

Families in business for the long term





Of course family business is not a perfect model and some of its flaws are evident but it is the most durable of those developed to date.

I regard it as a worthy task to put it forward as a beneficial alternative to the divisive nature of unbridled capitalism.

Roger Pedder
President

We live in difficult times where our current socio economic system is under threat from itself. Over the past 40 years the value system which provided a natural check on capitalism has been eroded. This is not a new phenomenon it has happened many times before but there is a major element of our economic life which endures and often prospers through difficult events, Family Business. Why is this so?

Families in business have a self, some say a more enlightened, interest in the enterprise they own and infuse it with a controlling set of values. By their nature they think longer term and act and invest accordingly. Shaky and speculative financial structures are not for them and they know that they are as dependent on the community as the community is on them.

The contribution and stability that family businesses bring to our society is now being recognised and there is a positive curiosity about the features which make it a successful form of organisation. It is European Family Business's mission to convince Governments and policy makers in general to maintain a healthy environment in which family businesses' can thrive by removing discriminatory measures against it promoting its best practices.

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EFB Secretary General



European Family Businesses is the EU federation of national associations representing long-term family owned enterprises, including small, medium-sized and larger companies. The organisation was created in 1997.

Family businesses make up between 65 to 80% of all European companies, accounting for on average more than 40 to 50% of all jobs (see map page 4). Family businesses constitute a substantial part of existing European companies and have a significant role to play in the strength and dynamism of the real economy.

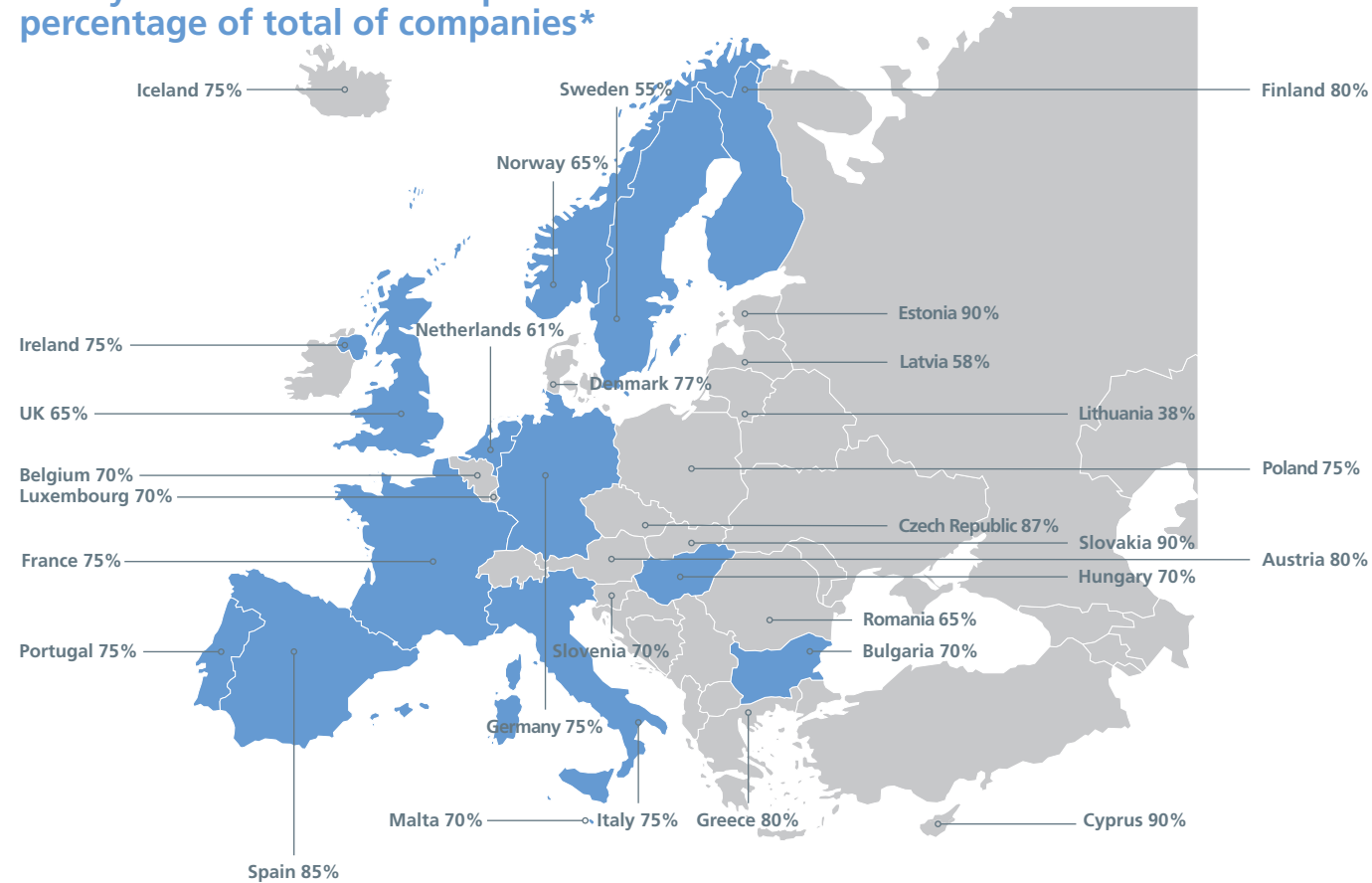
‘Family firms are important, not only because they make an essential contribution to the economy, but also because of the long-term stability they bring, the specific commitment they show to local communities, the responsibility they feel as owners and the values they stand for. These are precious factors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

