



Study on Succession Planning for Small and Medium Enterprises

Shore Consulting

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1 Executive Summary

1.1 Context

This document summarizes the research findings of a study on succession planning and the potential economic and social impacts of the retiring cohort of SME owners in communities across Ontario, which was developed for the Ontario Ministry of Economic Development and Growth by Shore Consulting.

Recent studies suggest that Ontario's economy may be at risk due to the retirement of a large group of 'baby boomer' owners of small and medium-sized enterprises (SMEs), and the potential loss of existing businesses and employment. There is concern about the nature and extent of succession planning by SME owners as they move to transfer their businesses to new owners.

Succession planning can be defined in different ways and from different perspectives that highlight given characteristics or goals. For the purposes of this report, succession planning refers to the set of considerations and processes involved in preparation for the transfer, sale or closure of a business from its current owner to a successor.

Succession planning is an important concept for the continuity of a business. All companies must engage in some form of succession planning if they are to survive beyond the lifespan of a single generation. Succession planning has recently gained increased attention due to the upcoming retiring cohort of baby boomer business owners.

Approach Used

The study centered on two main lines of data collection. Firstly, a jurisdictional scan was undertaken of selected Canadian provinces (Alberta, British Columbia, Ontario and Quebec), as well as Australia, Canada (at the federal level), Europe/European Commission, Ireland, New Zealand, the United Kingdom and the United States. Secondly, interviews were conducted with forty key stakeholders across Ontario. Stakeholder interviewees included a range of business support organizations, small business owners with succession planning experience, government officials and subject matter experts.

The respective jurisdictions were canvassed to draw out key information on emerging contextual trends and to identify policies, programs, strategies and services used by governments and other key stakeholders to support SME business owners with succession planning. The scan also gathered information on the extent of the issues surrounding succession planning, challenges and barriers faced by SMEs and the potential impacts from a lack of, or poor, succession planning.

The primary goal of the stakeholder interview process was to gather a sample of direct input on the perspectives, experiences and key observations of different kinds of business stakeholders associated with SME succession planning. The stakeholders were asked about their familiarity, involvement or expertise in succession planning. They were also asked to identify key issues to address and opportunities to enhance succession planning. A second group of validation interviews was then conducted to assess and confirm the major findings gathered from the first round of interviews and to add further insights.

1.1.1 Key Findings

Findings from the stakeholder interviews generally support and align with those of the jurisdictional scan. Local, national and international governments and other key stakeholders have become increasingly aware that successful succession planning and business transfers are critical to sustaining businesses and the local economies and communities in which they operate.

Role of SMEs

SMEs are major contributors to both the Canadian and the Ontario economies as private sector employers, generators of revenue, and tax payers. Given the significant contributions of SMEs to their local and provincial economies, there are potential economic and social implications if their performance or productivity declines. Statistics Canada data show that there were approximately 415,000 small and medium sized businesses in Ontario as of December 2015. Of these, about 98% were small businesses with between one and ninety-nine employees employing 3 million workers and accounting for 66% of provincial private sector employment.

Potential Impacts

The recurring theme of SME data for Ontario reflects an aging demographic profile of owners who operate well established businesses with sales focused predominantly on the local municipality or region.

In 2011, the Canadian Federation of Independent Businesses (CFIB) surveyed its membership about succession planning and reported its findings from over 8,000 responses. Of the 3,389 Ontario business owners who responded to the survey, only 9.8% stated they had a formal written plan, with another 37.9% saying they had an 'informal plan.' In other words, 52.3% of the Ontario business owners *did not* have a plan for exiting their business. What is equally important with these data is that 74.7% of these Ontario businesses planned to exit their company within ten years –starting in 2011.

Certain types of businesses and sectors were identified as facing a greater risk of negative impacts occurring for owners, employees and local economies if succession planning is not given more attention. These include: businesses located in rural communities (compared to those in urban locations), small businesses, family businesses, owner-operated businesses, farms and agricultural businesses, service-based businesses, and the manufacturing, skilled trades and tourism/hospitality sectors.

Challenges and Barriers

SME business owners face numerous challenges and barriers with respect to business transfers. The major types of challenges to successful succession planning identified cluster into the following areas:

- Upcoming retirement of the cohort of 'baby boomer' business owners.
- Too many business owners start the process of succession planning too late.
- Lack of awareness regarding the process of succession planning.
- Difficulty finding relevant information.
- Difficulty finding a qualified successor.

- Emotional implications of succession planning for business owners.
- Macro level regulatory, tax and financial challenges.
- Challenges relating to calculating the value of a business.
- Business support organizations lack the proper skills and resources to facilitate succession planning by SMEs.
- Lack of comprehensive or integrated public-private collaboration on SME succession planning.

Opportunities to Improve Succession Planning

Given the breadth of challenges faced by SMEs, there are opportunities to improve succession planning from multiple angles:

- Awareness building and information for business owners.
- Training and mentorship programs for youth and potential successors.
- Financial incentives to facilitate succession planning and business transfers.
- Matchmaking mechanisms to connect owners and potential buyers.
- Expand existing business support services to include succession planning support for business owners.
- There is a need for a collaborative, coordinated effort across all stakeholders to improve succession planning.
- Engage women, youth and immigrant entrepreneurs.

1.1.2 Discussion

Despite consistent themes across the jurisdictions surveyed and the stakeholder interviews, which highlight that more effort is required to improve succession planning and business transfers, there have not been any studies that assess the *actual impact* of poor or failed succession planning and business transfers. Current empirical analyses associated with succession planning and business transfers only provide rough approximations of what may happen, given certain assumptions surrounding the data being used for analysis.

Using data from Statistics Canada and CFIB survey data from SME owners, Shore Consulting estimated the potential extent of the issue in Ontario, recognizing that this involved using rather crude extrapolations and assumptions.

Assuming the 2011 CFIB survey respondents are representative of all SME owners in Ontario, and using an average of 9 workers employed in each SME, they estimated that owners of 310,462 SMEs in Ontario likely plan to exit their business in the next ten years (i.e. as of 2011) which will affect 2,794,158 workers, that 217,365 SME owners in Ontario do not have a succession plan, and that the owners of 24,937 SMEs plan to close their business instead of transferring or selling it with enormous implications for 224,433 workers and their families and the communities in which they live.

Even using these very rough and approximate guesstimates, which are based on crude assumptions, it is clear that there is a significant and yet relatively silent transformation occurring in the Ontario economy.

1.1.3 Summary

The study provided a foundation for understanding the nature and extent of issues surrounding succession planning and business transfer processes. It is clear from the jurisdictional scan that other jurisdictions are also experiencing the same demographic

shifts and the same challenges as Ontario and are trying to create better supportive environments for succession planning and business transfers.

The stakeholder interviews, meanwhile, corroborated through an on-the-ground Ontario lens what had emerged from the jurisdictional scan. There are a number of issues that need to be addressed at a variety of different levels. Business owners need to be made aware of the risks associated with not having a succession plan. Supportive environments also need to be developed and be easily accessible so that succession planning tools, resources and advice can be put in the hands of those who are affected by succession planning or the lack thereof.

2 Methodology

2.1 Introduction

Two lines of enquiry formed the basis of the study – a jurisdictional scan of selected provinces and countries as identified by the Ministry, and a series of interviews conducted with a range of stakeholders from across the province, again as identified by the Ministry. Data were gathered using both approaches concurrently in the mid-late fall of 2016 and in the first few weeks of January 2017.

2.2 Jurisdictional Scan

The purpose of the comprehensive jurisdictional scan was to gather information related to SME succession planning and business transfers in selected jurisdictions in Canada and other countries. The respective jurisdictions were reviewed to draw out key information on emerging contextual trends and to identify policies, programs, strategies and services used by governments and other key stakeholders to support SME business owners with succession planning. The scan also gathered information on the extent of the issues surrounding succession planning, challenges and barriers faced by SMEs or governments and the potential impacts from a lack of poor succession planning.

2.2.1 Search Process

A search process was undertaken to explore each jurisdiction based on the selection and application of key word combinations. Key words involved a significant number of terms in order to examine each jurisdiction. The key word combinations identified studies, articles and reports on SME succession planning for each jurisdiction that helped to:

- Describe the jurisdictional context;
- Identify any socioeconomic impacts associated with SME succession planning;
- Summarize what other jurisdictions are doing to support SME succession planning;
- Identify the challenges and barriers faced by stakeholders;
- Identify opportunities to improve succession planning; and,
- Draw out useful examples of strategy, approaches and mechanisms in other jurisdictions.

The primary search engines used were Google and Google Scholar. Government, business and other websites were accessed to broaden the range of data and information related to public and private sector activities with respect to succession planning and business transfers.

The search for the impacts of no, or inadequate, succession planning by SME owners on business closures did not produce specific data or information on the numbers of closures directly related to inadequate succession planning or effects on communities. There were, however, several *estimates of potential impacts* calculated mostly at the aggregate level and based on crude calculations from combining data from different datasets, with speculation as to possible economic implications.

Government ministry or departmental websites produced more focused information on succession planning through the use of the respective sites' on-line search capacity as

well as links either throughout these sites or to other websites (e.g., business support or professional organizations and associations). Information related to succession planning was found by examining how governments supported SMEs overall (with succession planning as a sub-set of this).

2.3 Stakeholder Interviews

2.3.1 Stakeholder Groups

Participants were selected based on their knowledge and/or experience with succession planning. The prospective informants reflected a sampling of different personal, professional and organizational experiences, knowledge, responsibilities and perspectives on SMEs, with potential valuable insights about succession planning in Ontario.

The prospective informants represented five groups of stakeholders:¹

- Business owners/entrepreneurs with hands-on experience with succession planning;
- Representatives of regional or local Small Business Enterprise Centres (SBECs), or their community partners;
- Agencies, including various forms of local and other business support organizations, and individuals active in the context of succession planning;
- Subject matter experts; and
- Representatives of Ontario ministries.

2.3.2 Interview Rounds

Two rounds of interviews were conducted with key stakeholders. Round One comprised the main set of interviews, with Round Two focused on validating the findings from the Round One interviews.

