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ENTERPRISE AND INDUSTRY DIRECTORATE-GENERAL

Promotion of SMEs' competitiveness

FINAL REPORT OF THE EXPERT GROUP

OVERVIEW OF FAMILY–BUSINESS–RELEVANT ISSUES:

RESEARCH, NETWORKS, POLICY MEASURES AND EXISTING STUDIES

November 2009

Legal Notice

This project was carried out by the European Commission and experts in the field of family business appointed by the national authorities, under the Multiannual Programme for Enterprise and Entrepreneurship coordinated by the European Commission's Directorate-General for Enterprise and Industry.

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http://ec.europa.eu/enterprise/policies/sme/index_en.htm

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EXECUTIVE SUMMARY

Family firms are important, not only because they make an essential contribution to the economy, but also because of the long-term stability they bring, the specific commitment they show to local communities, the responsibility they feel as owners and the values they stand for. These are precious factors against the backdrop of the current financial crisis.

Family businesses make up more than 60% of all European companies, encompassing a vast range of firms of different sizes and from different sectors. Most SMEs (especially micro and small enterprises) are family businesses and a large majority of family companies are SMEs.

It is essential to agree on an accepted **definition of what is a family business** to have a better view. There is general agreement on three essential elements: the family, the business, and ownership. After having analysed existing definitions, the expert group proposes the following definition:

A firm, of any size, is a family business, if:

1) The majority of decision-making rights is in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs.

2) The majority of decision-making rights are indirect or direct.

3) At least one representative of the family or kin is formally involved in the governance of the firm.

4) Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the decision-making rights mandated by their share capital.

The group recommends exploring opportunities to introduce this definition at national level. The European Commission should envisage using this definition where possible to help promote its use.

The notion of **ownership** is fundamental to family businesses. It is important to improve our knowledge of ownership and how it affects the business behaviour of family firms.

Many of the **challenges** faced by family businesses also concern SMEs in general. However, some affect family firms more specifically, and others are exclusive to them. Some challenges stem from the environment in which companies operate, e.g. policy makers are unaware of the specificities of family businesses and their economic and social contribution; financial issues related to gift and inheritance tax, access to finance without losing control of the firm, favourable tax treatment of reinvested profits. Some are related to the family firm's internal matters e.g.

unawareness of the importance of planning company transfers early; balancing the family, ownership and business aspects within the enterprise; difficulties in attracting and retaining a skilled workforce. Other issues regarding education and research impact on both the environment and internal matters, e.g. (lack of) entrepreneurship education and family-business-specific management training, and the need for more research into family-business-specific issues.

The **institutional framework** and **policy initiatives** regarding family businesses differ from country to country. Measures favouring family businesses are (or have been) implemented by different actors and tackle a range of problems, e.g. taxation, company law, planning the business transfer, awareness-raising through lobbying and policy advice, research and dissemination of information, promotion of entrepreneurship and family-business-specific education, and family governance. Exchanging the 'good practices' identified has great potential for development of the sector. The European Commission should continue to play a role in promoting the exchange of information. Family businesses already benefit from EU policies. The European Commission should continue mainstreaming family-business-relevant issues in all relevant schemes.

National governments should consider adopting measures to create a more favourable environment for family businesses, for example in areas of taxation, company law, and the educational system. The group also recommends setting up a specific family business contact point in national administrations.

Family businesses themselves and especially organisations representing the family business sector (at national and international levels) should take an active role in all efforts to raise awareness of the importance of the sector. They should also promote the development of a family business institutional framework in countries in which it is less developed.

1. INTRODUCTION

1.1. Aim of the project and method

For the purpose of getting a more comprehensive overview of family businesses in Europe, their characteristics, specific needs, the institutional framework and initiatives already implemented in their favour, in 2007 the European Commission launched the project ‘Overview of family-business-relevant issues: research, networks, policy measures and recent studies’.

This was funded by the Competitiveness and Innovation Framework Programme 2007-2013 (CIP).

The project used the open method of coordination in the field of enterprise policy, which aims to focus political attention on key issues, agreed with national experts and in consultation with business organisations, to promote the exchange of experiences which may give rise to policy changes to improve the business environment.

The information obtained should also serve as a basis for analysing the need for future policy initiatives at European level in favour of family business, of which small and medium sized businesses have hitherto been included in the Commission’s overall SME policy.

1.2. Result of the project and sources of information

This report sets out the main results of the project and is based on two main sources of information: the discussions of the Expert Group on Family Business (hereinafter referred to as ‘the expert group’, ‘the experts’, or ‘the group’), and the study entitled ‘Overview of family-business-relevant issues’ (hereinafter referred to as ‘the study’). The report is the result of cooperation between the Commission and members of the expert group.

