FAMILY BUSINESS IN THE NETHERLANDS
CHARACTERISTICS AND SUCCESS FACTORS

A Report
for the Ministry of Economic Affairs

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EXECUTIVE SUMMARY

This report presents the results of a large-scale research study exploring characteristics and success factors of Dutch family businesses. The study was directed by prof. dr. Roberto Flören and prof. dr. Lorraine Uhlaner at the Center for Entrepreneurship, Nyenrode Business Universiteit and funded in part by a subsidy from the Dutch Ministry of Economic Affairs.[1] The study has two goals: 1) to provide a clearer picture about the role and prevalence of family businesses in Dutch economy, and 2) to identify success factors of Dutch family businesses.

Conducted in summer, 2009, the research was based on a random sample of 1500 private firms stratified by company size and proportional to sector, and excluded the self-employed (with zero employees). As such, this study provides the most accurate measurement of the incidence of family businesses in the Netherlands to date, previous studies being hampered either by small and/or nonrandom sampling methods.

An enterprise is defined as a family firm if it fulfills the GEEF (*European Group of Owner Managed and Family Enterprises*) definition of family enterprise. A recent report of the European Commission[2] recommends that researchers from the EU countries apply this definition for family business. According to the GEEF approach, to be named a 'family business', a firm must meet the following criteria: 1) the majority of ownership (directly or indirectly) rests in the hands of a natural person and/or family; and 2) at least one representative of the family or kin is involved in management or administration of the firm. For listed firms, GEEF modifies the first criterion to require only 25% (vs. majority) ownership by one person or family. In order to provide comparisons with studies using different definitions, the study collected additional data on other types of family firm characteristics.

Family Business in the Dutch Economy

The first part of the study focuses on the description of family businesses in the Netherlands, as well as identification of areas for which family and non-family businesses are distinct. A highlight of findings includes the following:

- In total, there are about 260,000 family businesses in the Netherlands, which is more than 69% of all businesses, excluding the self-employed. Even with a more stringent definition than previously used, this is considerably higher than the previously reported figure of 55%[3] and as such, more in line with the family business rate for other European economies. Furthermore, based on these estimates, Dutch family businesses contribute 53% to the Dutch Gross Domestic Product, whilst they account for 49% of all working people in the Dutch economy.

[1] The project was also supported by Berk Accountants en Belastingadviseurs and ABN AMRO.
[2] European Commission (2009). *Final report of the Expert Group. Overview of family-business-relevant issues: Research, networks, policy measures, and existing studies*. Enterprise and Industry Directorate-General. http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/family-business/.
[3] Flören, R.H., and Zwartendijk, G.W., (2003). *Star en toch flexibel*. ESB, nr. 4402, 15 mei, p. D20-21.

- Although the proportion of family businesses declines by size class, 44% of firms in the 100-199 size class range and 27% of firms greater than 200 employees still meet the GEEF definition for a family business.[4]
- Family businesses represent the majority of firms in eight out of nine sectors, with the one exception being financial services (43% being family firms). The highest proportion of family businesses are found in agriculture and fishing (87%) and other services[5] (89%).
- Regarding business transfer, 40% of all Dutch businesses report having had a transfer since the firm's inception. This is the same rate for both family and non-family firms. Extrapolating from the sample, results also suggest that approximately 22,500 businesses (6%) of all Dutch firms are working on a transfer of the firm at the moment, a number consistent with more recent estimates that suggests Dutch firms on average plan only 1 to 1 ½ years in advance of transfer.[6]
- 73% of all family businesses are from the first generation, 16% in the second, and 10% in the third or later generation. Of those businesses having made a transfer, 62% of all companies, and 72% of family businesses report a family relationship between the previous and current owners.
- In 30% of family businesses, the business under study represents 100% of family assets. For more than 60% of the families, the growth of family assets is an important long-term objective.

Key Differences between Family and Non-family Businesses

- Comparing family and non-family businesses on company and owner characteristics, family businesses tend to be smaller although the age distributions are roughly similar. Family businesses also tend to have fewer owners. 89% of all Dutch family businesses have one or two owners, compared with 62% of non-family firms. At the other end of the spectrum, 11% of all non-family businesses have more than 100 owners compared with only 1% of family businesses.
- Regarding differences in business goals, 74% of all non-family businesses as compared with 63% of family businesses agree or strongly agree that growth is an important goal. Furthermore, 91% of family firms as compared with 98% of non-family businesses agree or strongly agree that continuity is an important objective. On the other hand, no differences are observed between non-family

[4] In all further references to family business below, this is based thus on the GEEF definition.
[5] Other services sector includes, for instance: 'temp' (temporary work) agencies, advertising agencies, architectural services, engineering services, law offices, and economic services, detective and investigative services, research and computer-service agencies.
[6] We make the assumption, based on the study by Meijaard (2005), that 16,000 firms per year actually transfer, on average, in the Netherlands. See Meijaard, J. (2005). *Business transfer in the Netherlands*. In: Y. Haane and J. Snijders (eds.), Entrepreneurship in the Netherlands. Business transfer: A new Start. EIM Business & Policy Research, Zoetermeer. (pp.17-29). ISBN 90-371-0961-6.

firms versus family firms in terms of having a strategy aimed at being the first on the market with new products or services.

- Family businesses perform equally well as non-family firms when considering a variety of subjective and objective financial performance indicators of the firm. The study also finds no differences between non-family and family businesses regarding the introduction of innovations to the market, the type of innovation (new to the world versus new to the industry and the firm), or the percentage of the total sales turnover obtained from innovations.

- The study finds significant differences between family and non-family businesses regarding corporate social responsibility indicators. In particular, family businesses tend to engage in socially responsible actions more often than non-family firms, especially in donations to local non-profit organizations and (inter)national “goodwill” efforts.

Success Factors of Dutch Family Businesses

- Regarding corporate governance, although family businesses are less likely to have a Board of Directors, to hold regular shareholder meetings or to have a Board that makes key decisions for the firm, preliminary results from the study suggest that these differences have no effect on financial performance of the firm.

- Family governance practices, such as a family constitution, family council, family code of conduct and formal communication mechanisms (i.e. website or newsletter) were also examined for their effect on firm performance. Such practices are more prevalent, the larger the firm. Usage of most family governance practices varies significantly depending on the number of owners. Thus, for instance, prevalence for several practices peaks for firms with between 11 and 50 owners: 66% of family firms with between 11 and 50 owners report having a family council, and selection criteria for family members as compared with a far smaller proportion of firms with less than 10 or more than 100 owners. Although slightly negatively associated with subjective financial performance of the firm, family governance practices are positively associated with entrepreneurial objectives (e.g. on growing the business and growing family wealth) as well as more innovative products and services.

- Regarding ownership behaviors, family and non-family owners perform equally well on the three identified ownership behaviors (although only the first two ownership behaviors positively influence a business’ financial performance):
    - owners as resource (e.g. talk enthusiastically about the business; keep their investment in the business as long as needed);
    - entrepreneurial effort (help to expand the business’ network; help to seek out or create new opportunities for the firm); and
    - active governance (e.g. play a key role in monitoring the work of management).

- Regarding ownership attitudes, family and non-family owners do not differ in terms of having a shared vision (e.g. agreement about the key objectives of the business, commitment to managing wealth as a group rather than as individuals). Owners of family businesses do report better quality of relationships with each another (i.e. trust, honesty, a cooperative relationship and teamwork) as compared with owners of non-family businesses. Both attitudes (a shared vision and quality of relationships amongst owners) enhance business financial performance.

Overall Implications and Recommendations

The results from this report are still preliminary, with additional analyses being carried out in the coming months. Nevertheless, research results clearly point to the following:

- Family businesses are a major driver in the Dutch economy, playing an even larger role than previously thought.
- Family businesses perform as well as non-family business counterparts, in the financial sense. They perform better with respect to corporate social responsibility. In particular, family businesses are more likely to play an active role in supporting local, national and international charities than non-family businesses.
- The lack of formal use of Boards of Directors does not necessarily reflect less professional performance on the part of family businesses. Although less likely to be used in the family businesses, presence (or absence) of a Board appears to make no difference in a firm's financial performance.
- The roles that owners serve as a resource base for contacts, information, patient capital, entrepreneurial ideas and opportunities are much more important success factors than their role as active monitors of the business.
- The quality of relationships amongst owners (e.g. trust, cohesiveness, and teamwork) and a shared vision of the firm's future are key success factors for both family and non-family businesses. These factors may actually be even more important differentiators for the performance of multiply-owned non-family businesses.
- Future research needs to focus even more specifically on business transfer and innovation in both family and non-family firms.

1. Introduction

This document reports the results of the research project conducted by the Center for Entrepreneurship, Nyenrode Business Universiteit. The research is focused on characteristics and success factors of Dutch family businesses. The research was conducted thanks in part by a subsidy from the Dutch Ministry of Economic Affairs.[7]

Consistent with the recommendations from the report "*Familiebedrijven. Continuïteit en Betrokkenheid in een Dynamische Nederlandse Economie*" [Family Businesses: Continuity and Commitment in a Dynamic Dutch Economy] presented to the Dutch Ministry of Economic Affairs in 2007, the primary aims of this research project are:

1. To provide a clearer picture about the role and prevalence of family businesses in relation to the broader Dutch economy, and
2. To help to identify success factors and other insights that will enhance the probability of success for Dutch family business owners and managers.

A further aim of the report is to assist Dutch policy makers in designing policies to support Dutch family business.

This report addresses the following research questions:

1. What role do family business play in the Dutch economy as a whole, and with respect to particular sectors and size groups?
2. What are the success factors for family businesses in the Netherlands?
3. How might these success factors be similar or different for different types of family businesses (e.g. by size, generation, ownership structure, governance) and between family and non-family more generally?

1.1. Definition of family business

There is a little consensus in the family business field with respect to how to define family business. Some researchers propose ownership and management criteria to classify a firm as a family or not. Others include such determinants as transfer intentions or self-description as a family business.[8] In this report an enterprise is defined as a family firm if it fulfills the GEEF (*European Group of Owner Managed and Family Enterprises*) definition of family enterprise. This definition has been chosen as it is recommended by the European Union and has been used in studies conducted in a number of European countries.[9] By using the GEEF definition, we can compare results of the present study with those of other studies on family businesses conducted outside the Netherlands.

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[7] The project was also supported by Berk Accountants en Belastingadviseurs and ABN AMRO.
[8] Mandl, I. (2008). *Overview of family business relevant issues*. Viena EU Contract No. 30-CE-0164021/00-51.
[9] European Commission (2009). *Final report of the Expert Group. Overview of family-business-relevant issues: Research, networks, policy measures, and existing studies*. Enterprise and Industry Directorate-General. http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/family-business/.

According to the GEEF definition a firm, of any size, is a family enterprise, if: [10]

1. In the case of the nonlisted firm, the majority of votes is in possession of the natural person(s) who established the firm, or in possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs.[11] Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 percent of the right to vote mandated by their share capital.[12]
2. The majority of votes may be indirect or direct.
3. At least one representative of the family or kin is involved in the management or administration of the firm.

Note that the GEEF definition is stricter than some previously used definitions in Dutch family business research because a business needs to satisfy all three conditions to be defined as a family firm. When applying less conservative definitions of family business, one would see a higher percentage of family businesses in Dutch economy than reported in this report. In order to be able to apply other, more relaxed definitions in the future, other questions measuring "familiness" of the business were also asked in the present study. The reader interested in this issue can find more details in Appendix I.

1.2. Description of the overall project

The first aim of this study is to explore the differences among family businesses as well as the differences between family and non-family firms with respect to major demographic characteristics. This report presents the picture of the whole population of the Dutch businesses with respect to the following characteristics:

1. Company size
2. Business sector
3. Age of the business
4. Ownership structure, including the number of owners and generation of owners
5. Ownership transfer patterns
6. Growth and continuity as strategic goals

The four categories of outcomes that are measured include:

1. Financial performance of the firm (subjective and objective)
2. Growth in ownership assets
3. Innovation performance
4. Corporate social responsibility

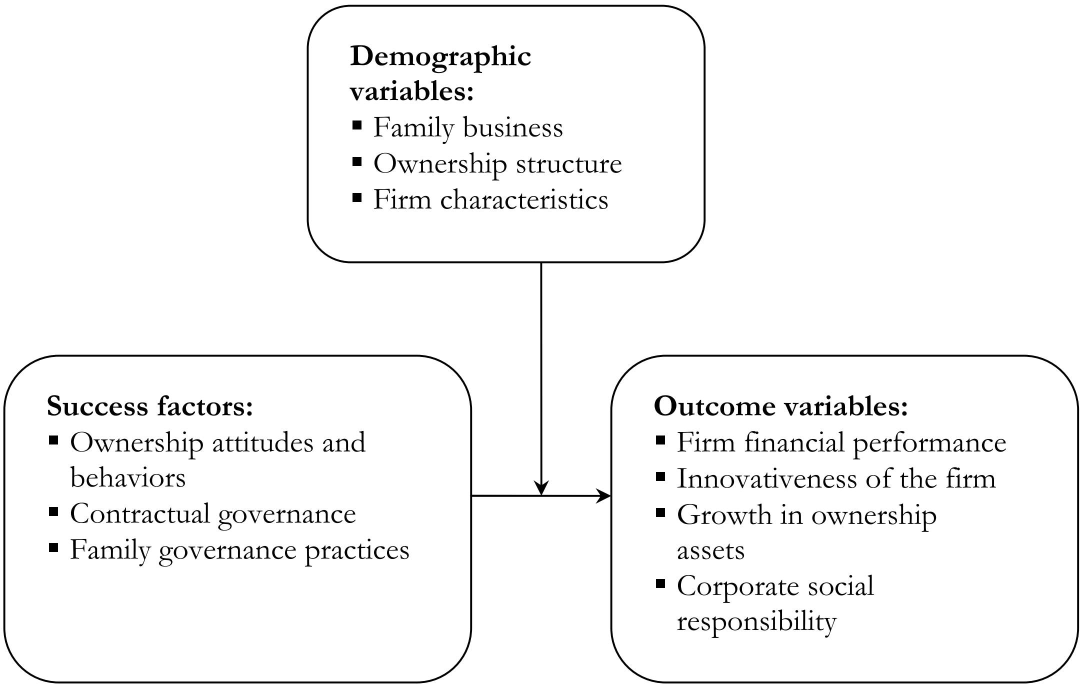
[10] Source: http://www.geef.org/definition.php.
[11] In the current research we measured the percentage of share ownership, not the votes.
[12] Listed companies are not included in this research.

A second aim of the research addresses success factors that are likely to differentiate family and non-family businesses. The following characteristics are examined in both family and non-family businesses:

1. Responsible ownership behaviors
2. Responsible ownership attitudes
3. Contractual governance
4. Family governance practices

The overall model used as a basis for the research is shown in Figure 1.1. Preliminary findings testing some of these proposed linkages are described later in this report.

Figure 1.1: Overall research model



1.3. Methodology

1.3.1. Defining the population for study and other sampling issues

An estimated 746,000 Dutch businesses are "active", according to records provided by the Dutch Central Bureau of Statistic [*Centraal Bureau voor de Statistiek*]. A large number of these firms (estimated at 414,000) are *self-employed*, i.e., they provide self-employment for a director but do not include additional employees. They are not considered family businesses according to the GEEF definition. Approximately 326,000 of the remaining businesses have between 1 and 100 employees (excluding the director himself or herself). Furthermore, based on figures provided by the Ministry of Economic Affairs and prepared by EIM BV, approximately 3,900 firms fall in the 100-250 size category and approximately 2,680 more fall in the range of 250 or more employees. The aim of the study was to sample sufficiently in order to provide adequate representation for the following size categories (including the director): 2-9; 10-49; 50-99; 100-199; 200 and up.[13] In the present study, the sampling approach balances the goals of estimating the overall contribution of family business to the Dutch economy (which requires adequate representation of the smaller firms) with the goal of identifying success factors for those firms with more complex owning groups, the latter typically from somewhat larger firms.

