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The silver tsunami and rural small business retention: What can communities do?

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ABSTRACT

Since many rural communities have a disproportionately older population, the "silver tsunami" of retiring baby boomers has fueled interest in small business succession as a business retention strategy. Most business succession research has focused solely on the firm level without addressing community-level aspects. This article emphasizes the importance of community responses by blending findings from a rural small business survey with key informant interviews. Study findings suggest that successful business succession creates an opportunity for business expansion. Of the 118 new owners surveyed, 41% increased employment, 68% increased sales volume, and 68% increased their customer base. Communities reported facilitating business succession by (1) emphasizing the importance of succession planning, (2) reducing financial, time, and confidentiality barriers, and (3) providing accessible resources.

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Baby boomer retirement; business retention and expansion; community business facilitation; rural business; small business succession

Introduction

Small businesses are the lifeblood of rural communities. They contribute to the fiscal health of local governments and create 64% of net new private sector jobs throughout the country (Small Business Administration, 2012). Beyond providing economic contributions, however, small businesses also play a crucial role in the civic and philanthropic life of rural communities. For small business owners in rural areas, the community is not just the place where they conduct business – it is also their home (Besser & Jarnagin, 2010). As a result, the economic and civic structure of the community benefits from their business success.

At this moment in history, however, we are faced with a "silver tsunami" (Schumpeter Blog, 2010) of baby boomer business owners approaching retirement age. It is estimated that approximately 67% of current small business owners were born before 1967 (US Census Bureau, 2012). Retaining and expanding these small businesses is important to the vitality of rural communities. Each small business in a rural community affects a larger percentage

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of economic output and tax base than a small business in an urban location. The health of small businesses is of utmost importance to rural economies, as they not only provide jobs but also provide access to important goods and services needed for rural quality of life.

While a considerable amount of scholarly research has focused on the barriers to successful business succession, most literature has only addressed the topic at the firm level. This research fails to consider aspects of business succession that are relevant to community leaders and organizations that want to help facilitate – and support – the process in their communities.

The goals of this study were to (1) supplement existing scholarly research about the barriers to rural small business succession with practical insights from experts in the field; (2) gain a better understanding of how rural business buyers have overcome the barriers to small business succession; and (3) highlight feasible ways that communities and community development professionals can support rural small business succession as a business retention and expansion (BR&E) strategy.

This article presents the results of three data collection efforts designed to address these research goals. The authors present:

- Key insights from a literature review and key informant interviews with a study advisory group.
- Results from a Success Case Method survey and interview process with successful small business buyers in rural Minnesota communities.
- Findings from case study interviews with community facilitators of small business succession efforts in Minnesota and North Dakota.

The article concludes with recommendations for community actions than can help mitigate the effects of the silver tsunami, highlighting the importance of small business succession in BR&E efforts.

Ownership and leadership: Core themes in the small business succession literature

Literature on small business succession has largely been published in business management journals, with relatively little attention toward the community development field. As a result, the topic of business succession has not been addressed by most community-based BR&E efforts.

Literature focused on business owners covers the topics of leadership development, knowledge retention (Durst & Wilhelm, 2012), business innovation (Grundstrom, Oberg, & Ronnback, 2012), and transfer of social capital to new owners (Steier, 2001). Ip and Jacobs (2006) reviewed more than 500 pieces of literature on small business succession planning and highlight a crucial distinction between *transfer of leadership* and *transfer of ownership* (File & Prince, 1996). Transfer of ownership refers to the legal, tax, and financial aspects of the business succession. Transfer of leadership, on the other hand, refers to the transfer of knowledge, management capacity, and social capital to the new owner. While one likely expects the retiring owner to primarily be interested in ownership succession (which determines the sale's terms and price), the leadership succession is equally crucial from a community perspective. This is because a business is retained only if there is a *successful* succession (Reynolds, 2009), which is contingent upon how well the leadership of a business is transferred during the succession (Durst & Wilhelm, 2012). As Susanne Durst and Stefan Wilhelm explain:

> It is important to highlight the link between knowledge management and succession planning because it can cause immense direct and indirect costs. If companies, particularly SMEs (small and medium sized enterprises), fail to tackle the problem of knowledge attrition, it may strongly affect their survivability. (p. 646)

In fact, the Small Business Service (the equivalent to the Small Business Administration in the United Kingdom) estimates that 30% of small business closures are the result of failed succession (Ip & Jacobs, 2006). Therefore, neither of these aspects – ownership nor leadership – should be neglected during business retention efforts if rural communities are to retain their vitality in the face of the "silver tsunami."

