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In co-operation with



# **Overview of Family Business Relevant Issues**

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**Author:**

Irene Mandl (Austrian Institute for SME Research)

**Review**

Ulla Hytti (TSE)

Johan Lambrecht (EHSAL - K. U. Brussel)

Pekka Stenholm (TSE)

Peter Voithofer (Austrian Institute for SME Research)

**Layout:**

Martina Gugerell (Austrian Institute for SME Research)

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## Executive Summary

### Objectives and Methodology of the Study

**Family businesses** are a **traditional way of conducting business** within the private sector. However, only recently family businesses have increasingly been attracting more attention in public and policy discussions, both at a European and a Member State level. The **drivers for this enhanced attention** are a greater awareness of the contributions family businesses make to economic and social/societal development, increased attention to the issue of business transfer, as well as a higher degree of academic interest in the issue.

However, the information available on the family business sector stems from individual research studies and experts' opinions. As a result, it is quite fragmented and very difficult to compare due to the different definitions of what constitutes a family business as well as the methodologies applied. Furthermore, little is so far known about the existing institutional frameworks and instruments benefiting family businesses, and about their working methods and effects.

Against this background, this study **aims** to:

- review the national definitions of “family business” used in the 33 countries covered (i.e., EU-27, Iceland, Norway, Liechtenstein, Turkey, Croatia and the Former Yugoslav Republic of Macedonia) and identify common elements in order to propose ideas for a European definition
- provide an overview of the specific characteristics and the current situation of family businesses (particularly in comparison to SMEs)
- identify existing national networks and institutional players as well as policy activities to support and promote family businesses
- analyse the need for and the shape of possible future policy initiatives in favour of family businesses

The information compiled in this report was gathered at a national level by conducting desk research as well as qualitative interviews with relevant stakeholders. In addition to this consolidated European report, individual Country Fiches are available for 33 European countries, describing the family business sector within their national contexts.

### Understanding of “Family Business” Across Europe

In all of the 33 countries under analysis, there is not a single definition of “family business” which is widely and 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. However, a wide range of different definitions have been applied in socio-economic research and also partly in legal regulations.



Across Europe, a total of 90 different definitions were identified, which mainly require major family influence on **ownership** and **management/strategic control**. Other characteristics used to differentiate family businesses from non-family businesses are the **active involvement of family members in the enterprise's everyday activities** (i.e., the formal or informal employment of family members in non-managerial positions), the enterprise's contribution to the family's **income** generation, and **inter-generational considerations** (i.e., the intention to ensure the enterprise's sustainability beyond the entrepreneur's (professional) lifetime).

Most of the prevailing definitions **have not been operationalised**, particularly as far as the term "family" is concerned, but also with regard to strategic/managerial control.

In numerous countries, family businesses are widely equated to Small and Medium-Sized Enterprises (SMEs) in public and policy discussions. At the same time, there is an awareness that family businesses are run in all legal forms, including (listed) stock market enterprises.

### **Economic Importance of Family Businesses in Europe**

Across Europe, about 70 % - 80 % of **enterprises** are family businesses and they account for about 40 % - 50 % of **employment**. On the one hand, a large share of European SMEs are family businesses, and some of the largest European companies are also family businesses. On the other hand, similar to the European economy in general, the family business sector is dominated by SMEs, and particularly by micro enterprises with less than 10 employees.

Family businesses are active in all sectors of the economy. In some countries, data are available highlighting that family firms are more prevalent **in traditional and labour intensive sectors**. However, a shift towards more modern industries is taking place.

### **Characteristics of Family Businesses in Europe**

Within family businesses, there is a **strong interrelationship between the family and the business**. The **family is** (formally, but also informally) **at the centre of the company**. This results in two structures encountering each other, namely the family and the business, increasing the potential for conflict which affects both the family and the business sphere.

Family businesses tend to **focus on the firm's long-term sustainability** rather than realising short-term profits and **on realising generational changes** in ownership and management. In line with this, family businesses are on average older than non-family businesses.

When a firm is transferred to the next generation, it is not only financial assets which are passed on, but also social and cultural capital. The latter refers, for example, to the **value system**, i.e., the importance of honesty, credibility, modesty, respect etc. On the one hand, this has led to particular emphasis being placed on the **personal commitment and engagement** of family members within the enterprise and, on the other hand, on the firm's engagement in (local) **Corporate Social Responsibility** activities.

Another characteristic of family businesses is the **dominance of management from within the family**. In this context, **paternalism** and **nepotism** are also often prevalent in family firms, as is the existence of emotional and **informal** decision making.



The capitalisation of family firms stems from **family funds and bank loans**. **Profits** are often **reinvested** in the company and the owners are more willing to wait for a return on their investment (so called “patient capital”).

Family businesses’ **growth trajectories** are quite stable and continuous in comparison to non-family businesses, which take more dynamic and volatile routes.

### **Institutional Framework and Support Instruments for Family Businesses**

Different players influence the environment of the family business sector (with a higher level of activity prevalent in the EU-15 than in the New Member States):

- **Family business networks** focus their activities (mainly networking, information provision and lobbying) specifically on the family business sector.
- Several **employers’ organisations** or chambers of commerce address issues specifically relevant to family firms (e.g., succession), therefore explicitly or implicitly benefitting family businesses.
- National and regional **governments** indirectly influence the environment of family businesses by setting public strategies, enforcing legislation, and providing support measures.
- **Providers of support services** (e.g., **education/training providers**) actively address managers of family businesses and offer services that, owing to their contents, are of particular interest to family businesses.
- **Researchers** gather and disseminate information on the sector to highlight its specific characteristics.

These players are engaged in different (support) activities, which are favourable to the family business sector, as outlined below:

- **Regulations in company law** facilitate business transfers or allow for the establishment of non-voting stocks, enabling family firms to take in external investors without having to share control.
- **Favourable tax treatment of reinvested profits** is beneficial for family businesses aiming to use accrued gains for business growth.
- The technical or financial support provided to establish **corporate governance codes, family governance, family protocols, family constitutions, family councils, family assemblies or similar** enable family businesses to cope with the interrelationships between the family and the business sphere.
- In the field of **business transfer**, there are several different support instruments across Europe. They, for example, foster entrepreneurs’ awareness of the challenges involved in a business transfer, support the timely and thorough planning of the transfer process, or equip successors with the necessary competences and skills for their future role. Also favourable regulations with respect to (reducing or abolishing) inheritance and gift tax are advantageous for family firms.
- Some university courses as well as workshops/seminars run by, e.g., chambers of commerce, enhance the **managerial/entrepreneurial capacities** of present and future family business leaders by integrating the specific characteristics and challenges of family firms into their curricula.



- Providing and disseminating **information** on and towards the family business sector as well as **political lobbying** contribute to improving the family business environment.

### **Specific Challenges for Family Businesses in Europe and Policy Recommendations**

In addition to the general economic/business challenges which all enterprises face to a similar extent, family firms are hampered by factors peculiar to their specific characteristics. These are summarised in the following table, together with recommendations on how they could be supported by public players.

<b>Challenge</b>	<b>Policy Recommendation</b>	<b>Concerned Level</b>
Lack of awareness by politicians of the economic and social/societal contribution of family businesses, resulting in a low level of activity to create a family business friendly environment	Provide an operational definition of "family business"	Expert Group on Family Business Relevant Issues
	Conduct and disseminate research on family businesses	National governments, chambers of commerce in co-operation with researchers
	Establish family business representative organisations	Family business sector with the assistance of the European Commission and national governments
	Empower the family business representative organisations	European Commission and national governments
Lack of family firms' awareness of the importance of timely planning for intergenerational business transfer (particularly in the NMS and against the changing framework conditions such as socio-demographic change), resulting in ill-prepared successions endangering the firms' survival	Establish/continue awareness raising measures of the importance of planning business transfers as well as the provision of practical planning tools	European Commission and national governments, in co-operation with chambers of commerce and family business networks as well as education providers
	Establish training for entrepreneurs and successors to prepare them to cope with the challenges of the transfer process	
Financial obligations	Reduce/abolish inheritance/gift tax	National governments
	Establish access to finance which does not involve the loss of control of business decisions	



Challenge	Policy Recommendation	Concerned Level
Balancing business and family issues, resulting in the need for specific governance instruments	Raise awareness to the importance of governance structures and provide information on/assistance in their design and establishment	European Commission and national governments, in co-operation with chambers of commerce and family business networks
	Provide financial support for the establishment of governance instruments	National and regional governments
Lack of family business specific management and entrepreneurship education	Tailor management and entrepreneurship education towards the specific needs of family business owners/managers (i.e., dealing with specific issues, focusing on practical applicability)	National governments (particularly in the NMS) in co-operation with education providers
Limited access to finance for growth	Establish tax regimes treating retained profits favourably	National governments
Attracting and maintaining a (skilled) workforce	Launch an image campaign	Family business networks, in co-operation with national governments





# 1 Introduction

## 1.1 Background and Objectives of the Study

**Family businesses** are a **traditional way of conducting business** within the private sector. In the past, however, family businesses were often perceived as the weakest link in business life. If they were found to be successful, it was said that it was *despite* their family character. Nowadays, this enterprise type has been “rediscovered” in terms of that their performances are *attributed to* their family character.

Family businesses are increasingly attaining importance in public and policy discussions, both at a European and a Member State level. The probably most recent example of political engagement for the family business sector at a European level constitutes the Small Business Act of June 2008 (European Commission, 2008). The first of the 10 principles to guide the conception and implementation of policies both at a EU and a Member State level refers to the creation of an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded. Special emphasis is thereby given to the fields of entrepreneurship education, taxation, business transfers as well as female entrepreneurship.

The **drivers for this enhanced engagement** with the issue across Europe can be summarised as follows:

- Realisation of the economic contribution of family businesses, also in relation to coping with structural change (in terms of industrial change but also rural de-localisation) and/or employment effects (concerning both, job creation but also self-employment); to be found, for example, in Finland, the Former Yugoslav Republic of Macedonia, Italy, Norway, Spain
- Increasing number of (family) enterprises having to master the challenge of business succession in combination with the high importance of family internal succession, failure rates of business transfers and tax issues in relationship to business transfers (e.g., in Austria, Belgium, Denmark, Finland, France, Germany, Liechtenstein, Lithuania, Malta, Norway, Slovenia, Spain, Sweden)
- Higher degree of academic interest in the issue, i.e., socio-economic research dealing with family businesses which, in turn, provides background information for public discussions (e.g., in Belgium, Finland, Liechtenstein or Poland and recently also for Cyprus and Sweden)
- Next to these main aspects, in few of the analysed countries (e.g., Croatia, the Netherlands) public interest in family businesses is triggered by the “social role” presumed to be inherent to this enterprise type (i.e., keeping up societal values, taking active roles in the community).
- In Spain and the United Kingdom, the public discussions are mainly initiated by family business specific organisations lobbying for a favourable tax regime and the cutting of red tape for family businesses as well as promoting the benefits of business succession.



In some European countries the issue of family businesses is, however, rather neglected as regards public and policy discussions. Limited interest for this business type can be found, for example, in Bulgaria, Denmark, Estonia, Greece, Hungary, Iceland, Ireland, Latvia, Luxembourg, Portugal, Slovenia or Sweden where the discussions of the enterprise population focus on the enterprise size (Small and Medium-sized Enterprises - SMEs - vs. large companies) or deals with more “content-oriented” aspects (e.g., how to increase firms’ competitiveness or sustainable development) whereby little differentiation is made between family and non-family businesses.

