Dr. Adrianna Lewandowska
Dr. Alicja Hadryś-Nowak

Socio-economic importance of family businesses in selected countries from all over the world

Preface

The aim of this article is to present the socio-economic importance of family businesses in selected countries from all over the world. The selection of the following EU countries will be analyzed: Belgium, Cyprus, Spain, France, Ireland, Italy, Luxembourg, Lithuania, Sweden, Great Britain, Denmark, Austria and Finland. The article examines also countries from outside the European Union, such as: Australia, Brazil, Canada or Chili.

1. Family Businesses in the European Union

Presently there is no one common definition of family businesses used by politicians in legal regulations, in statistics or scientific research. However, we can find in many publications one common approach to family businesses. According to this approach a family business is a business in which the family retains ownership of the business and has a say in managing it - be it running or strategic management. Moreover, active involvement of family members into day-to-day business matters is taken into account while deciding if we have to do with a family or non-family business. Family businesses are as a rule classified as small or medium sized enterprises (SMEs). Nonetheless it is commonly known that they can take all possible forms of business activities and operate in all sectors. 70% - 80% of businesses in Europe are family businesses. They hire 40% - 50% of the labor force [Wealth with Responsibility Study 2000]. Characteristic for European family businesses are strong relations between the family and its business. The family, both officially and unofficially, plays a pivotal role in the company. Family businesses focus on retaining long-term sustainability rather than on making short-term profits. Family enterprises have as a rule longer tradition than non-family ones. Next generations taking the helm of a family business are motivated not only by financial reasons but also by the desire to sustain its cultural and social resources (values, honesty, trust, reliability etc.). Another characteristic feature of European family businesses is the fact that the families have the upper hand in managerial structures. The downside of this dominance is that it may lead to nepotism or paternalism in management of the company. Decisions in such companies are often emotion-driven and made in an informal way. Family businesses are in the first place financed by private sources and in the second place by bank credits. Profits are often reinvested into the owners' company and the owners are more willing to wait longer for profits from an investment (the so called "patient capital"). Development of family businesses is usually stable and constant as opposed to non-family businesses, which develop in a more dynamic and changing way. In most European countries family businesses are not regulated by legal systems. However, there are a few countries in which family businesses are legally regulated. For example, in Austria the regional agricultural legislation defines a family business as an independent economic entity which provides a family with profit in a regular and sustainable way. Italian "Civil Code" defines a family business as a company in which family members (husband, wife or other closely-related family members) are employed in the company and at the same time own the whole or parts of the company. And in Finland and Spain family businesses are defined on the ministerial level.

In Denmark classification of family businesses is based on five types. A family which has 50% of shares in a company controls it and if a family possesses less than 50% of shares one of the family members must be the chief executive officer in the company. A family has a deciding say in the company if: The chief executive officer (CEO) and at least one board member are related or at least two family members are both CEOs and board members. One more condition is at least one generational change - succession [Okonomi- og Erhvervsministeriet 2007]. On the other hand, Spanish typology shows that small companies dominated by family members are by far most numerous and of special importance. Classifying family businesses in Spain also showed that the complexity of family relations in a company increases with time [ESADE & Family Business Knowledge 2006]. Family businesses are divided into five groups: Captain („Capitan"), Emperor ("Emperador"), Family Team ("Quito Familiar"), Structured ("Estructorado") and Corporation ("Corporacion"). The group "Capitan" comprises 24% of Spanish family businesses. They are small and medium, of limited complexity, managed by the founder/owner. They are 28 years old on average. And the companies in the group "Corporacion" comprise 18% of family businesses in Spain. Characteristic for them is that the family and business spheres are very complex. Thus these are big companies with wide range of activities. They are on average 61 years old.

As already mentioned, it has been estimated that 70%-80% of companies in Europe are family companies. For example, according to the classification adopted in Denmark family businesses make up 65% of all companies. In Europe (on average) approx. 30% of family businesses are managed by the third or fourth generation. These companies provide employment to approx. 40%-50% of the labor market. About 40% of revenues in the private sector are generated by family companies.

