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The social contribution of family businesses in the Netherlands

Commissioned by

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FOREWORD

- Those who think of family businesses think of companies that focus on the long term and are firmly rooted in the local community.
- International qualitative academic research shows that family businesses think in generations and strive for continuity. The focus is on the long-term perspective of investments, financial stability, stable employment and efficient decision-making. Family businesses therefore often state a clear long-term goal in their mission and vision, support (local) social organisations and reinvest achieved results in the company. Financial stability and prudence, where debt and capital form outside the company is concerned, increase the chances of weathering economic crises.
- International quantitative scientific research confirms the qualitative picture that exists and adds to it the size of its contribution to society.
- Currently, quantitative research on family firms in the Netherlands is scarce and limited. The main reason is that it is only recently that family firms can be identified in administrative data (made available by Statistics Netherlands). From this new data, quantitative insights emerge that confirm the international picture. For a complete picture of the ecosystem of companies of which family businesses are part, further research is needed.
- In this study, we chart the contribution of family businesses in the Netherlands. The study is based on scientific literature, interviews with experts, a survey among several family businesses and company-level administrative data to measure economic effects and contributions.

CONTENT

This study charts the social contribution of family businesses in the Netherlands using empirical analysis, a survey among several family businesses, interviews with experts and the academic literature.

The report consists of six sections

Appendices with research methods and data description are located at the end of the report (pages 53-61).

1. RESEARCH QUESTION AND SUMMARY OF THE RESULTS

RESEARCH QUESTION

Documenting and interpreting the contribution of family businesses to the Dutch economy is carried out using three questions.

1. What is the contribution of family businesses to the Dutch economy?
2. Is there a structural difference between family and non-family firms that leads to positive effects that justify policy action?
3. Is the social contribution of family firms larger than that of non-family firms?

Answering these three questions takes place by using:

- a literature review of the international scientific literature;
- an empirical analysis of firm-level data focusing on
  - the economic contribution (such as value added, employment and innovation),
  - structural differences with non-family firms (such as liquidity and solvency) and
  - cyclical stability (such as crisis resilience during COVID-19);
- responses to questions from a survey among 104 family businesses; and
- the result of interviews with experts and policymakers.

SUMMARY (1)

- **Family firms increase macroeconomic stability and have a dampening effect on economic fluctuations**. Because of their structure and governance, they are quicker to adjust to new circumstances. This leads to lower social costs, especially in times of crisis which is visible in fewer layoffs, less frequent use of government schemes and fewer bankruptcies. The underlying continuity drive of family businesses leads to choices other than profit maximisation, which results in higher job security for employees.
- **Continuity stems from the family's commitment to the business and its environment**. It is no coincidence that family businesses are in regions where the interconnectedness is greater and actively contribute to charities and sponsorship of (local) initiatives. Family businesses have a long-term orientation where the company's goals are concerned. They pursue a financially conservative policy, which is reflected in high solvency and liquidity.
- **Family firms are on average more labour-intensive than non-family firms**. The study shows that, on average, family firms use more labour than capital for each unit of production or service. Firms in the same sector or with the same activities that are more labour-intensive tend to be less productive. One likely explanation is less investment in labour-saving technology and technology that optimises the symbiosis between man and machine.

SUMMARY (2)

- **Lower productivity leads to lower value added per FTE**. The study shows that identical family firms on average realise lower value added per FTE and pay lower wages than non-family firms. A relationship can also be established with innovation efforts. On average, family firms make less use of innovation schemes, such as tax schemes that subsidise part of the wage costs of employees involved in innovation activities. Although an imperfect indicator of actual innovation efforts, this finding is consistent with lower average productivity of family firms relative to non-family firms.
- **Business succession tax schemes to support the continuity of family businesses are effective**. EU countries have business succession tax schemes (or charge no inheritance tax at all). These schemes are effective because they facilitate business continuity. Recommendations to increase the effectiveness of the schemes are implemented in the Netherlands by limiting the assets in scope to business assets only. However, the Netherlands is below the European average with newly proposed legislation. This reduces the positive effects of family businesses for the stability of the economy in terms of continuity, employment and macroeconomic cushioning. Moreover, it may lead to a reduction in the social contribution of family businesses if they are taken over by other parties or have less scope for social purposes. Finally, a more unlevel playing field has a negative impact on tax revenues and employment in the Netherlands if companies move their operations abroad.

SUMMARY (3)

- **More quantitative research is needed to better measure the economic and social contribution of family businesses**. This study captures for the first time the economic and social contribution of family businesses in the Netherlands by using as much firm-level administrative data as possible. This makes it possible to compare identical companies that differ only in their ownership structure. This research provides new insights on continuity, employment and added value of family businesses. Much of the research to date has been qualitative in nature, leaving the extent and nature of the contribution of family firms underexposed. More quantitative research is particularly needed around understanding innovation activities and the contribution of investments in social goals.

2. DISTINCTIVE FEATURES OF FAMILY BUSINESSES

WHAT IS A FAMILY BUSINESS?

In this study, we use the definition of Statistics Netherlands which is based on the European definition of family businesses.

- A business is defined as a family business if:
  - The majority of decision-making rights are held by the natural person(s) who founded the company or are held by the natural person(s) who acquired the company's capital (share capital), or are held by their spouses, parents, children or direct heirs of children.
  - The majority of decision-making rights are indirect or direct.
  - At least one representative of the family or relatives is formally involved in the management of the company.

- Furthermore, the following applies:
  - Listed companies meet the definition of family business if the person who founded or acquired the company (share capital) or their relatives or descendants hold 25 per cent of the decision-making power.

DISTINGUISHING FEATURES OF FAMILY BUSINESSES

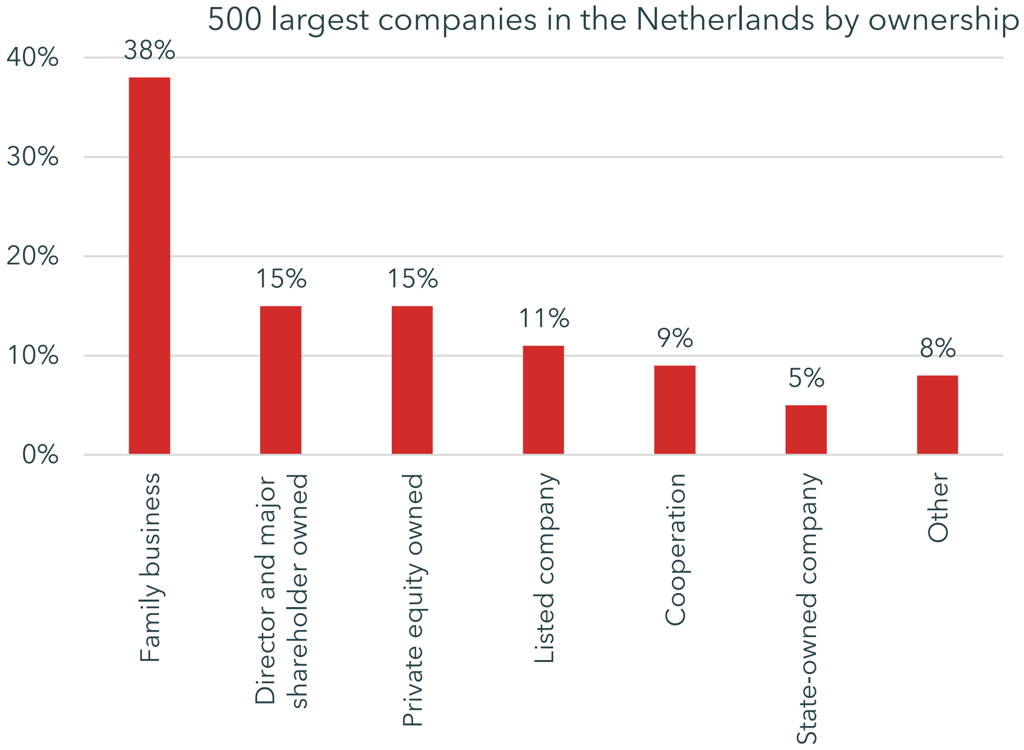
Family businesses cover a sizeable proportion of the business community and stand out in a number of areas.

