Great Cities Institute

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

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

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Executive Summary

Introduction

This report presents the results of an update to a 1989 study titled "Intervening with aging owners to save industrial jobs" that assessed "the feasibility of retaining manufacturing jobs in Chicago by matching aging company owners who need successors with qualified minority and female entrepreneurs as buyers."[1] Similar to the previous report, the present study involves a national survey of literature and practice and an assessment of the successorship needs and plans of aging manufacturing entrepreneurs in Chicago. However, it extends the succession analysis of family-owned manufacturing small and medium enterprises (SMEs) to Cook County and its collar counties (Cook, DuPage, Kane, Lake, McHenry, and Will).

For the 1989 study, the goal of the Strategic Planning Committee of the Economic Development Commission Foundation of Chicago was to put in place initiatives to match transferable businesses with prospective new owners by partnering or linking "aging company owners who need successors with qualified minority and female entrepreneurs as buyers." This concept was labeled the "Minority Leveraged Buyout" or "MLBO" program. A fundamental working assumption of the previous study and a main rational of the MLBO concept, was "that most family business owners look first within their families for successors, then within their management ranks." Thus, in line with the previous study, the more specific objectives are: (1) to examine the business transfer potential of small and medium-sized family-owned manufacturing enterprises with 20- 250 employees owned by founders in the age group of 55 years or older. Thus, the focus of this update as with 1989 study is on the retention of manufacturing firms owned by family entrepreneurs without capable successors in an attempt to explore the extent to which a succession problem may be a closure threat to long-established family owned manufacturing firms. Once the magnitude of a succession problem is established, this study will explore the potential to increase minority ownership through business transfer – creating opportunities to increase minority entrepreneurship (or traditional entrepreneurship) in the manufacturing sector.

In addition, this update fills-in gaps in the previous study such as inadequate labor statistics on the precise percentage of manufacturing workers employed by family-owned businesses. It also includes an analysis of the range of possible economic impacts attributable to this population of manufacturing firms to determine their contribution to the regional economy. Family-owned manufacturing firms generate significant economic benefits for communities. The economic impact analysis outlines the value of family-owned manufacturing firms in an economically valid and systematic way. Economic impact outputs include estimates of economic contributions for output, GDP, employment, wages/salaries paid, and government tax revenues.

Profile of Surveyed Firms

The study sample was a list of 363 family-owned manufacturing businesses in Chicago and its collar counties obtained from Dun & Bradstreet database. The present study attempted to survey 100% of the principals of these firms. Principals were telephoned at their worksites during business hours.

The total number of completed interviews was 89, with 69 by phone and 20 returned by mail. The overall response rate for this study was 28.0%. and the refusal rate 25.7%. Of all the respondents, the largest groups of manufacturers were in the NAICS categories of Fabricated Metal Product Manufacturing (26 respondents), Machinery Manufacturing (13), Food Manufacturing (9), Printing and Related Support Activities (8), and Miscellaneous Manufacturing (9).

1 Midwest Center for Labor Research (1989). *"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 Economic Development Commission Foundation of Chicago.

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

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

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

Findings

73% of survey respondents indicated that they were over the age of 55 years old. 48.3% indicated that they plan to retire more than 5 years from now. 19.1% plan to retire in 3 to 5 years, and 12.4% plan to retire in 13 months to 2 years from now.

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

31.5% of firms surveyed had a successor chosen under the age of 55 years old. 4.5% had a chosen successor that was 55 years or older. 64% of firms either had no chosen successor or did not share the successors age. It is not entirely clear from some of the responses whether there is a lack of an apparent successors particularly in those firms that have family members working in the firm.

The results of the economic impact analysis show that the 363 family-owned manufacturing firms in Chicago and the collar counties directly employed 22,059 but contributed a total of 29,428 in employment in 2017. These workers were paid approximately **$892.7 million in wages and salaries (including benefits)** and **generated an economic output of $3.06 billion**. The analysis also sought to address the concern with averting firm closure due to aging owners without apparent successors. The results also show that based on the survey responses, if the family-owned firms with principals over 55 years without a chosen successor were to close, the economic impact on Chicago and the collar counties would be a loss of 1,474 in direct employment and a loss of 3,789 in total employment. The loss of jobs would result in a loss of approximately **$259 million in wages and salaries (including benefits)** and **a loss in economic output of approximately $969 million**.

Conclusion

As an economic development opportunity, this study focuses on the retention of manufacturing firms owned by family entrepreneurs without capable successors in Chicago and its collar counties (Cook, DuPage, Kane, Lake, McHenry, and Will). Given the regional and national economic value of family firms, succession planning is essential to ensuring the stability of employment and economic output.

This report identifies the need for robust succession planning resources and expanded flexibility regarding ownership transfer, as well as policy changes to better support small businesses through these transitions. Specifically, it outlines potential ownership structures, including employee ownership and external investment strategies, to provide firms needed flexibility in the face of retirement or potential closure. This requires addressing gaps in policy and existing technical assistance and other programs designed to avert plant closings by assisting aging owners with succession planning.

This report is also informed by a belief that in addition to employee ownership as a desired outcome of non-family succession, these are also substantial opportunities to increase minority entrepreneurship in the manufacturing sector.

It also speaks to the need for policy change at the federal, state, and local level to provide technical assistance and support to small, family-owned firms, and outlines elements of strong succession planning education programs that could be implemented regionally to provide consulting and support. Resources like these will enable family-owned manufacturing firms throughout the Chicago region to continue providing employment and economic growth into the future.

Introduction

From its peak in 1947, there was a massive drop in the number of manufacturing jobs in Chicago from 667,407 in 1947[1] to 61,633 in 2015.[2] Initially, some of those jobs moved to surrounding suburban counties and some populations followed the jobs, but in the five collar counties, minus McHenry, the number of manufacturing jobs went from 852,436[3] in 1947 to 345,679 in 2015[4], leaving behind suffering suburbs.[5] Nonetheless, manufacturing remains an important part of Chicago and the region's economy and in recent years has "shown stability and potential for growth and reemergence."[6] The number of postings for jobs in manufacturing, for example, in 2017 (58,407) was the fourth highest out of twenty industrial sectors.[7] "In this moment in Chicago's economic history, there is an opportunity to revitalize the region's recovering manufacturing sector with a more inclusive future.[8]"

Even as the region builds its 21st Century economy, manufacturing, especially advanced manufacturing, is poised to be an integral part of the region's future. While the recruitment and growth of manufacturing firms is an important economic development strategy, so is the retention of those already in place. Among the firms in the region, 363 are family-owned. Among those family-owned firms, as owners age, they may or may not have succession plans. Having a succession plan may make the difference in whether a firm closes its doors, thus adding to the loss of manufacturing jobs and the missed opportunity to retain family owned firms in the region. An assessment of the extent to which these family-owned firms have succession plans sets the stage for providing strategies to assist with succession planning.

Firm ownership has largely been the domain of white men. With changing demographics and calls for diversity and inclusion, succession planning that involves a strategy to connect potential owners, including workers in the firms, with firm ownership could serve both the goals of industrial retention and expanded opportunities for a more inclusionary firm ownership.

Addressing these issues is aided by an assessment of successorship among aging owners of manufacturing firms. In 1989, the Midwest Center for Labor Research produced *Intervening with aging owners to save industrial jobs,* a report on succession planning among aging firm owners for the Strategic Planning Committee of the Economic Development Commission Foundation of Chicago. Now, nearly thirty years later, there is again interest in tackling the issue of succession of the Chicago region's family-owned firms. This update by the Great Cities Institute at the University of Illinois at Chicago is produced for The Ownership Conversion Project in partnership with The Chicago Federation of Labor, LISC Chicago, Manufacturing Renaissance, The Safer Foundation, World Business Chicago, and Cook County, who are is interested in industrial retention, family owned firms and expanding opportunities for minority firm ownership.

This report presents results of an update to the 1989 study that examined: 1) the impact of ownership succession on job and asset retention among family-owned small and medium sized manufacturing companies in Chicago; and 2) the potential of retaining these jobs and assets in the city — as well as diversify the ownership of such companies —by having them acquired by qualified minority and female entrepreneurs.[9] The current study extends this analysis to include firms located in Cook

1 Economic Fact Sheet #1: *Chicago and Cook County Economic Trends*. Great Cities Institute at the University of Illinois at Chicago, 11 July 2016, greatcities.uic.edu/wp-content/uploads/2016/07/GCI-Employment-Fact-Sheet-V2.pdf

2 Córdova, T. L., Wilson, M. D., & Stettner, A. (2018, June). *Revitalizing Manufacturing and Expanding Opportunities for Chicago's Black and Latino Communities.* Chicago: Great Cities Institute, University of Illinois at Chicago.

3 1952 County and City Data Book, U.S. Census Bureau.

4 Córdova, Wilson and Stettner

5 Toner, Casey, et al. *How Dolton, Illinois Reflects America's Changing Suburbs In 2018*. WBEZ 91.5 and Better Government Association, 12 Nov. 2018, interactive.wbez.org/dolton/.

6 Córdova, Wilson and Stettner

7 *Ibid.*

8 *Ibid.*

9 Midwest Center for Labor Research (1989). *"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 Plan-

and its collar counties (DuPage, Kane, Lake, McHenry, and Will), and, in line with the previous report, involves a national survey of the related literature and practices as well as an assessment of the successorship plans of aging manufacturing entrepreneurs.

The current study also includes an analysis of the possible economic impacts attributable to this population of manufacturing firms and estimates their contributions to the regional economy. Family-owned small and medium sized manufacturing firms generate significant economic benefits for communities. The economic impact analysis provided outlines the value of the benefits of such manufacturing firms, including estimates for output, GDP, employment, wages/salaries paid, and government tax revenues.

This study is based on a list of 363 family-owned small and medium sized manufacturing businesses in Chicago and its collar counties obtained from Dun & Bradstreet business ownership database. Owners were contacted at their worksites during business hours. The total number of completed interviews was 89, a response rate of 28%.

Similar to the 1989 study, this updated analysis found evidence supporting concerns about the possible effects of successorship decisions to be made within this important but often overlooked economic sector:

- 73% of the respondents were 55 years old or over, indicating a likelihood of widespread retirements in the next few decades;
- 39% expressed a desire or intent to retire within the next five years;
- 51% had no plans for succession regardless of their retirement timeframe; and
- 62% had not identified any possible successor.

The current report also reaffirmed the continued need to diversify the ownership of these companies to include more Black, Latino, and female entrepreneurs:

- In Illinois, 83% of manufacturing firms in 2012 were owned by White (non-Hispanic or Latino) owners;
- 0.5% of firms were owned by Black (non-Hispanic or Latino) owners; and
- 3% of firms were owned by Hispanic or Latino owners;[10]
- In the Chicago-Naperville-Elgin, IL-IN-WI Metro Area, 93% of employees worked for White (non-Hispanic or Latino) owners;
- 1% worked for Black (non-Hispanic or Latino) owners;
- 4.5% worked for Hispanic or Latino owners; and
- 10% worked for female owners.

The results of the economic impact analysis show that the 363 family-owned manufacturing firms in Chicago and the collar counties directly employed 22,059 and contributed a total of 29,428 in employment in 2017. These workers were paid approximately $892.7 million in wages and salaries (including benefits) and generated an economic output of $3.06 billion. The analysis also sought to address concerns regarding possible firm closures or job and asset transfers due to aging owners without apparent successors. Based on the survey results, if these manufacturing companies were to close, or sell to private equity firms or other companies that would move the jobs and assets out of the region, the economic impact on Chicago and the collar counties would be a loss of 1,474 in direct employment and a loss of 3,789 in total employment. The loss of jobs would result in a loss of approximately $259 million in wages and salaries (including benefits) and a loss in economic output of approximately $969 million. (See tables 4-12)

ning Committee of The Economic Development Commission Foundation of Chicago.
10 Córdova, Wilson and Stettner

Family-Owned Businesses and Intergenerational Succession

Family-owned Businesses in the U.S.

Family-owned businesses play a significant role in public policy debates of employment and economic growth and prosperity. They have a significant impact on economic development and employment generation for local communities and national economies.[11] Around 14.4 million of the 15 million businesses in the United States are family-controlled.[12] In addition, family-owned enterprises represent a majority of the jobs and approximately 40 percent of the gross national product of the U.S.[13] Therefore, retaining successful family-owned businesses "in the community minimizes disruption of jobs, business relationships, and local pride."[14] This necessitates a public policy focus on family-owned enterprises and the concern with business succession.

Snapshot of Family Business in the United States

- There are 5.5 million family businesses in the United States.
- Family owned businesses contribute 57% of the GDP and employ 63% of the workforce.
- More than **30%** of all family-owned businesses survive into the **second generation**.
- **12%** will still be viable into the **third generation**, with **3%** of all family businesses operating at the **fourth-generation level and beyond**.
- **85%** of family-owned firms that have identified a successor say it will be a **family member.**[15]

Conventional Notions of Family Business Transfers

For most family owned businesses, the link between their continuity and the life of their founding owner is assumed to be self-evident.[16] However, the family business sector is characterized by low "survival rates".[17] In the US, only about 30% of family businesses endure to the second generation and only 15% achieve transition to the third.[18] These disturbing statistics have led researchers to focus on succession as an explanation of firm mortality. Invariably, most if not all family-owned businesses face the inevitable strategic issue of conversion in ownership, either by family succession, sale or even closure. Few family owned firms successfully transfer ownership to the next generation of family members.[19] It is more likely that business transfers are not intra-family.[20] Nevertheless, researchers and practitioners have neglected to explore in any meaningful way alternatives to intra-family succession, such as "sale to a third party, management buy-out [MBO] or buy-in [MBI], public quotation or liquidation."[21] In addition to MBOs and MBIs, other types of business transfers are: co-operatives which, provide another type of ownership transfer and "benevolent successions/disposals – when the owner gives the business to employees, or sells it to them under favourable conditions."[22] Hence, this study focuses on non-family succession, deviating from current succession research which mainly concentrates on intergenerational succession. Succession problems can result in economic losses when viable businesses

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

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

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

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

15 Raymond Institute/MassMutual, American Family Business Survey, 2003.

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

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

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

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

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

21 Howorth, Westhead & Wright, ibid., p. 511.

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

cannot find new owners. Clearly, maintaining a successful business in a community reduces "disruption of jobs, business relationships, and local pride."[23] Research suggests that sale of family-owned businesses to external buyers predominates over family succession, although the family business literature focuses almost exclusively on intra-family succession[24] with little attention paid to successions by external parties.[25]

The Focus on Inter-Generational Succession

Irrespective of geography or culture, most businesses are managed by their founders, or their families and heirs.[26] This "unity of ownership and management in the hands of the family" is what gives family businesses one of its distinguishing characteristics. [27] There is an implicit assumption that most family businesses want to carry the business into the next generation and the continuity of the family-owned firm is inextricably linked to inter-generation succession. This is perhaps due to the typical size and ownership structure of such businesses.[28] For most businesses, the link between their continuity and the life of their owner-founder is self-evident.[29] Herein lies the tension inherent to most if not all family-owned businesses: their character as family businesses is irrevocably "tied to inter-generational succession of family members as owners, managers and in other roles in the company."[30]

Most definitions of family-owned business reflect a consensus in the field of family business research that succession is the most significant question facing most family-owned firms. Thus, the mortality of family owned businesses due to closure is often attributed in the business and management literature to the lack of succession planning and adequate preparation of a successor.[31] Therefore, succession is seen to present a serious and unique problem for small businesses. While business successions play a vital role in promoting economic stability and growth by reducing the evident exposures of local economies to disruptions resulting from business closures, even if closure is a more probable exit strategy[32]; Danco (1982) calls this firm mortality "corporeuthanasia"[33], such a narrow focus implies that succession is solely the transition of family business ownership and/or control to a succeeding generation. More broadly, succession involves a wide range of steps designed to maintain the continuity of the business across generations.

Although the retirement of the business owner is one of the primary reasons for a family-owned business transfer,

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

24 Howorth, C., Westhead, P., & Wright, M. (2004). Buyouts, information asymmetry and the family management dyad. *Journal of Business Venturing, 19*(4), 509-534.

25 Klöckner, O. (2009). *Buy-outs in Family Businesses: Changes in Corporate Governance, Instruments of Managerial Control, and Financial Practices*, Wiesbaden: Gabler.

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

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

28 Sam, M. A. (2003). When Founding Entrepreneurs Leave: The Problem of Succession in Small Firms in Nigeria, 1971-1980. *The Journal of Modern African Studies, 41*(3), 371-393, p. 372; Walsh, Grant (2011). Family Business Succession: Managing the All-Important Family Component, KPMG Enterprise, p. 2.

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

30 Ibid., pp. 371-372.

31 Trow, D. B. (1961). Executive succession in small companies, Administrative Science Quarterly 6, 228-39; Ward, J. L. (I987). Keeping the Family Business Healthy: how to plan for continuing growth, profitability and family leadership. San Francisco, CA: Jossey-Bass; Handler, W. C. (1990). Succession in family firms: A mutual role adjustment between entrepreneurs and next-generation family members. Entrepreneurship Theory and Practice, 15(1), 37-51; Handler, W. C. (1991). Key intergenerational relationships of next-generation family members in family firms. Journal of Small Business Management, 29(3), 21-32; Aronoff, C. E., McClure, S. L. & Ward, J. L. (2011). Family Business Succession: The Final Test of Greatness, Basingstoke, Hampshire and New York, N.Y.: Palgrave Macmillan, p. 1.

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

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

there can be other drivers such as the pursuit of other opportunities by the founder, the sale of the business to establish a new venture, or unanticipated events. Irrespective of the reason, closure of economically viable SMEs as a result of challenging business succession can bring about job losses, flow-on effects on local businesses and suppliers, and the loss of specialized knowledge. However, a distinction needs to be made between voluntary succession in which the founder-owner has some control over the succession process either through family succession or sale and "succession due to death or serious illness which are beyond the control of the incumbent owner."[34]

Aging Factory Owners

A significant social and economic challenge facing the United States and other advanced western economies, is the aging of the population. The percentage of the American population 65 years and over is projected to increase 68.67% from 2012 to 2030.[35] This aging of the United States translates into the aging of the post-World-War II generation of entrepreneurs. This will have an impact on the number of business transfers in the coming years not only in terms of the ownership of businesses but also on potential employment and economic growth.

Change in firm ownership is necessary to maintaining the dynamism and performance of local and national economies.[36] Yet, local economic development policies tend to focus on start-ups and growth rather than on the contribution business transfers could make to promoting business and growth.[37] To sustain employment, protect the value of assets and safeguard stability in production processes and business relationships requires the successful business transfer of sustainable SMEs at different phases of their life cycle. Research of firms in the European Union (EU) shows that transferred businesses perform better than "start-ups with respect to survival, turnover, profit, innovativeness and employment." [38] Further more, "approximately 20–25 % of SMEs will locate a successor within the family while about 40% of firms are seeking external buyers." For example, Meijaard (2005) claims transferred firms in the Netherlands which remained in business contributed "three times as much to overall employment than the direct employment effects of start-ups." In addition, contingent on the economic environment, survival over a five-year period generally varies between 35-50% for start-ups and 90-96% for transferred firms.[39] Nevertheless, more attention is being paid to family-owned firms that need to find an intergenerational successor when it is not certain that they can be sourced from within the family.[40]

Business Transfers Due to Ageing Family Bussiness Owners

Much of the focus of the business literature on the aging population is on the "silver economy" which, is the potential market for "the development and marketing of innovative products and services aimed at elderly consumers."[41] In the public policy literature on the other hand, the emphasis is on options available to governments to address the fiscal challenges raised by population ageing, particularly the financing of the healthcare and social care systems. However, there has been much less emphasis on what O'Connor III and McMahon (2017) claim to be the "trending tsunami

34 Sharma, P., Chrisman, J.J. & Chua, J.H. (2003a). Predicitors of satisfaction with the succession process in family firms. *Journal of Business Venturing*, Vol. 18, pp. 667-87.
35 Ortman, J. M., Velkoff, V. A. and Hogan, H. An aging nation: the older population in the United States: *population estimates and projections, Current Population Reports*, Issued May 2014.
36 Dyck, B., Mauws, F., Starke, A., & Mischke, G. (2002). Passing the baton: The importance
of sequence, timing, technique and communication in executive successions. *Journal of Business Venturing*, 17(2), 143-162.; Van Teeffelen, L. (2012). *Avenues to improve success in SME business transfers: Reflections on theories, research and policies*. Utrecht: Hogeschool Utrecht.
37 Viljamaa, A., Tall, J., Varamäki, E., Singer, S. and Durst, S. (eds.) 2015. *Business Transfer Ecosystems and Awareness Raising Activities: Situation Analysis of Five European Countries*. Publications of Seinäjoki University of Applied Sciences B. Reports 108.
38 Ibid., pp. 5-6.
39 Geerts, A., Herrings, W., & Peek, M. (2004). *Change of ownership creates new prospects in SME sector*. SME special 2004. Amsterdam: ING.
40 Grundström, Öberg & Öhrwall Rönnbäck, ibid.
41 Kurek, S., & Rachwał, T. (2011). Development of entrepreneurship in ageing populations of The European Union. Procedia - Social and Behavioral Sciences, 19, 397-405, p. 397.

of aging business owners." [42] They claim "there are almost 28 million small business owners in the U.S., many baby boomers who will soon be considering retirement"[43] A review of the literature, at least in the United States, shows that there are no concerted public policy initiatives aimed at addressing this issue.

The European Union (EU) in 2006 acknowledged that "Europe's population is aging and the potential for business transfers is increasing." It noted that "one third of EU entrepreneurs, mainly those running family enterprises, will withdraw within the next ten years" and "estimate[ed] this could affect up to 690,000 small and medium-sized enterprises and 2.8 million jobs every year."[44] The approach of the European Commission vis-à-vis SME transfer is informed by the understanding that "[i]mproving the number of transfers may increase the number of firms leading to employment growth"[45] Thus, the EU), unlike the U. S. has an ongoing effort to develop a European level framework to enable "SME business transfers and their ecosystems."[46] However, initiatives aimed at enabling successful business transfers is not specifically targeted at aging entrepreneurs. In addition, there are significant gaps in the level of business transfer support (institutional framework and policy initiatives) between European countries.[47]

Employee Ownership Schemes

Some employee-owned enterprises are the result of businesses that were heading for closure and were transferred to, or bought out by the employees, and re-established under the worker-owned form. There are two general structures for an employee-owned company: an ESOP or cooperative.

