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Austrian Institute for SME Research



In co-operation with



# **Overview of Family Business Relevant Issues**

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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.

Challenge	Policy Recommendation	Concerned Level
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)

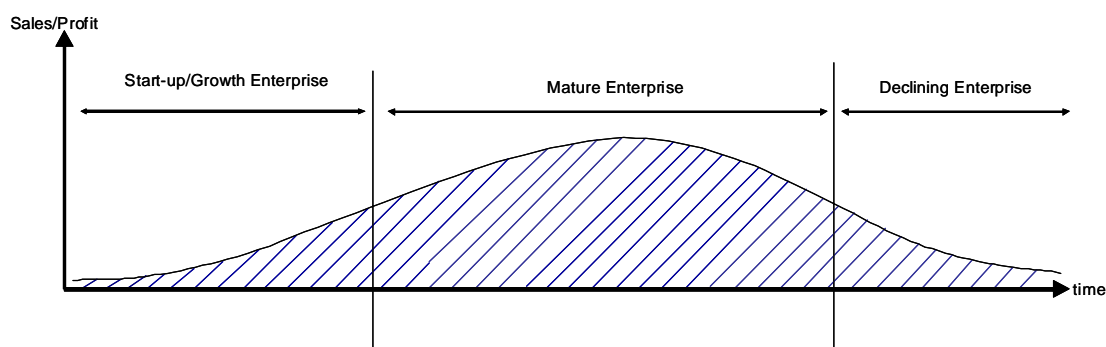
<sup>6</sup> In available publications dealing with definitions about family businesses, such aspects (like the family’s involvement in the enterprise) are referred to as “process elements” (e.g. Davis, 2001).

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)

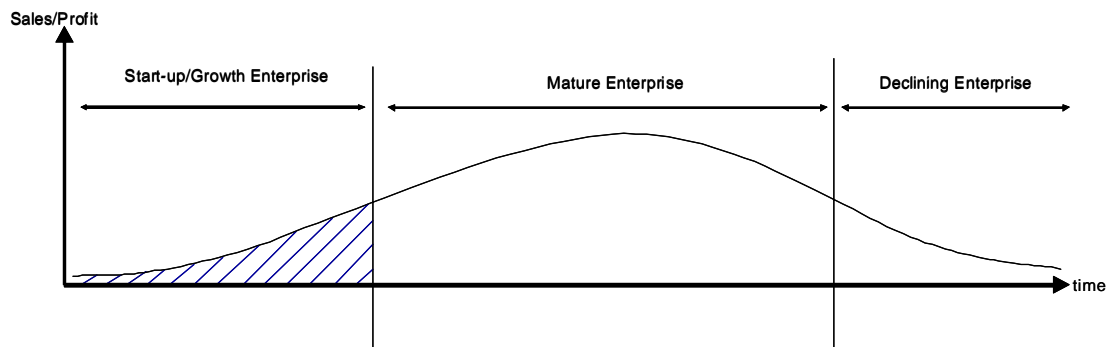
The **status of being a family business must not be considered to be “fix”**. There are numerous businesses that are a family firm over their whole life course (Graph 1a). However, there might also occur changes from being a family business to non-family business and vice versa over the company life 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

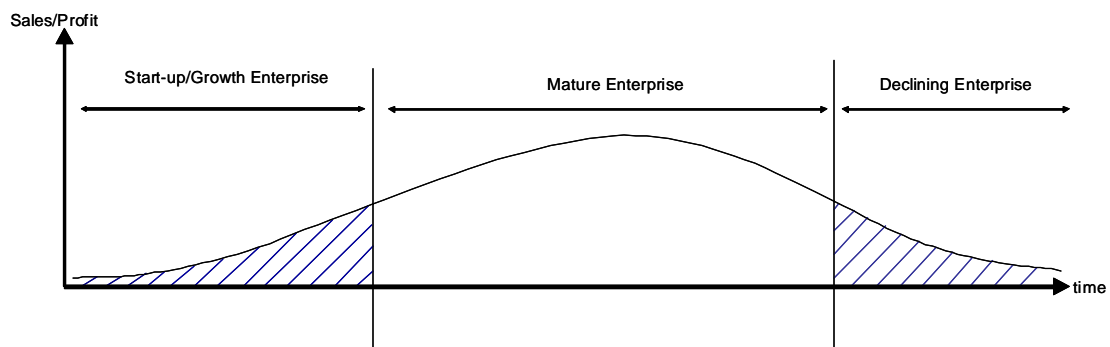
a) Family Business Status During the Whole Life Course



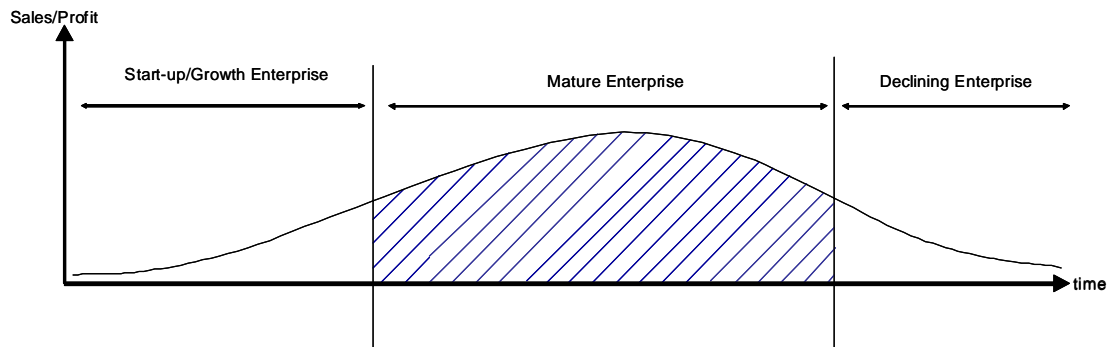
b) Family Business Status During the Start-up/Growth Phase Only



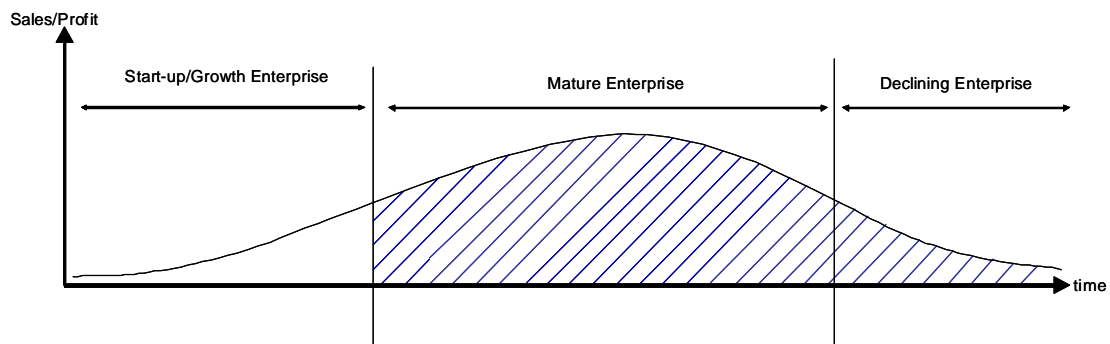
c) Family Business Status During the Start-up/Growth and Declining Phase



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

<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 Buyse
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	and	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	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

Ownership of the business controlled by	Management roles undertaken in the business by				
	Individual		Couple	Family	Widely held
	Individual	1 Classic start up situation whereby an individual owns and manages the business by themselves	2 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.)	3 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).	4 This is a non family business with individual ownership and widely held management.
	Couple spouse or household	5 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.	6 Here a couple own the business and are jointly involved in managing the business (classic copreneurship)	7 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).	8 This is a business owned by a couple but with widely held management.
	Family (siblings or family members from two generations)	9 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.	10 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).	11 Here ownership is held between family members who are also widely involved in management roles (two generations working alongside each other)  Classic family business	12 This a family owned company with widely held management involving family and non family (typically professionalized business)
	Widely held (family and non-family)	13 A business with wide ownership (family and non-family) but with one person managing.	14 A business with wide ownership but a couple manage the business	15 A business with wide ownership but a family team manage the business.	16 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

**Table 5 Economic Indicators of Family Businesses in Europe<sup>12</sup>**

	Definition (see Table 1)	Share of Enterprises	Share of Employees	Share of turnover	Share of GDP or Value Added	Other Indicators	Source
AT	1	80 %	75 %				Czernich/Guggenberger/Schwarz, 2005
		80 %	70 %				Frasl/Rieger, 2007
		75 % of craft and trade companies are completely owned by families; in 80 % of those craft and trade companies having 2 or more managers, all belong to the same family					Austrian Institute for SME Research, Economic Performance Database (3 <sup>rd</sup> quarter 2007)
BE		70 %			55 % of GNP		Estimations of the Instituut voor het Familiebedrijf and the Institut de l'Entreprise Familiale on the basis of IFERA, 2003
	7	52 % of the 100,000 biggest companies					Vicindo DataMarketing, 2002
						40 % of the gazelles in the Walloon region	Les 400 grandes PME à forte croissance", 19/10/2006, Tendances
CY		85-90 %, including more than half of the existing public limited companies	about 40-50 %		about 50 %		expert's opinion
CZ		80-95 % of SMEs					expert's opinion
CZ	entrepreneurs incl. co-operating family members	84 %					Czech Statistical Office, 2007

<sup>12</sup> See Annex I for the Country Codes

	Definition (see Table 1)	Share of Enterprises	Share of Employees	Share of turnover	Share of GDP or Value Added	Other Indicators	Source
DE	16	95 % (97 % among companies with an annual turnover of less than EUR 1 mio; 86 % among those with EUR 1 - 5 mio; 74 % among those with EUR 5 - 10 mio; 58 % among those with EUR 10 - 50 mio; 34 % among those with more than EUR 50 mio)	57 %	42 %			Hauser/Wolter, 2007
DK	17	94.6 % (85.7 % of publicly traded and 97.0 % of closely held enterprises, respectively)					Bennedsen/Nielsen, 2001
	18	76.5 % (69.9 % of publicly traded and 78.3 % of closely held enterprises, respectively)					Bennedsen/Nielsen, 2001
	19	35.6 % (35.8 % of publicly traded and 35.2 % of closely held enterprises, respectively)					Bennedsen/Nielsen, 2001
	20	49.5 % (50.5 % of publicly traded and 47.0 % of closely held enterprises, respectively)					Bennedsen/Nielsen, 2001
	21	80.1 % (73.9 % of publicly traded and 82.4 % of closely held enterprises, respectively)					Bennedsen/Nielsen, 2001
EE		90 %	50 %				Kirsipuu, 2004
ES		85 %	75 % of total private employment		70 % of GDP	65 % of the family businesses are in the 1 <sup>st</sup> generation, 25 % in the 2 <sup>nd</sup> , 9 % in the 3 <sup>rd</sup> /4 <sup>th</sup> and 1 % in later generations	Instituto de Empresa Familiar, 2007

	Definition (see Table 1)	Share of Enterprises	Share of Employees	Share of turnover	Share of GDP or Value Added	Other Indicators	Source
FI	28	80 %	more than half of the workforce within the private sector	40 % of all businesses			Koiranen, 2002a and MTI 2006
	owner and family mem- bers own more than 50 % of the firm	86 % (65 % of the owner managers perceive the enterprise as family firm)	75 % of SMEs' employees	70 % of SMEs' turnover			Heinonen/Toivonen, 2003
			49 % medium- sized companies' employees; 22 % of large compa- nies' employees	41 % of medium- sized companies' turnover; 16 % of large companies' turnover			Tourunen, 2007
FR	89	80 %	49 %				FBN International, 2007
	31	75 % of medium-sized and 20% of large (3,000 or more employees)					PriceWaterhouseCoopers, 2006
		49.2 % of the 500 largest manufacturing enterprises		59 % of the 500 largest manufac- turing enterprises' turnover			Allouche/Amann, 1995
	enterprises listed on the stock ex- change con- trolled by the founder or heirs	2/3					Srear/Thesmar, 2004
GR	consideration of business owner	80 %					Grant Thornton, 2006
	family-owned	52%					EOMMEX, 2007





	Definition (see Table 1)	Share of Enterprises	Share of Employees	Share of turnover	Share of GDP or Value Added	Other Indicators	Source
HR	see "share of employees"		33.54 % of the employed are employed by owners of enterprises, crafts and farmers (+17.32 % if also considering the entrepreneurs themselves); 6.16 % of total employment declared to work in a family business				Croatian Bureau of Statistics, Labour force survey, 2006
HU	38	72.2 %					Small Business Development Center
		70 %					SEED, 1997
			55 %				Ministry of Economic and Transports, 2007
IS		70-80 %	70-80 %		60-70 % of value added		expert's opinion
IE		75 %; 62 % of the top 50 private enterprises <sup>1</sup>	half of employment in the private sector				expert's opinion
	family owned	47 % of services enterprises (47.1 % of small and 36.8 % of large enterprises)	39.2 % of services enterprises' employees (49.3 % of small and 27.1 % of large enterprises)	28.5 % of services enterprises' turnover (37.1 % of small and 19.3 % of large enterprises)			Central Statistics Office, 2007

<sup>1</sup> The top 50 list excludes Irish public companies (i.e., quoted on the stock exchange) and subsidiaries of multinational companies located in Ireland (e.g., Intel and Microsoft)



	Definition (see Table 1)	Share of Enterprises	Share of Employees	Share of turnover	Share of GDP or Value Added	Other Indicators	Source
IT		65-81 %					Expert's opinion
		93 % of manufacturing companies with less than 50 employees	98 % of manufacturing companies' employees with less than 50 employees				Bank of Italy, 2004
LU		70 %; 1/3 of the 369 biggest enterprises	25 % of the 369 biggest enterprises' employees				PriceWaterhouseCoopers, 2007
LT	44	38 %			15 % of the value added	99 % of businesses are still in the 1 <sup>st</sup> generation	Statistics Lithuania, 2007
	45	92.3 % of SMEs			63.1 % of the value added		Statistics Lithuania, 2007
LV	47	30 % of SMEs with less than 50 employees					BICEPS, Survey of Innovative Business in Latvia (SIBIL)
	48	58 % of start-ups have 1 owner and further 11 % are owned by entrepreneur and spouse					BICEPS, Panel Study of Entrepreneurial Dynamics
	49	5 % of all entrepreneurs inherited their business from their parents <sup>4</sup>					Global Entrepreneurship Monitor (GEM), 2007
NL	53	22 %					Flören, 2002
	54	55 % (55 % of enterprises with 1-9 employees, 60 % of those with 10-99 employees and 45 % of those with 100 or more employees)	40 %		50 % of GDP		Flören, 2002
	89	61 %	1/3				FBN International, 2007
	43	83 %					Flören, 1993
NO	family owned	2/3	About 40 %		nearly 50 % of the value added		NHO, 2007
		30 % of the largest 500 enterprises					Steen Jensen, 2007



	Definition (see Table 1)	Share of Enterprises	Share of Employees	Share of turnover	Share of GDP or Value Added	Other Indicators	Source
PL		70-80 %; 50 %					experts' opinion
				40-65 %			Sułkowski, 2004
						71 % of the family businesses are in the 1 <sup>st</sup> generation, 25 % in the 2 <sup>nd</sup> , 4 % in later generations	Popczyk/Popczyk, 1999
						75 % of the family businesses are in the 1 <sup>st</sup> generation, 17 % in the 2 <sup>nd</sup> , 6 % in the 3 <sup>rd</sup> , 3 % in the 4 <sup>th</sup>	Lipiec, 2006
PT	owned/control led by one or more member of one or more families	70-80 %	about 50 %	2/3			experts' opinion
RO	Law 507/2002 regarding organisation and development of some economic activities by domestic persons	newly registered family businesses and freelancers between December 1990 and 2007 amount to more than half of the SMEs	19 %			between December 1990 and 2007, more than 1/4 of the business registrations were family businesses and freelancers	Romanian Trade Register
SE	71	54.5 % of all enterprises and 26.4 % of large (500 or more employees) enterprises	34.7 %	29.5 %			Emling, 2000

	Definition (see Table 1)	Share of Enterprises	Share of Employees	Share of turnover	Share of GDP or Value Added	Other Indicators	Source
SI	73	46.45 % of SMEs					Duh/Tominc, 2005 and Duh, 1999 and Duh, 2003
	72	44.11 % of SMEs					Duh, 1999
	consideration of business owner	58.6 % of SMEs	At least 26 % of active adult population		At least 22 % of value added	87 % of the family businesses are in the 1 <sup>st</sup> generation, 11 % in the 2 <sup>nd</sup> , 1 % in the 3 <sup>rd</sup> generation	Glas, 2003 and Vadjal, 2005
		60-80 %					Glas et al., 2006
					30 % of GDP		Vadjal, 2006
						85 % of the family businesses are in the 1 <sup>st</sup> generation, 14 % in the 2 <sup>nd</sup>	Duh/Tominc, 2006
SK		80-95 % (probably on the upper border)					Experts' opinion
TR	77	90 % of enterprises					PriceWaterhouseCoopers LLP, 2007
		94 % of SMEs					ASO, 2005
UK		68 % of SME employers				69 % of family businesses are in the 1 <sup>st</sup> generation, 20 % in the 2 <sup>nd</sup> , 9 % in the 3 <sup>rd</sup> or later generation	DTI Annual Survey of Small Business, 2006
		3/5 of SMEs with an annual turnover of less than £ 5 mio					Barclays survey, 2002
		69 % of SMEs					Omnibus Survey of Small Businesses in Scotland, 2002
		65 % of private sector enterprises	41.9 % of private sector employment	38.2 % of private sector turnover	40.7 % of GDP		IFB report, 2008 and GEM report, 2006



	Definition (see Table 1)	Share of Enterprises	Share of Employees	Share of turnover	Share of GDP or Value Added	Other Indicators	Source
Supra-national	92	More than 50 % of enterprises in the EU					PriceWaterhouseCoopers LLP, 2007
Supra-national	91	About 80 % of enterprises	More than half of the employment of the private sector in the EU-15				experts' opinion (GEEF)
Supra-national	91	At least 60 % of all businesses (61 % in NL, 65 % in the UK, 73 % in IT, 79 % in DE and SE, 83 % in FR, 85 % in ES, 91 % in FI)	Shares of total employment: 61 % in SE, 52 % in IT, 49 % in FR, 44 % in DE, 42 % in ES, 41 % in FI, 31 % in NL and the UK				FBN International, 2008
Supra-national		69 % in BE, 74 % in NL, 60 % in FR, 70 % in the UK, 75 % in ES, 79 % in SE, 93 % in IT			Share of GNP: 55 % in BE and DE, 54 % in NL, 60 % in FR and PT, 65 % in ES, 40 % - 45 % in FI		IFERA (2003)

Remark: Empty cells mean that no respective data could be identified. For Bulgaria, the Former Yugoslav Republic of Macedonia, Liechtenstein and Malta no family specific data could be found.

### 3.2 Size Class Considerations

In some of the analysed countries the **share of family businesses is measured on the SME population** instead of (or next to) total enterprise population (for available data and sources see Chapter 3.1). The cross-national comparison shows quite diversified results. While in Slovenia 46 % - 58 % of SMEs are classified as family businesses this share is 70 % in the United Kingdom and as high as 80 % - 95 % in the Czech Republic or Turkey. This is at least partly due to the definitions used: While the data for Slovenia stems from research requiring majority family ownership and family management for considering a company as a family business, the information for the Czech Republic constitutes experts' estimations.

At the same time, the available data also shows that **some of the largest European companies are family businesses**. In Luxembourg, Norway or Sweden, for example, research pinpoints that about 30 % of the largest companies are family businesses. In Belgium, this respective share is even higher (about 50 %). IFERA (2003) indicates that not only Wal-Mart as the world's largest enterprise is a family business, but further 37 % of the Fortune 500 companies are family firms. PriceWaterhouseCoopers LLP (2007) observes a positive relationship between size class and age of the company.

From the other point of view, 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.

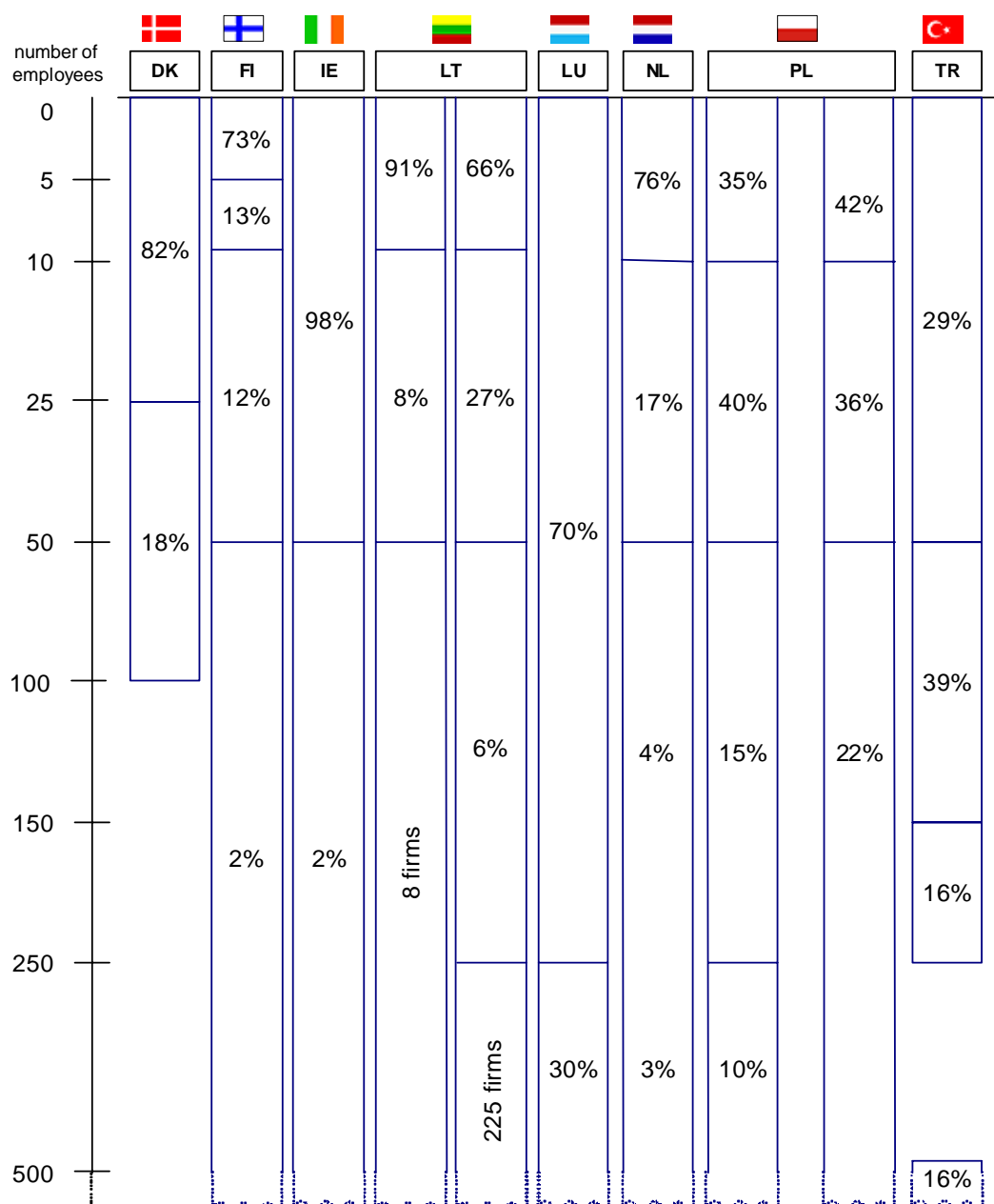
For Denmark, it is, for example, research shows that all family businesses are SMEs, with about 80 % having less than 25 employees (which corresponds to the total average for businesses in Denmark). A very similar result is found for Finland and Ireland where 98 % of family businesses employ less than 50 staff members and in the Netherlands where 97 % of family businesses are SMEs (and the majority thereof micro-enterprises with less than 10 staff members). In Lithuania, more than 90 % of the family businesses employ up to 9 persons, and the remaining about 10 % constitute small firms with less than 50 employees. At the same time, other data indicate a share of micro-enterprises within the family business population of 2/3 and 6 % being medium-sized firms. A Polish survey (Sułkowski, 2004) finds a slightly higher average company size of family businesses, but still 90 % of the enterprises are SMEs.

In contrast to that, in Luxembourg "only" 70% of family businesses are SMEs. Turkey inherits a kind of medium position with about 85 % of all family businesses being SMEs.

Also for Germany, a higher importance of family businesses among smaller companies can be shown. While among companies with an annual turnover of less than EUR 1 million the share of family businesses is as high as 97 % the respective value decreases to 86 % among those with EUR 1 - 5 million, 74 % among those with EUR 5 - 10 million and 58 % among those with EUR 10 - 50 million. However, as many as 34 % of those companies with an annual turnover of more than EUR 50 million also are family businesses it becomes prevalent that this company form is not limited to small business entities. (Source: Estimations of the Institut für Mittelstandsforschung Bonn)

Similar was also found for Norway considering the assets of listed companies: Family firms show lower levels of total assets compared to non-family firms indicating that they are smaller than non-family firms, in line with earlier literature (Randøy/Down, 2002).



