



# SUCCESSION PLANNING: FUTURE PROOF YOUR ENVIRONMENTAL BUSINESS

# WHAT'S INSIDE

**Succession planning:  
setting the stage**

**The need for succession  
planning in the  
environmental industry**

**Why succession  
planning matters**

**Start your succession  
planning journey**

**Get succession  
planning support**



# SUCCESSION PLANNING: SETTING THE STAGE

Simply put, succession planning is the process of getting your business' future in order. This could be hiring your replacement or setting up your business for sale.

If you're an environmental business owner or leader, you've inevitably given thought to the future of your business. If that's the case, succession planning is not only something you should know about, but be actively engaging in to ensure the best outcome for yourself and your organization.

This e-book will help you learn why succession planning matters and how you can start your succession planning journey.

## Meet our succession planning experts



### Sarah Casorso

Senior Manager of Employment Programs and Human Resources, ECO Canada. Casorso has over a decade of experience helping businesses translate their long-term vision into human resource activities – from hiring, training, and retaining the right people.



### Russell Wintersgill

Managing Director of Wintersgill and Associates. For over 30 years, Wintersgill has guided businesses through succession planning. He helps solve problems, maximize growth, and improve business performance.



### Robert Welke

President of **ProACTv** Business Solutions Inc.. Through ProACTv, Welke and his associates offer a variety of programs including Maximizing the Value of your Exit (**MExit**) — a framework for helping business owners successfully prepare their companies for a high-value, future exit. Welke has over 30 years of experience in strategic business development, starting, growing and selling businesses, along with coaching, leadership, and mentoring experience.

# THE NEED FOR SUCCESSION PLANNING IN THE ENVIRONMENTAL INDUSTRY

Many private businesses are founded by skilled, technical experts on the principle of sharing the owner's expertise and passion for creating a sustainable and responsible future. The Canadian environmental sector is a great example of this - with a diversity of scientific and professional services across all three areas of practice as defined within the National Occupational Standards for environmental work: environmental protection, resource management, and resource sustainability. economic growth, while ensuring that environmental best practices are a priority.

Our labour market assessments show that Canadian environmental businesses operate in two distinct areas, both of which have a great deal of overlap: core environmental workers and environmental goods and services. Many businesses operate in the consulting services space, in which they provide technical expertise to advise Canadian business on environmental and sustainability issues, best practices, and compliance with regulations and applicable legislation.

According to 2019 Canadian Industry Statistics, there are: 2,126 environmental consulting businesses in Canada. Without doubt, the services offered by these organizations provide immense value to the Canadian economy. Moreover, these consultancies play a powerful role in ensuring a sustainable future, through their advocacy for environmental best practices and tireless

commitment to responsible stewardship of our ecological resources.

In many cases, when the owner or founder one of these businesses retires or decides to sell, they will be taking a great deal of knowledge with them. And while many remain active with the organization after succession or sale has completed, the end-goal of any business owner is two-fold: (i) to fully transition out of the business, whether to enjoy retirement or pursue other passions; and (ii) to fully realize the value of the business, by maximizing the price at which the business is sold. It goes without saying that maximizing a sale price is primarily achieved by ensuring the business itself is well-organized, staffed appropriately, and is free and clear of any financial burdens or tax obligations.



Fundamentally, potential succession buyers and investors are concerned with one thing above all others: return on investment. This has been the case for as long as transactions existed, and will always continue to be the case. However, while this fact is immutable, the modern definition of ROI is evolving. The emergence of Environmental, Social, and Governance (ESG), which is further detailed below, is rendering ROI, in its historical measure and in an absolute sense, imperfect. Buyers and investors are no longer satisfied with increasing the value of their investments, and are strategically choosing businesses that provide “clean returns”.

These “clean returns” can best be defined as satisfying not only the desire for an increase in the value of an investment, but also the desire of the individuals and institutions to align their investments with core social and personal values. It can be further elaborated as a new element of the “future-proofing” principle of business, as the primacy of a business’ commitment to environmental protection and sustainability, a consciousness of social causes and equity, and a comprehensive governance structure reduce overall business risk. By reducing risk, business owners who are actively in the succession planning and execution phase can ensure that the maximum value of the business can be realized.