Source: Final Report of the EU Expert Group, Overview of Family-Business-Relevant Issues: Research, Networks, Policy Measures and Existing Studies, November 2009.

Family Businesses represent in Europe
- 65 to 80% of all European companies
- On average 40 to 50% of all jobs

(Final Report of the EU Expert Group, Overview of Family-Business-Relevant Issues:
Research, Networks, Policy Measures and Existing Studies, November 2009.)

Family business across Europe: percentage of total of companies*



The member associations of European Family
Businesses represents in Europe:
- Over 1 trillion euros in aggregated turnover
- 9% of the European Union's GDP
- More than 6 million jobs

*Data taken from the Study Commissioned by the European Commission: Overview of Family
Business Relevant Issues' Kmu Forschung Austria Report (January 2009)

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.

EFB members and Family Business across Europe

Thanks to the study performed by the European Commission, via the 2008 'Overview
of Family Business Relevant Issues' we can estimate the presence of family businesses
in Europe.

In Europe this unique category of companies plays a vital role for the economy:

- Family businesses account for an important part (on average 40 - 50% of all jobs) of European private employment.
- Family businesses reinvest profits responsibly preferring equity as opposed to debt financing.
- Act as responsible owners because of their long-term strategy towards stakeholder interests, including employees, customers, shareholders, local communities.
- Transmission of family values with a high sense of social responsibility.
- Special concern for the local or regional base.
- Natural incubators of an entrepreneurial culture, they foster the next generation of European entrepreneurs.
- Stewards of social and economic capital from one generation to the next.



What is a Family Business?



'Family firms are crucially important for Europe. They make a significant contribution to Europe's GNP and employment, and tend to be great innovators, with a longer-term vision. They also tend to be firmly rooted in their regional and national culture, displaying the sort of European values that we all share.'

Jose Manuel Durao Barroso
President of the European Commission

The common feature of these companies is that of the family dimension, where business and ownership are intertwined. Family businesses can be small, medium sized or large, listed or unlisted. Family businesses in Europe have been widely equated to Small and Medium- Sized Enterprises (SMEs) in public and policy discussions. However, this neglects the fact that there are also large family businesses.

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

- 1 -** The majority of decision-making rights are in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs.
- 2 -** The majority of decision-making rights are indirect or direct.
- 3 -** At least one representative of the family or kin is formally involved in the governance of the firm.
- 4 -** Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25% of the decision-making rights mandated by their share capital.

(Definition unanimously adopted by the EU Expert Group on Family Business)



'Family businesses are able to think and plan for the long-term. They can take a longer-term strategic perspective, which is not always possible in other models of business. This means they can take decisions that are right for the long-term even if that means sacrificing some short term profitability.'

