



# Succession Can Breed Success

## SME Succession and Canada's Economic Prosperity

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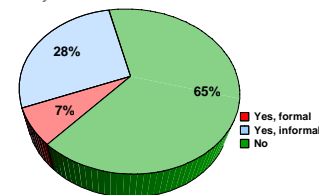
### Summary

In recent years public policy has focused primarily on two key platforms: health care and economic growth. A key driving force behind these issues is Canada's aging population, as it creates shortages of qualified labour and exerts significant pressure on those institutions that deliver essential social services such as health care. Many have highlighted the emergence of an aging population and its impact on public policy. However, one key aspect has been overlooked—the effects of an aging small and medium-sized enterprise (SME) sector.

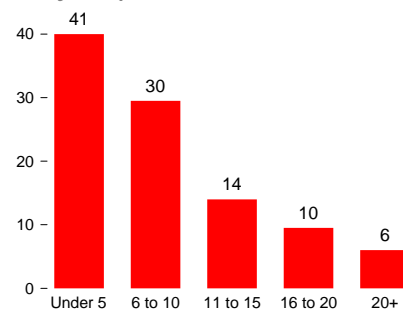
Generally, only one third (35 per cent) of SME owners are planning for their future succession (Figure A). However, among those who have a succession plan, the majority are informal, unwritten plans, which have not been shared with the intended successor. Unlike many planning exercises undertaken by small business, experts press the need for a formal succession plan. Heightening the alarm on the issue is that 41 per cent of SMEs indicate their intentions to exit their businesses within 5 years (Figure B).

To obtain insight into the issue of SME succession, CFIB conducted a formal survey of business owners. The survey is unique in several aspects: it focuses on both family-owned and non-family businesses; it covers all major industry sectors; and provides insight into those who recently acquired their business through succession.

**Figure A:**  
*Existence of a Succession Plan*  
(% respondents)



**Figure B:**  
*When SME Owners Plan to Exit Business*  
(% response, years)



### Highlights:

- Only one third of businesses have a succession plan – the majority of these plans are informal.
- 41 per cent of SMEs want to exit their business within the next 5 years
- SMEs with succession plans are not adequately addressing “soft” issues and are providing little time for the training of successors.
- Recent successors cite significant benefits from the succession plan of previous owners.
- SME owners also cite significant benefits to succession planning—well in advance of their succession.

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## I INTRODUCTION

In recent years Canadian public policy has focused primarily on two key platforms: health care and economic growth. A key driving force behind these issues is the nation's aging population, as it creates shortages of qualified labour across all industries and exerts significant pressure on those institutions that deliver essential social services such as health care. Many have highlighted the emergence of our aging population as well as the impact on public and economic policy. However, one key aspect has been overlooked—the effects of an aging small and medium-sized enterprise (SME) sector.

Canada's SME sector is the driving force of economic growth, innovation, and employment—and represents the vast majority of Canadian businesses. According to Statistics Canada, seventy-five per cent of all businesses, for example, employ fewer than 5 employees and 95 per cent employ fewer than 50. Large businesses, those with more than 500 employees, account for less than 0.5% of all businesses in Canada. SMEs also employ the majority of working Canadians—nearly 60 per cent. In addition, SMEs are the primary contributors of both job and economic growth, contributing 70 per cent of all new jobs in the economy<sup>1</sup> and generating roughly 43 per cent of Canada's economic output<sup>2</sup>.

By some estimates, 80 per cent of all businesses are family owned and/or operated<sup>3</sup>. According to CFIB, 62 per cent of SME owners employ at least one family or extended family member. Family businesses have additional dynamics that add significant competitive advantages to the

<sup>1</sup> Source: Statistics Canada, Employment Dynamics (2002)

<sup>2</sup> Industry Canada estimate based on National Accounts data from Statistics Canada

<sup>3</sup> J. Barnett, "Transition Planning: An Advisor's Approach to Planning for the Business Owner" CCH Toronto, 2000.

economy. Attributes of family businesses include greater roles in local communities, higher emphasis on customer loyalty, and a culture of shared values<sup>4</sup>. An aging entrepreneurial sector, therefore, gives rise to significant risks for Canada's economic and social prosperity. As such, the succession of SMEs from one entrepreneur to the next, and the tools that facilitate this transition, should be at the forefront of economic and social policy. The most significant instrument to mitigate these risks is the succession plan.

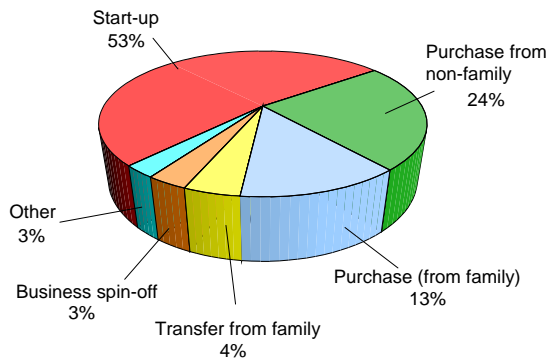
To assess the risks and opportunities for Canada's economy, CFIB carried out an extensive survey focused on SME succession. The survey was completed by 4,311 CFIB members during the period May 1 to 26, 2004. Responses are accurate  $\pm 1.5$  percentage points, 19 times out of 20. It focused on several key issues including: when do owners expect to exit their business; how are they preparing for succession—if at all; and what barriers do they face in implementing their succession plans. To obtain another perspective, and unique to the CFIB survey, questions were asked of those owners who recently acquired a business through succession.