But having a robust and comprehensive succession plan can facilitate a seamless transition from one ownership entity to the next, and remove any pain points or barriers to sale that any potential buyer might identify.

Business owners may be surprised to learn about the staggering statistics presented below that pertain to succession planning (provided by Welke).



**80%** of businesses that are put up for sale don’t sell.



Of the **20%** of businesses that do sell, **10%** sell successfully and the other **10%** sell for less than what the business owner desired.



**66%** of small businesses close when the owner retires.

## PUT THE STATISTICS INTO PERSPECTIVE

**1,700** environmental businesses won’t sell.

**452** environmental businesses sell. Of those 452 businesses, half sell successfully while the other half don’t sell for what the owner wanted.

**1,424** environmental businesses close their doors once the owner retires.

Statistics via the Business Development Bank of Canada, The Canadian Federation of Independent Business, the Ontario Government, and the Exit Planning Institute.

# WHY ARE THESE TRENDS HAPPENING?

Most of these trends are happening due to a lack of understanding or the time to do succession planning. In the next section, we'll go over why succession planning matters and how to start to start a succession plan.

## WHY SUCCESSION PLANNING MATTERS



### It grows your bottom line

To grow your bottom line, you need time for strategic business development. That strategic development goes right to your bottom line; when you're ready to sell your business, you're more likely not only to sell it but also, sell it for what you think it's worth.

Wintersgill noted to get time for strategic business development, you need someone in your organization that can handle your business' day-to-day work.



### It attracts buyers

Simply put, Environmental, Social, and Governance ("ESG") represents a broad commitment on the part of a business to ensuring that they are good corporate citizens who are concerned about more than profit.

"They're looking for companies that care about more than just making money," says Welke. "ESG is a measure of how conscious a business is."

Furthermore, access to both institutional and private business financing is increasingly being tied to an organization's ESG commitment, Financiers and even potential buyers are realizing that a strong ESG score creates less risk, both from a regulatory and public relations perspective. This creates the opportunity for higher and more stable rates of return, or, in the case of a business sale, a more optimized sale price.

An example of addressing a social issue could be employing youth. Casorso said the unemployment rate for youth under 25 is high.

"Businesses could hire someone out of university and train them for future roles. ECO provides wage subsidies to mitigate risk for employers."



### It has positive social impact

Noted earlier, many businesses close when the owner retires. That impact goes beyond the business' employees.

"It not only impacts families but also communities and vendors that benefited because of that business," explains Welke. "Succession planning keeps that positive economic loop going."



### It helps you recruit and train the right people

Succession planning is an opportunity to think about where you are now and where you want to be. A big part of that is planning what new hires you'll need as well as how you'll train and develop current team members. In the long run, both the training and recruitment will not only add value to your business (i.e. increasing what services you offer) but also, fill in potential vacancies in your business when team members retire.

Training and attracting the right talent takes time. For environmental businesses who don't have a human resources team, ECO's **HR Services program** provides environmental small-to-medium-sized enterprises customized human resources support.

# THE IMPORTANCE OF ESG\*

\*NOTE: this area cites information and research from McKinsey & Company (an organization which helps companies with change initiatives) and Ernst and Young. ECO has no affiliation with either organization. The information was chosen because it's clear and informative.

## DEFINING ESG

To learn more about ESG, it's important to break down each word in the acronym. The definitions below are from an article by [McKinsey and Company](#).



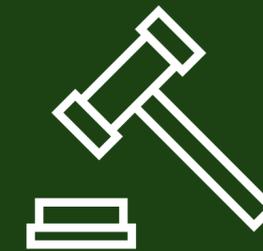
### Environmental

Environmental refers to, "the energy your company takes in and the waste it discharges, the resources it needs...Every company uses energy and resources; every company affects, and is affected by, the environment."



### Social

Social refers to, "the relationships your company has and the reputation it fosters with people and institutions in the communities where you do business. 'S' includes labour relations and diversity and inclusion."



### Governance

Governance refers to, "the internal system of practices, controls, and procedures your company adopts in order to govern itself, make effective decisions, comply with the law, and meet the needs of external stakeholders."