Research methods

As stated earlier, the goals of this study were to (1) supplement existing scholarly research about the barriers to rural small business succession with practical insights from experts in the field; (2) gain a better understanding of how rural business buyers have overcome the barriers to small business succession; and (3) highlight feasible ways for communities and community development professionals to support rural small business succession as a BR&E strategy.

To accomplish these goals, the authors first created a study advisory group of people representing organizations with a stake in business succession.[1] The study advisory group discussed the parameters of the research project and helped interpret and disseminate study results. In November 2015, the study advisory group developed study parameters, recommending that the project focus on rural Minnesota cities with populations under 7500 and not located adjacent to regional centers. This recommendation was based on their experience with the challenges of retaining businesses in cities of this size when owners retired.

To address the first study goal, a literature review was conducted to examine the barriers to small business succession. Findings were analyzed by the study advisory group to "ground truth" the literature with field experience and to identify the top ten barriers listed in the Results section of this article.

To focus on the second study goal, the research team used the Success Case Method (Brinkerhoff, 2002) with small business buyers in rural Minnesota communities. This method yielded both quantitative and qualitative data on the ways in which business owners overcame barriers to business succession and retention. The Success Case Method is an evaluation method that combines survey research and case study interviews to better understand what is working and not working in situations requiring innovation. The Success Case Method is more an inductive, theory-generating approach rather than a deductive, theory-testing approach. Applying the Success Case Method revealed the strategies that successful business owners adopted, as well as the extent to which their strategies were implemented at the firm level or at the community level.

To address the third study goal, case study interviews were conducted with facilitators of small business succession efforts in two communities in Minnesota and two communities in North Dakota that had organized responses to business succession issues with the goal of business retention.

The Success Case Method process

To understand how buyers overcame barriers to business succession and to identify success cases for further study, new small business owners in the study's selected Minnesota cities were surveyed. The survey also focused on the role of public, private, and nonprofit sector intermediaries in support of the business retention process.

The survey applied Brinkerhoff's Success Case Method (2002) to identify factors underlying the successful succession of small rural businesses. Brinkerhoff's approach uses a survey to identify potential success cases followed by interviews with a sample of successful business owners to document and describe the nature of the success achieved (Brinkerhoff, 2002). The advantage of this method is that it yields quantitative data regarding overall patterns in business succession, as well as deeper qualitative information on the elements of successful business retention.

A list of 690 rural Minnesota cities was provided to *Infogroup*, a private vendor of business data. *Infogroup* was asked to identify private sector Minnesota businesses in all North American Industry Classification System (NAICS) categories, except production agriculture farms, medical provider offices, and grocery stores. Succession barriers in the latter three categories have been studied.[2] *Infogroup* identified 403 individually or family-owned rural Minnesota businesses that had changed ownership between 2008 and 2012 and were still in business in 2016. This particular time frame was selected to ensure the stability of the business, as well as to remove any businesses that may have closed due to the global financial crisis of 2007–2008 (Temin, 2010).

The entire list of 403 businesses was surveyed using the Dillman method (Dillman, Smyth, & Christian, 2014). The initial postcard, a survey with a $2 incentive, and a follow-up thank you/reminder postcard were sent in April 2016. A second survey mailing to non-respondents was sent in May 2016. Of the 403 mailed surveys, 45 were returned as undeliverable, leaving 358 delivered surveys. A total of 176 respondents returned the survey, which is a 49% response rate. However, 58 respondents were ineligible because they either bought the business outside the parameter dates of 2008–2012 or no longer owned the business. As a result, 118 surveys were used for analysis.

Respondents were offered a $50 incentive to interview by phone about their business succession experience. Of the 118 respondents, 65 were willing to be interviewed. Following Patton's notion of "purposeful sampling" (Patton, 2015), information-rich cases were strategically selected to best illuminate the challenges of rural business succession. First, the businesses were grouped into geographic regions defined by Minnesota's regional initiative foundations, prominent regional organizers of community development in the state. Then, a short list of businesses in each region was created that included a diversity of NAICS codes. Two-thirds of the shortlist included businesses that reported using community resources and one-third did not.

Seven phone interviews were conducted during a one-week period in May 2016. Inductive content analysis methods (Patton, 2015) were used to generate and refine core themes from the interviews and compare them with survey results. The initial findings were presented to the study's advisory group in June 2016 to solicit feedback and calibrate the interview themes.

