Handout Family Businesses

The economic importance of the family business

I. General Statistics

The Foundation for Family Businesses began to collect basic statistics on the economic importance of family businesses[1] in 2006. Since then, these numbers have been regularly updated and revised. In contrast to other studies, the statistics are not based on extrapolations of samples, but on German firms as a whole. The data of 2.7 million enterprises[2] are part of the analysis.

The studies draw on several definitions of family business. This differentiation reflects the fact that there is no single definition of family business that is consistently operationalized in research.

1. **Family controlled companies:** In this definition all companies which are controlled by a limited number of natural individuals are subsumed. Ownership and management does not necessarily need to match. This definition is the most common in public as well as in scientific literature.

2. **Owner-managed companies:** According to this definition, such companies are family businesses controlled by a small number of individuals, in which at least one of the owners also handles the management of the company.

Depending on definition, the quantitative importance of the family business to the economy varies:

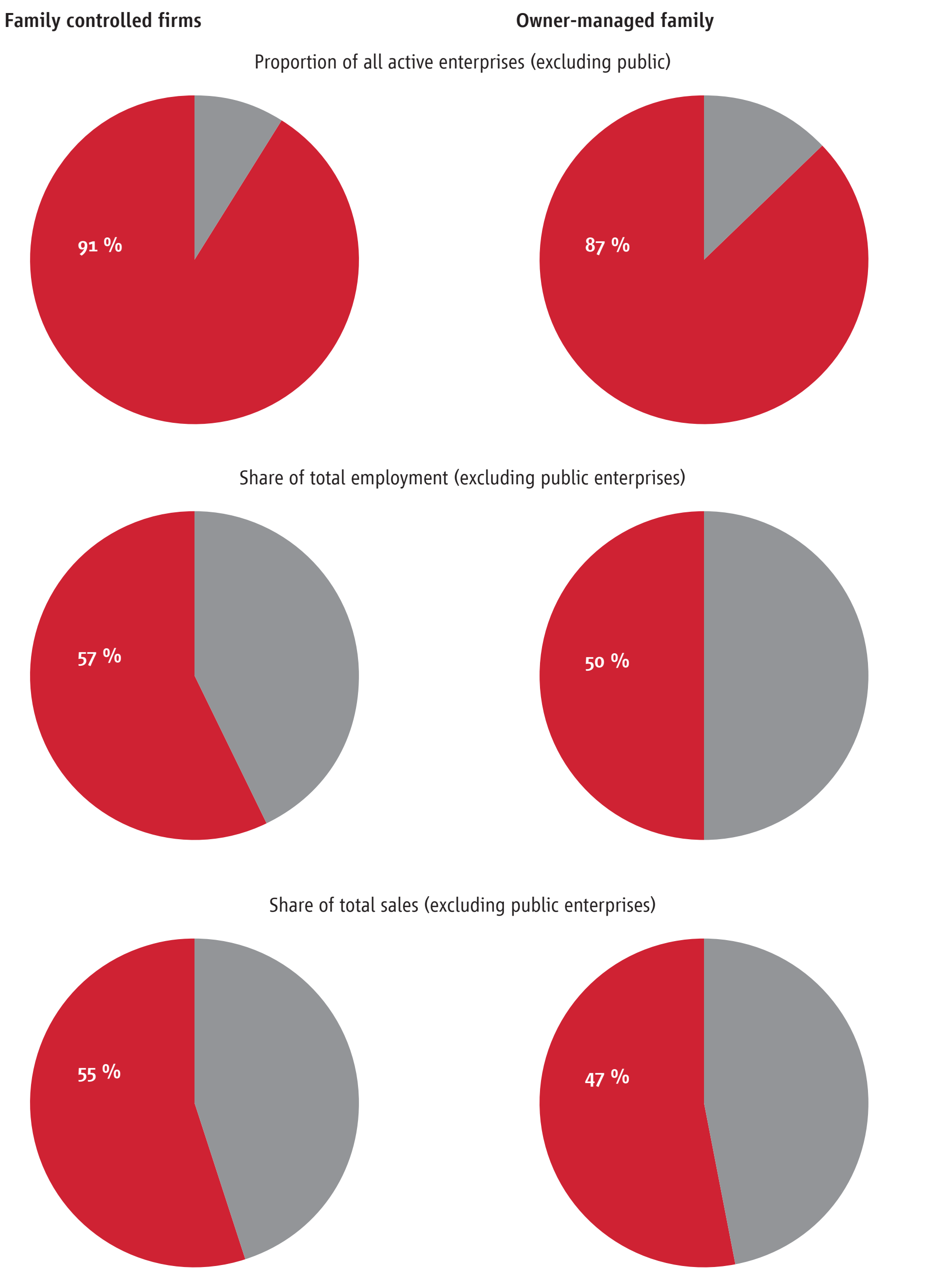
1. **Family Controlled Companies:** 91 percent of all German companies are family-controlled companies. They achieve 48 percent of sales and account for about 56 percent of all mandatory social insurance employment contracts.