**Graph 2** Size Class Distribution Within the Family Business Sector, Selected Countries<sup>13</sup>

Remark: The length of the columns is oriented on the enterprise size class scale on the left side and is not proportional to the extent of companies in this category.

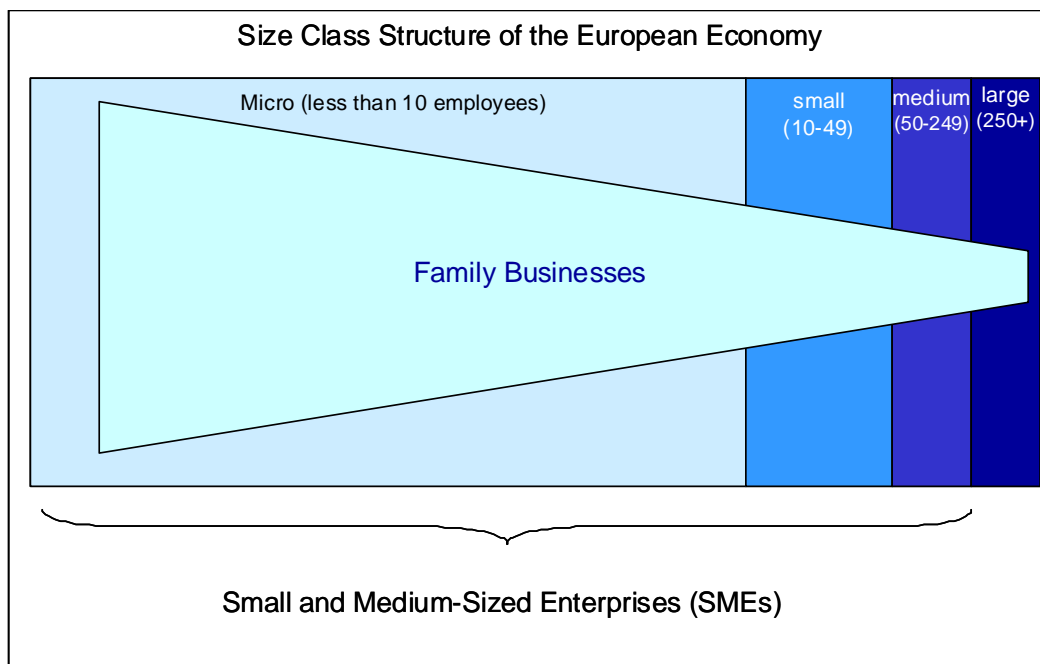
Sources: Greens Analyseinstitut, 2006 (DK); Heinonen/Toivonen, 2003 (FIN); Annual Services Inquiry, 2005 (IE); Statistics Lithuania, 2007 (LT); PriceWaterhouseCoopers, 2007 (LU); FBN International, 2007 (NL); Sułkowski Ł., 2004 (PL, left column); Lipiec J., 2006 (PL, right column); Ankara Chamber of Industry 2005 (TU)

<sup>13</sup> See Annex I for the Country Codes

The latest data of the FBN International Family Business Monitor (FBN International, 2008) shows that the share of family businesses having an annual turnover of more than EUR 2 million is as high as 18 % in Italy, 16 % in the UK, 15 % in Finland, 9 % in Germany and France, 8 % in the Netherlands, 7 % in Spain and 4 % in Sweden.

To summarise, the majority of European SMEs - which constitute the backbone of the European economy - constitute family businesses, while also the majority of family businesses are SMEs. At the same time there exist large, internationally active family businesses.

**Graph 3** Size Class Considerations of the European Economy and the European Family Business Sector



Source: Austrian Institute for SME Research

### 3.3 Sectors of Activity

Family businesses are active in all sectors of the economy. Nevertheless, in some of the countries data are available showing that family firms are more prevalent **in traditional and labour intensive sectors** such as agriculture, manufacturing/crafts, construction, tourism or retail trade while they are underrepresented in, for example, the financial sector (with national exemptions, see below) or high-tech industries. The Family Business Monitor of FBN International also pinpoints that at least 40 % of all family businesses are concentrated into three sectors: manufacturing, construction and wholesale/retail trade (FBN International, 2008).

Thereby it has to be considered, however, that in general the classification of an enterprise according to a specific sector is conducted when the firm is founded. Hence, older businesses (and there is some evidence that family firms are older than non-family firms, see Chapter 4.2) are be categorised as a “traditional” enterprises in spite of working in their field of activity with modern production processes and modern technologies.





Furthermore, in Liechtenstein, for example, there occurs a shift towards modern industries among the family business sector. Thereby, family businesses are often acting in market niches, contributing to a strongly diversified economic structure of Liechtenstein (Fürstentum Liechtenstein – Amt für Volkswirtschaft, 2008). Also for the Former Yugoslav Republic of Macedonia experts expect that although presently family businesses are focusing on traditional sectors (trade, gastronomy, agriculture), for the near future other services and sectors will witness a rise of the family business model including for example tourism, consulting services, fashion and design, as well as software development and other services in the IT sector in general.

While in the Czech Republic little **difference between** the fields of activity of **family and non-family businesses** exists, in Spain a larger presence of family businesses than non-family businesses is given in the food and beverage sector (27 % vs. 0.9 %), in the media sector (7.5 % vs. 2.3 %) and in the financial and insurance sector (5 % vs. 1.8 %). Also in Hungary respective differences were found: The proportion of family business is higher than that of non-family businesses in wholesale and retail trade, hotels and restaurants, transport, health and social work (Filep/Pákozdi/ Szirmai, 2007).



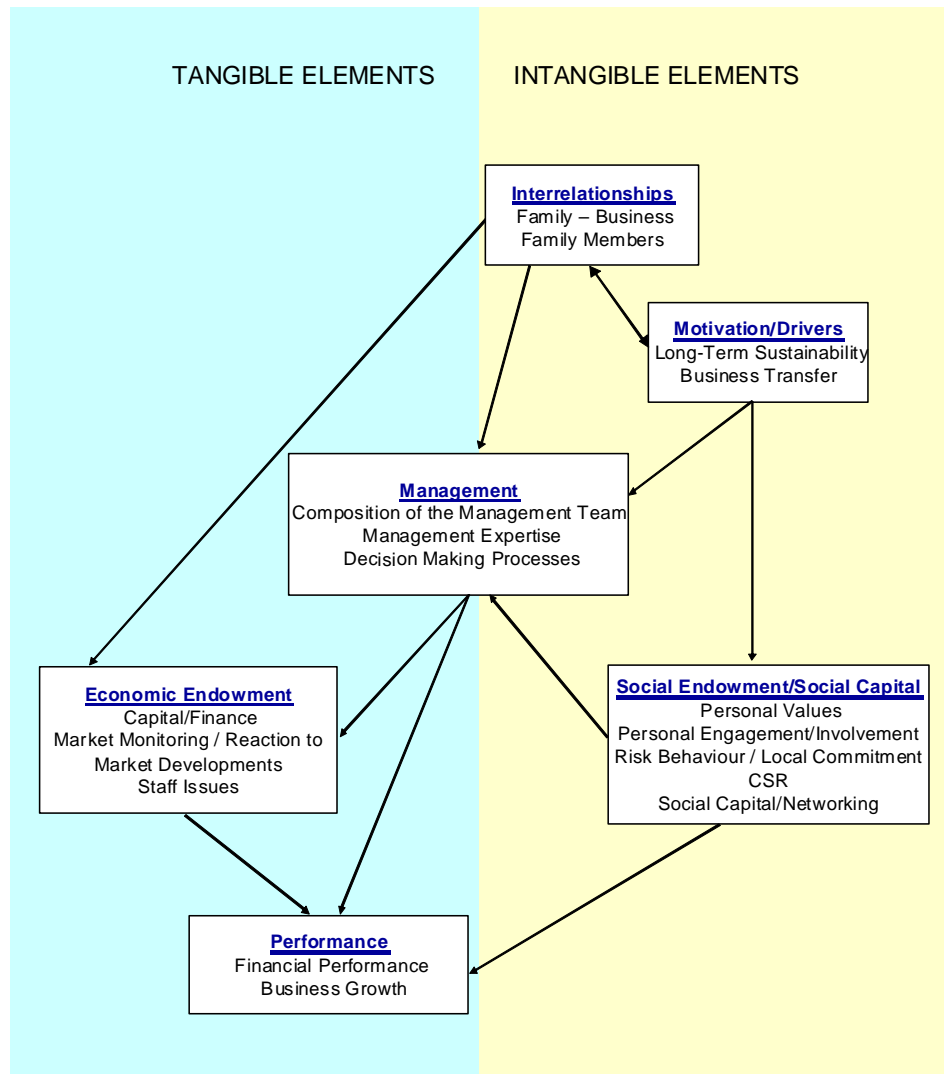


## 4 Characteristics of Family Businesses in Europe

The analyses in the 33 countries covered by the study on hand pinpointed some aspects that can be considered to be specific for family businesses or occur more often in family than in non-family businesses. These major characteristics have been structured and classified into the dimensions shown below (see Graph 4). The individual elements are not only interrelated (in terms of influencing each other) but also intermingled/overlapping.

Some of the elements can be considered to be **tangible** in terms of being measurable by “hard facts and figures” in any way (e.g., share of ownership by family members, qualification degrees of family managers, amount of capital endowment of the enterprise, education degree of family managers). Others are rather **intangible** (e.g., the background considerations of the entrepreneurs/managers for their acting), and a third category of elements combines both, tangible and intangible elements.

In most of the cases it cannot be generally assessed whether a specific characteristic of family businesses is advantageous or disadvantageous compared to non-family businesses. Rather, the effects will depend on the manifestation of the characteristic in the individual company and/or the general business environment.

**Graph 4 Main Specific Characteristics of Family Businesses**

Source: Austrian Institute for SME Research

## 4.1 Interrelationships between Family and Business Spheres

### 4.1.1 Overlaps Between the Family and the Business

One of the most important characteristics of family businesses is the **strong inter-relationship between the family and the business**. In contrast to non-family businesses that are mainly influenced by a single owner or a partnership of few partners (or, in publicly owned firms rather by the CEO or small management team), in family businesses (irrespective of the ownership and management structure<sup>14</sup>) the **family is at the centre of the company**, formally or informally influencing the business.

<sup>14</sup> Family businesses may be owned and/or managed by one or several persons (also see Chapters 2.2 and 4.5).



Hence, in family businesses, the two structures of the family and the businesses encounter each other. This, however, does not necessarily take formal forms (co-ownership, involvement in management or employment). Of relevance are also informal aspects such as the direct (e.g., through providing advice and consultancy) and indirect (e.g., by co-determining the expenditure of time the entrepreneur spends in the company) influence on the business activities. These parallel decision-making lines raise the complexity of doing business and reduce clarity of the business process.

This intermingling between the family and the business has several effects:

- The company has to cope with **different life situations** and family developments which have an impact on the company's human resources and financial endowment (e.g., marriage, divorce, child birth, retirement, death) (Campbell-Clark, 2000; Zody et al. 2006). Companies, consequently, do not necessarily follow a purely economic objective but also serve the purpose of **enhancing the lifestyle of the owners** (e.g., by making business out of a hobby, by adapting working times to personal requirements, by providing employment for family members).
- In some family firms there is **no division between working time and private hours** (Popczyk/Popczyk, 1999).
- The **complexity of relationships**, particularly if multiple persons are involved in various roles that are **not** fully **concordant** to each other (e.g., in the framework of business transfer when the descendants become the authority in the company and other family members have to obey their orders). This may result in **conflicts** that affect both, the family and the business sphere. The most prominent conflict potential is inherent in the following issues (PriceWaterhouseCoopers, various national reports):
  - Future business plans and business transfer (e.g., choice of the successor, resistance of the founder to withdraw from the company<sup>15</sup>, financial issues)
  - Choice of managers
  - Unilateral decision-making of the family members involved in the business without consulting the wider family
  - Remuneration of family members as employees and managers
  - Distribution of profits (also to family members not operationally involved in the business) vs. reinvestment in the business

<sup>15</sup> In Aronoff's research (2003), for example, more than one tenth of the leaders of family businesses said that they never want to retire and another quarter only wants to take partial retirement. Also Ward (2004) found that one quarter of the leaders of family businesses wanted to retain control over the family business until their death.

#### 4.1.2 Governing Relationships between Family Members/Family Members and Other Stakeholders

These considerations pinpoint the need for internal (but partly also external, i.e., with all stakeholders) relationship management structures often referred to as family **governance**. Within a family business, governance is **not only necessary for the company but also for the family sphere**, favouring the unity of the firm standing behind the enterprise and regulating the relationship between the family members and the firm. Consequently, governance needs to take into account the developments within both, the enterprise and the family. (Lievens/Lambrecht, 2008)

Regarding the application of respective instruments considerable differences occur across Europe:

- In Spain, family businesses (particularly the larger and more complex ones) usually have established instruments like the Family Protocol (regulating the relationships of family members in relation to the enterprise) or the Family Council (a special body intended to facilitate the resolutions of those conflicts and problems that are not foreseen in the Family Protocol).
- In Portugal - in order to protect family assets - family businesses establish agreements to resolve family disputes and to avoid that such disputes are passed from the family system to the business system and vice-versa.
- Instruments for conflict solving exist only in half of the family owned companies in Germany and Austria (PriceWaterhouseCoopers, 2008).
- The latest PriceWaterhouseCoopers Family Business Survey (PriceWaterhouseCoopers LLP, 2007), for example, came to the result that only about three out of ten family businesses use family councils, shareholder agreements, family constitutions or third-party mediators for resolving conflicts.
- In France<sup>16</sup> and Greece<sup>17</sup>, even about 80 % of the family businesses do not have defined internal rules and procedures to organise family relationships/resolve conflicts.

### 4.2 Motivation/Drivers

#### 4.2.1 Long-term Sustainability

Family businesses **focus on long-term sustainability** of the firm rather than the realisation of short-term profits. Indeed, family business experts are of the opinion that the main characteristic of family businesses differentiating them from non-family businesses is that they are run and managed without the intention to sell the business. This different attitude towards the longevity of the firm (in terms of decades and generations instead of years and the focus of the professional lifetime of the entrepreneur in non-family businesses) influences everything related to the business activity (i.e., not only the core production/service delivery processes, but also the treatment of employees, other stakeholders and the local community).

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<sup>16</sup> Source: survey by ASMEP (association des moyennes entreprises patrimoniales/association of patrimonial medium-sized enterprises)

<sup>17</sup> Source: Family Business Survey 2006: PriceWaterhouseCoopers (accessed 15/4/2008; [www.pwc.gr/fbsurvey](http://www.pwc.gr/fbsurvey))



The majority of family entrepreneurs see themselves as the momentary caretaker of the company who has the **responsibility of maintaining and further developing the enterprise for the following generation** while non-family business managers often focus on the sustainability of the business during their own professional life time and opt for selling the company if this turns out to be a good bargain.

#### 4.2.2 Business Transfer

Thus, also the **intention and realisation of generational changes** in ownership and management constitutes an important characteristic of family firms and often poses a considerable challenge to this sector (see below). Nevertheless, if a transfer is mastered effectively and efficiently (in terms of planning, implementation and follow-up of the various fields (personal, financial, economic, administrative, employee and stakeholder relations etc.) concerned), this is an important success factor for future development as the enterprise disposes of experience, networks, reputation and a customer base newly founded companies are lacking. Experts from Cyprus, for example, are of the opinion that family businesses cultivate entrepreneurial talents which are passed from generation to generation and develop strong ties among family shareholders. Longenecker and Schoen (1978) refer to the socialisation of the successors (intrapreneurship of the descendants within the family firm). The preparation for taking over the family firm spans over many years and covers several successive positions (from non- or informal involvement over functional roles of the future successor in the business to taking over the leadership of the firm). Similar is also described by Handler (1990) who mentions the necessity of mutual role adjustment between predecessor and successor. In her model, the transferor evolves from monarch over delegator to advisor. The successor assumes in turn the form of helper, manager and leader. The transfer being considered as a process over time instead of a single event at one point of time is due to the complexity related to the transfer of reputation and relationships.

In line with the tendency to strive for business continuity beyond the profession life time of the founder is available data pinpoints that many family businesses are rather old. More than 90 % of the family businesses surveyed across 28 countries all over the world have been trading for more than one decade. 38 % of the firms have been active for more than 50 years. (PriceWaterhouseCoopers LLP, 2007)

Some exemplary data also shows that family businesses are **older** than non-family businesses:

- Finnish research, for example, finds that the average age for a family business is 25 years compared to 15 years for non-family businesses (Heinonen/Toivonen, 2003).
- In Slovenia, 30 % of the family businesses have been founded before 1990, while the respective share for non-family businesses was about 18 % (Duh/Tominc, 2006). Family enterprises were on average 11.74 years old and, therefore, older than non-family enterprises (on average 9.39 years). The difference in age between family and non-family enterprises was statistically significant.
- In Sweden, the average age of family businesses is significantly higher than that of non-family businesses (Emling, 2000).



- In the United Kingdom, the DTI annual survey of small businesses (2006) finds that family SMEs are more likely to be at least 10 years old, and age analyses of the FTSE has shown that family companies tend to be older (Institute for Family Business, 2008).

In contrast to these findings, for the Former Yugoslav Republic of Macedonia experts assume a short life cycle of family businesses which commonly go in and out of business due to poor management, problems with access to finance and inadequate cost control (for further discussion of these issues see below). Also for Romania the opinion is expressed that the period of family businesses' activity is relatively short and often identical to the period of activity/the life of the initiator as young people are not much interested in continuing the business.

### 4.3 Social Endowment/Social Capital

#### 4.3.1 Personal Values

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**. Values such as honesty, credibility, modesty and respect are of vital importance for family businesses (Aronoff/Ward, 2001; Koiranen, 2002b; Stewart, 2003) as they support the long-term vision and contribute to the firm's survival over decades as the company specific values are often explicitly or implicitly communicated towards stakeholders, i.e., employees, clients, the local community, business partners etc.

These values are closely linked to the character traits of the entrepreneur and transmitted to following generations via socialisation and exemplary behaviour. Thereby, often the mother plays the role of a "Chief Emotional Officer" (Lambrecht, 2005; Lansberg, 1999; Muson, 2002; Poza/Messer, 2001) and path dependency<sup>18</sup> is prevalent. At the same time, this may give rise to conflicts, if the older generations stick to traditions and procedures while younger family members opt for innovation and change.

#### 4.3.2 Personal Engagement/Involvement

In family businesses, the owners/managers (but often also other family members, including assisting spouses or similar) put particular emphasis on **personal commitment and engagement/operative involvement**, also fostering the level of solidarity, especially if the company is acting under the family name (Popczyk/Popczyk, 1999; Sułkowski, 2004) and/or if the family business is the main income source of the family. Thereby, it has to be kept in mind, however, that not all family businesses are run with the intention to fully guarantee the subsistence of the family (e.g., in Bulgaria only 40 % of the family businesses provide full subsistence of the family (University for National and World Economics, 2006)) as it is found that family firms are also run part-time, e.g., next to another employment or seasonally (e.g., tourism).

<sup>18</sup> Path dependency generally refers to situation in which the present status is assumed to be considerably influenced by its own past developments.





Family members are often more willing to sacrifice their personal interests in the name of the common business (e.g., by working longer hours or by accepting lower income) than “normal” employees and managers. This is advantageous for the business (particularly in economically difficult times), but it is not always clear whether this is positive for the concerned family (members).

#### 4.3.3 Risk Behaviour/Local Commitment

The (pecuniary or non-pecuniary) importance of the enterprise for the economic situation of the family in combination with the above-mentioned intention of the long-term sustainability of the business often results in a **careful risk behaviour** as a business failure also may dramatically reduce the family budget and restrain the possibilities of future generations.

The careful risk behaviour in combination with the relative longevity of family businesses is as an explanation of the findings of several national research studies as well as expert opinions that family businesses (particularly the smaller ones) are often strongly **anchored in the local community**, resulting in a **local business focus** (i.e., co-operation rather with local suppliers, limited levels of foreign trade, employment of local inhabitants). This may go so far that decisions regard the downsizing or even closure of the enterprise are thoroughly considered as the reduction of offered workplaces for local inhabitants is in contradiction with the high commitment to the local community (in which often the family also lives).

Particularly in small countries like Liechtenstein or Malta experts pinpoint the proximity of family businesses to the markets they act on, resulting in good customer relations and knowledge of the local market conditions while at the same time constituting a kind of barrier for internationalisation.

#### 4.3.4 Corporate Social Responsibility

This local commitment as well as the intention to keep up the good reputation of the family business also leads to a high degree of **socially responsible acting, i.e., engagement in Corporate Social Responsibility**.<sup>19</sup> Family business leaders perceiving themselves as the momentary caretaker of the enterprise for future generation can hardly afford not to invest in socially responsible behaviour as such may endanger the firm’s sustainably good reputation - particularly in those countries in which customers increasingly expect companies to engage in CSR.

Family business experts pinpoint the importance of local community based CSR activities in this context as family firms derive their strengths from the communities in which they are established and which allow for their development and viability. Hence, the local environment and local people as employees but also as customers and potential investors are natural drivers for the enterprises’ local CSR engagement.

<sup>19</sup> In general, among the most important drivers for engaging in CSR are the owners’/managers’ wish to act socially responsible (particularly in smaller businesses) as well as the expected positive effects on the company’s image. Furthermore, several research studies have shown that the most relevant fields of CSR activities refer to measures benefiting the enterprises’ own employees as well as the societal purposes/the local community. (Mandl/Dorr, 2007) Hence, family businesses are “a good ground” for CSR.

Graafland (2002) observed that family businesses do not only serve their own interests, but also those of society. He concludes that larger family businesses (at least 100 employees) are more concerned with CSR than larger non-family businesses while smaller family businesses are less engaged in CSR as they perceive this as additional costs they cannot afford (Ahmed, Montagno and Flenze, 1998, quoted in Déniz and Suárez, 2005).

- In many of the analysed countries family businesses realise **higher social investments** (e.g., more further education activities for their employees, offering of flexible working time arrangements, financial and personal involvement in community issues, provision of jobs for detached labour market groups<sup>20</sup>). Data for France, for example, shows that social expenses of family businesses go beyond compulsory ones and are on annual average 40 % higher than in non-family businesses (Allouche/Amann, 1995).
- Family businesses put more attention to the **quality of their products** (particularly if the company is named after the owner family), hence realising CSR activities benefitting their clients<sup>21</sup>.
- Experts (e.g., from Germany) also mention the **higher sustainability of family businesses' CSR activities**: As the initiative for social projects is often based in the family, their engagement is more intensive and durable (i.e., in line with the above-mentioned orientation of family (firm) values). Family businesses are seen to not only finance CSR activities, but also to actively “take care” of them.

However, also as to this regard the heterogeneity among family businesses can be shown: Adams et al. (1996) or Déniz and Suárez (2005), for example, express that there exist family businesses in which the interest of the family are prioritised above the interest of the enterprise and other stakeholders and a lack of professionalism as well as the prevalence of nepotism refrains family firms from acting socially responsible. Morck and Yeung (2004) found that large family businesses act less ethically than large non-family businesses.

#### 4.3.5 Social Capital and Networking

The family establishes and maintains social relations and contacts that are mobilised and drawn upon for the benefit of the company when needed. Passing on and strengthening social networks contributes to the family's professional know-how by educating future generations about the social customs of the family business, trade and profession. (Astrachan/Strider, 2005) Some of the interviewed experts across Europe indicate the existence of this social capital as a specific strength of family businesses, mainly due to two reasons:

- Social capital facilitates the firm's survival in economically difficult times. On the one hand, the stability arising from the family ties is seen as an important non-economic factor favouring business resilience in the face of volatility. On the other hand, family businesses' employees (also those not belonging to the owner/manager family) are characterised by a high loyalty and commitment

<sup>20</sup> However, with a specific focus of creating employment for family members that experience difficulties in finding jobs on the general labour market (Sharle, 2000).

<sup>21</sup> Improving the quality and safety of products constitutes one of the widely recognised market-oriented CSR activities (Mandl/Dorr, 2007).



towards the company and are willing to temporarily accept lower wages in economic downturns. Furthermore, due to their often long-standing tradition (see above) family firms dispose of stable relationships to business partners, suppliers, clients and banks which also provide some scope for options in difficult times (e.g., later payment of suppliers, guarantee that business partners and clients will approach the company for business opportunities etc.). So it is, for example, mentioned by a Dutch expert that many clients appreciate the reliability related to family businesses which are expected to provide a higher level of service and care for the customers and that some clients prefer doing business with a company that has been existing for a long time. In Portugal, frequently two companies with similar family ownership characteristics doing business in the same supply chain tend to cultivate long-lasting supplier-client relationships based on inter-family trust. Sometimes this interfamily trust also translates into marriages between members of the families.

