

Department of Business Studies  
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# **Exploring the Succession Planning Process in Irish BMW Dealerships**

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This thesis is submitted in partial fulfillment of the requirements for the Degree of MA in Accounting, Letterkenny Institute of Technology.

## **Declaration**

### **Disclaimer 1**

“I hereby certify that this material, submitted in partial fulfillment of the requirements of the Master of Arts in Accounting programme is entirely my own work, unless cited and acknowledged within the text as the work of another.”

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## **Abstract**

This thesis is an exploratory study undertaken to analyse Irish BMW Dealerships and whether they plan for succession and the taxes to be paid on the death or retirement of the founder. This study also explores the composition of the family business and the involvement of family members in the family business to ascertain the extent of generational transition.

A substantial body of the literature is reviewed which initially defines succession in family business context. It then specifically highlights the meaning of succession planning and emphasizes the importance of succession planning for businesses. The literature review explores the many merits gained by having a succession planning process in operation within the business. Finally, the problems of succession and the ambivalence towards it are also explored, putting forward explanations as to why family businesses resist succession planning and the multitude of consequences that can arise when the process is ignored.

The research methodology involved both quantitative and qualitative collection of data. The quantitative research was conducted using postal questionnaires and follow up emails. The qualitative research focused on one-to-one interviews with a family business specialist and a senior manager of BMW Ireland.

The evidence from the analyse of the questionnaires suggests that the majority of Irish BMW Dealer Principals do plan for succession, however some of the respondents were of the belief that it was too early to plan for succession since they were still quite young. There was a general agreement amongst all the Dealerships that it was advisable to consult external professionals concerning succession and taxation planning.

The findings also suggest that many of the Dealer Principals are making provisions for the taxes to be paid on death or retirement and thus availing of the numerous tax concessions available.

The research concludes by making recommendations for better communication between the BMW Distributor and the Dealer Principals in regards to their succession plans to promote goal congruence and for the promotion of succession planning within the entire Dealer network, so as to assist existing and /or potential Dealerships in the transition from one generation to the next.

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## **List of Abbreviations**

BMW	Bavarian Motor Works
LYIT	Letterkenny Institute of Technology
PWC	Price Waterhouse Coopers
CPA	Certified Public Accountants
CCI	Chamber of Commerce of Ireland
SME	Small to Medium-sized Enterprises
CGT	Capital Gains Tax
CAT	Capital Acquisition Tax
VAT	Value Added Tax
SSAP	Small Self Administered Pension
MBA	Masters of Business Administration

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# Chapter 1

## INTRODUCTION

### 1.1 Prologue

Family businesses in Ireland have enjoyed a period of phenomenal growth over the past two decades but are now faced with a changing business landscape.

Recent research carried out on over 1,000 Irish family-owned business by BDO Simpson Xavier showed that even though 69 percent want to keep the business in the family, only 29 percent have a plan in place to do so. These are worrying statistics given the fact that Irish family businesses are a driving force of our economy. (BDO Simpson Xavier, 2006).

Irish family businesses make up 90 percent of the indigenous business sector and are responsible for approximately 50 percent of Irish employment. With 60 percent of the leaders of these companies due to retire in the next five years, it is astonishing to note that less than half have a succession plan in place for their retirement. (Irish Management Institute, 2005).

This means that if these businesses fail due to lack of succession planning they could potentially wipe out 15 percent of Irelands total employment in less than half a decade. The Irish family business succession survey published in April 2006 presents an even bleaker outcome with reports that only one third of Irish family businesses survive to second generation. (BDO Simpson Xavier, 2006)

## **1.2 Research Questions & Objectives**

My research question is:

- ‘Do Irish BMW Dealer Principals view succession planning as a strategic objective for their dealership and have they planned their succession?’

My research objectives are:

- To define succession in a family business context
- Determine the opinions and perceptions of Dealer Principals in regards to the strategic importance of succession planning to their business.
- Determine the issues with finding and developing principal successors.
- To identify if BMW Dealer Principals in Ireland are aware of the tax implications of transferring a business.

## **1.3 Justification for the Research**

The problems encountered in family business succession planning are generally ‘human’ ones. Consequently, the areas most in need of consideration mostly revolve around relationships, individual attitudes, business and family cultures, and the values and aspirations involved. Family businesses in Ireland make up ninety percent of the indigenous business sector and account for around fifty percent of Irish employment. This makes it unlikely that any single model or approach to family business succession planning can be applied in all situations.

However, some common themes emerge from a study of the family business succession planning literature.

- The required successor attributes need to be identified and appropriate processes for selecting and nurturing a suitable successor determined.
- The timing and manner of any handover needs to be matched to the existing circumstances.
- The roles and needs of all the important participants should be acknowledged.

- Future business planning and a family business vision shared by all should be established.
- Ownership and inheritance issues must be addressed to maximise all possible reliefs from the various taxes.
- Maintaining good relationships and open communication processes is vital.
- Finally, the future of the incumbent must be clearly determined and managed in order to ensure that both the business and the owner can save tax that would otherwise be a cost.

The need to better understand, plan for, and manage family and small business succession is becoming more widespread. The wealth generated through the Celtic tiger boom has not moved a generation yet, but it is about to. This is due to the single largest demographic segment, 'the baby boomers', now between the ages of 50-74.

Evidence suggests that the succession process is fraught with troubles and very few family businesses survive beyond the first generation, but if they do then the incidence of survival diminishes with each attempted transfer. (Janjuha-Jivraj et Al, 2002).

The prospect of so many businesses failing to survive a transition, and the potential socio-economic consequences attached, marks succession as an important community issue. Moreover, it is very topical at the moment because reports show that only one third of family businesses survive to the second generation. If this changeover is not managed and planned correctly, family businesses in Ireland could be at serious risk of closure and hence the Irish economy as a whole is at risk also.

BMW Ireland in conjunction with Price Waterhouse Coopers (PWC) held a conference on succession planning titled 'Time for a Reality Check' in Kilkenny in October 2006 for their Dealer Principals. It was an effort on their behalf to stress to the Dealers how important it was to plan their succession and highlight this topic area as a key strategic issue from a Distributor point of view.

With this in mind, this research will explore the succession planning process in Irish BMW dealerships, in order to highlight current shortfalls and encourage Dealer Principals to look to the future progression of the company.

BMW Ireland have not carried out any research in the area of succession planning for the Dealerships, but as they have highlighted it as a key strategic issue the results from this research will be beneficial to both BMW Ireland and the Dealer Principals themselves for the following reasons;

- It will highlight areas where deficiencies exist in regards to succession planning within the Dealerships and help them counter-act potential disasters before they occur.
- It will emphasize to the Dealer Principals the many advantages that are available to them by planning their retirement both from a family business continuity perspective and a tax saving perspective. This in turn will ultimately encourage them to ensure a successful succession planning process is conducted in their company.

## **Chapter 2**

### **LITERATURE REVIEW**

With recent surveys suggesting that 90 percent of the indigenous business sector in Ireland is made up of family businesses, it is prudent for the Researcher to assume that the majority of the seventeen BMW dealerships in Ireland are family-owned.

#### **2.1 Family Business**

Much attention has been given to quantifying the differences between family businesses and other forms of business enterprise. Theoretical issues of how to best define and distinguish family business within the general business realm are not the focus of this research; however, a brief mention of some basic points may assist the reader toward a fuller grasp of the subtleties of succession in family business.

Family businesses are no different to any other commercial organisation when it comes to managing the challenges of the business environment. What sets family businesses apart are the distinctive issues that they must also deal with, to ensure survival of the family's legacy.

Characteristic of family businesses is the instinctive loyalty of family members to the success and growth of the business coupled with their ability to make rapid decisions without being hindered by investors who are there for a shorter term gain. It is therefore the unique mix of family and business issues that identifies a family business. (CPA IRELAND, 2007)

### **2.1.1 Defining Succession**

In order to fully understand the concept of succession planning in relation to a family business, it is important to define 'succession' first.

The Concise Oxford Dictionary defines succession as 'the right of succeeding to the throne, an office, inheritance'. This definition relates back to the monarchies of old where dynasties were established and clear procedures for succession were laid out. The usual rule, which is still prevalent today, was that the eldest son would always succeed his father as King.

Ibrahim et Al (2001) defines succession as 'the transference of leadership from one generation to the next', which again suggests a parent to sibling transfer, but not specific to age or gender.

However, the most comprehensive definition was provided by Moore (2006), and will be used for the purposes of this research.

"Succession means passing along the assets, passing along the stock of the operation, passing along the power, the control, passing the values, the culture of the business, passing along the people that are involved and the individuals and the family – that's succession or generation transition" (Moore, H. 2006, Retirement: Getting out of the Driver's Seat)

### **2.1.2 What is Succession Planning?**

"Succession planning means making the preparations necessary to ensure the harmony of the family and the continuity of the enterprise through the next generation"  
(Birdthistle, 2001)

The Chamber of Commerce of Ireland (CCI), with 59 member chambers representing over 12,000 businesses nationwide, launched its own initiative, the Succession Planning Programme in 2005. It is funded under the European Social Fund and designed to assist SME's in the planning and transition to the next generation. They



have defined succession planning as ‘a process where familiarisation and experience over time allow ownership and direction to pass successfully from one generation to the next.’(Chambers of Commerce and Industry, 2006, [http://www.droghedachamber.com/cms/publish/family\\_businesses.php](http://www.droghedachamber.com/cms/publish/family_businesses.php))

### **2.1.3 Why Plan Succession**

Armstrong, (2003) recommends the use of succession planning to ensure that suitable managers are available to fill vacancies created by promotion, retirement, death, leaving or transfer. Succession planning presents the company with the ideal opportunity to re-examine the business strategy, to take a look at where the business is heading, establish new goals and determine what skill-set will be required by the new leader and the management team to achieve these objectives. A well-devised ownership succession plan can result in considerable tax savings and as transferring a business can be an emotionally sensitive process, minimising the tax liability may go some way towards reducing any negative feelings.

However, Ward (2007) believes this area of strategic management can be especially complicated because of the relationships and emotions involved and because most people are not that comfortable discussing topics such as aging, death and their financial affairs.

Much has already been written on the fact that many family businesses fail to plan for succession. (Lansberg, 1988; Birdthistle, 2001; Sharma et Al, 2001).Very often, it is the founder that is to blame for the problem. They may fear losing their identity by turning over the family business or they simply hate losing their power base and position in the family. More often than not, the reasons are psychological as no one likes thinking about their mortality. (Hamilton, L. 2002)

Succession planning is an emotive subject and will be based on personal circumstances and objectives. Consequently there are no general rules to determine the best strategy to put in place. However, whichever strategy is to be implemented, it is important to consider the tax implications arising from that strategy.

### **2.1.4 Tax Planning**

It is critically important to plan an exit strategy to leave the business and extract sufficient funds to provide for retirement.

Sufficient reserves should be put aside to maximise net worth and minimise any taxes arising on the transfer. The sale or transfer of a business attracts Capital Taxes, namely Capital Gains Tax (CGT); Capital Acquisitions Tax (CAT); Stamp Duty and VAT.

The area of succession planning requires careful consideration in order to minimise the taxation pitfalls.

Tax concessions are available across most tax heads that allow mitigation of such Capital Tax liabilities but, as with all tax concessions, there are a number of conditions that need to be met before relief is granted. Consequentially, proper, timely taxation advice from qualified and experienced accountants or tax advisors is vital to the succession plan. However, the best advisor in the world can only be of assistance in this area if they are made aware of all the facts at an early stage as some reliefs require an asset ownership period of up to 10 years. (McDermot, 2008)

### **2.2 Advantages of Succession Planning in Business**

Succession planning should involve all parties and not be developed by one individual. It should start at the earliest possible opportunity. Issues such as identifying a successor within the family and developing their skill set should be encouraged. Deciding on the time frame for succession and planning for the retirement of the present incumbent should also be taken into account (The Accountant 2004).

There are a number of benefits of succession planning which should be highlighted;

- Potentially large liabilities to tax can be reduced
- Facilitates the introduction of the next generation of leaders to the business
- Allows the business to pass successfully onto the next generation

### 2.2.1 Reduce Succession Tax Liabilities

“For capital gains tax and inheritance tax purposes, the taxation of shares in private companies has probably never been more favorable as both capital gains tax and inheritance tax encourage the gift of private company shares (including those listed on the Alternative Investment Market)” Deloitte (2004) ‘Succession planning - A practical guide for owner-managed businesses’

Having a successful succession planning process in place in the company not only ensures that the business will continue to grow after the incumbent has retired but it will also facilitate an exit strategy for them to leave the business and extract sufficient funds to provide for retirement.

‘Family Business, the Future’, an article published by CPA Ireland outlines a number of ways in which sufficient reserves can be put aside to allow the maximisation of net worth and minimisation of any taxes arising on the transfer. These can be summarised as follows;

- Maximise company pension contributions. This should be done in a planned manner, particularly if you are within 10 years of retirement. Consideration may also be given to establishing a Small Self Administered Pension (SSAP) fund to allow you to manage the asset profile of your pension fund in the run up to your retirement.
- Ex-gratia / redundancy payments made to directors for loss of office may be a tax efficient means of extracting funds from the company. There are a number of formulae that should be run in deciding the best option with very generous tax exemption limits available.
- Consider a buy-back of some of the share capital of the company. In such a reorganisation this is treated as a disposal under capital gains tax rules and liable to a tax rate of 20%.

- Plan to maximise the tax-free lump sum that you can receive from your pension fund on retirement. There are a number of options available depending on your circumstances. Again, this involves at least a ten-year look-back so planning early will reward you with significant savings.
- Consider selling surplus / unproductive assets of the business. Not only will this help the business operate more efficiently, but it will also inject cash into the business to help subsidise the other succession tax planning options available.

With so many options to consider, it must be borne in mind that seeking professional advice is essential when planning for succession.

### **2.2.2 Introduce the Next Generation of Leaders to the Business**

Family businesses are advised to identify a successor and groom the chosen successor at least five to ten years in advance of the retirement of the incumbent. This is because it is important for the successor to learn about the peculiarities of the family business. Furthermore, early exposure to others in the family business also facilitates acceptance of the successor and the achievement of credibility by the successor amongst the key stake holders. (Lee et Al, 2000)

**“If you enjoyed watching your children grow in the family, you will love watching them grow in the business” (O’Malley, 2004)**

The preparation of the successor relies heavily on the actions of the incumbent. They must understand that successors need time and the opportunity to gain the credibility to be considered an effective successor. Having a succession plan in place will aid the transition of leadership through preparing the appropriate person well in advance of the incumbent’s departure from the business. There are several ways successors can gain appropriate skills and experience needed to assume the leadership role. The first is for them to work in the business from an early age and gain direct experience of the business from the bottom up.

Another way is for the successor to gain an education that is useful to the business and this may see the successor undertake an MBA or some suitable technical training course. A further option for the successor is to acquire experience through working in another business and this is seen as a useful means of broadening of a successor's abilities and skills.

Incumbents influence a successor's preparedness through the types of tasks they delegate to them and the kind of example (transmitting their values) they set for successors to follow. Many family business leaders prefer internal and 'hands on' methods of preparing successors over others. This gives a successor valuable business experience; however, this method alone may not always properly prepare a successor in every circumstance. With this in mind, succession planning may need to rectify deficiencies in successor preparation due to the type of, as well as a, lack of experience.

David Wider, corporate partner at A&L Goodbody explains that many children who inherit a business are keen to make their mark and plough their own furrow. Therefore, "there needs to be sufficient time to optimize the transfer of business to family members to ensure that the next generation has a thorough knowledge of the business". Irish Times - Succession Planning Special Report, 02/05/08.

### **2.2.3 Successful Transfer of the Business**

With all family businesses there is a desire to retain control within the family which reflects the respondent's plans to transfer ownership of their business to offspring or other relatives.

It very important that there is a plan for when responsibilities for, and power over, the business is actually handed over. A progressive delegation of authority to the successor is essential if the successor is to assume full control of the family business and help it gain and sustain competitive advantage. The actual transfer of power is a critical issue in the successful implementation of any succession plan. (Fox et Al, 1996)

Danica Murphy, Managing Director with Leadership Dynamics says she frequently sees “business leaders focus on their financial exit strategy but don’t address their leadership exit strategy”. Irish Times - Succession Planning Special Report, 02/05/08.

Rather than a single, dramatic movement, the smooth succession of a business more resembles a flow of events that occurs over time. Like a well-run relay race, the handing over of a company should be graceful, carefully strategised and well executed if it is to be successful. (Gillette, 2004)

**“Begin succession planning the day after the first family member joins the business” (O’Malley, 2004)**

Wealth management partner with law firm William Fry, Nora Lillis, believes that the most important message of succession is all about planning and timing in terms of dealing with successfully passing on a business to the next generation. She highlights the fact that all family businesses will have to deal with the dilemma of succession at some stage and it is vital that they consider the maturity of the proposed inheritors and their understanding of and competence with the business.

Murphy. D (2008) explains how Ireland has had a business boom over the past decade and more, many of the individuals who so energetically forged that boom and built great businesses are now preparing for their retirement. She believes that “by embedding that legacy, the transition will be more secure and the leader will be able to leave confident that the business or organization will continue and grow successfully”. Irish Times - Succession Planning Special Report, 02/05/08.

### 2.3 The Succession Process

Sharma et Al, (2001) believe managing the transition from one generation to another is a difficult process, but is considered the most important issue in family business management.

Hennesy, (2005) agrees, stating that family businesses play a crucial role in our economy.

Over the past fifteen years Ireland has seen the emergence of a very resourceful and entrepreneurial business environment with successful business people generating significant wealth in that period. Thus it is vital that succession planning be introduced to facilitate the introduction of the next generation of leaders to the business which will allow the business to pass successfully and stimulate the future growth of the business and retain wealth. Grooming a successor has never before been considered so important (Madigan, Gill 2005).

