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FAMILY FIRMS IN THE GREATER REGION

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TABLE OF CONTENTS

TABLE OF CONTENTS.....	1
1. INTRODUCTION.....	2
2. METHODOLOGY.....	4
3. DATA ANALYSIS AND REPORTS.....	4
4. DEFINITION OF A FAMILY FIRM.....	5
5. SAMPLE DESCRIPTION (FIRMS).....	6
5.1 Percentage of Equity Owned by Family Members.....	6
5.2 Geographic market(s) operated in.....	6
5.3 Legal status.....	7
5.4 Number of Employees.....	7
5.5 Sales Revenue of Respondent Firms.....	8
5.6 Do You Consider Yourself to be a Family Firm?.....	9
5.7 Generational Status of the Firms.....	10
6. SAMPLE DESCRIPTION (RESPONDENTS).....	10
6.1 Gender.....	11
6.2 Age of Respondents.....	11
6.3 Position/Role in the Company of Respondents.....	12
6.4 Relationship of Respondent to Founder.....	12
6.5 Length of Time Worked in the Company.....	13

1. INTRODUCTION

Why do family businesses matter?

The topic of family business is an important one for all economies and societies, including Luxembourg. This is because, family firms contribute significantly to society, the economy and to local communities whether by boosting GDP¹ at a macro level, aiding employment creation at the country level or by initiating social responsibility projects at the local or community level.² For example, The Family Firm Institute³ reports that:

- Family firms account for 2/3 (two thirds) of all businesses around the world.
- An estimated 70%-90% of global GDP annually is created by family businesses.
- Between 50%-80% of jobs in the majority of countries worldwide are created by family businesses (European Family Businesses, 2012)
- 85% of start-up companies are established with family money (European Family Businesses, 2012).
- In most countries around the world, family businesses are between 70 and 95% of all business entities (European Family Businesses, 2012)
- 65% of family businesses are looking for steady income growth over the next five years (PWC, 2012)

With the exception of the PWC (2007)⁴ report, however, no official statistics or databases exist in Luxembourg (or the Greater Region) which analyse the nature, contribution and role of family firms in this region. The situation sits in sharp contrast to other countries in Europe and the United States where family business interests are strongly represented in academic programmes, curriculum initiatives, endowed chairs, networks and associations and economic policy outcomes. This means that, with the exception of a handful of seminars and workshops run by banks and consultancy firms, the educational and policy support infrastructure that addresses the specific educational and training needs of family firms, is sparse in Luxembourg. Moreover, most of the economic policy work in Luxembourg is geared towards either starts ups and entrepreneurial firms, or publicly-traded non-family firms. This situation continues to persist even though non-family firms are in a minority compared to the actual numbers of family firms and in spite of the reported contributions of family firms to the economy and society.

¹ European family firms make a positive contribution to the economy and society with their collective contribution to Gross National Product of between 40 and 65% (PWC, 2007). In the UK Family businesses' gross value added contribution to UK GDP has increased by £100 billion since 2010 – to £519 billion – meaning family firms in 2018 generate a quarter of UK GDP.

² Zahra, S., Hayton, J.C. & Salvato, C. (2004). Entrepreneurship in family v non-family firms: a resource based analysis of the effect of organizational culture. *Entrepreneurship, Theory & Practice*, 28(4), 363-381.

³ <https://www.ffi.org/page/globaldatapoints> (downloaded 24 August, 2018).

⁴ PriceWaterhouseCoopers (2007). *Les entreprises familiales Luxembourgeoises* (2nd Edition), Luxembourg.

The range and types of a family firms

At one end of the family business spectrum is the 'family-controlled' firm in which one or more members of a family have ownership control of a company through their share of voting rights, and where executive positions are predominantly held by family members. At the other end of the spectrum is the 'owner-managed' firm, which includes micro-enterprises (less than 5 employees) and also sole-traders where family members help (sometimes informally) in supporting the business. Along this spectrum, is a range of different types of family ownership and management types where ownership and/or management is shared with multiple family members of the same family⁵ but might also involve non-family members.