- The existence of social capital within the enterprise contributes to a reduction of agency costs<sup>22</sup> as information asymmetries are reduced and the high commitment of managers and employees limits the danger of their following other objectives than the company. However, at the same time higher agency costs are incurred due to conflicting goals in the family, opportunism, shirking and adverse selection because of altruism, i.e., family members failing to monitor each other. (Dyer, 2006; Reid/Harris, 2004; Rogoff et al. 2003). Furthermore, experts also mentioned that the agency problem arises between majority and minority owners, particularly if the latter do not belong to the family.

However, in spite of the general agreement among European experts and available research findings regarding the existence and importance of social capital in and for family businesses, diverse assessments are made regarding the **co-operation level** and **business networking** activities of these enterprises:

- Norwegian listed family businesses have a higher level of social and business networks than non-family firms, and these networks are seen to be taken advantage of in a higher frequency and are characterised by a higher strength (Wallevik, 2008).
- In Portugal, particularly co-operation between family businesses is strong and interwoven with social relationships.
- Bulgarian family firms are surveyed to be rather sceptical to co-operate with other enterprises: Almost half of the companies have not answered to the question what opportunities they see in partnerships while for further 40 % there is no such opportunity. Actually, 97 % of the surveyed companies are not organised formally in whatever form of association. (University for National and World Economics, 2006)

<sup>22</sup> In the framework of the principal-agent theory agency costs are understood as costs arising from asymmetrical information.

## 4.4 Management

### 4.4.1 Composition of the Management Team

Across Europe, family businesses are characterised by a **dominance of management from within the family**. Respective can be backed by several research findings:

- In Austria, 75 % of the craft enterprises have only one manager, and in 80 % of those companies with more managers all of them are members of the same family (Source: Austrian Institute for SME Research, Economic Performance Database).
- In Cyprus, 77 % of family businesses only have family members as managers (Cyprus Chamber of Commerce and Industry, 2004).
- In Finland, 2/3 of the board members are family members. Almost 70 % of the companies have a family member as the managing director and 80 % have a family member as the director of the board. (Kansikas et al., 2007)
- In France, 62 % of the family businesses controlled for more than 20 % by a family are managed by a family member (Faccio/Lang in Allouche/Amann, 2002). According to the FBN International Monitor of July 2007, this is the case of 88 % of the surveyed enterprises, and 67 % of the family businesses survey by PriceWaterhouseCoopers (2006) declare that at least one family member has a management responsibility in the firm.
- In Greece, typically the principal shareholder serves as the CEO or chairman of the board and has the decisive vote in major corporate decisions. Even when the separation of the chair and CEO function is the case, the two roles are usually interconnected. External influences, from independent non-executive directors in family firms are not so powerful, even though the law requires that all listed companies have at least 2 independent non-executive directors. Most boards in family-owned firms have a majority of related directors.
- In Poland, company aims are set exclusively by the owner in 40 % of the companies and in 36 % by the owner after consulting other family members. In 16 % of the enterprises the owner together with his/her family sets the goals and in the remaining 8 % of companies also employees were approached (Popczyk/Popczyk, 1999). Lipiec (2006) came to the result that in 60 % of the family businesses a family member held a managerial position while in the other 40 % the management was conducted by regular employees. Sułkowski (2004) came to even higher results: In his survey, 75 % of the managers originated from the family and 25 % employed managers from outside of the family.
- In the Slovak Republic, 66 % of family businesses only have family members in managerial positions (Krošlaková, 2007; Strážovská et al., 2008).
- The comparatively highest share of family managers exists in Sweden where more than 90 % of family businesses have a family member as company leader (Emling, 2000).



Many experts explain this family dominance by a **lack of willingness to share control** with external parties and the fear that external managers lack understanding of the company-inherent principles and values (e.g., Melin/Nordqvist, 2000). At the same time it is mentioned that in larger family businesses it is more common to employ managers that are not family members. This leads to the assumption that also the cost factor is decisive (i.e., external managers are more costly than family members who are willing to accept lower wages for the benefit and sustainability of the firm).

One of the effects of this family dominance of the management is a comparably **low senior management staff turnover**, providing a lever for stability of the enterprise. At the same time some experts assess this as a barrier for future growth (Krošlákóvá, 2007; Strážovská et al., 2008).

With regard to the **gender dimension** (particularly in the framework of business transfers) interesting differences can be found in the various research studies conducted throughout Europe. A Slovenian study (Lovšin Kozina, 2006), for example, comes to the result that the concept of “primogeniture” (i.e., the oldest child is to become the successor) is strong (mentioned by 76 % of the respondents) while the gender aspect is not that relevant (in 30 % of the businesses the oldest child is a daughter and is the successor).<sup>23</sup> In contrast to that, Norwegian family firms traditionally have been run paternalistically and tend to be inherited by the oldest son (Bartz-Johannessen, 2002) in spite of the fact that both genders according to the law of wills and succession have had the same right of inheritance for more than 150 years (Steen Jensen, 2007). Presently, however, and due to the gender equality changes in the society, there is a change in the paternalistic pattern. Ever more women of the next generation now take over the family enterprise.

#### 4.4.2 Management Expertise

Many experts are of the opinion that **know-how transfer** of practical entrepreneurial as well as market knowledge is an important advantage of family businesses. Experts from Portugal, for example, observe that family businesses have established development and training of the family members most suited to continue the business.

Furthermore, national surveys show that family businesses establish **minimum qualification levels for (family) managers**:

- In a survey in Cyprus, 63 % of the family businesses mentioned that it is necessary to have a degree to become the company manager and further 7 % stated that at least working experience is required. Furthermore, 40 % of the family businesses' management team members regularly attend formal training programmes. (Cyprus Chamber of Commerce and Industry, 2004)
- In Poland, 61 % of family businesses' owners have completed higher education – compared to about 23 % for SMEs' owners in general (Lipiec, 2006).

<sup>23</sup> Nevertheless, still more than 70 % of family businesses (as well as non-family businesses) are controlled by male entrepreneurs (Glas/Vadnjak, 2004; Lovšin Kozina, 2006; Glas/Drnovšek, 1999).

Nevertheless, at the same time some research findings pinpoint a generally **lower formal qualification** of family business managers compared to non-family business managers. This is due to the fact that family enterprises have been set up by older generations disposing of comparatively little formal training, and a tendency to change this situation is observed in the framework of generational changes when qualified young persons take over. Thereby, a specific focus is laid on on-the-job training and practical know-how (Glas et al., 2005). For Luxembourg, it is assessed that especially managerial competences are missing in national family businesses. However, also here half of the companies have defined employability criteria in order to select family members who want to participate actively in the company and anticipate potential conflicts through this. (PriceWaterhouseCoopers, 2007)

Family businesses are characterised by a certain degree of **resistance to approach external expertise** in terms of business advisors or consultancy (Emling, 2000; GKM, 2007). Advice is rather collected from family members or through other personal relationships (social networks, see above). Data for Turkey, for example, show that 51 % of family businesses think that receiving consulting services is unnecessary or not suitable (Sources: Performans Consulting and ASO, 2005). In Bulgaria, family businesses hesitate to discuss financial matters with external parties while according to national experts this consultancy issue is well drawn on in the Slovak Republic where, however, advisors are not approached for personnel matters.

#### 4.4.3 Decision Making Processes

This resistance of sharing information goes in line with a **paternalistic** management style often prevalent in family businesses. This is manifested by an authoritarian management style, a low level of delegation and information transfer.

Family businesses are characterised by a value-driven, **personal management style**. Decision making in family businesses is rather **emotional** and **informal** (particularly in the smaller business entities).

On the one hand, decision making in family businesses may be **easier and faster** than in non-family businesses due to this informality, a higher level of valuable information transfer and a different communication style (family members meet more often and discuss business issues “on the kitchen table” which also leads to a more open feedback/input possibility). Furthermore, as it is, for example, mentioned by Dutch experts, family businesses’ decision making is rapid as the responsibilities within a family are usually centred with one or two key persons. An advantage as to this regard also is the alignment of all stakeholders towards the shared business objective, i.e., common values and a common cultural/behavioural basis as well as goals and a very good knowledge of the other team members within the enterprise.





On the other hand, it is, for example, assessed for Finland that family businesses do **not pay enough attention to the board activities** (or they do not even have a board) (Kostia, 2008). Similarly, data for Poland show that only 24 % of family businesses have written business plans (Popczyk/Popczyk, 1999) and also in Sweden research findings pinpoint that family businesses (compared to non-family businesses) more often lack long-term and short-term company strategy plans, written employee evaluations or written employee promotion plans. This is due to the fact that family businesses are most common among small and medium-sized companies, but could also be a consequence of more developed personal and informal relations between the stakeholders in family businesses. (Emling, 2000)

The **lack of formal responsibilities** and the **higher number of (formally or informally) involved persons** in some family businesses' decision-making process (particularly if the enterprise has already undergone several generational changes) may result in a higher **complexity** of decision making processes and also inherits a certain **conflict** potential, particularly as specific issues are concerned (see above).

To give some exemplary data, it was found for Sweden that a family business usually does not make the clear distinction between the relationship of the owners, the board and the executive management. Typically, these three functions are performed by the same family members, making the distinction between these three levels unclear. (Melin/Nordqvist, 2000) Also for the United Kingdom, a recent survey found that only 22 % of family firms have established criteria for the roles of family members (Price-WaterHouseCoopers LLP, 2007).

## 4.5 Economic Endowment

### 4.5.1 Capital/Finance

The **capitalisation** of family firms mainly 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 investments (so called "patient capital") (Baskin, 2001). This is accepted to provide for the firm's constant growth, and external finance often is not appreciated as it bears the "risk" of also having to share control/management/decision power (e.g., Glas, 2003; DGPYME, 2003; ESADE & Family Business Knowledge, 2006; Coutts, 2005). This, however, is similar to the SME sector in general. For Slovakia, national experts attribute this situation to the fact that due to the non-functioning of the commercial bank system no financial resources were available for company start-ups except of family savings before the end of the 1990s. Hence, the majority of businesses were founded as family enterprises drawing on personal assets of the owner(s)/manager(s) who are now approaching the challenge of the business transfer for the first time. Many Eastern European countries are characterised by a similar development.

- Data for Bulgaria show that the main financial source for start-ups is family savings (50 %) and loans from friends and relatives (30 %) (Ministry of Economy, 2006).
- 87 % of Cyprus' family businesses only have family shareholders (Cyprus Chamber of Commerce and Industry, 2004).
- The main sources of financing Polish family businesses' activity are own resources (44 %) and bank credits (56 %) - which corresponds to the financing structure of the SME sector (Popczyk/Popczyk, 1999).



The closed financial structure of family businesses poses a problem to individual shareholders, if they intend to sell their share. As most family businesses do not quote on the stock exchange there arise difficulties with regard to the valuation of the company as well as with finding potential buyers (outside of the family). This situation also hampers the financing of future growth activities by attracting additional external shareholders (DGPYME, 2003; ESADE & Family Business Knowledge, 2006).

#### 4.5.2 Market Monitoring/Reaction to Market Developments

Regarding family businesses' **adaptability to market changes** disagreement among the research studies and expert opinions available across the European countries occurs. In some of the analyses family businesses are considered to **continuously track the business environment** and work on business renewal, innovation and the exploration of new markets. This is facilitated by their close relationships to the market and triggered by the requirement of constantly upholding the market position to ensure the enterprise's intended sustainability. Indeed, family businesses' open attitude towards their business environment and their aim to maintain capabilities for renewal are considered specific strengths of the sector (Heinonen/Toivonen, 2003).

Spanish research, for example, comes to the result that family businesses have a better market orientation, which implies both a specific marketing know-how that is transmitted from one generation to the other and a higher degree of connexion to the clients that is continued and accumulated over different generations (DGPYME, 2003; Instituto de Empresa Familiar, 2005). Family businesses are found to have a strong orientation towards involvement in R&D activities (up to 79 % of the family businesses with more than 200 employees are active in R&D activities, whereas this percentage is 74 % among respective non-family businesses), and they devote up to 2 % of their total sales to R&D expenditures (1.74 % among non-family businesses) (Galvé/Salas Fumás, 2003).

Furthermore, the rather flat hierarchical structures, small management teams and often small company sizes (see above) make family businesses **flexible** and well adaptable to changing environments.

However, there also exist some adverse opinions. Experts from Liechtenstein, for example, mention that the country's family businesses show high potential for rationalisation, but are characterised by a lacking willingness for change and rather **stick to traditional ways of market penetration**. In this context, a research study dealing with the family businesses of Luxembourg (PriceWaterhouseCoopers, 2007) as well as several European experts pinpoint as one of the sector's weaknesses its tendency to continue doing things in the same way as always, the lacking apprehension to explore new markets and to innovate in the strategy through products and services. As an example, Romanian experts mention that the country's family businesses are far from stepping into the era of the internet and from capitalising the facilities offered by it.





#### 4.5.3 Staff Issues

**Nepotism** (i.e., the employment of staff on the basis of personal relationships rather than due to qualification) is more widespread in family than in non-family businesses (Bloom/van Reenen, 2006; DGPYME, 2003; ESADE & Family Business Knowledge, 2006). Hence, family businesses are an employer of family members, also those detached from the general labour market. Next to the social aspects inherent to this, also the cost factor related to such an employment strategy must not be neglected. Particularly in early phases of the company life cycle enterprises (and hence, also family businesses) are often characterised by low initial capital, limited market scope and unclear growth trajectories. Consequently, it becomes natural to formally employ or informally draw on assistance of family members instead of creating jobs for external persons that are subject to reluctance in economically difficult times.

Dutch and Greek experts are of the opinion that within family businesses **family members are promoted** while non-family members receive fewer opportunities. This is seen to counteract the above-mentioned possibilities to reduce agency costs as a more enhanced monitoring system needs to be established. In a similar way, in Hungarian family businesses **flexible working time** is more often offered to family members than to other employees (Sharle, 2000). Adverse findings exist for the United Kingdom, however. There, it was shown that family firms tend to offer more flexible working practices and this increases **employment diversity**. For example, they are more likely to have females on the board, particularly in the role of CEO (Coutts, 2005).

Generally, nepotism reduces the firm's efficiency and adversely affects its performance by discouraging the recruitment of (family external) staff (e.g., Westhead et al., 1997). Nevertheless, particularly if the firms grow, employment opportunities for other staff members are also created and sustained.

Data for France, for example, show that family firms listed on the stock exchange provide **employment** being "much **less sensitive to industry shocks**" compared to non-family businesses while at the same time, however, offering **lower wage levels** (Sreaer/Thesmar, 2004). The latter was also backed by Allouche/Amann (1995) who found that the average monthly wage of managers of family-owned enterprises is on average 20 % lower than in non-family businesses. However, it was also found that the average wage of middle management is about 10 % higher. Generally, the wage range is narrower in family businesses than in non-family businesses.

Also concerning **working conditions** in family businesses differences across Europe occur. In Spain, family businesses offer a better work environment in order to achieve stable business conditions which constitute the pre-condition for continuous growth. This, in turn, results in a higher **employee loyalty** and hence in lower fluctuation and absenteeism. (DGPYME, 2003; Instituto de Empresa Familiar, 2005) Similar can also be shown by survey evidence from the United Kingdom, suggesting that family firms benefit from greater loyalty, compared to non-family firms, in building the brand name (Forth et al., 2006; Kersley et al., 2005). It has been shown that 74 % of workers in family-owned firms, who earn more than £ 285 per week, strongly agreed with the statement "I feel loyal to my organisation", compared to 70 % in non-family firms.

In France, **vocational training** expenses and activities are more developed in family than in non-family businesses. 79 % of the family firms spend more than the legally obliged 1.5 % of the total gross wages for vocational training. (Source: ASMEP, survey conducted in 2004) In contrast to that, Kotey and Folker (2007) postulate that family firms are less likely to provide employees with formal training than non-family firms and that in family businesses more emphasis is put on technical than managerial skills. This is explained with the family proprietor's feeling of threat, if subordinates developed their managerial skills against the background of their reluctance to give up personal control and delegate tasks to others. Apprenticeship and traineeship is, however, more prevalent in family than in non-family businesses.

Regarding the **attraction of employees**, in some countries respective difficulties are prevalent which are attributed to **image** problems of family businesses (they are seen as small, unprofessional, subject to improvisation, archaic and do not provide career perspectives for qualified personnel). (PriceWaterhouseCoopers, 2007; expert opinions) This, however, is also be related to the general image of SMEs on the labour market and hence, be not very specific for family businesses.

## 4.6 Performance

### 4.6.1 Financial Performance

Regarding **financial performance**, no clear assessment can be made whether or not family firms perform better, equal or worse than non-family firms as the available studies show mixed results and conflicting opinions (Dyer, 2006). Some of the authors engaged in research on family businesses find that the financial performance of family businesses is comparable to or even better than that of non-family businesses (Ali-Yrkkö et al., 2007; Allouche/Amann, 1995; Anderson/Reeb, 2003; Duh/Tominc, 2006; Irish Annual Services Inquiry of 2005; Pajarinen/Ylä-Anttila, 2006; Stoy Hayward Survey, 1990). This is particularly true for large, listed family firms for which various analyses and expert's opinions indicate a better performance than non-family firms. An example of this refers to the 50 largest German family businesses outperforming the DAX<sup>24</sup> by on average 6.8 % for the last five years (Der Standard, October 2, 2008)<sup>25</sup>.

Hence, family businesses are sometimes referred to as "**hidden champions**" as they not only show high growth and profitability in the long-run but also greater **stability** (i.e., less profit/income variation than non-family businesses).

### 4.6.2 Business Growth

In contrast, Heinonen/Stenholm (2006), for example, find that there is no evidence or reason for **growth** occurring in family businesses in another way than in non-family businesses. Entrepreneurship theory suggests dynamic growth of the enterprise in its initial phase up to a certain point of time when the company reaches the mature phase. This point of time is often related to the entrepreneur reaching his/her retirement age and decreasing initiative for the firm.

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<sup>24</sup> DAX = Deutscher Aktienindex (German Index of Stocks)

<sup>25</sup> The data refer to the situation before the financial crisis of autumn 2008.



At the same time, many experts are of the opinion that due to the more careful risk behaviour growth in family businesses is realised in a more moderate way in the short-run, while in the long-run a higher level of sustainability and economic performance is attained (i.e., the mature phase of the enterprise is supposed to last longer, sometimes even across generations, resulting in on average older family businesses than non-family businesses). The early involvement/intrapreneurship of the successor contributes to the sustainability of the firm. Hence, after the transfer growth trajectories may for a short period of time be slightly more or less dynamic than before, but the general growth path is followed further on. This is in line with the above-described major objective of longevity (compared to quick growth). At the same time the lower growth rate in the short-run is due to the family businesses' often perceived reluctance to take in external investors in order not to share control. This naturally hampers expansion as "only" financial sources from the family can be drawn on.

In contrast to that, non-family firms are often characterised by a more volatile growth in the short-run. If the entrepreneur is to reach the retirement age - often, however, much earlier - the business is either closed or sold to an external party. This is related with a more volatile business development, i.e., a kind of unpredictability of whether the previous growth paths can be followed further on will be more moderate or even declining.

Consequently, experts associate family businesses with a stable development of **continuous growth** and sustainable workplaces (compared to other growth trajectories being characterised by upward and downward peaks and hence, more precarious employment opportunities). What has to be kept in mind, however, is that the **realisation of growth not necessarily is the business objective of utmost importance**. Indeed, for many family businesses the stability of the enterprise and its maintenance for future generations is more relevant than short-term growth. At the same time it needs to be considered, however, that strong financial/economic performance does not always imply longevity. Many healthy businesses are sold or destroyed due to family disputes rather than business failings (Carlock/Ward, 2005).

Furthermore, if family businesses grow, also **diversification** is driven forward. The development of multiple business units is a common feature of sibling partnerships, giving several family members separate management authority (Carlock/Ward, 2005). Consequently, it happens that if this growing and diversification is related with an increasing number of involved family members (due to several realised generational changes) the initial company is divided into several independent parts and ceases to exist in its original form. Hence, business registers and statistics may somehow fail to continuously track growth trajectories of family businesses over their complete life course.

To conclude, other factors (e.g., size class, sector, national economic situation etc.) more importantly influence the economic performance than the "familiness". Nevertheless, some of the specific characteristics of family businesses described above directly or indirectly influence the enterprises' performance. A respective example constitutes the existence of social networks (particularly at local level) and the striving for sustainability (hence, quality in products and services). This results in family businesses disposing of **loyal customers** and being perceived as **reliable business partners**. Both aspects facilitate daily business.



## 4.7 Résumé

**Family and non-family businesses constitute two extreme positions in a continuum of enterprises.** In practice, each of those two enterprise types is very heterogeneous and may be further differentiated by size class, sector of activity, legal form etc.

Nevertheless, to summarise the findings of the various national research studies available that have been compiled in Chapters 4.1 - 4.12, the following table shows the main differences between the **average** family business and the average non-family business (while in practice more mixed cases are prevalent).

**Table 6 Main Differences between the Average Family and Non-Family Business**

	<b>Family Business</b>	<b>Non-Family Business</b>
Centre of the firm	Family (formally or informally/directly or indirectly influencing the firm)	Owner(s)/managers
Necessary governance	Company and family sphere	Company sphere
Main objective	Economic and non-economic (sustainability/long-term family income (stability) as well as family satisfaction)	Economic (quick profits/growth)
Mindset orientation	Transfer among generations, sustainability over the life time of the enterprise	Sale of the business, sustainability over the professional life time of the entrepreneur
Competitive strategy	Quality, reputation, long-term relationships	Price
Assets	Financial, social, cultural	Financial
Company climate	Familiness, trust, cohesion, involvement, commitment, engagement, enthusiasm, informality	Business goal orientation, formality, contractual agreements, distance
Business orientation	Satisfaction of internal and external stakeholders (mainly family, clients, employees, local community)	Satisfaction of owners/shareholders
Management style	Value-driven, emotional, goal alignment	Facts-and-Figures-driven, rational, agency control mechanisms
Allocation of profits	Reinvestment into the company	Distribution among owners/shareholders

Remark: Family and non-family businesses constitute two extreme positions in a continuum of enterprises. In practice the major characteristics are realised in a more mixed way.

Source: Austrian Institute for SME Research



## 5 Institutional Framework for Family Businesses in Europe

### 5.1 Relevant Actors and Their Fields of Activities

With regard to the most important institutional framework relevant for family firms in terms of European authorities, organisations and networks carrying out activities particularly favourable for family firms considerable differences exist across Europe.

In Spain, for example, the **public administration** has become increasingly **aware of the importance of family businesses** in the Spanish economy, in terms of their contribution to both employment and wealth generation, whereby this awareness process has taken place especially from the 1990s onwards (DGPYME, 2003). In addition to public policy activities, in Spain there is a relatively large network of different private and public institutions dealing with the issue of family businesses (Gimeno, 2007), either by conducting research, providing education/training or consultancy or by acting as a lobbying organisation for the interests of family businesses.

In contrast to that, experts of several European countries mention that policies and **initiatives** for family businesses are **fragmented** and sometimes quite **narrow** with regard to the responsible entities and issues/topics covered. Although the family business sector generally has a long tradition (at least in the Western European countries), the explicit concern with family businesses is quite recent and nascent and mainly triggered by the rising awareness about the challenges related to (family internal) business transfer.

Consequently, there exists a range of different actors dealing with influencing the family business sectors' environment - even if in many cases they are doing so "only" indirectly, implicitly or as a by-product of their general objective.

The following table provides an overview of institutional actors engaging in the issue of family businesses in the analysed 33 countries. More detailed information about their fields of activity is given afterwards.

**Table 7** Overview on Institutional Actors Dealing With Family Businesses in Europe<sup>26</sup>

	Network/Family Business Specific Organisation	Employers' Organisation	Government	Support Service Provider			Others <sup>1</sup>
				Business Support	Education/Training	Research	
AT	X	X		X	X	X	X
BE	X		X	X		X	
BG	X				X	X	X
CY		X			X	X	
CZ			X				
DE	X	X		X		X	
DK	X		X			X	
EE		X			X	X	
ES	X	X	X	X	X	X	
FI	X		X	X	X	X	X
FR	X			X	X	X	X
GR		X	X				X
HR			X				
HU			X	X			
IE	X			X	X	X	X
IS			X				
IT	X	X			X	X	

<sup>26</sup> See Annex I for the Country Codes

	Network/Family Business Specific Organisation	Employers' Organisation	Government	Support Service Provider			Others <sup>1</sup>
				Business Support	Education/Training	Research	
LI					X	X	
LT			X				
LU		X					
MK			X	X			
MT			X				
NL	X	X	X		X	X	
NO		X	X	X		X	
PL	X						
PT	X						
RO			X	X			X
SI		X			X	X	
SK			X		X		
SE	X	X	X		X	X	
TR		X					
UK	X			X		X	X

<sup>1</sup> "Other" organisations refer, for example, to financial institutions or private business consultants offering services specifically targeted at family businesses.