The succession process is the timing of succession. Davis and Tagiuri (1989) find that the life-stage combination of the father and son can either facilitate succession or aggravate the tensions that accompany it. There is no point in the incumbent 'telling' the successor that he/she will 'own all this some day' if a precise plan is not in place to encourage the transition. This suggests that succession planning can help make succession smoother. It is therefore conceivable that a smooth succession, especially if it yields an ideal candidate, can have a positive effect on the economic performance of a family business. Sharma et Al, (2001)

**“If you have ever said – ‘someday this ill all be mine’ – then immediately send your resume to General Motors” (O’Malley, 2004)**

A further issue related to succession is concerned with making sure that the next generation is both interested in joining the family business and capable of managing it. A succession plan is therefore vital to ensure that the correct candidates are not only chosen by the incumbent and fully trained prior to their departure, but that the

successor has actually decided themselves that they would like to take over the business and help it to be successful well into the future. (Lee, 2000)

### **2.3.1 Barriers**

Since the importance of succession planning is so topical, why have Owner-Managers failed to highlight it as a key strategic issue for their firms?

The literature reviewed highlights four barriers to succession planning that stifles the process as follows;

- Choosing a Successor
- Reluctance to Let Go
- Valuation of Shares in a Business
- Tax Liabilities

#### **2.3.1.1 Choosing a Successor**

The global family business survey 2007/2008 carried out by Price Waterhouse Coopers shows that one of the greatest challenges for family businesses comes when passing ownership and/or control to the next generation. The decision of which family members should be allowed to work in the business and which roles they should play may be personally, as well as commercially difficult. The biggest hurdle family business owners must jump is the mindset of treating children equally. In dividing family business assets there is rarely fairness in the equal division of assets. Instead, owners must consider being fair and equitable. These goals can be mutually achievable. (CPA IRELAND, 2007)

However, identifying a successor is not an easy task. It is important that the successor identified has the appropriate skills and experience to take on the running of the family business. Succession planning involves more elaborate planning for skill development of potential replacements, is more systematic in the assessment of potential



replacements and their development needs, and generally applies to higher levels of managerial positions (McCarthy 2004).

#### **2.3.1.2 Reluctance to Let Go**

*“For many family business members the business is the focal point of their lives. It is more important than their spouses, their children or their friends”* (O’Malley, 2004)

In family firms, the incumbent’s inability to ‘let go’ has been cited as the single largest problem in succession. (Davis, 1982; Handler, 1989; Kepner, 1983)

In most cases, an incumbent has a difficult time visualising life without a significant leadership role in the family business. (Kets, 1985) They may fear losing status in the family and the community, as both may be closely intertwined with his or her role in the family business.

According to Binchy, (2006) managers in SME’s have an almost umbilical connection to their business, through ownership, family or long service. They are usually robust characters that often hold the view that nobody knows their business quite like they do. Additionally, addressing the issues of succession requires an incumbent to coach, develop, and plan rather than do. They must watch others make mistakes and learn from them and more importantly, accept that others may do the job differently and be effective. (Firnstahl, 1986)

#### **2.3.1.3 Valuation of Shares in a Business**

According to Cremins (2005) the valuation of unquoted shares is an art, not an exact science. It is a subjective determination and therefore it is extremely difficult to value a business with mathematical certainty. It is based on the concept of a willing buyer and a willing seller and the acquisition of the entire share capital of the company.

With up to eighty percent of Owner-manager’s total net worth typically tied up in the business or business-related property, they will obviously have the perception that their business is more valuable than it actually is. (CPA IRELAND, 2007)

Family business owners tend to plough available cash / profits back into the business and as a result often awaken to the reality that they have built themselves traps by having such a large percentage of their total net worth tied up in their illiquid businesses. This makes the whole issue of succession an even bigger burden for them. However, by planning early, certain funds can be “put aside” to facilitate the smooth transition from one generation to the next in such a way that will not cripple the reserves of the business.

While most owners have a rough idea what their businesses are worth, a valuation exercise is an important part of any succession plan. Such a valuation will also help to assess the likely exposures to Capital Taxes on transferring the business to the next generation. There are various methods available to value a business, such as earnings basis, asset basis, dividend yield, etc, but the particular method to be adopted depends on the specific circumstances of each company. (Cremins 2005)

#### **2.3.1.4 Tax Liabilities**

One of the principal tax issues facing the ever growing list of Irish High Net Worth individuals is the tax cost of transferring their wealth to the next generation. When first introduced in 1976, gift and inheritance tax (CAT) only concerned the super rich. Since then, increases in the tax free thresholds have failed to keep pace with the rising level of wealth in the country. When the tax was first introduced you could transfer a value equivalent to 13 times the price of an average Dublin house to each of your children without breaching their tax free threshold. This year, your child's threshold barely rises above the average Dublin house price. (O'Rahilly, 2005). What this means is that families with even modest wealth can now fall within the gift and inheritance tax net. If the appropriate tax planning has been done this tax cost could be eliminated.

In addition to these barriers, an incumbent may be reluctant to step aside because that means facing his or her mortality and confronting the life changes that follow succession. (Lansberg, 1988) This is a very sensitive and emotional subject to them and when all factors are combined they dramatically decrease the urgency of an incumbent to exit. (Kets, 1988).

## **2.4 Consequences of Lack of Succession Planning**

The consequences of not facing reality and having a succession plan in place may be more excruciating than the actual process itself.

Lack of succession planning has been identified as one of the most important reasons why many first generation family firms do not survive their founders. (Binchy 2006; Lansberg, 1988). 70 percent of all family firms are either sold or liquidated after the death or retirement of their founders (Beckhard and Dyer, 1983).

Succession planning can be overlooked because owners are too busy running the business or simply do not see it as an issue because it is assumed that the next generation will be automatically interested and capable (Neary 2007).

Hofer and Charan (1984) believe that, within the context of professional management transitions, the chances of a successful succession are “practically nil” if the incumbent is not committed to the process. Sharma et Al, (2001) agree, stating that without the support of that powerful and legitimate stakeholder the chances for a satisfactory succession are seriously diminished.

Additionally, Lansberg, (1988), highlights the fact that franchise agreements may not be renewed if a ‘suitable successor’ to the Dealer Principal is not in place. As this is extremely relevant to the motor industry it could prove detrimental to the company.

## **2.5 Conclusion**

Recent surveys and ongoing research in family business continue to support the notion that the greatest risk to the continued success of family business is the passing of the business from one generation to the next. Family business succession is different and much more difficult than succession for non-family enterprises. The impact that family dynamics can have on the succession process should not be underestimated. In some cases, family dynamics are the elements that define whether or not the transition is successful. Family businesses that are willing to acknowledge and manage the family

dynamics, and the unique challenges that they can create, are far more likely to experience a successful transition.

Family business owners have to work through the succession process while playing several different, and at times conflicting, roles. On one hand they must play the role of the business owner and leader by determining what is best for the business, which may not be consistent with what family members want. On the other hand, owners must also play the role of parent, friend and coach to their children, providing them with unconditional love, support, protection and both career and life opportunities. These roles are often conflicting. Balancing the needs of the business and the needs of the family is no easy task and often is the major contributing factor to the absence of formal succession planning for the business.

While family business owners often believe that their family issues are unique, most family businesses experience the same issues and challenges. Most successful family businesses will face the challenges embedded in the key succession elements. If you handle these key issues properly, your succession plans have a much greater chance of succeeding.

Good communication and structured coherent planning are the keys to the success and survivability of family businesses.

You should also appreciate that business succession is not a single event but rather a long term process of identifying talent and winning support for change. The process should involve all parties and not be developed by one individual. It should start at the earliest possible opportunity. Issues such as identifying a successor within the family and developing their skills set should be encouraged. Deciding on the time frame for succession and planning for the retirement of the present incumbent should also be taken into account, together with assessing the financial impact for the business and for the individual that such a retirement may have.

## Chapter 3

### RESEARCH METHODOLOGY

#### 3.1 Introduction

Research methodology refers to the systematic process of collecting and analysing information in order to increase the understanding of the phenomenon concerned. (Leedy and Ormrod, 2001)

This chapter is devoted to the theoretical and conceptual consideration that affected the particular research design adopted so as to complete this study.

#### 3.2 Research aims and objectives

The aim of this research is to operationalise the research question into research objectives and field questions with the capacity to answer the research question.

#### 3.3 Research design

*“A research design is a procedural plan that is adopted by the researcher to answer questions validly, objectively, accurately and economically.”* (Kumar, 1999, p74) Its main function is to explain how the researcher will find answers to their questions and sets out the logic of their enquiry. (Kumar, 1999)

##### 3.3.1 Research philosophy

The purpose and context of research can differ significantly from pure research(deductive approach) involving the development and testing of a hypothesis with knowledge discovered adding to the existing body of knowledge, to applied research(inductive approach) which is used in the social sciences and collates information and enhances understanding about aspects of a situation, issue, problem or phenomena. (Saunders et al, 2003)

The first step the researcher must take in designing their research strategy is to identify the most suitable philosophy to pursue.

### **3.3.1.1 Positivist research**

Positivism exerted most influence during the eighteenth and nineteenth centuries as scientific advances allowed concepts to be measured quantitatively. It is a structured approach to data gathering which is analysed and interpreted in both a factual and statistical manner facilitating replication whereby repeated examination yield the same outcome. A key distinction of this method is the fact that “*the researcher is independent of and neither effects or is affected by the subject of the research*” (Remenyi et al, 1998, p33)

Other distinguishing features of the positivist approach are, it is a deductive approach, it seeks to explain relationships between variables, it generally uses quantitative data and it uses controls to test a hypothesis. (Gill and Johnson, 1997) It also uses large samples, the location is artificial, reliability is high, validity is low; and it generalises from one sample to a population. (Hussey and Hussey, 1997)

### **3.3.1.2 Interpretive research (phenomenology)**

Those researchers critical of positivist research argued that “*rich insights into this complex world are lost if such complexity is reduced entirely to a series of law like generalisations.*” (Saunders et al, 2003, p84) Hence, interpretivism emerged.

Interpretive research seeks to understand the subjective reality of those being studied, making sense of their motives, actions, and intentions in a way that is meaningful to the research participants. (Saunders et al, 2003; Walliman, 2001)

Collis and Hussey, 2003, identified the following features of interpretive research, it normally produces qualitative data, it uses smaller samples, it is concerned with generating theories, data is rich and subjective, the location is neutral, reliability is low, validity is high, and it generalises from one setting to another. (Collis et al, 2003)

### **3.3.1.3 Research philosophy adopted**

The researcher has chosen the interpretive approach for its strengths in enhancing understanding about aspects of succession planning and because it is the most

appropriate method to answer the research question. Both the researcher and the participants could introduce bias to the findings using this approach as they interpret the questions and findings in their own unique way. However, the research methodology and the research questions have been designed to limit this possibility.

### **3.3.2 Research focus**

The objective of the research has four main classifications. (Saunders et al, 2003; Kumar, 1999)

#### **3.3.2.1 Exploratory research**

Exploratory research is a valuable means of finding out “*what is happening: to seek new insights; to ask questions and to assess phenomena in a new light.*” (Robson, 2002, p59) It is often used to investigate the possibilities of undertaking a research study or to develop, refine or test measurement tools or procedures. (Kumar, 1999)

#### **3.3.2.2 Explanatory research**

Explanatory research attempts to clarify how and why there is a relationship between two aspects of a situation or phenomenon. (Kumar, 1999)

#### **3.3.2.3 Descriptive research**

Descriptive research attempts to describe systematically a situation, problem, phenomenon, service, program or attitudes towards an issue (Kumar, 1999), often providing a basis for further research. (Sekaran, 2000)

#### **3.3.2.4 Correlation research**

Correlation research attempts to discover a relationship, association or interdependence between two or more aspects of a situation. (Kumar, 1999)

#### **3.3.2.5 Research focus adopted**

Prior to carrying out any intensive research, it is fundamental that the researcher carries out exploratory research so as to identify the overall objective and/or hypothesis of the research. (Birdthistle, 1998). This research begins as exploratory

research as the researcher finds out what is happening concerning succession planning in the Irish context.

Descriptive research will then be used to describe succession planning practice in Irish BMW Dealerships including the opinions and perceptions of the Dealer Principals to the merits and demerits of that practice.

### **3.3.3 Research tools**

The research process will depend on the type of information required.

#### **3.3.3.1 Data required**

The data required will dictate the research tool adopted.

##### **3.3.3.1.1 Qualitative**

Qualitative data is based on meanings expressed through words whereby results are collected through non-standardised data requiring classification into categories for analysis using conceptualisation. (Dey, 1993)

##### **3.3.3.1.2 Quantitative**

If information is gathered using predominantly quantitative variables, and if analysis is geared to ascertain the magnitude of the variation, the study is classified as a quantitative study. (Kumar, 1999)

##### **3.3.3.1.3 Information required**

The information required in this research is quantitative in nature and since the study is substantially descriptive, this research provokes statistical and diagrammatical analysis.

#### **3.3.3.2 Data collection methods**

There are two broad categories of primary and secondary data.

##### **3.3.3.2.1 Secondary data**

Secondary data are data that have previously been compiled. (Kervin, 1999) The value of the data found will vary depending on the availability, format, and quality of the



data, which are a function of, validity and reliability, personal bias, availability of data, and format. (Kumar, 1999)

#### **3.3.3.2.1.1 Evaluation of secondary data**

This research found much valid and reliable literature as it had been peer reviewed, and was produced by highly regarded authors. Some literature, however, did show evidence of bias which the researcher tried to overcome by including contrary facts and opinions. It was not difficult to find literature or data relevant to the Irish situation and but there was a distinct shortage of recently published books on this very specific topic area.

#### **3.3.3.2.2 Primary data**

There are several methods available for collecting primary data. The choice of method depends on the purpose of the study, the resources available, and the skills of the researcher. (Kumar, 1999) Each method has its own specific advantages and disadvantages and the researcher must select the most appropriate method to answer the research question while simultaneously considering their constraints.

##### **3.3.3.2.2.1 Interviews**

*“An interview is a purposeful discussion between two or more people,”* (Kahn and Cannell, 1957) and is an effective means of gathering valid and reliable data pertinent to the research question(s) and objective(s). (Saunders et al, 2003) It is suitable for gathering quantitative data but particularly good when qualitative data are required. (Walliman, 2001) There are three main categories:

##### **3.3.3.2.2.1.1 Structured interview**

Structured interviews ask a set of predetermined questions providing comparable uniform information which requires few interviewing skills. (Kumar, 1999) They are useful in both descriptive studies as a means of identifying general patterns, (Saunders et al, 2003) and quantitative and statistical analysis containing closed questions similar to a questionnaire. (Walliman, 2001)

#### **3.3.3.2.1.2 Unstructured interview**

This is an in-depth interview, useful in exploratory research, follows a framework guide, allows for spontaneous questions, is suitable for sensitive topics and is extremely useful when little is known about the topic area. It requires researcher skill in following a direct line of enquiry. It suffers difficulties both in terms of data analysis, interviewer bias and comparability as each interviewee can be asked different questions. (Kumar, 1999) Sample size is limited due to interviews being one-to-one causing time and financial constraints with questions requiring careful planning and preparation. (Saunders et al, 2003)

#### **3.3.3.2.1.3 Semi-structured interview**

This type of interview is a combination of the structured and unstructured interview. It achieves defined answers to defined questions while leaving time for further development of those answers often containing more open-ended questions. (Walliman, 2001) It is useful in explanatory studies as it aids understanding of the relationships between variables. (Saunders et al, 2003)

#### **3.3.3.2.2 Survey questionnaires**

A questionnaire includes all techniques of data collection in which each person is asked to respond to the same set of questions in a predetermined order. (deVaus, 2002) Questionnaires are descriptive in nature as they are largely concerned with the what, when, where and how questions. (Saunders et al, 2003)

##### **3.3.3.2.2.1 Merits of questionnaires**

- Distributed to a large population
- Data are standardised enabling comparison
- Data is easily analysed
- Quick and simple for respondent to complete
- Respondents have time to consider their answers
- Address a large number of issues in a relatively efficient way
- Permit anonymity, increasing the rate of response and the likelihood of genuinely held opinions
- Less expensive than other methods

#### **3.3.3.2.2.2 Demerits of questionnaires**

- Low response rate
- Self selecting bias as some not returned
- Ambiguous questions are not clarified
- Spontaneous answers are not allowed for as there is time to reflect
- Responses may be affected by other questions as respondents can read the entire questionnaire
- It is possible to consult others before answering
- Responses cannot be supplemented with other information (Kumar, 1999)

#### **3.3.3.3 Research tool adopted**

After reviewing the research tools available, the researcher concluded that questionnaires and interviews were best suited to the research question so observations and case studies were discounted and therefore are not included. Questionnaires were chosen as the method of data collection most appropriate for achieving the objectives of this study as the majority of the research questions are closed, the research is largely descriptive, the data are quantitative, and even though the population selected is not large and it is geographically dispersed.

The researcher recognises that a multi-method of data collection, including interviews would allow triangulation of data, whereby the researcher would be more confident that the data is telling them what they think it is telling them, enabling the researcher to attain a better understanding of the responses given, whilst simultaneously addressing some of the disadvantages of questionnaires. However, the constraints of resources, time, and the availability of Dealer Principals time do not make this an option for this research project. Alternatively the Researcher will interview the Dealer Development Manager at BMW Ireland to gain information on the opinions and perceptions of the distributor. As a further enhancement to the research to gain current knowledge of the issue in an Irish context, the Research will interview a Senior Manager at BDO Simpson Xavier, who are family business specialists.

The questionnaires will firstly be administered via post to the Dealer Principals of each BMW Dealership. BMW Ireland have agreed to endorse the survey by subsequently sending an email direct to the Dealer Principals after the questionnaires have been

posted. The Research will then follow up with an additional reminder letter a week later to ensure response success.

The questionnaire was pilot tested by Mr Starritt Graham at Graham BMW in Letterkenny and two amendments were made.

The postal addresses were obtained from the BMW Ireland website and Mr Paul Murray of BMW Ireland provided the names of each of the Dealer Principals so the questionnaires would be sent directly to them.

### **3.3.4 Constructing an instrument for data collection**

A questionnaire was constructed to collect primary data.

#### **3.3.4.1 Questionnaire design**

Good questionnaire design will affect the response rate along with the reliability and validity of the data collected. This can be achieved by, careful design of individual questions, clear layout of the questionnaire form, coherent explanation of the purpose of the questionnaire, pilot testing and carefully planned and executed administration. (Saunders et al, 2003).