# WHY ESG MATTERS

Overall, ESG matters because it adds a positive “lift” to your business. And it positions your business to maximize its value by capturing the “clean returns” mentioned earlier, that the largest investment firms and most sophisticated buyers and investors desire. The McKinsey and Company article noted above highlighted a few areas for this lift:

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**Increased profit:** oftentimes, customers are more willing to pay for products they feel stand for something greater. For example, mentioned in the article, customers may pay more for a product that uses eco-friendly materials.



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**Decrease costs:** companies who have sustainability measures often see overall savings. As an example, a company could choose to do an electronic version of an annual report, to use less paper. This in turn would save on printing and shipping costs.



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**Reduced legal issues:** ESG initiatives can often help businesses stay within regulatory requirements for their industry. This is especially important for government-funded organizations, or organizations that have reporting bodies.



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**Uptick in employee productivity:** McKinsey and Company’s research found employees were more productive when they felt their work contributed to a cause. For example, some businesses donate a portion of the profits to local charities.



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**Asset optimization:** mentioned earlier, ESG initiatives can reduce costs. This means businesses can put that money in other areas where they need to invest.



## HOW ESG ATTRACTS INVESTORS

All of the positive impacts of ESG mentioned above add value to your business and decrease the perceived risks associated with investment. This increases the chances for investors to start knocking at your door, and for securing approvals for both revolving and capital financing. And the ability to demonstrate that your business provides “clean returns” maximizes the potential transaction value if and when you choose to sell.

In fact, according to an **Ernst and Young (EY) article**, 74% of investors factor non-financial reporting (which often come up for ESG) into their financing approval decision making.

### To put it in EY’s own words,

“Investors view ESG matters as a critical element to building a more sustainable business that can adapt to industry, regulatory and market shifts, such as the evolution of technology, climate change, social equity, diversity and inclusion, and black swan events like COVID-19.”



# HOW TO IMPLEMENT ESG IN YOUR BUSINESS

There are many perspectives on how to add ESG into your business. The main point: before you start planning you need to do research.

Here's a research-based roadmap for implementing ESG, based on [Ernst and Young](#) recommendations:

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## Research what investors want and demand

Many investors expect sustainability initiatives. Research these expectations and see how you can integrate them into your business.



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## Understand key ESG players in your industry

Research the companies who are leading ESG initiatives in your industry and how your company is viewed and/or stands in comparison.



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## Know what matters to your stakeholders

From your employees to your board, think about what matters to each group and how you can implement. For example, perhaps your employees care about having a flexible work environment. This could involve implementing "work from home" days as needed.



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## Determine how you'll integrate ESG into your overall business

This includes what you'll spend money on, your marketing and branding efforts, who you'll partner with, your supply chain, and more. This step will also help you think about what sets you apart from your competitors. For example, perhaps you give employees a work day to volunteer at a charity of choice.



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## Map out how you'll talk about your ESG initiatives

This includes how you'll explain your initiatives externally (to your customers) and internally (to your employees). It also includes any disclosures or privacy issues.



The steps detailed above are not complicated. They are undertaken on a continuous basis, much as quality control in manufacturing, and are best adopted as a core operating principle during the day-to-day routines of your business. It is a commitment to excellence, and a clear demonstration that you have future-proofed your business and positioned it as an industry leader in helping foster a sustainable and equitable future.

# YOUR PEOPLE ARE YOUR BEST INVESTMENT

If there's a plan to sell your business or you want to retire, a solid exit strategy and a fair sale price will depend on your most valuable asset — your people. This is the "Governance" component of the ESG ecosystem, not only for the existing staff that may be employed by your business, but perhaps more importantly its ability to attract top talent going forward.

If a business is looking to acquire another via mergers or acquisitions, the existing talent pool of the organization being acquired is a key component of the deal. You don't just buy a business name, you buy the existing expertise and experience that the staff possess.

Having a highly-skilled and well-rounded workforce will position a business for success.

Investing in training your team pays off. Research indicates that environmental employers require not just solid technically-skilled workers, but those who have 'soft' skills that can pivot into management or leadership. Investing in soft skill development can have excellent returns when you focus on critical areas of knowledge and aptitude like project management and communication.

