

# **FAMILY BUSINESSES IN THE U.S. ECONOMY**

Presented to  
The Center for the Study of Taxation

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## Our Job Today...

- Define “family business”
- Provide the best available statistics on family businesses
- Judge the “quality” of each statistic
- Suggest prospects for future research

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An information packet was distributed that goes along with this presentation. In this back up material to this presentation is a listing of the most highly quoted and commonly believed statistics you'll hear regarding family businesses. We will not have time to evaluate each during the course of this presentation, but this back-up material will provide you with each cite, whether or not it was primary or secondary data, and what, if any, definition was assumed.

## The Size, Scope, and Economic Impact of Family Businesses

- 20 million family businesses in the U.S.
- 91 % of all U.S. businesses
- 37 % of the Fortune 500
- 60 % of all privately owned businesses
- 49 % of the Gross Domestic Product
- 59 % of the U.S. workforce
- Created 78% of all new jobs from 1977-1990

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We'll give you the answers first...ask the questions later. Later on in the presentation we will take a hard look at where these statistics came from, and how to interpret them.



## What is a “Family Business” ?

Most people seem to understand what is meant by the term “family business”, yet when one tries to articulate a precise definition one quickly discovers that it is a very complicated phenomenon.

How we define a family business will directly effect the statistics we come up with.



## All the possible criteria we could include in a definition:

- 100% combined ownership by more than one same family
- legal control of voting stock
- effective control of strategic direction
- more than one member of owner's family has significant management responsibility
- more than one generation involved in running or owning
- business is intended to remain in family
- founder's descendant as CEO/director/chair
- business in family for more than one generation

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Above is a listing of all the possible criteria that could be included in a definition of a "Family Business".

### Alternative Definitions by Leaders in the Family Business Field

- “those[businesses] whose policy and direction are subject to significant influence by *one or more* family units...exercised through ownership and sometimes through the participation of family members in management. - Peter Davis
- “a business *intended* for the next generation of family” - John Ward & Craig Aronoff
- “economic enterprises controlled by one or more families...[having] a degree of influence in organizational governance sufficient to substantially influence or compel action - Dirk Dreux
- “...family business... the occurrence or anticipation that a younger family member has or will assume control of business from an elder...the transfer of power..is in response to natural biological forces of change and not a market-driven “arms-length” transaction.” - Churchill & Hatten

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Some definitions suggest that any presence of *two or more* family members in the business or in ownership makes the business a family business. Involvement of multiple family members brings about family dynamics.

“Any business in which the majority ownership or control lies within a single family and in which *two or more* family members are or at some time were involved in the business.-Rosenblatt, de Mik, Anderson, & Johnson.

“Intention” is the critical word in Ward’s definition. When owners start thinking about the next generation being a part of the business, family considerations become important. Ward and Aronoff, prefer a definition based on intentions more than on current family dynamics in order to portray a more proactive, longer range commitment.

The phrases “control” and “significant influence” used in many family business definitions can be ambiguous. What level of control is needed to influence a business?

### **Alternative Definitions by Leaders in the Family Business Field**

- “a company with a founder or founder’s descendant as the CEO/President/Chairperson” - Daniel McConaughy
- “ A family business is one that has been started by a family member and has been passed, or is expected to be passed, to succeeding generations of the family, sometimes through marriage. Descendants of the original founder will own and control the business. Also, members of the family work, participate in, and benefit from the enterprise. - David Bork
- equates “privately held, family owned” - Leon Danco
- “...a business in which the members of a family have legal control over ownership” -Ivan Lansberg
- “...one whose management and policies are substantially influenced by a single owning extended family. -Joanne Pratt & John Davis

Many of the statistics you will hear about family businesses are based on the definition that equated privately run firms with family businesses.



## **Our Preferred Definition**

- A Family business is a business in which a family has effective control of strategic direction. The business adds significantly to the family's assets, income or identity in the community.

In businesses that meet these criteria, the business is often the main focus of the family, and the family is frequently involved in major business decisions, even though only one may work in or own business. Thus increasing the importance of family dynamics. In addition, in many small family businesses, we believe multiple family members will be working in the businesses without pay.

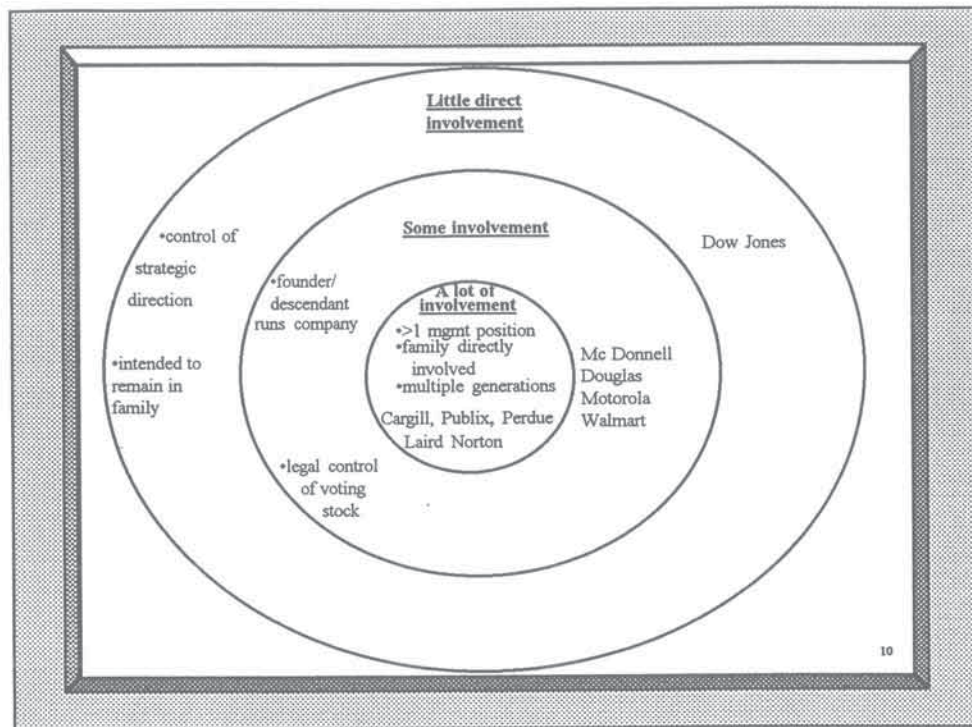


Broad	Middle	Narrow
<ul style="list-style-type: none"> <li>•effective control of strategic direction</li> <li>•intended to remain in family</li> </ul>	<ul style="list-style-type: none"> <li>•founder/descendant runs company</li> <li>•legal control of voting stock</li> </ul>	<ul style="list-style-type: none"> <li>•multiple generations</li> <li>•family directly involved in running and owning</li> <li>•more than one member of owners family having significant management responsibility</li> </ul>
↓	↓	↓
Little direct family involvement	Some family involvement	A lot of family involvement

We have divided the criteria used to define family businesses into three groups in order to illustrate how definitions can greatly alter the size of the family business universe.

The family business statistics we provided in the beginning of the presentation were based on a broad definition.

In **each** definition (broad, middle narrow) family are materially involved in business or at financial risk with business.



We are not saying that the Bulls Eye is the “real” or best family universe, just the narrowest and most tightly defined. This model is intended to be an aid in visualizing the various definitions used to define the family business universe, and how a looser definition will ultimately include more U.S. businesses.



Little direct involvement

Some involvement

A lot of involvement

Dow Jones

Mc Donnell  
Douglas  
Motorola  
Walmart

- >1 mgmt position
- family directly involved
- multiple generations

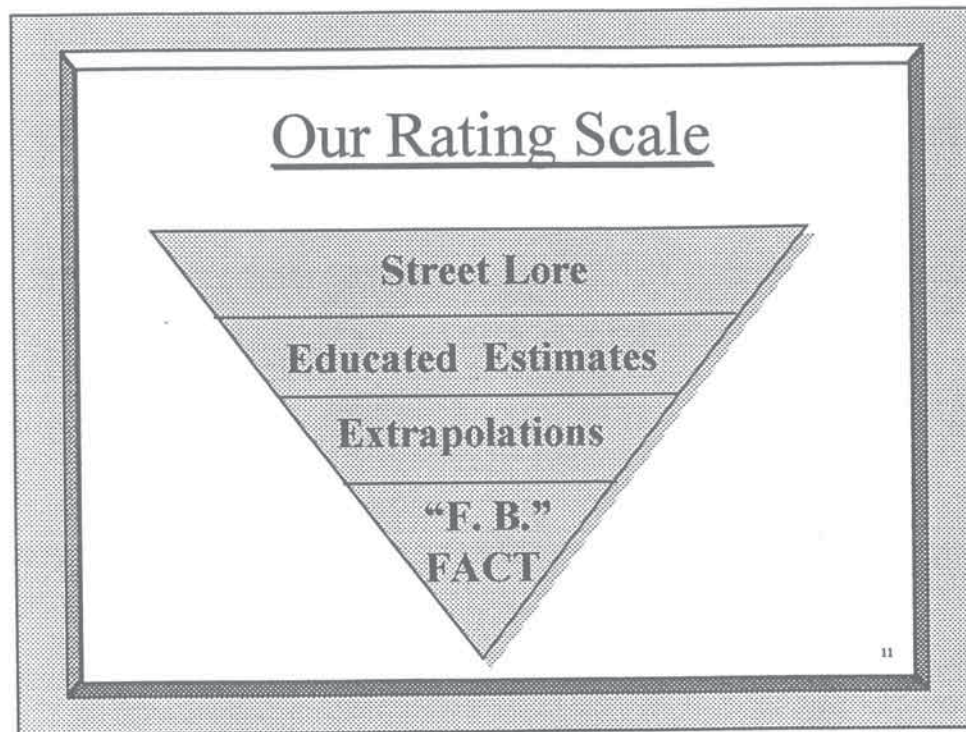
Cargill, Publix, Perdue  
Laird Norton

- founder/descendant runs company

- legal control of voting stock

- control of strategic direction

- intended to remain in family



Most family business statistics are not backed up with strong data.

