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Family Business at the heart of Europe

Family business as a topic took the floor of the European Parliament in Brussels for the first time in an event hosted by Vice-President Othmar Karas. The conference, prior to EFB's General Assembly in May, brought together MEPs, Commission officials, family business owners, and European NGOs to discuss the role and challenges associated with family businesses in the European economy.

Vice-President Othmar Karas opened the conference by stating that Europe needed to value, 'not just short term profits, but long term growth through patient capital.' He also mentioned that a debt bias in taxation systems 'encourages debt financing since it lowers the relative cost of debt. Discrimination against retained earnings is seen as an obstacle to making balance sheets stronger, which not only hinders growth, but also access to cheaper debt finance.' Mr. Karas stressed the need to show more commitment by the European Parliament to tackling the challenges of business transfers, and family businesses in general. Also in his opening remarks, the president of European Family Businesses, Philip Aminoff, noted that 'equity is the backbone of a business,' and that if there is no access to equity there is no access to debt. He also stressed that it was important that policy makers should consider the total efficient tax rate when designing taxes, so as not to put long-term equity at a disadvantage.

Precisely access to finance was the topic of the first session. Moderated by Olle Schmidt (MEP, ALDE, Sweden), the session focused on the effect of taxation on a company's capacity to access finance. Cornelis de Jong, MEP, (GUE/NGL, the Netherlands) although noting that taxation is very much a national competence, stated that the European Parliament does not shy away

from proposing recommendations, and he emphasised the need to incentivise re-investment into companies via the tax code.

Jean-Pierre de Laet (European Commission, DG TAXUD) showed that there is strong empirical evidence that the debt bias in taxation has led to higher indebtedness for companies and households. Mr. de Laet remarked that a solution would be to limit the deductibility of debt in the taxable base of a company or to bring equity on the same level via an Allowance for Corporate Equity (ACE). Sven Giegold, MEP, (EGP, Germany) stressed that further statistics were needed on the weight of family businesses in Europe's economy, and that it could be envisaged under the European Statistical programme 2013-2017.

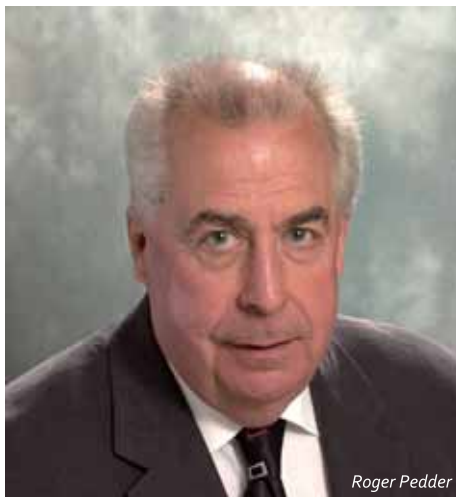
The second session discussed family business transfers. With Pablo Zalba Bidegain (MEP, EPP, Spain) as a moderator, the speakers expressed their views and answered questions from the audience. Massimo Baldinato, member of Commissioner Tajani's cabinet announced that the Commission was preparing an Entrepreneurship Action Plan for September, where the European Commission would begin a new and closer look at business transfers through intensive consultations with experts in the field. Aimed at developing a 'tool kit' of good practices, the EC will offer them to national and regional policy makers, so that they can 'take on board' policies to help foster successful transfers of businesses.

Joe Astrachan, Wachovia Eminent Scholar Chair of Family Business and Professor of Management and



Entrepreneurship at Kennesaw State University (USA) shared with the audience the most notable recent global data on family businesses; facts such as, 85% of all business start-ups are promoted with family money; also that in the U.S. family business represent more than 75% of net job growth, or some recent studies concluding that in terms of accounting performance, family businesses are more profitable over the long term, less likely to lay people off and more likely to hire.

He gave his recommendations to improve the family business transfer environment, including, among others, the reduction or elimination of inheritance and transfer taxes on operating business assets, level the playing field between equity and debt, and the provision of incentives for training programs for current and future owners of family businesses on how to be a responsible owner. Jean-Pierre Di Bartolomeo (Chairman, TRANSEO association) noted that his organization, after performing a mapping exercise across Europe concluded that



Roger Pedder appointed as new EFB President

The General Assembly held in Brussels on May 16 elected a new President, Roger Pedder, Chairman of the Unquoted Companies Group (UCG, UK) and former chairman of C&J Clark Ltd.