Transmission of family firms

Finally, it is also reported in many studies that 73% of businesses would like to pass the business to the next generation, yet only 33% make it to the second generation and only 9% to the third⁶. Cumulatively, this is a potential loss to the economy, to local communities and to national progress. Family businesses and business families need support, education, training and professional advice that is specific to their distinctive model(s) of business and to help them realise their full potential for the benefit of the economy and communities of Luxembourg. Family firms are also important for contributing to nation-branding and national reputational efforts, enhancing the positive effects that family firms have in promoting and advertising localised resources and competencies.

Objectives of this study

To aid in this process, it is important to understand better the landscape of family firms in the Greater Region. With this in mind, PwC and the University of Luxembourg launched a 2-year research project (2016-18) focused on:

- (i) developing a database of family firms in Luxembourg (and to follow, the Greater Region);
- (ii) undertake a survey with family firms assessing their characteristics, unique features and reasons for sustaining from one generation to another and
- (iii) to undertake face-to-face interviews with a selected sample of family firms in Luxembourg.

⁵ Miller, Le-Breton Miller, Lester, Canella, "Are Family Firms Really Superior Performers," *Journal of Corporate Finance*, Vol. 13, Issue 5, 2007

⁶ <http://www.scottish-enterprise.com/~media/SE/Resources/Documents/STUV/Successful%20succession%20the%20next%20step%20for%20family%20businesses.pdf> (downloaded 18 September, 2013).

2. METHODOLOGY

The tasks for approaching family firms was divided as follows:

- (i) PwC (via contact with their partner networks in France, Belgium, Germany).
- (ii) University of Luxembourg to survey and interview Luxembourgish firms.

The first Amadeus database (2016) provided by PwC identified 248 family firms. They were all contacted. For Luxembourgish firms, we specifically decided to use the Statec 'Directory of Luxembourgish companies' to build a more reliable list of Luxembourg-based family firms. This STATEC list gave us a list of all firms in Luxembourg: (4392) and our task was then to check if they were family firms or not. Of these 4392 companies, 68 duplicates with our initial Amadeus database, and so they were eliminated. The total number of Luxembourgish firms to verify was 4324. In view of time constraints, we were able to verify 752 family firms (which represents 17% of the total enterprises in Luxembourg)⁷. Of these family firms, 89 agreed to participate in our research as follows:

- 34 firms only participate to the interview;
- 28 firms participate to the questionnaire and as well as to the interview;
- 27 firms only participate to the questionnaire;
- 31 firms officially declined
- 631 firms never answered

As at 11 July, 2018, the data collection stands as follows:

- 114 fully completed survey questionnaires (Greater Region).
- 62 face-to-face interviews (Luxembourg).

3. DATA ANALYSIS AND REPORTS

The following outputs have been generated from the data:

- Report 1: Family businesses in the Greater Region: objectives, methodology and sample description.
- Report 2: Balancing family and professional management: why family firms are special forms of organization.
- Report 3: 'Golden Agers's: How Family Firms Flourish in the Long Run.
- Report 4: The Four stages of Family Business Transmission.
- Report 5: Family business management styles and cultures through the generations.

⁷ Although we verified 752, there is scope to verify further through manual checks.

4. DEFINITION OF A FAMILY FIRM

There are multiple definitions of family firms but usually the following four criteria are important⁸:

- (i) when a single dominant family group owns more than 50% of the shares of the business (Donckels & Fröhlich, 1991, Cromie et al, 1995).
- (ii) when members of 'an emotional kinship group perceive their firm as being a family business (Ram and Holliday, 1993b).
- (iii) when a firm is managed by members drawn from a single dominant family group (Daily & Dollinger, 1993).
- (iv) when a company has undergone an inter-generational ownership transition to a later generation of family members. (NB: For a publicly listed firm, a firm is classified as a family firm in case the family holds at least 32% of the voting rights⁹).

Given that there was no available data on the situation of family firms in Luxembourg or the Greater Region, in the current study we wanted to be inclusive of as many family firms as possible. For this reason, we adopted the following definition:

Definition: Businesses that have the strong presence of an owning family that controls a large percentage of equity in the business (Anderson et al. 2009; Zahra, 2005)¹⁰.

⁸ Westhead, P., Cowling, M., Storey, D. & Howorth, C. (2004 p.20). 'The scale and nature of family businesses'. In D.Fletcher (Ed). Understanding the Small Family Business, London:Routledge.