Across the individual European countries the **time horizon** since when family businesses are considered in public and policy discussions varies. Thereby, there is a split between Eastern and Western European countries. While, for example, family businesses have been gaining attention for the last one or two decades in Finland, France, Italy, Norway, Spain or the Netherlands, respective takes only place for the last 4 - 5 years in Cyprus or the Former Yugoslav Republic of Macedonia. This is to be attributed to the fact that the issue of business transfer is one of the major drivers for engagement in the field of family business considerations and many Eastern European countries are nowadays approaching the challenge of mastering a transfer for the first time.<sup>1</sup>

**Family businesses are hardly made reference to in official public documents** (such as programmatic documents or legal regulations) in spite of the fact that there often exists the awareness that family businesses are an important part of the enterprise population, also going beyond those economic sectors traditionally related to “familiness”<sup>2</sup> (e.g., farming, crafts).

Furthermore, there **does not exist a common, widespread definition** or understanding of what constitutes a “family business” that is generally applied across Europe for political, economic as well as academic purposes at the same time. This makes it difficult to provide a valid characterisation of this business sector and to pinpoint its economic importance and potential as well as (public) support instruments to (better) take advantage of this potential by assisting family businesses in overcoming the challenges they are confronted with in their daily activities.

Family businesses have to cope with **specific challenges** not inherent to non-family businesses or affecting these to a lower extent. European politicians have started to design and implement institutional structures and support instruments favouring family firms’ development. Nevertheless, in order to effectively initiate and further develop such a “family business-friendly environment”, more knowledge is needed about the characteristics and situation of family businesses in Europe. Furthermore, little is known yet about the existing institutional frameworks and instruments benefiting family businesses, and about their working methods and effects.

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<sup>1</sup> During the socialist period the business form of a family firm was not very attractive due to various pressures on private owners such as restrictions in employment or the amount of productive resources allowed in private ownership.

<sup>2</sup> unique bundle of resources and capabilities as a result of family involvement (Cabrera-Suárez et al., 2001)



Consequently, the project **aims** to:

- review the national definitions of “family business” used in the 33 countries covered in the project (i.e., EU-27, Iceland, Norway, Liechtenstein, Turkey, Croatia and the Former Yugoslav Republic of Macedonia) and identify common elements in order to propose ideas for a European definition,
- provide an overview of the specific characteristics and the current situation of family businesses (particularly in comparison to SMEs) in the countries covered in the project,
- identify existing national networks and institutional players as well as policy activities to support and promote family businesses, and
- analyse the need for and the shape of possible future policy initiatives in favour of family businesses.

## 1.2 Methodology Applied and Structure of the Report

The above-mentioned objectives are pursued for all Member States of the European Union, the European Economic Area (Iceland, Norway and Liechtenstein) and the Candidate Countries (Croatia, the Former Yugoslav Republic of Macedonia and Turkey) following a decentralised approach, i.e., by research conducted at a national level<sup>3</sup>. The methodological approach constitutes a combination of **desk research** (literature review, data collection) and qualitative primary research (i.e., **expert interviews**). The information was gathered on the basis of a semi-standardised guideline elaborated by the Austrian Institute for SME Research as the project co-ordinator. This guideline safeguarded a shared understanding of the objectives of the project and the provision of the same kind of information across all analysed countries. In addition to this compiled European report, individual **Country Fiches** following a standardised template and presenting the situation and framework of family businesses in the analysed 33 countries are available (see Annex V).

Chapter 2 of this report provides an overview of the most common definitions applied in the 33 countries. The national definitions have been identified by conducting a context analysis on available material, supplemented by expert interviews. Furthermore, supra-national definitions have been considered in so far as that qualitative interviews with representatives of European networks for family businesses have been conducted and cross-national research studies on family businesses have been reviewed. The presented list of available definitions across Europe does, however, not raise the claim of being exhaustive but can be assessed to give a good overview on their multiplicity and heterogeneity.

Chapter 3 summarises the family business sector’s contribution to the national economy. Due to a general lack of a standardised definition of “family business” and the therewith related lack of standardised information available the data and qualitative information given is based on individual research studies as well as expert interviews. This results in differences regarding the population analysed as well as in the methodical tools applied. Consequently, the presented national findings are not fully comparable with each other but need to be understood as indications.

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<sup>3</sup> A list of involved partners can be found in Annex III.



Chapter 4 pinpoints the general and major characteristics of family businesses and thereby draws on existing research studies and experts' assessments across Europe. The research field of family businesses is fairly young (compared to other entrepreneurship research areas). For the last about 2 decades, "only", family firms have become the subject of socio-economic research, and in some of the European countries the respective time horizon is much shorter. Available studies often focus on listed family businesses or specific topics (e.g., business transfer). Research missions dealing with a general characterisation of family businesses, opposing them to non-family businesses and identifying differences among the family business sector (e.g., between large and small family businesses or between family businesses in the EU-15 and the New Member States or Candidate Countries) are considerably less widespread.

Particularly if comparing family businesses to other company types two issues have to be kept in mind, relativising the specificity of individual characteristics for being solely attributable to the "familiness" element:

- The majority of European enterprises, and particularly SMEs, are family businesses. Hence, general characteristics of SMEs will naturally also describe the majority of family businesses.
- The status of being a family business is not fixed over the life course of an enterprise; i.e., companies may be founded as family businesses, later on change into a non-family business and again to being a family business. It is questionable whether this development over the company life cycle goes in hand with a "complete" change of characteristics.

The information presented in Chapter 4 is strongly based on family business research and hence, may be somewhat biased by the predispositions of the researchers and/or the background/purpose of the studies as well as the characteristics of the respective samples analysed. In addition, some of the research missions are based on comparatively small samples.

In Chapter 5, an overview of major national and supra-national institutional actors being relevant for the European family businesses is given.<sup>4</sup> Furthermore, their fields of activity in terms of family business relevant support instruments are analysed. Thereby, measures explicitly targeted at family businesses as well as initiatives focusing not only on family businesses but being particularly beneficial for them due to the kind of support offered have been considered.

In a first step, more than 150 family business favourable support instruments in the field of company law, tax law, social security law, governance, business transfer, access to finance, management/entrepreneurship training, marketing support, lobbying etc. have been identified across Europe and briefly described along a standardised guideline. Out of these, 10 illustrative examples of Good Practices in family business friendly support instruments have been selected and analysed in-depth.

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<sup>4</sup> The main information of these actors has also been compiled into a database for the use of the European Commission.



The selection of case studies of (public) support instruments beneficial for the family business sector was based on a set of content oriented criteria (e.g., the instrument explicitly or implicitly benefits family businesses, is transparent to the target group and widely accepted, is positively evaluated or gained expert's appreciation and could be transferred to other countries). Furthermore, a number of balancing criteria has been applied (e.g., regarding geographic spread across Europe, age of the initiative, type of initiator or type of measure). The full versions of these in-depth descriptions that are based on qualitative interviews with the persons responsible for the implementation/operation of the instruments and presented along a standardised template may be found in Annex IV.

Finally, Chapter 6 deals with the main challenges of family businesses in terms of those aspects with which family businesses are confronted to a higher extent due to their specific characteristics differentiating them from non-family businesses. The contents covered are derived from existing national research studies as well as qualitative interviews with national experts in the field of family businesses.

On the basis of the research findings conclusions and policy recommendations with regard to a family business friendly public and policy environment are derived.





## 2 Understanding of “Family Business” Across Europe

### 2.1 Definition of “Family Business” in Public and Policy Discussions as well as Research

In all of the 33 countries under analysis, there is not a single definition of “family business” which is widely and 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.

Rather, there is a comparatively **wide heterogeneity** of different definitions applied in **socio-economic research** (in some cases oriented on international references), also within individual countries. As can be seen from Table 1, in many countries more than one research-based definition exists, in some cases even more than 5 different academic understandings have been identified. This reflects the different degree of engagement with the issue of family businesses across the analysed countries.

Research is in most cases based on **stringent indicators** demarking family businesses from non-family businesses (e.g., share of family ownership or management) in an easy to measure and unambiguous way. Similarly, a practical approach to differentiate family businesses from non-family businesses in research is to ask the respondents about their **own perception** whether their enterprise constitutes a family business (realised, for example, in Belgium, Finland, Greece, Ireland, Portugal, Slovenia, UK).

In contrast to that, hardly any definite connotations of “family business” can be found when referring to **public and policy discussions**. These are in most cases rather based upon a “**common understanding**” what constitutes a family business, i.e., what people have in mind when discussing about family businesses. In some countries (e.g., Germany, Iceland, Italy, Luxembourg, Malta, Romania, Slovenia, the Slovak Republic) this “common knowledge” about what is a family business can be - at least partly - operationalised by indicating the required extent of the family’s influence on ownership and management. Thereby, this common understanding does not necessarily need to correspond to the academic definitions used in research, and in few cases (e.g., Macedonia) there even exist different publicly used opinions on how to demarcate family businesses.

A very important aspect differentiating family businesses from non-family businesses refers to the element of “**familiness**”<sup>5</sup> or the family culture, i.e., the (social) inter-relationship between family and enterprise in economic, management and sociological frameworks.<sup>6</sup> However, this aspect is very intangible and “soft”. Consequently, although this element is very important for defining family businesses and contrasting them to non-family businesses it is hardly ever found in the prevalent definitions of family businesses.

<sup>5</sup> unique bundle of resources and capabilities as a result of family involvement (Cabrera-Suárez et al., 2001)

<sup>6</sup> In available publications dealing with definitions about family businesses, such aspects (like the family’s involvement in the enterprise) are referred to as “process elements” (e.g. Davis, 2001).

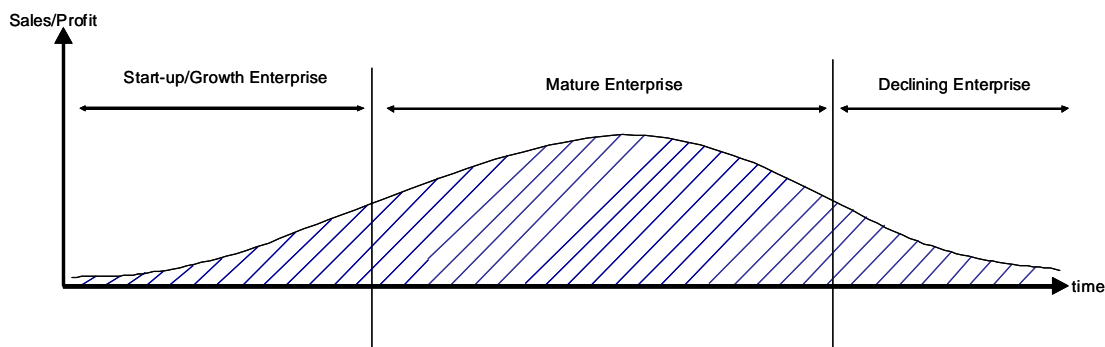


In some of the countries (e.g., Belgium, Finland, Slovenia) a **floating transition** from family to non-family businesses is considered, i.e., the understanding is that family and non-family businesses represent the two extreme positions of a continuum of enterprises whereby the exact point of transition cannot be determined in advance. Thereby, it is often referred to the F-PEC scale, i.e., the family influence on power, experience and culture. “Power” is understood as the level of ownership and strategic/managerial control. “Experience” means the cumulated experience the family has brought into the business, i.e., the number of generations in charge of ownership and management over time. “Culture” deals with the values and the commitment of family members towards the enterprise. (Astrachan, 2005)