2. **Owner-managed companies:** 88 percent of the total number of enterprises are privately owned companies, 53 percent of all employees in Germany work in these companies. Owner-managed family businesses account for 44 percent of Germany's total sales.

1 The Economic Importance of Family Businesses, published by the Foundation for Family Businesses, conducted by the Centre for European Economic Research (ZEW) and the Institute for SME Research (ifm), Mannheim, 2017. Download at www.familienunternehmen.de.

2 The analyzes are based on the Mannheim Enterprise Panel (MUP) of the ZEW. According to the company registry there are currently about 3.6 million legal independent entities, while the MUP identifies about 2.7 million as consolidated group level „economically active" companies. Data on micro enterprises and sideline businesses was not collected. Indepependent professions and agricultural businesses, that are not generally subject to the obligation of commercial registration, are underrepresented.

Fig. 1: The Economic importance of the family business



Source: Mannheim Enterprise Panel, ZEW calculations

Family-controlled companies generated sales revenue of 2.9 trillion euros in 2015 and owner-managed companies sales of 2.5 trillion euros. This means that family-controlled companies account for some 49 percent of the total sales revenue of all companies in the industries they cover and 55 percent of sales by private businesses. The majority of sales revenue was attributable to owner-managed companies.

The complete survey of all family businesses shows that they are particularly commonplace in hospitality, construction and commerce, especially retail. There are also clear regional differences. The number of family businesses is particularly high in parts of the former East Germany: the states of Thuringia, Saxony and Saxony Anhalt. It is lowest in the city states of Berlin, Hamburg and Bremen. Outside the city states, Hesse in western Germany is notable for its comparably low number of family businesses.

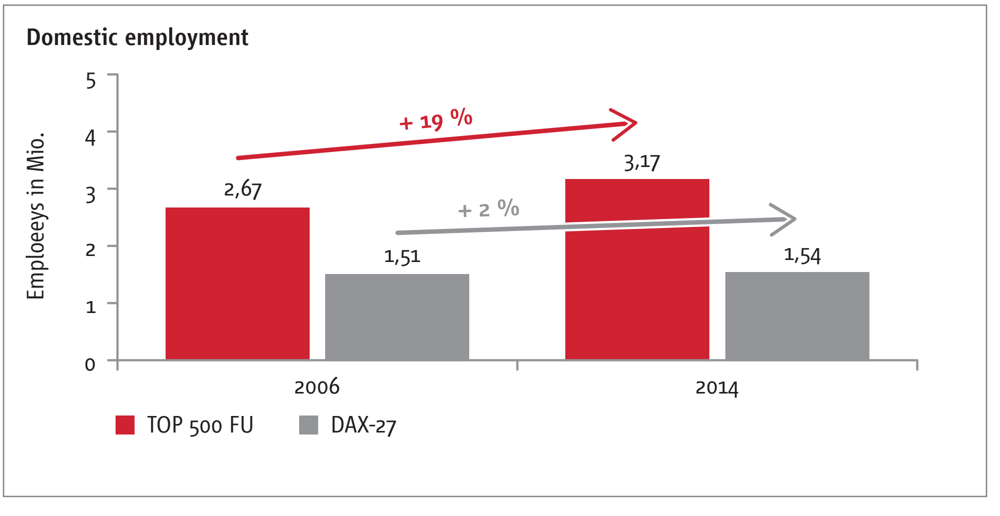
II. The 500 largest family businesses

The study on the economic importance of family businesses identifies both the 500 largest family-owned companies and compares their revenues and employment trends with the characteristics of non-family-run DAX enterprises[3].