Although much anecdotal evidence exists on family-owned businesses, few empirical studies have been conducted on these organizations. To date we can only speculate on their true numbers and economic contributions.

Street Lore: A large portion of the statistical facts quoted in article after article, have been cited and re-cited so many times that the actual primary source is no where to be found. "If you say something enough times, people start to believe it."

Educated Estimates: based on knowledge and experience in the field.

Extrapolation: refers to using known data and translating into family business data or extrapolating from samples of family businesses. (i.e. small business information, or info on privately held companies, etc.)

"F.B. Fact" - actual empirical research, using a precise definition of a family business.

The lack of substantive data is not surprising, ...since almost no governmental agencies, data gathering enterprises, or even family businesses themselves, have regarded families in business as characteristically distinct entities.



## What are the primary resources for research?

- The U.S. Government
- Academia
- Private Sponsors

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A government family business survey was proposed and designed by Joanne H. Pratt and Associates and John Davis of USC in 1985. The study recommended the use of the SBA's Small Business Data Base, which is comprised of various Dun & Bradstreet files.

**Government agencies have done little  
to measure the prevalence of family  
businesses in the U.S.**

- Small Business Administration
- Department of Commerce
- Bureau of Labor Statistics
- U.S. Census Bureau
- Office of Management & Budget
- Internal Revenue Service
- Department of Labor

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We have directly contacted each of the above government organizations. Not a single one, publishes any information dealing with family ownership of businesses. This seems surprising considering the great detail that they do publish on other topics. For instance:

The Small Business Administration publishes an exhaustive yearly report, providing industry information on categories as specific as : “women’s hoisery, except socks” or the “number of hours spent working in hispanic-owned small businesses in 1987”. ...but no mention of family business.

The U.S. Bureau of Labor Statisitcs can tell you how many people suffered minor office injuries last year (by type of injury) but again, no mention of family business employment.

**Until the late '80's, little academic research was directed at the family business.**

- In the past "*business*" and "*family*" were treated as two unrelated topics.
- Researchers were typically trained in one field or the other, neither examining the combined dynamics.
- Much qualitative research but still little quantitative data.

Source: Lansberg, Perrow & Rogolsky (1988)

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**Private sponsors have been the source  
of most family business research**

- Arthur Andersen
- Caterpillar
- Center for the  
Study of  
Taxation
- Chrysler
- EASA
- ISSA
- NHFA
- Mass Mutual

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## Take a closer look ...

- **Total number of family businesses**
  - # of public and private firms
  - sole proprietorships, partnerships and corporations
- **% of GDP that family firms generate**
- **Number employed in family businesses**
- **Number of jobs created by family businesses**

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In the beginning of the presentation we gave you a list of very impressive statistics about the prevalence and importance of family businesses in the U.S. Now we will take a closer look at where we came up with those numbers, (considering the lack of empirical data), and what these numbers mean given our broad-middle-narrow definition criteria.

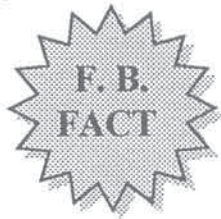
Family Business **Street Lore**

Suggests that family businesses  
represent 90-98% of all U.S.  
businesses.

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## Publicly Held Family Businesses

According to the NASD, there are 54,000 public companies. Research indicates that:



- 37% of the 1992 Fortune 500 list are family businesses.
- 21% of the Business Week 1000
- 42% of the largest publicly held corporations are under family control

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The best empirical data we have is on public companies, obviously because it is the easiest to collect.

Family business definition used for each of the above statistics:

• Loyola University Family Business Center Fortune 500 Study- a business that involved a member from at least the second generation who was a descendant of the founding family and who was a key officer, director or owner.

–includes all levels of ownership, from Dow Chemical at .2% , to Tyson foods at 90% ownership

–does not include husband wife teams, eg. Berkshire Hathaway

• Dan McConaughy's Business Week 1000 Research - a family business is one in which the CEO, President, or Chairperson is a descendant of the founding family.

• Philip Burch (1972) in his "Managerial Revolution Reassessed" -Burch's study is based off the 1965 Fortune list. He closely examined the top 300 manufacturing firms, and the top 50 merchandising , transportation and commercial banking companies. He found that not only were a large majority of these publicly held firms family-controlled, but that the family had been wielding their power for a very long period of time.

His conditions for a family business were as follows: (1) 4-5% or more of voting stock held by a family or group of families, or one affluent individual. (2) inside or outside representation on the part of the family on the board of directors, generally over a long period of time.



We estimate that 60% of all public companies are under family control.

- **Extrapolating** from our Fortune 500 data would result in 37% (19,980) of all publicly held companies being family businesses.
- **Educated Estimate** from experience, we estimate that 60% of all publicly-held companies are family businesses.
  - Data does not include O.T.C. stocks which tend to be smaller, and more closely held.

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According to the NASD there are approximately 54,000 publicly owned companies in the U.S.

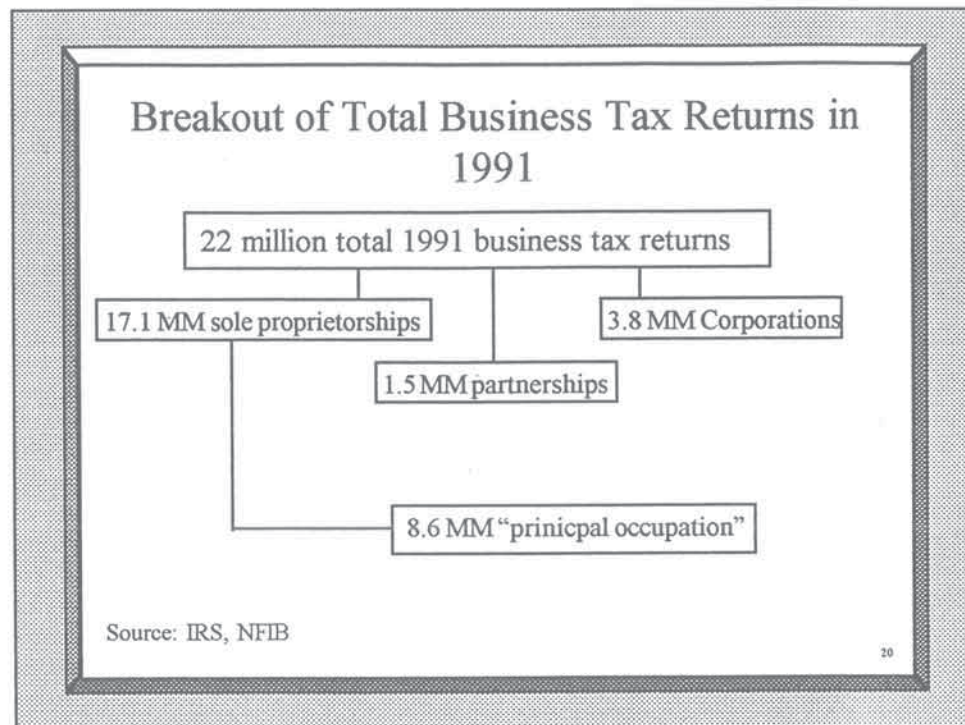
- 1800 traded on the NYSE
- 859 traded on AMEX
- approx. 30,000 traded O.T.C.

The remainder of stocks are traded so rarely they are not listed

O.T.C. stocks make up most of the publicly traded stocks. The O.T.C. market typically caters to smaller, closely held companies. Our belief is that most of these smaller publicly traded stocks remain in family control, and are only traded in order to give family businesses more access to capital.

However, publicly owned companies represent less than 2% of all companies in the U.S. So in order to get a real picture of family businesses we need to look at how many private businesses are family controlled.