Hugh Clark
Clarks Shoes

Vision & Objectives

Vision

Family businesses are the backbone of the EU's real economy and incubators for entrepreneurship. Productivity, competitiveness, job creation and sustainability are part of their DNA. Europe has been built on their contribution to economic and social prosperity, and now, in times of trouble, Europe should look back to its roots, valuing and fostering the necessary role of family businesses as a reliable and committed driving force for recovery. EFB strongly believes in their capacity to generate growth.

Objectives

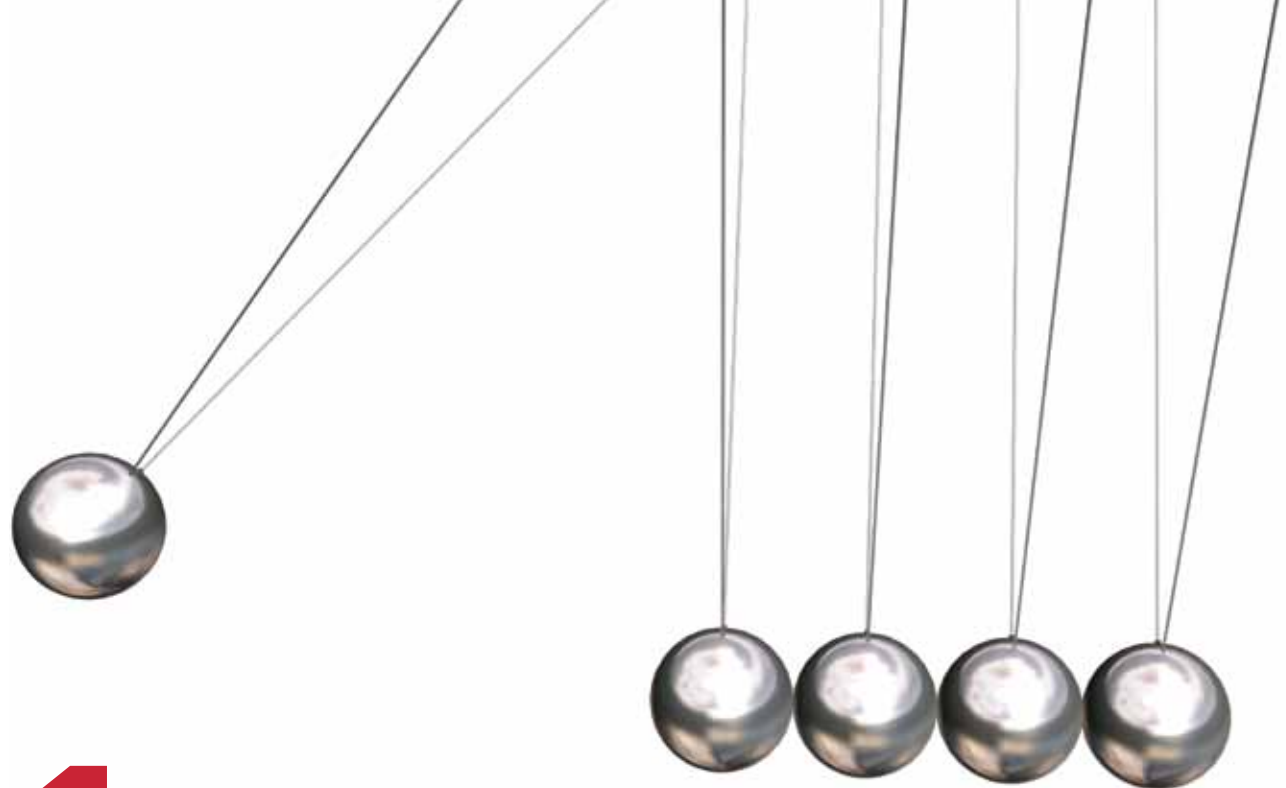
- 1** - Promote a full understanding of the key role of long term family-owned enterprises in Europe's economy.
- 2** - Press for policies that will support the creation of a level playing field for family businesses compared to all other types of companies, in the fields of transfer of businesses, legal and taxing framework, financing and entrepreneurship education.
- 3** - Ensure recognition of their contribution to the entrepreneurial culture and social cohesion in Europe.