A Nomination Committee was set up at the previous General Assembly in Warsaw, with the mandate to explore candidates after the decision by former President Philip Aminoff to step down, due to his increasing professional obligations and the fact that he has already been in office four years.

there was a lack of awareness and training on business transfer amongst company owners.

Roger Pedder, Former Chairman of C&J Clark Ltd. gave the audience an insider view of the workings of the well-known family company, Clarks Shoes, almost 200 years old and under 6th generation ownership. He remarked that one of the companies most defining moments was in the early-1990s. The family was divided on the prospects of selling the company, finally deciding not to sell. The effect was a general agreement among the family that they were staying in business for the long-term. He concluded that it was crucial in these types of companies to agree within the family on the long-term vision for the business.

The closing remarks were for Joanna Drake (European Commission, Director, Promotion of SMEs Competitiveness DG Enterprise and Industry), who noted that the crisis was a window of opportunity to concentrate on promoting value added policies. She remarked that the Commission had a role to play by highlighting best practices, in particular regarding family businesses. She stated that 'family businesses typically take a medium- to long-term view of things and are not usually as constrained as some other businesses may be by short-term reporting to stock markets, business media, and maximizing 'instant' profits. If family businesses are indeed 'stewards' of knowledge, value, and jobs, those of us who make policy and work on legislation should do our utmost to support this stewardship and make sure the fundamental conditions are in place for it to continue and even to flourish.'

Finally, a gala dinner took place in the Château Sainte-Anne, with the European Commission's Director General for Enterprise and Industry as the guest of honour. Daniel Calleja spoke about the importance of family companies in Europe, and how it was important for policy not to only focus on start-ups, but existing companies also. Mr. Calleja explained that it is why he has set the transfer of business as one of his priorities. He also underlined the need to better the capacities of companies to access EU and non-EU markets, as well as the need to reduce the administrative burden on small and medium sized companies ■



Daniel Calleja during his speech



This committee proposed to the General Assembly the candidacy of Roger Pedder, a well renowned family businessman and entrepreneur, as well as head of the UCG, the UK chapter of European Family Businesses.

Charles Robinet-Duffo, Chairman of the Nomination Committee thanked Philip Aminoff for all his 'tremendous' work. He stated that he was proud to have served under his presidency as he had positively improved EFB's relationship with the EU Institutions. Mr. Pedder underlined the excellent work performed by the ex-President, and remarked that EFB will focus on the implementation of the policies that EFB has been calling for over the past years.

The General Assembly also approved the proposals of the Nomination Committee made for the renewal of the Vice Presidents (with Charles Robinet-Duffo and Alfonso Libano to continue), the election of Udo Vetter as a Vice President, who takes over from Peter von Möller and Board members (Anne Berner to be elected, with Ingrid Faber and Tamas Kurti to continue) ■

Roger Anthony Pedder (1941) was Chairman of C&J Clark Limited (Clarks Shoes), one of the UK's largest private family companies, from 1993-2006. Clarks is now ranked as the fourth largest shoe company in the world. He is credited with sorting out its problems and returning it to sustainable profitability after a period of turbulence.

Roger is also known for turning around Halfords in the 1980s, founding and developing Pet City in the 1990s and rescuing Robert Dyas before selling the company successfully to Change Capital Partners in 2004.

Currently he is Chairman or a NED of several companies of a family or private equity nature including Bargain Booze, Nelsons, Symm Group, Spa&Salon Intl and Theo Fennell Plc.

He also serves as Chairman of the Coutts Prize for Family Business and is Hon. Treasurer and a member of Council of the University of Bath. He is widely respected for his talents in business conflict resolution.



Jesús Casado

Letter from the Secretary General

Dear friend,

Successfully transferred companies represent a very important source to the job market. According to the final report of the expert group on the transfer of small and medium-sized enterprise from the European Commission, 'a successful transfer conserves, on average, five jobs, whereas a start-up generates on average two jobs.'

In the past years, the EU has tended to focus its energy primarily on the creation of new start-ups, which is of course, a very good policy to promote entrepreneurship. However, perhaps it is not the most effective one.