**Sole-proprietorships** - some family business theorists would argue (and many have included SPs in their estimates) that by definition, a sole-proprietorship (an unincorporated business owned by a single person) is a type of family business. It is probably fair to say that, the chance of members of the owner's family helping out in the business is high. In a study by Kirchoff & Kirchoff (1987) they found that smaller family businesses very often use both paid and non-paid family labor, especially when first starting out.

**Partnerships** - It is also probably safe to assume that many small business partnerships represent direct family involvement.

Please note that farms are included in the total number of businesses.

1.9 million Schedule F tax returns were received in 1991. Non-farm sole proprietors total 15.2 million.

# BREAKOUT OF U.S. TAX RETURNS

Big Business (500+)



Small Business (<500)

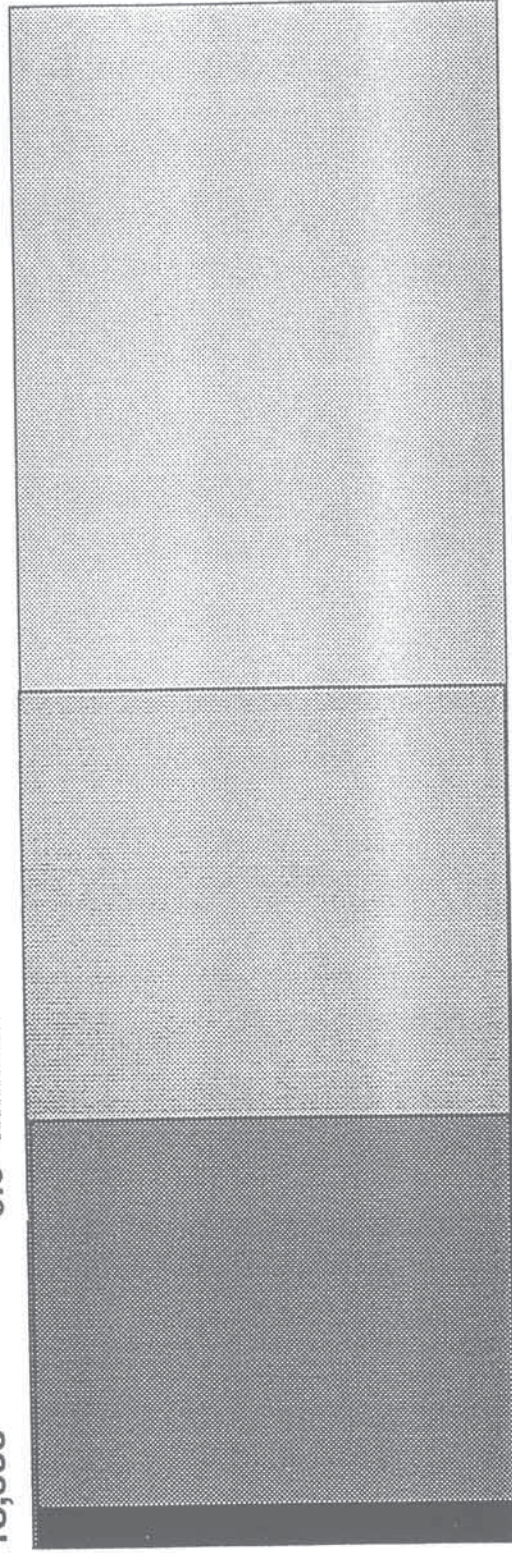


<15,000

5.3 Million

13.9 Million

22 Million



Business Tax Returns (22 million)

Owner's Principal Occupation (13.9 million)

Sole Proprietors (17.1 million)

Corporations (3.8 million)

Sole Proprietors - principal occupation

Partnerships (1.5 million)

(8.6 million)



## Total Number of Family Businesses in the U.S.

( in thousands)

	<u>Broad</u>	<u>Middle</u>	<u>Narrow</u>
<b>Sole Proprietorships:</b>	17,100	9,840	2,580
<b>Partnerships:</b>	9,000	608	315
<b>Private Corporations:</b>	2,300	1,500	798
<b>Public Companies:</b>	32	22	11

**Range:**                      **20,300 - 11,970 - 3,700**

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This slide sets up the parameters for all the other statistics we discuss. Keep in mind, that these are not based on real empirical data, rather estimations and extrapolations from information that is available to us. Later on in this presentation we will discuss prospects for further research that could help to prove or disprove our estimations.

### Explanation of Calculations

### Rationale

#### Broad

100% of Sole Proprietorships -17.1MM

+60% of partnerships & private corporations -3.2MM [an educated guess based on experience]

+60% of publicly owned companies - 32,400 [conservative estimate based on experience]

#### **Total - 20.3 million**

#### Narrow

30% of sole proprietorships

[30% make it to 2nd generation-John Ward Research]

(principal occupation 8.6 MM) - 2.58MM

+21% of partnerships & private corporations -1.1MM [60% of Mass Mutual's 35% multiple generations (1)]

+21% of publicly owned companies - 11,340

#### **Total - 3.7 million**

**NOTE: (1)** Mass Mutual Study - found that 35% of the 1,002 of family companies they surveyed had been in the family for 2+ generations.

## % of GDP Generated by Family Businesses

- **Street Lore** suggests that between **40-60 %** of the GDP is generated by family businesses.
  - that translates into \$2.67 trillion - \$4.02 trillion annual production of good and services.

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There is no way to calculate an exact amount of GDP that family businesses contribute. A lot of factors go in to determining GDP (Personal Consumption+ Private domestic investment+ Government Purchases+ Net Exports)

The Department of Commerce does not release any information regarding the % of GDP generated by firm size.

However, estimations can be made based on the total output of goods and services that family businesses generate.



**Family businesses generate 49% of the GDP,  
or \$3 trillion of goods and services.**

- **Extrapolation** -the SBA estimates that 38% of the GDP is generated from small businesses.

- Total GDP \$6,686 billion:
  - Government: 36% - \$2,434
  - Small Business: 38%-\$2,540.7
  - Big Business: 26% -\$1711.3

- Family Businesses contribute the following:

BROAD	MIDDLE	NARROW
<b>49%</b> <b>\$3.3 trillion</b>	<b>30%</b> <b>\$2 trillion</b>	<b>12%</b> <b>\$802 billion <sup>1</sup></b>

Based on the broad and narrow definitions that we established previously:

**BROAD DEFINITION-Family Businesses generate 49% of GDP, \$3,323 billion.**

Small business= 22 million firms      GDP:\$2540.2 =38% of total

(weighted average)

Sole P's=17.1MM : 76%      100% of 76% = \$1930.5

Partnerships &

Corporations = 5.3MM :24%      60% of 24% = \$365.8

(<500 employees)      100%      \$2296.3=34% of total

=49%

Big Business = 14,000 firms      GDP:\$1711.3 =26% of total

Corp's employing 500+      100% of 60% = \$1026.8 =15% of total

=49%  
\$3,323 billion

**NARROW DEFINITION -Family Businesses generate 12% of GDP, \$802 billion**

Small business =22 million firms      GDP:\$2540.7 = 38% of total

(weighted average)

Sole P's = 8.6MM      39%      30% of 39% =\$297.3

(principal occupation):

Partnerships &      24%      21% of 24% =\$139.7

Corporations = 5.3MM      \$437.0= 6.5% of total

[Sole P's "not principal      [37%]      0% of 37% = 0  
occupation", not included]      100%

=12%  
\$802 billion

Big Business =14,000 firms      GDP:\$1711.3 =26%of total

Corp's employing 500+      100% of 21% = \$359.4=5.3% of total

GDP is in 1994 Current Dollars

## Family Businesses employ 59% of the U.S. workforce.

- **Street Lore** "Family businesses employ over half the work force"
- **Extrapolation**
  - Small businesses employ 53.8 million
  - Big Businesses employ 47.7 million
  - Government employs 19.0 million

**Therefore, Family Businesses Employ:**

OUTER RING	MIDDLE RING	BULLS EYE
<b>76.8 million</b>	<b>47 million</b>	<b>18 million</b>
<b>59%</b>	<b>36%</b>	<b>14%</b>

As of August 1994: Total Workforce(000)	= 129,866	100%
Government Workforce(000)	= 19,013	15%
Private Enterprise(000)	= 110,853	85%
Small Businesses	= 53,769	48%
Big Businesses	= 47,682	43%
Farm Workforce	= 9,402	8%

### BROAD DEFINITION

### NARROW DEFINITION

Small Business (<500)=53.8million

Small Business (<500)=53.8 million

Sole P's -100% of 76%(weighted avg.) =39.8MM

30% of 39%(weighted avg.) = 5.3MM

Partnerships &

Corporations-60% of 24%(weighted avg.) = 8.4MM  
48.2MM  
workers

21% of 24%(weighted avg.) = 2.9MM  
8.2MM  
workers

Big Business = 47.7million

Big Business = 47.7 million

Corp.'s employing 500+ - 60% of total = 28.6MM  
workers

21% of total =10.0MM  
workers

### BROAD DEFINITION

### NARROW DEFINITION

**FAMILY BUSINESS TOTAL** = 76.8 MM  
workers

**=18.2MM**  
workers

**% OF TOTAL WORKFORCE** 59%

**14%**

## % of new jobs created by family businesses

- **Street Lore** - suggests that family firms create over half of the new jobs in America.
- **Extrapolations** - from the leading sources of job creation research
  - Small Business Administration
  - David Birch
  - Dun & Bradstreet

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Job creation has been a hot election topic at the local, state and federal levels. Many sources have attempted to quantify job creation and attribute it to a particular sector. It is a complicated procedure, and there are several conflicting views.