Community case studies

Stories and perspectives were gathered from community facilitators in Minnesota and North Dakota in communities that had organized responses to business succession concerns. For the purpose of this study, community facilitators were defined as government authorities, economic development corporation employees, business brokers, and other stakeholders directly or indirectly related to local economic development issues.

The case studies evolved differently in the two states. In Minnesota, community facilitators were identified in several communities that had a high number of business successions within the *Infogroup* list of 403 businesses. Using the snowball method (Neuman, 2011), it was discovered that two communities, Spring Valley and Barnesville, used systematic business succession strategies for business retention. Individual case study interviews were then conducted with a community facilitator in each of these communities.

In North Dakota, focus groups were conducted in two communities, Cando and Bowdon. Each community took a unique approach to business succession. Bowdon, a community of nearly 1300 people in northeast North Dakota, has focused on supporting individual entrepreneurship within the community by helping new owners take over existing businesses. Bowdon, with a population of only 130 people and also in northeast North Dakota, has supported cooperative ownership for local businesses.

Results

Findings from study advisory group interviews

The first goal of the study was to supplement existing scholarly literature about the barriers to rural small business succession with practical insights from experts in the field. The literature review and study advisory group interviews revealed a top ten list of issues applicable to the succession of business ownership and leadership in rural communities.

Barriers to the succession of ownership

(1) Retiring business owners often overestimate the value of their business at the time of sale (Ip & Jacobs, 2006). One study advisory group member noted that a professional valuation can level a retiring owner's expectations with market realities and encourage steps the owner can take to increase the value of his/her business (such as maintaining their building, for example). After valuation, some owners delay the sale, realizing that retirement would be more beneficial after he/she took steps to increase the business value for potential buyers.

(2) Retiring business owners are unwilling to widely communicate that their business is for sale due to fear of negative impacts on customers and suppliers, as well as fear of losing key employees (study advisory group).

(3) Retiring business owners are unaware of the variety of ownership options (e.g. cooperatives and/or employee stock ownership plan), therefore limiting the number of potential buyers (Cooper & Simecek, 2014).

(4) Retiring business owners often do not have adequate financial records to demonstrate business profitability, reducing the interest of both potential buyers and financiers (study advisory group).

(5) Business owners are sometimes unable to communicate the existence and value of intangible assets[3] like the reputation of the business (Durst & Gueldenberg, 2010).
(6) Rural communities often lack access to business brokers or other intermediaries between the seller and the buyer (study advisory group).
(7) Potential buyers are often unable to secure financing (Ip & Jacobs, 2006).

Barriers to the succession of leadership

(8) The retiring owner often wants to remain overly involved in the business, even after ownership transfer is complete[4] (Grundstrom et al., 2012).
(9) Some retiring owners exit the business sooner than desirable for adequate succession of leadership to the new owner. This not only limits the number of potential buyers able to work within the seller's time frame but may also jeopardize the transfer of leadership (Cooper & Simecek, 2014).
(10) Retiring owners often possess social capital (connections, relationships, and trust) in communities and industries that does not transfer to the new owner. Rapport with clients, suppliers, and business organizations is a valuable, owner-dependent asset that affects a firm's post-succession performance (Steier, 2001). Business owners who carefully planned their succession transferred the leadership of the business to new owners and key employees more easily, ensuring that the retiring owner shared valuable knowledge and social capital critical to the business's success.

The ten barriers outlined above are all, in one way or another, the subject of business succession planning. Business succession planning is the main way to help small businesses transition to new owners. Although business succession planning is key to successful retention, retiring business owners rarely engage in this practice (Ip & Jacobs, 2006; Mandelbaum, 1994).

Study advisory group members emphasized the need to raise awareness among retiring owners about the complexity of business succession. At the same time, they reported that few or no businesses had a formal succession plan in place when the decision to retire was made. Previous studies identified three main reasons why succession planning is not common practice among small businesses in rural Minnesota: (1) high cost, (2) time constraints (Ip & Jacobs, 2006), and (3) confidentiality concerns. Study advisory group members added a fourth reason: lack of awareness about the benefits of succession planning.

Because of these constraints, it is not surprising that demand for succession planning assistance is low. One facilitator noted that simply asking retiring business owners if they had a succession plan made a difference by putting such planning "on their radar."

Broader themes from field experts

While the major themes that emerged from the study advisory group interviews related, in one way or another, to business succession planning, a few additional themes are described below:

- The difficulty for potential buyers to secure credit was recognized by most study advisors, but few concrete solutions were offered. Most suggestions urged "creativity" from bankers. The Community Reinvestment Act (CRA) creates an incentive for bankers to meet the credit needs of their communities.