- Family businesses are ubiquitous and make an important contribution to employment and added value in the Dutch economy.
- Focusing on the long term ensures continuity, stability and (crisis) resilience. This has positive macroeconomic effects in terms of solvency and liquidity enabling investments, more stable employment and the need for less financial aid from the government in times of crisis.
- The close relationship between company and family increases the board's commitment to the fortunes of the company and society, which manifests itself in investments in the community of which the company is a part.

IMPORTANT CONTRIBUTION FAMILY BUSINESSES

Family businesses are a sizeable group within the Dutch business community, providing a substantial proportion of annual employment and output.

- Of the 500 largest companies in the Netherlands, almost 200 are family businesses (EW Magazine, 2023).
- 61 percent of the more than 490,000 companies (employing more than one person) in the Netherlands will be family businesses in 2022 (Statistics Netherlands, 2023).
- Family businesses account for almost a third of all employee jobs in the Netherlands (Statistics Netherlands, 2023).
- Family firms realise almost 30 percent of value added in the (non-financial) business sector (Statistics Netherlands, 2023).



Source: EW Magazine (2023)

LONG-TERM ORIENTATION WITHIN FAMILY BUSINESSES

International qualitative academic research suggests that family businesses are more likely to have a long-term orientation.

- A family business is one in which ownership, management and control are held by a family or a group of families for a long time.
- Family businesses think in generations, making them a stable group of companies in the economy.
- The focus is on the stability and continuity of the company and less on short-term profits or profit maximisation.
- Successful family businesses are distinguished by effective family governance that monitors culture, the ability to adequately address succession issues and proven success in adapting to technological and market changes.

CLOSE RELATIONSHIP BETWEEN COMPANY AND FAMILY

In family businesses, there is a close and often direct relationship between the company and the family.

- A main characteristic of a family business is that family members are directly or remotely involved in running the company.
- Family members are often part of the board, or in some cases the board even consists entirely of family members.
- Often, external directors are appointed to add expertise to the knowledge and experience of family members. These choices depend mainly on the life stage and size of the company.
- Often the leadership of the family business is passed on from generation to generation, ensuring the close relationship between business, family, region and thus support to the local community.

UNIQUE STRUCTURE AND CONTROLLED BY FAMILY

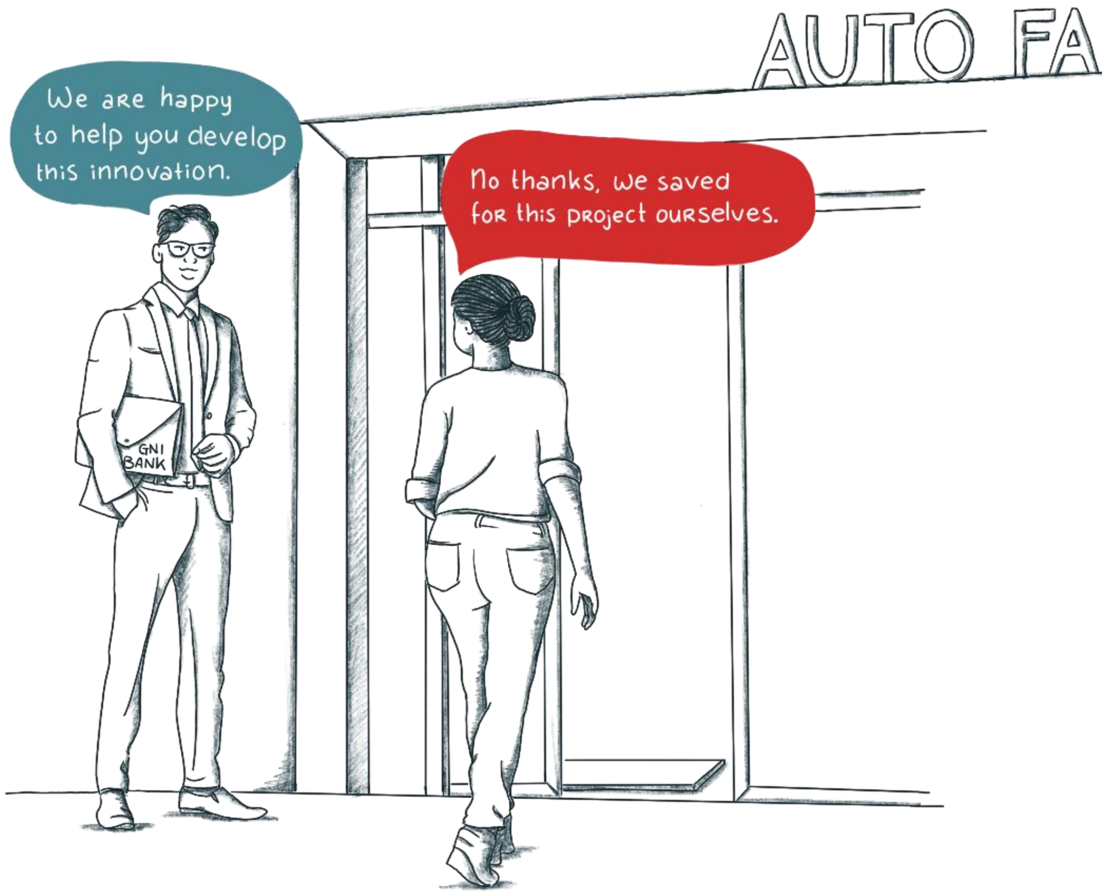
International qualitative academic research suggests that the unique ownership structure increases speed of decision-making and chances of survival.