There are 5.2 million citizens in Finland. Family businesses are an "engine", "anchor" and mainstay of Finnish industry. At the end of 1999 there were in Finland 79.7% of family businesses among all registered companies. And already at the beginning of the new century there were founded additional 202 000 family businesses and 78 000 farms belonging to families. Overall there were around 620 thousand people employed by family businesses (without farms). If we take all family members actively involved in the "life" of a company, we will get an estimated number of one out of every 15 Finns involved in a family business.

In Germany export companies belonging to the sector of small and medium companies are in huge part family businesses, which are the two mainstays of the German industry. It has been estimated that there are here between 1.3 and 3.2 million family companies. They hire about 22 million employees. It is also assumed that there are about 3 million one person companies, which are ranked as family businesses. They hire almost 70% of all professionally active persons. Family businesses invest annually USD 20 thousand million. According to the report "German Wealth Report 2000" in the years 1999-2004 some 320 thousand family companies groomed successors for managing the company in the future. Data from the report show that 84 thousand of these companies are going to deal with the problem of succession by selling the company to a third party.

In Italy in 2000 there were 4.7 million companies registered. "Italian Association of Family Businesses" estimates that 93% of all these companies are family businesses. Most of small and medium sized family companies are production companies specialized in manufacturing products of high designing and engineering quality. About 45% out 150 biggest public and private companies in Italy are family companies. Some of the biggest and most popular Italian family businesses are: Barilla, Bennetton, Ferragamo, Fiat, Lavazza, Pirelli or Versace. There is in Italy one of the oldest family companies in the world, 500 year-old Beretta, which is still run by the founding family. Research on family businesses in Italy is conducted by the Bocconi School of Management at Bocconi University in Milano, the School of Business Management at the University in Palermo, the School of Business at the University in Turin. In Great Britain family businesses make up 75% of all companies. It has been estimated that they hire 50% of all professionally active people.

Table no. 2.1. Economic indexes of family businesses in selected European countries

country	percentage of companies	percentage of employees	percentage of revenues	percentage of GDP	others
Belgium	- 70% - 52% of 100 thousand biggest companies	-	-	55%	-
Cyprus	- 85 -90% including more than a half of registered joint-stock companies	40 – 50%	-	50%	-
Estonia	- 90%	50%	-	-	-
Spain	- 85%	75% employed in the private sector	-	70%	65% of family businesses are owned by the second generation, 25% in 2.9% by the 3th and 4th.
France	- 75% of medium companies and 20% of big	49%	59%	-	-

	companies (3000 employees and more) - 49,2% of 500 biggest companies				
Ireland	- 75%	50 % hired in the private sector	37.1%	60-70%	-
Italy	- 93 % production companies with the number of employees lower than 50	98%	-	-	-
Luxembourg	- 70% - 1/3 of 369 biggest companies	-	-	-	-
Lithuania	- 38% - 92.3% from the sector of small and medium sized companies	-	-	63.1 %	99% of companies are still held by the 1st generation
Sweden	- 54.5% - 26.4 % of big companies (over 500 employees)	34.7 %	29.5 %	-	-

Great Britain	- 65% of companies from the private sector	- 41.9% of employees hired in the private sector	- 38.2 % of companies' revenues from the private sector	40.7 %	-

Source: Own work based on the Overview of Family Business Relevant Issues, Contract No. 30-CE0164021/00-51, Final Report.

Until recently family companies were associated with the sector of small and medium companies. For example, it is assumed that in Great Britain approx. 70% of SMEs (small and medium sized enterprises) are family businesses. However, research has been showing that some of the biggest European companies are actually family businesses. In Luxembourg, Norway and Sweden some 30% of biggest companies are family companies, and in Belgium there are about 50% of them. Research conducted by IFERA in 2003 showed that 37% of companies on the list of 500 biggest and richest companies are family businesses.[1] Presently family businesses operate in all sectors of activity. Current research has been indicating that these companies are most active in the traditional and labor-intensive sectors such as: agriculture, production, craft, construction, tourism and retail trade. Family Business Monitor observed that about 40% of all family businesses operate in three sectors: production, construction and trade - both wholesale and retail trade [FBN International 2008]. Family companies are often present in market niches. For example, it was observed in Spain that family businesses more often than non-family ones are present in the food and beverages sector (27% vs 0.9%), in the media sector (7.5% vs 2.3%) or in the sector of finance and insurance (5% vs. 1.8%). In the immediate future we will certainly observe the presence of family businesses in such sectors as: consulting, fashion or information technologies (IT). The common feature of European companies is that their financial growth is not of paramount importance for them. For many of these companies a stable and sustainable development and its retaining for future generations are more important than a short-term and quick growth.