The expert group began its work in 2007. Its members were appointed by the Member States and other countries participating in the Competitiveness and Innovation Framework Programme. Some experts in the field were also appointed by the European Commission. The group met five times between May 2007 and October 2009 to discuss the main problems faced by family-run businesses. It also identified existing research, good practices and family business organisations (networks).

The experts also oversaw the production of the study, which was commissioned to KMU Forschung Austria in 2007 through an open call for tenders. Research was carried out in 2008.

The study was completed and published in January 2009. 33 countries were covered: the EU27 Member States, other EEA countries (Liechtenstein, Norway and Iceland) and the candidate countries (Turkey, Croatia and Macedonia). The study provides an overall description of family businesses at European level and more detailed information on each of the countries covered. It identifies a set of good practices and a database of family-business-related organisations. All these documents are available on the family business webpage of DG Enterprise & Industry.[1]

It is important to point out that the study was carried out before the financial crisis broke out, and therefore the outcome does not describe its impact on family firms, or their special position in the context of the crisis (compared to non-family-run firms).

The identity of a family business hinges on its ownership. Most SMEs (especially micro and small enterprises) are family businesses and a large majority of family companies are SMEs. Although the project does not exclude large family firms, it focuses on family business that are also SMEs.[2]

References to other literature consulted are given throughout this report.

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1 http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/family-business/index_en.htm.

2 SMEs are defined in Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (Official Journal of the European Union L124/36, 20.5.2003). Further information at: http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/index_en.htm.

2. DEFINING A ‘FAMILY BUSINESS’

One of the objectives of the project was to gain an overview of how family businesses are defined in the different countries surveyed. To avoid limiting or influencing the outlook of the research, no strict definition of a ‘family business’ was established beforehand. The work was guided by the general notion of ‘businesses in which a family has influence’.

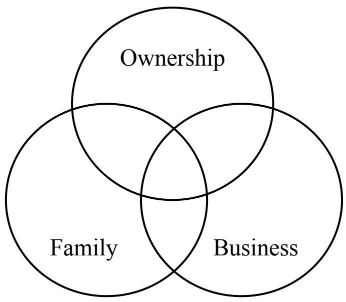
2.1. Characterising ‘family businesses’

Family businesses cover a vast range of firms in different sectors and of different sizes. They range from sole proprietors to large international enterprises and make up more than 60 % of all European companies.[3]

Specialised literature clearly shows that *‘there is not a single definition of ‘family business’ which is exclusively applied to every conceivable area, such as to public and policy discussions, to legal regulations, as an eligibility criterion for support services, and to the provision of statistical data and academic research’.*[4]

It suggests that, although the debate on this topic is far from exhausted, there is general agreement that a definition of family business has to incorporate three essential elements: the family, the business and ownership. This was first illustrated by the ‘3-circle’ model of family business developed by Tagiuri & Davis in 1982. The experts support the use of the 3-circle approach when studying the phenomenon of family businesses.

“3-Circle” model of family business



Tagiuri & Davis, 1982.

Ownership is key to the business life of the firm. It enables a clear distinction to be made between family and non-family businesses. Taking the ‘ownership perspective’ rather than the ‘company size’ perspective can help improve understanding of the phenomenon.

Related to this is the focus placed on the quality of assets in their balance sheets, i.e. family business financial management focuses on the balance sheet rather than the profit and loss account.

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3 Figures may vary among studies (even in the same country) since they depend on the definition used.

4 KMU Forschung Austria, ‘Overview of family business relevant issues’, Vienna, 2008 (p. 1).

The study identified more than 90 definitions, which shows that even within the same country several different definitions can be used. They take into account many aspects, such as family ownership, involvement of the management, strategic control, business as the main source of income for the family and intergenerational transfers.

One common feature to almost all definitions is that they are not operational, which to a large extent limits their usefulness, particularly for the production of reliable and comparable statistics on the sector.

In addition, as Astrachan, Klein and Smyrnios have pointed out, '*a definition of family is often missing*' and '*this notable absence poses problems, particularly in an international context where families and cultures differ not only across geographical boundaries, but also over time.*'[5]

Some definitions do not consider the status of being a 'family business' as static, but accept that it may drift between a family firm and a non-family firm.

The study shows that the self-employed/one-person enterprises are considered family businesses in approximately one third of the countries surveyed. Sole proprietors (i.e. companies with one owner but that may employ other family and/or non family members) are considered to be family firms in most countries.

2.2. A European definition of a 'Family Business'

The difficulties in reaching a commonly agreed definition are well documented and recognised by the group.

In order to be useful, the definition must be simple, clear and easily applicable. It should enable statistics to be produced on the sector (e.g. contribution of family businesses to employment, total turnover of family businesses) and should be comparable between countries.

