

**An Investigation into Succession Planning of
Family Businesses in the Midlands**

Author: Fiona Harrington

Supervisor: Frank Conway

**This research project is submitted in partial fulfilment of the Masters of
Arts of Accounting at the Athlone Institute of Technology.**

School of Business

August 2012

Declaration

I have read the Institute's code of practice on plagiarism. I hereby certify this material, which I now submit for assessment on the programme of study leading to the award of Master of Arts in Accounting is entirely my own work and has not been taken from the work of others, save and to the extent that such work has been cited within the text of my work.

Student ID Number: *A00180203*

Name of Candidate: *Fiona Harrington*

Signature of Candidate:

Date:

Acknowledgements

I would like to firstly thank my supervisor Frank Conway for all his help, guidance and feedback during the entire process. Thank you to all my other lecturers throughout the year who were always willing to offer guidance.

I would especially like to thank all those that participated in my research; the businesses that took the time to fill in my questionnaire and those who took time out of their day so I could interview them and gain from their experiences. Without their time, this research would not be possible.

I would like to acknowledge my family and friends in Cork especially my parents and Carmel. Thank you for your understanding and encouragement throughout my education.

To my friends in Athlone, especially Martina, Aoife, Dan and Mairead thank you for your constant encouragement and I am sorry for plaguing you all year.

Last but not least to Karl, whose patience could nearly qualify him for sainthood. Your guidance, tolerance, encouragement and many words of wisdom have been greatly appreciated throughout this year.

Table of Contents

Declaration.....	i
Acknowledgements.....	ii
Table of Contents.....	iii
List of Abbreviations and Table of Figures.....	x
Table of Figures.....	xi
Executive Summary.....	xii
CHAPTER 1 - INTRODUCTION.....	1
1.1 Introduction.....	1
1.2 Research Aim.....	1
1.3 Research Objectives.....	1
1.4 Rationale for undertaking this Research:.....	2
1.5 Background to the Study:.....	3
1.5.1 What is Succession Planning?.....	3
1.5.2 Levels of Succession Planning.....	4
1.5.2.1 Planning in a Recession.....	5
1.5.2.2 Tax Reliefs.....	6
1.5.3 Definition of a Family Business.....	6
1.5.4 Role of Family Businesses to Economy.....	7
1.6 Research Methodology.....	8

1.6.1 Research Strategy.....	8
1.6.2 Data Collection Methods	8
1.6.3 Data Analysis	9
1.7 Structure of the Project	9
1.8 Summary	10
CHAPTER 2 - LITERATURE REVIEW	11
2.1 Introduction.....	11
2.2 Methods.....	11
2.3 Developing a Succession Plan	12
2.3.1 Legal, Financial and Tax issues	13
2.3.1.1 Legal Issues.....	13
2.3.1.2 Financial Issues	13
2.3.1.2.1 Business Valuation.....	14
2.3.1.2.2 Raising Finance	14
2.3.1.3 Taxation Issues.....	14
2.3.1.3.1 Capital Gains Tax.....	15
2.3.1.3.2 Capital Acquisitions Tax	18
2.3.1.3.3 Stamp Duty.....	20
2.3.2 Time Consideration.....	20
2.4 Levels of Succession Planning.....	21

2.5 Why do they delay the inevitable?.....	22
2.5.1 Finding a Suitable Successor	22
2.5.2 Problems Relating to the Owner	24
2.5.3 Financial Issues	25
2.5.4 Time Constraints	25
2.5.5 Not an Immediate Decision	26
2.6 Why they Engage in Succession Planning?	26
2.6.1 Maintaining Ownership and Control of the Business within the Family	27
2.6.2 Reducing Tax Costs	27
2.6.3 Avoid the Disruption to the Business on the Death of the Owner..	27
2.7 The Effect of the Recession	28
2.7.1 Lower Asset Values	28
2.7.2 Avail of the Tax Reliefs while they still Exist.....	29
2.7.3 Availability of Credit	29
2.8 Summary	29
CHAPTER 3 - RESEARCH METHODOLOGY	31
3.1 Introduction.....	31
3.2 Research Aim.....	31
3.3 Research Objectives.....	31
3.4 Research Methodology	32

3.5 Research Philosophies	33
3.6 Research Approach	35
3.7 Research Design.....	36
3.7.1 Research Purpose	36
3.7.2 Research Strategies	37
3.8 Research Choice.....	39
3.8.1 Triangulation.....	39
3.9 Time Horizons	40
3.10 Data Collection Methods	40
3.10.1 Questionnaires.....	41
3.10.1.1 Design of Questionnaire	41
3.10.1.2 Sample.....	42
3.10.1.3 Distribution	43
3.10.1.4 Response Rate	44
3.10.1.5 Data Analysis	45
3.10.2 Interviews.....	45
3.10.2.1 After the Interview	47
3.10.2.2 Data Analysis	47
3.11 Ethical Consideration.....	47
3.12 Research Limitations	48
3.13 Summary	49

CHAPTER 4 – ANALYSIS OF FINDINGS	50
4.1 Introduction.....	50
4.2 Overall Findings.....	50
4.3 Questionnaire	51
4.4 Interviews.....	53
4.5 Objective One: Explore the main considerations involved in developing a succession plan for a family business.	54
4.6 Objective Two: Determine the awareness among owners of family businesses of succession planning and the extent to which they have planned for it.	58
4.7 Objective Three: Investigate what factors influence their decisions with regards to succession planning.....	59
4.7.1 Why do they delay the inevitable?.....	59
4.7.2 Why they engage in Succession Planning?.....	62
4.8 Objective Four: Examine if succession planning has been affected by the current economic recession.	63
4.9 Conclusion	65
 CHAPTER 5 – DISCUSSION	 66
5.1 Introduction.....	66
5.2 Objective One: Explore the main considerations involved in developing a succession plan for a family business	66

5.3 Objective Two: Determine the awareness among owners of family businesses of succession planning and the extent to which they have planned for it	69
5.4 Objective Three: Investigate what factors influence their decisions with regards to succession planning decisions.....	70
5.4.1 Why do they delay the inevitable?	70
5.4.2 Why they engage in Succession Planning?.....	72
5.5 Objective Four: Examine if succession planning has been affected by the current economic recession.....	74
5.6 Conclusion	75
CHAPTER 6 – CONCLUSION.....	76
6.1 Introduction.....	76
6.2 Objective One: Explore the main considerations involved in developing a succession plan for a family business	76
6.3 Objective Two: Determine the awareness among owners of family businesses of succession planning and the extent to which they have planned for it	77
6.4 Objective Three: Investigate what factors influence their decisions with regards to succession planning.....	77
6.4.1 Why do they delay the inevitable?	77
6.4.2 Why they engage in Succession Planning?.....	77

6.5 Objective Four: Examine if succession planning has been affected by the current economic recession.....	78
6.6 Limitations	79
6.7 Personal Reflection	79
6.8 Recommendations for Further Research.....	81
6.9 Final Conclusion	82
Bibliography	84
Appendix A: Questionnaire Design and Results	i
Appendix B: Cover Letter for Survey.....	xiv
Appendix C: Interview with Mr. Mike O Reilly.....	xv
Appendix D: Interview with Mr. Mark McCutcheon	xxvi
Appendix E: Interview with Ms. Mary Carroll.....	xxviii
Appendix F: Questions sent to Mr. Ronan Haslette prior to semi-structured interview	xxxix
Appendix G: Participant Information Sheet	xl
Appendix H: Interview with Mr. Ronan Haslette	xlii

List of Abbreviations

CEO:	Chief Executive Officer
SFA:	Small Firms Association
CGT:	Capital Gains Tax
CAT:	Capital Acquisitions Tax
SME:	Small and Medium Enterprise
GDP:	Gross Domestic Product
PwC:	PricewaterhouseCoopers
ISME:	Irish Small and Medium Enterprises Association

Table of Figures

- Figure 2.1:** CAT Group Thresholds.
- Figure 3.1** The Research Onion.
- Figure 4.1** Type of Business.
- Figure 4.2** Age profile of Participants.
- Figure 4.3** The generation of the Business.
- Figure 4.4** How they took over the Business?
- Figure 4.5** Who they would consult to make a plan?
- Figure 4.6** When do they plan to retire?
- Figure 4.7** Why they have decided not to plan?
- Figure 4.8** Main reasons for businesses to fail to pass onto next generation.
- Figure 4.9** The effect of the recession on succession planning.

Executive Summary

Family businesses are a significant contributor to the Irish economy and succession planning has been stressed in the literature as one of the most pressing issues that challenges their continuity among generations. The purpose of this research is to examine the levels of succession planning among family businesses in the midland regions of Ireland. As part of this research, the considerations involved in developing a succession plan for a family business will be examined. The research will also identify the awareness of succession planning among family businesses and the levels of family businesses that plan their succession. It will address the reasons why businesses are refusing to plan, and the also the reasons why the businesses that are engaging in succession planning are doing so. Finally, the research will assess if the current economic recession has had any effect on the level of planning among family businesses.

The author used a survey strategy by employing the use of questionnaires and semi structured interviews. Questionnaires were sent to one hundred and ten family businesses in the midland counties of Ireland: Laois, Longford, Offaly and Westmeath, achieving a response rate of 22%. Semi structured interviews were conducted with various professionals who have been involved in different aspects of the succession planning process: an accountant, a tax consultant, a succession planning facilitator and a managing director of a family business who had recently taken over the business from his father.

The findings revealed that most of the family businesses would like the business to remain within the family, but only a fraction have actually planned

their succession. Due to the perception of succession planning not being an immediate issue, the findings revealed that succession planning does not rank highly in the priorities of owners of family businesses. The participants who have planned their succession were mainly owners who were in the process of retiring. Therefore, it appears from the findings that people will not contemplate their succession unless they are getting ready to retire from the business. Most owners also stated the recession has had no effect on their succession plans, however most were also unaware of the financial benefits of transferring their business during a recession. It was found that most people are unaware of the effect of the recession on their plans as they are too focused on keeping the business viable.

Succession planning is an important issue for those who want the business to be passed onto the next generation, and something that should be planned in advance rather than when fate forces them to do. There are a lot of issues to be considered, but taking the time to consider these issues can help save a lot of time, money and conflict. The author hopes that this research will help family businesses understand the issue of succession planning and hopefully result in greater levels of succession planning in the future.

CHAPTER 1 - INTRODUCTION

1.1 Introduction

The aim of this chapter is to introduce the dissertation topic. It will detail the research aims and objectives to be satisfied, the rationale for undertaking the study as well as outlining a brief background to the topic. It will conclude with an overview of the structure of the dissertation.

1.2 Research Aim

The research aim is to examine the extent to which family businesses in the midlands have considered their succession, and to investigate the factors that have influenced any decisions they have made.

1.3 Research Objectives

The research objectives pursued in order to fulfil the above research aims are:

1. Explore the main considerations involved in developing a succession plan for a family business;
2. Determine the awareness of succession planning among owners of family businesses and the extent to which they have planned for it;
3. Investigate what factors influence their decisions with regards to succession planning;
4. Examine if succession planning has been affected by the current economic recession.

1.4 Rationale for undertaking this Research:

As part of the Masters of Arts in Accounting course which the author is currently undertaking, there is a requirement to complete a dissertation of choice on a topic of interest to the author. On completion of the Masters of Arts in Accounting course, the author will begin a three year training contract with an accountancy firm, specialising in tax, so it seemed appropriate and relevant for the author to choose the topic of succession planning, an area affected greatly by tax issues.

Also, having worked and been significantly involved in the running of a family business for a number of years, the author has particular interest in focusing on this area of succession.

The author also acknowledges that family businesses are a significant contributor to the Irish economy and are deemed to play an important role in the future for Ireland's economic recovery. Therefore, the continuance of family businesses is of significant importance to our society as a whole. One way of helping to ensure the continuance of these family businesses is for these businesses to start thinking about and creating a succession plan in order to plan the future success and direction of the business. Unfortunately this is currently not the case, as there is a lack of realisation around the importance of succession planning. By researching this area, the author hopes to create some awareness in Ireland around the importance of succession planning.

1.5 Background to the Study:

1.5.1 What is Succession Planning?

Abundant definitions exist on the area of succession planning. One such example defined succession planning:

“as an attempt to plan for the right number and quality of managers and key skilled employees to cover retirements, death, serious illness or promotion, and any new positions which may be created in future organisation plans” (Sambrook, 2005 p.580).

It can be seen through this that succession planning is the planning for the future of top management positions and ownership of a business. The main driving force behind succession planning is to:

“facilitate the going-concern of a business and to reduce the obvious threats to local economies brought about by business closures” (Ip and Jacobs, 2006 p.329).

With large companies, the date at which the Chief Executive Officer (CEO) is replaced is usually agreed in advance and is under the control of the board of directors (Fox et al., 1996). In the case of a family business, the succession date is usually never agreed, it is a rare event which happens once in each person's lifetime, and usually the successors are limited to the family members (Fox et al., 1996). It is important to look at definitions that focus on the area of family businesses, as succession in family businesses contain more issues for consideration than any other business. Family business succession planning is specifically defined as:

“the process of creating and implementing a plan for the family business that is designed to match the financial and psychological needs of the owner, the family and the key employees with the needs of the business as a going concern” (White et al., 2004 p.67-68).

The more focused definition highlights the specific issues of the succession of a family business, as they involve greater concerns than the concerns involved with corporate succession planning strategies. Although copious other definitions exist in this area, one key theme, from all authors in the area, is that succession planning is an important multi-staged process, rather than a single step (Handler, 1994) and one that should be prepared for in advance rather than when they are forced to do so.

1.5.2 Levels of Succession Planning

It may appear obvious that in order for a business to successfully pass down through generations of a family, an appropriate plan must be made in advance to identify an appropriate successor to the existing owner, and that this would all be formally documented in a legal document, such as a will. However, it is quite evident in Ireland that business owners are not making these decisions, nor putting appropriate measures in place. A survey carried out in 2009 by the Small Firms Association (SFA) and Ulster Bank found that 67% of business owner managers had no succession plan in place. This is by no means just an Irish problem. The literature is full of statistics very similar to the Irish situation. So the question is, why are people not considering the future of their business? Succession planning may be as simple as just drawing up a will in case of death, so why are they delaying?

The main reason identified is the level of time required in terms of, firstly, thinking about and agreeing a plan, and secondly, actually implementing the plan. There is also a financial cost in terms of advice and assistance required from legal and taxation professionals. However, the potential financial cost when owners fail to plan their succession can be even greater, most notably the failure of the family business. As the saying goes, failing to plan is planning to fail. Given these serious consequences, it should be in every businesses best interest to begin planning for their succession sooner rather than later. Also, given the current times we live in, right now is one of the best times for businesses to engage in succession planning, for two main reasons;

- undertaking succession planning in a recession is considered to be the best time due to reduced asset values; and
- the generous taxation reliefs that currently exist are expected to soon be abolished.

1.5.2.1 Planning in a Recession

During a recession is deemed to be one of the best times for businesses to consider transferring their ownership to the next generation. Given that asset values are lower than normal during a recession, in particular land and property values, the exposure to Capital Gains Tax (CGT) and Stamp Duty is significantly reduced (Duffy, 2011). This will reduce the tax payable on the transfer. This would be a key consideration for any individual considering transferring the business to the next generation, as usually in these situations,

no money exchanges hands, and as a result, the cash required may not be available to pay a tax bill resulting from the transfer of the assets.

1.5.2.2 Tax Reliefs

On the transfer of a business, there are significant tax consequences. These are primarily in the form of CGT and Capital Acquisitions Tax (CAT). Currently, generous reliefs exist in order to encourage owners of businesses to pass on their business known as CGT Retirement Relief and CAT Business Relief. These reliefs are very significant and are deemed too generous by some. In 2009, The Commission on Taxation Report and The Four Year Plan published by the Government in December 2010 recommended a dilution of the tax reliefs that currently exist in the succession planning process (Glynn, 2011). The process of restricting the reliefs began in the most recent finance act, which will be discussed in more detail in later chapters. Given this potential dilution of the available reliefs, relevant businesses should be starting the succession planning process now in order to avail of the existing reliefs whilst they still can.

1.5.3 Definition of a Family Business

This thesis will focus on family run businesses where the hope is that the business will be kept in the family and transferred to the next generation. If the business is not to be kept in the family, it is worth noting that there are far fewer deliberations to be made. With this in mind, it is important to identify what a family business is, however this definition is in much debate across the literature. There is a lack of consensus as to what defines a family firm (Handler, 1989). One such definition is quoted as:

“A proprietorship, partnership, corporation or any form of business association, which is classified as an SME (Small and Medium Enterprise) and where the majority ownership is held by the family and family members are employed in the family business and/or the family is represented on the Board of Directors” by Birdthistle (2003) as cited in Birdthistle and Fleming (2007 p.139).

It is within this representation that the author will be examining family businesses. From this and other definitions that exist across the literature, it is clear that a family business is one in which the family members are the controlling parties within the business. In this context, it is important to define an SME, as it is used in the above definition. According to the European Commission, an SME is an enterprise that has fewer than 250 employees with an annual turnover not exceeding €50 million or an annual balance sheet total not greater than €43 million (Birdthistle and Fleming, 2007).

1.5.4 Role of Family Businesses to Economy

Family businesses play a significant role in the economy, creating an estimated 70-90% of Global Gross Domestic Product (GDP) annually (Family Firm Institute, N.D.). In a survey completed across Europe, it was found that 70-80% of businesses were family business, providing 40-50% of employment (European Commission, 2010). In Ireland, family businesses are at the upper end of European averages, making up approximately 90% of indigenous business in Ireland and providing approximately 50% of all employment (Glynn, 2011). As Birdthistle and Fleming (2007) discuss, with a family business it is significantly more probable that profits generated will be re-

invested in the business, and unlikely to move from country to country, unlike the larger international companies present in the Irish economy. As well as this, family businesses typically have longer planning horizons resulting in smarter investment decisions (Kwak, 2003). Therefore, it is of growing importance to see the continuance and growth of family businesses in the Irish economy, especially given the difficulties it has faced over the last number of years. It is not just important for the business itself, but for society as a whole, as these family businesses create employment and contribute to the GDP.

1.6 Research Methodology

The author will draw on the Research Onion to explain the methodology that will be used by the author. This will explain the author's reasons for employing a pragmatism philosophy.

1.6.1 Research Strategy

A survey strategy will be employed by the author with a mixed method approach to allow for the collection of qualitative and quantitative data. The main reason for choosing this method is its ability to gain information from a large sample.

1.6.2 Data Collection Methods

The author aims to use two data collection methods, questionnaires and semi-structured interviews. The questionnaires will be distributed to a sample of family businesses in the midlands to gain quantitative data while qualitative data will be collected from engaging in interviews with professionals who would be involved in the succession planning process with family businesses.

1.6.3 Data Analysis

Quantitative data collected through the internet questionnaire will be automatically analysed by the online survey tool, Survey Monkey and will be exported to Microsoft Excel. The qualitative data gathered through semi structured interviews will be subject to cross-case analysis.

1.7 Structure of the Project

Chapter 1 – Introduction

The objective of this chapter is to introduce the topic. This will outline the aims and objectives of the research. It will highlight the author's rationale for choosing this area and give a background to the research.

Chapter 2 – Literature Review

The main purpose of this chapter is to identify and outline the key literature in the area of succession planning. It will cite all relevant works in the area of succession planning, from journals, books and reports, to general information on websites. The author will critically analyse the opinions of experts.

Chapter 3 – Research Methodology

The main function of this chapter is to outline the research methodology, approach and strategy used with a justification of their appropriateness to the dissertation.

Chapter 4 – Analysis of Findings

This chapter presents an analysis of the findings based upon the methodology framework outlined in the previous chapter.

Chapter 5 – Discussion

This chapter will involve a discussion of the findings from chapter four around the literature review and the aims and objectives.

Chapter 6 – Conclusion

The final chapter will present the conclusions of the research and will discuss these conclusions around the author's aims and objectives. This chapter will also outline any limitations of the current research and will conclude with a personal reflection of the research experience.

1.8 Summary

Family businesses are a hugely important part of the recovery of the Irish economy, and, whilst family businesses may not know it, succession planning is one of the more pressing problems facing their business. An examination into this topic in the midlands will help the author achieve her aims and objectives, by providing an in-depth view of the state of succession planning in family businesses in the midlands. The next chapter will discuss the relevant literature in the area of succession planning in family businesses.

CHAPTER 2 - LITERATURE REVIEW

2.1 Introduction

This chapter will review the literature in the area of succession planning in family businesses. In doing so, the author will outline where the information was gathered from, introduce the idea of developing a succession plan and discuss the issues involved in the succession planning process. The reasons why businesses have planned, or not planned as the case may be, will also be identified, whilst the chapter will also examine the effects of the recession on the planning process.

2.2 Methods

The literature review was mainly conducted using the resources of the library at Athlone Institute of Technology, which was accessed both online and in person. The author utilised inter-library loans and contacted key authors to gain access to literature unavailable at the library. Journal articles, books and direct access to websites such as PricewaterhouseCoopers (PwC) and the SFA have provided valuable resources for the author. Examples of keyword searches included: 'Succession Planning', 'Family Businesses', 'Tax Reliefs', and 'Business Exit Strategies'.

There is no direct literature for the chosen geographical region of the Irish midlands and as a result this chapter will focus on succession planning in the family businesses within Ireland in general and around the world.

2.3 Developing a Succession Plan

Family succession planning is, as defined previously:

“the process of creating and implementing a plan for the family business that is designed to match the financial and psychological needs of the owner, the family and key employees with the needs of the business as a going concern” (White et al., 2004 p.67-68).

This definition exposes the significant number of people that have to be considered in this process, hence why extensive literature exists for guiding businesses in developing such a succession plan. However, it has been remarked that there is no standard template for creating a succession planning system (Greengard, 2001). Although there are widespread views on what is involved, the main consideration highlighted by numerous authors is identifying potential ownership (Birley, 1986; Francis, 1993). One of the first considerations the owner has to anticipate is the degree to which the family members want to continue in the business (Beckhard and Gibb Dyer, 1983; Royer et al., 2008). If the business is to stay within the family, Glynn (2011) then recommends owners to consider the suitability of the next generation. This is obviously a key step in any succession plan, as having no-one suitable to pass or sell the business onto will postpone the succession planning process.

The SFA (2008a), in the release of their *Succession Planning Guidelines for Small Businesses*, outlined what the plan should consider. The issues included; a schedule detailing the split of the new ownership, identifying the new owners and their respective roles, the timing of the transaction, the training that is required for individuals in their new roles, the details of the

mechanics for the purchase or sale of any stakes in the business, the taxation and legal considerations, the retirement issues and the process for dealing with disputes and problems.

One of the problems which are highlighted as a major issue is the legal, financial and tax issues (Ip and Jacobs, 2006).

2.3.1 Legal, Financial and Tax issues

2.3.1.1 Legal Issues

Estate Planning is a key topic identified and would be the starting point to creating a succession plan (Handler, 1994; White et al., 2004; Glynn, 2011). As anything can happen to the owner, for example illness, death by accident etc., a will should be drawn up as soon as possible, in order to insure the correct measures are taken according to the owners wishes. This is the ultimate meaning of a succession plan.

Solicitors are very much enshrined in the succession planning process, as they are responsible for creating the will, as well as accounting for the other legal aspects of the transfer, and helping to ensure the plan maintains legal compliance (Ip and Jacobs, 2006).

2.3.1.2 Financial Issues

As Ip and Jacobs (2006) state, there are two main factors of financial concern in the succession planning process: a valuation of the business and raising finance for the process.

2.3.1.2.1 Business Valuation

Whether selling to a third party or transferring to a family member, the business will have to be valued. This is a key step highlighted by Francis (1993) in his advice to Certified Public Accountants. This creates difficulties in itself to the owner, as business valuation is often remarked on as being more of an art than a science. It will usually require the use of a professional such as a Corporate Finance individual, which again involves additional costs. On a sale to a third party, the owner needs to know what is deemed a fair price for their business, while a valuation is needed for CAT and CGT purposes when transferring to a connected individual (Francis, 1993).

2.3.1.2.2 Raising Finance

As already discussed, the succession process can carry with it a significant cost, through both the hiring of professionals and the tax implications. Because of this, it should be considered whether the individual will need to raise finance, e.g. bank loans, or if they are independently wealthy enough to accept the financial burden. One of the main aspects family businesses would need to consider, especially in today's current economic climate, is the ease to which they can get finance (Ip and Jacobs, 2006).

2.3.1.3 Taxation Issues

“Fiscal matters are arguably the most important financial component a company has to consider when preparing for business transfer” (Ip and Jacobs, 2006 p.334).

“A lack of understanding of the tax implications of succession may result in the loss of valuable tax reliefs, which will negatively impact

on the business when succession finally takes place” (Doyle et al., 2008 p.36).

Both of these citations stress the consideration that needs to be placed on the taxation aspect of the succession planning process. For this reason, the author will give an overview of the main Irish tax implications, which provides generous reliefs for people planning to transfer their business. The main tax headings applicable when considering succession planning are CGT, CAT and Stamp Duty.

2.3.1.3.1 Capital Gains Tax

A capital gains tax liability will occur when a person sells an asset or when an asset is gifted. CGT is calculated on the difference between the market value of the assets or shares and their original tax allowable cost (Chartered Accountants Ireland, 2011). In Ireland, the rate of CGT, as brought in through the 2012 Finance Act, is 30% (KPMG, 2012). In the context of a family business, the most common assets that will give rise to a CGT liability are land, buildings, goodwill and shares in a family company (Doyle et al., 2008). It is also important to note that for dispositions between connected individuals (for example, relatives are deemed connected individuals), market value is imposed as the selling price. Therefore, for CGT purposes, in the case of a gift, it does not matter whether any money has changed hands or not, i.e. a liability to CGT tax will still occur based on the market value (Revenue, 2012).