## II SUCCESSION AND ECONOMIC RISKS

Assessing the risks and opportunities inherent in business succession requires an investigation of how entrepreneurs acquired their businesses. According to the survey, just over half of all SMEs (53 per cent) are currently owned or operated by their founding entrepreneur (Figure 1). These business owners are traditionally considered the engines of growth in the economy: creating employment, expanding output, and bringing new products and services to market. Nearly one quarter (24 per cent) of business owners purchased their business from another entrepreneur who is not related by family. Only 17 per cent of current owners acquired their business from family members—13 per cent purchased directly from family and 4 per cent acquired the business through a transfer such as an inheritance.

<sup>4</sup> Montgomery and Sinclair, "All in the Family," *Business and Economic Review*, Vol. 46, no. 2 (Jan./Mar. 2000), pp. 3-7

**Figure 1:**  
**How Owners Acquired their Businesses**  
(% response)

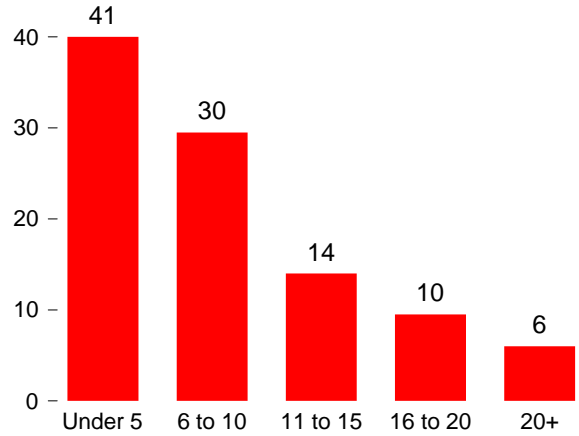


**BUSINESS EXIT TIMELINE**

The majority of business owners (71 per cent) plan to exit ownership or transfer control of their businesses within 10 years (Figure 2). These figures complement those found by the 1999 Deloitte and Touche study where 56 per cent of business owners expected to exit within 10 years<sup>5</sup>. Five years later the CFIB results clearly indicate that issues surrounding aging business owners have not dissipated. In fact the results justify greater concern on the issue as 41 per cent of SME owners surveyed intend to leave within the next five years.

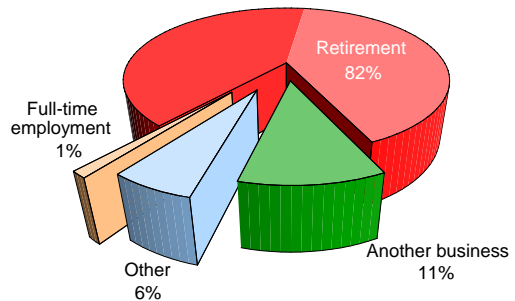
Small business owners in British Columbia are more likely to exit in the next five years (50 per cent) and are closely followed by businesses in Saskatchewan and Alberta (47 per cent each). Also more likely to exit within five years are owners in hospitality, personal, and other services (48 per cent); and businesses in primary industries (46 per cent). Those who operate in Quebec, on the other hand, are less likely to want to exit in the next five years (31 per cent); likewise for those in agriculture (34 per cent); and businesses in education, health and social services (36 per cent).

**Figure 2:**  
**When SME Owners Plan to Exit Business**  
(% response, years)



Retirement is the number one reason for business owners planning to exit their business, as indicated by 82 per cent of respondents (Figure 3). An interesting observation, however, is that 11 per cent of respondents indicated that they plan to move to another venture. This fact is particularly important as they represent the natural “churning” of businesses whereby business resources are shifted to more productive purposes. Returning to full-time employment, for the most part, is not a consideration for small business owners. This is likely due to the characteristics of entrepreneurs—most do not want full-time work after being self-employed.

**Figure 3:**  
**Reasons for Anticipated Exit from business**  
(% response)



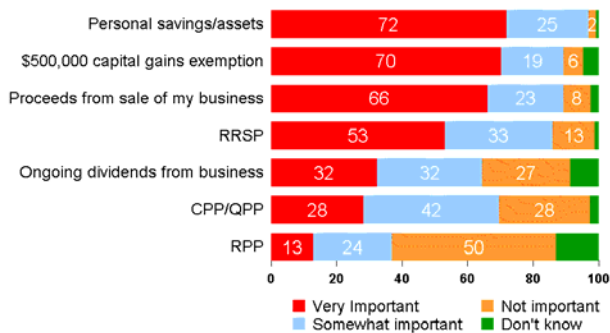
**Financing retirement:** As with employees in the workforce, small business owners must plan for their financial needs after retirement. Of

<sup>5</sup> “Are Canadian Family Businesses an Endangered Species?”, Deloitte & Touche Centre for Tax Education and Research, University of Waterloo, 1999.

those surveyed, the proceeds from selling their business, personal savings, and the \$500,000 lifetime capital gains exemption were considered very important for the financing of their retirement (Figure 4). Overall, 90 per cent of small business owners expressed that these three retirement savings sources are important. As expected, registered pension plans are relatively insignificant for the retirement needs of SME owners.

Although the Canada and Quebec Pension Plans have some overall importance, respondents attached relatively lower importance on their role in securing their retirements. Only 28 per cent of SMEs ranked CPP/QPP as very important. Finally, many owners intend to collect ongoing dividends from the business after their formal departure (64 per cent). As such, there is a significant dependence on the ongoing success of the business after succession.

