Entrepreneur & Innovation Exchange
Published online at EIX.org on June 25 2024
DOI: 10.32617/1087-667ab73c71942

How Well are Business Owners Preparing for Succession and Transition?

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KEYWORDS: Entrepreneurship, Exit, Business Succession Planning.

American business owners are aging. According to the 2021 US Census, nearly 52% of business owners are 55+ and 23% are 65+. This is consistent with the increased proportion of aging Americans in the workforce. The problem is that without adequate preparation, the increasing age of owners can pose a threat to the continuation of their businesses: in short, when owners retire or pass on without a clear plan for how the business will continue, their businesses will generally close as well. This, in turn, can mean the disruption of jobs as well as products and services for those who depend on them. The consensus of research on business succession and transition (BST) shows that owners believe that planning is important, yet the majority do not have a written succession and transition plan. Often, they have not allocated enough time to even consider a plan (Exit Planning Institute, 2022).

Unfortunately, there is no government or other public data on the proportion of businesses that transfer ownership. The consensus among business exit planners and researchers is that a small minority of businesses are successfully transferred to new owners and leaders. This is unfortunate, because buying a business is a better opportunity (https://link.springer.com/article/10.1007/s11301-023-00352-6) for many entrepreneurs than starting a new business (Hoffman et al, 2023).

Acquiring a Business

Ownership and leadership are the two key aspects in transferring a business. Transferring the ownership involves the legal, tax and financial aspects of transition. Leadership refers to the knowledge, managerial skill, and relationships transferring to the new leaders (File and Prince, 1996).

Previous research at the University of Minnesota Extension identified several factors important to transferring businesses, especially for rural areas. Sellers need financial records that demonstrate business profitability and the value of intangible assets such as the value of its name and reputation. They need professional valuation assistance to get an accurate value of the business. Ideally, they communicate broadly that the business is available for sale and they have access to business brokers and other intermediaries. However, selling owners are often reluctant to do this, because they fear negative consequences among customers, vendors, or employees. Further, sellers need to know the variety of ownership options available, such as selling to employees(https://eiexchange.com/content/should-employee-ownership-be-your-next-strategic-move?search=). The selling owner needs to remain involved in the business long enough — yet not too long — after transfer so their connections, relationships, and ultimately trust actually transfer to the new business leaders/owners (Templin, et al., 2017).

These things mentioned above are essential to making the *business* transferable. In a related-yet-separate way, the departing owner must become *personally ready*(https://familybusiness.org/content/family-business-patriarchs-and-matriarchs-when-is-it-time-to-mov) for life after the business. Therefore, business succession and transition planning is extremely important to the continuation of small businesses. Unfortunately, the consensus in both small business research and the lived experience of business advisers is that most small businesses and their owners are *not* ready (Petel, 2022).

Why We Undertook This Research.

It's been said, "If you don't have an exit plan, you don't have a strategy" (Hale, 2024). Putting it a bit differently, Steven Covey encourages us to "begin with the end in mind". These quotes underscore the need for careful planning in connection with business transition, as in other domains. However, although the need for transition planning has been established, the state of business readiness remains unclear in many places. This is why we set out to learn about the personal readiness of owners and the readiness of their businesses for succession and transition.

We focused on our own state, Minnesota, a medium-sized state in the Upper Midwest of the US. We asked: How aware are Minnesota business owners of transition planning and their options? What are their attitudes about it and what are their aspirations for the business, employees, community, and themselves? Where do they get information and advice and which key preparation activities have they done? What are their intentions for transferring their businesses, including three options for converting to employee ownership? Ultimately, we hoped to identify and reduce the barriers that prevent the majority of businesses from transferring successfully.

What We Studied

The University of Minnesota Extension has assisted Minnesota communities with business retention and expansion programming (https://z.umn.edu/BusinessRetention) for many years. Business succession and transition (BST) (https://z.umn.edu/BizSuccession) is an adjacent issue that Extension has done research and programming on since the "Silver Tsunami" issue with aging Baby Boomers emerged several years ago.