In the case of the succession of a business, there is a significant relief available in the form of CGT retirement relief. Once the relevant conditions are

satisfied, it may result in a portion, or in some cases all, of the CGT payable being eliminated. Retirement relief can be availed of in two ways; disposal to a child or disposal to a third party.

With regards to the disposal of a business, the literature emphasises that the main way that owners plan to transfer their business is to transfer it to their child. Some of the main surveys have highlighted that owners aim to try and keep the business in the family. In PwC's 2007 survey, they found that of the 25% of family businesses that were expected to change hands in the following five years, 51% of them anticipated that the business would remain within the family. A subsequent survey completed by PwC in 2010, followed the same trend, with 27% planning to change hands in the next five years, and of that, 53% would expect to pass to the next generation of the family. With these statistics, the importance of tax relief on the disposal of a business to a child is highlighted. The relief in this case is that as long as the assets transferred are chargeable business assets (i.e. land and buildings, plant and machinery and goodwill) and do not include investment assets, then no CGT liability will be charged on those assets (Chartered Accountants Ireland, 2011). If there are other assets such as investment property, the only tax payable will be on those assets. However it should be noted that a claw back period of six years exists, so that if the child disposes of the assets/shares within a six year period, they will be liable to the tax that the parent was relieved from, as well as the tax payable on their own disposal (Chartered Accountants Ireland, 2011).

In the case of a third party, a threshold exists of €750,000 (Chartered Accountants Ireland, 2011). Therefore if the sale proceeds of the chargeable business assets are under this, no CGT will be payable, provided again that the

assets being sold are chargeable business assets. If, however, the sale proceeds relating to the chargeable business assets are over this limit, then they will not qualify for retirement relief, but may be eligible to marginal relief (Chartered Accountants Ireland, 2011). The marginal relief is calculated by:

$[\text{Sale proceeds relating to the Chargeable business assets} - \text{€750,000}] \times 50\%$

In order to qualify for retirement relief, there are conditions. These include: the individual making the sale must be fifty five years of age or older, the assets must be qualifying assets, the individual must have held the assets for at least ten years and when the assets consists of shares, the individual must be a director of the company for at least ten years ending on the date of the gift/sale, as well as being a full time director for at least five of those years (Small Firms Association, 2008). There is no requirement in the legislation for the person to actually retire from the business, which is sometimes misunderstood, and quoted as a reason people have failed to engage in succession planning.

Some significant changes have been implemented in the Finance Act 2012. These mark the start of restrictions coming into force on the existing reliefs associated with succession planning. When an individual wants to dispose of the business to a child, the conditions mentioned have to be met. However once the individual reaches the age the sixty six, a limit is imposed which restricts the exemption of the qualifying business up to €3 million, with the excess then being taxable. In the situation where the individual is selling to a third party, the lifetime threshold is reduced to €500,000, with marginal relief

applying thereafter. These restrictions come into force on disposals after the 1 January 2014 (KPMG, 2012).

It should be noted that CGT is not applicable on death (Chartered Accountants Ireland, 2011).

2.3.1.3.2 Capital Acquisitions Tax

CAT comprises of both gift and inheritance tax. The tax is payable on the receipt of any benefit and is payable by the person receiving the benefit. A benefit can include receiving an asset at an undervalue (Glynn, 2011). For example, if a parent gave a son a shop premises worth €100,000 and the son paid €40,000, he would be taxed on the receipt of a gift of €60,000.

The rate of CAT was increased in the 2012 budget to 30% (KPMG, 2012). As Doyle et al. (2008) explain, calculating the taxable amount can be somewhat complicated, but depends on; whether it is a gift or inheritance, the relationship that exists between the person giving the gift/inheritance and the recipient, as well as the amount of any previous gifts/inheritances received by the recipient after the 5th of December 1991.

The transfer of a business to a family member will trigger CAT issues. There are three main aspects which will reduce or eliminate the CAT liability. These are; Group thresholds, CAT Business Relief and CGT/CAT offset.

Group thresholds exist, which are lifetime threshold amounts that an individual can be gifted, or inherit, tax free. However these thresholds are changed each year through the budget. In the recent Finance Act, the thresholds are seen in **figure 2.1**(KPMG, 2012).

Figure 2.1: CAT Group Thresholds

Group A	€250,000
Group B	€33,500
Group C	€16,750

Depending on the relationship between the person giving the gift/inheritance and the person receiving it, this will determine what group threshold a gift will be categorised into. In the case of a parent to a child, group A is applicable (Chartered Accountants Ireland, 2011).

With CAT, there is one main relief which exists, Business Relief. This relief can significantly reduce any CAT liability on the transfer of a business. It applies to ‘relevant business assets’, which includes unquoted shares in trading companies, a business or an interest in a business or Irish land, buildings, machinery or plant owned by the donor and used in his business and quoted shares or securities of a company which are owned by the donor prior to them becoming quoted (Small Firms Association, 2008; Doyle et al., 2008). Once the assets have been held for two years in the case of an inheritance, and five years in the case of a gift, then the taxable value of this asset will be reduced by 90%. If however the assets are disposed of within a six year period and the proceeds are not fully reinvested in relevant business assets, then the relief will be clawed back (Chartered Accountants Ireland, 2011).

The CGT/CAT offset will also be relevant in the case where a gift is given to an individual. This is a credit utilised when the same event triggers a CGT liability and a CAT liability. In this case, the CGT payable can be used as a credit against the CAT payable. This credit is a significant factor in reducing

the taxes payable on the gift of a business. Again, a claw back period of two years exists (Chartered Accountants Ireland, 2011).

2.3.1.3.3 Stamp Duty

Stamp duty will also be payable on the transfer of non-moveable assets (e.g. a business property) and shares (Doyle et al., 2008), but this will not arise on an inheritance. It is calculated on the market value and different rates apply to different assets. Shares suffer stamp duty at 1% while residential property suffers stamp duty up to a maximum of 2% (Chartered Accountants Ireland, 2011). Non-residential property suffered up to 6% depending on its value previously however this changed with the 2012 Finance Act, the rate is now only 2% despite its value (KPMG, 2012).

On the transfer of property, consanguinity relief is available when the transfer is between close relatives. Under this relief, the rate of stamp duty is halved for transactions between close relatives. This relief is set to be abolished at the end of 2014 (KPMG, 2012).

It can be seen from the tax consequences mentioned above that generous reliefs are currently available within the Irish tax system, but will be restricted significantly in upcoming budgets over the next number of years. It would appear that in order to fully utilise and benefit from these reliefs, a business would need to start developing and implementing a succession plan now.

2.3.2 Time Consideration

Taking the time to prepare, and recognising that developing a succession plan is not something that will be achieved overnight, is also emphasised throughout the literature. It can be seen especially through the tax reliefs that a

significant amount of time will be put towards planning in order to gain maximum utilisation. It is recommended that it can take up to ten years to develop a sophisticated succession plan (Zaudtke and Ammerman, 1997) with Doyle et al. (2008) stating five years as a minimum planning time.

2.4 Levels of Succession Planning

Surveys on the level of succession planning are in abundance across the literature. They appear to all be in agreement across the globe that the levels of small and family businesses thinking about the future is particularly low. PwC's worldwide survey of family businesses in 2011 found that half of the businesses they surveyed do not have a succession plan in place. This is also in line with the PwC survey completed in 2007. In Canada, a survey found that SME's with a formal succession plan amounted to 65%, which when compared to the other surveys completed throughout the literature, is very high (Bruce and Picard, 2006).

A study closer to Ireland, in a small area in the U.K., found that 38% of their respondents had or were currently planning for succession, with 62% not making any plans (Coverley, 1999). This is very much in line with the survey completed by the SFA in Ireland in 2009, which revealed that 67% of owners had no succession plan in place. It should be observed that the businesses not planning their succession are a little higher than the figures found by the PwC global surveys.

Literature appears very consistent in the fact that family businesses and small businesses are not planning to the extent that one would expect, or hope for. As widely outlined in the literature, one of the main and most dramatic

consequences for businesses failing to implement a succession plan is that most family businesses don't successfully pass to the next generation. In the US, about 30% of family businesses make it to the second generation while only 12% are still viable in the third generation (Pricewaterhouse Cooper, 2010). This again is in line with surveys completed in Ireland, which showed that 27% of family business successfully pass to the second generation and only 13% to the third (Glynn, 2011). Authors have written to a large extent about the reasons why businesses have not engaged in succession planning.

2.5 Why do they delay the inevitable?

There are constant reoccurring opinions existing on why people have delayed thinking about the future of their family business. The reasons can be broken down to the following: finding a suitable successor, emotional issues relating to the owner, financial issues and time constraints. These have been extensively written about across the literature but the author will give a brief overview of the main issues found in each heading.

2.5.1 Finding a Suitable Successor

In the literature, this has appeared as one of the recurring reasons as to why the owner of a family business has delayed their succession. It has been concluded by many writers that finding a successor, especially when a number of suitable individuals exist in the family, is so difficult that they leave the decision until the very last moment, and as a consequence no training takes place for the successor (Birley, 1986). The successor problem is not wholly limited to finding a suitable candidate but also involves family issues

concerned with the person to pick as a successor without causing family acrimony.

De Massis et al. (2008) have identified the main scenarios that occur in finding a suitable successor. If the owner feels the potential successor lacks the skills and knowledge for the business to continue and prosper, then they delay the process of succession. In a study completed in East Anglia in the U.K, this was cited as the main reason why small family businesses in that region had failed to plan (Coverley, 1999). The potential successor might actually refuse the position because of their lack of qualification (De Massis et al., 2008) or not be interested in carrying on working in the business (Dascher and Jens Jr, 1999). A survey completed in the University of Notre Dame found that 42% of potential successors didn't ever want to be involved in the family business (Birley, 1986).

Another dilemma arises when a number of potential successors exist. In a family business, it can be a highly emotive issue picking a successor where more than one relative is interested in taking over the business (Pricewaterhouse Cooper, 2010). In order to avoid conflict, they postpone the plan.

In Ireland, the main problem appears to be not being able to identify a suitable successor, which was cited as one of the main reasons in Doyle et al. for not formulating a plan, with 57% of the survey respondents quoting this as an answer in 2008.

2.5.2 Problems Relating to the Owner

De Massis et al. identify these as incumbent related factors and discuss a range of scenarios that might be included in these. One main feature is the personal sense of attachment of the incumbent (the owner) to the business (De Massis et al., 2008). This is a problem stressed all across the literature. Birdthistle (2005) found reluctance to concede control was a main reason why owners were failing to plan. The PwC (2010) survey revealed this also. Why are owners so unwilling to let go? In order to assess this, it is important to examine the psychology of retirement and the emotional issues of letting go.

The succession planning process has been referred to as preparing for one's death and this can be a very difficult concept to deal with emotionally (Beckhard and Gibb Dyer, 1983; Gold, 2007). An interview conducted by Lansberg (1988) for his research revealed that succession planning for one participant was like being actively involved in the arrangement of their own wake. This is also not aided by the fact that the succession process will often not begin until the owner reaches their sixties – the last stage in their life cycle, a time that the owner may also be dealing with other issues such as children leaving home etc., so denial is often a usual psychological response as Handler (1994) found.

Other concerns evolve around the power and sense of identity that an owner gets from owning and controlling the business. Owning that business defines their place in society and losing that can create a sense of loss (Lansberg, 1988). The threat of going from somebody to nobody overnight can generate anxiety for the individual (De Vries, 2003).

2.5.3 Financial Issues

As identified already, solicitors, accountants, tax professionals and corporate finance professionals can all be involved in the development of a succession plan. However, businesses may not have the resources available to involve these professionals, particularly in the current economic climate. In addition, there can often be a very high tax liability at the end of the process, for which the owner may not have the necessary funds to pay (De Massis et al., 2008). Ip & Jacobs (2006) state that tax issues are the most important financial components a company should consider when preparing for business transfer. This is because the family business represents the largest concentration of wealth in the estate (Francis, 1993) and tax issues are the main way this wealth can be eroded. However, as identified by PwC (2010), the majority of the family businesses in their survey had neglected to identify the potential tax exposure of their transfer. Given this, it could be implied that, although the leading authors identify this as a significant issue, in reality family businesses are unaware of this issue.

Another financial factor, prevalent beyond the costs involved in creating and implementing a succession plan, occurs when the owner is still reliant on the income of the business. This may be as a result of not adequately providing for the future through a pension. They may not be able to give up the business as a result of this reliance (Doyle et al., 2008).

2.5.4 Time Constraints

In the current climate, businesses are working incredibly hard in order to keep their business viable, thus meaning that there is little time available for non-

core business related activities. This was one of the reasons Doyle et al. (2008) found as an obstruction to developing succession plans. It was also noted in the PwC (2010) survey as a significant reason for lack of planning.

2.5.5 Not an Immediate Decision

It would appear from Doyle et al. (2008) that people ignore the issue as a result of it not being an immediate decision. It was felt that people who don't intend to retire in the short to medium term have ignored the issue, because they are not ready to retire and therefore there is not an immediate decision to be made.

2.6 Why they Engage in Succession Planning?

Much of the literature focuses on why family businesses fail to plan, and does not look at the reasons why they have decided to engage. This has been an area highlighted for further research by Bruce and Picard (2006). As already emphasised, there are a small percentage of businesses that have created a succession plan. It has been quoted that the main benefit of succession planning is to facilitate the going concern of a business and in doing so reducing the obvious threats to local economies brought about by business closures (Ip and Jacobs, 2006). Embedded in the literature is the idea that succession planning, among family businesses in particular, has the added benefit of helping to smooth the transition to the next generation and see the business make the leap across numerous generations (Pricewaterhouse Cooper, 2007). The surveys previously completed have not identified what their participant's exact reason for planning was and as a result, the literature

is scarce on an in-depth list of the benefits. The benefits, about to be discussed, are from general conclusions emphasised across the literature.

2.6.1 Maintaining Ownership and Control of the Business within the Family

One of the best arguments in favour of a detailed succession plan, is that a family business owner will be able to keep some control, even if they themselves are no longer running the company (Grove and Prince, 2004). In the survey completed by Doyle et al. (2008), this was cited by the participants as being one of the main advantages of succession planning.

2.6.2 Reducing Tax Costs

It has been extensively discussed within this document that planning for succession can help a business and its owner to reduce its tax liability and enable it to avail of the generous reliefs available. However, it also has been made clear that a significant proportion of people are not actually aware of the tax issues involved. In this regard, it appears that there is a conflict in the literature around this point. Despite this, the research completed by Doyle et al. (2008) revealed that 53% of participants felt that the tax advantage was the main benefit of forward planning.

2.6.3 Avoid the Disruption to the Business on the Death of the Owner

The death of the owner, without any succession plan being implemented or prepared for, disrupts the business quite significantly. According to Grusky (1960) as cited in Fox et al (1996), it prevents the transfer of accumulated knowledge and will lead to more rapid and extreme policy changes rather than

smooth transitions. It may also lead to issues with regards to who is picked to succeed the position of the owner, which in turn may damage the businesses prospects, according to Kinkhead (1980) as cited in (Fox et al., 1996). It is also noted that the sudden death of the owner may lead to confusion and unsustainable relationships with key stakeholders in the business, such as the suppliers and customers (Fox et al., 1996). Assessing these factors, Fox et al. (1996) have shown the importance of planning and managing succession planning while the person is alive, in order to give the business the best chance of surviving into the next generation (i.e. to have a viable business).

2.7 The Effect of the Recession

It has been noted from the literature that the recession will have an effect on the businesses ability to plan, as well as on the tax bill at the end of the transfer/sale.

2.7.1 Lower Asset Values

One aspect made clear from the literature is that the recession can actually be a positive thing when an individual is looking to pass on the business to a family member. The recession has caused a widespread decline in the value of assets such as land and buildings, as well as shares in companies, so an individual can now gift more shares for less value (McGee, 2009; Veid, 2009). With reducing asset and share values, the exposure to CGT, CAT and Stamp Duty diminishes (Duffy, 2011).

2.7.2 Avail of the Tax Reliefs while they still Exist

The future of the current tax reliefs that exist is very uncertain. Budget 2012 has already brought in certain restrictions on the existing reliefs, with more certain to follow. A recommendation for the dilution of both CGT retirement relief and CAT business relief was made by the commission on taxation report in 2009. Restrictions to retirement relief, as discussed previously, will be implemented in 2014. In addition to the restriction of reliefs, Ireland's CAT and CGT rates have both been increased within the last year (KPMG, 2012). Given the above, it would appear that the sooner businesses begin to plan and implement their succession, the better for them (KPMG, 2012).

2.7.3 Availability of Credit

The costs involved with developing a succession plan have been referred to at numerous stages in this chapter but liquid resources, i.e. cash, may not be available within the business to cover these costs (De Massis et al., 2008). Therefore the owner may need to look externally towards getting credit to cover the succession planning costs. However, access to this credit is not an easy process. Some figures reveal that the refusal rate of credit by banks for SME's in Ireland is 54%, as noted by the ISME (Irish Small and Medium Enterprises Association) (2012). This is as a direct result of the recession that Ireland is currently going through.

2.8 Summary

This chapter aimed to provide a review of the relevant literature on succession planning in family businesses in Ireland and across the world, as assessed by the author. It can be seen from the literature that succession planning rarely

occurs among family businesses and that there are extensive reasons why this is so. However the author would highlight that it is an important process which more awareness needs to be given to. The next chapter will focus on the research methodology employed by the author in order to achieve the aims and objectives of the research previously mentioned.

CHAPTER 3 - RESEARCH METHODOLOGY

3.1 Introduction

Methodology is described as:

“The theory of how research should be undertaken, including the theoretical assumptions upon which research is based and the implications of these for the method or methods adopted” (Saunders et al., 2009 p.595).

It is within this definition of methodology that this chapter will be discussed, with particular reference to the Research Onion. It will also draw attention to the limitations and ethical considerations that emerged throughout the research.

3.2 Research Aim

The research aim is to examine the extent to which family businesses in the midlands have considered their succession, and to investigate the factors that have influenced any decisions they have made.

3.3 Research Objectives

The research objectives pursued in order to fulfil the above research aims are:

1. Explore the main considerations involved in developing a succession plan for a family business;
2. Determine the awareness among owners of family businesses of succession planning and the extent to which they have planned for it;

3. Investigate what factors influence their decisions with regards to succession planning;

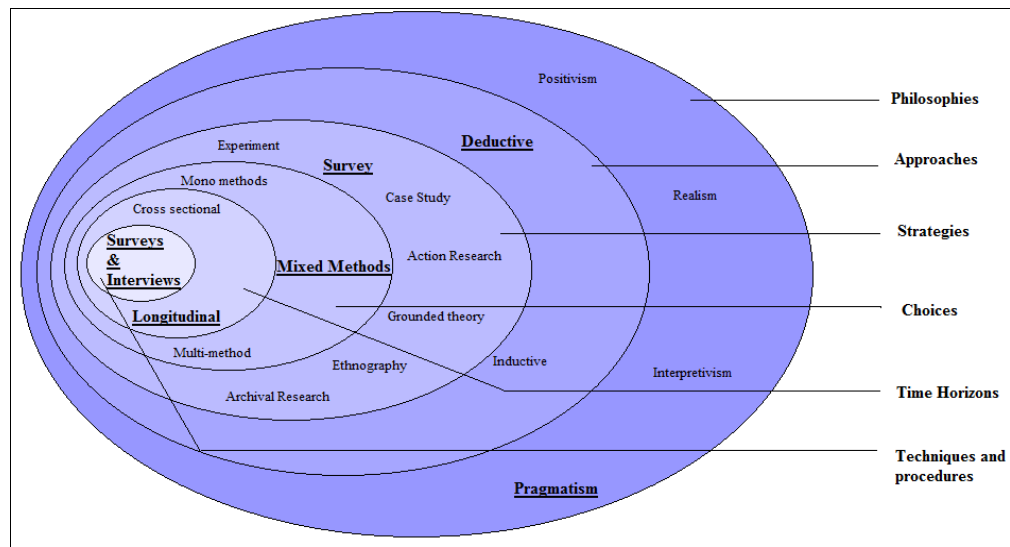
4. Examine if succession planning has been affected by the current economic recession.

3.4 Research Methodology

In order to explain the whole research process, the author will use the Research Onion, **figure 3.1** (Saunders et al., 2009). This will outline the different options available to the author throughout the process, the methods chosen and will justify these methods employed by the author. The Research Onion, as seen in **figure 3.1**, has six layers, as follows:

1. Research Philosophies
2. Research Approaches
3. Research Strategies
4. Research Choices
5. Time Horizons
6. Data Collection Methods.

Figure 3.1 Research Onion



3.5 Research Philosophies

The first layer of the research onion examines the research philosophy. Research philosophy is an “*overarching term relating to the development of knowledge and the nature of that knowledge in relation to research*” (Saunders et al., 2009 p.600). It is important for a researcher to give consideration to the philosophy as it “*contains important assumptions about the way in which you view the world*” (Saunders et al., 2009 p.108) and these assumptions will help the researcher identify the research methods to be used, and will enable them to appraise different methodologies, according to Easterby-Smith et al. (1997) as cited in Crossan (2003). It contains four different types:

1. **Positivism** – According to Remenyi et al. (1998) as cited in Saunders et al. (2009 p.113) this is described as:

“working with an observable social reality and that the end product of such research can be law-like generalisations similar to those produces by the physical and natural scientists”.

It is based on factual information and is quantitative, focused on figures and statistics.

2. **Realism** – *“The essence of realism is that what the senses show us as reality is the truth: that objects have an existence independent of the human mind”* and it takes on a scientific approach to the development of knowledge (Saunders et al., 2009 p.114). It can be seen that it is very similar to positivism.
3. **Interpretivism** – This is the direct opposite of positivism and states that we are not independent from reality. It *“advocates that it is necessary for the researcher to understand differences between humans in our role as social actors”* (Saunders et al., 2009 p.116). One of the main concepts is trying to understand the world through the research subjects’ eyes.
4. **Pragmatism** – This in its most basic form is a mix between positivism and interpretivism. This enables a researcher to adopt to take on whatever approach necessary to achieve your research aim (Saunders et al., 2009). It is in its most basic form a mix between interpretivism and positivism and underpins the mixed methods approach of using both qualitative and quantitative approaches (Denscombe, 2010).

The author has adopted a research philosophy of pragmatism as it would be most suited to the research methods employed to satisfy the research aims and objectives. A positivist philosophy was employed by the author in dealing with the quantitative information derived from the questionnaire which was distributed to family businesses in the midlands, while an interpretivist philosophy was adopted in the analysis of the qualitative information gained from semi-structured interviews. Therefore, using a philosophy of pragmatism would be the most logical as it allows a mixture of two different philosophies to be incorporated into the research as a result of mixing the methods used in gathering the primary data.

3.6 Research Approach

The next layer of the onion reveals the research approach. There are two possible approaches for the researcher to choose from:

- 1. Deduction** – This approach would be employed in which the research allows the researcher to develop a theory (hypothesis) which can be tested by the gathering of the data (Saunders et al., 2009).
- 2. Induction** – This would involve the researcher collecting the data first and then creating a theory (hypothesis) based on this (Saunders et al., 2009).

It should be very clear by these explanations that the author is employing a deductive approach to the research. Although the author has not developed specific hypothesis, this dissertation is based on the general hypothesis that the author has developed from the literature review that only 33-50% of family

businesses around the world have planned their succession. The author will test if this applies to the midlands also.

3.7 Research Design

The research design “*will be the general plan of how you will go about answering your research question*” (Saunders et al., 2009 p.136). It helps explain the total research process the author went through to gain primary data.

3.7.1 Research Purpose

It is highlighted across the literature that in order to choose the research strategy, it is important for the researcher to identify the purpose of the research. The purpose of research can be identified into three headings; exploratory, descriptive or explanatory.

Exploratory – “*Research that aims to seek new insights into phenomena, to ask questions, and to assess the phenomena in a new light*” (Saunders et al., 2009 p.592)

Descriptive – “*Research for which the purpose is to produce an accurate representation of persons, events or situations*” (Saunders et al., 2009 p.590)

Explanatory – “*Research that focuses on studying a situation or a problem in order to explain the relationships between variables*” (Saunders et al., 2009 p.591).

The author describes the purpose of this research as a mix of both descriptive and explanatory. Descriptive research will produce a representation of

succession planning of family businesses in the midlands while explanatory research will use different variables and the relationships between these variables to give information as to what factors have influenced people in their decisions.

3.7.2 Research Strategies

The author could employ a number of different strategies in answering the research aim and objectives. These could include:

Experiment – *“An experiment is an empirical investigation under controlled conditions designed to examine the properties of, and relationship between, specific factors”* (Denscombe, 2010 p.65).

Survey – This strategy is often *“used to answer the who, what, where, how much and how many questions”* (Saunders et al., 2009 p.144). It involves the use of questionnaires and interviews. They are best used when the researcher wants factual information relating to large groups of people (Denscombe, 2010).

Case Study – This is a method used in order to focus on one instance rather than a wide spectrum (Denscombe, 2010)

Action Research – This is very similar to a case study in the way that one particular thing is studied but it differs in the way that the research brings improvement (White, 2000).

Grounded Theory – This strategy first enables a theory to be developed from data generated by a series of observations which is then tested in further observations to confirm or otherwise these theories (Saunders et al., 2009).

Ethnography – The purpose of this strategy is to “*describe and explain the social world the research subjects inhabit in the way in which they would describe and explain it*” (Saunders et al., 2009 p.149).

Archival Research – This strategy gathers records and documents as the principal source of data and uses these to answer the research questions (Saunders et al., 2009).