- The company's shares or capital are owned by a family or by a number of families and are transferred within the family.
- This means that the family holds the majority of voting rights and thus exercises control over strategic decisions made within the company.
- Family businesses respond relatively quickly to changes in the market because of the owners' direct involvement.
- International comparative research shows that, on average, family businesses are more likely to survive during periods of crises and recessions.

CONTINUITY LEADS TO SOLID FUNDING

Scientific research shows that focusing on business continuity leads to solid financing.

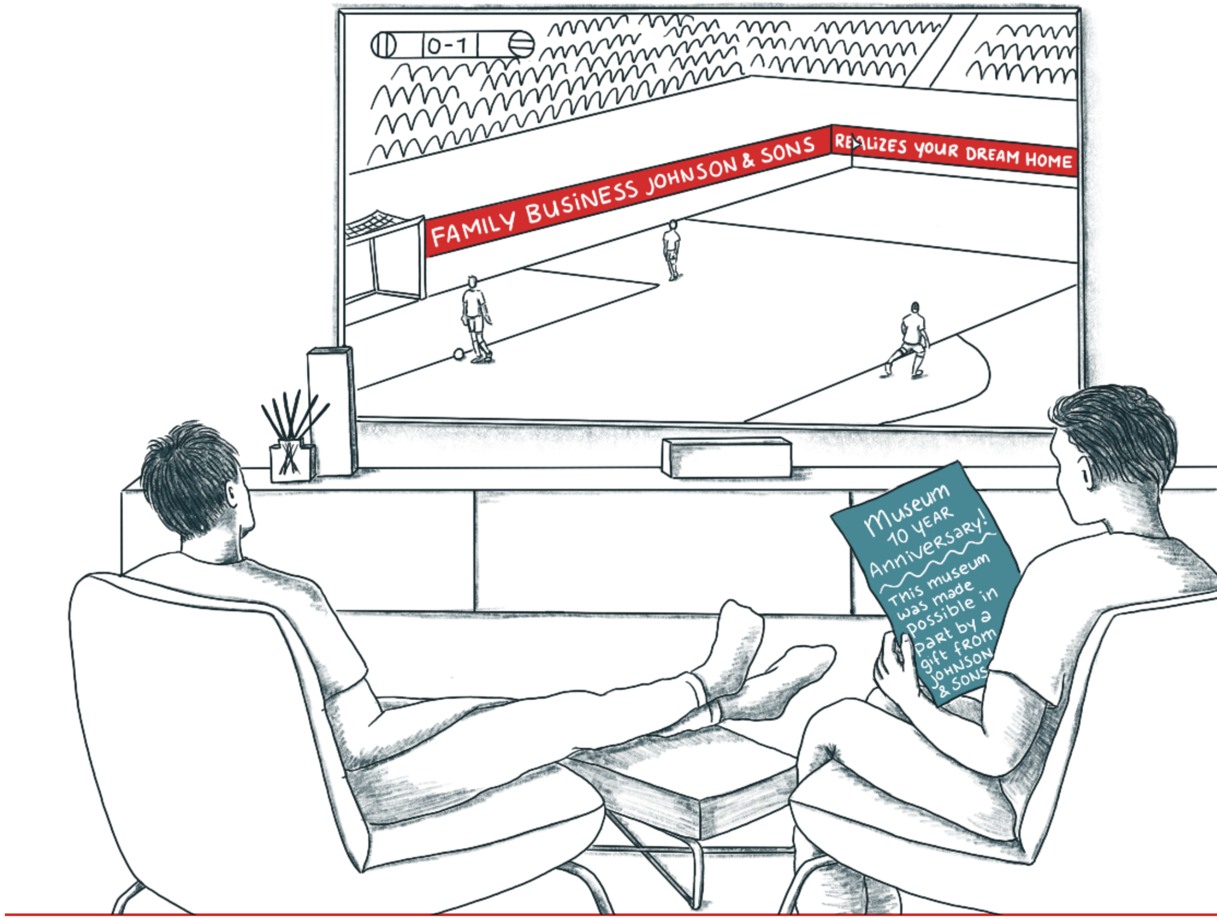
- Family firms are more cautious about distributing profits to shareholders and bonuses to employees, so liquidity and solvency are higher on average than in non-family firms.
- They are also more critical of investments with uncertain returns and family businesses are more reluctant to take on debt. This increases agility and contributes to a lower risk profile.
- In acquisitions, family businesses are more cautious: acquisitions are often smaller, and the activities of the acquisition candidate are close to the core of the family business, making acquisitions more successful.
- Family businesses cushion economic shocks by taking on less debt, leading to lower social costs during crises.



SOCIAL COMMITMENT IS HIGH

International qualitative academic research suggests that family firms differ from non-family firms in a number of aspects.

- Family businesses are often characterised by a corporate culture rooted in family values and traditions.
- Cultural aspects can play an important positive role in business operations, employee relations, organisational goals and community involvement.
- Family businesses focus on continuity, sustainable growth, maintaining family values across generations, local social embedding and (local) social impact.
- Family business executives often invest with a 10- or 20-year horizon, focusing on what they can do now for the benefit of the next generation and society.



3. SYNTHESIS OF THE RESEARCH

HIGH SOLVENCY AND CRISIS-PROOF

Family firms are highly solvent and liquid, which means they are less hard-hit during recessions, which has positive macroeconomic effects.

- On average, Dutch companies rely heavily on bank financing. The downside of this is that during downturns and with rising interest rates, many loans are no longer profitable. Banks become cautious during recessions, making recessions deeper.
  - Family businesses distinguish themselves with high levels of solvency and liquidity. This means that they have less debt compared to equity and can quickly meet short-term obligations. Solvency is a lot higher due to less borrowed capital and debt.
  - Macroeconomically, a recession often leads to payment problems, reorganisations, layoffs and bankruptcies. Bankruptcy leads to social costs – such as unemployment, loss of capital and legal costs – that should be avoided as much as possible. During the corona pandemic, family firms filed for bankruptcy less often and fewer people were laid off than in non-family firms.
  - To meet obligations and continue to invest, high solvency and liquidity is effective in recessions (Townsend, 1988). It also sends a positive signal down the production chain in difficult times, preserving enduring relationships and trust and allowing production to be maintained (Bernanke & Gertler, 1989 and Prescott, 1986). Moreover, unexpected shocks in the economy lead to fewer large fluctuations in output and unemployment if firms absorb those shocks themselves.

LESS SUPPORT DURING THE CORONA PANDEMIC

During the lockdowns in the Netherlands, overall support to family firms has been lower, despite their more frequent call upon support measures.

- Higher solvency and liquidity are important ways to cope with a recession. A recent severe crisis resulted from (lockdowns during) the corona pandemic. The government has taken several measures to enable businesses to continue paying (and keeping) their employees and paying their fixed and capital expenses.
  - During the lockdowns, family firms were more likely to apply for support measures and took advantage of a larger number of measures than non-family firms. Given the on average higher labour intensity of family firms, this is understandable, as the initial schemes are mainly aimed at maintaining employment. This effect is also understandable because fewer family firms filed for bankruptcy, and they kept more people in employment.
  - The amount of aid is 18 percent lower among family firms. Solvency and liquidity also have a negative relationship with aid amounts received when investigating individual companies. Companies in a solid position just before the pandemic used the aid less intensively and needed less to meet obligations during lockdowns.
  - Family firms macroeconomically kept more people employed during the corona pandemic than non-family firms. This balance consists of bankruptcies (lower among family firms) and changes in employment (a decrease in non-family firms relative to family firms).