Challenges

for Family Businesses in Europe

European Family Businesses desires a Europe where the value of long-term sustainable entrepreneurship is understood and supported through a constructive legal, administrative, fiscal and educational environment.



1

Transfer of business

EFB believes that the regulatory framework that exists in Europe needs to support the ability of family businesses to transfer ownership from one generation to the next without harming the company. Moreover, in family businesses the owners are not changing, it's only the representatives of the owner that are changing. Therefore, EFB considers that intra-family transfers of business should not be subject to taxation (inheritance tax, gift tax etc...) that could put the continuity of the business in jeopardy.

Indeed, the latest study performed by the European Commission estimate that more than 480.000 companies are transferred each year estimates affecting more than 2 million jobs (**Business Dynamics: Start-ups, Business Transfers and Bankruptcy, 2011**). The regulatory framework in Europe therefore, must be conducive to fostering transfers by setting a simple legal and fiscal framework. In addition, all too often businesses are lost because owners are ill prepared for the transfer or do not have the necessary expertise to enable an effective transfer. The European Union can and must better disseminate best practices for business owners to help protect thousands of existing businesses and jobs in Europe.



'The main assets on which the European economy can rely for recovery are precisely family businesses.'

Günter Verheugen
speaking at EFB's conference, 'Entrepreneurship: the backbone of the EU's economy'

2

Fostering the next generation through Entrepreneurship Education

Entrepreneurship is hugely relevant to family businesses, as they are incubators of entrepreneurs.

Entrepreneurship education has been highlighted as being essential for fostering creativity and innovation. EFB is of the belief that entrepreneurship education needs to be started as early as possible. Importantly, it should aim to promote entrepreneurial behaviour in existing businesses and to foster new generations of family business owners. Furthermore, family business specific issues such as succession and family governance should be included in Entrepreneurship curricula to better prepare future business owners to successfully run their companies for the long term. In addition, special efforts need to be made to better the relationship between universities and business. Business owners need to be directly engaged in the learning process, since they bring practical expertise and hands-on know-how into the class room. In addition, family business owners can often bring something different - their corporate values, such as sustainability, trust, responsibility, and integrity.





3

Access to finance

The European Union and its Member States must recognise that access to finance has two dimensions: access to debt and access to equity. Of these, access to equity is fundamental, because a company with little or no equity has little chance of accessing debt finance, especially under Basel III. For the European Union to develop into an environment that is conducive to long term sustainable and responsible investment, measures need to be taken to ensure that businesses are not so reliant on debt.

Sufficient equity finance is crucial for strong and sustainable business growth. Through its impact on a company's access to debt, equity is actually the most important form of finance.

'European Family Businesses is the voice of long term entrepreneurship in Europe. It is the only organisation that represents patient capital. Our influence has increased because the idea that you can build a sustainable economy on the basis of frantic transactions and mountains of debt has failed.'

Philip Aminoff
Chairman of Electrosonic Group Oy Ab and Member of the EU Enterprise Policy Group



Today, most Member States have fiscal codes that create incentives for debt finance over equity finance. This is because income from a debt receivable in the form of interest is always taxed only once, while the return of equity is taxed twice, firstly in the company and then again as income for the company owner. This is described well in a recent report as follows: 'most tax systems today contain a "debt bias," offering a tax advantage for corporations to finance their investments by debt. This has grown increasingly hard to justify. One cannot compellingly argue for giving tax preferences to debt based on legal, administrative, or economic considerations.' (Tax Biases to Debt Finance: Assessing the Problem, Finding Solutions, Ruud A. de Mooij, May 2011).

The policy required to promote equity finance is very straightforward: it is to create a level playing field for all forms of finance. This can be done by establishing tax neutrality between equity and debt.

A level playing field for long term equity would encourage the flow of private and household savings into businesses and also encourage business owners to re-invest the retained earnings of

their companies. This would strengthen the balance sheets of European companies, expand their capacity to invest and therefore contribute to economic growth and employment in Europe.

