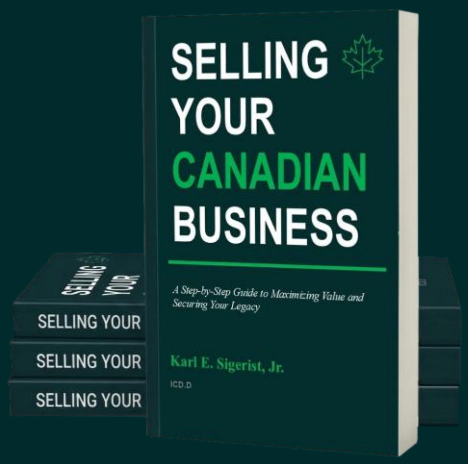
BUSINESS TRANSITION & LEADERSHIP SUCCESSION GUIDE

What every Canadian business owner should know about transition and succession

A practical guide to planning the next chapter, before life forces the decision.



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WHY THIS GUIDE EXISTS

The planning gap most owners do not close

Family enterprises account for 63.1 per cent of all Canadian private sector firms and roughly 49 per cent of private sector gross domestic product. They employ close to seven million people, almost half of Canada's private sector workforce. Yet as of 2020, fewer than one in three Canadian family businesses had a formalized succession plan in place.

The pattern is consistent across industries and regions. Owners build companies over decades and then leave the next decision, the one that will define what happens to that work, to chance or to a crisis. The transition gets delegated to a moment the owner did not choose. By then, the options have narrowed.

Five things this guide will help you do

1. Separate the two decisions: who runs the business (succession) and who owns it (transition).
2. Identify the foreseen and unforeseen events that will trigger one or both decisions.
3. Map the five paths a Canadian owner can take, and the trade-offs of each.
4. Test your business and your family for readiness, honestly, before market or life forces the test.
5. Build a plan that survives contact with reality: documented, funded, communicated and updated.

Source: Family Enterprise Canada, Family Enterprise Statistics and Canadian Family Enterprise reports. familyenterprise.ca

TWO DECISIONS, NOT ONE

Succession is not the same as transition

Owners often use the two words interchangeably. They are not the same decision. Succession is about people: who will lead, who will manage, who will replace the owner when they step back. Transition is about ownership: who will own the business and on what terms. The two decisions can be made together or separately, in either order, and the consequences of conflating them are usually expensive.

Succession

The leadership question

Who will run the business after you step back? What roles need a successor (CEO, sales lead, operations head, finance lead)? How long is the runway needed to develop that person? What happens if they leave before the handover? Succession is about people, capability and time. It can happen years before you sell or transfer ownership, and frequently should.

Transition

The ownership question

Who will own the business after you exit? Family, management, a financial buyer, a strategic buyer, no one (liquidation)? On what terms and over what timeline? How will proceeds support your retirement, your family and your obligations? Transition is about ownership, value and timing. It often happens at a single moment in time, the closing.

A complete plan addresses both. Most plans that fail address only one.

WHAT FORCES THE DECISION

Triggering events, foreseen and unforeseen

A transition does not always happen on the owner's preferred timeline. Some triggers are planned. Others arrive unannounced. A credible plan accounts for both categories because the same business cannot survive a planned succession and a sudden one with the same playbook.

Foreseen triggers

- Retirement at a chosen age.
- A planned sale to a financial or strategic buyer.
- A planned transfer to family or management.
- A change in the owner's interests, energy or health on a known timeline.
- A capital event in the family that requires liquidity (education, real estate, philanthropy).
- A foreseeable change in market conditions, regulation or industry structure that makes a sale now better than later.

Unforeseen triggers

- Death of the owner or a controlling shareholder.
- Long-term disability or sudden incapacity.
- Divorce of the owner, where a spouse holds an interest or has a claim.
- Death or departure of a key partner, co-owner or successor candidate.
- Loss of a top customer, supplier or licence that materially changes business viability.
- Unsolicited offer to buy the business from a credible party.
- A material change in personal circumstances (family illness, dispute, relocation).

