TRANSITIONS OF SMALL BUSINESSES TO NON PROFIT AND COMMUNITY OWNERSHIP: A LITERATURE REVIEW

Isabella Braun

SCALE COLLABORATIVE

Royal Roads UNIVERSITY

This project is supported by funding from the Social Sciences and Humanities Research Council (Institution Grant) and the Rural Dividend Fund of British Columbia.

BRITISH COLUMBIA

Acknowledgements

We would like to sincerely thank our advisors, funders, community partners, and supervisors for the time and effort you have put into supporting this project.

Thank you to Heather Hachigian, Kristi Fairholm Mader, and Lee Herrin for your supervision and support.

Thank you to our advisory committee members for your guidance throughout the research process.

Carla Bullinger
Cariboo Partners for Literacy

Anne Burrill
Poverty Reduction Coalition

Lori Camire
Community Futures Alberni Clayquot

Jolynn Green
Community Futures Central Island

Cathy Robertson
Community Futures Cowichan

Larry Stranberg
Community Futures Cariboo Chilcoltin

Thank you to our community partners for your ongoing support for this project.

Table of Contents

Introduction

Background and Rationale

Small businesses are significant drivers of local economies through their contribution to job creation, innovation, and spending. Recent research estimates that 700,000 small businesses across Canada are at risk of closure due to a lack of a succession plan (WISIR, 2018). The COVID-19 crisis has accelerated these closures. It is estimated that 158,000 businesses across Canada are at risk of immediate closure (SBRD, 2020). The loss of small business at such a scale would be detrimental to communities.

At the same time, the non-profit and charitable sector in Canada is facing an increasingly challenging funding environment and pressure to do more with less. The COVID-19 crisis has exacerbated these challenges. In response to these pressures, some non-profits seek to generate revenue from operating a social enterprise, defined as an organization that supports a social mission directly or indirectly through revenue generation. Non-profits and charities face several challenges related to starting up and sustaining hybrid organizations that combine different elements of organizing from social and market contexts (Tracey et al. 2011; Battilana & Lee, 2014), and demand for social finance remains low among the non-profit and charitable sector in Canada (Imagine Canada, 2020).

What if non-profits could acquire existing businesses at risk of closure due to a lack of viable succession plan and convert them to social enterprise? We believe there is an opportunity for the small business and non-profit sectors to solve each other's problems. This pathway to creating a social enterprise has the potential of addressing the small business succession problem and helping non-profits to leapfrog the risky start-up phase at the same time (Boggild & Greer, 2017). But small business acquisition is a complex undertaking (Christensen et al., 2011) and requires non-profits to develop or contract new knowledge, skills, and expertise across complex business processes. Moreover, models and processes in the for-profit context do not always translate to the non-profit context (Austin et al. 2006). As such, new knowledge is needed to understand and inform non-profit and community acquisitions.

Throughout this literature review, we use the term 'community acquisition' to represent the process by which a non-profit organization, charity, or other community organization purchases an asset, holds the asset, and redistributes the profits back into the community.

Goal of Literature Review

The goal of this literature review is to examine the current context facing small businesses and non-profits; explore community acquisitions as a pathway to scaling social impact; scan various asset types and strategies for community acquisitions, identify potential sources of financing for community acquisitions; examine the performance of community assets and tools for measuring their success; and explore the lessons learned from previous community asset acquisitions.

Purpose of Research
The overall aim of this research is to assess the feasibility of acquiring local businesses and converting them into social enterprises through a community-owned and controlled entity. The emphasis of the research is on market assessment of the key sectors for succession and conversion, organizational processes and financial assumptions underpinning the business and operating model of the community entity, recognizing that expert legal advice would be necessary to assess the feasibility of different legal structures.

Framing the Opportunity

Challenges of acquisitions in the COVID-19 context
The COVID-19 crisis has created both a challenging and urgent context for community acquisitions of small business.

Small businesses have been disproportionately impacted by COVID-19; they are reporting more significant declines in revenue and more layoffs,and have been more likely to request financial assistance than large firms (Statistics Canada, 2020). The challenges for small business owners are also urgent; researchers find that "firms with greater than $10,000 in monthly expenses,... typically had less than 15 [days] of cash on hand," and those with less than $10,000 in expenses had around a month's worth of available cash (Bartik et al., 2020). As of August 2020, 63% of small businesses in Canada are fully open, 39% are fully staffed, and only 26% are experiencing normal levels of sale (SBRD, 2020). Small business support, including acquisition support that safeguards essential goods, services, and economic opportunities, is urgently needed.

It is important that non-profits looking to acquire local businesses identify strong candidates for acquisition and avoid purchasing businesses that have a low probability of success. This will be particularly challenging in context of COVID-19, because doing so could compromise the acquiring organization's own financial position (Social Firms Scotland, 2011; Dubb, 2020).

Opportunities for acquisition in the COVID-19 context
At the same time, the pandemic presents several opportunities for impactful successions that have the potential to benefit small business owners, non-profits and communities.

The changes in consumer behaviours, attitudes and purchasing habits have created new and deeper markets for many rural businesses. For example, supply chain disruptions and vulnerabilities exposed by the pandemic and renewed sense of local pride have encouraged more consumers to buy local (Accenture, 2020; He & Harris, 2020; Macinnis, 2020; Schmidt et al. 2020). Additionally, consumers' increasing willingness to purchase goods and services on-line creates new digitization opportunities for local businesses to grow and scale business in new markets (Accenture, 2020; Macinnis, 2020).

Canadians are calling on the government to invest in 'building back better' post-pandemic (Torrie et al. 2020; David Suzuki Foundation, 2020). As a result, new funding opportunities are arising that will help businesses not only survive the pandemic but incentivize them to pivot in a more socially and environmentally conscious direction (Government of British Columbia, 2020a; Government of Canada, 2020a; Vancity, 2020). If the non-profit and charitable sector can harness the opportunities that have arisen in the context of COVID-19, they could be used to help catalyze community acquisitions.