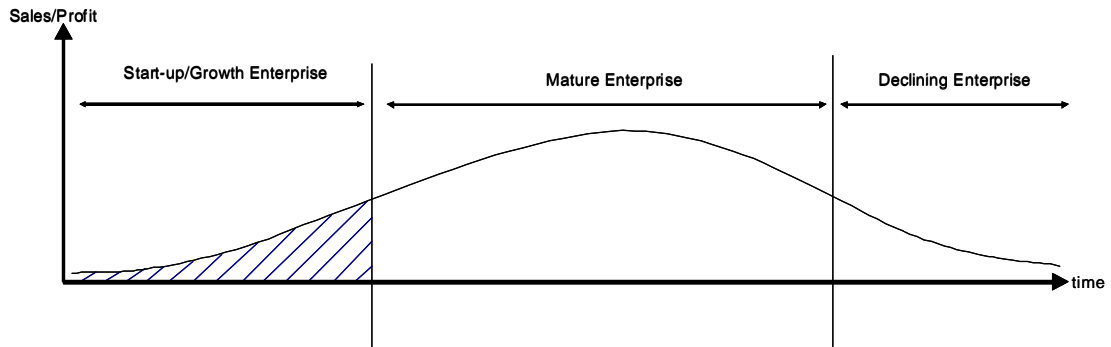
The **status of being a family business must not be considered to be “fix”**. There are numerous businesses that are a family firm over their whole life course (Graph 1a). However, there might also occur changes from being a family business to non-family business and vice versa over the company life cycle. For example, if a business is launched, it can rely heavily on the involvement of the family in the running and owning the business. If the business grows it may be confronted with a more dispersed ownership and/or management for an effective market penetration. Hence, in the mature phase it ceases to be a family firm (Graph 1b). Some of these companies again reach the status of a family firm in their declining phase, if non-family owners/managers withdraw from the company and hence, the family influence ceases (Graph 1c). Furthermore, it is thinkable that a company is founded as a non-family business, e.g., if solely relying on the entrepreneur(s) (with or without non-family employees) who do(es) not draw in any ways (e.g., employees, financiers, advisors) on family members. When the entrepreneur and his/her children grow older, the question of transfer of business and the interest of the second generation to take over the firm may surface and hence, the role of the family is again intensified in the firm. After the realisation of the transfer phase it may either happen that the previous entrepreneur and/or the family is still involved in the business (Graph 1e) or withdraws (with regard to both, formal and informal influence) from the enterprise, hence shifting status from family to non-family business (Graph 1d).

**Graph 1 Potential Family Businesses Status over the Company Life Cycle**

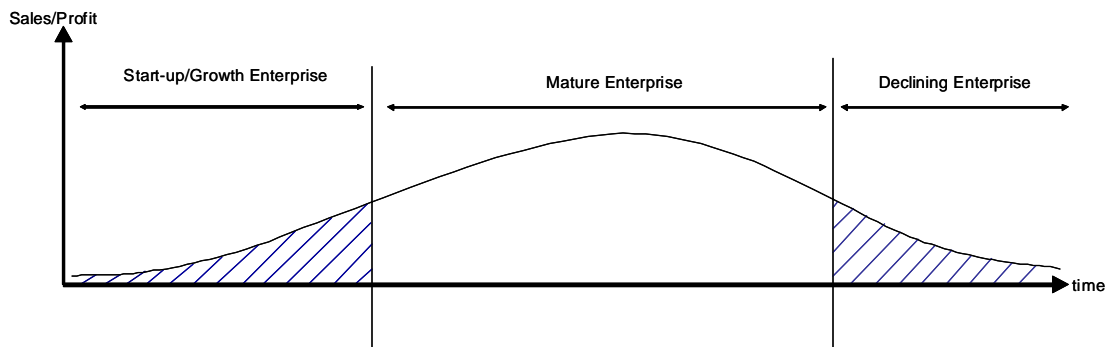
a) Family Business Status During the Whole Life Course



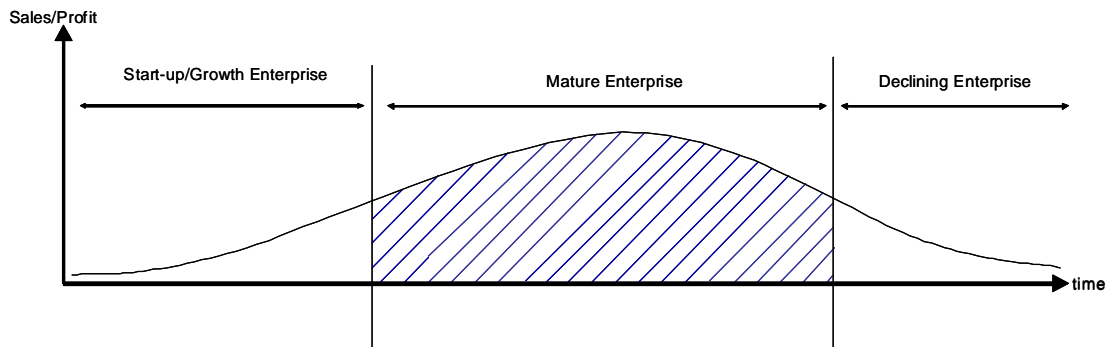
b) Family Business Status During the Start-up/Growth Phase Only



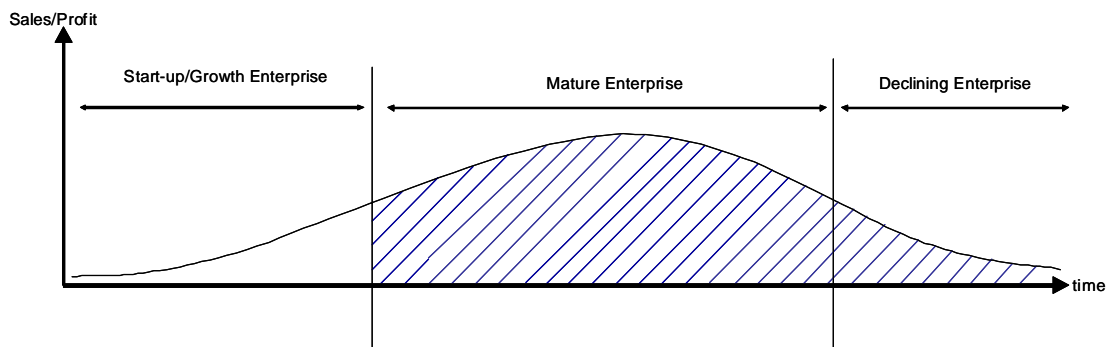
c) Family Business Status During the Start-up/Growth and Declining Phase



d) Family Business Status in Mature Phase Only



e) Family Business Status from Mature Phase Onwards



Source: Austrian Institute for SME Research



Regarding the **legislative framework**, hardly any consideration of family businesses can be found across Europe. In some of the countries, the term “family business” is mentioned in different regulations - however, without providing a clarification of what is to be understood by a family business. An example of this is the Danish legislation on work environment concerning youth employment in family businesses (Beskæftigelsesministeriet 1997, 1998).

Nevertheless, a few examples of legal regulations exist in which family businesses are not only referred to but also a definition of the respective target group is given:

- In Austria, a regional law on shop opening hours explicitly mentions family businesses and defines them as enterprises in which merely the business owner and two more family members (husband or wife of the business owner, other people who are relatives to the business owner in a direct family line) work.
- In an Austrian regional agricultural legislation a family business is defined as any autonomous economic entity regularly and sustainably providing for the farming family's income.
- In Hungary, legal reference on agricultural family businesses is made in conjunction with the provision of subsidies for family farms. Family farms are to comprise active agricultural production on less than 300 hectares agricultural land ownership, lease or usage whereby (next to the farmer) at least one family member is full-time employed. Other family members also can contribute to family farm's operation.
- The Italian Civil Code describes family businesses as enterprises in which members of the family unit (husband, wife, high degree of kinship) work and have the ownership.
- The Lithuanian Supreme Court (decision of 4th June 2007) stated that if an enterprise was established during the marriage period, it is by its nature a family business (i.e., the joint property of the spouses is used for the business establishment and development, as well as the physical and intellectual work of the spouses, and business revenues are used for the needs of the family) unless regulated otherwise (e.g., in a marriage contract). This, in turn, also results in joint obligations of both spouses for the company and the mutual right to participate in management and control.
- In the Bulgarian and Slovakian family co-ownership of spouses is presumed in the case of self-employment or sole proprietorship unless there are contractual agreements determining otherwise or otherwise proved in litigation.
- The Romanian law defines family businesses as enterprises established at the initiative of an individual and comprising his/her family members (husband, wife, children over 16 years as well as their relatives, including relatives four times removed). It is one of the few family business definitions available also operationalising the term “family”.

In Finland and Spain, the challenge of defining family businesses has been considered at **ministerial level**. The Finnish Ministry of Trade and Industry has set up a working group on Family Entrepreneurship that, among others, was to define the Finnish concept of family business (also see Chapter 5 and Annex IV) and also the Spanish Ministry of Economy, through its dependant body DGPYME (Directorate General for SME Policy), elaborated a definition of family business.



There are two **important elements** differentiating family from non-family firms, namely ownership and management/strategic control.<sup>7</sup>

Only very few of the identified definitions do not refer to the **ownership** aspect. Thereby, the following types of specifications can be differentiated:

- In some definitions, this criterion is not specified any further, i.e., it is just indicated that the business is to be owned by the family.
- The majority of analysed definitions refer to a dominant ownership position, e.g., by requiring a majority of (voting) shares or the ownership of more than 50 % of the shares/capital.
- In some definitions (i.e., in Cyprus, Finland, France, Portugal, Spain or the United Kingdom as well as by the FBN International) a differentiation among enterprise types is conducted. So, while for partnerships or private limited companies a share of at least 50 % of family ownership is required, between 10 % and 25 % are sufficient for public limited companies (or very large enterprises).
- One of the Danish definitions indicates that the family is to be the “largest owner”.
- According to Danish and French definitions the family not necessarily needs to hold direct ownership but, for example, the involvement of funds (in which the family is participating) is sufficient to satisfy the indicated ownership criterion.

The second most common element in the identified European definitions for family business concerns the **strategic/managerial control** of the enterprise. About  $\frac{3}{4}$  of the analysed definitions include this aspect whereby a comparatively wide range of different requirements can be found:

- “soft criteria”
  - family relations affect the assignment of the management
  - family indirectly runs the company
  - “major family influence/dominance” of the management (in terms of strategic decisions)
  - “significant proportion” of the enterprises’ senior management
  - “most important decision” made by the family
  - “family control” of the management of the enterprise
  - at least 2 generations having had control over the enterprise

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<sup>7</sup> In available publications dealing with definitions about family businesses, such aspects (like the family’s involvement in the enterprise) are referred to as “structural elements” (e.g. Davis, 2001).



- “hard criteria” (interestingly, also in those definitions requiring a certain number of family members represented in the management, no reference is made to the company size)
  - CEO has to be a family member
  - 1 family member is actively involved in the operative management of the company
  - At least 1 family member is actively involved in the operative management of the company
  - More than 1 family member in the management
  - CEO and at least 1 management team member stems from the family
  - At least 2 directors/board members stem from the family
  - At least 3 board or staff members stem from the family
  - Majority of the management team stem from the family

In Cyprus, a differentiation is made with regard to the enterprise’s legal status: While in private limited companies at least one management team member should stem from the family this requirement is not followed in public limited companies.

Another characteristic used to differentiate family businesses from non-family businesses is the **active involvement of family members in the enterprise’s everyday activities** (i.e., the formal or informal employment of family members in non-managerial positions). Employment of family members is included in about 1/3 of the analysed European definitions of “family business. Some of the definitions explicitly use the term “employment” while others consider family members’ “involvement” or “activity”, leaving some room for the assumption that also informal assistance of relatives in the enterprise results in a firm being classified as a family business. Hardly ever an extent of family members’ employment/ involvement into the business is given (in terms of the number of family members or working hours).

Austrian, Czech, Lithuanian, Polish, Slovenian and Turkish definitions also involve the requirement that an enterprise has to generate the **main income/wealth** of the family (or its revenues to be used for family needs, respectively) in order to classify as a family business.

