Opinion of the European Economic and Social Committee on 'Family businesses in Europe as a source of renewed growth and better jobs'

(own-initiative opinion)

(2016/C 013/03)

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On 22 January 2015, the European Economic and Social Committee, acting under Rule 29(2) of its Rules of Procedure, decided to draw up an opinion on:

Family businesses in Europe as a source of renewed growth and better jobs

(own-initiative opinion).

The Section for the Single Market, Production and Consumption, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 14 July 2015.

At its 510th plenary session, held on 16 and 17 September 2015 (meeting of 17 September), the European Economic and Social Committee adopted the following opinion by 110 votes with 3 abstentions.

1. **Conclusions and recommendations**

1.1. Family businesses form the backbone of many economies around the world and are growing at an impressive rate. They are a source of economic growth and jobs and pay considerable attention to regional and local factors. There are different reasons for setting up a family business, but common to all of them are a naturally occurring system of values, a willingness to demonstrate dedication and sacrifice and a sense of responsibility towards those who set up the business and those who take it over. Family businesses are better able to withstand difficult periods of recession and stagnation, and one of the main reasons for their longevity is the sense of personal responsibility for the image of the business.

1.2. Acknowledging the unique value of family businesses, and in line with the Small Business Act which stipulates that 'the EU and Member States should create an environment within which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded' ([1]), the European Economic and Social Committee (EESC) calls on the European Commission to implement an active strategy promoting best practices on family businesses among Member States.

1.3. A further step could be to undertake work on legal frameworks/regulations on family businesses. This kind of regulation should include a definition of family businesses and specify the areas in which the Commission will be involved, together with the legal, economic and political institutions responsible for these measures.

1.4. In terms of specific measures, the EESC calls for:

— a family business category to be included in European statistics (Eurostat) and for national statistics offices to gather data on family business in an effective way;

— better regulation on the transfer of family businesses from one generation to the next, particularly from a tax perspective, with a view to reducing the exposure of these businesses to liquidity problems;

— the family organisational climate to be promoted, the hallmark of which is long-term employment;

— innovation among family firms to be promoted, not least by means of innovative public procurement;

— education to be developed and research promoted in the area of family entrepreneurship;

([1]) COM(2008) 394 final.

— family farms to be supported and cooperative-based entrepreneurship redeveloped, particularly the type which brings together family businesses;

— tax deductions to be introduced on reinvested profits, and opportunities for family businesses to increase their capital without granting voting rights;

— active cooperation at EU level with organisations representing family businesses, e.g. within the framework of a permanent expert group.

2. **Introduction**

2.1. Family businesses make up more than 60 % of all European companies, both small and large enterprises, and employ between 40 % and 50 % of all employees ([2]). In the vast majority of economies, most businesses are micro, small and medium-sized enterprises, hence the majority of family businesses also belong to this sector.

2.2. The main assets of family businesses are their long-term horizon, the specific values that form their unique organisational culture and their involvement in local communities. Their unique culture is based on the values promoted by family stakeholders, such as a high level of trust in the business and the high quality of services or products offered.

2.3. The long-term perspective of family businesses means that they create long-lasting ties with company stakeholders (employees, customers, suppliers and local communities).

2.4. Family businesses are characterised by the desire to pass them on to the next generation and by care and responsibility for employees. This aspect also promotes the accountability of family businesses, where relationships are built on trust.

2.5. In order to meet objectives, family businesses devote as much of their profits as possible to building a stable, independent and innovative company, using own capital, which primarily seeks to minimise risk so that the business can be passed on from generation to generation. Family businesses develop in a more balanced way in order to achieve their long-term (multi-generational) objectives.

3. **The definition of a family business**

3.1. It is generally accepted that family businesses can be characterised within three circles: families, businesses and ownership structure ([3]). The impact of the family on the other two circles determines the family nature of the company. This impact means that family businesses are more complex than their non-family counterparts and therefore require appropriate treatment.

3.2. Several Member States have adopted specific laws on family businesses:

— In Spain (Ministry of the Economy) and Finland (Ministry of Trade) family businesses are defined at ministerial level.

— There is also a definition of family businesses in Italy (Civil Code) and in Romania.

— Hungary has adopted a definition of agricultural family-owned businesses.

— Danish legislation makes reference to the hiring of young people in family businesses (*Arbejdsmiljølovgivningens anvendelse for elever i erhvervspraktik*, VEJ No 60106, 1.2.1998).

— In Austria, federal law stipulates that family members can adopt flexible shop opening hours (*Ladenöffnungszeitenverordnung*) and family businesses are defined by the regional law on agriculture.

— The Lithuanian Supreme Court has issued an opinion stipulating that a firm established in connection with a marriage shall be regarded as a family business.

([2]) Final Report of the Expert Group: *Overview of family-business-relevant issues: research, networks, policy measures and existing studies*, European Commission, November 2009.

([3]) Tagiuri R., Davis J.A., *Bivalent Attributes of the Family Firm*, Working paper, Harvard Business School, 1982.

— In Bulgaria and Slovakia, family co-ownership is taken into account in the case of self-employment.