The definition proposed in this report is based on the one formulated by the Finnish Working Group on Family Entrepreneurship (set up by the Ministry of Trade and Industry of Finland in 2006). The Finnish definition has been widely accepted and has the advantage of being comprehensive and operational.[6]

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5 ASTRACHAN, J. — KLEIN, S. — SMYRNIOS, K. 'The F-PEC scale of family influence: a proposal to solving the family business definition problem', in Handbook of Research on Family Business, Edward Elgar, UK, 2006 (p. 167).

6 The definition used by the Finnish Ministry of Trade and Industry is given on page 98 of the study.

With the aim of making it clearer and applicable to all types of enterprises (particularly vis-à-vis SMEs), some slight modifications to the terminology were made.[7]

The proposed definition reads as follows:

A firm, of any size, is a family business, if:

(1) *The majority of decision-making rights is in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs.*

(2) *The majority of decision-making rights are indirect or direct.*

(3) *At least one representative of the family or kin is formally involved in the governance of the firm.*

(4) *Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the decision-making rights mandated by their share capital.*

This definition includes family firms which have not yet gone through the first generational transfer. It also covers sole proprietors and the self-employed (providing there is a legal entity which can be transferred).

This definition represents the opinion and agreement of the members of the expert group. The group recommends using it in the Member States and other countries covered by the project to produce quantitative (and comparable at European level) information on the family business sector.

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7 For example, the term 'votes' was replaced by 'decision-making rights', 'management and administration' was replaced by 'governance', and it was also specified that at least one representative of the family or kin is 'formally' involved in the governance of the firm.

3. CHALLENGES

The project also aims to analyse whether family businesses face specific challenges that hamper their growth and development.

The challenges family businesses face can be grouped into three different categories: those common to any type of business (family businesses and non-family businesses), those that affect all businesses but are of particular concern to family businesses and challenges that only family firms face. The study focused on the last two categories of challenges.

The challenges can also be categorised according to their origin.

Taking these approaches, the following list of challenges was drawn up:

- Challenges that arise from the **environment** in which companies operate:
  - Unawareness of policy makers of the specificities of family businesses, and their economic and social contribution;
  - Financial issues (e.g. gift and inheritance tax, access to finance without losing control of the firm, favourable tax treatment of reinvested profits).
- Challenges that develop as a consequence of the **family firm's internal matters**:
  - Unawareness by family firms of the importance of planning business transfers early;
  - Balance between the family, ownership and business aspects within the enterprise;
  - Difficulties in attracting and retaining a skilled workforce.
- Challenges related to **educational aspects**, which have an impact on both the business environment and on family firms' internal matters:
  - Lack of entrepreneurship education and family-business-specific management training and research into family-business-specific topics, plus effective coordination with education systems to ensure proper follow-up.

Policies favouring family businesses predominantly focus on the first group (environment) and the third group (educational aspects). They can also help overcome difficulties of an 'internal' origin (e.g. a public campaign to make owners aware of the importance of planning company transfers early).

3.1. Unawareness of policy makers of the specificities of family businesses and their economic and social contribution

The limited awareness of policy makers of the specificities of family businesses and the contribution they make to society is due to the traditionally discrete behaviour of the sector. This has changed in recent years and family businesses are increasingly trying to assert their ‘family character’ to differentiate themselves from non-family firms, to highlight their special contribution to society and their commitment to local communities to underline that they are responsible owners and there is a ‘human face behind the business’. Research has also accompanied this process and since the 1980s, the number of studies and publications on family business related topics has steadily risen.

This change has evidently been favourable for the family business sector as there is now a general understanding that more than 60 % of all European companies are family owned, representing between 40 % — 50 % of all jobs. However, there is still a lack of robust data, which usually leads to inaccurate assumptions (such as equating all family businesses with SMEs).

A commonly recognised definition of family businesses would significantly help overcome this challenge. The availability of reliable information is essential to make policy makers (at all levels) aware of the importance of the family business sector, and to advocate favourable action.

The lack of awareness of the family business sector is not limited to policy makers. Even though the notion of ‘family business’ seems well known and recognised by the general public, a clear and precise picture of the real contribution that family businesses make to society is lacking.

Therefore, the importance of having a ‘family business contact point’ in the European Commission and at national governments is highlighted.

There is also a need for more applied research, which could be useful for decision makers. Although research has increased in recent years, more work should be focused on getting results with a cross-national approach and to quantitatively measure the scale of the phenomenon from the point of view of its economic and social importance. Other fields for research are innovation in family firms, the performance of family businesses, ownership and mergers in family enterprises.

National representative organisations promote better dialogue between the family business sector and the government and help convey the concerns faced by the sector into policy consultation processes.

Many different steps can be taken to overcome the challenge of awareness, and they can involve different actors. However, organisations representing the family business sector have an important role to play by stepping up contacts with policy makers and disseminating information to them and to the public. Cross-border family business organisations could, for example, encourage exchanges between countries with a long experience in the field (i.e. with a more developed institutional and political framework), and those in which the phenomenon is more recent.