In the United States, the tradition of business transfers to employees is fairly limited. In Europe, the experience is more prevalent though somewhat more varied amongst European countries. For example, in Europe the practice of business transfers to employees is more widespread in France, Italy and Spain than in other EU countries. There are not-for-profit organizations in both the United States and the EU working to bring about inclusive cooperative businesses focused on traditionally marginalized groups and economically disadvantages communities.
Apart from worker cooperatives, employee ownership promotion is accomplished "through various combinations of employee ownership, stock options, profit sharing and gainsharing."[48] In the United States, the predominant form of employee ownership are the employee stock ownership plans (ESOPs), a mechanism "through which workers invest in their own company's stock."[49] Their prominence is the result of being actively promoted by an assortment of Federal and state policy initiatives. Typically, firms with such employee ownership schemes as ESOPs, are often controlled by investors of equity capital.[50] While employees by means of an ESOP can "have a claim on most, or sometimes all, of the firm's net earnings", they do not necessarily have control of the firm.[51] In other words, ESOPs do not preclude the continuation of family ownership where they are an option for family-owned firms.

Reempresa in Catalan Spain—Best International Practice

Reempresa represents international best practices in addressing the challenges and opportunities in small companies

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42 O'Connor III, John E. and McMahon, Patrick M. (2017). Options for growing number of aging business owners, Daily Herald Business Ledger, updated: 2/3/2017 10:34 AM

43 Ibid.

44 Commission of the European Communities (2006) Implementing the Lisbon Community Programme for Growth and Jobs: Transfer of Businesses -- Continuity through a new beginning, Brussels, p. 3.

45 "Business Dynamics: Start-ups, Business Transfers and Bankruptcy" - Study commissioned by European Commission, DG Enterprise and Industry under framework contract N° ENTR/2007/040-2.

46 Viljamaa et al., ibid. p. 5.

47 European Commission Enterprise and Industry Directorate-General (2009). *Overview of Family, Business, Relevant Issues: Research, Networks, Policy Measures and Existing Studies*, Brussels, p. 5.

48 The Aspen Institute, Center for Business Education, *A Closer Look at Business Education: Employee Ownership*, October 2008, p. 1.

49 Hansmann, H. (1990). When Does Worker Ownership Work? ESOPs, Law Firms, Codetermination, and Economic Democracy. *The Yale Law Journal*, 99(8), 1749-1816, p. 1752.

50 Ibid., p. 1757.

51 Ibid.

from all sectors facing a succession in ownership challenge. The following is borrowed from their web site, http://www.reempresa.org. .

Reempresa is located in Catalan, Spain and was founded 10 years ago. Its success led to its adoption by the Catalan government. It is now fully supported by a mix of funds from the EU and Spain (including Catalan, Barcelona, an entrepreneurial association CECOT, a Basque credit union—Laboral Kutxa—that emerged in partnership with the Caja Laboral in Mondragon, and a union), as well as JP Morgan Chase and the Citibank Foundation. Its services are provided free of charge. The staff is very small and relies upon and works through a network of 1,800 consultants.

Reempresa focuses on small companies that are vulnerable to predatory acquisition. They work with companies from all sectors. Manufacturing is only 5% of their business yet constitutes 19% of their investments. They also work with restaurants and bars (37%), services (35%) and the remainder in the commercial sector.

It is a new model of entrepreneurship and business growth: a professional tool by which one or more buyers has access to become owners of an operating company, to continue to grow an existing company without going though the startup process. In most SMEs, and all self-employment companies, this process means the assumption of management and administration tasks by the buyer.

In the Reempresa process, all company assets are kept, and the businesses continue operating, keeping the jobs, facilities, customers and suppliers, and giving value to the effort of business creation. In addition, business transfer reinforces current and future business and is more likely to promote economic growth.

Clearly, an existing company has more possibilities and capabilities to generate resources than a new company starting from scratch, and avoids conflict and judicialisation of closing processes. Albert Colomer, Manager of Catalan Reempresa Center said, “It is seven times easier to continue with a business already existing than to build a new one.” During last years a lot of resources have been spent to build new companies. However, in addition to the creation, one equal or more important thing is to spend resources to keep these companies solvent rather than forcing them to close down because no one is interested in continuing with the company. For that reason Reempresa is shown as a good instrument to ensure a long life for viable businesses.

Manufacturing Firm Ownership in Cook County and Collar Counties

What made the 1989 study distinctive was its focus on non-intra-family succession of manufacturing firms in Chicago and the goal of partnering aging company owners who needed successors with qualified minority and female entrepreneurs as buyers. The MLBO program was informed by a belief that in addition to employee ownership as the desired outcome of non-family succession, it is also presented a substantial opportunity to increase minority entrepreneurship (or traditional entrepreneurship) in the manufacturing sector. The study found that men and women of color accounted for less than one half of one percent of the region's manufacturing employment or sales. This situation has not improved much since then (see Charts 1-3).

Nationwide, based on 2007 data:

- 16.69% of manufacturing firms were owned by racial and ethnic minorities (Black or African American, American Indian & Alaska Native, Asian, Hispanic or Latino, Native Hawaiian & Other Pacific Islander).
- 3.37% were owned by Black or African American.
- 7.46% were owned by Hispanic or Latino.

In Illinois, based on 2007 data:

- 0.0% to 1.0% of manufacturing firms were owned by racial and ethnic minorities (Source: Minority Business Development Agency based on U.S. Census Bureau, 2007 Survey of Business Owners, June 2010*)*.

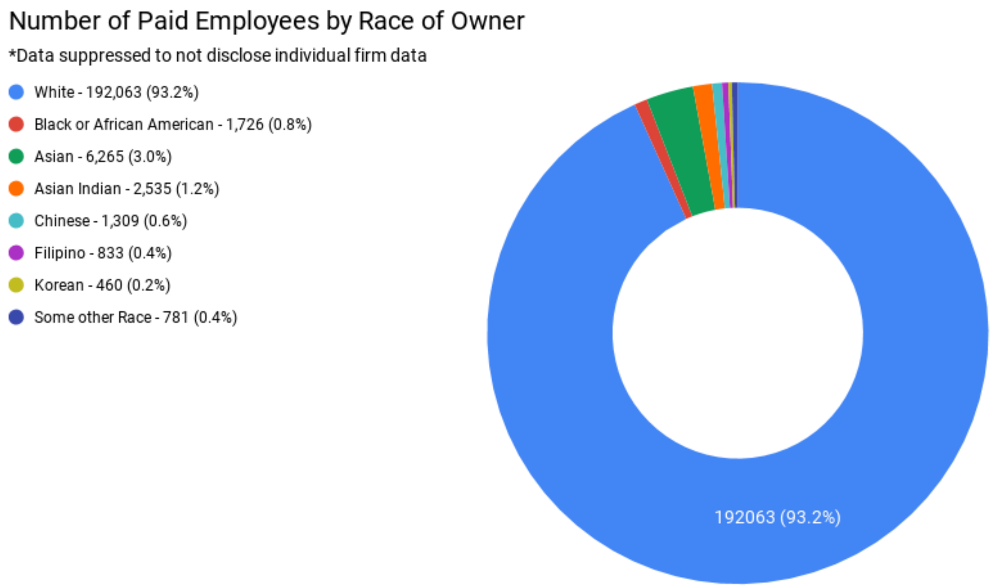


Chart 1: Manufacturing Firm Ownership by Race in Chicago-Naperville-Elgin, IL-IN-WI Metro Area, 2012

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

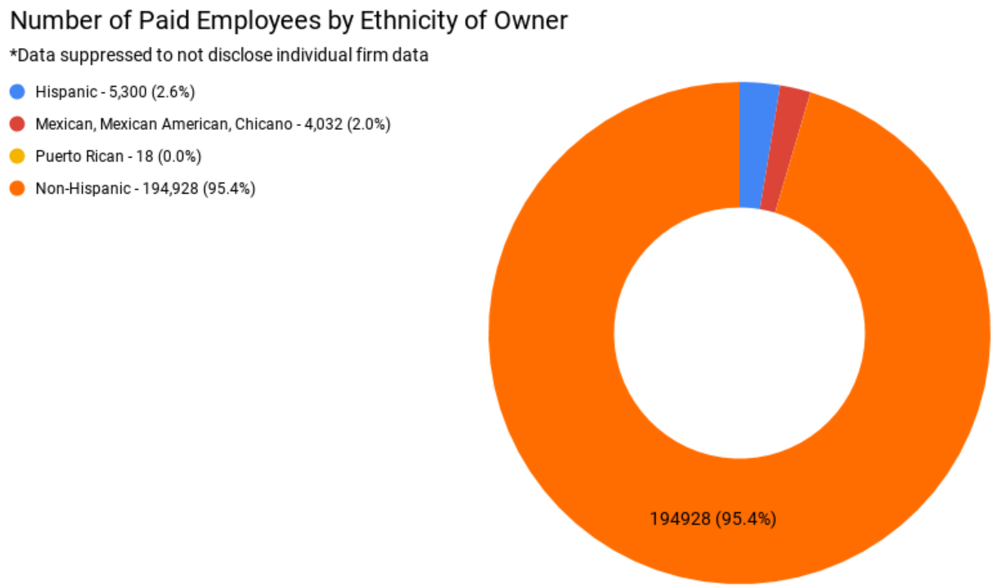


Chart 2: Manufacturing Firm Ownership by Ethnicity in Chicago-Naperville-Elgin, IL-IN-WI Metro Area, 2012
(Source: Economic Census, U.S. Census Bureau)

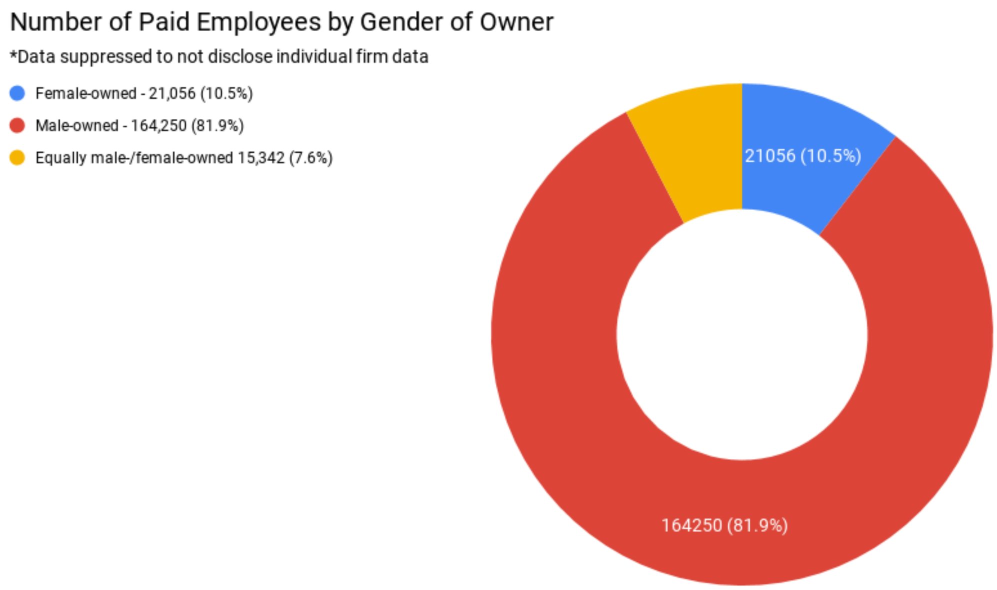


Chart 3: Manufacturing Firm Ownership by Gender in Chicago-Naperville-Elgin, IL-IN-WI Metro Area, 2012
(Source: Economic Census, U.S. Census Bureau)

Survey Methodology

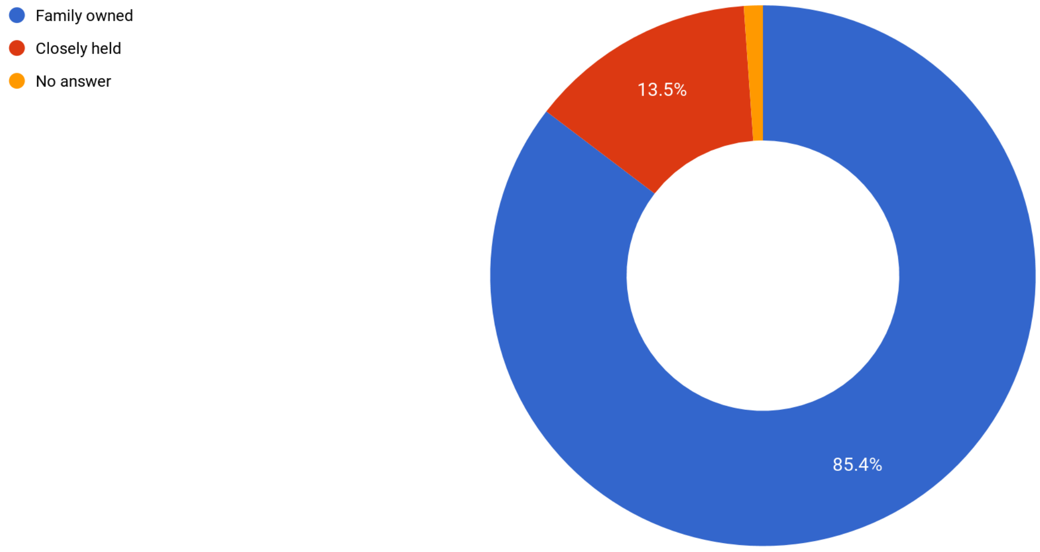
The same research methodology including survey instrument as the previous study was used for this updated study with necessary modifications due to the lack of information on the age of firm Principals or any information on successors in the Dun & Bradstreet database of manufacturing firms in Cook and the collar counties. This limitation meant that the present study could not grouped firms into the four categories used in the previous study. Rather, the present study is based on the full universe of family-owned manufacturing firms in Cook and the collar counties.

The 1989 study grouped firms into four categories using the following criteria:

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

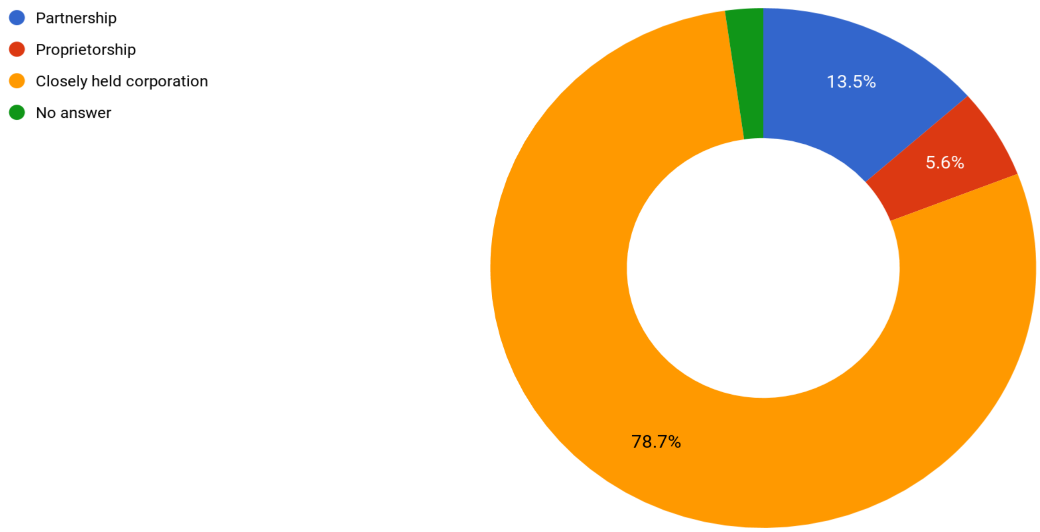
The previous study attempted to survey 100% of those company principals in Group D (the highest risk category), 50% of those in category C (the next highest risk), and 10% of those in Category B. However, for this update, it was not possible to use the same taxonomy because the datasets obtained from Dun & Bradstreet on manufacturing firms in Cook and the collar counties did not provide the age of firm Principals or any information on successors. This data was collected using the survey.

The company structure of survey respondents was 78.7% closely held corporation, 13.5% partnership, and 5.6% proprietorship (See Chart 5).



n=89

Chart 4: Family Ownership Structure



n=89

Chart 5: Company Structure

Limitations

Business mortality or survival rates before and during transitions remain largely under researched. This is most likely due to the lack of publicly accessible data dedicated to ownership transfers in the United States. The Bureau of Labor Statistics (BLS) provides a data series with quarterly estimates of business births and deaths under its Business Employment Dynamics (BED). It does not provide a count of the creation of a holding as a result of an ownership transfer through purchase but as creations from scratch.

Data Acquisition

Data was acquired from the company Dun & Bradstreet on manufacturing establishments that were privately-held independent or parent companies with between 20 and 250 employees in Cook County and the collar counties (DuPage, Kane, Lake, McHenry, and Will). Public companies or branch plants and companies larger than 250 or smaller than 20 employees were eliminated. This list totaled 3,111 companies. In contrast to the August, 1989 study, Dun & Bradstreet no longer tracks the age of owners for companies below 250 employees, therefore to initiate the list of companies for survey firms were was filtered in three ways to arrive at a full list of family-owned firms.

Primary Data Filters

The first filter applied to companies in the dataset was of firms whose owner was also the highest executive officer, indicating strong family-control of the company. These were identified as *1st matches* and consisted of 168 companies.

The second filter applied to the remaining companies was to match owners who had a matching surname with the highest executive officer, indicating possible family relations and therefor also a strong family-control of the company. These were identified as *2nd matches* and consisted of 84 companies.

The third filter applied to the remaining companies was a search for more company information that would indicate strong family-control of a company. These were identified as *3rd matches* and consisted of 113 companies. The three sets of matches were combined and totaled 365 companies.

Limitations of Data Set

To replicate the 1989 study, firms with less than 20 employees and more than 250 employees were filtered out, leaving only private independent firms with between 20 and 250 employees. Table 1 shows data on private independent manufacturing firms. The criteria described on page 11 was used to identify family-owned firms with between 20 and 250 employees, which comprised the survey population.

NAICS 31/32/33	Cook County		Collar Counties		Combined	
	Firms	Employed	Firms	Employed	Firms	Employed
Private Independent Firms	16,567	180,612	8,671	90,268	25,238	270,880
0 Employees	350	0	135	0	485	0
1 Employee	3,108	3,108	1,740	1,740	4,848	4,848
2-4 Employees	7,461	19,066	3,880	9,735	11,341	28,801
5-9 Employees	2,147	13,584	1,194	7,614	3,341	21,198
10-19 Employees	1,490	19,233	765	9,987	2,255	29,220
20-250 Employees	1,952	103,533	931	49,556	2,883	153,089
Over 250 Employees	59	22,088	26	11,636	85	33,724

Table 1: All Private Independent Manufacturing Firms by Number of Employees

(Source: Dun & Bradstreet, Compiled using Mergent Intellect)

Questionnaire Design

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

Phone Surveying

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

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

Survey Penetration Rates

Appendix B shows the disposition of sample and Appendix C shows the response, cooperation, and refusal rates of survey respondents.

Company Data Analysis Results

Preliminary Company Universe

In the previous study, 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. For this update, the geography was extended to include Chicago's collar counties (Cook, DuPage, Kane, Lake, McHenry, and Will). However, for this update the current Dun & Bradstreet firm database did not have data on the age of the principal. Therefore, age was not used as a sorting criterion for this study. Nevertheless, the information was collected using a question in the survey of family-owned firms. The result was a list of 365 companies with each company's name, address, NAICS code, name of principal and phone number.

Comparative Analysis

The previous study sought to establish whether apparent successorship problems were more common among smaller or larger firms, among firms that are older or younger, or among firms that have younger or older principals. This was based on an assumption from a review of the successorship literature that larger firms are less likely to have issues of successorship because they have of necessity developed larger management groups, and that older firms are more likely to have previously made a successful ownership transition and are therefore statistically more likely to be successful in making another.

This section compares some of the more central findings of the 1989 study with this update.

Industry Sector Analysis

By industry sector, the 337 companies in the 1989 study showed a high concentration pattern in a small number of industry groups. The study used the Standard Industrial Classification (SIC) two-digit classification system. The present study uses the North American Industry Classification System (NAICS) categories. Charts 6 and 7 show the number of firms in each NAICS category for Cook and the collar counties and the City of Chicago respectively.