The author has employed a survey approach using a questionnaire and semi structured interviews. This strategy is usually associated with a deductive approach (Saunders et al., 2009) and in line with the positivist philosophy.

There are a number of reasons this strategy was used by the author:

Firstly, this is the main strategy used in most of the previous research completed, and it has been noted by Handler (1989 p.270-271) that this strategy has “*been useful in demonstrating the extensive range of situations that can present themselves given the dynamics of the overlapping family and firm*”. The author wanted to remain in line with previous research given that the specific area of the Irish midlands had not been examined before. The author felt that, by doing this, it would be easier to compare and contrast her own research with existing research completed previously.

It is a relatively inexpensive strategy, not very time consuming and allows the author to get data from a large number of family businesses in the midlands (Denscombe, 2010).

However it should be noted that this strategy has some disadvantages. Handler (1989) noted that this strategy has been overused in collecting and

analysing data of family businesses. It is often found that this method can be quite easily ignored, which would be reflected in low response rates (Denscombe, 2010). Despite these disadvantages, the author felt that this was the most suitable method to achieve the aims and objectives of the research project.

3.8 Research Choice

The next layer of the Research Onion features the authors' research choice. This examines whether qualitative or quantitative data collection techniques and data analysis procedures were used. Qualitative is "*used as a synonym for any data collection technique or data analysis procedure that generates or use non-numerical data*" (Saunders et al., 2009 p.151) while quantitative focuses on numerical data.

A qualitative approach was used with semi-structured interviews performed by the author while a quantitative approach was employed via a questionnaire. The author is using a mixed method approach. This was used in order to achieve method triangulation.

3.8.1 Triangulation

This is defined as the "*use of two or more independent sources of data or data collection methods to corroborate research findings within a study*" (Saunders et al., 2009 p.154). As identified previously, the author is using two independent data collection methods, namely questionnaires and semi structured interviews. This is referred to as method triangulation. It was hoped that by doing this; the author would gain different perspectives of succession planning in family businesses in the midlands, namely from the

businesses themselves through the questionnaires, and the professionals involved in the process through the interviews. Using this process, it would help to improve the accuracy and validity of the findings of the author, whilst also helping to overcome the disadvantages of using each method in isolation. This would thus enhance the credibility of the research.

3.9 Time Horizons

The next layer will outline in what timeframe the research is designed. There are two time horizons to be considered:

- 1. Cross-sectional studies** – This studies a particular phenomenon at a particular time (Saunders et al., 2009).
- 2. Longitudinal studies** – This studies a particular phenomenon over an extended period of time (Saunders et al., 2009).

It is very evident that the author engaged in a cross-sectional study focused on the level of succession planning in family business in the midlands in 2012. Due to changing tax legislation each year and the time constraints placed on the author, this was the most appropriate time horizon deemed by the author.

3.10 Data Collection Methods

The final layer of the research onion is data collection methods. The author has used both questionnaires and semi-structured interviews in collecting the primary data for this project.

3.10.1 Questionnaires

Questionnaires were chosen by the author in order to gain quantitative data about the level of succession planning in Irish midland family businesses. One of the main advantages of this method for the author as cited by Denscombe (2010) is its ability to be used with a large number of respondents in different locations.

3.10.1.1 Design of Questionnaire

The author dedicated a considerable amount of time to designing the questionnaire (Appendix A). It contained a total of 18 questions and was constructed whilst giving particular attention to questionnaires completed previously in this area, mainly from the SFA (2009), Doyle et al. (2008), PwC (2010) and Coverley (1999). On the creation of the questionnaire, the author aligned each question to an objective to ensure each question served a purpose. The questionnaire included a mixture of close ended and open ended questions. The close ended questions included list questions, category questions and ranking questions. The author felt by using a different mix of closed questions, she would keep the participant interested throughout the duration of the questionnaire, whilst also receiving the maximum information possible, in particular on more sensitive questions. This was a large concern for the author, to not ask questions that the participant may feel were divulging very sensitive information, and which as a result would result in non-participation in the survey. The open ended questions were used on areas that were not specific to the participant and their business, as the author felt that

they would be more inclined to reveal their opinions as it would not be deemed sensitive information.

The recommended time to complete the survey was less than seven minutes. It was decided by the author to keep the survey relatively short so that it would not be time consuming for the participant. The author hoped this may reflect well on the response rate.

3.10.1.2 Sample

The questionnaire was restricted to family businesses in the midlands of Ireland. This included the following counties; Westmeath, Offaly, Longford and Laois. This area was chosen as this was where the author was studying full time.

The sample was selected and sent to one hundred and ten family businesses. Initially, a list of both family and non-family businesses based in the midlands was sourced from Enterprise Ireland. In order to assess if it was a family business, the author focused on the definition of a family business, as defined previously as:

“A proprietorship, partnership, corporation or any form of business association, which is classified as an SME and where the majority ownership is held by the family and family members are employed in the family business and/or the family is represented on the Board of Directors” quoted in Birdthistle (2003) as cited in Birdthistle and Fleming (2007 p.139).

Using this definition, the author looked for references to family business on the business' websites. In the case of larger companies, the author also

checked whether top management positions were occupied by two people with the same surname, and if so, the author assumed it was a family business and the business was included in the sample. Along with this, the author's own personal knowledge of the area, and the knowledge of personal contacts, was used in order to create a viable sample. The sample contained a mix of different types and sizes of family businesses in order to get a variety of respondents.

3.10.1.3 Distribution

Initially, a number of different distribution methods for the questionnaire were considered by the author, mainly internet based and postal. It was decided that an internet based questionnaire should be used as it was felt a higher response rate would be achieved. One of the main arguments against the postal survey was the time and cost involved for the participant in posting the survey back to the author. Given this, it was felt that this might restrict the level of responses. The time and cost issue is overcome by using the internet based distribution of the questionnaire. It was also considered that this distribution method would better preserve the anonymity of the participant, whilst it could be completed and returned with minimum effort to the participant.

Other methods could have been used by the author to distribute the questionnaire such as a telephone questionnaire or in person. This would likely lead to a very high response rate however both of these methods would be time consuming and costly for the author, and given the range of businesses the author identified, it may be difficult to get in touch because of different conventional work hours of different businesses in different industries.

The questionnaires were constructed on the internet based site, Survey Monkey, where the author paid for a subscription for the service as to not limit the questions that could be asked. The hyperlink to this survey was then attached to an email with a cover letter (Appendix B) which introduced the author, the scope and purpose of the research, and gave an estimated time for the completion of the questionnaire. This was distributed on a Tuesday as the author felt businesses would be more receptive earlier in the week. A reminder email was then sent to all the sample exactly two weeks after the initial email was sent out, thanking all those who completed and urging anyone who had not completed to take the time to fill it out.

3.10.1.4 Response Rate

As previously mentioned, the survey was distributed to one hundred and ten family businesses and a response was received from twenty four. This resulted in a response rate of 22%. Seven responses were unusable as they were incomplete leaving seventeen valid responses. This was very much below the author's expectations. The author had an expectation of about 30% which would be in line with Sekaran (2003) where it was considered that 30% is an acceptable response rate. The low response rate may be as a result of the participant feeling that the questionnaire was requiring information of a sensitive nature to them and did not want to divulge such information, or it was a topic that they were not interested in discussing. This, however, is not completely out of line when looked at in line with previous research completed with family businesses in Ireland by Birdthistle and Fleming (2007)

and Doyle et al. (2008) which has response rates of 24.2% and 33% respectively.

3.10.1.5 Data Analysis

The results of the questionnaire were analysed automatically by Survey Monkey which transferred the results into Microsoft Excel and have all been included with the questionnaire in Appendix A. Graphs and charts represent the quantitative findings received from the closed ended questions. Summaries of the responses of the open ended questions have also been included.

3.10.2 Interviews

In addition to the questionnaire, the author decided to complete four semi structured interviews to gain an in-depth knowledge of the topic of succession planning. These interviews were undertaken with a solicitor, a tax consultant, a succession planning expert and finally with an individual who had recently taken over a family business as a result of a succession plan implemented.

The first interview was carried out with Mr. Mike O'Reilly of Fair & Murtagh solicitors, based in Athlone, Co. Westmeath. He was contacted by telephone after his details had been given to the author by a professional contact. A list of relevant questions was prepared by the author to act as a guideline when conducting the interview. The interview was recorded after gaining the participants permission at the interview. The main objective of this interview was to gain information on the legal aspects involved in developing a succession plan, and the solicitor's roles and responsibilities in the process, as

well as gaining an understanding of his own personal experiences in creating succession plans.

The second interview was conducted with Mr. Mark McCutcheon, a tax consultant. The author had gained this contact through her own personal Twitter account. Once identified, the author emailed him inviting him to an interview. A time and meeting place was then arranged. Again, the author used a list of questions as a reference when conducting the interview. The author took detailed notes throughout the interview, as recording was prohibited. The main purpose of this interview was to gain a more in depth knowledge of the tax implications surrounding the area of succession planning.

The third interview was conducted with Ms. Mary Carroll, who is the founder of The Succession Conversation, a succession facilitating service. This contact was identified through a Google search on the topic. Once identified, an email was sent inviting her to participate in an interview with the author. This was completed over the phone and recorded. The rationale for this interview was to gain a wider knowledge in the area of succession planning given the interviewee's expertise and experience in the area.

The fourth interview was conducted with Mr. Ronan Haslette, who is the managing director of Merenda Ltd. He came to the authors' attention as a result of accessing a PowerPoint presentation which was sourced online via Enterprise Ireland. Contact was made via email and a list of questions was sent to him prior to the interview, as requested by the interviewee. Mr. Haslette was particularly identified as he had recently taken over his family's

business from his father, and the author aimed to gain an in depth knowledge of his first-hand experience of the succession planning process.

3.10.2.1 After the Interview

Where recordings had been taken, the interviews were transcribed into a word document, and are included in the appendix. Where recording was prohibited, reference notes were immediately transcribed to ensure the author did not lose any key points.

3.10.2.2 Data Analysis

In order to analyse the information from the interviews, the author used cross case analysis which involved “*grouping common answers to questions or analysing different perspectives on central issues*” (Patton, 2002 p.440). Each interview was deemed a case and the responses have been grouped into common answers within the data analysis.

3.11 Ethical Consideration

Ethics as defined by Churchill (1995) in White (2000 p.26) are “*moral principles and values that govern the way an individual or group conducts its activities*”. Ethical considerations are an important issue for any research project.

The main ethical consideration facing the author in her own research was maintaining the privacy and confidentiality of the questionnaire participants. The author took a number of steps to ensure the anonymity of the participants. In the questionnaire design, any personal questions were avoided such as asking names. An age was asked but only in a grouping scenario as this would

be an important finding to the research. It was the participant's choice to complete the questionnaire at their own discretion, and they were given information about the purpose of the research, in order to allow them to make an informed decision.

With regards the interviews, permission to record the interview was sought prior to the meeting, and it was with the consent of the interviewee that the names and transcripts of the interview have been included in the dissertation.

It should also be noted that the author, in storing and maintaining the data, kept in line with data protection principles.

3.12 Research Limitations

Each researcher will face limitations and the author has outlined the limitations of this research.

The response rate of the questionnaire was low, at 22%. This is one of the research's main limitations.

The author was confined somewhat by the time constraints placed on her for completion. Ideally the sample would have liked to have included family businesses in all of Ireland but this would have required significant time in developing the sample. This issue is added to by the fact that there is no family business database in Ireland, so identifying the sample was done mainly through the author's knowledge, which may not give an accurate representation of the population.

3.13 Summary

This chapter has discussed the research methodology employed by the author while outlining the ethical considerations and limitations. The next chapter will analyse the findings of the research collected by the methods outlined in this chapter.

CHAPTER 4 – ANALYSIS OF FINDINGS

4.1 Introduction

This chapter will present the findings of the quantitative and qualitative data collected through the methods discussed in the previous chapter. These findings will be discussed in the context of the objectives they relate to. The questionnaire, with a summary of the results and interview transcripts, has been included in the appendices as mentioned previously.

The aim of this dissertation is to examine the extent to which family businesses in the midlands have considered their succession, and to investigate the factors that have influenced any decisions they have made. This will be achieved by examining the primary data in the four objectives previously identified.

4.2 Overall Findings

Both the questionnaire and interviews are unanimous in the fact that the level of succession planning taking place in family businesses is small. The questionnaire revealed that only 11.8% of the sample had implemented a succession plan, with a further 23.5% planning to implement one in the coming five years, giving a rate of 35.3% of the total sample which have considered the issue. The main reasons they had considered the issue was to avail of the tax benefits, or because they wanted to retire. This is also in line with the age profiles of the participants as 29.4% of them were over 50, which is in line with the percentages that have a plan in place, or are considering a plan.

64.7% of participants have not thought about or do not intend to implement a succession plan. Various reasons for this were quoted, and included; the owner having no plans to retire in the immediate future, no appropriate successor having been identified yet, and the current business owner being too busy in keeping the business viable to consider succession planning.

The interviewees were also of the view that small levels of succession planning were occurring among family businesses, but each one highlighted that it is an issue of huge importance, especially if the owner would like the business to continue in the family (of which it was revealed from the questionnaire that 70.6% of the total respondents would like to keep the business in the family).

4.3 Questionnaire

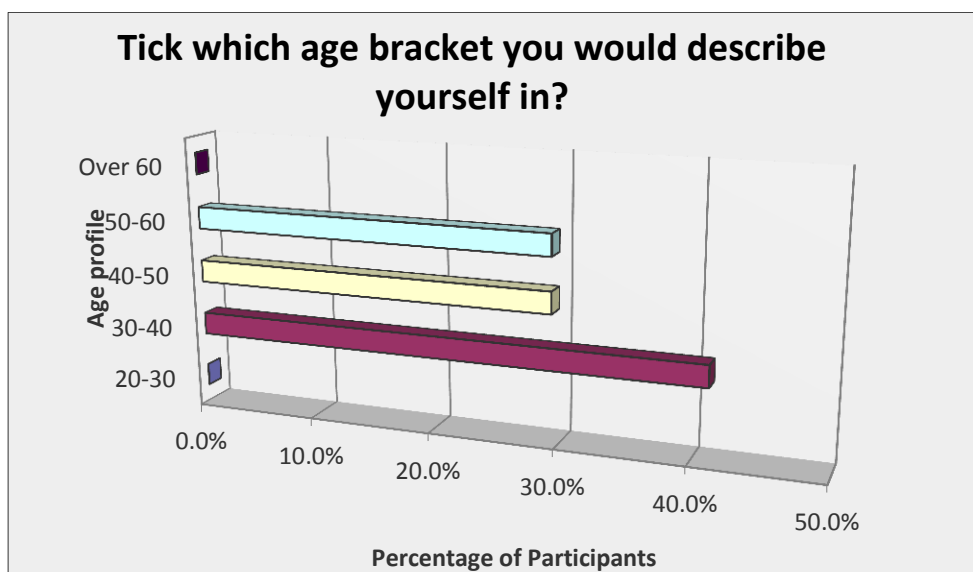
As identified in the previous chapter, twenty four responses were achieved giving a response rate of 22%, however only seventeen of these were useable. The questionnaire was completed by fifteen owner/managing directors while the other two were filled out by employees in different positions in Sales and Accounts. The majority of the businesses that completed the questionnaire were limited companies (**See figure 4.1**), however the participants also included sole trade and partnership businesses. The respondents included a mixture of micro (less than 10 employees), small (between 10-50 employees) and medium (between 50-250 employees) sized businesses. As the number of employees of each business participating did not exceed 250, they all fitted in the SME category.

Figure 4.1 Type of business.



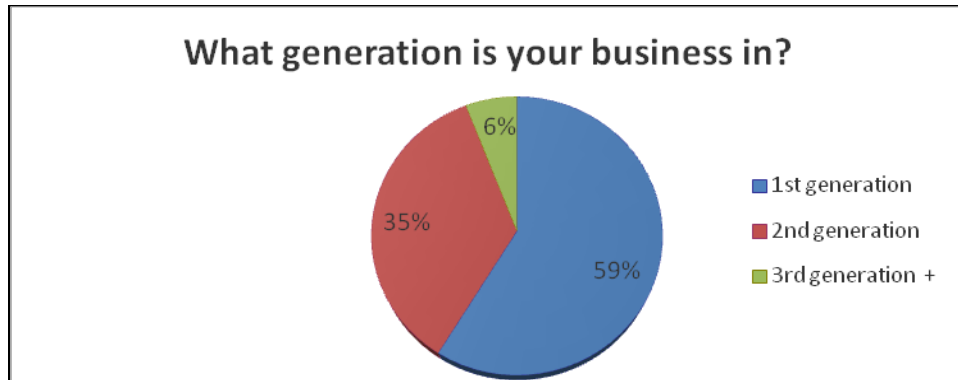
There was a varying age profile of the participants as can be seen in **figure 4.2**. Five participants (29.4% of the sample) are within the age category of 50-60, while nobody that completed the survey was over 60. The majority of participants fitted in the 30-40 age bracket at 42.2%, while nobody was under the age of 30.

Figure 4.2 Age profile of Participants



The number of generations the businesses which responded have been owned varied, as can be seen from **figure 4.3**. 59% of the respondents were in the first generation of their business, with 35% of respondents in the second generation and 6% in the third.

Figure 4.3 The Generation of the Business



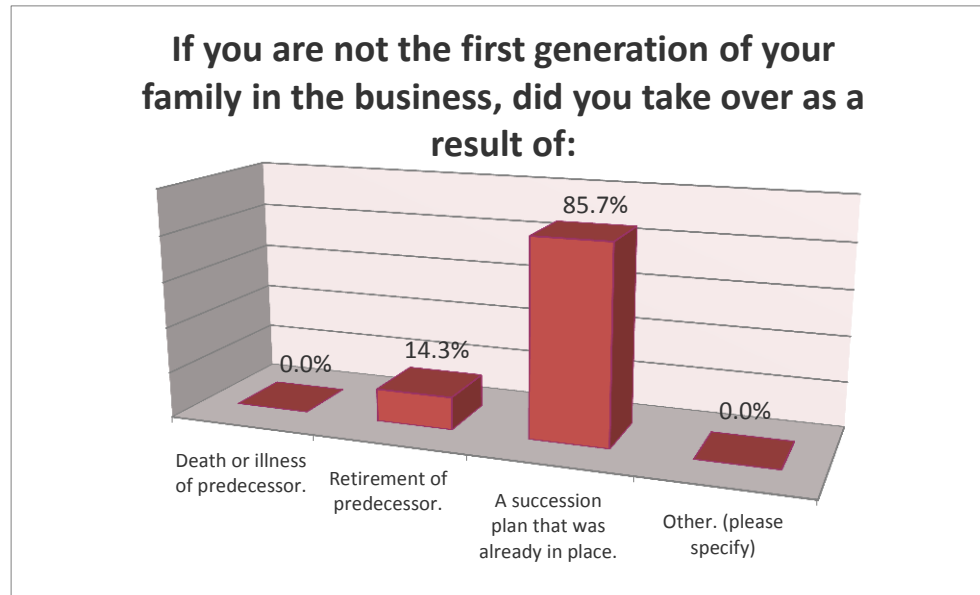
Of the respondents' that were not first generation businesses, it was asked if they would inform the author of how they got control of the business. **Figure 4.4** illustrates that 85.7% (six respondents) got control via a succession plan that was already in place whilst 14.3% took over as a result of the retirement of the predecessor. This would indicate that a number of the participants would have been involved in a succession process previously. Of those that had taken control of the business through a previous succession plan, on further analysis, only one participant had already looked to plan their own succession.

4.4 Interviews

The interviews were conducted to get an in depth knowledge of the main factors a business has to consider, from professionals directly involved in

succession planning. The information received from the interviewees revealed varying results which are discussed below in relation to the objectives.

Figure 4.4 How they took over the Business?



4.5 Objective One: Explore the main considerations involved in developing a succession plan for a family business.

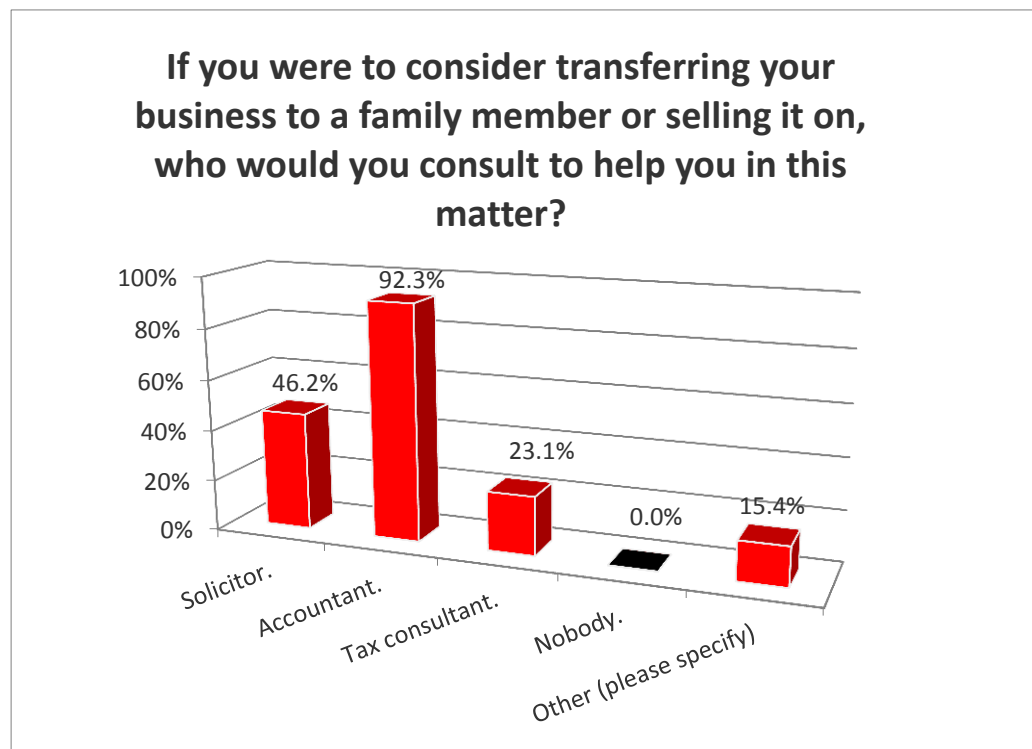
In order to investigate this objective, the author used mainly secondary data, which is discussed extensively in the literature review. Some of the considerations that featured included: whether to give it to a family member, and then, whether the person they pick is suited to or wants the business. Financial implications are also considered. The interviews also provided some information by which conclusions could be drawn, and these have been backed up by the quantitative information gained through the questionnaire.

Three questions in the questionnaire addressed objective one. These questions related to what the current owner would like to see happening in the business, who they would consult in developing a succession plan, and their awareness of the taxation implications. It was found that many family businesses have

identified that they would like the business to continue in the family, with 70.6% selecting this as an answer.

The participants were asked who they would consult about transferring their family business, of which the results are shown in **figure 4.5**. As can be seen, over 90% said they would consult with an accountant, followed by a solicitor with 46.2%, and only 23.1% would consult a tax consultant. Two participants ticked other, with one of them being a professional succession planner so would not need to consult anybody, while the other said their business would consult with a professional succession planner.

Figure 4.5 Who they would consult to make a plan?



In addition, a question was placed in the questionnaire to get knowledge about family business' awareness of the tax implications of transferring their business, and it was found from this that 23.5% of respondents acknowledged

a reasonable awareness, with 52.9% aware of the implications, but not of the exact details. The remaining 23.5% had no knowledge of them and were completely reliant on professional advice.

The interviews revealed a number of matters that family businesses have to consider in developing a succession plan. The first of these is identifying when they want to pass on the business. As interviewee Mr. Mike O Reilly said, *“the first thing you want to know is do they want to give it away now or do they want to give it away when they die”*. The next deliberation that became apparent is whether they would like it to continue in the family, which was highlighted by Ms. Mary Carroll.

Financial considerations involved in catering for the owners own retirement was a factor which some of the interviewees stressed. Mr. O Reilly saw this as a substantial factor and said that his first concern was insuring the client has catered for themselves first. This point is backed up by Ms. Carroll when she said *“it’s also important that they cater for their own retirement needs and the future”* and *“I always advise parents to look after themselves first”*.

The tax issue, and the related financial implications, also require huge consideration, as Mr. O Reilly pointed out when he said that *“the tax advantage is upper most in people’s minds”*. This is one of the areas Ms. Carroll also looks to inform attendees about during her seminars.

Mr. O Reilly made reference to another issue regarding the financial considerations, the issue of raising finance to cover any tax exposure. He talks about the situation where the child would have to make some sort of payment to the parents for the business, but the fact is that it is very difficult to get any

line of finance currently in order to do this. He says *“You walk into any bank in town, and it would be very tough to get that sort of money”*. He follows by saying *“One or two are succeeding out of a 100 to get loans whereas before 100 out of 100 would have succeeded”*. This highlights the significant issue of gaining any sort of finance from banks in the current climate, even to help finance the cost of succession.

One significant matter also causing large concern was the effect of the succession plan on the family. This has come across quite significantly throughout the interviews. Ms. Carroll commented that *“people/businesses kind of know in their heart what they would like to do, but they are worried about the impact on the family first of all”*. She continued to say *“it’s very hard to make a decision on what to do with business/land, especially if you have a few children and are trying to be fair to everybody”*. She commented that *“the ideal scenario is to have it very clear, sit down and talk with your family and have a meeting about it where you discuss what you think you are going to do, finding out how people feel about it”*. Mr. O Reilly followed this point of view when he meets with clients who are thinking about engaging in the succession planning process. He will always identify *“who else is in the picture”* and ensure that *“the others are properly provided for”*.