Introducing a common EU definition of a family business and implementing it by national statistical offices (and ultimately by EUROSTAT) would facilitate better and clearer understanding. As set out in Section 2 of this report, the European Commission took the first step towards this by setting up the expert group.

National governments should take account of the views of the family business sector in relevant policies (e.g. by involving them in existing consultation mechanisms).

At European level, this is already done. Impact assessments and consultations on policy measures are open to the public and to all stakeholders.

3.2. Financial issues

Family businesses face the same financial constraints as any other type of business and also face certain specific challenges related to succession (transfer of the company within the family) and to the choice of financing method (equity vs. debt financing, reinvestment of profits). In all cases, the issue of taxation plays a major role.

a) *Fiscal bias on equity finance rather than debt finance*

As set out in the study, the transfer of a family firm triggers a series of financial constraints which may endanger the viability of the business. The payment of inheritance and/or gift tax represents the biggest challenge. Tax systems are typically set up to counteract wealth accumulation and as a result may put financial pressure on the family company, which can destabilise its capital base.

Moreover, the intergenerational transfer process may require funds to, for example, buy the shares of heirs not willing to be involved in the business.

The situation varies enormously between the countries surveyed. The study gives examples of the different regulations implemented in Europe to illustrate this diversity.

b) *Financial disadvantages of equity financing (compared to debt financing)*

One of the characteristics of family businesses is their long-term sustainability, often associated with cautious risk-taking behaviour. This has an impact on the financial decisions they take.

Owner-managers of privately held family firms tend to be reluctant to take in external investors. They have a preference for financial instruments that do not erode their control. While most family firms have limited access to capital markets, it is in their nature to build a capital base by retaining earnings. Family firms play a significant role in investment. They finance their capital needs, primarily using internally available funds or family funds, followed by debt, and consider using external equity as a last resort.

The Summary Report of the Expert Group 'Effects of tax systems on the retention of earnings and the increase of own equity', indicates that strengthening the equity base of companies through the retention of earnings is, to some extent, related to taxation.

In many countries, taxation systems discriminate in favour of debt financing (i.e. corporate tax systems allow the deduction of interest from debt, but do not take into account the cost of capital in the form of equity financing). This 'interest tax shield' encourages debt financing since it lowers the relative cost of debt. Discrimination against retained earnings is seen as an obstacle to making balance sheets stronger, which not only hinders growth, but also access to cheaper debt finance.[8]

Reinvestment of profits plays an important role in the capitalisation of family firms. The debt-equity ratio of family companies is often lower than non-family firms. A lower debt-equity ratio makes undertakings less vulnerable during recessions and also alleviates the problems of structural changes and re-focusing the business.

In countries where the taxation system favours debt financing, family companies are at a disadvantage.

This may be compounded in the current climate. Recent research suggests that tax systems probably contributed to the financial crisis by encouraging companies to take on excessive debt.[9]

Taxation is a competence of the Member States, and therefore any changes to the tax systems (e.g. reducing inheritance and/or gift tax, more favourable tax regimes for retained profits) must be made at national level. However, the EU can play a role in collecting and disseminating good practices in this field. A concrete example of this was the work carried out by the expert group

[8] Summary Report of the Expert Group 'Effects of tax systems on the retention of earnings and the increase of own equity', Brussels, September 2008 (p. 35).

[9] IMF (Fiscal Affairs Department), 'Debt bias and other distortions: crisis-related issues in tax policy', June 2009.

‘Effects of tax systems on the retention of earnings and the increase of own equity’.[10]

National governments may also consider issuing regulations to grant access to finance to family enterprises, without threatening decision-making powers within the company (e.g. by allowing non-vote stocks).

3.3. The importance of preparing business transfers early

Succession is seen by many authors as the most important issue that family businesses have to cope with. It is also widely agreed that intergenerational transfer is not a single event, but a process that needs to be planned in advance in order to succeed.[11] This ‘process approach’ is fully supported by the members of the expert group.

The diversity of family businesses also affects intergenerational transfers. The issue differs according to size of the company, the size of the family and/or age of the company. The problem is not the same for a large company managed/owned by the third generation of a family and a small company with only one owner (who may be also its founder).

One specific aspect of transferring family businesses is the transfer of ownership. Ownership has a special meaning in family firms. It also involves a strong ‘personal’ factor. When a business is transferred within the family, the financial capital is transferred with a ‘social and cultural capital’[12] that usually leads to an enhanced personal commitment to the company and to the community. Family owners don’t think they own simply capital; ownership also encompasses persons, products, responsibilities, etc. Ownership of a family business is not seen as a liquid asset but as a property which is built and developed by the family over generations.

Moreover, the whole process of transferring the business is even more important for family companies because, alongside the transfer of ownership, the knowledge accumulated from generation to generation is at stake. Both the person leaving the business and the entrepreneur taking over should be convincingly involved. In family firms, emotional aspects attached to the

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[10] http://ec.europa.eu/enterprise/policies/sme/business-environment/taxation-smes/index_en.htm.