Remark: One organisation may be classified into several categories, depending on the offered services. No relevant actor could be identified for Latvia.



### 5.1.1 Family Business Networks

While in the Western European countries at least one **family business specific organisation or network** has been established such entities are hardly ever available in Eastern Europe. In general, these constitute private entities, often organised as NGOs. In Spain or the United Kingdom also regional family business associations exist.

The time horizon since when these specialised organisations are active considerably differs across Europe. With a founding date of 1957 the German Arbeitsgemeinschaft selbständiger Unternehmer is the oldest respective organisation. Enhanced launches of family business networks have been realised since the early 1990s. So, for example, the Spanish Instituto de la Empresa Familiar (IEF) was founded in 1992 or the French ASMEP and FBN-France in 1995 and 1998, respectively. Comparatively young are the family business networks in Austria, Belgium, Denmark and Ireland (stemming from 2004 - 2007), and also the few Eastern European networks (e.g., Bulgaria, Hungary, Poland) have been lately established (mainly 2007).

The main objectives followed and services provided by the national family business networks can be summarised into:

- Establishing a platform for networking among family businesses, for discussion and the exchange of information
- Collecting information (e.g., through research studies) about family businesses and disseminating this information to the family businesses and the general public via conferences, seminars, press articles or educational programmes; with regard to these activities a strong focus on the issue of business transfer exists; however, FBN-France, for example, also deals with family constitutions, the employment of family vs. non-family managers or the balance between the enterprise and the family
- Lobbying for family businesses with various target groups:
  - General public, i.e., promotion of the image of family businesses and pinpointing their economic and social/societal contribution, among others by prize awards to outstanding family businesses or research about family businesses as it is conducted by the French ASMEP
  - Employers' organisations, to raise their awareness about family businesses among their members
  - Governments, to improve the legal and fiscal environment for family businesses (with a specific focus on the issues of succession law and taxes)

In general, the information about the availability of the organisations as well as their activities is promoted via the entities' websites as well as the media. Furthermore, word-of-the-mouth is of relevance, e.g., in terms of spreading information about upcoming conferences and seminars.





Several of the identified family business networks exclude micro-enterprises from membership. So, for example, the members of the German Arbeitsgemeinschaft selbständiger Unternehmer need to have at least 10 employees. For the Italian Associazione Italiana delle Aziende Familiari (AIdAF) at least 30 employees and a shareholders' equity of at least EUR 2.5 million are required. The Belgian FBNet, FBN-France and the French ASMEP as well as the German Stiftung Familienunternehmen only accept (very) large family businesses as members.

Furthermore, for being eligible to become a member of the Bulgarian Association of the Family Business, FBN-France or the Italian AIdAF it is necessary that the second generation is active or preparing to take part in the ownership or governance of the company.

Regarding the participants' costs a comparatively wide range is prevalent across Europe. While in Austria, Belgium or Denmark the annual membership fee amounts to about EUR 1,000, the respective value is EUR 3,500 for FBN-France and as high as EUR 5,000 for the German Stiftung Familienunternehmen (whereby this latter amount is declared as voluntary donation). These differences can be explained with the above-mentioned size-class focus of the networks, i.e., there is a tendency that those organisations that target at large or even very large family businesses have higher membership fees than those that are open also to small companies. Among those networks for which membership fee information is available only one (the German Arbeitsgemeinschaft selbständiger Unternehmer) provides for different membership fees for different size-classes of family businesses.

If being well established and disposing of a longer tradition (e.g., IEF in Spain), the networks contribute to fostering the family businesses' image as a source of economic development.

Next to the family business organisations at a Member State level, **supra-national** bodies are active across Europe:<sup>27</sup>

- FBN International<sup>28</sup> was initiated in 1990 by family firms and is the world's leading network of family firms (3,000 members in more than 45 countries). It operates 24 Chapters worldwide, 13 of which are located in countries covered by this study.<sup>29</sup> Its main objectives are, among others, to be present in forums where conditions of family businesses are discussed and to lobby for family businesses. FBN International also conducts research on family firms and engages in the field of entrepreneurship education for owners and future owners of family enterprises. Eligibility criteria as well as costs for membership are not regulated centrally but are open to be set by the national chapters.

<sup>27</sup> There also exist family business networks/organisations that are active globally. In the following, however, only those having their headquarters in Europe are considered.

<sup>28</sup> <http://www.fbn-i.org>

<sup>29</sup> Namely Austria, Belgium, Bulgaria, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Spain, Sweden and the United Kingdom; the other Chapters are located in Australia, Brazil, Chile, Colombia, India, Japan, Pacific Asia, Switzerland (3 Chapters) and the United States

- The objective of the European Group of Owner managed and Family Enterprises (GEEF)<sup>30</sup> founded in 1997 and consisting of 11 national associations<sup>31</sup> is to promote a full understanding of the key role of family-owned enterprises in Europe's economy, to lobby for family business beneficial policies at a European and a Member State level and to ensure recognition of their contribution to Europe's entrepreneurial culture and social stability. This is to be achieved by conducting press/PR work, holding workshops and publishing working papers as well as positioning papers with regard to specific family business relevant issues. While FBN International rather focuses on company internal issues (e.g., governance, transfer), GEEF is dealing with the external environment of family businesses (e.g., legislation, taxation, administrative issues). It is an umbrella organisation representing family firm associations in various European countries - all of which are also members of FBN International (which, however, is acting worldwide).
- Les Hénokiens - Association d'entreprises familiales et bicentenaires (association of family an bicentenary companies)<sup>32</sup> was founded in 1981 represents companies with a minimum age of 200 years that are still managed by a descendant of the founder and owned (majority) by the family. To its 40 members from Italy, France, Germany, the Netherlands, Northern Ireland, Japan, Belgium and Switzerland it provides the opportunity to exchange ideas in the framework of general meetings and company visits.

### 5.1.2 Employers' organisations

Several employers' organisations or chambers of commerce are aware of the fact that a considerable number of the companies they represent constitute family businesses. Here again, respective engagement is rather found in Western Europe than in Eastern Europe.

Activities of employers' organisations favourable for family businesses refer to lobbying for a reduction or abolishment of the inheritance tax (in some cases also capital gain tax). Furthermore, different initiatives concerning the issue of business transfer and succession are taken. Next to awareness raising, information provision or education/training measures also market places where potential buyers and sellers of enterprises are matched are of relevance.

Another family business specific field of activity refers to support in the field of conflicts arising due to the strong interrelationships between the family and the enterprise. As to this regard, one of the Austrian regional economic chambers, for example, offers a mediation service for which family businesses are considered as one of the main target groups. Tackling the same issue, the Ankara Chamber of Industry (Turkey) published a family contract in order to enlighten family companies on solving their internal family problems (related with family businesses).

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<sup>30</sup> <http://www.geef.org>

<sup>31</sup> Bulgaria, Finland, France, Germany, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, United Kingdom

<sup>32</sup> [www.henokiens.com](http://www.henokiens.com)



In contrast to that, there also exist employers' organisations that do not focus on family businesses. So, for example, in Cyprus the subject of family business is not of any particular concern to trade institutions and chambers. Also the German chambers and associations of handicraft and liberal profession are not focussed on family enterprise issues. Similarly, the two main SME employer organisations in Ireland - although providing a wide range of services to their members - do not offer any service specifically directed at family-owned businesses.

### 5.1.3 National and Regional Governments

Similar to employers' organisations also **governmental authorities** (to a similar extent in Western and Eastern Europe), particularly the ministries responsible for economic and financial/tax affairs as well as certain sectoral bodies (e.g., ministries for agriculture or tourism), influence family businesses' environment by setting activities to foster and facilitate entrepreneurship in general. This is done by focusing on the private sector's economic performance and competitiveness (e.g., by looking for ways of how to reduce tax burden for enterprises) whereby in some countries specific attention is paid to internationalisation or the access to finance. In many cases also SME strategies and programmes are referred to when indicating family business relevant initiatives, pinpointing again that often family businesses are equated to SMEs. So, it can be concluded that many of the major policy documents do not explicitly address family businesses.<sup>33</sup>

Next to these general approaches that are implicitly favourable for family businesses some of the governments have established explicit instruments to foster this sector. As an example, the Finnish Ministry of Employment and the Economy has established a Working Group to draft a proposal for a definition of "family enterprise" (also see Chapter 5.2.12 as well as Annex IV), to investigate on the number and size of family enterprises in Finland and assess their international position and - if necessary - to propose on legislative amendments and policy measures in favour of family businesses.

More operationally, one of the objectives of the Spanish Ministerio de Justicia is to establish the conditions and requisites of publicity for family protocols. Among others, a Royal Decree has been drafted, establishing the minimum elements that have to be included in any protocol.

That not only national governments but also regional ones are active in this respect can be shown by the example of the regional government of Valencia (Spain). One of its goals is to support small and medium-sized regional family enterprises in elaborating a family protocol whereby this protocol is to be used as a tool for facilitating the continuity of the business among several generations. Public aid is intended to support the external costs (consultants/advisors) incurred by regional small and medium-sized family enterprises that elaborate a family protocol (also see Chapter 5.2.3 and Annex IV).

<sup>33</sup> Nevertheless, strategies and programmes generally beneficial for the private sector are, naturally, also advantageous for family firms and may be accessed by them.

#### 5.1.4 Support Service Providers

In contrast to employers' organisations and governments rather providing general services that implicitly also benefit family businesses, among **support service providers** (both, public and private ones) across Europe several target group specific initiatives are available. Here again, a certain focus on the issue of business transfer and succession (e.g., training, conflict resolution mechanisms, market places like the ones described above offered by the employers' organisations) exists. For Finland, experts mention that although the availability of support services for business successions has been increasing since the turn of the century the demand is often exceeding supply.

Another important area of support services refers to general management consultancy (i.e., specifics of managing a family business). Some of the offered services also deal with family business governance or the provision of cheap loans. Many of family business specific support services are offered by family business networks.

Among support service providers particularly **education/training institutions** are engaged in offering measures explicitly targeting at family businesses (i.e., current and future owners/managers). Several universities have established family business management courses or even chairs (especially widespread in Spain) and are, at the same time, conducting **research** about the sector. With regard to the latter, also a variety of private research institutes are active. Research on family businesses is more widespread in Western than in Eastern Europe.

The main **topics** covered in both, education and research, are awareness about their economic and social/societal contribution, management and governance, succession (planning and procedures), family-business-interrelationships (including, for example, family conflicts, employment of family members) as well as innovation, competitiveness, growth and internationalisation.

In this context, also the International Family Enterprise Research Academy (IFERA)<sup>34</sup> is to be mentioned. Founded in 2001, it is geared towards advancing family business research, theory and practice through enhanced interdisciplinary collaboration. To achieve these objectives, IFERA among others organises annual research conferences and workshops, disseminates newsletters to about 600 researchers or co-operates with academic journals. Although being targeted at researchers, everyone interested in family business research may become an associate (the annual membership fee amounts to EUR 100 for students and EUR 200 for others).

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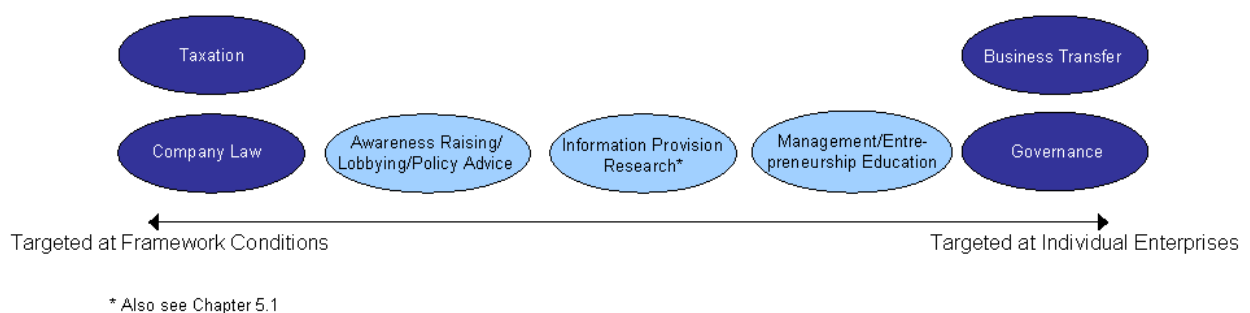
<sup>34</sup> <http://www.ifera.org>



## 5.2 Family Business Supportive Instruments

The family business relevant actors described above are engaged in different activities either explicitly and **exclusively targeted at family enterprises** (like measures dealing with family protocols) or **implicitly favourable for the sector** due to the issues covered (e.g., instruments related to business transfers)<sup>35</sup>. The available instruments can be classified in the following categories that will be dealt with in detail on the following pages. Thereby, some of the instruments lever at the macro level in terms of being related to the general public business environment of family firms while others lever at the micro level, i.e., being oriented on individual enterprises/entrepreneurs.

**Graph 5 Overview on Family Business Specific Support Instruments**



Source: Austrian Institute for SME Research

The general findings are illustrated by short descriptions of respective instruments available in the European countries. Where indicated (see footnotes) an in-depth description of the presented instrument can be found in Annex IV.

<sup>35</sup> Next to that it has to be kept in mind that family businesses may also approach all other business support programmes (such as general start-up initiatives, micro-loans, innovation programmes, entrepreneurship education measures, sectoral support programmes (e.g. agriculture, tourism, trade), regional support programmes (e.g. rural development initiatives) etc.) as long as they fulfil the respective eligibility criteria (e.g. company size class, sector, economic development etc.). As such instruments are not “family business specific” they are not discussed in this report.

### 5.2.1 Company Law

**Regulations that facilitate business transfers** are favourable for family businesses as generational changes are an important issue for family firms due to their intention of guaranteeing the sustainability of the enterprise beyond the (professional) life of the founder - and at the same they pose a strong challenge to the family enterprises, affecting their survival.

The regulation for business continuation (Fortbetriebsrecht) of the Austrian trade/commerce regulation act of 1994 (Österreichische Gewerbeordnung 1994, BGBl. Nr. 194/1994) stipulates the right of continuing the business without having to dispose of the otherwise required business licence or to employ a manager who disposes of the business licence, if the succeeding entrepreneur is the husband/wife, child/step child or grandchild (up to the age of 24 years) of the previous one who suffered death and the lack of the business licence is considered not to endanger life or health of human beings.

In Luxembourg, the spouse or an ascendant can continue the exploitation of the company after the death of the owner/manager for two years under the condition to afterwards employ a qualified person. A descendant, a brother or sister, an uncle or aunt, or an ally to the 3<sup>rd</sup> degree can continue the exploitation for five years under the condition to acquire the necessary professional qualification within this period.

The French amendments reforming the inheritance law (Loi du 23 juin 2006 portant réforme des successions et des libéralités) provide the possibility to plan transfer modalities in the will as well as the possibility for heirs to conclude an inheritance agreement which was before forbidden in the French law.

An Austrian regional decree on shop opening hours (Bgld. Ladenöffnungszeitenverordnung 1997, LGBl. Nr. 18/2004) enacted that retail stores in which only the entrepreneur and up to two family members are active are allowed to open their shops earlier and close them later than other businesses as long as the overall weekly shop opening time does not exceed a certain number of hours. This should help to provide family businesses better opportunities to compete with large incorporated supermarkets.

Another regulation in the field of company law that is indirectly beneficial to family firms refers to the possibility of establishing **non-voting stocks**. Respective favours family businesses' access to finance while at the same time taking into account their general reluctance to share control of the strategic and operative business management (see Chapters 4.5 and 4.6).

The Norwegian Companies Act (Aksjeloven) of 1997 regulates that the statutes of the company may specify that some shares do not have voting rights (B-shares). In public companies there can be a maximum of 50 % B-shares.

In 2003, the modification of the Spanish Law of Limited Responsibility Societies (Ley de Sociedades de Responsabilidad Limitada) among others introduced the possibility of non-voting stock.



### 5.2.2 Taxation of Reinvested Profits

Favourable tax regimes for reinvested profits are advantageous for family firms that often tend to plough back profits into the businesses instead of harvesting the returns.

In Malta, there exists a tax credit for reinvested profits derived from certain business activities (turnover must not exceed EUR 582,500, company must employ 3 - 10 employees (thereof 3 full-time staff members), company must be registered as a “Final Settlement System” payer, approved project).

In Austria, since 2004, entrepreneurs drawing up balance sheets and farmers (sole proprietors and associates of partnerships) have the opportunity to apply the half average income tax rate on earnings that have not been withdrawn up to the amount of EUR 100,000 per year. The earnings have to be determined through accounting.<sup>36</sup> The retained earnings have to manifest themselves in an increased equity. In case the earnings are higher than the increase of equity or the maximum amount of EUR 100,000, the exceeding amount is liable to the normal tax rate. There is a subsequent taxation of the earnings, if within 7 years the equity is reduced as a result of withdrawals and the withdrawals exceed the earnings. In years of losses only the decrease of equity caused by withdrawals is liable to subsequent taxation and not the loss itself.

### 5.2.3 Governance

Due to the strong interrelationships between the family and the enterprise and the thereof potentially resulting conflicts (see Chapter 4.1) family businesses require organisational structures or instruments pro-actively counteracting the arising of such conflicts. To support this, in some countries initiatives dealing with corporate governance codes, family governance, family protocols, family constitutions, family councils, family assemblies or similar are available.

In some countries **governance codes for family businesses** have been elaborated and are disseminated among the sector. They are drafted as chapters of general governance codes or as separate documents and provide recommendations for balancing the business sphere with the “familiness” element in order to ensure smooth and competitive business activities.

While the initiative on which the establishment of the code is based varies across countries (e.g., banking sector in Austria, employers’ organisations in Belgium or Turkey) they have in common that they are fairly young, non-binding and voluntary. Although codes experience an increasing popularity among family businesses, the share of enterprises already having enacted one is limited (e.g., 7 % in Belgium about one year after its launch).

<sup>36</sup> Entrepreneurs using cash basis accounting may take advantage of a special allowance for invested earnings (10 % of reinvested earnings are treated preferentially in income tax).



The Austrian Governance Code for Family Businesses (Österreichischer Governance Kodex für Familienunternehmen) has been drafted in 2002 and contains the following chapters with recommendations for the management of family businesses, also pinpointing that a “family strategy” should be developed (i.e., treatment of family members, conflict solving, activities for a stronger family coherence etc.):

- Responsible management
- Transparent company structures
- Qualified management and management succession
- Assurance of a qualified management supervision
- Participation rights of the shareholders
- Accounting and allocation of profit

In Belgium, the ad-hoc Commission Buysse (employers’ organisations and experts) in 2005 established a corporate governance code for non-listed companies, including a specific chapter on family businesses. The code advocates the adoption of a family charter and the creation of a family forum. Furthermore, it offers advice on resolving conflicts and preparing succession within the family firm.

Also in 2005, the Turkish Ankara Chamber of Industry (Ankara Sanayi Odası) published its Family Contract (ASO Aile Anayasası), dealing with family relationships, working relationships, administrative structures and ownership<sup>37</sup>.

In Spain, the Ministry of Justice enacted a regulation of the publicity for family protocols (Regulación de la publicidad de los protocolos familiares). This Royal Decree of 2007 establishes the minimum elements that have to be included in any protocol.

In order to support the administrative effort related to the establishment of such documents, **financial aid** is favourable. Such has been realised by the regional government of Valencia (Spain).

The Consellería de Economía Hacienda y Empleo de la Generalitat Valenciana (Department of Economy and Employment of the Regional Government of Valencia) provides public aids (50 % of external consulting costs, up to EUR 8,000) for elaborating family protocols in family businesses (Ayudas a Empresas familiares para la Realización de Protocolos Familiares)<sup>38</sup>.

<sup>37</sup> For a detailed description see Annex IV.

<sup>38</sup> For a detailed description see Annex IV.





### 5.2.4 Planning of Business Transfers

As one of the major reasons for failure of a business transfer constitutes a lack of planning (European Commission, 2002), instruments **raising the awareness** about the importance of a substantial and timely planning as well as measures facilitating this process are advantageous for the family business sector.

In 2004, the Dutch Ministry of Economic Affairs in co-operation with three employers' organisations developed the toolkit for business transfer ("Overdrachtspakket", transfer package)<sup>39</sup>. All entrepreneurs of the age of 55 receive a letter informing them on the importance of a timely transfer planning and the availability of this toolkit.

Next to awareness raising, there exist instruments in the field of **advice or consultancy** (for free or financial support) or "**self-planning tools**".

Across Europe, these support instruments are offered by diverse actors, either governmental authorities, employers' organisations or family business networks. Again, the identified initiatives are rather young (about 3 years or less).

The Belgian Instituut voor het Familiebedrijf (IFB) in 2006 introduced a Succession Scorecard (in Dutch: *Scorecard Opvolging*, in French: *Scorecard Transmission*) that can be approached without costs via the website [www.scorecardopvolging.be](http://www.scorecardopvolging.be) (in Dutch), [www.scorecardtransmission.be](http://www.scorecardtransmission.be) (in French) and [www.scorecardsuccession.com](http://www.scorecardsuccession.com) (in English).<sup>40</sup> The instrument provides a self-test for entrepreneurs (50 multiple choice questions) to investigate the strengths/weaknesses in connection to the planned business transfer.

The Finnish Employment and Economic Development Centres (TE-keskus) launched the ViestinVaihto (Passing the Baton) programme consisting of three consulting days (experienced management consultants on a confidential firm-to-firm basis) to discuss different options and solutions for business succession.

<sup>39</sup> For a detailed description see Annex IV.

<sup>40</sup> For a detailed description see Annex IV.

### 5.2.5 Competence Development for a Successful Business Transfer

Several seminars and workshops preparing (potential) **successors** for their future role are either offered by family business networks or employers' organisations and may also be organised at sectoral level (e.g., with a specific focus on tourism or agriculture) or with the inclusion of a cross-national element.

The Austrian Institut für Familien und Betriebe (Institute for family and business) offers a special seminar called Generationen (generations). It covers issues like dealing with the fear of change, emotional bonds or entronement and costs EUR 300.

The Chamber of Craft and Small Business of Slovenia (Slo Obrtno-podjetniška zbornica Slovenije) offers about 15 annual workshops and seminars on business transfers at a regional level.<sup>41</sup> A focus is set on fiscal and legal regulations and on how to solve succession problems. The quality of the services provided is monitored by a CRM system.

The training programme for successors of the Finnish Family Firm Association (FFFA)<sup>42</sup> incorporates four training days (expert lectures, group and case assignments) in Finland as well as an international session (four days) in Barcelona, Spain. The costs amount to EUR 1,500 for members of the FFFA and to EUR 3,000 for non-members.

### 5.2.6 Market Places for Business Transfers

Against the background of the observable trend to a decreasing share of family-internal business transfers (European Commission, 2002) market places bringing together potential buyers and sellers of existing companies contribute to the sustainability of established enterprises (even if it they are not necessarily to be considered a family firm any more after having been sold to an external party).

Respective instruments have been established by employers' organisation for the benefit of the companies they represent, i.e., not specifically oriented towards family businesses.

The Austrian Nachfolgebörse der Österreichischen Wirtschaftskammer (WKO) was set up in 2003 by the Austrian Federal Economic Chamber to provide a platform for persons looking for successors and persons wishing to buy an existing company. Both parties are supported by experts providing knowledge and information relevant in the framework of a business transfer. The service contains among others a succession check (i.e., whether the business is "fit" for transfer), guidelines and checklists and support in the determination of the selling price.

Since 1999, the Luxembourgian Chambre de Métiers runs a successors' bourse (Bourse d'entreprises) bringing together buyers and sellers on the basis of convergence points analysed by the Chamber.

<sup>41</sup> For a detailed description see Annex IV.

<sup>42</sup> For a detailed description see Annex IV.



### 5.2.7 Financial Support of Business Transfers

As in some cases substantial investment is needed in the framework of the business transfer - not necessarily into the company's assets, but also to indemnify other heirs - financial support contributes to the transfer's sustainable success.

The Finnish Finnvera Oyj since 2001 offers an entrepreneur loan for business transfers (Yrittäjälaina) in form of direct financing or different types of collateral to increase the equity of the company or for mezzanine financing, for paying the price of the company or for the investment and working capital needed. The applicant must hold at least 20 % of the share capital and voting rights of a joint-stock company or be a partner in a partnership or an active partner in a limited partnership. Applicants must work full-time for the enterprise and must gain their livelihood through the enterprise.

### 5.2.8 Taxation Related to Business Transfers

The **inheritance and gift tax** pose a considerable challenge for family businesses that may counteract the transfer's successful completion, if the financial burden related to it is unbearable for the enterprise's and family's budget.

Some European tax systems have a confiscatory nature on the transmission of assets representing company ownership by imposing tax obligations on either the previous or the new business owner (or both). As this tax burden has to be covered by the family assets - and hence the company assets - this constitutes one of the causes for a low survival rate of family businesses as it decreases the liquidity of the firm and therefore its manoeuvrability in economically difficult times. These systems, usually designed to counteract wealth accumulation, consequently exert a financial pressure on the family businesses undermining their capital base during the intergenerational transition period, which is already surrounded by other difficult circumstances in terms of coping with conflicts between the previous and the new entrepreneur, the necessity to indemnify other heirs, safeguard clients' and business partners' acceptance of the shift in ownership and control, dealing with required administrative procedures etc.

