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## Is the next generation ready to take on the family business?

**Irish businesses face the spectre of a succession crisis as the first generation of ‘baby boomer’ owner managers prepares to retire. We talk to PwC’s John Dillon about what lies ahead.**

Think about it. They’ve busted their gut, worked the hard yards and have brought their businesses as far as they can. But now it is time for the current generation of family business owners to bow out and walk off into the sun, handing the keys to the firm to either the next generation or allowing for a management buyout (MBO) by motivated colleagues or potentially a trade sale.

According to PwC Ireland, more than 53pc of family business owners intend to pass the business on to the next generation.

PwC is currently working on [a survey of next generation family leaders](#) in conjunction with Meridian West, to assess sentiment about succession in Ireland.

We spoke to John Dillon, PwC partner and leader of the company’s Entrepreneurial & Private Business Practice, about the looming succession situation.

### **Should we be concerned about a potential succession crisis amongst Irish family-owned businesses?**

Succession is a key issue impacting on family businesses and represents a crucial point in the life-cycle of any family business. However, succession planning and the integration of the next generation is not something family businesses pay enough attention to.

According to our PwC Family Business Report, from earlier this year, 53pc of Irish family businesses intend handing the business on to the family, but one third of those had not begun

working with the next generation on formal succession plans. Failure to prepare for succession could cause problems, as there's a risk that the succession issue could ultimately distract from running the family business itself.

### **Has the broader skills crisis as well as the popularity of starting out as entrepreneurs in any way tainted the willingness for a new generation to take on the good old family business?**

In the past, it was common that the next generation would typically join the family business straight after completing their studies. However, in recent years, there has been a drive from next gens to become entrepreneurs themselves. Many potential successors of family businesses decide not to join the family business at first, but instead, have a desire to be independent from the family, and an urge to prove themselves in an external environment first. This comes from having grown up in the environment of a family business, but doesn't mean that at some point they won't decide move into the family business, to a role that suits their interest and capabilities.

### **Does the next generation have the vision and drive to accept the baton?**

Passing the baton in a family business can be a complex and contentious issue. Generational gaps do exist within family-owned businesses, with owners looking to pass on the business leadership to their millennial-aged children, and finding that their visions can differ vastly. Leadership is a crucial component as to whether the next generation has the vision and drive to accept this leadership baton.

Family businesses need to decide if it's necessary to have a family member in a leadership role. Nowadays family businesses are more open to considering non-family members for leadership positions. It is important for family members to assume leadership roles based on their ability and experience, rather than their family name. Choosing a leader for a family business is often a more complex process than for a non-family business and is a task that requires thorough planning well in advance.

### **Does the next generation have the skills and expertise to accept the baton in a world where technology and automation are transforming the business world as we know it?**

In today's technology disrupted world, millennials are more equipped for success than any previous generation. More digital-led opportunities now exist with family businesses compared to previous decades, and this is an area where the next generation can demonstrate their skills and expertise, and help their family owned business grow. Family members can hone their skills in roles away from the family business, before being accepted back into the family business. This experience is invaluable for developing capabilities, and also building up credibility.

### **SMEs are the life's blood of the Irish economy, from a policy perspective is there more we can be doing to help family businesses evolve to the next generation?**

In the recent PwC pre-budget submission representing Irish entrepreneurs, a number of “straightforward” changes to the tax system, including capital gains tax (CGT) reform, to support Irish-owned SME businesses were highlighted. Government could look to increase the threshold of capital gains that can qualify for the reduced 10pc rate, under CGT entrepreneurial relief. In the UK, the first £10m of gains is eligible for relief, compared to just €1m in the Republic.

Another option is the removal of an “arbitrary” €3m cap on the value that can qualify for CGT retirement relief on the transfer of shares for those aged 66 and older. “Anomalies” in how this relief is calculated could also be removed “to avoid confusion”.

The Government could consider a “future use” test to ensure that any business assets – including cash – considered essential for the future success of the business, are not excluded from business relief on the transition of a family business to the next generation.

These proposals are straightforward and inexpensive and would help Irish entrepreneurs and family businesses create jobs, retain key talent, raise investment as well as help intergenerational succession. This becomes even more important in the light of Brexit as Irish private businesses want to compete on a level playing field with their counterparts in the UK.

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