David Birch, Dun & Bradstreet and SBA use the same DMI (Dun & Bradstreet) database. Our estimate of family businesses contribution to job creation will be an extrapolation of the DMI data as well.



## Job Generation Consensus: Small Businesses create most new net jobs.

- **David Birch/Cognetics** -His latest 1994 study shows firms that employ 1-19 accounted for virtually all new net job growth from 1989-1993.
- **Small Business Administration** - reports that small businesses(<500) created 2/3 of all new net jobs from 1976-1990.
- **Dun & Bradstreet** - Duns 5000 Survey projects that in 1994, 73% of new jobs will come from businesses with <100 employees.

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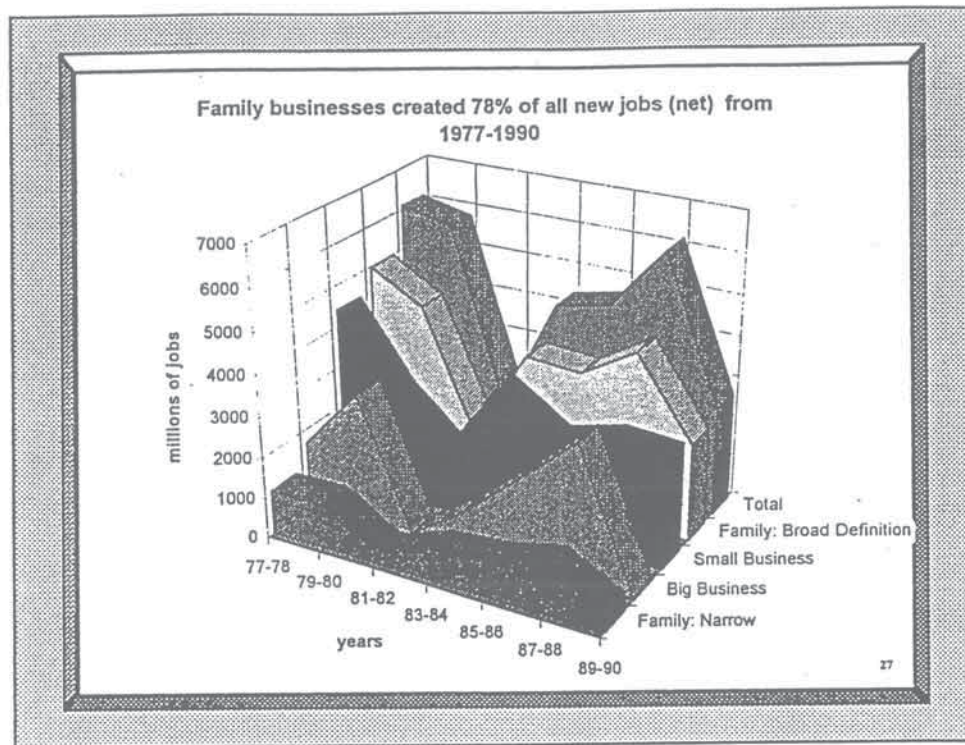
David Birch -In 1979 he published the first empirical evidence that small firms (<100) created the most (81.5%) new jobs. This study has been both criticized and praised. David Kirchoff in "Entrepreneurship and Capitalism" (1994) reexamines Birch's early study and while 1969-72 was an unusually high year for small business job growth, he reconfirms that smaller firms do create a disproportionately greater share of new jobs than their static share of employment.

Small groups within the National Bureau of Economic Research and the BLS have made some criticisms of DMI job generation data.

-claim that the DMI data base is unsuitable:

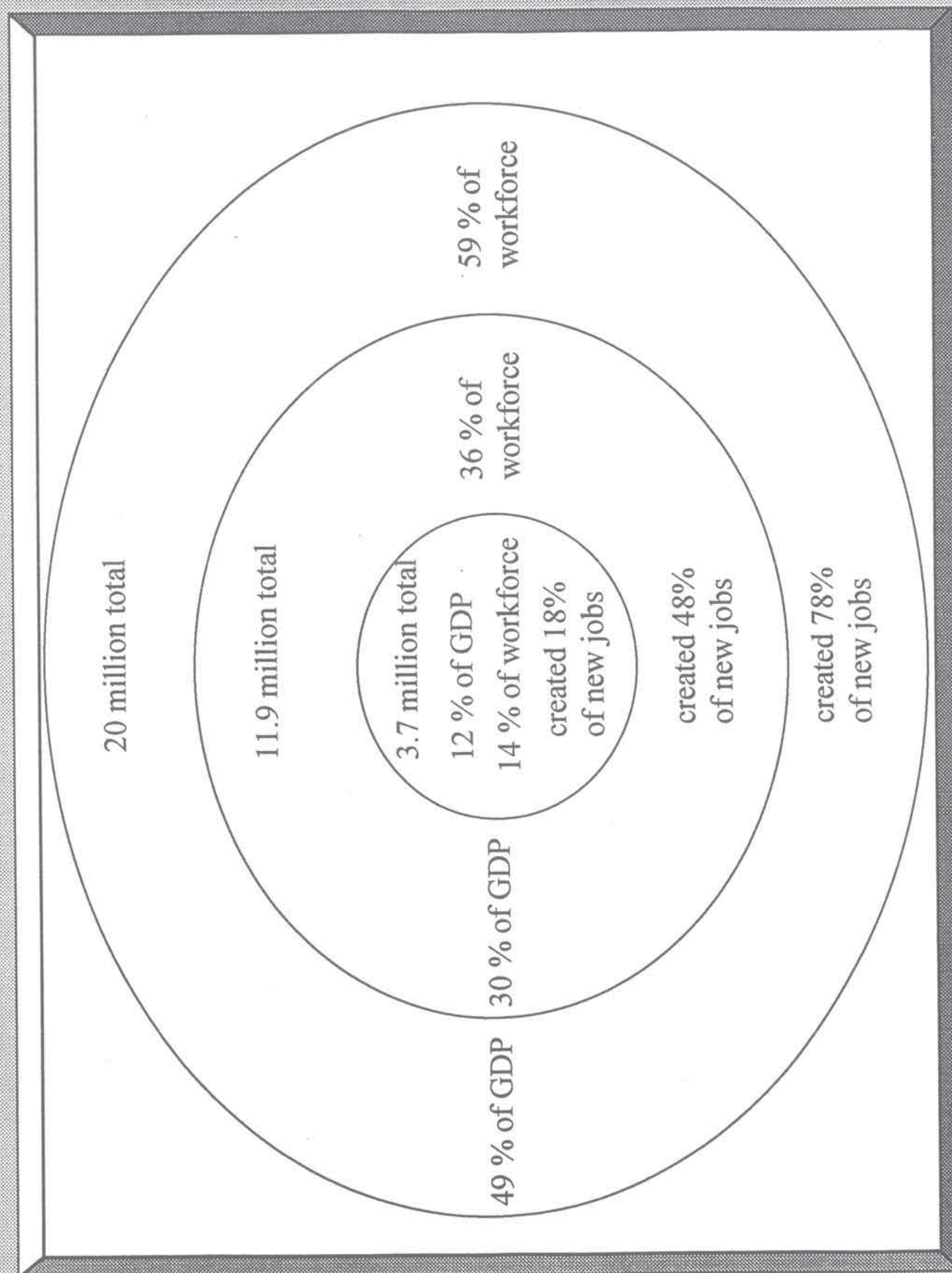
- discrepancies between the DMI files and the Bureau of Labor Statistics. ( in 1986 they differed by 9mm jobs)
- DMI data bases does not accurately account for layoffs and plant closings. 81% of what the DMI labeled as mass layoffs, were likely some other event, such as change in ownership structure.
- misinterpretation of size distribution of employment, i.e. firms migrate between small and large categories, esp. during periods of recession

However, these criticisms are based on manufacturing industry databases, which do not account for service sector--a large job generator, and primarily made up of small businesses. In addition the manufacturing sector accounts for a small and declining share of U.S. employment - approximately 19% from 1989-93.