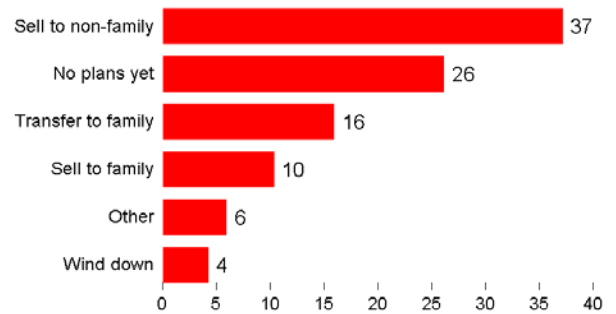
**Figure 4:**  
**Saving for Retirement: What's Important?**  
(% response)



**TRANSITION/SUCCESSION:**

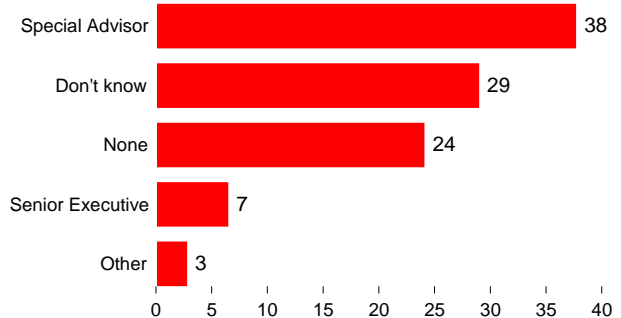
The most common method among SME owners of exiting their businesses is to sell outright to non-family members (37 per cent). This is surprising given the large presence of family businesses in the economy. One in four (26 per cent) business owners indicated that they intend to sell or transfer their businesses to a family member in the future, while a similar share do not currently have plans (Figure 5).

**Figure 5:**  
**How SME Owners Plan to Exit Businesses**  
(% response)



A significant portion of business owners intend to participate in the business after the transition of their business. This planned approach is very common among entrepreneurs, especially if preparing for succession proves to be a personal challenge for the owner. Thirty-eight per cent of owners plan to continue as special advisors (Figure 6). Seven per cent expect to remain as senior executives, while more than half (53 per cent) either don't know or plan to fully exit the business.

**Figure 6:**  
**Planned role of Owner after Succession**  
(% response)



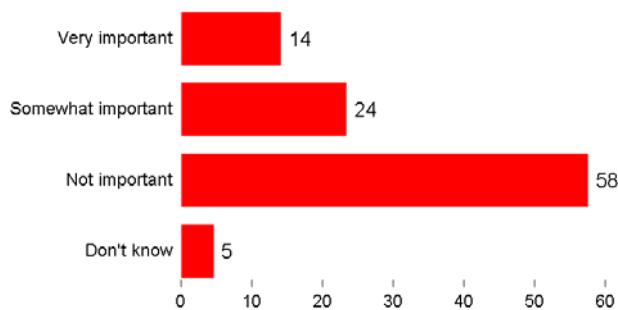
Owners of larger businesses are more likely to plan for a future role. In addition, the longer an entrepreneur is at the helm of their business the more likely they are to express a desire to have a role after succession—evidence of personal attachments between owners and their ventures. In fact, 44 per cent cited personal attachment as to why they plan to have a role after succession. The number one reason given (60 per cent), however, is to gradually reduce the business' dependence on the current owner.

## FAMILY BUSINESSES

According to the survey, a majority of SME owners (62 per cent) have at least one family or extended family member working in the business. Larger businesses are more likely to employ family members. For example, 52 per cent of businesses with fewer than 5 employees employ family, compared to almost 73 per cent for businesses with 50 to 99 employees.

Slightly more than one third (38 per cent) of respondents view keeping the business in the family as “important” (Figure 7). However, the view differs substantially when comparing those businesses with employed family members to those without. Close to half (41 per cent) of respondents with family employed in their business indicated that it is “important” to keep the business in the family, while the corresponding figure for respondents without family employed in their business is significantly lower, at 17 per cent. Clearly, small business owners with employed family members place higher emphasis on keeping their businesses in the family.

**Figure 7:**  
**Keeping Business in the Family:**  
**Important?**  
(% response)



Owners of mid-sized businesses place a higher importance on keeping it in the family. Of SMEs with 50 to 99 employees, for example, 47 per cent said that it was not important to keep the business in the family; and those with 100-499 employees, 40.7 per cent. Agriculturally based businesses place the highest importance of keeping the business in the family (60.1 per cent); the lowest is placed by business services industries (20.1 per cent) and those in education, health and social services (25 per cent).

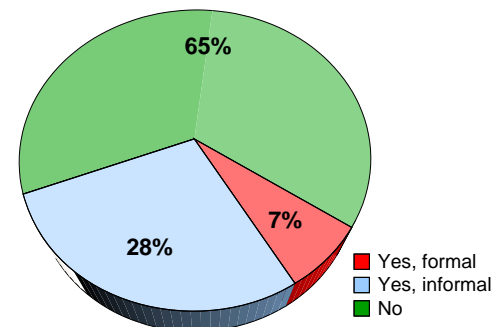
## III SUCCESSION PLANNING

The many risks inherent with the aging of business owners may be substantially mitigated with adequate succession planning. Compared to types of business planning, succession planning requires a more structured and formal approach. This is largely due to the longer time horizon involved in executing the steps required to successfully pass a business to the new generation of owners and ensure its ongoing success. How SMEs are planning in light of these added dimensions and obstacles is presented below.

### THE SUCCESSION PLAN

Only one third (35 per cent) of SMEs have a plan to sell, transfer, or wind down their business in the future (Figure 8). However, among those with a succession plan, it more likely to be unwritten and informal as opposed to one that is formal.