Our research indicates that employers need the following skills as broken down by years of experience:

## TOP 5 SOFT SKILLS ENVIRONMENTAL EMPLOYERS EXPECT

### JUNIOR TO INTERMEDIATE STAFF

(Employees with 3-7 years of experience)

Project management: **71%**

Leadership: **70%**

Communication: **67%**

Negotiation and conflict resolution: **67%**

Problem solving: **61%**

### SENIOR-LEVEL STAFF

(Employees with 8+ years of experience)

Negotiation and conflict resolution: **62%**

Leadership: **55%**

Communication: **44%**

Project management: **42%**

Team work: **36%**

**Source: ECO Canada Essential Skills report**

## TOP 5 TECHNICAL SKILLS ENVIRONMENTAL EMPLOYERS EXPECT

### JUNIOR TO INTERMEDIATE STAFF

(Employees with 3-7 years of experience)

Policy and legislation: **50%**

Industry knowledge: **48%**

Communication and public awareness: **41%**

Education and training: **38%**

Research and development: **35%**

### SENIOR-LEVEL STAFF

(Employees with 8+ years of experience)

Policy and legislation: **42%**

Communication and public awareness: **30%**

Climate change: **27%**

Research and development: **27%**

Health and safety: **26%**

**Source: ECO Canada Essential Skills report**

# START YOUR SUCCESSION PLANNING JOURNEY



## Step 1: Think about the end goal of your business

This goes back to your strategic plan; where you are now and where you want to be. Do you want to sell your business when you retire? Do you want to train a successor? All of these questions will guide your overall succession planning activities, from mentorship to training.



## Step 2: Identify talent within your team

This will help you determine who could potentially be a successor for your business. Taking the time each year to look at your organizational chart to see which employees have moved into different roles or taken on new responsibilities can help with this.



## Step 3: Start mentorship discussions

Once you've identified team members who either could be a successor or, fit a role you need, start a conversation. Ask them how they see their future in the business. This will help you understand their interests; it's possible they have different aspirations. However, if they're interested in a leadership position in your business, you can start a discussion about mentorship opportunities.



## Step 4: Hire for the talent you need

Again, this goes back to your strategic plan. If there are roles you need to fill, start your recruiting and hiring process. ECO's HR Services program can help you attract and retain the right talent.



## Step 5: Think about how you're addressing ESG issues

Mentioned earlier, addressing ESG issues adds value to your business. Investors are interested in businesses who care about more than making money; they want to see how they're making a positive impact in the world around them. Get your employees involved too. Ask them what causes they care about. From there, you could put it to a vote about organization and/or cause to support for that year.



## Step 6: Learn to let go

Letting go is difficult for any business owner. However, in order for succession planning to work, it's important to let your team take on more responsibilities. As well, it's important to know your business can survive and thrive without you being present all the time.

# GET SUCCESSION PLANNING SUPPORT

If you're wondering where you're going to get time to do all of this, that's ok. It means you're already considering next steps, which is a move in the right direction.



## Connect with environmental leaders or business owners

If you have an Environmental Professional designation, log into your [ECO membership portal](#). That will show you a roster of environmental professionals that you can connect with, attend a networking event or a workshop for leaders.



## Hire an expert

Succession planning experts like Wintersgill and Welke can guide you through building and executing succession plans. You can also find consultants in this area on the [Business Development Bank of Canada](#) website.



## Contact ECO's HR Services team

They can help you recruit and retain the right people for your business. They also design custom HR solutions for businesses. ECO Canada helps businesses develop the skills needed, and put the right practices in place to ensure a successful succession plan.

As the quote goes,

“the journey of a thousand miles begins with a single step.”

We hope you've learned some ideas to get you going on your own succession planning journey!

## LINKS TO MORE INFORMATION

- Forbes: [Study shows why many business owners can't sell when they want to](#)
- John Warrilow: [“Built to sell: Creating a business that can thrive without you”](#)
- Forbes: [Retiring? Don't count on selling your business](#)
- Findlay Schenck: [“Guide to selling your small business”](#)



# CONNECT WITH US

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