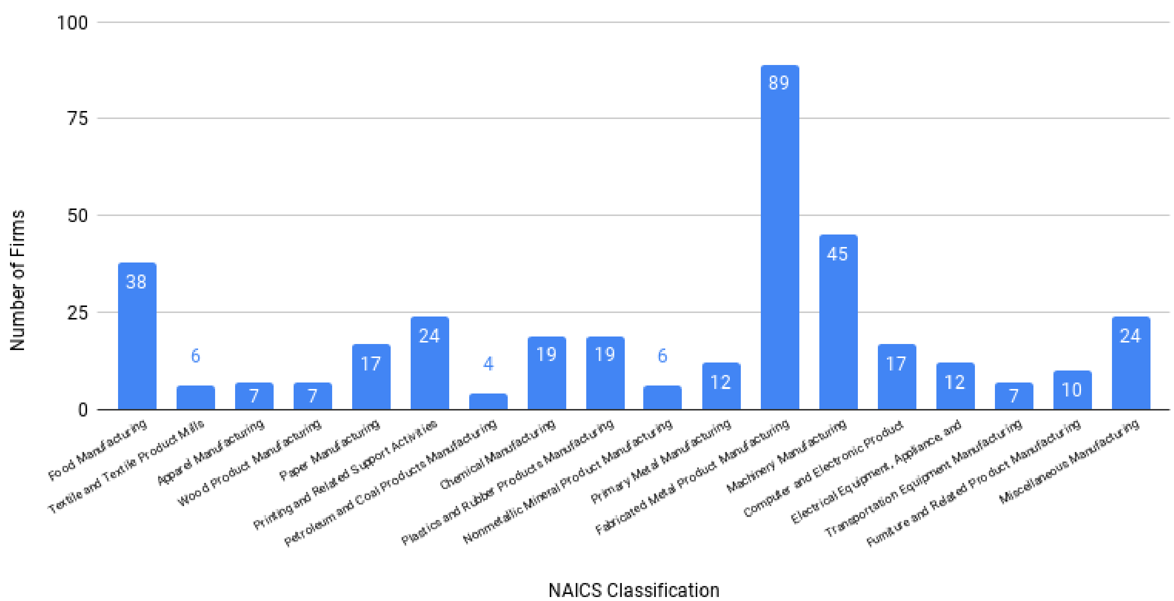


Chart 6: NAICS Classification of Family-Owned Manufacturing Firms in Cook County and the Collar Counties

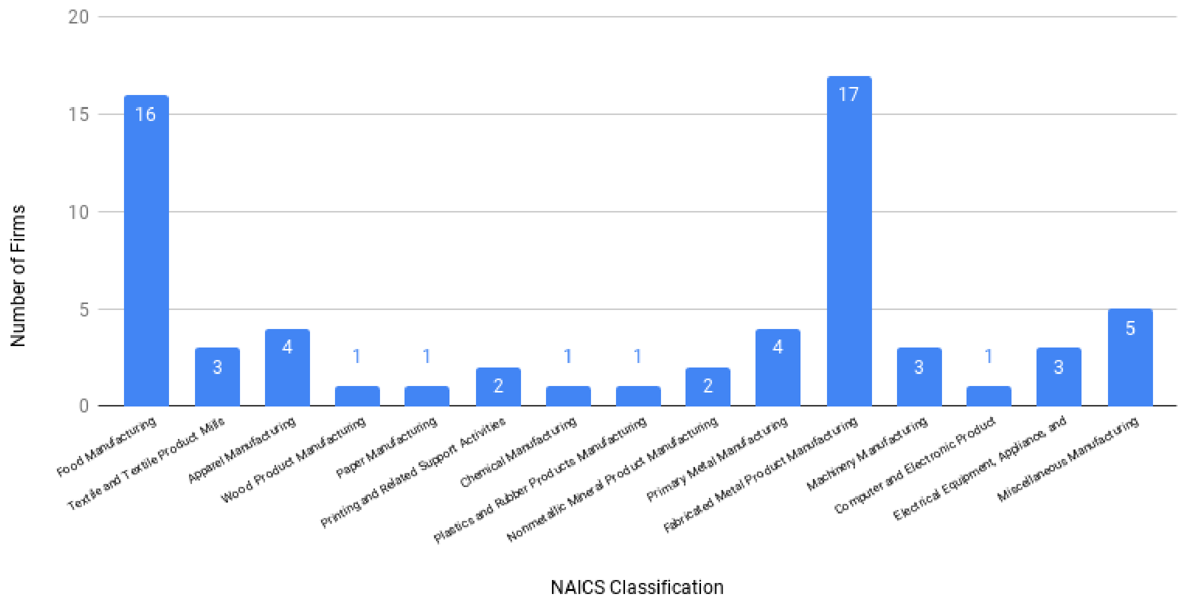


Chart 7: NAICS Classification of Family-Owned Manufacturing Firms in Chicago

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

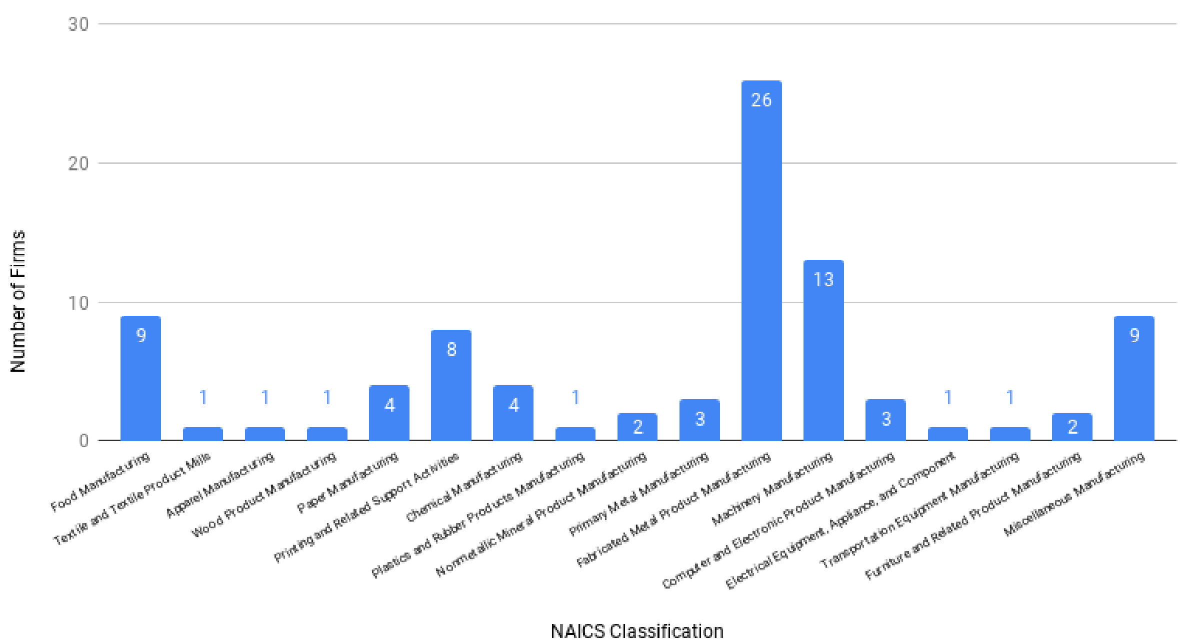


Chart 8: NAICS Classification of Survey Respondents

The 1989 study found that more than half of the firms' employment were in only four of the 20 manufacturing SIC two-digit groups: 27 (printing & publishing); 34 (fabricated metals); 20 (food); and 35 (non-electrical machinery), Another four of the two-digit groups yielded an additional quarter of the sector's entire employment: 36 (electronic equipment); 30 (rubber & plastic); 23 (apparel); and 33 (primary metals). Chart 9 shows industry concentration by total sector employment and number of firms. In the study update, the top ten NAICS categories with the highest employment were Fabricated Metal Product Manufacturing (5,548 employees in 89 firms), Food Manufacturing (2,537 employees in 38 firms), Machinery Manufacturing (2,152 employees in 45 firms), Plastic and Rubber Products Manufacturing (1,367 employees in 19 firms), Miscellaneous Manufacturing (1,182 employees in 24 firms), Primary Metals Manufacturing (1,147 employees in 12 firms), Paper Manufacturing (1,116 employees in 17 firms), Chemical Manufacturing (1,091 employees in 19 firms), Printing and Related Support Activities (1,072 employees in 24 firms), and Computer and Electronic Product Manufacturing (842 employees in 17 firms). Similar to the previous study, analysis using number of firm concentration (instead of employment) within industry subsectors produces very comparable results.

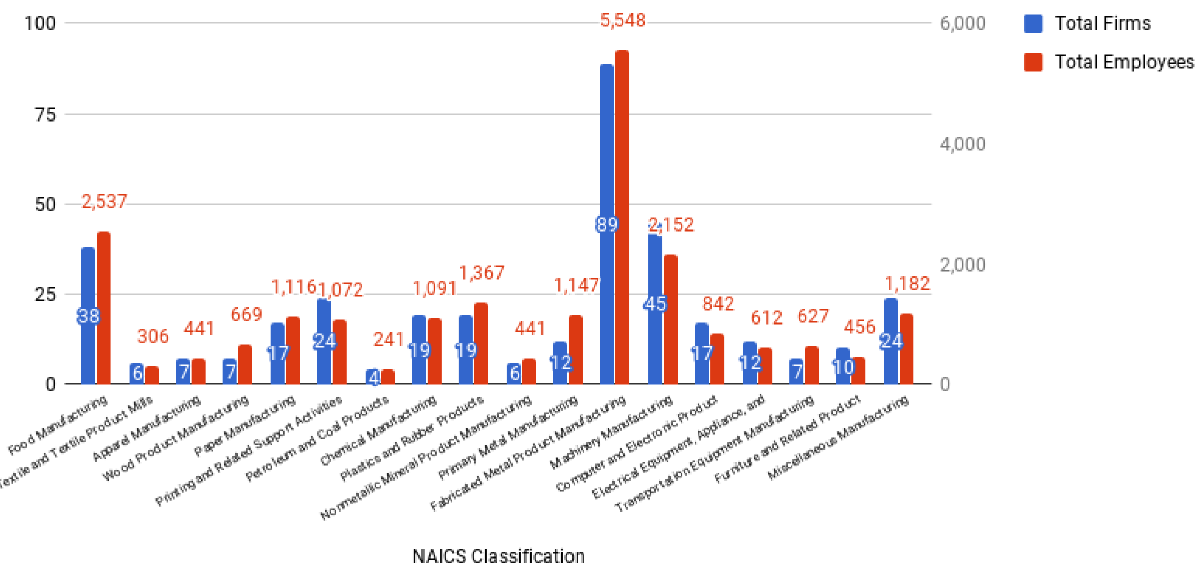


Chart 9: Total number of Firms and Employees by NAICS Categories

Category	Total Employees
All D&B	21472
All D&B (Adjusted to reflect survey responses)	22059
Under 55 Owner Companies	1639
55 and Over Owner Companies	3314
55 and Over Companies with a Successor	1840
55 and Over Companies without a Successor	1474

Table 3: Number of Employees by Age of Firm Principal and Chosen Successor

Geographic Concentrations

Results from the 1989 study showed that of the 337 subject companies, the largest clustering by employment of the (52.7%) was centered on Chicago's Near Northwest Side, Near West Side, the Lincoln Park area, the Southwest Side, the outer central business district to the west southwest and to the south, the Stockyards and the corridor which roughly parallels Archer Avenue from Downtown all the way to the western city limits. A geographical sort using firms rather than by total employment, produces similar results. Since the present study expanded the geography studies to include Cook and the collar counties, analysis focused on firm concentration in the different counties (see Chart 10).

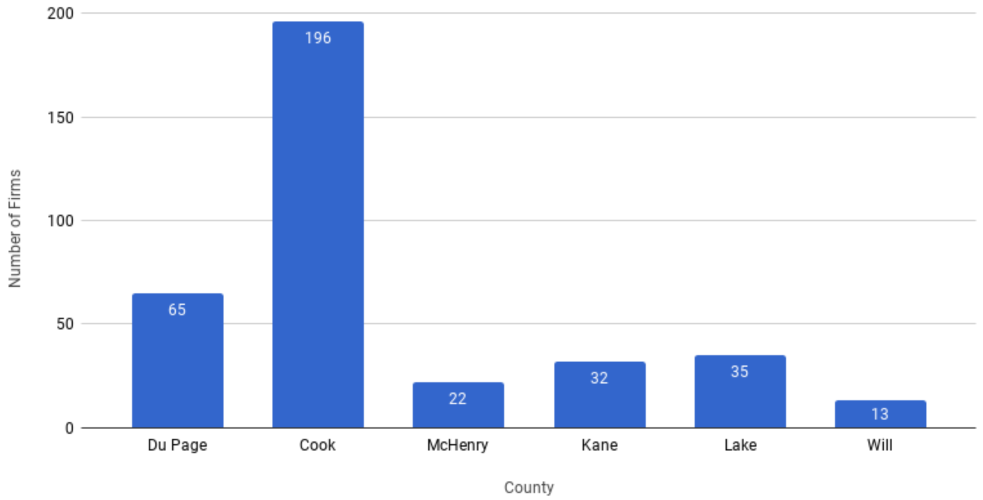


Chart 10: Number of Family-Owned Manufacturing Firms in Cook County and the Collar Counties

Chart 11shows the number of firms responding to the survey. The majority of firms that responded to the survey were located in Cook County (44) with Du Page (18) and McHenry (10) being the next two highest counties in terms of respondents. Lake (7) Kane (6) and Will (4) had less respondents, however this was in representative with the location of all family-owned manufacturers.

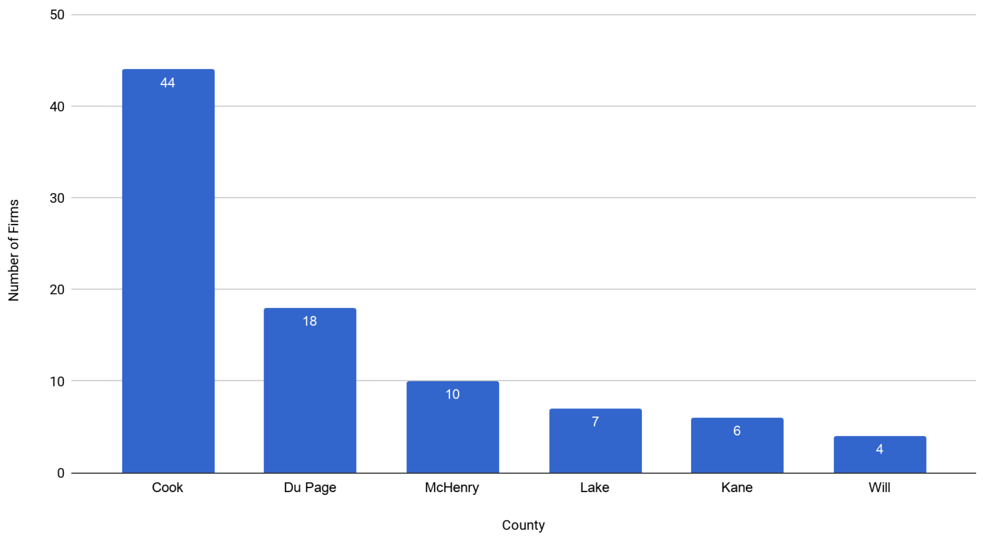


Chart 11: Number of Family-Owned Manufacturing Firms in Cook County and the Collar Counties by Survey Respondents

Chart 12 shows the location (city) of firms responding to the survey. Chicago had the largest share of survey respondents (16), with concentrations in the towns of Elk Grove Village (7) and Addison (7), which was also representative of the locations for all family-owned manufacturers.

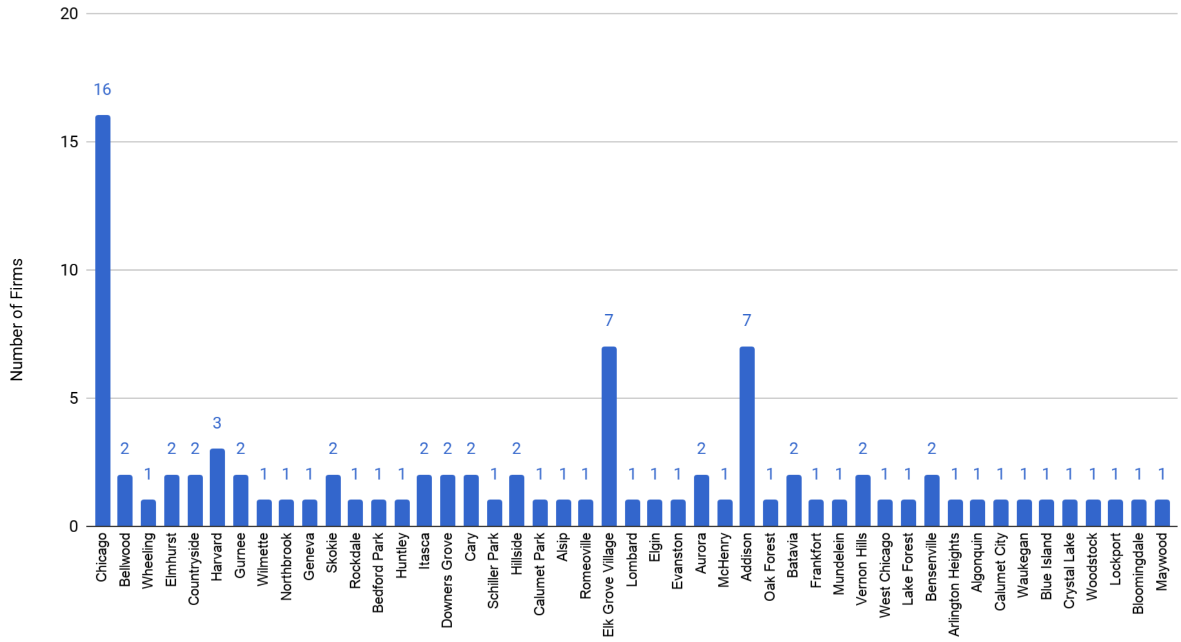
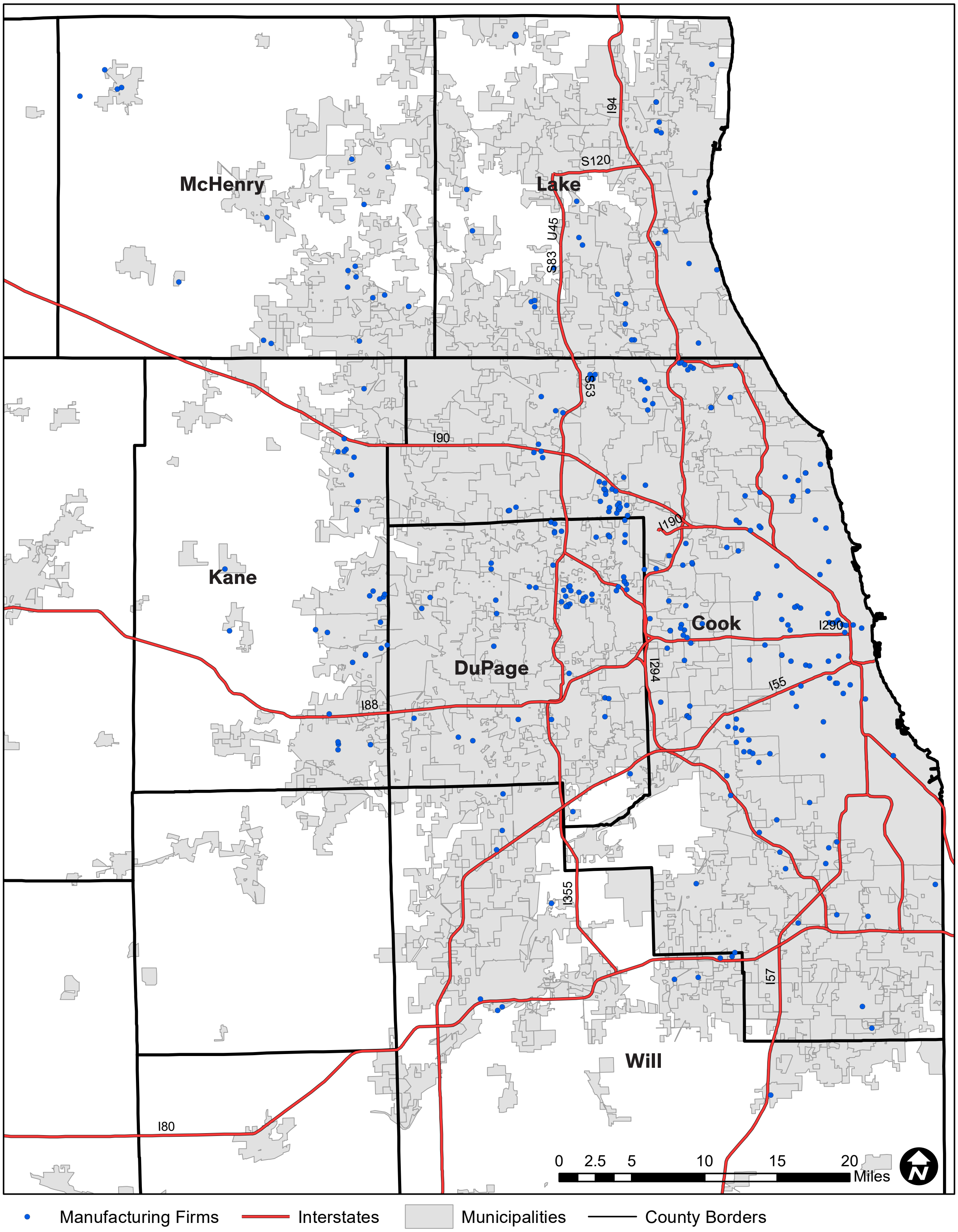
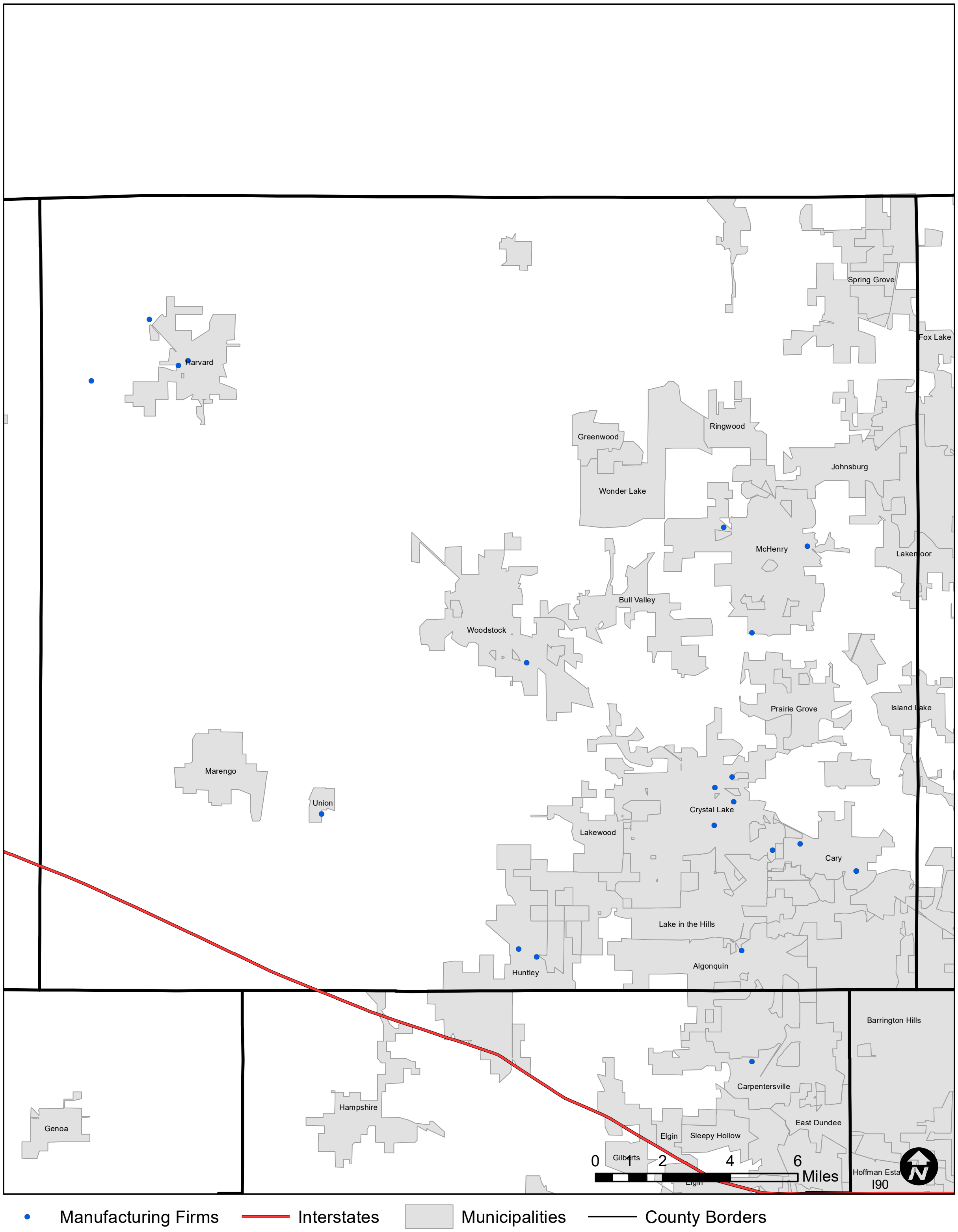