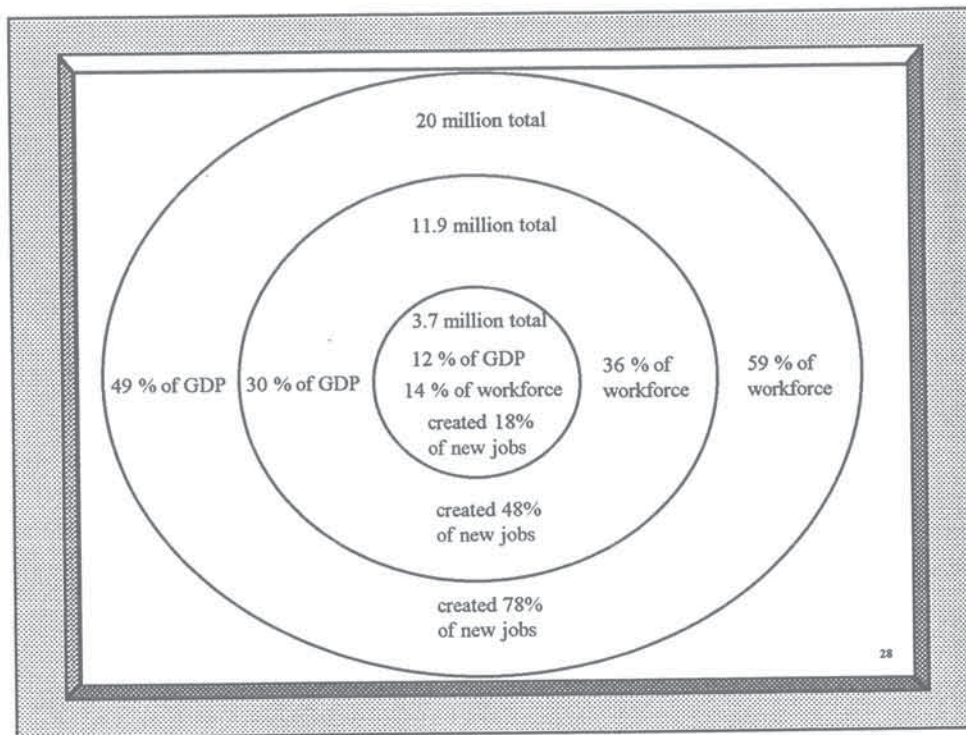


	<u>Small</u>	<u>Big</u>	<u>Family Broad</u>	<u>Family Narrow</u>
1976-78:				
jobs created	4407	1654.9	4977	1085
share	72.7	27.3	82	17
1978-80:				
jobs created	2605.4	3171.6	4258	1102
share	45.1	27.3	74	19
1980-82				
jobs created	1472.6	69.4	1373	261
share	95.5	4.5	89	17
1982-84				
jobs created	3311.9	1006	3597	766
share	76.7	23.3	83	18
1984-86				
jobs created	2411.5	2199.4	3499.5	865
share	52.3	47.7	76	19
1986-88				
jobs created	2770	3399.1	4304	1177
share	44.9	55.1	69	19
1988-90				
jobs created	2664	0	2408	446
share	118.8	-18.8	90	17
Totals	19,642.5	11500.4	24416.5	5702
	63%	37%	78%	18%



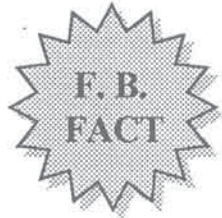






If we decide to go with this, I will plug in the correct numbers.

## There is some evidence that family-run businesses perform better than non-family businesses



- **McConaughy research**- Weight of evidence suggests that:
  - concentrated ownership results in higher performance, and efficiency.
  - family-managed firms have lower levels of debt.
- **Ward PIMS data** - research suggests that private companies tend to be more aggressive, and seem to be gaining market share more rapidly than "publics".

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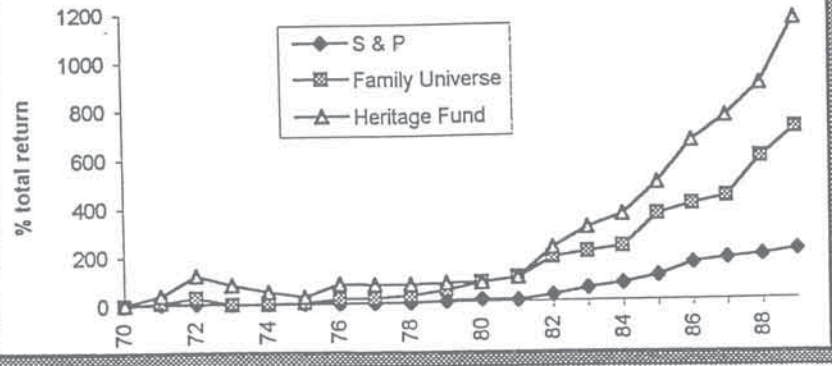
**McConaughy Research** - His dissertation proposal provides a comprehensive overview of all research involving ownerships effects on performance. **1. effects of ownership on corporate performance**(measured by Tobin's q; value of firms assets relative to replacement value of those assets) *Mork et al (1988)* found that firms that do well (higher tobin's q) have higher managerial ownership. Another study by *Kim & Lyn (1988)* found that firms with insider ownership of 25% or more have Tobin's q statistics that are 10% greater than firms with inside ownership of no more than 5%. **2. effects of ownership on corporate efficiency**-cites 8 empirical research studies, all finding that the concentration of ownership structure improves efficiency, "due to the reduction of the separation and control, and the concomitant alignment of managers incentives with the owners' ". **3. effects of ownership on capital structure** - *Agrawal and Nagarajan (1990)* in a study of 104 public corporations found that firms with greater family-involvement (i.e. at least two related senior managers) had lower or no long-term debt. They also found that the ratio of cash and marketable assets to total assets is higher when several members of the top management team are family members, and finally that all-equity firms with family-involvement in management have a greater control of voting rights.

**J.Ward PIMS database research:** Analyzed public vs. private firms based on lifecycles, type of business, market share, competition, differentiation, aggressiveness, and long-term orientation. His findings suggest that contrary to common belief, family businesses do not tend to put quality in higher regard because of their family name and image, and do not necessarily have greater long-term orientation than their public counterparts. Ward did find that family firms tended to be more aggressive in terms of investment in R&D, marketing, working capital...and seem to be gaining market share more rapidly than "publics".



## Investors are putting their money behind family businesses

- **Pitcairn Family Heritage Fund** -29 family businesses in fund have far outperformed the S&P, with total returns over past 10 years of 1150%. (S&P 340% return)



**Pitcairn Research:** From an initial group of 2000 publicly owned companies, Pitcairn initiated a rigorous study (including 55 personal interviews) to come up with a family universe of 160 companies. From this group 29 family were chosen for the fund. The companies were rated on a number of qualitative and quantitative standards. The criteria included: tight linkage between ownership and control, accumulation of wealth over more than 20 years, building of wealth through a corporation, existence of tangible employee rewards, ongoing communication between management and family, clear management accountability for companies performance, high return on equity. Hillenbrand Industries and Walmart are two of the companies included in the Heritage Fund. [ Note: the 160 family businesses in the original universe have been tracked, and have also outperformed the S&P in terms of total return to investors.]

**Other financial analysts are recommending family business stocks too.**

Charles Allmon, editor of Junior Growth Stocks, states that "Over the years, we have found that family-run companies tend to be among the best-managed and most successful corporations..." See back-up material for more detail.



## Family Businesses are the dominant form of business throughout the world

### ■ Western Europe:

- Italy highest at 99% of all businesses
- Germany 80% of all businesses
- Portugal lowest level of family business activity

### ■ Chile - 90% of all businesses

### ■ Australia - 75% of all businesses

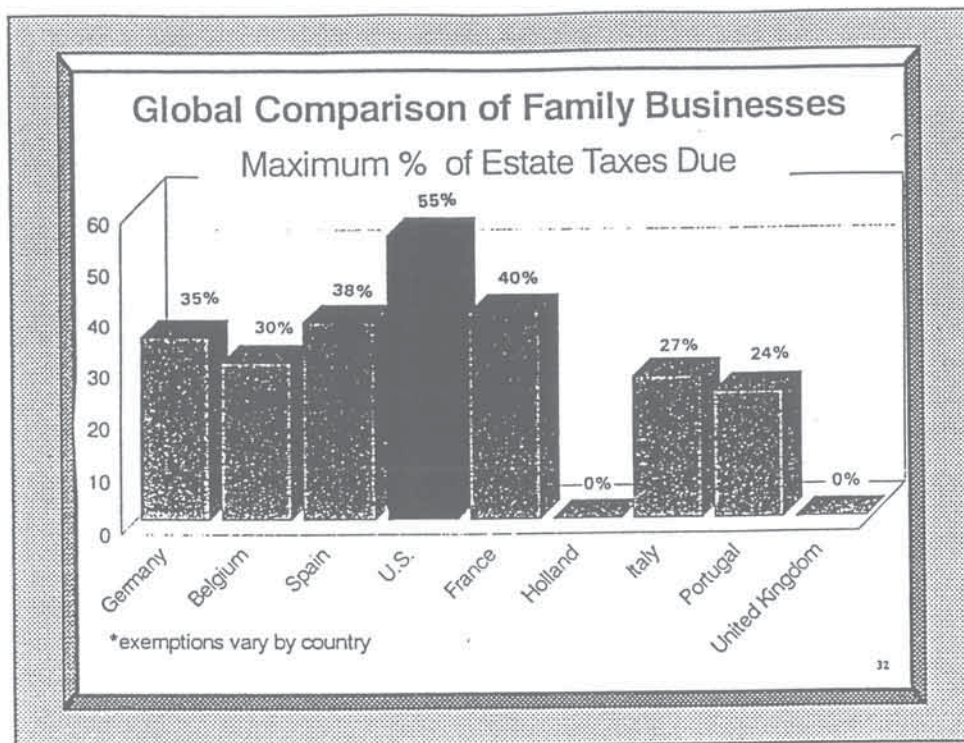
### ■ U.K. - 76% of the largest companies