⁹ Global Family Business Index, St. Gallen University, <http://familybusinessindex.com> (downloaded 30 July 2018)

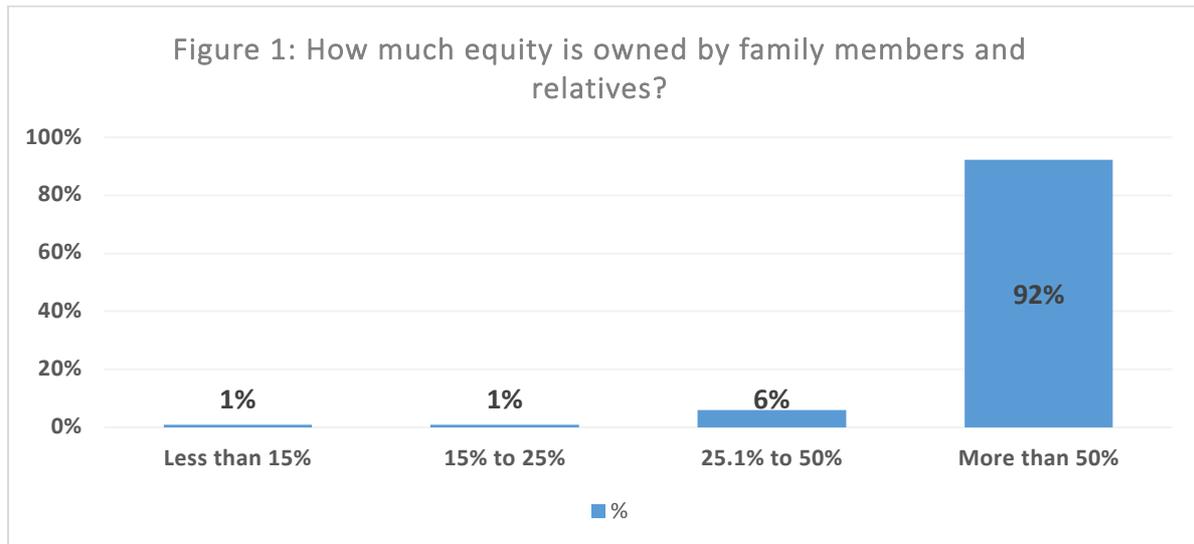
¹⁰ Anderson, R.C. & Reeb, D.M. (2009). Founders, heirs, and corporate opacity in the United States. Journal of Financial Economics, 92(2), 205-222.

Zahara, S. (2005). Entrepreneurial risk taking in family firms. Family Business Review, 18(1), 23-40.

5. SAMPLE DESCRIPTION (FIRMS)

5.1 Percentage of Equity Owned by Family Members

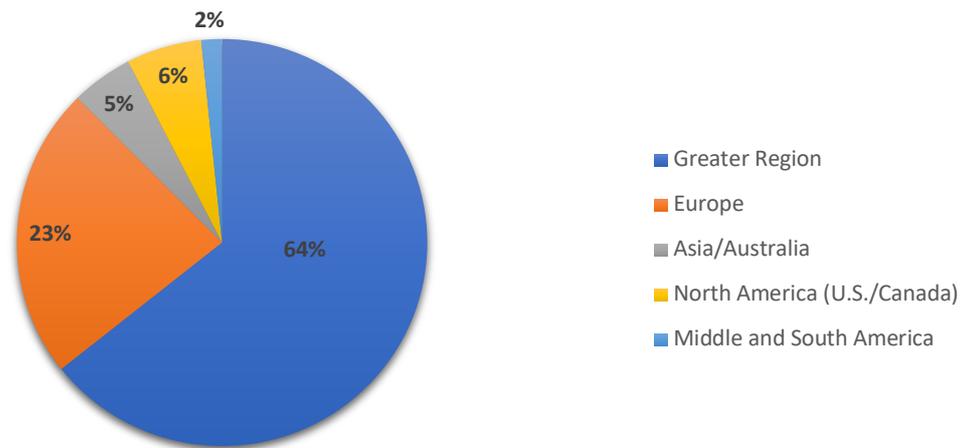
Figure 1 shows the equity distribution of the respondents firms from the survey. It is shown that 92% of the family firms surveyed have more than 50% of equity owned by family members.



5.2 Geographic market(s) operated in

Figure 2 shows that for the respondent firms, 64% of sales are generated in the Luxembourg and the Greater Region, with 23% in the rest of Europe, 6% in North America, 5% in Asia/Australia and 2% in Middle/South America.