- Lack of an available, quality workforce was cited by the study advisory group as a deterrent to potential buyers.
- Lack of intermediaries (such as business brokers) for business sales in smaller rural Minnesota communities is an issue. One interviewee suggested that trade associations can be a potential solution. For example, eye doctors share information among themselves about clinics that will be for sale. It is common for owners of existing clinics to purchase the companies of their retiring counterparts.
- Apathy toward the "silver tsunami" by community organizations limits action. Therefore, raising awareness among community facilitators through webinars and other types of remote training sessions may be as important as communicating with retiring business owners.
- The closure of some businesses is a natural reflection of a competitive economy and not necessarily a failure of the community. While communities can – and should – act to catalyze business succession, it is unwise to ignore market trends by devoting resources to firms whose business model is out of touch with today's economy.

Findings from Success Case Method study with new owners

The Success Case Method study was designed to answer the second research objective, which is to gain a clearer understanding of the ways that rural business buyers overcame the barriers to small business succession. The businesses in the study were all Minnesota owner-operated businesses. The distribution of industries in the 118 businesses is as follows (Table 1).

Employment numbers, provided by *Infogroup,* ranged from 1 to 30 employees with an average of 4.7. Employment numbers in businesses with fewer than 10 employees are likely highly under-reported, based on a review of NAICS codes and survey results.

Table 1. 2016 Rural Minnesota survey respondents' industries by North American Industry Classification System (NAICS).

NAICS code	Number of surveyed businesses	Percent of surveyed businesses (%)	NAICS description
44–45	31	26	Retail trade
72	31	26	Accommodation and food services
81	21	18	Other services except public administration
53	4	3	Real estate and rental and leasing
54	4	3	Professional, scientific, and technical services
23	4	3	Construction
48–49	3	3	Transportation and warehousing
31–33	3	3	Manufacturing
42	2	2	Wholesale trade
52	2	2	Finance and insurance
71	2	2	Arts, entertainment, and recreation
51	1	1	Information
	10	8	Unknown
	118	100	

Source: Infogroup.com.

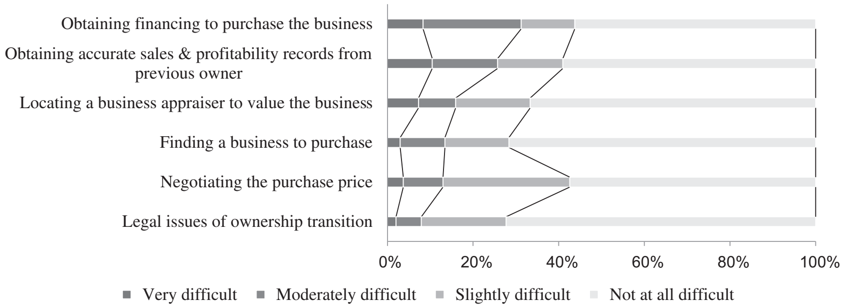

Figure 1. Challenges for purchasing the business.
Note: Sorted by highest level of very and moderate difficult, $n = 108$.

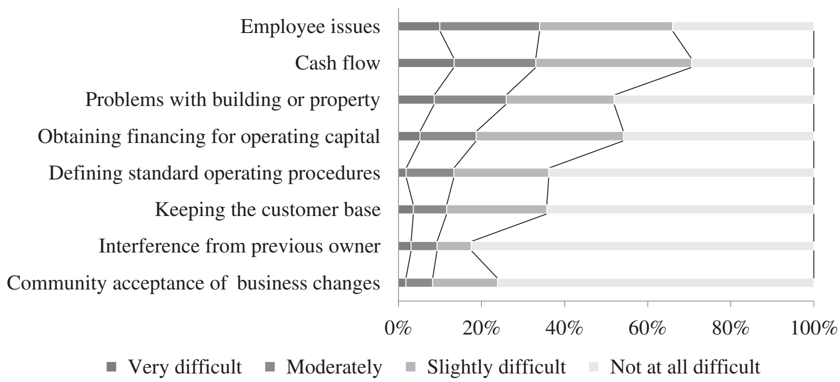

Figure 2. Challenges for operating the business.
Note: Sorted by highest level of very and moderate difficult, $n = 112$.

Findings related to business revenue after purchase reveal that assisting rural business succession creates not only business retention but also business expansion. Comparing their business now to the date of purchase, new owners reported they are employing more people (41% of the businesses), have increased the customer base (68% of the businesses), and have increased the sales volume (68% of the businesses). Clearly, assisting rural business retention not only maintains access to goods and services in these communities but also maintains or increases employment.