[11] MAZZOLA, P. — MARCHISIO G. — ASTRACHAN J., ‘Using the strategic planning process as a next-generation training tool in family business’, in Handbook of Research on Family Business, Edward Elgar, UK, 2006 (p. 403).

[12] KARLSSON STIDER (2000). ‘Familjen & Firman’. EFI: Stockholm

ASTRACHAN, Joe and KARSLON STIDER, Annelie (2004): ‘Family relations’. In WARD, J. and KENYON ROUVIEZ, D., ‘Family business: key issues’, Palgrave Macmillan (2005).

transfer need to be carefully managed since the leaver may continue to influence the business even after the transfer has taken place.

The main issue to tackle to successfully complete the transfer is to raise awareness of the importance of early preparation, and to make available tools for the transfer (e.g. specialised training for the parties involved).

This type of initiative is best undertaken at local level, or by private-sector organisations.

Some countries already implement innovative and effective measures, and these positive experiences should be shared. The study identified many such measures (more information in Section 5 of this report, in Annex IV to the study and in the database of family-business-related organisations).

3.4. Balancing family, ownership, and business aspects: Family Governance

The overlap between the family, the business and ownership is not always well balanced. Divergences between the multitude of players and interests involved may cause conflicts, and may even endanger the existence of the company. The risks heighten as intergenerational transfers take place and the complexity of the family involved in the business grows.

In addition to usual business management skills, the particular composition of family firms requires a special type of management, often referred to as 'family governance', which seeks to minimise potential tensions, particularly within the family and between the family and the business aspects.

Many researchers, and the expert group, are of the opinion that the process families go through to prepare, for example, a family protocol, is more important than the outcome itself. It is during this process that family businesses need to *'make an effort to identify and make explicit and transferable to the subsequent generation and to other stakeholders the main reasons for its own commitment to the business; the philosophy that inspires the family in its relationship with, and control of, the business (...); the goals pursued by the family and the business, and the rules that govern the relationship between the family and the business.'*[13]

The study showed that family governance has been extensively developed in some countries, but very little in others. There is a wide range of tools already available or being implemented. They range, for example, from the provision of subsidies to companies to cover the cost of specialised consulting services

[13] GALLO M. — TOMASELLI S., 'Formulating, implementing and maintaining family protocols', in Handbook of Research on Family Business, Edward Elgar, UK, 2006 (p. 298).

to prepare a family protocol, to freely available guidelines providing standard texts and solutions for families to overcome their specific problems.

However, the study also showed a lack of awareness within family businesses of the importance of this issue, and of the tools currently available.

More efforts need to be made to disseminate information on family governance tools to take full advantage of this diversity.

The European Commission has started to promote such exchanges by discussing different experiences within the expert group, and more significantly, by gathering information on existing measures in the countries studied.

National governments and private-sector organisations should make the most of this information to find examples suitable for implementation in their countries.

3.5. Attracting and retaining a (skilled) workforce

The negative image of family businesses in the labour market is also considered one of the biggest challenges that family firms face.

Although being a family firm may be an advantage in the company's relations with its clients or partners, in many countries there is an overall negative perception of professional 'career progression' in family businesses, which makes them less attractive in the labour market (particularly for more skilled people).

Sometimes family business are perceived as organisations in which nepotistic and paternalistic practices are rife, and in which a non-family member will always be at a disadvantage compared to a family member (even if the latter is less prepared for the job).

This unattractive image in the labour markets seems to be worse for small companies. The general problems smaller enterprises face (e.g. lower wages, limited career opportunities, out-of-date procedures) are compounded by those linked to it being a family firm, exacerbating the situation.

Changing the rather negative and unattractive image of family businesses in the labour market is mainly down to the sector itself. Where perceptions reflect the reality, the main focus of family businesses' efforts should be to change unfavourable practices (e.g. by professionalising the management of family firms).

For family firms that do not correspond to this negative perception, more focus should be placed on improving communication of the real potential that the company represents for people in the labour market.

Campaigns to improve the image of family businesses in the labour market should target all types of workforce (lower and higher-level positions).

Outside of the company itself, (i.e. the external environment), the group also recommends paying attention to the 'narrative' taught in schools, which can certainly contribute, in a positive or a negative way, to the image people develop of an entrepreneur or of a family business as a potential employer.

A positive image of family businesses may encourage people to consider becoming an entrepreneur themselves.

Organisations representing the family business sector should take the lead in improving the image of family businesses in society, and make them more attractive in the labour market.

3.6. Entrepreneurship education and family-business-specific management training

Entrepreneurship is hugely relevant to family businesses. Most start-ups begin as a family business and are faced with the question as to whether they want to continue the business beyond the founders. Therefore, promoting entrepreneurship is directly linked to promoting family businesses.