The Round One interviewees provided a wide range of input at different levels about succession planning and SMEs beyond what any one group alone could provide. This allowed for a more expansive 'snapshot' of Ontario stakeholder experiences and perspectives, as well as strengthening the research findings through the triangulation of the data coming from the concurrent jurisdictional scan.

Following the completion of the Round One interviews Shore Consulting prepared a two-page overview of preliminary findings and used this as the basis for conducting validation interviews with four key informants. Validation interviewees were asked to comment on the Round One findings. Did the findings, for example, resonate with their own experiences and understanding? Were there any issues that did not emerge from the first round? Were there other points that need to be identified?

There was a very positive response to the request for interviews by the different groups of informants in the first round. Forty individuals were interviewed, which exceeded the original target of twenty to twenty-five individuals for that part of the overall study.

¹ The individuals interviewed are described throughout this report as 'Interviewees' or 'Informants' and sometimes more specifically, as 'Owners' or 'Stakeholders' (in view of their roles).

Although the sample of business stakeholders may not be a statistically representative sample of stakeholders across the province, it does, nonetheless, provide a reliable current snapshot of succession planning in Ontario, especially when it emerged that the data gathered from these interviews resonated strongly with other stakeholders' observations and the jurisdictional scan.

A final but important point regarding the methodology used, the interviews were often and unexpectedly enriched by the interviewees, whose personal or professional experiences or knowledge sometimes overlapped with more than their identified stakeholder classification. This expanded the range of feedback and information that was shared.

3 Organizing Framework

Succession planning is an important concept for the continuity of a business. All companies must engage in some form of succession planning if they are to survive beyond the lifespan of a single generation. Succession planning has recently gained increased attention due to the upcoming retiring cohort of baby boomer business owners. There are, however, a number of inter-related factors that affect the effectiveness and efficiency of succession planning as a process that leads to the transfer of business ownership.

The research literature shows that business owners in their late fifties are most vulnerable to succession failure (Ip and Jacobs, 2006; Martin et al, 2002; McCarthy, 1996). Sawers and Whiting (2010) note that the changes to the demographic profile brought about by the aging baby boomers may have 'profound consequences for individuals and the country alike, in terms of firm survivability, firm market valuations, retirement conditions and employment statistics.'

There are three broad areas of research on business succession planning (Motwani et al, 2006): 1) definition and overview of succession planning; 2) developing and implementing conceptual models of succession planning strategies; and 3) the assessment of succession planning within the business.

While succession planning improves the chance of a successful exit it does not guarantee this will occur (Kirkwood & Harris, 2011). The logic, however, is that succession planning and the effective implementation of that planning will result in more successful business transfers. The research also notes that even though business owners are aware of the importance of succession planning, they typically fail to plan for their succession.

The outcome of the business transfer will be a function of the interplay of multiple factors. This is summarized in the diagram below. The diagram provides a useful organizing framework for developing an understanding of the input collected from the interviews conducted with the different stakeholders, all of whom provided the research team with valuable insights from different viewpoints.

The diagram also shows the cyclical nature of business transitions. That is, contextual influencers, such as location and sector, have an impact on the effectiveness of a succession plan for a given business. The succession planning process has a number of possible outcomes, the most obvious being whether the business continues to operate or closes down. These outcomes, in turn, impact the contexts in which they operate.

The contextual factors in which succession planning and business transfers operate can be thought of at micro, meso and macro levels, with a number of contextual factors at each level that affect the process.

Figure 1: SME Succession Planning Conceptual Framework



At the macro level, for example, there is provincial (and federal) government policy, environmental, legal and regulatory requirements, the dynamics of the respective industry/business sectors in which a company functions, and numerous demographic factors, such as an aging cohort of business owners (the baby boomers), out-migration of people from rural, northern and remote areas, and the potential for youth and immigrants to be successors to owners seeking to transfer out of their business.

The meso level includes the local economy, community and culture, as well as the local business support organizations, such as local Chambers of Commerce and local Small Business Enterprise Centres. There are multiple factors at the meso level that impact the development and outcome of succession plans, such as the availability of qualified successors and the extent of support provided by business support organizations.

At the micro level, meanwhile, are the individuals who effect and who are affected by decisions made (or not made) on succession planning. The pivotal point is the owner, whose decisions around succession planning will reflect multiple personal and professional factors, including: family dynamics, desires around retirement, personal finances, health, ability of others to run the business, and commitment to employees. Other individuals also play a key role in succession planning decisions, including: spouses and children (who may or may not choose to take over the business), professional advisors such as accountants and lawyers, employees and of course, the potential buyers/successors who take over the business.

Succession planning itself is at the beginning of the business transfer process. There are some important factors that influence the nature and extent of this transfer process, chief among these is the commitment of the business owner to have a succession plan

in the first place and to develop this in a timely manner. The 'content' of succession plans and business transfers include corporate legal documents and transfer documents, including the valuation of the business.

Several enablers affect the process, including:

- Awareness of the need to have a succession plan;
- Transfer of critical knowledge to support the owners' decision-making (which may include various resources and tools);
- Nature and extent of stakeholder collaboration to support the owner in the process, and the influence of time – the ability to develop and execute a succession plan that reflects considerable thought as to when to transfer the business, which itself will be dependent on key inter-related considerations such as anticipated financial gain; and
- Effects on the owner's family, the profitability of the company and the effects of the transfer (or no transfer) on the local economy and the company's workforce.

There are many possible outcomes of succession planning. On the positive side, this may include the obvious expected outcome – a successful transfer of the business, which will include a desired new lifestyle for the owner and the continuation and possibly growth of the business. There are, however, multiple potential negative effects (e.g., job losses, business closures, ill-health of owners) of a poor succession plan and/or business transfer (or indeed, no plan or transfer occurring), which may impact various individuals, SMEs, as well as businesses and sectors more generally in the local, regional, provincial and even national economies.

4 Context

4.1 SME Definitions

Small and medium-sized enterprises (SMEs) are typically defined by the number of employees, with varying thresholds. For example:

- Less than 500 employees in Canada (ISED, 2016, *Key Small Business Statistics*);
- Less than 500 employees in the United States (Small Business Administration, 2012);
- Less than 250 employees in the United Kingdom (Institute for Family Business, 2016);
- Less than 200 employees in Australia (Australian Bureau of Statistics, 2001);
- Less than 100 employees in New Zealand (New Zealand Government, 2014).
- Some jurisdictions break down the definitions further, to include sub-levels of SME size, such as micro, small and medium levels.

All jurisdictions, meanwhile, have a tendency to use the term 'small business' as being equivalent to the term SME. Some jurisdictions, like the United Kingdom for example, refer predominantly to 'family business' given their predominance among SMEs overall.

4.2 The Role of SMEs in Ontario

SMEs are major contributors to both the Canadian and the Ontario economies as private sector employers and generators of revenues, with implications for the tax base and the vitality of communities. This further underpins their importance and the potential economic and social implications if anything negatively affects their performance and productivity.

Statistics Canada has generated numerous datasets that profile SMEs in Canada. The following data provide a useful contextual backdrop to the study, as they emphasize the importance of SMEs to the Canadian economy, and more specifically to Ontario.

4.2.1 SMEs in the Canadian Economy

- In 2011, almost 50% of all small and medium-sized enterprise owners in Canada were between 50 and 64 years of age, and over 77% of business owners had more than 10 years of experience.
- As of December 2012, there were 1,107,540 employer businesses in Canada, of which 1,087,803 were small (between 1-99 employees). This figure rose to 1,167,978 for Canada in 2015 (of which 1,143,630 were small).
- As of December 2012, small businesses (1-99 employees) made up 98.2% of employer businesses, medium-sized businesses (100-499 employees) made up 1.6% of employer businesses, and large businesses (500+ employees) made up 0.1% of employer businesses in Canada.
- Of the 1,107,540 employer businesses in Canada, 55.1% have only 1 to 4 employees. If the groups of employer businesses with 1 to 9 and 10 to 19 employees are included, they account for 87.4% of the business population.
- Small businesses play a significant role in net job creation; from 2002 to 2012 they created 77.7% of all private sector jobs.

- Over half of the 1.08 million small businesses (1-99 employees) in Canada are concentrated in four industries: wholesale trade and retail (18.8%), construction (11.7%), professional, scientific and technical services (11.6%) and other services (10.6%).
- The distribution is different for medium-sized businesses (100-499 employees). Almost 52% of these are concentrated in wholesale trade, with 22.9% in retail, 17.8% in manufacturing and 11% in management of companies and enterprises and other support services.
- In 2012, SMEs employed about 10 million individuals, or 89.9% of employees.
- Over 7.7 million employees (69.7% of the total private labour force) worked for small businesses, and 2.2 million employees (20.2% of the total private labour force) worked for medium-sized businesses.
- The percentage of SME owners in Canada under the age of 49 years decreased between 2004 and 2011 while the percentage of owners between 50 and 64 years of age increased, such that by 2011 the later age group represented almost 50% of business owners.

4.2.2 SME Role in the Ontario Economy

SMEs play a significant role in the Ontario economy. Statistics Canada data show that there were approximately 415,000 small and medium sized businesses in Ontario as of December 2015. Of these, about 98% were small businesses (1-99 employees) employing three million workers with medium-sized firms (100-499 employees) employing approximately 946,000 employees (see Table 1).

Table 1 - Total Number of Employer Businesses by Size and Number of Small and Medium-Sized Businesses, December, 2015.

Total Number of Employer Businesses by Size				
Province /Territory	Small (1-99)	Medium (100-499)	Large (500+)	Total
Canada	1,143,630	21,415	2,933	1,167,978
British Columbia	176,014	2,623	329	178,966
Alberta	165,792	3,076	437	169,305
Saskatchewan	40,453	644	88	41,185
Manitoba	37,776	829	107	38,712
Ontario	407,175	8,437	1,189	416,801
Quebec	235,075	4,301	590	239,966
PEI	5,838	83	14	5,935
Nova Scotia	29,298	556	68	29,922
New Brunswick	25,002	443	64	25,509
Newfoundland & Labrador	17,174	307	45	17,526
Yukon	1,723	34	0	1,757
NWT	1,606	51	1	1,658
Nunavut	704	31	1	736

Source: Statistics Canada, Business Register, December 2015.