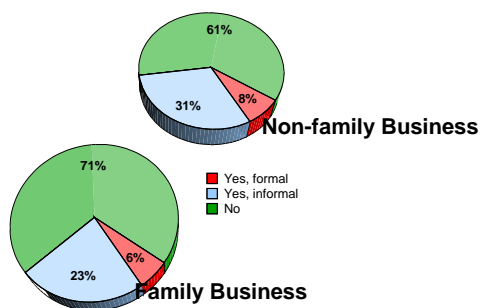
**Figure 8:**  
**Existence of a Succession Plan**  
(% respondents)



As Figure 9 illustrates, non-family businesses are slightly more likely to have a succession plan relative to family businesses (39 per cent vs. 29 per cent). However, these family businesses are less likely to have a formal succession plan (23 per cent vs. 31 per cent). Lower formal plans in family businesses may occur as owners assume that they are “on the same page” as their successor.



**Figure 9:**  
**Existence of a Succession Plan: Family and Non-family Businesses**  
 (% respondents)

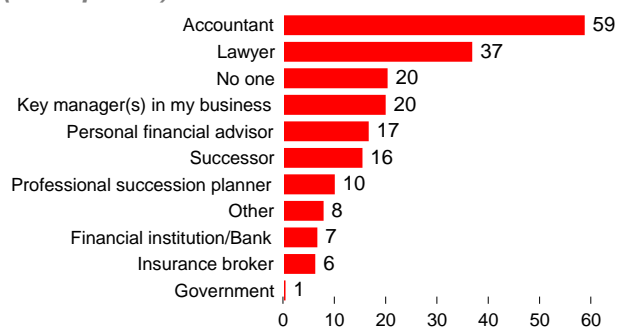


The earlier one expects to exit the business, the more likely that he or she will have a succession plan. Although this finding is intuitive, the issue is the degree at which owners are planning. Among those respondents planning to exit within 10 years, 41 per cent have a succession plan, while those planning to exit within 5 years, only 48 per cent have a succession plan.

### **SUCCESSION PLAN DEVELOPMENT**

The development of a succession plan often requires the input and services of various professionals such as accountants and legal advisors; internal stakeholders in the business, such as key managers and employees; as well as family members and the successor(s) if already chosen. The most common types of professional assistance used in developing a succession plan are accountants and lawyers (Figure 10). Use of other professional services is significantly lower.

**Figure 10:**  
**Developing the Succession Plan: Who Helped?**  
 (% response)



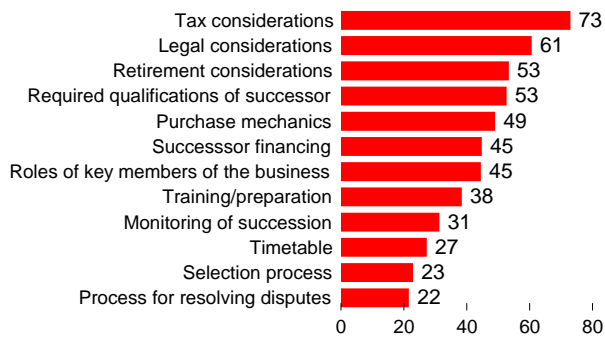
Of particular concern is the fact that only 16 per cent of small business owners are seeking the input of their successors in the development of their plan. Those employing family are slightly more likely to have the input of successors (18 per cent) relative to those who don't employ family (11 per cent). Input from successors, however, is difficult if the owner has yet to choose one. Excluding owners who have not chosen a successor 28 per cent had the input of their heirs in the succession plan. Although higher than the figures presented above, the result illustrates a need for owners to develop and share their succession plans with family, key employees and their successors. Such input helps to minimize conflict among these stakeholders and to maintain stability within the business.

### **WHAT IS BEING PLANNED?**

The most commonly cited components of a succession plan are considered to deal with "technical issues" and include: the legal transfer of business ownership, tax implications of disposing the business, the financing of the successor, and the division of future profits after the transition. However, seldom cited are "soft" issues, such as identifying long-term personal and family goals, the communication of each stakeholder's vision for the business (employees, family, successor) and their anticipated role in the business after succession, as well as the processes foreseen for selecting and training their successor.

SME owners place significant emphasis on the technical components such as tax and legal considerations (73 and 61 percent respectively) when planning for succession. This is not surprising given that accountants and lawyers are the two main advisors in developing succession plans. The planning to deal with the "soft" issues lags behind (Figure 11). Considerations for resolving disputes, for example, play a relatively minor role for most SME succession plans—only 22 per cent of respondents with a succession plan stated that such a process is in place. Moreover, only 27 per cent of succession plans state an official timeline for the transfer of ownership and/or control of the business. Finally, only 23 and 38 per cent, respectively, of succession plans incorporate processes for selecting and training successors.

**Figure 11:**  
**The Succession Plan: What's in it?**  
(% response)



Family businesses are less likely to incorporate a successor selection process in their succession plan than non-family (20 per cent for family businesses vs. 30 per cent for non-family). Conversely, family businesses are more likely to have the financing of their successors in their plans (48 vs. 39 per cent for non-family businesses). These findings, however, are intuitive in that many family business owners expect their heirs to take over the business. However, as indicated above, the majority of family-owned or operated businesses do not have the input of their successors in the succession plan. For a small business owner, to assume that a child, sibling, or relative wants to take over the business may be a serious risk with respect to planning succession.

### **CHOOSING A SUCCESSOR**

Among SMEs who have a succession plan, only 51 per cent have chosen their successor. Larger businesses are more likely to have chosen a successor relative to smaller businesses. This may be the result of having more resources, financially and in terms of time, to address succession related issues.