One issue that became very apparent in the interview with Mr. Haslette is the time it takes to develop and implement the whole succession planning process. He said it took about 10 years to complete the transfer of his father’s business to him.

Based on the above, objective one was covered quite extensively from the interviews, as they helped clarify and further explain the factors that family businesses need to consider before the creation or implementation of any succession plan.

4.6 Objective Two: Determine the awareness among owners of family businesses of succession planning and the extent to which they have planned for it.

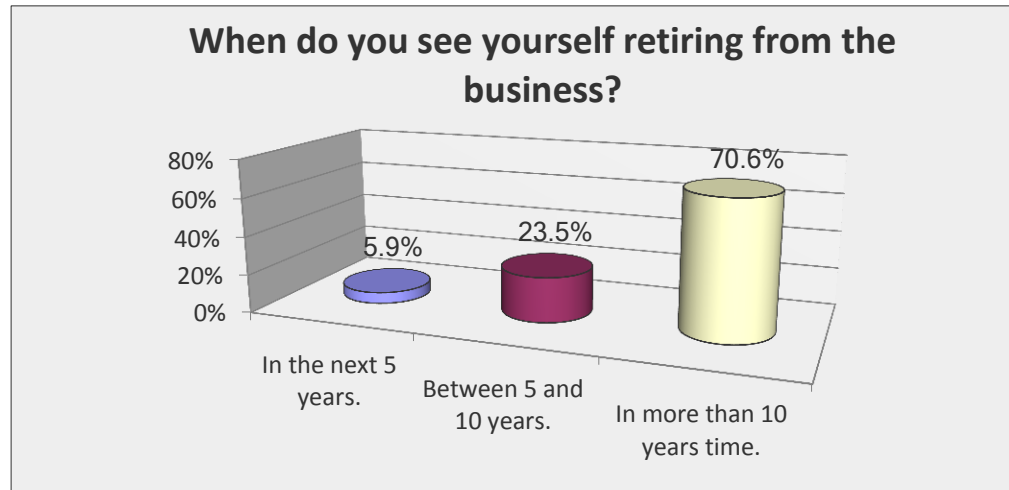
This objective is specifically addressed in the questionnaire. As seen in **figure 4.6**, when asked about when they hoped to retire from the business, only one participant had hoped to exit in the next 5 years, with four respondents hoping to exit in between 5 and 10 years, and twelve respondents not looking to retire until 10 years' time.

The main question posed in the questionnaire asked whether the participants had an exit strategy or succession plan in place. Only two respondents had an actual plan in place, while four were hoping to put a plan in place in the following 5 years. This gives a succession planning rate of 35.3% of the family businesses in the midlands. Eleven respondents said they had not given any consideration to their succession plan, while only one does not intend to implement a succession plan at all.

There appears to be quite a similar consensus coming across from the interviews about the level of businesses engaging in succession planning. Mr. McCutcheon was of the same opinion as the questionnaire results, as he felt that very few people would have succession plans in place, as they are more

focused on the day to day issues of their business. Ms. Carroll has the same impression, stating that people are not planning as it is “*still very taboo*”.

Figure 4.6 When do they plan to retire?



4.7 Objective Three: Investigate what factors influence their decisions with regards to succession planning.

This objective has been addressed quantitatively in the questionnaire and qualitatively in the interviews.

4.7.1 Why do they delay the inevitable?

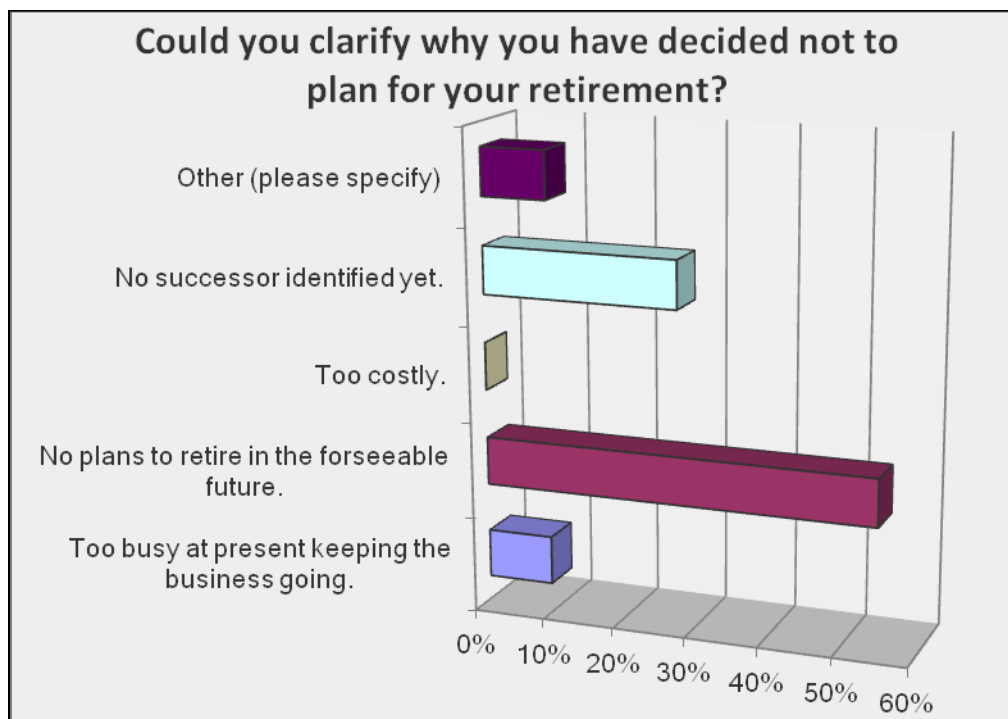
58.8% of participants have not yet given succession planning any consideration, while 5.9% do not intend to implement a succession plan, giving a non-planning rate of 64.7%. From the respondents who fall into this category, answers were sought as to why they have not planned their succession. Looking at **figure 4.7**, there were a range of answers given.

The main reason identified was that the owners had no plan to retire in the foreseeable future, with 58.3% of the eleven respondents quoting this as their main reason. 25% of respondents had not yet identified a suitable successor, and hence had deferred the issue of succession planning. Two respondents

mentioned that they were too busy at the current time trying to keep their business going, and the participant who answered 'other' said that their main aim was to build the brand value of their business, and thus had no time to consider succession planning.

The author also aimed to gain the respondents view as to why it appears family businesses fail to make it from generation to generation, and gave a range of choices which they ranked in order of their relevance. The results can be seen in **figure 4.8**. The responses revealed that family businesses of the midlands have deemed the main reason for failure of the family business is due to the lack of planning in the succession process. This is closely followed by the lack of a suitable successor.

Figure 4.7 Why they have decided not to plan?



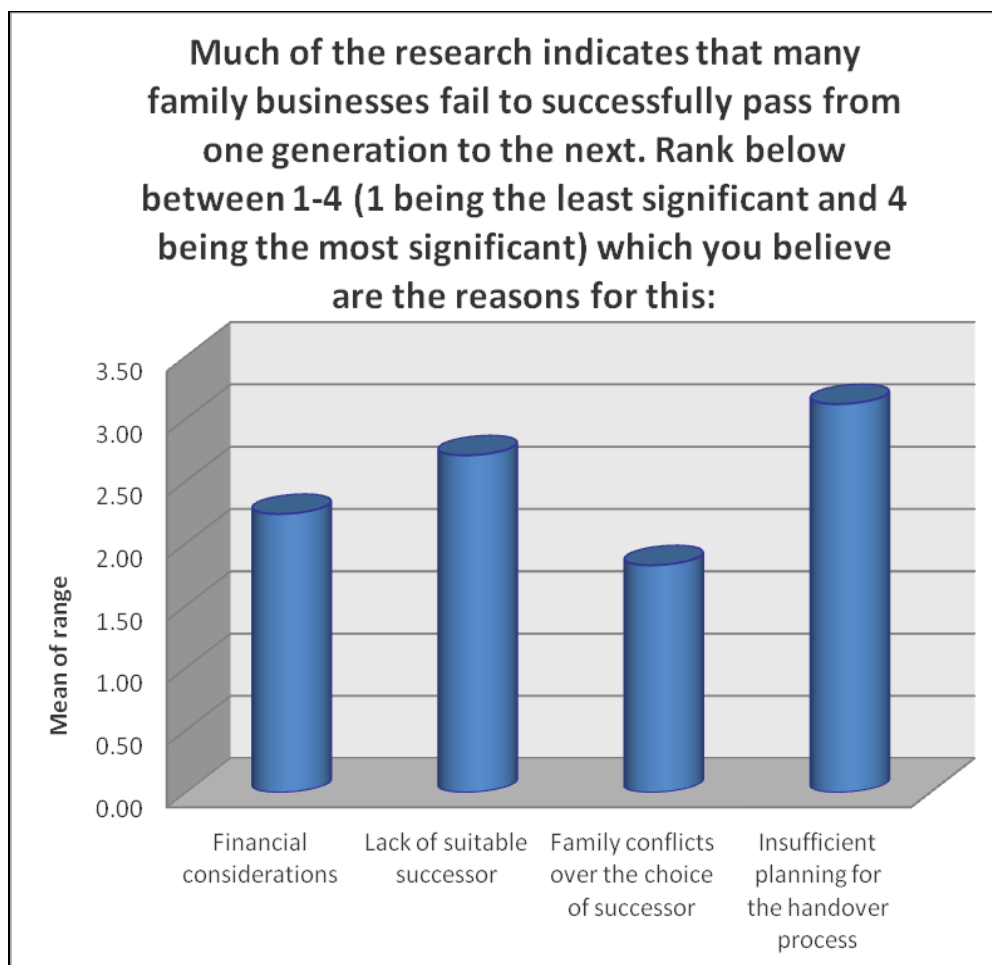
The interviews revealed some other issues, some of which are not reflected in the questionnaires. Mr. O Reilly identified the successor problem, stating that

it is very hard to give away a business to a child, as quite often the parents don't feel their children are equipped to manage their business. He said "*one out of ten parents, maybe, is able to give their children the correct amount of respect they deserve*".

In Ms. Carroll's interview, she highlighted that as the succession planning decision is usually not an immediately critical decision, as the person is "*still young and healthy*", it tends to be ignored.

The fear of conflict is a major issue that comes through in Ms. Carroll's interview. She believes that this is the single biggest issue that has arisen to stop people planning their succession.

Figure 4.8 Main reasons for businesses to fail to pass onto next generation



4.7.2 Why they engage in Succession Planning?

When asked about the respondent's main reasons for planning their retirement, of which only 35.3% of the sample had or were planning to, it was found that two thirds of respondents stated that they wanted to retire, and thus were planning their exit, while one third quoted the tax benefits as their main influencing factor. Of the six respondents who had already considered, or were considering, their succession, four of them have already carried out financial and tax planning for their retirement.

Given that age would generally be quite a critical factor in influencing the succession planning process, it appears from the research that this is applicable to the businesses in the midlands. On analysis of the questionnaires, four of the participants with a plan in place were within the 50-60 age category. This indicates that succession planning is significantly influenced by age. Of those preparing a succession plan, and those with one in place, it was assessed what generation they were in. This was done in order to find out if any of them have been influenced by previous experience with succession. As five out of six respondents who had or were considering a succession plan were in the first generation, it would appear previous experience has had no influence.

It was also noted that the decision to hand over the business was also brought forward as a result of the potential successor being present and available. This was evident in Mr. Haslette's father's case, as he had planned for (and implemented) the succession of his business once he had identified Mr. Haslette as a suitable successor.

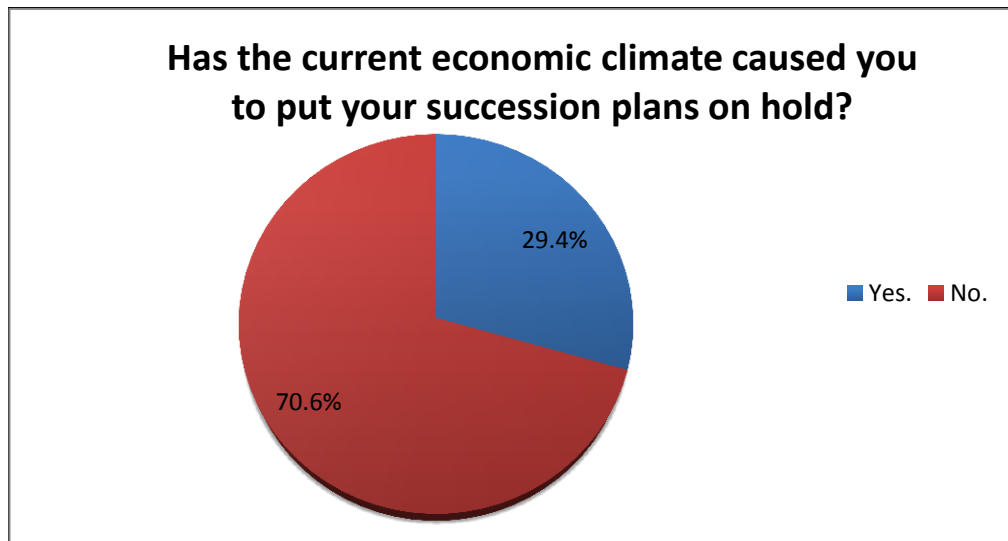
In order to gain the opinions of different professionals directly involved in the area, the author asked each interviewee what they felt the main benefit of succession planning was. Ms. Carroll found that avoiding family conflict is one of the main benefits. She stated that by dealing with the issue while the person is still alive, it can avoid the “*resentment*” within families about what they get when an owner does pass away. She continued to say that succession planning is beneficial from a tax point of view, a view which Mr. McCutcheon, and one third of the participants in the survey who had created a plan, were very much in agreement with. Mr. Haslette, however, had a different point of view. He stated “*the maintenance of the legacy*” as a main benefit for his father’s succession plan, while other benefits included Mr. Haslette himself getting a career in his home town, and the business getting a “*fresh approach*”.

4.8 Objective Four: Examine if succession planning has been affected by the current economic recession.

A number of questions were asked both in the questionnaire and the interviews in order to achieve this objective.

One of the main questions that was asked was if the recession had caused the respondents to put their succession plans on hold. In response to this question, only 29.4% said yes as seen on **figure 4.9**.

Figure 4.9 The effect of the recession on succession planning.



The author queried in the questionnaire whether there were any financial benefits in transferring the business in the economic downturn. This, as discussed previously, was an open ended question, and responses were achieved from sixteen participants, giving a response rate of 94%. 35% of the participants felt there were financial benefits in transferring the business in the current recession. A number of them expanded on the reasons with four giving lower asset values as an answer, with examples such as “*lower asset values and next generation valuing businesses with cashflow*” and “*Yes, lower property values means tax reliefs carry more weight*”. Other advantages mentioned were the fact that business owners may potentially have more time to plan, whilst the tax exemptions were also highlighted. Of the respondents to this question, 23.5% were not aware of any financial benefits of transferring the business in the current climate, while 41.2% stated there were no financial benefits.

In the interviews, it was asked whether they felt there had been any significant changes in the levels of succession planning now compared to ten years ago.

This was in order to assess if the recession has had any effect on the planning process. There was a mixed response to this question. Mr. O Reilly felt that *“more were doing it [succession planning] then because they had more to do it with”*. Mr. McCutcheon posed the question *“People are not doing it now but were they ever doing it?”*, while Ms. Carroll felt that there may be a bit more occurring now, but not much, as the subject is *“still very taboo”*. The interviewees were unclear about the changes in the level of succession planning as a result of the current recession.

4.9 Conclusion

In light of the above, the author has analysed and discussed in detail the findings of the primary research. The next chapter will discuss these findings in relation to the literature review.

CHAPTER 5 – DISCUSSION

5.1 Introduction

This chapter will discuss the author's findings, as discussed in the previous chapter, and discuss these findings in relation to the findings of the literature review. This will be done by examining each objective separately.

5.2 Objective One: Explore the main considerations involved in developing a succession plan for a family business

As discussed in chapter 2, there is no standard template for creating a succession planning system (Greengard, 2001), but the literature identified a number of considerations that family businesses should take into account when looking to develop a succession plan. These included the issue of identifying potential ownership and whether the owners wanted to keep the business in the family. This was illustrated in the research also. Mr. O Reilly and Ms. Carroll both touched on these matters as the main considerations for the individual before any succession plan could be developed. It was quite clear that businesses in the midlands have thought somewhat about their successor, with 70.6% of total respondents stating they would like the business to remain in the family. This far exceeds the findings of PwC (2011), with 53% of businesses expecting to change hands in the next five years who would like their business to remain in the family. However, many of the participants of this questionnaire do not expect their business to change hands in the next five years. It was actually found that most (70.6% of participants) do not expect the business to change hands until at least ten years' time.

Ip and Jacobs (2006) identified the legal, financial and tax factors that have to be considered. Only 46.2% of participants have stated they would get a solicitor involved in developing their succession plan, so it could be implied only half of the participants are aware of the importance of this issue.

One financial consideration not at all prevalent in the research is the idea of getting the business valued. This would have to be completed whether selling to a third party or transferring to a family member and is highlighted by Francis (1993), but no mention to this is present in the current research undertaken by the author.

Another financial consideration that was highlighted through the research and which was not prevalent in the literature was the issue of the parents adequately providing for themselves. It would appear the literature fails to make reference to this. Mr. O Reilly found this a huge element to be considered, and stated that he would always advise his client to ensure that they themselves are adequately provided for. This was a point backed up by Ms. Carroll, who said *“It’s also important that they cater for their own retirement needs and the future”*.

Doyle et al. (2008) and IP and Jacobs (2006) emphasised the importance of tax planning and the considerations which must be made. The taxation implications of succession planning have been discussed at great length in the literature review and it was noted that a significant consideration and adequate planning around these tax implications can help reduce any tax exposure to an individual. Mr. O’Reilly mentioned that *“the tax advantage is upper most in people’s minds”*, confirming that it is an issue that people would seem to be

aware of. This is confirmed through the questionnaire, as 76.4% of the respondents claimed to be aware of the tax implications of transferring a business and of the reliefs available, with only 23.5% of total participants' quoting they have no knowledge of these, and would be completely reliant on professionals to help them. So who would they consult? It is quite obvious most people would consult with their accountant for any advice needed, with 90% of the participants quoting this, followed by their solicitor with 50%, and only 25% thinking about consulting with a tax consultant. This appears quite in line with what Mr. McCutcheon said that people would primarily rely on their accountants for such tax advice.

Another consideration highlighted in the literature is the issue of time. This was very clearly an issue that came across in Mr. Haslette's case, as he mentioned the whole handover process took his family around ten years. This is in line with recommendations made by Doyle et al. (2008) and Zaudtke and Ammerman (1997).

The final consideration, and potentially the most important, as highlighted by Ms. Carroll, is the issue of the effect of a succession plan on the family. Ms. Carroll discussed at length the idea of making sure the whole family is involved in the process, in order that all members can be aware of the plan. The literature fails to consider this issue in any great detail, which was surprising to the author given its importance.

5.3 Objective Two: Determine the awareness among owners of family businesses of succession planning and the extent to which they have planned for it

This research revealed that 35.3% of family businesses in the midlands had planned or have intended to plan for their retirement/succession. In comparison to the SFA (2008) survey, this appears in line with their 33%, but significantly lower than the PwC (2011) survey, of 50%. It would appear that Irish family businesses are planning less than the global averages as found by PwC (2011).

It is worth noting that fewer businesses in the midlands are in the third generation than the national average and certainly fewer than the global average. It was revealed by Glynn (2011) that 27% of family businesses successfully pass to the second generation and 13% to the third in the Irish scenario. The results however vary slightly, with 35.3% of family businesses in the midlands currently in the second generation, while only 5.9% were in the third generation.

Since a material number of businesses are in the second and third generation, it is important to assess how they took over the business from their predecessor. Most (85.7%) took over as a result of a succession plan which was already in place, so it could be implied that they would be quite aware of the issues involved.

5.4 Objective Three: Investigate what factors influence their decisions with regards to succession planning decisions.

5.4.1 Why do they delay the inevitable?

People are neglecting to plan mainly (58.3%) as a result of it not being an immediate decision, as found by this research. This was also identified as a reason for delaying the succession plan by Doyle et al. (2008). Ms. Carroll also highlighted this issue as a reason, as people are still “*young and healthy*”, and so don’t worry about the issue. This would appear to suggest that age has a relationship with succession planning. The older the individual is, the more inclined they are to consider the issue. However, it has been noted that sufficient planning has been quoted as one of the most significant reasons for family businesses being successfully passed from one generation to the next. This appears to be in conflict in the research conducted. Although planning is considered important, people are still refusing to do it.

Finding a suitable successor was cited as a reason for delaying succession in the study by Coverley (1999). In Ireland, in the study completed by Doyle et al. (2008), this was quoted as one of the main reasons why people avoided planning. This was also revealed as a main reason in this research, with 25% of respondents quoting this as the main reason for their failure to plan. Therefore, it is clear that the literature and the current research are very much in agreement with the fact that finding and picking a suitable successor is a huge issue, and one which is deterring succession planning in the midlands and Ireland.

Time constraints were a major issue also identified. It is clear in the literature that businesses are often too busy in order to think about this issue and again this was backed up by the research conducted. 16.7% of the questionnaire participants stated they were too busy at present keeping the business going with, further respondents stating that their main goal was to build the brand value of the business and thus again not having the time to focus on succession planning. This concurs with research previously done by Doyle et al. (2008) and PwC (2010).

The next set of issues which the literature focuses on are incumbent related factors. These issues include the reluctance of the incumbent to concede control, in particular as a result of the more emotional issues involved in succession planning. Mr. O Reilly opened up a new perspective not revealed from the literature on this when he said that business owners often do not feel their child is prepared to take on the business stating that *“one out of ten parents, maybe, is able to give their children the correct amount of respect they deserve”*.

Financial issues are a huge barrier to implementing a succession plan according to the literature. It has been noted that succession planning carries significant costs, including tax costs, the cost of hiring professionals and valuing the business, and the cost of ensuring that the predecessor is adequately provided for. It would appear, however, that this is one of the least significant issues for businesses failing to make it to the next generation. Although it is an important issue in terms of funding the actual monetary cost of a succession plan, this does not appear to have a major bearing on whether family businesses in the midlands plan their succession or not.

Other issues not prevalent in the literature are the fear of conflict as expressed by Ms. Carroll. She stated that this is one of the main reasons she believes that people avoid succession planning. She has said that parents often know what they would like to do with their business, and who they would like to pass the business onto, but even still, unfortunately, the fear of family conflict deters them from implementing anything. In the questionnaire, this was the least significant reason as to why businesses fail to successfully pass from one generation to the next. Although this was discussed in depth by Ms. Carroll, neither the literature nor the respondents to the questionnaires are in agreement with her about how big of an issue this is.

5.4.2 Why they engage in Succession Planning?

Wanting to retire is quoted as the main reason family businesses in the midlands have planned. This is an issue very much dominated by age and this would appear a very obvious motive for a business owner to consider their succession. It was found from the questionnaire that the four of the six participants that have thought about succession planning were in the 50-60 age category. As well as this, Mr. Haslette felt his father's decision was largely influenced by his age. This is a motive that the author believes is underemphasised in the literature, as obvious as it may appear. Although business owners may quote different reasons for their planning, it would appear that most of the owners who do plan would be coming to a stage in their life when they would be considering their retirement.

The second most important reason stated in the literature for people to plan their exit was that it can significantly reduce the tax cost. Mr. McCutcheon and Ms. Carroll also discussed the importance of this. The tax savings are

quite significant if an individual considers them, as extensively discussed in the literature review.

Ms. Carroll noted that the main advantage of planning in her opinion was avoiding the family conflict that may occur if the business was just to pass over on death, and for it not to have been discussed in advance with the family. Again this is not emphasised in the literature, but has come across as a very significant point from the research.

Maintaining ownership of the business would seem the main advantage of keeping the business within the family, as found by Doyle et al. (2008). This was not greatly represented in the results of the author's questionnaire but was clearly highlighted in the interview with Mr. Haslette. He quotes the "*maintenance of the legacy*" as a main benefit in his father planning the succession of his business.

It was noted in the literature that another reason people have planned their succession is to avoid the disruption of the business on the death of the owner. It can have serious consequences on a business when the owner dies suddenly causing uncertainty and confusion. In order to avoid this, Mr. Haslette's father, who had previously taken over a business unplanned, decided to plan his succession while he was alive, in order to create a smooth transition. From the interview with Mr. Haslette, it would appear to have been quite successful. Similar to the case of Mr. Haslette's father, who had had previous experience of an unplanned succession, and then implemented a succession plan based on this previous experience, it could be expected that any owner who has had previous experience of taking over a business without a succession plan

having not been in place, would then implement a succession plan when they themselves are passing on the business in years to come. However, of the 7 participants within this category, that is, having taken over a business unplanned, only one respondent had actually given any consideration to creating their own succession plan. Family businesses in the midlands therefore appear uninfluenced by their previous experience, unlike Mr. Haslette's father and the author's expectations.

5.5 Objective Four: Examine if succession planning has been affected by the current economic recession.

It is clear from the research that the recession has had some implications on the levels of succession planning, with 29.4% of respondents saying this, however the majority felt it has had no effect. A theme of uncertainty as to the effect of the recession on the succession planning levels came through in the interviews.

As mentioned in the literature review, the recession can have both positive and negative effects on planning. The main positive identified in the literature was the advantage of lower asset values which would result in less exposure to any tax payable on the transfer of a business to a family member. 23.5% of participants of the questionnaire were aware of this advantage of planning in a recession. Also, one of these also noted the benefit of having more time to plan. However, it should be noted that 64.7% of the respondents to this question were not aware of any benefits, or felt there was no benefit of transferring their business in the current climate. As no figures exist in the literature about people's awareness of the benefits, it cannot be compared, but

of the benefits that have been highlighted, people are very much unaware of them.