50% of all newly founded companies in Europe close in the first five years after their foundation. Therefore, even if new ventures are still a natural source of entrepreneurship and should be promoted, policies across the Union should also rely on already existing companies, most of them family businesses.

The regulatory framework that exists in Europe needs to promote the long term survival and sustainable growth of existing companies. I mean with supportive conditions for family businesses to transfer ownership from one generation to the next without weakening the company.

Every year, hundreds of thousands of businesses are transferred in Europe, because the owners retire or move on to other activities. It is estimated that every year some 150,000 companies with 600,000 jobs may be lost due to the difficulties associated with business transfers, which is a loss Europe can ill afford.

Research shows that ownership and particularly management transfers that are delayed too long are associated with poorer post transfer business performance (for example: delayed transfers put strategic renewal at great risk). In addition, business transfers represent one of the defining features of family enterprises in Europe, and they can potentially pose many obstacles to business continuity.

Entrepreneurship must also be promoted in existing businesses, who are the natural incubators of new entrepreneurs. Entrepreneurship is something that can be taught and there is no better school than your own family if they own a business. Indeed, 85% of all business start-ups are started with family money.

I am convinced that helping family business is helping entrepreneurship. Actions should be taken to encourage family business successors, either to continue with the business of their parents, or to start their own venture. ■

Jesús Casado



EFB attends the Network of SME Envoys meeting in Malta

The Secretary General of European Family Businesses, Jesús Casado, was present at the Network of SME Envoys meeting held in Valletta, ➔



The European SME definition

SME, meaning a micro, small and medium sized enterprise, is a term which is often used in the corridors of power in Brussels. The focus on the 'SME' is hardly surprising since European data estimates that 99.9 per cent of all businesses in Europe are SMEs. The European Union does not make it a secret that it prioritises SME friendly policies, for example, the recent Small Business Act for Europe (SBA) adopted by the Commission in June 2008 reflects the Commission's political will to recognise the central role of SMEs in the EU economy and for the first time puts into place a comprehensive policy framework for the EU and its Member States.

History of the definition

In 1996, the European Commission adopted a recommendation establishing the first common definition for small and medium-sized enterprises in the EU. It was replaced by the Commission Recommendation concerning the definition of micro, small and medium-sized enterprises of 6 May 2003 (hereinafter "SME definition") which entered into force on 1 January 2005. The creation of the definition was seen as necessary to ensure consistency and effectiveness and to limit distortions of competition. Although the general usage of the SME definition is voluntary, there are instances when the definition is forcibly applied, namely in the context of state aid schemes and Community programmes. Indeed the definition was primarily created with the internal market and state aid regulations in mind. The European definition encompasses three broad parameters which define SMEs:

- Micro-entities are companies with up to 10 employees, with either a turnover that does not exceed €2 million or a balance sheet total that does not exceed €2 million. ➔

Malta, on the 15th of June. Thanks to the increasing visibility and importance of family business matters within EU enterprise policy, and the fact that the vast majority of small and medium enterprises across Europe are family businesses, the Directorate General Enterprise and Industry included EFB among the other key stakeholders in SME policy who also attended the summit.

The meeting was chaired by Daniel Calleja Crespo, Director General of DG Enterprise and Industry, and the audience had the opportunity to receive a key address from Vice President and Commissioner Tajani. One of the main issues that was discussed during the summit was DG Enterprise's upcoming Entrepreneurship Action Plan,

an initiative under the umbrella of the Small Business Act principles.

Mr. Casado, during the meeting, underlined the fact that in connection to access to finance, 85% of all new start-up ventures are financed with family money, and that the family is a natural incubator for new entrepreneurs, as the basic education cell.

In addition, he noted that it was of paramount importance to equally focus on start-ups and existing businesses and therefore proposed the inclusion of a family business pillar in the text. The next meeting will be held in Cyprus and EFB has already been invited to participate.

EFB fully supports the work of the Network of SME Envoys as it offers a unique forum for one-to-one communication with Member States, Commission officials, and other stakeholders. ■

- Small companies employ up to 50 workers, with either a turnover that does not exceed €10 million or a balance sheet total that does not exceed €10 million.
- Medium-sized enterprises have up to 250 employees, with either a turnover that does not exceed €50 million or a balance sheet total that does not exceed €43 million.