THE FIVE PATHS

Five paths a Canadian owner can take

There are five common destinations for ownership of a Canadian lower middle market business. Each carries a different trade-off between maximum value, family legacy, employee continuity, transaction speed and certainty of close. The right path is rarely obvious. Many owners pursue two paths in parallel until one becomes clearly better.

Family succession

Transfer ownership and leadership to one or more family members. Preserves legacy and family employment. Requires capable, willing successors and family alignment. Historical survival rates are modest.

Management buyout (MBO)

Sell to existing management, often with third party or vendor financing. Preserves culture and continuity. Pricing typically below strategic offers. Financing structure determines feasibility.

Sale to a financial buyer

Sale to a private equity firm, family office or independent sponsor. Often includes rollover equity, allowing the owner a second exit. Value driven by growth potential. Process is structured and competitive.

Sale to a strategic buyer

Sale to a competitor, supplier, customer or adjacent industry player. Typically the highest valuation due to synergies. Risk to employees, brand and culture is higher. Confidentiality during process is critical.

Wind-down or liquidation

Sell the assets, settle obligations and close. Used when no buyer or successor is viable, the business is in decline or the owner prefers a clean exit. Recovery value is limited to tangible assets.

WHERE YOU STAND

Are you ready to start?

Before structure, before timing, before professionals, an honest answer to a short set of questions. The pattern of answers reveals whether the owner is genuinely ready to begin the work or still working through the prerequisite decisions.

About yourself

- What is your target timeline to step back, and how firm is it?
- How is your health, and how is the health of your spouse and key partners?
- What income and capital do you need to fund the next chapter?
- What role, if any, do you want to keep after stepping back from leadership?
- Have you discussed this with the people closest to you?

About the business and the family

- Can the business operate for 30 days without you? For 90? For a year?
- Have you objectively assessed the capability of family members in the business?
- Are family expectations aligned, or are difficult conversations pending?
- Are key non-family employees aware they are part of the future, or guessing?
- Are the company's records, processes and systems in the shape a buyer or a successor would expect to find them?

If you answered "I do not know" to more than three of these, the work in front of you is not planning. It is the prerequisite reflection that planning needs to rest on.

Indicators of succession viability

Not every business is a good candidate for every path. These six indicators tell you what is realistic. A business that fails the viability test for family succession may still be perfectly viable for a sale to a strategic buyer, and vice versa.

Stage of business

Survival, growing or mature. Mature businesses with stable cash flow have the widest path options. Early stage businesses are harder to transition and often need to be sold or wound down.

Owner dependence

Does the business run on the owner's personal relationships, skills and effort? The higher the dependence, the lower the value to anyone except a buyer who values those qualities personally.

Management depth

Is there a second layer of leadership below the owner? A complete management team de-risks every path. Its absence narrows the options sharply.

Financial health

Consistent cash flow, manageable debt, growing or stable revenue. Buyers and lenders price these on the way in. Family and management successors need them to service any vendor financing.

Systems and records

Documented processes, clean financials, organized contracts. The cost of due diligence is paid in either price erosion or transaction failure. Clean records compress that cost.

Market and industry

Industry growth, competitive intensity, regulatory direction. A declining industry compresses every valuation and narrows the buyer pool. A growing one widens both.

YOUR GOALS

Clarifying your goals and future state

Without clarity on what you want, every choice in front of you reduces to a guess. Owners frequently discover that the words they use about the future (legacy, retirement, freedom, success) mean very different things when forced into a written plan. This is the work that has to happen first.

Five questions worth answering on paper

- What does the day after you step back look like, in concrete terms?
- What does the business need to look like at the moment of transition, for that day to be possible?
- How will success be measured: price, continuity, family alignment, employee security, legacy, time freedom?
- Which of those measures are you willing to trade off, and which are non-negotiable?
- What does failure of the plan look like, and how would you recognize it early?

The discipline

Write the answers down. Share them with the people who will be affected. Revisit annually. A plan that is not written down is not a plan. It is an intention, and intentions do not survive contact with the unforeseen.

PEOPLE RISK

Key positions and the risk of losing them

Every business depends on a small number of people. In a lower middle market company, that number is often smaller than the owner thinks. Identifying who they are, what they hold, and what happens if they leave is the second piece of work after clarifying goals.