Chart 12: Location of Family-Owned Manufacturing Firms by Survey Respondents

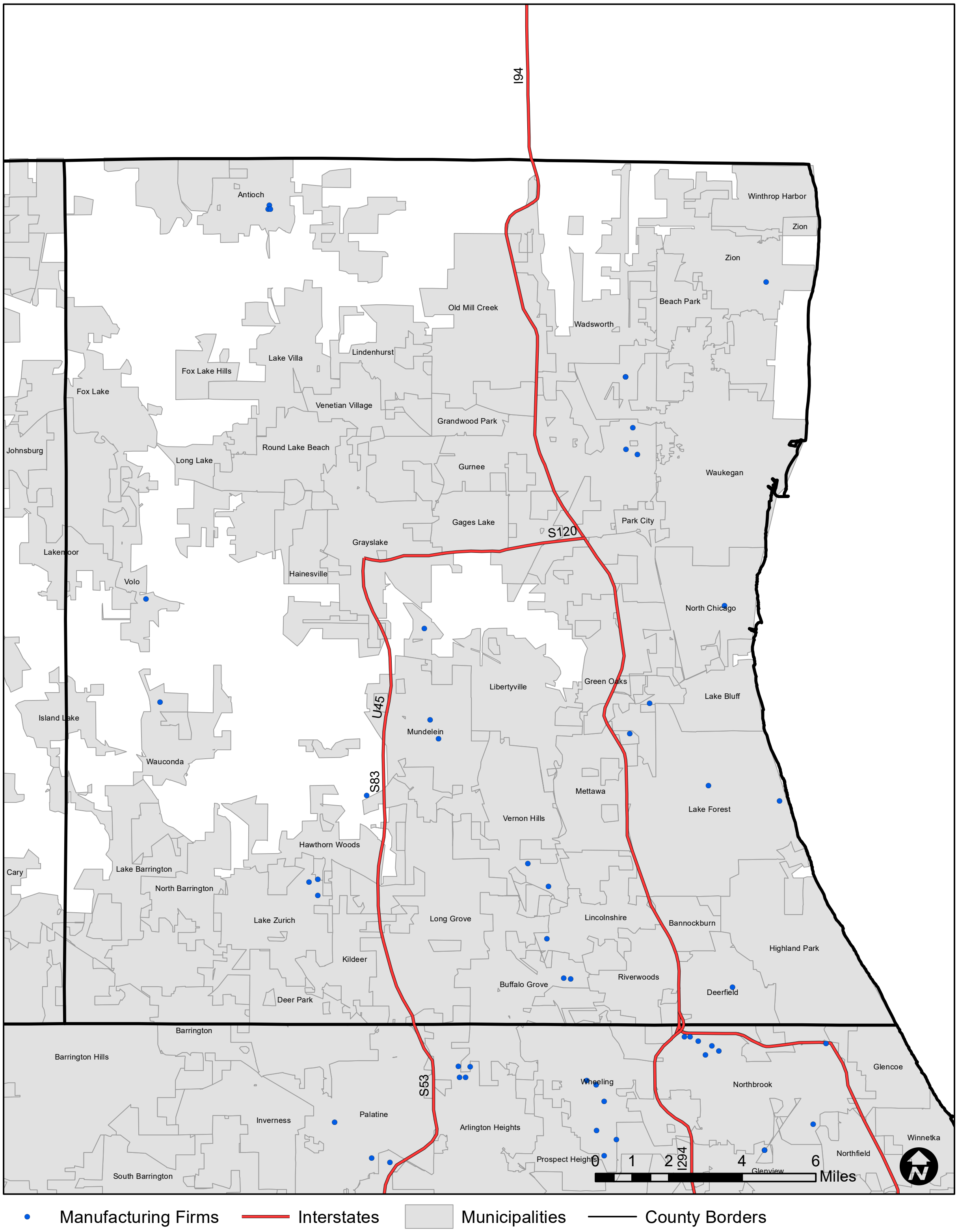
Map 1 shows the geographic location of family-owned manufacturing firms in Cook County and the Collar Counties. Maps 2-7 show the location of family-owned manufacturing firms by each county.



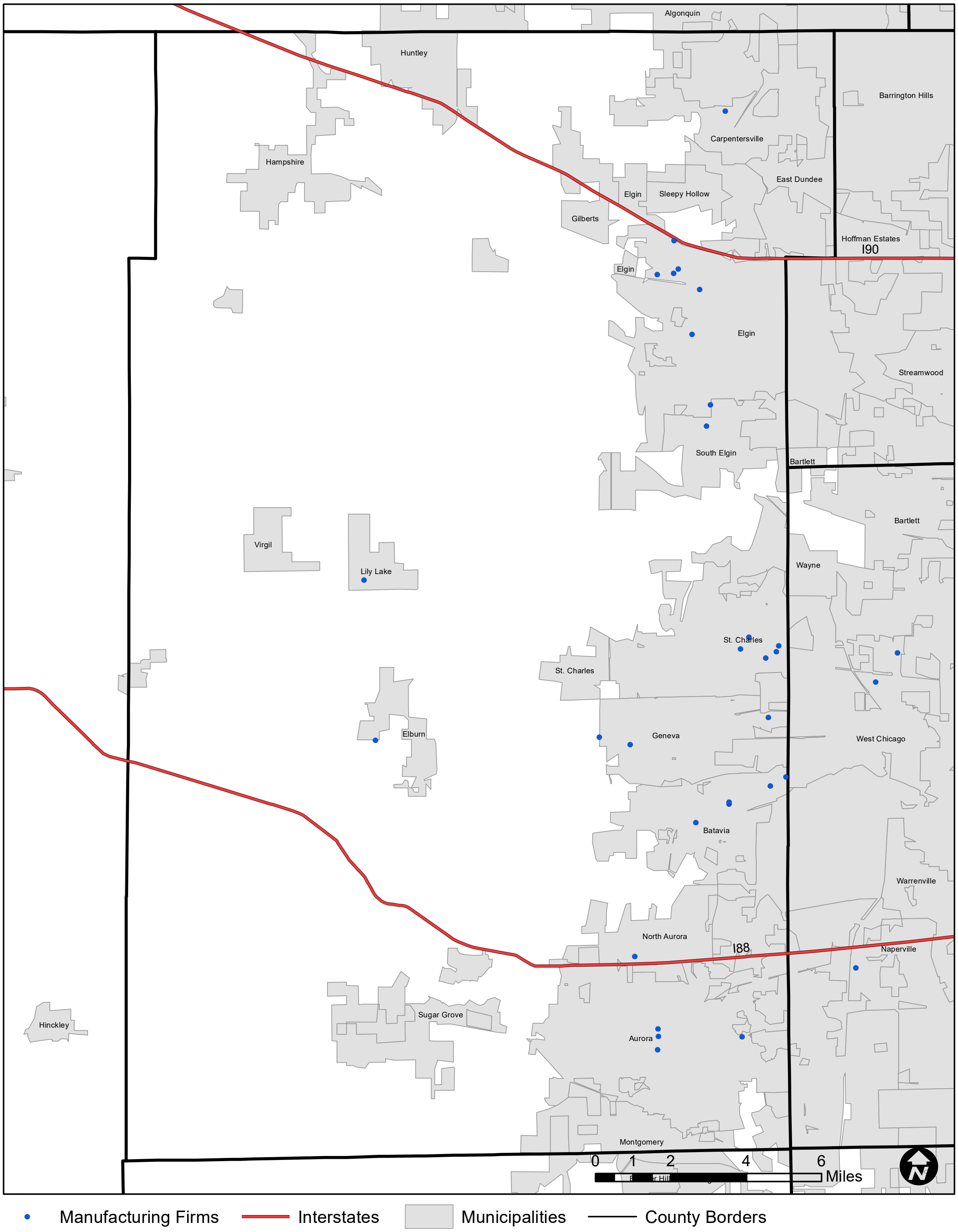
Map 1: Location of Family-Owned Manufacturing Firms in Cook County and the Collar Counties



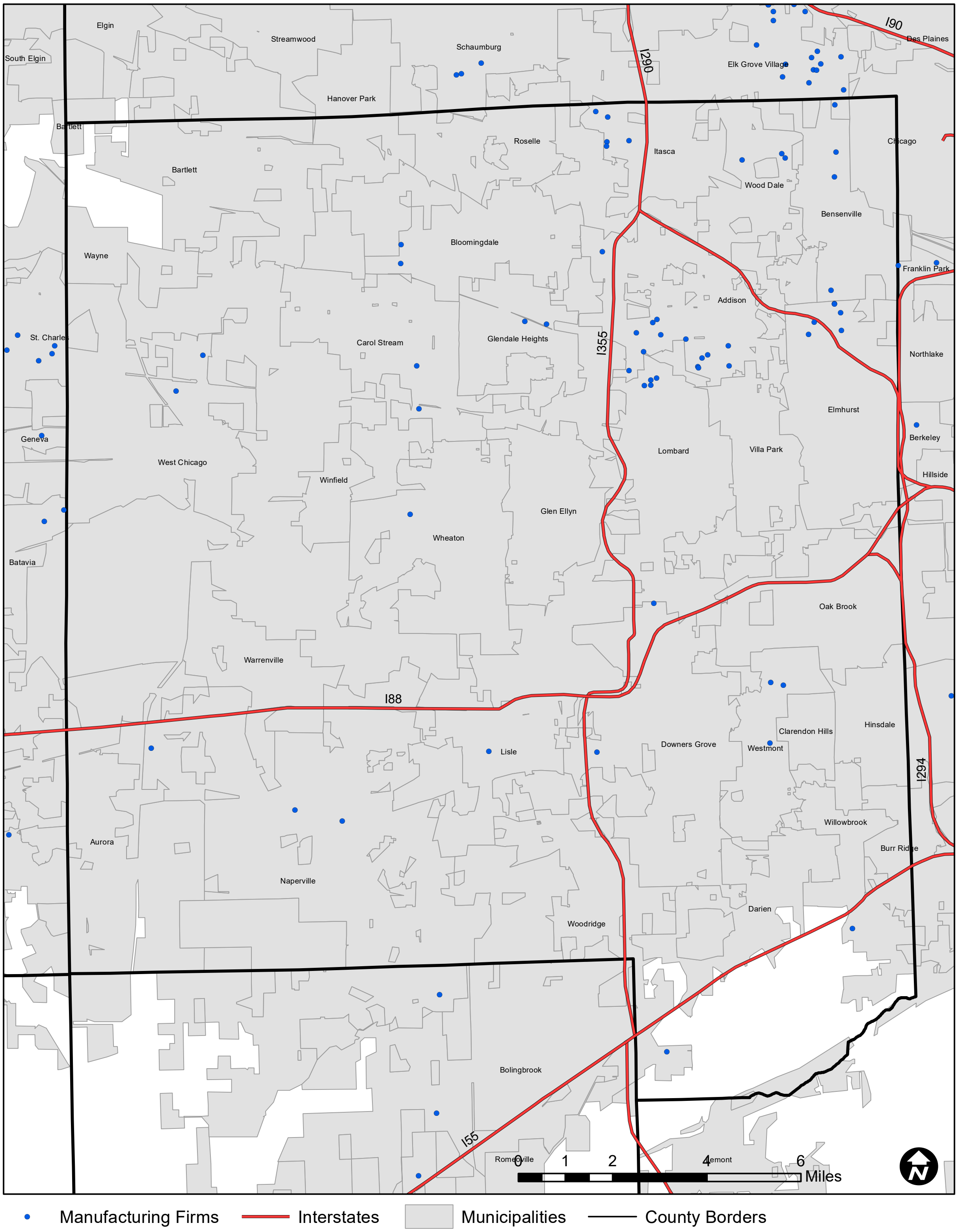
Map 2: Location of Family-Owned Manufacturing Firms in McHenry County



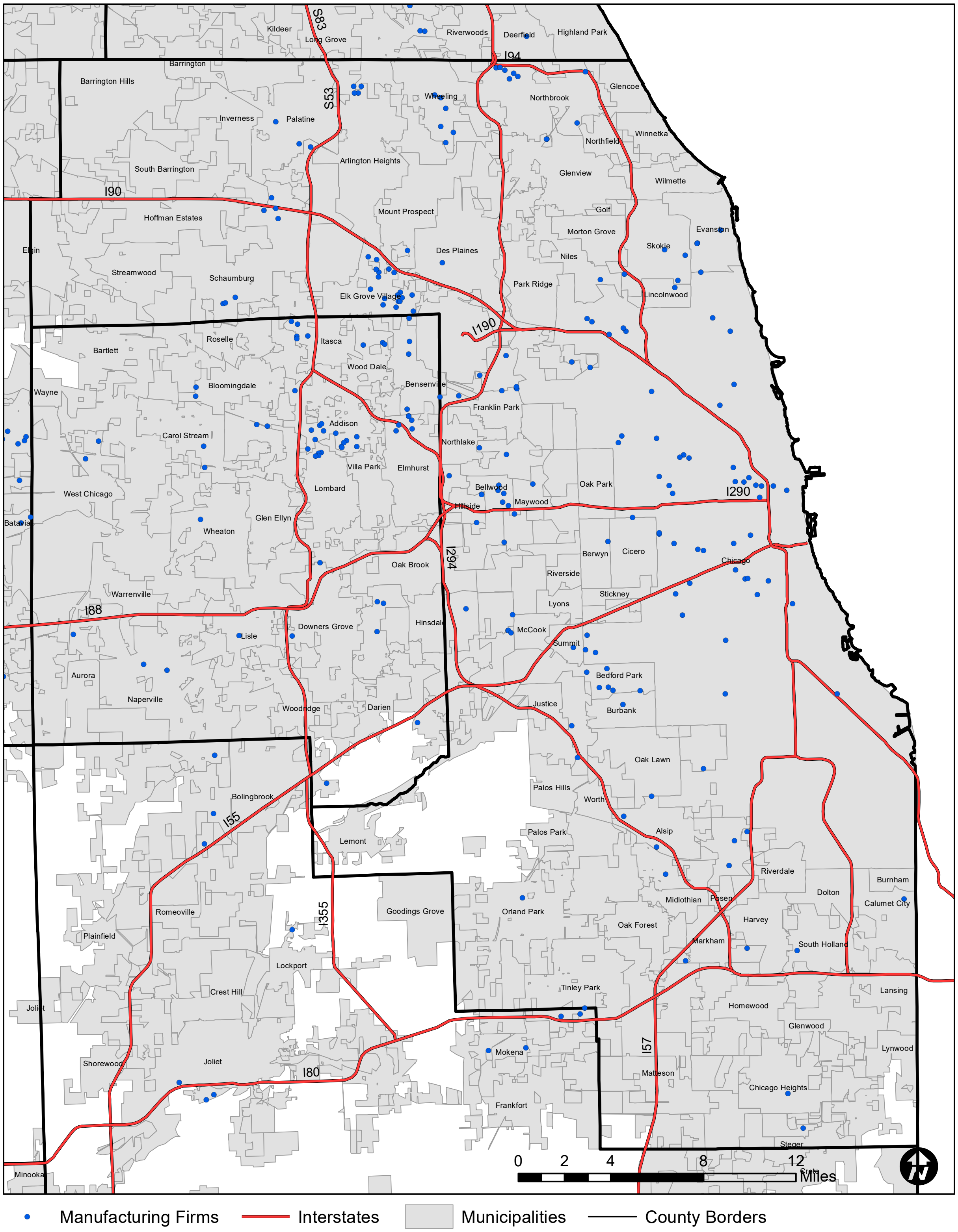
Map 3: Location of Family-Owned Manufacturing Firms in Lake County



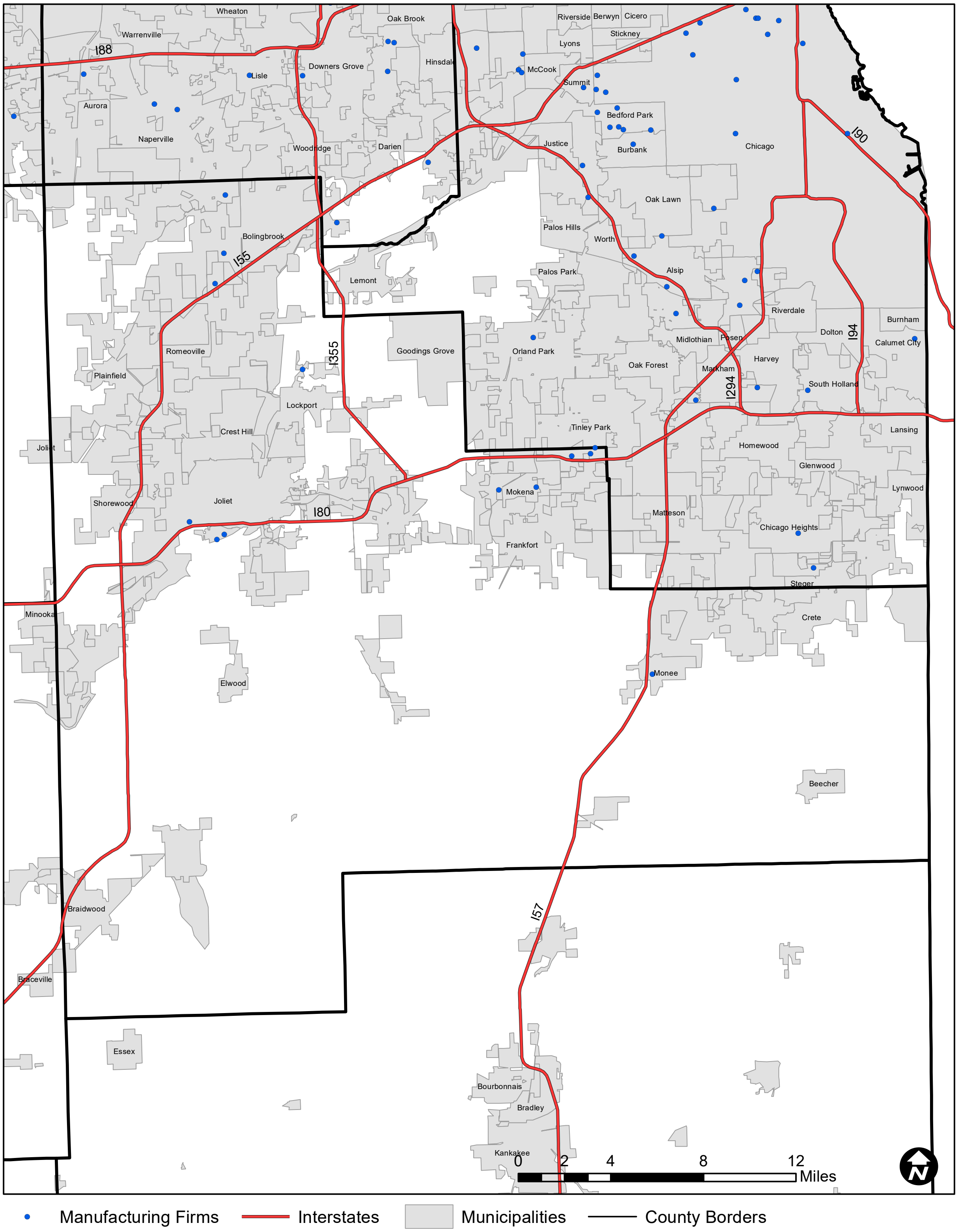
Map 4: Location of Family-Owned Manufacturing Firms in Kane County



Map 5: Location of Family-Owned Manufacturing Firms in DuPage County



Map 6: Location of Family-Owned Manufacturing Firms in Cook County



Map 7: Location of Family-Owned Manufacturing Firms in Will County

Employment Size Distribution

In the previous study 59% of the firms surveyed had between 20 and 49 employees. In this updated study 41.6% of the firms surveyed have between 20 and 49 employees. 18% of the firms had 100 or more employees while in the updated study it is 13.5%. Chart 13 shows a breakdown of firms by total employment. Based on the employment size distribution, the previous study assumed that the successorship issue was primarily a concern for smaller firms. Of the 363 firms in the present study, 59.8% of the firms surveyed have between 20 and 49 employees and 15.4% of the firms have 100 or more employees.

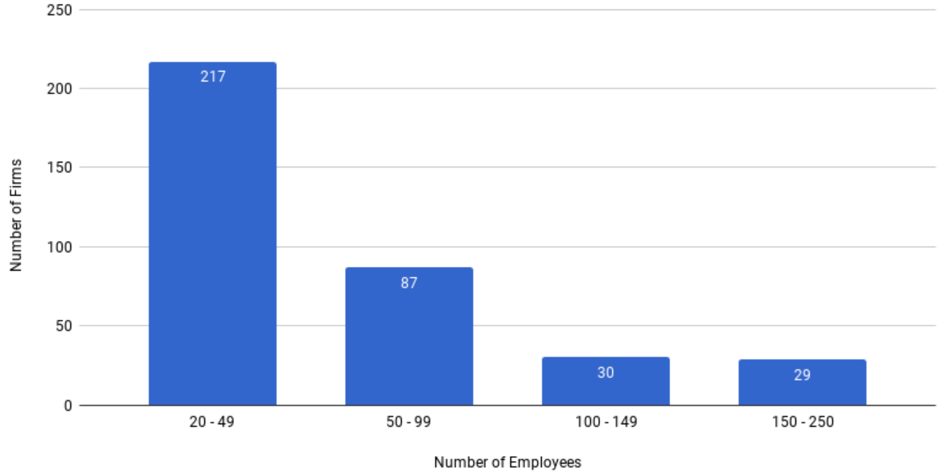


Chart 13: Number of Firms by Number of Employees in Cook County and the Collar Counties

Chart 14 shows that 41.6% of the firms surveyed in the current study have between 20 and 49 employees. 13.5% of the firms have 100 to 250 employees. Chart 14 shows the number of firms from survey respondents with between 20 and 250 employees. Most firms (37) had between 20 to 49 employees, with companies between 50 to 99 employees being the next largest group (21) surveyed. Notably, when surveyed several companies' employment numbers had changed from those previously recorded by data firm Dun & Bradstreet. One company has grown to 450 employees, while 19 firms had downsized to under 20 employees.