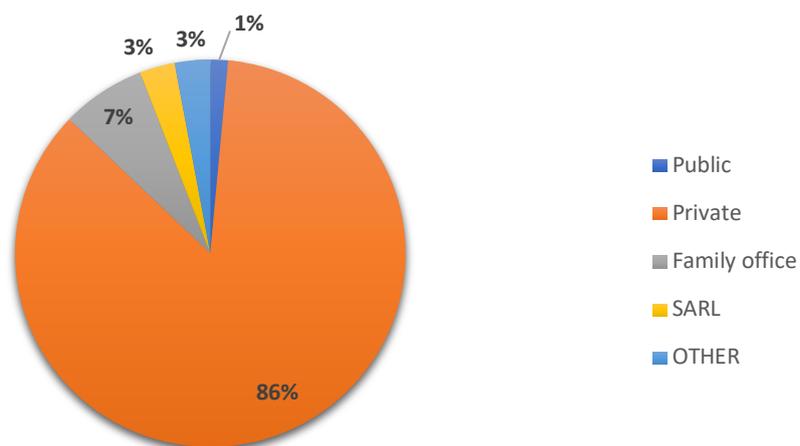
Figure 2: Geographic markets in which sales are generated



5.3 Legal status

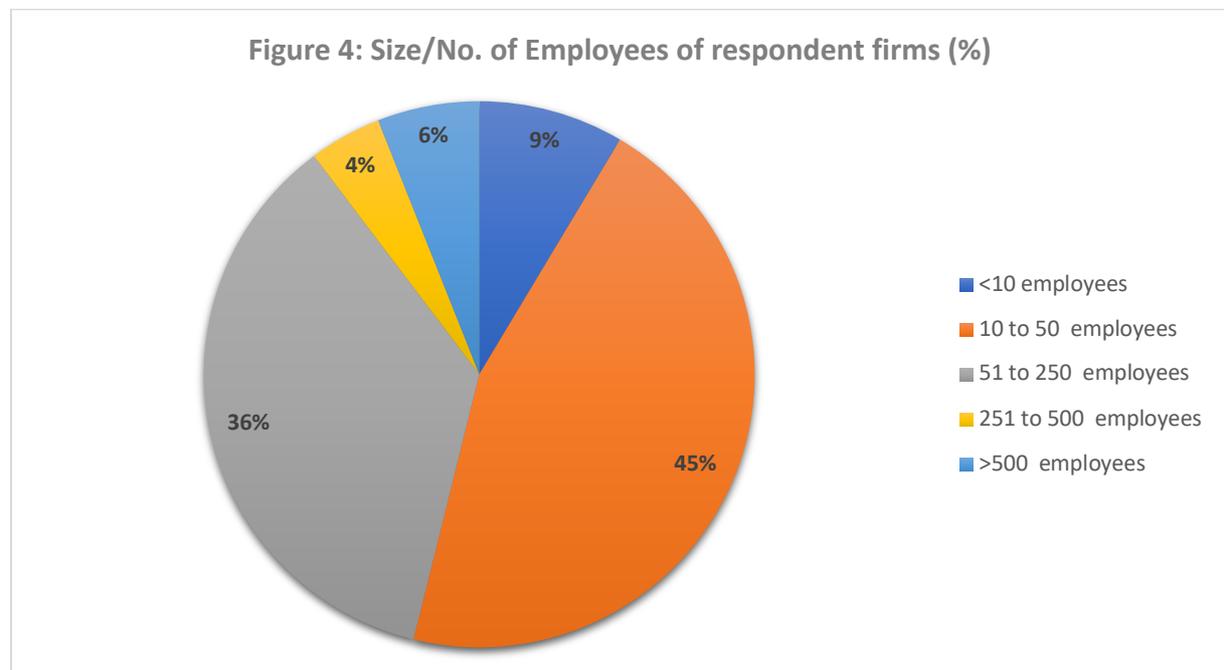
Figure 3 shows distribution of the legal status of the respondent firms (86% are private firms, 7% family offices, 3% are Société responsabilité limitée and 1% public entities. An additional 3% are categorized as 'other'; they consist of Limited Partnership (2), Gemeinschaft (1) and Sole Trader (1).