Interestingly, the family business entity is enshrined in the first article of the definition: 'An enterprise is considered to be any entity engaged in an economic activity, irrespective of its legal form. This includes, in particular, self-employed persons and family businesses engaged in craft or other activities, and partnerships or associations regularly engaged in an economic activity.'

Recognition of the family business entity has been achieved, however, it is high time that Member State and European policy makers ensure that they possess in depth statistical knowledge on family businesses in Europe.

Time to recognise family ownership - Review of the SME definition

DG Enterprise regularly undertakes review of the SME definition mainly to assess whether the above mentioned financial ceilings are still applicable since developments in prices and productivity make it necessary to adjust financial thresholds. However, we feel that the review of the definition, which happens on a 2 year cycle (2006, 2008, 2010, 2012), is an opportunity to expand on, and ultimately complete the understanding of the European SME.

European Family Businesses has been meeting the representatives in DG Enterprise who are charged with the definition of SMEs. The question asked is, 'what are the reasons that justify the need to define and collect data on family business?'

In short, for too long, policies have been based on narrow definitions of companies based principally on employment size and turnover. Although these measurements have their merits and uses, they ignore many key mechanisms of how companies are run and maintained. By not understanding these phenomena, one cannot formulate policies that are ultimately conducive to growth and

prosperity. Family businesses operate differently and provide multiple other benefits to society and to have an accurate picture of how to support family business, we need to know how many there are, whilst knowing how big they are, and the generation that they are in (program and policy priorities are different depending on generation- for example, transfer taxes are more important in earlier generations and dividend policy more important in later generations).

Therefore, it is time that the EU and its Member States start compiling data on family businesses in Europe. However, in situations such as these, the reality of European politics is always who makes the first move, is it the Member States or the European Union? Indeed, it must be a bit of both. What is crucial is a coordinated message to the Member State and European policy makers showing that the importance of family business and their impact can no longer be ignored. Now more than ever, millions of jobs in Europe are dependent on the long-term continuation of millions of family SMEs.

In the long run, by having a better understanding of the importance of ownership and how it ultimately affects the survival and continued growth of an enterprise, the benefits will be felt by not just family businesses but the European economy as a whole. The ultimate goal must be to ensure that policies which are formulated at the national or European level consider the combined effect in corporate and private level legislation on a family business, which is at the heart of boosting sustainable entrepreneurship and family business continuity. ■





Cross-border successions

The European Union has just passed new rules which intend to ease the lives of those citizens who will be involved in cross-border succession scenarios..

Think of a Spaniard who has had his habitual residence in Germany for years, who has assets in Germany, France, Spain and United Kingdom. Should he die, who is the competent authority to make decisions on the partition of his inheritance, and which law is enforceable in each country?

Until a few days ago, Spanish, German, French and British, had the right to make decisions on that inheritance, if only partially. After many years and many thousands of Euros spent on legal assessment, the question of which law was to be enforced would luckily be settled. Now, the new Regulation, passed on July 4, has made clear not only which law is to be applied, but also which is the competent authority. This Regulation also creates a European Certificate to deal with wills made in a Member State, which intends to create a speedy, easy and efficient settlement succession document.

The Regulation, which will be directly enforceable in all Member States (with the exception of Denmark, Britain and Ireland, who have decided to remain out of this system), is applicable when the habitual residence of

the deceased is different from his nationality, independently from where his assets are. Cases like this, which were exceptional in the past, are now more frequent in the EU, where the number of persons living away from their country of origin has risen by a third between 2005 and 2010.

The advantages for heirs and legatees are very clear, since the succession of the deceased's assets will be treated as a whole, independently from their location.

To begin with, there will be only one applicable law. In principle, this will be the law of the State where the deceased had his habitual residence at the time of his death. However, there is one exception: that the deceased had previously chosen the law of the country of his nationality.