Ontario's small businesses' contribution to GDP from 2002 to 2011 ranged from 23% to 27%. SME data for Ontario reflects the recurring theme of an aging demographic profile of owners, who operate well established businesses whose sales focus predominantly

on the local municipality or region. For example: 79.2% of business owners/managers have had more than 10 years running the business (83.2% in northern Ontario), 62.3% are aged 50 or over, and 46.8% of businesses were established prior to 1991 (53.2% in northern Ontario) (See Table 2).

Table 2 - Profile of SMEs in Ontario

	Age of Owner/General Manager (2011)				
	< 30	30-39	40-49	50-64	65+
All SMEs in Canada	1.6%	10.6%	28.2%	48.4%	11.3%
Ontario	1.2%	8.2%	28.3%	48.9%	13.4%
Northern Ontario	x	x	29.8%	49.1%	11.9%
Southern Ontario	x	x	28.2%	48.8%	13.5%
	Year the Business was first established (2011)				
	2009-2011	2001-2008	1991-2000	Prior to 1991	
All SMEs in Canada	4.9%	27.0%	24.3%	43.7%	
Ontario	3.9%	25.3%	24.0%	46.8%	
Northern Ontario	3.4%	22.3%	21.2%	53.2%	
Southern Ontario	3.9%	25.5%	24.3%	46.3%	

Source: Statistics Canada (2013). Survey on the Financing and Growth of Small and Medium Enterprises, 2011. Data Tables. 'x' indicates data not available.

4.3 Defining Succession Planning

'Succession planning is a process that prepares you and your business for transition, whether planned, or sudden, including the sale, closure or transfer of your business.' Some governments typically focus on a particular perspective or part of the process of succession planning process while others focus more on business transfers. Alberta, for example, uses a more expansive definition of succession planning that sets it in the larger context of business transfers.

In British Columbia, the government defines succession planning, as 'the process of identifying and developing a buyer to take over a business. Preparation by the buyer, seller and community are critical to ensuring the success of a business transition.'

In New Zealand, succession planning has more to do with *transition options* for the business instead of simply 'planning'; succession planning 'can mean selling the business, turning it over to corporate or partial ownership, or giving it to the children' (South, 2013).

In Quebec, 'a transfer means that the business ensures its continuity by the effective deployment of the successor (in the case of a family transfer) or the buyer (in the case of other transfers), and by the withdrawal of the predecessor or transferor from the governance and ownership of that same business.'

The European Commission has focused on the broader concept of business transfer, which includes an appreciation of succession planning as an important tool of transferring businesses (Dupuis and Noreau, 2016). Indeed, European countries tend to focus on the terminology of business 'transfer' rather than 'succession'. In Europe, business transfers have been described as 'the process of handing over a business to new owners or management' (Centre for Strategy and Evaluation Services, 2013).

Conceptually these definitional distinctions are reflected in the framework used for this current study – that there is a continuum along which decisions are made about a business owner’s exit strategy, which begins either informally or formally with succession planning and ends with the formal transfer of the business.

5 Potential Impacts

5.1 Potential Impacts in Canada

Bruce and Wong (2012) estimated that the pending retirement of SME owners in Canada could potentially result in a transfer of business assets to new owners totaling about one trillion dollars, over the next five to ten years. Similarly, Tal (2012) estimates business assets of \$1.9 trillion changing hands by 2017 (and potentially \$3.7 trillion by 2022). If these estimates are correct, the magnitude of faulty or poorly executed succession plans could result in significant costs. Tal anticipates that the rippling effects throughout the Canadian economy of poorly executed succession plans could result in reduced productivity, job losses, premature sales and increased bankruptcy rates.

Farrow (2012) observed that if large numbers of SMEs close across Canada due to having no, or a poorly crafted or unwritten succession plan, the impact on the economy could be significant. Farrow calculated that if 23% to 50% of the 66% of SME owners planning to retire actually closed their businesses, it could result in a potential loss of \$108.6 to \$236.1 billion to Canada's economy. Using a much more modest estimate of one percent of 66% of SME retirees closing, the economic loss was still sizeable at \$472 million.

Farrow's estimates assumed there were no replacement businesses (expressing concern that replacements might not happen quickly enough). He concluded that the results would include job losses and less revenue in the economy. He also pointed to potential rippling effects, such as the viability of other businesses as well as other related areas, including: healthcare, educational institutions, real estate, and financial institutions (Farrow, 2012).

A report by the BMO Wealth Institute (2013), however, argues that the threat from inadequate succession planning to the Canadian economy might be reduced due to a number of factors, including:

- SME owners are working longer, due in part to the economic downturn of the 1980's, to maintain a steady income and to rebuild assets; and because boomer owners delay retirement as they enjoy a healthy attitude about continued participation, robust living and engagement as they age.
- A trend toward self-employment is occurring and not just by younger entrepreneurs. There are now more boomers engaging in new self-employment post retirement. BMO Wealth Institute reports that the over 55 cohort group represented a majority of those moving to self-employment between 1990 and 2008, more than doubling from 350,000 to 723,000.
- The trend of growth in the number of small businesses is expected to continue. The Institute points to the appeal of buying an existing business from a retiring owner, with an opportunity for owner-mentoring that benefits both the successor and the out-going owner.

5.2 Potential Impacts in Other Jurisdictions

The European Commission observed in 2016 that businesses shut down due to problems with the transfer of businesses and insufficient preparation for succession planning and *not because of market forces*, which leads to substantial economic loss.

The European Commission found that across the European Union ‘Thousands of economically sound businesses, mainly small and medium sized enterprises (SMEs), disappear every year because they fail to overcome the difficulties involved in the transfer of ownership.’ (Calogirou et al, 2010).

A study conducted by Martin et al in the United Kingdom (2002) identified that owners aged in their late fifties and over were vulnerable to succession failure. The researchers determined that over one third of SME owners were vulnerable to age-related succession failure in the UK. They wrote that ‘on the basis of 35% owners being exposed to age related issues, there were some 54,000 small firms in the UK, providing some 1.0 million jobs, at risk of succession failure.’

Barclays’ research in 2012 raised concerns about the lack of formal succession planning in the UK and the considerable risk it posed to the agricultural sector, which contributed £85 billion to the economy annually, employing 3.5 million people.

The Small Business Development Group in New Zealand warned about the ‘threat and opportunity’ presented by succession planning’ and expressed concern about an ‘unprecedented level of small business succession in New Zealand, as small business owners reach retirement age and look to sell their businesses’ over the next decade (SBDG 2016).

According to Carey McMann, as of 2012 there were more than seventy-five million baby boomers in the United States, with an estimated seven million of them being privately held business owners. The California Association of Business Brokers (2014) predicted a significant number of small businesses coming on the market for sale. They advised that ‘planning ahead will enable business owners to achieve the best transaction possible during this boomer-induced wave of business sales.’

Dupuis and Noreau (2016) noted that in the US ‘the concern is not so much business closures but rather a drop in their value. The worry is that the mass retirements will bring on a big increase in the number of businesses for sale putting downward pressure on their prices.’

5.3 Analysis of Potential Impacts for Ontario

The determination of potential impacts has typically been based on crude calculations of various types of data. Although this data needs to be used with extreme caution, it nonetheless points to the fact that there is, or will be, a substantial transformation in the ownership of SMEs due to a retiring cohort of business owners, and Ontario is no different from other jurisdictions.

Data previously noted in the present report were used to illustrate this point.

- There are 415,612 SMEs in Ontario (Statistics Canada)
- These SMEs employ 3,946,000 workers (Statistics Canada)
- 62.3% of SME owners in Ontario are aged 50 or over (Statistics Canada)
- 52.3% of SME owners in Ontario do not have a business plan (CFIB 2011 survey data)
- Only 9.8% of SME owners in Ontario have a formal written succession plan (CFIB 2011 survey data)
- 74.7% of Ontario owners plan to exit their business in the next 10 years (as of 2011) (CFIB 2011 survey data)

- 6% of owners in Ontario plan to close their business, rather than transfer or sell (CFIB 2011 survey data)

Making an assumption that the 2011 CFIB survey respondents are representative of all SME owners in Ontario, and using an average of 9 workers employed in each SME, Shore Consulting calculated the following rough estimates:

- Owners of 310,462 SMEs in Ontario plan to exit their business in the next ten years (as of 2011), which will affect 2,794,158 workers.
- There are 258,927 owners of SMEs in Ontario aged 50 or over.
- Only 40,730 SME Owners in Ontario have a formal written succession plan.
- 217,365 SME Owners in Ontario do not have a succession plan.
- Owners of 24,937 SMEs plan to close their business instead of transferring or selling it, with significant implications for 224,433 workers and their families, and the communities in which they live.

Even using very conservative assumptions (highlighted in bold font), it is clear that there is an important, and yet relatively silent, transformation occurring in the Ontario economy. Assume, for example, the following:

- There are 415,612 SMEs in Ontario (Statistics Canada)
- These SMEs employ 3,946,000 workers (Statistics Canada)
- 62.3% of SME owners in Ontario are aged 50 or over (Statistics Canada)
- **Only 20%** (not 52.3%) of SME owners in Ontario do not have a business plan
- Only 9.8% of SME owners in Ontario have a formal written succession plan (CFIB 2011 survey data)
- **Only 30%** (not 74.7%) of Ontario owners plan to exit their business in the next 10 years (as of 2011)
- **Only 2%** (not 6%) of owners in Ontario plan to close their business, rather than transfer or sell

Using these new conservative percentages provides the following rough estimates:

- Owners of 124,684 SMEs in Ontario plan to exit their business in the next ten years (as of 2011), which will affect 1,122,152 workers.
- 83,122 SME Owners in Ontario do not have a succession plan.
- Owners of 8,312 SMEs plan to close their business instead of transferring or selling it, with significant implications for 74,810 workers and their families, and the local communities in which they live.

