The Succession Economy: Building the Infrastructure for a New Asset Class

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The Coming Ownership Transition

Across the OECD, one-third of owner-managed firms expect to change hands within the decade—roughly **$10–15 trillion in enterprise value** (OECD 2023). In Canada, three out of four small- and mid-sized-business owners are over 55, controlling $2 trillion in assets and employing two million people (BDC 2025). Japan faces 600,000 potential closures as aging founders retire without heirs (DBJ 2024).

This is not creative destruction—it is demographic attrition. Supply chains thin, apprenticeships vanish, and community capital evaporates. The financial system still lacks the instruments that make *continuity* investable. Venture capital rewards invention, private equity rewards efficiency, but neither rewards stewardship. What follows outlines how measurement, liquidity, risk transfer, and governance could converge to build a new asset class around succession, while acknowledging where the ideas remain aspirational.

Measuring Continuity: The Generational Alpha Index

Every asset class begins with a metric. Succession capital needs one that captures *durability* rather than exit yield. The **Generational Alpha Index (GAI)** weights five dimensions—financial return (40%), operational health (20%), community impact (20%), knowledge transfer (10%), and exit optionality (10%).

How it works in practice

Consider a **$15 million precision-manufacturing firm** in Ontario employing 75 people. Over a 10-year transition, the firm maintains an 18-year average employee tenure, 92 percent customer retention, and 2 percent annual productivity growth. Its community payroll share rises 6 percent. On the GAI framework, the firm would score roughly **78 out of 100**, versus 62 for a comparable leveraged buyout that doubles EBITDA but loses half its workforce within five years.

Sector-specific weightings can vary: service firms may assign a higher value to knowledge transfer, while manufacturing emphasizes operational health. Regional calibrations—rural versus urban—could adjust community weighting from 20 to 30 percent.

AI assists by indexing contracts and workflows, ensuring institutional memory survives leadership change. It does **not** assign judgment; it flags risk. The GAI's credibility will depend on transparent data definitions and independent audits—making it more akin to an accounting standard than an ESG score.

Relay Capital Exchange: From Concept to Pilot

Liquidity should preserve, not dismantle, productive ownership. The **Relay Capital Exchange** is envisioned as a digital registry enabling phased equity transfers rather than full buyouts.

Minimal Viable Version

A feasible pilot could involve **20 SMEs in one Canadian province**, with **BDC acting as custodian**. Each participant adopts standardized shareholder agreements with 3-year lock-ups and earn-out templates vetted by provincial regulators. Founders pre-agree valuation bands based on trailing EBITDA averages; trades clear through BDC-hosted escrow accounts. The bank does not take balance-sheet risk—it facilitates custody and compliance.

Lock-ups are enforced via contractual clauses and public-registry visibility. The aim is not speculative trading but a staged transition. Over time, the Exchange could federate regionally shared data standards first, liquidity later.

Behavioural resistance remains real: 41 percent of owners say they would rather close than dilute control (EY 2023). Hence, every transaction must embed a mentorship period. Japan's Founder Residency model —six-month mentorships pre-exit—reduced closures 17 percent (METI 2024). Relay Capital's success hinges as much on coaching as on capital.

Lessons from Private-Equity Secondaries

The PE secondaries market—now **$150 billion annually** (Hamilton Lane 2024) —shows how liquidity emerges only after three decades of standardization. Succession lacks those conditions: audited data, intermediaries, and regulatory neutrality. Whereas PE trades spreadsheets, succession trades stories. Valuations are subjective; trust is personal.

The lesson is sequencing. Standardize first: templates for earn-outs, disclosure checklists, operator certifications. Then build registries. Liquidity will follow from credibility. Private equity monetized maturity; succession must monetize continuity.

Succession Risk Bonds: Experimental Insurance for

Continuity

The **Succession Risk Bond (SRB)** would let investors hedge specific transition risks—operational underperformance, governance failure, or demographic shock. At this stage, it remains an idea in search of a market. Insurers cannot price what they cannot model.

A more plausible starting point is parametric coverage: automatic payouts triggered by observable events (say, turnover above 25 percent or EBITDA drop beyond 15 percent in year one). BDC and DBJ could pilot these contracts within existing SME lending portfolios, treating them as developmental tools rather than commercial products. Five years of pilot data could then inform a true reinsurance market in the 2030s.

The Stewardship Capital Alliance: Federated Governance

The **Stewardship Capital Alliance (GSCA)** aims to standardize succession metrics before financialization runs ahead of ethics. Its structure should mirror a federation rather than a monolith.

Leadership and Incentives

A joint secretariat co-chaired by **BDC (Canada)** and **DBJ (Japan)** could anchor the Alliance, funded by member dues and foundation grants (akin to SASB's early model). Family offices would join for three reasons: access to benchmark data, policy influence, and succession-ready deal flow. Academic centres would supply methodology validation.

GIIN and SASB spent years resolving governance fights over who defines standards; the GSCA must design voting rights and appeal mechanisms from the outset to avoid capture by any constituency.

The Political Economy of Succession

Building a succession asset class means disrupting incumbent interests. Opacity and illiquidity benefit those who already profit from fragmentation. Private equity firms acquire distressed family companies at discounts; wealth advisors earn fees from bespoke deals that standardization would compress; governments collect tax windfalls from estate liquidations.

Policy design must therefore contend with winners and losers. Succession capital threatens to shift power from intermediaries to operators and communities. Any Alliance or Exchange must prepare for pushback—not only technical resistance but political lobbying to protect status quo rents.

The Operator Corps: From Idea to Institution

Succession will collapse without qualified operators. A scalable solution is a public-private **Operator Corps**—a two-year national service program placing 1,000 graduates annually into apprenticeships with retiring founders. Participants receive a modest stipend and an equity credit toward future acquisition. Funding of **$50 million per year**, shared between BDC and provincial governments, could seed the program. Over a decade, that pipeline could produce 10,000 trained operators—enough to absorb a significant share of SME transitions.

The Corps would also diversify ownership: participants drawn from immigran communities and underrepresented groups could broaden the succession base beyond elite MBA networks.

AI's Role and Limits

AI can map customer retention, flag operational risks, and synthesize contracts for due diligence. It cannot measure loyalty, ethics, or trust. Used well, it illuminates patterns that improve human judgment. Used poorly, it creates false precision. The goal is an AI-literate, not AI-governed, succession ecosystem.

Sequencing and Priorities

Measurement and legitimacy come first; liquidity and risk engineering follow. The Generational Alpha Index and the Stewardship Capital Alliance form the foundation. Relay Capital and SRBs should remain pilots until data density and behavioral buy-in improve. Operator development is the binding constraint across all phases.

The Anti-Vision: If Nothing Changes

By 2035, one in three SMEs in advanced economies could vanish. Regional GDP in aging zones would drop 2–3 percent; private equity consolidators could own 40 percent of the mid-market. The result would not be creative destruction but **civic erosion**—a quiet transfer of productive capital from communities to remote funds.

From Concept to Credibility

There is no functioning Relay Exchange yet. No insurer prices succession risk. AI remains assistive, not interpretive. Founders are human; operators scarce; regulators slow. But candour is a feature, not a flaw. Asset classes mature through experimentation, not assertion. Succession capital will advance when its advocates treat trust and transparency as core infrastructure.

Continuity is not nostalgia; it is economic infrastructure. Finance can underwrite purpose—but only if it learns to serve it.

About the Author

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