An initiative of
Deutsche Bank

Opinions. Insights. Quotes.

Interviews with representatives of European family businesses

In collaboration with

EFB EUROPEAN FAMILY BUSINESSES

The impact of family business in Europe.

Content

The European Family Business Report.

The European Family Business Report is an initiative by Deutsche Bank and supported by the EU federation European Family Businesses (EFB). The aim of the report is to obtain and present a broad overview of family businesses' views, assessments and expectations concerning national and EU policies and developments in the financial sector. This overview can serve as a basis for conclusions about the strategies which are at the root of family businesses' success; after all, they play an important role in the European economy.

21 representatives of family businesses from 20 European countries were interviewed for this report. All of them are members of the European Family Businesses federation. They were chosen to provide a sample of the family business community in their countries. The advantage of surveying this group is that the members can bring a multi-dimensional understanding and knowledge of various family business formats – from small-scale to large-scale – to the table thanks to their own activities in the framework of the EFB. With their connections, the interviewees can provide a better understanding of the situation of family businesses in Europe.

The study was conducted by Gesellschaft für Innovative Marktforschung (GIM). The survey concept is based on 21 single interviews which took place between 3 August and 11 September 2017.

The partners

Deutsche Bank is a leading European bank with a global reach supported by a strong home base in Germany. The Bank serves the real economy needs of its corporate, institutional, asset management and private clients, providing services in transaction banking, corporate finance and capital markets, asset management, wealth management and retail banking.

European Family Businesses (EFB) is the EU federation of national associations representing long-term family-owned enterprises, including small, medium-sized and larger companies. The organization was created in 1997. EFB's mission is to press for policies that recognize the fundamental contribution of family businesses in Europe's economy and create a level playing field when compared to other types of companies.

Interviewed family business representatives:

Andorra	Joan Tomas
Austria	Claudia Illichmann
Belgium	Nicolas Hollanders
Bulgaria	Stefan Gugushev
Estonia	Urmas Isok
Finland	Leena Mörttinen
France	Alexandre Montay
Germany	Daniel Mitrenga
Ireland	Philip Mackeown
Italy	Paolo Morosetti
Malta	Mario Duca
Netherlands	Albert Jan Thomassen
Poland	Adrianna Lewandowska and Michał Wojewoda
Romania	Mihaela Harsan
Slovenia / Croatia / Serbia	Jana Jereb
Spain	Jesús Casado and Esteban Sastre
Sweden	Sven Håkan Börjesson
United Kingdom	Fiona Graham and Elizabeth Bagger

On the move for Europe.

In Europe, family businesses play a vital role for the economy. This unique category of companies accounts for an important part – on average 40 to 50% of all jobs – of European private employment. As natural incubators of an entrepreneurial culture, family businesses foster the next generation of European entrepreneurs. Where do European family businesses see their future challenges, and what do they request from politicians and the financial sector? This report aims to give an answer to these questions and shed a light on other aspects of the family business culture, such as family businesses' understanding of their own role. A survey among 21 representatives of family businesses from 20 European countries provided important insights into cross-generational corporate management and related current and future tasks. We would like to take this opportunity to thank the participating interviewees for their time and valuable contributions.


Jesús Casado Navarro-Rubio
Secretary General
European Family Businesses AEIE

Family businesses are the backbone of the European economy. Their continued commitment to investing and creating jobs in Europe was demonstrated during the crisis period. Family companies propped up many economies during the downturn. In these moments of political instability, family firms are a stabilising force.

For family businesses to continue growing we need policy makers to support existing businesses. We need policies that promote private investment. We need policies that reward long-term patient capital. Policy makers must recognize that existing companies, in particular family businesses, represent the greatest potential for growth in the EU.

Family businesses must not shy away from speaking truths and facts: they must not shy away from telling the public that their values, their long-term vision, their local and regional engagement, their commitment to sustainable responsible growth, are what drive EU economies.

Jesús Casado Navarro-Rubio


Stefan Bender
Leiter Firmenkunden Deutschland
Deutsche Bank AG

Across Europe, family businesses are in a good position to face current and future challenges. They rely on values, they are flexible and innovative, and above all, they are successful. They are experts in cross-generational thinking and tend to be proud of their independence and unique features. They are open for new developments and can confidently gauge the benefits of innovation.

The changes in Europe and fluctuating political and economic framework conditions will create new challenges for this successful business model. However, I am certain that family businesses will master them with aplomb.

For decades now, Deutsche Bank has served as a global partner for numerous family businesses and supported them in entrepreneurial and financial endeavours, both in a national and an international context. We highly appreciate this close collaboration and open dialogue with our clients and believe that these partnerships will pave the way forward.

Stefan Bender

A model for the future. What family businesses need from politics and finance.

The study has clearly shown that European family businesses have very detailed ideas about what they need from politics and finance to be successful in the long run.

More reliability and less red tape

In politics, their expectations focus above all on creating and maintaining the most reliable context possible in which to do business: a sound tax framework and an inheritance tax which is advantageous across Europe and not just in some countries.

Bureaucracy should be less, regulations should not be too complicated, and at the very least they should remain stable and not change rapidly – a point several interviewees have complained about. Family businesses are seen to be grappling with a complex array of regulatory constraints which are regarded as barriers or seen as an injustice. In particular, interviewees from Germany and France have requested more equality and a reduction of disadvantages compared to other markets in terms of fiscal policy.

> *"Family businesses need more simplicity and stability: better fiscal rules, lower labour costs, a reform of the ISF, the so-called solidarity tax on assets. All in all, France has severe disadvantages in comparison to other European markets." (Alexandre Montay, France)*

A deep understanding, beyond the role of money

Most interviewees agreed that it is not enough if financial partners content themselves with understanding a family business's figures; they need to comprehend the business model and the strategy as well. Only banks which understand these specific corporate features can gain the trust of family businesses.