In reaction to this situation, several European countries have enacted regulations either completely abolishing inheritance/gift tax for business transfers or considerably reduced the financial burden related therewith.<sup>43</sup> Exemplary information can be seen from the following table.

<sup>43</sup> Several other countries (e.g. Finland, Germany) are planning respective initiatives.



**Table 8 Examples for Family Business Friendly Inheritance/Gift Tax Regulations<sup>44</sup>**

	<b>Abolishment/Non-existence</b>	<b>Reduction/Low Taxation</b>
AT	In July 2008, inheritance and gift tax on the transfer of businesses has been abolished. <sup>45</sup>	
BE	In the Flemish region, Brussels Capital region and Walloon Region, inheritance tax for businesses was lowered to 3 % and in certain cases to 0 % (compared to 3 % - 65 % for inheritance in general) under the condition that the business is continued for at least 5 more years, employment does not decline by more than 25 % and the capital base remains the same.	
CY	No inheritance tax exists	
EE	No inheritance/gift tax exists	
ES	Some regional governments with specific tax powers (e.g., Basque Country) have eliminated the inheritance and gift tax within their regional boundaries.	In 1996, a reduction of the inheritance and gift tax of 95 % for business assets has been established for "mortis causa" in the case of inheritance tax and for transmissions "inter vivos" in the case of gift tax. In 1997, these reductions were extended to all type of businesses.
GR		Reduction of tax rate in the case of business transition and relief from capital gains tax: tax rate in the case of A' degree relative for family firm transfer is 1.2 %, 2.4 % for B' degree relatives and 20 % for non-family members; if in case of the retirement of the owner of a sole proprietorship, general and limited partnership the ownership is transferred from parent to child or from husband to wife (and wife to husband) capital gains tax must not be paid
LU		Family businesses benefit from a reduced tax for the transmission.
LV	No inheritance tax exists	
MT	No inheritance tax exists	
NL		Since 2007, inheritance tax on the transfer of businesses have to be paid on 25 % of the value of the business, only (compared to 40 % since 2005 and 70 % before); a delay of payment of 10 years may be applied for; conditions are that the owner/manager is aged 55 or older or 45 % labour handicapped, and that the business has been exploited for 5 years and will be continued for 5 years

<sup>44</sup> See Annex I for the Country Codes

<sup>45</sup> Before that, in case of death of the former business owner, transfer was free of tax up to a tax allowance of EUR 365,000; the same was valid for donations among living people, if the successor was a natural persons, the donator was 55 years or older and due to a physical or psychological handicap not able to run the company any longer.



	Abolishment/Non-existence	Reduction/Low Taxation
NO	No inheritance and gift tax arise for values up to NOK 250,000 (8 % for NOK 250,000 - 550,000, 10 % for higher values for children, foster children and step children, parents; 10 % - 30 % for other inheritors); since 1992, the value estimation of non-listed shares can be set to 30 % of the firm's tax conditioned value in the framework of generational change; since 2006, inheritance tax is subject to an interest free repayment over a period of 7 years (corresponds to a discount of 10 % compared to usual repayment)	
PT	Elimination of tax on successions and donations and introduction of a "stamp tax" of 10 % of the book value of free of charge transmissions between persons, which is exonerated, if transmissions occur between ascendants and descendants	
SE	Abolishment of gift and inheritance tax in 2005	
SK	Since 2004, income received from inheritance, donations and real estate transfers are not subject to tax	

### 5.2.9 Management/Entrepreneurship Education

Despite the historic predominance of family business entrepreneurship, the topic of family business has not been highly mirrored on the business education agenda. Nevertheless, several (private as well as public) European **universities** are dealing with the family business sector, either by offering specific **courses** in the framework of general business administration/economics studies or by having established specialised **chairs** exclusively dealing with family businesses.

University-based management training programmes are rather young, mainly initiated after the turn of the century. They are aiming at preparing future owners/managers of family firms for running the enterprise, taking into account the specific characteristics of family businesses. Thereby, issues mainly addressed are (potential) conflicts and business transfer, but also financial and legal aspects, growth/innovation/internationalisation or similar.

In the offered programmes different target groups are addressed. While some of the initiatives are oriented towards undergraduates, others address persons already advanced in terms of academic (e.g., achievement of certain academic degrees as a pre-condition) or professional (i.e., practical) experience. In some cases, also family business consultants form the target group (or one of them) of the instrument.

The costs for the participants range from a few hundreds to some thousands Euro, depending on the target group (students vs. managers) and the extent of the programme.

The Slovenian University of Ljubljana<sup>46</sup> since 1998/99 offers a course on family entrepreneurship within its undergraduate study programme to make the students understand the particularities of family businesses (e.g., stakeholders and their roles in the family business, family conflicts), their economic importance and their growth as well as succession issues. Through case studies, seminar work and contacts with family businesses' entrepreneurs students are familiarised with family businesses' issues and the ways to deal with them.

Since 2006/07, the French IAE Bordeaux<sup>47</sup> offers a Master 2 course in family business governance (gouvernance des entreprises familiales, GEF) to train future managers of family firms in the fields of strategy, finance, fiscal and legal aspects, internationalisation and HRM<sup>48</sup>.

The Portuguese Associação Portuguesa das Empresas Familiares (APEF) in co-operation with the private Fernando Pessoa University runs a MBA in management, governance and succession of family businesses. The post-graduation programme that aims at providing family businesses with potential successors (qualified leaders, managers, negotiators and strategists) is organised along three terms with a total of almost 200 hours of training. The tuition fees range from EUR 7,325 to EUR 8,825.

Also other education providers, employers' organisations or family business networks offer **workshops, seminars or trainings** on family business relevant entrepreneurship skills. Most of the measures have been launched during the 2000s and are very practice oriented, including presentations and speeches of family business experts and practitioners as well as active involvement of the participants in terms of group discussions or case studies. They also take into account the limited time resources family business managers/owners dispose of. Consequently, they last for some hours and deal with very specific topics.

The Family Business Academy (CIIM FBA)<sup>49</sup> of the Cyprus International Institute of Management (CIIM) is an annual week long module of a Master of Business Administration (MBA) programme targeted at owners/managers of family firms and their advisors. It includes seminars, workshops, live case studies, guest speakers/practitioners, family business fieldwork and tours of local entrepreneurial family enterprises and covers issues such as finance, growth, managing conflicts or drafting succession plans in family businesses.

The French HEC Family Business Centre offers education and training in the form of four specialised management programmes (for owners/managers, successors, SME managers and individuals with a project of takeover). The programme comprises four days of seminars in Boston, two or three days of training for family managers in the management university and thematic one day seminars (e.g., on patrimony, law etc.). Furthermore, since 2006 roundtables and workshops are organised in co-operation with the management school of the Normandie (<http://www.journeesgeorgesdoriot.org>), dedicated to specific issues (transfer, state of the art in research on family businesses).

<sup>46</sup> A similar course is also offered in the undergraduate programme of the Slovenian GEA College.

<sup>47</sup> For a detailed description see Annex IV.

<sup>48</sup> A similar master is also offered by the University of Paris (France), the University of Pisa (Italy) or the University of Liechtenstein.

<sup>49</sup> For a detailed description see Annex IV.



The Educational/Networking Programme of the British Institute for Family Business provides its members with the opportunity to discuss family business issues and find solutions through collective experiences through an annual conference, regional forums and thematic forums (e.g., for younger members, on investment or internationalisation strategies).

In 1999, the Dutch FBNet has established family business visits (Familiebedrijf bezoeken). During the visit of a family business, participants can see how business is conducted in that company and how it deals with certain obstacles. Participants also get acquainted with each other and have the opportunity to exchange experiences and good practices. There are two types of family business visits: for all members or for next generation (e.g., children of members). Both are held 2 times a year.

#### 5.2.10 Information Provision/Research

Information provision as it is understood here refers to both, **disseminating information about family businesses** (e.g., among governmental authorities or the general public) and **towards family businesses** (e.g., about changes and developments of the business environment).

While the latter is clearly interlinked with the above-mentioned education/training instruments, the information provision about family businesses can be equated to **research** (also see Chapter 5.1.4 for the main topics covered). In this context, of particular interest are research missions conducted cross-nationally and, consequently, resulting in comparable findings about the family business sector in different countries. By applying identical definitions for the standardised surveys realised in the covered countries it is safeguarded that the results are comparable across national borders. Such has, for example, been conducted by PriceWaterhouseCoopers in its Family Business Survey 2007/08 exploring the key areas of interest to family firms (definition number 92 in Table 1) such as the main challenges they face, succession planning, remuneration of the management or conflict resolution (PriceWaterhouseCoopers LLP, 2007). The survey comprised more than 1,400 responses (20 minutes telephone interviews) of top managers of small and medium-sized family businesses in 28 countries<sup>50</sup>. Regular follow-up surveys are planned. Similarly, in 2007 FBN International launched its Family Business Monitor surveying 1,350 family businesses (definition number 89 in Table 1) in 8 countries<sup>51</sup>. The research that is planned to be continued in a bi-annual rhythm is supposed to be continuously expanded to additional countries (15 in 2009).

The Leadership in Family Business Research Initiative of the London Business School includes the development of a new theoretical framework for the study of family business which combines ideas from evolutionary biology, anthropology, family psychology, economics and organisational behaviour. It is argued that family firms have unique performance capabilities which are explained by features of the family system relating to structure, personality and culture.

<sup>50</sup> Australia, Belgium, Brazil, Canada, Cyprus, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Mexico, the Netherlands, Norway, Oman, Portugal, Qatar, Saudi Arabia, Spain, South Africa, Sweden, Switzerland, Turkey, the United Arab Emirates, United Kingdom and United States

<sup>51</sup> Finland, France, Germany, Italy, the Netherlands, Spain, Sweden and the United Kingdom



These attributes confer family firms with market advantage depending on leadership choices in the domains of governance, succession and ownership.

Interestingly, across Europe only one publication about family businesses stemming from the public central statistics office exists.

In 2008, the Central Statistics Office (CSO) of Ireland published “Family Business in Ireland - Services Sector 2005”. The objective of this publication was to present a comprehensive picture of the contribution of family businesses to the traded services sectors in Ireland. The information is sourced from the 2005 Annual Services Inquiry (ASI) covering the retail, wholesale, real estate, renting and business services and other selected services sectors. The publication compared the performance of family and non-family businesses for the key economic variables across a number of classifications - sectors, regions, size classes, legal forms of ownership and nationality of ownership.

Next to general research activities, however, some more “dissemination oriented” activities are carried out. So, for example, the **publication of family business specific economic journals** contribute to channelling the latest results on family business research.

As to this regard, FBN International in its pilot Family Business Monitor (FBN International, 2008) also mentions that family businesses are rarely dealt with in specifically devoted sections in generally accessible newspapers and that the existing family business specific journals are not accessible to a large readership.

Also interesting and indirectly beneficial for family businesses are initiatives **bringing together researchers** for exchange of know-how and discussion about methodological approaches, theoretical background considerations and empirical research findings. Such is realised by specialised conferences or researchers’ meetings.

The Finnish Family Firms Association (Fin Perheyritysten liitto ry) brings together the academic researchers in the field of family businesses and thereby increases the national collaboration among researchers. The annual two-day meeting includes both, keynote presentations from national and international distinguished academic researchers as well as representatives of policy makers and family businesses and presentations of research plans or studies of the Finnish business researchers.

IFERA organises the Annual Global Conference, comprising a one-day doctoral consortium, two days of presentations of final research papers geared for special journal issues and working papers as well as a Family Business Day, supported by local family business associations. It offers global networking to about 100 - 120 delegates from more than 25 countries.

Such networking activities can also **bring together all types of stakeholders** relevant for the family business sector, i.e., not only academia also politicians, public and private support service providers (including consultants/advisors) as well as family businesses themselves.





Since 2005, the Scottish Family Business Association (SFBA) is engaging with six key stakeholders in Scotland: family businesses, political leaders from all parties, business support organisations, academia, the media and professional advisors, such as lawyers and accountants. Thereby, it conducts the following activities:

- Undertake a marketing programme to ensure that family businesses are aware of Good Practices
- Celebrate economic contribution and Good Practices of family business through media activity
- Build a database of all business families in Glasgow
- Build databases of professional advisors and relevant academia
- Ensure that a variety of material on all family business issues is available for, and distributed free of charge to, all business families in Glasgow
- Encourage advisors and current business support organisations to hold events related to family businesses
- Organise a regular local forum via Glasgow City Council for family businesses
- Provide training packages which advisors and professional bodies can use with staff, including Good Practice business models for all stages and types of family businesses
- Offer "SFBA" approved accreditation: Agree with, and work alongside, Glasgow's universities to develop a "SFBA approved" course for advisors and meet umbrella organisations to promote the accreditation
- Work with universities and colleges to assist in developing education programmes for family businesses, members and advisors
- Provide grants for academic research to allow SFBA to benchmark the position of family businesses.

### 5.2.11 Awareness Raising

Particularly family business networks or other family business specific organisations set activities for raising the public awareness about the issues of family businesses.

At a European level, an Expert Group on Family Business Relevant Issues (Research, Networks, Policy Measures and Existing Studies) was created in 2007 under the auspices of the European Commission, DG Enterprise and Industry. The purpose of this Expert Group is to discuss the main problems of family firms in the single market, to identify existing family business related research, family business organisations/networks as well as Good Practices in order to provide the European Commission with input on family business relevant issues. Also, the Small Business Act of June 2008 makes reference to family businesses.

At a Member State level, awareness raising initiatives mainly refer to disseminating general information about the sector or attracting notice on the sector by awarding outstanding family businesses.

The Austrian Convention for Family Businesses was implemented in 2003 by the publishing house Wirtschaftsblatt Verlag AG to raise public awareness about the importance of the family business sector for the Austrian economy. The focus of this convention is to learn from others and to effect a successful exchange of know-how and information. In addition to that, every year the best performing company run by a family is awarded as the family business of the year.

The French marketing consulting company BM&S has created a trademark and specific logo (Les entreprises familiales centenaires) to develop among centenary family businesses the strategy to use their positive image as a marketing tool. Companies being 100 years or older and still owned and controlled by a family may become member and use the logo. The annual fee amounts to EUR 500 to 10,000 depending on the company's turnover. So far, there are about 25 members (out of estimated 1,300 centenarian family businesses in France).

### 5.2.12 Lobbying/Policy Advice

Family business organisations are also active in convincing politicians to realise a business environment that is favourable for family firms. Thereby, particularly the issue of taxation and the facilitation of business transfers are in the spotlight of discussions.

In several European countries **expert groups** dealing with family business relevant issues have been established and are on the one hand investigating the sector and its challenges/problems and on the other hand trying to convince the public authorities to alter the framework conditions.

The comparatively oldest expert group is the Forum for familiebedrifter og aktivt eierskap (Family Business Network Forum) of the Norwegian Næringslivets Hovedorganisasjon NHO (Confederation of Norwegian Enterprise, CNE), established in 1993<sup>52</sup>. The Family Business Network Forum's objectives are to put family businesses relevant issues on the agenda, emphasise the social importance of active ownership and family businesses (e.g., by producing reports) and to develop active owner networks (e.g., seminars, conferences).

In Finland, the Ministry of Employment and the Economy (Työ- ja elinkeinoministeriö) established the Family Entrepreneurship Working Group<sup>53</sup> in 2004/05 in order to draft a definition of "family enterprise", to investigate the number and size of family enterprises in Finland and to come up with proposals on legislative amendments and on industrial policy measures that would be pivotal for family enterprises.

In 2006, the Dutch Kamer van Koophandel inserted the Expertgroep Familiebedrijven to make the legislative and regulatory framework for family businesses more transparent and improve the conditions for family businesses. Among others, the expert group has made a note ("Familiebedrijven: continuïteit en betrokken in een dynamische Nederlandse economie" - Family Business: continuity and involvement in a dynamic Dutch economy) in which policy recommendations are given and which was published in 2007.

<sup>52</sup> For a detailed description see Annex IV.

<sup>53</sup> For a detailed description see Annex IV.



## 6 Future Issues

The challenges for family businesses in Europe can be divided into three categories:

1. Challenges all businesses are confronted with in a similar way, e.g., the general economic climate, developments on the demand side such as demographic and socio-demographic changes.
2. General business challenges which, however, are more severe for family rather than non-family businesses due to their specific characteristics, e.g., accruing financial means for growth or competing in globalising markets.
3. Challenges that occur for family businesses only, e.g., coping with family-business-conflicts, realising a successful business transfer to the next generation.

In Chapter 6.1, challenges specific to family businesses only (i.e., the third category as well as aspects of the second category peculiar to family businesses) are discussed, as there are a wide array of public support instruments for the more general business challenges also accessible to family businesses, if they meet the specific programme requirements<sup>54</sup>.

On the basis of these challenges, potential policy fields of action are summarised in Chapter 6.2.

To conclude, a summary of these challenges and policy recommendations are made in Chapter 6.3

### 6.1 Specific Challenges for Family Businesses in Europe

#### 6.1.1 Intransparency of the Family Business Sector

Family businesses are often confronted by a lack of **awareness from politicians**, which results in a lower level of consideration being given to family business specific aspects when creating a business friendly public environment. This lack of awareness often manifests itself in family firms being equated to SMEs, which, however, neglects the fact that there are also large family businesses. This negligence can at least partly be attributed to the widespread lack of information about family businesses (starting with the lack of a clear definition/demarcation of this sector and ending with the availability of only exemplary data of their economic and social/societal contributions, which can hardly be used to justify family business specific political action).

<sup>54</sup> The analyses conducted in this study show a few exemplary indications that family businesses (even more than non-family businesses) may decide against participation in public support programmes as they are reluctant to share the firm's internal information with external parties. In order to achieve higher participation from family firms in general public support programmes, initiatives to pinpoint the confidentiality concerns of such programmes as well as initiatives to familiarise the enterprises with the administrative aspects related to public support programmes could be realised.

Another factor fostering the lack of awareness of family businesses in policy discussions is that, in most European countries, there is little specific **representation** for family businesses. Existing enterprise/employers' organisations tend to represent companies on the basis of their size class (e.g., SME organisations, organisations for large enterprises) or on the basis of their economic activities (e.g., craft enterprises, retail trade).

The existing family business organisations/networks are very young, are mainly located in Western Europe (i.e., there is hardly any representation in Eastern Europe), and are comparatively weak in terms of being able to influence policy making. Therefore, it is only very recently, in most cases, that the needs and concerns of family businesses have actively been raised, and only to a limited extent.

### 6.1.2 Business Transfer

Due to the long-term orientation of family businesses and their strategic objective to pass on the firm from one generation to the next within the family, the issue of business transfer is of greater concern to family rather than non-family businesses. Not only does this process involve more emotional elements, but the potential for intergenerational conflict is also greater.

During the last decade, several initiatives have been established at a European as well as a Member State level to increase enterprises' **awareness** of the importance of planning the transfer process thoroughly and in a timely fashion. Nevertheless, many enterprises, particularly in the New Member States, will face the challenges involved in a business transfer for the first time only in the near future and, consequently, comparatively little knowledge/experience of this is available. As long-term and substantial preparation for the transfer is one of the major success factors of business succession, this lack of awareness results in a delay in planning activities and, as a result, endangers the company's survival over generations.

In the EU-15, family businesses have often already undergone an intergenerational change of ownership and control, and are more familiar with the challenges. However, compared to previous generations, new challenges have arisen which need to be considered when planning for the transfer.

An important aspect is demographic and socio-demographic change. On the one hand, the European population has fewer descendants, the traditional nuclear family is in decline, and descendants are better educated, resulting in fewer children being available and willing to take over their parents' company. In many cases, however, parents do not take these developments into account and automatically assume that their children will become the successors of their family business. On the other hand, entrepreneurs remain in active professional life for longer, forcing descendants, who would be willing and capable of running the family firm, to "wait it out". These situations increase the potential for conflict within the family, which could affect the firm's survival.

Another important challenge connected with business transfers is the matter of **financial obligations** in terms of indemnifying other heirs and/or paying inheritance/gift tax. As family businesses mainly rely on family funds and bank loans (rather than external investment/finance), the financial funds needed to pay out other heirs and taxes have to be covered by the firm's assets. This reduces the company's liquidity and, therefore, increases the risk of insolvency in economically difficult times.



### 6.1.3 Balancing Business and Family Spheres

In addition to finding solutions to business activities (e.g., production, marketing, finance etc.), leaders of family businesses also have to consider the **overlap between the business and the family sphere**. This is important for the general running of the firm, and of particular relevance in specific situations, such as in a business transfer or if the family behind the business grows faster than the firm itself, resulting in a **multitude of influencing players**. This leads to more extensive and difficult decision-making processes as well as a higher potential for conflict. This can be a problem, particularly in family firms that have undergone several generational changes, as distant family members have diverging interests and are less cohesive.

This requires attention, on the one hand, when formulating business strategies and, on the other hand, when designing corporate structures. Both need to be created in a way that best takes advantage of the potential benefits inherent in close relationships and of the mutual influence of the business and the family (e.g., personal commitment, long-standing experience and business relationships across generations), while at the same time avoiding the potentially inherent drawbacks (e.g., nepotism, complex decision making due to the high number of persons involved).

Due to these complex interrelationships between the business and the family spheres and the potentially high number of stakeholders involved, family businesses require specific **governance** instruments. However, these are not very widespread in many European countries because family businesses lack awareness of their necessity and practical information on how to design and implement them. As personal problems (compared to organisational or operational crises) are difficult to solve (Der Standard, October 2, 2008), being unaware of these instruments can be seen to endanger the company's survival in the event of conflict.

### 6.1.4 Family Business Specific Competence Development

The characteristics of family businesses require their owners/managers to dispose of specific skills to enable them to cope with the overlap between the family and the business and to run the firm in a way that guarantees its sustainability over generations. As the issue of family businesses has only rather recently been on the agenda of a few **management and entrepreneurship education** providers across Europe, family business owners/managers are often confronted with the challenge of finding suitable training to prepare themselves and/or their potential successors to run the firm.

The lack of specific competence development measures, which need to be widely available and easily accessible to the target group, as well as the fact that general entrepreneurship education does not incorporate the specific characteristics of family firms in their curricula hinder present and future family business leaders from being equipped with the competences and capacities necessary to effectively run a family firm.



### 6.1.5 Access to Finance

Family firms are often **reluctant to take in external investors** because they do not want to share control. However, **limited family budgets** and collateral and **limited access to bank loans** hamper the growth of a potentially auspicious company.

Difficulties in raising additional finance for investments may negatively influence a firm's competitive situation as obsolete production and service equipment cannot be replaced to the same extent as in non-family firms. Furthermore, it is more difficult to decide on how to expand, particularly in the field of globalisation/internationalisation, if a lower level of finance is only available.

### 6.1.6 Image on the Labour Market

While family businesses benefit from a good reputation in the market (i.e., business partners and clients appreciate their family character and aspects such as high commitment and loyalty), in many European countries, they sometimes experience difficulties in **attracting sufficient and/or qualified staff**.

In addition to the labour market problems SMEs suffer from a number of negative perceptions (e.g., low wages, reduced career opportunities, archaic working procedures), family businesses independent of their size are often not very attractive to the workforce because paternalism and nepotism are expected practices or because of the way decisions are assumed to be made.

## 6.2 Recommendations for Policy Actions

### 6.2.1 Addressing the Intransparency of the Family Business Sector

To overcome the lack of awareness of the economic and social/societal contributions made by family businesses and their specific characteristics, challenges and needs among policy makers (but also the general public who are potential customers as well as employees of family businesses), more **systematic and detailed information in the form of statistical data on the family business sector** is necessary.

The starting point for any research is to have a good understanding of the population under analysis, therefore, **an unambiguous definition of family business that is useable for research/statistical purposes** is required. It is almost impossible to arrive at an ultimate definition of "family business" as this sector covers such a diverse spectrum of business entities, which cannot be fully embraced in a simple definition. However, more sophisticated definitions are not applicable in practice (e.g., for statistical mapping purposes) as the relevant information is not available or is costly to obtain.

To avoid the present heterogeneity of understandings of what constitutes a family firm and to allow for cross-European comparisons of the family business sector, the provision of a common definition should be realised centrally, e.g., by taking advantage of the compiled experience of the European family business experts taking part in the Expert Group on Family Business Relevant Issues created under the auspices of the European Commission.





