Mike McKerr â?? Managing Partner, Ernst & Young Ireland

05.04.2013

Tags:

Ireland, EY

Can you please introduce yourself, and Ernst & Youngâ??s life science practice in Ireland, to our readers?

I am the managing partner of Ernst & Young (EY) in Ireland, responsible for both the Republic of Ireland and Northern Ireland.I have been with EY since the start of my professional career and have had the opportunity to work in a wide variety of roles in different geographies, spending time in both the U.S. and London. Prior to becoming managing partner in 2009, I was a partner in Transaction Advisory Services, for the firm, and have been involved in several M&A deals and funding roundsâ??particularly for indigenous clients in the pharma and life sciences space.

Iâ??ve always had an interest in life sciences and this sector has been immensely important for us as an organization. We are the professional services firm of choice for the industry in Ireland and advise many of the major life sciences companies in the country. We are fortunate to have a client list that reads like a â??Whoâ??s Whoâ?? of the industry.

We believe we have a unique offering. We are the most global of the Big Four professional services firms which makes it easier to mobilize our best teams, and to transfer knowledge across borders by leveraging our international network. The life science sector itself works on a global integrated basis, so our strategy has allowed us to follow our clients and mirror their approach.

That global effort not only offers better insights for our clients, but also allows us to provide the right advice and opens up dialogue among members of the industry. Recently we held a Global Life

Sciences Strategic Trade Forum for the pharma industry here in Dublin, bringing together a phenomenal list of people both from EYâ??s global ranks and from the major pharmaceutical and biotech companies in the World. We helped connect people and identified global issues.

What were some of the outcomes of the conference?

When we brought this group of global supply chain and international trade leaders together, we looked closely at global trade, and how companies are structuring themselves to deal with the difficulties confronting the industry. One of the observations we made was that no two companies were approaching these difficulties in the same way. Each company has developed its own unique structure, and has its own answer to the challenges of the day.

When we started stripping away the exterior layers, we found that there was actually much more commonality than companies realized. There is a real need for the sector and the industry to lobby on a coherent and cohesive basis as organizations tend to operate within the bubble of their specific sphere of influence; we found that they can find real strength in working together.

Another issue the forum addressed was how we can drive more innovation in Ireland, how we can incentivize research and development, and how we can keep moving up the value chain. We have an abundance of manufacturing operations, and a number of headquartered functions in Ireland â?? but what we would like to do is continue to evolve, and attract more innovative elements of the value chain to the market.

A number of our interviewees have commented that if Ireland did not attract those innovative elementsâ??if it did not continue to move up the value chainâ??its decades-long attractiveness for the industry would wane. We have been told that Ireland will not retain the interest of life science multinationals purely with manufacturing incentives. Do you agree?

I agree to an extent. While I believe further development will be a great benefit for the country, I am also optimistic about our ability to retain what we have.

One of the silver linings of the recession has been the fact that we have taken huge sways out of our operating cost base. Ireland was becoming a rather expensive location, despite an emphasis on high-tech, low-labor-intensive manufacturing techniques. Taking 50% out of our commercial office rental prices, and 10-15% out of our broader cost base, is a massive readjustment.

The recession has bought the country more time, and more space, to move up the value chain. We are not under the same level of threat as we were prior to the recession, when indeed, the industry may have been having second thoughts about retaining their manufacturing operations here due to our rising costs. Global organizations are very good at comparing and contrasting their cost of operation, and Ireland was starting to enter the upper percentile. We have now moved to the middle of the pack, and that buys us time.

I do emphasize the need to move up the value chain. Government has recognized the need to attract real innovation. Corporation tax remains a key part of our offering, but we cannot become complacent in terms of our offering. Ireland has to respond to greater levels of international competitionâ??and that doesnâ??t just mean the Far East. In many ways, that competition is very close to home. We still need to compete with geographies that are offering real incentives for R&D. We need only look across at our largest trading partner, the UK: their Patent Box structure is highly attractive. If youâ??re a pharma company, and your greatest value is in your brand and IP, you may look at corporation tax and deem it secondary to IP protection.

Enhancing our research and development breaks, making Ireland a better proposition for foreign executives who are based here, and improving the patent regime could all cement Irelandâ??s attractiveness.

At EY, we are heavily involved with Government in discerning how the country might structure tax incentives for R&D and ensure we are competitive from a Patent Box perspective. If we look at end-to-end taxes in other European locationsâ??customs and duty taxes, employment taxes, R&D credits, corporation tax, etc.â??Ireland is actually not the most competitive country in the region. We have to take a holistic view. Ireland also has to keep investing in people. We have a truly excellent workforce: it is one of the youngest in the world, with a large portion of our talent under 25; and it is one of the most highly educatedâ??we have the second-highest number of people in the world, per capita, entering third-level education. If youâ??re thinking about climbing the value chain, you need great brains to underpin those research operations. We are not only developing those brains locally, we are also attracting them from overseas, including India, the Far East, Hungary and other regions with strong scientific ability.