Map your dependencies

- Which employees hold relationships that revenue depends on, with customers, suppliers or regulators?
- Which employees hold knowledge that is not documented anywhere else?
- Which employees are operating significantly above their title or compensation?
- Which employees would a competitor recruit aggressively if they were available?
- Which employees are unhappy, blocked or being held by inertia rather than commitment?

The retention question

Once you have identified the key people, the next question is what is keeping them. Compensation, ownership, equity, retention bonuses tied to a successful transition, deferred compensation tied to staying through closing. These instruments exist because the alternative, losing a key person mid-process, can blow up a transaction or a succession.

Selecting and developing a successor

Once the owner is clear that succession is required (whether or not transition follows), the work of identifying and developing the successor begins. This is one of the most consistently underestimated efforts in the entire process. A successor who is barely ready at handover is not ready at all.

A six-step process

1. **Identify the key roles**

   Not just CEO. Operations, sales, finance, technology, key customer relationships. List the roles that must be filled, not the people who currently fill them.

2. **Write the job descriptions**

   What does each role actually require? Skills, experience, decision authority, time commitment. Owners frequently discover their own role is two or three jobs.

3. **Assess candidates honestly**

   Internal first. Family, management, key employees. External if internal is insufficient. The assessment must be objective; advisors and boards help. Family pressure is the most common source of bad selection.

4. **Build the development plan**

   Identify the gap between today and ready. Build a written plan to close it. Realistic timelines are measured in years, not months.

5. **Communicate the selection**

   Quietly to the candidate. More broadly when the time is right. Untold successors leave. Public successors stay if the runway is credible.

6. **Plan for the successor's exit**

   What happens if the successor leaves, fails or refuses the role? A backup plan is not optional. Many owners only have plan A.

Is the business and your personal balance sheet ready?

A succession or transition surfaces financial questions that have been deferred for years. The earlier they are surfaced, the more time there is to act. The questions below cover both sides of the personal and business balance sheet.

The business side

- Is the cash flow consistent and growing?
- What is the current debt level, and on what terms?
- Are there large planned capital expenditures in the next 24 to 36 months?
- When was the last independent business valuation completed?
- Are the financial statements review-engagement or audited?
- Is the data room ready, or close to ready?

The personal side

- What income and capital do you need post-transition?
- How much of your net worth is concentrated in this business?
- Are there assets outside the business that diversify the risk?
- Do you have a financial plan that integrates personal goals with proceeds from a sale?
- Have you considered the tax consequences of different paths?
- Is there a written estate plan consistent with the transition plan?

Most lower middle market owners hold more than half their net worth in the business. The transition is the only opportunity to convert that concentration into diversification.

CONTINGENCIES

If you die before the plan is executed

Owners in their 40s, 50s and 60s do not like thinking about this. The data on Canadian lower middle market businesses is consistent on what happens when they do not: a forced sale at a depressed price, family stress at the worst possible moment and material loss of value that the owner would never have accepted in life. The questions below are uncomfortable. They are also the cheapest insurance against catastrophic outcomes.

Five questions that determine the outcome

Who has authority on day one?

Is there a person with clear authority to run the business between your death and the transition? Are they identified in writing, with the legal authority to act?

Is the buy-sell agreement structured to handle this?

Does the shareholders' agreement specify what happens to your shares on death, on what timeline and at what price? Are funds available to actually execute it?

Is the will consistent with the business plan?

Wills drafted before a transition plan was contemplated frequently conflict with it. The conflict is discovered at the worst possible time.

Are family members aligned on what happens?

Spouse, adult children, co-owners. Surprises at this stage create disputes that consume value.

Is there enough liquidity?

Tax owing on death, business debt, ongoing operating cash, family income. Each is a separate funding need.

If you are disabled or incapacitated

Long-term disability is statistically more likely than death during an owner's working years. The business and the family must be able to function while the owner is incapacitated, possibly for an extended period and possibly without a clear endpoint. The structures required are similar to death contingency but with a different time horizon.