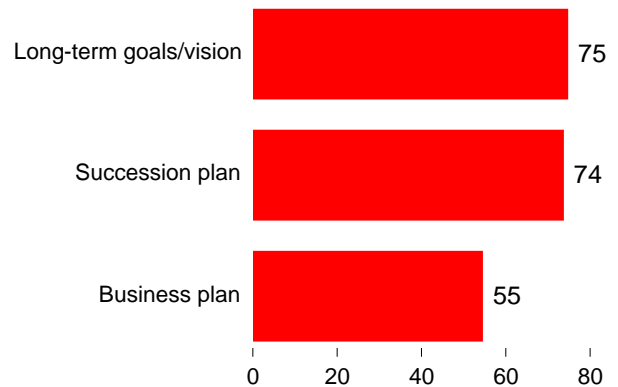
In addition, only one in four (28 per cent) of SMEs who have yet to choose a successor have incorporated a selection process in their succession plans. The task of finding and training a successor in such a short period of time, regardless of having a succession plan, may prove challenging for some of these businesses.

**Does the successor know?** Over 95 per cent of business owners, who have already chosen a

successor, indicated that they have informed their successors. This finding differs substantially from the experience of many succession planning professionals whereby owners undertake succession planning and/or select successors without informing heirs. Such a situation often fosters conflicting direction on the part of the intended successor, who may or may not want to take over the business, as well as potential successors and stakeholders.

Owners that have chosen a successor also share their vision and plans of the business with the successor. Three quarters of respondents have shared the details of their long-term goals/vision with their chosen successors, as well as the details of their succession plan (Figure 12). These findings defeat the misconception that business owners do not readily share such knowledge with their successors. Hence, the transfer of such critical knowledge to the successor does not appear to be a major obstacle for small business.

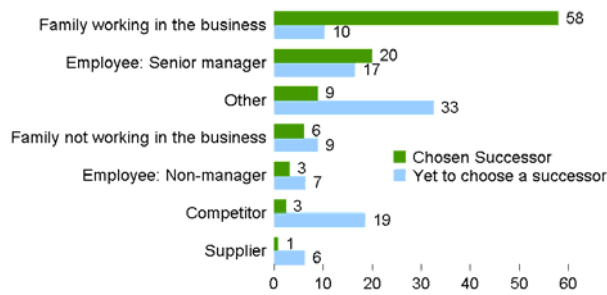
**Figure 12:**  
**Goals, Vision, and Plans: Have they been shared with successor?**  
(% response)



### **THE SUCCESSOR**

Among SME owners who have already chosen a successor for their business, the majority resorts to a member of the family. A family member currently working in the business tends to be the most popular choice, at 58 per cent, with family not employed in the business accounting for only 6 per cent (Figure 13). In contrast, the most likely choice for a successor among business owners who have not yet chosen a successor is someone from outside the family, such as an employee, competitor or supplier.

**Figure 13:**  
**Who is or likely will be the Successor?**  
(% response)

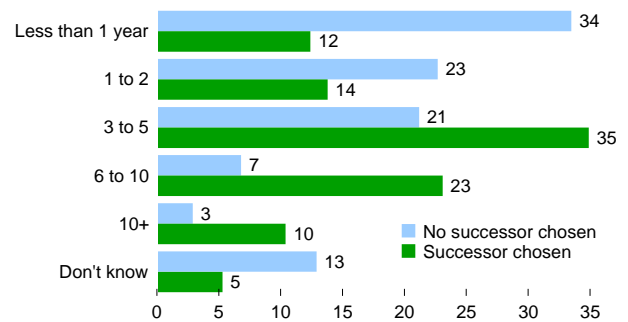


Clearly SME owners, having already chosen their successor and those who have yet to choose a successor, have different expectations on the succession of the business within the family. Most small business owners place little emphasis on keeping the business in the family and expect to choose a successor outside the family. However, in the end, they end up choosing a family member who is likely familiar with the business. This likely reflects the finding that there are many difficulties faced by potential buyers in purchasing the business, most notably securing the financing for the purchase or transfer.

### TRANSFER TIMELINE

The timeline to transfer the business differs between those businesses that have already chosen a successor and those that have not. The majority (61 per cent) of businesses with a successor already chosen expect to transfer ownership/control of the business over a five-year period (Figure 14), with the bulk of these businesses expecting the transfer to take place in the next three to five years. Although some argue that timelines should extend beyond five years, these small business owners are a step ahead of those who have yet to choose a successor. Businesses in the latter group are in a very restrictive timeline as the majority (77 per cent) expect to choose a successor and transfer the business over a five-year period. The majority of these businesses expect to do so within the next two years.

**Figure 14:**  
**How Long until Ownership/Control is Transferred?**  
(% response, years)



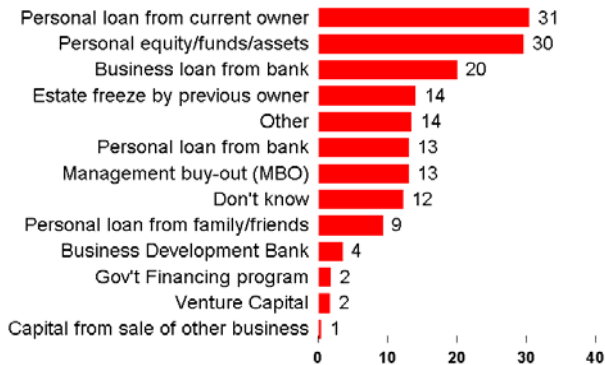
The difference in timelines between the two groups, however, may be a direct result of who the owners expect to choose as a successor. As indicated in the previous section, the majority of owners expect to choose someone outside their family as a successor. As such, there may be little emphasis placed on formally training the successor and addressing his or her financing needs. However, this approach may not be prudent as many owners depend financially on the ongoing success of the business after succession—regardless of who is the successor.