One of the main negatives of the recession, as highlighted by respondents, was that business owners are too busy keeping their business afloat, and are therefore not sure if they have a viable business to transfer, and thus did not see value in planning their succession. Succession planning can only occur in viable businesses, and it would appear that the literature ignores this issue.

Another issue prevalent in the recession is the lack of credit available to family businesses to cover the costs of succession planning, discussed extensively throughout this dissertation. Mr. O Reilly commented that credit isn't available to small businesses, and thus they might not be able to finance the succession planning process, especially if the successors are expected to pay some of the costs.

It is unclear as to the extent to which the recession has effected succession planning. A number of respondents have felt that the recession has affected their plans but they are in the minority. It would seem that most people would be unclear about the effect the recession is having on them. This is not evaluated extensively in the literature given that the recession has only occurred in recent years, but the author feels it would be an interesting area to examine in greater detail in the future.

5.6 Conclusion

This chapter has examined and discussed the research findings in relation to the literature review. The following chapter will conclude the overall project in accordance to the research objectives.

CHAPTER 6 – CONCLUSION

6.1 Introduction

This chapter aims to conclude the main findings of the research under each objective and to give a personal reflection on the author's experience of carrying out this research. The chapter will also address limitations in the research and give recommendations for future research.

6.2 Objective One: Explore the main considerations involved in developing a succession plan for a family business

There were a number of main considerations highlighted by the research and literature including; choosing a successor to take over the business, the impact the succession plan will have on the family, the financial cost and considerations, and the timeframe for implementing the transfer of the business. The importance of these considerations, and the effects of any decisions made, based on these considerations, means that the succession plan cannot be rushed. The author had thought that, in pursuing this objective, a clear checklist could be developed in order to assist family businesses in making the initial considerations themselves, but unfortunately the topic is so extensive that this would be very hard to do. It has been apparent from the research that each business will have different considerations and deliberations to deal with. In spite of this, the author has included some tips for family businesses, which are included in the final conclusion.

6.3 Objective Two: Determine the awareness among owners of family businesses of succession planning and the extent to which they have planned for it

The research has shown that succession planning is occurring very little in family businesses in the midlands, and this coincides with research conducted previously in Ireland. It is clear that family businesses in general are not aware of the importance of succession planning and the severity of the potential consequences for a business if a succession plan is not developed. Those who have planned would appear to have extensively done so by carrying out financial and tax planning, but as stated many times throughout this research and the literature, the level of businesses actually undertaking this is low.

6.4 Objective Three: Investigate what factors influence their decisions with regards to succession planning.

6.4.1 Why do they delay the inevitable?

The main reason they have delayed in as a result of it not being an immediate issue. If they have no plan to retire in the foreseeable future, they are refusing to plan. Unfortunately they are often not prepared if something happens suddenly, which can create huge issues for the continuity of a business.

6.4.2 Why they engage in Succession Planning?

The main reason family businesses in the midlands have planned is that the owner is ready to retire. Of course this is going to be the driving factor of any business owner, and it appears that no matter what the tax benefits are, people will not engage unless they are ready to retire from the business. This may be

in part due to a misconception of the tax reliefs that are available. Often, people do not realise that there is no condition to force them to retire in order to avail of the tax reliefs, and that they can still be heavily involved in the business whilst still availing of the reliefs.

6.5 Objective Four: Examine if succession planning has been affected by the current economic recession.

It would appear apparent that the recession has had little effect on the succession planning process and the level of businesses undertaking the succession planning process, but in reality the author believes that it has affected businesses more than they might realise. In addition to the lack of available credit in order to fund the transfer of a business, business owners in the current economic climate are primarily focused on trying to keep their businesses afloat. Whilst there are a number of benefits of transferring your business in the current times, in particular lower asset values, it is pointless transferring a business if there is not a viable business to transfer. Therefore, if the business is struggling, planning the transfer of a business would seem premature, especially if there is uncertainty as to whether the business will exist in a couple of years' time. This is an issue that is mainly neglected in the literature, and which the author believes is the overriding impact the recession has on the succession planning process. Whilst the literature primarily informs people of the benefits of transferring a business in a recession, it is the negative effects which the author believes most greatly impact businesses in reality.

6.6 Limitations

As identified previously, a small response rate to the questionnaire was achieved, at 22%. If this research was to be undertaken again, the author would have taken the time and financial commitment to call or meet all the participants of the questionnaire in order to improve this response rate.

It may also be a limitation that the sample chosen may not be representative of the population as a result of the way the sample was identified, as noted in the methodology chapter.

6.7 Personal Reflection

The author initially applied for this course in order to gain exemptions to the Chartered Accountancy Proficiency (CAP) 2 exams and was nervous about the year ahead, and in particular being very apprehensive about the dissertation.

In saying this, the author enjoyed each of the modules completed during the year, most notably taxation, and proved this by performing very well in each exam. This was very much aided by the friendly nature of all the lecturers who were always available to help.

The process of the dissertation has been a journey of much learning for the author. Being honest, it was the part of the whole course that the author was most apprehensive about and looking back, it has been an area that has really allowed to author to develop her personal and professional skills.

When the research process started in September, the prospect of completing a dissertation was a daunting one, as the author hadn't previously completed a research project of this magnitude. Initially, the author had one particular idea

in mind but unfortunately it wasn't feasible. A number of ideas then came and went until this topic was decided upon. It was important for the author to choose a topic that was of interest to her, as well as being something that may be useful in her future career.

The author, once she received approval on her topic, slowly got started through the work. At this point, it took a bit of adjusting to focus her mind between the individual modules as well as the dissertation. The longest and slowest part was completing the literature review as the author was very critical of her own work which caused her to be significantly slower than anticipated. The author made good use of her supervisor at this stage and organised meetings weekly with him in order to gain the most of his guidance. He helped expand on some of her ideas and offered great advice and knowledge to this topic especially around the literature review stage.

She was lucky that her questionnaire was sent out at the end of April with interviews also scheduled so during May, she could just focus on her exams. This also gave her focus to get back onto the thesis as soon as the exams were over as interviews had been scheduled.

The author found getting into a routine after the exams difficult as it was something strange to her to be still in college. Fortunately, the author was not restricted with her time as she did not start work until September. This has given her the maximum opportunity to provide a piece of work not rushed and constrained and something she felt happy with which was most important to her.

In hindsight, the author would have definitely approached this differently as her lack of knowledge and understanding of what was expected delayed her significantly but it was felt that time was well spent. The author is happy she undertook this research as it really opened her eyes about time management, something the author has always struggled and tried to improve. This year allowed this skill to progress even further.

The author also found the advice of her classmates in the Masters class a great place of inspiration and knowledge and the people she consulted have added significantly to this thesis.

The end goal of this project was to provide information that was clear and concise for the businesses that requested the findings in order to clear the matter for them and provide some help to publicise this issue among family businesses. It is the authors hope that the businesses who have requested the findings will gain some valuable knowledge from this dissertation.

6.8 Recommendations for Further Research

A study could also be completed comparing the levels of succession planning among family and non-family businesses in Ireland to examine the differences between them. It would be a very interesting study to see if more or less succession planning occurs as a result of lesser issues being involved in non-family businesses.

Different methods could be employed in the specific region of the midlands of Ireland. This would provide interesting results with could be compared with the current research in order to assess if the research with different methods would yield the same results.

The author could recommend more examination into the effect of the recession. Although the research indicated that business owners felt the recession had little impact on their plans of succession, the author feels it has actually had implications, more than they are aware and this could be assessed in further detail.

6.9 Final Conclusion

All across the literature talks about the importance of succession planning for the continuity of the family business and on the initial conduction of this research, the author had believed that family businesses are foolish for not taking the opportunities of planning this however this research has revealed significant reasons for why family businesses are not planning for it which has somewhat changed the authors views. Given they have so much to consider as a family business as revealed by this research, the author is not surprised now at the levels that have planned. This is an area that although one of the most significant issues facing a family business, it is also an area causing a significant amount of confusion and would require a large time commitment to make these considerations alone.

The author believes there is a lack of awareness around the issue with very little help being offered in the form of the services that are available. Greater efforts need to be made by government agencies at educating family businesses as to the importance of this issue given these businesses are one of the most significant contributors to the Irish and global economy. It is also believed by the author that the literature is lacking severely in the realisation of the effect of the recession in family businesses. It is very adamant in saying that this recession is the perfect time to be thinking about transferring their

business but lacks to take into consideration how much businesses are struggling so planning the succession of their business which may not be viable in a couple of years' time is a futile task as.

Despite all this, the author does advocate succession planning and has concluded by offering some tips to family businesses:

Don't ignore succession planning: Just because you plan your departure from the business doesn't mean you actually have to leave. As the saying goes, if you fail to plan you plan to fail and that is very true in the case of your business especially if your hope is to keep the business in the family. Even if you don't plan to retire in foreseeable future, it is important to have a back-up plan in place as well as planning in time will ensure that you can avail of the maximum amount of the tax reliefs that are available as many have time constraints and conditions.

Get all the family involved: One of the main ways to avoid any conflict that might arise, talk with your family, see what their expectations are, and then tell them your wishes. By doing this, at least everybody knows what's going on and there's the best chance of satisfying everybody.

Get professionals involved: It's important to realise this is something that is not going to be achieved without getting professionals involved and the author's advice would be to get a specialist succession planner involved as they will understand and cover all the emotional and technical issues that will arise.

Bibliography

- Beckhard, R. & Gibb Dyer, W. (1983) SMR Forum: Managing Change in the Family Firm- Issues and Strategies. *Sloan Management Review (pre-1986)*, 24 (3) pp. 59-59.
- Birdthistle, N. (2003) Educating the Family Business: An investigation into Centres of Excellence for Family Businesses and Family Business Educational Programmes. *In: SMEs in the Knowledge Economy: Proceedings of the 26th ISBA Conference*, University of Surrey, Surrey: Institute for Small Business Affairs.
- Birdthistle, N. & Fleming, P. (2007) Under the Microscope: A Profile of the Family Business in Ireland. *Irish Journal of Management*, 28 (2) pp. 135-170.
- Birley, S. (1986) SUCCESSION IN THE FAMILY FIRM: THE INHERITOR'S VIEW. *Journal of Small Business Management*, 24 (3) p. 36.
- Bruce, D. & Picard, D. (2006) Making Succession a Success: Perspectives from Canadian Small and Medium-Sized Enterprises. *Journal of Small Business Management*, 44 (2) pp. 306-309.
- Chartered Accountants Ireland. (2011). In CA Proficiency 2 Taxation 2 (ROI) 2011-2012. Dublin: Chartered Accountants Ireland.
- Churchill, G.A. (1995) *Marketing Research: Methodological Foundations*. 6th ed. Texas: The Dryden Press.
- Commission on Taxation (2009) *The Commission on Taxation Report 2009*, Dublin: The Stationary Office. Available at: <http://www.commissionontaxation.ie/downloads/Commission%20on%20Taxation%20Report%202009.pdf> (Accessed: 25th May 2012).

- Coverley, R. (1999) Succession planning in family businesses: A study from East Anglia, U.K. *Journal of Small Business Management*, 37 (1) pp. 93-97.
- Crossan, F. (2003) Research Philosophy: Towards an Understanding. *Nurse Researcher*, 11 (1) pp. 46-55.
- Dascher, P.E. & Jens Jr, W.G. (1999) Family Business Succession Planning. *Business Horizons*, 42 (5) pp. 2-4.
- De Massis, A., Chua, J.H. & Chrisman, J.J. (2008) Factors Preventing Intra-Family Succession. *Family Business Review*, 21 (2) pp. 183-199.
- De Vries, M.K. (2003) The Retirement Syndrome: The Psychology of Letting Go. *European Management Journal*, 21 (6) pp. 707-716.
- Denscombe, M. (2010) *The Good Research Guide for small-scale social research projects*. 4th ed. England: Open University Press.
- Doyle, E., Birdthistle, N. & Godwin, A. (2008) Death and Taxes: An Examination of Succession and Taxation Planning for Family Businesses in Ireland. *Irish Business Journal*, 4 (1) pp. 24-37.
- Duffy, S. (2011) SUCCESSION PLANNING HOW TO AVOID FAMILY FRICTION. *Accountancy Ireland*, 43 (4) pp. 26-27.
- Easterby-Smith, M., Thorpe, R. & Lowe, A. (1997) *Management Research: An Introduction*. London: Sage Publications.
- European Commission (2010) *SBA Fact Sheet-Ireland-2010/2011*. Ireland: European Commission. Available at:
http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/pdf/2010_2011/ireland_en.pdf
 (Accessed: 21st May 2012).

- Family Firm Institute (N.D.) *Global Data Points*. [Online]. Available at: <http://www.ffi.org/?page=GlobalDataPoints> (Accessed: 19th April 2012).
- Fox, M., Nilikant, V. & Hamilton, R.T. (1996) Managing Succession in family-owned Businesses. *International Small Business Journal*, 15 (1) pp. 15-25.
- Francis, B.C. (1993) FAMILY BUSINESS SUCCESSION PLANNING. *Journal of Accountancy*, 176 (2) pp. 49-51.
- Glynn, N. (2011) *Planning for Family Business Succession*. Ireland: The Varsity Press
- Gold, L. (2007) Succeeding at succession. *Accounting Today*, 21 (16) pp. 1-30.
- Greengard, S. (2001) Why Succession Planning Can't Wait. *Workforce*, 80 (12) pp. 34-38.
- Grove, H.S. & Prince, R.A. (2004) What, No Succession Plan? *Trusts & Estates*, 143 (9) pp. 69-69.
- Grusky, O. (1960) Administrative Succession in Formal Organisations. *Social Forces*, 39 (2) pp. 105-115.
- Handler, W.C. (1989) Methodological Issues and Considerations in Studying Family Businesses. *Family Business Review*, 2 (3) pp. 257-276.
- Handler, W.C. (1994) Succession in Family Business: A Review of the Research. *Family Business Review*, 7 (2) pp. 133-157.
- Ip, B. & Jacobs, G. (2006) Business succession planning: a review of the evidence. *Journal of Small Business and Enterprise Development*, 13 (3) pp. 326-350.

- Kinkhead, G. (1980) Family Business is a Passion Play. *Fortune*, 102 (1) pp. 70-75.
- KPMG (2012) *Taxing Times Finance Bill 2012 & Current Tax Developments February 2012*, Ireland: KPMG. Available at: <http://www.kpmg.ie/financeact2012/analysis/TaxingTimesFinanceAct2012.pdf> (Accessed: 11th March 2012).
- Kwak, M. (2003) The Advantages of Family Ownership. *MIT Sloan Management Review*, 44 (2) pp. 12.
- Lansberg, I. (1988) The Succession Conspiracy. *Family Business Review*, 1 (2) pp. 119-143.
- Levenburg, N.M. (2009). Succession planning in smaller family firms. *Grand Rapids Business Journal*, p. 13.
- Mcgee, S. (2009) Succession Recession. *Financial Planning*, 39 (4) pp. 33-34.
- Patton, M.Q. (2002) *Qualitative Research and Evaluation Methods*. 3rd ed. California: Sage Publications.
- PricewaterhouseCoopers (2007) *Making a Difference: The PricewaterhouseCoopers Family Business Survey 2007/08*, Global: PricewaterhouseCoopers. Available at: http://www.pwc.com/en_TH/th/publications/assets/pwc_fbs_survey.pdf (Accessed: 24th February 2012).
- PricewaterhouseCoopers (2010) *Kin in the Game-PwC Family Business Survey 2010/2011*, Global: PricewaterhouseCoopers. Available at: http://www.pwc.com/en_GX/gx/pwc-family-business-survey/assets/family-business-survey-2010-2011.pdf (Accessed: 24th February 2012).
- Remenyi, D., Williams, B., Money, A. & Swartz, E. (1998) *Doing Research in Business and Management: An Introduction to Process and Method*. London: Sage Publications.

- Revenue (2012) *CGT1 Guide to Capital Gains Tax*, Ireland: Revenue.
Available at: <http://www.revenue.ie/en/tax/cgt/leaflets/cgt1.pdf>
(Accessed: 25th July 2012).
- Royer, S., Simons, R., Boyd, B. & Rafferty, A. (2008) Promoting Family: A Contingency Model of Family Business Succession. *Family Business Review*, 21 (1) pp. 15-30.
- Sambrook, S. (2005) Exploring succession planning in small, growing firms. *Journal of Small Business and Enterprise Development*, 12 (4) pp. 579-594.
- Saunders, M., Lewis, P. & Thornhill, A. (2009) *Research methods for business students*. 5th ed. Essex: Pearson Education.
- Sekaran, U. (2003) *Research Methods for Business: A Skill Building Approach*. 4th ed. New York: John Wiley & Sons.
- Small Firms Association (2008a) *Succession Planning Guidelines for Small Businesses: Succession Planning-What is it about?* Dublin: SFA/Mazars.
- Small Firms Association (2008b) *Succession Planning Guidelines for Small Businesses: Taxation*. Dublin: SFA/Mazars.
- Small Firms Association (2009) *SFA/Ulster Bank/Mazars Succession Planning Survey*. [Online]. Available at:
http://sfa.ie/Sectors/SFA/SFA.nsf/vPages/Press_Centre~sfa-ulster-bank-mazars-succession-planning-survey-05-05-2009?OpenDocument
(Accessed: 25th November 2011).
- Veid, D.L. (2009) Down Markets Present a Silver Lining for Estate Planning. *Journal of Practical Estate Planning*, 11 (1) pp. 41-62.
- White, B. (2000) *Dissertation Skills for Business and Management Students*. London: Thomson.

White, W.S., Krinke, T.D. & Geller, D.L. (2004) Family Business Succession Planning: Devising an Overall Strategy. *Journal of Financial Service Professionals*, 58 (3) pp. 67-86.

Zaudtke, D. & Ammerman, D. (1997) Family businesses: The next generation. *Management Review*, 86 (2) pp. 54-57.

Appendix A: Questionnaire Design and Results

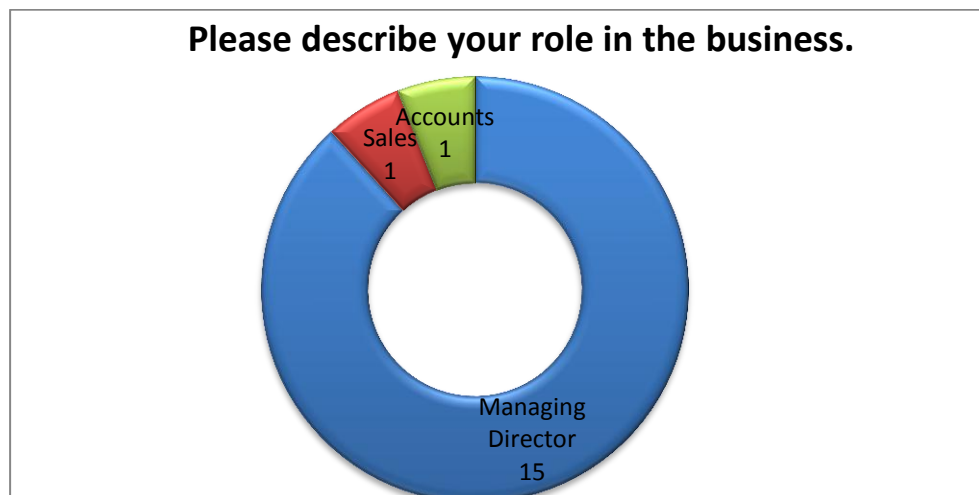
Succession Planning in Family Businesses

Level and Awareness of Succession Plans

Section 1

The purpose of this section is to gather empirical evidence on the extent to which the business owner has planned for their retirement and the awareness among business owners of the different aspects involved with succession planning.

1. Please describe your role in the business.

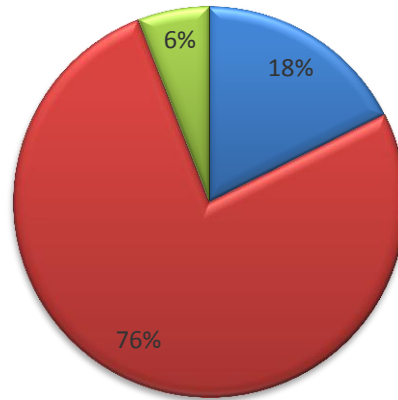


2. How would you describe your business?

- Sole Trader.
- Limited Company.
- Partnership.

How would you describe your business?

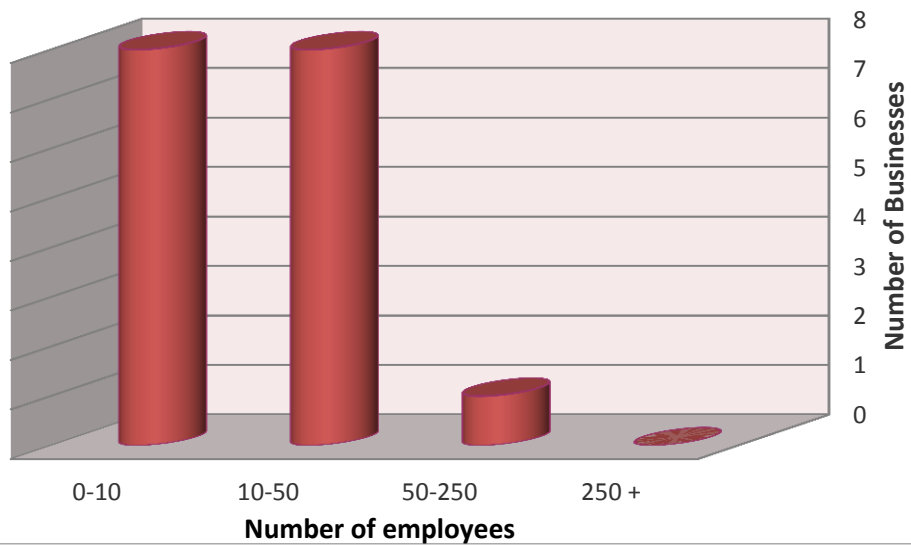
■ Sole Trader. ■ Limited Company. ■ Partnership.



3. How many people does your business currently employ?

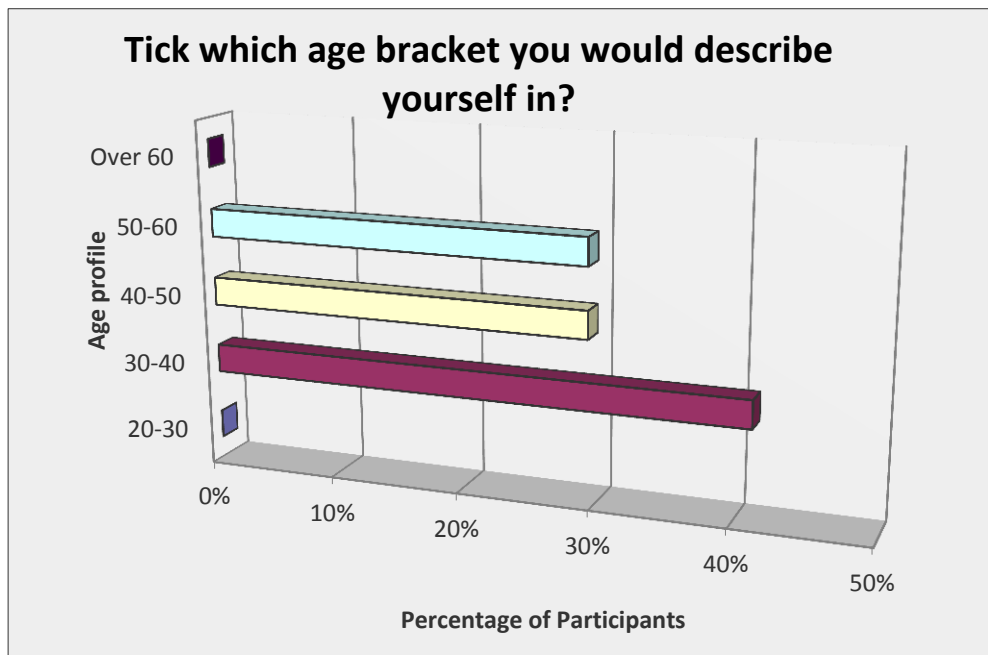
- 0-10
- 10-50
- 50-250
- 250 +

How many people does your business currently employ?



4. Tick which age bracket you would describe yourself in?

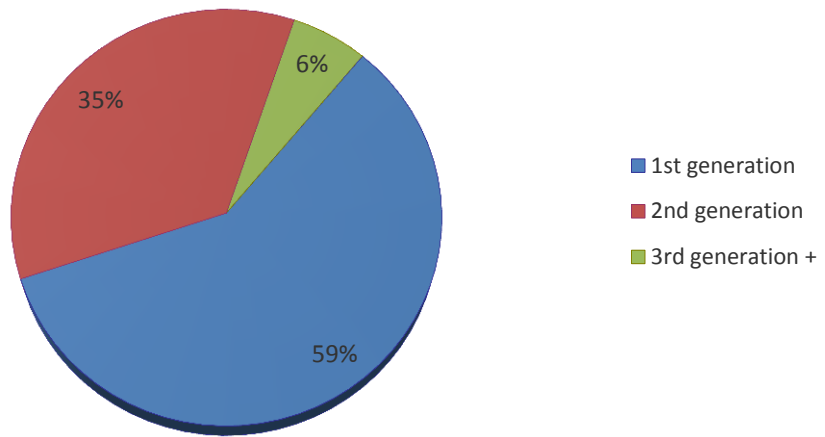
- 20-30
- 30-40
- 40-50
- 50-60
- Over 60



5. What generation is your business in?

- 1st generation
- 2nd generation
- 3rd generation +

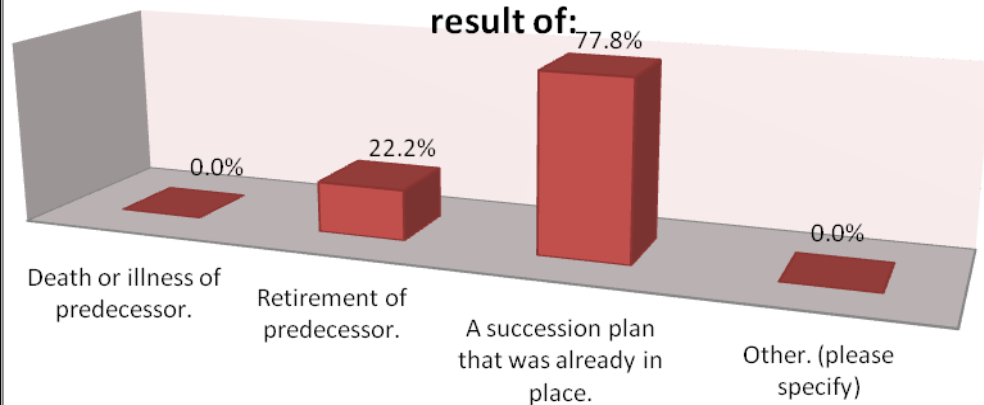
What generation is your business in?