The sampling and data collection were carried out with the assistance of STRATUS BV, a division of Panteia BV (formerly EIM BV) which specializes in sampling and telephone interviewing, to assure an efficient process of sampling, data collection, and data codification (in terms of time and accuracy). STRATUS has extensive experience in particular drawing representative samples of Dutch firms.

In order to collect the data two samples are used. The first sample is created by STRATUS on the base of the DMCD-database of Marktselect, which is a commonly used sampling source in business-to-business research. The DMCS-database is based on the database of the Chambers of Commerce Association (*Vereniging van Kamers van Koophandel*) The second sample was drawn using the directory of the Family Business Network of the Netherlands (FBNed). FBNed is the Dutch chapter of the international association for family businesses, the FBN International (Family Business Network International). The members of this association received an e-mail from the director of the FBNed, motivating them to participate in the data collection. As a result, a panel of 1500 firms was created, including 1469 firms from random sampling and 31 firms from the FBNed directory.[14] Response rate for the whole sample was 42.1%.

The sample is stratified according to various sector and size classes. The sample is drawn proportionally according to sector. In addition targets were selected to assure a minimum of 200 firms from each size class. The final sample is distributed by sector and size as shown in Table 1.1.

Table 1.1: Stratification across sector and size classes

	2 - 9	*10 - 49*	*50 - 99*	*100-199*	*200+*	*Total*
Agriculture/fishing	15	13	6	6	1	41
Manufacturing	23	46	73	84	48	274
Construction	28	39	46	39	12	164
Wholesale/Retail	93	79	85	76	25	358
Hospitality	25	29	15	10	2	84
Transport & communication	12	18	29	35	18	112
Financial services	9	7	8	7	10	41
Business services	75	67	78	78	54	352
Other services	21	8	8	3	6	46
FBNed						31
Total	301	306	348	338	176	1.500

The research relied on a branching approach to data collection. Interviewers asked all firms certain basic questions, regarding demographic, firm and ownership structure characteristics, as well as corporate social responsibility, contractual governance, innovation, and financial performance. They asked additional questions of other

[13] Due to the structure of the database, it was not feasible to sample companies on the 250 employees cut off, which is commonly used in definitions of SME's.

[14] The cases from FBNed directory are not used in the analyses conducted in section 2 of this report (Family business in Dutch economy). They are included for analyses in sections 3 and 4.

subsamples (e.g. those with family relationships amongst owners; and/or those with two or more individual owners), covering certain other topics in greater depth, such as ownership behavior and attitudes, performance of family assets, and family governance practices.

In sum, in order, first, to get a more accurate picture of the family businesses in the overall Dutch economy, we sampled all size strata except for the self-employed without employees. We also used stratified sampling techniques to assure a sufficiently large subsample to carry out certain analyses aimed at larger and/or multiply owned firms. Based on the sampling method and other techniques used, combined with a high response rate, conclusions can be safely made about companies in the Dutch economy.

1.3.2. Data collection

The survey took the form of a phone interview with the managing director of the approached business. The full-length survey took around 20 minutes on average. Phone interviewing has the dual advantage of assuring a high response rate, as well as providing an easy way to track respondents in the eventuality that a follow-up study using a longitudinal panel design is later pursued.[15]

The bulk of the data was collected between 19 May and 5 June 2009. A small amount of supplemental data related to ownership structure was also collected between 13 and 26 October 2009.

1.3.3. The variables

Detailed information about the variables included in the study are presented in specific sections of this report.

1.3.4. Data analysis

Statistics included in this report are based on a series of tests. First, the differences between family and non-family firms were initially checked for the reported variables by means of a Chi-squared test and bivariate correlation statistics. Further validity of the differences were checked by controlling for several business characteristics, including the firm's age, size, life cycle stage, and sector as well as number of owners, using hierarchical multiple regression analysis.[16] As noted in the text, we combined some items into scales in order to measure certain concepts more reliably. In order to build those scales a factor analysis, scale reliability check (Cronbach-Alpha), and Categorical Principal Components Analysis (CATPCA) was employed. All those analyses were conducted using the Statistical Package for the Social Sciences (SPSS).

[15] To this end, the respondents were asked whether they would agree to participate in a follow-up survey in the future.

[16] These controls are recommended and commonly used in the research in the field of family business. For discussion about the need for control, see for instance, Westhead, P. and Howorth, C. (2006). *Ownership and management issues associated with family firm performance and company objectives*. Family Business Review, Vol. 9, No. 4, p. 301-16.

2. Family businesses in the Dutch economy

Family businesses are the dominant form of enterprise in the world. However, the importance of the family business for the national and the worldwide economy is usually underestimated. The sheer number of family businesses and their contribution to employment is similarly underrated. There are several reasons for this. Families have no reason to publicize their involvement with the business, partly because of privacy issues and possibly, in the Netherlands, because of its Calvinistic culture. As a result, the outside world does not regard many of these businesses as family business even though one family owns and manages them. Furthermore, many family businesses are privately owned and therefore not subject to publishing annual reports and disclosing accounts. To further complicate the issue, many owners have a complex ownership structure for fiscal reasons. Also, no lists distinguishing family businesses from their non-family counterparts are available in either the Netherlands or in almost any other country. This has made family business difficult to study, which might further explain why their impact on the economy has been underestimated.

2.1. Total number of family businesses in the Dutch economy

Until now, the family business figures in the Netherlands were based on several family business studies performed at Nyenrode Business Universiteit and others. However, in past Dutch studies used to estimate the number of family businesses, the sample sizes were much smaller. In particular, those samples either underrepresented the smallest firms (e.g. those with less than 10 employees) or excluded them altogether.[17] This research is the first family business research study ever carried out in the Netherlands, which has a substantial sample size and includes all businesses, except for the self-employed.

The results show that the number of family businesses in the Netherlands are in fact even higher than had been previously reported for the Netherlands, including frequently reported estimates of about 55% (see Table 2.1).[18]

In total there are about 260,000 family businesses in the Netherlands, or about 69% of all businesses, excluding the self-employed. It is not surprising that the smaller businesses tend to be a family business more often than the larger businesses. Given the large number of relatively small businesses in the Dutch economy it should not be surprising that the total percentage of family business in the Netherlands is largely influenced by the percentage of family businesses among smaller companies. Nevertheless, note that the combined figures for the top two size classes (100-199; 200 or more) suggests that even for those firms with more than 100 employees, about 38% can be classified as a family business.

[17] For more details on previous studies, contact the authors.
[18] The 55% figure derives from an earlier study carried out by Roberto Flören. This discrepancy may be due partly to the fact that in past research, the smallest firms (between 2-9 employees) tended to be underrepresented. Flören, R.H., and Zwartendijk, G.W., (2003). *Star en toch flexibel*. ESB, nr. 4402, 15 mei, p. D20-21.

Table 2.1: Number of family businesses among all incorporated businesses in the Netherlands (excluding self-employed)

Employees (including director)	Companies	% Family businesses	Family businesses
2 – 9	304,418	72.9	221,921
10 – 49	58,046	56.0	32,506
50 – 99	6,939	49.7	3,449
100 – 199	3,407	44.8	1,526
200 or more	2,348	27.6	648
Total	375,158	69.3	260,050

2.2. Comparisons with other European economies

Results from the current study bring Dutch figures more closely in line with estimates of family businesses in other European economies. A comparison of the percentages of family businesses between the Netherlands and other countries is presented in Table 2.2. Although the estimate of 69% is still lower than for estimates obtained for Austria, Finland, Greece, Italy and Spain, it is very similar to those found for Belgium, the United Kingdom and France. Having stated that, we still do not know whether these figures are entirely comparable due to differing definitions for family businesses used in individual

Table 2.2: Percentage of family businesses in different European countries compared to the Netherlands[1]

Country	% Family businesses
Netherlands	69
Austria	80
Belgium	70
Finland	86
France	75
Germany	95
Italy	93
Spain	85
United Kingdom	69

1 Dutch data in the table is based on the current study. Data for other countries were obtained from I. Mandl, (2008) *Overview of family business relevant issues*, Vienna EU Contract No. 30-CE-0164021/00-51.

countries. However, the Dutch figures are in accordance with the GEEF definition, which is recommended by the Expert Group report of the DG Enterprise of the European Commission.[19]

2.3. Business sectors represented by family businesses

Quite often questions are raised on an expected dominance of family businesses in certain business sectors. As Table 2.3 shows, there are indeed differences between business sectors in the Netherlands concerning the percentage of family business. However, family businesses are in the majority in all but one sector (financial services). The highest proportions of family businesses are found in the following sectors: agriculture and fishing (87%), other services[20] (86%), wholesale and retail (79%), transport and communication (77%) and the hospitality industry (76%). The remaining sectors of construction (69%), manufacturing (65%) and business services (55%) still have a majority of firms which are family businesses.

Table 2.3: Percentage of family businesses per business sector in the Netherlands

Business sector	% Family businesses
Agriculture/fishing	87
Manufacturing	65
Construction	69
Wholesale/Retail	79
Hospitality	76
Transport and communication	77
Financial services	43
Business services	55
Other services	86

2.4. Age of the business and number of owners

Researchers and policy makers often assume that family businesses are older than non-family businesses. However, in the present research, we find that the age of the business is roughly similar for the two groups.[21] Some researchers have suggested that other things

[19] European Commission (2009). *Final Report of the Expert Group. Overview of family-business-relevant issues: Research, networks, policy measures, and existing studies*. Enterprise and Industry Directorate-General. http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/family-business/.
[20] Other services sector includes, for instance: 'temp' (temporary work) agencies, advertising agencies, architectural services, engineering services, law offices, and economic services, detective and investigative services, research and computer-service agencies.
[21] Unless otherwise stated, differences between family and nonfamily businesses are tested using the Chi-square test, using $p<.05$ as the criterion for significance.

being equal, family businesses are older than non-family businesses. We do not confirm this assumption, finding no significant differences between the age of family and non-family businesses. Table 2.4 presents the distribution of all businesses by age.

One of the important strengths of the family business is that ownership of the business is mostly in the hands of a small group. This study shows that the number of owners of family businesses in the Netherlands is indeed lower than that of non-family businesses (see Table 2.5). Almost 90% of all Dutch family businesses in the sample have one or two owners, compared with 62% for non-family firms. At the other end of the spectrum, whilst only 1.6% of family businesses have more than 100 owners compared with 11% of all non-family businesses.

Table 2.4: Age of businesses in the Netherlands (excluding self-employed)

Age of the business (in years)	% All companies
0 –5	18.0
6 – 10	16.2
11 – 20	22.8
21 – 50	27.4
51 – 100	10.9
101 – 150	4.0
More than 150	0.6

Table 2.5: Number of owners of businesses in the Netherlands (excluding self-employed)

Number of owners	% All companies	% Family businesses	% Non-family businesses
1	38.9	47.2	20.6
2	42.2	41.9	41.4
3 – 10	13.7	9.2	24.4
11 – 50	27.4	0.6	2.3
51 – 100	0.7	0.5	0.1
More than 100	4.3	1.6	11.1

2.5. Business transfer and generation

About forty percent (40.1%) of Dutch businesses has had at least one business transfer since the founding of the firm (see Table 2.6).

Table 2.6: Percentages of businesses in the Netherlands that has experienced a business transfer (excluding self-employed)

Experiences business transfer	% All companies
Yes	40.1
No	59.9

Contrary to previous findings, we found no significant differences between family businesses and non-family businesses regarding business transfer rate.[22] Extrapolating from the sample, results also suggest that approximately 22,500 businesses (6%) of all Dutch firms are working on a transfer of the firm at the moment, a number consistent with more recent estimates that suggests Dutch firms on average plan only one to one and a half years in advance of transfer.[23]

Table 2.7 reports the distribution of firms by generation. 73% of all family businesses are from the first generation, 16% in the second, and 10% in the third or later generation. Of those businesses having made a transfer, 62% of all companies, and 72% of family businesses report a family relationship between the previous and current owners.

Amongst larger family businesses (i.e. those with at least ten employees), later generation firms are more prevalent than for family businesses more generally: 17% have reached the second generation whilst 18% is in the third generation or later.

Table 2.7: Generation that currently owns the business (excluding self-employed)

Generation	% All companies	% Family businesses	% Non-family businesses
First[a]	78.0	73.4	89.3
Second	13.3	16.4	6.2
Third	6.1	7.5	2.5
Fourth or higher	2.6	2.8	1.9

a Companies in which there are family relations between current and previous owner are reported as first generation businesses.

Of those businesses that have experienced a business transfer, more than 60% report a family relationship between the current and the previous owner (see Table 2.8). As could be expected this percentage is far higher in family businesses (73%) vs. non-family businesses (31.9%) though the latter figure suggests that even amongst so-called non-

[22] Earlier research conducted at Nyenrode found that family businesses transfer once every 22 years whilst non-family businesses transfer every seven years.

[23] We make the assumption, based on the study by Meijaard (2005), that 16,000 firms per year actually transfer, on average, in the Netherlands. See Meijaard, J. (2005). *Business transfer in the Netherlands*. In: Y. Haane and J. Snijders (eds.), Entrepreneurship in the Netherlands. Business transfer: A new Start. EIM Business & Policy Research, Zoetermeer. (pp.17-29). ISBN 90-371-0961-6.

family businesses are a number of firms which others might also classify as family-owned and managed.[24]

Table 2.8: Family relation between current and previous owners after a business transfer (excluding self-employed)

Family relation between previous and current owners	% All companies	% Family businesses	% Non-family businesses
Yes	61.7	72.7	31.9
No	37.9	27.3	68.1

2.6. Strategic goals: growth and continuity

The director of each business was also asked about strategic goals for the business. There are significant differences between the strategies of family businesses and non-family businesses (see Table 2.9). More than three quarters of all non-family businesses agree that growth is an important goal of their business, compared with 64% of family businesses. More than a quarter of all family businesses state that growth is not an important business goal. Continuity is often a goal associated with family businesses. Somewhat surprisingly, thus, continuity is mentioned as a goal significantly more frequently by non-family businesses (98%) as compared with family businesses (91%). Nevertheless, its mention is quite high by both groups.

Table 2.9: Growth as an important goal of the business (excluding self-employed)

Growth is an important goal	% All companies	% Family businesses	% Non-family businesses
Strongly agree	22.7	17.3	34.3
Agree	44.2	46.4	39.9
Neutral	11.0	11.2	10.8
Disagree	18.4	21.1	12.2
Strongly disagree	3.8	4.1	3.0

[24] Note that many so-called nonfamily businesses do not meet the GEEF definition because one family does not own majority shares, but that nevertheless, there can be a family relationship between the previous and current owner(s).

3. Differences in performance and other outcomes between family and non-family businesses

In this section, we report on the relationship between the family business variable and several outcome variables previously described Figure 1 (see section 1.1.). As explained earlier, we continue to use the GEEF definition in this section when comparing family and non-family businesses. The outcome variables include financial performance (subjective and objective), innovativeness of the firm, growth in ownership assets, and corporate social responsibility.