In some definitions it is required that **different generations** have already had control over the business, the next generation is presently preparing to become involved in the management or that different generations are simultaneously in the management of the firm. In Luxembourg, rather companies that are managed or owned by the 2<sup>nd</sup> generation are considered as family businesses while in the 1<sup>st</sup> generation the wording of family businesses is not so commonly used. Also the international family business organisation FBN International formerly considered that family businesses were enterprises that had reached at least the 3<sup>rd</sup> generation, and another international family business organisation, Les Hénokiens (situated in France), focuses on family businesses having been in the (majority) ownership of a family for more than 200 years. Others involve the business owners’/managers’ **intention** to pass on the company to the next generation.



Table 1 provides an overview on the different parameter values attributed to those elements in the analysed countries whereby in some of the definitions all criteria have to be fulfilled (see “and” in the column “combination of criteria”) and in others a selection of them (or even only one criterion) needs to fit (see “or” in the column “combination of criteria”) in order to classify the enterprise as a family business.

While in some of the European countries (Cyprus, Czech and Slovak Republic, Iceland, Ireland, Malta) only one definition is prevalent, in other countries five or more differing understandings are applied (e.g., in Denmark, France, Norway, Turkey, the United Kingdom). Furthermore, demarcations of the family business sector have been elaborated by cross-national family business organisations or for supra-national research missions. With few exceptions (e.g., the definition designed by PriceWaterhouseCoopers for its cross-national research study is also commonly applied in Turkey), however, these have not (yet) become widespread in the countries covered.

Most of the prevailing definitions **have not been operationalised**, particularly as far as the term “**family**” is concerned. In some cases a respective attempt is undertaken by referring, for example, to the “direct family line” or the “family unit” (e.g., in Austria or Italy). A comparatively distinctive approach as to this regard can be found in Romania (defining the “family” as husband/wife, children over 16 years and relatives four times removed) and the United Kingdom (all persons related by blood or marriage). In Belgium, one of the available definitions refers to persons sharing the same surname or living at the same place as the “family”. This is a way of taking into account more “modern” ways of living than the traditional family in terms of married couples with children. Interestingly also, one of the French definitions includes “friends” in the group of persons jointly owning a family business.

In some of the identified definitions of “family business” (in Denmark, Malta, Norway, Portugal, Slovenia, Spain) the criteria of ownership, management or employment are also referred to **several families**. It can be expected that ownership/management is shared among more kinship groups the older the enterprise is as more inter-generational transfers have already taken place that result in more complex degrees of family relations.

Few of the available definitions of “family businesses” across Europe include a **size class** criterion. So, for example, the Danish Greens Analyseinstitut understands companies with a minimum turnover of about €30,000.-, a minimum gross result of about €5,000.- and at least 5 employees as family businesses if they are owned by one or more families having a controlling share. Similarly, the French family business organisation FBN-France only deals with family businesses with a minimum turnover of €0,000,000.-.



Table 1 Elements of the Definition of Family Businesses by Country<sup>8</sup>

No	Country	Combination of criteria	Ownership (minimum)	Income	Control/Management	Employment	Source
1	AT	and	direct family line holds the absolute majority of votes	direct family line is the sole beneficial of the company profit and is subject to entrepreneurial risk of failure	people involved in the business have to be members of the direct family line and have to be able to run the company; at least one family member is actively involved in the operative business management		Czernich/Guggenberger/Schwarz, 2005
2	AT	and	15 %		major influence; represent or build the board of directors and the executive board		Austrian Gallup Institute ( <a href="http://www.wirtschaftsblatt.at/home/service/familienbetriebe/245597/index.do">http://www.wirtschaftsblatt.at/home/service/familienbetriebe/245597/index.do</a> , 17.04.2008)
3	AT		merely the owner and two more family members (husband or wife of the business owner, other people who are relatives to the business owner in a direct family line) are entitled to work			merely the owner and two more family members (husband or wife of the business owner, other people who are relatives to the business owner in a direct family line) are entitled to work	Shop Opening Hours of 1991, BGBl.No.50/1992, (Öffnungszeitengesetz 1991, BGBl.Nr. 50/1992)
4	AT			An agricultural family business is an autonomous agricultural business which provides on a regular basis or in combination with a related business an adequate and sustainable income for the operating farming family.			agricultural residential regulation in the region of Vorarlberg (Bäuerliches Siedlungsgesetz LGBl.Nr. 37/1970, 20/1977)
5	BE				at least 3 family members active within the company or at least 2 generations having had control over the company or the next generation being prepared to enter the company		Baeten/Dekocker, 2007

<sup>8</sup> See Annex I for the Country Codes

No	Country	Combination of criteria	Ownership (minimum)	Income	Control/Management	Employment	Source
6	BE	among others	shares are held by several family members or branches of the family		several generations are involved in various roles in the company		Belgian corporate governance code for non-listed companies, Code Buysse
7	BE	or	one of the directors lives at the address of the company; name of a director is part of the name of the company		at least two directors have the same name or live at the same address		Vicindo DataMarketing
8	BG	and	prevailing		full family control on strategic decisions; more than one family member (including founder or heir) in the management		Common understanding
9	BG	and	family owned, and reached at least a 2 <sup>nd</sup> generation of owners		at least one generation of children active or preparing for activity, as well as parents or lineal kinship of different generations; members of the second generation have to be involved as owners, managers or participants		Family Business Association – Bulgaria
10	BG	and	majority share		management shall be exercised by the family; at least 1 family member shall be involved in the direct activity of the firm	at least 1 family member shall be involved in the direct activity of the firm	Promotional Bank PLC
11	CY	and	more than 50 % of shares in private limited companies, 10 % - 25 % in public limited companies (ties by blood or marriage)		at least one management team member in private limited companies; no requirement in public limited companies		Expert opinion
12	CZ	and	owned by one or several families, passed from one generation to the next; In some types of companies partial ownership and dominant management control	sole proprietors are family businesses if the company is the main source for family employment and its material existence	In some types of companies partial ownership and dominant management control	sole proprietors are family businesses if the company is the main source for family employment and its material existence	Šindelka, 2007
13	DE		complete ownership				Common understanding



No	Country	Combination of criteria	Ownership (minimum)	Income	Control/Management	Employment	Source
14	DE		50 % of the votes				Stiftung Familienunternehmen, 2007
15	DE	and	50 % of the votes		owner or member(s) of the owner family		Hauser, 2005
16	DE	and	single person owns the company		owner or member(s) of the owner family		Hauser/Wolterer, 2007
17	DK	control	50 % of the shares				Bennedsen/Nielsen, 2001
18	DK	control	50 % of the shares		CEO		Bennedsen/Nielsen, 2001
19	DK	significant influence			CEO and at least one member of the board are related		Bennedsen/Nielsen, 2001
20	DK	significant influence			at least 2 family members are either CEO or members of the board		Bennedsen/Nielsen, 2001
21	DK	significant influence	and	largest owner; the company must have gone through at least 1 generational succession	at least one family member is either the CEO or a member of the board		Bennedsen/Nielsen, 2001
22	DK	minimum turnover of Dkr 1 mio and a gross result of Dkr ½ mio, at least five employees	and	one or more families have a controlling share; ownership is either publicly traded, closely held or owned by a fund			Greens Analyseinstitut, 2003



No	Country	Combination of criteria	Ownership (minimum)	Income	Control/Management	Employment	Source
23	DK		one family has a controlling influence either directly or through a fund or similar				Familievirksomheder i Danmark (Family businesses in Denmark)
24	EE		No common/widespread definition in public or policy discussions, just a general feeling about size classes and legal form of family businesses (see Table 4)				
25	ES	and	essential part of the company's ownership belongs to one or several families		family members intervene in a decisive way in the management and administration of the company		DGPYME, 2003
26	ES	and	at least 50 % of the society's capital for physical persons or 20 % for family groups		involved in management		Regional Government of Valencia
27	FI	and	at least two family members are owners (and the interviewee perceived the company as a family business)			at least two family members work in the company	Heinonen/Toivonen, 2003 based on Astrachan et al., 2002 and Sharma, 2004
28	FI	and	direct or indirect majority of votes (resp. 25 % in listed companies) held by the founder(s), spouses, parents, children, heir(s) or persons having acquired the shares		at least one representative of the family or kin		MTI, 2006
29	FR	and	significant control		significant control		Allouche/Amann, 1999
30	FR	and	50 % (owner, family, friends) for enterprises with 250 to 4,999 employees		managing entrepreneur		ASMEP



No	Country	Combination of criteria	Ownership (minimum)	Income	Control/Management	Employment	Source
31	FR	and	family owns all or part of the shares		management by family member		PriceWaterhouseCoopers, 2006
32	FR turnover of at least € 50,000,000	and	at least the second generation in controlling ownership, with a solid intention to pass on the business		at least the second generation in management or involvement, with a solid intention to pass on the business		FBN-France
33	FR	and	owned and controlled by the family (for more than 100 years)		owned and controlled by the family (for more than 100 years)		BM&S (private marketing consulting firm)
34	GR		dominated by family members		dominated by family members		common understanding
35	HR	and	family agricultural enterprise: independent and social unit based on ownership or use of production resources		management by the family		Law on Agriculture, Official Gazette no. 66/2001 (www.nn.hr)
36	HR	and	rental and catering services are based on ownership of land or real estate where services are offered and may be conducted by households			household members can legally work in the establishment without a labour contract	Law on Catering, Official Gazette no. 138/06 (Zakon o ugostiteljskoj djelatnosti)
37	HU	and	family farm: active agricultural production on less than 300 hectares agricultural land ownership, lease or usage			next to the farmer at least 1 family member is full-time employee	governmental regulation 326/2001 (XII.30.)
38	HU	and	at least 2 owners			1 owner and 1 employee from the same family	Small Business Development Centre
39	IS	and	established and owned by one or more members of the same family		managed by one or more members of the same family		common understanding



No	Country	Combination of criteria	Ownership (minimum)	Income	Control/Management	Employment	Source
40	IE	and			significant proportion of the enterprises senior management and effective controlling of the business	more than one generation working in the business	Central Statistics Office (CSO)
41	IT	and	members of the family unit (husband, wife, high degree of kinship) have the ownership			members of the family unit (husband, wife, high degree of kinship) work	Article 230 of the Italian Civil Code
42	IT	and	owned by family members		most important management decisions made by a family or few families linked to each other by alliances (e.g., managing director)		common understanding
43	LI	and	substantial influence by people related to each other; strategic intention to pass on the company to the next generation		substantial influence by people related to each other; strategic intention to pass on the company to the next generation		Klein, 2004 and Thom/Zaugg, 2005 and Baldegger/Pock, 2007
44	LT	and	enterprise established during the marriage period, i.e., with the joint property of the spouses (if not regulated otherwise)	business revenues are used for the needs of the family	physical and intellectual work of the spouses, also with regard to management and control		decision of 4th June 2007 of the Lithuanian Supreme Court
45	LT	and	limited liability or open stock companies established and owned (high concentration of shares) by one or more member(s) of the same family		managed by one or more member(s) of the same family		common understanding
46	LU	and/or	control and intention to transfer to next generation		control and intention to transfer to next generation		common understanding