LOWER VALUE ADDED PER EMPLOYEE

Value added per FTE is on average lower in family firms than in non-family firms due to lower capital intensity.

- Added value is realised with *capital*, *labour* and *knowledge*. Added value is calculated as the difference between net turnover and the cost of raw and auxiliary materials at the firm level and then divided by the number of hours worked. The extent to which capital, labour and knowledge are used efficiently determines the level of added value.
    - The use of capital in family firms is lower, resulting in less capital per FTE. Less capital per FTE leads to lower productivity. This lower productivity manifests itself in lower value added in family firms of between €5,500 and €6,500 per FTE.
    - Lower value added is consistent with lower average wage levels in family firms. The wage distribution in family firms is below that of non-family firms (measured as of 2017).
    - The scientific literature shows that founders of family firms are more innovative than average, while later generations tend to focus more on continuity and innovate less intensively compared to non-family firms. Attention to and investment in innovations aimed at making processes more efficient and introducing new products are, on average, lower in family firms.
    - Family firms are less likely to use government subsidies for innovation. However, when subsidies are used, the return per euro invested is higher than in non-family businesses. The survey of family businesses shows that some of the companies are not familiar with government innovation incentives or find the schemes insufficiently attractive to apply for.

SOCIAL COMMITMENT IS HIGH

The social and local involvement of family businesses is difficult to determine quantitatively, but indicates a higher level of commitment.

- Dutch family businesses are less likely to fail in crises (such as the corona pandemic).
  - Job and income security – now and later through pension accrual – and the opportunity to invest in knowledge and skills are greater for employed people who are more secure in their jobs.
  - Because family businesses are relatively labour-intensive, there is an incentive not to fire employees immediately during recessions (a phenomenon known as labour hoarding).
- Family businesses contribute to social capital and good causes.
  - It appears that the share of family businesses is higher in municipalities with higher levels of social capital. This is not a causal relationship, but the correlation indicates greater interconnectedness between business and society when there are more family businesses operating locally.
  - The survey shows that most family businesses contribute to charities and sponsorships and provide an annual business and often private budget for this purpose.
- Corporate social responsibility suits family businesses.
  - The survey shows that almost all family businesses are actively implementing climate impact reduction, safe and healthy HR policies and sustainable procurement policies.

MEASURES ENSURING CONTINUITY ARE IMPORTANT

Securing continuity and liquidity with tax arrangements on business transfers hardly differs from other countries, but is worsening due to new policy proposals.

- The European Commission and Dutch government attach importance to family businesses in entrepreneurship policy. The call to ensure the continuity of these businesses has led to several tax breaks on business transfers in the member states of the European Union.
  - The business succession scheme is a well-known tax scheme in EU countries and ensures continuity of business operations in case of transfer. In the Netherlands, the scheme is used about 2,000 times a year. The carry-over scheme ensures that the transfer can be realised without relevant and negative tax consequences in the short term. These schemes achieve their goal and are effective.
  - The adjustment proposed in the Netherlands to exclude certain forms of assets is effective, as it facilitates that form of business transfer that ensures business continuity. This adjustment also increases efficiency, as there is less discussion with the tax authorities.
  - The proposed scaling back of the business succession scheme may jeopardise the continuity of and employment in medium- and large-sized companies, as it damages solvency and liquidity. This potentially reduces investments. Moreover, this change creates a more uneven playing field compared to other member states. In time, this may cause companies to decide to leave or to be acquired more often by other parties than elsewhere in Europe. This potentially reduces the positive economic effects of stability, employment, tax revenues and social engagement.

4. RESEARCH RESULTS

FINDINGS IN DETAIL

Based on the international academic literature, a survey of 104 family firms and empirical analysis of administrative company data, findings in five relevant areas have been collected.

- Financial stability
- Social commitment
- Financial-economic performance
- Employment
- Innovation

The discussion of the results starts with a review of the international quantitative scientific literature. To get a recent and quantitative picture of the Netherlands, empirical findings from using econometric analysis on administrative data and results from the survey of family firms are added. Finally, additional insights from interviews have been exploited.

RESEARCH RESULTS – ECONOMETRIC ANALYSIS

Econometric techniques are used to determine how family firms differ from non-family firms when characteristics are taken into account.

- Data
  - The data are from Statistics Netherlands. It distinguishes between family and non-family businesses in the Business Demographic Framework (BDK). Data on businesses are linked to the Finance Statistics of Non-Financial Enterprises (NFO), files on turnover (VAT), demographic characteristics (BDK), innovation subsidies (Research and Development Promotion Act) and corona measures (COVID19).
- Time period
  - The data are available in the period 2015-2022. Since 2017, Statistics Netherlands has been keeping track of which companies are family businesses and which are not. In the period before 2017, this distinction cannot be made. The empirical analysis therefore uses data from 2017 to 2021 and, where possible, 2022.
- Models
  - The analyses compare the outcomes of family and non-family firms considering difference in size, capital intensity, sector, age of the firm, time effects and province of operation. The financial sector is excluded.
  - It turns out that the agricultural sector contains a relatively large number of family farms that are difficult to compare with non-family farms. However, the inclusion or non-inclusion of these firms does not lead to different results due to the small size of the sector.

RESEARCH RESULTS – SURVEY

A survey among several family businesses is used to gather additional information in a few areas not present or measurable in the administrative data.

- A survey was conducted among 309 members of FBNed | FamilieBedrijven Nederland (Family Business Network Netherlands) and the Stichting Familie Onderneming (Family Enterprise Foundation). This yielded a response rate of 104 companies.
- Topics
  - The survey asked about innovation efforts and the time horizon of investments, contributions to charities and sponsorships, and corporate social responsibility policies.
- Sample composition
  - By location of establishment, the sample is representative. Statistics Netherlands (2023) indicates that in absolute numbers, most of the establishments of family firms are found in the provinces of Zuid-Holland, Noord-Brabant and Noord-Holland. In the sample, these regions are also the best represented.
  - The sample is not representative of company size (number of FTEs). Small firms are significantly underrepresented, while large firms are overrepresented.
  - Most of the sample consists of companies in industry (27 percent) and trade (23 percent). This composition is also non-representative of the total population of family businesses in the Netherlands.

FINANCIAL STABILITY - LITERATURE

Family firms perform better during the corona pandemic, while in recessions they show relatively poorer financial performance but are more likely to survive.