6. If you are not the first generation of your family in the business, did you take over as a result of?

- Death or illness of predecessor.
- Retirement of predecessor.
- A succession plan that was already in place.
- Other. (please specify)

If you are not the first generation of your family in the business, did you take over as a result of:

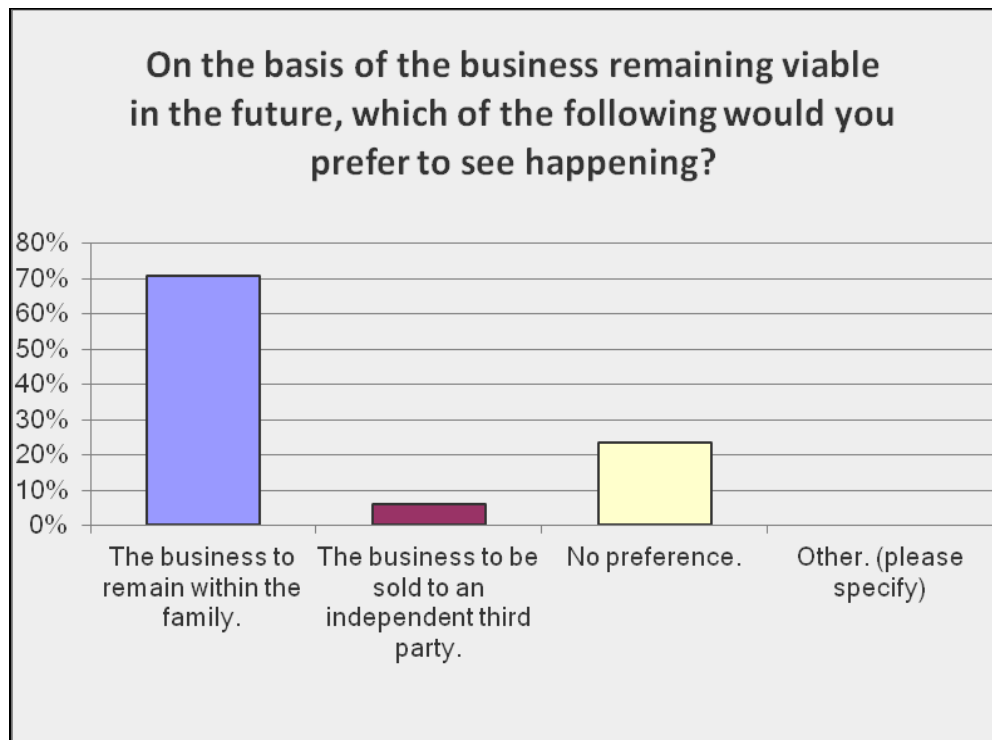


Section 2

The purpose of this section is to gather empirical evidence on the extent to which the business owner has planned for their retirement and the awareness among business owners of the different aspects involved with succession planning.

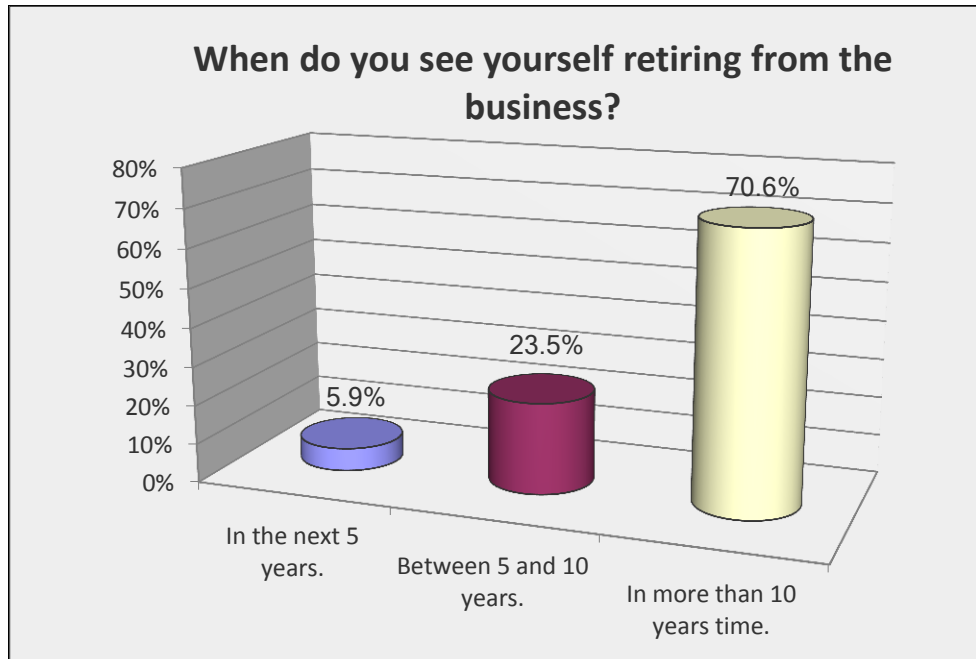
7. On the basis of the business remaining viable in the future, which of the following would you prefer to see happening?

- The business to remain within the family.
- The business to be sold to an independent third party.
- No preference.
- Other. (please specify)



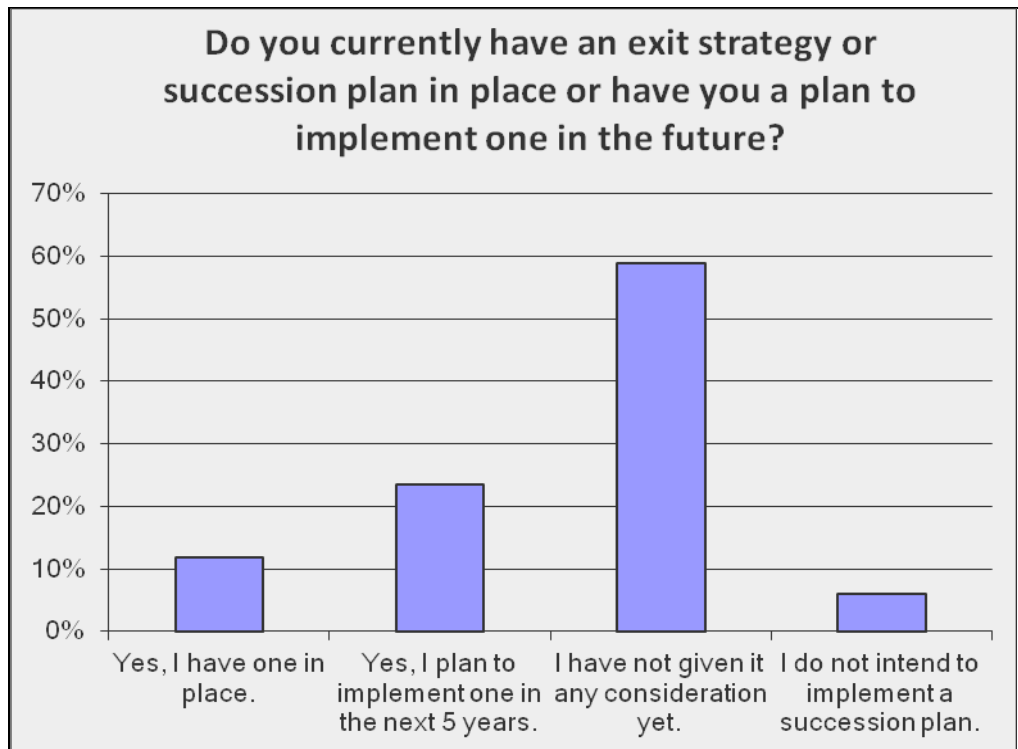
8. When do you see yourself retiring from the business?

- In the next 5 years.
- Between 5 and 10 years.
- In more than 10 years time.



9. Do you currently have an exit strategy or succession plan in place or have you a plan to implement one in the future?

- Yes, I have one in place.
- Yes, I plan to implement one in the next 5 years.
- I have not given it any consideration yet.
- I do not intend to implement a succession plan.

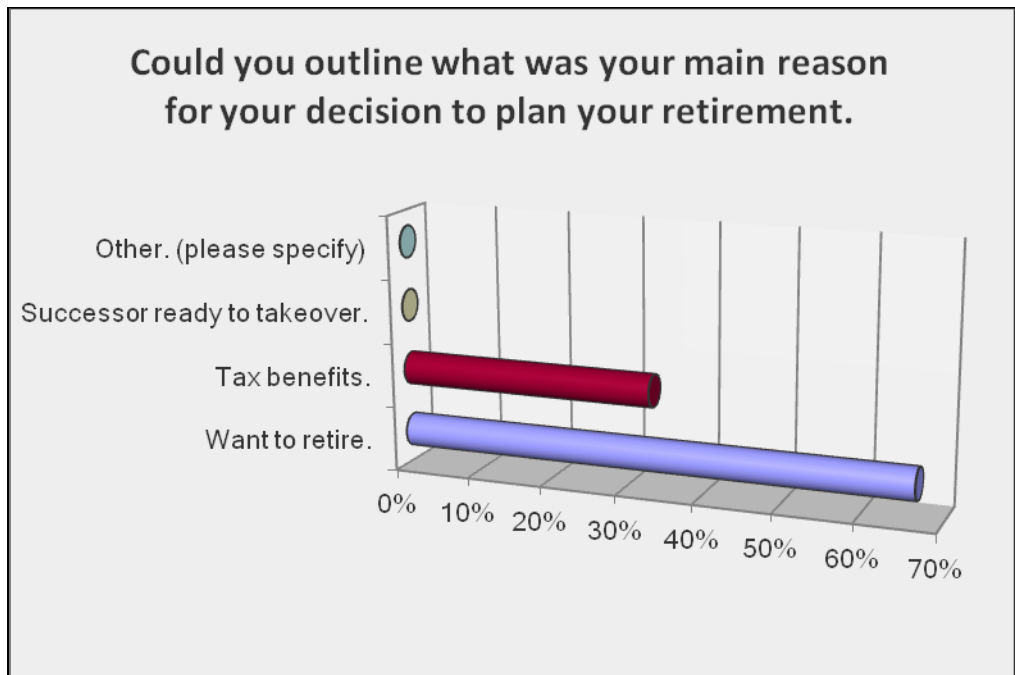


If yes, please continue to the next question

If no, skip to Q.12.

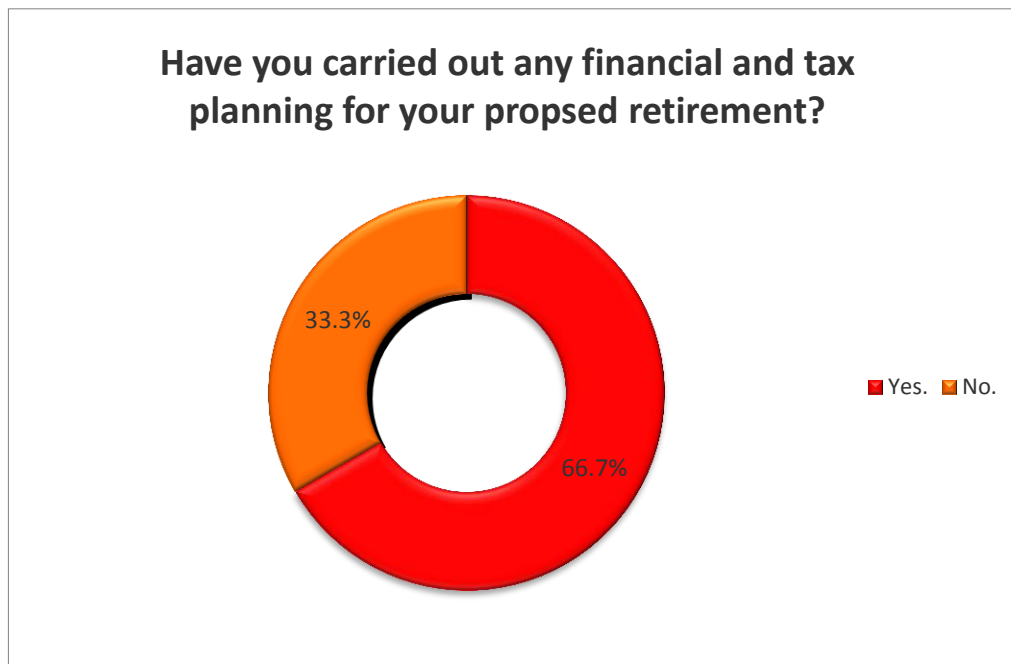
10. Could you outline what was your main reason for your decision to plan your retirement?

- Want to retire.
- Tax benefits.
- Successor ready to takeover.
- Other. (please specify)



11. Have you carried out any financial and tax planning for your proposed retirement?

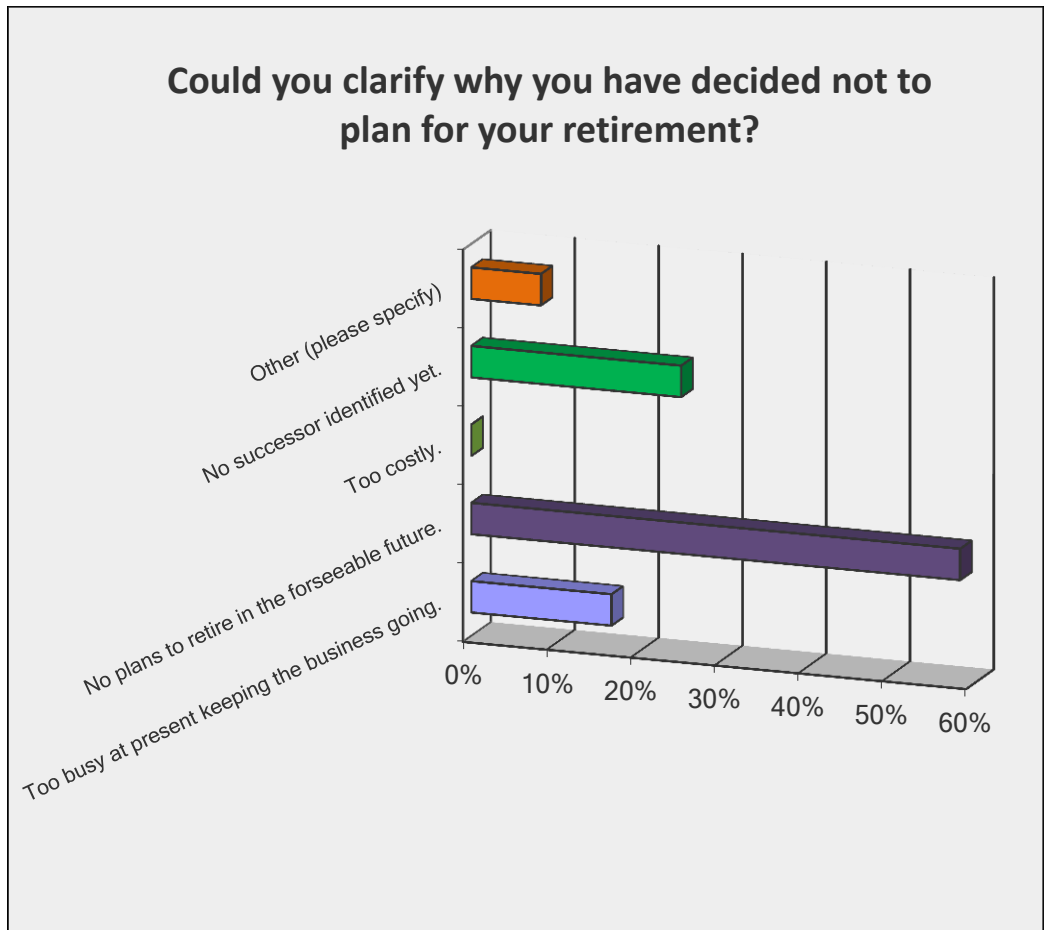
- Yes.
- No.



Please skip to Q.14 now.

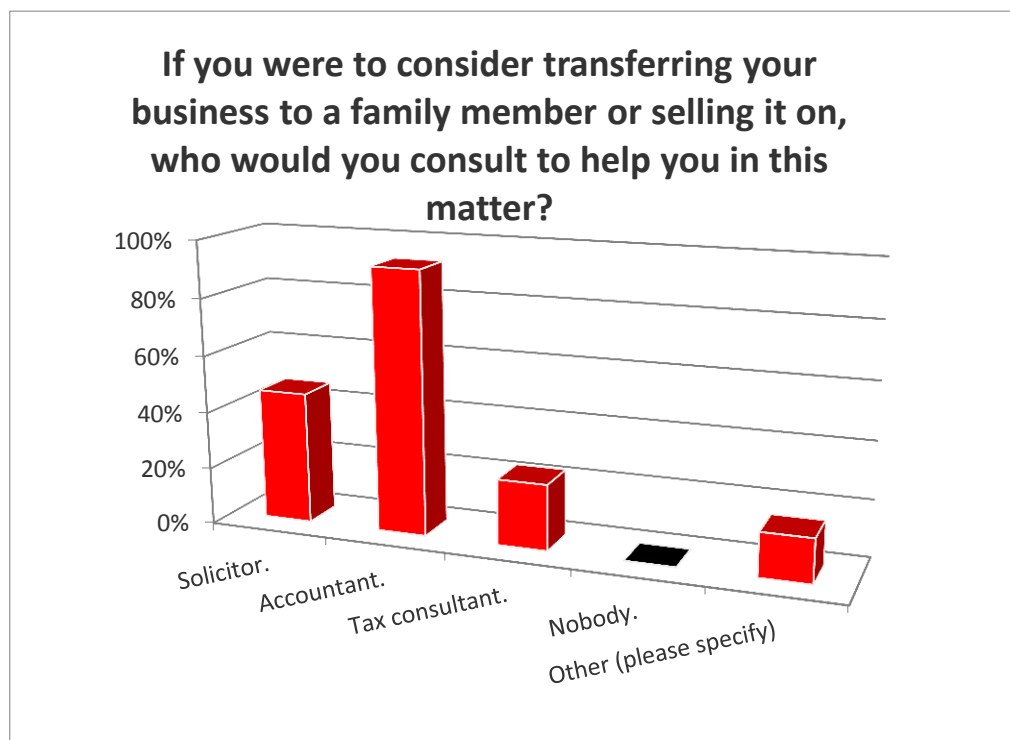
12. Could you clarify why you have decided not to plan for your retirement?

- Too busy at present keeping the business going.
- No plans to retire in the foreseeable future.
- Too costly.
- No successor identified yet.
- Other (please specify)



13. If you were to consider transferring your business to a family member or selling it on, who would, you consult to help you in this matter?

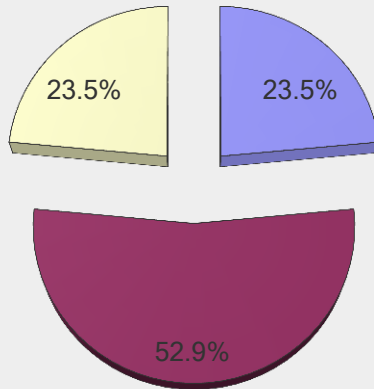
- Solicitor.
- Accountant.
- Tax consultant.
- Nobody.
- Other (please specify)



14. Are you aware of the tax implications on the transfer or sale of your business and the corresponding reliefs that are available?

- I have a reasonable awareness of the details of the taxes and the reliefs available.
- I am aware of their existence but not of the exact details.
- I have no knowledge of these taxes and reliefs and would be dependent on professional advice.

Are you aware of the tax implications on the transfer or sale of your business and the corresponding reliefs that are available?

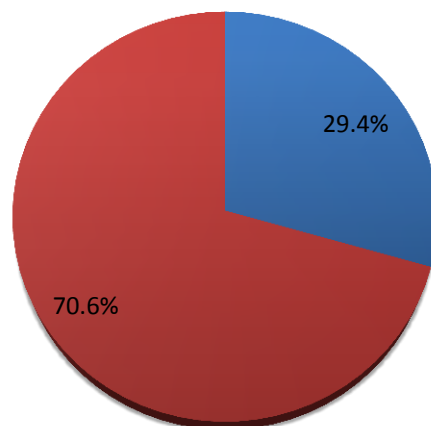


- I have a reasonable awareness of the details of the taxes and the reliefs available.
- I am aware of their existence but not of the exact details.
- I have no knowledge of these taxes and reliefs and would be dependant on professional advice.

15. Has the current economic climate caused you to put your succession plans on hold?

- Yes.
- No.

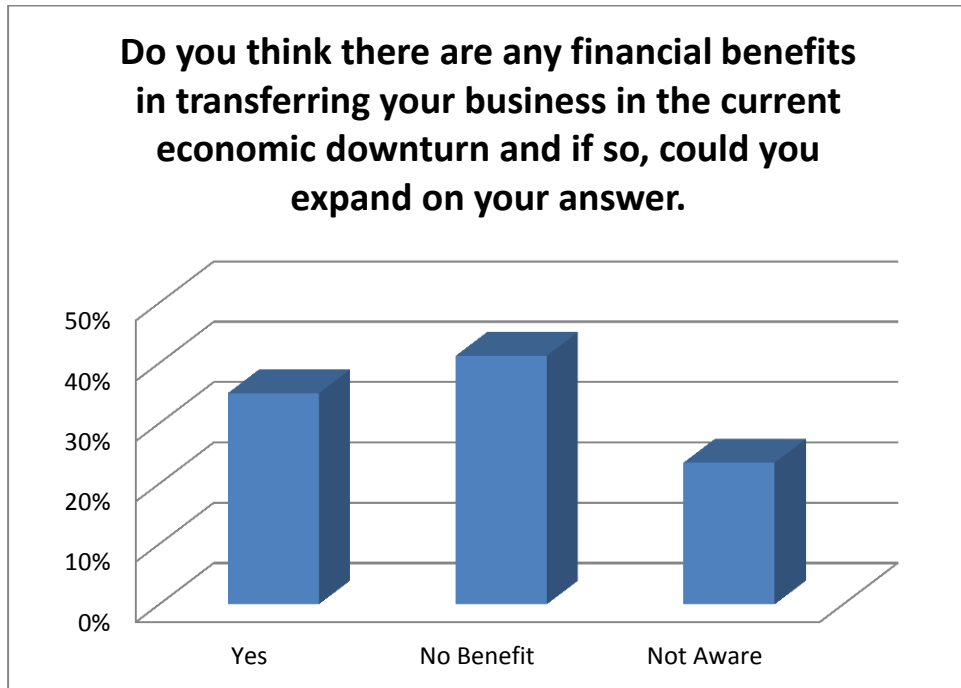
Has the current economic climate caused you to put your succession plans on hold?



Yes. No.

16. Do you think there are any financial benefits in transferring your business in the current economic downturn and if so, could you expand on your answer?

Response Rate achieved: 94%



17. Much of the research indicates that many family businesses fail to successfully pass from one generation to the next. Could you rank below between 1-4 (1 being the most significant and 4 being the least significant) which you believe are the main reasons for this:

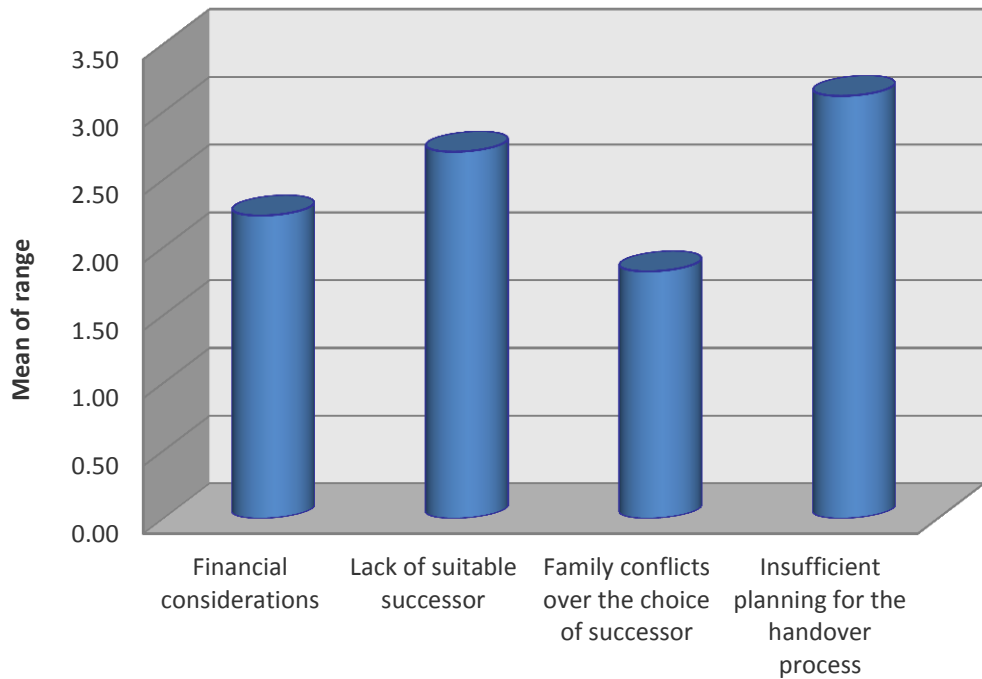
Financial considerations.