No	Country	Combination of criteria	Ownership (minimum)	Income	Control/Management	Employment	Source
47	LV		complete ownership by family members				Survey of Innovative Business in Latvia (SIBIL)
48	LV		sole owner or ownership by entrepreneur and spouse				Panel Study of Entrepreneurial Dynamics
49	LV		ownership inherited from parents				Global Entrepreneurship Monitor (GEM) 2007
50	MK	and	several family members involved in a certain type of business activity within a legal entity		several family members involved in a certain type of business activity within a legal entity	several family members involved in a certain type of business activity within a legal entity	common understanding
51	MK		51 % directly owned or controlled by a single family				common understanding
52	MT	and	owned by members of one or several families		controlled and operated by members of one or several families		common understanding
53	NL	at least 2 of these 3 criteria	more than 50 %		decisive influence on the company strategy or succession decisions or at least 2 board members		Flören, 2002
54	NL	and	more than 50 %		substantial influence, important number of board members		Flören, 1993
55	NL	and	at least the second generation is involved in the company		at least the second generation is involved in the company, majority of management	at least the second generation is involved in the company	Hulshoff in Flören, 2002
56	NL	and	control is in the hands of 1 or several families; shareholding family has the intention to transfer the company to the next generation		control is in the hands of 1 or several families; family is represented in the management and/or board of the enterprise	at least the 2 <sup>nd</sup> generation is working in the business or preparing for a possible role	FBNed - Vereniging Familiebedrijven Nederland (FBNed - the Dutch Association of Family Firms)
57	NO	and	owned by the founder and the founders' family, or by one or more heirs		under control of the founder and the founders' family, or by one or more heirs		Bartz-Johannesen, 2002



No	Country	Combination of criteria	Ownership (minimum)	Income	Control/Management	Employment	Source
58	NO	and	one ore a few families (kinship relations) have dominating or considerable influence		one ore a few families (kinship relations) have dominating or considerable influence		HSH, 2008
59	NO		50 % of the shares				Centre for Corporate Governance Research (CCGR)
60	NO				influence and control through management positions or strong representation on the board		Randøy and Goel, 2003
61	NO		20 % of the shares in listed enterprises				Wallevik, 2008
62	PL	and	majority of shares; transferred to the next generation	main source of income for the family; family members involved in building a common wealth		family members employed	Popczyk/Popczyk 1999
63	PL	and	majority of capital and intention to keep the possession within the family		at least 1 family member has a managerial position or significant influence on the management staff		Inicjatywa Firm Rodzinnych (Initiative of Family Companies)
64	PT	and	wholly or substantially in the hand of one or more families		family has control over the management		APEF (Associação Portuguesa de Empresas Familiares)
65	PT	and	direct or indirect majority of votes (resp. 25 % in listed companies) held by the founder(s), spouses, parents, children, heir(s) or persons having acquired the shares; firm or its governing bodies wish the firm to be considered a family business		at least one representative of the family or kin; at one point in the firm's existence, at least 2 representatives of the family or kind of different generations have been involved in the management or administration of the firm, either simultaneously or in succession		APEF (Associação Portuguesa de Empresas Familiares)



No	Country	Combination of criteria	Ownership (minimum)	Income	Control/Management	Employment	Source
66	RO	and	established at the initiative of an individual and comprising his/her family members (husband, wife, children over 16 years and relatives, including relatives four times removed)		established at the initiative of an individual and comprising his/her family members (husband, wife, children over 16 years and relatives, including relatives four times removed)		Law No. 300/2004 (Art.1 - 4)
67	RO	and	integrally owned by the members of the same family, with a closer or more distant degree of relationship		directly or indirectly run by family members		common understanding
68	SE	and	ownership of one person or one family		family should have a operative role within the company		Karlsson Stider, 2000
69	SE		companies with few owners (i.e., not publicly owned, consumer owned, producers' co-operations, foundations, listed on the stock market or owned by foreign interests)				Statistics Sweden (SCB)
70	SE		all businesses not publicly owned, consumer owned, producers co-operations, foundations, listed on the stock market or owned by foreign interests				Gademo, 1995
71	SE		the company has been in the current principal owners' family for at least 2 generations and it is planned to transfer the company further in the family		at least 3 representatives of the owner family are active in the company (as workers or board members)		Emling, 2000



No	Country	Combination of criteria	Ownership (minimum)	Income	Control/Management	Employment	Source
72	SI	and	majority in the hands of the extended/large family and intention to transfer the business to the next generation		by family members (owners) and intention to transfer the business to the next generation		Duh, 1999
73	SI	and	more than 50 % of ordinary voting shares owned by members of the largest single family group related by blood or marriage; perception of the owner(s) to be a family business		one or more of the management team is drawn from the largest family group that owns the enterprise		Duh/Tominc, 2005
74	SI	and	expected or actual control (more than 50 %)		expected or actual control (more than 50 %)		Duh/Tominc, 2007
75	SI	and	ownership of the family	providing wealth for the family		providing employment for the family	Common understanding
76	SK	and	majority ownership and intention to transfer the business to the next generation; In some types of companies partial ownership and dominant management control		Usually family management In some types of companies partial ownership and dominant management control (management may also be considered optional)	usually family employees	Common understanding
77	TR	and	at least 51 % of the shares are held by a family or related families		majority of the senior management team and the owners have day-to-day responsibility for the management of the business		PriceWaterhouseCoopers LLP, 2007
78	TR			the genarch or the person who is responsible for the livelihood of the family is managing the company			ASO, 2005
79	TR		60 % of the shares				ASO, 2005



No	Country	Combination of criteria	Ownership (minimum)	Income	Control/Management	Employment	Source
80	TR	and	majority of shares		controlling the board/managing the company, and the founder is the chairman of the board of directors		ASO, 2005
81	TR	and	corporations with few share holders		at least 2 generations involved in the management and family relationships affect the assignment of managers		ASO, 2005
82	TR		majority of the voting shares				Ankara Sanayi Odası/Ankara Chamber of Industry
83	UK owner managed	and	1 person		1 person	family members help informally	IFB Report, 2008
84	UK family managed	and	1 or more family members		1 or more family members		IFB Report, 2008
85	UK family controlled	and	1 one or more family members have majority of voting rights		devoted to or shared with non-family managers		IFB Report, 2008
86	UK		50 % controlling stake				GEM, 2006
87	UK		majority of the voting rights or 25 % in the case of a listed company; 2 <sup>nd</sup> generation of ownership or solid intention to pass on the business				Institute for Family Business
88	UK	and/or <sup>1</sup>	50 % of ordinary voting shares owned by a family group related by blood or marriage		one or more members of the management team are from the family group		Westhead et al., 1997 and 2002; Fletcher, 2008



No	Country	Combination of criteria	Ownership (minimum)	Income	Control/Management	Employment	Source
89	Cross-national	and	direct or indirect majority of votes (resp. 25 % in listed companies) held by the founder(s), spouses, parents, children, heir(s) or persons having acquired the shares		at least one representative of the family or kin		FBN International, 2007
90	Cross-national	and	family must own the company or be the majority shareholder (for more than 200 years)		enterprises must be managed by a descendant of the founder		Les Hénokiens
91	Cross-national	and	direct or indirect majority of votes (resp. 25 % in listed companies with fragmented ownership in which the family as the largest shareholder holds less than 50 % of the votes but exerts conclusive influence over key aspects of corporate governance) held by the founder(s), spouses, parents, children, heir(s) or persons having acquired the shares		at least one representative of the family or kin		European Group of Owner managed and Family Enterprises (GEEF)
92	Cross-national	and	at least 51 % of the shares are held by a family or related families		majority of the senior management team and the owners have day-to-day responsibility for the management of the business		PriceWaterhouseCoopers LLP, 2007

<sup>1</sup> The combination of these criteria, together with whether or not a generational change has taken place and the businesses' subjective consideration of being a family businesses results in 7 (Westhead, 2002) or 16 (Fletcher, 2008) different types of family businesses

89 identical to 28

92 identical to 77



In Denmark and the United Kingdom a “**cascade/staircase approach**” is used not only to provide an understanding for “family businesses” but to - at the same time - come to a **typology of family enterprises**. In the Danish model, five different definitions are distinguished by applying different requirements for the ownership and control/management of the firm. These can be summarised into the two broad categories of “significant influence” and “control” of the family on the enterprise. In a similar way, researchers in the United Kingdom differentiate between seven (Westhead, 2002) or even 16 (Fletcher, 2008) different types of family businesses. Thereby, not only different levels of ownership and control/management are considered, but also the informal involvement of family members in business issues, the (non-)realisation of a generational change and the businesses’ subjective consideration of being a family business. The individual types are summarised into the broad categories of “owner-managed”, “family-managed” and “family controlled” firms.

### **Excursus: Family Business Typologies**

The **Danish** staircase scheme to classify family businesses covers the following five types (Økonomi- og Erhvervsministeriet, 2007):

A family has control over the company

- if it has 50 % of the shares, or
- if it has 50 % of the shares and a member of the family is the CEO.

A family has significant influence

- if the CEO and at least one member of the board are related
- if at least two family members are either CEO or members of the board
- if the family is the largest owner and at least one family member is either the CEO or a member of the board (at least one generation succession realised)

The above-mentioned 16 family firm types of the **UK** approach can be classified as follows (Fletcher, 2008):



Table 2 Family Firm Typology United Kingdom

Management roles undertaken in the business by					
		Individual	Couple	Family	Widely held
Ownership of the business controlled by	<b>Individual</b>	<b>1</b> Classic start up situation whereby an individual owns and manages the business by themselves	<b>2</b> Here one person/ individual owns the business but a couple manage it. (Typical start up situations where spouses not formally recognised in legal entity but informally provide labour etc.)	<b>3</b> Here one person/ individual owns the business but wider family members involved. (typical start up situations drawing on family resources to build up business or provide jobs).	<b>4</b> This is a non family business with individual ownership and widely held management.
	<b>Couple spouse or household</b>	<b>5</b> Here a couple jointly own a business but only one of them is directly involved in management (spouse has own career). Other non-family members are also involved in management.	<b>6</b> Here a couple own the business and are jointly involved in managing the business (classic copreneurship)	<b>7</b> Here a couple own the business but other family members are involved in managing the business (could be a business planning succession and training children to take over; or couple providing jobs to family members).	<b>8</b> This is a business owned by a couple but with widely held management.
	<b>Family (siblings or family members from two generations)</b>	<b>9</b> Here a business is owned by a family but only one family member has a management role in the business. Could have undergone inter generational transition or not.	<b>10</b> Here ownership is held between wider family but a couple from the family run/manage the business (NB this would tend to be second or third generation where sons/daughters are their spouses come into business).	<b>11</b> Here ownership is held between family members who are also widely involved in management roles (two generations working alongside each other)  Classic family business	<b>12</b> This a family owned company with widely held management involving family and non family (typically professionalized business)
	<b>Widely held (family and non-family)</b>	<b>13</b> A business with wide ownership (family and non-family) but with one person managing.	<b>14</b> A business with wide ownership but a couple manage the business	<b>15</b> A business with wide ownership but a family team manage the business.	<b>16</b> This is a business with widely held ownership and management (PLC). Not a family business.

Source: Fletcher, D.E. 2008



Based on **more qualitative characteristics**, also in some of the other analysed countries typologies of family businesses have been elaborated.

Sułkowski (2004) used the firms' objectives, cultural characteristics and management style to draw up the following typology of **Polish** family firms:

- Family game: prevailing are family aims, partnership culture, manager's authority; the company is controlled by several family members but managed by persons from outside; 2.5 % of the enterprises
- Family possessions: prevailing are family aims, patriarchal culture, manager's authority; the company is controlled mainly by the most senior family member but managed by persons from outside; no such companies were identified
- Subdued by the family: prevailing are family aims, partnership culture, owner's authority; the company is managed by an informal family council, nepotism occurs; 15 % of the enterprises
- Possessions of the head of the family: prevailing are family aims, patriarchal culture, owner's authority; the company is owned and managed by the founder or his male descendants, many family members work in the company, authoritarianism and nepotism occurs; 45 % of the companies
- Family treasure: prevailing are company aims, partnership culture, manager's authority; the company is controlled by many family members and managed by persons from outside, development of the company is a priority; 2.5 % of the companies
- Economic base of the family: prevailing are company aims, patriarchal culture, manager's authority; the company is controlled by dominating family member(s) and managed by persons from outside, development of the company is a priority; no such companies were identified
- Family heritage: prevailing are company aims, partnership culture, owner's authority; the company is managed by the owner, company aims are priority; no such companies were identified
- Emanation of the owner: prevailing are company aims, patriarchal culture, owner's authority; authoritarian management and control by the owner or his descendants, development of the company is a priority; 35 % of the companies

A **Spanish** typology shows that the small, founder-dominated family businesses are of particular relevance and that the complexity of family-business relationships increases with the age of the company (ESADE & Family Business Knowledge, 2006):

- Captain ("Capitán"): They represent 24 % of the existing family businesses in Spain. They are usually SMEs strongly controlled by the founder and have little complexity, both in terms of the family and the business. The age average is 28 years old.
- Emperor ("Emperador"): They represent 19 % of all cases. These enterprises have a large size and both the family and the enterprise are very complex, whereby the person of the founder is central. Their average age is 41 years old.