3.1. Financial performance of the firm and the family business variable

It is commonly believed that family businesses perform worse than their non-family counterparts do because those businesses are not growth oriented, less innovative, and entangled with family affairs. The present study addresses this issue by comparing financial performance of family and non-family businesses. Financial performance of the firm is measured in two ways: as subjective financial performance and objective financial performance. Since many private companies are reluctant to reveal information about specific numbers regarding their firm's profitability and turnover, we asked respondents to indicate their subjective evaluations of financial performance of their firms. These evaluations include, amongst others, general financial performance, profitability and liquidity. Despite the expected lower response rate, this research study also addresses objective financial performance of the firm. Objective financial performance relates to respondents' indicators of the change is sales turnover and profit/sales ratio.

Regarding the subjective financial performance of the firm, based on the Chi-Squared test, a difference was reported between family and non-family businesses only in the case of average profitability over the last five years. Results show a negative correlation between the family business variable and perceived liquidity. However, when controlling the sample for a several firm characteristics[25], those differences disappear.

Furthermore, we found no difference between family and non-family businesses for objective financial performance indicators. Although in initial analyses, we do obtain a negative correlation between the family business variable and percentage of turnover change (but not profit/sales ratio), these effects again disappear when controlling for firm characteristics.

Thus, based on the results for subjective and objective measurement of financial performance of the firm, we conclude that family businesses and non-family businesses perform equally well.

We discuss results for subjective financial performance of the firm in more detail in section 3.1.1 and for objective financial performance in section 3.1.2.

[25] As mentioned in the method section, for all multiple regression analyses in this report, control variables included the firm's age and size, life cycle stage, sector as well as a number of owners.

3.1.1. Subjective financial performance of the firm

We asked directors the following questions to obtain ratings of financial performance:

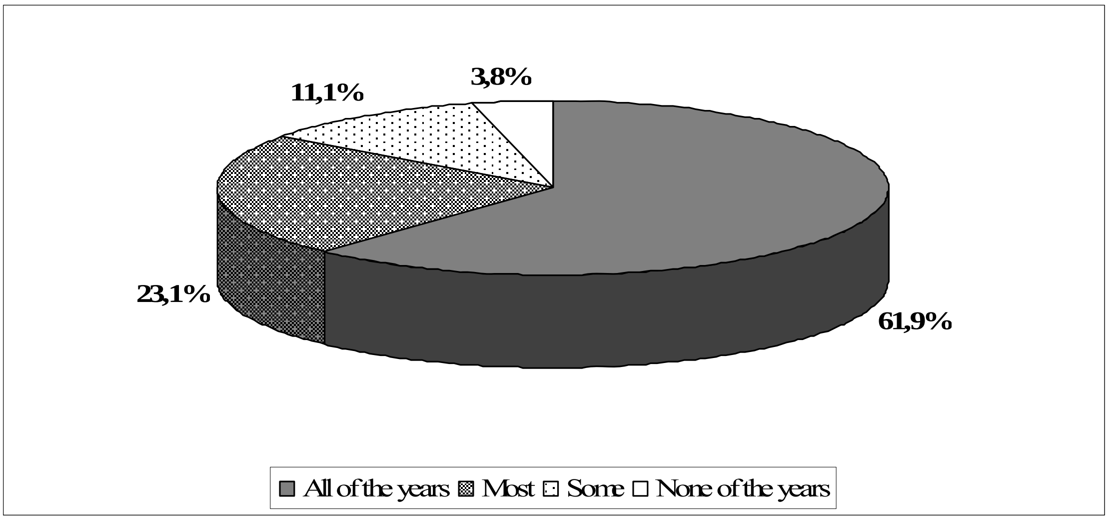
1. Did your business earn a profit in the last five years?
2. How would you describe the profitability of your business in the last fiscal year?
3. How would you describe the average profitability of your business over the past five years?
4. How would you describe your current liquidity?
5. How would you compare the financial performance of your business to major competitors in your industry?

The rest of this section presents respondents answers to these questions, followed by a reporting of results testing the relationship between the family business variable and subjective financial performance of the firm.

Question 1: Did your business earn a profit in the last five years?

Firstly, we asked respondents to indicate whether their businesses earned a profit in all, most, some, or none of the last five years.[26] The Chi-Squared test indicated no differences between family and non-family businesses when it comes to this question. As depicted in Figure 3.1, more than half (around 62%) of the respondents indicated that their firms obtained profits in all five years. Around one-quarter (23%) reported that their businesses were profitable in most of the years. Only 14.9% admitted that their firms earned profits in some or none of the last five years.

Figure 3.1: Did your business earn a profit in the last five years? (Question 1; N=1461)

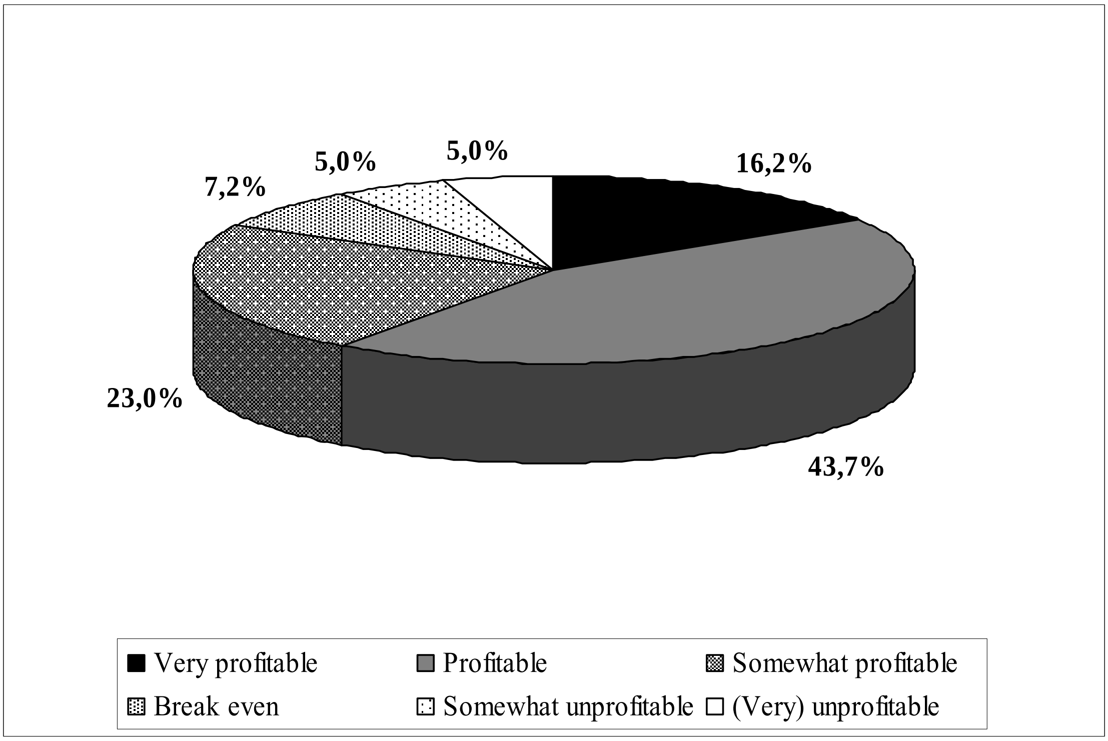


[26] If the company was younger than five years, the respondent was asked about the profit across the number of years that the firm actually existed.

Question 2: How would you describe the profitability of your business in the last fiscal year?

Figure 3.2 presents respondents' indications regarding business profitability in the last fiscal year. Also for this question the nonsignificant Chi-Squared test statistic indicates no differences between family and non-family businesses. The vast majority of respondents (more than 80%) indicated that their businesses were profitable in the last fiscal year. Seven percent of firms included in the research managed to break even. Only 10% of the respondents indicated that his/her firm was (somewhat or very) unprofitable.

Figure 2.2: How would you describe the profitability of your business in the last fiscal year? (Question 2; N=1453)



Question 3: How would you describe the average profitability of your business over the past five years?

Respondents were asked also to report on average profitability over the past five years (see Table 3.1). Almost 70% of all respondents indicated that their businesses were profitable or very profitable. Around 20% agreed that the business was somewhat profitable over last five years. Only approximately 6% of the firms broke even and the following 6% were unprofitable. A significant Chi-Squared test statistic suggests that there are differences between family and non-family businesses with respect to the average profitability of the business over the past five years. However, differences are relatively small, as indicated by percentages also shown in Table 3.1.

On the one hand, family businesses report less often that they were very profitable or profitable than the non-family businesses (63.9% and 70.5% respectively). However, family firms more often report that they were somewhat profitable (23.8%) than do non-family businesses (17.6%).

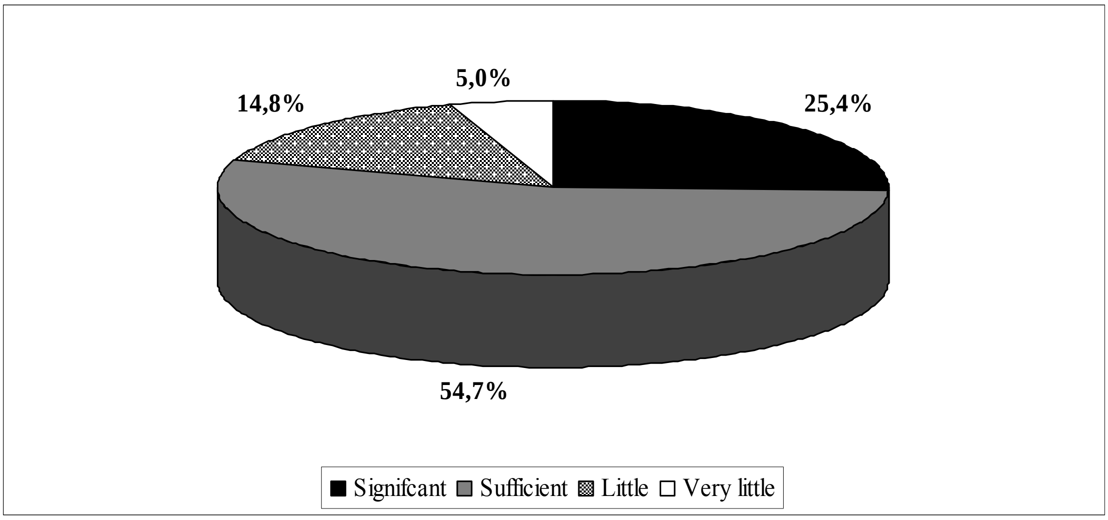
Table 3.1: How would you describe the average profitability of your business over the past five years? (Question 3)

	% All companies (N=1422)	% Family businesses (N=770)	% Non-family businesses (N=672)
Very profitable	11.2	10.3	12.4
Profitable	55.8	53.6	58.2
Somewhat profitable	20.9	23.8	17.6
Break even	6.0	6.2	5.7
Somewhat unprofitable	3.3	3.8	2.8
Unprofitable	2.4	2.2	2.7
Very unprofitable	0.4	0.1	0.7

Question 4: How would you describe your current liquidity?

We asked respondents were asked to describe their liquidity (see Figure 3.3). Differences between family and non-family businesses were not significant, based on Chi-Squared test results. Options ranged from *significant* (e.g. able to obtain a new building or large production line), mentioned by about 25% of respondents, to *very little* liquidity (e.g., having difficulty to cover even essential items to keep current operations going) mentioned by only about 5% of respondents. Intermediate options included *sufficient* (e.g. to obtain a new truck or small piece of equipment), mentioned by the majority (54.7%) of the respondents and *little* liquidity (that is, available only for items essential to keep current operations going), mentioned by the remaining 14.8% of respondents.

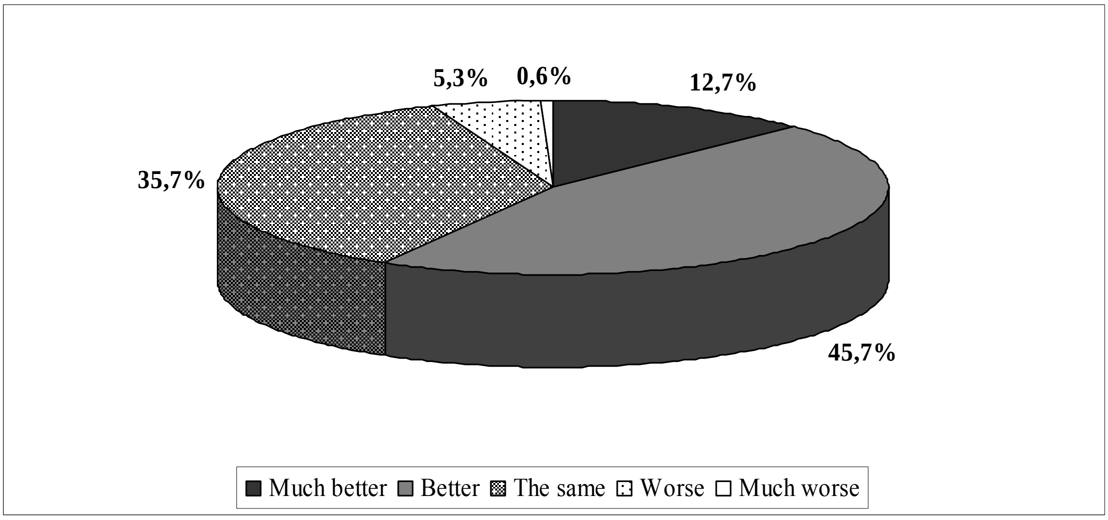
Figure 3.3: How would you describe your current liquidity? (Question 4; N=1454)



Question 5: How would you compare the financial performance of your business to major competitors in your industry?

Finally, respondents were asked to assess how well their firm performs in comparison to the major competitors in their industry. Since there were no differences between family and non-family in respect to this question (the Chi-Squared test being nonsignificant), we present only results for the overall sample. As shown in Figure 3.4, almost 46% of all respondents assess their performance as better than that of their competitors, whereas almost 13% rate their firm's performance as much better. More than one third of the respondents (approximately 36%) indicated that their performance is at the same level as that of major competitors in their industry. Interestingly, only around 6% of respondents indicate that their performance is worse or much worse than that of counterparts in their industry.

Figure 3.4: How would you compare the financial performance of your business to major competitors in your industry? (Question 5; N=1454)



Additional results and conclusions

As indicated earlier, Chi-Squared test results show that there are no differences between family and non-family businesses with respect to the subjective financial performance for all but one measurement. In order to check the robustness of this finding, further analysis was conducted, including correlation and multiple regression analysis. Those analyses are presented in Appendix II, Table II.1 and Table II.2.

In order to facilitate data analysis, we combined the answers to the five subjective financial performance questions into one scale.[27] Table II.1, Appendix II presents correlations between subjective financial performance (for separate questions and the scale) and the family business variable. Among separate indicators of subjective financial performance, only liquidity is significantly correlated with the family business variable such that family firms report less liquidity than do non-family firms.

In further tests, we carried out multiple regression analyses to confirm whether these findings were similar when controlling for firm characteristics (i.e., firm age, life cycle stage, sector, number of owners). Multiple regression analysis shows that family businesses and non-family businesses *do not* differ with respect to liquidity or general subjective performance measured as a scale, once controlling for these other characteristics (see Table II.2, Appendix II).

[27] Since separate questions have been measured by different scales of answers categories, in order to combine the answers in one variable the CATPCA technique has been utilized.