Lack of a suitable successor.

Family conflicts over the choice of successor.

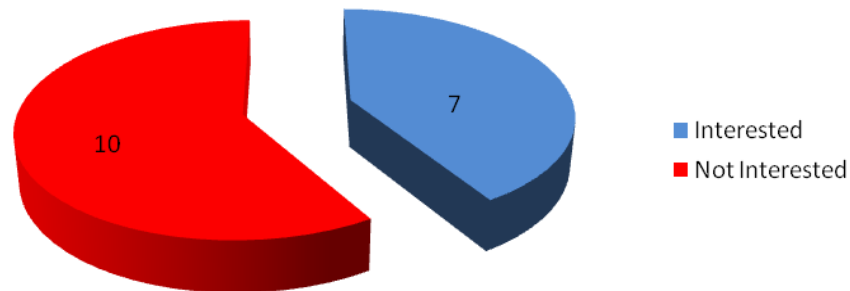
Insufficient planning for the handover process.

Much of the research indicates that many family businesses fail to successfully pass from one generation to the next. Rank below between 1-4 (1 being the least significant and 4 being the most significant) which you believe are the reasons for this:



18. If you would like a copy of the survey findings please fill in your email address below and I will send them to you on completion in August.

The number who would like a copy of the findings of the research.



Appendix B: Cover Letter for Survey

Dear Sir/Madam,

I am a student of Athlone Institute of Technology and I am writing a dissertation on 'Succession Planning in Family Businesses' as part of a Masters of Arts in Accounting. My research is concerned with identifying the level with which family businesses have planned their retirement and the awareness of the aspects involved with succession planning.

To complete my research, I need to send a short survey by email to a number of family businesses. The sample has been identified from businesses within the midlands.

In order to complete this research, can I ask that you complete the attached questionnaire. It is totally anonymous and confidential, and should take no longer than 5-7 minutes to complete.

To take part in the survey, please click on the following link:

<https://www.surveymonkey.com/s/8Z7XHVL>

If you have any further queries or would like me to send you on a copy of my findings, please feel free to contact me.

Thank you again for your help, which is greatly appreciated.

Kind Regards,
Fiona Harrington.

Appendix C: Interview with Mr. Mike O Reilly

Transcript of Interview with Mr. Mike O Reilly, Solicitor at Fair & Murtagh Solicitors.

Attendees: Fiona Harrington (Interviewer) (“F.H”)

Mike O Reilly (Interviewee) (“M.O.R”)

Location: Fair & Murtagh office, Athlone

Date and Time: Tuesday 22nd May 2012, 12.00hrs

F.H: Firstly, I would like to thank you for taking the time to do this interview with me. My plan is to get a solicitors point of view of succession planning hence my reason for interviewing you. So let’s start at the point at which the client comes into you looking to pass on the business to a family member, what do you do for them?

M.O.R: First thing you want to know is do they want to give it away now or do they want to give it away when they die. Theoretically succession planning means on a death but the expression is widely used in industrially to mean moving from one generation to another. Now there are essentially two aspects to it, one is land and farming and the other is businesses. The average Joe soap, say a married couple, say you and I are married, we are both teachers in which all we have to leave is the dwelling house, there really isn’t much planning in it. Before we go look at agricultural/industrial, just need to watch out for the special circumstances, I’m talking the special child, the down syndrome child, the child who had a terrible accident or the child that who is in some way disadvantaged for whom special arrangements might need to be made in which you would start looking at things like trusts etc. which are normally not part of succession planning. You have to realise there are two things underlying all these issues, the tax issue and the legal issues. When you move to land though, typically another thing intervenes which is the pension entitlements. The interpretation of the law says is that it is in the national interest for land to move from an older generation to a younger generation. For

example, say I'm your father and I give you my farm, I haven't deprived myself of assets for the purpose of the old age pension whereas if I give you my business, I have.

F.H: Ok.

M.O.R: That's a factor that intervenes and that is probably the only difference between the agricultural dimension and the business dimension. Actually, there is a second difference also. There is an emotional investment in land that you rarely see in businesses. Maybe one man in a hundred will sit there and say I build this business up with my bare hands, there's marks of my blood on the backs of the chairs etc. and that it really means a lot to them but typically you have this emotional attachment with land where they say 'this was my father's land, this was my peoples land', etc..

F.H: Yes, yes.

M.O.R: From the legal side, if you pass assets while you're alive, you run the risk of CGT, stamp duty and CAT. If you die however, the legalities of it are different as there is no stamp duty as land and buildings don't pass by transfer on inheritance, they pass by an Assent and there is no stamp duty on an Assent which is a different legal document than to a transfer. There is no CGT as death is not a chargeable event for capital gains tax, however the same CAT will apply. So think if you were seventy-five and you are thinking of getting rid of your farm, and I say to you, leave it behind you in your will, we will remove CGT and Stamp Duty as considerations. I'm also generally considered to be giving you good wise sage advice on the basis that it is rarely in an old person's interest to give away their assets. The classic example and over the last twenty years, I have seen it maybe five times where I am your uncle and I give you the farm and two months later, you stop bringing me to mass and after another couple of months, you don't really do the shopping and within a year, I don't ever see you anymore and I will die on my own in that house, even though I might have fifty or sixty thousand in the bank, die of malnutrition, I have seen that several times, it's very sad but it happens. So there are a lot of reasons for us to say no, don't give it away, hang on to it, and mind you. If you are my client, I don't care about them or your nephews, I

want you to be minded. Now, the tax code then provides, firstly if you want to give something when you're alive, if it is a business and businesses include farms, it provides retirement relief, which I think the threshold is something like €750,000. You can give away this amount in terms in consideration before you qualify for tax so what we did over the last number of years is, say you have a farm, I would get you to sell all the outside stretches as sites for quarter of a million Euros. If you give me quarter of a million Euros, I will arrange for you to get an income of about 40,000 per year after tax which is the equivalent of a 65,000 a year job and you still have your quarter of a million euro so doing this you can set up a person and they retain the main part of the farm for onward passage, they have just given the outside bits and that's an example how we might work with retirement relief. What this does then is it takes mammy and daddy out of the equation beautifully set up with money and the son gets the main part of the farm then. When the son gets this then, agricultural relief would normally apply, and if it doesn't business relief may apply which reduces its value to 10%. There is a six year claw back so they have to keep it for six years but I'm not going to be leaving you my farm if I think you're going to be selling it.

F.H: Yes of course.

M.O.R: I am leaving it to you so you will be leaving it to my grandchildren and so on. The exact same relief applies to business relief. Now a farm can be treated as a business. I have done it once where we didn't qualify for agricultural relief and the single biggest reason that you don't qualify for agricultural relief is you fail the farmer test, which is an artificial test, it is done purely by measuring assets. It was gross before but now it includes the mortgage, say your my daughter, your away in college and I own half of county Meath and I want to leave it to you, as long as you don't have a house you would be fine but you might have had a house, that house is now prohibiting you from becoming a farmer but now they allow you to take in the mortgage, so it's the net value allowed but they don't allow that with any other asset. I have seen them ask people to value cars but it depends on who you get. Now, so that's the context with what we are looking at. The first thing we are looking at is it wise for you to give it, is there any tax advantage to be obtained

by doing it now or by waiting. You will nearly always find that the tax advantage is upper most in people's minds. The most honest people will say "is there any way I can get out of that?"

F.H: Ok, I understand all the tax implications. When people come into you are they aware of these tax implications?

M.O.R: Typically they are. One of the things that impresses me most is how well informed farmers are. Their representative organisations are a million times better than unions because they tell them things. They tell them about stamp duty, they tell them about inheritance, they tell them all about these schemes and everything. Farming is a very complicated business from the bureaucratic side; you need to be good at forms and administration. So in summary yes people are aware but they don't know the finer points.

F.H: Of course.

M.O.R: Effectively what people are coming to you for to see if there is an angle; is there a better way of doing it? They would know for example, if I give my farm to my daughter, the daughter would have to pay tax and would be aware of the big reliefs available and is there anything else that they should be thinking about which may be why you don't wait until you die. The problem about waiting until you die is what gave rise to a generation of people who would now be in their late 60's what I would call alcoholic farmers who are people whose fathers were young and the sons went off to agricultural college so they emerged from agricultural college at 24/25 and they know everything but their father is only 50 and by 15 years later, they have spent most of those 15 years drinking so agriculture has fared very badly, the farming organisations then started introducing partnerships and things like this which is a form of succession, its partial succession. That has greatly improved farming, and farming is the single biggest industry we have left in the country. On the business side, typically companies are easy to succeed because of the passage of shares, the company has perpetual succession. All I have to do is give you the shares and that's that. The personnel in the group in the change but the organisation can continue because all that moves about are shares or guarantees. There are massive new rules for new companies coming

in which will make all this much easier. When you meet the sole trader and the partnership, you now reach a different issue so you normally have to give somebody something. Normally I would give you the shop and the stock and the actually trade itself passes by delivery. Did you know for example if you look at that building over there, that building is owned by whoever owns the ground it stands on, and there is a new concept that has arisen only recently in Ireland, the multi-unit dwelling (i.e. apartment block). However this is not built on any ground, its built on someone else's dwelling, so we now have this new concept of selling things and units that aren't land based. So when you come to the actual trade, for example in a partnership, I got a client to make the person who worked with him his partner and he was 50 at the time and so what we did was we made him a partner and over the period of 10 years, from 50-60, he got 5% of the business each year so by the time the client reached 60, he only owned half the partnership and the employee owned half the partnership. This then provided the employee the incentive to stay, you with me?

F.H: Yes, I understand.

M.O.R: It gave him an actual interest in the place but more importantly, it allowed, you can do this with companies via directors, the older man to put partnership insurance in place and partnership insurance is say we are partners and I insure your life and you insure mine, my life is insured for what I think my bit of the business is worth and yours similarly and in our partnership agreement, it will state, when I die, that policy matures and you pay it to my estate and you now own the practise/company/firm. It's actually a method of succession planning. It perhaps is the single best succession planning you could do to the extent that you sell your own business beyond the grave at a price you agreed before you died. So for example, my wife is the principal in a special education school and she would be unaware of anything we are talking about, so there is no way she could become a partner here if I was a partner as she would not be a Lawler, she's a teacher. As well as this, the other partners might not like her or get on with her and they don't want to be in partnership with her so they give her the money and away they go.

F.H: So there is much more to it. It appears in the literature that people say you make a will or transfer your business but there is so much more to it that people don't seem to acknowledge.

M.O.R: Another thing you need to be aware of is that when a lot of people stop, it kills them. If you looked at the amount of people that died on quick succession to their retirement is huge. I look at big strong men that fill that door when they come in and they want to transfer their farm and I am thinking what are you planning in doing? Drinking porter is not the solution.

F.H: I suppose that is why most people don't want to do it also as they don't want to retire and it is something you have to face when you retire.

M.O.R: Do you have any children?

F.H: No.

M.O.R: Well I have 3 children and they are very smart and they are highly qualified and getting their degrees and all this sort of stuff but yet I always second guess their judgement as I am their father, I changed their nappies, I thought them how to read and ride bicycles. One on 10 parents, maybe, is able to give their children the correct amount of respect they deserve in their opinions so therefore when I am thinking of giving her the farm one of the main things I am thinking is she will mess it up, she will destroy my business because she doesn't know how to do it. The easiest way for succession is sell the business for cash, it eliminates these issues.

F.H: As in to sell to a third party?

M.O.R: Yes.

F.H: So in your opinion with a business, people don't have that same emotional attachment as with a farm. So with businesses, individuals are more willing to sell to a third party.

M.O.R: Yes, it's easier to dispose of a business. A farm is a personal thing; you know you're walking the land that your people owned.

F.H: Yes and it's been passed down for generations to generations.

M.O.R: The fantastic dramatic exploitation of this is *The Field*. People were willing to kill somebody for the land but you couldn't see anybody being killed for a sweet shop.

F.H: That is very true. If someone comes into you, your advice is to wait, am I correct in saying this?

M.O.R: No, typically what I would be looking at first. If you're old, you will need money. So looking at the succession planning for the non-business, we will get the pension each week, and some other things. The first thing you need to look at is have you capital? Have you the capital to look after your wife if she gets a stroke tomorrow. Life assurance brought out some new aspects before. It used be tax deductible which makes it a great way to sell it but the tax deduction was taken away so then they had to begin marketing life assurance and they realised the flaw in life assurance was there was only one critical event so you had to die so they came up with this new insurance, so the first thing you want to see is that the individual has capital and then you want to see them with income either through pension or employment in a business so if it's a business that your giving away, then you have to say if you want to take over this business, buy some shares off him for €100,000 and then give him a contract of employment maybe as a consultant of say €200 a week to maybe top up his pension so now he has income, now he has capital so I have him solved. That's mammy and daddy sorted. Now we have to make sure that junior can pay for it. Where is junior going to get a €100,000? You walk into any bank in town, and it would be a very tough to get that sort of money. Their advertisements say something completely different but I am dealing with people who are trying to get on in and move things. One or two are succeeding out of a 100 to get loans whereas before a 100 would have succeeded out of a 100. There is no movement going on. Then finally, we have to look at who else is in the picture, are there other brothers and sisters who are going to turn around and lodge a court action to say why did he give that to him, how come I only got this while someone else got whatever. So you need to look at all that and then for special circumstances so anyone with any difficulties that they would be looked after too.

F.H: There is a lot more than just deciding this.

M.O.R: Yes there is a lot of decision to be made.

F.H: So then how long of a process does it take, from day one to completion. For example, let's say a normal business such as a shop in Athlone, comes in.

M.O.R: Let's talk about the man who owns the shop around the corner and he came in and said he was thinking about giving his business to his daughter so then we would say what age is she, has she been involved in the business etc.. The first step on that day will be we would set up a will for him, leaving it to her, just in case he slows on the succession planning that his wish of giving his daughter the business is granted if anything happened him.

F.H: Well making a will is the ultimate form of succession planning.

M.O.R: You can do that from day one nearly always. That then gives you the chance to take your time to consider the intervivos transfer (lifetime transfer) so when you consider this, you are considering it knowing that against the background that if anything happened him, this is what will happen anyway and it will probably be much cheaper so we prepare the death scenario and then we step back and prepare the living scenario. So the next question then is junior able to do it?

F.H: Ok.

M.O.R: Are the others properly provided for? And of course are they themselves sorted? Will junior be required to pay for it and is it necessary for junior to pay for it. It mightn't be, they might be independently wealthy.

F.H: I have read guidelines that are saying up to 5 years by the time people have adequately looked after themselves, set up proper pension arrangements.

M.O.R: I don't know I am talking about the actual decision to move. Most people would have set up a pension plan as they went along for tax reasons because it's a cheap way in saving and like in particular, the older you get, putting money into a pension fund is a no brainer because at this minute you can get 40% relief. I mean you would be 10 years before you would make

40% on deposit so if I put it in and retire in 2 years' time, I get my money back if I didn't get any interest on it, and the tax relief alone would be worth it.

F.H: That is very true and in a company, anyway there is hardly any limitation on pensions.

M.O.R: In a company now, there are some limitations but effectively a company is a far better vehicle. Now I think that will disappear. I think pensions in general will be reviewed. It doesn't make sense that if I'm rich and you're poor that I can make great provision and get huge tax relief where if you are not able to make huge tax provision, it's inequitable.

F.H: We have talked about retirement relief, agricultural relief and business relief. They are all set to be restricted somewhat and there are conditions coming in 2014 that is starting to restrict them. For example restriction on retirement relief if you are between the age of 55 and 66, the limit to sell to a third party is being reduced from €750,000 to €550,000. Do you think it will be reduced further, that all these reliefs will be cut down totally?

M.O.R: I don't know, and I don't know if it's in the hand of Irish authorities to make that decision.

F.H: I know there have been reports by the European commission that have said that these reliefs are far too generous.

M.O.R: You see tax reliefs are a major instrument of a government fiscal policy, so that for example if you look at the planned reduction in threshold at a certain age, that is to encourage people to move it earlier so that's a fiscal objective by using the tax relief. Whereas in pensions, the relief increases as you get older and that is also a fiscal measure to try and let you become less of a burden on the state.

F.H: Ok. So it's outside of the Irish government's power at the moment.

M.O.R: It is and anyone who tries to predict it, I wouldn't be backing them.

F.H: Would you say businesses then looking ahead now have started to think about planning this, that the restrictions on reliefs will actually encourage people to start thinking about it.

M.O.R: I don't know. When CGT was introduced, it brought a lot of land onto the market so that worked. It was halved from 40% to 20%. Now it has gone back up to 30% but there is no market now so you can't determine that bringing it down would be effective. The market includes both the buyer and the seller and there are no buyers at the moment. I know people who have turned down millions of euro for land that they wouldn't get €400,000 for now. Hindsight is great.

F.H: Yes it is. On the survey I completed, one of the main reasons people quoted for family businesses failing to transfer to the next generation so meaning that the next generation have a viable business to carry on was the failure to plan, would you agree with that? About 80% of my survey quoted this.

M.O.R: Can I ask a question? Was that offered to them as a choice?

F.H: Yes. They had a choice of four different options which they ranked.

M.O.R: I would say that was an easy choice to take and I would think if you had given a free answer to that question, very few would have given that answer as failure to plan. You are talking presumably about the failure of the business in the second generation.

F.H: Yes or to the third generation.

M.O.R: Very few make it to the third generation.

F.H: Well depending on the survey it would be around 4-10%.

M.O.R: Very few make it to the third generation but a good few will go to the second generation and a lot will depend on the calibre of the person in that second generation. That is the single most important reason that the business will succeed or not. If you plan it properly, I could plan the succession perfectly but you could still make a mess of the business. No matter how well

or badly I plan it, it's not going to impact on how good or bad you're going to be. It also depends on the circumstances. Let's say I left you a buildings contractor firm, say I left it to you in 2000, now you're a multimillionaire. Say I left it to you in 2007, now you're gone bust.

F.H: There are a lot more factors that you have to take into consideration.

M.O.R: Failure to plan is planning to fail as you know. There is a theory that if you want to set up a bakery, you buy the flour and start baking the bread, don't sit down with the likes of me and spend two months planning and talking about it. There's the proactive method. I believe the correct line is somewhere between both.

F.H: Ok. So they need to be a bit practical about it too. So by this do you mean, get the son and the daughter or whoever you want to give the business to, bring them into the business, get them involved and working in the business.

M.O.R: Yes, the reliefs are aimed at somebody being involved, hence there's claw backs. It's not just a matter that I'm going to give you this so you can sell it because that would be an abuse of the system.

F.H: Have you seen any changes in the last 10 years to the extent that people were planning then to the numbers doing it now.

M.O.R: I think there were more people doing it then because they had more to do it with. People considered themselves to be business people who weren't, they thought they were big entrepreneurs when they weren't and they are broke now and in trouble. There are ordinary couples who own five houses and they should only own one, one was an investment and that so when people had money they were willing to look more at this. They would buy three houses and then they would buy with tax so you could wipe out the tax etc. and the banks financed it all.

F.H: Thank you for your time. I really appreciate it.

Appendix D: Interview with Mr. Mark McCutcheon

Notes of Interview with Mark McCutcheon, independent tax consultant

Attendees: Fiona Harrington (Interviewer)

Mark McCutcheon (Interviewee)

Location: Strand Hotel, Limerick

Date and Time: Wednesday 30th May 2012, 15.00hrs

Q. 1 Do you think Succession planning is important for family businesses?

Yes - by planning it, can overcome main issues for taxes etc.

Succession planning can also be selling to a third party. An example of the young guys selling their business was given. As a result of not planning and consulting someone with it, they footed a large tax bill. However if they had approached someone previous to the disposal of the business, that would have been significantly reduced.

Q. 2 Looking at your clients, is there many of them with succession plans in place?

No, they are focused on the day to day issues. Clients are unaware about the issues involved. So the tax practitioner/accountant would appear to have a duty to inform the client about these issues. However if they inform them, it's almost like free advice whereas if you only give them teaser information, then could get sued for misinforming.

People are focused on keeping afloat, survival of the day to day so they are not doing it.

Q.3 Have you seen any significant changes in the businesses planning now as compared to 5 years ago?

It's hard to say. People are not doing it now but were people ever doing it?

As well as this, many small businesses would rely on their accountant for such advice rather than going to a tax consultant so it would be very hard for me to say.

Q.4 What do you think are the major benefits of a family business planning for their succession?

Tax savings is the main benefit.

Q.5 It is quite obvious from surveys completed, including my own survey focused on the midlands that many are not planning for succession. What do you think are the main barriers stopping businesses from planning?

It is not a black and white answer as outlined above. Can't just say it is as a result of lack of planning. It is based on each individual case. Lack of planning may be one but it may not be viable. It is important to assess the business environment. Oatfield sweets in Donegal ceased to trade recently as a result of being unable to compete with cheaper bigger chocolate and sweet producers, it wasn't as a result of ignoring the succession plan. It is important to look externally, they could have had a great succession plan but just the business environment was extremely tough so hence failed to make it.

Appendix E: Interview with Ms. Mary Carroll

Transcript of Interview with Ms Mary Carroll, founder of The Succession Conversation.

Attendees: Fiona Harrington (Interviewer) (“F.H”)

Mary Carroll (Interviewee) (“M.C”)

Location: Over the Phone

Date and Time: Tuesday 5th June 2012, 16.00hrs

F.H: First of all I would like to thank you for taking the time to do this interview with me. My thesis is about looking at succession planning in Ireland for family businesses, what’s involved, why some businesses are engaging in it and more not at all, and any advantages of planning currently in the recession. To start off, could you go through what it is you actually do when a client approaches you and the services you offer them?

M.C: Ok. At the moment what I am doing is focusing on education and information primarily right now. Currently I’m organising seminars as I want to make people aware of what they need to look at tax wise, legal wise and communication wise when they are getting down to doing their succession plan. Then from that people might come to me one to one for more direct advice on how to get started and talk about their own particular case and go through options with them about their legal and tax advice.

F.H: Ok. I have seen that you try and bring the family together so would I be right in saying you deal with the more emotional issues?

M.C: To be honest with you now, I haven’t done much of that. It is something I can do but there hasn’t been much demand for that so at the moment I want to move away from that because it’s not really happening from my point of view. There is another woman (*name removed*) and her company (*name*

removed); they are getting more involved into that side of things. They deal with conflict situations and helping the families get over any conflict they might have about succession.

F.H: OK very good, I may try making contact with them then. So how often do you do this then?

M.C: The most successful thing I am finding is the seminars where you are in a group together and getting the general information across to them and then they come up to me afterwards and I would do one to ones meetings with them. From those I often find people would contact me to meet them independently then. I have done a few family meetings but very few to be honest. I have done a good few where I meet couples, typically a husband and wife where I would meet together and they just want to go through what their options are.

F.H: Ok. That sounds very interesting. So when you talk to these people and businesses at the seminars, are they aware of the different aspects involved; the legal and the tax for example?

M.C: I don't know if they are very aware but I find they are very confused and often don't know where to begin. The way I look at it is most people/businesses kind of know in their heart what they would like to do but they are worried about the impact on the family first of all and then they don't know how to do it legally or tax wise and they are not quite sure where to go for advice, you know they might have their own solicitor but a lot of solicitors wouldn't be specialist in this area and they wouldn't have the good tax advice. It is great to bring the three things together in the one room and have everyone there that they can meet on the day of the seminar. It is a big decision. First of all it's very hard to make a decision of what to do with business/land and if you have a few children and you are trying to be fair to everybody. Or you may have the opposite scenario where you have no successor at all and you don't know what to do with it. Really it is to sit down and be able to talk to somebody. My starting point is to talk about what do you want, what are your expectations? Do you want the farm/business to continue in the family? Are you happy enough that it's sold? Do you want to be involved in the

management of the business until you're a certain age? All these questions have to be looked at and then based on your answers to those you can start to make your plan. There's no point passing everything on to a child and they have had no involvement in the business at all. It's also important that they cater for their own retirement needs and the future, like what happens if you need a nursing home or care, how is that going to be incorporated. All these things have to be looked at before a plan may be made. I always say to the parents to look after themselves first and whatever they feel they have left, and then they can give away.

F.H: I have come across that already. I did an interview with a solicitor previously and that was one of the main things he said, you know, to make sure to look after yourself first.

M.C: Ok, yes it is. I know a lot of farmers especially that would have handed everything over and then they are living off their pensions with no plan and then they are relying on the child, who is in charge of everything, for extra hand-outs. Ideally you don't want that situation. That is a big issue and it's something I always advise parents to do is look after themselves first.

F.H: Looking at the literature in this area, I feel they don't highlight the necessity of that and it is something I would not have anticipated but that has been emphasised through the interviews I have conducted. So, from your experience, do you think that succession planning at the moment is very important for a business or should businesses be concentrating on keeping the business afloat at the minute?