[1] IFERA – the International Family Enterprise Research Academy, an international organization embracing researchers of family businesses.

Another common feature of family businesses are their networks of social bonds - bonds both in the companies and between the companies and outside entities. This may result in customer loyalty and an image of a reliable business partner. Characteristics of family businesses require that their owners/managers possess specific skills, skills which enable them to manage the overlapping of the family and business sphere as to guarantee their existence for generations to come. That's the reason why in Europe there has been observed the need to create special educational programs for family business owners and their successors.

2. Family businesses outside the European Union

Family businesses are becoming an increasingly more important group of economic entities characterized by social and economic criterion. Unfortunately in Poland family businesses are still not so deeply analyzed as it is the case in the United States of America, where these organizations account for 80% to 90% of all companies registered in North America. They generate 64% of GDP and employ 62% of people capable of work. Over 30% of companies classified as family companies are run by the second generation, 12% by the third generation and approx. 3% of family businesses are managed by the fourth and older generation. The oldest family company in the US is Zildjian Cymbal Co. of Norwood, MA, founded in 1623 in Constantinople. In 1929 the headquarters of the company was moved to the USA together with the family. The biggest part of US wealth belongs to family businesses. Analyzing 500 companies by means of the S&P 500 index showed that 33.6% of companies (out of these 500) are family businesses in which the family keeps on average at least 18% of shares, and the capital structure of these companies is the same. Functioning of family businesses is much more effective and efficient and the EVA index [2] is by 5.5% higher (approx. by USD 118.6 million) if decision-making is left at the discretion of the family and if the family owns the majority of the company. The recently set up so-called "young" family businesses and family companies with long-standing tradition (e.g. 50-year-old companies) operate much better than non-family companies. The ROA percentage, showing how effective assets are in generating revenues, is much higher (higher by 6.65%) in family business compared to non-family businesses. In the examined companies families were their owners on average for 78 years. Executive managers in family companies earn 10% less than their

[2] EVA (Economic Value Added) - economic profit after taxation.

counterparts in non-family businesses. It is also very important that the wealth of a family business constitute not only tangible and financial values but above all intangible values, organizational culture and traditions, which guarantee the existence of these companies for generations [Wealth with Responsibility Study2000].

In Australia family companies make up a considerable part of the Australian industry and have an important impact on it. They include 67% of companies form the private sector employing 50% of all available labor force. Caparison of the years 1997 and 2003 with regards to family businesses conducted by the Australian Family and Private Business Surveys provided the following results: 68% of managing director would like to retire in the next 10 years. In comparison to 1997 it is an 8% increase. 44% of family businesses are considering a partial resale, or letting in foreign capital at that moment or in the next 10 years - it is a 2% increase in relation to the year 1997. In the next 10 years estimated value of family businesses' wealth amounts to 1.6 trillion Australian dollars (= 1 trillion American dollars). In 1997 the research indicated that it were accountants rather than lawyers who mainly advised families in the process of succession. On the other hand the same research conducted in 2003 indicated that 29% of companies turned to accountants and the same number of companies used lawyers [Australian Family and Private Business Survey 2003].

Another country is Brazil. Brazil with its estimated population of 184 million is the most densely populated country in Latin America and the Caribbean and the fifth most populated country in the world. Brazil's GDP amounts to USD 498.4 billion, which makes Brazil the second largest economy in Latin America and the 8th biggest economy in the world. Brazil's economy generates 50% of economic output in Latin America. Family businesses comprise overwhelming part of the Brazilian business. In 1999 there were registered some 4 million businesses owned by families. Brazil is a country, in which family businesses were created in 20th century, and now they are managed by the fourth and fifth generation. Up to 70% of the biggest Brazilian companies are ranked as family businesses. The key sector of the Brazilian economy is agriculture with vast farms wholly owned by families - their estimated number amounts to 4.1 million. In the "family" agriculture there is employed 77% of the agricultural labor force and family businesses hire 84% of the labor force from the whole number of people working in the broadly understood business - apart from agriculture. Research on family businesses is conducted by Sao Paolo Business School, the Business School Sao Paolo for International Management, and the Insitituto da Empresa Familiar.