Summing up all the results, it can be concluded that family businesses and non-family businesses perform equally well in term of subjective financial performance of the firm.

3.1.2. Objective financial performance of the firm

The objective financial performance of the firm is measured by:

1. The percentage of turnover change between two latest fiscal years[28], and
2. The profit/sales ratio in the latest fiscal year.[29]

Results show no differences between family and non-family businesses with respect to the objective financial performance of the firm. The results are discussed in more detail in this section.

The percentage of turnover change and the profit/sales ratio

Table 3.2 presents the percentage of sales turnover change between two last fiscal years and profit/sales ratio computed on the basis of the answers obtained from all respondents. Around half of all businesses (51%) reported the increase in turnover between 0% and 25%. Approximately 15% of firms indicated an increase of more than 25%. These patterns are not significantly different (based on Chi-squared tests) for family vs. non-family businesses.

When looking at the profit/sales ratio, in three out of four firms the ratio is between 0 and 25%. For about 11% of the firms the profit/sales ratio is more than 25%.

Table 3.2: Objective financial performance of the firm

	Less than -25%	0% till -25%	0%	0% till 25%	More than 25%
Percentage of turnover change (N=849)	2.12 %	14.37%	17.08%	51.12%	15.31%
Profit/sales ratio (N=696)	0.43%	7.90%	4.31%	76.58%	10.78%

Additional results and conclusions

In order to check the robustness of findings for objective financial performance, further analysis was conducted, including correlation and regression analysis. These analyses are presented in Appendix II, Table II.3 and Table II.4.

Table II.3, Appendix II presents correlations between the family business variable and objective financial performance measured by the percentage of turnover change and profit/sales ratio. The numbers presented in the table indicate that the family business variable and the percentage of sales turnover change are negatively correlated. There is no correlation found between the family business variable and profit/sales ratio.

When controlling for several business characteristics (see regression results in Table II.4, Appendix II) differences between family and non-family firms for both objective financial performance indicators disappear.

[28] Depending whether the respondents already had information about the results and turnover for 2008, the years compared here are 2007 and 2008 or 2006 and 2007. Respondents were asked for total turnover excluding VAT.

[29] Respondents were asked for the estimated profit, in euros, before taxes. This was divided by the estimated total turnover, in euros, and excluding VAT, for the last closed fiscal year.

Based on these results, we conclude that there are no real differences between family and non-family businesses with respect to objective financial performance of the firm.

3.2. Innovation performance and the family business variable

Innovativeness is an important factor in knowledge economy. Innovative companies are believed to contribute considerably to economic growth and general economic development. Family businesses are often perceived to be less innovative firms that occupy traditional sectors. They are believed to be unwilling to take risks and to introduce changes that are associated with innovativeness. In order to examine whether Dutch family businesses are indeed less innovative than non-family firms, a few general questions concerning innovativeness were addressed in this research study. To measure innovation performance the respondents were asked to answer the following questions:

1. Innovations are constantly coming out in your industry. To what extent do you agree or disagree with this statement?
2. Your firm's strategy is aimed at being the first in the market with new products or services. To what extent do you agree or disagree with this statement?
3. Has your company introduced new products or services to the market over the past three years?
4. Would you describe the new products or services as innovations new to the world and not only for the company or industry.[30]
5. What percentage of the total sales in the last fiscal year represents new products or services?

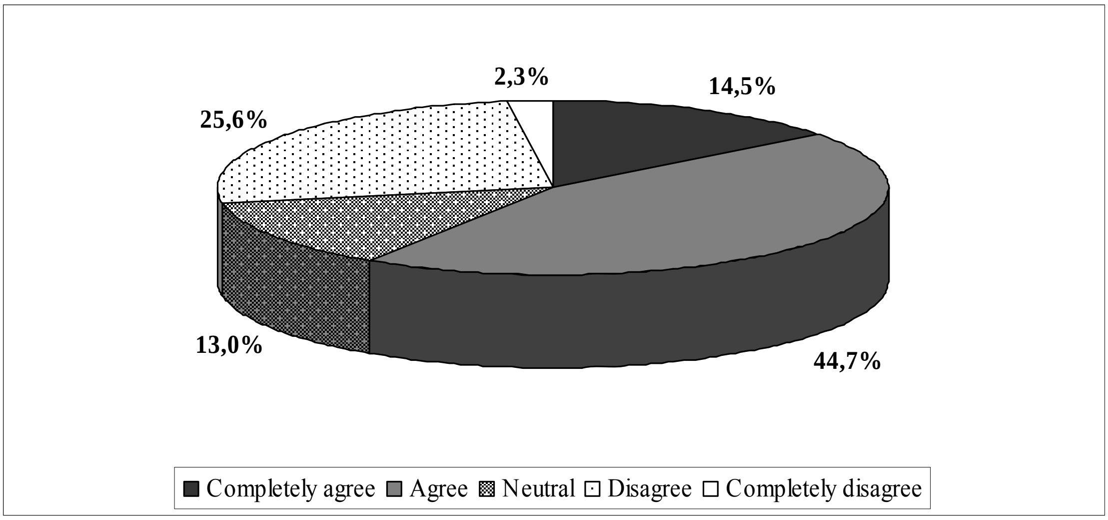
The initial results based on correlations suggest that family businesses introduce innovations less often to the market. When controlling for firm characteristics in regression analysis, however, it is found that the family business variable does not explain any variance in any of the items measuring innovativeness. Thus it may be concluded that family businesses do not innovate less than non-family firms. Further in this section the results are discussed in more details.

Question 1: Innovations are constantly coming out in your industry. To what extent do you agree or disagree with this statement?

First, respondents were asked to indicate to what extent they agree or disagree with the statement that innovations are constantly coming out in their industry. Since the Chi-Squared test indicated no differences between the answers of respondents from family and non-family firms, Figure 3.5 shows the answers for all companies. Almost 60% of all the respondents strongly agree or agree that in their industry innovations are introduced all the time. However, one-quarter of the respondents disagree with this statement.

[30] Questions 4 and 5 were asked only to those respondents who indicated in question 3 that their companies introduced new products or services.

Figure 3.5: Innovations are constantly coming out in your industry. To what extent do you agree or disagree with this statement? (Question 1; N=1505)



Question 2: Your firm's strategy is aimed at being the first on the market with new product or services. To what extent do you agree or disagree with this statement?

Respondents were also asked to indicate to what extent they agree or disagree with the statement that their business strategy is aimed at being the first on the market with new products or services. Although the Chi-Squared test indicated differences between family and non-family businesses, these differences appear to be relatively minor (see Table 3.3). Family and non-family businesses to almost the same extent agree or completely agree that their business strategy is oriented toward introducing innovation on the market (38.0% vs. 38.8%). However, more family than non-family businesses either disagree or completely disagree with this statement (45.0% and 40.6% respectively).

Table 3.3: Your firm's strategy is aimed at being the first on the market with new products or services. To what extent do you agree or disagree that statement? (Question 2; N=1494)

	% All companies	% Family businesses	% Non-family businesses
Completely agree	9.24	7.70	10.97
Agree	29.12	30.30	27.78
Neutral	18.74	17.05	20.66
Disagree	37.48	38.89	35.90
Completely disagree	5.42	6.06	4.70

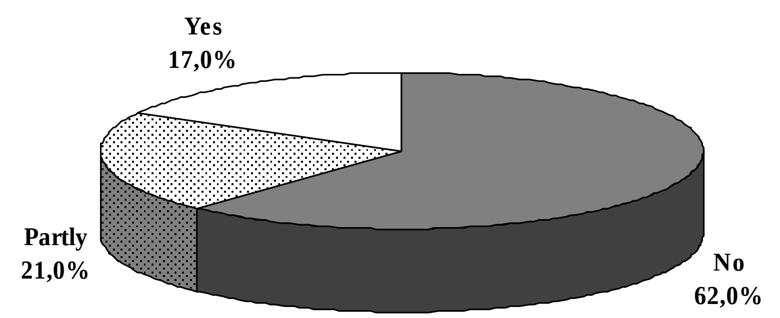
Question 3: Has your company introduced new products or services to the market over the past three years?

Next, respondents were asked to indicate whether their companies had introduced any new product or services to the market in the last three years. There were differences noticed with respect to this question between family and non-family businesses (Chi-Squared significant). Around twelve percent more non-family businesses (72.0%) than family firms (60.2%) reported that their company introduced innovations within the last three years. For the whole sample the percentage of respondents answering "yes" to this question is 65.7% (N=1493).

Question 4: Would you describe the new products or services as innovations to the world and not only for the company or to the industry?

This question explores the type of innovation the firm introduced within the last three years (see Figure 3.6). Question 4 was asked only to the respondents who indicated in question 3 that their firms introduced new products or services. No difference was observed in answers of respondents from family and non-family businesses. Not surprisingly, most of the firms (62%) innovate in the products or services that are new for the firm or industry, but are not new to the world. Still, almost 17% of respondents indicated that their companies bring forth breakthrough innovations that are new to the world.

Figure 3.6: Would you describe the new products or services as innovations new for the world and not only for the company or industry? (Question 4; N=979)



Question 5: What percentage of the total sales in the last fiscal year represents new products or services?

Finally, respondents whose firms introduced innovations in the last three years were asked to indicate the percentage of the total sales in the last fiscal year that represents new products or services. Since no difference was found between family and non-family businesses (Chi-Squared test not being significant), the results are presented for the whole sample (see Figure 3.7). In most of the firms new products or services represent between one and twenty-five percentage of the total sales (78%). Only in a very small percentage of the firms (5.6%) innovations account for all or more than half of the total sales.

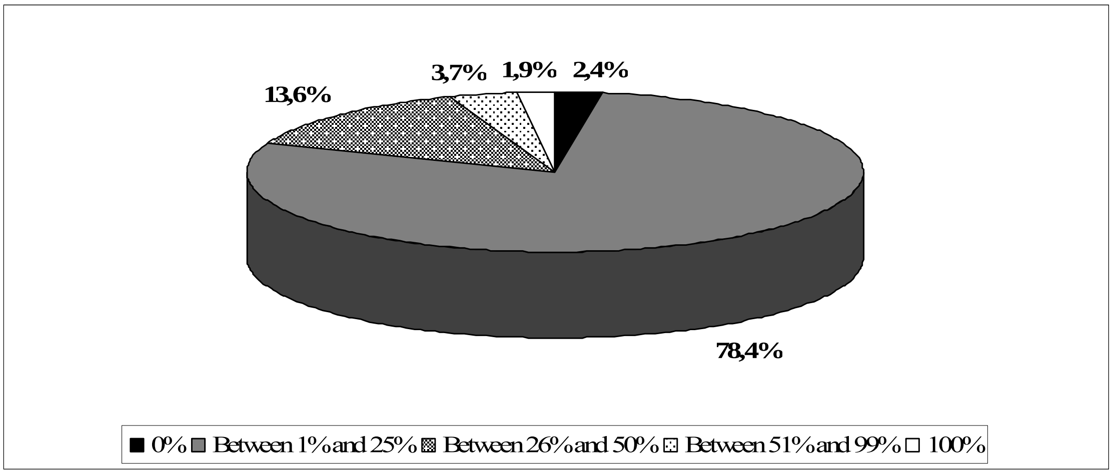
Additional results and conclusions

In order to further explore the innovativeness of family businesses two additional analyses were conducted using correlations and multiple regression analysis. The correlations presented in Table II.5, Appendix II suggest that family businesses bring fewer new products and services to the market than their non-family counterparts. No other significant correlation was found.

A multiple regression analysis was conducted to establish whether the negative relationship between family business and introduction of innovation to the market is valid when controlling for firm characteristics. As the results of this analysis indicate (see Table II.6, Appendix II), the family business variable does not explain any variance in any of the five indicators for innovativeness.

Thus, summing up the presented above results, we conclude that family businesses do not innovate any less than non-family businesses, once we control for firm characteristics.

Figure 3.7: What percentage of the total sales in the last fiscal year that represents new products or services? (Question 5; N=874)



3.3. Family ownership assets

This section presents the characteristics of family ownership assets. The analyses conducted in this section are reported only for those firms classified as family businesses according to the GEEF definition.[31] The following questions were addressed:

1. Does the company consist of all, majority, some or none of the family assets?
2. What is the change in the value of the family wealth over the last five years?
3. "In long term, growth of family wealth is an important objective." To what extent do you agree or disagree with this statement?

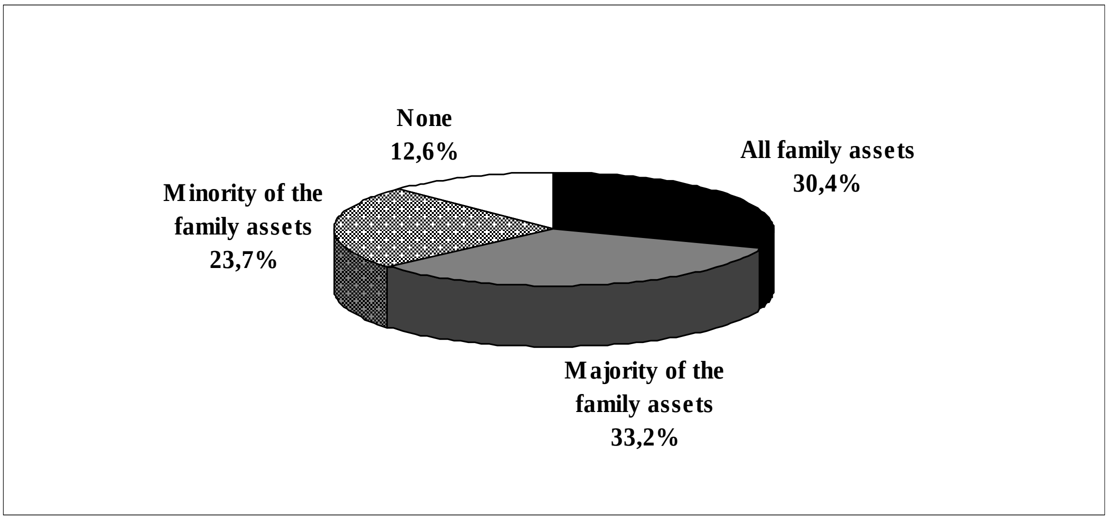
Initial results indicate that for the vast majority of business-owning families, the business represents all or the majority of family assets. Most business-owning families recorded an increase in their assets over the last five years, whereas for around 25% of families the assets stayed at the same level. For most family business owners the growth of family assets is an important long-term objective. The rest of this section presents the results in more detail.

[31] Note that we do not report here thus on respondents who may have a family relationship amongst owners, but otherwise do not qualify as a family business according to the GEEF definition. Note that out of 494 firms for which the respondent indicated that there is a family relationship between owners, 389 (78.7%) were classified as family businesses according to the GEEF definition.

Question 1: Does the company consist of all, the majority, some or none of the family assets?

First of all we asked the family owners about the proportion of their families' assets embedded in the company. As presented in Figure 3.8, the majority of respondents indicated that the firm represents all (30.4%) or a majority (33.2%) of their family assets. For almost one-quarter of the respondents, the firm represents a minority of the total family assets.

Figure 3.8: Proportion of family assets represented by the company (Question 1; N=358)



Question 2: What is the change in the value of the family wealth over the last five years?

Respondents were also asked about the change in the value of the family wealth over last five years. Approximately 70% of respondents indicated that the value of the family assets has increased or strongly increased. Nearly one-quarter of the families recorded no change in the value of their assets. Only 5.8% of the families indicated that the value of their wealth decreased or strongly decreased (see Figure 3.9).