M.C: I think it is critically important and it shouldn't interfere with keeping your business afloat. As you say though, what happens in these times of crisis's, people put all their energy to try keeping the business going as they are panicking and they don't take that time out to plan. It doesn't even have to be succession planning, it can be planning for the future of the business, being strategic. You have to do this as nobody knows when they might drop dead and a plans needs to be in place for this. The biggest mess of all is when you die and you have no will. Even just something basic like a will will do even if you don't have a full plan in place. Lots of people wouldn't have a will at all

and then it's a very big mess when they die in testate and it's all left to the system to sort it out and rows and fights happen along with tax costs and legal costs which isn't a good situation to be in. Definitely I would say it's important. Now if at the moment you are at a certain age and you can't figure out what you want to do or your children are still at school, you can just put a general plan in place or have your will done generally and you can review it in a couple of years' time when your children are older or so on. I would always advise businesses to start early, plan at the front end, not at the back end. If you plan early, it gives people a chance. If you know you are taking over a business, you may need some time to buy some of the business out or the parents might need to save a certain amount for their retirement. So then whatever the plan is you can be prepared and it can be worked out. It's a little bit too late to be doing this when you are getting ready to be put in the nursing home.

F.H: Ok. That has been a factor in my survey that people don't think they need to plan because it's not an immediate decision as maybe they are not over 50 for example.

M.C: I can understand that but I would always advise to have something in general in place like a will. I especially understand if you have young children, you may be 50 and have children at 5 years of age. It's hard and it all depends on your situation, there is no one particular answer but having said that don't ignore it because it is essential to have something in place as to what is going to happen the business. Have some sort of arrangement like leaving in trust for the children. Otherwise, if you die, it is going to be divided up according to the state laws. It mightn't be essential to have your full plan in place but you might be able to say this child is going to take it over, or this child might be too young or some children might have no interest and have gone off and done something else and may come back later and have an interest so you may have to hold off on finally implementing the plan.

F.H: Ok. So compare to 10 years ago do you think there has been any significant changes in the numbers of businesses planning their succession?

M.C: I would say there is a little bit more of this occurring but not much. I would say there is probably more talk about succession planning but it is still a big taboo subject. I would have more experience with the agricultural side and it is still a big taboo subject. It is still not really brought up. It has moved on a bit but very little, it still isn't one that is brought to the table. It is tricky because it is dealing with emotions, family business and the whole culture of the farming world. A lot of the farmers want to hold onto land or hold onto the power of being the farmer, they are very slow to relinquish control and then you might have the young person trying to get in and that is still the case. I don't think it's really moved on that much apart from talking about it a little bit more. It is still a touchy subject. I have had seminars where I had a photographer to take pictures for the Farmers Journal and people nearly died that their photograph would be seen at the seminar. They wouldn't have wanted anybody to know they were at a succession planning seminar. It is almost a fear around that any of the family would think they were planning for succession. I even had a woman on the phone to me this morning, and she is trying to get her husband to a seminar and he won't have any of it. It may have moved on a little bit more but not enough.

F.H: Would people not be inclined by the tax reliefs that are available for them and their children who will take it on?

M.C: Unfortunately most of them wouldn't even know about them apart from the under 35 trained farmer for stamp duty with relation to taking over a farm. That is the main one they would be aware of but not of any other ones I think, capital gains tax and capital acquisitions tax. I find at the seminars it is news for them to hear about them.

F.H: There is probably a lack of information out there.

M.C: Well that is it. Trained farmers who are doing courses might be aware of these but then it's very hard of the father/mother don't want to hand over the farm so you have that issue then.

F.H: So then, what would you think the main benefit for the business/farm of planning the succession?

M.C: It is hugely beneficial from the tax point of view, making it most tax efficient. Legally, of course that you are very clear where you stand, that if anything happened you suddenly that you have it all tidied up. The biggest one from my point of view is the whole family thing, because people feel if they don't talk about it, that's the best thing but the point is if you are not talking about it, everyone is still thinking about it and that can set up resentment, you know brothers and sisters watching whose going to get what, is one being nicer to the parents because he is looking for something and this kind of stuff. The ideal scenario is to have it very clear, sit down and talk with your family and have a meeting about it where you discuss what you think you are going to do, finding out how people feel about that, is there anything they particularly expect from it. You hear people's expectations and needs and often people just want to be heard. The worst thing is you find out last minute you got nothing or you might just have wanted a site or just a share in the business. It could be just something simple that would satisfy you but if you are not asked, you will really feel resentment towards that. It is just the simple thing of asking will avoid that resentment. In my opinion that is the biggest benefit of planning. As the owner, you are total entitled to call your family in and say I own this farm (even though it may be not part of your normal family dynamic to talk like that) and I want to leave it in the best possible way, here is what I am thinking of doing and then see the reaction. You see though fear is the big thing. They are afraid they are going to cause a row, they are afraid it is going to lead to conflict; it's all these things that will happen anyway if you don't do it.

F.H: Ok.

M.C: It is something that takes a bit of courage, it isn't easy to do it but it's something that is definitely shown that is easier if you talk to your family and get everyone involved in it earlier own. The main place you would have seen that as a success, I have done a lot of with Australia in succession planning and Australia is away ahead of us. They do these family meetings as a norm and they call in these outside facilitators and they sit down and before they leave the table they have a plan in place. That is going very well over there. I

know in Australia, farms are treated more as businesses and you have bigger families in each farm but still you can relate it and apply it here as well.

F.H: Of course and that can apply to the business as well very easily as to the farm.

M.C: I think it does have to have it facilitated really, you know where you get a third party, outside the situation to come in and say, here is what you have, all your assets, liabilities and here is your family, sitting around the table, and get a feel for the expectations from everybody and then come back to what the parents plan is and get a reaction to that and act as the buffer between the family and controlling it as facilitator. If it gets out of hand, the facilitator can bring it back and then some sort of plan would be made. It is up to the family to actually implement the plan but at least before they leave that meeting they would have some idea.

F.H: That would then remove the conflict between the family.

M.C: Exactly, the facilitator can stop that happening and can ask the questions maybe the parents don't want to ask.

F.H: So from this, fear of causing conflict appears to be the main barrier stopping people thinking about it.

M.C: Yes, fear of conflict is big but also fear of not knowing what to do is a big issue. Most the time I find people coming to me asking me how do you do it, how do you divide up and be fair to everybody. There might often not be enough to support everybody. They might want to leave the farm to one child and then they are worried what do they do for the other children. Another barrier is they have no successor, a lot of children might have gone off themselves and got jobs and are not interested in being involved in the business but yet the parents would like to keep it in the family so they stall the process because they don't know what to do. They are the main things and you also have the issue is people think they are still young and healthy and it's not an issue they have to deal with yet. The last point then would be looking at the nature of farming or small business, it's usually a one person operation and there is a great power in that and as a result people find it very hard to delegate

and pass on. A lot of farmers only know farming and if they hand over, they won't have anything to do and they will be made redundant and won't have a role.

F.H: With regards to businesses, it has been quoted in the literature and in my own survey that I carried out, that the main reasons for businesses failing to make it to the next generation was the lack of planning, would you agree with that?

M.C: Yes, I am aware of that statistic that very few businesses survive down the next generation. Yes it is lack of planning but I would say there are other factors, the future successors might not be interested enough or there may be too many successors. You want to pass on a viable business and a viable family and that is the balancing act really. You cannot just split the business totally just to please every child, which may not be viable. It is about getting good advice, there is no point trying to do it yourself, I definitely think you need good tax, and legal advice. If you're doing it, it's worth paying for it and maybe that's a thing that people don't want to do if they think they should be able to do it themselves but it is a tricky area and you do need to take a bit of advice on it. There's no point of having a plan if you don't know how to implement it, like if it's not a workable plan.

F.H: On average, would you have any idea how much it would actually cost to do this for the average business/farm to get the advice that they would need?

M.C: You are talking about the guts of sixty to a hundred Euros an hour. It wouldn't be too short of five to six hundred Euros just to get your initial advice but if you want something more detailed, you are talking much more than that.

F.H: So the people you would be approaching would be a solicitor and an accountant/tax professional, would there be anyone else involved usually?

M.C: Well what I have done is I try to meet people say businesses owners/farmers and I will sit down with them and they will tell me their story and what they would like to do and together we detail everything out and what is available and I usually then go speak to a solicitor and go speak to a tax

advisor and I get them some advice on what they would like to and then I would go back to the business owner/farmer and charge them a certain rate for that, which wouldn't be very excessive. Having said that though, if they want detailed tax advice, they would have to go speak to a tax advisor and they would obviously have to go to their own solicitor to get it all implemented so there are additional costs afterwards but I think it is nice to have a one stop shop where they can go to. I am able to do the tax or legal advice but I can get it for them, they don't have to ring separately. I come back to them with a report on their situation giving them a few options detailing the likes of the most tax efficient option or detailing the situation of they give it to one child over another etc. which is good practical advice.

F.H: well there appears to be a lack of that in Ireland at the moment.

M.C: Well yes, and I have moved more towards that than the family meetings which are more about the facilitation and conflict resolution but there are others who are catering for those issues.

F.H: Is there anything you feel I have missed out on or haven't asked you that may be important to my studies?

M.C: Well you seem to be doing a very detailed study and it is a very interesting an area. The main thing is about getting the information out there. From what we have talked about here, I think you have covered everything. The one thing I always find is people know what they would like to do but they are afraid or unsure how to do it. It might be that they really want it to remain in the family or that they don't even care. There can be very different opinions but the whole thing is trying to get them to be honest about what they want. Anything can be made to work, if you want it, it can happen as you can find a legal or tax solution for everything. The worst thing is being afraid to admit what you would like to happen. If it was handed on to you by your parents or previous generation, it is your responsibility now to hand it on but to try and hand it cleanly, you know the way parents often put in clauses and that now. That's another important point not to be messing around with that stuff as that is not fair on the next generation. I think really that is it. At the seminars, we would have our solicitor first and he would talk about wills and

what happens if you don't have a will and go through marriage and divorce and that, the I would do my speech which is more about how to talk to your family, how to decide what you want to do, why is it we don't talk about it and go through all that and get them aware of the fact that you need to start planning and then, a tax consultant would go through all the tax reliefs etc. and also the fact that they are likely to change, they are going down every year and there is talks about some of them being abolished totally. That is why it's a good thing if you are thinking of passing it on, now is a good time but I do understand that the one thing for people is the fear of handing over ownership. Ownership means security, power, control and when the hand over, they are worried about losing all these. However there are loads of options at hand. This is the new thing that is coming up which I am hearing a lot about is partnerships, doing it by a phased process. This is becoming very popular if you have no successor with the idea of going into partnership with a neighbouring farmer and the two of you work together and have some sort of arrangement that one of you will buy out the other or there will be transfer of ownership. There is a lot of new stuff coming up.

F.H: Yes, I have heard quite a bit about the partnership arrangements which would appear to counteract any problems you may have, like having a son or daughter who doesn't want to be in the business.

M.C: The only thing about it is how many people would want to consider giving their business/land to a non-family member. That is a massive issue. I personally think that might be a bridge too far at the moment in Ireland and there might be other means by which maybe somebody might be able to get a percentage of the business or become an employee and have an option to buy a percentage of the business or some scenarios like that. As well with the partnership route, what they found in Australia is that children often change their mind, if they feel that the business/land is possibly going to go from their hands, they say hang on here, and we possibly would like it. It often forces the conversation, if some people are saying they are not interested, if they hear it's going to somebody else, they may suddenly get interested. That is it really; I think we covered the main aspects of it all. It is still very taboo, so it is good we are talking about it and you're doing your study on it.

F.H: Yes and I have had a few businesses request my findings so it may be of use to some people hopefully. Thank you for your time.

**Appendix F: Questions sent to Mr. Ronan Haslette prior to
Semi-structured Interview**

Semi Structured Interview schedule

Firstly I would like to talk around your experiences with the succession of your family business.

Q.1 When did your father decide to hand the business over to you and what had influenced his decision to do so?

Q.2 Who was involved in the process with your family?

Q.3 How long did it take to complete from the initial decision being made to the finish of the handover of the business?

Q.4 Did you and your family encounter many barriers along the way?

Q.5 What, in your opinion, do you believe was the main benefit for your father of transferring the business?

Q.6 Is your father still involved in the business?

Q.7 Merenda Ltd. is now in its 4th generation. What do you feel has been the success with regards the successful transfer of the business from generation to generation?

Q.8 Family businesses are quite evidently not planning ahead with regards their succession, what do you think is the main barrier for them?

Q.9 What advice would you give to family businesses thinking about engaging in succession planning?

Appendix G: Participant Information Sheet

Student Name: Fiona Harrington.

Course: Masters of Arts in accounting.

Title: An investigation into succession planning in family businesses in the midlands.

What is the context for my work?

It has been noted that many businesses choose to delay making a decision until circumstances force their hand. However this causes the problems for family enterprises to fail to make it to the third generation. There are many reasons for this occurring such as a result of unqualified and inappropriate individuals taking over the company as a result of the lack of planning. Therefore a main advantage of planning the succession can result in the continuation of the business for the longer term.

Succession planning in recent years has become a very important area given the generous tax reliefs that exist. It is being said that these reliefs will soon be abolished in upcoming budgets as the government cannot be losing valuable sources of tax in present conditions. As well as this the current climate provides an advantage for companies to start planning the transfer of their business as the value of their business has fallen and as a result would have to pay less tax such as capital gains tax on the transfer and generous tax reliefs currently exist for transferring a family business.

Given the rumours that these will soon be abolished and the obvious advantages associated with planning, it is a surprise more succession planning does not occur among family businesses.

Why is the research needed?

Many surveys and publications exist with regards the levels of succession planning that occurs within Ireland. However some of these fail to identify why some businesses engage while more decide to ignore. My research will raise awareness to this significant issue for family businesses and give a valuable insight into the attitudes towards succession planning in

Ireland and allow family firms to gain knowledge on the main aspects involved and the benefits of planning their succession.

What is my personal interest in this area?

Having worked and been involved significantly in a family business for a number of years, it has driven the author to focus on this particular structure of business given the knowledge and experience gained previously.

Also after the completion of this course, the author will begin a 3 year training contract with an accountancy firm specialising in tax so it appeared only fitting for the author to choose an area which is immersed in tax issues.

What is your specific research Aim?

To examine to the extent to which family businesses have thought and planned the succession of their business and the factors that have influenced their decisions.

Appendix H: Interview with Mr. Ronan Haslette

Transcript of Interview with Mr. Ronan Haslette, Managing Director of Merenda LTD.

Attendees: Fiona Harrington (Interviewer) (“F.H”)

Ronan Haslette (Interviewee) (“R.H”)

Location: Merenda LTD., Manorhamilton, Co. Leitrim

Date and Time: Tuesday 26nd June 2012, 11.00hrs

F.H: Firstly I would like to thank you for agreeing to participate in my research. As you see from the questions I have sent you, I would like to gain information on your experiences with succession planning with your father passing the business to you. So when did your father decide to hand the business over to you and what influenced his decision to do so?

R.H: I suppose ultimately the decision around handing over the business was predicated on the fact of age. Age decides a lot of things and focuses the mind so when you reach a certain point in your life, there is only so much you can offer to the business so the fact that I was there as a potential successor aided or certainly allowed the decision to be brought forward to the next level so age was a big factor from my father’s perspective. The second perspective was this business, not this business specifically but when his family business was handed to him, because I am fifth generation. When the family business got handed to him, there was no plan; it was just literally handed over. There was no structure, no succession plan, there was no around that so it was in his mind to make sure if there was a subsequent passing on of the family business, that it would be structured properly and correctly. I suppose it would be two fold, firstly it would be it reached the time in his life that it was time to do it and the second thing is that he had learned from his own handover phase that without it being properly planned, that it would make it significantly more difficult and he had all the issues of the difficulties of receiving a business unplanned, succeeded unplanned and wanted to out the correct planning in place so he

would have been in a sense an advantageous position in being more focused than others might be in relation to that because of that.

F.H: Ok. Did you get professionals involved in the process?

R.H: We did yes. The process probably started about ten years ago, more actually fourteen years ago and we hired a team of consultants from Galway and they focused on four different aspects of the business. They focused on the family as a unit, they focused on the business model, they focused on my father as the person who was handing it over and they focused on the future so we hired the consultants to help with that process which probably took about eighteen months or more. The whole thing took ten years but their engagement probably took eighteen months or two years.

F.H: Were they professionals in the area of succession planning?

R.H: They would have been yes, they were succession planning consultants.

F.H: In total you said it took about ten years for the whole process?

R.H: Yes I suppose. I think we began the first conversation about it in 2000 or 2001 and then I would have taken over here running the business in 2007 so that was six or seven years but to complete the mental and physical handover, I would say ten years. To complete the nuts and bolts and paperwork trail, maybe a couple of years. You know it's not just about we will sign it over to you or similarly it's not just we will hire the consultants and what they tell us to do and we will do it, it is a whole net of physical, emotional, psychological, every sort of a change for the person leaving and for the person taking over and for the other members of the family. I think the big issue with succession planning is it isn't just about someone wanting to hand the business to another member of the family, which is far too simplistic. It goes way beyond that and the biggest challenge is the emotional. For the person who is leaving, what they do with their time, how do they retire, do they stay involved or do they not stay involved so they have to deal with all those challenges and then you have the whole what do I do if I stay, can I do this if I go and all those questions. You would have to ask my father about those. From my side then is

whether to go back to the family business and is it right for me and all these things.

F.H: From all aspects, you have those emotional issues and if there are brothers and sisters as well, they might have feelings about someone coming in and taking over.

R.H: And people are always kind of saying well we don't have time, I'm just summarising but if we don't have time to look at succession planning and we have to do this and we have to do that, they look at doing absolutely everything else but succession planning, then they are trapped in the emotion, they are not trapped in the practical because in the reality you are bloody damn right the business won't last if you don't plan a change and that is the fact.

F.H: Yes.

R.H: I'm not trying to cast any dispersion on who you have talked to but from my own research, and from what we would know, you are absolutely right, it won't survive because there is only so long.

F.H: Its inevitable really, you can't just ignore it.

R.H: Yes but it takes a large level of, you need to be comfortable in your skin and very mature about the business and about your role. From my father's perspective, he was prepared and is still hale and hearty and well and comes to the business every day when it suits him or not when it doesn't suit him but he still had to make the decision, you know, after forty five years to retire.

F.H: Ok.

R.H: For an entrepreneur that is the impossible choice.

F.H: Like you said he had that advantage of seeing it himself when he got the business, so he would have been willing to not leave you in that same position.

R.H: Well you see the thing is statistically it's the double negative or misnomer about the whole thing. Statistically every generation that changes, the amount of successful change decreases so from first to second is thirty per cent. From second to third is fourteen per cent and from third to fourth is four

per cent and beyond that then it decreases at a rate of knots. So our family is fifth generation so we had the experience of the very low per cents to learn about what happened in the previous generation to get it right and we were in a position to be able to do that. Other people, like seventy per cent of businesses fail from generation one to two. If they are failing, then what experience can you bring to generation three so that's the point, if you succeed, you will have something to learn from but they are not succeeding so why aren't they succeeding?

F.H: Ok. Did you encounter many barriers along the way? What would you say would have been the main barrier or the hardest part of the whole process?

R.H: I suppose we have kind of touched on it from the emotional challenges. I suppose the thing would probably be just the physical handover and the challenge within the business that one leader is left and another leader has just come in and when the two leaders are there, who is the leader and that type of overlap from the staff perspective. I come back to the same point thought that we were very lucky as a business that my father had enough foresight and was focused enough on the future that we didn't have the kind of road blocks that other people have and we started off the process by meeting where the family as a unit coming together and sorted who is in and who is out so it helped to deal with the clutter there. So having a consultant saved a lot of challenges. Having a man of great foresight and direction and a futuristic view on things solved an awful lot of problems and then all the other things were just the business had to run so we had to combine our thought processes together and working effectively with both of us involved. Where other businesses would have major problems like family feuding, tax implications and all these other sort of things, my father started off on the right foot which minimised a lot of our challenges along the way. I am not saying it was simple or easy but I am just saying we missed some of the potholes in the process.

F.H: I would like to look at the next part in three perspectives which I have added on from the questions: So what do you believe was the main benefit of planning for your father, for you and the business? We will start from the perspective of your father.

R.H: He is provided with certainty on the survival/lifespan of his business. You know if you run a business for thirty years the future of it is important to you so there is certainty in that by having a transfer of your business. Also the maintenance of the legacy, with any family business, it is a legacy per say and the handing over of that is a maintenance of that legacy and a successful handover is a guaranteed certainty and maintenance of that legacy so those two would be sort of linked together and for any family entrepreneur in a business, the legacy is always important because you are not just building a business for yourself because time comes, time waits for no man, you are building a business for your family. It is also a fulfilment of a life ambition. My father is a big family man and his ambition was that he would build a good business and hand it over so therefore he has had a fulfilment of that ambition and then also it is an obvious one but reduction in stress. All of those factors, I would say benefits him. He might say very different but that would be my opinion.

F.H: For you?

R.H: A career in a rural part of North West Ireland which I wouldn't have got. I could have worked for forty years and not have got the opportunity I have got now. It was an opportunity to move home which again in present circumstances and previous circumstances, there isn't the industrial base or the job potential like there would be in other urban parts of the country because this is a rural part so I was able to move home. I was able to have a position in a company that I could have got in five years or that I could have worked for forty and not got. The other benefit for me was the quality of life that this provides as a result of having your own or being your own master, for better or worse.

F.H: You obviously had a clear structure on the succession and worked together and the main benefit of the business is obviously its continuation but do you feel there have been other benefits of this succession?

R.H: I suppose I worked in industry before and came back to the business and I would have brought a different approach, just a fresh approach, a change of direction and a change of focus on certain things and certain areas. I would

have brought in more ICT driven benefits, computerisation and the World Wide Web and all these things that are very significant parts of businesses these days, I would have brought a lot of that to the business. So just an alternate focus and a different approach to the way we do business

F.H: In the questions I sent you I have said it was the 4th generation business but you mentioned it was the 5th generation, my apologies.

R.H: Well it is not the 5th of Merenda now. This is the 2nd of Merenda. Our family have been in this town (Manorhamilton) since 1830 with my great great grandfather and then he handed over a joinery, a wood business, to my great great grandfather and he handed over the business and so it continued until my father took over in the last 60's-early 70's and now I have taken over. So we are a 5th generation family running businesses in Manorhamilton. There has been a continuity of the Haslette family being in business for 5 generation. The Merenda business is only in its second generation so that is the clarification.

F.H: Thank you. It is obvious so far that your obvious success has been dealing with the issue and your father's foresight.

R.H: Yes it is reasonably straight forward and it would appear that we are different by the extent that we are a fifth generation, we are very different as we are in the tiny percentages, probably minus percentages at this stage so therefore we had learning's and my dad had learning's and he had memories of my great grandfather handing the business to my grandfather so there was a lot of knowledge around it. I suppose one of the big challenges would be the tax implications, the tax issues around succession planning and the corporate gains tax and capital gains tax.

F.H: Yes and I think a lot of businesses are not aware of them and the reliefs available.

R.H: Yes and they are getting less and less.

F.H: Yes they are and restrictions on these are set to come in 2014.

R.H: Well the key thing is the gift tax and the potential that the gift tax can offer. You know you can give certain amounts and other amounts are taxable so it is a bit of a mindful so you do need your tax consultant.

F.H: It would appear a lot of people don't approach a tax consultant; they stick with their accountant which has come across in my survey.

R.H: Well then that is probably an issue, the accountant has only so much limited tax knowledge. The tax code is vast, varied and I know you are going into it now, but there are different levels of complexity.

F.H: Yes and you have the issue with some legislation, it is the way you interpret it.

R.H: The only thing is when we have done some stuff for other parts of the business and the one thing about the Irish economy compared to worldwide and that's why so many foreign direct investments come in here is because the Irish tax authorities are consistent, generally speaking in the view they take on certain issues whereas other countries may be a bit all over the place with it and take very different opinions but the Irish tax code is complicated but it is consistently complicated so foreign direct investment in these other companies find that they know where they stand, that is one of the main positives of working in this country but there are more.

F.H: That is true. So dealing with this process, what advice would you give to family businesses?

R.H: I think you have already said it, its planning. It's in the word, the devils in the detail or it does what it says in the tin, if you don't plan, you won't succeed or you won't succeed in succeeding. So it is all about planning. So my first piece of advice is to plan. I think it is a very individual process.

F.H: Yes it is.

R.H: At the end of the day if you are seventy years of age and you are hearty and well and you want to keep going, no matter what wild horses won't drive you away so it very much an individual but certainly plan it, accept its coming, accept that there is change and then you know I think when it does happen

allow the person who is taking over the opportunity to do what they are supposed to do and don't encroach that. That is the biggest challenge the encroachment back when the change is made or when the plan is made. You see if there is sudden death, succession planning is a much more challenging issue because the father has just died or the mother has just died so if you have a process where you can plan while they are still alive that is certainly.

F.H: Yes and even just to have the process sorted that even if the inevitable does happen that there is at least a will there to ensure what they wanted is done.

R.H: Well if it is just a thing where the owner is adamant that they can keep going and all the rest, the key thing for them would be to draw the will privately so if it all does go and death does reach them before they made their choice that the will will deal with all of the challenges but it would want to be a pretty complex will but then again on death there is different tax implications as well.

F.H: Yes and some would argue that people should transfer over their business on death because you wouldn't have the stamp duty or the capital gain tax so you are eliminating quite a significant amount of tax.

R.H: I tell you what though that is a difficult conversation to have when you are talking about mortality. It is an interesting way in looking at it but I imagine that would be a difficult conversation to have. You are dealing with your aftermath. Again you would need to be fairly clued in. My advice would be plan, get consultants to help you through, get your tax affairs in order or organise and know what your tax affairs are and then stick to the plan. Don't suddenly say I'm not going to do it, if you start it keep going.

F.H: Thank you Ronan that is all my questions. It has been very insightful.