Five questions for the disability scenario

Who runs the business while you cannot?

Is there a designated acting leader with clear authority? Is that person aware, trained and willing? Is the appointment documented?

Is there a power of attorney for property that is current?

An out-of-date or absent power of attorney is one of the most common avoidable failures. The cost of remediating in disability is dramatically higher than the cost of preparing in advance.

Does the buy-sell agreement address long-term disability?

Many do not. The result is uncertainty about whether the owner retains shares, sells them or holds them indefinitely while incapacitated.

Can the business support both you and the operating costs?

Personal income needs do not pause during disability. Neither do business obligations. Cash flow planning must cover both.

Are key employees protected from departure?

Uncertainty drives flight. Retention structures matter even more during the period when the owner cannot communicate directly with the team.

STRUCTURE

The shareholders' agreement

If there is more than one owner, the shareholders' agreement is the single most important document in the transition. It governs what happens on every triggering event, foreseen or unforeseen, and determines whether the path forward is structured or contested. Most agreements that have been in place for years no longer reflect what the owners actually want.

Provisions to review or include

- Buy-sell triggers: death, disability, retirement, withdrawal, expulsion, divorce.
- Valuation method for each trigger, with a periodic refresh requirement.
- Funding mechanism for each trigger, and what happens if funding falls short.
- Rights of first refusal, drag-along, tag-along, shotgun and other transfer mechanics.
- Restrictive covenants: non-compete, non-solicit, confidentiality for departing owners.
- Dispute resolution and arbitration procedures, with named jurisdiction.
- Dividend, distribution and reinvestment policy.
- Governance: board composition, decision thresholds, reserved matters.
- Review trigger: a fixed date or event by which the agreement must be re-examined.

An out-of-date shareholders' agreement is worse than no agreement at all, because it gives false comfort.

Tax planning starts years before any transaction

Tax outcomes on a Canadian business transition are determined by structure choices made years before the closing date. Owners who wait until a buyer is at the table to think about tax routinely give up material value that better-prepared owners keep. The detail belongs with qualified Canadian tax counsel and a CPA who knows Canadian private company tax law. The principles below belong to every owner.

Five principles

Start early

Most useful tax planning requires a runway of 24 months or more before a transaction. Some structures require longer. Tax planning is not a closing-week activity.

Integrate with the estate plan

The transition plan and the estate plan must be consistent. Tax outcomes are heavily affected by whether the transfer happens by sale, by gift, on death or in some combination.

Consider the form of consideration

Cash, shares, vendor notes and earnouts each carry different tax treatment. The same headline price can deliver very different after-tax results.

Plan for the family, not just the business

Tax-efficient transfer to children, spouse or other family members involves planning that is separate from the transaction itself. Both need attention.

Document the planning

Tax authorities require contemporaneous documentation. Planning developed and documented at the time it is implemented is materially easier to defend than planning reconstructed after the fact.

Tax planning is one of the few areas where engaging a qualified Canadian specialist early is almost always paid for many times over in the outcome.

Documenting the plan

A plan in the owner's head is not a plan. Documentation creates the basis for review, accountability and continuity. It also makes the plan transferable if the owner is unable to execute personally. The list below covers the minimum documentation a complete plan needs.

The plan document

A written statement of intentions: timing, path, successor, conditions. Two to ten pages, owner's own language, dated and signed.

Current shareholders' agreement

Reviewed and updated. Buy-sell triggers, valuation, funding and transfer mechanics all consistent with the plan.

Current will and powers of attorney

Personal documents that are consistent with the business plan. Out-of-date wills are one of the most common failure points.

Independent business valuation

Refreshed every two to three years, or whenever material changes occur. Provides a baseline for any transaction and a credibility check on internal estimates.

Operating documentation

Standard operating procedures, contracts, employee handbook, IT documentation, intellectual property records. The cost of preparing these is paid in due diligence one way or another.

Financial statements and tax history

Three to five years of clean, consistent financials. Tax returns. Audit history if applicable. The starting point for any external party's understanding of the business.