As most start-ups begin as a family business, education should also include specific family business issues such as ownership, succession and family governance to better prepare future entrepreneurs to successfully run their businesses.

Management training should not be confined to business schools. It should be somehow included in the curricula of all professions to promote the entrepreneurial spirit in all fields. The concept of 'ownership education' should be further developed.

Entrepreneurship education should aim to foster new family entrepreneurs, but also to promote entrepreneurial behaviour (including innovation) in existing family firms. This knowledge should enable heirs to re-invent the business, which is proved to be what keeps the company going from each generation.

National governments could plan to make changes to their education systems and work closely or in partnership with private-sector organisations and educational institutions (e.g. business schools and universities) to develop family-business-specific courses as part of existing curricula or as new curricula.

4. THE COMMISSION'S WORK

The Commission recognises the importance of family businesses. The first of the ten principles of the Small Business Act for Europe is to *'create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded*'.

Family businesses benefit from all schemes run by the Commission to promote a favourable business environment. Nevertheless, some schemes run by the Commission under its SME policy are particularly relevant to family businesses.[14]

- **Transfer of businesses**: the Commission's work to encourage Member States to facilitate transfers began in the 1990s (Commission Recommendation of 1994, Commission communication of 1998, Expert Group in 2000, Commission communication of 2006). In addition, a pilot project of the European Parliament on 'Transfer of Expertise through Mentoring in SMEs' was recently finalised. Through this project, mentoring was provided to more than 800 entrepreneurs involved in transferring an SME. For more information, see: http://ec.europa.eu/enterprise/policies/sme/business-environment/smooth-transfer/index_en.htm.

- **Enterprise Europe Network**: the network re-launched in 2008 pools more than 500 organisations providing assistance to SMEs. It has great potential to disseminate family business relevant issues in Europe and abroad. More information: http://www.enterprise-europe-network.ec.europa.eu/index_en.htm.

- **The European SME Week:** this Europe-wide campaign to inform entrepreneurs of the range of support measures available to them at European level is also a platform to promote specific family business issues throughout Europe. During the 2009 edition, several family businesses specific events were organised under the umbrella of the SME week. For more information, see: http://ec.europa.eu/enterprise/policies/entrepreneurship/sme-week/index_en.htm.

- **Erasmus for young entrepreneurs**: the aim of this project is to help new entrepreneurs acquire skills for managing a small or medium-sized enterprise (SMEs) by spending time in a business in another EU country. It is a useful tool for family businesses to learn from and exchange experiences with other EU countries. See: http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/erasmus-entrepreneurs/index_en.htm.

- **The European Conference Charter for SMEs** 'From the European Charter for Small Enterprises to the Small Business Act' encourages the exchange of experience on SME policy measures. One family-business-specific best practice

[14] This list is not exhaustive but provides some examples of measures implemented by the European Commission. For more specific information on the EU's SME policy, visit the website http://ec.europa.eu/enterprise/policies/sme/index_en.htm.

was selected for the 2009 edition of the conference. See: http://ec.europa.eu/enterprise/policies/sme/best-practices/charter/index_en.htm.

- **Enterprise Awards**: the aim of the awards is to identify and recognise successful activities and initiatives undertaken to promote enterprise and entrepreneurship, raise awareness of the role entrepreneurs play in society and encourage and inspire potential entrepreneurs. For more information, see: http://ec.europa.eu/enterprise/policies/sme/best-practices/european-enterprise-awards/index_en.htm.

- **Expert group 'Effects of tax systems on the retention of earnings and the increase of own equity':** the aim of this expert group was to identify and recognise the tax provisions and aspects which, according to business owners, have a major impact on the decision to retain earnings. The results of the work are relevant since the dichotomy between 'equity financing / debt financing' is of great interest for the family business sector. See: http://ec.europa.eu/enterprise/policies/sme/business-environment /taxation-smes/index_en.htm.

- **Lifelong Learning Programme:** this programme supports transnational education and training activities. In addition to enabling individuals to pursue stimulating learning and training opportunities across Europe, it helps education and training institutions and systems to modernise by funding transnational projects. For more information, see: http://ec.europa.eu/education/lifelong-learning-programme/doc78_en.htm.

5. GOOD PRACTICES

One of the aims of the project was to identify measures favouring family businesses which are being or have been implemented and have proven to be successful. The outcome of the research carried out was significant.

More than one hundred measures (implemented in the 33 countries surveyed) were singled out. The measures identified are very diverse in the topics they tackle and in the different actors and methods used to implement them.

Ten best practices were selected according to different criteria (e.g. geographic representation of the different countries, type of entity implementing it, problem addressed). They are grouped into the following categories (although some cover more than one issue):

- taxation;
- company law;
- planning business transfers;
- lobbying — policy advice — awareness raising;
- research and dissemination of information;
- promotion of business / management-specific education;
- family governance.