- Family Team (“Equipo Familiar”): They represent 22 % of all Spanish family businesses. The enterprise complexity is low, but the family complexity is high (“there is too much family for such a small enterprise”). Their average age is 45 years old.
- Structured (“Estructurado”): They represent 16 % of all cases. The enterprise complexity is high, but the family complexity is relatively low. The average age is of 37 years old.
- Corporation (“Corporación”): They represent 18 % of Spanish family businesses. Both the enterprise and the family are very complex, so they are large enterprises run by a large and extended family. The average age of these enterprises is 61 years old.

Based on the **evolution of ownership over time**, the IMD Leading the Family Business programme has developed a “Three Stages” typology. In Stage I the controlling owner has personal power over almost all decisions affecting the business. Decisions are fast and decision responsibilities are clear, but others - particularly potential successors - are alienated. If succession takes place and the company is in the hands of a team (e.g., brothers and sisters), Stage II is realised. This sibling partnership is characterised by an oligopoly of power and diversity among the partners, leading to higher creativity. At the same time relationships are volatile and the risk of disagreement among the owners turns up. Over the generations, ownership becomes dispersed among many owners, e.g., third or fourth generation cousins. In this Stage III no one has absolute control, and often the team is too large for intimate functioning by consensus. Rather, a democratic decision-making process (e.g., majority votes) is developed.

**Table 3 Stages of Ownership - Typology**

Stage I - Controlling Owner	Stage II - Sibling Partnership	Stage III - Cousin Confederation
Unilateral decisions	Consensus decision	Democratic decision process
Authoritarian system	Intense and volatile relationships	Dispersed ownership
Quick decisions	Diversity	No one has absolute control
Others may feel alienated	Creativity	Rules and fair processes
Simplicity	Higher risk of conflicts	Loss of personal interest

Source: Kenyon-Rouvinez/Ward, 2005

## 2.2 Family Businesses within the Enterprise Population

In general, the classification of family business vs. non-family businesses is to be seen in parallel to other classification systems for enterprises, such as economic sectors, size classes, legal forms etc. This means that family businesses (as well as non-family businesses) are prevalent in different economic sectors, employ varying numbers of staff members, are organised in different legal forms etc. (also see Chapter 3).

Nevertheless, the definitions discussed above in some cases implicate a certain relationship between the family business character and size classes as well as legal forms.



So, while in the majority of countries there exists the widespread awareness that family businesses may also constitute **large-scale enterprises** and not all small and medium-sized enterprises (**SMEs**) are family businesses, in some countries family businesses are equated to SMEs in public and policy discussions. This is particularly the case in Central and Eastern European countries while in Northern, Southern and Western European countries the awareness about the heterogeneity of family businesses regarding their size class is more widespread. Furthermore, there is a slight relationship between this assessment and the country's size (in terms of the number of inhabitants), i.e., in smaller countries family businesses and SMEs are considered to be the same more often than in larger countries.

Within the size class of SMEs, in almost 1/3 of the countries **one-person enterprises/self-employed** (i.e., companies in which only the entrepreneur without any officially employed staff members is working) are seen as family businesses while in about the same number of countries this type of business activity is not understood to be a family firm. In a little more than 1/3 of the European countries, self-employed are categorised as family businesses, if they fulfil specific criteria. So, for example, in the Former Yugoslav Republic of Macedonia they are considered as family businesses, if they are active in agriculture, wholesale and retail trade, tourism or similar economic sectors in which family members are often involved in operating activities without being officially employed. Another important criterion (that can also be found in other countries) is the pre-condition that the self-employed person has the main supporting role regarding the financial assets of the family.

In contrast to the size class considerations in almost all countries companies (listed) on the stock market are recognised as family businesses, if the other criteria (see Chapter 2.1) are fulfilled. In those cases in which **(listed) stock market enterprises** in the common understanding are rather excluded from the family business definition this is due to the fact that these are small countries in which hardly any large (listed) stock market enterprises exist and these few existing are in practice not owned/managed by families.

In the majority of European countries **sole proprietors** (i.e., companies owned by a single person but eventually employing family and/or non-family staff members) are considered family businesses, if the criteria of the prevalent national definitions (see Chapter 2.1) are fulfilled.

At the same time (and with the same argumentation), in about 1/3 of the analysed countries sole proprietors are in any case considered as family businesses as the dominant ownership criterion (full or majority ownership within the family) and management criterion (full or majority control over strategic business decisions) are combined in the single person of the entrepreneur.



**Table 4** Relation of Family Businesses to Other Business Classifications<sup>9</sup>

	Size Class Considerations		Legal Form	
	SMEs	One-Person Enterprises/ Self-employed	Sole Proprietors	(Listed) Stock Market Companies
AT	Often equated	yes		may be family businesses
BE	Awareness about large family businesses	may be family businesses		
BG	Often equated	yes		may be family businesses
CY	Often equated	no	yes	n.a.
CZ	Often equated	yes	May be family businesses	n.a.
DE	Often equated	yes		may be family businesses
DK	Awareness about large family businesses	may be family businesses		
EE	Often equated	may be family businesses		n.a.
ES	Awareness about large family businesses	may be family businesses		
FI	Awareness about large family businesses	no		may be family businesses
FR	Awareness about large family businesses	no	may be family businesses	
GR	Often equated	may be family businesses		
HR	Awareness about large family businesses	may be family businesses		
HU	Awareness about large family businesses	no	may be family businesses	
IS	Awareness about large family businesses	n.a.	yes	may be family businesses
IE	Often equated	yes		n.a.
IT	Awareness about large family businesses	no	may be family businesses	
LI	Often equated	yes	n.a.	may be family businesses
LT	Awareness about large family businesses	yes	yes	may be family businesses
LU	Often equated	n.a.		may be family businesses
LV	Often equated	may be family businesses		rather not
MK	Often equated	may be family businesses		n.a.
MT	Often equated	yes		rather not
NL	Awareness about large family businesses	may be family businesses		

<sup>9</sup> Based on the above-mentioned definitions as well as the “common understanding” within the countries. See Annex I for the Country Codes



	Size Class Considerations		Legal Form	
	SMEs	One-Person Enterprises/ Self-employed	Sole Proprietors	(Listed) Stock Market Companies
NO	Awareness about large family businesses	yes		may be family businesses
PL	Often equated		may be family businesses	
PT	Awareness about large family businesses		may be family businesses	
RO	Awareness about large family businesses	no	may be family businesses	
SI	Awareness about large family businesses, but in practice often equated to SMEs	yes		may be family businesses
SK	Awareness about large family businesses		may be family businesses	
SE	Often equated		may be family businesses	
TR	Awareness about large family businesses		may be family businesses	
UK	Awareness about large family businesses		may be family businesses	

n.a. = no information available



### 3 Economic Importance of Family Businesses in Europe

#### 3.1 Family Businesses' Contribution to the Economy

Across Europe, about 70 % - 80 % of **enterprises** are family businesses.<sup>10</sup> However, the dependency of these assessments on the applied definition becomes obvious in those countries in which different research studies (being based on different definitions) come to varying results. For example, the application of the above-mentioned staircase/cascade definition elaborated in Denmark pinpoints a range of about 36 % to almost 95 % for family businesses' share in the total enterprise population.

Family businesses' economic contribution can also be shown by illustrative indicators available for some of the countries. So it has, for example, been found for Belgium that 40 % of the gazelles<sup>11</sup> of the Walloon region are family businesses. The sustainability of family businesses can exemplarily be pinpointed by data available for Poland, Spain and the United Kingdom. 30 % or more of the family businesses have already undergone a generational transfer and are presently in the hand of the 2<sup>nd</sup>, 3<sup>rd</sup> or even later generation. For Slovenia, the share of family businesses in the 2<sup>nd</sup> or 3<sup>rd</sup> generation is much lower (below 20 %) which is attributed to the comparatively young age of the enterprises.

Family businesses account for an important part (about 40 % - 50 %) of European **employment**. In some of the available studies family businesses' contribution to employment is even estimated to reach 70 % or more. Interestingly, no relationship exists between the share of enterprises and the share of employment across the different national data available. Some data sources indicate a very high share of family businesses in the total enterprise population and also a high employment share. Others find a high share of enterprises but a comparatively low share of employment. Almost all sources pinpoint, however, a higher share of enterprises than of employment, implicating that family businesses are on average smaller than the average national company.

Few of the analysed countries dispose of data on family businesses' share of total **turnover** and their contribution to **GDP**. These indicate that family businesses account for about 40 % of private sector turnover whereas their share in national GDP or value added ranges from about 20 % to about 70 % (depending on the definition used as well as the indicator applied (GDP vs. GNP vs. value added)).

<sup>10</sup> The available data does rarely include any reference regarding the enterprise population analysed, e.g. whether the whole economy (including, for example, agriculture) or only the market-oriented economy is analysed.

<sup>11</sup> young high-growth enterprises











































































































































































































































Furthermore, there was an increasing demand from family business managers (especially when having to face a take-over or a transmission) on one hand, and from students who wish to start a family business on the other hand, to access specialised training. Professor Hirigoyen therefore had the idea to launch this new diploma.

### **Characteristics of the Measure**

Master 2 GEF is open to students with a Master 1 diploma in management sciences, law, economic sciences or an equivalent (French or foreign) diploma (business schools, for example). This diploma should also be open to employees within the framework of continuous vocational education. But in practice, for the moment, this way is developed only through the partnership established with ESC Pau (business school). This is in particular due to the fact that the Master 2 GEF is relatively young and has no particular communication budget. Therefore, the Master's responsible can only use the usual communication ways of the public university to communicate about Master 2 GEF. That are mainly Website of the university and (paper and internet) guides for students as well as word of mouth.

Students must apply in June. They fill in a motivation file and have an interview with a jury composed of the responsible of the Master 2 GEF and another teacher, most often a professional.

The training programme starts in October. It is organised around six teaching units (UE):

- UE 1: family businesses: place and strategy
- UE 2: Patrimonial management of family businesses
- UE 3: Family business transmission
- UE 4: Family business management
- UE 5: Internationalisation of family businesses
- UE 6: Professionalisation and synthesis

Each UE corresponds to a number of ECTS (European credit transfer system). A student must pass successfully at least 60 credits to get the diploma.

UE 1 to UE 5 consist of intensive training courses that take place from October to February, for which knowledge is regularly assessed (presentations, cases studies, multiple choice questions etc.). They are organised as follows.



Contents	Number of ECTS
UE 1: Family businesses: place and strategy Overview of family businesses in the socio-economy Creation and development strategies Communication and economic intelligence tools	6
UE 2: Patrimonial management of family businesses Financing family business Tax and legal regimes Accountancy and finance management Equity finance	12
UE 3: Family business transmission Enterprise value assessment Legal and financial mechanisms of transmission Transmission management	12
UE 4: Family business management Management control and information technologies Human resources management Organisational structure and its control Change anticipation and management	30
UE 5: Internationalisation of family businesses From export to international management Management of international projects: tools and risks	8

Courses are supplied by IAE teacher-researchers and specialised professionals: lawyers, chartered accountants, family business managers. Teacher-researchers account for 2/3 and professionals account for 1/3 of courses. Professionals are paid on the basis of the university flat rate for external participants (app. EUR 40 per hour). Furthermore, a number of local family business managers participate for free by giving presentation and testimonies on their enterprises.