These are still significant estimated numbers. These estimates focus on businesses that close, but it can also be assumed that some transfers of sales are less than optimal for either the owner or the successor, which will also have implications for the employees and the communities.

Statistics Canada data show that SMEs account for 39% of Canada's GDP (small businesses account for 30% and medium-sized businesses account for 9%). Ontario's GDP for 2015 was \$763,276 million (\$763.3 billion). If it is assumed that the contribution to GDP is spread evenly over all SMEs in the province and using the lower conservative estimates calculated above, one comes up with the following crude estimates:

- The contribution to Ontario GDP by SMEs equals \$297.7 billion (39% of \$763.3 billion).

- With just 30% of owners planning to exit their business in the next 10 years, this will have an impact of \$89.3 billion on the contribution to Ontario's GDP.
- With only 2% of owners planning to close their business rather than transfer or sell, this will seriously affect \$5.95 billion of the contribution to Ontario's GDP.

It is important, however, to stress again that these are very rough and approximate estimates, which are based on a set of crude assumptions at different levels with different data which, when combined, produce figures in their aggregate, 'guesstimate' form.

5.4 Stakeholder Perspectives on Potential Impacts

Most stakeholders expressed a sense of urgency about succession planning and business transfers in SMEs across Ontario. Interviewees are already starting to see more businesses close and they expected to see more in the future. There was consensus from business support stakeholders that many business owners are not planning for business transfers. Lack of succession planning was thought to be related to increased incidences of businesses closing.

5.4.1 Implications for Ontario's Communities and Economy

Some interviewees said that the lack of succession planning could represent a large or macro-economic threat in Canada and Ontario and a change in the economy. Interviewees shared examples of negative results and impacts of a poor business transfer. In some cases, businesses are closed, and in some cases, they are sold for a lower value, or at a loss. Stakeholders had serious concerns that existing or impending business closures will lead to job losses, which in turn may result in a lower community tax base, fewer resources and less capacity to support public infrastructure, services or programs. This, in turn, can lead to reduced quality of life for all residents (including the retirees).

5.4.2 Regions, Types of Businesses and Sectors at Risk

Certain regions, types of businesses and sectors face a greater risk of negative impacts occurring for owners, employees and local economies if succession planning is not given more attention.

Rural, Northern and Remote Communities

Interviewees across all stakeholder groups agreed that businesses located in rural, remote and Northern communities are significantly more at risk to the potential negative impacts of lack of succession planning among SME owners compared to businesses located in urban regions of Ontario. Aboriginal communities were also identified as at greater risk and share similar qualities and challenges as rural communities.

A factor that was thought to play a significant role in this was the lack of qualified successors. Many business owners in rural communities have a hard time finding candidates that are willing, able and financially stable enough to take over and purchase an existing business. Trends witnessed by interviewees regarding the outmigration of youth and populations away from rural communities, regarding fewer family businesses being passed along to the next generation, and regarding a shift away from careers in agriculture, manufacturing and skilled trades play a role in this shrinking pool of qualified successors available in rural communities.

Very small rural communities with one or more medium sized business were also identified as being especially at risk. If a company in a small rural community with two hundred employees fails, that may represent a substantial portion of jobs in the area and a significant risk to the community.

Small Businesses

Small businesses were identified by interviewees as some of the businesses that are most at risk with respect to succession planning and business transfers (these SMEs are identified as having revenues under five million dollars, employing less than 10 employees, sole proprietorships, or small partnerships). Owners of small businesses may be less familiar with succession options, have limited access to resources and support with the succession planning processes, or have less time to dedicate to planning.

Small owner-managed businesses were also identified as at risk where the owner runs the majority of business functions, such as managing clients, handling suppliers, conducting business development, and managing finances.

Family Business

An especially challenging range of complexities related to family-owned businesses and transfers were often highlighted by informants. Examples include problems between parents and children about whether or how they have, want or can share roles in the business. There are pressures faced by the parents and the children.

All too often, owners invite their children in to run the business, but then do not relinquish control or actual ownership of the business. Owners step back from formal management or leadership roles, but stay involved in decision making, while continuing to draw money from the business. This is not only a strain on the relationship between parents and children but it is also a strain on the business.

Another risk factor for family businesses is the question of who will take over the business if the children are not interested. Many family business owners consider selling their business to someone outside of the family as a failure. Some owners choose to close their doors and some choose to not plan for their succession at all.

Farming and Agriculture

Farming and food production are also at risk, largely because the asset value of farms is very high (while margins are low), making it difficult for potential buyers (successors) to get financing to purchase a farm, especially for the younger generation. Further compounding this risk is that farm owners tend to stay in the business indefinitely or until they physically cannot work anymore. If their children do not want to be involved in the business, then the farm may go up for sale when they eventually take over ownership. The result is that larger farms are getting bigger and small farms are shutting down or being taken over. The traditional passing of farms from one generation to the next seems to be happening less and less.

Manufacturing

Smaller and medium-sized manufacturing companies are historically family-owned and operated. Owners of manufacturing companies may have sent their children to university to follow their own career interests, the result of which can be the children are not interested in taking over the business and instead pursue their own career paths. At

the same time, it was suggested that family business owners sometime perceive selling the business to someone outside of the family as a failure. Although there may be options for selling this type of company to non-family purchasers, the business owners may not even consider it or, even if the option is considered, interested buyers are often hard to find.

Tourism/Hospitality

Interviewees indicated that there are increasing reports of private purchases of land with the closures of businesses in the tourism sector. For example, this has taken place with resorts (that could not find buyers, or were bought and converted into private cottages or homes), or marinas (which can sometimes be a community's only source of waterfront gas for boats). These changes have a rippling effect on local businesses such as stores and restaurants and others that support a range of seasonal activities. This has led in some cases to a domino effect with other business closures.

6 Challenges and Barriers

There are many challenges and barriers associated with succession planning which negatively impact businesses and increase the chances that they will close or perform poorly. As stakeholders pointed out, challenges to succession planning have a negative impact on the outcome of a business transfer. These challenges can be internal to the business owner, such as emotional challenges, as well as external to the business owner, such as macro level government tax policies that make it expensive or difficult for business owners to transfer or sell a business.

While one challenge on its own may not make a significant difference, the cumulative effects of numerous challenges taken together may represent a substantial impediment to business owners in transferring their business. Barriers identified in a survey conducted by CFIB in 2011 are outlined in Table 3, and key challenges associated with succession planning that emerged from this study are discussed below.

Table 3 - Barriers to Succession Planning

	Barriers to Succession Planning							
	Finding buyer/ suitable successor	Valuing the business	Conflicting vision of business of family members	Conflicting vision of business of key employees	Too much dependence on own involvement	Financing for the successor	Access to cost effective professional advice	Other
Canada	55.9%	53.5%	16.7%	10.0%	40.6%	48.4%	18.0%	3.5%
BC	63.5%	56.5%	16.6%	10.6%	45.1%	41.7%	15.0%	3.4%
Alberta	57.3%	57.3%	17.9%	10.8%	45.0%	47.2%	17.7%	4.0%
Sask.	61.8%	60.2%	14.7%	12.0%	42.4%	50.3%	20.9%	3.7%
Manitoba	56.8%	63.3%	20.9%	10.1%	48.9%	43.9%	14.4%	2.9%
Ontario	52.0%	53.6%	18.2%	9.9%	42.3%	46.5%	15.8%	3.4%
PEI	55.2%	44.8%	10.3%	3.4%	34.5%	44.8%	17.2%	3.4%
Nova Scotia	56.4%	50.4%	14.1%	10.9%	41.7%	40.4%	23.1%	5.1%
New Brunswick	53.6%	56.9%	11.8%	8.5%	32.0%	55.6%	20.9%	5.2%
Newfld. & Lab.	41.7%	47.2%	25.0%	16.7%	27.8%	50.0%	11.1%	5.6%
Yukon	100%	42.9%	14.3%	28.6%	57.1%	71.4%	0%	0%
NWT	54.5%	63.6%	0%	0%	72.7%	36.4%	18.2%	0%

Source: CFIB, 2011 Survey data. Note: No data for Quebec or Nunavut

6.1 Demographic Shifts

All jurisdictions have been experiencing a similar shift in the demographic structure of their population. There is a large number of aging baby boomer business owners who are at or near retirement, signaling potentially large numbers of upcoming business transfers. However, findings of this study indicate that a relatively small number of baby boomer SME owners are actively engaging in succession planning. Concern was expressed by stakeholders about the scale and volume of turnovers potentially occurring within a relatively short period of time.

Statistics Canada data for Canada show that as of 2011 the national average age of SME owners is 59.7. In a survey of 4,311 Canadian businesses, 82% of respondents indicated that retirement was the primary reason for business owners to exit their business (Bruce and Picard, 2006). Moreover, 71% planned to either exit or transfer ownership within 10 years but only 7% had a formal succession plan.

The situation is similar in other sub-national jurisdictions in Canada, as well as internationally. The average age of SME owners in New Zealand in 2008, for example, was in the mid-fifties, with a significant portion being over sixty years of age. Sawers and Whiting (2009) note that in New Zealand “the predicted increase in SME owners nearing retirement and departing the trading economy in the next ten years suggests that there will be a substantial impact on the New Zealand economy in terms of firm valuation and survivability, retirement and employment.”

In 2006, the European Commission estimated that one third of EU entrepreneurs will leave (or withdraw from) their businesses within the next ten years. Most of these were running family enterprises. According to estimates, this could affect up to 690,000 small and medium-sized enterprises and 2.8 million jobs every year (EC, 2006). In 2013, however, the Centre for Strategy and Evaluation raised the caveat that these numbers may be biased as they were extrapolated from limited data.

According to the National Federation of Independent Business Report in the United States (NFIB, 2015), while most small business owners plan to fund their retirement from the sale of their business, very few (around 30%) have a written succession plan.

With respect to UK family businesses in particular, Devin and Jones (2015) refer to an earlier PricewaterhouseCoopers (2007) survey of managers of small and mid-sized family businesses operating in many sectors and jurisdictions. It showed that 48% of family firms had yet to identify their successor.