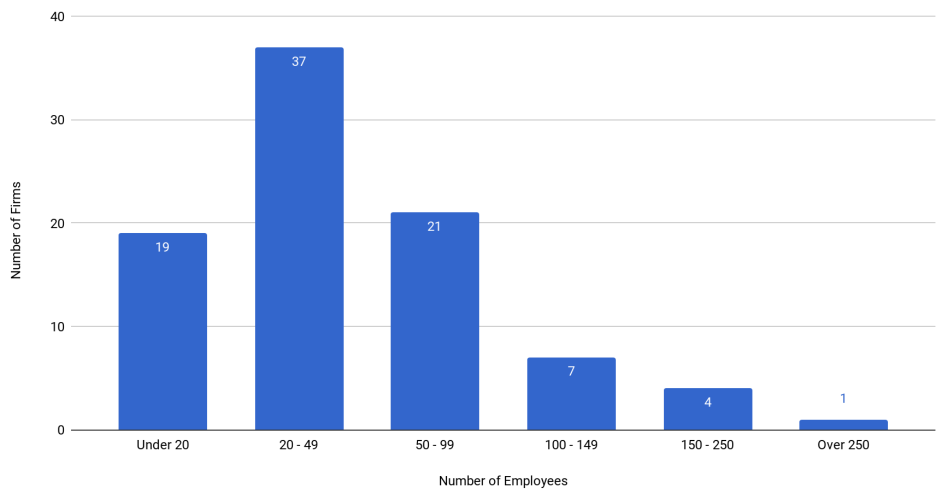


Chart 14: Number of Employees by Firm by Survey Respondents

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

Age of Firm Distribution

The family business literature indicates that the average life of family-owned businesses is between 24 and 30 years, which essentially corresponds with the tenure of the owner-founder and reflects the levels of firm mortality outlined earlier. A limitation stated earlier and acknowledged by the previous study is that it is not entirely clear if the Dun & Bradstreet firm age reports reflects a firm's physical operations, which might have been in place for a longer period than the firm's age indicated in the database due to a prior company reorganization or past ownership change. As with the previous study, the primary concern of the present study is with the viability of the family-owned business under its current ownership.

In the previous study fully 53.7% of the firms were 30 years old or less, 20.8% are between 31 and 40 years of age, and 25.5% 41 years old or older. For the current study (See Chart 15), firms that are 30 years old or less is 30%, 20.2% are between 31 and 40 years of age, and 52.8% are 41 years old or older.

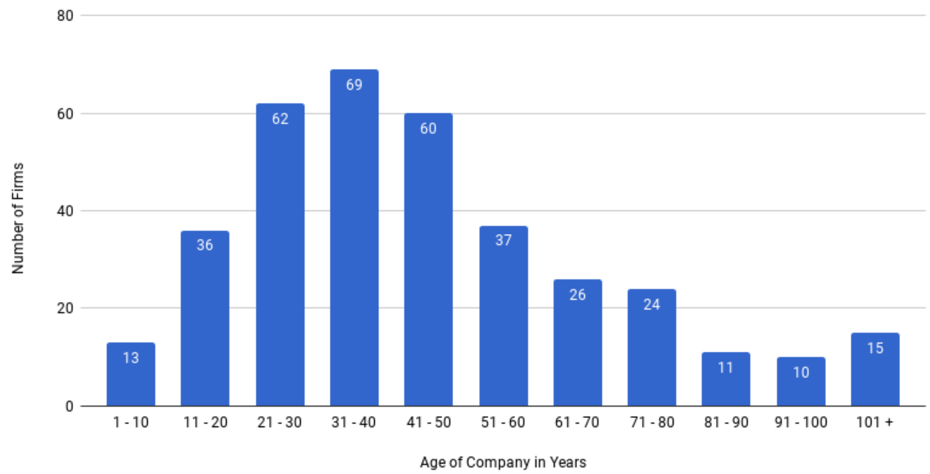


Chart 15: Age of Family-Owned Firms in Cook County and the Collar Counties

The majority of firms surveyed are between 21-30 (17), 31-40 (18) and 41-50 (19) years old (see Chart 16). Notably, the number of family-owned firms over the age of 51 years is greatly reduced, and there is a lower number of younger firms between 1-20 years old. Nine firms that responded to the survey were over the age of 101.

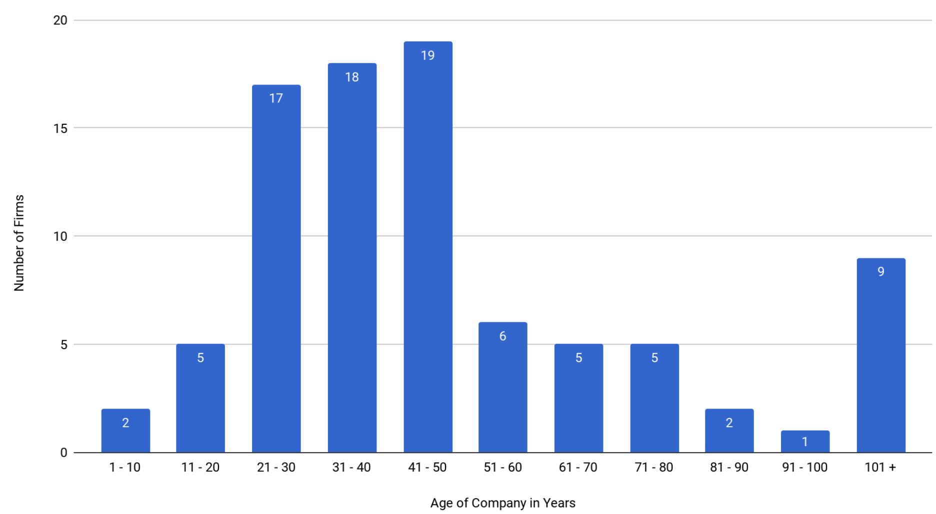


Chart 16: Age of Family-Owned Firms in Cook County and the Collar Counties by Survey Respondents.

Age of Principal Distribution

The previous study charted the 337 firms in the study by the age of the principal and this showed that almost half of the principals were past the age of 65 and over 11% are over 75 years of age. Similar to the previous study, this update is primarily concerned with only those companies with principals age 55 or over. Chart 17 shows that of the firm principals surveyed 73% indicated that they were over the age of 55 years. However, as Chart 20 shows, 48.3% indicated that they plan to retire more than 5 years from now. 19.1% plan to retire in 3 to 5 years, and 12.4% plan to retire in 13 months to 2 years from now, indicating a high likelihood of retirement in the next decade.

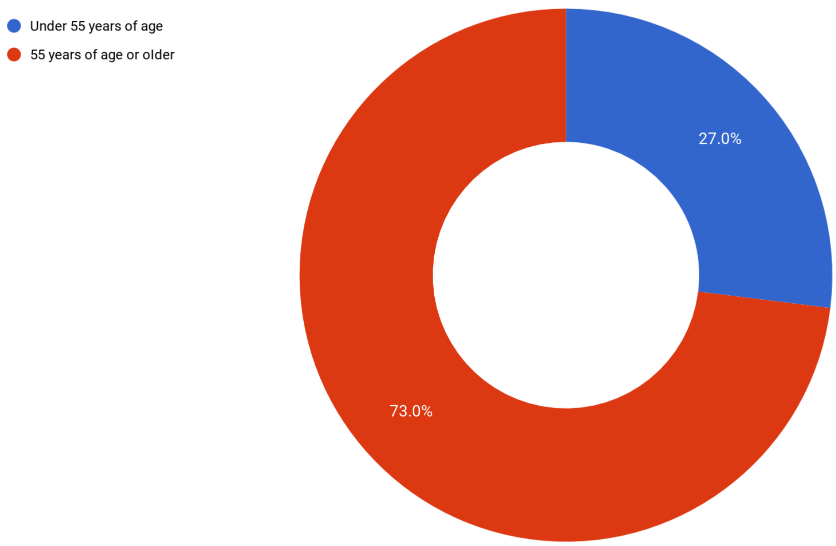


Chart 17: Age of Principal of Family-Owned Firm

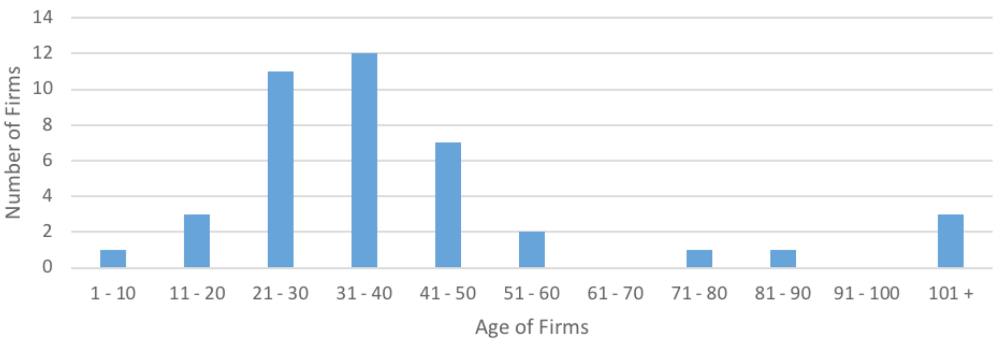


Chart 18: Age of Firms with Principal Over 55 Years of Age

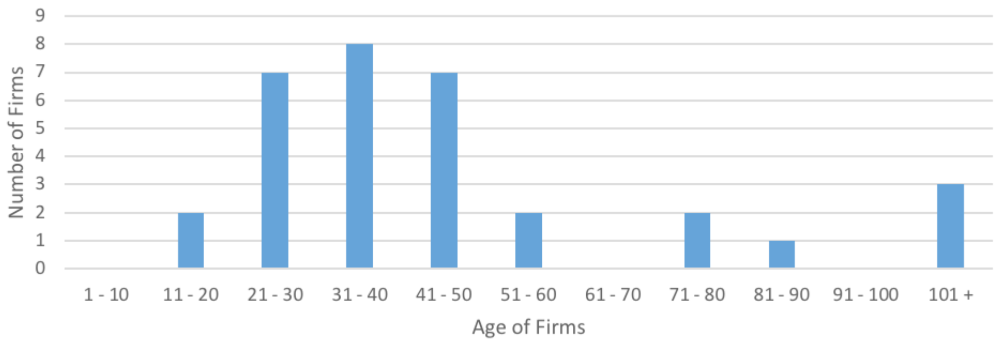


Chart 19: Age of Firms with Principal Over 55 Years of Age Without a Successor

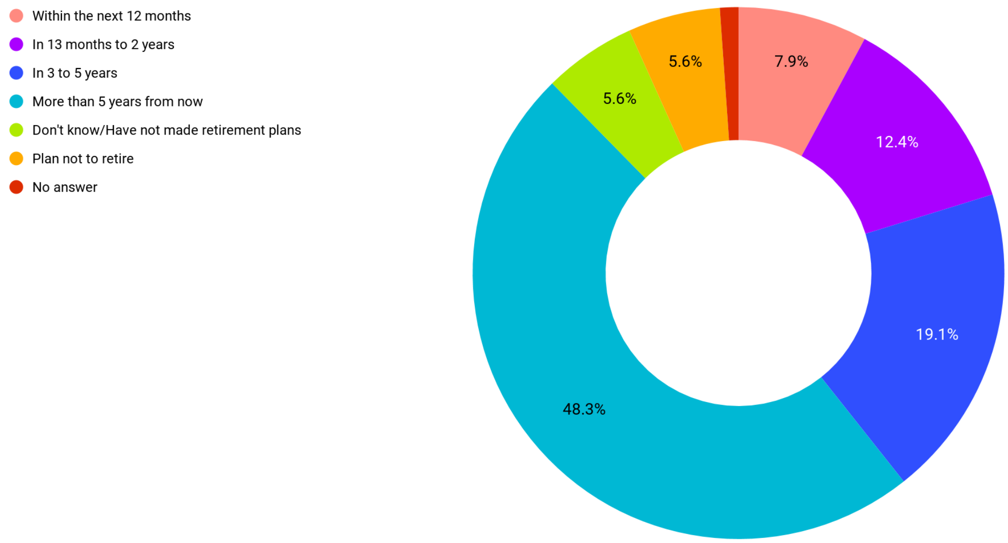


Chart 20: Plan of Firm Principal to Retire

Working Family Members

An assumption of the previous study is that family involvement in the firm will lower succession risk. It sought to demonstrate a correlation between family involvement and actual succession plans. The survey asked (questions #7 and #8) if the principal had any family members working at the company, and if, so, which ones. As chart 21 shows, of the family-owned firms surveyed, 86.5% of them had one or more family members working for the company.

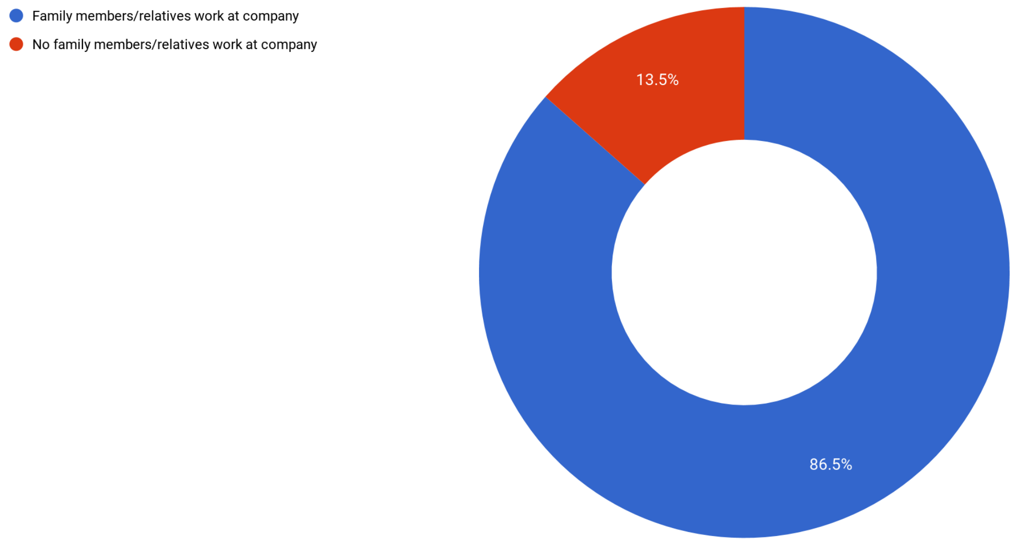


Chart 21: Family Members working in the Firm

Chart 22 shows 38 firms had one or more sons working for the company, 23 firms had one or more daughters, and 19 firms had the owner's spouse working for the company. 22 companies had one or more brothers of the owner working for the company, 10 had one or more sisters, and 12 companies had one or more in-law working for the company. 18 firms with Principal over 55 Years of Age have family members working in the firm and 5 do not.

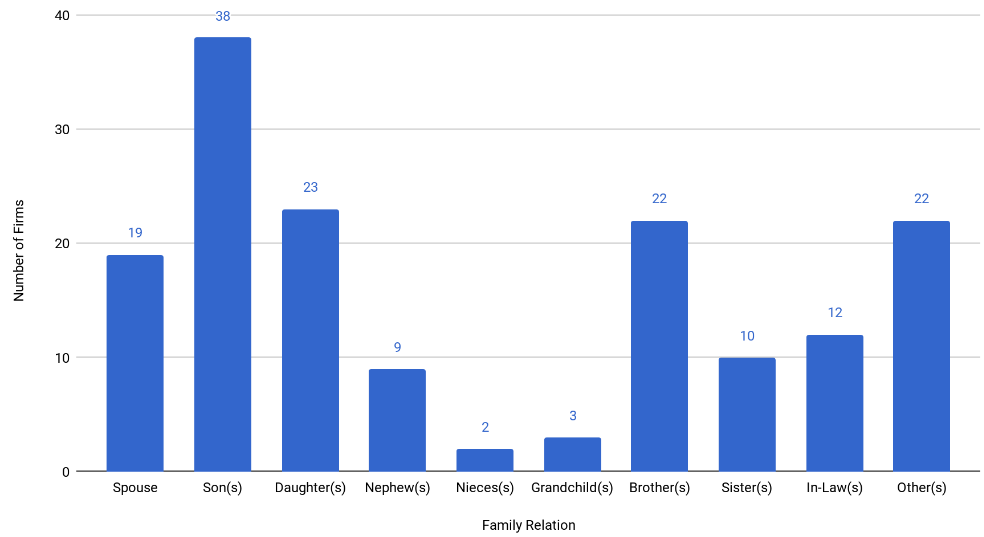


Chart 22: Relationship of Family Members working in the Firm

Chosen Family Successor

The 1989 study assumed there would be a correlation between the decision to retire, the process of planning for retirement and the necessity to plan for succession. It found that those owners who had indicated a desire to retire within five years were more likely to have decided on a successor than those owners who did not expect to retire within the next five years or who had not made retirement plans at all. In that study, 38% of all owners failed to identify a chosen successor. In this updated study, 61.8% of firms surveyed had no successor indicated. 48.3% of firms surveyed have made plans for succession. 50.6% have not yet made plans for succession (see Chart 23).

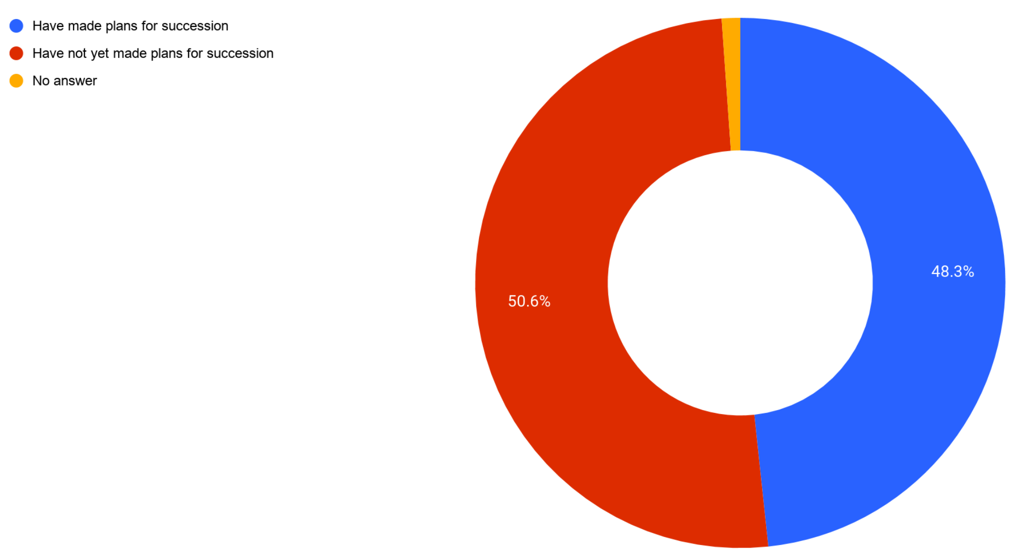


Chart 23: Succession Plan of Firm Principal

Of those that did have a successor chosen, 6.7% chose a family member currently working in the company, 12.4% chose a family member from outside of the company, 7.9% chose a family member but didn't not indicate whether they work for the company or not, 6.7% chose a non-related successor from within the company, one firm had chosen a non-related successor from outside of the company, and the remaining firms indicated they had other succession plans such as selling the company or transferring ownership to another entity (see Chart 24). Out of 31 companies surveyed that indicated no chosen successor, 77.4% of the companies had a family member related to the owner working for the company (see Chart 25).

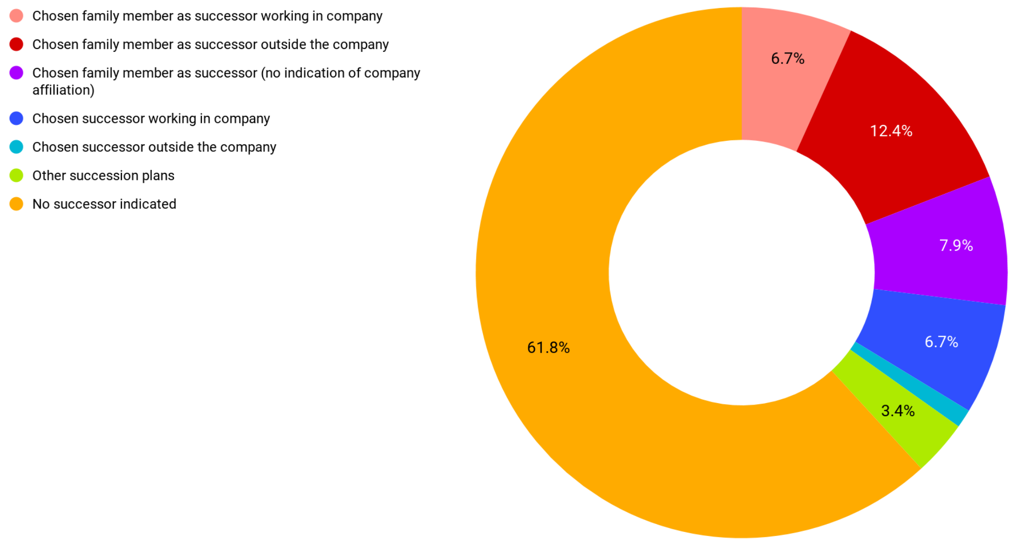


Chart 24: Chosen Successor for Family-Owned Firm by Principal

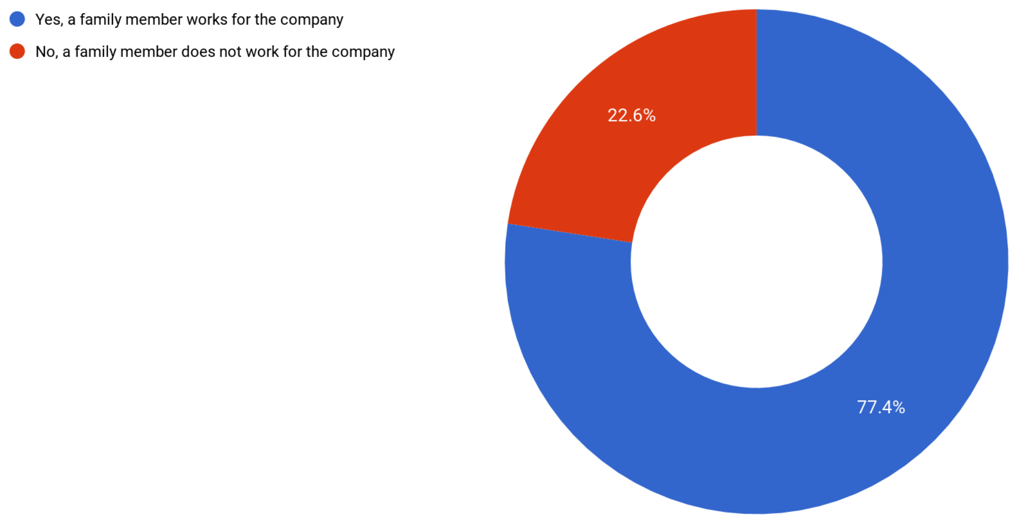


Chart 25: Number of Firms with Principal over 55 Years of Age Without a Chosen Successor

Chart 26 shows 31.5% of firms surveyed had a successor chosen under the age of 55 years old. 4.5% had a chosen successor that was 55 years or older. 64% of firms either had no chosen successor or did not share the successors age.