Think of an EU citizen who decides to settle in Spain when he retires and, according to the enforceable succession law in his country, he decides to leave all his possession to his best friend. However the applicable law in the majority of the Spanish territory stipulates that he must leave a third part of his assets to his offspring; another third, reduced by the spouse's usufruct, is used to benefit the offspring. The remaining third is distributed by the testator at will. If this EU citizen, after three years in Spain, does not specify that the law of his nationality is to be applied to his inheritance, he will not be able to leave all his possessions to his friend, and Spanish law will be applied, with all its consequences, given that his habitual residence is in Spain.

In this sense, the new regulation offers a wide variety of possibilities to those who want to be resourceful and do not have problems in changing their habitual residence to that country of the EU that allows him to design a determined succession plan.

In the same manner, there will be a unique competent authority, who will be the Judge or the Notary Public of the place where the deceased had his habitual residence at the moment of his death; in this instance; there is not the possibility to choose the judicial authority.

Lastly, the introduction of the European Certificate of Succession represents an important step forward. It is a document issued by a Judge or a Notary Public of the country where the deceased has made his will. This document will specify, among other things, the heirs, legatees, executors or administrators of the inheritance. With it, they can demonstrate their status in other Member States without having to show additional proof.

However, the application of this Regulation will not be immediate. Member States will have a period of three years to develop their Regulation, make the necessary modifications and even to define if the scope of application excludes certain types of assets.

Lastly, we would like to stress that the Regulation does not modify fiscal events, since the competence of fiscal matters remains in the hands of the Member States and is an especially sensitive issue.

Thus, in the case of a succession with assets in different countries there may be double taxation, in the country where the assets are and in the country of residence of the deceased. It is often unnoticed that double taxation treaties rarely deal with the inheritance tax (Member States have only signed 30 out of the 350 possible agreements). Despite the recommendations on this issue passed by the EU in December 2011, international successions are still at risk of being subject to double or triple taxation in the different countries, without compensation procedures.

The Regulation is, then, a first step that provides with legal certainty the growing number of displaced European citizens. But it is insufficient. Let us trust that the present situation, the worst crisis lived in the EU since its creation, will result in a stronger Europe which gives its citizens more certainty about the future of their families. ■



Recognizing the value of family business in times of crisis

Family Businesses constitute a substantial part of existing European companies and have a significant role to play in the continuing strength and dynamism of the European economy.

They must be seen not only in terms of assets but as a combination of property and values. That is, family businesses have implications that involve more than merely serving a financial purpose; they are a means of sharing certain values and providing a service to the community in which they are integrated.

Against the current backdrop of the financial crisis, these are precious characteristics. The crisis may be a good moment for family firms to prove the importance of the values they have always stood for.

Like a family firm, Europe must also build on its strong traditions, its reputation for quality, its skills and experience. At the same time it must be innovative and adjust to rapidly growing competition.

Like a family firm, Europe must value:

- Not just short term profits, but long term growth through patient capital.
- Not just building shareholder value, but building trust and commitment among wider stakeholders;
- Not just traditional markets and products, but also new markets and innovative solutions.

And like any family firm, we must plan ahead; anticipating and preparing for the future.

Yes, Europe still is a main player in the global economy. But it has major challenges ahead, which require adjustments and are likely to intensify in the coming years.

The SME-Intergroup in European Parliament plays an active role in tackling aforementioned challenges. In my capacity as President of the largest Intergroup in the European Parliament, I'm proud to announce our deepened cooperation with European Family Businesses. In the coming months the Intergroup and its partner-organizations will deal with a diverse array of topics, such as the eSignature-directive or the public procurement-package, which is expected to have a major impact on Europe's businesses.

Likewise the negotiations for the crucial Capital Requirements Directive IV (the transposition of the Basel-III-rules to European Law) have entered home stretch in their negotiation. My team and I have managed to condense the 2000-plus amendments into 136 compromise amendments. In the current trilogue-stage of the negotiations some positions between the European Parliament and the Member States are still a bit apart. However, I am positive that we can proceed with the votes in the plenary in the October Session at the latest.

As you can see there is a lot going inside the European Parliament. But in order to remain a driving force, each and every stakeholder must play its part: to boost growth, deliver jobs, and find public sector savings. Because support for the European Union as such will depend also on whether we have the right answers to the citizen's problems!

When they ask these questions about Europe, let's make sure they get the right answer! And in order to give the right answers, I am optimistic that we can work together by giving the best so we get the outcome that is required! ■