Table 4 provides an illustration of these demographic shifts and the preparedness for succession planning in each jurisdiction.

Table 4 - Demographic Shifts and Preparedness for Succession Planning

Jurisdiction	Demographic Shifts	Preparedness for Succession Planning
British Columbia	57.8% of SME owners are over 50 years of age. 2012 prediction that BC would have largest transfer of ownership in the coming decade, with more than 40% of businesses expected to change hands by 2017.	A 2011 survey by the Canadian Federation of Independent Business showed that 48.3% of SME owners in BC do not have a plan. By 2014, in contrast, the BC Ministry of Jobs, Tourism and Skills Training indicated that about 80% of business owners do not have plans for business succession. Among those who have developed or executed a succession plan, 75% reported that they experienced some form of barrier in planning.
Alberta	NA	According to a 2011 survey by the Canadian Federation of Business 46.5% of SME business owners in Alberta did not have a succession plan.
Quebec	2011 Statistics Canada data show nearly 60% of SME owners were over fifty years of age.	53.5% of small businesses do not have a succession plan (2011 Canadian Federation of Independent Business survey). This contrasts with later statistics from the Chambre de commerce du Montréal Métropolitain (2014) that over 90% of business owners have no formal plan, with variations by age ranging from between 60% and 75% of owners age 65 and over.

		70% of SME owners indicate they are poorly prepared for a business transfer, which contributes to SMEs closing (Chambre de Commerce du Montréal Métropolitain, 2014).
Ontario	As of 2011, 62.3% of SME owners were over fifty years of age.	The Canadian Federation of Independent Business (CFIB), 2011 survey reports 52.3% of SMEs do not have a succession plan. - Only 26% of current business owners have an informal succession plan and only 23% have a formal plan. - 42% of current owners do not know what's involved in succession planning or who they should contact for assistance.
Canada	As of 2011, the national average age of SME owners was 59.	10% of SMEs have a formal plan and 38% have an informal unwritten plan (not shared with the successor), but 52% have no succession plan.
Australia	25% of small business owners are aged 65 and over. The number of small business owners age 65 or older had grown from 20% to 25% as of 2013. A 2015 survey estimates 1.4 million family business owners will retire over next 10 years.	65% of family businesses surveyed were not exit or succession ready. 41% surveyed stated it would not be feasible to implement leadership succession Of 1.4 million family business owners, 8% had a robust and comprehensive succession plan 25% of SME owners who plan to exit their business in the next 5 years had never considered the need for a succession plan. Retirement was the number one reason for exiting the business (66% of respondents) (Australian Institute of Business Brokers, 2014).
New Zealand	2008 estimate that the average age of NZ small business owners is in the mid-fifties, with a significant portion being over 60 years of age.	2009 Family & Private Business Survey reported 43.6% of family business owners had not sought outside advice on succession options and strategies; 62.5% did not plan to seek such advice in foreseeable future. In a longitudinal study of 1,300 New Zealand SME owners 34% of respondents intend to retire from their firm within five years. This figure jumps to 64% within the next ten years. (Sawers and Whiting, 2010).
United Kingdom	NA	As of 2006, 33% of SME owners were identified as vulnerable to age-related transfer failure. Estimate that some 860,000 SMEs are expected to close or transfer the business over the next five years (172,000 per year). 2007 survey of managers of SME family businesses showed 48% of family firms have yet to identify their successor.
Ireland	Census data show the age profile of Irish farmers rising; over half of farm owners in 2010 were age 55 or more, a concern in the farming sector.	Only 29% of small businesses have a succession plan. In general, 98% of SMEs have a low awareness of public supports available to them.
United States	As of 2012, there were more than 75 million baby boomers in the US; an estimated 10% (7 million) were privately held business owners.	As of 2015, according to a survey by the National Federation of Independent Business, most small business owners planned to fund their retirement from the sale of their business but very few (around 30%) had a written succession plan.

The 2011 Canadian Federation of Independent Business survey (CFIB, 2011, Point of View) presented a useful backdrop for understanding the state of succession planning in Canada. The CFIB surveyed its membership on succession planning and reported its findings from over 8,000 responses. In Ontario, of the 3,389 business owners responding to the survey, only 9.8% stated they had a formal written plan, with another 37.9% saying they had an ‘informal plan’. As the table below shows, 52.3% of Ontario business owners did not have a plan for exiting their business.

Table 5 - Owner’s Business Succession Plan

Jurisdiction	Do the owners have a business plan to sell, transfer or wind-down their current business in the future		
	Yes, formal written plan	Yes, informal plan	No
Canada (n=8,303)	9.4%	39.6%	51.1%
British Columbia (n=1,074)	7.9%	43.8%	48.3%
Alberta (n=863)	7.9%	45.6%	46.5%
Saskatchewan (n=428)	8.9%	39.4%	51.6%
Manitoba (n=275)	12.5%	44.6%	42.8%
Ontario (n=3,389)	9.8%	37.9%	52.3%
PEI (n=74)	11.0%	31.5%	57.5%
Nova Scotia (n=360)	11.2%	36.2%	52.5%
New Brunswick (n=324)	10.8%	39.8%	49.4%
Newfoundland & Lab (n=111)	9.2%	26.6%	64.2%
Yukon (n=17)	5.9%	35.3%	58.8%
NWT (n=21)	4.8%	52.4%	42.9%

Source: CFIB, 2011 Survey data. Note: No data for Quebec or Nunavut

Importantly, 74.7% of these Ontario businesses planned to exit their business within ten years – ten years starting in 2011 (see the following table). More recent data from a 2013 survey completed by the CFIB indicate that 75% of Canadian business owners will exit their business before 2022.

Table 6 - Timing of Business Exit

	When the owners plan to exit (sell, transfer, wind-down) their business				
	Within 12 months	1 - 5 Years	6 – 10 Years	More than 10 Years	Don’t know
Canada	9.8%	37.7%	28.8%	17.3%	6.5%
British Columbia	12.5%	39.2%	28.0%	14.5%	5.9%
Alberta	11.9%	36.7%	27.5%	16.7%	7.3%
Saskatchewan	6.3%	42.4%	30.2%	14.6%	6.3%
Manitoba	11.0%	36.4%	31.8%	14.9%	5.8%
Ontario	8.5%	38.8%	27.4%	19.0%	6.3%
PEI	9.7%	35.5%	32.3%	16.1%	6.5%
Nova Scotia	14.0%	33.9%	26.3%	15.8%	9.9%
New Brunswick	9.2%	39.3%	26.4%	19.6%	5.5%
Newfoundland & Lab.	2.6%	47.4%	28.9%	18.4%	2.6%
Yukon	0%	57.1%	14.3%	14.3%	14.3%
NWT	8.3%	50.0%	33.3%	8.3%	0%

Source: CFIB, 2011 Survey data. Note: No data for Quebec or Nunavut

Why do many business owners not have a succession plan, either formal or informal? Data from the 2011 CFIB survey shows that there are many reasons for not having a succession plan (see table below). Consistent with business owners across Canada, more than 50% of Ontario owners felt it was ‘too early’ to plan for succession, while 29.3% stated there was no time to deal with the issue, 17.1% said succession planning was too complex and another 20.8% felt they could not find ‘adequate advice or tools to start’. Nearly 14% of owners did not want to think about leaving the business.

Table 7 - Reasons for not having a Succession Plan

	Why the Owners do not have a succession plan						
	Too early to plan for succession	No time to deal with the issue	It is too complex	Can't find adequate advice/ tools to start	Don't want to think about leaving	Conflict with family members/ employees	Other
Canada	52.4%	28.5%	15.7%	20.6%	12.6%	4.8%	11.5%
British Columbia	49.0%	32.7%	16.5%	23.2%	11.9%	5.6%	12.1%
Alberta	50.6%	35.9%	18.1%	24.8%	12.9%	5.4%	9.6%
Saskatchewan	49.5%	31.4%	18.1%	22.9%	15.7%	6.7%	11.9%
Manitoba	53.1%	28.3%	17.7%	16.8%	14.2%	8.8%	15.9%
Ontario	50.5%	29.3%	17.1%	20.8%	13.8%	5.2%	11.9%
PEI	42.5%	25.0%	15.0%	30.0%	7.5%	2.5%	10.0%
Nova Scotia	50.0%	28.6%	12.6%	18.7%	7.7%	8.2%	12.6%
New Brunswick	55.6%	22.2%	14.4%	12.4%	14.4%	2.6%	11.8%
Newfld. & Lab.	49.3%	35.8%	23.9%	23.9%	20.9%	6.0%	3.0%
Yukon	50.0%	60.0%	20.0%	40.0%	10.0%	0%	20.0%
NWT	33.3%	44.4%	0%	11.1%	11.1%	0%	33.3%

Source: CFIB, 2011 Survey data. Note: No data for Quebec or Nunavut

Succession planning and business transfer

The CFIB survey data identify four main strategies business owners say they plan to use for transferring their business. By far the most common strategy is to sell to a buyer who is un-related to the owner (45.1% of survey respondents in Ontario said this was their plan). As the table below shows, selling or transferring to family members were the next most common strategies. In Ontario, only 6% of owners stated that they planned to close the business, which is consistent with the data from other Canadian jurisdictions.