The number and variety of measures in favour of the sector was higher in countries where the family business institutional framework is more developed.

An overview of these groups of measures is given in Annex I to this report. A detailed description of the ten best practices selected is given in Annex IV to the study and in the database of family business organisations (in the description of activities).

6. CONCLUSIONS AND STRATEGIC RECOMMENDATIONS

Family businesses represent **very diverse types of companies**, from very small local enterprises to large international firms, constituting more than 60% of all European companies. Overall, most are SMEs (and most SMEs are family businesses).

Although the data available is not always robust enough to provide solid evidence, there is no doubting the **importance of family businesses**, not only for what they represent to the economy, but more importantly for the commitment they show to local communities, the long-term stability they bring, the responsibilities they feel as owners, and the values they stand for. '*Family businesses must be seen not only in terms of assets but as a combination of property and values. That is, family businesses have implications that involve more than merely serving a financial purpose; they are a means of sharing certain values and providing a service to the community in which they are integrated'.*[15]

Against the current backdrop of the **financial crisis,** these are precious characteristics. The crisis may be a good moment for family firms to prove the importance of the values they have always stood for.

Devising a **commonly accepted definition of a family business** is essential to gain a clear and internationally comparable picture of the contribution the sector makes to the economy. In order to be useful, the definition must be clear and fully operational. This report has taken the first steps in this direction by proposing a European definition and recommending its use. It certainly serves as starting point to continue the debate. Of course, a definition will only fulfil its objective if it is ultimately used by the statistical offices of all countries.

The experts recommend that the European Commission analyses the scope for promoting the definition of a family business to extend its use. This could be done, for example, by exploring with Eurostat the different possibilities of using the definition to gather information on the sector at European level.

An initial step in this direction would be to use the definition in different schemes run by the European Commission (e.g. gathering definition-related information in surveys).

The report also underlines the importance of exploring the different possibilities of introducing the definition at national level.

Many of the **challenges** faced by family businesses also concern SMEs in general. However, some affect family firms more specifically, and others are exclusive to

[15] TÀPIES J. — WARD J., 'Family-owned business, a role model of values', Palgrave M^C^Millan, 2008.

them. These challenges either stem from the environment, are inherent to the family firm or are related to educational issues.

The notion of ownership is considered to be fundamental to understanding the challenges faced by family business. Family firms (and most SMEs) are independently and self-reliably owned by actual persons. Ownership is visible, personified by individuals who can accept responsibility and are accountable for the activities of their companies. This creates consequences in terms of both time and ownership. Most family businesses are not started, nor owned/managed to be sold, but to be continued to the next generation. Ownership goes beyond the capital, and financial decisions and operations are 'merely' a method of financing, not the primary mean to make profits.

The understanding of the ownership dimension and how it affects the business behaviour of family firms should also be improved. Member States and other countries participating in the project should support specialised research.

Experience in the field of family businesses differs from country to country. Some have developed a more complex **institutional framework** with a great variety of **tools and initiatives to foster family firms**. Others have yet to focus measures on the topic, and some make no distinction between family and non-family enterprises.

A wide range of measures in favour of family businesses has been identified, implemented by different actors and addressing diverse problems. There are some very good examples which successfully help companies to overcome the challenges they face, and can be considered as **'good practice'**.

Exchanging knowledge and experiences between family-business-related institutions in the different countries holds great potential for the development of the sector. This rich experience and knowledge should be shared by the different **actors involved**.

The **European Commission** should continue to promote exchanges of information. Family businesses already benefit from existing EU policies. The European Commission should continue to mainstream family-business-relevant issues in all its actions, particularly in innovation policy, education and regional policies (highlighting the role family businesses play in stability and long-term growth of regions).

National governments should also consider adopting measures to create a more favourable environment for family businesses. A number of these measures have already been implemented in some countries. Clear examples are changes to the tax systems (e.g. lowering inheritance or/and gift tax, tax systems that do not negatively discriminate the retention of earnings compared to debt financing) or changes to company law (e.g. use of non-vote stocks). Adjustments to the educational system (e.g. to put more emphasis on entrepreneurship, or include family-business-specific topics in the curricula) should be addressed by national governments.

The experts also recommend that each national government establish a family business contact point within their administration, such as the contact point the European Commission has within the Directorate General for Enterprise and Industry.

Family businesses themselves, and especially **organisations representing the family business sector** (at national and international levels), have an essential role to play in overcoming the challenges identified. They should take an active role in all efforts to raise awareness of the importance of the sector, by using solid and convincing information and by pushing for the production of sound and comparable data. They should also promote the development of a family business institutional framework in countries where it is less developed.

The key point is to make policy makers (at all levels) aware of the phenomenon, its importance, and the need to address the wide range of specific challenges that family firms face.