### FINANCING THE SUCCESSOR

The availability of credit for SMEs has long been debated among policymakers and stakeholders in Canada. The financing of business successions adds to the debate by identifying key sources of financing, or the lack thereof, for successors. A personal loan from the current owner is the most common type of financing for successors, at 31 per cent. The successors who own equity closely follow at 30 per cent. Business loans from financial institutions or banks were only cited by 20 per cent of respondents while only 13 per cent cited personal loans. Little reliance is placed on the use of government programs. Only 4 per cent of owners expect their successors to obtain funds from the Business Development Bank of Canada and 2 per cent from other government-sponsored financing programs (Figure 15).



**Figure 15:**  
**Expected Financing Sources for Successors**  
(% respondents)

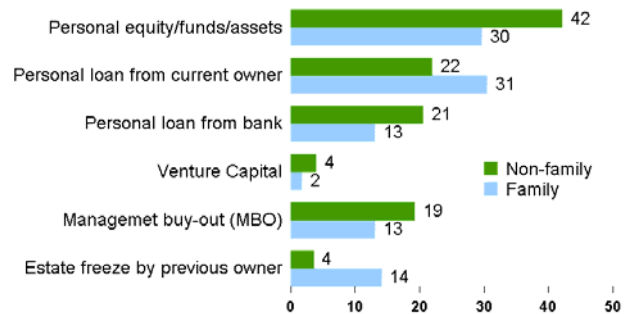


The financing of successors changes little when comparing those businesses that employ family. However, differences do exist when comparing those who have already chosen a successor and those who have not. Thirty one per cent of owners who have chosen a family member as their successor will provide financing. In contrast if the chosen successor is not a family member only 22 per cent of owners will assist in the financing. Similarly, estate freezes are more commonly found where the successor is a family member (14 per cent vs. 4 per cent). Moreover, a smaller proportion of the successors' own equity is invested if he/she is related to the current owner (Figure 16). Management buy-outs are also more commonly employed by non-family successors.

#### IV SUCCESSION BARRIERS

Most barriers identified by professional advisors are, as previously mentioned, commonly considered "soft" in nature. Such is the case when the owner avoids dealing with succession due to his or her strong personal sense of attachment with the business. In other instances, succession is difficult due to conflict with family members or key employees. Technical barriers include legal, financial, and legislative restrictions to planning or executing a succession. The CFIB survey sought to identify both soft and technical barriers faced by current SMEs who are planning their succession as well as those who recently took over a business through succession. However, the single largest barrier to succession can be identified by those who do not have a succession plan altogether.

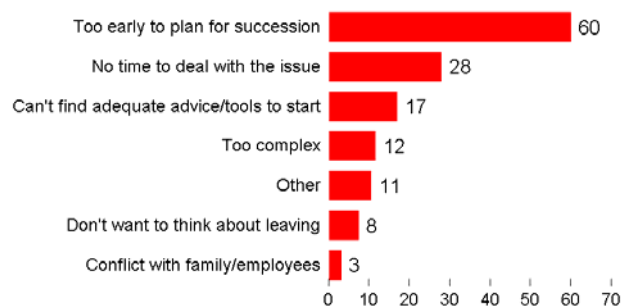
**Figure 16:**  
**Expected Financing Sources: Family and Non-family Related Successors**  
(% respondents)



#### NO SUCCESSION PLAN

Among those business owners who do not have a succession plan, the majority (60 per cent) indicated that it is too early to plan (Figure 17). However, professional advisors indicate that it is never too early to start planning. The lack of adequate time to plan and execute succession is a significant contributor to failed successions. The perception that succession can occur over a relatively short period of time is a significant barrier to overcome.

**Figure 17:**  
**Why SMEs do not have Succession Plans**  
(% respondents)



The lack of time on the part of small business owners (28 per cent) is another reason commonly cited for not planning. Small businesses operate in a very different environment than their larger counterparts. Most owners are actively involved in all aspects of the business, making it difficult to dedicate significant time and attention towards planning for succession. In such cases, seeking professional advice may be the most appropriate

course of action. However, 17 per cent of SME owners cite the lack of such assistance for not having a succession plan. Nonetheless, the largest barrier to successful small business succession is the perception that planning can wait.

### **BARRIERS FOR CURRENT OWNERS**

According to current owners, the number one barrier to succession planning and execution (46 per cent) is the financing of their successors (Figure 18). Finding a suitable leader or buyer comes in a close second with 42 per cent of owners citing it as a barrier. Those businesses with at least one family member employed, however, are less likely to cite finding a successor as a barrier relative to those who do not employ family (35 vs. 58 per cent respectively). Among the “soft” issues, 39 per cent of owners indicated that the dependence of the business on their active involvement is an obstacle to succession.

**Figure 18:**  
**Barriers to Succession: Current Owners**  
(% respondents)



Although owners are often advised to seek professional assistance, 12 per cent identified the availability of cost-effective planning and professional advice as a barrier. This gap between service providers and business owners may be a primary cause to other barriers, which include the formal valuation of the business (32 per cent). The valuation of the business can also result from the dependence on the business owner’s involvement, which accounts for “goodwill”. Conflict among family members was ranked relatively low as a barrier and significantly differs in family and non-family businesses. Among family businesses 17 per cent of their owners cited conflict with family as

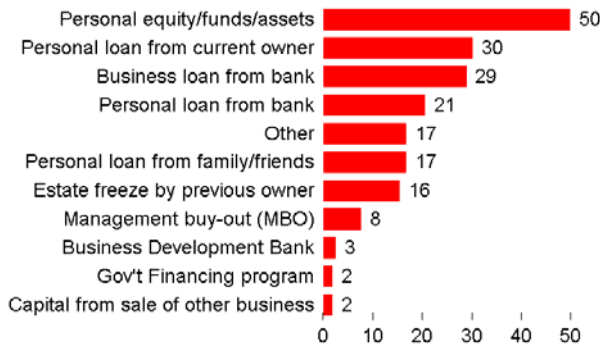
a barrier; this compares to 4.3 per cent for non-family businesses.