Table 8 - Owner's Strategy for exiting the Business

	How Owners plan to exit the business					
	Sell to buyer un-related to family	Sell to family members	Transfer to family members (e.g., inheritance)	Close the business	Other	Don't know
Canada	48.1%	18.3%	18.5%	5.3%	5.3%	4.5%
British Columbia	56.4%	12.6%	14.5%	4.6%	0.7%	5.2%
Alberta	52.2%	16.1%	16.1%	4.7%	6.3%	4.7%
Saskatchewan	54.2%	18.9%	12.4%	7.0%	4.0%	3.5%
Manitoba	49.0%	22.1%	17.4%	4.0%	4.7%	2.7%
Ontario	45.1%	19.2%	21.2%	6.0%	4.3%	4.3%
PEI	41.9%	22.6%	19.4%	0%	9.7%	6.5%

Nova Scotia	52.7%	10.3%	18.8%	6.7%	6.7%	4.8%
New Brunswick	51.6%	22.0%	15.7%	5.0%	1.3%	4.4%
Newfld. & Lab.	36.1%	22.2%	27.8%	2.8%	5.6%	5.6%
Yukon	71.4%	0%	0%	14.3%	0%	14.3%
NWT	66.7%	8.3%	8.3%	0%	8.3%	8.3%

Source: CFIB, 2011 Survey data. Note: No data for Quebec or Nunavut

6.2 Timing

Interviewees noted a number of complications for succession planning related to timing. Successful succession planning takes time to prepare for and to execute. Several stakeholders said that business transitions typically take around five years. Interviewees observed that too many SMEs start the succession planning process too late or wait until the last minute, which can limit their options, force them to delay retirement, or limit their ability to transfer the business effectively. Many owners significantly underestimate the time it takes to transfer a business. They may also underestimate the time it takes to find a qualified successor or buyer.

Interviewees raised concerns that SMEs do not seek assistance regarding succession planning in a timely fashion because they think it is too early, do not know how to engage in planning, or are uncomfortable discussing the subject.

6.3 Business Owner Awareness

Lack of awareness by business owners regarding the succession planning process was widely identified as a significant challenge and barrier by interviewees across all stakeholder groups. At the same time, there were also concerns about the availability of information on succession planning for business owners. Key points include the following:

- Lack of succession planning information materials available for distribution to SME owners;
- Existing information does not appropriately address the full range or complexity of elements that can be involved in succession planning for SME owners of different kinds of businesses;
- Business support interviewees did not have consistent access to information about local business owners to know which businesses are for sale; and
- Stories of successful and unsuccessful transitions are not being shared, possibly due to confidentiality. The sharing of such stories is important, however, as business owners can learn from the mistakes and successes of others.

SME owners and the general public may lack awareness or understanding of the opportunities presented by certain alternative forms of business or strategies. These include:

- Cooperative ownership (e.g. group, employee or community-owned organizations);
- Social enterprises (i.e. for-profit enterprises with social purposes);
- Corporate partnerships; and
- Not-for-profit organizations.

6.4 Finding a Successor

Finding a qualified successor who is willing and able to take over the business was identified as a major challenge and barrier for SME owners in selling their business.

Challenges in finding a successor may be especially prevalent in rural, Northern and remote communities, which have a smaller and shrinking pool of potential candidates as citizens and youth continue to migrate away from rural areas. These shifts expose important challenges that reduce the options available to SME owners in finding successors to promote successful business transfers. Skilled trade and manufacturing businesses also face heightened challenges in recruiting successors, as fewer Ontarians are choosing careers in those sectors. As a result, even with succession planning, family-owned businesses often do not have family successors or others in the community to purchase their business.

6.5 Macro Level, Legislative and Financial Challenges

Government policies and mandates, including financial and tax policies, can have a negative impact on the succession planning process in a variety of ways. Government policies form an important part of the macro level context in which businesses operate.

Financial, Legislative and Tax Challenges: These were identified in a number of jurisdictions.

- Difficulty for purchasers to obtain financing (e.g., New Zealand) (ANZ Bank, 2016).
- Cost of succession planning and professional services for SMEs (BC Chamber of Commerce 2016).
- Concern that proprietorships and partnerships are not treated as well as SME corporations in terms of access to financial, tax support and tax consequences of transferring substantial assets.
- Valuation of the business can also be complex and costly to do, along with challenges with how to accurately determine value (e.g., Ireland and Australia) (Enterprise Ireland 2016, Zuchetti 2016).

Tax Policy and Estate Freezes

Tax policy, including the Income Tax Act, capital gains and estate freezes were said to pose challenges to business owners in transferring their business.

Estate freezes (also called a share value freeze) can be a useful estate planning tool if they are used appropriately and with the proper due diligence.² If estate freezes are implemented without the proper planning and without buy in from all parties involved, they can severely limit the options of business owners.

Estate freezes were identified by some subject matter experts as a barrier in that they prioritize keeping businesses in family hands over the success of the business. They tend to undermine selling a business to an outside buyer as a legitimate option.

² An estate freeze refers to the transfer of the future growth in value of a business, investments or other assets into the hands of subsequent generations (the “Children”); the current owners (the “Parents”) are effectively divested of this future growth (David Louis et al, Implementing Estate Freezes, 2nd edition, CCH Canadian Limited, 2006).

Cooperative Business Legislation

Interviewees discussed the legislative barriers to realizing cooperatives, social enterprises and ESOPs as options for business owners and prospective buyers.

Interviewees observed that Cooperative Business legislation is not positioned in the same part of government as with other forms of business. Cooperative businesses are administered by a different department in the government compared to standard businesses and non-profits. It also takes longer to start a cooperative and there is less information available about cooperatives. This makes it more difficult, more time consuming and more complicated for business owners to start a cooperative business.

Yet, cooperative businesses and social enterprises represent potential opportunities for employees, communities or groups of individuals to purchase a business. Cooperative businesses, social enterprises and partnerships were highlighted by some interviewees as potential valuable drivers for revitalizing businesses and communities. Similarly, steps could be taken to facilitate employee stock ownership plans (or ESOPs) to broaden options for prospective new owners of businesses.

Financing for Buyers

Interviewees identified the difficulty buyers have in accessing funding and financing to purchase an existing business, which was particularly difficult for young entrepreneurs. This was the case even when the business being purchased could be demonstrated as being financially sound.

6.6 Valuations

The valuation of a business can be a complex and costly process, and challenges exist regarding how to accurately determine value. There may be a wide disparity with what an owner thinks the value of their business may be as compared to the value ascribed by prospective buyers or other stakeholders, such as financial professionals. When the business has adequately supported the owner's lifestyle, the business is thought to be able to support retirement, when in fact it may have much less, or little, saleable value to a prospective buyer. If the owner's sense of value is not correct, this impacts on successful retirement with a range of rippling effects for individuals, families and communities.

There are also challenges associated with downward pressure exerted on the value of businesses, with the value being driven down directly through concerted action by third parties or indirectly by lack of action. Examples cited by interviewees include pressures from family members wanting deals and buyers or financial interests such as private equity firms seeking 'fire sale' prices due to the rising numbers of businesses selling concurrently.

SME owners may be at a serious disadvantage with respect to their knowledge about valuation compared to others with vested interests regarding the value of the business (i.e. buyers, accountants, attorneys, banks, businesses and property brokers, etc.). This leaves SME owners potentially lacking the capacity to manage the variables affecting their legitimate business value, which in turn may cause problems for the owners, their families, prospective buyers and communities (e.g. businesses do not have the expected inherent value or are not ready or able to be transferred or sold at sufficient value to support retirement or other goals).

6.7 Cultural Challenges

There are systemic cultural challenges and barriers that can inhibit effective succession planning. These include the focus on start-ups in society, the negative stigma attached to exiting a business and the lack of professional development opportunities available to SME employees.

Societal Focus on Start-Ups

Society's focus on start-ups over business continuity and sustainability contributes to succession planning challenges, particularly those involving the availability of potential buyers. Entrepreneurs do not always think about the potential of purchasing a business as an option. More information and government support regarding start-ups is available compared to information on purchasing a business.

Stigma of Succession Planning

Systemic cultural challenges discussed by many stakeholders included the negative stigma associated with succession planning and exiting a business. Some owners seem to believe that to discuss exiting or selling their business is to admit personal failure. Owners of family businesses often hold the belief that to sell the business to someone outside of the family is a failure in and of itself. Some owners are not willing to consider the option of selling their business outside the family and they may postpone succession planning altogether until it is too late. If the owners pass away without developing a succession plan, their children are often left to run a business without the tools or knowledge to do so effectively. On top of that, the children are left to pay sometimes extensive capital gains taxes. This combination of events can lead to a substantial loss of wealth in a very short amount of time. It can also lead to the unnecessary closure of viable, profitable businesses.

SME Employee Education

Another systemic challenge mentioned by several business support representatives lies in the corporate culture of small and medium businesses. While many large corporations offer incentive or programs for employee education and training, many small and medium businesses do not offer the same opportunities for professional development of employees. As a result, potential future leaders or successors are not being identified nor are they being groomed or trained for successful leadership roles.

6.8 Emotional Challenges

Emotional challenges were particularly highlighted by subject matter experts who indicated that emotional challenges can be significant but are often ignored or unaddressed. It was suggested that owners may not want to think about the issue and that their identity may be tied up in the business. Emotional challenges were also identified by business owners who discussed their difficulties in letting go of control.

Many business owners have spent a large portion of their adult lives building their business and have invested a lot of time, energy and personal resources. It is very difficult for owners to image someone else running their business. Accepting the decisions of the successor, particularly if the owner disagrees, was also discussed as a challenge for business owners.

Interviewees with experience and expertise in family business transfers indicated that the emotional aspects of succession planning can be especially significant with family businesses, particularly if the transition was not executed smoothly, or if there were disagreements. There are sensitivities around the transfer of ownership and the transfer of wealth, particularly if the process or outcome is perceived as unfair by one or more parties. These challenges can have an impact on important family relationships. Interviewees discussed examples of families that were torn apart and businesses that failed because a succession plan had not been put in place prior to the owner's untimely death. Some owners even choose to close down a business rather than to transfer or sell it to family, or to sell it outside of the family.

Unwillingness to Relinquish Control

Several interviewees said that owners are unwilling or unable to let go and hand over control to the next generation, even when family members or successors had been identified. This not only inhibits the succession planning process but it also presents challenges for the next generation/successors in implementing their ideas, upgrading the company or taking risks.

Business owners have been postponing and may continue to postpone their retirement.

6.9 Challenges for Business Support Organizations

Business support interviewees were dissatisfied with their capacity to provide succession planning support to SMEs. As a result, even though they may recognize the need to provide succession planning support to business owners, they do not have the knowledge, information resources, training, time, or approval from management to provide that support.