Community-Owned Assets

Assets such as renewable energy infrastructure and real estate have attracted the most attention as candidates for community ownership in the literature. Some communities have purchased real assets, like apartment buildings and infrastructure, as a way of preserving local access to affordable housing and generating income for communities (Draaisma, 2020; Kelly & Ratner, 2009). These acquisitions are often recounted by scholars through the neoliberal narrative of downloading responsibility from the state to community (Skerret & Hall, 2011; Nichols *et al*., 2015; Hobson *et al*., 2019) rather than result of communities intentionally and strategically exerting their control. The literature also documents how communities have formed community land trusts with the goal of making land ownership a community resource (Kelly & Ratner, 2009). While models of community acquisitions exist, there is a notable gap in the literature when it comes to acquiring and managing strategic business assets. There are important differences in processes and complexity of business acquisitions when compared to other community assets.

Small, Local, Family Owned Businesses (Legacy Businesses)

This literature review is focused on the acquisition of small, local, family-owned businesses, also called 'legacy businesses' or 'main street businesses'. These businesses are essential to communities. Without them, residents would have to travel long distances to access basic and essential goods and services, such as groceries, haircuts, and social gathering spaces (AMIBA, n.d.).

There is substantive evidence in the literature to support the claim that locally-owned businesses have greater positive impacts on their local economies compared to non-locally owned businesses. For example, Civic Economics has conducted numerous studies on how $100 circulates around a local economy when spent at local, independently owned businesses versus large chains. Their studies have been replicated in cities and towns all over the United States; the results consistently show that $100 spent at a locally-owned retail store creates around 4 times more direct economic impact than $100 spent at a competing chain (Civic Economics, 2012). Keeping these essential businesses in communities and owned by community members safeguards local jobs and creates a multiplier effect of wealth generation, as dollars spent at local businesses stay in and circulate around the local economy (Milchen, n.d.).

Main street businesses also require lower capital intensity and fewer specialized skills to operate (Knowledge@Wharton, 2020), which means acquisitions involving these businesses would likely be easier and more successful than those involving more complex businesses. As local owners begin to age out without succession plans in place, community acquisitions could offer a means of preserving those essential local businesses.

Rural Context

In the rural context, the impact caused by small businesses exiting communities is even more serious than in urban areas (Chamberlain, 2017). Rural communities struggle with economic development and opportunities; they often have public services and private businesses withdrawn from their communities due to the presumed lack of viability associated with their remoteness (Steiner & Teasdale, 2018). Geographic factors create structural and contextual barriers: small markets, limited workers, and a lack of business support (Steiner & Teasdale, 2018; Twuijver et al., 2020). These issues lead to gaps in the market and limited employment opportunities (Steiner & Teasdale, 2018; Twuijver et al., 2020). This problem will likely be compounded as baby boomers retire in the next few years and businesses close due to COVID-19 (Project Equity, 2019; Asgary, 2020). The rural context comes with many challenges, but it also presents an opportunity for community acquisitions that help safeguard vital community goods, services, and employment opportunities (Steiner & Teasdale, 2018).

Strategy for Acquisitions

Criteria for Identifying Candidates for Acquisition by Non-Profit Organizations

One important aspect of the acquisition process highlighted in the literature is identifying suitable candidates for acquisition. This paper focuses on small and rural business acquisitions given their potential to amplify potential impacts by continuing to serve rural communities with essential goods and services and jobs (Social Firms Scotland, 2011; Twuijver et al., 2020; Steiner & Teasdale, 2018; AMIBA, n.d.) while also providing new sources of revenue for non-profit and community organizations. That said, business acquisition could take place in any location. It is also important to recognize that some small businesses will be a more suitable match to the capabilities and needs of the non-profit sector than others.

The 2016 Canadian National Social Enterprise Sector Survey Report examined the types of businesses that non-profits most commonly operate (see Table 1 in the Appendix). By extrapolating from this data, we can identify industries and sectors in which non-profit organizations are most likely comfortable operating. The results from the survey show that non-profit organizations most often operate social enterprises in Accommodation, Food and Tourism; Professional Services; Arts, Culture and Communication; Health and Social Services; Trade and Finance; Resources, Production, and Construction; and Real Estate. The data seems to indicate that businesses in these sectors would be ideal candidates for acquisitions, because the non-profit sector in Canada already possesses a certain level of comfort and knowledge of operating social enterprises in these industries.

In addition to identifying ideal industries for non-profit acquisition, the following are criteria identified as critical to success by organizations who have carried out social acquisitions in the past:

Profitable: The business must be **profitable**. Acquiring an already failing business is risky; there is little evidence that an acquisition would save a business that is in decline (Social Firms Scotland, 2011). Successful local businesses that do not have a natural successor (e.g., family member, employee who is interested in taking over, etc.) but still wish to leave a legacy in their communities are likely the best option for acquisition (Social Firms Scotland, 2011; Dubb, 2020). It is important to only compare a business' profitability to other businesses in the same industry, because what is considered a "good" profit varies between industries (Kappel, 2020; Madison, n.d.). In addition to evaluating the current profitability of the business, the purchasing organization should be aware of how they can add value to the business and increase its profitability after the acquisition (Social Firms Scotland, 2011).

Values alignment: When considering an acquisition, it should be clear how the purchasing organization and the acquired business are aligned in their values. It is important for the non-profit to have a long-term plan for how the acquisition will help them further their mission. The leadership team and owners of both organisations also need to be on the same page, and the current owner must be ready to let go of the business. Good communication and alignment between the two organizations is vital for a smooth transition. (Social Firms Scotland, 2011; Mergers and Acquisitions, 2019; Huggett, 2013)

Knowledge alignment: It is also helpful if the target business operates in an area similar to the purchasing organization's area of expertise. If the business is within the same industry, the purchasing organization will have more knowledge regarding the processes necessary for running the business. If this is not possible, keeping the manager on for a phased exit is a good way to pass on this vital industry knowledge. (Social Firms Scotland, 2011; Mergers and Acquisitions, 2019)

Process and Lessons Learned

Small Business Acquisition Process (Specifically for Non-Profit Organizations)

Due to the lack of literature on the topic of for-profit business acquisitions by non-profit organizations, there is no agreed upon method or strategy for acquiring and converting small businesses into social enterprises. There are, however, a few case studies whose frameworks for the acquisition process we can learn from. These are summarized in the appendix.