In 2023, our team embarked on a research project to explore business owner awareness, attitudes, aspirations, and actions regarding planning for transition.

Owners and leaders of 1,500 Minnesota businesses were randomly selected from a purchased mailing list and sent a paper survey through the U.S. Mail. Usable responses were received from 286 businesses. As self-reported by the respondents, 69.5% of these businesses were fully family-owned, 7.4% were partially family-owned, and 23.2% were non-family-owned (i.e. entrepreneur-owned). The average respondent was 59 years old, yet responses were received from people as young as 33 and as old as 90.

We asked owners about their general *awareness* of BST and several options for transferring ownership to either external or internal buyers. Data was gathered on their sources of information, advisers, advisory teams, and how much time they have spent transition planning. Owner *attitudes* and *aspirations* were assessed on several factors related to what they wished for the business, the employees, and themselves after the transition. A series of questions addressed owner *readiness*, including their preparation *activities* and assessment of both their personal readiness and the readiness of the business. We also asked about their post-ownership plans. Finally, we asked about how likely owners were to transfer to external buyers (third-party, private equity, strategic, or liquidate and sell assets) or internal buyers (family, management, existing partners, or three forms of employee buyouts: employee stock ownership plan [ESOP], worker-owned cooperative, or employee ownership trust).

What We Found

In our research results, not all advisers (https://sites.google.com/umn.edu/businesssuccessiontransition/results/data-dashboards/dashboard-1?authuser=0) for business succession and transition planning were relied on equally. The most sought-out professional advisers were accountants (59.3% of owners sought their advice), attorneys (48.1%), and personal financial planners (30.2%). There were two other important yet perhaps less obvious "advisers": other business owners (54.5%) and spouse/partners (31.3%). Perhaps the greater takeaway is that it takes a small "village" of advisers to prepare a small business for transition, as both the research literature and our results showed. For instance, our research (https://mn.gov/deed/newscenter/publications/trends/march-2024/transition.jsp) showed that owners relying on their spouse/partner, attorney and accountant (all three), increased their business' readiness from an average of 3.2 to 4.6 on a 6-point scale (readiness scale: 1="not at all" to 6= "to a great extent"). This confirms earlier research that showed successful business transfers in rural Minnesota relied on 3–5 advisers, with an average of 3.8 advisers.

Selling to a strategic buyer was the most likely intended transfer route. Selling to family, third-party, or management were other likely buyers in our research. Employee ownership is associated with better performance by both employees and businesses in business research literature. However, the owners responding to the survey were mostly unaware of employee ownership and unlikely to sell to their regular employees (except family or managers).

EIX.org (2024)
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The owners cared about the future of the business as much as maximizing their personal financial situation (see data dashboard(https://z.umn.edu/BSTvalues)). In addition, rural business owners cared more about keeping the business local than urban/suburban owners.

As previously mentioned, personal readiness and business readiness are important-yet-separate considerations for succession planning. In our research results, as owners' personal readiness increased, the business readiness generally increased as well. Specifically, owners consulting with their spouse/partner, having family discussions or discussions within the business and obtaining a formal business valuation corresponded with increased **personal** readiness. Owners consulting with their spouse/partner, attorney, accountant; having family discussions; and obtaining a formal business valuation corresponded with increased **business** readiness.

Previous research indicates that having specific plans for an owner's life after transferring their business is correlated with increased readiness. This was confirmed in our results because both personal and business readiness were rated higher by owners who planned to work after transferring the business. This was not the case for owners who planned to fully retire.

What owners believe about transition planning is sometimes markedly different from what they actually do. For instance, the owners rated the importance of a written succession and transition plan an average of 4 on a 6-point scale (where 6 = "to a great extent") and almost two-thirds gave it a 4, 5, or 6 rating. However, only 21.6% had actually created or updated their written plan in the last three years.

Owners closest to transition (within 1–2 years) were the most familiar with transition planning, most ready to step away from the business, and their businesses were most ready for transition. While this is encouraging, exit planning experts estimate that transition typically takes 2–3 years, and with family businesses it can take 5–10 years.