Ireland is still thought of as very much a unit manufacturing location rather than an R&D location. This needs to change.When we look at the pharma and tech sector, the speed of change is increasing. Every cycle of innovation is getting shorter. What has worked for the last 20 years may not work for the next five, let alone the next 10 or 15. That is why we need to be flexible.

If we think back to when Ireland first attracted the Abbotts and Pfizers and other early market entrants there was a great deal of joined-up thinking. Government incentivization was extremely strong and Ireland also had a proven track record of inward investment in other areas, and that record was championed by the state as a model for life science investors. Most importantly, the state was very clever in skills development: officials realized that they would not produce five thousand new PHDs overnight. Instead, they got technical colleges to take 16-year-olds and teach them enough about science that they would be able to understand the workings of a pharma manufacturing line.

If we are genuinely going to expand our niche to a space with higher added value, we need that kind of joined up thinking again. We need to change what we produce from an academic point of view. We are starting to see some early-learning programs that are encouraging our kids to go on and study science at university.

It will take us several years to change our profile, but it is imperative that we doâ??because as I have said, we have only bought time. It may well be that as we exit the recession; our cost-competitiveness will be eroded again. If and when that happens, as you have gleaned from your other interviews, we have to be ready to offer something new to the industry.

The Government has to decide where Irelandâ??s strengths will play over the next ten years. Pharma will remain a core sector of our economy, along with tech and renewables. State strategy must recognize that what Ireland has done to be successful will not guarantee success going forward. Ireland has to remember those earlier lessons of successâ??the talent, and the ability as a small country to be very joined upâ??while continuing to innovate.

Is Ireland the best small country in the world to do business?

I would struggle to find any country thatâ??s better. Everything from the direct access that the country offers businesses to the upper echelons of Government, to the way we have directly faced our economic challenges, bolsters our competitiveness. To speak a bit to the latter, the country has found that having a highly export-oriented economy is of real help in this global recession, because Ireland is very well positioned to take advantage of global recovery, whenever it comes.

A report EY recently issued found Ireland to be the third most globalized nation in the world, and the most globalized western economy. That is hugely powerful!

Part of the advantage Ireland offers the life science sector is the pure scale of investment already secured. When we go out to find new investors, we can point to the abundance of companies that are already here, and say, â??Well, it cannot be that all of these companies have got it wrong.â?• And they havenâ??t! By and large, multinationals in the sector have had very positive experiences in Ireland.

Ireland is a small economy that is very open for business and, openness is an absolute necessity at the moment. Although the domestic economy is still struggling, at EY we have seen some interesting life sciences enterprises spring up in Ireland, not only through our Entrepreneur of the Year program but other aspects of our business.

How would you characterize the supporting environment that that indigenous sector relies upon to grow?

In Ireland, companies of 250 employees or less account for over two-thirds of employment. These businesses will be a key driver not only of economic recovery, but also of job creation. Therefore, the state really needs to focus on helping them grow.

There is still a fair number of challenges for our burgeoning SMEs, not least of which is the availability of finance. Virtually every company in our life science sector will need a combination of venture capital or private equity, plus bank funding, to compliment their own resources. More innovative companiesâ??companies that, ultimately, represent great reward but also great riskâ??are finding it very hard to raise capital in todayâ??s difficult environment.

Ireland has to do more to support these companies. Despite setting up certain agencies, we still find a gap in funding. The far-longer-than-expected recession and the resulting unavailability of capital have caused a change in companiesâ?? expectations. Businesses are starting to not expect the banks to help them. So the supply of funds is not the only problem: equally, I see that demand is structured in the wrong way. It is very easy to just say, â??The banks arenâ??t lending.â?• The problem is actually much more complex. The banks are now operating in a different way, and that has conditioned entrepreneurs to think differently about their funding requirements.

Certain countries have incentivized investment and lending, and we would do well to follow those models. We already have a guarantee scheme on the books for bank lending, and its ramifications will be interesting to watch. Furthermore, over 50% of companies that have been refused lending and have taken their case to the Government on appeal have won, so that approach is starting to gain traction in the market. Businesses are becoming more aware that if a bank says no, there are other options available.

It is vital that we get the capital piece right. It is the lifeblood of entrepreneurial companies, and they need it if they are to grow beyond one or two hundred employees and become that company of one thousandâ??the company that may list.

Some Irish entrepreneurs are also selling their businesses before they reach scale, and that, again, is the conditioning of the recession. People worry about when they are going to realize value, and get conditioned to believe that the offer on hand is worth more.