UE 6 consists of a written final examination (synthesis) of 5 hours (6 ETCS) and of a training period in a company of at least 18 weeks (8 ETCS) which leads to a written report presented to a jury. The company in which the training period takes place is chosen by the trainee according to his/her professional strategy. Therefore, it can be any kind of company but the subject of the report (mémoire) must deal with family business issues.

On average there are 30 to 40 applicants (initial education) for Master 2 GEF out of which on average 15 are accepted with a 100 % rate of successful completion. Graduates have interesting professional prospects. They start or take-over a family business as planned, many others are recruited in the company where they operated their training period, others finally join a bank or an advising company to develop or reinforce links with and services for family businesses.



This type of education programme can easily be transferred to other countries. The fact that 7 out of 20 applicants to Master 2 GEF in 2007 had a foreign diploma could demonstrate the interest elsewhere in the world for such specialised professional education programmes.

The most important success factors to develop such a training programme are the following:

- The existence of a strong theoretical knowledge on family business issues
- The involvement of family businesses professionals and advisors ready to co-operate

### **Impact of the Measure on the Family Business Sector**

The interest of such a professional Master 2 is to allow family businesses or their advisors to recruit managers trained to the very specificity of family businesses as well as allowing family members to be better prepared for the transmission of the company or to start a family business.

The long-term informal partnerships established with local family business as well as recognised family business organisations, namely ASMEP and FBN, as well as the willingness of professionals (accountants, advisors, family businesses managers) to give courses and presentation of their business testify that this type of training has a real interest for family businesses.

### **Future Issues**

Several partnerships are developed with business schools (IFAG, ESC Pau) in order that their students can also get the diploma Master 2 GEF. A specific communication budget would be necessary in order to develop the notoriety of Master 2 GEF among potential applicants, especially for the continuous vocational training courses.

Furthermore, a partnership could be established with similar training programmes in Spain and Italy. This is feasible only in the framework of the “Erasmus Mundus” programme. Unfortunately no call for such projects has been launched since 2006.

### **Contact Information**

Organisation: Institut d'Administration des Entreprises - IAE

Contact person: Pr Gérard HIRIGOYEN (master director),  
Ms Céline BARREDY (master studies director)

Postal address: Université de Bordeaux IV, Pôle Universitaire de Sciences de Gestion  
Bâtiment D – 2ème étage, 35, avenue Abadie, F - 33072 Bordeaux Cedex

Telephone: 33 5 56 00 96 67 / 33 5 56 00 45 69 (secretariat)

E-Mail: [celine.barredy@u-bordeaux4.fr](mailto:celine.barredy@u-bordeaux4.fr)

Webpage: <http://www.iae-bordeaux.fr/GEF/>



## Instruments in the Field of Awareness Raising/Lobbying/Policy Advice

### Family Entrepreneurship Working Group - Finland

(contributed by Adjunct Professor, Research Manager Ulla Hytti, TSE Entre, Turku School of Economics)

#### General Information

The Family Entrepreneurship Working Group (Perheyryitys -työryhmä) was commissioned by the Ministry of Trade and Industry (currently: Ministry of Employment and of the Economy) on 11 November 2004 together with the Entrepreneurship Policy Programme. The project was completed and the final report was presented on 31 May 2005.

The Working Group was designed to consist of experts in family business issues from different layers of the society: policy makers, academia, practitioners and finally family businesses and their representative organisation, the Family Business Network Finland. Mr. Philip Aminoff, Chairman of the Board of Directors of Electrosonic Oy Ab was invited to function as the Chairman of the Working Group. The members of the group were: Professor Matti Koiranen from the University of Jyväskylä (Vice-Chairman); Mr. Heimo Hakamo, Managing Director of Hakamo Corporate Advisor Group – CAG Oy; Ms. Tuija Hartikainen, Corporate Law Director at PricewaterhouseCoopers Oy; Ms. Pia Hillgren-Pöyhönen, Managing Director of Kovotekniikka Oy; Mr. Timo Parmasuo, Chairman of the Board of Directors at Meconet Oy; Ms. Anu Vauhkonen, Corporate Communications Director at Tulikivi Oyj; Ms. Helena Wallden, Executive Vice-President at OKO Bank and Mr. Kimmo Hyrsky, Senior Advisor at the Ministry of Trade and Industry. Finally, Mr. Kai Karsma, Senior Advisor at the Ministry of Trade and Industry and Ms. Krista Elo-Pärssinen from the Family Business Network Finland were appointed as Secretaries to the Working Group responsible for developing material and reporting of the outcomes of the Working Group.

The MTI committed its internal resources into the Working Group (1 out of 2 secretaries). In addition, the MTI compensated for the travel costs in case they were necessary. No other fees were paid.

#### Background/Motivation of the Measure

The Ministry of Trade and Industry initiated the measure. The decision to initiate the Working Group was linked to the needs and concerns expressed by the European Commission, and particularly to the Lisbon Strategy. In the final report from the Working Group it is stated that *“The Family Entrepreneurship Working Group sees that family enterprises are in a key position to achieve the objectives set out in the Lisbon Strategy.”* [...] *“Evidently, more attention should be paid to industrial policy to promote the development possibilities in these well-established enterprises.”* [...] *“The European Commission has motivated national and regional decision-makers to support business transfers to secure the continuity of many viable family enterprises, particularly in the EU.”* (MTI, 2006) This emphasised the policy area of the increasing number of transfers of businesses and related challenges that had been identified already before.



The objectives of the Working Group were as follows (MTI, 2006):

- to draft a proposal for a definition of family enterprise: what kind of a firm should be considered a family enterprise
- to investigate the number and size of family enterprises in Finland, to analyse their industrial structure and their significance for the Finnish economy and for regional development, as well as to evaluate the position of Finnish family enterprises in international comparisons
- if necessary, to come up with proposals on legislative amendments and on industrial policy measures that would be pivotal for family enterprises

The chairman of the Working Group was very skilful in analysing the discussion and the various viewpoints and was capable of suggesting conclusions that would mediate the different opinions.

### **Characteristics of the Measure**

The Working Group convened 8 times between 2 November 2004 and 31 May 2005. The Working Group worked in an independent manner.

The members of the Working Group discussed vividly the different issues. The secretaries documented the discussion and main points and provided the Working Group with the reports. In some cases, the secretaries compiled documentation before the meeting and in the meeting discussion was based on this documentation. Hence, the Working Group assumed an interactive and processual working method.

The goal of the Working Group was to improve policy making in relation to family businesses, in order to foster their survival and growth and the transfers of businesses.

Consequently, the Working Group heard a total of 11 experts on various issues related to the agenda developed by the Working Group during the course of its work:

- Antti Neimala, Ministry of Trade and Industry: Taking companies into account in the statutory preparation process
- Pertti Valtonen, Ministry of Trade and Industry: Development of financing possibilities
- Manne Airaksinen, Ministry of Justice: Company legislation reform and family enterprises
- Hannu Lipponen, Ministry of Trade and Industry: Globalisation report
- Anders Blom, Family Business Network Finland: Family enterprises and the policy programme on entrepreneurship
- Ilkka Kajas, PricewaterhouseCoopers Oy: Inheritance and gift taxation
- Jouko Rajaniemi, Statistics Finland: Statistics on family enterprises
- Esa Kosonen, National Board of Patents and Registration of Finland: Statistics on family enterprises
- Kalevi Heiliö, National Board of Taxes: Statistics on family enterprises
- Juha Marjosola, Finnish Industry Investment: Family enterprises and financing



- Markus Sovala, Ministry of Trade and Industry: The policy programme on entrepreneurship.
- In addition, Leena Romppainen from the law firm Asianajotoimisto Castrén & Snellman, Marko Nokka and Ola Saarinen from PricewaterhouseCoopers Oy and Kari Villikka from Finnvera plc in particular have helped the Working Group to proceed in their task. (MTI, 2006)

Following the goals set, the Working Group analysed the family firm sector based on statistics and existing research. The secretaries for the Working Group developed material for the discussion in the Working Group. The Working Group proposed a definition for family enterprises as well as suggested several measures: *“Regarding the definition tasks mentioned in the mandate for the Working Group, a multi-layer definition of family enterprise was chosen, in which the concept of family enterprise functions as a kind of umbrella. Below this, the concept of family enterprise, i.e., company-form family enterprises, is defined as follows: A firm is a family enterprise, if*

- the majority of votes is in the possession of the natural person(s) who established the firm, 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 child’s direct heirs.
- The majority of votes may be indirect or direct.
- At least one representative of the family or kin is involved in the management or administration of the firm.
- Listed companies meet the definition of a family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 % of the right to vote mandated by their share capital.

The Working Group’s proposals for measures relate particularly to securing continuity of family enterprises and to strengthening Finnish ownership. Since the Working Group consisted of various view-points related to family businesses, the Chairman’s role in forming the conclusions that was important. The objective for these proposals for measures is an operating environment that encourages family entrepreneurship and as good prerequisites as possible for the continuity, renewal and growth of profitable family entrepreneurship. To achieve this, the Working Group proposed as its strategic intent: *The Government Strategy Document 2006 should include the measures proposed by the Family Entrepreneurship Working Group to improve the operating environment. The Working Group also considers that most of the measures proposed can be implemented under the Entrepreneurship Policy Programme led by the Ministry of Trade and Industry and co-ordinated by the Entrepreneurship Policy Programme.* The Working Group proposed the following measures:

- To offer adequate resources to Statistics Finland for developing statistics on family entrepreneurship and to enable monitoring of family firms
- To develop the financial services of Finnvera Plc and Finnish Industry Investment to include services promoting family business transfers and growth
- To abolish inheritance and gift taxes on company assets from all shareholders in unlisted family enterprises, and in listed firms from those shareholders who are owners meeting the definition of a majority (25 % of the votes) in family entrepreneurship
- To reinforce the status of family entrepreneurship in education



- To conduct a survey on the needs and resources for establishing a family entrepreneurship centre
- To develop an extensive training programme on family business transfer
- To introduce a service voucher or equivalent to evaluate and to activate family business transfers in firms and to enable firms to purchase consultation services
- To continue to organise national family entrepreneurship events and to organise an international family enterprise conference in association with the EU Competitiveness Council meeting convening in Jyväskylä in summer 2006

The Working Group also emphasised the need to monitor the implementation of and the effects from these proposals for measures. *“This is best achieved when: The implementation of the Family Entrepreneurship Working Group proposals is monitored on an annual basis in the Cabinet Finance Committee which is recommended to integrate generational transfers and strengthening the Finnish ownership into its agenda.”* (MTI 2006)

The activities and recommendations of the Working Group are reported in the final report (published both in Finnish and in English). The report is published on the website of the Ministry of Employment and of the Economy (previously Ministry of Trade and Industry) and it can be downloaded free of charge.

The work of the Working Group has been efficiently communicated in particular through the personal contacts between the Finnish members with the European colleagues. In order to facilitate the dissemination the report, for example, was translated into English. Following this it has spread quite well and, for example, the European Group of Family Enterprises, GEEF, has accepted the definition developed by the Working Group (adding, however, a footnote mentioning that the fourth aspect refers to listed companies characterised by fragmented ownership in which the family as the largest shareholder holds less than 50 % of the votes but nevertheless exerts conclusive influence over key aspects of corporate governance), and the German affiliate (Die Familienunternehmer, ASU) has also included the definition in their regulations. Despite these international developments, the take-up of the definition in Finland has been slower, and for example, the development regarding the family business statistics has not progressed. One reason for this is a kind of scepticism from several sides regarding the usefulness and applicability of such a fixed definition for family business for statistical purposes.