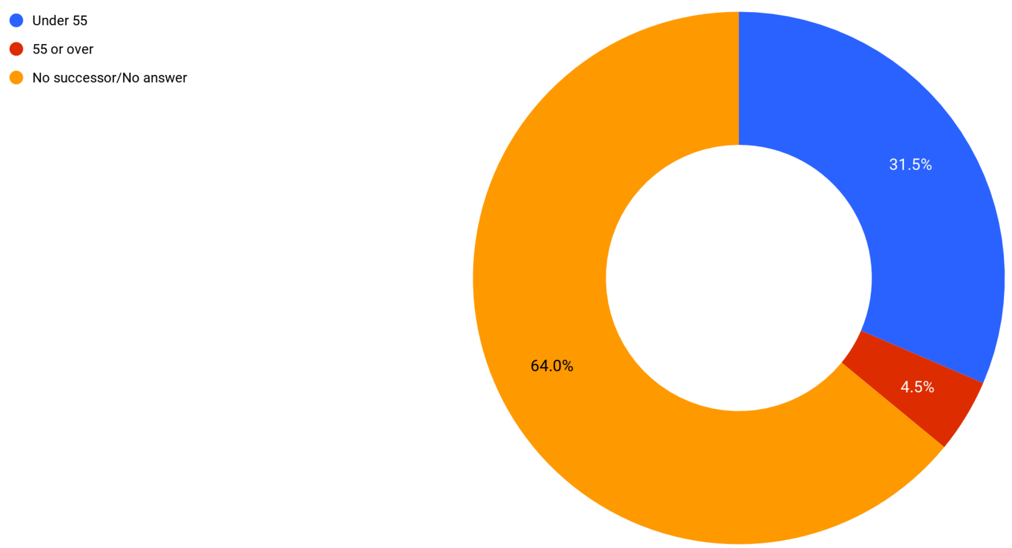


Chart 26: Age of Chosen Successor for Family-Owned Firm

Over half of firms surveyed that had a chosen successor either manufactured Machinery or Fabricated Metal. However the Fabricated Metal manufacturers employed almost double the number of employees as the Machinery manufacturers (see Chart 27).

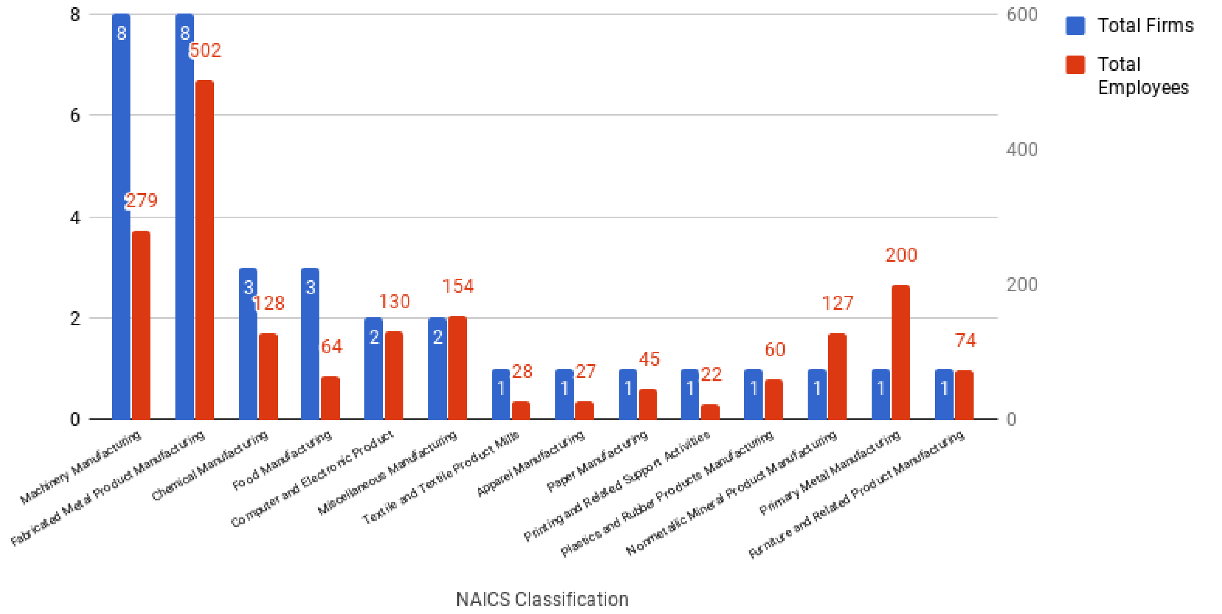


Chart 27: Number of Firms and Employees with Principal over 55 Years of Age and a Chosen Successor

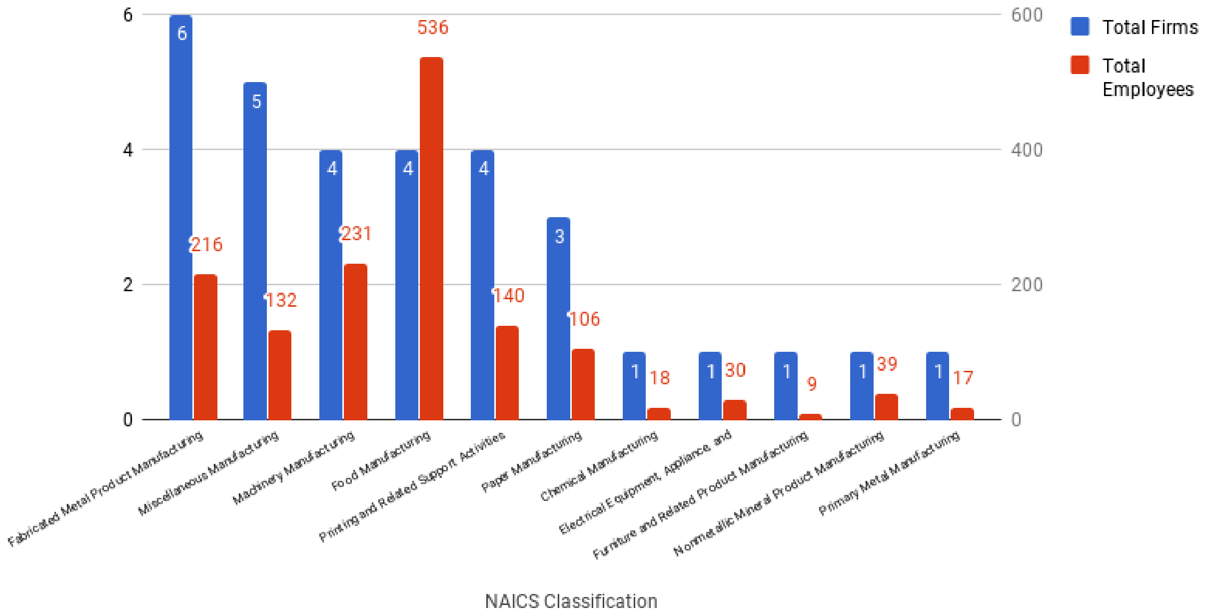


Chart 28: Number of Firms and Employees with Principal over 55 Years of Age Without a Chosen Successor

For company owners with a chosen successor, estimated time until retirement was notably shorter than for those owners who had no chosen successor. 14.7% of owners with a successor planned to retire within the next 12 months, whereas 6.5% of owners with no successor chosen indicated plans to retire within 12 months. 45.2% of owners with no successor indicated they did not plan to retire until more than 5 years from now, compared to 29.4% of owners with a successor (see Charts 30 and 31).

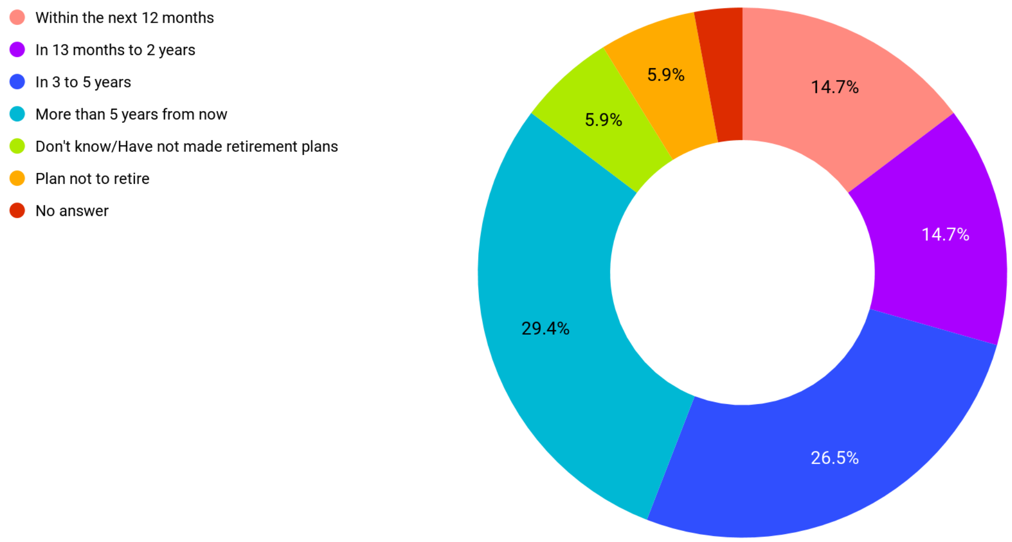


Chart 30: Retirement Plan of Firm Principal over 55 Years of Age With a Chosen Successor

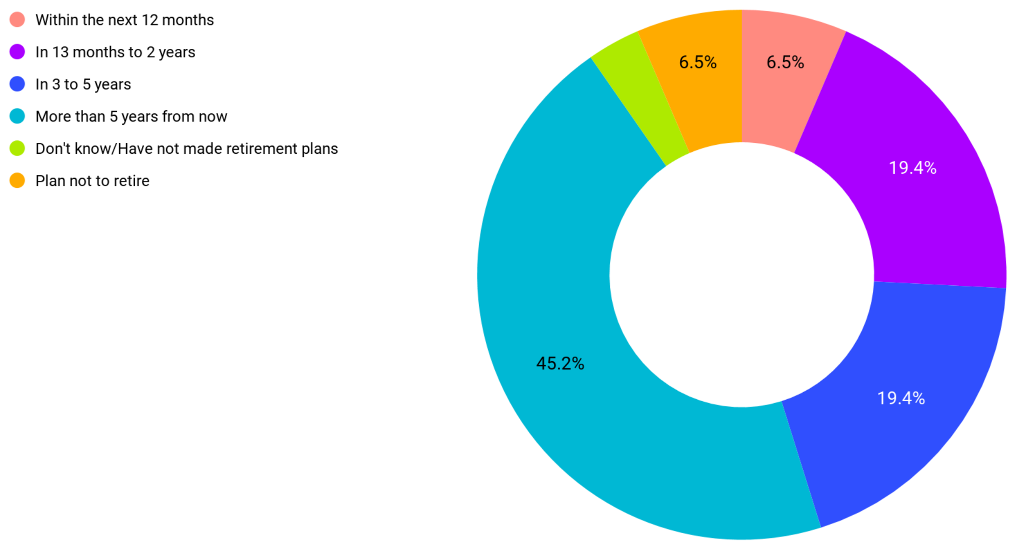


Chart 31: Retirement Plan of Firm Principal over 55 Years of Age Without a Chosen Successor

Of the family-owned firms surveyed, 86.5% of them had one or more family members working for the company. 38 firms had one or more sons working for the company, 23 firms had one or more daughters, and 19 firms had the owner's spouse working for the company. 22 companies had one or more brothers of the owner working for the company, 10 had one or more sisters, and 12 companies had one or more in-law working for the company. However, of those firms surveyed with no chosen successor, the distribution of goods manufactured were more varied. Food Manufacturing accounted for only four firms surveyed with no chosen successor, however one company accounted for 450 of these employees.

Unionization Rates

The previous study postulated that the rate of unionization would correlate with firm size. Respondents were asked if their company had a union, and if so, the name of the union. The previous study found that 45% -- of Chicago's family-owned manufacturing firms with aging owners were unionized (The U.S. unionization rate in 1979 was 17% of overall employment and U.S. manufacturing unionization rate of was approximately 24% of employment). This study update found that 87.6% of surveyed firm had no industrial unions while only 11.2 % had industrial unions (see Chart 32).

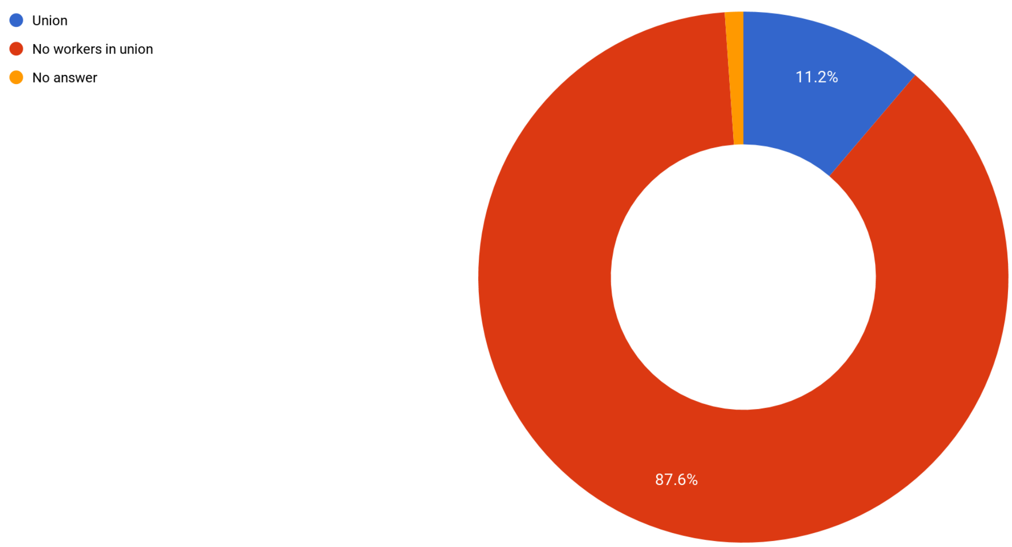


Chart 32: Unionization Rates of Family-Owned Firms

Interest in Successorship Assistance

The previous study sought to gauge the principal's interest in engaging the issue of successorship. In the present study, 91% of survey respondents did not wish to be contacted by someone who specializes in succession planning (see Chart 33). However, 39.3% are interested in attending a workshop on succession planning, and 31.5% would be interested in receiving more information about succession planning (see Charts 34 and 35). 85.4% of survey respondents indicated their company was family-owned, and 13.5% indicated that their company was closely held.

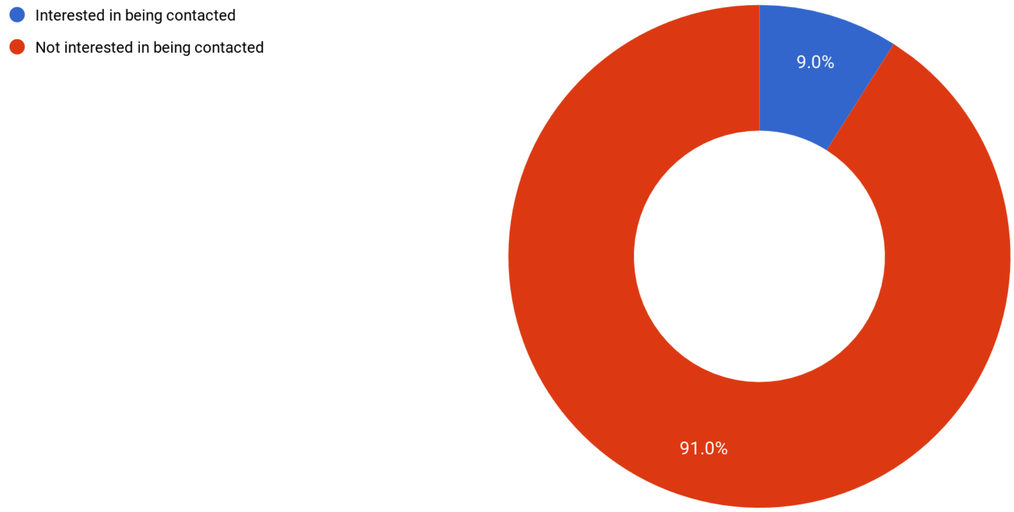


Chart 33: Interest in Succession Planning Assistance

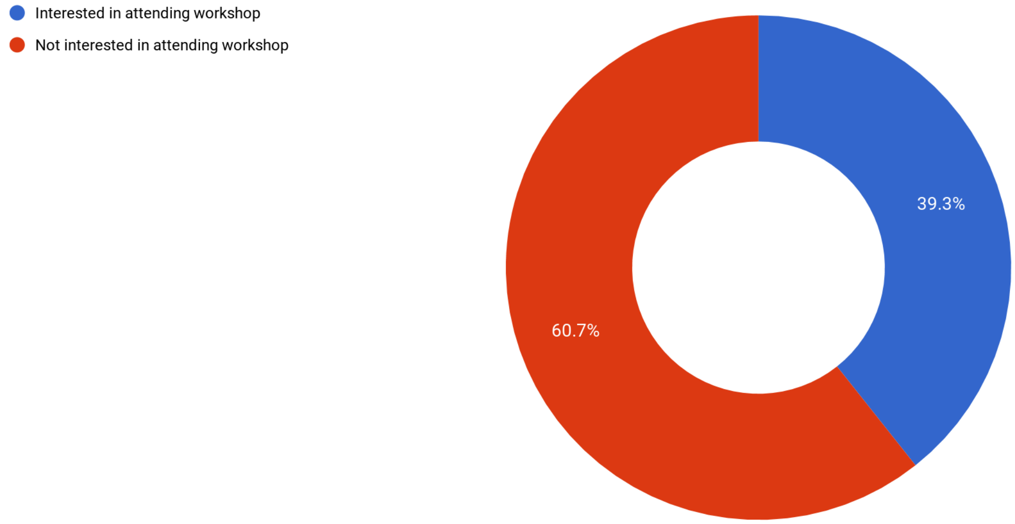


Chart 34: Interest in Attending a Succession Planning Workshop

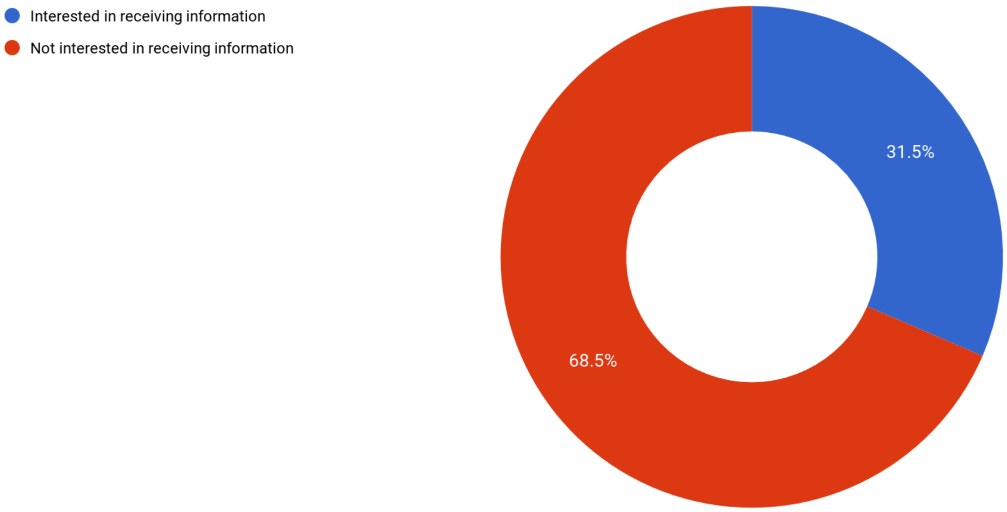


Chart 35: Interest in Receiving Information about Succession Planning

National Survey of Literature and Practice

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

Methodology: Informational Interviews with Family Business Centers

The University of Vermont Grossman School of Business publishes an extensive list of Family Business Centers throughout the United States, which was instrumental in the development of this report[52]. Most of these family business centers operate in conjunction with university business schools. This resource led to additional sources, which allowed the project team to assemble a list of Centers to contact. Directors of each Center were then contacted via email, explaining the scope of this research, and requesting an informational interview. Each Director interviewed was asked a standard list of questions to identify themes, successes, concerns, and future plans common to Family Business Centers.

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

New York

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

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

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

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

Massachusetts

The Industrial Cooperative Association (ICA), mentioned in the Midwest Center for Labor Research 1989 report, has been helping develop and grow employee ownership ventures since 1977. ICA's mission is focused on helping individuals and communities root economic livelihood and wealth locally via democratic ownership, in which every worker has a voice in their own economic future. According to their website, they have helped form over thirty

52 "Family Business Programs," UVM Grossman School of Business, https://www.uvm.edu/business/family_business_programs

worker-owned cooperatives and democratically-owned community ventures; assisted dozens of corporations with the transition to ESOP's or other employee ownership; created and saved over 10,000 jobs in their 38-year history.

Washington

No information was available online for the Washington State Employee Ownership Program (WSEOP), Seattle Workers Center, or CESCO (community development corporation based in Portland, OR), all of which were highlighted in the Midwest Center for Labor Research report. Washington State is however served by the national ESOP Association's Northwest Chapter, which provides education, advocacy, and technical assistance to companies desiring to move to or maintain ESOP ownership.

Ohio

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

North Carolina

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

Michigan

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

Programming by Nonprofit Groups

Naugatuck Valley Project (NVP), Southern Connecticut

The Naugatuck Valley Project, established in the 1980's to counteract large-scale regional loss of manufacturing jobs, still exists today to provide community- and faith-based economic development services. Their recent initiatives have included job training programs; tax relief for low-income households; brownfields remediation; and housing assistance. NVP was successful in assisting with an employee buyout of the Seymour Specialty Wire Company in the 1980's, they do not seem to be engaged in any more recent succession planning initiatives.

WECO, Cleveland

WECO appears to still exist and operate in Cleveland. From other press and local businesses, it appears that WECO now largely focuses on microlending and consumer financial education initiatives. There was no mention of recent involvement in succession planning.