Figure 3: Legal status of the companies? (%)



5.4 Number of Employees

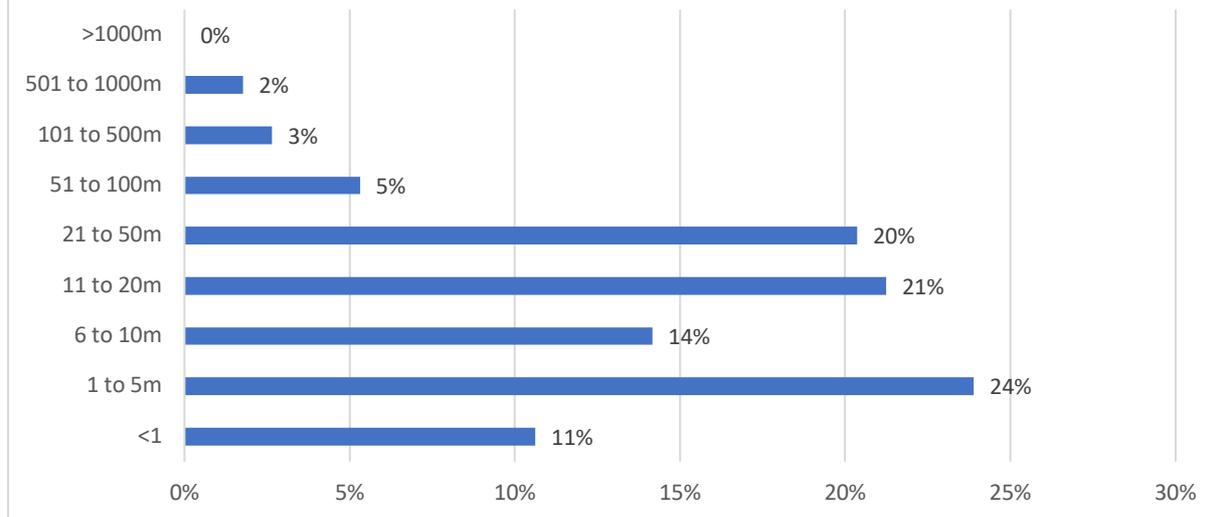
In Figure 4, it is shown that 90% of the surveyed firms are SMEs (1-250 employees), with 9% of these having less than 10 employees, 45% in the 10-50 employee range and 36% having between 51-250 employees. Four percent of the respondents are in the 250-500 category, and 6% have over 500 employees.



5.5 Sales Revenue of Respondent Firms

Figure 5 displays the reported sales revenue figures of the respondent firms for the last fiscal year (2016). The highest revenue categories are the 1-5 million (24% of firms) which is explained by the fact that 90% of the respondents are SMEs and 9% of these are micro firms (less than 10 employees). In the 11-20 and 21-50 million category, the distribution is fairly equal (at 20% and 21% respectively). In the 51-100m, six firms are represented (5%). One of these firms is in in the first generation but the rest are in 2nd generation onwards (including a 4th, a 5th and a 9th generation firm). At the higher end of the revenue scale , there are 2 firms (2%) in the 501-100m range, and 3 firms (3%) in the 101-500m range. Of these latter 5 firms two are 2nd Generation, and 3 are third generation.

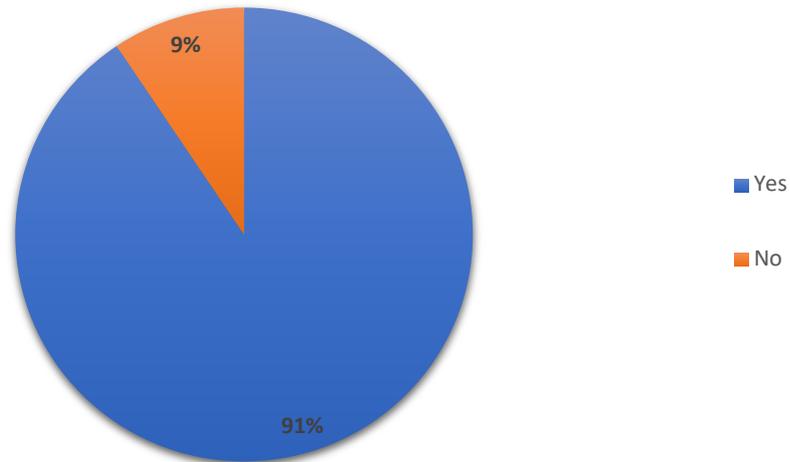
Figure 5: How much sales did your company generate in the last fiscal year? (in million EUR)