For the development of a European definition, it is recommended that the following elements are taken into account:

- The term “family” needs to be operationalised to serve as a reference for the other elements. The definition of family should incorporate present and observable future socio-demographic trends (e.g., unmarried couples, married couples not sharing the same family name, same gender partnerships etc.) instead of adhering to traditional (and maybe obsolete) heteronormative constructs. The definition of the “family” aspect should be discussed by a multi-disciplinary team of sociologists, family business experts and trend scouts to guarantee holistic coverage of societal trends and developments in the family business sector.
- In a similar way, the understanding of what constitutes a “business/firm/enterprise” also needs to be considered. This, on the one hand, refers to the economic activities covered (e.g., whether or not to include agriculture). On the other hand, bearing in mind that there are observable tendencies towards part-time entrepreneurship, the extent of entrepreneurial activity should be considered (e.g., whether or not to include an entrepreneur working on a self-employed basis for only a very low number of hours per week). At the same time, it is necessary to clarify whether all legal forms of family businesses (i.e., to incorporate self-employed or publicly held corporations) and size classes (from one-person enterprises to very large businesses) are included.
- The family should be considered as having a major influence on both the strategic orientation of the company and its operative business activities. For this purpose, a combination of ownership and management is suggested (instead of including these two criteria as alternatives). Therefore, different minimum criteria should be established for different forms of enterprises (e.g., majority ownership and CEO in partnerships and private limited companies vs. 25 % ownership and CEO in public limited companies). Furthermore, the possibility of indirect influence (e.g., from holding companies) should be respected and taken into account. With regard to this “hard fact aspect” of the definition, the work of the Finnish Expert Group could be considered<sup>55</sup>.

<sup>55</sup> Other cross-nationally applied definitions do not cover the heterogeneity of the family business sector to the same extent. The definition used by PriceWaterhouseCoopers in its international research, for example, somehow neglects large family businesses with quite dispersed ownership by requiring the family to hold 51 % of the shares (in companies with dispersed ownership a considerably lower percentage of shares is sufficient to influence business decisions). Also the definition used by Les Hénokiens does not fully cover the family business sector as only very old businesses (more than 200 years) are considered.

Although the Finnish definition was only established in 2006, not only has it been adopted by Portuguese<sup>56</sup> and German family business organisations, but also by supra-national family business networks (e.g., the European Group of Owner Managed and Family Enterprises (GEEF)<sup>57</sup> and the Family Business Network FBN International). In France, the main policy makers (i.e., the ministry, family business organisations and employers' organisations) are also in favour of adopting this definition. It defines family enterprises as firms of any size that meet the following criteria:

1. The majority of votes is in possession of the natural person(s) who established the firm, or in possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs.
  2. The majority of votes may be indirect or direct.
  3. At least one representative of the family or kin is involved in the management or administration of the firm.
  4. Listed companies meet the definition of family enterprise, if the person who established or acquired the firm (share capital) or their families or descendants possess 25 % of the right to vote mandated by their share capital.
- To satisfy probably the most important characteristic of family businesses which distinguishes them from non-family firms, the aspect of generational change should also be considered. However, to prevent the disqualification of founder-led businesses, the intention to transfer the firm to a family member (and not only transfers which have already taken place within the family) also needs to be taken into account.<sup>58</sup>

With regard to other elements of the definition discussed in the report, it is suggested that they are omitted for the following reasons:

- Although the “familiness” element is important in the characterisation of family businesses, in practice it cannot be applied due to its intangibility, which results in the inability to measure it. Furthermore, as it is very much related to cultural and value elements, a cross-national comparison is not possible as there are considerable differences across countries (e.g., cultural differences between Europe, Asia and the United States).

<sup>56</sup> With two adaptations, namely that the firm or the firm's governing bodies want the company to be seen as a family business and that at one point in the firm's existence at least two representatives of the family or kin of different generations have been involved in the management or administration of the firm, either simultaneously or in succession.

<sup>57</sup> To this definition, the GEEF added 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.

<sup>58</sup> It is obvious, however, that such an intangible and non-operationalised aspect can hardly be considered when using the definition for statistical mapping purposes.





- The involvement of family members working in non-managerial positions can only be measured, if there are employment contracts in place. However, experience has highlighted that this involvement is also realised in more informal ways (e.g., by giving advice or assisting the entrepreneur) and cannot be measured satisfactorily.
- The requirement that the family business is the main source of income for the family has to be abandoned due to developments in the structure of European business. As an increasing number of firms are run on a part-time basis in conjunction with employment elsewhere, this excludes an important (and probably increasing) number of enterprises that satisfy all the other characteristics of a family firm.

The application of a common definition in supra-national public and policy discussions and in academia will result in the ability to provide (cross-nationally comparable) research as well as reliable and validated **data** on the family business sector. This needs to be used to counteract prejudices and myths surrounding family businesses. An important success factor in effectively influencing policy makers is to formally embed information-providing activities into the structures of well-established bodies (e.g., ministries or chambers of commerce). At the same time, to safeguard objectivity and scientific rigour, the information should be gathered by objective and independent researchers.

Available **information** on family businesses (i.e., data and qualitative information) needs to be **disseminated** among policy makers and the general public to familiarise them with the characteristics of this type of enterprise and its potential. Appropriate awareness raising measures are particularly effective, when the media is involved and when information is available electronically as this will ensure the wide spread of information.

In addition to a definition, which will enable thorough research of the family business sector and provide facts and figures on the economic and social/societal efforts of these businesses justifying political action to (further) support family businesses, **representative bodies** dedicated to improving the family business environment are necessary. Since these bodies are supposed to lobby for the interests of family firms, the family business sector itself needs to launch and run them. While these bodies do not necessarily have to be established as separate entities, they could be integrated into existing structures (e.g., as sub-chapters or specific platforms) such as SME organisations or chambers of commerce (as, for example, in the case of the Family Business Network Forum of the Confederation of Norwegian Enterprise<sup>59</sup>). As a result, family enterprises might also be more willing to become members of these organisations or to participate in their activities as they are already familiar with these well-established entities and the instruments they provide for the target group.

<sup>59</sup> For a detailed description see Annex IV.



The analysis of the networks available revealed a number of potential fields for public support:

- There are few family firm specific organisations, particularly in the New Member States. In these countries, there is a specific need for them as family businesses are quite young. The general public often has a negative image of the family business sector and fewer support services (e.g., in the field of business transfer) are available than in Western Europe. The European Commission could assist in establishing organisations by disseminating Good Practice examples from the other Member States identified in this study or by providing additional practical support (of a financial but also non-financial nature, e.g., handbooks, guidelines or platforms for the exchange of experience) for the implementation of such bodies. Furthermore, existing enterprise organisations or platforms providing practical support for companies such as UEAPME, Business Europe, Eurochambres or the Enterprise Europe Network<sup>60</sup>, could be used to offer specific family business oriented support services.
- Some of the family business networks identified only have a limited scope of activity and potential to influence policy makers, either due to their comparatively young age, limited human and financial resources, or due to their organisational/administrative detachment from governmental authorities. To empower family business organisations at a national and a European level, these organisations need to consider ways to accrue financial means (e.g., by justifying higher membership fees with transparent and effective activities for the benefit of the family business sector). However, national governments and the European Commission could also empower these representative bodies by fostering their engagement in New Governance procedures (e.g., by providing them with relevant information and accepting their active involvement). They could also participate in multi-stakeholder co-operations between policy makers and interest groups (e.g., the requirement for various types of partners to be involved in public support programmes (as, for example, already realised in LEADER (or previously in EQUAL)).
- Family business organisations should not exclude micro-enterprises from their membership as these constitute an important part of the family business sector. Consequently, their interests should also be represented by policy makers. This is particularly important to foster the growth of micro and small family businesses as the challenges related with this process and potential remedies will otherwise not be addressed. To encourage the participation of these enterprises in representative organisations, the potential benefits (i.e., promotional activities of the organisations) and the immediate added value (e.g., networking and business opportunities with other (family) businesses), need to be made more transparent.

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<sup>60</sup> <http://www.enterpriseeuropenetwork.at>



### 6.2.2 Supporting Business Transfers

At a European as well as at a Member State level, the **initiatives to increase awareness** of the challenges related with business transfers (often covered by the general economic or SME policy) should be **continued** (or launched in some of the New Member States) as should be the **provision of information** and **practical guidelines** to support the effective preparation and execution of the transfer. Examples of effective initiatives have been identified across Europe and could be further disseminated. For example, entrepreneurs close to retirement age could be actively approached and informed of the opportunities and challenges related with business transfers and could be provided with subsidised or free advice/consultancy. User-friendly self-planning tools could also be made available on the internet.

Therefore, widespread access to support instruments (e.g., via the internet or interest groups), their low cost, their ease of application and the usefulness of their results in practice are important success factors. Furthermore, it is essential that entrepreneurs are made aware of the fact that, due to the complexities related with any business transfer, support instruments like these are only the first step in the analysis of the transfer process, and more in-depth and individualised consultancy is necessary.

The integration of the most suitable intermediaries needs to be considered. Presently, many information campaigns and transfer planning tools across Europe are run by chambers of commerce. These, however, do not cover the whole family business sector. Consequently, co-operation between employers' organisations and specialised family business networks could improve the dissemination of relevant information to the target group.

In addition to planning, business transfer preparation in the form of **training** is also of relevance. Seminars and workshops preparing (potential) **successors** for their future role are already being offered in some European countries by family business networks or employers' organisations. Their programmes could be made transparent and transferred to those countries presently lacking in them. While this cross-national exchange could be organised by the European Commission, responsibility for their operational design and implementation lies with national governments (in general economic or SME policy addressing business transfers) in co-operation with training providers.

The experience of family business specific transfer training highlights that it is beneficial for training measures not only to focus on the successor, but also to involve the present entrepreneur. Furthermore, training should be offered by well-established and well-known institutions (e.g., chambers of commerce) and should not restrict eligibility to members of these institutions. Also, instruments for quality assurance should be applied to ensure the usefulness of the measure for the target group and to guarantee that up-to-date know-how is provided. Moreover, it is important to create an opportunity for the exchange of information and experiences among (future) successors (as others cannot fully understand their personal and business situation).

With regard to the financial burden **inheritance and gift tax** puts on family businesses in a number of European countries, abolishing or at least reducing taxes when transfers within the family are realised should be discussed at a national level.



To cope with the financial obligations of indemnifying other heirs, establishing ways to **access external finance without having to give up management control** could be introduced by the national governments (e.g., the possibility of non-voting stock).

### 6.2.3 Supporting the Balancing of Business and Family Spheres

In the area of **governance structures**, **awareness raising** initiatives and **information provision** at a European as well as a Member State level are of the utmost importance. Many family businesses seem to lack **knowledge** of the potential benefits of applying these instruments (particularly regarding their usefulness in conflicts during business transfer or growth) as well as about the ways and means to design and implement them in the individual company.

This could be facilitated by providing enterprises with **guidelines** or **advice** as some of the countries analysed have done. Furthermore, cross-national Good Practice exchange based on the findings of this study, for example, could be organised by the European Commission. Therefore, an interdisciplinary approach (i.e., not only dealing with business/economic issues, but also with emotional issues) needs to be considered since balancing family and business spheres effectively constitutes an important success factor for the survival of the family firm.

Furthermore, any tools designed need to be easy to adapt and their availability should be widely promoted by national governments (e.g., by making use of family business organisations, chambers of commerce or specialised consultants).

Moreover, when drawing up instruments at the company level, providing **financial support** could also be considered, for example, as in the Spanish region of Valencia. The success factors of this initiative were a well-established co-operation between the regional family business network and regional government as well as the requirement to approach a multidisciplinary team of consultants when drafting the family protocol. This highlights the fact that family protocols not only influence the economic/business sphere, but also the social/family side of the family firm.

All the above-mentioned activities are also relevant when dealing with the challenges of mastering growth in family businesses, especially in the event that the family behind the enterprise is growing faster than the firm itself.

### 6.2.4 Enhancing Competence Development

To familiarise future family business leaders as well as business partners, consultants and policy makers with the specific characteristics and needs of family businesses and to keep their know-how up to date, **management and entrepreneurship education** could also be more tailored towards this type of business (i.e., providing family business administration skills for management trainees, and integrating relevant aspects into the curricula of other professions' vocational education to enhance entrepreneurial spirit). This refers to the **general management** of family businesses (as many of the specific training instruments available exclusively focus on the transfer phase), and there is a particular need for these educational measures to be a part of an entrepreneur's lifelong learning initiative, particularly in the New Member States.



Therefore, particular emphasis should be placed on the **practical applicability** of the knowledge imparted. This can be achieved by promoting the integration of internships, company visits or practitioners' lectures in university programmes. Also aspects related to family firms' competitiveness need to be dealt with (e.g., how to realise growth/globalisation trajectories, how to design governance structures, how to manage a family business professionally so that the company is not characterised by paternalism and nepotism reducing the firm's attractiveness on the labour market etc.). Appropriate activities should be set by national governments in co-operation with representative organisations (e.g., chambers of commerce as well as family business networks) and education providers.

An important success factor is establishing a strong formal or informal partnership between education providers and family business experts and professionals. As a result, a good balance between theory and practice can be attained, contributing most beneficially to the competence development of family business managers.

For non-university education targeted at family business leaders or managers, it is important that the schedule offered is in line with the everyday business tasks. At the same time, safeguards need to be in place to ensure that short-term seminars or workshops also have sustainable and long-term effects beneficial for the family firm (e.g., by offering the opportunity to establish a network for exchange of experience or an expert network that may be approached should questions arise).

In both types of education/training measures, it is of relevance that the group is **limited** in terms of the **number of participants** to encourage multilateral discussions and the exchange of experience. This interactivity results in sustainable effects (i.e., enhanced and more durable learning, and networking among the target group).

Furthermore, the instruments analysed showed that the provision of a **platform for exchange** between family business entrepreneurs is particularly advantageous, as is the involvement of both generations in transfer/succession training (see above).

### 6.2.5 Supporting Capitalisation of Family Businesses

In a few European countries, **taxation** on business profits hampers the growth of family businesses as it treats reinvested profits disadvantageously. Although taxation does not explicitly differentiate between family and non-family businesses, in practice it appears that, due to their specific characteristics, some forms of taxation burden family businesses to a greater extent than non-family businesses (e.g., in the inheritance or gift tax of a business transfer or in the taxation of reinvested profits).

However, a recent study showed that 61 % of the business leaders surveyed think that tax has no impact on the retention or distribution of earnings, while 29 % indicated that tax favours retention, and only 10 % perceived tax as favouring the distribution of profits. The project came to the conclusion that business owners would among others prefer **reduced taxation on undistributed earnings** if retained for a minimum duration of time. (Summary Report of the Expert Group, 2008)

In some countries, there are clear incentives for retaining profits. These were identified as being characterised by the following features (DEMOLIN, BRULARD, BARTHELEMY - Hoche, 2008):



- Clear and simple regulations so that business owners can easily understand how they can be used to their own advantage
- Less complex sets of conditions and exclusions or counterproductive measures
- Low corporate tax rates and substantially lower tax rates on personal income
- Deferral of corporate tax payments
- Substantially higher dividends tax rates than capital gains tax rates
- Generally low tax rates so as to increase the tax base and deter avoidance and evasion schemes and to encourage entrepreneurship by rewarding risks taken and hard work

### 6.2.6 Improving the Image of Family Businesses on the Labour Market

To overcome the unattractiveness of family businesses as employers, family business specific organisations should **enhance the image** of the family business sector and counteract prejudices prevalent on the labour market.

For this purpose, the above-mentioned objective data/research studies could also be drawn on. If subsequent activities are conducted in co-operation with national governments, they will be more reliable and effective.

## 6.3 Summary of Specific Challenges and Respective Policy Recommendations for Family Businesses

In the following table, the conclusions (in terms of the family business specific challenges) and policy recommendations are summarised, also indicating the administrative level(s) they are addressed to.

**Table 9** Summary of Specific Challenges and Policy Recommendations for Family Businesses

Challenge	Policy Recommendation	Concerned Level
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





Challenge	Policy Recommendation	Concerned Level
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	
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





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## Annex





## Annex I: Country Codes

ISO Country Code	Country Name
AT	Austria
BE	Belgium
BG	Bulgaria
CY	Cyprus
CZ	Czech Republic
DE	Germany
DK	Denmark
EE	Estonia
ES	Spain
FI	Finland
FR	France
GR	Greece
HR	Croatia
HU	Hungary
IE	Ireland
IS	Iceland
IT	Italy
LI	Liechtenstein
LT	Lithuania
LU	Luxembourg
LV	Latvia
MK	The Former Yugoslav Republic Of Macedonia
MT	Malta
NL	The Netherlands
NO	Norway
PL	Poland
PT	Portugal
RO	Romania
SE	Sweden
SI	Slovenia
SK	Slovak Republic
TR	Turkey
UK	United Kingdom





## Annex II: Glossary/List of Abbreviations

CEO	Chief Executive Officer
CRM	Customer Relationship Management
CSR	Corporate Social Responsibility
DG	Directorate General
ECTS	European Credit Transfer and Accumulation System
e.g.	for example
EU	European Union
FBN	Family Business Network
F-PEC	scale to “measure” the family influence on the company (F=family; p=power; e=experience; c=culture)
GEEF	European Group of Owner managed and Family Enterprises
GDP	Gross Domestic Product
GNP	Gross National Product
HRM	Human Resources Management
IFERA	International Family Enterprise Research Academy
i.e.	that means
IT	Information Technologies
mio	million
NGOs	Non-Governmental Organisations
NMS	New Member States (i.e., Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovak Republic, Slovenia)
NPOs	Non-Profit Organisations
R&D	Research and Development
SME	Small and Medium-Sized Enterprise (companies with less than 250 employees)
vs.	versus







## Annex III: Project Partners

country covered	responsible partner institute
<b>Austria</b>	KMU FORSCHUNG AUSTRIA
<b>Belgium</b>	Research Centre for Entrepreneurship, EHSAL - K.U. Brussel
<b>Bulgaria</b>	Foundation for Entrepreneurship Development
<b>Croatia</b>	CEPOR - SMEs and Entrepreneurship Policy Centre
<b>Cyprus</b>	Economarket Bureau of Economic and Market Research Ltd.
<b>Czech Republic</b>	PERITUS
<b>Denmark</b>	Oxford Research
<b>Estonia</b>	Tallinn Technical University
<b>Finland</b>	TSE Entre, Turku School of Economics
<b>Former Yugoslav Republic of Macedonia</b>	CEPOR - SMEs and Entrepreneurship Policy Centre
<b>France</b>	Citia
<b>Germany</b>	IfM Bonn
<b>Greece</b>	Research Centre of the University of Piraeus
<b>Hungary</b>	Small Business Development Center of Corvinus University of Budapest
<b>Iceland</b>	The Institute for Business Research
<b>Ireland</b>	Tom Martin & Associates
<b>Italy</b>	IULM University, Economics and Marketing Institute
<b>Latvia</b>	Baltic International centre for Economic Policy Studies (BICEPS)
<b>Liechtenstein</b>	KMU FORSCHUNG AUSTRIA
<b>Lithuania</b>	Institute of Business Strategy, KTU
<b>Luxembourg</b>	Chambre des Métiers du Grand-Duché de Luxembourg
<b>Malta</b>	Economic&Management Consultancy Services Ltd.
<b>Norway</b>	Agderforskning/Agderresearch
<b>Poland</b>	EEDRI - Academy of Management in Lodz
<b>Portugal</b>	Tecinvest 2
<b>Romania</b>	Chamber of Commerce and Industry of Romania
<b>Slovak Republic</b>	PERITUS
<b>Slovenia</b>	Institute for Entrepreneurship and Small Business Management, Faculty of Economics and Business, University of Maribor
<b>Spain</b>	Ikei Research & Consultancy
<b>Sweden</b>	Oxford Research
<b>The Netherlands</b>	EIM Business & Policy Research
<b>Turkey</b>	SIBAREN
<b>United Kingdom</b>	University of Sheffield Management School





## **Annex IV: Selected Family Business Support Instruments**

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## Instruments in the Field of Governance

### **Ayudas a Empresas familiares para la Realización de Protocolos Familiares (Public Aids for Elaborating Family Protocols in Family Businesses) - Spain**

*(contributed by Jessica Durán, IKEI Research & Consultancy)*

#### **General Information**

The Ayudas a Empresas familiares para la Realización de Protocolos Familiares (Public Aids for Elaborating Family Protocols in Family Businesses) are initiated and implemented by the Regional Government of the Comunitat Valenciana, specifically the Consellería de Economía, Hacienda y Empleo de la Generalitat Valenciana (Department of Economy and Employment of the Regional Government of Valencia).

This initiative covers the region of Valencia, so the funding is conceded only to businesses settled in this region, specifically to those whose governing headquarters are located there.

This public aid is based on a regional endowment; the source of funding is the Regional Government of the Comunitat Valenciana (Generalitat Valenciana), so there is no contribution from European funds. The concession and amount of the funds depends on the existence of enough and accurate budget from the Generalitat Valenciana to cover it.

Broadly speaking, it is intended to support the external costs (consultants/advisors) incurred by family SMEs that elaborate a family protocol.

Beneficiaries have to cover by themselves 50 % of the costs of the total expenses, and the remaining 50 % with a maximum of EUR 8,000 are covered by the Regional Government.

The beneficiaries must communicate it, if they have also applied for other public or private subvention to the same end. Generally, this initiative is compatible with other similar ones, but the total sum of all the subventions should never be higher than the total costs sustained by the beneficiary.

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

The initiator of this measure is the Consellería de Economía, Hacienda y Empleo de la Generalitat Valenciana (Department of Economy and Employment of the Regional Government of Valencia).

This Department received a proposal raised by the IVEFA (Instituto Valenciano para la Empresa Familiar, "Institute for Family Business of Valencia") which is an association originally created by a group of family businessmen, and whose aim is the continuity and growth of regional family businesses.

The initial project was firstly accepted and announced by the Conselleria at the end of 2003, and after several discussion meetings held with this Institute in order to establish terms and conditions, the initiative was officially approved on the 19<sup>th</sup> of May of 2005.



As a background for this measure, it is important to have in mind the economic structure of the region, as most companies in the region of Valencia are SMEs, lots of them being family businesses. As they have a great importance in the area, due to their capacity to generate economic wealth and promote job creation, the Regional Government is enhancing several initiatives to help them.

One of the main problems that family businesses must face is the fact that only a reduced percentage are successfully passed on from the second generation to the third one, and it is even more complicated with the fourth generation.

Family protocols are seen as a very useful tool to facilitate the continuity of the businesses among several generations. This ensures the success of the company, followed by steady employment rates and economic growth.

Not surprisingly, members of the IVEFA association, that is, family businesses, were interested in formalising their situation by means of family protocols, but many considered it was too expensive for them to pay for it. That is why IVEFA suggested the Conselleria to support family SMEs, helping them with paying half of the costs of the protocol. As a consequence, the Regional Government decided to start this measure, given the socio-economic importance of family businesses in the Comunitat Valenciana.

Therefore, this initiative consists of a subvention aimed at elaborating family protocols in family SMEs of the Comunidad Valenciana, being the main goal to reach the continuity across generations. The idea is to use public funding to help family SMEs maintaining a high business performance.

### **Characteristics of the Measure**

The main target group of this measure are regional small and medium-sized family companies.

With regard to eligibility criteria, basically, there are two:

- On the one hand, the enterprise has to be a SME (accordingly to the European definition).
- On the other hand, it has to be a family business. For this purpose, family businesses are regarded as those enterprises where a physical person has at least 50 % of the society's capital and is involved in its management or, finally, family groups with a participation of at least 20 % of the society's capital where one member of the family group is involved in the management of the company.

Specifically, the eligible costs covered by this initiative include consultancy/advising activities in a number of fields, such as diagnosis of the situation and company mission, organisation of the executive board, process for determining heirs, economic regime regarding sharing out dividends, financial policies, employment and education of relatives and evaluation and control of family protocols.

With regard to consultants and advisors, the initiative establishes that the professional assessing group must be composed at least by a graduate in law, a graduate in economics and a graduate in psychology, that is, the three of them must be present.

The application of this family protocol can not be shorter than 5 years after its signature.



The measure is published in the Official Diary of the Regional Government (Generalitat Valenciana), and it originally establishes a one-month deadline to submit application forms. However, as an exception, the deadline established for the year 2007 was longer.

Several business magazines and organisations often let members of the public know about this measure. For example, IVEFA publishes every 4 months a magazine specialised in family business which offers detailed information on this initiative.

The list of beneficiaries is also published in the Official Diary of the Regional Government.

Regarding the development over time of this measure, it is noticeable that this measure was first established in 2005, and it was approved again in 2007. However, it was published neither in 2006, nor in 2008, but, according to the consulted sources, there is a high chance that it will be extended in 2009. The reason why it has not been extended during 2008 is that the time available to modify the 2007 terms and conditions was not enough.

The budget has been different in both years. In 2006, the Regional Government offered EUR 300,000, with regard to the 2005 financial year. Later on, for the 2007 financial year, EUR 400,000 were allocated, constituting an increase of 33 %. This increase was previously agreed between the Consellería and IVEFA. Despite this higher figure, only EUR 154,000 of the initially established amount were finally distributed among the beneficiaries of the year 2007.

In general terms, the Consellería is open to modifications, conscious of the need to maintain a high performance among family companies in a continuously changing environment. Therefore, it is quite flexible to respond to changes, and it keeps a close relationship with IVEFA in order to adapt this initiative to a certain extent accordingly to the family businesses' needs.