We also identified some lessons learned from the grey literature available on the topic. Again, due to the limited literature, these lessons are context-dependent and provide some initial lessons that we hope to deepen through our primary research.

Key Challenges

Converting interest into completed deals was identified as a key challenge by Social Firms Scotland (2011), an initiative that helped three non-profit organizations through the process of acquiring for-profit businesses. This challenge stemmed from factors such as a lack of entrepreneurial nature from non-profit leadership, a lack of internal commercial experience, an overreliance on grant funding, a cultural aversion to risk and debt, and the fact that Social Firms

Scotland had to simultaneously educate the market and stimulate acquisition, because they were the first program of their kind. Developing the skills required to run a business can be a large challenge and barrier to successful acquisitions (Boggild & Greer 2017).

Another challenge identified by Social Firms Scotland (2011) was the difficult economic climate. They commenced the AB4G project at the beginning of the 2008 recession. This led to more cautious lending from banks, reluctance from business owners to sell at a lower valuation, a desire from buyers to consolidate rather than grow business, and an increased risk aversion from non-profits. The economic climate is in a similar state due to COVID-19, so these challenges will likely arise as we proceed with this project.

Job creation and staff retention can be difficult after an acquisition. Many employees do not stay with the organization under new ownership. Maintaining and growing staff requires special attention. Changing ownership and legal status does not necessarily lead to cultural and performance changes or improvements (Mergers and Acquisitions, 2019; Boggild & Greer 2017).

Underestimating and, therefore, under-resourcing post-acquisition work can lead to many difficulties, especially if an organization is attempting to convert a for-profit business into a non-profit (Mergers and Acquisitions, 2019; Boggild & Greer 2017).

Success Factors

Organizations with experience in non-profit acquisitions suggest that the purchasing organization must have the scale, capacity and infrastructure in place before the acquisition to successfully run the acquired business (Social Firms Scotland, 2011). The non-profit must be willing to take risks and explore opportunities that arise when running a business (Social Firms Scotland, 2011). They should hire or appoint teams to specifically oversee the acquisition (Grayson, 2011). Having board members with diverse backgrounds and skills is critical, and having advisors with M&A experience is important (Huggett, 2013). Having a clear plan for the post-acquisition governance structure is crucial (Mergers and Acquisitions, 2019). These factors allow organizations to seize opportunities quickly, which is important during the acquisition process, because opportunities may not be available for long (Mergers and Acquisitions, 2019).

The literature also suggests that the purchasing organization must have access to adequate funds and working capital from grants, loans, financial reserves, etc. This enables the organization to start running the acquired business from a place of financial strength rather than weakness (Social Firms Scotland, 2011; Mergers and Acquisitions, 2019).

The acquiring party needs to be clear on the purpose of the deal and what they are trying to achieve by acquiring the business before going through with it. The two parties must have well-defined, shared goals that they balance with the goal of achieving financial stability (Mergers and Acquisitions, 2019; Huggett, 2013).

Allowing for a transition period helps minimize disruption for the current employees of the organization/asset that is being acquired (Mergers and Acquisitions, 2019).

Building relationships with local business improvement organizations, the local small business sectors, local governments, and financial institutions can help non-profits prepare for an acquisition (Boggild & Greer 2017).

In the case of a large-scale acquisition, the literature recommends identifying which parts of the acquired business to keep versus sell, ensuring that leaders who stay on from acquired organization fit well with the new ownership, and identifying best practices of each organization and merging the two (including teams) leads to the most success (Grayson, 2011).

Forming a holding company can help subsidiary organizations to act at scale, increase flexibility, decrease costs, and access additional sources of financing (Hollingsworth, 2014).

Sources of Funding for Community Acquisitions

It is often difficult for non-profits to access the capital required to acquire a community asset, especially if that asset is large in scale (Huggett, 2013; Social Firms Scotland, 2011; Mergers and Acquisitions, 2019; Boggild & Greer 2017). Potential sources of funding for community acquisition projects vary in terms of ease of access and risk to the organization. The appropriate type of funding for an acquisition depends on the asset, the organization, the activity, the lifecycle stage, and the country context (Thorlby, 2011). Most organizations mix models by using a combination of government grants, private donations, earned revenue, vendor financing, and loans to finance a community asset acquisition project (Grainger, 2020; Thorlby, 2011).

Government Grants

Government grants are a common source of funding for community owned organizations, and they do not require repayment (Vancity, 2013). However, grants often come with conditions, require a time-consuming bidding process, and are usually issued on an annual basis, and, therefore, do not provide long-term security (Thorlby, 2011).

While there has been a recent resurgence in public grant funding in response to COVID-19, the recovery funding is mostly targeted at organizations that are directly serving vulnerable Canadian populations or at keeping businesses and individuals afloat through offers like wage subsidies, rental assistance, tax deferrals, and emergency support funds, none of which are very well suited to acquisitions (Government of Canada, 2020b; Government of Canada, 2020c; Government of British Columbia, 2020b; Imagine Canada, 2020).

Despite this resurgence in public funding for economic recovery, in recent years, there has been an overall decrease in public funding, which has led many non-profits to lose their core government grants and forced them to look for other sources of funding (Social Firms Scotland, 2011; Chamberlain et al., 2015; Thorlby, 2011; Enterprising Non-Profits, 2010).