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

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

- **"Age and Stage"-Focused Programming**, in which different generations of family businesses are separated during forums and events, with facilitators leading conversations unique to the generation's experience. Directors found that this made responses more honest and ownership transitions ultimately more successful, as individuals were able to speak openly and not fear conflict from family members.
- **Best Practices Consulting,** which provides objective expertise on a range of issues facing family businesses (e.g., Creation of Advisory Boards; Governance Structures; Ownership Transitions). This equips family businesses to make more informed decisions on what is best for their business without the emotion of what is best for their family.
- **Communication and Conflict Resolution,** facilitators guide families through difficult decisions by providing an objective "outsider" voice.

Understanding that Succession Planning is an Ongoing Process, in which *initiating* the difficult conversations surrounding succession planning is only the first step.

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

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

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

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

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

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

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

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

Robust Participant Base

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

Outreach

Outreach strategies varied, but common successful strategies included:

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

Need for Technology Upgrades and Expanded Capacity

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

Conclusion

With economic development in mind, this study focused on the importance of the retention of manufacturing firms owned by family entrepreneurs in Chicago and its collar counties (Cook, DuPage, Kane, Lake, McHenry, and Will). By providing data on projected retirement, whether the owners of these firms had succession plans in place, and the economic value of these firms to the regions' economy, the study allows us to conclude that strategies and policies to support succession planning are worthy of attention. Doing so requires addressing gaps in policy and existing technical assistance programs designed to avert plant closings by assisting aging owners with succession planning. In addition to employee ownership as an avenue of non-family succession the need for business continuity also provides a substantial opportunity to increase ownership among minority entrepreneurs, including women, in the manufacturing sector, for firms needing successors. Several potential policy and programmatic changes are outlined below.

Follow-Up Assistance, Pilot Programs

Of businesses surveyed in the study update, 73.0% are managed by a principal aged 55 or over, and 86.5% employ multiple members of the same family (see Chart 17, page 28). These data reveal the potential for inter-generational succession in many family-owned manufacturing businesses in Chicago, Cook County, and the collar counties.

Of the firms with principals approaching retirement age, 61.8% have no successor identified (see Chart 24, page 31) compared to 38% in the 1989 study, and 50.6% of firms do not currently have a succession plan in place (see Chart 23, page 30). Again, this points to the region's need for succession planning guidance or policy support, particularly given the retirement plans of principals age 55 or older with no chosen successor, as surveyed (see Chart 30, page 34):

- 6.5% intend to retire within the next 12 months;
- 19.4% intend to retire within the next 13 months – 2 years;
- 19.14% intend to retire in 3 – 5 years; and
- 45.2% intend to retire in 5 or more years

As aging principals consider retirement, succession planning is critical. The majority of these principals plan to continue working over the next 5 years; this creates an opportunity to develop robust succession planning outreach to ensure that the leaders of these family businesses can develop a strong succession plan over time and retire with confidence that their business is likely to remain operational.

Regarding succession planning resources, 39.3% of survey respondents expressed interest in attending a succession planning workshop (see Chart 33, page 35), and 31.5% were open to receiving more information on succession planning (see Chart 34, page 36). While the majority of respondents (91.0%) did not want to be contacted directly by a succession planner (see Chart 32, page 35), there appears to be interest throughout the region in participation in voluntary succession planning programming.

There is a need for services to assist in the transfers of businesses, including increasing awareness and building capacity. Transferring a business can be a complex task that demands adequate planning and competencies. The complexity arises from financial institutions, contract arrangements and tax law, the valuation of the enterprise, and the requirement for financial capital.

Future studies could explore approaches of incumbent owner-manager towards intra-family succession, and identify the business transfer related challenges experienced by the potential sellers and the need for external advisors in business transfer processes.[53]

53 Varamaki, E., Tall, J. and Viljamaa, A. (2014). "Business Transfer and Successions in Finland from the Potential Seller's and Predecessors

The data highlighted above speak to the Chicago region's need for expanded business continuity policy changes and succession planning programs that can support family-owned manufacturing firms through succession or ownership transitions. Several potential policy and programmatic changes are outlined below.

Public Policy Changes to Support Family-Owned Business. As mentioned previously, family-owned businesses are responsible for 57% of the United States' GDP and 63% of the country's employment (see page 3). Despite the significant impact of family businesses on the nation's economy, as well as the tendency of family-owned firm mortality over successive generations (from 30% family-owned in the second generation to only 3% family-owned by the fourth generation), very little has been attempted at the policy level to protect family businesses during inter-generational succession.

As described on page 6, the European Union has recognized the economic impact of its family businesses, particularly in light of its aging workforce, and actively facilitates organizational transfer to protect these firms and therefore expand their employment and economic impact. It is critical that public policy in the United States (at federal, state, and local levels) be modified to provide greater support to small businesses, particularly as their current principals approach retirement and plan for succession. Given the sizeable economic impact of family-owned businesses on the economy of the United States, the implementation of policies that provide technical assistance and support to small family-owned firms could have substantial economic benefits.

Leveraging External Investment to Save Jobs. This report details the Reempresa model (Catalan, Spain), which leverages the investment potential of external buyers to enable ownership transfers of existing small firms that otherwise may fall victim to predatory buyouts (see page 7). The investor buyers of small firms assume management and administration of the company, but retain its employees, customers, and operating processes. This ensures business continuity and maintains more stable employment at a firm and regional level. Similar models could be developed and executed in the United States for firms that wish to remain operational and continue to provide employment.

Programming Elements. Historically, the managing of the transition in ownership of small, privately-held companies has been a family affair. Over most of the 20th century, this approach worked. Companies were passed on to the next generation in the family. A variety of law firms and consulting companies assisted the family in sorting out the various dynamics within the family that could be an obstacle to the transition. The system worked.

Given the dynamics of the twenty-first century economy, new approaches involving all of the stakeholders and interested parties need to be applied. A promising approach involving all of the stakeholders in addition to the family is being developed in Chicago—the Ownership Conversion Project[54]. This project is a partnership of a range of organizations committed to community development, industrial retention, and the diversification of the ownership structures in the manufacturing sector. The Project will:

- Identify companies facing a succession challenge;
- evaluate the company to assess its potential for growth, and determine a fair price;
- identify qualified entrepreneurs who could purchase and successfully operate the company among the employees, in the Black and Latino community, and other High Road entrepreneurs who would commit to keeping the company in the Chicago region;

Perspectives" in A*dvancing European entrepreneurship research: entrepreneurship as a working attitude, a mode of thinking and an everyday practice*, Luca Gnan, Hans Lundberg, Lucrezia Songini, Massimiliano Pellegrini (editors), Charlotte, NC: Information Age Publishing, Inc., pp. 55-82.
54 The Ownership Conversion Project proposal is in the Appendix to this report.

- assist in the transfer of ownership and the financing of the acquisition; and
- provide on-going assistance to ensure continued success of the company.

Employee Ownership Strategies. Educating family firm owners on the potential benefits of employee ownership without necessary loss of family control can be another succession strategy to prevent firms from closing. By providing legal support services for firm owners, employee ownership schemes such as worker cooperatives or through other options for employee ownership such as stock options, profit sharing and gainsharing generally known as employee stock ownership plans (ESOPs) can be incorporated into succession plans.

It is critical that succession planning programming be provided across the region and be accessible through various outlets. Older firm principals may exhibit more interest in radio or print advertisements for succession planning services, or gain more enthusiasm for workshops from word-of-mouth networking or partnerships with local Chambers of Commerce. Younger employees, including likely successors, may respond more positively to social media campaigns on succession planning programs, and webinars on succession topics versus in-person workshops.

Supplying information and succession planning toolkits on a variety of platforms will likely capture the largest share of the region's small business audience, and make succession planning programming more adaptable to the region's future needs. These programs, combined with strategic investment and governmental policies based in the understanding of small businesses' role in our national economy, could help support family-owned firms as they transition to the next generation.

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Appendix A - Survey Instrument

CHICAGO FAMILY-OWNED BUSINESS ASSISTANCE SURVEY

This survey will take about 10 minutes. Your participation is completely voluntary and you can skip any questions you don't want to answer. We will keep all information strictly confidential, and your answers to the interview will not be attached to your name or business name.

1. First, is your company a family-owned or a closely-held corporation (i.e. a corporation in which more than half of the shares are held by just a few individuals.)?
   ☐ Yes
   ☐ No → ***THANK YOU FOR YOUR TIME. YOU NEED NOT COMPLETE THE SURVEY.***

1b. Is the structure of the company a …
   ☐ partnership,
   ☐ proprietorship, or
   ☐ closely-held corporation?

2. Are you the primary person in charge of the business, or is someone else the primary person in charge?
   ☐ Primary person
   ☐ Someone else

3. What does your company manufacture?

4. How many full-time employees does your company have? __________

5. How many part-time employees does your company have? __________

6. Are any of the workers at your company in a union, or are none of them in a union?

   ☐ Union (What is the union name(s)?) ____
   ☐ No workers in union

Manufacturing Renaissance is interested in information 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 these issues. We want to emphasize that your answers to these questions are strictly confidential.

7. Are you …
   ☐ Under 55 years of age, or
   ☐ 55 years of age or older?

8. Do any family members currently work with you at the company, or do no family members work at the company?

   ☐ Family members/relatives work at company
   ☐ No family members/relatives work at company → ***SKIP TO QUESTION #10***

9. This section will name some family relationships. For each, please indicate if the family member or relative currently works at the company and if so, their position with the company. If you do not have such a family member/relative, move to question 10.

   a. Currently, does your spouse work at the company, or does your spouse not work at the company?
   ☐ Spouse works at company
   ☐ Spouse does not work at company → ***SKIP TO QUESTION #9b***
   ☐ Do not have spouse → ***SKIP TO QUESTION #9b***

   a2. What is his or her position with the company? ____________________

   b. Currently, do your sons work at the company, or do your sons not work at the company?
   ☐Sons work at company
   ☐Sons do not work at company (Skip to #9c)
   ☐Do not have son/sons (Skip to #9c)

   b1. How many of your sons work at the company? _________________________

   b2. What (is his / are their) position(s) with the company? ____________________

c. <u>Daughters</u>? (Do your daughters work at the company, or do your daughters not work at the company)?

☐ Daughters work at company
☐ Daughters do not work at company→ ***SKIP TO QUESTION #9d***
☐ Do not have daughter/daughters → ***SKIP TO QUESTION #9d***

c1. How many of your daughters work at the company? ____________________

c2. What (is her / are their) position(s) with the company? ___________________

d. <u>Nephews</u>? (Do your nephews work at the company, or do your nephews not work at the company)?

☐ Nephews work at company
☐ Nephews do not work at company → ***SKIP TO QUESTION #9e***
☐ Do not have nephew/nephews → ***SKIP TO QUESTION #9e***

d1. How many of your nephews work at the company? ____________________

d2. What (is his / are their) position(s) with the company? ___________________

e. <u>Nieces</u>? (Do any of your nieces work at the company, or do your nieces not work at the company)?

☐ Nieces work at company
☐ Nieces do not work at company → ***SKIP TO QUESTION #9f***
☐ Do not have niece/nieces → ***SKIP TO QUESTION #9f***

e1. How many of your nieces work at the company? _______________________

e2. What (is her / are their) position(s) with the company? ___________________

f. <u>Grandchildren</u>? (Do your grandchildren work at the company, or do they not work at the company)?

☐ Grandchildren work at company
☐ Grandchildren do not work at company → ***SKIP TO QUESTION #9g***
☐ Do not have grandchildren → ***SKIP TO QUESTION #9g***

f1. How many of your grandchildren work at the company? __________________

f2. What (is his or her / are their) position(s) with the company? ______________

g. Brothers? (Do your brothers work at the company, or do they not work at the company)?

☐ Brothers work at company
☐ Brothers do not work at company→ ***SKIP TO QUESTION #9h***
☐ Do not have brother/brothers → ***SKIP TO QUESTION #9h***

g1. How many of your brothers work at the company? ____________________

g2. What (is his / are their) position(s) with the company? __________________

h. Sisters? (Do your sisters work at the company, or do they not work at the company)?

☐ Sisters work at company
☐ Sisters do not work at company → ***SKIP TO QUESTION #9i***
☐ Do not have sister/sisters → ***SKIP TO QUESTION #9i***

h1. How many of your sisters work at the company? ______________________

h2. What (is her / are their) position(s) with the company? __________________

i. In-laws? (Do your in-laws work at the company, or do they not work at the company)?

☐ In-laws work at company (How are they related to you? __________________)
☐ In-laws do not work at company→ ***SKIP TO QUESTION #9j***
☐ Do not have in-laws → ***SKIP TO QUESTION #9j***

i1. How many in-laws work at the company? __________________

i2. What (is his or her / are their) position(s) with the company? ______________

j. Any other family members or relatives? (Do any other family members or relatives work at the company, or do no other family members or relatives work at the company)?

☐ Family members / relatives work at company (What kind of family members/relatives? ____)
☐ No family members / relatives work at company→ ***SKIP TO QUESTION #910 INTRO***

j1. How many other relatives work at the company? _______________________

j2. What (is his or her / are their) position(s) with the company? ______________

10 Intro. 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.

Have you made any plans for succession, or have you not yet made such plans?

☐ Have made plans for succession ***(IF A FAMILY MEMBER, CONTINUE WITH QUESTION #10. IF NOT A FAMILY MEMBER, SKIP TO QUESTION #11)***
☐ Have not yet made plans for succession → ***SKIP TO QUESTION #14***

10. Have you chosen one of your family members to be your successor, that is, the person or persons who will eventually succeed you in the ownership and management of the company, or have you not chosen a family member as successor?

☐ Chosen family member as successor (Which family member? ___________________)
☐ Have not chosen family member as successor→ ***SKIP TO QUESTION #11***

10a. Is he / she …
☐ under 55, or
☐ 55 or over?

SKIP TO QUESTION 14

11. Do you have someone chosen as a successor who is currently working in the company, or do you not have a successor currently working for the company?
☐ Chosen successor working in company (What is his or her name? __________________)
☐ Chosen successor not working in company → ***SKIP TO QUESTION #12***

11a. What position does he or she currently hold in the company? ___________________

11b. Is he / she …
☐ under 55, or
☐ 55 or over?

SKIP TO QUESTION 14

12. Do you have someone chosen as a successor who is currently <u>outside</u> the company, or do you not have a chosen successor outside of the company?

☐ Chosen successor outside the company (What is his or her name? ________________)

☐ No chosen successor outside the company → ***SKIP TO QUESTION #13***

12a. What is his or her current occupation? __________________

12b. Is he / she …

☐ under 55, or

☐ 55 or over?

12c. Is this person any relation to you, or no relation to you?

☐ Related (Specify Relationship: ____)

☐ Not related → ***SKIP TO QUESTION #13***

SKIP TO QUESTION 14

13. Do you have <u>other succession plans</u>, such as selling to a manager, a partner, or to an employee stock ownership plan, or do you not have these other succession plans?

☐ Other succession plans (What are your plans? __________________)

☐ No other succession plans

14. Do you think you will retire …

☐ Within the next 12 months,

☐ In 13 months to 2 years,

☐ In 3 to 5 years, or

☐ More than 5 years from now?

☐ Don't know / have not made retirement plans

☐ Plan not to retire

15. Would you be interested in receiving more information about planning for succession, or would you not be interested in receiving information about planning for succession?

☐ Interested in receiving information about succession planning

☐ Not interested in receiving information about succession planning

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, or would you not be interested in attending the workshop?

☐ Interested in attending workshop
☐ Not interested in attending workshop

17. Would you be interested in being contacted by someone who specializes in succession planning, or would you not be interested in being contacted by such a person?

☐ Interested in being contacted
☐ Not interested in being contacted

18. What is the best way for us to contact you? Would you prefer an e-mail or a phone call?

Email: ____

Best Phone Number: ____

Alternate Phone Number: ____

Name: ____

Appendix B - Survey Disposition Codes

Disposition	Number	Percent
Completed interview - phone	69	19.0%
Completed interview - Mail	20	5.5%
No answer/busy	2	0.6%
Answering machine/answering service	20	5.5%
Eligible R not available	7	1.9%
Unscreened R not available	118	32.5%
Final refusal before screener completed	67	18.5%
Final refusal interview	23	6.3%
Not able to interview during survey period	3	0.8%
Never able to interview	2	0.6%
Unable to locate	15	4.1%
Ineligible, not family owned or closely held corporation	13	3.6%
Ineligible, business closed	2	0.6%
Ineligible foreign language	1	0.3%
Other ineligible	1	0.3%
Total	363	100.0%

Table 2: Disposition of Sample

Appdendix C - Survey Completion Rates

	Number	Rate
Total sample	363	
Nonduplicates	363	100.0%
Contact to screener	341	93.9%
Cooperation to screener	136	39.9%
Eligible	119	87.5%
Contact to final	112	94.1%
Cooperation to final	89	79.5%
Response rate		28.0%
Refusal rate		25.7%
Cooperation rate		52.2%

Table 3: Final Sample Numbers and Rates

Appendix D - Economic Impact Analysis of Family-Owned Firms in Chicago and the Collar Counties

The 1989 study did not analyze the economic impact of the family-owned manufacturing firms in Chicago. This study analyzes the economic impact of family-owned manufacturing firms to determine their contribution to the regional economy and the potential impact of firm mortality due to lack of succession. The analysis uses 2017 as a baseline year and data for Cook and the collar counties (Cook, DuPage, Kane, Lake, McHenry, and Will).

The analysis quantifies the economic and fiscal impacts of family-owned manufacturing firms in the regional economy in an ordinary operating year. It measures their contribution to the regional economy in 2017 in terms of *economic output*, *employment*, and *employee compensation*. Economic output is made up of business revenues; employment is made up of direct employment (employees on the payroll of family-owned manufacturing firms, indirect employment made up of supplier workforce, and induced employment made up of retail and other types of jobs supporting household expenditures); and employee compensation is income paid by employers.

The economic impact analysis utilizes three scenarios: *Scenario 1* is based on economic impact of the 363 family-owned firms compiled for this study. *Scenario 2* is based on economic impact of the family-owned firms with principals over 55 years of age. *Scenario 3* is based on economic impact of the family-owned firms with principals over 55 years without a chosen successor. *Scenario 3* is based on an assumption that these firms are more susceptible to closure.

Economic Impact Results

Economic impacts are the net changes to the economic base of a region that can be attributed to an industry, event, or policy that would otherwise not be there. The economic impact is quantified in terms of industry output, "value added," employment, and tax revenue. Economic impact analysis provides a rules-based and transparent measure of the economic importance of family-owned manufacturing firms to the economy using standard measures of economic activity – GDP, employment, wages and salaries, and tax revenues.

Definitions

The **total economic impact** is comprised of the direct impact and indirect impact.
Direct impacts result from expenditures associated with family-owned manufacturing firms consisting of labor, materials, supplies, and capital.
Indirect impacts resulting from suppliers of the family-owned manufacturing firms purchasing goods and services and hiring workers to meet demand – these "2nd round" impacts would not occur but for the operations of family-owned manufacturing firms.
Induced impacts resulting from the employees of family-owned manufacturing firms purchasing goods and services at a household level.

Economic Impact Outputs
Output is the broadest measure of economic activity. It consists of the total gross value of goods and services produced by the industry measured by the price paid to the producer.

Gross Domestic Product (GDP) or value-added refers to the additional value of a good or service over the cost of inputs used to produce it from the previous stage of production. Total GDP is a more meaningful measure of economic impact than output, as it avoids double counting during each round of impacts.
Employment is the number of additional jobs created as a result of the expenditures made by the family-owned manufacturing firms. It is estimated as the number of jobs per $1 million spent. Direct employment is generally employees on payroll; Indirect employment is related to the suppliers' workforce; Induced employment are the retail

and other types of jobs supporting household expenditures.

Labor Income consists of all forms of employment income, including employee Compensation (wages and benefits) and proprietor income. Labor Income = Employee Compensation + Proprietor Income, and employee compensation includes employer contributions to social insurance (Source: IMPLAN Glossary).

Employee Compensation is the total payroll cost of the employee paid by the employer. This includes wage and salary, all benefits which includes, for example, health, retirement) and payroll taxes (both sides of social security, unemployment taxes, etc. (Source: IMPLAN Glossary).

Government tax revenues come from personal income taxes, indirect taxes less subsidies, corporate income taxes and is measured as the total amount of tax revenues generated for each level of government (municipal, provincial and federal).

The "State/Local" tax table estimates taxes paid to all state and local units of government in the study area. The "County" table estimates revenue collected by county governments.

Taxes on Production and Imports (TOPI): includes sales and excise taxes, customs duties, property taxes, motor vehicle licenses, severance taxes, other taxes, and special assessments. It excludes most non-tax payments, and as the name indicates, subsidies are netted out.

The results of the economic impacts are summarized in Table 4.

The 363 family-owned manufacturing firms in Chicago and the Collar Counties in this study generates considerable direct economic benefits for the local economy. These firms had a direct employment of 22,059 but contributed a total of 29,428 in employment to Chicago and the Collar Counties in 2017. These workers were paid approximately **$892.7 million in wages and salaries (including benefits)** and **generated an economic output of $3.06 billion in 2017**. While a large share of the impacts are attributed to direct employment and earnings, the total impact (direct, indirect, and induced) is important to the region's economy.

Scenario 1: Economic Impact of the 363 family-owned firms in the Study

Impact Type	*Employment*	*Labor Income ($)*	*Value Added ($)*	*Output ($)*
Direct Effect	22,059	$434,135,680	$601,446,598	$1,745,104,508
Indirect Effect	3,165	$242,164,879	$381,998,705	$681,534,488
Induced Effect	4,204	$216,443,088	$387,326,090	$632,589,907
Total Effect	29,428	$892,743,647	$1,370,771,393	$3,059,228,902

Table 4: Economic Impact of the 363 family-owned manufacturing firms in Chicago and the Collar Counties (2017)

Fiscal Impact Results

The fiscal impact analysis was calculated by estimating the revenues associated with the 363 family-owned manufacturing firms in Chicago and the Collar Counties (2017). Table 5 show estimates of taxes paid to all state and local units of government in Illinois. Table 6 show estimates of taxes paid to the counties in the study area.

State/Local Impacts:

The "State/Local" tax table estimates taxes paid to all state and local units of government in Illinois.