#### **3.3.4.2 Questions**

The researcher designed the research questions by adapting questions from a previous similar study of Irish companies in general and tailored it to suit the research population. The questions were designed so that mostly 'Yes/No' answers were applicable to simplify the process and to encourage a positive response rate.

#### **3.3.4.3 Research population**

The research population selected is the seventeen Dealer Principals of BMW Dealerships spread across the Republic of Ireland.

##### **3.3.4.3.1 Sampling process**

As the entire population of Dealer Principals was selected, sampling is not a feature of this research project. The reasons for selecting the entire population are, the population contains only seventeen companies, all easily assessable and contactable and larger samples enable results to be generalised.

#### **3.3.4.4 Data analysis**

The data will be analysed using Excel spreadsheets and diagrammatical charts. As many of the research questions are closed, they are already categorised.

### **3.4 Credibility of the research**

All research studies include dilemmas in terms of planning and implementation and this means making a choice of appropriate methods of research and how to apply it to the study. Gill and Johnson (1991) argue that ‘there exists no independent form of evaluating different research strategies in any absolute term. However, the concepts of validity, reliability and generalisability can be considered as accepted criteria for research assessment’. Therefore the credibility of the research findings are inextricably linked to the validity, reliability and generalisability of the research. The readers will seek evidence that the findings are such.

#### **3.4.1 Validity of the research**

*“Validity is defined as the degree to which the researcher has measured what he has set out to measure.”* (Smith, 1991, p106; Kumar, 1999) The validity of what is found rests largely on how it was found. Gill and Johnson (1991) identify two main types of validity: Internal validity refers to the establishment of causal relationships; External validity refers to the extent to which the results of the research are applicable beyond the immediate setting of the research.

#### **3.4.2 Reliability of the research**

*“A scale or test is reliable to the extent that repeat measurements made by it under constant conditions will give the same result.”* (Moser and Kalton, 1989, p353)

Therefore, reliability refers to the consistency of the results obtained in the research.

#### **3.4.3 Generalisability**

Generalisability is referred to as external validity and the extent to which the research findings are representative of a larger population. (Saunders et al, 2003)

#### **3.4.4 Evaluation of the credibility of this research**

Readers can evaluate the credibility of this research (interpretive in nature) as they explore the linkages between the research question, the research objectives, the field questions and finally the findings for evidence of a research methodology appropriate to the research question.

#### **3.5 Ethical issues**

Ethics are a code of behaviour appropriate to academics and the conduct of research. Being unethical involves; causing harm to individuals, breaching confidentiality, using information improperly and introducing bias. (Kumar, 1999; Saunders et al, 2003)  
This research is conducted in an ethical manner.

#### **3.6 Limitations of the research**

The researcher had the constraints of time (being a mature student with a full time job), financial (privately funded), and human resources (only one researcher and so much to research) which all contributed to the research methodology pursued.

Other limitations include the dispersed geographical location and gaining access to literature in larger libraries.

This research is also subject to the limitations that questionnaires entail, the main factors being that the researcher is never sure that they were completed in earnest which has the potential to affect the credibility of the findings.

#### **3.7 Conclusion**

This research was carried out to explore succession planning in Irish BMW Dealerships. The research will take the form of interpretive research using the inductive approach. It will be exploratory in nature leading to descriptive research. The data will be quantitative establishing the magnitude of variations and will be presented

both statistically and diagrammatically. Survey questionnaires and semi-structured interviews are the research tools used to collect the primary data and are distributed to the entire population. Data analysis will be performed using Excel.

## Chapter 4

# FINDINGS & ANALYSIS

### 4.1 Introduction

The purpose of this chapter is to study and analyse the data collected during the primary research. This will involve an examination of the questionnaire responses in order to determine whether Irish BMW Dealerships believe that succession planning is important to their business and whether they have planned their retirement in a tax efficient manner. Furthermore, this chapter will involve a review of the transcripts from interviews conducted with BMW Ireland and BDO Simpson Xavier in order to ascertain their views on this area of research.

### 4.2 Analysis of survey results and the interview findings

The questionnaire was sent to the 17 BMW Dealer Principals in Ireland. **(A copy of the questionnaire sent including the covering letter and follow up email from BMW Ireland can be found in Appendix I)** At the end of the data collection period a total of 12 responses were received, yielding a 70.5 percent response rate. **(Response results can be found in Appendix II)**

A semi-structured interview was conducted with a senior manager and family business specialist at BDO Simpson Xavier, Ms Joan Mulvihill, to gain some insight into the poorly documented emotional aspects of succession planning. As the interviewee deals directly with the incumbents of family businesses, she was able to explain the emotional difficulties they struggle with when handing the business over to the next generation. **(A transcript of the interview is included in Appendix III)**

A semi-structured interview was also conducted with a senior manager at BMW Ireland, Paul Murray. The purpose of this interview was to ascertain exactly why BMW Ireland has highlighted succession planning as a key strategic issue and what part they play in promoting succession planning within the 17 Dealerships in Ireland. **(A transcript of the interview is included in Appendix IV)**



### 4.3 Demographic Results

The questionnaires were sent directly to the owners of the businesses as the questions related specifically to an incumbent passing on a business and the researcher thought the best possible results could be obtained if they answered the questions themselves.

Respondents were asked if the business was acquired or a start up business by themselves. 66.7 percent stated that they started up the business with the remaining 33.3 percent being acquired. The researcher required this information to assess whether generation transition had previously taken place and this was confirmed from the results received.

#### Q2. Did you acquire or start-up the business?

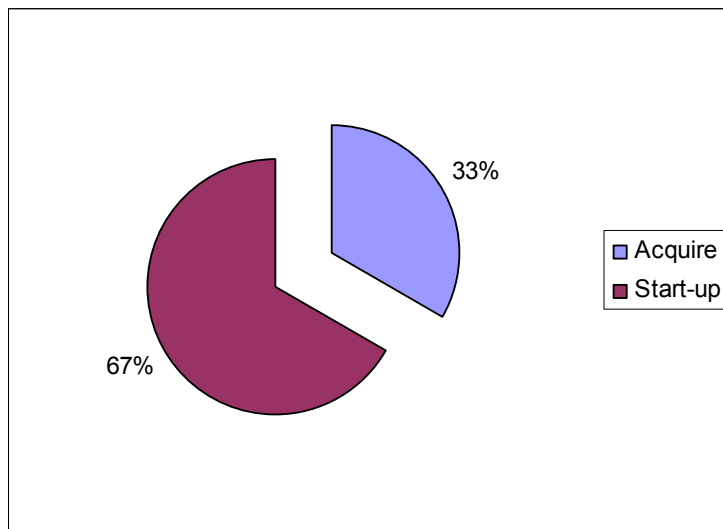
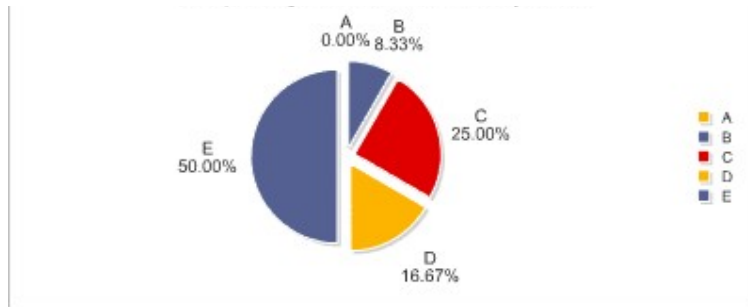


Figure 4.1

When the respondents were asked what their share ownership was, 50 percent declared an ownership in excess of 81 percent of the shares in the business, while only 8.3 percent own less than 41 percent of the shares in the business. The remaining 41.7 percent of respondents own between 41 and 80 percent of the shares in the business with no respondents declaring a share ownership of less than 21 percent. However, 60 percent of respondents stated that family members owns between 1 and 40 percent of the shares in the business detailing that all respondents to the survey are actually owners of family businesses. This was an expected result as Mr Paul Murray of BMW

Ireland confirmed in the interview that “we have seventeen Dealers in the country, sixteen of which are actually family businesses”.

**Q3. What percentage of shares in the business do you own?**

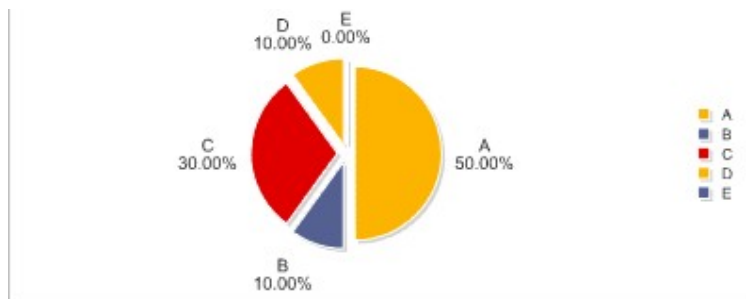


**Figure 4.2**

- A) 1-20%
- B) 21-40%
- C) 41-60%
- D) 61-80%
- E) 81-100%

*(These percentages are used for both charts)*

**Q4. If not 100%, what percentage of share in the business is owned by other family members?**



**Figure 4.3**

#### 4.4 The Importance of succession planning to Irish BMW Dealerships

It was essential for the researcher that all respondents had a slight knowledge of succession planning, so the question was posed if they had heard of succession planning prior to the questionnaire. 100 percent of respondents stated that they had. This satisfied the researcher that the results from the survey were reliable as the respondents knew what they were answering.

##### Q10. Have you heard of succession planning prior to this questionnaire?

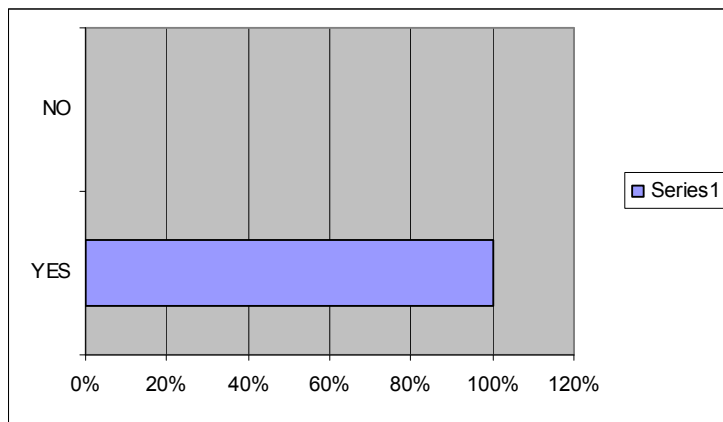


Figure 4.4

When asked if they thought succession planning was important to their business, 91.7 percent believe that it is while the remaining 8.3 percent feel it is not important to their business.

##### Q11. Do you think succession planning is important to your business?

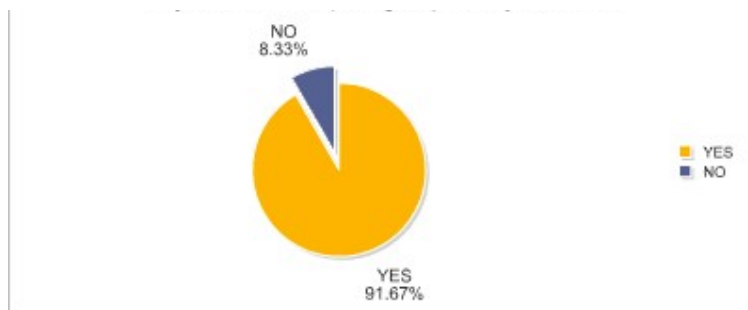
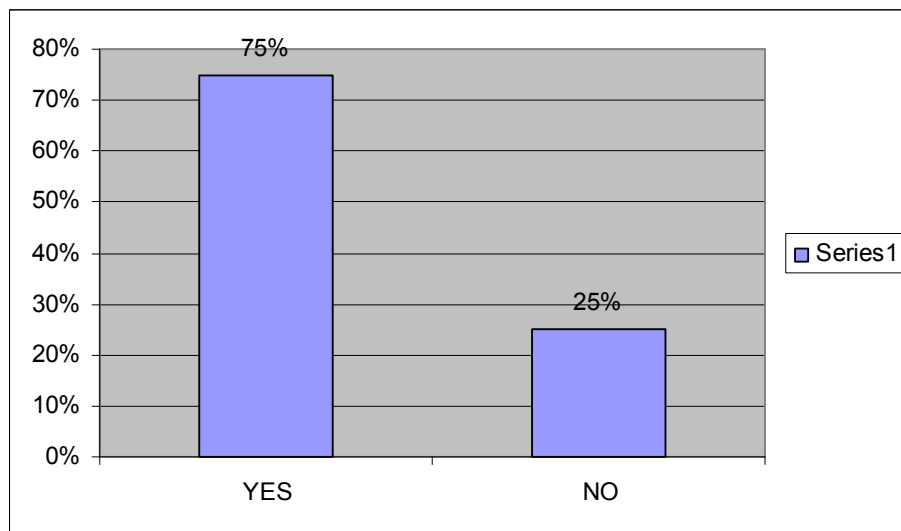


Figure 4.5

However, with 91.7 percent believing that it is important to their business, only 75 percent have actually put a succession planning process in place in their business. When asked to specify why they did not have a succession planning process in place in their business, the remaining 25 percent declared other reasons outside the researcher's possible reasons. These were lack of interest, lack of knowledge, lack of time or sensitive subject.

**Q12. Do you have a succession planning process in place in your business?**



**Figure 4.6**

With regards to the interview with BMW Ireland, Mr. Murray believes that the BMW Dealers do view succession planning as important to their businesses and stated that “it is an area that we have put a lot of emphasis on over the last two years”. He explained how Denis Cremins, formally of PWC, highlighted to the Dealer Principals at a conference in 2006 “issues for them personally and then for their families who would be left with issues post their death which again brought home to them in both personal terms in how it would impact upon the family and then in financial terms how it would impact upon their tax liabilities that their estate would effectively accrue”.

Furthermore, Mr. Murray believes “many of the Dealer Principals are taking succession seriously in that they are bringing in professional managers where they realise that the family members are not capable or interested in carrying out that role”.

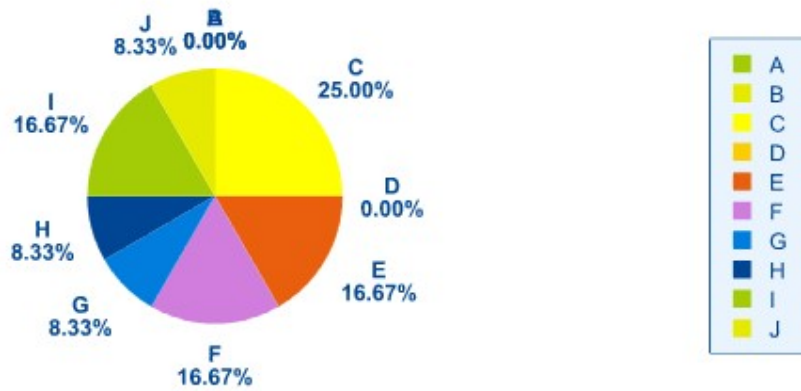
The researcher also asked Mr. Murray what percent of Dealers he thought has a succession planning process in place to ascertain what BMW Ireland’s perception was. His believe is “In some cases it is less of an issue where the Owner/Manager is young and the business has just been transferred. So on one or two cases we have start up situations or we have a young Dealer Principal who has just taken over from his father. In terms of others then, seven of the network in total have previously transferred ownership to the next generation which suggests that they have some form of a succession planning process in place”.

Contrary to this, Ms Mulvihill believes in the euphemism ‘the expected and planning for the unexpected’. She stated that “we’ve all planned for when we expect to die or to retire but it is the planning for if we get hit by a bus tomorrow”. So therefore even though the Dealer Principals may be young or new start ups they should still plan their succession.

As part of the survey, the researcher felt it was important to ascertain what age the respondents were, how long they had worked in the business and how soon did they expect to retire. Given the definition of succession as outlined in the literature review, these questions were necessary to test the relevance of the population surveyed.

Very interestingly, 75 percent of respondents have worked in the business longer than 20 years, with 25 percent actually longer than 40 years. 66.6 percent of the respondents are over 50 years of age, with half of these over the age of 60 years. However, only 25 percent are expecting to retire in the next 5 years.

**Q7. How long have you worked in the business?**



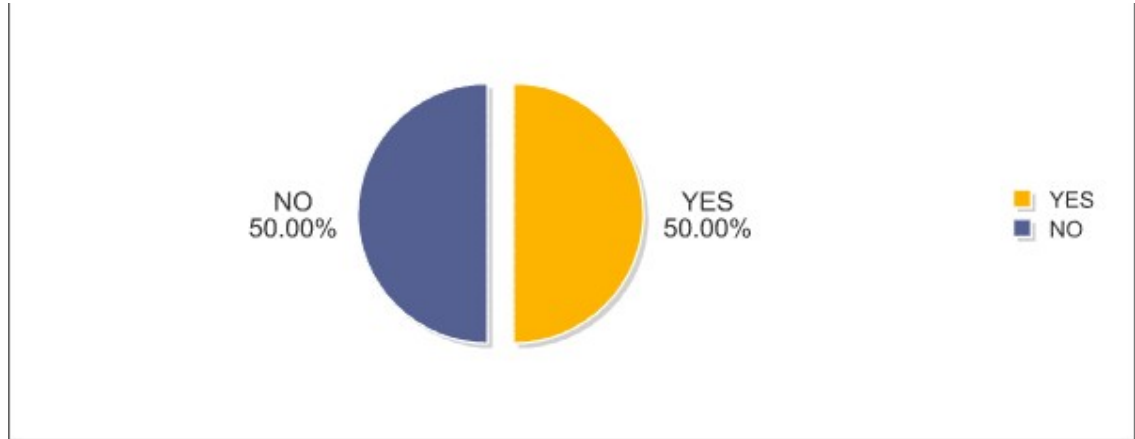
- A) 1-5 YEARS
- B) 5-10 YEARS
- C) 10-15 YEARS
- D) 15-20 YEARS
- E) 20-25 YEARS
- F) 25-30 YEARS
- G) 30-35 YEARS
- H) 35-40 YEARS
- I) 40-45 YEARS
- J) 45-50 YEARS

**Figure 4.7**

With regard to the interview with Ms Joan Mulvihill of BDO Simpson Xavier, she believes that entrepreneurs “have no concept of ever retiring”. She states that running the family business is “what they have always done, they’ve always been in control and that is why they were entrepreneurs in the first place”.