Buyers reported some challenges during business succession. Obtaining financing was the top issue, with 33% finding this very or moderately difficult (Figure 1). The second most challenging issue was obtaining accurate sales and profitability records from previous owners, with 25% rating this very or moderately difficult. No other issue was significant.

Operating issues were, overall, more challenging for new owners than actually purchasing the business, as noted in Figure 2. Study advisory group members noted, however, that owners may not remember all of their past challenges (i.e. purchasing the business) as they deal with current operating challenges.

Employee issues ranked at the top of operating issues, with 34% of businesses identifying it as very or moderately challenging. The study advisory group confirmed this is a statewide concern of all businesses.

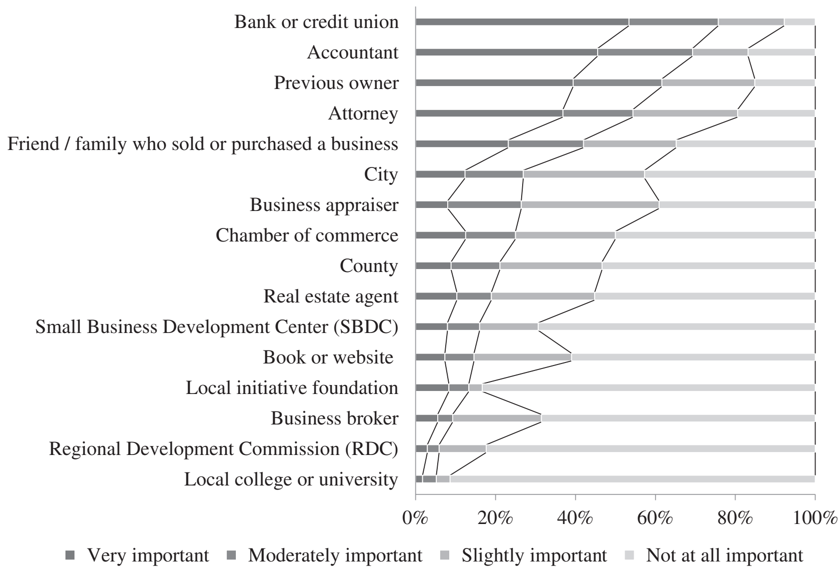

Figure 3. Importance of resources to successful transition.
Note: Sorted by highest level of very and moderate difficult, $n = 103$.

Cash flow was a close second, with 33% of businesses ranking it as very or moderately challenging. Obtaining financing for operating capital was also a concern for 19% of respondents.

Problems with the building or property were the third-ranked problem, with 26% finding it as very or moderately difficult. Study advisory group members noted that business owners nearing retirement may delay building repairs or improvements to keep their building assessments down for property tax purposes. No other issues bothered more than 20% of new owners.

From the data, it is clear businesses that successfully transitioned to new owners used multiple resources (Figure 3) to help complete the sale. In this survey, the 118 business owners identified an average of 2.3 resources as very important and an average of 3.8 resources as very or moderately important. Due to these findings, the study advisory group recommended that communities mobilize a team of resources to assist in business succession.

Banks or credit unions were overwhelmingly the most important resource with 75% of new owners surveyed identifying them as very or moderately important. Four other sources identified as most important were accountants (70%), the previous owner (61%), attorneys (54%), and a family member or friend who had run a business (42%).

Local government was less important as a resource, with cities identified as very or moderately important to 27% of respondents and counties as very or moderately important to 21%. The study advisory group was not surprised by this rating, as a business's involvement with a jurisdiction is usually regulatory or tax-related, which businesses rarely considered helpful.

The services offered by the federal Small Business Development Centers (SBDCs) were also rarely identified as resources. Study advisory group members noted that businesses and buyers may not be aware of the services of the SBDCs.

Follow-up interviews with business owners confirmed that financing is a significant challenge to business succession. This is especially true for the initial funding since a large cash amount (20%) is typically required. New business owners were forced to be creative, sometimes relying on financing support from the previous owner through a contract for deed.

Beyond the initial financing, many business owners also identified cash flow as challenging since obtaining a line of credit can be difficult. Some noted that funding is available if the business is sound. Owners emphasized that financing requires at least a moderate amount of cash for business operations.

Because the businesses in the survey were owner-operated, past business management experience was an important factor for success. These owners had a business plan or goals in place. The owner may have created the plan from prior business experience or received guidance in business planning from a mentor(s). The owners noted financial management skills are particularly important.