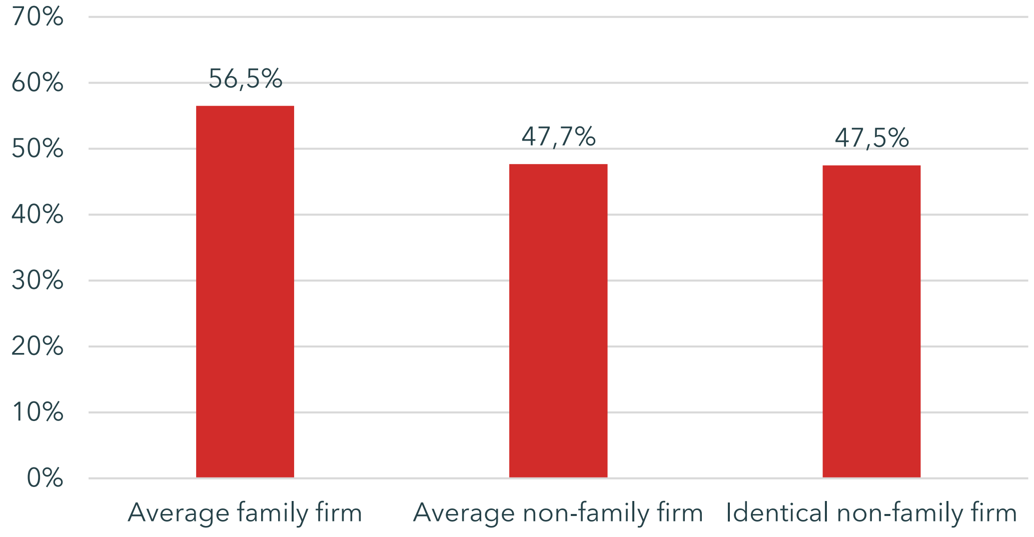
- The relative financial performance of family firms compared to non-family firms moves pro-cyclically.
  - A meta-analysis of 155 studies from 35 countries shows that the economic performance of family firms is relatively weaker in tough economic times, but on average they are more likely to survive a crisis (Hansen et al., 2020).
- A major (economic) shock such as the corona pandemic has been better handled by family businesses than by other companies.
  - An analysis of company stock prices in 61 countries shows that listed family firms perform relatively well during the corona pandemic (Ding et al., 2021). An average weekly shock in the number of corona cases leads to 0.27 percentage points less decline in weekly stock market returns among family firms.
  - A detailed analysis of Italian listed companies confirms this picture. There is higher profitability for family firms during the corona pandemic (Amore et al., 2022). Stock market returns for family firms are on average 8.5 percent higher during the first wave, while over the whole of 2020 they are even 20 percent higher.

FINANCIAL STABILITY – EMPIRICAL RESULTS

On average, family firms in the Netherlands have much higher solvency than non-family firms, which contributes to their crisis resilience.

- Solvency indicates a company's ability to meet long-term payment obligations.
- The solvency of family firms, at 56.5 percent, is almost 10 percentage points higher than that of non-family firms, indicating that family firms are well able to meet long-term obligations (the solvency of Dutch businesses calculated in this way is 50 per cent).
- When composition effects are taken into account, that difference is almost identical. By taking composition effects into account, it is possible to compare a family business with an identical business registered as a non-family business.

Solvency of family businesses substantially higher than non-family businesses



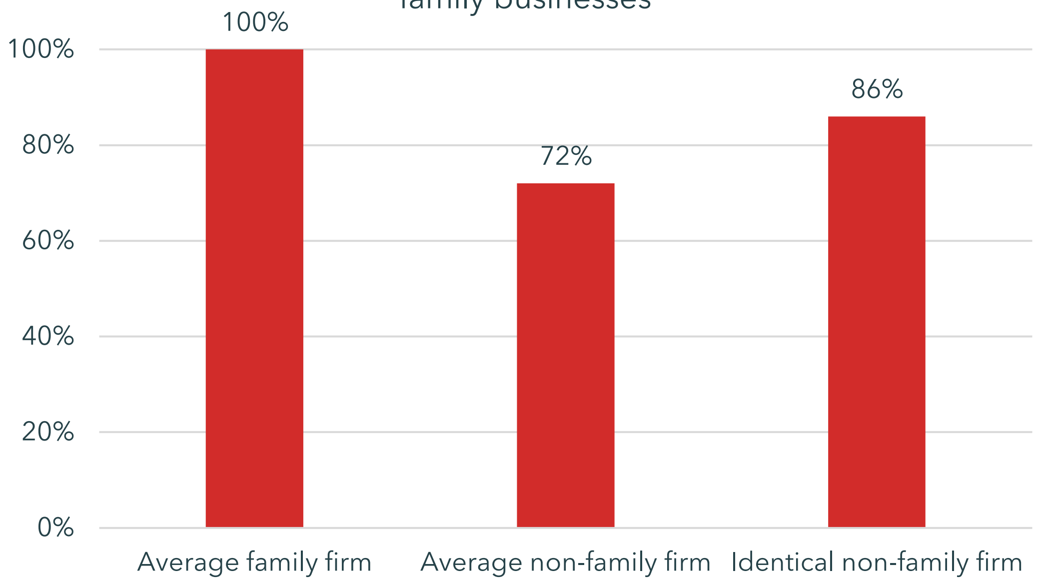
Note: Solvency is a measure of the ability to meet long-term payment obligations. It is calculated as the ratio between equity and total liabilities. The higher the solvency, the higher the excess value is of all assets compared to debt capital. A high solvency indicates that a company has no borrowed capital. A low (or even negative) solvency indicates that the company has little or no margin to pay off the loan capital.

FINANCIAL STABILITY – EMPIRICAL RESULTS

On average, family firms in the Netherlands have much higher liquidity than non-family firms, which contributes to their short-term stability.

- Liquidity indicates a company's ability to meet short-term payment obligations.
- The liquidity in the figure is calculated so that the average family business is set at 100 percent. The average non-family company has a 28 percentage point lower liquidity, meaning it basically has more difficulty meeting short-term obligations.
- When composition effects are taken into account, that difference is 14 percentage points. By taking composition effects into account, it is possible to compare a family business with an identical business registered as a non-family business.

Liquidity of family businesses is higher compared to non-family businesses



Note: Liquidity is a measure of the ability to meet short-term payment obligations. It is calculated as the ratio between liquid assets (cash, bank account, etc.) versus short-term loans, trade payables and provisions. This acid-test ratio is unbound and can take any positive or negative value. The higher and more positive this ratio is, the more cash is available.

FINANCIAL STABILITY – EMPIRICAL RESULTS

Family businesses in the Netherlands on average used corona-aid measures more often, but applied for smaller amounts.