The respondents were also asked if they had made plans for what they will do when they retire and this question attracted a 50/50 split.

**Q26. Have you made plans for what you will do after retirement?**



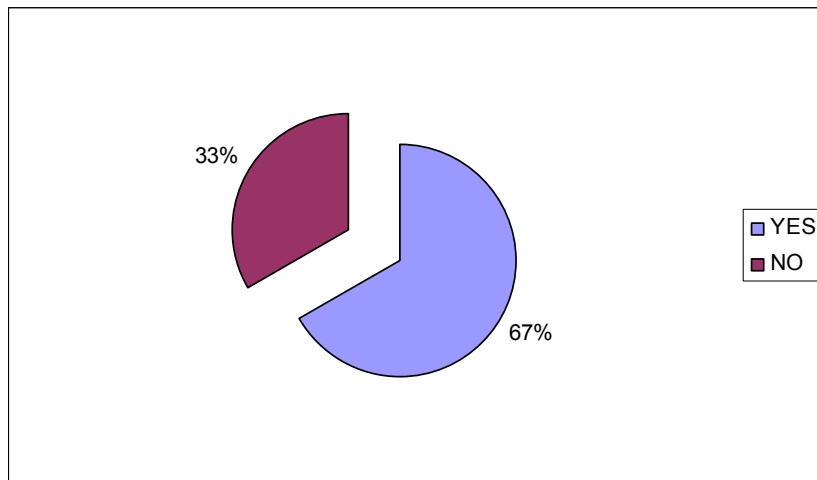
**Figure 4.8**

Overall, it appears that BMW Dealer Principals in general do believe that succession planning is an important aspect for their business and this coincides with Mr Murray's view that "given the amount of investment that an individual must put into setting up a business, especially a BMW business which is very capital intensive more so than most of the other manufacturers, it is essential that we are able to secure succession from the current generation of Owners through to the next generation of Owners/Managers".

#### 4.5 The main issues with finding and developing principal successors.

The next objective of the research was to determine the issues with finding and developing principal successors. To begin the research on this objective, respondents were asked if they had actually chosen a successor who will assume operating control of the business. 66.7 percent stated that they had chosen a successor while the remaining 33.3 percent had not yet done so.

**Q20. Has a successor been chosen who will assume operating control of your business?**



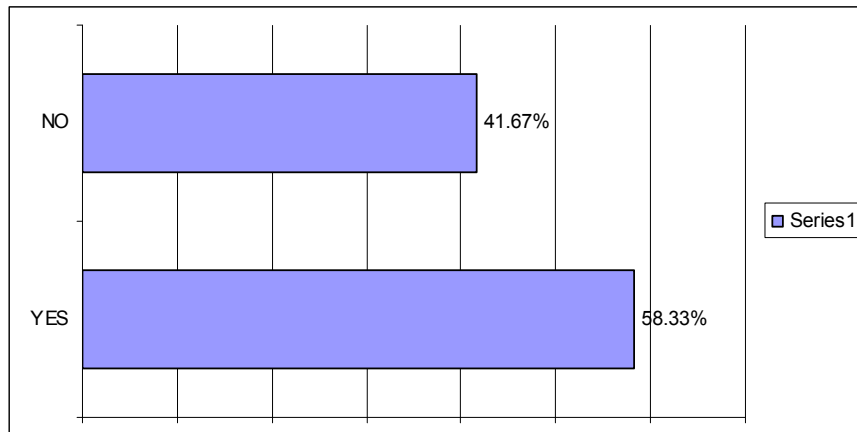
**Figure 4.9**

Surprisingly, only 33.3 percent stated that the successor was a family member; however this result is better represented by restating it as 50 percent of the respondents who actually have chosen a successor.



From this the respondents were also asked if they had informed the potential successor of their choice. Only 58.3 percent of respondents had informed the successor, but once again if these results are taken as a proportion of those who have actually chosen a successor then the true result would be around 87.4 percent.

**Q22. Have you informed the potential successor of your choice?**



**Figure 4.10**

However, that still leaves a deficiency of 12.6 percent where the all important successor to the business does not even know that they will assume control of the business. This can cause a huge stumbling block for businesses.

***“FAMILY MEMBERS ASSUME EVERYTHING AND DISCUSS NOTHING”***

(O’Malley, 2004)

Ms Mulvhill points out that “communication is difficult in families and that’s why it is difficult in family businesses”. She actually goes one step further and relates this lack of communication to the fact that in family businesses in Ireland “there is so much wealth, the stakes are so much higher and everyone wants their piece of the action. So that’s why it’s becoming more fraught and more of a worry for parents than it ever was before”. By this the researcher assumes that the parent does not want to upset one child by announcing to the family that another child will head up the business.

As part of the interview with Mr. Murray of BMW Ireland, the researcher asked if they were involved in the succession planning process with the Dealer Principals. Mr. Murray replied “Yes we have a huge amount of involvement in that up to the point that

as part of our Dealer contract we have the right to approve all senior management positions within the Dealerships. So in the event of the Owner deciding to bring in a professional manager/Dealer Principal, we have the right to sign off on that individual.”

Bearing this in mind, the questionnaire to the Dealer Principals asked if the managers at BMW Ireland were aware of their choice of successor. The response to this question revealed that out of the 66.7 percent who had chosen a successor only 74.9 percent had communicated this to the managers at BMW Ireland.

These results are very surprising given the fact that Mr. Murray of BMW Ireland stated that not only do they need to approve of the successor, but as part of the contract they actually “put them through a full day assessment that looks at their interpersonal skills, their numerical skills, their presentation skills and their financial skills. Through a very structure process over the course of the day you can identify individual strengths and weaknesses and make a recommendation at the end as to whether they are suitable for the role”.

So one would have expected better communication between the Distributor and the Dealer Principals in order to ensure a successful candidate was chosen for taking over the business at the earliest possible stages of the succession planning process.

Furthermore, when respondents were asked if BMW Ireland had expressed their agreement with their choice of successor, only 22 percent responded positively. This possibly represents a fundamental weakness within the BMW network as Mr. Murray stated that if a suitable successor is not in place by the time the Dealer Principal is due to retire, or “in the event of the Dealer Principal becoming incapacitated it leaves in doubt the future of the contract. There is an opportunity for us if we see that there is no longer adequate management in the company to terminate the contract”.

While Mr. Murray did stress that this would be as a last resort and that they would do everything possible to work with the company to avoid such a possibility, he also admitted that they have never come across such an event and there is currently no specific contingency plan in place to deal with such an event if it were to occur.

#### 4.6 Identify if BMW Dealer Principals in Ireland are aware of the tax implications of transferring a business.

The next objective of the research is to investigate whether BMW Dealer Principals in Ireland are aware of the tax implications of transferring a business. The researcher felt it was necessary to ascertain whether the Dealer Principals had received previous advice from a professional in the field, so that the results could be accepted as reliable. The questionnaire therefore included the question, ‘from who have you sought external advice on tax planning for your retirement?’. A tax advisor came in on top at 39.1 percent with an accountant coming in as second most popular at 34.8 percent. 17.4 percent of respondents stated that they sought tax planning advice for their retirement from a solicitor, while none of the respondents selected a bank manager as their source for advice for their retirement. 8.7 percent selected other sources outside the options available.

#### Q15. From who have you sought external advice on tax planning for your retirement?

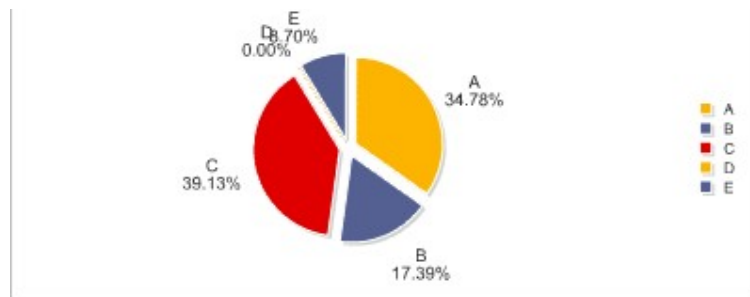


Figure 4.11

- A) Accountant
- B) Solicitor
- C) Tax Advisor
- D) Bank Manager
- E) Other

Interestingly, one of the respondents felt that “tax advisors very often do not give good advice. Sometimes they just generate business for themselves”.

100 percent of respondents stated that they were aware of the various taxes that they may have to pay on the transfer of their business and 100 percent of respondents also stated that they knew that there are tax savings initiatives available by planning their succession and/or retirement well in advance.

However, 50 percent of respondents still felt that they would like to learn more about these tax savings initiatives from an expert. This suggests perhaps that there remains a gap in their knowledge or perhaps they are worried about the quality of advice they have previously received.

This is not surprising given the amount of wealth involved that has been generated amongst the Dealerships over the past 5 decades. Mr. Murray of BMW Ireland states that “a lot of our Dealers would have accumulated significant amounts of wealth, both through the operating of the business over the years, but also through growth in property values where they have been sitting on two or three acre sites”.

Maximisation of the company pension contributions was one of the methods of extracting sufficient funds for retirement highlighted in the literature review. For this reason the researcher asked the question in the survey if the Dealers had considered a pension plan as a possible wealth extraction mechanism. 100 percent of the respondents stated that they had.

So even though only 50 percent of the Dealer Principals have plans in place for their retirement, the other 50 percent are still considering their pension plan, which is an encouraging result.

## Chapter 5

### CONCLUSIONS & RECOMMENDATIONS

#### 5.1 Introduction

The objectives of this thesis are to;

- Define succession in a family business context.
- Determine the opinions and perceptions of Dealer Principals in regards to the strategic importance of succession planning to their business.
- Determine the issues with finding and developing principal successors.
- Identify if BMW Dealer Principals in Ireland are aware of the tax implications of transferring a business.

This was achieved through an extensive review of the key literature related to the topic and also through the primary research collected via questionnaires and expert semi-structures interviews with two key sources. This final chapter presents the conclusions drawn and recommendations suggested by the author.

#### 5.2 Conclusions

The author discovered an anomaly of definitions for succession in a family business context, but Ibrahim et AL (2001) adequately summarises it as ‘the transference of leadership from one generation to the next’. The interviewee from BMW Ireland, Mr Murray, partly agreed with this statement, but stated that from their point of view succession is “about ensuring the current generation of Owners/Managers are able to transfer both the day to day management of the company and the ultimate share ownership of the company to another individual, be it a family member or a professional or sale of the business to ensure that the stability of the business is maintained”.

In effect, Mr. Murray believes that BMW Ireland has outlined succession planning as a key strategic issue because poorly managed succession on behalf of the Dealer Principals “would ultimately impact on our bottom line”.

In determining the opinions and perceptions of the Dealer Principals in regards to the strategic importance of succession planning to their business, the author believes that the majority of the Dealer Principals are taking this issue seriously with 75 percent of respondents currently having a succession planning process in place. This is further backed up by Mr. Murray stating that “ many of the Dealerships [...] are bringing in professional manager”, in the absence of a suitable successor within the family circle.

Succession planning in Irish family businesses is now more important than ever before when you consider the amount of wealth that has been generated through the ‘Celtic Tiger’ boom.

However, the succession planning process is more often than not one of the key strategic issues in a business which is abandoned or ignored.

A review of the existing literature revealed that there are four main barriers that stifle the process. These are;

- Choosing a successor – Parents feel guilty leaving control to one child over another so they avoid the decision
- Reluctance to let go – Entrepreneurs have spent most of their life building their empire and can not imagine life anywhere other than at the helm. *“Sooner or later I'm going to die, but I'm not going to retire”.* Margaret Mead
- Valuation of shares in a business – This can be a complicated process for most non listed businesses and more often than not it ‘is an art, not an exact science’, Cremins 2005.
- Tax liabilities – The tax cost of transferring wealth to the next generation is resulting in an embargo on the process.

The author believes that lack of communication could be traced back to the root cause of each of these barriers. Lack of communication is also evidenced through the primary research.

Ms Mulvihill, the interviewee from BDO Simpson Xavier states that “everyone is very conscience of what their rights are and not everyone is very conscience of what their duty is”. This leads to feuds with succession planning that can easily be avoid by communicating individual feelings at an early stage in the process. Ms Mulvihill advises business owners to start “preparing your children, having conversations with them as early as you can”. Rather than trying to protect them by not detailing what your plans are for fear of upsetting them, explain your intentions to them, setting out your reasons behind these intentions. Ms Mulvihill explains that “moving the goal posts on them or not showing them where the goal posts are at all is not fair and is not advisable”.

The various aspects of tax planning for retirement are well documented in the literature. Tax concessions are available across most tax heads that allow mitigation of such capital tax liabilities but, as with all tax concessions, there are a number of conditions that need to be met before relief is granted.

With 66.6 percent of the respondents over 50 years of age and half of these over the age of 60 years it was encouraging to discover from the primary research that all of the respondents are aware of the taxes they may be exposed to on the transfer of their business. They are also aware of the various tax savings initiatives available by planning their exit strategy sooner rather than later. This is possibly due to the fact that all the respondents have sought some form of professional advice for their succession.

### 5.3 Recommendations

- This research highlights the need for better communication across the BMW network. One of the respondents feels that “BMW Ireland have no interest in succession planning [...] all they are interested in is selling cars”. The author was not given this impression during the course of the interview with BMW Ireland and therefore the author recommends better communication between the Distributor and the Dealer Principals to ensure goal congruence.
- In addition there appears to be a substantial gap in the strategic operation of the selection and agreement of future Dealer Principals within the BMW network. On one hand you have Dealer Principals selecting successors themselves to continue the management of the Dealership on their retirement, however on the other hand, the ultimate agreement on such successors actually lies with the BMW Distributor. The end result of this current process is that only 22 percent of chosen successors are currently being approved by BMW Ireland with no contingency plan in place for an event where no ‘approved’ successor is in place when the current Dealer Principal reaches retirement. The author believes that a more robust strategy should be instigated so that both the BMW Distributor and the Dealer Principals are well prepared and informed in advance of such an event so that all parties are very clear on their responsibilities and of course the consequences.
- 25 percent of respondents do not have a succession plan in place, with 8.3 percent believing it is not important to their business. These are worrying statistics that need addressing in order to ensure the continued success of the BMW Dealer network as a whole in Ireland that has spanned almost 5 decades.
- BMW Ireland has highlighted succession planning across the Dealer network as a key strategic issue. While they have taken some preliminary steps to encourage the process by way of the succession planning conference held in 2006, the author feels that a more hands on approach is required to promote



this issue. In today's turbulent and ever-changing business environment, the author recommends at least an annual review or update with the Dealer Principals in regards to their succession plans.

#### **5.4 Further areas of research**

While this research was a comprehensive study of the entire population of BMW Dealer Principals in Ireland, the researcher feels that the study could have benefited from knowing;

- Why 25 percent of the respondents did not have a succession planning process in place,
- Why 8.3 percent of respondents do not believe that succession planning is important to their business and,
- Why 33.3 percent of respondents have not chosen a successor.

One to One interviews with the Dealer Principals may have achieved answers to these questions; however the limitations of the research such as time, money and geographical location prevent the research from following this methodology.

Also, while family business succession planning has been well documented in the literature, the author struggled to source specific literature relating to the motor industry. Given the extent of wealth within the motor industry in Ireland, and the results revealed from this research of one manufacturer, the author feels that a study of this kind carried out on the entire population of motor manufacturers would be an interesting examination.

## **Appendix i**

**Questionnaire, covering letter & follow  
up email**

DATE: 10 June 2008

**Re: Succession Planning Questionnaire**

Dear

My name is Susan McGee, the Finance Manager at Graham BMW in Letterkenny and as part of a Masters Degree in Accounting I am currently conducting a Thesis based on succession planning within the BMW Dealerships of Ireland which is fully supported by BMW Ireland.

BMW Ireland have outlined succession planning as a key strategic issue for their Dealer Development Programme and I have been collaborating with, Paul Murray and John Lawlor, over the past 18 months to gain some insight into its importance for the future growth of the Dealerships in Ireland.

As part of my research I hope to conduct a questionnaire with each of the Dealer Principals to obtain their opinion on succession planning and ascertain whether they feel it is an important issue for their individual businesses.

I would greatly appreciate your assistance and support with this survey. All information will be collected in the strictest of confidence and used only for gathering generic statistics within the Group. No individual names or views will be disclosed.

Please return the completed questionnaire to me by 18 June 2008 in the enclosed stamped addressed envelope. Alternatively, please fax back to me on 074 91 24671.

Yours sincerely,

**Susan McGee**

SUCCESSION PLANNING SURVEY OF BMW DEALER  
PRINCIPALS IN IRELAND

Conducted by Susan McGee  
Masters of Accounting Student at Letterkenny Institute of  
Technology

June 2008

All information collected is confidential, will be held in the strictest of  
confidence and used only for the purposes of gathering generic statistics. No  
individual names or views will be disclosed.

1. What is your position in the company? \_\_\_\_\_

2. Did you acquire or start up the business?

Acquire  Start-up

3. What percentage of shares in the business do you own? \_\_\_\_\_

4. If not 100%, what percentage of shares in the business is owned by other family members? \_\_\_\_\_

5. What year was the business started? \_\_\_\_\_

6. How many generations has the family been in business? \_\_\_\_\_

7. How long have you worked in the business? \_\_\_\_\_

8. What age are you? 30-40  40 - 50  50 - 60  > 60

9. Are there other family members that are working or will potentially work in the business? Sons Daughters Brothers Sisters Other None

10. Have you heard of succession planning prior to this questionnaire?

Yes  No

11. Do you think succession planning is important to your business?

Yes  No

12. Do you have a succession planning process in place in your business?

Yes  No

13. If not, please specify a reason.

Lack of interest  Lack of knowledge  Lack of Time

Sensitive subject  Other

14. How soon do you expect to retire?

Next 5 years  5 – 10 years  10 – 15 years  >15 years

15. From who have you sought external advice on tax planning for your retirement?

Accountant  Solicitor  Tax Advisor  Bank Manager  Other

16. Are you aware of the various taxes you may have to pay on the transfer of your business?

Yes  No

17. Do you know that there are tax savings initiatives available by planning your succession and/or retirement well in advance?

