

# EFB Position Paper: European Parliament own-initiative draft report on ‘Family Businesses in Europe’



EFB welcomes the European Parliament’s own-initiative draft report on ‘family businesses in Europe. **Recognition of the family business sector at both EU and Member State levels has been absent and this long overdue report should serve as a basis for future actions at all institutional levels.** Family businesses are the single best source of employment in the private sector. Therefore, what is beneficial to family businesses sector is beneficial to the European economy and this must be recognised accordingly. The draft report must contribute to a general Europe-wide recognition on the family business sector and the creation of a level regulatory playing field. Below EFB highlights the recommendations that need to be strengthened to better support continuity, renewal and growth in the family business sector.

EFB believes that the report must explicitly state that the fiscal, legal and administrative environment in which family businesses (and owner-managed businesses) operate is defined by the combined effect of corporate legislation and private law. An understanding of this combined effect should be the starting point for impact assessments of policies, whether current or future.

Establishing recognition of family businesses depends on reliable data, which, as pointed out in points E and F, is hindered due to the absence of a legally binding definition. Although the report rightly calls for reliable and comparable data on family businesses, it does so without addressing the issue that no statistically workable definition exists for family business. Therefore, along with the existing recommendations, EFB believes that accompanying call must be made on the commission to conduct studies in cooperation with Eurostat **to find a statistically operative definition**<sup>1</sup>.

In addition, EFB believes that the report should clearly recommend that data compilation is **conducted regularly** and **adequately financed**. It is also crucial that the data is capable of showing the important differences, between family and non-family businesses, in terms of economic contribution and job creation. Ultimately, this would contribute to the work of any group dealing with family businesses, and proposed Commission studies as laid out in point 10.

EFB fully supports the calls for the establishment of a permanent working group introduced in point 13. But, given the importance of family businesses, EFB believes that the formation of a permanent working group should be preceded by the creation of a **high level group** to lay the ground work for any eventual permanent group. This would ensure appropriate political recognition and support for the family businesses sector on specific questions such as succession, education, taxation, innovation, and ownership.

Long-term owners of family businesses cannot only be seen as acting as “honourable businessmen” as mentioned in point 1, but also “stewards” and “responsible owners” of their companies success and longevity. Tomorrow’s Company<sup>ii</sup> defines stewardship as: ‘the **active and responsible management** of entrusted resources now and in the longer term, so as to hand them on in better condition’. Indeed, EFB believes that this term should be emphasised in the report as it aptly describes the nature and characteristics of enduring family businesses.

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EFB fully welcomes the proposal to support the transfer of business. EFB believes as it is the biggest specific challenge family businesses face, and therefore it is crucial to support them in this phase. Therefore, EFB endorses the **creation of a one-stop shop for family businesses** who are going through a transfer. A one-stop shop portal would enable family businesses to find all the necessary information for a successful transfer, and could even direct towards available financial tools to ensure a smooth succession.

Regarding the fiscal treatment on the transfer of business, EFB would recommend a strengthened call to the member states to ensure that existing tax practices, that have shown to be conducive to long-term family entrepreneurship, e.g. exemptions on gift and inheritance tax, are not eroded through short sighted reforms. Indeed, **access to these exemptions should be simplified and expanded** so that all family companies can benefit if they wish to remain a family business and are committed to continued growth and innovation.

As rightly emphasised in points 4 and 5, the treatment of equity for family businesses is immensely important. Therefore, in the interest of fair competition, EFB believes that it is crucial that the report calls for the Member states to implement **a tax system that does not favour debt and other forms of investment over equity but creates a level playing field for all forms of savings and all types of owners**. EFB believes that the draft report should include a call for a communication to examine the importance of equity financing for businesses and the economic stability that comes with this form of finance.

EFB welcomes the idea to assess the impact of future legislation on family businesses by the introduction of a **family business test**. EFB believes that a family business test, applied on an ad hoc basis, is necessary to understand and consider the nature of family businesses and especially the double effects of private and corporate legislation. EFB believes this to be important when legislation has an impact on ownership, privacy, governance, innovation capacity or taxation.

EFB fully welcomes the call for a communication on family business by the European Commission. However, in the context of 'boosting the competitiveness of the EU's economy by 2020', as laid out in point 15, EFB believes that the **need for a communication is urgent** and this should be appropriately reflected in the report.

Finally, EFB believes that a recommendation on the introduction of family business specific education should be introduced in the report. **Family business specific education**, which is not just entrepreneurship education, includes issues such as succession, ownership and family governance. It is crucial to better prepare future entrepreneurs to successfully run their businesses. Introducing family business education would lead to more skilled family entrepreneurs, who are aware of family business specific challenges and can address them adequately. It should be noted in this regard that Malta is introducing a Family Business Act, which aims to support family businesses in the transfer phase by providing specific education and, create a friendly fiscal and administrative framework.

European Family Businesses is a federation of 11 national family businesses associations. Our aim is to make political decision makers aware of the contribution of family businesses to society at large and to promote policies that are conducive to long term entrepreneurship. Our members represent turnover in excess of one trillion Euro, 9% of European GDP.

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<sup>i</sup> In 2008 the Expert Group adopted a common European definition, according to which a firm, of any size, is a **family business**, if:

1. The majority of decision-making rights is in the possession of the natural person(s) who established the firm, or in the 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.
2. The majority of decision-making rights are indirect or direct.
3. At least one representative of the family or kin is formally involved in the governance of the firm.
4. 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 per cent of the decision-making rights mandated by their share capital.

<sup>ii</sup> Tomorrow's Company is a London based global think tank addressing the systemic and behavioural questions of the business world.

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