Charitable Funding
Charitable funding in the form of private grants, community foundations, or donations from individuals is also a common method of fundraising for community asset acquisition. Charitable grants rarely provide long-term financial security; they are usually one-offs. However, if an organization can secure a large endowment from a philanthropist or foundation, that asset can provide a sustainable, long-term revenue stream. Charitable donations from individuals require some investment in fundraising, and the level of income often depends on an organization's reputation, ability to compete with other organizations, and current economic trends. Preference for this type of funding is usually given to organizations with charitable status due to the associated tax incentives, so it may not be accessible for many non-profits (Thorlby, 2011).

Several philanthropic grants for economic recovery and renewal have become available in the last few months through local community foundations and national and international charities (Victoria Foundation, 2020; Vancouver Foundation, 2020; Campbell River Community Foundation, 2020; Kitchener Waterloo Community Foundation, 2020; McConnell Foundation, 2020a; McConnell Foundation, 2020b; United Way, 2020; Canada Grant Watch, 2020). These grants were created to aid organizations that are combating the economic fallout that has resulted from COVID-19, but as mentioned above, most of this funding comes with very specific requirements and restrictions regarding activities the funding can be used for and types of organizations it can be given to (many only offer grants to registered charities) (Victoria Foundation, 2020; Vancouver Foundation, 2020; McConnell Foundation, 2020a). These conditions are not conducive to acquisitions. In addition, most of the aforementioned grant funding has already been allocated. It is unlikely that current COVID-related charitable funds will be a good source of funding for community acquisitions, but this could change as we move forward into new phases of pandemic recovery.

Earned Income
If an organization already owns and operates an asset or sells goods and services, they can use that earned income as a method of financing the acquisition of another community asset. The amount of income earned by an organization (and, thus, the amount of income that the organization can put towards acquiring a community asset) depends on the enterprise's ability to compete with private businesses in the market, which market they are competing in, and how the market is doing at the moment. Proof of income is helpful and often essential if an organization is looking to obtain a loan (Thorlby, 2011).

Vendor Financing
Vendor financing is often used in acquisitions to finance a portion of the overall cost. The seller will help finance the deal with a vendor note or vendor takeback, where the purchaser pays a portion of the purchase price with interest back to the seller over an agreed upon period of time. Vendor financing can be structured in a number of different ways, and it is sometimes tied to the performance of the company over the repayment period. It is a good method of ensuring that the seller is motivated to ensure the business continues to thrive through the

transition, as they will often continue to be involved in the business in some capacity during this earn-out period (Business Development Bank of Canada, n.d.).

Loans

Many community organizations are weary of loans and the risks that accompany them (Vancity, 2013; Imagine Canada, 2020). Acquiring debt capital is a more entrepreneurial approach than many non-profit boards are used to. Loans could be easy to secure, given that business acquisitions create new revenue streams for the acquiring organization. However, the organization must show they will be able to generate enough surplus to repay the loan. Thorlby (2011) claims that securing debt capital through loans might be the most accessible financing method for acquiring community assets. However, some credit unions and banks are hesitant to take on the risk of lending to non-profits on their own (Boggild & Greer 2017). To combat this hesitation, Boggild & Greer (2017) suggest that "progressive governments can help by offering targeted credit enhancement programs to mitigate the risk of lending to nonprofits seeking to acquire existing businesses." Loans represent a potentially daunting but likely necessary source of funding for organizations looking to raise enough capital to acquire a business (Business Development Bank of Canada, n.d.).

It is important that as non-profits consider acquisition as a pathway to scaling their impact, they also consider all the potential funding options, including those that may seem more entrepreneurial or risky. It is unclear which source of funding is the most well-suited for an acquisition and social enterprise conversion project; a mixed model will probably be required to pull together enough funding to purchase a for-profit business. The research team will dive deeper into issues of funding with primary research.

Performance of Community Owned Assets and How to Measure Success

There is much debate surrounding whether community owned assets perform better or worse than traditional businesses. While there is some evidence that community-owned organizations are better at maintaining employment in times of recession or unfavorable markets (Grávalos and Pomares 2001; Ben-Ner 1998) and that they lead to increased productivity and motivation from staff (European Commission 1991; European Commission 2002), other researchers have found that community ownership leads to lower probability of survival and less efficiency (Alchian and Demsetz 1972; Clarke 1984). Fernández-Guadaño conducted a study in 2014 examining the link between performance and ownership and found no conclusive evidence regarding the positive effects of community ownership. Perhaps this disparity in findings is due to the vastly different nature and priorities of the two types of organizations and a lack of consensus regarding measurement tools.

It is difficult to compare the performance of community-owned assets to traditional businesses, because there is no standard method of measuring the success of a socially focused organization. GRI and the BCorp Certification both measure some level of social impact, but neither one was specifically created to measure the unique value generated by community-owned assets. Community-owned organizations generate social value as well as financial value, which makes them categorically different than capitalist enterprises (Monzón & Chaves 2012). This difference necessitates a different method of measuring success.

There is often a fixation on numbers when it comes to measuring impact, even with social impacts (Co-operatives UK 2013; Co-operative Group 2014). To counterbalance this overreliance on numbers, Tischer et al. (2016) created "an evaluative framework for mutual and employee owned businesses," that attempts to balance financially-based measures of success with social and environmental considerations. The framework considers how an organization is performing financially, how aligned it is with its values and principles, whether the governance structure reflects those values and principles, and how certain outcomes are linked to the organization's values and principles. It also examines the links and relationships between each of those components. This evaluative framework paints a more holistic picture of the organization and is linked to the context of the specific organization and its goals.

As we start to examine case studies of business acquisition and conversion, it will be important for the research team to consider a multitude of factors when judging the success of a project, including value alignment and how an organization is furthering its mission, rather than simply considering the financials, if we want to paint a more holistic picture of success. This is an area that we will explore in more depth in the primary research.