Question 3: In long term, growth of family wealth is an important objective. To what extent do you agree or disagree with this statement?

We also asked respondents the extent to which they would agree that growth of family wealth is an important objective. Nurturing and preserving family assets in a long term is an important objective for many family business owners. Figure 3.10 shows that almost 62% (61.8%) agree or totally agree that the growth of family wealth is an important objective. However, about 20% of respondents disagree or totally disagree with this statement.

In conclusion, for nearly two-thirds (64%) of business-owning families in this study, the family business itself represents all or a majority of the family assets. Furthermore, those assets, based on the reports of respondents, increased or strongly increased for 70% of the firms in the last five years. Finally, the majority of respondents (61.8%) indicate that the growth of family wealth is an important long-term objective for family owners.

Figure 3.9: What was the change in the value of the family wealth over the last five years? (Question 2; N=344)

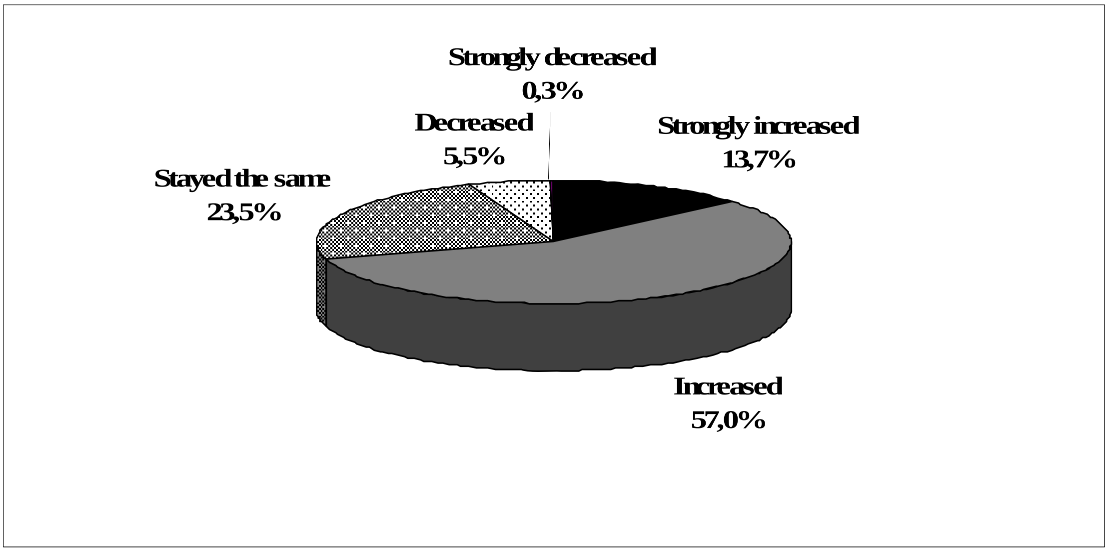
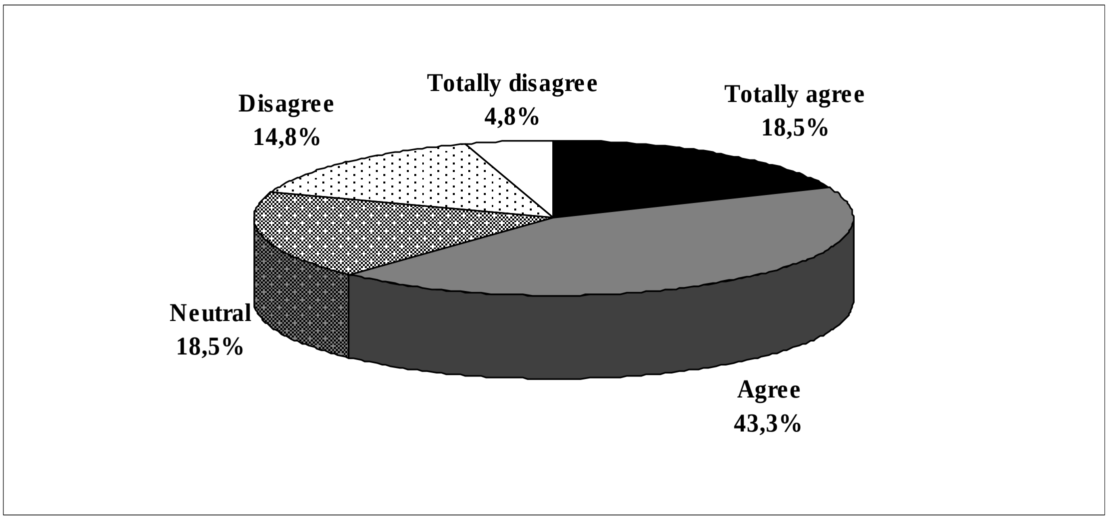


Figure 3.10: In long term, growth of family wealth is an important objective. To what extent do you agree or disagree with this statement? (Question 3; N=372)



3.4. Corporate social responsibility and the family business variable

Family businesses are commonly believed to be more involved in socially responsible actions than non-family businesses. These actions can take many forms including, for example, caring about the well-being of employees, supporting local non-profit organizations, and conducting business operations in an environmentally friendly manner. In this research study, some questions measuring corporate social responsibility are included. Specifically, we asked respondents to indicate whether their companies engage in the following actions:

1. Does your company donate to national or international "goodwill" efforts?
2. Does your company donate to local non-profit organizations, like sport clubs, church or school?
3. Does your company contribute more to the improvement of the (physical) environment than is required by law? (environmentally-oriented activities)

The results show some differences between family and non-family businesses when it comes to the engagement in corporate social responsibility. This difference is found when analyzing bivariate relationships for donations to local non-profit organizations (the Chi-Squared test indicated no differences). However, when controlling the results for company characteristics, the results show that family businesses tend to donate to local organizations and (inter)national goodwill efforts more often that non-family businesses. No relationship was found between the family business variable and environmentally-oriented activities. The results are discussed in more detail further in this section.

Question 1: Does this company donate to national or international "goodwill" efforts?

Respondents were asked whether their company donates to national or international "goodwill" efforts. Based on Chi-Squared tests, no difference between family and non-family businesses was found for this item. Generally, 53.2% of all firms engage in this type of action.

Question 2: Does this company donate to local non-profit organizations, like sport clubs, church or school?

Respondents were also asked whether their company donates to local non-profit organizations, like sport clubs, church or school organizations. We observed no statistically significant differences between family and non-family businesses for this question. From all companies included in this study, only around 25% indicated that they do not engage in this type of action.

Question 3: Does your company contribute more to the improvement of the environment than is required by law?

Finally, respondents were asked whether their company contributes more to the improvement of the environment than is required by law. The Chi-Squared test statistic indicates no differences between family and non-family businesses for this question either. Around a half of all companies included in the study indicated that they engage in environmentally friendly actions.

Additional results and conclusions

In order to establish whether or not family and non-family businesses differ with respect to the engagement in socially responsible actions, correlation and multiple regression analysis were conducted.

Table II.7 in Appendix II shows the correlations between particular socially responsible actions and the family business variable with a positive relationship between the family business variable and donation to local organizations. This relationship is even stronger when controlling for firm characteristics, as shown in Table II.8, Appendix II. Although the correlation between family business and donating to international or national organizations is nonsignificant, when controlling for other factors, the relationship becomes positive and significant. The relationship with environmental actions remains nonsignificant in both correlation and multiple regression analyses.

In summary, there is strong evidence that family businesses are indeed more likely to help with both their local communities and at the national and/or international level, with no evidence, however, that this spills over to greater concerns about the physical environment.

4. Success factors in family (and non-family) businesses

This chapter of the report presents initial findings regarding the effect of various "success factors" on performance and other outcomes. Given the limited research that has taken place on the topic, especially amongst privately-owned firms, the primary focus of the present study was on the effect of ownership and governance practices on the outcome indicators (i.e. financial performance, innovation and corporate social responsibility).[32] This chapter is divided into four main sections, covering the four main categories of variables examined, including responsible ownership behaviors, responsible ownership attitudes, contractual governance and family governance practices.

4.1. Responsible ownership behaviors as success factors in family and non-family businesses

A key research objective of the present study was to enhance our understanding of how owners should behave toward their firms, especially where there are two or more owners and/or at least a partial nonoverlap between ownership and the direction. The behavior of owners is a largely neglected area of research in the fields of entrepreneurship and organization behavior. Preliminary research by the authors had found that such behaviors may enhance or detract from a firm's financial performance and rate of growth in ownership assets.[33]

The idea that owners can play an active role towards their firms is a relatively new notion, which has taken hold primarily in the family business literature. In economics and in corporate law, the chief responsibility of business owners, generally speaking, is to provide capital to the firm. In many countries, in exchange for providing such capital, shareholders of public firms are given the right to elect a board of directors or supervisory board, which has the primary duty of governing the corporation. But in many if not most privately-owned firms, even where a board of directors or supervisory board is chosen, owners rarely relinquish total control to the corporation, but instead, often remain active in some way in assuring the firm's success, in both formal and informal ways. These activities and actions are part of what makes up the behaviors that we refer to in this project as responsible ownership.

Differences in ownership behaviors and related attitudes can be substantial. These behaviors and attitudes have received special attention in the current project. Furthermore, although we examine family businesses more closely for some governance practices, we also examine the effects of ownership behaviors on non-family businesses that are also multiply owned.

[32] For a more thorough discussion of the role of ownership in governance in the privately-held firm, and previous studies carried out by the authors on this topic, please refer to Uhlaner, L.M. (2008). *The role of ownership in governance: A neglected focus in entrepreneurship and management research.* Inaugural Lecture, Nyenrode Business Universiteit, April 21, 2008
[33] Uhlaner (2008) op cit.

4.1.1. Categories of responsible ownership behaviors

Originally sixteen questions concerning specific ownership behaviors were asked to the respondents who indicated that their firm is owed by two or more owners. Nine of those questions were classified in three groups describing more general ownership behaviors: owners as resource, entrepreneurial effort and active governance. Initial results, based on bivariate relationships, indicate that there are no differences between family and non-family businesses regarding any of the three types of behaviors. From the three behaviors, furthermore, only owners as a resource is significantly (and positively) associated with financial performance. When controlling the sample for company characteristics it is found that both owners as resource and entrepreneurial effort enhance subjective financial performance and that those behaviors are especially important for non-family firms. The rest of the section discusses these results in more detail.

In order to examine owners behavior in the firm the respondents where asked to indicate to what extent they agree or disagree with the statements presented in Table 4.1.

Table 4.1: Ownership behaviors originally measured in the survey

	The owners of the business:
Owners as resource	talk enthusiastically about the business with persons outside the business* keep their investment in the business as long as needed* are ready to support the business*
Entrepreneurial effort	help to expand the business's network by making outside contacts* help to seek out or create new opportunities for the firm*
Active governance	put in a great deal of effort beyond what is expected to help this business be successful* play a key role in monitoring the work of management are prepared to take action in cases where the top management team does not carry out its job properly play a key role in selecting top management
Other	are always clear to fellow owners about intentions regarding their future investment in the business (e.g., plans to hold, to sell or to buy shares) become involved with internal affairs of the business only if formally agreed that this is part of their responsibility support the business's long-term strategy of the business* act consistently with expectations implied by shareholder agreements or other relevant agreements behave in a way that respects the hierarchy within the business* act jointly to enhance to the value of the company. act jointly to enhance the value of the total family wealth

* Chi-Squared test significant

Initial results focus primarily on the first three categories of items, which were combined into scales.[34] These items and categories are also listed below:

Owner as resource: These owners talk enthusiastically about the business with persons outside the business, keep their investment in the business as long as needed and are ready to support the business.

Entrepreneurial effort: These owners help to expand the business's network by making outside contacts and help to seek out or create new opportunities for the firm.

[34] Details of data reduction techniques, including factor analysis and reliability checks can be provided by the authors.

Active governance: These owners play a key role in monitoring the work of management, are prepared to take action in cases where the top management team does not carry out its job properly, and play a key role in selecting top management. Finally, they put in a great deal of effort beyond what is expected to help this business be successful.

4.1.2. Differences between family and non-family business owners regarding responsible ownership behaviors

Table 4.2 reports responses where we found significant differences between family and non-family (based once again on Chi-Squared test statistics). As shown in Table 4.2, almost all respondents (75% and more), regardless of whether or not they are from family businesses, strongly agree or agree with these statements. The main differences can be detected in whether respondents agree versus strongly agree. Thus, note that whereas 48.2% of non-family business respondents indicate that the owners help to expand the business's network by making outside contacts, only 40.5% of family business respondents strongly agree with that statement. The only reversal is for the question regarding effort. More family business respondents than non-family business respondents both agree and strongly agree that owners 'put in a great deal of effort beyond what is expected to help [the] business be successful.'

Table 4.2: Responsible ownership behaviors in family and non-family businesses

	% All companies		% Family businesses		% Non-family businesses	
The owners of the business:	strongly agree	agree	strongly agree	agree	strongly agree	agree
...talk about the business (N=931)	58.3	39.1	55.1	42.7	61.5	35.5
…support the business (N=930)	58.2	40.0	54.6	44.8	61.7	35.3
...keep investment in the business (N=918)	51.1	43.7	48.8	48.6	53.4	38.8
…expand network (N=930)	44.4	42.7	40.5	48.6	48.2	36.9
…search opportunities (N=929)	44.2	44.2	41.9	49.8	46.5	38.9
...put in a great effort (N=858)	33.6	41.7	35.9	46.8	31.1	36.2

4.1.3. Additional results and conclusions

As indicated in Table 4.3, only the ownership behavior variable, *owners as a resource*, positively correlates with the variable, *subjective financial performance*. Furthermore, correlations do not indicate any relationship between the three ownership behaviors and the family business variable.

Table 4.3: Owners as resource, entrepreneurial effort, active governance, subjective financial performance and the family business variable – Correlations

	Subjective financial performance of the firm	The family business variable	
Owners as resource	.09**	-.01	N=925
Entrepreneurial effort	.06	.01	
Active governance	-.01	.05	N=513[a]

** Correlation is significant at the 0.01 level (2-tailed).
[a]: Sample size for active governance is smaller because some of these questions were asked only where at least some nonoverlap between owners and managers occurs.

In order to examine the relationship between responsible ownership behaviors and subjective financial performance controlling for business characteristics, multiple regression analyses were also conducted (see Table II.9, Appendix II). The results confirm that owners as resource has a significant influence on firm financial performance. Also, in contrast to the bivariate results, we find that when controlling for other effects, entrepreneurial effort is *positively* related to subjective financial performance. We continue however to find no effect for active governance.

In further analysis, we tested for interaction effects of each of these behavior variables with the family business variable. Results are shown in Figures 4.1 and 4.2. We find, namely that the positive effect of both owners as resource and entrepreneurial effort of owners is actually stronger for non-family firms than for family businesses.