5.6 Do You Consider Yourself to be a Family Firm?

Out of the 118 participants for this question, 91% affirmed that they considered themselves to be a family firm. Interestingly, 11 stated that they do not consider their firm to be a family firm. This is shown in Figure 5. To explain these responses claims, two additional parameters were checked: (i) the number of generations each company has passed through and (ii) the percentage of the current equity being owned by the family. From the 11 who stated that their firms are non family firms, by using alternative checks, 6 of them had classified themselves as successors. For this reason, we classify them as a family firm (at least at some point in time) although the firms may not now consider themselves to be a family firm (in terms of formal definitions). The remaining 5 respondents were in first generation and indicated more than 50% equity to be held by the family group. We interpret this finding to refer to founders or owner-managed firms who may have members involved (hence their response to the survey) but who do not have a family firm identity.

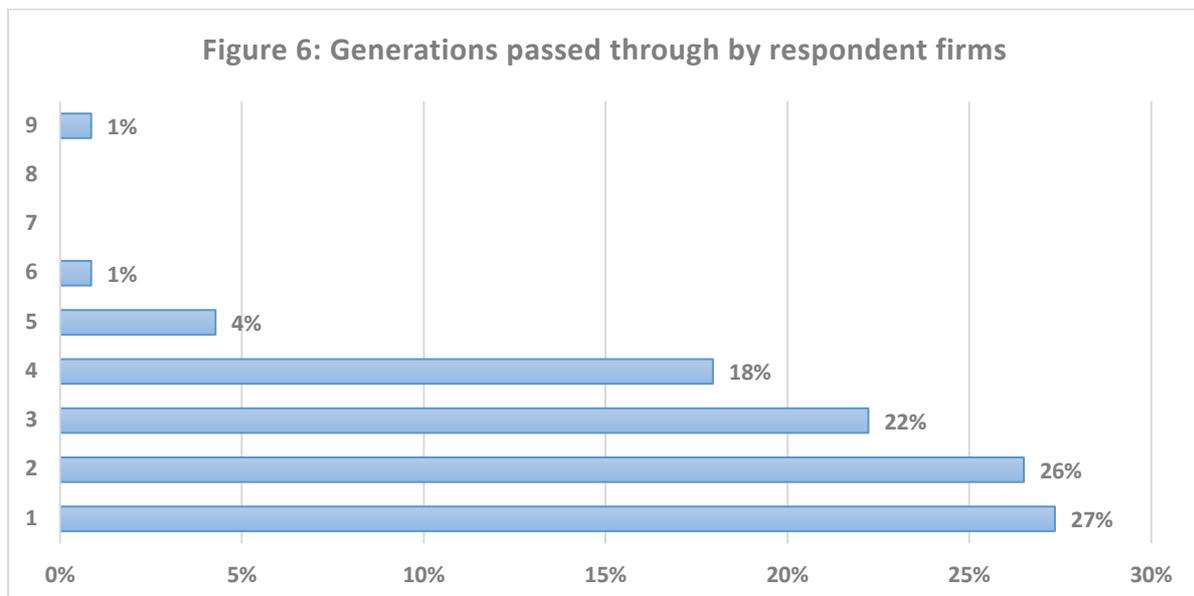
Figure 5: Do you consider your firm to be a family firm?



5.7 Generational Status of the Firms

In Figure 6, the distribution of firms according to inter-generational transfer is shown. Firms going through one (27%) or two (26%) generations are slightly more present in the sample, with third generation firms at 18%. Firms having passed through 5 or more generations represent 6% of the respondent firms.