### ■ Mexico - 80% of all businesses

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Many well know international companies are family run. For example: Fiat, Benetton and Barilla(Italy), Pkington and Sainsbury (U.K.), Porche, Boehringer-Mannheim(Germany), Firmenich and Hoffman Laroche(Switzerland), Tetra Park, IKEA(Sweden).

As in the U.S., there has been little quantitative research on the prevalence of family businesses in other countries. The above statistics are estimations similar to ours. Given their vast numbers, it is inevitable that there is great variation among family businesses around the globe. Some of the differences can be traced to political and historical factors. In Spain, for example, many new family businesses were started only after 1958, when changes in Franco's policies caused a shift from the pervasive state-run companies toward private enterprise. Like Spain, Germany's family businesses tend to be relatively young, with many started by the generation that survived WWII. On the other hand, Mexico's family businesses began in the early 1900's by a generation of patrons and patriarchs who ruled their firms and families with iron fists. Despite the various political, cultural and historical backgrounds of each country, family businesses face many of the same challenges. Succession planning and inheritance taxes are two such challenges facing most family businesses.



The above taxes represent the **maximum** transfer tax that could be due on an estate transferred among family. The estate tax charged to family businesses in the U.S. is the highest that we are aware of.

Taxes and exemptions vary dramatically by country. In many countries the type of familial relationship between the donor and the receiver (i.e. spouse, child, grandchild) alters the level of tax due. In addition, some countries seem to reward transfers that remain in the same family. For instance in Germany estate taxes for direct descendants of the owner range from 3-35%, where as a non-relation transfer could be taxed anywhere from 20-70%. In Holland and the U.K., there is no transfer tax levied if the transfer is made to a spouse or child as a result of the owner's death.

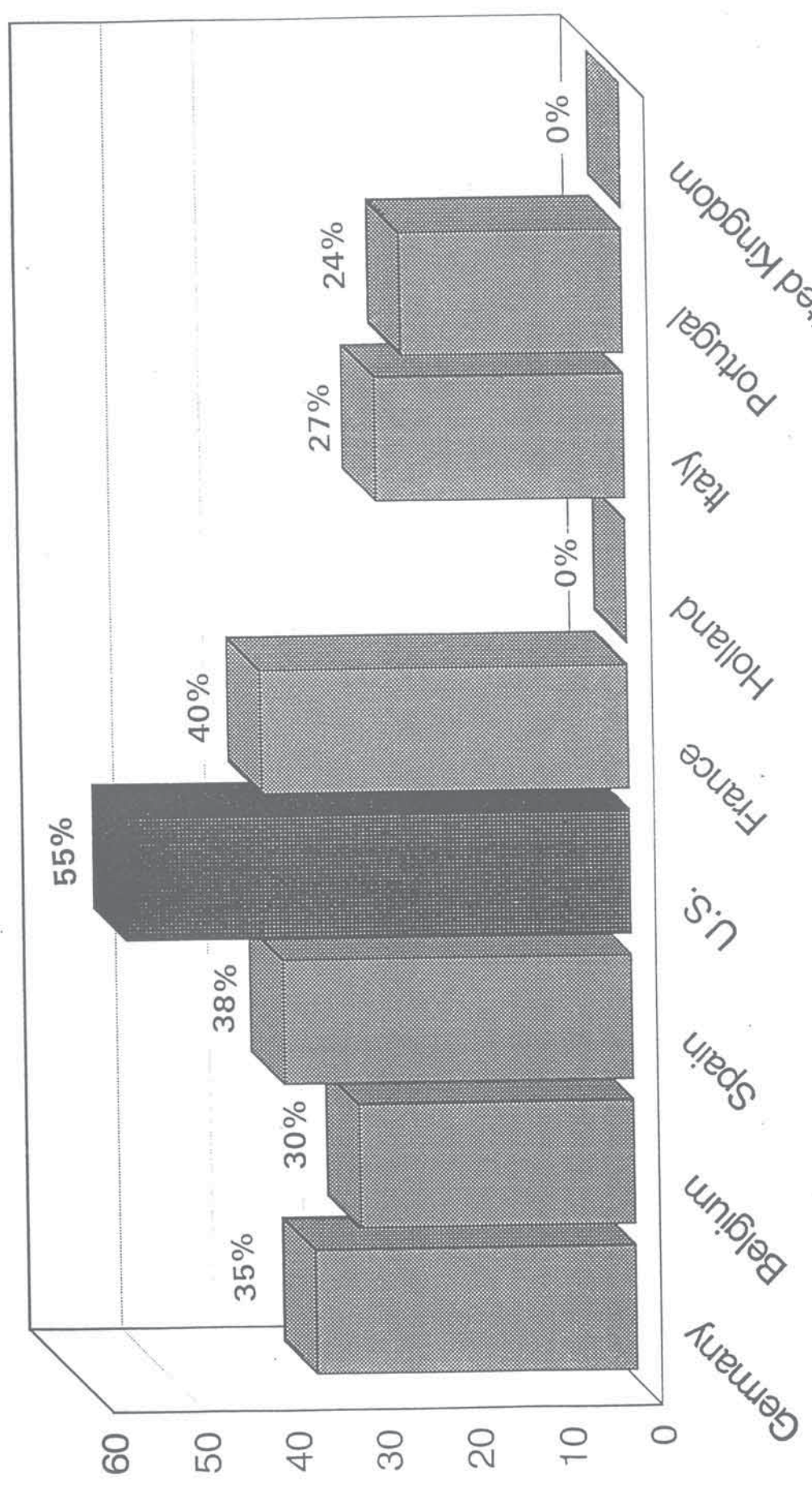
Source of data: Family Business Institute, Barcelona, Spain.





# Global Comparison of Family Businesses

## Maximum % of Estate Taxes Due



\*exemptions vary by country



About 3 million family businesses will be forced to transfer ownership in the next 10-20 years

- According to recent Mass Mutual Survey:
  - 13% of family businesses have members in charge who are 65+
    - 52% have members in charge that are 50+
- Life expectancy for 65 yr old white male is 13 additional years.
- 24% expect management to transfer power within the next 5 years

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## Are family businesses ready for the future?

### ■ According to Mass Mutual Survey:

- 36% say they have no idea what their tax estate liability will be.
- 22% claimed they have no provisions to pay their estate taxes.

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## Prospects for Future Research

- The estate tax bubble - what amount of capital will be pulled out of the business sector to pay off estate taxes in the next two decades?
- Actual number of family businesses, based on various criteria and how much they contribute to the economy.
- Overall value and wealth of family businesses
  - market value
  - replacement value
  - book value
- How much in *total* taxes do family businesses pay...is the family business funding the government ?

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## PROFITABILITY/PERFORMANCE MEASURES

PERFORMANCE AND OWNERSHIP - TOBIN'S Q-(the more effective the management, the greater the market value of the firm's assets relative to the replacement value of those assets.