In Canada, on the other hand, it has been estimated that family companies hire 4.7 million full-time employees and 1.3 million part-time employees. [3] Annual trade of family businesses amounts to around USD 1.3 trillion. 27% of people managing these companies are going to retire in 5 years, 29% in 6 to ten years, and the remaining 22% will leave their family businesses in 11 to 15 years. In spite of these data only 44% of these companies (or rather their managers) have the so-called "leaving strategy", and only 29% have prepared a succession plan. Only one third of people who have such a plan prepared it without involving their families. As oppose to American family businesses, which as a rule prepare a succession plan in order to contribute to the success of coming generations and retain ownership of their companies in the family, the Canadian owners of family businesses put greater emphasis on generating profits for themselves. They consider companies to be a potential source of wealth and keeping the company in the family's hands is secondary.

In Chili there are 15.7 million citizens living in 13 regions. With its GDP on the level of USD 72.1 billion (data from 2003) Chili is currently one of the most dynamically developing economy in South America. It has been estimated that as much as 75% up to 90% of all companies in Chili are family companies as far as ownership and control are concerned. 65% of companies classified as medium and big companies are in the families' hands. Chilean family companies are examples of well organized corporations with decentralized decision-making processes and with limited control of running activities by the shareholders (if there are any). Family companies in Chili operate in such economic sectors as: agriculture, food and beverages, mining and extraction, textiles, fishing and fish processing, timber industry and broadly understood production. Exactly in Chili there are headquarters of the family company Hacienda Los Lingues, which was founded in 1760 and is still being controlled by successors from the family of founders. Research in Chili examining family businesses are conducted by Families in Business Center at vde los Andes University and by the Family Business Center at Adolfo Ibanez University.

Conclusions

The objective of this article was to present the socio-economic importance of family businesses in selected countries from all over the world. The analysis covered European Countries as well as selected countries from Latin America, Australia and Canada. Family businesses account for a high percentage of all companies in individual countries. They are

[3] This results from the fact that part-time work in various companies is popular.

also present in all economic sectors and branches providing employment for millions of people from all over the world. For example, in the European Union family businesses employ roughly 40%-50% of the labor force. One of the measures of their importance may be, for example, the percentage of registered companies being controlled by families. The percentage fluctuates between 70% and 80% in the European Union (EU), between 65% and 90% (depending on the used classification of family businesses) in Latin America and over 95% in the United States [Astrachan, Shanker 2003].

Sources

1. Astrachan, J.H., Shanker M.C., 2003, *Family Businesses' Contribution to the U.S. Economy: A Closer Look*, Family Business Review, September.
2. Australian Family and Private Business Survey 2003
3. Australian Family and Private Business Surveys
4. Research on family businesses is conducted by Sao Paolo Business School, the Business School Sao Paolo for International Management, and the Insitituto da Empresa Familiar
5. Research in Chili examining family businesses are conducted by Families in Business Center at vde los Andes University and by the Family Business Center at Adolfo Ibanez University.
6. German Wealth Report 2000
7. Italian Association of Family Businesses
8. Okonomi- og Erhvervsministeriet 2007
9. Overview of Family Business Relevant Issues, Contract No. 30-CE0164021/00-51, Final Report.
10. Research on family businesses in Italy is conducted by the Bocconi School of Management at Bocconi University in Milano, the School of Business Management at the University in Palermo, the School of Business at the University in Turin.
11. Wealth with Responsibility Study/2000, Bankers Trust Private Banking, Deutsche Bank Group.

Summary

The aim of this article is to present the socio-economic importance of family businesses in selected countries from all over the world. The selection of the following EU countries will be analyzed: Belgium, Cyprus, Spain, France, Ireland, Italy, Luxembourg,

Lithuania, Sweden, Great Britain, Denmark, Austria and Finland. The article presents also countries from outside the European Union, such as: Australia, Brazil, Canada or Chili. The analysis showed that family companies account for a high percentage of all companies in individual countries from all over the world. For example, in the European Union family businesses employ roughly 40%-50% of the labor force. In Latin America, depending on the used classification of family businesses, families control between 65% and 90% of all companies and in the United States this proportion amounts to 95%.