Although the primary barriers identified by current SME owners relate very little with the “soft” issues, considerable care should be exerted in analyzing the above. As indicated, those SME owners who are planning for succession have placed relatively small importance on dealing with these “soft” issues in advance (transfer timeline, a family or successor dispute resolution process, a successor selection process, etc.). These issues easily become barriers to effective succession. As such, similar to those who do not have a succession plan, awareness is another key barrier—awareness that planning for “soft” issues is as important, if not more so than the technical ones identified in Figure 18 and Figure 11.

### **BARRIERS FOR SUCCESSORS**

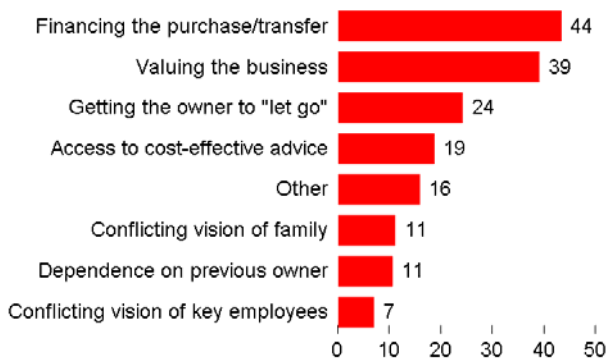
The most commonly identified barrier to succession, according to recent successors (44 per cent), is the financing of the purchase or transfer. Only 29 per cent of successors obtained business loans from any financial institution or bank; twenty-one per cent obtained personal loans from lenders (Figure 19). These figures are slightly higher from the expected sources of financing identified by current owners (see Figure 15 on page 9). Of greater contrast, however, is that half of successors actually invested their own personal equity to purchase their businesses. Nonetheless, approximately 30 per cent still obtained financing from the previous owner and the majority, as expected, did not obtain funding from venture capital, government sponsored programs, or the Business Development Bank of Canada.

**Figure 19:**  
**Actual Sources of Financing for Successors**  
(% respondents)



Next to successor financing, the valuation of the business, according to successors, was a significant barrier (39 per cent). The difficulty in valuing a business is in itself a barrier to obtaining adequate financing and in assessing future profitability. Nineteen per cent of recent SME successors indicated that this lack of professional advice was a significant barrier to their succession. Getting the previous owner to “let go” was cited by 24 per cent of successors as a barrier to their succession. This barrier is the most significant “soft” issue identified by successors, relative to other issues such as family conflict.

**Figure 20:**  
**Barriers to Succession: Successors**  
(% respondents)

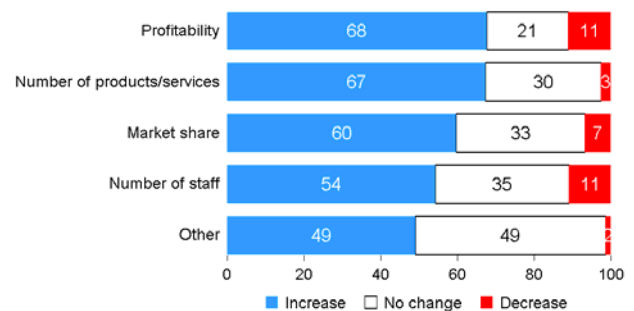


## V SUCCESSION – LESSONS LEARNED

As shown in Figure 1 above, 17 per cent of business owners took over from their family members and another 24 per cent purchased it directly from an unrelated entrepreneur. Post succession, the majority of these small business

owners indicated that they are performing extremely well on a number of fronts. Over half of successors surveyed increased the total employment of the business since undergoing a succession: only 11 per cent decreased employment (Figure 21). Moreover, the majority of these businesses have experienced increased profits (68 per cent), increased market share (60 per cent), and a greater number of products and services offered to customers (67 per cent). Clearly, there are significant economic benefits of successful transitions beyond the maintenance of current employment and output. Successors are bringing new entrepreneurial vigor to existing businesses and with it, greater opportunities for employees, their communities, and the economy.

**Figure 21:**  
**Changes to Business since Succession**  
(% respondents)



Despite the successful transitions described above nearly 38 per cent of recent successors are unaware of the previous owner’s succession plan. Only 23 per cent of knew that a plan existed—nearly 40 per cent attest that a plan did not exist. This is a stark contradiction to what was presented above; where 74 per cent of current owners, with a succession plan, indicated that they have shared it with their chosen successor (Figure 12, page 7).

### LESSONS FROM OUTGOING OWNERS

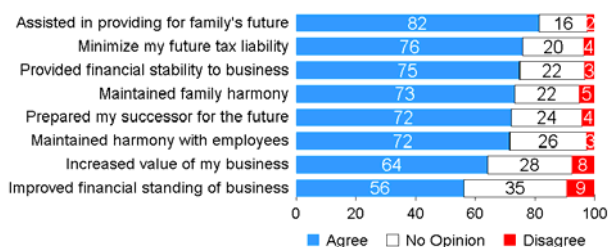
Succession planning well in advance yields significant benefits for current business owners—ahead of their planned exit. These benefits may be financially based, such as improved financial stability or an increase in the business’ net value. However, several non-financial benefits also arise and include an

improved relationship with employees and family members involved in the business.