Members of IVEFA point out the continuous support received by the Consellería, since the association was created 10 years ago. They consider that the Regional Government welcomes all kinds of suggestions and tries to keep in touch in a very active way.

The Comunitat Valenciana is one of the Spanish regions offering the highest number of subventions and public aids on family business issues. As previously stated, the Consellería identified SME family business as a key factor for the Valencian Economy and it decided to implement this measure which has been warmly welcomed by the beneficiaries. Elaborating family protocols helps overcoming obstacles between relatives and organisational management as well as taking over leadership by next generations.

Concerning the evaluation system, the Conselleria creates a Technical Commission for Evaluation that can ask for more documentation to the future beneficiaries. It is this Commission that decides whether the subvention is conceded or denied as well as the amount of money to distribute. This Commission is composed of 5 people who are the following: the Subsecretary of Economy of the Conselleria (as President of the Commission), two representatives of the Subsecretariat of Economy, one representative of the General Directorate of Economy and another representative of the General Directorate of Labour. As it can be seen, there are no as such family experts, but members of the Regional Public Administration.



The Technical Commission strictly keeps to the terms and conditions published in the official announcement. In addition to this, the money is distributed only when the protocol has been finished and all the requirements have been met. Therefore, the grant accepted in the first step sets a maximum amount, and in the end the real total costs are looked for determining the subvention.

With regard to the documentation required, family SMEs must submit the following:

- Presentation of the final family protocol
- Explanatory report with an exhaustive breakdown of the expenses, classified according to the stages of the process (as detailed by the legislation in place)
- Original and definitive invoices or accounting documents with probative value which justify the incurred expenses (as detailed by the legislation in place)

Much of this documentation is seen as confidential by IVEFA and somehow bureaucratic as well.

As for the transferability of this initiative, it is important to have in mind the regional socio-economic characteristics. One of the key factors for the success of this measure is the socio-economic framework of the region that it covers, since a high percentage of family SMEs will make this initiative much more useful. Therefore, for this measure to be successful family businesses must have a great impact on the regional enterprise structure and the government must be aware of that and committed to support them, provided that it has the required financial power.

In addition to this, the availability of a “driving force” like the organisation IVEFA is also a key point for success. In this respect, it is worth noting the power of IVEFA to influence the government, a condition which facilitates the accomplishment of the initiative. Therefore, this programme was defined by both, the Regional Government and IVEFA. This circumstance allows defining more suitable terms and conditions, adapted to a realistic framework and including different points of view. As a consequence, it is highly recommended that there is a good relationship between government and beneficiaries, so that the distribution of funds is as accurate and close to the enterprises’ needs as possible.

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

According to some interviewed people, there have been some difficult issues with the documentation needed for applying for this subvention. In many cases, the reason why some companies asking for these funds have not received any is that they did not submit the required documentation in an accurate way.

Thus, with regard to the 2007 financial year, only EUR 154,000 were distributed, in contrast to an availability of funds of EUR 400,000. The total number of companies which received the funds was 27, in contrast to 164 initial applications. The reason for this was mainly the strict documentation requirements, but it must be also taken into account that many family business applied for this subvention at a first stage, just in case, but then they did not even elaborate their family protocol, so they did not need any kind of supporting funds at all.





From the point of view of the Conselleria, public funds must be strictly controlled and a very exhaustive revision of all the documents must be carried out. This makes the documentation requirements more complicated, and, according to interviewees from the Valencian Government, both family business and advisors/consultants should be more careful and precise when preparing the application forms.

On the other hand, members of IVEFA consider that much of the required documentation is private and confidential. Even some businessmen prefer not to get the money, provided that they do not have to send all this private information. Therefore, many companies do not meet the requested conditions, since they do not want their personal issues to be known by Administration members.

Even if in several cases family business finally do not receive the money to cover a part of their costs, it is remarkable that at least they notice how important it is to elaborate a family protocol. Sometimes, family SMEs do not look into the future about transferring the business to the next generations and this could generate serious problems for the company in the long-term.

Thanks to this initiative, family SMEs find out about the usefulness of family protocols and the chance that companies elaborate them is higher. As a consequence, even if the SMEs do not receive any funds, it will have facilitated the continuity of the business among the next generations, in favour of the success of the company itself.

### **Future Issues**

Given the strict documentation requirements, the Conselleria is thinking of simplifying the terms and conditions of the initiative, in order to facilitate the application process for family businesses.

As the interviewed representative of the Conselleria has stated this initiative is intended to be modified and published next year (2009). The reason why it has not been extended during 2008 is that they needed enough time to rectify the problems arisen over 2007 with regard to documentation requirements and present a more suitable scheme for 2009.

On the other hand, IVEFA members have said to be working on a new initiative to present to the Conselleria, based on the current one. They think that family protocols are very important, but it could be a good idea to further extend this measure and include not only protocols but also a wider programme of rules and structures. IVEFA thinks that determining policies and responsibilities, standardising processes, defining the company structure etc. definitely helps family businesses achieving economic success and it also guarantees the continuity of the business among several generations.

Thus, IVEFA is currently working on a new proposal to make to the Regional Government in order to get more public funds to support the elaboration of a code for good management of family businesses.

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## **ASO Aile Anayasası (ASO Family Contract) - Turkey**

*(contributed by Şebnem Çaliskan, SIBAREN)*

### **General Information**

The Ankara Sanayi Odası (ASO, Ankara Chamber of Industry) being an employers' organisation (NGO) prepared its Family Contract in June 2005.

The Contract is not focused on any geographical region. There are no geographical restrictions, as a result the Contract can be used in any organisation.

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

ASO has prepared the Family Contract in 2005. It was prepared by ASO's expert group. The Family Contract combines the possible events and issues that family companies face, and brings the issues and conflicts to a head. The Family Contract includes the general principles and rules that are valid in every company. The aim of the Family Contract is to contribute to the sustainability and institutionalisation of family companies. ASO has realised that family companies in Turkey, just like in other countries, are not very good at passing the family business on to next generations. So, ASO decided to prepare a guide for family companies. ASO believed that a Family Contract is a good guide to show a right way to companies.

### **Characteristics of the Measure**

The Family Contract was distributed to the member companies for free. However, the Family Contract can also be downloaded from ASO's web site. The availability of the contract has been announced on the website as well as in the monthly ASO bulletin.

The target group of the Family Contract are family companies and SMEs, however, the Contract also covers universal principles that are valid for every type of companies. The Family Contract is easy to access as it can easily be downloaded from the web site.

The Family Contract is a guideline for family companies. It can be used as a template/starting point and can be easily adjusted according to the conditions and the needs of a specific company. The Family Contract is open to public and easily adjustable to every type of company. According to the interviews of business magazines with experts and users, the evaluations are very positive. They emphasise that the Family Contract is appropriate to every condition and provides clear solutions to companies.

The Family Contract consists of 4 sections and 20 articles. The first section is "General Arbitraments", includes the reason, aim, mission of the family, values, family relationships. The second section describes "Working Relations", dealing with the regulations regarding the employees and managers (both family members and others), the rules that have to be obeyed by the family members. The third section is for "Administrative Structuring". This section includes the details about family meetings, family council and the members, the working method of the family council and duties. The last section is named as "Ownership". This section includes the ownership structure of the company and the regulations regarding the changes in the ownership structure of the company.

One of the most important attributes of the measure is that it is totally free and it can easily be adapted to any case and company. The Family Contract is not culture oriented, thus it can be used in any country (translation needed) as well as in any company.



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

There is not a concrete research regarding the impacts of the measure. However, there are some articles and interviews with experts and company owners regarding the impacts of the Family Contract. The Family Contract was announced on the website of ASO and press. As a result, the Family Contract is easily accessible, and it is not easy to predict the total number of beneficiaries.

The Family Contract can be used without any modifications by the company owners. However, it can also be modified or used as a resource whilst preparing the company's own Family Contract. ASO prepared this Family Contract since ASO was aware of the troubles that family companies faced, and there is a problem in the continuity of family companies as it is in most of the countries.

30,000 copies of Family Contract were published in 2005, and it was re-published in the following years.

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## Instruments in the Field of Business Transfer Support

### The Succession Scorecard - Belgium

(contributed by Johan Lambrecht and Wim Naudts, Research Centre for Entrepreneurship)

#### General Information

The Succession Scorecard (in Dutch: *Scorecard Opvolging*, in French: *Scorecard Transmission*) is a web application developed by Jozef Lievens and provided by the Belgian Family Firm Institute (In Dutch: *Instituut voor het Familiebedrijf*), of which Jozef Lievens is the managing director. It can be consulted over the internet using an ordinary web browser and is free of charge. The application is available in Dutch ([www.scorecardopvolging.be](http://www.scorecardopvolging.be)), French ([www.scorecardtransmission.be](http://www.scorecardtransmission.be)) and English ([www.scorecardsuccession.com](http://www.scorecardsuccession.com)).

The *Instituut voor het Familiebedrijf*, established in 1998, is a knowledge centre for family firms in Flanders, Belgium. The Institute provides specific know-how and counselling on the management, strategy and governance of the family firm. It aims at contributing to the professionalism, continuity and further development of family firms in Flanders. The Institute engages in research and offers training and networking opportunities. Furthermore, the Institute is closely linked to other organisations such as the Belgian *Institut de l'Entreprise Familiale* (the French-speaking equivalent of the Dutch-speaking *Instituut*), the Belgian *FBNet* (grouping large family firms), the international *Family Business Network* and the American *Family Firm Institute*.

The *Instituut voor het Familiebedrijf* is a private organisation. It was founded among others by Mr. Jozef Lievens, attorney-at-law and university lecturer. The Institute receives no government funding. For the Succession Scorecard the Institute has been sponsored by the bank ING.

The Succession Scorecard was first launched in its Dutch version in 2006. The same year a French version and an English version were made available online. In 2007, a specific Succession Scorecard was launched for the diamond sector ([www.diamond-successionscorecard.com](http://www.diamond-successionscorecard.com)), in reply to a specific request of the Belgian diamond and jewelry industry. The Diamond Succession Scorecard is available in English only. This adaptation of the original scorecard was commissioned by the University of Antwerp Management School (UAMS) and the Diamond, Jewelry and Management Institute (DJM Institute).

In 2008, a specific Succession Scorecard for the Netherlands was launched. The back office for this application is the same. Some minor alterations to the Belgian Scorecard were made in collaboration with the Dutch *Centrum van het Familiebedrijf*.

#### Background/Motivation of the Measure

For a family firm, the succession of the firm, from the incumbent leader to his successor, constitutes a very important happening. Practitioners as well as scientific scholars have extensively elaborated on this important topic. They agree that for the succession to be a success the succession has to be well prepared. The *Instituut voor het Familiebedrijf* subscribes to this view and has in the past, as a knowledge centre, extensively focused on the topic of the succession of the family firm. The Institute has financed and supported research on the matter, members of the Institute have published books on succession, and seminars and workshops on succession were organised.



The Institute perceives succession not as a one-time event, but as a process that takes at least five to ten years to complete. As mentioned before, sufficient preparation of a succession is essential for its success. Four (groups of) actors are involved in the succession process: the family, the firm itself, the incumbent leader and the successor.

According to the Institute and based on extensive research, a family firm's succession success is determined by a wide range of factors. Ten success factors are identified as playing a key role:

1. the incumbent leader finds a new role
2. a competent and well-motivated successor becomes the new leader
3. the relationship between the incumbent leader and the successor is good
4. good relations exist within the family
5. there is governance of the company and of the family
6. the successor forms a team with non-family members
7. all alternatives are thoroughly studied
8. the family business is professionally run
9. the succession leads to a proper arrangement of the ownership succession
10. the succession is carefully planned

For each of these ten factors, the Institute has drawn up detailed guidelines. These guidelines, written in an accessible and understandable language, provide extensive information and refer to further academic readings.

The Scorecard brings together the above-mentioned ten factors as well as the detailed guidelines. The web application consists of a questionnaire with 50 questions related to the 10 success factors. Filling in the questionnaire takes about 10 minutes and allows the entrepreneur (incumbent leader, potential successor or even shareholder) to know where the company and those involved in the succession stand. In an evaluation of the answers which is automatically available after completion of the questionnaire, the respondent will get extensive and detailed information on those factors that pose potential problems with regard to succession as well on as those factors that are currently already sufficiently dealt with.

As the Scorecard is based on national and international research on succession, the presented results are well embedded within a family firm theoretical framework. Additional questions with regard to the score or the Scorecard can be sent via the website.



### **Characteristics of the Measure**

As the web site is free of charge it is open to everyone. The application mainly targets 4 distinct groups of family firm stakeholders:

1. the incumbent leader
2. the successor
3. the family firm shareholders
4. others (personnel, external consultant, external director, other family members etc.)

These four groups are presented with the same 50 questions.

The translation of the application in French and English shows that the Institute aims at reaching a geographically dispersed audience. Some questions are to a certain extent more related to the Flemish/Belgian context (e.g. where the Scorecard makes reference to the Belgian corporate governance code for non-listed companies, the Code Buyse). On these points, the website developed for the Netherlands slightly differs from the original Belgian website. All versions of the application use the same back office (structure of the website, contact forms, structure of the questionnaire etc.).

The specific Scorecard for the diamond sector, the Diamond Succession Scorecard, shows that to a certain extent, sectoral specificities may have an impact on succession.

The web application offers the opportunity to contact specialists with further questions. The Institute stresses that the application is only a first quick-scan. For further information and guidance on succession the Institute suggests contacting specialised experts (contact information is provided upon request).

The promotion of the web application is done by the *Instituut voor het Familiebedrijf* and also by the sponsor (ING). In addition, the launching of the initiative received some press coverage. The Scorecard is also highly ranked by Google (second result when searching for “opvolging” on [www.google.be](http://www.google.be)).

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

The immediate effect of the web application is hard to assess. In addition, the website is only a first quick-scan for family firms preparing succession. The measure can not be perceived as a stand-alone measure but is embedded in a broader process. As stressed by the Institute, the application constitutes a good starting point. For more extensive counselling and guidance, the family firm will have to rely on consultants and other experts.

The website is without doubt a valuable element in the process of raising awareness with regard to the importance of the preparation of a succession. Many entrepreneurs tend to neglect this preparation. Others that do engage in the preparation feel the need for guidance. The Scorecard offers an easy-accessible tool and a useful first step in the preparation of the succession of a family firm.

Furthermore, the Institute analyses the respondents results with regard to the factors on which participants generally have a low score (mainly family relations that are troubles as well as planning that is lacking) and tries to put extra emphasis on these factors (e.g. when organising workshops).

### **Future Issues**

No specific plans for the future have been announced. The developed websites remain accessible and operational.

There is no mention of involving public sector bodies in the project. The project remains a private initiative.

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[www.scorecardopvolging.be](http://www.scorecardopvolging.be) (Scorecard in Dutch)

[www.scorecardtransmission.be](http://www.scorecardtransmission.be) (Scorecard in French)

[www.scorecardsuccession.com](http://www.scorecardsuccession.com) (Scorecard in English)

[www.scorecardopvolging.nl](http://www.scorecardopvolging.nl) (Scorecard for the Netherlands)

[www.diamondsuccessionscorecard.com](http://www.diamondsuccessionscorecard.com) (Scorecard for the diamond sector)





## **Transfer Package of the Ministry of Economic Affairs - The Netherlands**

*(contributed by Jennifer Telussa/EIM Business & Policy Research)*

### **General Information**

In 2004, the Ministry of Economic Affairs presented the toolkit for business transfer. The name of the toolkit for business transfer is “Overdrachtspakket” (Transfer package). This package provides entrepreneurs with information on business transfer. The information is written in Dutch and is downloadable for free from the website of the Chamber of Commerce, so all people speaking Dutch can benefit from the information package. There is no foreseen end date of the measure.

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

The Ministry of Economic Affairs in co-operation with MKB Nederland (SME association), VNO-NCW (employer organisation) and the Chamber of Commerce (public organisation) have developed an information package to facilitate the transfer of a company. In a speech<sup>61</sup> the secretary-general indicated that the reason for launching the measure is that business transfer is considered one of the most critical phases for the continuity of the enterprise. In practice, at least 10 % of business closures of enterprises are caused by improper preparation of business transfer (European Commission, 2002). In addition, planning for business transfer becomes increasingly important because of the ageing of the population. A large part of the entrepreneurs was expected to stop their activities the coming years.

Transfer of a business requires a good preparation. The objective of this measure is to increase awareness among entrepreneurs and support them in their preparation of the business transfer.

### **Characteristics of the Measure**

The transfer package is an information document that addresses questions like:

- Which steps does one have to take for a business transfer?
- Which requirements have to be fulfilled for a business transfer?
- With which legal and fiscal aspects does one have to deal with then transferring a business?
- Which advisors can help?

The information document also includes some useful internet addresses. With reference to advisors for example, the information document provides a list of possible advisors and also points at other services of the Chamber of Commerce, i.e., conversation with a specialist. The package has been set up in such a way that it is supposed to be read in approximately 10 minutes. However, an evaluation of the transfer package showed that the time that is spent to read the transfer package is usually more than 10 minutes. Only 28 % of the entrepreneurs read it in less than 10 minutes. About 52 % read it in 10 - 30 minutes.

<sup>61</sup> Ministry of Economic Affairs (2004), “Presentatie van de Toolkit Bedrijfsoverdrachten” (Presentation of toolkit Business Transfer), speech secretary-general Van Gennip, Den Haag.



Everyone has access to the transfer package. The package can be downloaded for free from the website of the Chamber of Commerce. The Chamber of Commerce also sends these packages to entrepreneurs of 55 years and older, if they request for it. In this case the entrepreneurs have to pay a small fee to cover the administrative costs.

The toolkit as presented in 2004 was recently (May 2008) updated. The input for the update is among others provided by the Chamber of Commerce, MKB-Nederland, VNO-NCW. The Ministry of Economic Affairs again had a co-ordinative role and provided finance.

The transfer package has also changed a little bit. The lay-out of the brochure was changed and more emphasis was placed on business transfer for family businesses.

In order to increase awareness about the measure, every year a letter is sent by the Ministry of Economic Affairs to entrepreneurs of 55 years and older to ask their attention for timely business transfer. In this letter they are informed about the information package. During events also attention is given to the transfer package. For example, during the theme day "Family business" the secretary-general also paid attention in her speech to the transfer package. At the theme day<sup>62</sup> "Business Transfer", hard copy versions of the toolkit were available at the registration desk.

The transfer package can be implemented in other countries. The information included in the information package should, however, be adapted to the national situation. It is also dependent of the culture of a country whether such an information package is accepted (people accepting being educated by the government).

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

The impact of the transfer package on the number of business transfers is not clear. In any case a relatively large number of entrepreneurs has requested for the transfer package. In 2005, a letter was sent to 130,000 entrepreneurs of 55 years and older (with 0 - 20 employees) to ask their attention for timely business transfer and indicating that they could order an information package. In total 32,000 packages were sent to entrepreneurs. In 2006, again a letter was sent. About 25 % of the entrepreneurs that received a letter showed interest in the transfer package. In the years that followed, the response also was about 25 %.

In 2005, IPM Research & Advies (Vereniging Kamers van Koophandel, 2005) have performed an evaluation on the information package. For this evaluation approximately 200 entrepreneurs that have requested the transfer package and have had a look at it were surveyed. Results of the evaluation show that the users of the transfer package value the package positively on content, completeness, comprehensibility and readability. In about 98 % of the cases it is the entrepreneur himself or herself that requested the package. The majority of entrepreneurs (62 %) were informed about the transfer package by the Chamber of Commerce. In about 18 % of the cases their attention was drawn by the Ministry of Economics and in 10 % of the cases by the media. The users of the package had in 82 % of the cases less than 20 employees. This is strongly related to the letters that are sent by the Ministry of Economic Affairs to entrepreneurs of 55 years or older with 0 - 20 employees. About 30 % of the respondents indicated that they missed subjects in the transfer package.

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<sup>62</sup> Theme day is organised by the Chamber of Commerce.



Almost half of these entrepreneurs mentioned a variety of subjects that were strongly related to their own specific situation. The answers that have been provided do not point to a specific subject that should be added to the transfer package. With regard to the increase in awareness, slightly more than half (53 %) of the entrepreneurs indicate that by reading the transfer package they have become more aware of the necessity of a timely preparation for business transfer. About 63 % of the respondents indicate that due to the transfer package they now know more about business transfer. In approximately 40 % of the cases, the entrepreneurs indicate that they do need extra information and/or guidance. When asking in what way entrepreneurs prefer receiving this extra information, 78 % indicated that they preferred a one-on-one conversation with an advisor.

### **Future Issues**

There is no foreseen end date of the transfer package. Only recently (May 2005) the package has been updated. Possibly in the future a package for successors will be introduced but this is not certain yet.

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**Business transfer support activities of the Chamber of Craft and Small Business of Slovenia - Slovenia**

*(contributed by Dr. Mojca Duh, Institute for Entrepreneurship and Small Business Management, Faculty of Economics and Business, University of Maribor)*

**General Information**

The Chamber of Craft and Small Business of Slovenia is a national association of craftsmen and entrepreneurs performing craft activities and activities similar to craft; for them membership in the Chamber is obligatory. The present Chamber of Craft and Small Business (in short: the Chamber) has been active for 35 years. In Slovenia, there are 62 regional chambers of craft associating craftsmen on the basis of their domicile. Each chamber is an independent legal body having its own business premises, employees and its own membership fee but all of them are associated in the craft chamber system.

Craftsmen and entrepreneurs are associated in the Chamber of Craft and Small Business of Slovenia in order to be able to realise short-term and long-term business and professional goals in Slovenia and in the EU. The Chamber's task is to support enterprises in order to become more competitive on domestic and international markets. Therefore, the basic tasks of the Chamber are: representation of members of the Chamber towards the state (co-operation with the government, ministries and with the national council when creating economic policy and system as well as co-creating the best possible legislation for craft), giving information to members, providing services for members (advisory services for members, organisation of training seminars, book-keeping and accountancy services for members, co-organisation of the International Fair of Crafts, organisation of business meetings etc.) and performing public authorisations (e.g. issuing of craft permits, running the craft register and the register of craft masters).

In 2006, the Chamber had around 48,000 members of which 83.9 % were sole proprietors. Many of the sole proprietors can be described as family businesses since family members are directly or indirectly connected with the business. Even though the Chamber has been providing support for family businesses since its beginning, especially for the last five years training activities (workshops and seminars), advice and consulting services dealing especially with business transfers have been targeting family businesses.

Basic consulting services as well as some short informational workshops are covered with the membership fee; some activities have to be paid, but the price for members is lower than the market price. The membership fee depends on the size of an enterprise and ranges from EUR 10 (minimum) to EUR 50 (maximum), on average EUR 20 per month.

**Background/Motivation of the Measure**

The main motive and objective of all activities carried out by the Chamber is to satisfy the needs of its members. Since many of their members are from family businesses which are daily confronted with different problems the main objective is to help members to solve their problems. Lately, part of the Chamber's activities are specially dealing with succession problems since many of the Chamber's members are confronted with the transfer of the business.



Therefore, the main motive as well as objective of the measure (training, information, advice, consulting) of the Chamber is to raise members' awareness of the problems of the succession process and to make the transfer of the business as simple as possible and to enable enterprises to remain in the market after the change of generations in charge of the business.

Training activities in the form of workshops and seminars are carried out at the regional chambers. The tasks of the regional chambers are to inform about and to invite their members to the seminars and workshops and to organise the implementation of training activities. The Chamber (the main organisation), especially its Advisory centre (located at the main office in Ljubljana), is responsible for the topics and the contents of the workshops and seminars. The Training centre (also located at the main office) takes care of the co-ordination and implementation of training activities. Advice and consulting services are provided by the Advisory centre and are done by personal contacts at the main office, by visiting members at their location, by telephone, e-mail and internet.

### **Characteristics of the Measure**

The need for training activities on specific topics is identified by the regional chambers as well as by the Chamber's Advisory centre where advisors by their every day work identify problems of entrepreneurs. The Advisory centre also regularly checks the changes in the legal regulations and possible effects on enterprises. On the basis of the problems identified and changes of the legal regulations the Advisory centre takes care of the preparation of training activities and the Training centre takes care of the implementation and the co-ordination of these activities.

In the same way the need for training activities on business transfers has been identified. Therefore, the Chamber has launched seminars and workshops as well as advisory services on business transfers. Seminars and workshops are organised as one-day events in duration of three to four hours. The training is provided by the employees of the Chamber, especially by the experts of the Chamber's Advisory centre. The number of participants per seminar/workshop is not limited. Participants who are members of the Chamber usually do not have to pay for these seminars/workshops since they are covered with the membership fee; only in some cases a small additional payment is required. Participants who are not members of the Chamber have to pay for workshops/seminars. The objective of the training and advisory services provided is to raise members' awareness of the process and problems of business transfers with a special focus on fiscal and legal regulations and to provide knowledge on how to solve succession problems. Knowledge and practical advices provided help family businesses to successfully transfer a business to the next generation and provide a basis for the existence and growth in the future. Topics of training activities are fiscal and legal regulations of business transfers; other topics such as management or family-business-relationships during the transfer are not covered. Training activities as well as advisory services are offered to all members since a special definition which differentiates family businesses among members does not exist.