Figure 4.1: Interaction term owners as resource and the family business variable

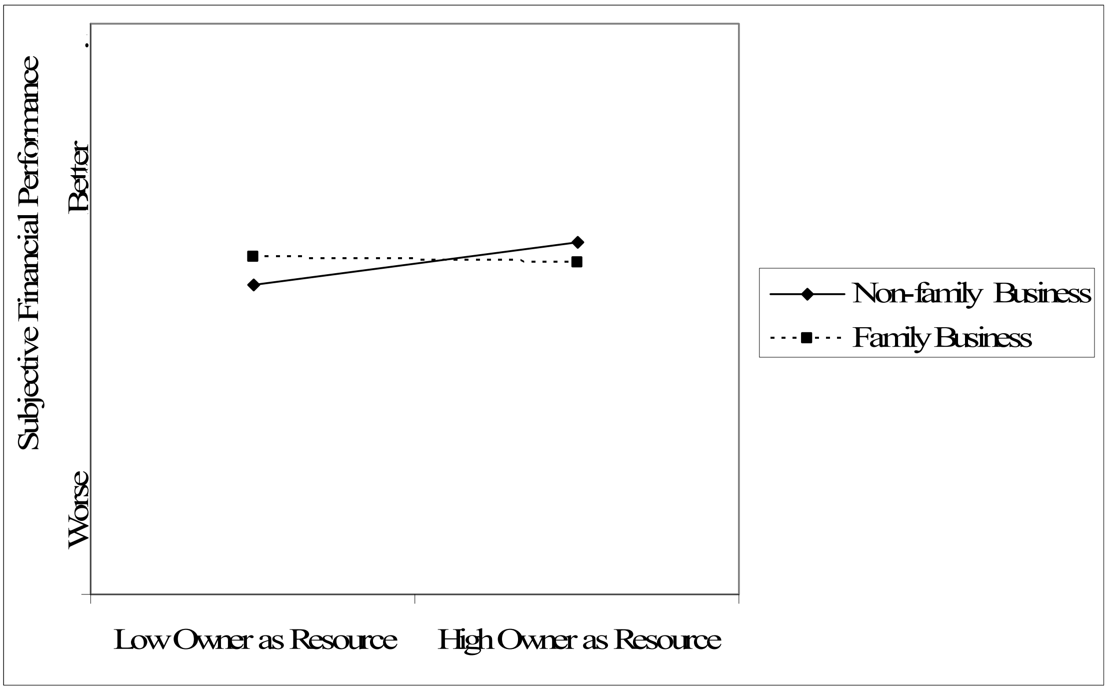
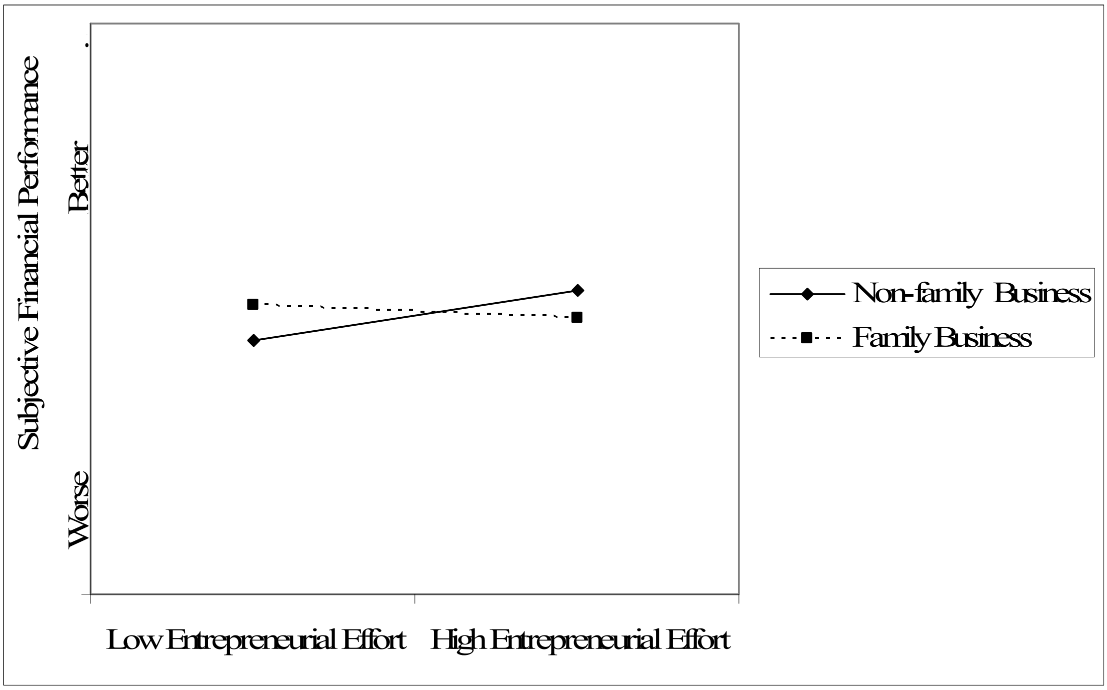


Figure 4.2: Interaction term entrepreneurial effort and the family business variable



4.2. Ownership attitudes as success factors in family and non-family businesses

Past research also shows that ownership attitudes can be an important factor influencing business performance. Just as the work attitudes and behaviors of employees and managers determine success of the business, the attitudes and behaviors of owners are also crucial for proper operation of the firm. Originally, eleven questions were used to address specific owners attitudes. Statistical analyses led to a classification of seven of these questions into two scales: *quality of (owner) relationships* and *shared vision*. Initial results, based on bivariate analysis, indicate that the quality of relationships is positively correlated with both subjective financial performance and the family business variable. Shared vision is positively correlated with subjective financial performance as well (though not with the family business variable). Multiple regression analysis shows that when controlling for company characteristics, both ownership attitude variables continue to be positively associated with subjective financial performance. However, the quality of relationships mediates the relationship between shared vision and subjective financial performance. Furthermore, the quality of relationships has a positive influence on firm performance especially in non-family businesses. The rest of this section discusses the results in more detail.

4.2.1. Categories of responsible ownership attitudes

Ownership attitudes which were originally included in the survey are listed in Table 4.4. On the basis of statistical analysis (factor analysis, reliability check) ownership attitudes listed in the table are grouped so that they describe more general concepts.

Table 4.4: Ownership attitudes originally measured in the survey

	The owners of the business:
Quality of (owner) relationships	
	tend to trust one another*
	are open and honest with each other*
	have a good cooperative relationship
	work together as a team*
Shared vision	
	have a commitment to managing wealth as a group rather than as individuals
	try to pull this company in opposite directions (reverse code)
	agree about the key objectives of the business*
Other	have a long-term view of investments and returns
	agree about the roles and responsibilities of owners
	share the same vision about the business
	have a commitment to growing vs. harvesting the business*

* Chi-Squared test significant

Further analysis[35] identifies the following distinct categories of owner attitudes:

Quality of (owner) relationships: The following four items are combined to measure quality of (owner) relationships, including: owners trust one other, are open and honest with each other, have a good cooperative relationship, and work together as a team.

[35] Details of factor analysis and other data reduction techniques are available from the authors upon request.

Shared vision: The following three items were combined to measure shared vision, including: this concept reflects owners' willingness to subordinate the individual goals to the goals of the ownership group as a whole. More specifically, owners have a commitment to managing wealth as a group rather than as individual, (do not) try to pull the company in opposite directions, and agree about the key objectives of the business.

4.2.2. Differences between family and non-family business owners regarding responsible ownership attitudes

Table 4.5 presents responses to the questions where differences between family and non-family were found (Chi-Squared significant). Family businesses owners are more likely to agree strongly with statements about the quality of owner relationships than their non-family business counterparts. For example, family business respondents more often 'strongly agree' than do non-family respondents that owners are open and honest with other (around 8% difference).The reverse is true for items about shared vision. For instance, respondents from family businesses less often 'strongly agree' with the statement that owners agree about the key objectives (35%) than the respondents from non-family firms (42%).

Table 4.5: Ownership attitudes in family and non-family businesses

	% All companies		% Family businesses		% Non-family businesses	
The owners of the business:	strongly agree	agree	strongly agree	agree	strongly agree	agree
…tend to trust each other (N=859)	51.0	45.3	54.3	43.5	47.3	47.3
… are open and honest with each other (N=856)	46.8	48.8	50.8	45.3	42.4	51.1
… work together as a team (N=852)	45.3	47.2	48.3	47.0	42.0	47.4
…agree about the key objectives of the business (N=863)	38.7	59.6	35.4	63.5	42.3	55.2

4.2.3. Additional results and conclusions

Table 4.6 presents correlations between owners attitudes, and subjective financial performance of the firm as well as the family business variable. Both attitudes are positively correlated with subjective financial performance. Trust is positively correlated with the family business variable. There is no significant correlation between associability and the family business variable.

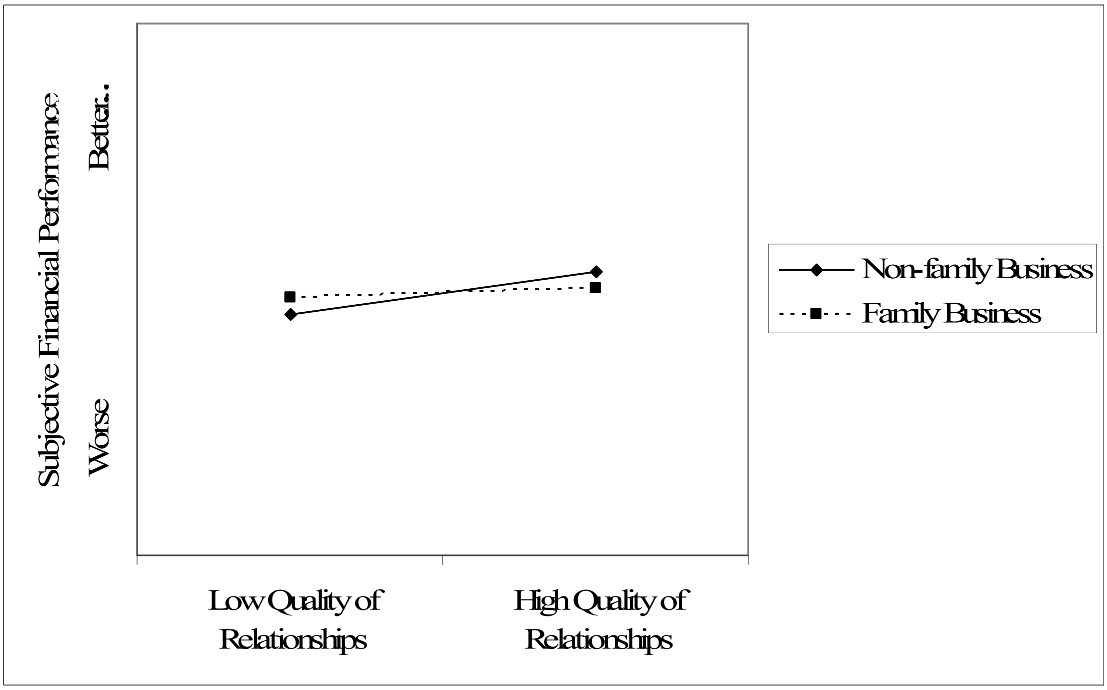
Table 4.6: Ownership attitudes, subjective financial performance of the firm and the family business variable – Correlations (N=853)

	Subjective Financial Performance	The family business variable
Quality of Relationships	.07*	.09*
Shared Vision	.08*	-.06

* Correlation is significant at the 0.05 level (2-tailed).

In order to examine the relationship between ownership attitudes, the family business variable and subjective financial performance more thoroughly, multiple regression analyses were conducted. The results of those analyses are presented in Table II.10, Appendix II. Results indicate that in the overall sample, shared vision is a better predictor of subjective financial performance than is the quality of relationships. However, a significant interaction between the quality of relationships and the family business variable is found, such that in non-family firms, the quality of relationships is a positive predictor of financial performance. However this is not the case for family businesses, where the quality of relationships has little or no added explanatory effect. Figure 4.3 graphically represents these findings.

Figure 4.3: Interaction effect between the quality of owner relationships and the family business variable on the dependent variable of subjective financial performance



4.3. Contractual governance as a success factor in family and non-family businesses

This research study also examines contractual governance as a possible factor influencing business performance by regulating the relationship between ownership and management. The primary focus in the present study was on the role of the Board of Directors. In order to explore this area the respondents were asked whether there is an official Board of Directors. If the respondent indicated that such a body exists in the business, and that the business is owned by two or more owners, he or she was asked to indicate the decision areas for which this body is responsible, including the selection of the managing director, which big investments the firm should make, the business strategy and the budget. We also asked questions regarding the composition of the Board, including, in the case of multiply-owned businesses, the percentage of owners' family members serving on the Board. Finally, for those with multiple owners, we asked respondents whether and how often shareholders meet formally.

Results show that a relatively small percentage of all firms (22%) has a formal Board of Directors. Differences between family and non-family businesses are substantial: more than twice as many non-family vs. family firms report having a Board. Even where present, the Board of directors typically plays a smaller role in decisions in family than in non-family businesses. On the other hand, where the family firm has chosen for a Board, in nearly half of those cases, the Board is made up only of non-family members. At the other end of spectrum, again, amongst family firms with Boards, only 10% have boards made up only of family members.

In contrast to the use of Board of Directors, most companies with multiple owners organize a formal shareholders meeting, although again family businesses are less likely to hold such a meeting than are non-family firms. Shareholder meetings are also held more frequently in non-family businesses than in family businesses.

Initial results, based on bivariate relationships indicate that companies holding shareholders meetings report better subjective financial performance. However, the significance of these results disappears when controlling for firm characteristics. Multiple regression analysis shows further, that the presence of the Board of Directors may even be negatively associated with subjective financial performance although the variance explained is quite small. The percentage of family members sitting in the Board has no influence on the performance of the business nor does either the presence or frequency of shareholder meetings. The rest of this section discusses the results in more detail.

4.3.1. Questions asked regarding corporate governance

In order to explore the contractual governance practices the following questions has been asked:

1. Is there a formal Board of Directors?[36]

[36] Questions 2 and 3 were asked only to the respondents who indicated the presence of board of directors.

2. For which of the following actual decisions is the approval of the Board of Directors necessary?
    a. Big investments (e.g. selling/closing parts of the business)
    b. Budget
    c. Strategy
    d. Hiring/firing of manager
3. How many members of the Board of Directors are and are not family members of (one of) the owners?
4. How often do you have formal shareholders meeting per year?

4.3.2. Differences between family and non-family business owners regarding contractual governance

This section presents preliminary results based on comparing frequencies for family and non-family businesses.

Question 1: Is there a formal Board of Directors?

Respondents were asked first of all whether their firm has a formal Board of Directors.[37] A significant Chi-Squared statistic suggests that there are differences between family and non-family firms when it comes to the presence of formal Board of Directors. As Table 12 shows, only 22% of all businesses in the sample have a formal Board of Directors. Almost 31% of non-family businesses, versus 13.5% of family businesses has such a body.

Question 2: For which actual decisions is the approval of the Board of Directors necessary?

In order to identify the role of the Board of Directors in multiply-owned businesses in more detail, we asked the respondents to indicate in which of the four decision areas the board is involved: big investments, budget, strategy and firing and hiring management. We do find differences between family and non-family firms for the first three of these decisions areas as shown in Table 4.7.

Table 4.7: Formal board of directors (question 1) and decision areas (question 2) in family and non-family firms.