Yes  No

18. Have you considered a pension plan as a possible wealth extraction mechanism? Yes  No

19. Do you feel you would like to learn more about these from an expert?

Yes  No

20. Has a successor been chosen who will assume operating control of your business? Yes  No

21. If yes, is this a family member? Yes  No

22. Have you informed the potential successor of your choice?

Yes  No

23. Are the managers at BMW Ireland aware of your choice?

Yes  No

24. Have they expressed their agreement with your choice?

Yes  No

25. Is there a resistance to succession planning in your business?

Yes  No

26. Have you made plans for what you will do after retirement?

Yes  No

Finally are there any comments you would like to make?

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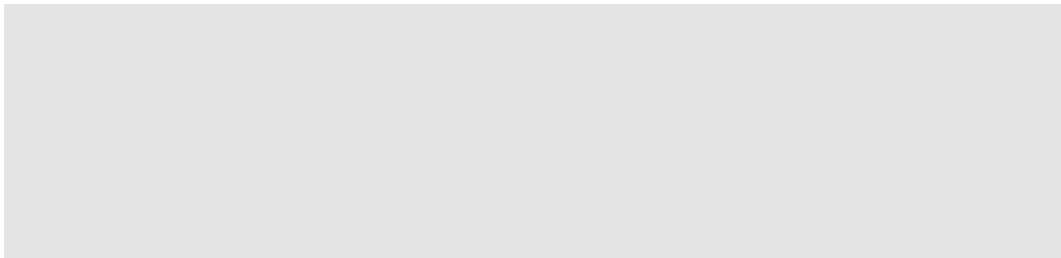
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**From:** Paul.Murray@bmw.ie

**To:** All Dealer Principals

**Sent:** Thursday, June 12, 2008 3:11 PM

**Subject:** Assistance with research project into succession planning

Good afternoon All

You may recall at a dealer conference in 2006 we had a presentation from Denis Cremins from Price Waterhouse Coopers on succession planning in family owned businesses.

This created a significant amount of interest and discussion amongst owners and DPs both at the event and afterwards.

Arising from this presentation, Susan McGee, Finance Manager in Grahams, selected the subject of succession planning in the BMW network in Ireland as the subject of her thesis for her Masters in Accounting qualification.

Both John Lawlor and I have met with Susan and given her our views on the importance of this issue within a franchise network, but without going into any confidential material on any specific business.

As a next step in her research, Susan is now sending out a short questionnaire to you to gain your views on the importance of succession planning within your business. We would ask that you take the time to complete this questionnaire and return it to Susan in the envelope provided.

All of her research will be confidential in nature and her thesis will not go into any specifics regarding any one business in particular. All of the results of the questionnaires will be consolidated so that any one individual's views cannot be identified.

If you have any questions in this regard, please do not hesitate to contact either John or I.

Regards

Paul

-----

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**Web:** [www.bmw.ie](http://www.bmw.ie)

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# **Appendix ii**

## **Questionnaire response results**

**Results for: Copy of Succession Planning Survey Of  
BMW Dealer Principals in Ireland**



---

1) What is your position in the company?

		Percentage	Responses
MD		50.0	6
CHAIRMAN		25.0	3
DEALER PRINCIPAL		25.0	3
		<b>Total responses:</b>	<b>12</b>





---

2) Did you acquire or start up the business?

		Percentage	Responses
Acquire		33.3	4
Start up		66.7	8
		<b>Total responses:</b>	<b>12</b>





---

3) What percentage of shares in the business do you own?

		Percentage	Responses
1-20%		0.0	0
21-40%		8.3	1
41-60%		25.0	3
61-80%		16.7	2
81-100%		50.0	6
		<b>Total responses:</b>	<b>12</b>

---

4) If not 100%, what percentage of shares in the business is owned by other family members?

		Percentage	Responses
1-20%		50.0	5
21-40%		10.0	1
41-60%		30.0	3
61-80%		10.0	1
81-100%		0.0	0
		<b>Total responses:</b>	<b>10</b>

---

5) What year was the business started?

		Percentage Responses	
1950-1955		0.0	0
1956-1960		0.0	0
1961-1965	█	8.3	1
1966-1970	█	8.3	1
1971-1975		0.0	0
1976-1980	█	16.7	2
1981-1985	█	25.0	3
1986-1990	█	16.7	2
1991-1995	█	8.3	1
1996-2000	█	16.7	2
2001-2005		0.0	0
2005-2008		0.0	0
		<b>Total responses:</b>	<b>12</b>

---

6) How many generations has the family been in business?

		Percentage Responses	
1	█	41.7	5
2	█	41.7	5
3	█	16.7	2
>3		0.0	0
		<b>Total responses:</b>	<b>12</b>

---

7) How long have you worked in the business?

		Percentage Responses	
1-5 YEARS		0.0	0
5-10 YEARS		0.0	0
10-15 YEARS	█	25.0	3
15-20 YEARS		0.0	0
20-25 YEARS	█	16.7	2
25-30 YEARS	█	16.7	2
30-35 YEARS	█	8.3	1
35-40 YEARS	█	8.3	1
40-45 YEARS	█	16.7	2
45-50 YEARS	█	8.3	1
		<b>Total responses:</b>	<b>12</b>

---

8) What age are you?

		Percentage	Responses
<30		8.3	1
30-40		16.7	2
40-50		8.3	1
50-60		33.3	4
>60		33.3	4
		<b>Total responses:</b>	<b>12</b>

---

9) Are there other family members that are working or will potentially work in the business?

		Percentage	Responses
Sons		50.0	7
Daughters		28.6	4
Brothers		7.1	1
Sisters		0.0	0
Other		7.1	1
None		7.1	1

---

10) Have you heard of succession planning prior to this questionnaire?

		Percentage	Responses
Yes		100.0%	12
No		0.0%	0
		<b>Total responses:</b>	<b>12</b>

---



11) Do you think succession planning is important to your business?

		Percentage	Responses
Yes		91.7%	11
No		8.3%	1
		<b>Total responses:</b>	<b>12</b>

---


12) Do you have a succession planning process in place in your business?

Percentage Responses

Yes		75.0%	9
No		25.0%	3
		<b>Total responses:</b>	<b>12</b>





---

13) If not, please specify a reason.

		Percentage	Responses
Lack of interest		0.0	0
Lack of knowledge		0.0	0
Lack of time		0.0	0
Sensitive subject		0.0	0
Other		100.0	3





---

14) How soon do you expect to retire?

		Percentage	Responses
Next 5 years		25.0	3
5-10 years		16.7	2
10-15 years		8.3	1
>15 years		50.0	6
		<b>Total responses:</b>	<b>12</b>


---

15) From who have you sought external advice on tax planning for your retirement?

		Percentage	Responses
Accountant		34.8	8
Solicitor		17.4	4
Tax Advisor		39.1	9
Bank Manager		0.0	0
Other		8.7	2



---

16) Are you aware of the various taxes you may have to pay on the transfer of your business?

		Percentage	Responses
Yes		100.0%	12
No		0.0%	0
		<b>Total responses:</b>	<b>12</b>



---

17) Do you know that there are tax savings initiatives available by planning your succession and/or retirement well in advance?

		<b>Percentage</b>	<b>Responses</b>
Yes		100.0%	12
No		0.0%	0
<b>Total responses:</b>			<b>12</b>



---

18) Do you feel you would like to learn more about these from an expert?

		<b>Percentage</b>	<b>Responses</b>
Yes		50.0%	6
No		50.0%	6
<b>Total responses:</b>			<b>12</b>



---

19) Have you considered a pension plan as a possible wealth extraction mechanism?

		<b>Percentage</b>	<b>Responses</b>
Yes		100.0%	12
No		0.0%	0
<b>Total responses:</b>			<b>12</b>



---

20) Has a successor been chosen who will assume operating control of your business?

		<b>Percentage</b>	<b>Responses</b>
Yes		66.7%	8
No		33.3%	4
<b>Total responses:</b>			<b>12</b>



---

21) If yes, is this a family member?

		<b>Percentage</b>	<b>Responses</b>
Yes		33.3%	4
No		66.7%	8
<b>Total responses:</b>			<b>12</b>



---

22) Have you informed the potential successor of your choice?

		Percentage	Responses
Yes		58.3%	7
No		41.7%	5
<b>Total responses:</b>			<b>12</b>



---

23) Are the managers at BMW Ireland aware of your choice?

		Percentage	Responses
Yes		50.0%	6
No		50.0%	6
<b>Total responses:</b>			<b>12</b>



---

24) Have they expressed their agreement with your choice?

		Percentage	Responses
Yes		16.7%	2
No		83.3%	10
<b>Total responses:</b>			<b>12</b>



---

25) Is there a resistance to succession planning in your business?

		Percentage	Responses
Yes		0.0%	0
No		100.0%	12
<b>Total responses:</b>			<b>12</b>

---

26) Have you made plans for what you will do after retirement?

		Percentage	Responses
Yes		50.0%	6
No		50.0%	6
<b>Total responses:</b>			<b>12</b>

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27) Finally, are there any comments you would like to make?

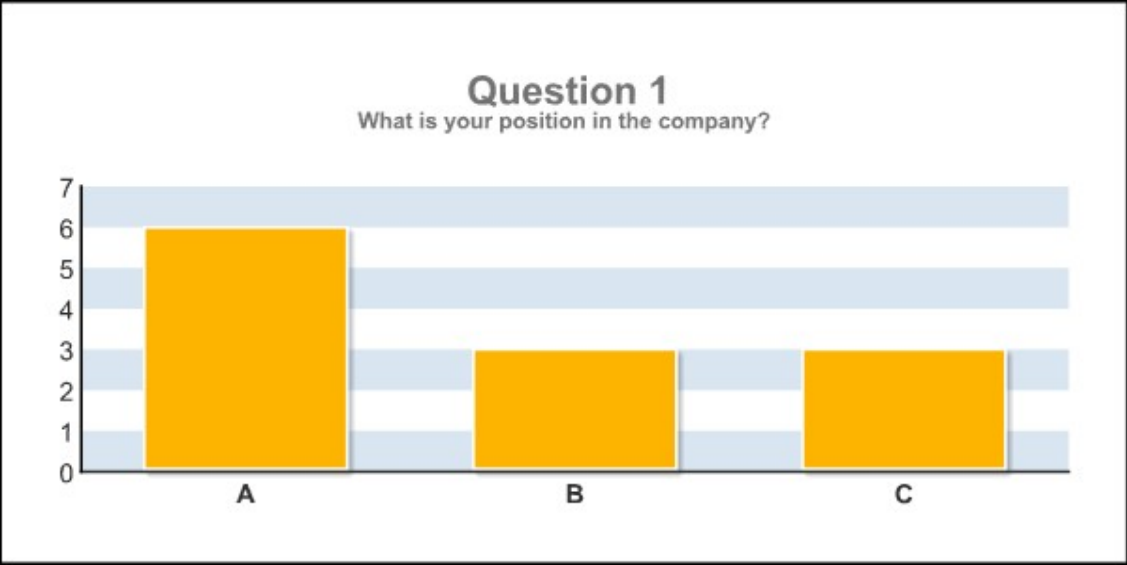
(The last five responses are given)

**- Tax advisors very often do not give good advise. Sometimes they just generate business for themselves. I am 41 and I think it is a little too early for me to plan succession yet.**



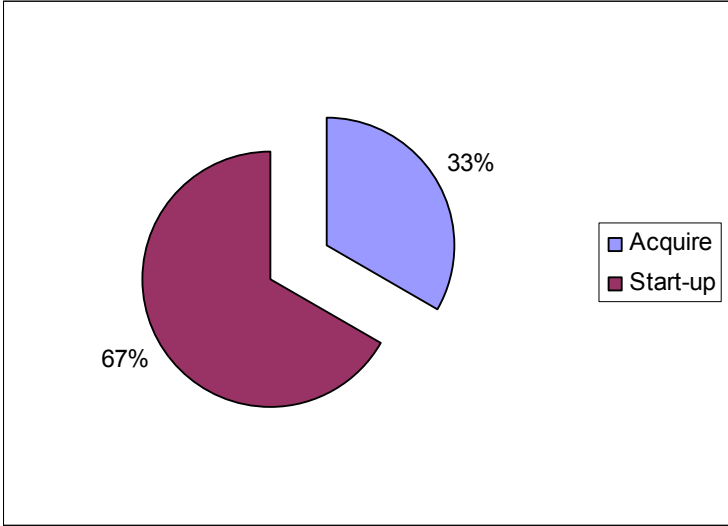
- I would start the succession planning process sooner. I started the process after the BMW meeting on succession planning.
- As I am planning the most tax efficient method of exiting the business, some of the questions are not relevant to my personal situation.
- As my children are very young it is not known if will wish to come into business.
- It is my opinion that BMW Ireland have no interest in succession planning. They may give the impression that they are interested, however all they are interested in is selling cars.  
They have decimated the BMW Franchise over the past 4-5 years. Where one time it was an asset, now they can not get good motor people to take the Franchise.

**Q1. What is your position in the company?**

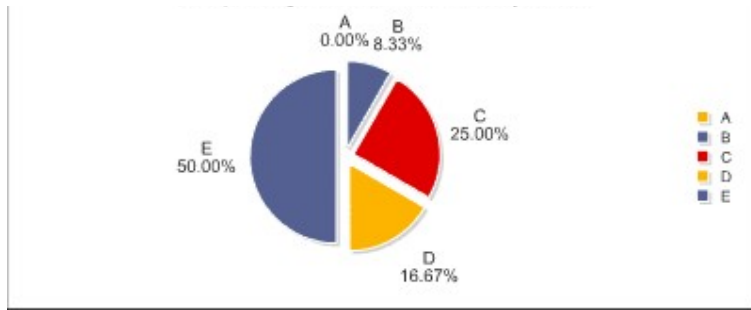


- A. MD
- B. Chairman
- C. Dealer Principal

**Q2. Did you acquire or start-up the business?**

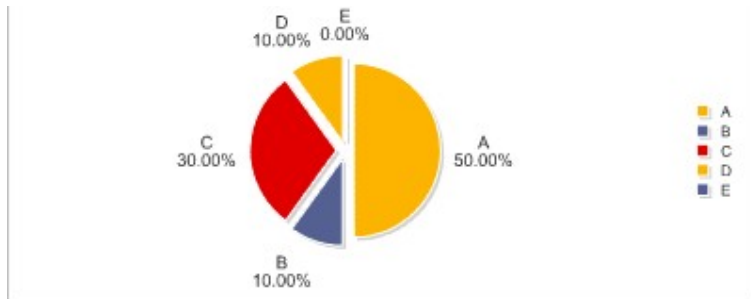


**Q3. What percentage of shares in the business do you own?**



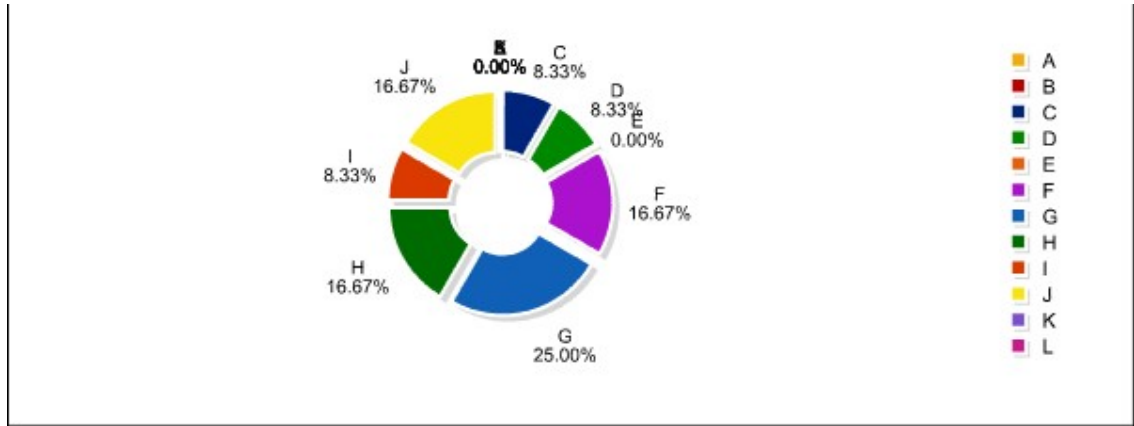
- A) 1-20%
- B) 21-40%
- C) 41-60%
- D) 61-80%
- E) 81-100%

**Q4. If not 100%, what percentage of share in the business is owned by other family members?**



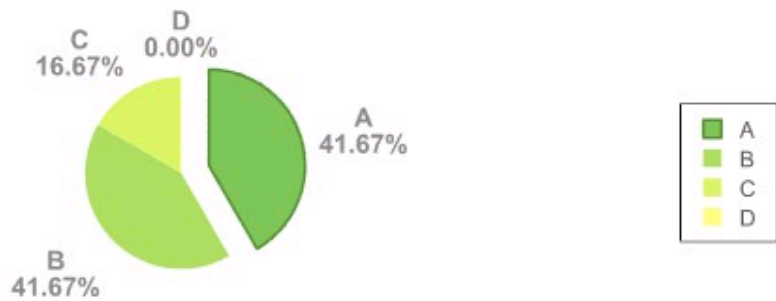
- A) 1-20%
- B) 21-40%
- C) 41-60%
- D) 61-80%
- E) 81-100%

**Q5. What year was the business started?**



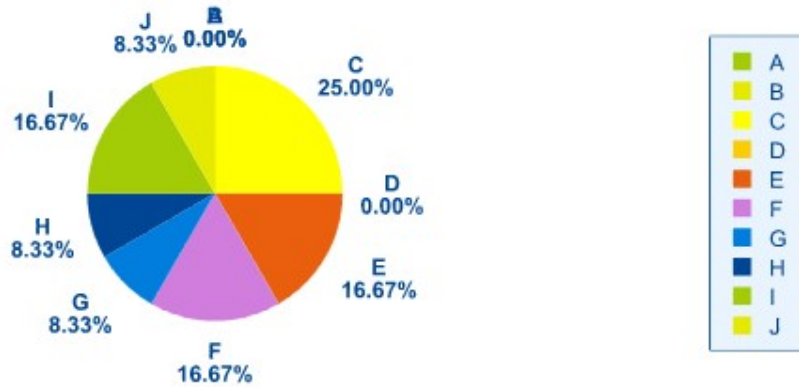
- A) 1950-1955      B) 1956-1960      C) 1961-1965  
 D) 1966-1970      E) 1971-1975      F) 1976-1980  
 G) 1981-1985      H) 1986-1990      I) 1991-1995  
 J) 1996-2000      K) 2001-2005      L) 2005-2008

