



The Ministry of Economic Development and Growth

Study on Succession Planning for SMEs in Ontario
Presentation to the 61st Annual EDCO Conference and Showcase

Overview

- Context
- Study Goals & Activities
- Framework
- Key Findings
- Policy Approaches
- Areas for Further Discussion

Context of Succession Planning in Ontario

SMEs major contributors to Canadian and Ontario economies

- As private sector employers - 415,000 SMEs in Ontario employing almost 4 million workers (Statistics Canada).
- As generators of revenue - SMEs contribute to roughly 39% of Ontario's GDP (Statistics Canada).

SME owners are retiring

- In 2011, almost 50% of all SME owners in Canada were between 50 and 64 years of age (59% in 2014).
- CFIB 2013 survey indicates that 75% of Canadian business owners will exit their business before 2022.

Study on Succession Planning for SMEs Goals

What is Succession Planning?

- Succession planning is the set of important considerations and processes involved in preparation for the transfer, sale or closure of a business (whether planned or sudden) from its current owner to a successor (individual or group).

In 2016, MEDG commissioned a study on SME succession planning in Ontario with the following goals:

- Gain a better understanding of the issues associated with succession planning.
- Examine the current state of succession planning and the potential economic and social impacts of retiring SME owners in communities across Ontario.

Shore Consulting provided its final report to the Government in Fall 2017.

Study Approach and Activities

Timeline – Study conducted from mid-Fall 2016 to April 2017

Jurisdictional scan – selected Canadian provinces (Alberta, British Columbia, Quebec and Ontario) as well as Australia, New Zealand, Europe/European Commission, Ireland, UK, US.

- Context, policies, programs, strategies and services used by governments and other key stakeholders to support SME business owners with succession planning.
- Challenges and barriers faced by SMEs or governments.
- Potential impacts from a lack of, or poor, succession planning.

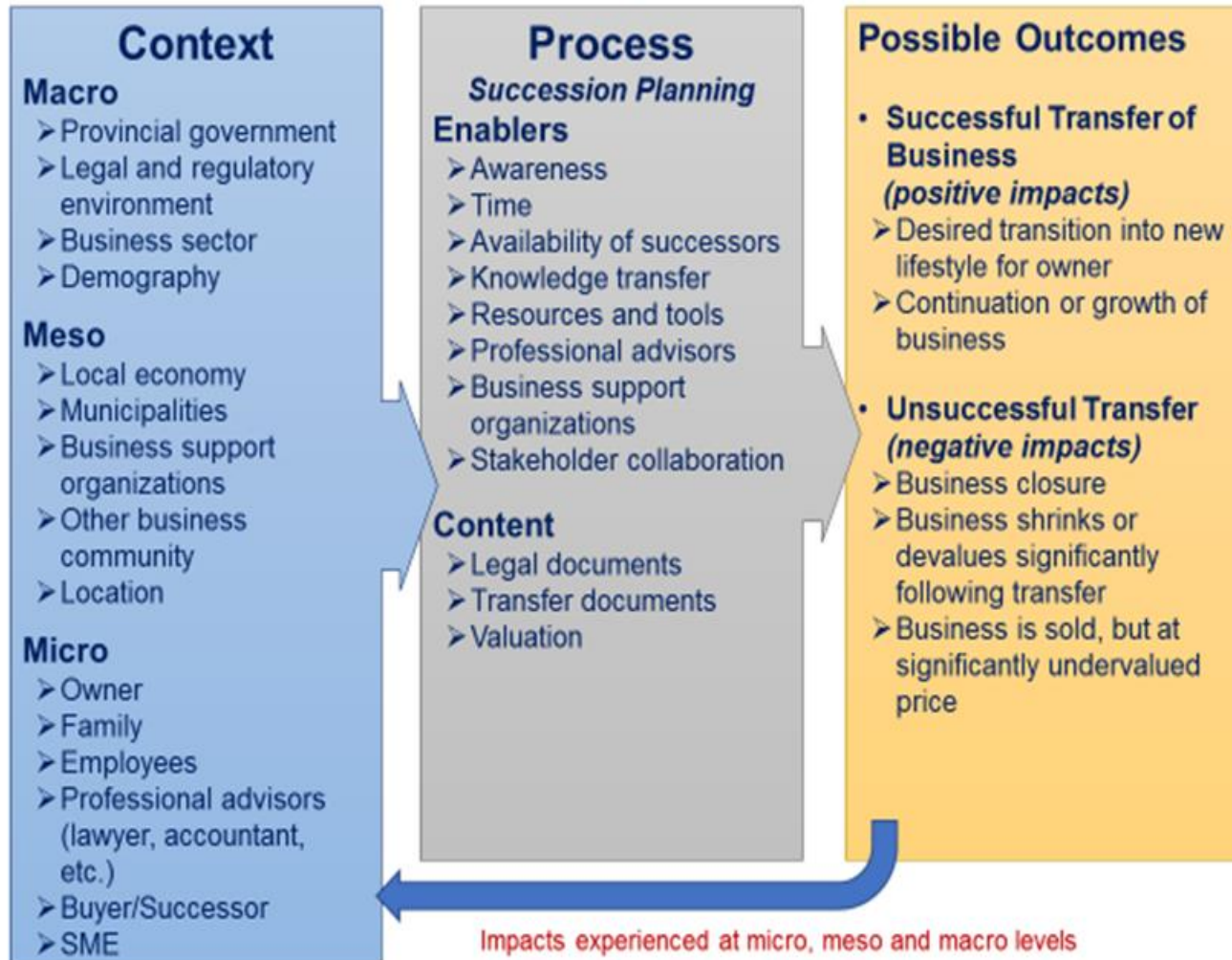
Interviews – 40 key stakeholders across Ontario (business support organizations, owners with succession planning experience, government officials and subject matter experts).