- During the corona pandemic, 35 percent of companies applied for various subsidies for wage and fixed costs. The total amount involved in the support measures is €34bn (as of 1 June 2022).
  - Most companies (18 percent) resorted to the Temporary Transitional Self-Employment Scheme (Tozo), which was mainly aimed at small self-employed persons. Other frequently used schemes were the Special Tax Deferral Scheme, a Fixed Charge Scheme (TOGS or TVL) and the Temporary Emergency Employment Bridging Scheme (NOW).
- The empirical analysis shows that family firms are more likely to have used one of the support measures: they are 1.4 percent more likely to apply in the 2020-2022 period. At the same time, it shows that they receive over 18 percent less support when a family business is compared with an identical non-family business.
  - The higher application rate is probably related to the lower probability of a family business failing during the corona pandemic. If a business has better pre-crisis viability, it is more likely to apply. Indeed, non-viable firms go bankrupt or cease operations when a crisis hits.
  - The lower amount applied for is consistent with the higher buffers held by family firms and reluctance to take on debt, reducing the need for outside support.

SOCIAL ENGAGEMENT - LITERATURE

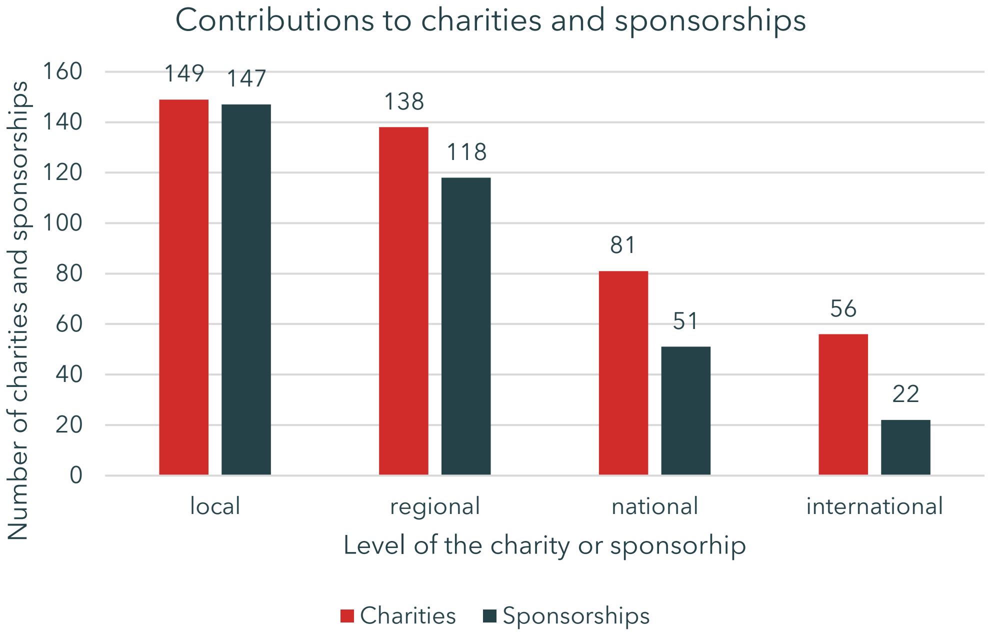
There is no clear picture yet on how the degree of corporate social responsibility of family businesses differs from that of other businesses.

- The literature gives an indication of greater involvement of family firms in corporate social responsibility (CSR), but not a complete conclusion. Explanations include identification with the business and longer time horizons.
  - A literature review on the influence of corporate ownership on the level of social commitment does not provide a complete answer. In addition to ownership by families, this study looks at ownership by institutional investors, managers, government and small businesses. The study finds a large majority (12) in 19 published studies in which the results indicate more social commitment by family firms (Faller & Zu Knyphausen-Afsess, 2018).
- CSR has different elements, such as environmental impact, diversity, community and own employees. There is no consensus on which elements family businesses perform better than other companies.
  - Findings on the dimensions of CSR on which family firms perform better are to date ambiguous and sometimes even contradict each other (Villalonga & Amit, 2020). More research seems warranted.

SOCIAL ENGAGEMENT - SURVEY

The survey among 104 family businesses asking about CSR and contributions to charities and sponsorships shows that the majority of respondents are active in these areas.

- Of the respondents, 67 percent have a CSR policy. This includes a sustainable procurement policy (76 percent), reducing their own climate impact (94 percent) and HR policies focused on safe and healthy working, (gender) equality and non-discrimination (89 percent). Over 40 percent have an ISO-certified CSR policy.
- 94 percent contribute to charities and 88 percent are active sponsors. Arts and culture and sports and exercise have the most attention and the causes are mainly locally and regionally focused. Half (a quarter) of entrepreneurs contribute to good causes (sponsorship) from both the company and private assets.



Note: Data based on a survey of 309 family firms. The total response consists of 104 firms. The question asked was the following: Can you indicate what types of charities your company financially supports/what themes your company sponsors and at what level? This allows for six answers at four regional levels. Of the 98 (92) companies with charities (sponsorship), the figure shows the breakdown by regional level. On average, companies support 4.3 charities and contribute to 3.7 themes through sponsorship.

