...	Yes	No	_____
Niece(s)...	Yes	No	_____
Grandchild...	Yes	No	_____
Brother...	Yes	No	_____
Sister...	Yes	No	_____
An In-Law...	Yes	No	_____
Another relative?	Yes	No	
(specify)_____			

The next questions are about your successor, that is, the person or persons who will eventually succeed you in the ownership and management of the company.

If you listed any relatives on question #8, please continue with #9.

If you did not identify any relatives on #8, please skip ahead to #10.

9. Have you chosen one of these relatives to be your successor?

9a. Yes (Which relative \_\_\_\_\_)

(If yes) His/her age is    under 55    55 or over

(If your answer is yes, please skip ahead to #13)

9b. No

10. Do you have someone who is not a relative chosen as a successor and who is now working in the company?

10a. Yes (his/her name is \_\_\_\_\_)

(position held \_\_\_\_\_)

(his/her age is:    under 55    age 55 or over

(now skip to #13)

10b. No (continue)

11. Do you have a successor who is now outside the company?

11a. Yes (his/her name is \_\_\_\_\_)

(current occupation \_\_\_\_\_)

(his/her age is:    under 55    age 55 or over

(relation if any to principal \_\_\_\_\_)

(now skip to #13)

11b. No

12. Do you have other succession plans, such as selling to a manager, a partner, or to an employee stock ownership plan?

12a. Yes (plans are to \_\_\_\_\_)

12b. No

13. Do you think you will retire

13a. within the next 12 months

13b. in 1 to 2 years

13c. in 3 to 5 years

13d. more than 5 years from now

13e. have not made retirement plans

13f. plan not to retire

15. Would you be interested in receiving more information about planning for succession?

15a. Yes

15b. No

16. We will be offering a workshop for business owners later this year on the whole topic of succession and how you might plan for it. Would you be interested in attending this workshop?

16a. yes

16b. no

17. Would you be interested in being contacted by someone who specializes in succession planning?

17a. Yes

17b. No