- In the TOP 500 family businesses (by employees) **4.6 million people** were employed worldwide in 2012.
- The 500 best-selling family businesses generated sales of around **1.000 billion euros**.

Comparing employee numbers over time shows that family businesses have continually created new jobs. While the total number of employees paying social security contributions in Germany increased by 14 percent from 2006 to 2014, the 500 largest family businesses achieved significantly higher growth, boosting their headcount by 19 percent to 3.17 million during the same period. The 27 DAX-listed companies that are not family-controlled saw only a 2 percent increase in this time. In total, the 500 largest family businesses created approximately 1.06 million new jobs worldwide from 2006 to 2015, compared to the just under 700,000 created by the DAX 27. Family businesses have thus generated considerably more employment growth than other parts of the economy.

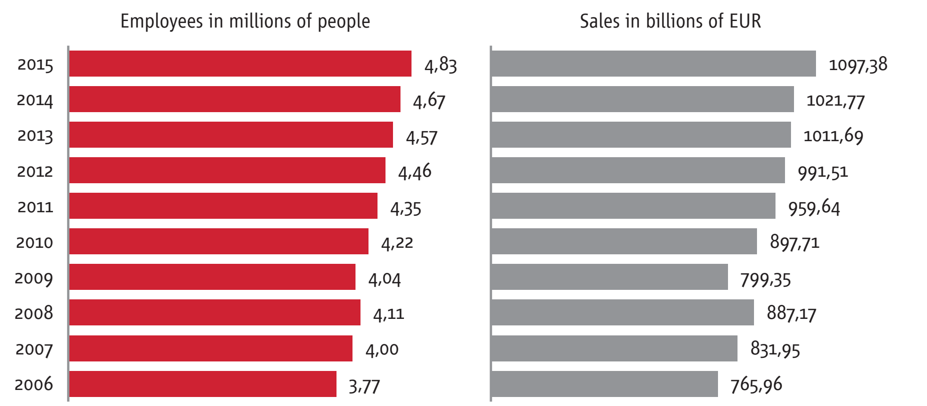
Fig. 2: Comparison of the development of domestic employment in the TOP 500 family businesses and the DAX 27 companies up to 2014



3 The DAX-family-owned companies include: Beiersdorf AG (in the TOP 500 under Maxingvest AG), Henkel AG & Co. KGaA Merck KGaA

The period from 2006 to 2012 was characterized, also for large family businesses, by the 2009 economic crisis. As early as 2010, however, the employment and turnover level of 2008 had not only been reached, but exceeded. From 2010 to 2012, the TOP 500 family businesses increased employment by more than five percent and sales by 11 percent. This is also reflected in the current strength of the economy.

Fig. 3: Global employee- and sales development of the 500 largest family businesses



Source: Institute for SME Research Mannheim

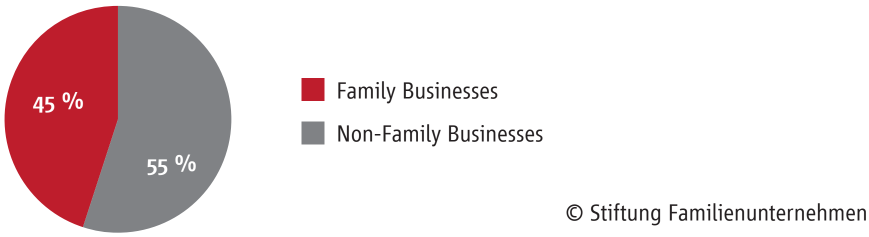
III. Publicly traded family businesses in Germany

Family businesses represent a significant phenomenon in the German capital market, as a study of the Foundation for Family Businesses from 2010 shows[4]:

Half of all listed companies (excluding financials) in Germany are family businesses. These represent about a third of the market capitalization.