**Q6. How many generations has the family been in business?**



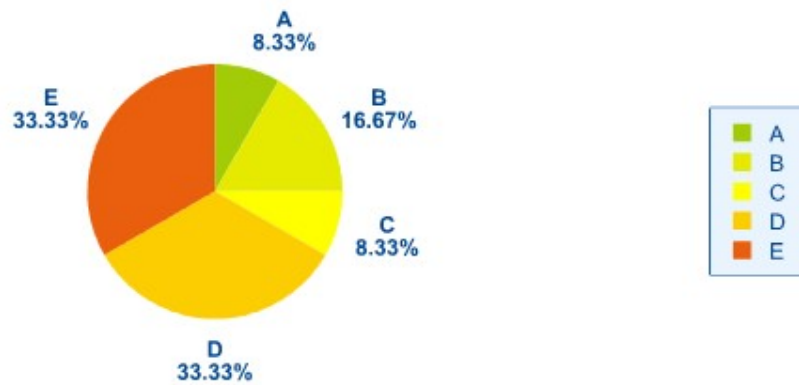
- A) 1  
 B) 2  
 C) 3  
 D) >3

**Q7. How long have you worked in the business?**



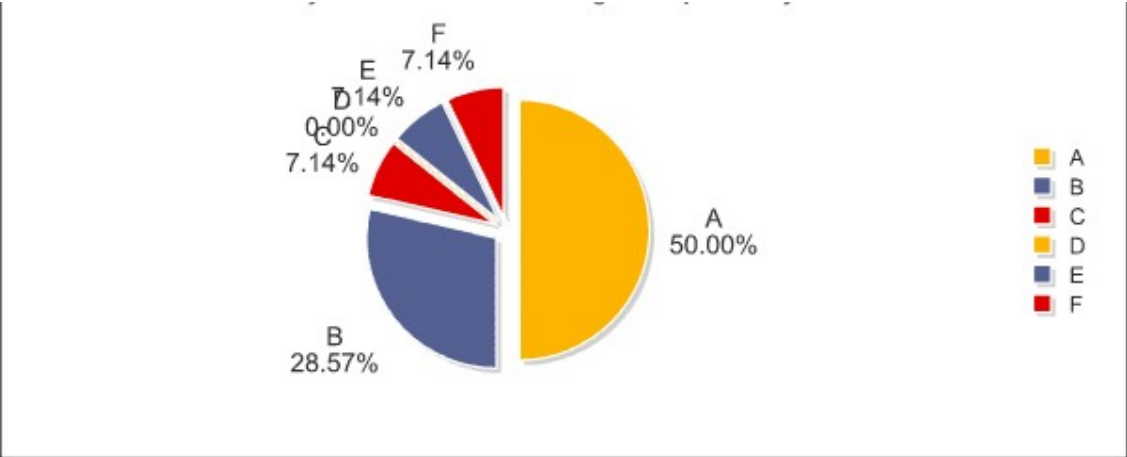
- A) 1-5 YEARS
- B) 5-10 YEARS
- C) 10-15 YEARS
- D) 15-20 YEARS
- E) 20-25 YEARS
- F) 25-30 YEARS
- G) 30-35 YEARS
- H) 35-40 YEARS
- I) 40-45 YEARS
- J) 45-50 YEARS

**Q8. What age are you?**



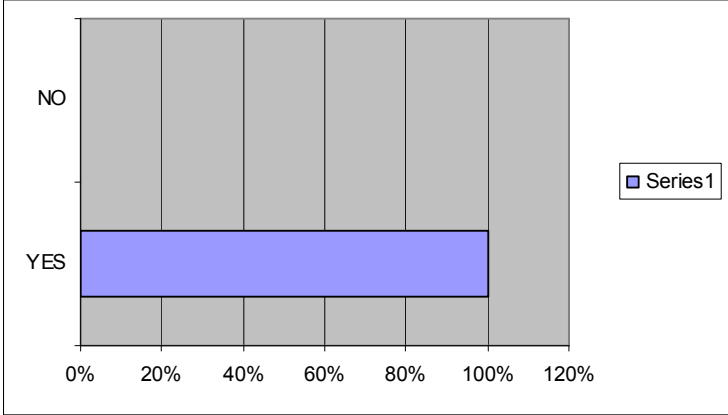
- A) 30
- B) 30-40
- C) 40-50
- D) 50-60
- E) >60

**Q9. Are there other family members that are working or will potentially work in the business?**

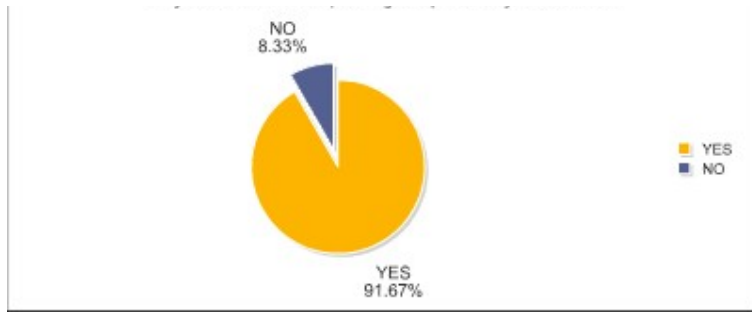


- A) Sons
- B) Daughters
- C) Brothers
- D) Sisters
- E) Other
- F) None

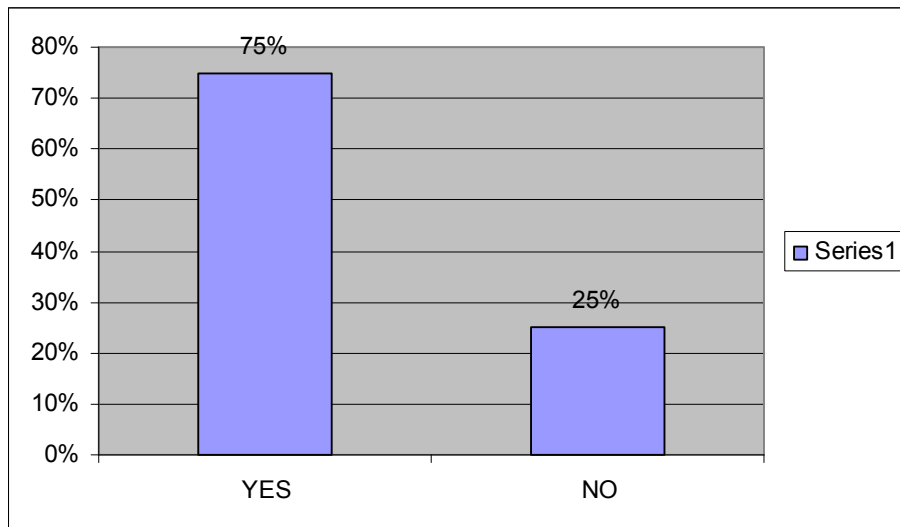
**Q10. Have you heard of succession planning prior to this questionnaire?**



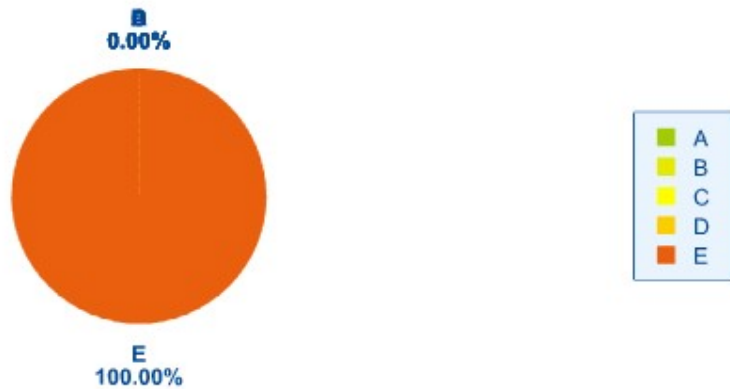
**Q11. Do you think succession planning is important to your business?**



**Q12. Do you have a succession planning process in place in your business?**

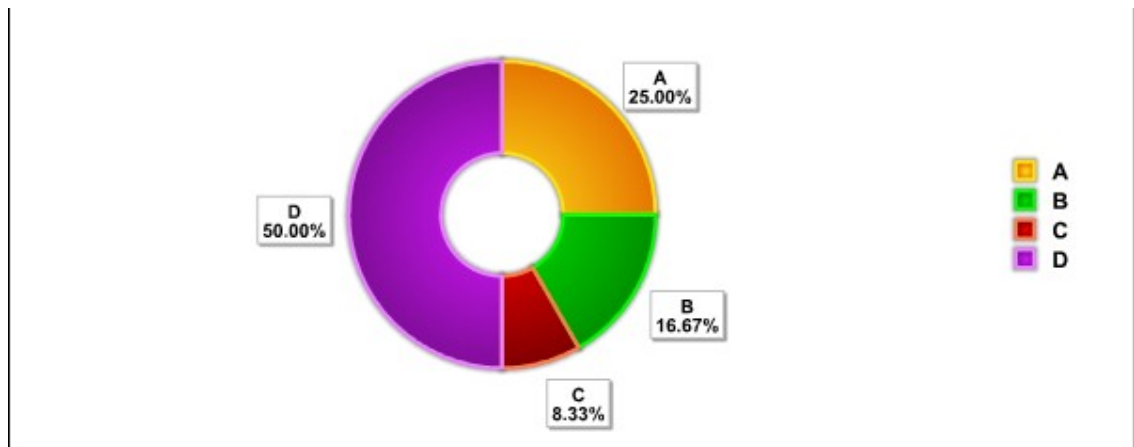


**Q13. If not, please specify a reason**



- A) Lack of interest
- B) Lack of knowledge
- C) Lack of time
- D) Sensitive subject
- E) Other

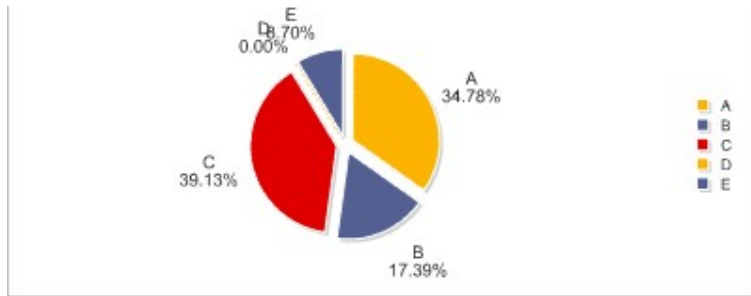
Q14. How soon do you expect to retire?



- A) Next 5 years
- B) 5-10 years
- C) 10-15 years
- D) >15 years

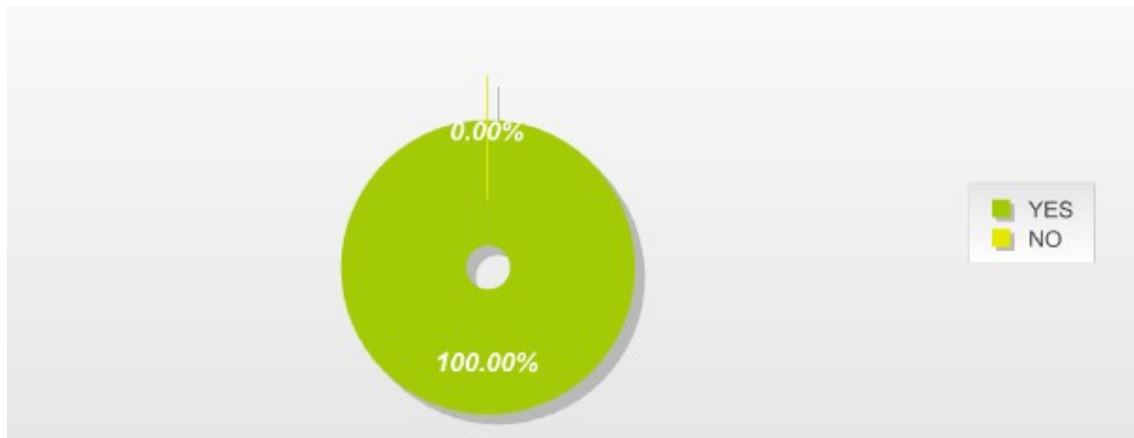
Q15. From who have you sought external advice on tax planning for your retirement?



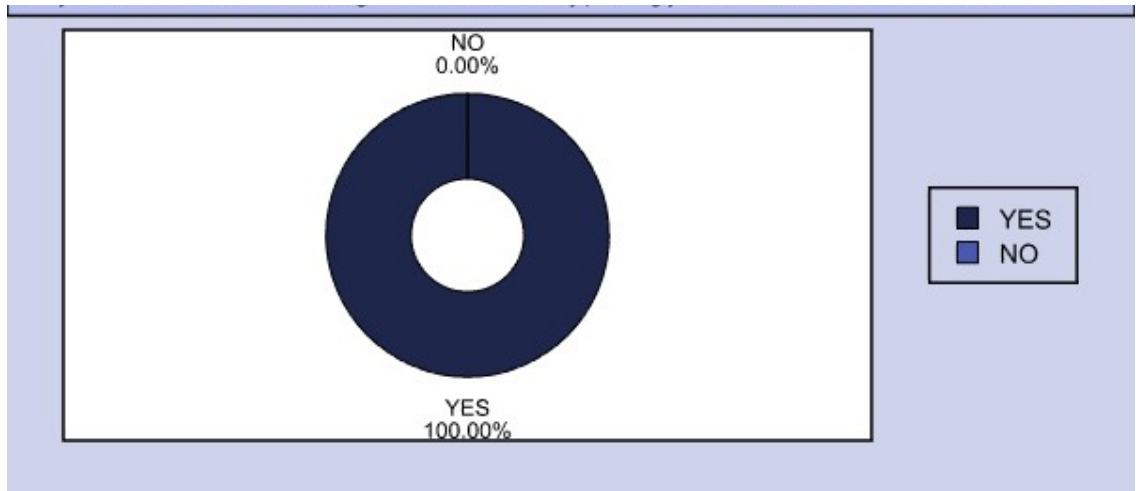


- A) Accountant
- B) Solicitor
- C) Tax Advisor
- D) Bank Manager
- E) Other

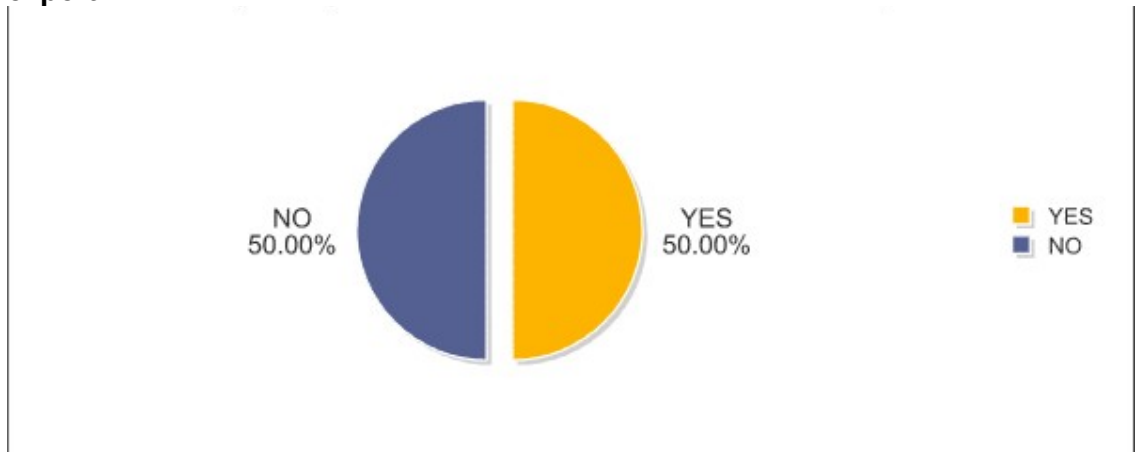
**Q16. Are you aware of the various taxes you may have to pay on the transfer of your business?**



**Q17. Do you know there are tax savings initiatives available by planning your succession and/or retirement well in advance?**



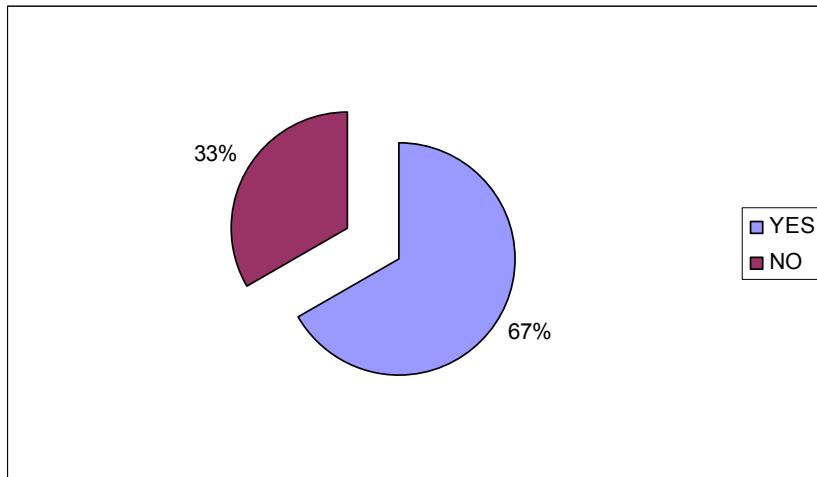
**Q18. Do you feel you would like to learn more about these from an expert?**