ANNEXES

Annex I — Good Practices

The good practices identified can be categorised as follows:[16]

- ***Taxation:*** measures mainly targeting the taxation of reinvested profits and taxation of inheritance/gift tax. Examples of the former are the tax credit for reinvested profits deriving from some activities in Malta, and the reduced income tax applied to a certain amount of earnings kept within specific types of enterprises in Austria. Examples of countries in which inheritance and gift tax have been reduced or eliminated (completely or under certain conditions) are Austria, Belgium, Cyprus, Estonia, Greece, Latvia, Luxemburg, Malta, The Netherlands, Norway, Portugal, Slovakia, Spain and Sweden.[17]

- ***Company law:*** regulations mainly linked to facilitating the continuation of family firms (e.g. measures on the continuation of the business by family members in Austria, Luxemburg, and France) and mechanisms allowing additional financing alternatives without risking the general strategic and operational control of the business (e.g. the possibility to establish non-voting stocks, allowed – within certain limits – under Norwegian and Spanish company law).

- ***Planning business transfers***: some countries have developed very specific tools to face this challenge and make owners aware of the importance of planning intergenerational transfers early; some include external advice or allow the entrepreneur to make a self-assessment of the situation of the company. The '*Overdrachtspakket*' (transfer package) of the Ministry of Economic Affairs of the Netherlands is a unique example of this kind of measure: when the entrepreneur reaches the age of 55, he/she receives a letter reminding him/her of the importance of planning the transfer, and on the availability of tools included in the package.[18] The 'Succession Scoreboard' of the Belgian *Instituut voor het Familiebedrijf* is an example of a free on-line self-test which provides a picture of the strengths and weaknesses of a company in relation to the transfer process.[19] The seminars and training provided by the Chamber of Craft and

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[16] The list of examples presented in each category is non-exhaustive (more examples can be found in the study).

[17] More information about these tax systems can be found in page 87 of the study.

[18] A detailed description of this measure is available in page 139 of the study.

[19] This example is described in detail in page 135 of the study.

Small Business of Slovenia are also a good illustration of a comprehensive approach covering the different aspects of the problem (e.g. emotional, legal and fiscal).[20] Some interesting projects supporting the transfer of businesses are also being implemented in Italy (such as the Saturno, Reset and Imprender programmes and the Masters for business transfer operators from the University of Macerata).

- ***Lobbying / policy advice / awareness raising:*** Some countries have set up expert groups specifically to debate the issue of family businesses, to bring it up the political agenda and to come up with proposals to improve the business environment for family firms. This work has been ongoing for more than 15 years in Norway, with the Family Business Network Forum of the Confederation of Norwegian Enterprises.[21] In Finland, the expert group created by the Ministry of Employment and Economy (2004-2005) produced an operational definition of a family business. This definition was later adopted by other family business organisations in Europe (and forms the basis of the definition proposed by the experts in this report), and the group came up with key legislative proposals for the family business sector.[22]

- ***Management / Entrepreneurship / Ownership-specific education:*** specific family-business-related education is not yet widely available in all countries surveyed. Nevertheless, some academic institutions have produced very interesting initiatives targeting current and future owners/managers of family firms. Some good examples are: the Family Business Academy (organised by the Cyprus International Institute of Management as a module of the Masters in Business Administration), the Master 2 Family Business Governance of the *Institut d´Administration d´Entreprise de Bordeaux* (France), the '*Cattedra AIdAF — Alberto Falck di Strategia delle Aziende Familiari Università*' of the Bocconi University (Italy), the Owner's Programme run by FBN Sweden focusing on the challenges and potentials of mastering ownership, and the training programme 'Ownership and working in the board' run by the Finnish Family Firms Association, which includes a module in collaboration with the Spanish *Instituto de la Empresa Familiar* / IESE, which gives participants from both countries the valuable opportunity to have an international exchange of experiences.

- ***Family governance.*** Some countries acknowledge the importance of avoiding potential conflict between the family and the business dimensions and have put in place a considerable number of measures. The availability of 'governance codes for family businesses' is one of the most common measures in this field. They provide standard solutions that can be used by (and adapted to) any family

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[20] A detailed description of this measure is given in page 142 of the study.

[21] For more information, see page 164 of the study.

[22] A detailed description of this measure is given in page 159 of the study.

company. A noteworthy example is the ‘Family Contract’ published by the Ankara Chamber of Industry (Turkey), which clearly describes the potential problems family firms may have to face and proposes solutions to mitigate the negative impact of those problems on business continuity.[23] Other countries with relevant practices in the field are Italy, Austria, Belgium and Spain. Another interesting example was found in Spain: some regions (e.g. the regional government of Valencia) provide financial support (to cover the costs of specialised consultants) to companies willing to develop family protocols.

[23] A detailed description of this measure is given in page 133 of the study.

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Not all experts listed below participated actively in the project and therefore some of the material is less complete for some participating countries.

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