An implication in many conversations was that current institutions (e.g. counties, chambers of commerce, and/or banks) were not helpful – and were even a bit untrustworthy.

Business owners want mentorship from other business owners, but this can be tricky in small towns where confidentiality is hard to maintain. They suggested that a good relationship with the previous owner could be beneficial.

The resources that currently exist do not seem to be well marketed to buyers or are confusing to access. A couple of owners noted there should be a place for someone to go and simply ask, "I am thinking about buying a business. Who can help me do this?" and then be linked to available resources.

Effective use of community resources depended on the business owner's connectedness. Specific organizations that owners found helpful varied by geography. Ones that were mentioned that were not listed as options on the survey were Senior Core of Retired Executives (SCORE), an industry-focused subscription message board, a community action agency, a regional development corporation, a commercial rehabilitation program, and an entrepreneurial fund.

Findings from community case studies

Case studies focused on two communities in Minnesota: Spring Valley and Barnesville. These two communities had created systematic efforts to promote business succession. Two communities in North Dakota, Cando and Bowdon, did as well, and found collective ways to respond to the closures of major employers to prevent community decline.

Spring Valley, Minnesota (population 2475)

In 2008, the Spring Valley Economic Development Authority (EDA) was awarded a $20,000 grant to offer a business succession planning program. Businesses owned by program participants included retail trade, information services, and finance and insurance organizations. Motivations to participate varied. Some owners planned to transfer ownership in the near future, while others were simply looking to strengthen their business. New owners included family members, as well as external buyers. The program, held over six months, offered business succession planning information and one-on-one consultation.

The Rochester Community and Technical College (RCTC) designed the curriculum and selected a business counselor. One interviewee reported that the collaboration among several community facilitators was crucial in financing the program, and an overwhelming majority of participants praised the initiative. Several business owners reported that they successfully transitioned their business to new owners and that the businesses remained open to date. One interviewee credited the success of the program to the fact that (a) it was affordable for business owners to participate, (b) it concentrated all the different resources business owners needed into one cohesive program, and (c) it was framed as a way to strengthen small businesses and not necessarily aimed only at those who were interested in retiring. Due to the success of the initial program, a second session round was offered to businesses throughout the rural county.

Barnesville, Minnesota (population 2621)

As part of the Barnesville EDA's BR&E efforts, succession planning workshops were conducted for retiring owners. The workshops covered different aspects of succession planning, including financing, creating a succession plan, and business valuation. Three workshop sessions occurred over four months with an average attendance of 15 business owners.

In addition to structured workshops, the Barnesville EDA recognized the importance of one-on-one conversations with retiring owners, so agency staff met with several owners to encourage them to plan for their succession. These ad hoc meetings facilitated the succession of a local health care business when a young professional from Barnesville was identified as a potential buyer and a subsequent deal was brokered. The EDA director credited the BR&E training provided by the University of Minnesota Extension for highlighting business succession planning (Darger, 2014).

North Dakota communities of Bowdon (population 130) and Cando (population 1300)

Each of North Dakota's two communities experienced a defining moment when the need for action became apparent. In Cando, it occurred when its pasta plant closed. In Bowdon, the loss of its grocery store, along with its grain elevator, school, and railroad connection (occurring around the same time), caused great concern about the future.

Participants in both focus groups (four in Bowdon and 11 in Cando) reported that their communities did not formally focus on business succession efforts. While Bowdon did have a strategic plan and felt it was important, there was a need to deviate from the plan as new opportunities arose. Cando indicated that they did not have a plan but typically responded to opportunities.

Though using different approaches to maintain and build their local economies, each community agreed that certain key elements were crucial to their success. The first was having a champion – a person who refused the slow demise of his or her community, and instead focused on its possibilities. These champions energized others and worked diligently and tirelessly to ensure the success of the community's projects. Yet, the champions were also quick to acknowledge they could not have done it alone. Fellow community members were willing to join the champion's efforts, based on their trust in the champion and his/her reputation.

In Bowdon, a community leader provided a list of key players and community members involved in various activities. One of Bowdon's success stories included maintaining the community's local grocery store as a 180-member cooperative. When the owners of Bowdon Meat Processing wanted to retire, the business could not be transferred to new owners because the plant was substantially out of compliance with health department regulations. People from Bowdon and the surrounding area formed a second cooperative, sold shares, and built a new meat processing facility. It has about 250 members and is processing animals from within a 150-mile area. The successful "reach" of both projects shows that "community" can be defined as a broad geographical area surrounding a town.