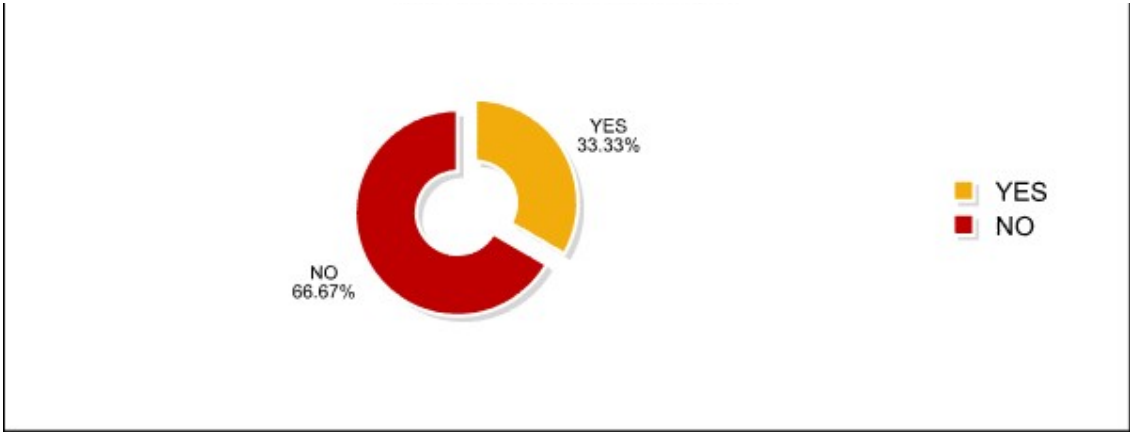
**Q19. Have you considered a pension plan as a possible wealth extraction mechanism?**



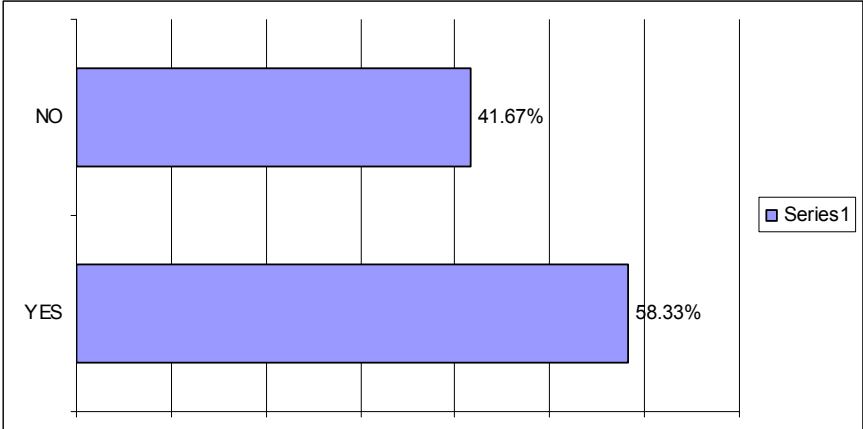
**Q20. Has a successor been chosen who will assume operating control of your business?**



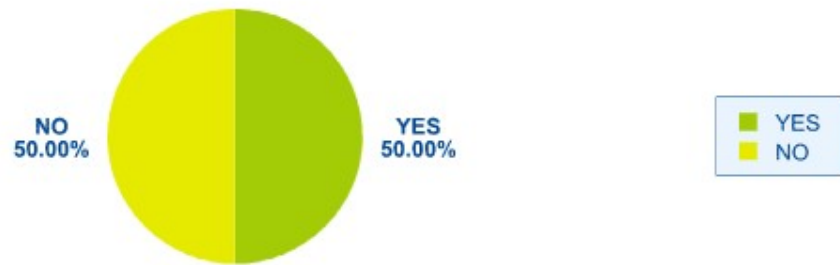
**Q21. If yes, is this a family member?**



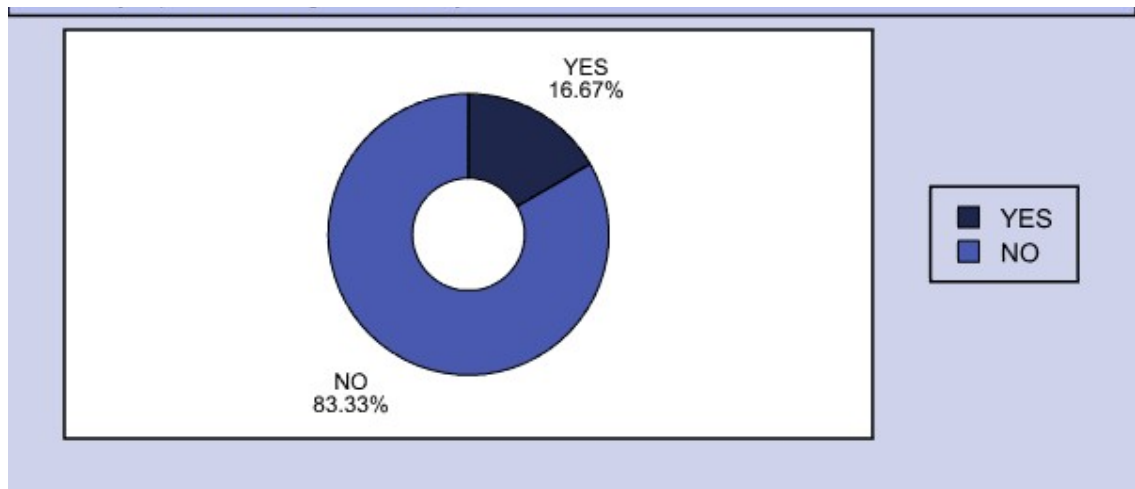
**Q22. Have you informed the potential successor of your choice?**



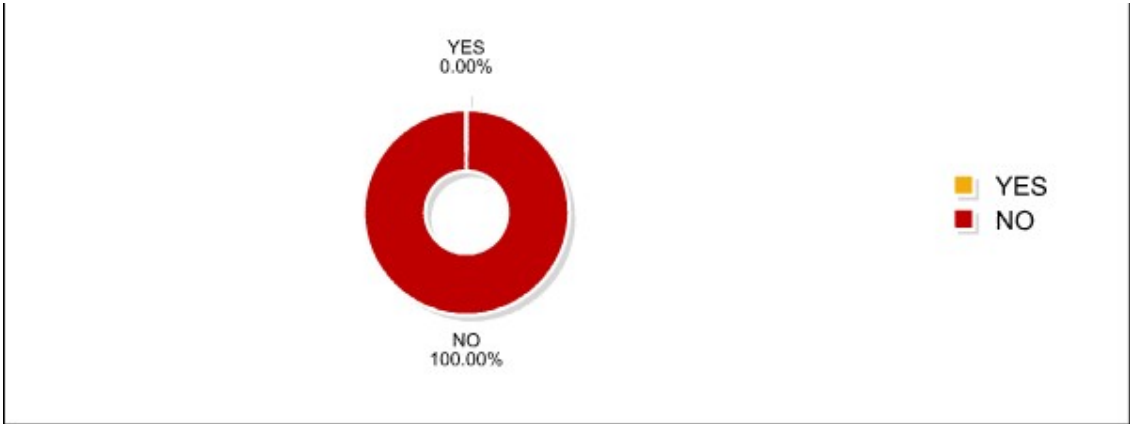
**Q23. Are the managers at BMW Ireland aware of your choice?**



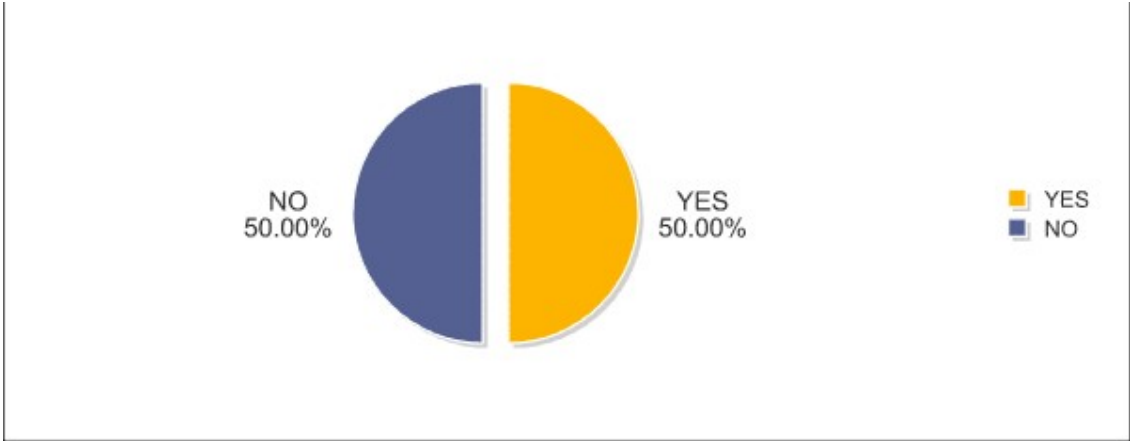
**Q24. Have they expressed their agreement with your choice?**



**Q25. Is there a resistance to succession planning in your business?**



**Q26. Have you made plans for what you will do after retirement?**



## **Appendix iii**

### **BDO Simpson Xavier interview transcript**

**Interview with Joan Mulvihill, Senior Manager, Family Management Services at BDO Simpson Xavier. Conducted by Susan McGee, masters of accounting student at Letterkenny Institute of Technology on the 30th May, 2008.**

**Interviewer:** Good afternoon Joan and thank you for meeting with me at such short notice.

**Interviewee:** You're very welcome Susan.

**Interviewer:** Succession planning is currently seen as a key strategic issue for Irish family businesses. Why do you think it is considered so important?

**Interviewee:** I think it's really important for businesses because in the same way as they have a business plan that determines where their business is going in the next five to ten years, who is going to own it and who is going to run has to be part of that core process. For the same reason that you would have a strategy and a strategy is important, you need to know where you are going, you need to know who is going to be running it, who are the key people that's going to be in place and I think large organisations deal with succession all the time. They are always grooming successors. Family businesses seem to be more reluctant to do so.

**Interviewer:** So basically, the thing with strategy is about yes you have to look at the financial side of things of course but there are also core non financial issues that need to be dealt with and I suppose succession planning is one of the major ones.

**Interviewee:** It depends on what stage of the lifecycle the business is in. So you have some businesses that are in tough times and so want to consolidate and regroup and you need a certain type of leader at that time. Other times you really want to drive the business forward, go for broke, you know, a real push, you need someone at the forefront who is very visionary, is big into the kind of sales and marketing side of things, taking things forward, maybe less conservative, different attitudes to risk and you need to figure out 'where is my business going and what kind of leader does it need next'. And sometimes that involves making tough choices about a son or



daughter or a non family member who is in the business as well, they have different attributes some of them are great, have a real natural commercial acumen, and some of them are a bit more conservative. You need to choose the right one. The reason it is such a toughie is because sometimes if that person is not your child, that can causes problems.

**Interviewer:** In the succession survey conducted by yourselves in April 2006 it was reported that only 20% of the one thousand Irish family businesses surveyed had prepared and communicated a formal succession plan to the family. This is a worrying statistic when you consider that Irish family businesses make up 90% of the indigenous business sector and are responsible for approximately 50% of Irish employment. Why do you think this percentage is so low?

Well first of all I have to cavy out that 20% with the fact that of the people that we surveyed only 50 % of them were over the age of 50. So I would expect that the ones over the 50% - you should really get 50% therefore who plan in place and you are only getting 20%. So it is that 30% gap that is missing. So why do they not have one in place? Some of them don't have one in place because they are afraid to deal with the issue. They are worried it might throw up issues within the family or within their children. Some of them don't what to deal with it because they don't know what they are going to do next, so figuring out who is going to run their business is the least of their problems. They have no concept of ever retiring. I have met loads of clients, in their fifties, going "I'm going to work forever". I'm going nice idea but it's their baby, it's what they have always done, they've always been in control and that's why they were entrepreneurs in the first place. They like running their own lives and being out of control is going to be difficult for them.

The other issue too is on a physiological level, deep down, we all define ourselves by what it is we do. "I'm Joan Mulvihill. I'm a senior manager in BDO". When someone asks me "who are you and what do you do?" those are the kind of things that come out. So these guys are down the golf club or they are out fishing or whatever it is that they're doing and someone is asking them who are you, "oh, I'm Joe Bloggs and I'm the managing director of, or I'm the owner of".What is going to happen the day they are not? Part of their identity, they will feel, is going to be stripped away and

they haven't emotionally prepared themselves for "who am I beyond this business" It has defined them. That is why they are that important person that they are. That is why everyone looks at them. They are an important person in their home town. They've provided employment for years. They've earned all that respect and it is this idea that 'I will lose all of that if I don't have the business anymore'?

**Interviewer:** That has put a new slant on things for me because I did not think of that at all. I never thought about that but now when you say that the first thing that has come into my head is there is an awful lot of status associated with being a BMW dealership, but they haven't thought about what they will might do after they retire and are not in the business anymore.

Perhaps in my questionnaire I could ask, "What do you plan to do on retirement or could I not ask that question? It's not in my questionnaire at the moment?"

**Interviewee:** Sure you could ask that question but I would ask it more in an open question of "Do you have plans for what you would do beyond retirement? I think a lot of them do. They have short term plans. They have I will go on a cruise, I have promised my wife we will take a holiday for the first time in years or I will play more golf. At the end of the day it is 365 days of the year. They are used to getting up in the morning with a purpose and targets and goals and without targets and goals 'what's going to motivate me?' What we would suggest to a lot of them is looking at other opportunities. 'What other things can you do?' Retirement does not mean what it used to. It does not mean now going home, putting on your slippers and sitting waiting to die. People are retiring earlier and they are living longer and so they have much more time to fill. Normally you retire maybe, really and truly, a lot of these guys have pensions aside, stop working the day they die, literally it caught them on the hop.

**Interviewer:** So would say that perhaps becoming non executive directors in other companies?

**Interviewee:** Yes in other companies, preferably not in their own because the chances of them staying non executive are slim to none. We deal with a guy, he's hilarious. He needs to retire; he knows he needs to retire. He knows he wants someone else to

take over. His sons and nephews are all in the business. He's got non family members. He has built up a really solid business but can they get him to stop going in, no. His son is the plant manager. The plant manager has now stopped doing plant inspections in the morning. Why? Well, dad gets in before me and he does them first. I'm looking at dad going what are you doing? He says, "I know I shouldn't do it. "Right, so you're not going to do it any more?" "No" "Are you going to do it tomorrow morning?" "Yes" And they just can't get their head around it. They cannot detach themselves. They don't know where to go when they get up in the morning if they are not going in there. They have these lavish retirement parties and turn up to work on Monday.

**Interviewer:** That's one of the things I have found from the literature actually that succession doesn't necessarily mean retirement but they definitely should take a step back.

**Interviewee:** I think there are two aspects to succession and you always have to separate ownership and management. There are loads of financial reasons you would want to transfer for tax purposes, transfer the ownership from yourselves to the next generation because of the tax relief that are there. But that doesn't mean you necessarily have to step down as the managing director. Start transitioning it, at least give them a share of the business. You are asking your child to put their future in your hands and you won't give them a piece of the action, are you mad? Most of us when we enter into a job or career we want to know what our prospects are. These parents are saying to their children "we'll give you shares when I die". I love this, I had people I met in a far flung part of the country one time, they were brilliant. They were in their sixties, the father was still running marathons, running marathons, he's sixty. His kids are in their late thirties early forties and he's running marathons. He's going to live another twenty years and he's not going to pass on shares until he dies by which time, work it out, his son is now sixty and has been working in the business his entire life that he's never owned. He is working for a low salary because it's the family business, he's never really been given the market rate and he is staying there on the promise that 'someday this will all be yours'. Well when? When it is too bloody late

for him to have earned any dividends out of it, for him to have had any sense of ownership and control of driving it forward. I'm not going to stay or you're not going to stay in your career at a certain level indefinitely with no prospects of ever going further yet these guys are asking some of their sons and daughters to do that. I mean it is ludicrous.

**Interviewer:** Nobody likes thinking of their mortality which makes planning for succession very difficult. How do you help business owners overcome this issue?

**Interviewee:** I am the queen of euphemism. I wrote a letter to a client recently. We had had a meeting with him and it was a follow-up. They were talking about, "well you know we have plans in place for when we retire but not for when we die" The euphemism I came up with was the expected and planning for the unexpected. We've all planned for when we expect to die or retire but it is planning for if I got hit by a bus tomorrow. Typically if there are one or two shareholders, like a husband and wife, they say "well sure we'll hardly both get hit by a bus on the same day". Well its interesting I was out with some guys recently and we were talking about some of their clients and they actually had a case of a business where they were two 50:50 share holders, one of them died in year X and the other one was killed two years later. Both of them gone with no succession in place and the business was left rudderless because it was the unexpected. There is the personal tragedy expected and on top of that you've got a business, and this goes back to your first question and why is it so strategic, you've got a business that is a solid thriving business in Ireland, an indigenous business, that could just fold tomorrow because there is no one at the helm and no one has been prepared to take over.

**Interviewer:** Letting go of a successful business that you've built up from scratch can be a daunting process. In what way do you feel succession planning aids the transition from one generation to the next?

**Interviewee:** The reason they set up their own businesses is because they are entrepreneurs and they like to feel in control of their own business and yet I think if they deal succession planning is somehow it actually restores control to them because they are taking control of their own future and they are not leaving it to chance. They haven't left their business to chance for the last thirty years yet they would be prepared to let this very important part of it go to chance. It is actually the complete opposite to how they have lived every other part of their life.

**Interviewer:** In effect succession planning grants them more control.

**Interviewee:** They are taking ownership of the issue and they can control how it works. But sticking their heads in the sand and pretending it is not going to happen is a contradiction of what they have done in the past.

**Interviewer:** BDO Xavier promotes the introduction of a family constitution and a family council to support the succession planning process. I didn't really know what that was until I read your survey. Could you just explain please what they are and what they involve?