- Potential social and economic impacts.
- Challenges, barriers and opportunities.
- Opportunities for potential government interventions.

Analysis

Consideration of Policy Approaches

SME Succession Planning Conceptual Framework



Study Findings – Jurisdictional Scan

Lack of formal succession planning by SME owners in Ontario

2006 survey of 4,311 Canadian businesses...

- 82% of respondents stated that retirement was the primary reason for business owners to exit their business
- 71% planned to either exit or transfer ownership within 10 years
- Only 7% had a formal succession plan

2011 CFIB survey: In Ontario, of 3,389 business owners responding...

- Only 9.8% had a formal written plan, with another 37.9% saying they had an 'informal plan'
- In other words, 52.3% of the business owners do not have a plan for exiting their business

What are the potential implications for Ontario's communities and economy?

- Extrapolated data based on assumptions from other studies suggest that, potentially, owners of 310,462 SMEs in Ontario plan to exit their business in the next ten years (as of 2011), which would affect 2,794,158 workers.

Study Findings – Jurisdictional Scan

- Experiences of the other jurisdictions are similar with regard to the aging demographic profile of SME owners in Ontario.
- Governments and other key stakeholders increasingly aware that successful succession planning and business transfers are critical to sustaining businesses and the local economies and communities in which they operate.
- The major types of challenges to successful succession planning identified in the jurisdictional scan cluster into six categories:
 - Finding relevant information
 - Limited knowledge of succession planning and business transfers
 - Finding a successor
 - Scope of work of SME support personnel
 - Emotional challenges
 - Financial challenges, taxation, legal and legislative/regulatory restrictions

Study Findings – Jurisdictional Scan

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		



Develop your business plans

Writing a business plan	▼
Succession planning	▲
How do I write a succession plan?	
The succession section of your plan	
Marketing	▼
Market research	▼
Industry research	▼
Emergency response	▼

 **Succession planning**

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Nobody likes to think about it, but it's inevitable that one day you'll leave your business. Whether you decide to sell up, retire or leave due to health reasons, it's important that you plan for that day. A succession (or exit) plan outlines who will take over your business when you leave.