Wanted and appreciated: sparring partners at eye level

Most interviewees are open to banks which act as sparring partners and experts who share their know-how about exports, internationalization, and financing and business models, and which forge contacts that can open doors to new opportunities. Internationalisation in particular is regarded as a demanding process that needs expert know-how. Companies from export-oriented countries such as the UK or Finland or, indeed, Poland highly appreciate bank advice.

> *"So it's about not approaching things in a blind and unstructured way. Basically this would help to develop the skills and bridge any gaps in the family's knowledge." (Mario Duca, Malta)*

Long-term corporate strategies – a unique feature of family businesses?

In general, interviewees draw the following picture of family businesses in their competitive environment:

Higher stability during times of crisis

Most family businesses – in particular those from western Europe – believe that family businesses are better equipped to deal with crises for the following reasons:

- efficient management, in the sense that decisions are taken quickly and that companies can respond more flexibly,
- a corporate culture based on performance and trust,
- a desire for entrepreneurial and financial independence.

> *"When we had the financial crisis, family businesses fared better than non-family businesses. They didn't have such a big downturn and they managed to carry on growing out of it. So generally they are in a pretty good shape." (Fiona Graham, UK)*

Being an entrepreneur means being entrepreneurial

New trends, for example digitalization and the related search for qualified staff, present new challenges for family businesses in Europe.

Interviewees from Germany and Spain in particular see immediate need for action; however, larger and internationally oriented family businesses tend to act proactively.

> *"You can split companies more or less into two groups: some companies with more of a national focus are bound to pursue a bit more of a status quo strategy than others do. But in the larger or international companies, you see a very proactive and creative process going on."*
> *(Daniel Mitrenga, Germany)*

The question of how European family businesses implement innovations revealed that they tend to pursue an interesting strategy. Most interviewees said that a DIY strategy is the most natural approach for family businesses, which see themselves as entrepreneurs with comprehensive knowledge about their industry.

Acquisitions or cooperation are very widespread methods to deal with innovation, too. These two options are relevant because the development and implementation of new ideas must not endanger the traditional, stable structure or, above all, the core business of a family business. Family businesses prefer to cooperate with other family businesses.

> *"Some say: Our company culture has changed too much, and that limits innovation! So I'd rather buy a start-up than develop something new on our own. From another company I heard: We don't want to jeopardize our core business, so they set up an investment arm investing in other companies, in start-ups."*
> *(Albert Jan Thomassen, Netherlands)*

Securing the future – a successful handover to the next generation is existential

Many interviewees across Europe said that paving the way for a successful handover to a successor is a complex challenge. The main difficulties with the transition from one generation to the next involve early planning and an early exploration of interests within the family and within the next generation.

For historical reasons, Eastern European countries have not yet developed family business traditions. Family businesses are owned by the first or second generations after the communist era and the following privatization. Interviewees claimed that they were quite worried about handing over the business to the next generation.

> *"Sometimes they don't define themselves as family businesses. It's only when the founder is 60 years and more that they start thinking about the future of their business and realize that maybe their children aren't interested. It's very important for them to make the conscious decision to continue as a family business!"*
> *(Urmas Isok, Estonia)*

Moreover, numerous interviewees regard the unequal treatment of inheritance taxes across Europe as an obstacle to fair competition.

Family businesses and their specific funding culture.

Interviewees confirmed that European family businesses prefer to work with their own money, as doing so makes them financially independent. Their reluctance to become dependent on outside capital seems to be due to the fact that such financial relationships cannot be reconciled with their cross-generational understanding of themselves.

The first choice: the company's own assets

Family businesses tend to rely rather on their own assets instead of external capital and accept the resultant risk of slow growth rates. They tend to invest their earnings. Only if they cannot raise enough capital from their own coffers do they tap external funds, such as investment loans. The current, low interest level does not sway most interviewees either. Rather, most of them believe that a lack of knowledge of alternative funding models is one of the key reasons for family businesses' stance. The problem is even more acute in Eastern Europe.

> *"For family businesses it's a help to have access to know-how about what finance tools there are." – "The first generation didn't have a school of business. They didn't go to university to learn how to run a business. They were students during the communist regime. So maybe they put their business at risk due to a lack of knowledge." (Mihaela Harsan, Romania)*

Equity financing only for temporary investments

Since family businesses follow the tenets that control has to remain with the family and that the business development does focus on short-term benefits, equity investors are welcome for temporary investments.

However, both equity investors and banks which provide a traditional loan demand that companies present clear business plans and clear structures within the company – a request which is not always met. Equity financing can discipline family businesses and improve their structure and thus help them to become even more professional. In particular, interviewees from the Netherlands, Spain and the UK tend to see these positive effects.

> *"What they look for, and this is hard to find in the market, is a good equity investor who is willing to adapt to a family's long-term ambition. Not someone who wants a cash-out in three or five years but a longer period to cash out. Then they'll say, ok, let's go for it with a potential partner!" (Jesús Casado, Spain)*

Issuing bonds and crowd funding way behind

A majority of the interviewees said that bonds are rarely used. Bonds are a financial option for larger companies, but less so for small and medium-sized companies. However, a new trend has come to light in the past four to five years, particularly in France. This applies, for example, if companies want to diversify their business.

Crowd funding tends to be rare as well, but is increasingly used by younger entrepreneurs.

> *"We had some cases of equity crowdfunding. They combine money and manage owners! This is just done by first generation entrepreneurs only." (Sven Håkan Börjesson, Sweden)*

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