Is Irelandâ??s two-track economyâ??the booming export sector and the troubled domestic economyâ??optimally structured and sustainable?

I am not sure that it is sustainable I would prefer to see the domestic economy guided by some of the same drivers as Foreign Direct Investment (FDI).

Entrepreneurs I have spoken to do not think of Ireland as their market. Virtually every company thinks on a much more global scaleâ??whether it be entering North America or the Eurozone. The mindset is there but the conditions need to be right as well. More than anything else these companies need confidence. EY carried out a study last year that found that the most important factor for a successful entrepreneurial economy was the level of confidence that entrepreneurs had in government policy. When that confidence is aligned with a user-friendly environment for start-ups, the combination is very powerful. Canada, for instance, led the study by miles, and we found a huge correlation between confidence and the number of start-ups in the Canadian market.

We have a large number of start-ups in Ireland, but I donâ??t think our entrepreneurial community has the right level of confidence presently. The challenges facing Ireland are enormous: the debt market, the European presidency, keeping the foreign investors happy, job creation, etc. We all need to recognize that there are a number of agendas to address. The more specific the ideas that people can feed in regarding what has worked elsewhere, the more innovative we can be in offering incentives for business.

There are a limited number of incentives that we can afford to give. Take pharma, for instanceâ??how do we help them bring the level of innovation we want to see? This has to be figured out quickly.

Some business leaders would say that government should take a page from business in managing scarce resources. Do you subscribe to that view?

The public sector is unfortunately not set up to think that way. The very nature of public office means decision-makers look at a four to five year window. The civil service needs to incorporate a better sense of continuity.

That doesnâ??t mean the state canâ??t think innovatively. Particularly in Ireland, I believe that we have been fortunate to have a Government that has been quite entrepreneurial, and have been consistent in their approach to things like corporation tax. The Irish brand, internationally, has recovered phenomenally from where it was three or four years ago, and that is very positive.

I think that as a nation, we can be very quick to see the problems that we have, but we have achieved quite a lot. We are protecting our FDI base, and today we are growing it at a higher share, per capita, than we have in a long time. Ireland is open for business.

E&Y itself had a strong year last year in Ireland, and has grown 12% in total in the 24 months leading up to your financial year-end 2012. You commented, â??Weâ??ve had a good year in challenging economic times. I am optimistic that we can continue to shape and positively support the future direction of our clientsâ?? growth, the way that our people work, and the social and business issues that impact on the growth of the Irish economy.â?• What is driving your expansion todayâ??is it a greater need for consulting in this challenging time?

Fundamentally, we are in the relationship game. Itâ??s about being able to balance the long-term nature of our business model with the relatively short-term nature of our partnerships. We have done that pretty well, and we have done it well through the recession. Weâ??ve also taken some risks, and invested in new partners and other talent. We have looked at opportunities in to help clients that need to reduce cost and manage large-scale change projects. We have responded to the changes in client demand throughout this recession, and have filled those gaps in our practice very successfully.

Equally, we know that if we are going to really connect with our home market, we have to have a focus on building relationships, whether it is with Government, with large indigenous players, or with the entrepreneurial community. We have played a longer game in the last three years, and focused very actively on building those relationships. They will bear fruit over a generation.

We have fully intended to emerge from this economic downturn in much better shape than when we went into it. In order to do that, we have had to invest, and do our fair share of restructuring. Indeed, most companies in this market have had to restructure in one way or another. Return to my earlier comment: we truly believe we have something unique to offer. We can mobilize people around the world in ways that our competition cannot. I am cautiously optimistic about EYâ??s future in Ireland. We expect the economy to continue to challenge us for at least the next 18 months. However because of our export-driven economy, Ireland is well positioned to outgrow the Eurozone and most of its direct competitors.

What motivates you, as the managing partner of this firm?

First of all, I am extremely passionate about our work here. And secondly, I enjoy the fact that I am responsible for 1300 people at EY Ireland. Itâ??s not just about those 1300 individualsâ??itâ??s about their families, and their careers.

We purposely had a different approach when the recession hit, and said to our people that we intended to keep our entire staff intact. We wanted to be cost competitive, and took measures to reach that goalâ??but we tried to grow sufficiently to ensure that everyone could continue to have a job. We have not implemented any redundancy programs. In fact, our headcount is 100 people stronger today than it was a year ago. Thatâ??s a great place to be in. I really hope that our people feel that security.

By growing our talent, we can also prepare ourselves for the next wave of economic growth. There is a real danger in this economy that people will try to protect their profitability by cutting continuously. That is a spiral that is very difficult to climb out of. As for usâ??I donâ??t think weâ??re finished investing by any means.

See more interviews