A good succession plan will help your business transition smoothly to the new owner. By planning your exit early, you can maximise the value of your business and help it to meet future needs.

Make sure your succession plan is achievable. Set a realistic timetable and measurable milestones along the way and stick to them.

What to do...



Study Findings – Stakeholder Interviews

Potential social and economic impacts

- Rural communities are at a greater risk for experiencing the negative impacts associated with lack of succession planning compared to urban areas.
- Certain 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.
- Types of businesses with higher risk:
 - Small businesses
 - Family businesses
 - Owner-operated businesses
- Sectors with higher risk:
 - Farms and agricultural businesses
 - Manufacturing
 - Skilled trades
 - Tourism/hospitality
 - Service-based businesses

Study Findings – Stakeholder Interviews

Challenges and Barriers

- Central factor - *urgent* problem of upcoming retirement 'baby boomer' owners.
- Too many SMEs start process of succession planning too late or wait until last minute.
 - Can limit options, delay retirement, or limit ability to transfer business effectively.
- Lack of awareness by business owners regarding the succession planning process.
- Macro level, regulatory, financial challenges limit or impede progress on succession planning and successful businesses transfers.
- Calculating *value* of a business can be subjective, results in differences in valuations by owners, prospective purchasers (successors), and/or professionals involved in transfer process (e.g., lawyers, accountants).
- Stakeholders suggest that succession planning is not yet a specific or comprehensive focus of government policy or programming, with some exceptions.

Study Findings – Stakeholder Interviews

Challenges and Barriers

- Systemic business-culture challenges/barriers can inhibit effective succession planning (e.g., focus on start-ups, negative stigma attached to exiting business and lack of professional development opportunities for SME employees).
- Emotional implications from inadequate succession planning (e.g., anxiety, strained relationships with family).
- Business support organizations do not have sufficient tools, skills or resources to provide SMEs with adequate support to facilitate successful business transitions.
- Lack of comprehensive or integrated public-private action on succession planning leaves many retiring SME owners without support for more effective business transfers.

Study Findings – Stakeholder Interviews

Stakeholders suggested the following opportunities to improve succession planning:

- 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.
- A task force to develop an integrated succession planning strategy that takes all stakeholders into account.
- Expand existing business support services to include succession planning support for business owners.
- Women, youth and immigrant entrepreneurs as successors.
- Collaborative, coordinated effort across all stakeholders to improve succession planning.

Study Findings – Government Interviews

- OMAFRA has existing programs to support and facilitate succession planning for agricultural and food processing businesses
 - Online directory and information
 - Training and financial incentives
 - Matchmaking
- Other interested ministries do not currently have formal succession planning initiatives.

Policy Approaches

Through the study, possible options for consideration by the government were discussed based upon the following considerations:

- Informed by the study findings
- Relevant to the Ontario economy
- Implemented with ease
- Implemented in a way that would quickly demonstrate impact
- Cost effective
- Easily measured to determine its effectiveness

Policy Approaches

Potential policy approaches identified by the study include:

- Building awareness and knowledge of succession planning and business transfers
- Expanding existing business support services to include Succession Planning
- Developing financial, regulatory and tax incentives to facilitate transfers
- Developing a single access point for all government and agency information
- Creating a service whereby emergent entrepreneurs can access information on existing SME's whose owners are planning to retire

Areas for Further Discussion

Succession planning is multi-faceted – macro, meso and micro contextual considerations and impacts.

Key questions for economic development partners include:

- What empirical data could better demonstrate the impact of poor, or no, succession planning? How can these data be collected?
- What is the optimal approach for public and private sector involvement in the succession planning space?
- Are some policy options more important than others? If so, which ones?
- How can different interested parties best work together to better connect and support transitioning businesses?

Contact

David B. Meyer

Director (A), Entrepreneurship and Start-Up Services
Ministry of Economic Development and Growth
Ministry of Research, Innovation and Science

david.b.meyer@ontario.ca