Similarly, in Cando, the "community" was much larger than the city itself. The champion was a third-generation farmer who had developed other businesses and lived 20 miles away.

Bowdon's and Cando's success stories revealed other common elements important for maintaining local businesses:

(a) Networking. People were connected within and outside of the community.
(b) Tapping into existing resources. This includes local resources like schools, which may not be as fully engaged as they could be, and nonprofit agencies. Regional and state programs (i.e. North Dakota State University Extension's Horizons program) offer technical and general expertise in a variety of disciplines. Local leaders and outside resources formed a support group to pull the resources together.
(c) Financing assistance. This might come from the Bank of North Dakota Flex PACE program, for example, or other state agencies. A key financial cornerstone mentioned in Cando was the locally controlled bank. In Bowdon, the member-owned cooperative and community funding have been crucial.
(d) Involving others in projects and leadership. In each community, it was important to see new members step in, especially new leadership for existing programs. Rather than an effort of just a few, these initiatives became a community project with many people involved. Both communities also described a snowball effect. Once projects started rolling, new efforts started outside the existing structure because people were encouraged to explore ideas without much interference or someone stepping in to assume leadership. The need to be open-minded was important as well. New people were more than just workers – they brought ideas from the places they had lived and their individual experiences.

While each community followed a different route toward development, each enhanced efforts from the building blocks of creating community conversation and listening. Each community valued ideas and feedback from its members and encouraged everyone to voice their thoughts and opinions.

Limitations to the research findings

This research was not intended to test a hypothesis about business succession success or failure. Rather, it was intended to identify elements that contribute to business retention through successful business succession, with the goal of informing communities about potential actions for BR&E efforts. Further research on this topic could hypothesize about business success or failure based on some factors identified in this study, like the presence of a community champion, use of succession planning, training on succession planning, or retiring owners serving as mentors to buyers. This research could be based on both successful and unsuccessful (i.e. closed) businesses.

The businesses surveyed in this study were all owner-operated, primarily in the service industry. With few exceptions, owner/operators did not need professional licensure (plumber, electrician, etc.) to operate the business, allowing a broad range of potential owners. The businesses did not include mergers of individually owned businesses to corporate entities, so it is not known if the challenges faced by those types of organizations are similar or different than the challenges faced by those included in the study. Additionally, the business owners surveyed were not asked to identify their ethnicity, so results may not include additional challenges faced by New Americans, Native Americans, or people of color.

Conclusions and recommendations

Study findings revealed several themes to help guide community development professionals in their efforts to retain businesses. For each finding below, recommendations are identified for community development professionals and other stakeholders involved in the small business succession process.

Finding: Barriers to the succession of ownership exist for both sellers and buyers

For sellers, the literature review identified time, money, and confidentiality concerns as barriers to succession planning. This study added a fourth barrier – lack of awareness. The study advisory group, as well as the two Minnesota communities that offered workshops for sellers, expressed concern about the lack of awareness among business owners regarding the need for succession planning. Buyers, on the other hand, faced barriers to obtaining financing for both purchasing the business and operating capital. A prerequisite for obtaining financing is securing accurate financial records from the seller – a barrier identified by 40% of new business owners.

Based on these findings, the following recommendations are intended to assist communities in business succession:

- Address sellers' overestimation of business value by encouraging them to obtain a professional valuation. This valuation can help establish realistic expectations about a sale price and provide suggestions for increasing the value of the business. The valuation can also help an owner identify the value of intangible assets.
- Offer succession planning workshops for business owners to build awareness of its importance and to help connect owners with valuable resources. These resources should include information about the variety of ownership options available.
- Work with owners, financial institutions, and accountants to establish the importance of maintaining accurate financial records, as this is a prerequisite for buyers to obtain financing.
- Identify intermediaries to help market businesses for sale, including regional business brokers and trade associations.
- Explore the local bank's CRA rating and work with bank officials to identify ways of increasing this rating through the funding of local business options.

Finding: Barriers exist to the successful transfer of leadership from owner buyer

While findings from the literature review suggest sellers can remain overly involved in the business, this was not a major issue with the buyers surveyed. Only 18% of respondents identified this barrier as a difficulty at any level. In fact, the previous owner was viewed as a resource for 84% of new owners, and they expressed a need for more coaching and mentoring. This can be accomplished by providing adequate time for a mentorship to form prior to the sale of the business.