**Interviewee:** A family constitution covers three things, in principle, ownership, management and the next generation, and it is the next generation that will bind it all together. The ownership in the current, the management in the future and the next generation. So what we would typically put in there are rules governing the transfer of shares, the exiting of a share holder. So in that respect if we had a family constitution for a husband and wife and their four children what you would have is a situation where the father may want to transfer over shares but he is terrified what if the boys and the girls have a row and one of them wants to leave the business. What if no one has a row but someone decides they want to live in outer Mongolia or live in some hut tribe in South America or what ever? What does somebody do if they want to leave the business, who's going to buy back the shares? So putting rules in place like that as to how the shares will be bought back, over what term so as not to put any cash flow demands on the business. You don't want to start taking loads of cash out of the business to have to buy everybody back, to buy the shares back. You don't want the remaining share holders, potentially if there is only two or three, stuck with having to

personally finance buying back those shares all in one hit. We have lots of good, well thought through rules on how that would actually happen.

An also involuntary exit, for example, if someone was no longer fit to be a share holder in the business we would have rules in there that says these are the kinds of things we deem you to be unfit, this is the kind of vote what will be required to force you to exit the business and under these kinds of circumstances we would buy out. And it is involuntary exit so we have put things in place where you don't get stuck with a share holder in your business who you do not want to be a share holder in the business.

**Interviewer:** So when you say family constitution am I right in thinking then that this is a legal document signed by the share holders?

**Interviewee:** It is a share holder agreement designed for families. It is not however a legally enforced document but it is no more legally unenforceable than a prenuptial agreement which is not actually recognised in Irish law. It is not to say that a judge would not take it into consideration. So the more you can document, and what we would also do is anything that is in a family constitution we would ask you to amend your articles of association, your memos and articles to reflect the changes that are in there in relation to exiting shareholders etc. We would also cover this extra dimension which is the management structure. You know, how many people would sit on a board, what you would have to do to sit on a board; you don't have to be working in the business. You can have family members who are share holders, who are not working in the business and it is helping them and defining for them the difference between the two. Helping them understand what their controls are. The family council is there and is very effective in situation where you have just that; where you have share holders in the business who are not working in it but that they still feel that outside of the annual general meeting that they have this mechanism for communicating where they want the business to go as well. The board would still, like any other business, have operational and executive control. We would also put in things there like things about the next generation. So if the current owners are in their forties, fifties and they've got late teenage children that are coming up to that stage

where they want jobs. We would have rules in there about; is your birth right an entitlement to a job in the business or is it not? Should you have gained experience outside of the business? Yes you probably should. All of these kinds of things so that they all agree at time when no one is fighting and everyone is happy. It is a set of rules that will bind them all together.

I have a client who owns hotels and pubs. One thing they definitely don't want is for their children to socialise and frequent those hotels and pubs and treat it as an extension of the living room. Those kinds of things would even be put in a family constitution if someone felt very, very strongly about it. So it is really about listening to what it is very, very important to that client. Putting in place what it is they want but also layering that on top of a set of core best practice principles for families working together.

**Interviewer:** So therefore it is very unique to every individual case because everybody's own emotional feelings about different ideas and things will be completely different.

**Interviewee:** Absolutely, I think to be honest with you a lot of people say this is a template document and you wheel it out for everybody, absolutely not. They vary from one family to the next. What is important to one is not necessarily important to the other. There are core principles that absolutely of course are put in all of them and certainly would promote in all of them even if they don't want to do it. We work with them on the grounds of helping them to understand why we put these rules in place and why they are so important. But the ultimate aim is to get the family all to sign up to this as an agreement what they will be morally bound by together.

**Interviewer:** And again I suppose it comes down to communication and helping them all to understand?

**Interviewee:** You would be surprised the number of businesses I have dealt with where people haven't understood the difference between being a shareholder and a manager in a business and how you could be one without being the other and how you could work in the business and be a shareholder and not be a director. I've dealt in a family where there were two men in the business together. They both had sons. Both sons of one of the guys were on the board. The other guy's sons were not on the board and they weren't on the board for a very valid reason. They didn't have the qualifications. They didn't have the experience and they didn't have the drive. There was nothing wrong with them, they were perfectly nice young men, they were great, they were good at what they did, they just didn't have the same drive and ambition to take the business forward

They had no place on the board because why would they? Just because they were potentially going to inherit shares and they would always be entitled to the dividend. But you get paid the salary for the job that you do and we have strong principles or best practice in relation to pay and reward in a family business. You get paid for the job that you do, you get a bonus for how well you do it and you get your dividend for who you are.

**Interviewer:** That makes perfect sense. So we talked a little bit about communication. Why do you think communication is not always straight forward in a family business?

**Interviewee:** Because communication is not always straight forward in a family and it is as simply as that. How many of us have really gut wrenchingly truthful conversations all the time with our parents?

How many of us want to be the brat who turns round and says daddy you're giving my brother more than you're giving me. I am one of three girls and one boy and my brother is going to inherit the family home and the family farm and there is not a dammed thing I can do about it. Am I going to go to my dad and say that is grossly unfair? Am I really going to start a row with my brother and tell him he is a spoilt brat because he is going to go with everything? Communication is difficult in families and that's why it is difficult in family businesses. The reason it has become so difficult in family businesses in Ireland now is because twenty years ago the stakes weren't that high. Getting the family farm is a bit like getting a ball and chain or an



anchor to plummet you to the bottom of the sea, it wasn't worth anything. Now there is so much wealth, the stakes are so much higher and everyone wants their piece of the action. So that's why it's becoming more fraught and more of a worry for parents than it ever was before. What is great however is that the ones who have built up wealth, hopefully they have built up wealth outside of the business? They have used their dividends, they have used their personal wealth to buy other assets so that the more complex your estate the better because the more flexibility you have in dividing that out amongst your children. So for example if my dad had bought property in Dublin twenty years ago he'd say "yes Hughie you can have the farm but I've got a house here for each of the three girls" If they'd managed to diversify their assets and in terms of going back to your earlier point in terms of succession planning if you are thinking about it way back when your kids are young and saying lets build up a estate that I know then that I can spread out as much or as evenly as possible among my children. I think the other point to mention is that equal is not always fair, and fair is not always equal.

I have a business that I am dealing with at the moment and the son is going to have majority shares of the business over his sisters. That is not equal but it is absolutely the fair thing to do. The girls were given great educations. They went on to develop personal careers outside of the business. Their brother got effectively as would have been said twenty years ago lumbered with the business but he has dedicated his career to it. Is it wrong or is it unfair that he would have more of a share in that business in the future? So it is helping parents to understand that but more importantly helping their children to understand that. Unfortunately we've got a generation now were we all got a little bit more greedy or more selfish. Everyone is very conscience of what their rights are and not everyone is very conscience of what their duty is you know. It's like understanding that difference and helping the children to face up and appreciate what their parents have done for them up to now. You got businesses where all of them have had the benefit of a great education; one person still has to have control. I hate 50:50, leaving it to the children. 51:49. What ever way you want to split that last percent or half a percent do it because somebody has to be able to call the shots. That is not to say that one child is preferred above the other. There will be a reason behind it but if you can get that all out on the table that's better. The reason that so

many people come to us is that I'd rather they hated me than hate their parents. So you do have to take a certain amount of flax doing my job because you are taking on that.

**Interviewer:** And it's probably easier for somebody to speak to you and tell you honestly what they are thinking because you are an outsider.

**Interviewee:** Absolutely. They share stuff with us that is sometimes probably not stuff that they want to raise with their parents but stuff they want to get off their chest. It's a cathartic process sitting down with somebody and ranting about your family for five hours, so you're a bit of a counsellor as well. I do think its one thing that the family firms institute do really put in family business advising is very multidisciplinary. If you go in there with just a single principle prospect on tax or a single prospect on emotional stuff you can't bring clients to where they need to get to. You have to look at it from all of the angles. You have to have the commercial business acumen to deal with the management side of things, driving the business forward in relation to strategy. You have to have the technical ability in relation to the tax aspects of things and making sure the plans are executed as tax efficiently as possible and you also have to have that element of understanding that it takes people time to get to the right mind set. We've had people that we dealt with five years ago and they've started a process and they've stalled. I don't think that is a failure. I think it started them thinking in the right direction and they've all come back and said ok I'm ready to do it now. We are ready to take it forward to the next step. Sometimes it is just a conditioning process.

**Interviewer:** That's understandable. So this moves us nicely into the next question which is that the emotional aspect of succession in family business can potentially lead to family feuds if siblings feel they are not getting their fair share. What advice would you give to an incumbent to help them avoid such incidents?

**Interviewer:** Don't leave it until before you die and leave your poor wife to deal with the problem. I love these last man standing wills, "ah, I'll just leave it all to my wife. I'll die first and then she can sort it out. Chivalry first, ladies first, I'll go first and leave it, you can sort it out. If anything happened to both parents and you've got these

children sitting there, rabbits in headlights, they've just lost somebody and now you're asking them how they are going to work together. It's not the time to be making those sorts of decisions. The advice is start planning early and start conditioning your children early as well. Make them know and understand the rules. I love when I get parents coming into me when their kids are in their late teens, early twenties, and it is at that stage when their children are trying to figure out 'what career do I want. What do I want to do after I finish college? Do I want to go into the business or do I not?' How can they make that decision if they don't have the information available to them from their parents about where the business is going? The shock that a child will get when they decide they are going to engineering college because its an engineering business, and then when I'm 30 I'll take over from dad. At 30 he's already stepping into his dad's shoes and dad says hold on a minute son I'm selling the business, I just did it for myself, I'm ready to retire now, it's a terrible life and you wouldn't want it and I've sold it". It's like "what?" Preparing your children, having conversations with them as early as you can. I know that sounds like a terrible responsibility but its part of your parenting role. They can read a brochure from every university in the country telling them what career advice is open to them, what the opportunities are, after certain degrees after another but the parent needs to prepare a similar brochure in relation to their business. Here are the promotional prospect in this business and opportunities available and these are the criteria for entry. Moving the goal posts on them or not showing them where the goal posts are at all is not fair and is not advisable. It is a sensible thing to do.

**Interviewer:** So finally Joan, what advice would you give to business owners who want their children to take over the running of the family business when they retire but they currently don't have a formal succession plan in place?

**Interviewee:** If I was a parent? I think there is an underlying assumption in there that the parent wants the child to run the business – but have we asked the child if they want to go into it. That's a really big thing. Don't ever assume your child wants to take over your business for you and so that way your child will never assume you that you want them in the business either. Everyone needs to be free to make their own

choices as adults. But if you want your child to take over the running of the business if you have a formal succession plan in place the child has a reasonable expectation of when that is likely to happen. They can then make a judgement about ‘well actually you know what dad if your not going to retire for another twenty years and I’m twenty now and you want me to hang on for the next twenty years working in your shadow how is that really going to work?’ If you have a succession plan in place at least the child knows what they are getting into to, they have a clear plan for their own future because chances are they are going to get married some day and they are going to have their own kids and suddenly their priorities are no longer you and mum and their brothers and sisters they have their own family that they need to look after and they need to make their own life choices for themselves.

The family constitution doesn’t specify when retirement should actually take place? What we would do when we are preparing a constitution for any family, what we put at the back page of all of them is an action plan. These are things that we are all going to do in the next six months, two years, whatever. It will have a broad outline of “Dad has told us he is going to retire within the next five years; at least I know what I am aiming for. If that changes and we can see it is going to change, at least he can start addressing it, because it is out there in the open. No commitment and someone is wandering around in a fog not knowing if they’ll ever get to take over the business or if their father or mother will ever retire then how can they make their own personal life choices.

**Interviewer:** Thank you very much Joan

## **Appendix iv**

### **BMW Ireland interview transcript**

**Interview conducted by Susan McGee, Masters of Accounting student at Letterkenny Institute of Technology, with Paul Murray of BMW Ireland on 09<sup>th</sup> June 2008 in relation to Thesis titled ‘Exploring the succession planning process in Irish BMW Dealerships’.**

**Interviewer:** Good morning Paul and thank you very much for meeting with me today for this interview.

**Interviewee:** You're very welcome

**Interviewer:** Could you please outline why BMW Ireland view succession planning as a key strategic issue?

**Interviewee:** If we look at our car sales network we have seventeen Dealers in the country, sixteen of which are actually family businesses. So given the amount of investment that an individual must put into setting up a business, especially a BMW business which is very capital intensive more so than most of the other manufacturers, it is essential that we are able to secure succession from the current generation of owners through to the next generation of Owners/Managers. This is to ensure both the long term stability of our Dealer network and then to mitigate any risk that our company would carry where the succession was not managed and we would effectively lose sales, we would lose Dealers which would ultimately impact on our bottom line. So that is why succession is a major issue for us.

**Interviewer:** When you think about succession planning then, what is that all about from BMW Ireland's point of view?

**Interviewee:** It is about ensuring the current generation of Owners/Managers are able to transfer both day to day management of the company and the ultimate share ownership of the company to another individual, be it a family member or a professional or sale of the business to ensure that the stability of the business is maintained.

**Interviewer:** Do you think Irish BMW dealerships view succession planning as important to their business?

**Interviewee:** I think in the main they do. It is an area that we have put a lot of emphasis on over the last two years. Most notably we had Denis Cremins, formally of PWC, in to speak at a Dealer conference in October 2006. He went through all the aspects of succession planning and explained to the Dealers what it meant for their company and how it would impact on them. He presented a number of case studies, some named, some unnamed to highlight issues for them personally and then for their families who would be left with issues post their death which again brought home to them in both personal terms in how it would impact upon the family and then in financial terms how it would impact upon their tax liabilities that their estate would effectively accrue.

**Interviewer:** When you talk about tax liabilities, this is in relation to both personal tax and any tax liabilities that the company may incur which is also a wealth management consideration.

**Interviewee:** Yes, because a lot of our Dealers would have accumulated significant amounts of wealth, both through the operating of the business over the years, but also through growth in property values where they have been sitting on two or three acre sites. Some have relocated and used the proceeds of a property sale to invest in a new and expanded facility. Hence the values have increased significantly which may give rise to great tax issues in the event of a transfer of ownership.

**Interviewer:** What percentage of the Irish BMW dealerships do you think have a succession planning process in place?

**Interviewee:** In some cases it is less of an issue where the Owner/Manager is young and the business has just been transferred. So in one or two cases we have start up situations or we have a very young Dealer Principal who has just taken over from his father. However even though that succession plan was successful, it has now been executed. The question for them now is in the event of their untimely death how would the business be maintained such that the family would be able to continue running it. Therefore even if a transfer has just been executed a succession plan is still something that they must consider having in place. In terms of others then, seven of the network in total have previously transferred ownership to the next generation which suggests that they have some form of a succession planning process in place. Only one of our Dealerships is not a family business so that is a different situation. Many of the Dealerships are taking succession seriously in that they are bringing in professional managers where they realise that the family members are not capable or interested in carrying out that role.

**Interviewer:** BMW Ireland has taken steps to encourage succession planning within the dealerships through the organising of the succession planning conference. How else have you encouraged succession planning?

**Interviewee:** Well arising from the conference in October 2006, the Dealer Principals were then asked to present a five year business plan to us last September. Some of them would have included in that their current succession plans and if it was a case that they did not have any family members in place to take over, other professional managers were presented who would continue with the running of the business if the Dealer Principal was approaching retirement. As well as that we would actively work with people to source good non family member managers to fulfil the day to day management roll in the event of the Owner taking retirement. We are less active on the share transfer side of things as we are more concerned with the ongoing performance of the business rather than the share holding. That is more of a personal issue that we do not tend to get involved with.

**Interviewer:** Does BMW Ireland have to approve the potential successor?

**Interviewee:** Yes we have a huge amount of involvement in that up to the point that as part of our Dealer contract we have the right to approve all senior management positions within the Dealership. So in the event of the Owner deciding to bring in a professional manager/ Dealer Principal we have the right to

sign off on that individual. We would put them through a full day assessment that looks at their interpersonal skills, their numerical skills, their presentation skills and their financial skills. Through a very structured process over the course of the day you can identify individual strengths and weaknesses and make a recommendation at the end as to whether they are suitable for the role.

**Interviewer:** Is this a particular recruitment process that you use then?

**Interviewee:** Yes it is but we tend not to be as active on the recruitment end. The Dealer will run their own ad and try to find a good individual. We then assess that individual and we will always help the Dealer in terms of interviewing and short listing people.

**Interviewer:** If a suitable successor is not in place by the time the Principal is due to retire, or in the event of their untimely death, will the BMW contract be at risk?

**Interviewee:** Yes it is. There is a clause in the contract that states that in the event of the Dealer Principal becoming incapacitated it leaves in doubt the future of the contract. There is then an opportunity for us if we see that there is no longer adequate management in the company to terminate the contract.

**Interviewer:** So one can assume then that the Dealer Principals are aware of this?

**Interviewee:** Yes, but we have never gone down this route with anyone. To terminate a contract is a very full and final decision to make. What we would always do is work with people to try to encourage them to make that decision and show them the facts behind it. So while it should encourage the Dealer Principals to have a succession plan in place, we would never highlight the clause in the contract stipulating the consequences to the Dealership as this would be a loss in relationship. It is there from the point of view that God forbid something did happen to one of the Dealer Principals and there was a chasm left in the business, and the performance of the business would suffer as a result, we would have the right to terminate the contract. Again this has never happened in Ireland before, but if it did we would always work with the estate to ensure that the beneficiaries were not at a loss as a result.

**Interviewer:** Do you have a contingency plan in place for such an event?

**Interviewee:** That effectively is our contingency plan. We don't have it any more formal than that. So we would either assist in the sale of the business or we would help the estate recruit a Dealer Principal to continue in the successful progression of the business.

**Interviewer:** Have you any recommendations for a dealership wanting to establish a succession planning process in their business?

**Interviewee:** It depends on to what extent the family is interested in continuing the business. In some cases we would have sons and daughters who would be a number of years working in the business and would have a view to taking it over



from their father upon his retirement. Now they may not always be perhaps the best person to do that and that is something that we would work with them on to illustrate. Again we have a number of new start ups now where the Owner would be in his forties and the children are still very young. What we would be encouraging them to do is to provide for the business in the event of their untimely death. In other instances where the children do not want to get involved you effectively have to encourage the Dealer/Owner to either sell or to bring in non family member professionals. As the Dealer network is so diverse with so many variables between each Dealership it is difficult to have one solid recommendation which fits all. However, no matter what the individual situation is, I can definitely recommend to them to plan their succession early and seek external advice from professionals to help implement it.

That's the end of my questions now Paul. I would like to take this opportunity to thank you once again for your time, knowledge and insight. It is greatly appreciated.

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