The overwhelming majority of SME owners with a succession plan agree to the benefits of planning in advance. Eighty-two per cent of owners indicated that having a succession plan assisted in providing for their families in the future (Figure 22). Such a benefit may arise where owners incorporate life, primary person, and disability insurance policies in their succession plans. Such policies are often promoted by professional advisors to protect the owner’s family.

Next to protecting one’s family, owners with a succession plan agree that they have minimized their future tax liability (76 per cent) and improved the financial stability of their business (75 per cent). The former may be the case of properly structuring their business to take full advantage of special tax exemptions, such as the \$500,000 lifetime capital gains exemption. This exemption requires special considerations and business structure for owners to qualify. Satisfying these requirements involve the assistance of a tax professional as well as time. Financial stability for the business, on the other hand, arises from an increase in confidence of lenders and creditors since a plan exists for the business to operate without the current owner in the future.

**Figure 22:**  
**Succession Planning Benefits: Owners**  
(% respondents)



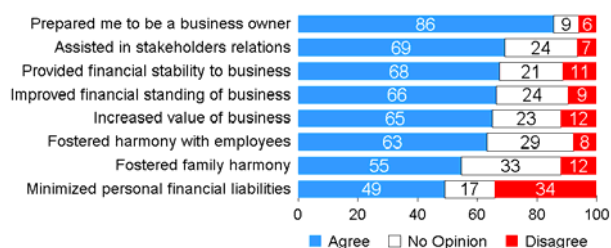
Small business owners also agree that they benefit from greater harmony between themselves and their family (73 per cent) as well as their employees (72 per cent). The lack of formal communication of the owner’s vision, or perhaps conflicting visions with such stakeholders is often a serious obstacle for small businesses. To address these barriers in advance,

according to respondents, yields benefits prior to the actual succession. Finally, small business owners agree that having a succession plan significantly assists in the preparation of their successor (72 per cent).

### LESSONS FROM RECENT SUCCESSORS

The vast majority of small business owners who recently acquired their business through a succession agree that succession planning yields significant benefits. The most striking benefit is their level of preparedness when they took over the business. The vast majority (86 per cent) of successors agreed that succession planning prepared them for their future as business owners. Over 60 per cent agreed that planning on the part of previous owners provided financial stability to the business; improved its financial standing; and increased the value of the successor’s investment. With respect to soft issues, over 60 per cent agreed that planning for succession fostered harmony with employees and created a good relationship among stakeholders (key managers, customers, suppliers, etc.) Finally, almost 50 percent agreed that it assisted in minimizing their overall personal financial liabilities.

**Figure 23:**  
**Succession Planning Benefits: Successors**  
(% respondents)



## VI CONCLUSIONS AND RECOMMENDATIONS

Given the demographics of those who own and operate small and medium sized businesses there is considerable concern over the economic and social impact of their retirements. The majority of SMEs expect to exit their businesses within the next ten years and business owners, for the

most part, have not carried out adequate planning for their succession. Most do not plan. Those who are planning are doing so informally and often neglect the primary obstacles to succession.

SMEs are the heart of Canada's economy and social structure: they are a catalyst of innovative products and services, the engines of employment growth and at the center of Canadian communities. The risks are undeniable: business owners are aging. Some businesses will survive; however, many will not. The challenge, therefore, is to turn these risks into opportunities—for small business owners, their employees, and the economy at large.

To help achieve this goal, CFIB offers the following recommendations directed at the major stakeholders:

***For business owners:***

Business owners should start to plan early for succession. The survey results presented above indicate a need for business owners to start planning earlier and to include proper professional advice where possible. In addition, early inclusion of the future successor in the plan is likely to help maintain stability within the business.

***For CFIB:***

Raise awareness of issue among SME owners and to provide initial guidance in starting to plan for succession. This could include the development of affordable and comprehensible packages of guidelines for various types of business owners on how to start to plan their business succession plan.

Work collaboratively with government and academics to realize the economic benefits of proper SME succession planning.

Work with professional groups in order to implement a better service offering that is targeted towards the unique needs of SMEs.

***For professional groups:***

Work with CFIB and other stakeholders to implement a better service offering that is targeted towards the unique needs of SMEs.

Business associations exclusively focused on family ownership should work with CFIB and other stakeholders on developing and distributing “how to” templates for solving common issues related to succession planning among family businesses, including family farms.

***For financial institutions:***

Banks and other lending institutions should increase their participation in small business financing by adopting more flexible lending practices that take into consideration the financing needs related to business succession. Given that financing is identified as a key barrier to proper execution of business succession, banks and other lenders would be in a position to ensure the smooth transition of businesses from one owner to the next, hereby helping to promote growth in the SME sector.

***For government:***

Increase the lifetime capital gains exemption on the sale of farm property and small business shares. The exemption was retained for small businesses and farmers in 1987 and its value has remained unchanged since then at \$500,000. An increase of the exemption is supported by 78 per cent of CFIB members (based on 10,133 survey responses). The federal government should increase the exemption by \$100,000 annual increments over five years.

Increase awareness of proper business succession planning by making available practical information on Business Gateway. This would help boost the general awareness of succession planning among business owners.

Increase awareness, particularly among young entrepreneurs, about the opportunities and advantages of purchasing an existing business rather than starting a business from scratch.

***For academics:***

Work with government in assessing total outcomes (including competition, corporate concentration and foreign ownership) associated with various business transfers.