Based on this finding, recommendations for communities include the following:

- Develop or obtain a leadership succession guide for retiring owners and buyers. This guide can identify topics critical to business success (for example, tips for working with specific clients, suppliers, and employees). The guide would need to be customized for each business, but general topics could be identified by a small business development consultant.

Finding: New owners overcame barriers using multiple resources

Survey results revealed that new business owners used an average of 3.8 resources during changes of ownership and leadership. During interviews, new business owners also pointed out the challenge of knowing about available resources. A mentorship program may provide an opportunity to connect new owners with these resources.

Based on this finding, the recommendations for communities are to:

- Identify resources available to sellers and buyers. These resources could be at a local, regional, or national level.
- Connect sellers and buyers to resources through a resource directory, personal contact with an economic development professional, or a cross-referencing process between available resources.

Finding: Communities and community development professionals can support small business succession

All four community case studies showed the importance of connecting retiring owners with existing resources, and all four communities had a local champion dedicated to the success of retaining businesses. The smaller communities in North Dakota had community member volunteers, and the larger Minnesota communities had paid economic development staff. None of the local champions worked by themselves, however; they partnered with colleges, neighboring communities, foundations, and other available resources.

A local economic development professional could be a local champion, but he or she should be aware of, and embrace, the importance of retaining businesses through business succession work.

Based on this finding, recommendations for communities include the following:

- Build awareness of business retention strategy among community leaders by sharing this research with economic development professionals, bankers, and economic development authorities.
- Identify a local champion to initiate community efforts.
- Partner with regional and state organizations, such as the SBCD, that can provide assistance to buyers and sellers.

This study highlighted the need for more research on the role of communities during small business succession. Further research is needed to answer the following questions:

(1) What are the challenges for rural businesses requiring licensure (plumbers, electricians, appraisers, well-diggers, etc.)? What are the changes in the number of these businesses located in rural areas, and what can communities do to attract and retain buyers in licensed professions? What are the implications for communities if they lose these professions? What role can professional associations play in locating buyers for businesses requiring professional licensure?
(2) To what extent are rural small businesses sold with a contract for deed where the seller provides financing to the buyer? Since this is risky for the seller, exploration is needed to determine the frequency of buyers defaulting on a loan or closing the business.
(3) To what degree are bankers, attorneys, and accountants familiar with alternative forms of financing and ownership (i.e. employee stock ownership plans and/or cooperatives)?
(4) What buyer issues are best informed by mentors? Where are buyers seeking and finding mentors?
(5) To what extent do economic development professionals consider small business succession to be an element of business retention? Are they familiar with tools to assist in business succession? What barriers do economic development professionals face in doing business succession work? (For example, is career advancement based on recruiting new business to a community?)
(6) To what extent are New Americans, American Indians, or people of color purchasing existing businesses in rural areas? Are their challenges similar to, or different from, those identified in this study?

This study summarized current business succession literature and identified the gap in research regarding a community's role in rural business succession. New owner challenges of financing when both purchasing and later operating the business were identified through a business survey and interviews. Finally, the community's role in building a team of business succession resources was addressed.

Business succession should be a part of any rural BR&E effort. Successful business succession does more than just "dodge a bullet" in rural economies – it can contribute to business expansion as well. Of the 118 businesses owners surveyed, 41% increased employment, 68% increased their customer base, and 68% increased sales volume. A continuing need exists to convince policy-makers and economic development professionals of the public value in BR&E efforts.

Notes

1. Study advisory team members included business brokers that serve rural Minnesota, a former rural business owner, and representatives from: the EDA Center from the University of Minnesota-Crookston, the Federal Reserve Bank of Minneapolis, Minnesota initiative foundations, League of Minnesota Cities, Minnesota Association of Business Valuation Professionals, Minnesota Banker's Association, Minnesota Chamber of Commerce, Minnesota Main Street program, Bankers Association, Minnesota State Bar Association, regional development commissions, and the Small Business Development Center.

2. Grocery stores: http://www.extension.umn.edu/community/news/future-rural-grocery-stores/; Farms: Mishra, El-Osta, and Shaik (2010); Medical: Hancock, Steinbach, Nesbitt, Adler, and Auerswald (2009).
3. The findings from the article "What Makes SMEs Attractive to External Successors" suggest that "intangible assets play an important role in external successors' decision-making processes. It was found that many different intangible assets (…) were crucial to reaching the final appraisal of a company's attractiveness."
4. The inertia of the business's pre-succession culture (strengthened by the protracted presence of the former owner) is a potential constraint to the innovative potential of the new owner.

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