Respondents answering "yes"	% All companies	% Family businesses	% Non-family businesses
1. Is there a formal board of directors? (N=1408)	22.1	13.5	30.9
2. For which actual decisions is the approval of the board necessary?			
- Big investments (N=190)	84.7	75.7	90.0
- Budget (N=189)	70.9	63.2	75.2
- Strategy (N=186)	67.7	59.4	72.6

In most family businesses (75%) and non-family businesses (90%), the Board's approval is needed for big investments, for example selling or closing parts of the business. In

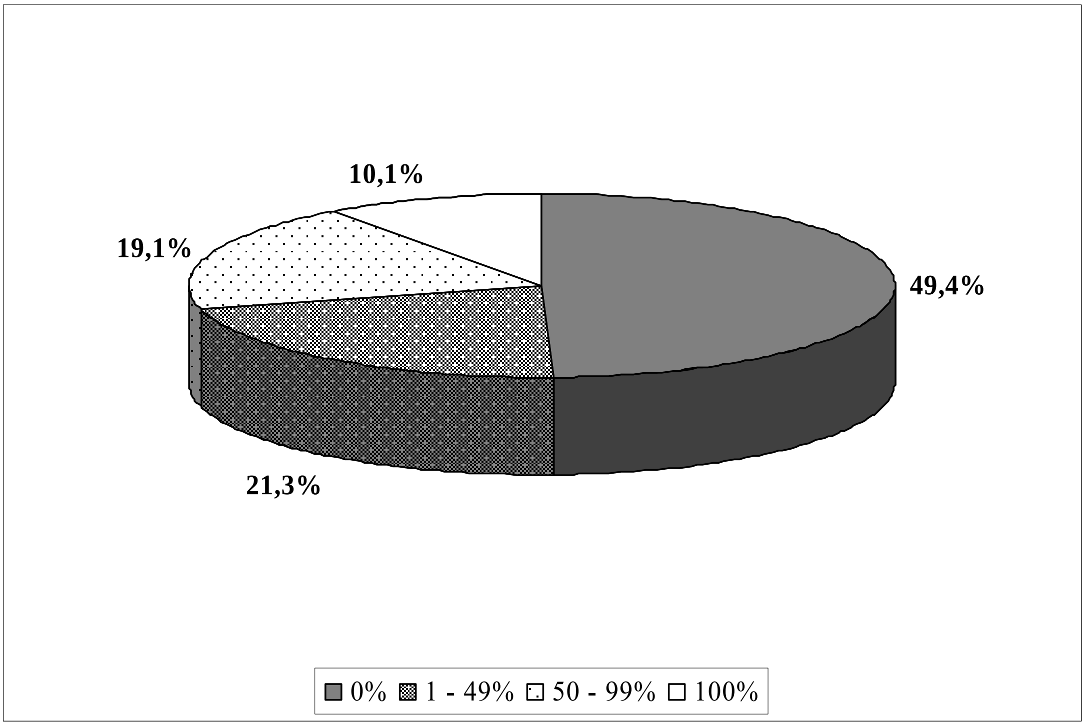
[37] In Dutch, this was referred to as *Raad van Commissarissen*

more than 63% of family and 75% of non-family firms Board needs to approve the budget. Finally, almost 60% of the respondents from family firms and more than 70% from non-family firms indicated that their company's strategy needs to be approved by the Board. In general, for all types of decision areas, fewer family businesses report that approval is needed by the Board than in non-family firms.

Question 3: How many members of the Board of Directors are family members of (one of) the owners, and how many are not?

The percentage of family members in the Board of Directors is presented in Figure 4.4. Interestingly, for almost half of family businesses (49%), there are no family members on the Board of Directors. Furthermore, we find a Board composed only of family members in only 10% of those family businesses that have chosen to set up a Board.

Figure 4.4: Percentage of family members in Board of Directors of family businesses



Question 4: How often do you have formal shareholders meeting per year?

Finally, the respondents who indicated that the firm is owned by multiple owners were asked to report whether the formal shareholders meeting is held and how often per year. The results are presented in Table 4.8.

More than one-quarter (26%) of all respondents indicated that they do not hold a formal meeting for shareholders in their business. The most common choice is to hold an annual meeting (mentioned by 38.7% of all respondents of multiply-owned firms). Non-family businesses are more likely however to hold a shareholders' meeting, and if held, are likely to meet more frequently than family businesses. For instance, 22% of non-family businesses hold a shareholders' meeting more than twice a year compared with only 13% of family businesses.

Table 4.8: How often do you have formal shareholders meeting per year? (question 4) N=879

	% All companies	% Family businesses	% Non-family businesses
- no shareholders meeting	26.2	31.4	20.4
- once per year	38.7	40.4	36.8
- twice per year	17.9	15.3	20.7
- more than twice per year	17.3	12.9	22.1

4.3.3. Additional results and conclusions regarding contractual governance

The initial results were once again tested using correlation and multiple regression analysis, reported in Table II.11 and Table II.12, Appendix II. Correlations show only that the presence and frequency of shareholders' meetings has a positive effect on subjective financial performance although this effect disappears when controlling for other firm characteristics in the multiple regression analysis. Counter to conclusions drawn from the bivariate analysis, multiple regression analysis does show a significant but very small negative relationship between the presence of a formal Board of Directors and subjective financial performance, but with less than one percent of variance explained. Thus, initial findings would suggest that contractual governance (including Boards of Directors, and shareholders' meetings) have little if any effect on performance for both family and non-family privately-held firms.

In summary, although family and non-family businesses do differ substantially in their usage of a Board of Directors including their reliance on the Board for decision-making, there is little evidence that such differences explain any variation in financial performance.

4.4. Family governance practices as success factor of family businesses

Family governance practices are often perceived as an important mechanism for managing the family ownership group.[38] They aim to build and maintain a cohesive ownership group, including a shared or unified vision of family business owners. They also are often designed to prepare the next generation for ownership. Family governance practices are predominantly found (and typically recommended) for larger ownership groups, especially in later generation firms where two or more branches of family may need to be represented and where goals and objectives between passive and actively involved owners may begin to diverge. Family governance practices may thus be used to align the vision and to facilitate the discussion of family members who work in the business on a daily (or frequent) basis with those who are much less involved if at all.

The present study addresses six family governance practices listed below. In each case, respondents were asked to indicate the extent to which each practice was already in use, under development, under discussion but for no decisions had yet been made, or, finally, not discussed yet at all:

1. Family reunions or other social events for family members
2. A code of conduct for family members in relation to the business.
3. Family web-site, newsletter or other communication mechanism for family members. (mechanism to connect family)
4. Clear selection and accountability criteria for family members in relation to the business.
5. Family council or other formal structure where family members are represented. (family council)
6. A family constitution.

Generally, not many family businesses owned by two or more family owners report using any of these practices. Family governance practices seem to be used predominantly by larger companies (with 100 employees and more) but with correspondingly smaller ownership groups (between 2 and 10 owners). When controlling those relationships for company characteristics it is concluded that family governance[39] has a positive influence on innovativeness of the firm as well as on building a long-term commitment to the growth of the business and family assets. The rest of this section discusses these results in more detail.

4.4.1. Family governance practices in small and large family businesses

First we explored whether family governance practices are used more in larger companies. Table 4.9 presents the percentage of respondents that already use specific family practices. The Chi-Squared test indicates significant differences between size

[38] For previous research carried out by the authors, see Uhlaner (2008) op cit.
[39] For the simplicity, in the regressions analyses family governance is measured by a scale that consists of all the practices.

classes for all but two family governance practices: a code of conduct for family members in relation to the business and a mechanism to connect family, such as family web-site, newsletter or other communication mechanism for family members. The largest portion of families have a clear selection and accountability criteria for family members in relation to the business (20%), followed by family reunions (almost 18% of all family businesses). Least frequently reported is the use of a mechanism to connect family (3.7% across size groups).

In small firms employing up to 9 employees, the most often used practice is selection criteria (almost 22% of the businesses). Slightly bigger companies, employing 10-49 employees, next to this practice, may add family reunions (14%) use of which becomes increasingly likely as firm size increases. The largest firms, with a hundred employees and more, are also much more likely to set up a family constitution and family council than smaller firms.

Table 4.9: The usage of specific family governance practices in family firms by firm size

Practice in use:	2-9 employees	10-49 employees	50-99 employees	100-199 employees	200 and more employees	% of all firms
Family constitution (N=371)	8.0	9.6	14.3	23.1	37.5	15.4
Family council (N=379)	4.4	5.8	8.5	17.6	27.5	10.3
Selection criteria for family members (N=380)	21.9	14.0	16.7	25.0	30.0	20.5
Mechanism to connect family* (N=380)	2.6	1.2	4.1	4.5	10.0	3.7
Family code of conduct* (N=370)	8.8	12.8	9.6	10.6	10.0	10.3
Family reunions (N=377)	6.1	14.0	18.3	24.6	45.0	17.5

*: No difference in the usage extent across firm size categories (Chi-Squared not significant)

4.4.2. Family governance practices in small and large family ownership groups

Secondly, we explored whether family governance practices are used with the same frequency across differently sized ownership groups. The Chi-Squared test indicates no differences between ownership group size classes with respect to one practice, namely mechanisms to connect the family. As shown in Table 4.10, companies owned by two owners are most likely to report using selection criteria for family members (almost 18%).

Table 4.10: The usage of specific family governance practices in family firms by ownership group size[a]

Practice in use:	2 owners	3-10 owners	11-50 owners	51-100 owners	% of all firms
Family constitution (N=371)	10.4	22.1	50.0	50.1	15.4
Family council (N=379)	4.4	16.2	66.7	50.0	10.3
Selection criteria for family members (N=380)	17.7	24.3	66.7	50.0	20.5
Mechanism to connect family (N=380)	3.1	3.7	16.7	50.0	3.7
Family code of conduct * (N=379)	11.1	9.7	16.7	0.0	10.3
Family reunions (N=377)	12.3	21.2	66.7	50.0	17.5

*: No difference in the usage extent across ownership group size categories (Chi-Squared statistic not significant)

[a]: Due to very small sample size, results for family businesses with more than 100 owners are not shown.

Nearly 25% of firms with between 3 and 10 owners also mentions this practice, with the proportion increasing up through 100 owners. As the number of owners increases, businesses are also more likely to report using a family constitution, family council and family reunions.

4.4.3. Additional results and conclusions regarding family governance practices

Tables II.13-16, Appendix II present correlations between specific family governance practices and a number of outcome variables. Correlations show that a family constitution, a family council, and clear selection criteria are used by bigger firms and by those with larger ownership groups. These practices are also more likely in firms that assess their industry as innovative, that introduce innovations to the market, and that have a Board of Directors and hold shareholder meetings.

Furthermore, those family businesses with family councils, clear selection criteria and family reunions tend to be more oriented toward company growth. Selection criteria and family code of conduct are positively correlated with focus on growth of family assets.

For the multiple regression analysis, the means of the answers on the separate practices are compiled in one scale measuring family governance. The results shown in Table II.17-19, Appendix II suggest that family governance is positively associated with different innovation indicators even when controlling for various firm characteristics. These results also support the conclusion that family governance practices are positively associate with a focus on the objective of growth in family wealth. Unlike previous research by the authors, the initial findings do not confirm a positive direct relationship between family governance practices and subjective financial performance. There may be other intervening factors to explain this relationship, which will be explored in coming months.

5. Conclusions and recommendations

This report has presented initial results of a large-scale research study exploring characteristics and success factors of Dutch family businesses directed by prof. dr. Roberto Flören and prof. dr. Lorraine Uhlaner at the Center for Entrepreneurship, Nyenrode Business Universiteit. It was funded in part by a subsidy from the Dutch Ministry of Economic Affairs.[40] The study has two goals: 1) to provide a clearer picture about the role and prevalence of family businesses in Dutch economy, and 2) to identify success factors of Dutch family businesses.

Conducted in summer, 2009, the research was based on a random sample of 1500 private firms stratified by company size and proportional to sector, and excluded the self-employed (with zero employees). As such, this study provides the most accurate measurement of the incidence of family businesses in the Netherlands to date, previous studies being hampered either by small and/or nonrandom sampling methods. For the purpose of this report, we have used the GEEF definition to measure family businesses.[41] According to the GEEF approach, to be named a 'family business', a firm must meet the following criteria: 1) the majority of ownership (directly or indirectly), for non-listed firms, rests in the hands of a natural person and/or family; and 2) at least one representative of the family or kin is involved in management or administration of the firm. For listed firms, GEEF modifies the first criterion to require only 25% (vs. majority) ownership by one person or family. In order to provide comparisons with studies using different definitions, the study collected additional data on other types of family firm characteristics.

5.1. Family business in the Dutch economy

The first part of the study focuses on the description of family businesses in the Netherlands, as well as identification of areas for which family and non-family businesses are distinct. A highlight of findings includes the following:

- In total, there are about 260,000 family businesses in the Netherlands, which is more than 69% of all businesses, excluding the self-employed. Even with a more stringent definition than previously used, this is considerably higher than the previously reported figure of 55%[42] and as such, more in line with the family business rate for other European economies. Furthermore, based on these estimates, Dutch family businesses contribute 53% to the Dutch Gross Domestic Product, whilst they account for 49% of all working people in the Dutch economy.

[40] The project was also supported by Berk Accountants en Belastingadviseurs and ABN AMRO.
[41] European Commission (2009). *Final report of the Expert Group. Overview of family-business-relevant issues: Research, networks, policy measures, and existing studies*. Enterprise and Industry Directorate-General. http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/family-business/.
[42] Flören, R.H., and Zwartendijk, G.W., (2003). *Star en toch flexibel*. ESB, nr. 4402, 15 mei, p. D20-21.

- Although the proportion of family businesses declines by size class, 44% of firms in the 100-199 size class range and 27% of firms greater than 200 employees still meet the GEEF definition for a family business.
- Family businesses represent the majority of firms in eight out of nine sectors, with the one exception being financial services (43% being family firms). The highest proportion of family businesses are found in agriculture and fishing (87%) and other services (89%).
- Regarding business transfer, 40% of all Dutch businesses report having had a transfer since the firm's inception. This is the same rate for both family and non-family firms. Extrapolating from the sample, results also suggest that approximately 22,500 businesses (6%) of all Dutch firms are working on a transfer of the firm at the moment, a number consistent with more recent estimates that suggests Dutch firms on average plan only one to one and a half years in advance of transfer.[43]
- 73% of all family businesses are from the first generation, 16% in the second, and 10% in the third or later generation. Of those businesses having made a transfer, 62% of all companies, and 72% of family businesses report a family relationship between the previous and current owners.
- In 30% of family businesses, the business under study represents 100% of family assets. For more than 60% of the families, the growth of family assets is an important long-term objective.

5.2. Key differences between family and non-family businesses

A number of key differences were identified in the study between family and non-family businesses. Highlights are listed below:

- Comparing family and non-family businesses on company and owner characteristics, family businesses tend to be smaller although the age distributions are roughly similar. Family businesses also tend to have fewer owners. 89% of all Dutch family businesses have one or two owners, compared with 62% of non-family firms. At the other end of the spectrum, 11% of all non-family businesses have more than 100 owners compared with only 1% of family businesses.
- Regarding differences in business goals, 74% of all non-family businesses as compared with 63% of family businesses agree or strongly agree that growth is an important goal. Furthermore, 91% of family firms as compared with 98% of non-family businesses agree or strongly agree that continuity is an important objective. On the other hand, no differences are observed between non-family

[43] We make the assumption, based on the study by Meijaard (2005), that 16,000 firms per year actually transfer, on average, in the Netherlands. See Meijaard, J. (2005). *Business transfer in the Netherlands*. In: Y. Haane and J. Snijders (eds.), Entrepreneurship in the Netherlands. Business transfer: A new Start. EIM Business & Policy Research, Zoetermeer. (pp.17-29). ISBN 90-371-0961-6.

firms versus family firms in terms of having a strategy aimed at being the first on the market with new products or services.