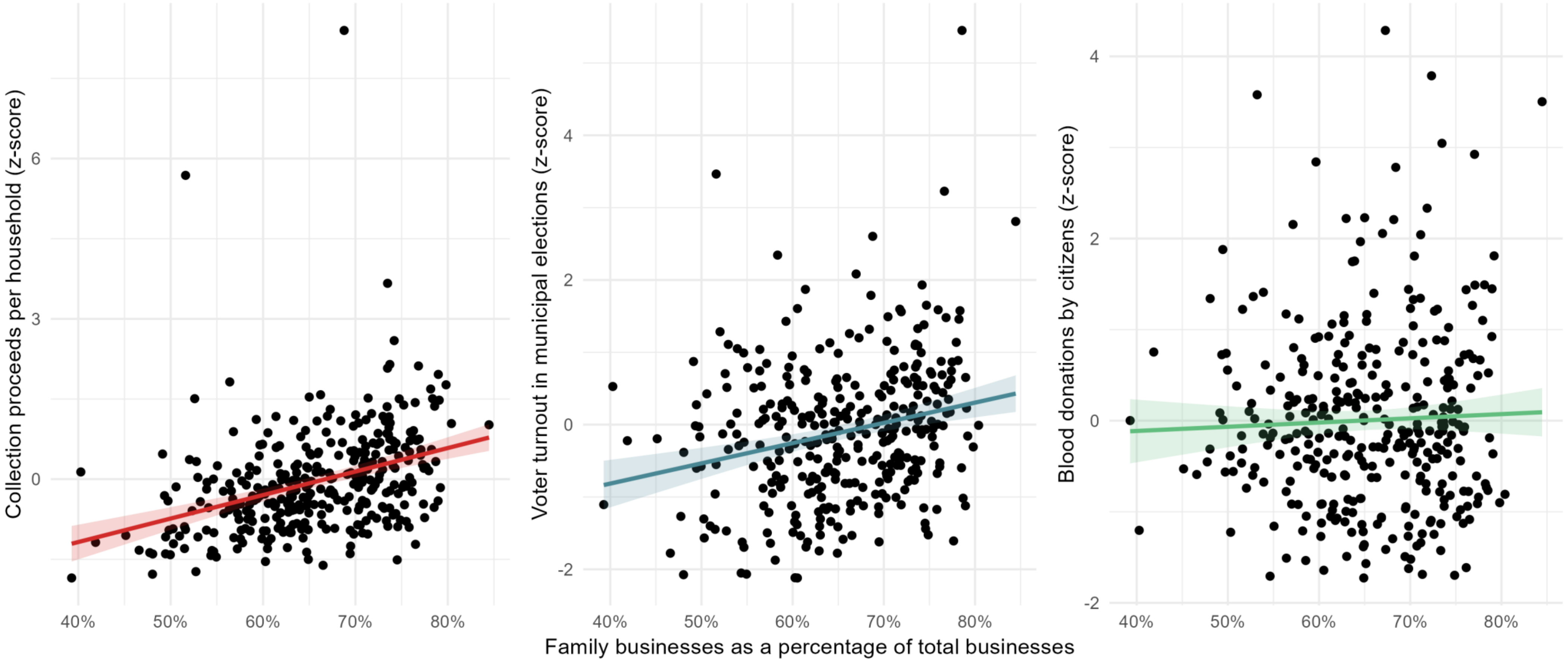
SOCIAL ENGAGEMENT - SOCIAL CAPITAL

In municipalities with more family businesses, there is a higher level of social capital measured as altruism, commitment and reciprocity.

- The scientific literature studies the relationship between social capital and social, economic and societal indicators. This literature shows that the greater the social capital of a local community, the greater the scope for innovation (Akcomak & Ter Weel, 2009), the greater economic growth (Knack & Keefer, 1997), the higher the employment rate and the lower the crime rate (Akcomak & Ter Weel, 2012).
- Social capital indicators consist of
  - Altruism of citizens towards each other, meaning that citizens support each other without wanting anything directly in return, as in charity collections;
  - Involvement in the local community which is reflected in volunteering and high turnout in local elections; and
  - Reciprocity meaning that if one helps someone in need, one can also expect the same if one is in need oneself, as in the case of blood donations.
- These indicators correlate with the number of family businesses at the municipal level. This is an indication of cohesive communities in which family businesses can flourish and of communities in which family businesses contribute to a caring community.

SOCIAL ENGAGEMENT - SOCIAL CAPITAL

In municipalities with more family businesses, there are higher levels of social connectedness measured as collection donations, election turnout and blood donations.



Note: Each point is a municipality. Collection proceeds are average proceeds per household in 2017. Election turnout is percentage of eligible voters who voted in the 2014 and 2018 municipal elections. Blood donations is the number of blood donors per 100 population over the years 2010 to 2016. See Odding & Ter Weel (2022) for more details.

FINANCIAL-ECONOMIC PERFORMANCE - LITERATURE

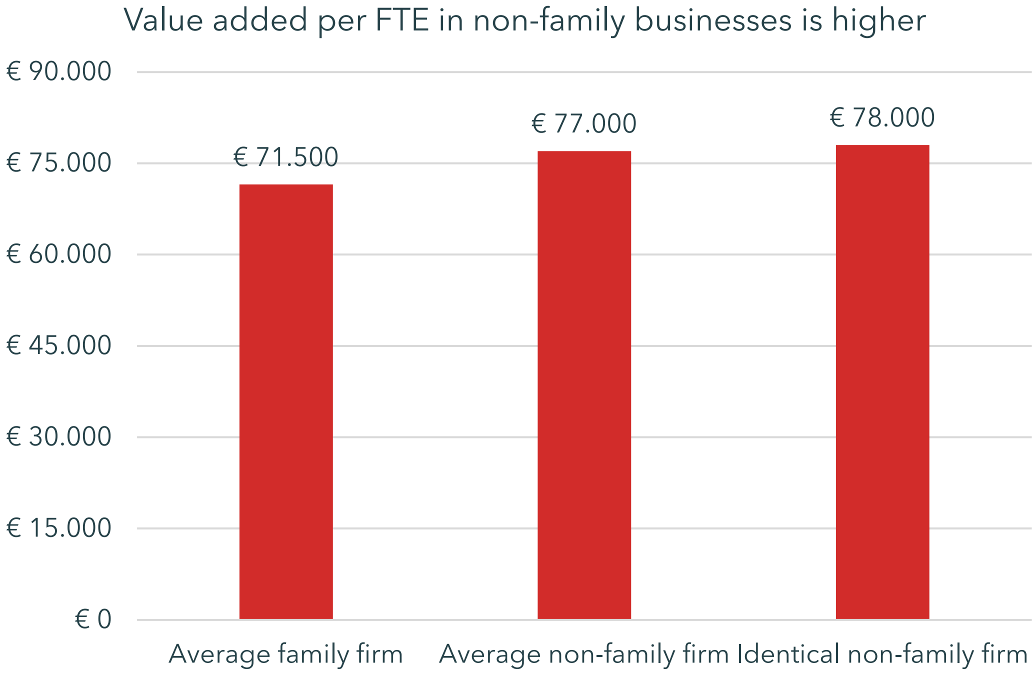
Financial performance (in terms of profitability) of family firms is like that of non-family firms according to a review of the international quantitative literature.

- According to the international academic literature, family firms perform financially (in terms of profitability) on par with non-family firms.
  - A meta-study of 155 studies from 35 different countries finds that the financial performance of family firms is statistically significantly better, but that these differences are minimal in terms of magnitude (Hansen et al., 2020).
  - A meta-analysis of 78 scientific publications shows that the degree of family involvement in a business has no significant effect on financial-economic performance (O'Boyle et al., 2012).
  - A meta-study on the performance of family firms shows that, on average, they prefer more conservative business strategies. However, the higher degree of risk aversion does not affect their average financial-economic performance (Carney et al., 2015).
- Large listed US family firms do outperform comparable non-family firms.
  - This is particularly true for family businesses where the founder is still attached to the company as CEO or where there is a CEO hired from outside combined with family members on the board (Anderson & Reeb, 2003; Villalonga & Amit, 2006).

FINANCIAL-ECONOMIC PERFORMANCE - EMPIRICS

On average, family firms in the Netherlands have lower productivity (measured as value added per FTE) than non-family firms.

- Value added per hour worked is a measure of productivity. It reflects the value per employee of net sales relative to total costs. This can be considered productivity.
- At 71,500 euros per FTE, the added value of an average Dutch family business is 5,500 euros per FTE (8 percent) lower than that of an average non-family business.
- When composition effects are taken into account, that difference is even slightly larger (€6,500). By taking composition effects into account, it is possible to compare a family business with an identical business registered as a non-family business.



Note: Value added per hour worked is a measure of productivity. This is calculated as the difference between net sales and the cost of land and auxiliary materials at farm level and then divided by the number of hours worked. Net sales also count products that end up in stock, or manufactured products used by the producing company itself. The higher the added value per hour worked, the higher the productivity. Productivity is scaled to FTE by multiplying added value per hour worked by 38 hours.