Finally, we found that non-family businesses were likely to be both more knowledgeable about transition and more ready than family-owned businesses. This was also true for businesses with more employees and older owners. In terms of personal readiness, the self-reported readiness scores of male owners were generally higher than those of female owners.

Takeaways For All Kinds Of Businesses

Planning for business succession and transition is one of those activities that seems important yet not urgent -- until life happens and it becomes urgent. Unfortunately, that is often too late, so we recommend starting your exit planning now. There may be a recommended sequence for which steps to do in which order. However, you can think of it as a "shotgun start" in a golf tournament: just start anywhere and get going on your planning. Consult with trusted advisers and write down your plan. Remember, a plan that's only in your mind is not a plan that anyone else can use. And this is not generally a time for a "for sale by owner" adventure. Even if you have sold a business before, this is a time to consult experienced professionals.

Exit planners recommend starting by thinking about when you would like to reduce yourself from the business. This could include reducing or withdrawing your capital investment, your leadership, and your time. And it doesn't have to be an all-or-nothing thing. Stepping back is an option if stepping away isn't something you're ready for. Ideally, can you identify a successor to lead the business? And how much financial capital do you need from the transition?

Thinking about what you care about is an important early planning step. This is something that will vary from person to person. Whether to create a legacy and what kind of legacy will influence the choices an owner makes for their transition plan. We asked about a variety of legacy factors in our research survey. The starkest findings are viewable in our data dashboards (https://sites.google.com/umn.edu/businesssuccessiontransition/results/data-dashboards?authuser=0) :

1. Owners who were most concerned about maximizing their personal finances were most interested in strategic buyers. And this was the leading transfer route with one exception.
2. Owners most concerned about keeping the business in the family were (logically) most interested in family transfers.
3. On the other hand, when owners were most concerned about the business' success or retaining current employees, there was no

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perceptible effect on the intended type of transition buyer. Since employee ownership is associated with better business and employee performance, we believe there is an information gap. Owners are not aware of employee ownership options(https://www.mnceo.org/) in Minnesota.

Another important early step is to get a professional valuation of your business. The value the appraiser estimates for your business is based on many factors. Quite often, owners find their business is not as valuable as what they think it is. This "value gap" can be addressed over time. Three factors that can drive or deplete the business value are:

1. The dependency of the business on the owner, such as dealing with customers, signing checks, making managerial decisions, etc. Businesses are more valuable when they are less dependent on a specific individual in these ways.
2. The relative concentration of customers or business and the associated risk.
3. Having a written strategic business plan.

Here are some additional resources that may be of interest to business owners looking to learn more about transition and succession:

1. YouTube 2-3 minute videos at University of Minnesota Extension's YouTube channel on BST(https://z.umn.edu/BSTvideos) . View "If You Don't Have an Exit Strategy...", "Where an Owner Should Start with Transition Planning", "What are Some Factors that Drive or Deplete Value".
2. Research on Business Succession and Transition Readiness Among Owners in Minnesota (https://sites.google.com/umn.edu/businesssuccessiontransition/home) . View interactive "data dashboards" and other articles we have published on the results.
3. For employee ownership information, see National Center on Employee Ownership (https://www.nceo.org/) or Project Equity (https://project-equity.org/learn/types-of-employee-ownership/) .
4. For some basic information on several (but not all) business transition models, see this practical guide (http://go.unl.edu/businesstransitions) written by Nebraska Extension for their state.
5. Tips and information on professional business valuation(https://extension.umn.edu/community-development/supporting-business-succession-and-transition#promote-a-successful-ownership-transition-1255063) can be found here.
6. Selected resources for business succession planning(https://www.mnchamber.com/business-and-economic-development-resources#Business%20Succession%20Planning) from Minnesota Chamber of Commerce.

Explore the Research

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EIX.org (2024) DOI: 10.32617/1087-667ab73c71942

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EIX.org (2024)
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