- Family businesses perform equally well as non-family firms when considering a variety of subjective and objective financial performance indicators of the firm. The study also finds no differences between non-family and family businesses regarding the introduction of innovations to the market, the type of innovation (new to the world versus new to the industry and the firm), or the percentage of the total sales turnover obtained from innovations.
- The study finds significant differences between family and non-family businesses regarding corporate social responsibility indicators. In particular, family businesses tend to engage in socially responsible actions more often than non-family firms, especially in donations to local non-profit organizations and (inter)national "goodwill" efforts.

5.3. Success factors of Dutch family businesses

A number of potential success factors were explored in this study, to see which may help to explain better financial performance as well as other outcomes, including innovation and corporate social responsibility. The key factors examined in this first phase of the research include responsible ownership behaviors, responsible ownership attitudes, contractual governance and family governance practices. Highlights of some of the findings to date are as follows:

- Regarding ownership behaviors, family and non-family owners perform equally well on the three identified ownership behaviors (although only the first two ownership behaviors positively influence a business' financial performance):
    - owners as resource (e.g. talk enthusiastically about the business; keep their investment in the business as long as needed);
    - entrepreneurial effort (help to expand the business' network; help to seek out or create new opportunities for the firm); and
    - active governance (e.g. play a key role in monitoring the work of management).
- Regarding ownership attitudes, family and non-family owners do not differ in terms of having a shared vision (e.g. agreement about the key objectives of the business, commitment to managing wealth as a group rather than as individuals). Owners of family businesses do report better quality of relationships with each another (i.e. trust, honesty, a cooperative relationship and teamwork) as compared with owners of non-family businesses. Both attitudes (a shared vision and quality of relationships amongst owners) enhance business financial performance.
- Regarding corporate governance, although family businesses are less likely to have a Board of Directors, to hold regular shareholder meetings or to have a Board that makes key decisions for the firm, preliminary results from the study suggest that these differences have no effect on financial performance of the firm.

- Family governance practices, such as a family constitution, family council, family code of conduct and formal communication mechanisms (i.e. website or newsletter) were also examined for their effect on firm performance. Such practices are more prevalent, the larger the firm. Usage of most family governance practices varies significantly depending on the number of owners. Thus, for instance, prevalence for several practices peaks for firms with between 11 and 50 owners: 66% of family firms with between 11 and 50 owners report having a family council, and selection criteria for family members as compared with a far smaller proportion of firms with less than 10 or more than 100 owners. Although slightly negatively associated with subjective financial performance of the firm, family governance practices are positively associated with entrepreneurial objectives (e.g. on growing the business and growing family wealth) as well as more innovative products and services.

5.4. Overall implications and recommendations

The results from this report are still preliminary, with additional analyses being carried out in the coming months. Nevertheless, research results clearly point to the following:

- Family businesses are a major driver in the Dutch economy, playing an even larger role than previously thought.
- Family businesses perform as well as non-family business counterparts, in the financial sense. They perform better with respect to corporate social responsibility. In particular, family businesses are more likely to play an active role in supporting local, national and international charities than non-family businesses.
- The lack of formal use of Boards of Directors does not necessarily reflect less professional performance on the part of family businesses. Although less likely to be used in the family businesses, presence (or absence) of a Board appears to make no difference in a firm's financial performance.
- The roles that owners serve as a resource base for contacts, information, patient capital, entrepreneurial ideas and opportunities are much more important success factors than their role as active monitors of the business.
- The quality of relationships amongst owners (e.g. trust, cohesiveness, and teamwork) and a shared vision of the firm's future are key success factors for both family and non-family businesses. These factors may actually be even more important differentiators for the performance of multiply-owned non-family businesses.
- Future research needs to focus even more specifically on business transfer and innovation in both family and non-family firms.

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APPENDIX I: Family business definition

Variations in family business definitions abound in the field. In collecting data, questions were asked in such a way that the information can be adapted to some of the other definitions most commonly used in the field of family business which dichotomize firms into family versus non-family businesses. Next to the GEEF definition, presented in section 1.1 of this report, for instance, we also included questions that will allow us to assess whether a firm conforms to the definition used by the *Expertgroep Familiebedrijven*. The *Expertgroep Familiebedrijven* defines a family business as a business that fulfills at least two of the following three criteria:

1. More than 50% of ownership in the hands if one family
2. One family has decision power over business strategy or ownership transfer issues
3. At least two members of management come from the same family.

For businesses less than ten years old, in addition, there must be at least one relative of the director, who works for or owns shares in the business.

A second approach also was taken, which estimates the family business variable of each firm along a number of dimensions (e.g. past transfer from family to family, proportion of ownership in one family, influence of family on strategy, number of family owners and managers).[44] Especially in the identification of success and failure factors, a more nuanced approach can thus be adapted which recognizes the multidimensionality of family business characteristics and the fact that there are gradations along a family business continuum. This approach allows for more detailed analysis regarding the importance and role of different family orientation dimensions in the various propositions to be tested. Based on the various items measuring family orientation included in the study the scale was developed which includes the following items:

1. Family relation between owners.
2. Family influence on business strategy.
3. Self-description as family business.
4. Family relation between past and current owners.
5. Two or more directors from family.
6. Firm owned by at least two generations of the same family.

[44] For more information about multidimensional approaches to measurement of family orientation, please refer to: Uhlaner, L.M. (2005). *The use of the Guttman scale in development of a family orientation index for small-to-medium-sized firms*. Family Business Review, Vol. 43, No. 1, p. 41-56; and Klein, S.B., Astrachan, J.,H., and Smyrnios, K.X. (2005). *The F-PEC scale of family influence: Construction, validation, and further implication for theory*. Entrepreneurship: Theory & Practice, Vol. 29, No. 3, p. 321-39.

APPENDIX II: Additional tables

Table II.1: Subjective financial performance of the firm and The family business variable and – Correlations (N=1183)

	Profit in the last 5 years	Profitability in the last fiscal year	Average profitability over the last 5 years	Current liquidity	Financial performance comparing to major competitors	Subjective Financial Performance scale
Family business	-.035	-.041	-.019	-.063*	-.033	-.046

*: Pearson Correlation is significant at the 0.05 level (2-tailed).

Table II.2: Subjective financial performance of the firm (scale) and Liquidity predicted by The family business variable - Multiple Regression results

Subjective Financial Performance			Liquidity		
β-value	t-value	ΔR^2	β-value	t-value	ΔR^2
.00	.05	.00	.02	.79	.00
N=1339			N=1314		

†: p<0.1; *: p<0.05; **:p<0.01; ***:p<0.001
NOTE: sample controlled for firm age and size, development stage, sector, number of owners

Table II.3: Objective financial performance and the family business variable – Correlations (N=629)

	Percentage of turnover change	Profit / sales ratio
Family business	-.09*	.07

*; Pearson Correlation is significant at the 0.05 level (2-tailed).

Table II.4: Objective financial performance of the firm predicted by the family business variable - Multiple Regression results

Percentage of turnover change (ln)			Profit / sales ratio (ln)		
β-value	t-value	ΔR^2	β-value	t-value	ΔR^2
-.03	-.66	.00	.02	.35	.00
N=358			N=364		

†: p<0.1; *: p<0.05; **:p<0.01; ***:p<0.001
NOTE: sample controlled for firm age and size, development stage, sector, number of owners

Table II.5: Innovation performance and the family business variable– Correlations

	Business strategy focused on being first on the market	Constant innovations in the industry	New products or services introduced to the market in the last three years	Innovations new for the world rather the firm or industry	Percentage of total sales from new products or services
Family business	-.045	-.002	-.121**	.010	.019
		N=1488		N=863	

**: Pearson Correlation is significant at the 0.01 level (2-tailed).

Table II.6: Innovation predicted by the family business variable - Multiple Regression results

Business strategy focused on being first on the market			Constant innovations in the industry			New products or services introduced to the market in the last three years			Innovations new for the world rather the firm or industry			Percentage of total sales from new products or services (ln)		
βvalue	tvalue	ΔR^2	βvalue	tvalue	ΔR^2	βvalue	tvalue	ΔR^2	βvalue	tvalue	ΔR^2	βvalue	tvalue	ΔR^2
.01	.34	.00	.02	.70	.00	-.04	-1.37	.00	.01	.21	.00	.02	.41	.00
N=1348			N=1348			N=1349			N=865			N=751		

†: p<0.1; *: p<0.05; **:p<0.01; ***:p<0.001
NOTE: sample controlled for firm age and size, development stage, sector, number of owners

Table II.7: Corporate social responsibility (CSR) activities and the family business variable – Correlations (N=1405)

	Donate to (inter)national goodwill organizations	Donate to local non-profit organizations	Do more than required for the environment
Family business	.018	.054*	-.049

*: Pearson Correlation is significant at the 0.05 level (2-tailed).

Table II.8: CSR actions predicted by the family business variable - Multiple Regression results

Donate to the (inter)national "goodwill" efforts			Donate to local non-profit organizations			Acting to improve environment above legal requirements		
β-value	t-value	ΔR^2	β-value	t-value	ΔR^2	β-value	t-value	ΔR^2
.07**	2.50	.01	.09***	3.24	.01	.03	1.02	.00
N=1266								

†: p<0.1; *: p<0.05; **:p<0.01; ***:p<0.001
NOTE: sample controlled for firm age and size, life cycle stage, sector, and number of owners

Table II.9: Subjective financial performance of the firm predicted by responsible ownership behaviors - Multiple Regression results

	Controls, family business and one of the behavior			Controls, family business and both behaviors			
	β-value	t-value	ΔR^2	β-value	t-value	ΔR^2	
Owners as a Resource	.09*	2.56	.01	.06	1.49		N=816
Entrepreneurial Effort	.08*	2.45	.01	.05	1.30	.01***	
Active Governance	.02	.53	.00				N=470

†: p<0.1; *: p<0.05; **:p<0.01; ***:p<0.001
NOTE: sample controlled for firm age and size, development stage, sector, number of owners

Table II.10: Subjective financial performance of the firm predicted by ownership attitudes - Multiple Regression results

	Controls, family business and one of the attitude			Controls, family business and both attitudes		
	β-value	t-value	ΔR^2	β-value	t-value	ΔR^2
Cohesiveness	.12***	3.52	.01	.09*	3.18	
Unified vision	.11**	3.13	.01	.06	1.49	.02***
	N=806			N=806		

†: p<0.1; *: p<0.05; **:p<0.01; ***:p<0.001
NOTE: sample controlled for firm age and size, development stage, sector, number of owners

Table II.11: Contractual Governance and Subjective Financial Performance and The family business variable - Correlations

	Subjective financial performance	Family business	
Presence of a formal Board of Directors	.045	-.211**	N=1394
- Big investments	.115	-.161*	
- Strategy	.041	-.121	N=181
- Budget	-.009	-.120	
Percentage of family members in Board of Directors	.007		N=292
Presence of the shareholders meeting and frequency of meetings	.100**	-.173**	N=870

**: Pearson Correlation is significant at the 0.01 level (2-tailed).
*: Pearson Correlation is significant at the 0.05 level (2-tailed).

Table II.12: Contractual Governance and Subjective Financial Performance - Multiple Regressions

	Controls and family business			
	β-value	t-value	ΔR^2	
Presence of a formal Board of Directors	-.07*	-1.93	.00	N=810
Presence of the shareholders meeting and frequency of meetings	-.00	-.04	.00	N=810

†: p<0.1; *: p<0.05; **:p<0.01; ***:p<0.001
NOTE: sample controlled for firm age and size, development stage, sector, number of owners

Table II.13: Family Governance Practices, Subjective Financial performance, size of the business and ownership group, innovation and governance – Correlations (N=353)

	Subjective financial performance	Number of employees	Number of owners	Innovations are constantly coming out in your industry	New products or services introduced last 3 years	Presence of Board of Directors	Frequency of shareholder meeting (1= no meeting)
Family constitution	.072	.159**	.111*	.164**	.208**	.188**	.281**
Formal structure representing family	.005	.146**	.153**	.148**	.250**	.300**	.267**
Selection criteria for family members	-.070	.121*	.071	.108*	.144**	.232**	.188**
Mechanism to connect family	-.030	.018	.018	.031	.058	.233**	.121*
Family code of conduct	-.002	.143**	-.020	.004	.058	.064	.040
Family reunions	.023	.146**	.158**	.030	.236**	.305**	.253**

**: Pearson Correlation is significant at the 0.01 level (2-tailed).
*: Pearson Correlation is significant at the 0.05 level (2-tailed).

Table II.14: Family Governance Practices and Objectives - Correlations (N=353)

	In long term, growth of the business is an important objective	In long term, growth of family wealth is an important objective
Family constitution	.095	.087
Formal structure representing family	.144**	.070
Selection criteria for family members	.121*	.172**
Mechanism to connect family	.050	.100
Family code of conduct	.076	.123*
Family reunions	.164**	.085

**: Pearson Correlation is significant at the 0.01 level (2-tailed).
*: Pearson Correlation is significant at the 0.05 level (2-tailed).

Table II.15: Family Governance Practices and Objectives - Correlations (N=369)

	In long term, growth of the business is an important objective	In long term, growth of family wealth is an important objective
FGP (scale)	.176**	.153**

**: Pearson Correlation is significant at the 0.01 level (2-tailed).

Table II.16: Family Governance Practices, Subjective Financial performance, size of the business and ownership group, innovation and governance – Correlations (N=368)

	Subjective financial performance	Number of employees	Number of owners	Innovations are constantly coming out in your industry	New products or services introduced last 3 years	Presence of Board of Directors	Frequency of shareholder meeting (1= no meeting)
FGP (scale)	.011	.190**	.128*	.125*	.255**	.230**	.292**

**: Pearson Correlation is significant at the 0.01 level (2-tailed).
*: Pearson Correlation is significant at the 0.05 level (2-tailed).

Table II.17: Family Governance Practices (scale) predicting various dependent variables – Multiple Regressions (N=355) (continued in Table I.18 and I.19)

Predicted variable:	Subjective financial performance			Innovations are constantly coming out in your industry			New products or services introduced last 3 years		
	Controls			Controls			Controls		
	β-value	t-value	ΔR^2	β-value	t-value	ΔR^2	β-value	t-value	ΔR^2
	-.11*	-2.04	.01	.13*	2.23	.01	.15**	2.87	.02

†: p<0.1; *: p<0.05; **:p<0.01; ***:p<0.001
NOTE: sample controlled for firm age and size, development stage, sector, number of owners

Table II.18: Family Governance Practices and various dependent variables – Multiple Regressions (Continuation of Table I.17)

Predicted variable:	In long term, growth of the business is an important objective			In long term, growth of family wealth is an important objective		
	Controls			Controls		
	β-value	t-value	ΔR^2	β-value	t-value	ΔR^2
	.11*	1.20	.01	.20***	3.48	.03

†: p<0.1; *: p<0.05; **:p<0.01; ***:p<0.001
NOTE: sample controlled for firm age and size, development stage, sector, number of owners

Table II.19: Family Governance Practices and various dependent variables – Multiple Regressions (Continuation of Table I.17 and I.18)

Predicted variable:	Presence of Board of Directors			Frequency of shareholder meeting (1= no meeting)		
	Controls			Controls		
	β-value	t-value	ΔR^2	β-value	t-value	ΔR^2
	.23***	4.32	.04	.14**	2.78	.02

†: p<0.1; *: p<0.05; **:p<0.01; ***:p<0.001
NOTE: sample controlled for firm age and size, development stage, sector, number of owners