*-..the evidence is not in full agreement, but the weight of evidence points to a significant relationship. (between performance and ownership)*

McConaughy, Daniel "The Impact of Founding Family Control Upon Corporate Efficiency", University of Cincinnati, 1993[PRIMARY]

*-..firms that do well (have a higher Tobin's q) have higher managerial ownership*

Mork, R., Shleifer, A. and Vishny, R.W. "Management Ownership and Market Valuation: An Empirical Analysis." *Journal of Financial Economics* 20, 1988,293-315[PRIMARY]

McConaughy, Daniel (1993) "The Impact of Founding Family Control Upon Corporate Efficiency", University of Cincinnati, 1993[SECONDARY]

*..firms with insider ownership of 25% or more have Tobin's q statistics that are 10% greater than firms with inside ownership of no more than 5%.*

Kim, W. and E. Lyn (1988) "Excess Market Value, market Power, and Inside ownership Structure" *Review of Industrial Organization*, 3.4, 1-25[PRIMARY]

McConaughy, Daniel (1993) "The Impact of Founding Family Control Upon Corporate Efficiency", University of Cincinnati, 1993[SECONDARY]

*-..managerial ownership, as measured by the total percentage holdings of the directors and officers, positively and significantly affects performance*

Oswald, S. and J. Jahera (1991) "The Influence of Ownership on Performance: an empirical study", *Strategic Management Journal* 12, 321-326[PRIMARY]

McConaughy, Daniel (1993) "The Impact of Founding Family Control Upon Corporate Efficiency", University of Cincinnati, 1993[SECONDARY]

## EFFICIENCY AND OWNERSHIP

*The empirical evidence is quite clear: concentrating ownership structure improves efficiency...*

McConaughy, Daniel (1993) "The Impact of Founding Family Control Upon Corporate Efficiency", University of Cincinnati, 1993[SECONDARY]

The Pitcairn Family Heritage Fund consists of a group of 29 family firms with high levels of ownership and control, as well as other qualitative management characteristics. On average the Family Heritage Fund has way outperformed the S&P 500, giving investors over a ten year span, a total return of 1150% vs. 340% return for the S&P, and a return on equity of 17% vs 13.7% for the S&P.

Mostcatello, L. "The Pitcairn's Want You" Family Business Magazine, February 1990.[SECONDARY] (see graph p. 62)  
Clark Pitcairn of Pitcairn Financial[PRIMARY]

*'Family intense' firms are more likely to engage in growth and expansion planning(long term), and to report greater sales performance.*

Gundry, L.K. & Welsch, H.P. "Difference in Familial Influence Among Women Owned Business" De Paul University [SECONDARY]

Brokaw, L. "Why Family Businesses are Best", Inc, March 1992, p. 20-22

*Family firms may be more concerned with quality/service issues than non-family firms*

Lyman, A. "Consumer Service: Does Family Ownership Make a Difference?" Family Business Review, Fall vol. 4, no.3 p. 303- 324



## FAMILY BUSINESS DEFINITIONS

- 'an enterprise, which in practice is controlled by members of a single family"

Barry, B. "The Development of Organization Structure in the Family Firm." *Journal of General Management*, 1975 3, 42-60

- "A profit-making concern that is either a proprietorship, partnership, or a corporation...if part of the stock is publicly owned, the family must also operate the business"

Alcorn, P.B. *Success and Survival in the Family-Owned Firm* New York: McGraw-Hill, 1982[PRIMARY]

- "Family businesses are those whose policy and direction are subject to significant influence by one or more family units.

Davis, P. "Realizing the Potential of the Family Business." *Organizational Dynamics*, 1983, pp.47-56

- a company that has a founder or the founder's descendent as the CEO, President or Chairperson (includes 1st generation)

McConaughy, Daniel (1993) *Study of Founding Family-Owned Corporations*. [PRIMARY]

- a business that will be passed on for the family's next generation to manage and control p.252

Ward, J.L. *Keeping the Family Business Healthy: How to Plan for Continued Growth, Profitability, and Family Leadership*. San Francisco: Jossey-Bass, 1987[PRIMARY]

- There is a critical difference between family businesses and those which are owner-managed. These differences seem to be two: involvement of family members in the business and non-market based transfers of power between family members...What is usually meant by 'family business'...is either the occurrence or the anticipation that a younger family member has or will assume control of the business from an elder...The transfer of power, property and control is in response to natural biological forces of change and not a market-driven "arms length" transaction."

Churchill, N.C. & Hatten, K.J. "Non-Market Based Transfers of Wealth and Power: A Research Framework for Small Businesses." *American Journal of Small Business*, 1987, 11(3), 51-64[PRIMARY]

- "a business intended for the next generation of family"  
Aronoff, C. & Ward, J., "How Family Affects Strategy" *Small Business Forum*, Fall 1994, pp 85-90[PTIMARY]

- "a business in which the members of a family have legal control over voting stock."

Lansberg, I.S., Perrow, E.L., and Rogolsky, S. "Family Business as an Emerging Field." *Family Business Review*, 1988, pp.1-8[SECONDARY]

- "Any business is which the majority ownership or control lies within a single family and in which **two or more** family members are or at some time were directly involved in the business"

Rosenblatt, P.C., de Mik, L., Anderson, R.M., and Johnson, P.A. *The Family in Business: Understanding and Dealing with the Challenges Entrepreneurial Families Face*. San Francisco: Jossey-Bass, 1985[PRIMARY]

- a family business is defined..as an organization whose major operating decisions and plans for leadership succession are influenced by family members in management or on the board

Handler, W. "Methodological Issues and Considerations in Studying Family Businesses" *Family Business Review*, vol. II. No. 3 Fall 1989[PRIMARY]

- a business that involved a member from at least the second generation who was a descendent of the founding family and who was a key officer, director or owner.

Jetha, Hasnein: *Industrial Fortune 500 Study*, Loyola University, 1994[PRIMARY]

- a family business is one that has been started by a family member and has been passed, or is expected to be passed, to succeeding generations of the family, sometimes through marriage. Descendants of the original founder(s) will own and control the business. Also, members of the family work ,participate in, and benefit from the enterprise. A family member is defined as anyone related to the family, by birth or marriage, or anyone related to the officers of a company.

Bork, D. *Family Business, Risky Business* 1986, Bork Institute for Family Business[PRIMARY]



#### GENERAL FAMILY BUSINESS STATISTICS

1. 96% of all businesses in the U.S. are family firms  
Lank, Alden G. (1994) "The State of Family Business in Various Countries Around the World" FBN Newsletter, May 1994 No.9 [SECONDARY]
2. There are 17 million family businesses with revenues in excess of \$88 million.  
Dreux, Dirk R., "Financing Family Business: Alternatives to Selling Out or Going Public", Family Business Review, vol.III, no.3, Fall 1990.[PRIMARY]
3. 98% of the corporations in the U.S. are family owned  
Barnes, L.B. & Hershon S.A. "Transferring Power in the Family Business." Harvard Business Review, 1976, 54, (4), p. 105-114[SECONDARY]
4. The value of capital invested in family and closely held businesses in the U.S. is estimated to be \$2.4 trillion. A large portion of such businesses remain under the control of the founding family firms.  
Fay, Michael L. "The Demographics of the Family Business Market: Why Succession Planning is More Important than Ever", Family Firm Institute, Summer 1994.[SECONDARY]  
Original excerpt from Hale & Dorr Family Business Report, Boston, MA; June 1994
5. "...whether a family firms represent over 90% (Lansberg, 1983), 95% (Stern, 1986), or 96% (Beckhard and Dyer, 1983) of all businesses will depend on how "family firm" is defined.  
Handler, W. "Methodological Issues and Considerations in Studying Family Businesses" Family Business Review, vol. II. No. 3 Fall 1989[PRIMARY]
6. A common estimate is that more than 90% of all businesses in the United States are family businesses in the sense of being owned (or at least controlled) and operated within a single family.  
Rosenblatt, P., de Mik, L., Anderson, R., Johnson, p. "The Family in Business" 1985;Jossey-Bass [PRIMARY]
7. By 1980, there were 13 million family-held businesses in the United States, ranging in size from the half billion dollar sales of the family operated Wrigley Company, to small "Mom & Pop" computer businesses operated out of the home  
Bork, D. "Family Business, Risky Business" 1986, Bork Institute for Family Business [SECONDARY]  
U.S. Small Business Administration[PRIMARY]



8. 90% of the 15 million family businesses in the U.S are family businesses.

Cohn, Mike "Passing the Torch" 1990 Mc Graw Hill  
Inc.[SECONDARY]  
Ward, J "Keeping the Family Business Healthy"  
[PRIMARY SOURCE]

9. Family Businesses "constitute a significant percentage of the more than 10,000,000 private firms in the United States that employ nearly 44 million people and generate around 50% of the gross national product.

Davis, P. "Realizing the Potential of the Family Business."  
*Organizational Dynamics*, 1983, pp. 47-56[PRIMARY]

10. More than 75% of companies in America are family owned or controlled

Calonius, E. "Blood and Money" *Newsweek Special Edition*:  
"The 21st Century Family" Winter/Spring 1990, pp.82-84  
[SECONDARY]

11. 90% of all businesses including corporations, partnerships, and sole proprietorships, are family-controlled.