In 2004, the Chamber decided to introduce the CRM system for monitoring all consulting and training activities carried out at the main organisation. Data on the users/participants as well as on the topics advised, asked or trained are stored in the system. Regional chambers make a list of participants since they do not dispose of the CRM system. Questionnaires are always distributed among participants to check whether or not the activities offered meet the participants' needs and to assure the quality of activities. Data from the CRM system as well as from the questionnaires importantly contribute to the selection of the topics and to the creation or modification of seminars/workshops.



For providing information to its members the Chamber is publishing the journal "Obrtnik" ("Craftsman") which is a monthly journal coming out in 55,000 copies. Also the journal "Podjetnik" ("Entrepreneur") is published monthly by the Chamber. The journals include information on the Chamber's activities as well as professional articles. Each of the 62 regional chambers has its own monthly newspaper. Much information is also provided on the Chamber WebPages (<http://www.ozs.si>). Numerous other publications (manuals, handbooks, promotion texts) are also published by the Chamber. Members are also made aware of activities of the Chamber by e-mail, direct mail and telephone.

Successful business transfer is of great importance for the survival and development of an enterprise in the future. Since the process of a business transfer is a complex one and connected with different problems (emotional, psychological, fiscal, legal etc.) it is important that family businesses receive advisory as well as training support on how to prepare the business transfer. In the case of the Chamber, family businesses are approached by a well established organisation with tradition, experts provide practical and up-to-date information, and many training activities are for free. All these lead to the success of the measure. On the other hand, some observations of the Chamber show that in many cases family businesses express interest in training activities on business transfers only when they are confronted with serious problems. Therefore, the Chamber makes efforts to raise awareness of the importance of starting business transfer preparations in time.

The direct transfer of the Chamber's activities dealing with business transfers is difficult due to some national specifics (language, country specific legal regulations etc.). Recommendations to entities wishing to realise the measure (adapted to the regional/national specifics) are: defining clear and achievable objectives of the measure and preparing the plan of the training and advisory activities with topics addressing real problems of entrepreneurs in the transfer of the business.

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

The Slovenian economy is dominated by family enterprises controlled by the founding generation. Owners-managers (founders in the majority of cases) are getting older and have almost no previous succession experience. They have almost no possibility of sharing the succession experience with others, since also the majority of their colleagues' owners-managers are the founders (not successors). Since there is almost no educational and institutional support regarding succession issues in Slovenia, the consulting and training activities undertaken by the Chamber are of great importance for the family business sector. The main strengths of the measure are the awareness raising of the need to prepare the transfer of management and ownership on time as well as the provision of knowledge and practical advice on how to solve succession problems. Family businesses' entrepreneurs accept the offered Chamber's activities on business transfers as very useful, especially because these activities address problems they are faced with. Through workshops and seminars they are made aware of different succession problems as well as of possible solutions and use the acquired knowledge in their enterprises when solving succession issues. They express their satisfaction with positive assessment of the provided activities as well as by demands to repeat training activities and by their loyalty to the Chamber. Approximately 15 seminars/workshops on business transfers per year (with approximately 350 participants per year) have been carried out by the Chamber.





The training as well as advisory support on the business transfer is dealing especially with fiscal and legal aspects of the business transfer. Since the business transfer process is a complex one, this is one of the weaknesses of the measure. To overcome this weakness the Chamber should take into consideration other aspect of the transfer process and its preparation (e.g. business-family-relationship) when creating advisory and training support in the future.

Since the activities of the Chamber are offered mostly to its members, these activities do not reach the whole family business sector in Slovenia. This is the main weakness of the measure. So, the effects for family businesses which are members of the Chamber are positive since they are made aware of the importance of the business transfer, which problems are connected therewith and provided with knowledge (or at least information) on solving such problems. An important lesson learnt as well as the message for the policy audience is that legal regulations regarding business transfers should be simplified.

### **Future Issues**

The Chamber is going to continue with performing its basic tasks, taking into account the needs of its members. The main initiatives for different Chamber's activities are coming from its members; this also implies family businesses and their specific problems which are not isolated only with regard to problems of the business transfer.

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## Instruments in the Field of Management/Entrepreneurship Education

### Family Business Academy - Cyprus

*(contributed by Dr Constantinos I Papadopoulos, Bureau of Economic & Market Research Economarket Ltd, Nicosia Cyprus)*

#### General Information

The **Family Business Academy (FBA)** initiated and implemented by the **Cyprus International Institute of Management (CIIM)** is an annual week long lively and interactive summer programme that focuses on the very different dynamics that affect business growth and development across generations. To add value to the programme, during the year the **FBA** initiative also includes a number of activities mainly seminars and lectures that take place within the scope of the initiative in order to raise awareness of the issues beholding family business and the need for their development. It is a Master of Administration (MBA) module enhanced by public lectures and similar activities.

**CIIM** founded in 1990 in Nicosia, Cyprus, is a non-profit, non-state post-graduate educational institution completely independent and free of both private interest and state bureaucracy, relying solely on the tuition of its students and the benevolent contributions of visionary sponsors. It is a highly specialised school concentrating exclusively on advanced studies in business related subjects; its population is both national and international students.

The **FBA** was initiated in 2005. Participation in the programme bears a cost of EUR 1,000. Year by year the programme attracts an increasing number of participants. The first year the programme was launched, 5 participants registered, while currently) (2008) there are 14 students enrolled in the programme. The initiative appeals to the business community at large. To this effect during the opening testimonial addresses, the event is attended by a significant number of entrepreneurs and practitioners.

There is no formal structure of the initiative besides the fact that the **FBA** is a module of the **CIIM** postgraduate **MBA** programme. It is directed by an expert in family business entrepreneurship (namely, Dr. Panikkos Poutziouris, Associate Professor in Entrepreneurship-Family Business) while it capitalises on visiting experts and guest speakers. CIIM in order to promote the initiative invites institutions like the Cyprus Federation of Women Entrepreneurs, Cyprus Business Women Professionals, UNDP, Chambers, banks and others with which it co-organises events open to the public such as lectures, meetings and conferences, as part of the initiative. The involvement of such institutions enhances the initiative's scope through their membership involvement and financial and promotional support. Often public lectures are co-sponsored and delivered at the Chamber of Commerce premises.

#### Background/Motivation of the Measure

The family owner-managed business constitutes the predominant form of corporate organisations. Family businesses range in scale and scope from the traditional small businesses to the growing company, and include quoted and unquoted public limited companies. Estimates for dynamic market economies suggest that the family business sector accounts for 85 % - 90 % of enterprises and about half of the economic activity and private employment. At the same time, family firms face particular challenges, with 90 % of them failing to reach the third generation of family owner-management.





Family businesses and families in business experience unique dynamics ranging from matters of management and governance to matters of succession planning and financing transitions. Despite the historic predominance of family business entrepreneurship, the topic of family business has not been highly mirrored on the business education agenda. This is why CIIM has launched the pioneering **Family Business Academy** initiative.

The subject of family business was not of any particular concern to trade institutions or chambers; it was a dormant problem for generations. Also at the level of policy makers there is no particular interest shown or attention given to the issues that concern family business. The dynamics around the subject solely relies on the experts and on very few institutions.

There are several reasons why this particular subject was ignored and only recently unfold. Besides the small size of the country, the predominance of small business firms in the economy, the structure of the economy and several other socio-economic factors which till recently were prevailing in the country were not very responding to a dynamic business environment. Furthermore, the absence of research institutions which could give attention to and study the subject was among the factors resulting on the issue of family business to be ignored.

The FBA aims to offer the essential tools and practical solutions MBA holders, owner-managers of family firms and their advisors need in order to systematically master the challenges of growth, governance and financing in the context of the strategic succession planning process. As an open and exchange programme for MBAs and professionals around the world, the Academy brings together experts in the field to explore the key issues affecting the survival, growth and financial development of family firms.

The programme falls within the optional subjects of the CIIM MBA Programme. The FBA being a module of the MBA programme is promoted through the channels of the CIIM. The programme was initiated in 2005 and appeals to the local student community and to the international one, however, it mainly relies on the local population (participation of foreign students is less than 20 % of total registrations).

Cyprus is a small country, both size- and population-wise, with a high rate of university degree holders. The programme operates in a very competitive environment that hinders its rapid expansion, despite the high demand for higher education.

Within the greater objectives of the CIIM, the programme brings together academics, experts and practitioners who display their experiences to participants on the subject of family business, in an interactive environment. As a consequence of this practice, networking among the various actors is being developed.

### **Characteristics of the Measure**

The **Family Business Academy** focuses on the very different dynamics that affect family business growth and development across generations. Building on the success since its initiation, the FBA international initiative includes seminars, workshops, live case studies, guest speakers/practitioners, family business fieldwork and tours to local entrepreneurial family enterprises, in order to expose the thorny issues that family owner-managers confront, as they chart growth strategies and plan for succession.

Furthermore, the FBA of CIIM is an Open MBA Exchange Programme, geared for highly qualified MBA-heirs and the new generation of dynamic family business owner-managers and their advisors. Tailored to tackle the challenges and dynamics of family businesses, the Academy is a week long, delivered by leading family business experts, using an interactive case-and-project approach to management learning. Subjects covered range from growing and financing the family business to conflict management and succession planning.

Each year the FBA embraces practitioners, entrepreneurs and family business owner-managers as hosts to the various activities of the initiative who deliver their experiences from their own family business environment while business study tours and live projects are an integral part of the programme.

The programme is intended for several groups of individuals:

MBA students and the new generation of family business descendant entrepreneurs, founders, owner-managers, directors of family businesses and their service providers as well as advisors such as solicitors, bankers, accountants/tax and business consultants. In view of the subject matter, the programme organisers promote the idea that it is most beneficial for different generations of owner-managers from the same family business to attend.

It is a flexible programme adjusted to the prevailing and foreseeable future business environment and conditions, in order to reflect national and international trends in family businesses. The course explores the themes, against the backdrop of both local and international family firms' and participants' own experiences. Some typical themes tackled are:

- How to plan for growth balancing family values and business goals
- How to bridge conflicting governance schemes in the family business
- How to craft a succession plan for family business continuity
- How to finance family developments and business transitions

The programme incorporates methods that enhance learning and provide participants opportunities to put hands on real-life case studies such as:

- Case studies and videos featuring the odyssey of family companies such as Gucci, Clarks and Bata Shoes, Shire Beds, Taramosalda Kings etc.
- Guest speakers: presentations by family business entrepreneurs and advisors
- Mini workshops are conducted highlighting family owner-managed business models in practice



The programme of the FBA includes seminars and workshops from academics, practitioners and family business entrepreneurs. It is axiomatic to the programme's main actors that the success of the initiative depends on the active participation of the heroes of the family business economy. To this effect testimonial presentations and tours to prominent and well known local family business are part of the programme.

The initiative is being enhanced by a number of side activities within the context of the programme; some of these activities are implemented outside the narrow borders of Cyprus. In the early years of the initiative, CIIM was approaching institutions to get involved in programme events; gradually, however, the institutions themselves request the programme organisers to house or sponsor such events. To cite the most important ones since the initiative's inception:

- 2008, Public Lecture – 10 commandments for family business, for Cyprus Federation of Women Entrepreneurs, Cyprus Business Women-Professionals and the Cyprus Chamber of Commerce
- 2008, Public Lecture – 10 commandments for family business continuity at Alba of Athens
- 2008, Public Lecture – In Love with SMEs, for Cyprus Business Women – Professionals
- 2007, Family Business Academy, CIIM Business School, Nicosia, 5 days
- 2007, Banking on Family Business, Executive Development Seminar for Marfin Laiki Bank, 2 days
- 2006, Public Lecture - 10 commandments for Family Business Continuity with Paphos Chamber of Commerce
- 2006, The UK family Business PLC, UBS Wealth Management London with Institute for Family Business
- 2006, Family Business Academy 2006, Limassol
- 2006 - Public Lecture on the Financial Development of Family Firms (with Bank of Cyprus)
- 2006, Family Business Continuity Planning, with UNDP, 2 days
- 2005, Family Business Academy, Sandy Beach Hotel, Larnaca, 5 days
- 2005, Business Succession Planning (2 days, with Human Resource Development Authority support)
- 2005 – Public Lecture: the Survival and Growth of the Family Firm (with Bank of Cyprus)

The FBA programme is assessed by real family business case study reporting submitted to CIIM Faculty after the course is completed. The course is worth 5 ECTS credits transferable to the participants of the MBA programme, subject to their schools' approval. The prime actors of the initiative are confident that the FBA is a stimulating and rewarding summer experience that is both rigorous and practical. This week-long course is part of the CIIM renowned modular MBA programme which is accredited by the London-based Association of MBAs and Brussels-based EFMD.

The programme itself is also assessed by the participants who express their enthusiasm as a high value programme with respect among other things to its content, presentation methods, practicality, tackling of critical issues and usefulness to family business owners, advisors, directors and stakeholders.



The FBA programme is offered as a module once a year by CIIM, at different sites and cities of the country; the latter gives the opportunity to local firms to facilitate their participation in the testimonial addresses and business tours. Although the initiative is a dynamic model, the fact it is offered once a year poses a weakness to it. Organisers prefer the FBA programme to be offered more than once during the year. There are, however, practical limitations in doing so, such as financial and time-table constraints.

The initiative was intended to attract higher international participation. The fact that it is tied-up with the MBA programme of CIIM, and the MBA programme has not yet achieved high international audience, limits its international expansion. Under the circumstances it is doubtful whether the initiative would have been able to stand alone without the operation of the CIIM FBA programme; and it is a fact that the FBA is the sole responsible for the creation of interest in and mobility of the issues besetting the family business in the country.

Further is the limitation that arises from the size and cultural background of the country. Despite this, the initiative with all its side activities and its continuous expansion is considered to be a success story so far within the national boundaries.

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

The mode of implementation of the initiative operates as a pipeline for transfer of views and ideas into the business community mainly through networking among academics, experts, family business and young generation entrepreneurs. As a consequence of this, many family businesses seek for advice from experts involved in the initiative, either through the programme or on a private basis.

The most important impact of the initiative is the restructuring of a number of family businesses as a result of the programme itself and the side activities taking place within the initiative. Family business experts involved in the initiative are the principal actors as they take up cases of family company restructuring based on the principles conveyed in the FBA programme. It is noted that company restructuring in general, according to the law, provides for tax benefits and incentives to company shareholders and the company itself.

Furthermore, family companies which undergo restructuring and receive expert advice result in general in an improvement of the conditions and the environment under which they operate as well as in the tackling and resolving of long lasting problems they have been facing.

New dynamics have set in after accession of the country to the EU. The restructuring of the economy in order to respond to the competitive market environment has had its favourable impact on entrepreneurship and consequently on the general entrepreneurship policy including family business.



## **Future Issues**

The annual FBA programme is already scheduled for 2009. CIIM continues for the 5<sup>th</sup> year with this special training programme geared for the next generation of dynamic family business owner-managers destined to take the family business to the next stage of growth and prosperity and tailored to tackle the challenges and dynamics of the growing family business.

The programme is as follows:

- Day 1: Growing the Family Business
- Day 2: Governing the Conflicting Family Business Dynamics; plus testimonial of a leading practitioner
- Day 3: Business tours of various types of successful family firms
- Day 4: Financing the Family Business; plus forum with practitioners from the banking and legal sectors
- Day 5: Planning for succession across generations – The Family Constitution in practice

On Day 2, the testimonial of a practitioner on the trans-generational development of a successful family company is open with the compliments of the organisers to all family business stakeholders and the emerging Cyprus Forum for Family Businesses.

The initiators of the programme are heavily committed to the issue and expect gradually to go beyond the immediate national boundaries, reaching neighbouring countries. To this effect, CIIM is hosting international events. In particular, they are hosting the 9<sup>th</sup> Annual IFERA International Family Business Research Conference in June 2009. Scholars across the academic life cycle and business with pioneering papers and presentations of case studies will be the main contributors to the event.

Year by year the FBA initiative is enriched, brings in new people and ideas, reviews and renews its general content and curriculum and delivery methods and covers new issues on the subject. FBA is a flexible dynamic model which is constantly adjusted to respond to the dynamics of the business environment, anticipating increased number of participants and deeper involvement of the business community.

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### **Ownership and working in the board - a training programme for the successors by The Finnish Family Firms Association - Finland**

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

#### **General Information**

“Ownership and working in the board – a training programme for the successors” (“*Omistajuus ja hallitustyöskentely – valmennusohjelma jatkajille*”) includes four one-day training sessions in Finland and one four-day training session organised in Barcelona, Spain, at the end of the programme. The programme has been initiated and implemented by the Finnish Family Firms Association (*Perheyritysten liitto ry.*) The Finnish Family Firms Association was established in 1997 by name Family Business Network Finland. Currently, the Finnish Family Firms Association has 250 member companies, of which more than 50 are among the TOP 500 companies in Finland, and it is a private non-profit organisation. The Finnish Family Firms Association (FFFA) is a member of the European Group of Family Enterprises (GEEF).

The training programme was organised between 2007 and 2008 for the successors in Finnish family firms. The programme has been previously organised under the title “Leadership and society” (“*Johtajuus ja yhteiskunta*”). It is envisaged that the programme will be organised in 2009 for the next time.

The trainers of the programme included experts from both, the FFFA itself and its network (including a professor, consultants). The training module in Spain was hosted by the Family Enterprise Institute (*Instituto de la Empresa Familiar / IESE*). The Family Enterprise Institute is a non-profit association which operates in Spain and is formed by a group of family businesses. Both the FFFA and the IESE are active members of the Family Business Network (FBN) and co-operate also in other areas.

The fee for the participants was EUR 1,500 for members of the FFFA and EUR 3,000 for non-members. The fee included training, materials and lunches during the sessions. In addition, the participants were responsible for their own travel and some other costs regarding the session in Spain.

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

The programme was initiated by the Finnish Family Firms Association. The FFFA actively discusses the needs and expectations with its members. In addition, FFFA has a working group called “Next Generation” that suggested the need for this programme to meet the challenge of involving the (potential) successors better in the family firm. The Next Generation Working Group was also actively involved in developing the programme. The goal was to help the successors better understand the environment for family firms, the family firm “logic”, and to give them tools for an efficient ownership of family businesses and for overcoming barriers related to working in a family firm.

The programme included four one-day training sessions in Finland and one four-day training session organised in Barcelona, Spain, at the end of the programme. The training included expert lectures, group and case assignments, and also visits to different family firms. The international module organised in Spain enabled the participants to exchange experiences with some Spanish family firms and their successors.





The success factors of the programme are the actual, real-life cases, the family firm owners who discussed openly about their ownership issues among other topics. In addition, peer learning, exchange of experiences and networking among the participants are essential success factors. As such, the basic knowledge on family business issues among the successors in the programme is usually rather high. Thus, the challenges of the programme are linked to identifying enough knowledgeable and skilful experts that are able to perform in an inspiring manner and for example engage the active team discussions and group work. The experts were identified and selected by the programme manager through her networks.

### **Characteristics of the Measure**

The responsible person for the training programme was Dr. Krista Elo-Pärssinen, expert at the Finnish Family Firms Association. In addition, the Spanish section of the programme was co-ordinated by the Spanish partner, The Family Enterprise Institute (IESE). The programme was targeted at successors in all family firms (both member and non-member organisations of the FFFA). The majority of the members of the FFFA are medium-size or large family firms, but no size limits were set in selecting participants.

The programme included four one-day training sessions in Finland and one four-day training session organised in Barcelona, Spain at the end of the programme. The sessions were titled:

- The challenges of owning a family firm
- Board governance in a family firm
- The role of the FFFA in promoting the interests of family firms
- Presentation and communication skills
- Family and Family Business (Barcelona)

The visit to Barcelona was taken to explore the (potential) cultural differences: Is it different to run a family business in Finland compared to a Mediterranean country. The training included expert lectures, group and case work and also visits to some family firms. The international module organised in Spain enabled the participants to exchange experiences with the successors of Spanish family firms. In addition, the participants joined for mutual dinners, and hence, they were able to reflect on their learning, exchange experiences and develop more intensive networks among themselves.

The FFFA continuously collects feedback from the participants after each session. The overall assessment of the programme ranged between 8 and 9 (on a scale of 4 – 10 (a scale commonly used in Finnish schools), in which 10 indicates the best situation).

The programme and its results are reported at the meetings of the FBN, and also communicated through the magazine of the FFFA.

The topics emphasized in the programme are universally important for all family firms and their successors. However, this programme was based on open exchange of experiences and thoughts, both between the successors from different firms and between incumbents and successors. In some countries or cultures it may be difficult to discuss the issues openly in a group. Due to the societal and cultural similarities the programme should be transferable at least in the Nordic countries.



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

The topic of engaging the next generation into the family firm and for preparing for succession is considered important in the Next Generation Working Group of the FFFA. It was expected to have 20 participants in the programme but finally they accepted 29 participants. The goal was not to have a big group but due to demand it was slightly bigger than expected. All applicants were taken into the programme.

The programme has been important in activating the successors in the issue of succession, and for making them aware of their own role in it. It is not necessary for them to wait for the incumbents' decision, but instead they can actively aim at influencing the succession process by taking an active stand. In addition, the programme has activated the successors to take part in the other activities of the FFFA which is instrumental in developing their peer networks.

From an external perspective, the programme has strengths and weaknesses. The major strength is that it is organised by the FFFA and hence it is initiated by the participants themselves, not by any authority or a more distant party. Hence, participants commit to the programme. It also concerns a fairly specific target group and hence provides good opportunities for empathising with the other participants inducing peer learning. On the other hand, the programme is fairly short involving only a few contact days. While this might have contributed positively to the possibility of participating in training in the first place, it questions the possibility for any major long-term effects. Also, the programme did not consist of any pre- or mid-programme exercises or assignments which might limit its long-term effects. In addition, the lack of incumbent participation can be considered a limitation as the active and open communication between the incumbents and successors is often emphasized. In general, the programme is considered successful and it will be continued by the FFFA.

### **Future Issues**

The programme is modified slightly from a year to another based on expectations, needs, and feedback of the customers. In the latest programme, more emphasis was placed on ownership issues and working in a board. Currently, the succession is very topical in Finland, and for example there are recent changes in the inheritance tax, and hence, these topics have become even more imminent for the successors. It is no longer about taking over the family firm in the long-run, but more so in the short-run.

Next year, even more focus will be placed on working in the board of a family firm. In addition, great effort will be placed on finding knowledgeable but also pedagogically capable trainers. This puts even more emphasis on the networks of the organiser.

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## **Master 2 Family Business Governance of IAE Bordeaux (Gouvernance des entreprises familiales, GEF) - France**

*(contributed by Arielle Feuillas, Cítia)*

### **General Information**

This master is run by IAE (Institut d'Administration des Entreprises) Bordeaux in Région Aquitaine, a public higher education establishment depending from the University. Nevertheless, Master 2 GEF is open to students from all over the world.

Master 2 GEF has been created under the auspices of Professor Gérard Hirigoyen, an internationally recognised French expert of family businesses. It has been implemented in university year 2006/2007 in the framework of the 'LMD' reform of higher education in France that aims at adapting the French system to the European norms.

IAE is funded by national funds, apprenticeship tax<sup>63</sup> and student fees. For Master 2, student fees amount to EUR 430 per university year (including social security taxes).

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

The objectives of this professional Master 2 are to train managers and executives of family businesses, advisors for family businesses and to facilitate family business start-up, transmission or take-over.

The Master allows students to get a comprehensive knowledge of all issues family businesses have to face as well as mastering appropriate tools and techniques for their management. It aims at training managers able to grasp the various dimensions of this type of enterprises, i.e., strategy, finance, legal aspects, human resources management and internationalisation.

Finally, this Master 2 aims at favouring exchange of information and competences between professionals. The idea is to supply new knowledge as well as to develop already acquired experiences by the means of a limited number of students.

As every Master, in order to be authorised by the ministry in charge of higher education (national diploma), Master 2 GEF has been subject to an ex-ante evaluation on the basis of a presentation of the objectives and contents of the courses. To be authorised, a professional Master 2 must demonstrate the quality of the teaching team as well as the professional perspectives for the students. No particular difficulties have been encountered to get this authorisation.

This Master 2, implemented in the framework of the LMD reform, is issued from a previous university diploma on Family business governance launched by Professor Hirigoyen with ESC Pau (business school) in the framework of continuous vocational training. Professor Hirigoyen was developing research activities on family business (IRGO research centre). Therefore, he has been developing strong informal partnerships with family business professionals and organisations as well as an important corpus of family business theory.

<sup>63</sup> All enterprises operating in France with at least one employee must pay an apprenticeship tax equal to 0.5 % of the total gross wages paid during the previous year. They can choose to pay this tax directly to one or several training centres or to the tax administration.



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.

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## 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 (Perheyritys -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.

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## **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.

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## 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

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