EXECUTION

Funding the plan

Transitions and successions cost money. Successor development, retention bonuses, legal and professional fees, valuation refreshes, and the funding required to actually execute a buy-sell on a triggering event. Owners who think only about the proceeds from a sale frequently overlook the funding required to get to the sale.

Common funding sources

- Operating cash flow of the business, planned and budgeted over the runway period.
- Cash reserves built specifically to support the transition.
- Bank or asset-based lending against business assets or cash flow.
- Vendor financing from the seller to the successor or buyer.
- Third party financing arranged by the buyer, including private equity or independent sponsor capital.
- Insurance products designed for buy-sell funding, key person protection and disability income.

A note on insurance

Insurance-based funding (life, disability, key person, buy-sell) is a substantial topic with significant tax and structural implications. This guide does not cover insurance specifics. Engage an independent licensed insurance advisor for any insurance-based funding decision.

Communicating the plan

A plan that is not communicated is a plan that fails on contact with the people who need to act on it. Communication is not a single event. It is a structured process, with the right information delivered to the right audience at the right time. Too little communication breeds rumour. Too much, too early, breeds anxiety and flight.

Who needs to know, and when

Spouse and immediate family

First, and continuously. The plan affects them directly and they will be the people relied on if anything unforeseen happens.

Co-owners and shareholders

Early. The plan cannot proceed without alignment among existing owners on direction, timing and structure.

The successor candidate

When the selection is confident enough to commit to a development plan. Earlier than the owner typically wants; later than the successor would prefer.

Key employees

When the path is sufficiently certain that the message protects them from uncertainty rather than creating it. Usually after the successor is selected.

Customers, suppliers and lenders

Closer to the transition, with a deliberate sequence. The message is continuity. The audience reads instability into ambiguous messaging.

The wider organization

After the people above have been informed. By then, the message can be delivered with confidence and detail.

WHY NOW MATTERS

The cost of doing nothing

Most owners reading this guide will already have thought about most of what is in it. The gap between thinking about it and doing it is where value is lost. The costs below are not theoretical. They are observed consistently in lower middle market businesses that arrive at a forced transition without preparation.

Compressed value at sale

Buyers price uncertainty. Missing documentation, undefined successor, single-customer concentration, owner-dependent operations: every one of these moves the multiple down, often by more than the cost of remediation.

Forced sale at the wrong time

Without contingency planning, a triggering event (death, disability, illness, dispute) forces a sale at whatever price the market offers on the day. Distressed sales clear at material discounts to fair market value.

Family disputes that consume value

Conflicting expectations among heirs, undocumented intentions and inconsistent wills produce litigation. The cost is paid in legal fees and family relationships.

Loss of key people during uncertainty

Employees do not wait through ambiguous periods. The people most valuable to a transition are the people most able to leave. They do, and the value goes with them.

Tax outcomes that could have been avoided

Structures that require runway cannot be retrofitted. Owners who arrive at a transaction without tax planning frequently pay more tax than owners who started planning three years earlier.

IN CLOSING

What to do with what you have just read

1

Pick a date

Not a year. A specific date by which a written, dated plan exists. Without a date, planning slips indefinitely.

2

Separate the two decisions

Decide who runs the business (succession) and who owns it (transition) as separate questions. Many plans fail because they conflate them.

3

Write down your goals

Two pages of your own language, dated and signed. Share with the people closest to you. Revisit annually.

4

Address the contingencies

Death and disability are not optional sections. The structures that protect against them (shareholders' agreement, current will, power of attorney, funding) are the cheapest insurance against catastrophic outcomes.

5

Keep learning

The book, the monthly newsletter, the podcast and the YouTube channel each go deeper on specific topics. The next page lists where to find them.

KEEP READING

Additional resources for Canadian business owners

Shaughnessy publishes resources for Canadian business owners navigating an exit. This guide is one of several. Our book, monthly newsletter, audio podcast episodes and video channel each go deeper on the topics introduced here, and on the wider set of issues every owner faces when planning a sale.

THE BOOK
Selling Your Canadian Business
Read a free sample or order on amazon.ca
amazon.ca/dp/b0gfxwjvxq

THE AUDIO PODCAST
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Disclaimer

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