Community Ownership as a Pathway to Scaling Impact

Along with addressing issues related to local essential business succession and creating new sources of revenue for non-profits, community asset acquisitions offer potential for non-profits to scale their social impacts (Social Firms Scotland, 2011).

Non-profits often use social franchising as a method of scaling their impact. "Social franchising is an adaptation of commercial franchising in which the developer of a successful social concept (franchisor) enables others (franchisees) to replicate the model using a proven system and a brand name to achieve a social benefit" (Volery & Hackl, 2010, p.155). Unfortunately, social franchising doesn't always achieve its desired impacts. When trying to grow in a more traditional corporate fashion, such as through social franchising, it can become hard for non-profits to manage new processes and costs (Waitzer & Paul, 2011). Franchising often fails to create meaningful impacts in locations where the non-profit is expanding to (Waitzer & Paul, 2011). One possible solution to this problem is identifying core values of an organization's mission and seeking out others who can disseminate those values through their own activities (Waitzer & Paul, 2011). This method creates an ecosystem for scaling social impact rather than scaling an organization (Han & Shah, 2019).

Community asset acquisition could offer another method of scaling social impact by borrowing from a different method of corporate growth: mergers and acquisitions (M&A). Gaughan (2013) claims that M&A have often been the key to business success, because they allow businesses to grow at rates that would be impossible to achieve organically. Some community organizations have borrowed from this traditional model of inorganic growth to scale their social impacts

(Social Firms Scotland, 2011; Huggett, 2013; REDF, 2019). This pathway to scale, its accompanying challenges and success factors, and the ways in which those factors apply to the non-profit context will be explored in more depth with further primary research.

Conclusion

42% of small businesses in Canada are owned and operated by baby boomers, many of whom do not have a succession plan for their businesses once they retire (RBC, 2019). As these individuals reach retirement age or are forced into early retirement due to the economic downturn caused by the COVID-19 pandemic, Canadian communities are at risk of losing thousands of essential small businesses. One possible solution to this succession problem is the formation of worker-owned co-operatives, but this model does not suit all businesses or employees.

At the same time, non-profits are experiencing decreases in grant funding and are looking for new sources of income that would allow them to scale their impacts. This paper proposes another solution to these problems: the acquisition of small businesses by non-profit organizations. This proposition has the potential to address succession challenges; safeguard essential goods, services and job opportunities in communities; and create an additional way of generating income for the non-profit sector. In practice, there are very few examples of this solution, but it offers a promising opportunity for scaling social impact.

This literature review focused on small, local businesses, specifically in remote, rural communities, because they provide essential goods and services to their communities and are relatively simple operationally.

Due to the novelty of this method of scaling social impact, there are many large gaps in the literature. The research team will attempt to fill these gaps with surveys, interviews, and focus groups with non-profits, small businesses, and experts on the subject during the primary research phase.

Appendices

Appendix A: Acquisition Process from Social Firms Scotland's Acquiring Businesses 4 Good Project

A non-profit called Social Firms Scotland created a project in 2009 called 'Acquiring Businesses 4 Good' (AB4G) where they acted as a broker and supported non-profits in the process of acquiring and converting small businesses into social enterprises. In their 2011 report, they reflected on the progress of the project, the lessons learned so far, and detailed their process for acquiring and converting these businesses.

The first phase in their process was called 'Strategy,' and it involved creating a business plan, acquisition strategy, criteria for what kind of business the organization would like to acquire, and fundraising.

The second phase was called 'Planning.' In this phase the organization created a designated team for the project, searched for target businesses, identified the targets, and screened them.

In the third phase, which is called 'Execution,' the non-profit approached the target business, exchanged confidentiality agreements with the business, screened it for potential to create a social impact, and evaluated the synergy between the business and the non-profit itself.

Phase four was called 'Negotiation.' This phase involved drafting an agreement regarding the deal structure and price, finalizing that agreement, and ensuring the organization was doing its due diligence.

The fifth phase was called the 'Completion' phase. In this phase, the business and non-profit met to sign deal papers, paid any upfront costs, and signed warranties.

The final phase was the 'Integration' phase. This involved communicating with all relevant stakeholders from both organizations about the deal and any future plans, creating and implementing a solid integration plan, conducting monthly check-ups on the integration process, and finally, a strategic review a year after the acquisition took place.

This is just one isolated model of small business acquisition by non-profits, so it should not be taken as a prescriptive method. But it does provide a potential framework for how this kind of project could be implemented.

Appendix B: Critical Design Features of an Acquisition Model

Social Firms Scotland (2011), who acted as an independent broker and supported non-profits through their acquisition processes, outlined several features that led to the success of the AB4G program:

- their status as an honest broker that was committed to doing the right thing for both sides of the acquisition;
- hiring staff who were experienced in acquisitions, growing social enterprises, franchising, and in the industry of the particular acquisition;
- creating a structured, step-by-step process;
- having a team of trustworthy advisors;
- and having strong connections within the non-profit sector.

Appendix C: Comparing recovery in COVID-19 and other disasters

Asgary (2020) identified a number of parallels and differences between how businesses will recover from the current pandemic versus other disasters.

- more businesses are simultaneously affected by COVID than most other disasters;
- little physical damage has been done to businesses;
- there is a possibility of next waves (aftershocks);
- the pandemic has caused human impacts on mental and physical health as well as direct and indirect financial impacts;
- we have very little experience with such a sizable pandemic;
- there is no safe place to relocate populations to; and
- recovery must start when the pandemic begins.

Appendix D : Small Business Acquisition Process Overview

Community Futures and Venture Connect have a workbook that walks interested buyers through the process of finding and acquiring a business. This workbook is not specifically tailored to non-profit buyers, but it does outline the general steps that any potential buyer will need to take in order to ensure a successful acquisition.

The first step in Venture Connect's acquisition process is 'Search,' which involves identifying and ranking one's personal expectations and motivations, looking for and identifying businesses that match those expectations, comparing any identified business acquisition opportunities, and connecting with any resources that they require (lawyers, business advisors, accountants, etc..