A level playing field for equity would also contribute to better economic stability. This is because a company with a strong equity position is independent. It will not be rocked by turmoil in the financial markets. It can take a profit hit without breaking loan covenants. It can deal with revaluations of goodwill or pension liabilities. It can make investments on very short notice when the opportunity arises. And, debt in the balance sheet of a well-capitalized company is not a strain on the solvency ratio (which will become stricter under BASEL III) of the banks that provide loans to it.

In short, companies with stronger balance sheets means a more stable economy, feeding innovation, growth and job creation.



4 Corporate Citizenship and Corporate Social Responsibility

A major challenge in today's world is to make our economies and business models more sustainable and fully committed to the needs of stakeholders and future generations. Family Businesses, thanks to their traditional values, such as long term vision or deep community and social roots, hold a privileged position to lead this process.

'Certain types of enterprise, such as cooperatives, mutuals, and family-owned businesses, have ownership and governance structures that can be especially conducive to responsible business conduct.' (A renewed EU strategy 2011-14 for Corporate Social Responsibility, COM (2011) 681 final).

By utilising their experience and expertise, family businesses can assist the European Institutions in formulating a regulatory environment that is conducive to long-term sustainable business practices.



5 Valuing Ownership

'Ownership is key to the business life of the firm. It enables a clear distinction to be made between family and non-family businesses. Taking the 'ownership perspective' rather than the 'company size' perspective can help improve understanding of the phenomenon' (Final Report of the EU Expert Group, Overview of Family-Business-Relevant Issues: Research, Networks, Policy Measures and Existing Studies, November 2009).

The common feature of the family business is that of the family dimension, where business and ownership is intertwined. Indeed, usually a family or single person is behind the company. Therefore, these specific dimensions, inherent within family businesses, will have specific associated challenges. For example: family conflicts, inheritance taxes, or corporate governance.



'The importance of family businesses in Europe has been overlooked for too long by policy makers in Europe. The owners of the family firms are often committed to keeping their businesses in their home location, which contributes to the stability and keeps investments in Europe. Now when the whole of Europe lies in deep crisis, the EU has to pay attention and promote long term ownership in the European Economy. Policy measures must be enacted so as to ensure the survival of this crucial business model.'

Matti Vanhanen
Executive Director of the Finnish Family Firms Association and former Prime Minister of Finland

Simply applying corporate governance codes and regulations on private family owned companies based on models designed for listed companies (where ownership and management are separate) would be counterproductive. There is no need for compulsory codes or measures to regulate the governance of private family businesses. Promoting the exchange of best practices and utilizing the expertise of national family business association can continue to help family businesses run their companies for the long-term. Indeed, numerous national codes have been developed specifically for family owned businesses, so that they can be applied on a voluntary basis.

European Family Businesses believes that there must be a more concerted effort by policy makers to recognise the concept of ownership. It is evident that the ownership structure of a company should have a decisive impact on the governance structure,

succession process, company financing, and general operations of the company, and therefore these realities have to be taken into account by European and National policy makers so as to create an business environment that is conducive to long-term growth and prosperity.



‘Family Businesses represent the backbone of many local communities. Their entrepreneurial commitment and prudent approach to company financing means that they can contribute to long-term growth and job preservation in Europe.’

Veronica Squinzi
Global Development Director, Mapei

Members of the organisation

Bulgaria: FBN Bulgaria

www.fbn-bulgaria.org

Finland: Finnish Family Firms Association (FFFA)

www.perheyrittystenliitto.fi

France: ASMEP-ETI - Association des Moyennes Entreprises Patrimoniales

www.asmep-eti.fr

FBN France

www.fbn-france.fr

Germany: Die Familienunternehmer - ASU

www.familienunternehmer.eu

Italy: Associazione Italiana delle Aziende Familiari (AIdAF)

www.aidaf.it

Hungary: FBN Hungary

www.fbn-h.hu

Netherlands: The Dutch Association of Family Firms (FBNed)

www.fbned.nl

Norway: Confederation of Norwegian Business and Industry (NHO)

www.nho.no

Portugal: Associação Portuguesa des Empresas Familiares (APEF)

www.empresasfamiliares.pt

Spain: IEF - Instituto de la Empresa Familiar

www.iefamiliar.com

Sweden: FBN Sweden

www.fbn-sweden.se

United Kingdom: Unquoted Companies Group (UCG)

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