Revenues	Employee Compensation ($)	Tax on Production and Imports ($)	Households ($)	Corporations ($)
Total	$68,408	$63,515,210	$22,875,091	$5,846,144

Table 5: Estimated Taxes Paid to The State and Local Units of Government in Illinois

County Impacts:

Revenues	Employee Compensation ($)	Tax on Production and Imports ($)	Households ($)	Corporations ($)
Total	$0	$3,929,216	$737,058	$14,186

Table 6: Estimated Taxes Paid to Counties in the Study Area

Scenario 2: Economic Impact Analysis of Firm with Principals Over 55 Years of Age

Impact Type	Employment	Labor Income ($)	Value Added ($)	Output ($)
Direct Effect	1,474	$115,992,889	$162,671,177	$544,512,790
Indirect Effect	1,093	$79,934,404	$128,798,948	$240,603,754
Induced Effect	1,222	$62,897,474	$112,556,356	$183,824,591
Total Effect	3,789	$258,824,768	$404,026,481	$968,941,136

Table 7: Economic Impact of family-owned manufacturing firms in Chicago and the Collar Counties with Principals Over 55 Years of Age (2017)

State Local Impact:

Revenues	Employee Compensation ($)	Tax on Production and Imports ($)	Households ($)	Corporations ($)
Total	$19,605	$19,806,037	$6,638,474	$1,767,628

Table 8: Estimated Taxes Paid to the State and Local Units of Government in Illinois due to family-owned manufacturing firms in Chicago and the Collar Counties with Principals Over 55 Years of Age (2017)

County Impact:

Revenues	Employee Compensation ($)	Tax on Production and Imports ($)	Households ($)	Corporations ($)
Total	$0	$1,225,253	$213,898	$4,289

Table 9: Estimated Taxes Paid to Counties in the Study Area due to family-owned manufacturing firms in Chicago and the Collar Counties with Principals Over 55 Years of Age (2017)

Scenario 3: Economic Impact Analysis of Possible firm Closure Due to Lack of Succession Planning

Impact Type	*Employment*	*Labor Income ($)*	*Value Added ($)*	*Output ($)*
Direct Effect	-1,474	$-115,992,889	$-69,314,602	$-544,512,790
Indirect Effect	-1,093	$-79,934,404	$-128,798,948	$-240,603,754
Induced Effect	-1,222	$-62,897,474	$-112,556,356	$-183,824,591
Total Effect	-3,789	$-258,824,768	$-310,669,906	$-968,941,136

Table 10: Economic Impact Due to Possible Closure of family-owned manufacturing firms in Chicago and the Collar Counties with Principals Over 55 Years of Age without a Chosen Successor (2017)

State/Local Impacts:

Revenues	*Employee Compensation ($)*	*Tax on Production and Imports ($)*	*Households ($)*	*Corporations ($)*
Total	-$19,605	-$13,906,100	-$6,638,474	-$522,638

Table 11: Loss of Revenues to the State and Local Units of Government in Illinois Due to Possible Closure of family-owned manufacturing firms in Chicago and the Collar Counties with Principals Over 55 Years of Age without a Chosen Successor (2017)

County Impacts:

Revenues	*Employee Compensation ($)*	*Tax on Production and Imports ($)*	*Households ($)*	*Corporations ($)*
Total	$0	-$860,268	-$213,898	-$1,268

Table 12: Loss of Revenues to Counties in the Study Area Due to Possible Closure of family-owned manufacturing firms in Chicago and the Collar Counties with Principals Over 55 Years of Age without a Chosen Successor (2017)

Appendix E - All Manufacturing Firms in Cook County and the Collar Counties

This data set was obtained from Mergent Intellect to examine the full universe of private and independent manufacturing firms. The full data set of private independent manufacturing firms contained 25,238 firms. To replicate the 1989 study, firms with less than 20 employees and more than 250 employees are separated out, leaving 2,883 private independent firms. From this set of data, the primary data filters described on page 11 were applied to identify likely family-owned firms with between 20 and 250 employees. This produced a similar pool of survey candidates to the Dun & Bradstreet data acquisition described on page 11.

NAICS 31/32/33	Cook County		Collar Counties		Combined	
	Firms	**Employed**	**Firms**	**Employed**	**Firms**	**Employed**
Private Independent Firms	16,567	180,612	8,671	90,268	25,238	270,880
0 Employees	350	0	135	0	485	0
1 Employee	3,108	3,108	1,740	1,740	4,848	4,848
2-4 Employees	7,461	19,066	3,880	9,735	11,341	28,801
5-9 Employees	2,147	13,584	1,194	7,614	3,341	21,198
10-19 Employees	1,490	19,233	765	9,987	2,255	29,220
20-250 Employees	1,952	103,533	931	49,556	2,883	153,089
Over 250 Employees	59	22,088	26	11,636	85	33,724
Family-Owned Firms with between 20 and 250 Employees	126	7,117	63	3,022	189	10,139

Table 13: All Private Independent Manufacturing Firms by Number of Employees & Family-Owned Firms with between 20 and 250 Employees

(Source: Dun & Bradstreet, Compiled using Mergent Intellect)

DEVELOPMENT AND IMPLANTATION OF THE FAMILY PROTOCOL AND PLANNING OF THE SUCCESSION PROCESS

WHAT IS IT	• The **FAMILY PROTOCOL** is an instrument that adequately regulates the **Company / Family relations** in the triple scope of the **Property / Government / Management** of the **Family Companies**, planning the **Succession Process** of the same ones so that the **Generational Replacement** is carried out in an orderly and planned way, contributing this way to the **continuity** of the company.
WHICH COMPANIES IT IS AIMED AT	• The development and implementation of the **FAMILY PROTOCOL** is especially suitable for **medium and small family businesses** that are, or plan to be in the short / medium term, in a **succession process** and wish to face it and carry it out properly.
WHAT IS THE OBJECT	• The purpose of this ELKARGI Service is to contribute to the **SUCCESSION PROCESS** and **GENERATIONAL REPLACEMENT** in SMEs being carried out in an adequate and planned manner, regulating the professional and economic relations between the **Family** and the **Company**, in order to ensure the **continuity** and d**evelopment** of the company.
SERVICE CONTENT	• The elaboration of the FAMILY PROTOCOL consists of three phases: ▪ **Previous diagnosis** on the Property, the Government, and the Management of the company, with a personalized and specific advice to the businessman. ▪ **Elaboration and Formalization,** properly speaking**, of the Family Protocol.** ▪ Accompaniment in the **implementation and periodic review** of the Family Protocol. • The elaboration of the Family Protocol also implies the revision and/or adaptation of the Social Statutes, Testament(s) and Marriage Pre-nuptial agreements.
SUCCESSION PROGRAMME of the SPRI **50% Subsidy**	• The **PROGRAM OF SUCCESSION** (*) of SPRI has as object: ▪ **To support succession planning** in the management and/or ownership of small and medium-sized enterprises in the Basque Country and the implementation of the Family Protocol. ▪ The activity to be supported **must be developed and supervised by an external consultant**.

(*) Basque Register 24 of February 2010

DEVELOPMENT AND IMPLANTATION OF THE FAMILY PROTOCOL AND PLANNING OF THE SUCCESSION PROCESS

SUCCESSION PROGRAMME of SPRI

BENEFICIARIES

Small and medium-sized enterprises in the Basque Autonomous Community that intend to undertake a planned succession process. It is understood by SMEs:

- Employees : between 9 and 250 workers
- Annual turnover : between EUR 2 million and EUR 50 million, or
- Balance sheet: : between EUR 2 million and EUR 43 million

ELIGIBLE EXPENSES

The consultant's fees derived from professional advice and assistance for the previous Diagnosis, the Elaboration of the Family Protocol and the accompaniment in its Implantation.

AMOUNT OF AID

50 % subsidized **of the eligible expenditures**, subject to the following caps:

- Diagnostic Phase : 3,000 €
- Elaboration Phase : 12,000 €
- Implementation Phase : 5,000 €

EXECUTION PERIOD

The maximum implementation periods for each of the phases shall be as follows:

- Diagnostic Phase : 6 months
- Elaboration Phase : 12 months
- Implementation Phase : 12 months

SUBMISSION DEADLINE

- The application period is open from January 1 to December 31 of each year.
- Applications for aid must be **submitted using the relevant application form**.
- Applications must be submitted **before the start of the project.**
- **Term of validity**: According to the final provision regulating the Succession Programme, it is in force as of publication in the Basque Register (24 February 2010).

Appendix G - The Ownership Conversion Project

January 23, 2019

The Ownership Conversion Project

Recently, the Chicago Tribune featured this project in the January 20, 2019 edition. Here's the link: https://www.chicagotribune.com/business/ct-biz-manufacturing-succession-planning-20190103-story.html

Mark, the son of the owner of a manufacturing company sent the following note:

> *My father owns a fabrication business in the tool-and-die industry (with a focus on tube and pipe equipment fabrication) based out of Elk Grove. He's in his early 70's and, to the best of my knowledge, has no idea who will replace him and run the company. Two of his sons (myself and my brother) pursued different interests after short stints working at his shop after college - and no other family members have the skills or desire to take over. I know he'd love to retire, but the lack of a replacement keeps him in the business.*

The Ownership Conversion Project ("OCP") is a partnership of experienced job training programs, community and economic development organizations and labor organizations. We have come together to develop a coordinated approach to retain and develop Chicagoland's industrial base by arranging the acquisition of manufacturing companies facing an ownership succession crisis. We will facilitate the acquisition of these companies by groups of employees and High Road entrepreneurs[1], particularly African American and Hispanic men and women, as well as white entrepreneurs.

This project presents a unique opportunity for innovation in the field of economic and community development. A crisis in ownership succession in the manufacturing sector creates an opportunity that combines community and entrepreneurial interests and leads to a broader, more diverse, and more stable pool of owners in manufacturing.

The partners are launching the OCP as a 501(c)3 organization collaborating to raise $925,00 in seed funding to support the first two years of a Managing Director and senior staff salaries and baseline costs associated with launching the organization.

Why the OCP is Needed Now

The manufacturing sector in the Metropolitan Chicago area generates over $65B annually and employs over 580,000 workers, the second largest such cluster in the nation[2]. In Cook County alone there are over 6,000 manufacturing companies employing more than 180,000 workers. The manufacturing sector provides wages that are 27% higher than the regional average and creates the largest economic ripple effect of any industry, as one manufacturing job supports at least 5 more in the region. But there is a looming problem: many of these manufacturing firms are in danger of closing due to the absence of successors to retiring owners.

Based on survey research commissioned for this project and performed by the UIC Great Cities Institute, 73% of the sampled manufacturing companies in the Chicagoland area have an owner over the age of

[1] "High Road" entrepreneurs are groups or individuals committed to managing their businesses for the shared benefit of ownership, employees, and the surrounding community. We will work with entrepreneurs from all backgrounds and of all races and nationalities.

[2] Metropolitan Chicago's Manufacturing Cluster: A Drill-Down Report on Innovation, Workforce, and Infrastructure, 2013

55. 61% of the firms surveyed are at immediate risk due to lacking a defined ownership succession plan and have not chosen a suitable successor. In a report by the Ohio Employee Ownership Center, it was noted that, "The failure to plan for business succession in small and medium-sized companies is the leading preventable cause of job loss in the United States[3]." This is a long-standing problem in Chicago and around the country. Small, privately-held companies are hidden in plain sight, and there is relatively little information about the companies. Issues of succession of ownership are viewed as a private family concern, and often not addressed until it's too late.

At the same time, manufacturing companies are overwhelmingly owned by white men, contributing to profound differences in wealth creation relative to workers, women, and minority populations. According to Crain's Chicago Business, 99% of Illinois manufacturing companies are white-owned, often separating large pools of entrepreneurs from consideration in the acquisition of manufacturing companies[4].

Our manufacturing economic engine is at risk due to a lack of succession planning among current ownership, producing a crisis that can also present a transformational opportunity. We can maintain and develop the manufacturing economic engine while also addressing historical wealth barriers to create an ownership sector that includes workers as well as Black and Hispanic men and women. This change could alter the values that guide the management of manufacturing companies from those that prioritize the private accumulation of wealth to those that also address historical barriers to wealth creation and sustainable employment.

What makes this effort different from other private equity firms?

In many ways, we are similar. We will be looking for high quality small manufacturing companies that are available for sale. Through our networks with the labor movement, community-based organizations, churches, and community development organizations like LISC, we expect to identify these companies before they are on the market. We are only interested in viable strong companies that will have a very high potential for success in a transition to new ownership. This is not a project that is seeking to invest our time and resources in companies that are deeply troubled.   We will have an experienced staff similar to that at PE firms that will provide excellent assessments of these companies and determine risk and their value. We will identify qualified purchasers that have the skills, experience and financial backing to be successful in leading these companies to the next stage of development.

What makes our work different from the traditional PE community is that our mission is industrial retention, the diversification of the ownership of manufacturing companies, and community development. We will not strip companies of their assets. We will not move them out of the community or region.   We will ensure that the purchase increases their long-term viability. We will work with management and ownership teams that share our values and meet the standard of being "high road."

OCP will the profits gained from fees to support the growth of the project, and support of the work of the not-for-profit organizations that have launched this initiative.

What is the role of banks in this initiative?

[3] http://www.oeockent.org/exit-planning/

[4] "When Suddenly the Kids are in Charge," *Crain's Chicago Business*, November 28, 2016, p. 3.

We see banks participating in several levels of the project. Interested financial institutions may provide Senior Debt to these individual manufacturing companies confident that this debt has the same level of risk as their other investments. Our assessment of risk in these companies will be similar to that of banks. We expect to be particularly useful in advancing innovative ideas for production, management, and marketing and sales that will decrease the risk. We also expect to be able to leverage public funding and other public benefits that will lower the risk of the investment by others. For example, Illinois State Treasurer Frerichs is very supportive of this initiative and wrote: “We look forward to working with the collaborative to explore opportunities to provide low cost access to capital to facilitate these transactions.” (letter attached).

Banks will also have the opportunity to invest in our Subordinated Debt Fund along with other social impact investors that will have lower expectations for a financial return and who are committed to the social mission of the project. This fund will meet CRA requirements and will be managed by LISC Chicago.

Finally, banks—particularly those that see the strategic importance of this project—will be encouraged to make a corporate contribution to OCP. This is particularly important at this early stage. To date, seed funding for OCP has come from the Chicago Community Trust, Cook County Bureau of Economic Development, and LISC Chicago. We are circulating proposals to other banks, foundations and local government to seek this support. Key contributors will be asked to join a Strategic Advisory Committee for OCP. In addition to providing guidance on OCP, Advisory Committee members will be kept well-informed of the active outreach of the project and will have early access to information on investment opportunities.

The OCP Partners

The OCP is led by a partnership of established non-profit organizations with deep community ties and several decades of experience in manufacturing innovation, education and workforce development, community development and worker advocacy. Partners include:

The Chicago Federation of Labor is the umbrella organization for Chicago and Cook County’s labor unions. From airline pilots to zookeepers, the Chicago Federation of Labor’s 300 affiliated unions and their half a million members represents a diverse group of working men and women throughout the Chicagoland area. The Chicago Federation of Labor was founded in 1896 to strengthen the efforts of individual local unions by creating a unified voice for the labor movement in the Chicago area.

LISC Chicago is a national organization with a grassroots focus, founded in 1980. They have offices in 31 cities and works in hundreds of communities across the country. Their collective goal is to create socially and economically vibrant and sustainable neighborhoods, with living wage jobs, local businesses, good schools, quality housing, reliable transportation and needed amenities. With residents and partners, LISC forges resilient and inclusive communities of opportunity across America – great places to live, work, visit, do business and raise families.

Manufacturing Renaissance is a Chicago-based nonprofit, nonpartisan organization, founded in 1982. Their mission is to build thriving and inclusive communities by connecting them to manufacturing through education, training and local ownership. Their advocacy, community engagement, and education initiatives serve to develop educational and economic infrastructures that meets the needs of both the manufacturing sector and communities.

Safer Foundation is one of the nation's largest nonprofit social impact organizations focusing on human capital development for people with criminal records. They focus on helping our clients secure and maintain employment because they understand that employment offers the best chance at successful reentry. Safer Foundation is a national leader in addressing the challenges and barriers to successful reentry. They are a go-to source for best practices in what works in the field of reentry, providing organizations across the country training and technical assistance on employment issues related to people with arrest or conviction records.

World Business Chicago is a public-private, non-profit partnership that drives inclusive economic growth and job creation, supports business, and promotes Chicago as a leading global city. WBC is responsible for the implementation of Chicago's Plan for Economic Growth and Jobs, a coordinated effort to assess and expand Chicago's economy. The Plan provides a set of goals, a framework for research and analysis, and as set of strategies which are currently being implemented to foster regional growth.

Cook County Bureau of Economic Development is an arm of the office of the President of Cook County It has a distinguished Council of Economic Advisors, and operates the Chicago Metro Metals Consortium—a partnership actively involved in workforce development, and other key aspects of economic development for the region.

Illinois State Treasurer's Office: Run by state treasurer, Michael Frerichs, this office manages and invests the money of the State of Illinois. They are able to work closely with banks and investment firms to incentivize investment in the acquisition efforts by the OCP.

OCP Strategies

The OCP will identify manufacturing companies with a succession challenge and match these companies with qualified High Road buyers offering fair and acceptable prices and terms. We will assist in the financing of acquisitions through our own dedicated fund. Once these acquisitions are complete, we will continue to work with companies to ensure their ongoing success as business enterprises, including integrating them into a network of companies committed to the values and priorities of the OCP and its partners.

The OCP will perform the following key activities to accomplish our objectives:

1. **Building the Business Prospecting Network**: Key to the success of this effort is the identification of healthy, viable company prospects. We will leverage the broad networks of our partner organizations to systematically gather information from company employees, community-based organizations, churches, the local development community, and service providers to the manufacturing sector. We anticipate having a significant first mover's advantage, being the first

external entity to approach businesses with succession planning conversations. We will focus on companies that are viable and have a high probabilityof success in the transition to new owners.

2. **Developing Pools of Qualified Purchasers**: We will develop a pool of entrepreneurs with the skills and desire to purchase companies and screen all potential entrepreneurs for their commitment to High Road principles. Specifically, we will work with High Road entrepreneurs to acquaint them with the manufacturing opportunities available, help them acquire the expertise and resources to be engaged in acquisitions, and introduce them to appropriate sellers.

3. **Identifying Sources of Capital and Funding Transactions**: Many of these types of acquisitions can be conventionally financed by existing owners, banks, and new owners. In addition, we will create a fund dedicated to these kinds of transitions and willing to provide patient and reasonably-priced capital for both acquisitions and their continued development. We are also developing active partnerships with Chicagoland's financial community to form a reliable source of conventional financing as well as the State Treasurer's Office.

4. **Leading the Transaction Process**: The OCP will continue to manage and oversee transactions from prospect identification through closing, ensuring ongoing adherence to its mission. We will facilitate and coordinate the required transaction-related activities, including accounting services, legal services, and consultants.

5. **Providing Ongoing Support**: The OCP will provide ongoing post-transaction support, increasing the success of the next generation of entrepreneurs and employees at the transitioned companies. This support would include mentorship, training, technical assistance, etc.

These key activities are fundamental to ongoing OCP operations as each transaction moves through each of the stages. Each stage will involve responsibilities from the core partner organizations, the internal OCP staff, and secondary partner organizations. The project phases and responsibilities are outlined in detail below.

	Building the Business Prospecting Network	Developing Pools of Qualified Purchasers	Identifying Sources of Capital and Funding Transactions	Leading the Transaction Process	Providing Ongoing Support
Key Responsibilities	• Coordinating and qualifying a centralized target list • Leveraging the partner org networks to apply prospecting methodology	• Coordinating and qualifying a central recruiting pipeline • Qualifying potential entrepreneurs • Identifying employee ownership prospects	• Raising a debt capital fund from partner financial institutions and impact investors • Administering fund investments	• Coordinating transaction activities from prospect through close	• Supporting entrepreneurs and companies through training, mentorship, networking, etc. • Creating a services referral network
Key Core Participants	• Internal OCP staff • CFL • LISC Chicago • World Business Chicago • Manufacturing Ren.	• Internal OCP Staff • Safer Foundation • World Business Chicago • CFL	• LISC Chicago	• Internal OCP Staff	• Manufacturing Renaissance • World Business Chicago
Key Secondary Participants	• Banking Partners • Local Labor Unions • Local Community Organizations	• Local Community Organizations	• Banking Partners • Social Impact Investors	• Banking Partners • Partner Service Providers (accounting, legal, etc.)	• Banking Partners • Additional Partners from our network

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Next Steps

A business plan for the OCP has been developed by the partners (attached) and research outlining the need and opportunity for OCP mission and activities has been completed by the University of Illinois of Illinois at Chicago.

Key next steps are outlined below:

1. **Form New Legal Entity**: The OCP is working forming a new non-profit entity obtaining the appropriate 501(c)(3) designation.
2. **Creation of Advisory Committees**: Recruit civic and industry experts to assist and advise in all aspect of this work.
3. **Raise Initial Operating Funds**: The OCP partners are collaborating to raise $925,000 in grant funding to cover 2-years of initial operating costs. These initial funds will allow us to take the key next steps of hiring staff and mobilizing the project.
4. **Hire Key Staff**: The OCP will begin hiring key staff, starting with our Managing Director. These key staff will be responsible for hiring additional staff, implementing our operating model systems and processes, building key relationships, and promoting the OCP with target audiences.

5. **Structure and raise funding for subordinated debt**: The OCP will work with our core partners at LISC Chicago to implement the appropriate fund structure and begin fundraising from impact investment organizations. The Subordinated Debt Fund will be used to assist in financing OCP transactions as needed.

6. **Implement Prospecting Network**: The OCP will begin to implement our prospecting network within our coalition of partner organizations, readying the organization to begin receiving prospect referrals.
7. **Launch Marketing Campaign**: The OCP will begin marketing the effort with target audiences, including manufacturing trade groups, affinity groups, and other broad-reaching publications.
8. **Launch OCP Operations**: It is projected that during the first year of operations, OCP will work with 30 potential ownership conversations and will close 4 transactions.

Conclusion:

Today, thousands of manufacturing companies employing hundreds of thousands of workers in the Chicago region are in danger of closing due to the absence of successors to retiring owners. This demographic shift, referred to as “The Silver Tsunami” is a crisis that can be a transformational opportunity. We can maintain the manufacturing economic engine and employment as we change the traditional ownership structure from a white and male private sector to a sector that includes workers, as well as Black and Hispanic men and women as owners. This change also creates the opportunity to alter the values that guide the management of the manufacturing sector from one that is exclusively focused on private accumulation of wealth to one that addresses social problems as it generates a strong ROI. The Ownership Conversion Project is a unique and innovative approach to transforming a crisis into a true opportunity for re-building communities.

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