The second stage is 'Assess.' At this stage, the buyer starts gathering more information about the business, interpreting the financials, and determining the value of the business. It is advisable at this point to seek advice from a professional to ensure that the purchasing organization is evaluating the business correctly.

The third step is to ‘Invest.’ At this time, the buyer should have gathered enough information about the business to be ready to make an offer. They will then search for sources of financing for the acquisition through loans, vendor financing or self financing. This stage may look different for a non-profit organization; there are some sources of funding that non-profit organizations can access that for-profit businesses can’t and vice versa. This will be explored in more depth later in this paper and with primary research. Next, the buyer will ensure that they are conducting due diligence by ensuring that they have all of the necessary financial information, customer and supplier information, operational information, etc. to make an informed decision. Again, this stage might look different in the non-profit sector; there are additional items to consider, such as mission alignment and board approval. At this stage, it is advisable to involve a lawyer, to write up the legal agreement of the deal, and any other professionals that the two parties see fit.

Finally, the fourth step is to ‘Launch’ the business. Once the sale is completed, it is time for the buyer to transition into ownership. This stage is made easier if the parties agree upon a period of ongoing support from the seller, so they can pass along their business knowledge and expertise. Then, it is time to identify and pursue a couple of opportunities for growth, while ensuring that the business still has solid and steady cash flow.

As mentioned above, this process would look slightly different in an acquisition by a non-profit organization, but it is a good foundation to build upon.

For more detailed information on this acquisition process, visit: **Pathway to a Successful Business Purchase** workbook (Venture Connect)
https://ventureconnect.ca/resources/workbooks-downloads

References

Accenture (2020). COVID-19 will permanently change consumer behavior. Retrieved from https://www.accenture.com/us-en/insights/consumer-goods-services/coronavirus-consumer-behavior-research

AMIBA. (n.d.). Community Ownership: Helping People Fill Local Needs Through Shared Vision, Investment. Retrieved from https://www.amiba.net/resources/community-ownership/

Alchian A, Demsetz H (1972) Production, information costs and economic organization. Am Econ Rev 62(5):777–795

Asgary, A., (2020). *Business continuity, recovery & resilience under COVID-19 pandemic* [PowerPoint presentation]. L3 Atlantic Online, University of Waterloo.

Austin, J., Stevenson, H., & Wei-Skillern, J. (2006). Social and commercial entrepreneurship: same, different, or both? Entrepreneurship Theory and Practice, 30(1), 1-22.

Bartik, A. W., Bertrand, M., Cullen, Z., Glaeser, E. L., Luca, M., & Stanton, C. (2020). The impact of COVID-19 on small business outcomes and expectations. *Proceedings of the National Academy of Sciences*. *117*(30), 17656-17666. doi: 10.1073/pnas.2006991117

Battilana, J., & Lee, M. (2014). Advancing research on hybrid organizing– Insights from the study of social enterprises. The Academy of Management Annals, 8(1), 397-441.

BenNer A (1998) The life cycle of worker-owned firms in market economies. A theoretical analysis. J Econ Behav Organ 10(3):287–313

Boggild, L., & Greer, A. (2017). Small Business Today, Social Enterprise Tomorrow. Stanford Social Innovation Review. Retrieved from https://ssir.org/articles/entry/small_business_today_social_enterprise_tomorrow#

Business Development Bank of Canada. (n.d.). How to finance a business acquisition. Retrieved from https://www.bdc.ca/en/articles-tools/money-finance/get-financing/pages/business-acquisitions-types-financing.aspx

Campbell River Community Foundation. (2020). COVID-19 relief fund. Retrieved from https://www.crfoundation.ca/covid-19-relief-4/

Canada Grant Watch. (2020). 109 Canada coronavirus COVID-19 grants. Retrieved from https://canada.grantwatch.com/cat/56/coronavirus-covid-grants.html/2

Chamberlain, P. (2017). Rural ontario foresight papers 2017: Rural business succession. Retrieved from https://www.ruralontarioinstitute.ca/uploads/userfiles/files/Rural%20Ontario%20Foresight%20Papers%202017_Rural%20Business%20Succession%20and%20Northern%20Perspective.pdf

Chamberlain, P., Gillis, K., Prindiville, T., Bechard, O., Ulhaq, M., Elson, P. R., & Hall, P. V. (2015). *Enterprising Change: Report Of The 2015 Social Enterprise Survey For Ontario*. Retrieved from https://ccednet-rcdec.ca/sites/ccednet-rcdec.ca/files/2015-se-survey-ontario-report-enterprising-_change.pdf

Christensen, C., Alton, R., Rising, C. and Waldeck, A. (2011). The big idea: The new M&A Playbook. Harvard Business Review. March, 2011.

Civic Economics. (2012). The civic economics of retail: Ten years of studies. Retrieved from http://nebula.wsimg.com/eb1a35cadd85dd440dcba5cb1eba005e?AccessKeyId=8E410A17553441C49302&disposition=0&alloworigin=1
Clarke, T. (1984). Alternative models of cooperative production. Econ Ind Democr 5(1):97–129

Co-operatives UK. (2013) *Homegrown – The UK Co-operative Economy 2013.* Manchester: Co-operatives UK.

Co-operative Group. (2014). *Sustainability Report 2013*. Manchester: The Co-operative Group Limited.

David Suzuki Foundation (2020). Build back better: Designing a Canadian economic system that grows well-being and quality of life. Retrieved from https://davidsuzuki.org/wp-content/uploads/2020/06/DSF-Well-Being-economy-06-08-2020.pdf

Dees, J. G., Anderson, B. B. and Wei-Skillern, J. (2004) Scaling Social Innovation: Strategies for Spreading Social Innovations. Stanford Social Innovation Review 1: 34-43.