Nelton, S. "Family Business: A Hot Market" *Nations Business*  
*September*, 1988[SECONDARY]  
Lansberg, I.S., Perrow, E.L., and Rogolsky, S. "Family  
Business as an Emerging Field." *Family Business Review*,  
1988, pp.1-8[PRIMARY]

**PERCENTAGE OF FORTUNE 500 COMPANIES(or large publicly held firms)  
WHICH ARE FAMILY CONTROLLED**

1. *Family firms account for 40-60% of the largest public companies in the U.S. ( 42% of the largest publicly held corporations are controlled by one person or a family, and another 17% are placed in the "possible family control" category.)*

Burch, Philip "The Managerial Revolution" Lexington MA, DC Heath 1972.[PRIMARY]

Barnes, L.B. & Hershon S.A. "Transferring Power in the Family Business." *Harvard Business Review*, 1976, 54, (4), p. 105-114[SECONDARY]

2. *213 CEO's of Business Week 1000 are founders or related to their company's founders*

McConaughy, Daniel (1993) "The Impact of Founding Family Control Upon Corporate Efficiency", University of Cincinnati, 1993[PRIMARY]

3. *186 of the 1992 Fortune 500 are family firms*

Jetha, Hasnein: *Industrial Fortune 500 Study*, Loyola University, 1994[PRIMARY]

4. *175 of the Fortune 500 are family run businesses*

Dyer, W. Gibb "Cultural Change in Family Firms: Anticipating and Managing Business and Family Transitions", San Francisco: Jossey-Bass, 1986[SECONDARY]

5. *More than 1/3 of the Fortune 500 Companies are family owned or controlled*

Lansberg I.S., "Managing Human Resources in Family Firms: The Problem of Institutional Overlap", *Organizational Dynamics*, 1983 Summer, P. 39-46.[SECONDARY]

**PERCENTAGE OF SMALL COMPANIES IN THE U.S. WHICH ARE FAMILY CONTROLLED**

1. *Over 80% of all businesses in the U.S. today are small, family-controlled firms*

Kirchoff, B.A., & Kirchoff, J.J. "Family Contributions to Productivity and Profitability in Small Business." *Journal of Small Business Management*, 1987, 24-31

2. There are less than 80,000 businesses which employ more than 100 people.

U.S. Bureau of Labor Statistics[PRIMARY]  
Small Business Administration



## PERCENTAGE OF GNP/GDP GENERATED BY FAMILY OWNED COMPANIES

### 1. Family business contributes over half of the U.S. GDP -

Becker, B.M. & Tillman, F.A. *The Family Owned Business*  
Chicago: Commerce Clearing House, Inc., 1978.[SECONDARY]  
Hershon, Simon (1975) "The Problem of Management Succession  
in the Family Business" - unpublished dissertation, Harvard  
Business School[PRIMARY]

### 2. Over 40% of GDP is created by family firms

deVisscher, F & Bruel, M. (1994) 'The Adolescence of  
American Family Business " FBN Newsletter, No. 9, May 1994  
[SECONDARY]

### 3. Family Businesses generated between 40-60% of the Gross National Income

Bork, D. *Family Business, Risky Business* 1986, Bork  
Institute for Family Business [SECONDARY]

### 4. 38% of the Gross Domestic Product is produced by small businesses(500 or less employees)

U.S.Small Business Administration[PRIMARY]

### 5. Family Businesses generate 60% of the GNP.

Calonius, E. "Blood and Money" *Newsweek Special Edition:*  
"The 21st Century Family" Winter/Spring 1990, pp.82-  
84[SECONDARY].

### 6. Family firms produce half the GNP

Nelton, S. "Family Business: A Hot Market" *Nations Business*  
*September*, 1988[SECONDARY]  
Lansberg, I.S., Perrow, E.L., and Rogolsky, S. "Family  
Business as an Emerging Field." *Family Business Review*,  
1988, pp.1-8[PRIMARY]

### 7. They[family businesses] represent 40% of the nation's gross national product. Their annual revenues total some \$640 billion.

Leahy, T. "All in the Family" *Registered Representative*  
*September* 1990.[?]

**PERCENTAGE OF JOBS IN THE U.S. THAT ARE IN FAMILY BUSINESSES**

1. *Family Firms employ over half the U.S. workforce*  
Becker, B.M. & Tillman, F.A. *The Family Owned Business*  
Chicago: Commerce Clearing House, Inc., 1978.[SECONDARY]  
Hershon, Simon (1975) "The Problem of Management Succession  
in the Family Business" - unpublished dissertation, Harvard  
Business School[PRIMARY]
2. *60% of the U.S. employment base is employed in family firms*  
deVisscher, F & Bruel, M. (1994) 'The Adolescence of  
American Family Business " FBN Newsletter, No. 9, May 1994  
[SECONDARY]
3. *Within the Fortune 500, family businesses employ 2.56 million  
people.*  
Jetha, Hasnein: Industrial Fortune 500 Study, Loyola  
University, 1994
4. *Family businesses employ more than 40 million people.*  
Calonius, E. "Blood and Money" *Newsweek Special Edition:*  
"The 21st Century Family" Winter/Spring 1990, pp.82-84.
5. *Family Businesses employ half the nation's workforce.*  
Nelton, S. "Family Business: A Hot Market" *Nations Business*  
*September, 1988*[SECONDARY]  
Lansberg, I.S., Perrow, E.L., and Rogolsky, S. "Family  
Business as an Emerging Field." *Family Business Review*,  
1988, pp.1-8[PRIMARY]

#### PERCENTAGE OF NEW JOBS CREATED EACH YEAR BY FAMILY COMPANIES

1. *Family firms create over half of new jobs*

Becker, B.M., & Tillman, F. *The Family Owned Business*  
Commerce Clearing House, Inc. Chicago, 1978 [SECONDARY]  
Hershon, Simon (1975) "The Problem of Management Succession  
in the Family Business" - unpublished dissertation, Harvard  
Business School [PRIMARY]

2. *Smaller firms do create a disproportionately greater share of  
new jobs than their static share of overall employment.*

Kirchoff, B. *Entrepreneurship and Dynamic Capitalism: The  
economics of Business Firm Foundation and Growth*. Westport,  
C.T.: Praeger Publishers, 1994. [PRIMARY]

3. *2/3 of all jobs created in the U.S. are created by companies  
with 500 or fewer employees*

Allmon, Charles (1993) *Growth Stock Outlook*, vol 23, no.2,  
February 15, 1993 [SECONDARY]  
Dun & Bradstreet, *Dun's 5000 Survey*, 1994. [PRIMARY]

4. *66.7% of new jobs will come from small outfits with 49 or  
fewer employees. And 79% will come from small operators with  
fewer than 100 employees.*

Dun & Bradstreet, *Dun's 5000 Survey*, 1994. [PRIMARY]  
Washington Times, "Who's Hiring, Who's Not", August 20, 1993  
[SECONDARY]  
Allmon, Charles (1993) "Growth Stock Outlook", vol 23,  
no.2, February 15, 1993 [TERTIARY]



## GLOBAL PERSPECTIVE

### GERMANY:

There are 2 million (80% of total enterprises) family owned companies in Germany.

Family Business makes up 75% of the workforce

Family Businesses account for 2/3 of Germany's GNP

3 Million DM will be bequeathed to the next generation by the end of this millennium

Reidel, Hannspeter "Family Business in Germany" FBN  
Newsletter No. 9, May 1994

85% of total registered companies in Germany are family owned-controlled.

There are a total of 2.45 million family companies, of which 2 million are located in the old West German States, and 450,000 in old Eastern States.

Approximately 66% of GNP is generated by family business

German family businesses employ about 70% of the total workforce.

In 1992 German family businesses generated 41% of total investments

Schwass, Joachim, Executive Director, Family Business  
Network; Lausanne, Switzerland

### AUSTRALIA:

75% of companies in Australia are family businesses

25% of publicly held companies are family businesses

50% of total workforce are employed with family businesses

Family Business Study, Monash University, Victoria,  
Australia, 1992 [PRIMARY]

Owens, Richard "Australian Family Business" FBN Newsletter  
No. 9, May 1994 [SECONDARY]

Top 500 family controlled companies in Australia have a net aggregate revenue of Aus.\$65.8 billion and employ over 230,000 employees.

Business Weekly Review, "Top 500 Family Controlled Companies  
in Australia" 1990

**CHILE:**

65% of medium to large size companies in Chile are Family businesses.

Family businesses in Chile are concentrated in Manufacturing, commerce and agriculture. They are as profitable as non-family companies and in some sectors their profit to equity ratio is higher than non-family firms.

Nearly 1/2 of family companies in Chile are 2nd generation, but less than 1/3 of those will pass on to the third generation.

Martinez, Jon I., Family Business Study conducted under research program of Albert von Appen at Universidad Adolfo Ibanez in Chile, October-November 1993. [PRIMARY]

Martinez, Jon I., "Family Business in Chile" FBN Newsletter, No.9, May 1994[SECONDARY]

**UNITED KINGDOM**

76% of U.K. companies (survey of the largest companies in the U.K.) are family owned

Only 24% of U.K. family Businesses survive through the 2nd generation, and only 14% make it beyond the 3rd.

Over 50% of workforce employed in family businesses.

Leach, Peter "The Stoy Hayward Guide to the Family Business"  
Stoy Hayward, 1994