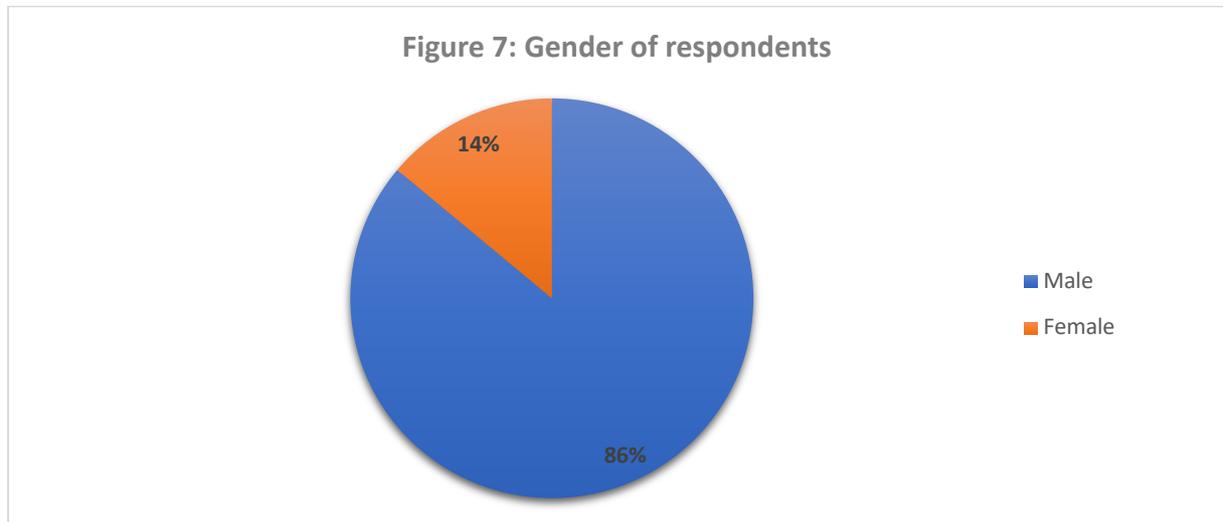
Figure 6: Generations passed through by respondent firms



6. SAMPLE DESCRIPTION (RESPONDENTS)

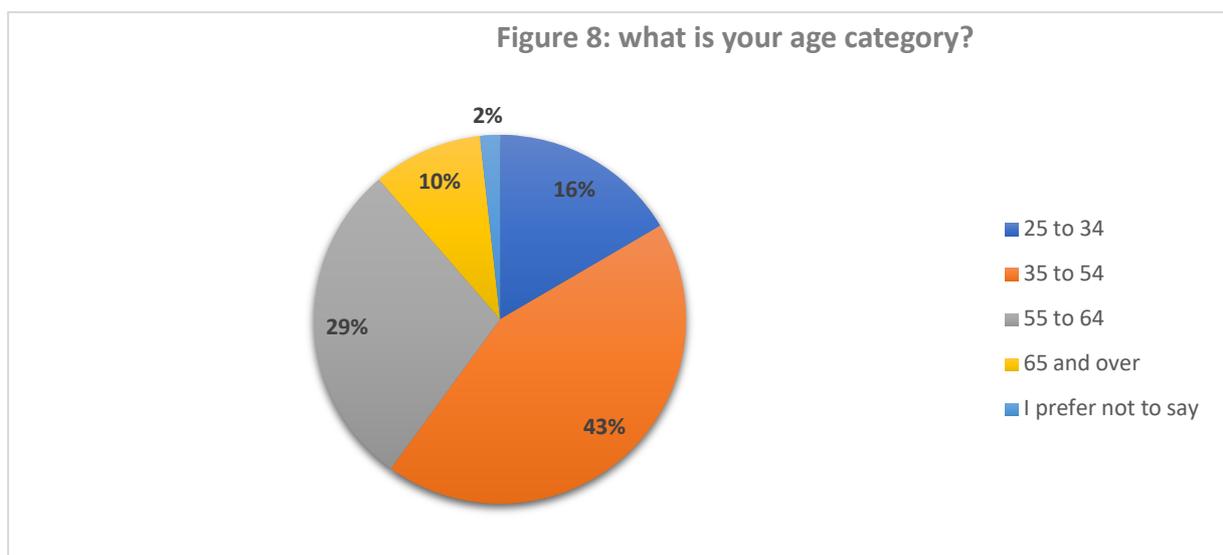
6.1 Gender

Figure 7 portrays that 86% of the respondents are male and only 14% are female.