The database of the survey are all companies that were listed in the CDAX between 1998 and 2008, excluding financial companies.

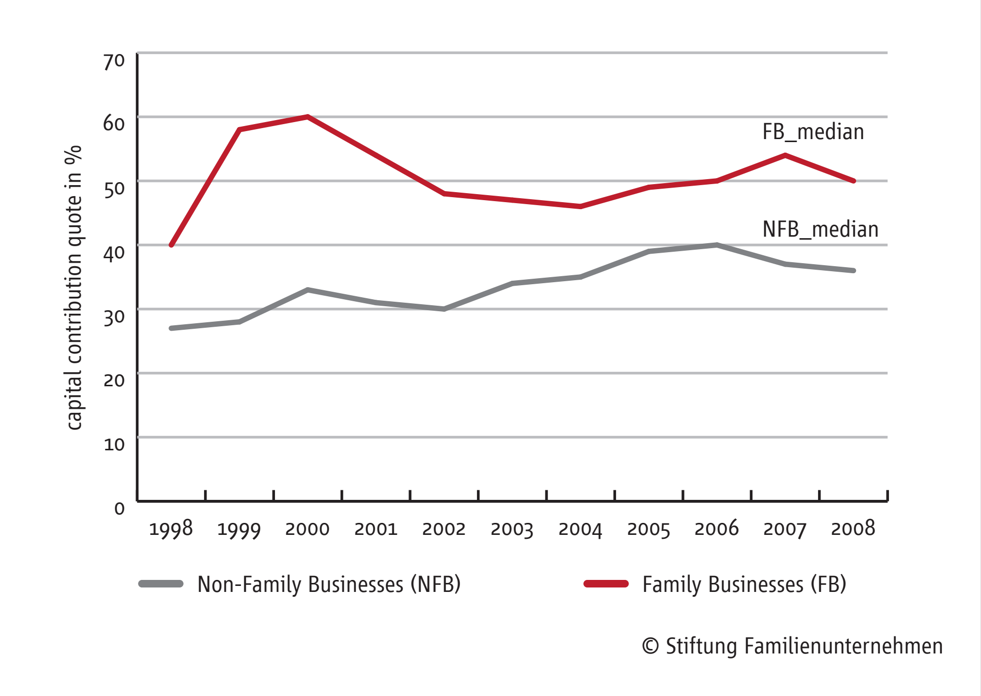
Fig. 4: Publicly traded family businesses (FU) compared to non-family businesses (NFU)



Family businesses clearly differ to non-family businesses in respect to their capital structure: they have far less debt and have a much higher equity ratio (50 percent) than non-family firms (36 percent).

4 Publicly traded Family Businesses, published by the Foundation for Family Businesses, conducted by the Center for Entrepreneurial and Financial Studies (CEFS) at the Technical University of Munich, 2010 Download the study here: www.familienunternehmen.de.

Fig. 5: Median equity ratio of family and non-family businesses in comparison (CDAX, 1998-2008)



The analysis of other firm characteristics shows that listed family businesses in regard to their balance sheet figures and revenues are significantly smaller than non-family buinesses and subsequently have fewer employees. Thus, an average of 6,100 people are employed in a listed family business while non family businesses on the stock market employ an average of around 15,600 people. But: family businesses have a higher employee growth rate. Their number of employees grows by an average of 27 percent, while non-family businesses grow by only 6 percent on average.

Another finding shows that family businesses - the phase of the New Market excluded – perform no worse than non-family businesses. On the contrary, there is one, albeit small, positive correlation between the influence of the family and the characteristics of operating performance.

The same applies when considering capital market performance. From 1988 to 2008 family businesses had a comparable return to non-family businesses, but were also subject to higher volatility. This too is mostly due to the phase of the New Market.

Stiftung
Familienunternehmen

Processing status: October 2017

Stiftung Familienunternehmen
Prinzregentenstraße 50
D-80538 Munich

Tel.: +49 (0) 89 / 12 76 400 03
Fax: +49 (0) 89 / 12 76 400 09
krenek@familienunternehmen.de