For most business support interviewees, succession planning for SMEs is not currently an explicit part of their mandate and relevant information resources are not readily available. Many interviewees indicated that a change of their mandate could support more focus on succession planning and allow for more and better information, tools and training to better address this matter.

6.9.1 Public-Private Collaboration on SME Succession Planning

Interviewees indicated that there seems to be insufficient collaboration on SME succession planning between stakeholder groups. While there are examples of collaboration between certain stakeholders, this is not currently being done consistently or in a way that best serves the interests of SMEs. There is an opportunity for collaboration and sharing of information, resources and strategies across stakeholder organizations that would help enable effective and efficient succession planning support to business owners.

7 Opportunities to Improve Succession Planning

This section presents findings about what might be done by various individual and organizational stakeholders to improve SME succession planning.

Interviewees pointed to several key priority areas where particular attention needs to be given to stimulate and support SME succession planning and successful transfers, especially in rural regions and agriculture sectors.

7.1 Awareness and Information Building

Almost all interviewees across all stakeholder groups suggested opportunities for increased/improved awareness and access to succession planning information. They spoke to the benefits of information resources to increase awareness of succession planning and business transfers by SMEs, other stakeholders and the general public. The aim of such communications could include:

Promoting Broader Awareness

Provide information targeting business owners to educate them on the importance of succession planning, the succession planning process, the challenges associated with the process, the amount of time it takes to effectively plan and some of the strategies to help overcome the challenges.

Tailor Communications to Geographic Areas

People in northern and rural areas have different contexts for their SMEs than those in built up urban areas of the province. Communication of information on succession planning must be constructed to best resonate with different geographic and community contexts.

7.2 Improving Knowledge about Succession Planning

Provide affordable and accessible training on succession planning for both SME owners and business support groups, financial advisors or other professional advisors (train the trainers).

7.3 Specific Succession Planning Opportunities

Interviewees also identified a number of more specific opportunities around succession planning. These included:

Financial Incentives

Provide financial incentives for business owners to develop succession plans and facilitate more successful business transitions. This could include programs/incentives to support employees purchasing the business (ESOPs, cooperatives), tax incentives, and review of cooperative legislation.

Matchmaking Mechanisms

There is an opportunity to help connect buyers and sellers to facilitate more successful business transfers, while addressing some of the challenges and barriers to succession planning from both the owner's and successor's perspectives. This could include an online tool or database.

Training and Mentorship within Business

Interviewees highlighted the lack of leadership training programs that exist in businesses, particularly SMEs. Interviewees suggested that businesses should be more proactive in providing formal and informal learning opportunities to employees, particularly via mentoring. Opportunities for youth to gain experience and mentorship within businesses would add value to businesses and provide youth with much needed experience.

Training within Educational Institutions

Most university and college business programs, including MBAs, do not teach students about the succession planning process, despite its importance in the lifecycle of a business. Interviewees discussed opportunities for business programs to include courses or chapters on succession planning. This would help prepare future leaders to eventually participate in the process (as either successors or retirees), while increasing awareness of succession planning.

Certifying Professional Advisors

Interviewees pointed to an opportunity to develop a professional certification or formal educational program for succession planning professionals. Such a program is currently being developed at Ryerson University. This would help to maintain the quality of SME succession planning advice.

7.4 Business Support Structures to Build Upon

There was considerable emphasis from interviewees on making the most of existing stakeholder capacity, resources and infrastructure by having them focus more on SME succession planning. This includes building upon the many public and private business support organizations and professional and community stakeholders that provide valuable assistance to companies, owners, families and buyers to address their needs. This could include expansion of available and affordable information, resources and incentives for SMEs and those working with them to include succession planning.

There is considerable depth of firsthand experience, knowledge and expertise in SME stakeholders that can be fine-tuned to include work on succession planning and business transfers in Ontario.

7.5 Collaborations and Interactions to Build Upon

There is a need for a collaborative, coordinated effort across stakeholders to improve succession planning.

Collaboration among Professional Advisors

- Subject matter experts highlighted the need for a coordinated effort across professional advisors, including accountants, legal professional and succession planning professionals. Experts saw the role of the succession planning advisor as a facilitator of the process and as someone to coordinate the collaboration required within and between all advisors and the business owner.
- Business support organizations and professionals could expand the scope of collaborations with one another to include succession planning. Business support stakeholders expressed strong desire to get out ahead of the problems and work more proactively with business owners on succession planning.

Collaboration among Business Owners

There is an opportunity for business owners to learn from other owners who have experience going through the succession planning process. Business support interviewees suggested that some SMEs listen best when the information comes from someone within their own sector. The example provided was within the manufacturing sector, although this concept could be applied to other sectors.

7.6 Opportunities for Women, Youth, Immigrant and Indigenous Entrepreneurs

A number of promising prospective purchaser (successor) groups have been identified which, with some focus and expanded effort, might be prepared to increase their business purchases. These groups include youth, women, retirees, indigenous peoples and new Canadians.

7.6.1 Women

There are growing efforts on behalf of society and the government to decrease the gender wage gap and to increase opportunities for women in leadership in business. Women are significantly underrepresented in leadership and business ownership roles. Women represent a significant opportunity as upcoming SME owners and efforts should be made to target potential women entrepreneurs.

7.6.2 Youth

Youth and the millennial generation (defined as those born approximately between 1982 and 1997) are currently under-employed. Youth are having a hard time finding jobs and getting promotions. Young entrepreneurs could play an important role as future business owners. While some youth may already have the experience and skills required to run a business, others may have the potential but do not yet have the skills or knowledge required. Training and mentorship programs could be important catalysts to preparing youth for future business ownership, and mentorship programs within businesses themselves would be particularly important.

7.6.3 Immigrants

Some interviewees pointed to the growing number of immigrants with business interests and resources who could be potential SME owners. There could be positive impacts including the sustainment and potential growth of businesses and the positive rippling effects for local economies.

7.6.4 Indigenous Peoples

Some interviewees identified Indigenous people as potential business owners, particularly in rural and Northern Ontario.

7.7 Support for SME Succession Planning

While all jurisdictions surveyed include succession planning as a sub-set of supporting SME businesses generally, the nature and degree of attention and support varies widely. No jurisdiction, however, has initiatives, programs or services which are exclusively focused on succession planning. Where they exist within government, they are typically part of larger business information or business development services.

The jurisdictional scan identified a number of different approaches used to address succession planning and business transfers. These tended to cluster under six groupings: single access points for information, awareness, research, financial support, linkages and collaboration. The following table provides a snapshot of which jurisdictions surveyed exhibited these respective groupings, be it through policies and programs of government or the various roles played by other key stakeholders such as business associations.

Table 9 - Support for SME Succession Planning by Jurisdiction

Jurisdiction	Single Access Point for information	Awareness and Support Services	Financial support	Linkages	Collaboration	Research
Canada		X	X	X	X	
British Columbia		X	X	X	X	X
Alberta	X	X		X	X	
Quebec				X		X
Ontario		X		X		X
Australia	X	X	X	X		
New Zealand		X	X		X	X
European Community		X	X		X	X
United Kingdom	X		X	X		
Ireland	X				X	
United States		X		X		

Note: 'X' recommended and planned

7.7.1 Single Access Points for Information

A number of jurisdictions (e.g., Ireland, Australia and Alberta) have moved toward refinement of centralized information services and points of access for SMEs, including succession planning as part of their support to SMEs.

The Government of Canada's Canada Business Network (2016) is an example of a web-based system that provides access to on-line information, guides and services for all SME needs from starting, operating, managing, valuing, growing a business to providing information on succession planning and selling or buying a business.

Another example of a web-based system is the Government of Australia's website, 'Business Government Australia', also referred to by its web address, 'business.gov.au'. This whole of government approach provides access to on-line information about starting, operating, managing, valuing and exiting a business. Information includes links to business apps, checklists related to working through stages of a business, to advisory services and to information on grants and financial support.

The Government of Alberta has also refined its small business support site, 'Small Business Alberta' to become more user-friendly for SMEs. As part of an initiative to improve access to information for SMEs, the government also supported improvements to the not-for-profit 'Business Links' web site to assist entrepreneurs to start and grow businesses as well as provide resources to support succession planning. Co-funded by Alberta and the Federal Government, it was launched as a partnership between the

provincial government and the federal government's Western Economic Diversification Fund, provincial business associations and the private sector.

7.7.2 Awareness and Support Services

Canada: Community Futures Network of Canada operates 263 non-profit offices across Canada, providing small business services to people living in rural communities. Each office delivers small business loans, tools, training and events for people wanting to start, expand, franchise or sell a business (of direct relevance to succession planning) and have collaborated with provincial governments in the development and funding of specific initiatives (e.g., a succession planning video with the BC government).

Quebec: Quebec has dedicated regional offices (CTEQs) to support management succession, business staging, and business transition using a standardized matching system called *INDEX* that engages owners, buyers and local advisors and experts (Ministry of the Economy, Science and Innovation, 2016).

European Commission: The European Commission undertook a multi-country strategy to bring more focus on business transfers and to gather information. This resulted in a range of documentation, including identification of barriers and problems with various aspects of business transfers and providing recommendations for member countries (The European Commission, 2006, *Communication from The Commission to The Council*; EC, 2011, *Business Dynamics*).

United States: In the United States, activities related to SMEs are conducted through the Small Business Administration (SBA 2016), with offices in all states. The SBA website includes information about succession planning, among other subjects of interest to businesses.

Certification of professionals/consultants and accreditation programs: The adoption and use of credible qualifications (certification) is being explored in both Europe and Quebec for advisors who work with SME organizations in succession planning and business transfers.

7.7.3 Financial Support

The BC Government's Employee Share Ownership Program (ESOP) provides tax incentives for employee owners. This includes a 20% credit for investing in the business that employs them. British Columbia residents may claim up to \$2,000 in ESOP tax credits annually (the credits are not refundable). The program promotes the ESOP 'as a tool for retirement, succession planning, employee recruitment and retention, increasing employee engagement and financing growth.' The benefits of the program are designed to apply only to SME corporations (Eligible Business Corporation (EBC) Program, 2016).