Draaisma, M. (2020). Parkdale charity buys $7.2M heritage building to secure affordable housing units | CBC News. Retrieved from https://www.cbc.ca/news/canada/toronto/parkdale-activity-recreation-centre-1501-queen-street-west-purchase-1.5582728

Dubb, S. (2020). Retiring Boomer Business Owners Turn to Worker Co-ops to Preserve Legacy. Retrieved from https://nonprofitquarterly.org/retiring-boomer-business-owners-turn-to-worker-co-ops-to-preserve-legacy/

Enterprising Non-Profits. (2010). The Canadian Social Enterprise Guide (2nd ed.). Vancouver, BC. Retrieved from https://www.vancitycommunityfoundation.ca/sites/default/files/uploads/Final_SEGuide_V2l_LowRes.pdf

European Commission. (1991). The pepper report. Promotion of employee participation in profits and enterprise results in the Member States of the European Community. Directorate-general employment, industrial relations and social affairs

European Commission. (2002). European parliament resolution relating to the commission communication to the council, the Parliament, the Social and Economic Committee and the Regional Committee regarding a framework for the financial participation of employees (COM(2002) 364–(2002/2243(INI))

Fernández-Guadaño, J. (2014). Employee-owned and capitalist firms: is performance linked to ownership?. *Serv Bus* 8, 541–558 https://doi.org/10.1007/s11628-013-0206-x

Gaudreault, S. (2020). How many Canadian businesses are at risk of permanently closing due to COVID-19? *Canadian Federation of Independent Business.* Retrieved August 19, 2020, from https://www.cfib-fcei.ca/sites/default/files/2020-07/research-snapshot-businesses-at-risk-of-closing.pdf

Gaughan, P.A. (2013). Maximizing Corporate Value through Mergers and Acquisitions: A Strategic Growth Guide. Hoboken. New Jersey: John Wiley & Sons, (71-72).

Government of British Columbia. (2020b). COVID-19 provincial and federal benefits: Support for businesses, organizations & industry. Retrieved from https://www2.gov.bc.ca/gov/content/safety/emergency-preparedness-response-recovery/covid-19-provincial-support/financial-benefits#business

Government of British Columbia (2020). COVID-19 supports for businesses: Pivoting your business operations. Retrieved from https://www2.gov.bc.ca/gov/content/employment-business/business/small-business/resources/covid-19-supports#pivoting-your-business-operations

Government of Canada. (2020b). Emergency community support fund. Retrieved from https://www.canada.ca/en/services/benefits/emergency-community-support-fund.html

Government of Canada. (2020a). Managing your business during COVID-19. Retrieved from https://www.canada.ca/en/services/business/maintaining-your-business.html

Government of Canada (2020c). Canada's COVID-19 economic response plan: support for Canadians and businesses. Retrieved from https://www.canada.ca/en/department-finance/news/2020/03/canadas-covid-19-economic-response-plan-support-for-canadians-and-businesses.html

Grávalos M, Pomares I (2001) La adaptación de las Sociedades Laborales a la evolución del ciclo económico. Un estudio empírico para las diferentes comunidades autónomas. CIRIEC-España, Revista de Economía Pública, Social y Cooperativa, no 38:33–55

Grainger, J. (2020). Sheffield social enterprise helps tackle pub closures. Retrieved from https://www.yorkshirepost.co.uk/business/sheffield-social-enterprise-helps-tackle-pub-closures-2073634

Grayson, D. (2011). An Unusual Merger. Stanford Social Innovation Review. Retrieved from https://ssir.org/articles/entry/an_unusual_merger#

He, H. & Harris, L. (2020). The impact of Covid-19 pandemic on corporate social responsibility and marketing philosophy, *Journal of Business Research*. https://doi.org/10.1016/j.jbusres.2020.05.030

Hollingsworth, T. (2014). Could Holding Companies Help Social Enterprise Scale Up? Stanford Social Innovation Review. Retrieved from https://ssir.org/articles/entry/could_holding_companies_help_social_enterprise_scale_up

Huggett, J. (2013). Unlikely Takeover: A Third Way to Scale Social Enterprise. Retrieved from https://nonprofitquarterly.org/unlikely-takeover-a-third-way-to-scale-social-enterprise/

Han, J. & Shah, S. (2019) .The Ecosystem of Scaling Social Impact: A New Theoretical Framework and Two Case Studies, Journal of Social Entrepreneurship, DOI: 10.1080/19420676.2019.1624273

Hobson, J., Roberts, H., & Lynch, K. (2018). Community Ownership of Local Assets: conditions for sustainable success.

Imagine Canada. (2020). COVID-19 - federal initiatives. Retrieved from https://docs.google.com/document/d/e/2PACX-1vQbkT4Zr5isIGl6EAluwm0-eO8-Y7xP8KNVMXasavT4DlolL8QIdcrxPKMt_4p_LApkYCpdcSvriJps/pub

Kappel, M. (2020). How to Determine Profit Margin for Your Small Business in 3 Simple Steps. Retrieved from https://www.patriotsoftware.com/blog/accounting/how-do-you-determine-a-profit-margin/

Kelly, M., & Ratner, S. (2009). *Keeping Wealth Local: Shared Ownership and Wealth Control For Rural Communities*. Ford Foundation. Retrieved from https://democracycollaborative.org/sites/default/files/downloads/report-kelly-ratner09.pdf

Kitchener Waterloo Community Foundation. (2020). COVID-19 charitable recovery fund. Retrieved from https://www.kwcf.ca/covid19-recovery-fund

Knowledge@Wharton. (2020). Simplifying small businesses and midsize companies to unlock growth. Retrieved from https://knowledge.wharton.upenn.edu/article/simplifying-small-businesses-and-midsize-companies-to-unlock-growth/

Madison, M. (n.d.). How to evaluate a company's profitability. Retrieved from https://smallbusiness.chron.com/evaluate-companys-profitability-10401.html#:~:text=When%20running%20a%20small%20business,may%20be%20evaluating%20its%20profitability.&text=ROA%20measures%20the%20ratio%20of,the%20profitability%20of%20your%20company.