— In Malta work is under way on the Family Business Act, the first law on family businesses in the world.

3.3. The Committee believes that it would be useful to carry out a legislative procedure aimed at introducing a family business category into economic activity registers in all the Member States.

3.4. The report of the Commission's group of experts on family businesses recommends the adoption of the following definition of family businesses:

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

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

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

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

3.5. However, the above definition is too broad. It should be narrowed in such a way as to emphasise the family nature of the business, especially the multi-generational purpose of its work.

3.6. The adoption of this definition among European countries would allow quantitative data to be collected, which would enable statistics to be compiled on these entities once it had been aggregated. This data in particular would help to analyse family businesses in the new Member States, where these businesses play a key role. This task could be undertaken by the European Union's statistical office, Eurostat.

3.7. At national level, attempts are being made to quantify family businesses. This is the case in Ireland, for example, where the Central Statistics Office produced a publication entitled *Family Business in Ireland — Services Sector 2005*. The European Family Businesses federation, in cooperation with the consultancy firm KPMG, publishes the European Family Business Barometer. In Poland, a comprehensive qualitative and quantitative study was conducted in 2008 by the Polish Agency for Enterprise Development.

3.8. The participation of Eurostat would enable two important goals to be achieved: to standardise the definition of family businesses and, on basis of this, to collect statistical data about these entities.

4. **Challenges facing family businesses**

4.1. The challenges facing family businesses can be divided into two categories: those applicable to all firms and those specific to family businesses. The first category includes all factors affecting a country's economy, such as domestic demand, demography and the socioeconomic situation. This opinion focusses on the second category, i.e. the specific challenges for family businesses which would enable them to develop and grow.

4.2. In a family business ownership does not consist of liquid assets but rather what the family builds and develops over generations, and which encompasses values, traditions and know-how ([4]). Therefore, transferring ownership of a business to the next generation is the most serious challenge that any such business can face.

4.2.1. One important step to be taken by family businesses would appear to be comprehensive succession planning, as the intention of owners of these companies is to pass the business on to the next generation in good condition.

([4]) COM(2012) 795 final — Entrepreneurship 2020 Action Plan — Reigniting the Entrepreneurial Spirit in Europe.

4.2.2. Each year approximately 450 000 firms, employing about 2 million people, face this challenge. Some 150 000 businesses close each year because of an unsuccessful succession, leading to the loss of 600 000 jobs ([5]).

4.2.3. The main causes of failure in succession planning should be examined, and measures to facilitate business transfers should be supported, e.g. inheritance law or tax incentives which support transfers.

4.2.4. The scope and scale of the various approaches in Europe to inheritance and wealth taxes illustrate that there is still much to improve regarding regulation in this area ([6]).

4.2.5. One example of a potential solution in the field of business transfers is the Netherlands, where the Ministry of the Economy introduced the ‘succession package’ (*Overdrachtspakket*). Entrepreneurs reaching the age of 55 receive a succession package reminding them of the importance of planning the business transfer and providing a set of tools to assist in this process. The Belgian institute of family businesses (*Instituut voor het Familiebedrijf*) has introduced a succession charter available in three languages: Dutch (*Scorecard Opvolging*), French (*Scorecard Transmission*) and English (*Succession Scorecard*). Another example is Slovenia, whose Chamber of Crafts and Small Enterprises (*Obrtno-podjetniška zbornica Slovenije*) organises seminars and training covering all succession-related issues, and Finland has a succession programme (*ViestinVaihto-ohjelma*). In Austria, there is a law on the continuation of a business’ activities (*Fortbetrieb*) by a family member in the event of the death of the manager (*Gesamte Rechtsvorschrift für Gewerbeordnung*, 1994). There is a similar arrangement in France (*successions et des libéralités*) and Luxembourg. The Polish Agency for Enterprise Development, in cooperation with the family business institute, has prepared a succession package for family businesses. As part of this package, family businesses receive a guide to succession, free tools to support this process and free implementation workshops.

4.3. Family businesses try to create long-term jobs, which contributes to the creation of a family-based organisational climate. For this reason, family businesses can provide desirable jobs for mothers bringing up children, for example. Support should be provided for the family-based organisational climate, which might give these businesses a competitive edge.

4.4. The spouses or partners of company owners often play an important role in family businesses, although, for different reasons, they do not have a formal status. This can lead to legal and financial difficulties, for example, in the event of a relationship breakdown. Giving these people a more formal status, as well as other family members informally involved in the activities of company, would help avoid difficulties in the event of family-related problems.

4.5. As regards innovation in family businesses, these companies should focus not only on traditional markets and products, but also on new innovative solutions.

4.5.1. Innovation in family businesses can be supported by means of an innovative public procurement system in which price should not be the sole criterion for selecting a bidder. Family businesses are characterised by the fact that they compete on the basis of high quality and customer service, guaranteed, inter alia, by the family brand (often the name of the owner or the owner-family). Therefore, family businesses generally do not bid for public contracts that have price as their sole criterion. It is suggested that the values of the most economically advantageous tender (MEAT) ([7]) be promoted as the assessment criterion, and this information disseminated among family businesses.