The Australian Taxation Office (Government of Australia, 2016) provides information related to transferring a business to family members. This includes information on *Exiting a Business* with links to related information about *Closing your Business* and *Disposing of your Business* (covering issues to be considered, total or partial disposal, and related information). There is also information on tax concessions for small business.

The European Commission has put forward a number of recommendations on business transfers to its member countries many of which focus on financial supports. These include the following:

- Provide a supportive financial environment for successful transfers;
- Have policies to ensure that inheritance or gift taxes do not endanger the transfer of a business within a family;
- Have taxation measures that assist an owner to pass on their business by selling it or by transferring it to the employees;
- Support the continuity of partnerships and sole proprietorships in the event of the death of one of the partners or owners;
- Inheritance and gift tax rules should be supportive of survival of the enterprise;
- Tax and other policy and regulation should be adjusted to encourage the transfer of the business; and
- Promote the sale of the business to employees, by reducing tax on capital gains realized on the transfer of the shares to the employees (European Commission, 2016, Transfer of Businesses).

7.7.4 Linkages

At the federal level in Canada, the Canada Business Network (2016) provides linkages and supports succession planning information needs on its website for the following areas:

- The importance of having a succession plan;
- When to start;
- Relationship to decisions about ownership, maximizing the company's value, tax strategies and options for transition;
- Links to various bank sites presenting information on how to plan business succession;
- Advice on seeking professional help (accountant, lawyer, banker, insurance broker);
- Advice on determining the value of a business with links to guides, banks and chartered accountants;
- Advice and links to assistance with financial, legal and tax implications of business succession; and
- Advice on how to prepare for the transition, sale of a business.

Small Business BC includes specific and detailed support information for succession planning and transfer, including links to the following resources:

- How we help (2016);
- Why Succession Planning is Your Key to Long-Term Success (2015);
- How to Plan Your Exit (2010/updated 2015);
- The 9 Key Players of Succession Planning (2015),
- How to Exit Your Business - Your Legal Requirements (2010/updated 2015);
- How to Strategically Plan Your Exit (2015);
- Succession Planning Roadmap: Drafting Your Regulatory Roadmap (2010);
- How to Exit Your Business: The Financial Implications (2015), and
- Engage Millennials in Your Workplace with Succession Planning (Avison, Kirst, 2016).

In Alberta, Business Link provides support for succession planning, selling or closing a business, including:

- *Succession planning*: access to information is provided through links to: The Business Development Bank of Canada, the Canada Business Network, and the Alberta Learning Information Services (ALIS) site;
- *Selling Your Business*: links to succession planning, as well as information on how to sell a business, importance of optimizing the selling price by increasing the business' value and understanding financial and tax implications; and
- *Closing Your Business*: provides access to information regarding legal/financial implications, closing accounts, dissolving a legal entity and more (Businesslink, 2016).

Matching programs have been explored in a number of jurisdictions. Quebec uses a confidential computerized referral centre to bring together sellers and purchasers (Centre de transfert d'entreprise du Quebec, 2017). The European Commission Report's (2016) expert panel recommendations on the 'desirable features' of business transfer market/matching systems could be of considerable relevance/value.

7.7.5 Collaboration

A number of jurisdictions demonstrate the benefits of collaboration between different levels of government and among different ministries or departments. Examples include:

- British Columbia produced and co-funded with the federally funded Community Futures Program a video on succession planning (British Columbia Government 2016, *Business Succession*).
- The Canada Business Network (CBN) is a 'collaborative arrangement' among federal government departments and agencies, provincial and territorial governments and not-for-profit entities.
- The European Union/Commission provides a number of direct supports to businesses but also collaborates with member nations, such as in Ireland, where they co-fund the Local Enterprise Offices, which provide support for succession planning (Local Enterprise Office, 2017, *About*).

7.7.6 Research

Various business stakeholders in Canada have conducted studies to gather data and provide recommendations regarding SME business transfers and succession planning.

For example:

In British Columbia, three Chambers of Commerce (one provincial and two regional) conducted studies on succession planning that included recommendations for the BC and Federal Governments to provide better support for succession planning.

In Quebec, the Montreal (QC) Chamber of Commerce conducted an extensive study of succession planning entitled '*Transferring Businesses to the Succession*' (Chambre de commerce du Montréal Métropolitain 2014).

In New Zealand, the government is about to engage in research on succession planning 'to determine whether a lack of succession planning will have an impact on the wider New Zealand economy due to our aging population' (MBIE, 2016).

7.8 Summary

Overall, the findings from the jurisdictional scan and stakeholder interviews identified a number of recurring themes and topics on succession planning that are pertinent to the Ontario context.

First, it is clear that the experiences of the respective jurisdictions are similar with regard to the aging demographic profile of SME owners.

Second, governments and other key stakeholders have become increasingly aware that successful succession plans and business transfers are critical to sustaining businesses and the local economies and communities in which they operate.

Third, despite the consistent feedback across the jurisdictions that highlight the need for more accurate data to improve succession planning and business transfers, there have not been any studies that assess the *actual impact* of failed or poor business transfers, or the effects of any closing of SME operations due to retirement.

Fourth, in the meantime, it behooves the respective governments in all jurisdictions to provide a supportive economic environment for businesses, and therefore, their owners. In the perfect economic world, policies, strategies, programs and services would be integrated in an effort to maximize the positive effects of succession planning and the transfer of businesses for their owners, the successors, the employees, and the local economies where the businesses operate.

Fifth, a number of organizations have made direct recommendations for governments to consider regarding succession planning and business transfers (e.g., Chambers of Commerce in British Columbia and Quebec, the Small Business Development Group in New Zealand and the European Commission recommendations to member states). The main thrust of these recommendations has focused on the following:

- Enhancing awareness, education and knowledge of succession planning and the transition process by small and medium business owners;
- Financial support for succession planning for new buyers;
- Tax credits/incentives for succession planning to include unincorporated SMEs;
- Promotion of other transition options such as employee stock ownership plans (ESOPs), social enterprises or co-operatives;
- Support for development of transparent business transfer market/matching systems;
- Development of core competencies for business support organizations that provide SME business assistance related to succession planning/business transfer; and
- More research related to succession planning and business transfers.

The stakeholder interviews and jurisdictional scan also provided a diverse, rich array of points to consider with regard to succession planning and business transfers for SMEs in Ontario. Important assertions about challenges and barriers point to legitimate issues and opportunities to be examined further. The findings reflect the variable state of readiness of stakeholders to take on challenges and explore opportunities for improving succession planning and its expected outcomes.

The interviewees identified numerous challenges and barriers that intersect with the decision-making of different stakeholders and at different levels. First, the central factor in the emergence of succession planning as an urgent problem is the upcoming retirement of the 'baby boomer' business owners. Unfortunately, too many SMEs start the process of succession planning too late or wait until the last minute, which can limit their options, force them to delay retirement, or limit their ability to transfer the business effectively. In part, this reflects their lack of awareness regarding the succession planning process and its benefits. Macro level, regulatory and financial challenges meanwhile, limit or impede progress on SME succession planning and more successful businesses transfers.

There are also systemic challenges and barriers at play that can inhibit effective succession planning. These include the focus on start-ups in society, the negative stigma attached to exiting a business and the lack of professional development opportunities available to SME employees. Inadequate succession planning and /or ineffective business transfers by owners can create anxiety, financial stress, affect their ability to retire and strain relationships with family members.

The interviewees noted that business support organizations do not have adequate tools, skills or resources to provide SMEs with the needed support to facilitate successful business transitions. Compounding this issue further is the observation that there is a lack of comprehensive or integrated collaboration on SME succession planning, leaving many retiring SME owners and their businesses without support to produce more effective business transfers.

There are also other relevant points to consider. There is, for example, an implicit assumption that a well thought out and executed succession plan will be beneficial to a local economy or community, but this assumes the business is actually a viable and financially sustainable enterprise. Some businesses, however, may simply be ready for closure given the economic climate they face. The best succession plan in this case is dependent on one's viewpoint, as the owner's best interests might be to close down sooner rather than later in order to minimize financial losses, even though this may mean that employees may lose their jobs earlier. This speaks again to the inter-related, multi-dimensional nature of succession planning, and how expected outcomes may not always align across different parties.

The range of the interviewees' perspectives and the evolving dialogue is congruent with the data collected from the jurisdictional scan. Together, the two streams of data greatly informed the present study and suggest that it is timely for government to be paying closer attention to the issue of succession planning for SMEs.

8 Conclusion

The study has provided a foundation for understanding the nature and extent of issues surrounding succession planning and the subsequent transfer of business. It is clear from the jurisdictional scan that other jurisdictions are experiencing the same demographic shifts and the same challenges as Ontario and are trying to create better supportive environments for succession planning and business transfer.

The stakeholder interviews meanwhile, corroborated through an *on-the-ground Ontario lens*, what had emerged from the jurisdictional scan. There are a number of issues to address with regard to succession planning for SMEs at a variety of different levels. Business owners need to be made aware of the risks associated with no succession planning. Supportive environments need to be developed and be easily accessible so that succession planning tools, resources and advice can be put in the hands of those who are affected by succession planning, or the lack thereof. It appears that the most vulnerable communities that could be negatively affected by inadequate succession planning are the smaller, rural or northern locations that do not have a diversified local economy or are heavily reliant on a few businesses.

Despite the consistent themes across the jurisdictional scan and the stakeholder interviews which highlight that more effort is required to improve succession planning and business transfers, and anecdotal accounts of businesses closing due to owners retiring that in turn result in job losses and associated knock-on effects for the local and provincial economies, there has been no empirical analysis to date that details the *actual extent and impact* of the lack of succession planning. There is an urgent need for such studies to be undertaken but this will take time and resources.

In the interim, however, there is an equally urgent need to improve the business environment for retiring owners in an effort to maximize the positive effects of succession planning and the transfer of their businesses. As the study demonstrates, successful succession planning and business transfers can lead to ongoing success for retiring owners, the new owners and for the local economies and communities in which they are based.