Macinnis. (2020). Pandemic sprouts buy local movement online. Retrieved from https://www.corporateknights.com/channels/food-beverage/pandemic-sprouts-buy-local-movement-online-%E2%80%AF-15924960/

McConnell Foundation. (2020a). COVID-19 emergency response fund. Retrieved from https://mcconnellfoundation.ca/covid-19-emergency-response-fund/

McConnell Foundation. (2020b). Social innovation fund. Retrieved from https://mcconnellfoundation.ca/social-innovation-fund/

Mergers and acquisitions: key considerations for social enterprises. (2019). Retrieved from https://redfworkshop.org/learn/mergers-and-acquisitions

Milchen, J. (n.d.). The Multiplier Effect of Local Independent Businesses. Retrieved from https://www.amiba.net/resources/multiplier-effect/

Monzón, J. L., Chaves, R. (2012). Beyond the crisis: the social economy, prop of a new model of sustainable economic development. Serv Bus Int J 6(1):5–26

Nichols, G., Findlay-King, L., & Forbes, D. (2020). The Community Asset Transfer of Leisure Facilities in the UK: A Review and Research Agenda. *VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations*, 1-14.

Project Equity. (2019). Baby Boomers. Retrieved from https://www.project-equity.org/communities/small-business-closure-crisis/

RBC. (2019). Encore entrepreneurs: empty-nest boomers driving small business economy. Retrieved from http://www.rbc.com/newsroom/news/2019/20190918-sm-bus-poll.html

REDF. (2019). From Opening Doors to Closing Shop. Retrieved from https://redfworkshop.org/learn/opening-doors-closing-shop/

Schmidt, C., Goetz, S., Rocker, S., & Tian, Z. (2020). Google Searches Reveal Changing Consumer Food Sourcing in the COVID-19 Pandemic. *Journal of Agriculture, Food Systems, and Community Development*, *9*(3), 9-16. https://doi.org/10.5304/jafscd.2020.093.032

Skerratt, S., & Hall, C. (2011). Management of community-owned facilities post-acquisition: Brokerage for shared learning. *Local Economy*, *26*(8), 663-678.

Small Business Recovery Dashboard. (2020). Retrieved August 19, 2020, from https://www.smallbusinesseveryday.ca/dashboard/

Social Firms Scotland. (2011). *Acquiring Business 4 Good: Lessons Learned*. Retrieved from http://www.socialvaluelab.org.uk/wp-content/uploads/2013/05/AB4G-Final-Report-v11.pdf

Statistics Canada. (2020). *Impact of COVID-19 on Small Businesses in Canada.* (Catalogue number 45-28-0001). Retrieved September 5, 2020 from Statistics Canada: https://www150.statcan.gc.ca/n1/pub/45-28-0001/2020001/article/00018-eng.htm

Steiner, A. and Teasdale, S. (2018). Unlocking the potential of rural social enterprise J. Rural Stud., 70 (2018), pp. 144-154, 10.1016/j.jrurstud.2017.12.021

Tischer, D., Yeoman, R., White, S., Nicholls, A., & Michie, J. (2016). An Evaluative Framework for Mutual and Employee-Owned Businesses, Journal of Social Entrepreneurship, 7:3, 342-368, DOI: 10.1080/19420676.2016.1190396

Torrie et al. (2020). Building back better with a bold green recovery. Retrieved from https://www.corporateknights.com/wp-content/uploads/2020/07/Building-Back-Better-with-a-Bold-Green-Recovery_2020-1.pdf

Thorlby, T. (2011). Finance and business models for supporting community asset ownership and control. *Joseph Rowntree Foundation.* Retrieved from https://www.jrf.org.uk/sites/default/files/jrf/migrated/files/community-assets-business-models.pdf

Tracey, P., Phillips, N., & Jarvis, O. (2011). Bridging institutional entrepreneurship and the creation of new organizational forms: A multilevel model. Organization science, 22(1), 60-80.

Twuijver, M. W. V., Olmedo, L., O'Shaughnessy, M., & Hennessy, T. (2020). Rural social enterprises in Europe: A systematic literature review. *Local Economy: The Journal of the Local Economy Policy Unit, 35*(2), 121–142. doi: 10.1177/0269094220907024

United Way. (2020). COVID-19 community response and recovery fund. Retrieved from https://www.unitedway.ca/campaign/covid-19-community-response-and-recovery-fund/

Vancity. (2013). Community bonds: a non-profit financing tool. Retrieved from https://www.vancitycommunityfoundation.ca/sites/default/files/uploads/Community%20Bonds%20-%20White%20Paper%20final%20%28Jan%202013%29.pdf

Vancity. (2020). Vancity launches unity pivot business Loan for small businesses who need to adapt due to COVID-19. Retrieved from https://www.vancity.com/AboutVancity/News/MediaReleases/UnityPivotBusinessLoan_Apr20_2020/

Vancouver Foundation. (2020). New Fund to Support Community Through COVID-19. Retrieved from https://www.vancouverfoundation.ca/whats-new/communityresponsefund

Victoria Foundation. (2020). Community recovery program. Retrieved from https://victoriafoundation.bc.ca/community-recovery-program/

Volery, T., Hackl, V. (2010). The promise of social franchising as a model to achieve social goals. In Fayolle, A., Matlay, H. (Eds.), Handbook of research on social entrepreneurship (pp. 155-179). Cheltenham, UK: Edward Elgar.

Waitzer, J. M., & Paul, R. (2011). Scaling Social Impact: When Everybody Contributes, Everybody Wins. *Innovations: Technology, Governance, Globalization*, *6*(2), 143–155. doi: 10.1162/inov_a_00074

(WISIR) Waterloo Institute for Social Innovation (2018).