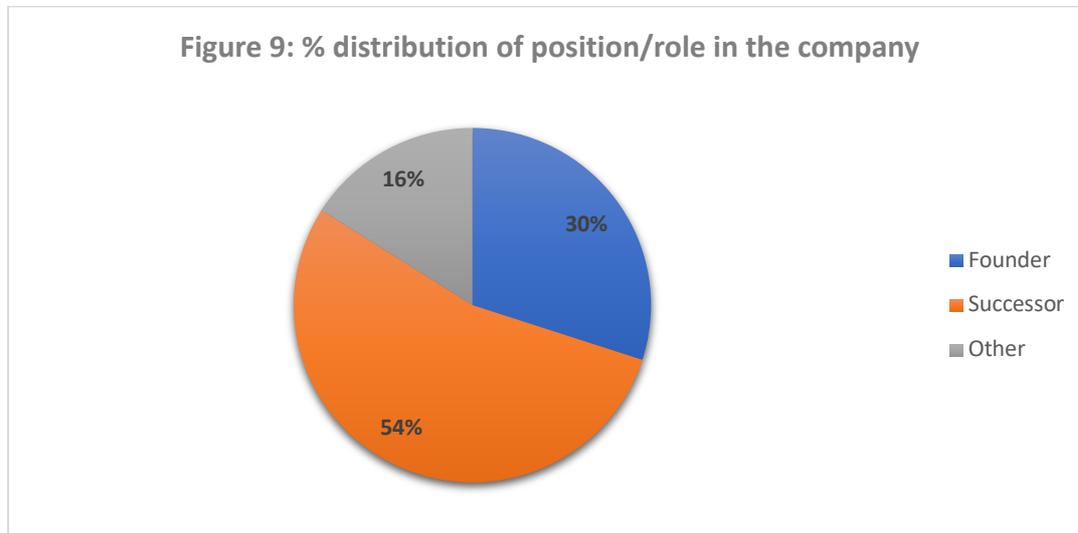
6.2 Age of Respondents

In Figure 8, the age of the respondents are shown. Here, is seen that 39% are aged 55 or more, with 16% in the 25-34 category (suggesting young family successors). The dominant category is 35-54 age range with 43% respondents.



In Figure 9, it can be seen that 53% of the respondents were successors with 30% founders (some of whom are in first generation but also still involved in second generation).

6.3 Position/Role in the Company of Respondents

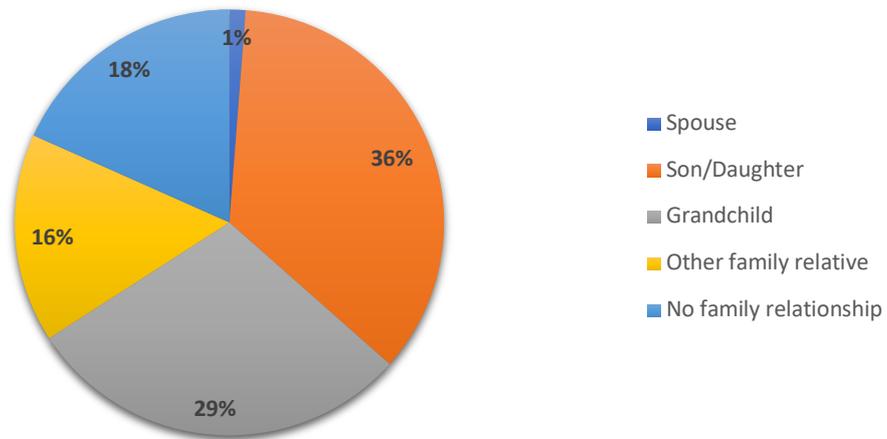


Sixteen percent (i.e. 17 respondents) indicated 'other' and they are categorized as: non-family senior managers (8), board members (3), senior manager/board member/shareholder (4), shareholder/board member (2).

6.4 Relationship of Respondent to Founder

Figure 10 shows the relationship of the respondent to the founder. Thirty-six percent are the son/daughter of the original founder; 29% are grandchildren; 16% have some family relationship to the founder and 1% are spouses of the founder. It can also be noted that 18% of respondents have no relationship to the founder, suggesting the involvement of non-family members (as indicated in the previous table on roles/position in the business).

Figure 10: Relationship of respondent to founder



6.5 Length of Time Worked in the Company

Figure 11 shows that 76% of respondents have worked in their respective companies for more than 10 years, indicating long term service and commitment. In addition, 15% have worked there for 6-10 years.

Figure 11: How many year(s) have you worked in the company?