The strength of the Working Group has been the active participation from the different layers of the society, including policy makers, academia and practitioners. As such, the suggestions and conclusions represent the shared views of different stakeholders involved. The role of the Working Group is, however, only to advice and possibly also monitor policy making and not to implement. Hence, the impacts or results from the Working Group are efficient only if accepted by the stakeholders and taken into practice.



## **Impact of the Measure on the Family Business Sector**

The FFFA took part in the Working Group which at least indirectly proves that the goals are in the interest of family firms. In addition, the concerns of family firms were included in the latest Government Programme (2007) which is at least partly related to active work of the Finnish Family Firm Association that has been able to surface the issue.

Following the recommendations of the Working Group, some results and effects for family businesses can already be stated. The different employer organisations are asked by the Ministry to state their views on the definition developed by the Working Group. Similarly, financing instruments for growth firms have been developed which should benefit also the family firms pursuing growth. As these new instruments have been introduced in 2008, their impacts cannot yet be detected. One of the most current issues is the taxation in the case of generational transfer that has been made more lenient by amending the Inheritance and Gift Taxation Act (2005) (MTI, 2007). The current policy programme decided to lower the inheritance and gift tax in case of family business successions and other transfers of businesses. In addition, some Universities of Applied Science are offering particular “successor” programmes targeted at young successors for family firms, and a family entrepreneurship centre is set up in Valkeakoski. The centre offers services, such as counselling, training and research services to family firms. In addition, the centre supports the networking between family firms. It co-operates with regional organisations for the Federation of Finnish Enterprises, policy makers and education institutions. Moreover, the Ministry has allocated some funds for its feasibility studies.

In 2008, the FFFA is investigating the interest of Finnish universities to house and of Finnish family firms to finance three additional family business professors to strengthen the knowledge-base of family firms. In addition, there are ongoing national and international family business meetings and conferences. Regarding the family firm definition, the research community has had some controversial views. From the research point of view one definition for family firms is not considered possible due to the shifting nature of family firms over time: for example, during the succession process the family firm nature of any firm surfaces.

## **Future Issues**

This is the first time the Family Entrepreneurship Working Group has been organised, and there is no official continuation for it. However, the Working Group has met twice after the final closing, the latest time in autumn 2008. So, it has assumed also a monitoring role. By taking such a role, it can at least influence that the issue is not forgotten or overtaken by other concerns.

## **Contact Information**

Organisation: Ministry for Employment and of the Economy  
 Contact person: Senior Advisor Kai Karsma  
 Postal address: P.B. 32, 00023 VALTIONEUVOSTO  
 Telephone: + 358 10 60 6000  
 E-Mail: kai.karsma@tem.fi  
 Webpage: www.tem.fi

Organisation: Finnish Family Firm Association  
 Contact person: Dr. Krista Elo-Pärssinen  
 Postal address: Museokatu 8 A 4, 00100 HELSINKI, FINLAND  
 Telephone: +358 75- 325 4202, +358 400 254 004, Fax: +358 75-325 4249  
 E-Mail: krista.elo-parssinen@perheyritystenliitto.fi  
 Webpage: www.perheyritystenliitto.fi



## **Family Business Network Forum of the Confederation of Norwegian Enterprise (CNE) - Norway**

*(contributed by Jon Anders Henriksen, CNE and Kristin Wallevik, Agder Research)*

### **General Information**

The name of the initiative is Næringslivets Hovedorganisasjon (NHO) in Norwegian and the Confederation of Norwegian Enterprise (CNE) in English. The organisation has the purpose of serving small, medium-sized and large enterprises in all parts of the country. This organisation is a private organisation representing the employers in Norway in various national hearings, discussions and negotiations. They have a special initiative towards family firms (namely the Family Business Network Forum) which will be presented in the following.

The CNE which is fully funded and financed through membership fees was established on January 1<sup>st</sup> 1989, when three large employers' organisations merged into the CNE.

CNE has its main office in Oslo but has regional offices throughout the country. The membership fees are twofold, where one part is paid to the national organisation and one part is paid to the regional subdivision. The national payment is calculated according to size of the firm and the local part varies depending on the services provided by the different regional offices.

The Forum was launched in the early 1990's, but family business issues have always been important for the CNE. Access is open to all members of CNE that define themselves as a family enterprise/business. Also included are members of the Norwegian Shipowners Association. The Association is a partner in the Forum (Actor). There is no additional cost for being a member of the Family Business Network Forum.

### **Background/Motivation of the Measure**

Initially there was a separate unit in the CNE which had the responsibility for SME policy and family business issues. This unit established in close co-operation with member businesses a network of family businesses which later grew into a formal structure. During the establishment of the Forum no particular problems were encountered. There may have been some difficulties in incorporating the new network/board into the existing structures. However, in CNE the Forum has been granted a formal position as the Advisory Board for the CNEs Board of Directors. In doing so, the autonomy of the Forum was kept and at the same time the Forum was included into the CNE structure.

The background for the measure was to improve the members'<sup>64</sup> competitiveness through better national frameworks regarding fiscal regulations, tax law, company law, social security issues as well as elements regarding education, better information on rules and regulations and networking. CNE participates in different national debates regarding various issues affecting firms' competitiveness and profitability.

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<sup>64</sup> CNE represents all companies while the Forum is for family businesses, only.



The objectives of the measure are to improve conditions for firms through better information of the family businesses to the organisational “production” and consulting policies and policy development directly with the family business members. The “production” is referred to as the policies developed by CNE whereby the family businesses in the Forum are consulted on these issues.

Some of the criteria for success have been reasoned by: providing a productive organisational structure where only a minimum of bureaucratic processes have been established, together with ample funding to make the network able to focus on the issues rather than structures. The CNE provides resources for the Forum; both in means of personnel as well as activities.

### **Characteristics of the Measure**

The roles and duties of involved actors and their communication/co-ordination processes are divided into three levels:

1. CNE provides the organisational and administrative structures, including the network in operational grid of policy development in CNE. The Forum is attached to the CNE organisation in three ways: 1) Members of the CNE may be members in the Forum, 2) The Forum is connected formally to the CNE's Boards of Directors and 3) Resources (including personnel) are made available from the CNE administration.
2. The Board of Directors of the network has the primary responsibility for strategising the communication plan. The communication is based on the targets of the members rather than the business organisation itself. The Board consists of 13 persons representing family firms of all sizes, branches and geographic location. They are nominated by the CNE's administration and enacted by the CNE's Board of Directors.
3. A small network of regional representatives has been established who again are to become a front office in the communication with politicians and opinion makers at regional level.

The members of the CNE network are from all parts of the industry and all sizes of firms, varying from large listed firms to small family owned businesses. For the family owned firms, the members are those who have a role in governing the family business; preferably and normally the head of the family firm.

One of the most important activities of the Forum is to produce reports and written material that describes the family business situation nationally as well as internationally. In addition there are other activities in the frame of the measure like:

- General and specific meetings with national politicians
- Conferences and seminars primarily for the network members, but also occasionally with a politics agenda directed towards national/European politicians
- Sounding board capacity for important national and European legislation and policy development; primarily incorporated within the CNE's general remarks. Some of the topics are related to tax issues, business transfers, HR development and corporate governance in family businesses, entrepreneurship policies and trade.
- Contact with other family business organisations and groups, both nationally and internationally



The board of directors of the CNE monitors and evaluates the network's operations and activities. This is done through review of annual and bi-annual plans and review of individual activities like conferences, meetings etc.

The family businesses are made aware of the network through CNE, advertisements in business magazines and partner activities with other business organisations. In addition, the Forum also takes an active role and participates in the public debates on family business related issues.

There have not been any dramatic changes in the way CNE and the Forum is organised, and the co-operation between the different bodies works very well. The constant changes in the business environment for family businesses are handled in CNE as well as in the Family Business Network Forum as a part of their continuous operations. These changes relate to legal or tax issues or other elements affecting the business environment for these family firms. There are no bottlenecks or difficulties that have been outside the normal operations for the organisations.

CNE has a high degree of flexibility due to a low bureaucratic structure and high acceptance for organisational and strategic changes.

The success factors of the initiative are:

- Strong ownership and commitment from the family firm members of the board
- Clear strategic position within CNE
- Strong focus on communication and information operations

Regarding transferability to other environments the following aspects need to be considered:

- The CNE is a private/civic initiative which never would have been developed other than within the business community itself.
- It is important with regard to recognition, and the network will flourish recognition from policy developers and policy makers.
- Family businesses are, however, the backbone of the SME community throughout most parts of Europe, and they are also the backbone of the business community when one views the ownership structure. Creating awareness and recognition of these issues will most likely have a positive impact on the further development and sustainability of family firms.

### **Impact of the Measure of the Family Business Sector**

Both the CNE and the Family Business Network Forum have a high rating within the community, both at the national as well as at the regional level.

Effects for family businesses are not measured as such but questionnaires and general feedback voice great satisfaction from the member businesses. These surveys provide a good tool to communicate between the members and the administration (both of the CNE and the Forum) on different topics, for instance tax issues.



Nevertheless, there exist some general problems to be overcome:

- One could argue that there is a lack of knowledge in the general public regarding the effect of private ownership of businesses, both in financial and more social terms such as employment.
- Family businesses are part of the policies routed towards providing jobs as well as economic growth. Full employment is one of the main issues in the political priorities and awareness; hence it is one very important issue for the CNE as well.
- Family businesses are historically less transparent than other businesses, and in particular compared to listed companies. This gives difficulties when aiming for recognition from the general opinion when the media is more focused on the undisclosed parts of the business rather than focusing on the disclosed parts.

Even though it is hard to measure, the instrument is regarded a success due a higher level of awareness and knowledge about family businesses in general and the special issues regarding these firms. This counts both for the general knowledge in Norway, but even more so for the family firms themselves through the advice they get from the Forum on different issues related to being family firms.

Lessons learnt during the lifetime of the instrument:

- One should have more focus on private and family ownership and the stewardships' importance for economic growth over time
- One should acquire more knowledge about family businesses in general, but particularly about the effect of family ownership in local communities over time
- Tax is a critical issue for private owners, and taxes based on wealth rather than running revenues and running operations are putting small family businesses at risk

### **Future Issues**

The family firm network has a high priority for CNE and will be an important part of CNE's strategy and operations in the years to come. Further plans are:

- Improve the legislative framework for ownership so that both, more family firms survive but also that more family firms are established.
- Increase the level of recognition among Norwegian policy makers regarding family firms and family ownership.

### **Contact Information**

Organisation: NHO – Confederation of Norwegian Enterprise  
Contact person: Mr Jon Anders Henriksen  
Postal address: Post-box 5250 Majorstuen, 0303 Oslo  
Telephone, Fax: +47 23 08 8000, +47 23 08 8001  
E-Mail: jon.a.henriksen@nho.no, inger-lise.mathisen@nho.no  
Webpage: www.nho.no





## Annex V: Country Fiches

Individual country fiches available for the following countries:

- Austria
- Belgium
- Bulgaria
- Croatia
- Cyprus
- Czech Republic
- Germany
- Denmark
- Estonia
- Finland
- France
- Greece
- Hungary
- Iceland
- Ireland
- Italy
- Latvia
- Liechtenstein
- Lithuania
- Luxembourg
- The Former Yugoslav Republic Of Macedonia
- Malta
- The Netherlands
- Norway
- Poland
- Portugal
- Romania
- Slovak Republic
- Slovenia
- Spain
- Sweden
- Turkey
- United Kingdom

See separate documents