([5]) *Business Dynamics: Start-ups, Business Transfers and Bankruptcy* (2011).
([6]) COM(2012) 795 final.
([7]) SEC(2007) 280 — Guide on dealing with innovative solutions in public procurement, 10 elements of good practice.

4.6. Globalisation is forcing companies to open up to new markets, technologies and skills. Family businesses should take these aspects into account in their development strategies. This could mean that they need to take on new employees, also in management positions.

4.7. At national level, the role played by family businesses in national economies should be acknowledged and then favourable conditions put in place for these businesses in the fields of taxation, legislation on economic activity (including a law on family businesses) and support for education for family businesses. This type of education should take into account the specific characteristics of family businesses such as succession, family supervision, etc.

4.8. Examples of education specifically for the representatives of family businesses include countries such as Cyprus (family business school run by the Cyprus International Institute of Management), France (*Master 2 professionnel: Gouvernance des entreprises familiales et patrimoniales — M2 GEFP*, organised by the University of Bordeaux) and Finland (*Omistajuus ja hallitustyöskentely — valmennusohjelma jatkajille — o*wnership structure and company management — training programme for successors) ([8]). Family business support organisations also hold courses for family entrepreneurs, such as the FBN Academy, run by the Swedish branch of FBN and training programmes run by the Spanish *Instituto de la Empresa Familiar*, for example.

4.9. Recognising the role played by family businesses in the economies of the Member States and giving them support could contribute to restoring the family tradition of crafts. A significant proportion of small family businesses are concentrated in craft guilds, which seek to ensure the continuation of crafts; hence it is legitimate to support this type of entity.

4.10. Smaller family businesses are exposed to risks that may lead to their disappearance from the market. Appropriate legal and tax-related support should therefore be provided for these businesses with a view to supporting their further development. In turn, large international family businesses could benefit from institutional support and measures aimed at supporting local suppliers and economies.

4.11. One specific type of family business is the family farm. In addition to the typical challenges characteristic of family businesses, these businesses must also deal with problems specific to rural areas.

4.11.1. Of particular concern here is the problem of land grabbing, which leads to an irreversible disruption of the economic structure in rural areas and to the socially undesirable industrialisation of agriculture. In its January 2015 opinion ([9]), the Committee called for appropriate steps to be taken to preserve throughout the EU an agricultural model based on family farms.

4.11.2. Family farms often form cooperatives in order to achieve economies of scale and raise market competitiveness ([10]). Cooperative-based entrepreneurship exhibits similar characteristics to family-based entrepreneurship, i.e. it focusses on long-term activities rather than short-term profit. However, in recent times, cooperatives have lost momentum and some have even collapsed, hence the need to take steps to revive this form of activity.

4.12. The term 'patient capital' is used to refer to the long-term accumulation of capital to develop a family business ([11]). When carrying out a transfer, the family business hands over the capital together with its social and cultural dimension and the purchaser invests in or purchases the business together with its multi-generational knowledge, (family-related) culture and commitment to the (local) community.

([8]) Irene Mandl, *Overview of Family Business Relevant Issues*. KMU Forschung Austria, 2008.

([9]) EESC opinion 'Land grabbing — a warning for Europe and a threat to family farming' (OJ C 242, 23.7.2015, p. 15).

([10]) *Family farming in Europe: Challenges and prospects. In-depth analysis*. European Parliament, 2014.

([11]) Patient capital is the own capital provided by family business owners who seek to strike a balance between, on the one hand, the current return on investments and, on the other, an appropriately defined long-term business strategy and ensuring the continuity of tradition and family heritage. Source: De Visscher F.M., Aronoff C.E., Ward J.L. (2011), *Financing Transitions. Managing Capital and Liquidity in the Family Business*, Palgrave Macmillan.

4.12.1. When defining the patient capital, it is worth considering the use of tax deductions on reinvested profits. Consideration should be given to deductions for family businesses (and not only such businesses) that reinvest profits and prefer to inject their own capital rather than using debt.

4.12.2. The ability to offset debt interest against taxable profits is an additional incentive for companies to use debt finance, as this effectively reduces the cost of debt, such deductions not applying to equity.

4.12.3. It goes without saying that taxation issues fall within the competence of the individual Member States, but the European Union should promote good practices for family businesses.

4.13. Setting up national public investment funds to inject capital into family businesses might be worth considering. The special feature of these funds would be that they would provide capital to family businesses without granting voting rights to the providers of the capital, along the lines of *Aksjeloven* in Norway or the *Ley de Sociedades de Responsabilidad Limitada* in Spain.

4.14. Family entrepreneurship activities may also be supported by national or local organisations acting on behalf of these entities (e.g. government bodies (ministries), employers' organisations, chambers of crafts, etc.) and supranational organisations, the most important of which include European Family Businesses, FBN International and Les Hénokiens.

4.14.1. These organisations play an important organisational role in promoting the family business sector. They provide a platform for the exchange of knowledge and experience between family entrepreneurs, and publish reports on family businesses with a view to disseminating knowledge about them. In addition, organisations supporting family businesses may lobby for specific solutions.

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The President
of the European Economic and Social Committee
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