EMPLOYMENT - LITERATURE

There is no single view in the literature on the extent to which family firms are better or less good employers than non-family firms.

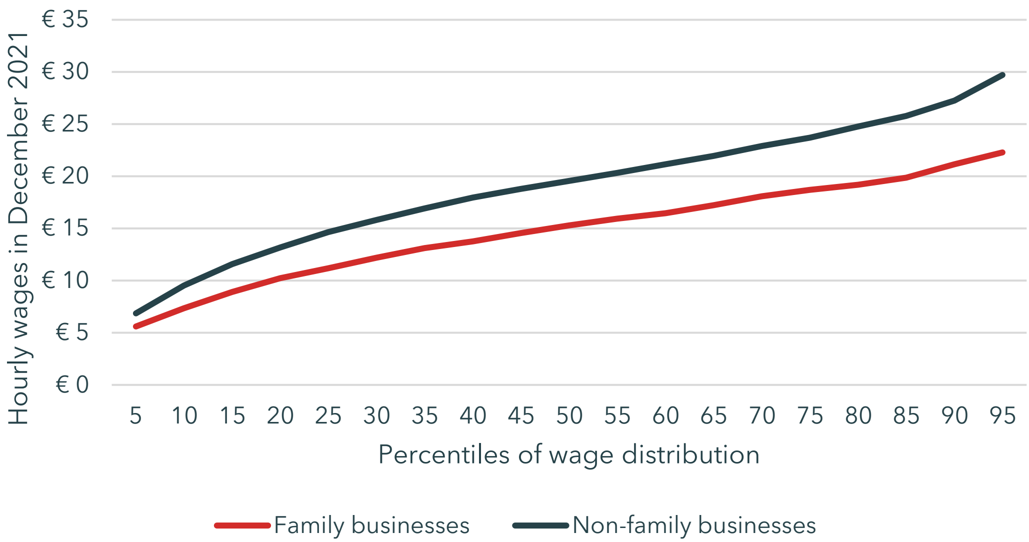
- Family firms pay lower wages on average than other companies.
  - Studies of family firms in France show that total wage costs per employee are about five percent lower in family firms (Sraer & Thesmar, 2007; Bassanini et al., 2013). A more recent study of family firms in Belgium shows that family firms pay eight percent less (Neckebrouck et al., 2018).
- Lower wages in some countries can be explained by the fact that family firms are more stable employers, which means employees are more likely to be employed in the longer term and will settle for lower pay.
  - Dismissal rates are lower among family firms in France (Sraer & Thesmar, 2007; Bassanini et al., 2013). The probability of dismissal is between 20 and 30 percent lower for the average employee of a family business (Bassanini et al., 2013).
  - The probability of a layoff wave decreases in large companies in the United States when family ownership in a company increases (Block, 2010). This is especially true for large layoff waves where more than five per cent of employees are laid off.
  - Among private Belgian firms, there is no difference in dismissal rates between family and non-family firms (Neckebrouck et al., 2018).

EMPLOYMENT - EMPIRICAL RESULTS

Family firms pay lower wages on average than non-family firms during 2017-2021. They are also more likely to employ people on temporary contracts.

- The median hourly wage in a family business (taking into account gender, age, education level and sector) in 2021 is €15.30 and in a non-family business €19.60.
- These differences persist when looking at workers on permanent contracts and those on temporary contracts over the period 2017-2021.
- Family firms employ 2.5 percent fewer people on a permanent basis compared to non-family firms.
- This finding is consistent with higher job security and lower value added in family firms. For higher job security, employees are willing to sacrifice money (Bassanini et al., 2013).

Real hourly wages in family firms are lower than in non-family firms



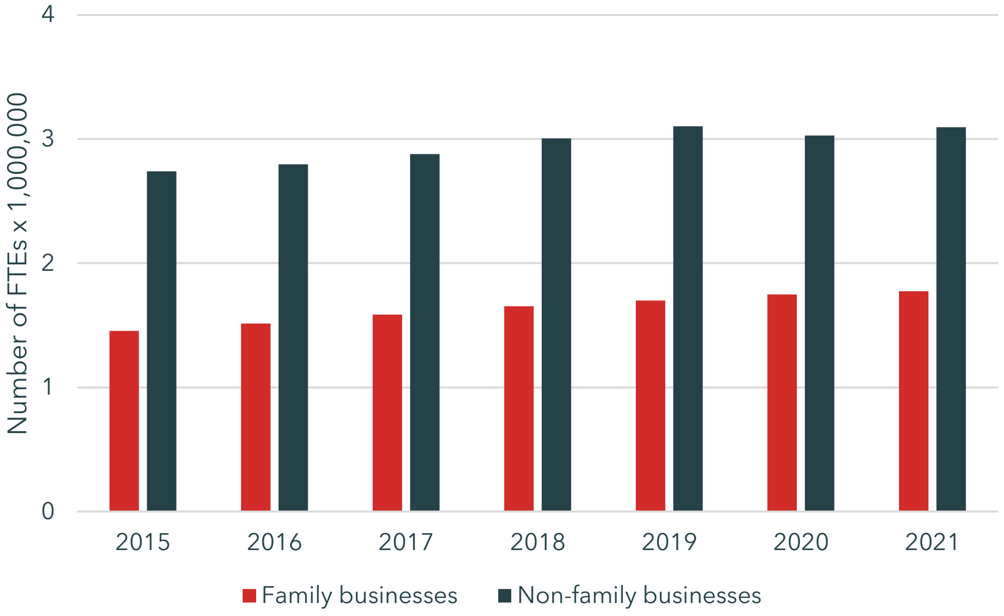
Note: Real hourly wages of workers in December 2021 based on Policy files. The horizontal axis shows the percentiles of the wage distribution. The vertical axis the real hourly wages. We restrict ourselves to a study population of individuals who worked between 40 and 200 hours within a month - see Klinker & Ter Weel (2023) for an analysis.

EMPLOYMENT – EMPIRICAL RESULTS

At the macroeconomic level, employment increased in family firms during the corona pandemic and decreased in non-family firms. At the same time, the share of flexible contracts fell by 19 percent in family firms.

- On a macroeconomic level, employment in family firms rises from 1.5 mln. FTEs in 2015 to 1.8 mln. FTEs in 2021.
- During the corona pandemic (2019-2021), employment increases by 0.8 mln. FTEs, while in non-family firms it decreases by almost 0.1 mln. FTEs.
- The proportion of workers on permanent contracts is increasing in family firms, probably due to new labour-market policies to stimulate permanent contracts. This increases job security.
- The survey shows that the average sick leave among the 104 family firms does not differ from the national figures, even when the firms are split by size class.

Macroeconomic-level employment falls in non-family firms in corona period



Note: Data at macroeconomic level, not adjusted for composition differences. See Statistics Netherlands (2023). Employment is measured in FTEs, where an FTE is defined as a 38-hour working week.

INNOVATION - LITERATURE

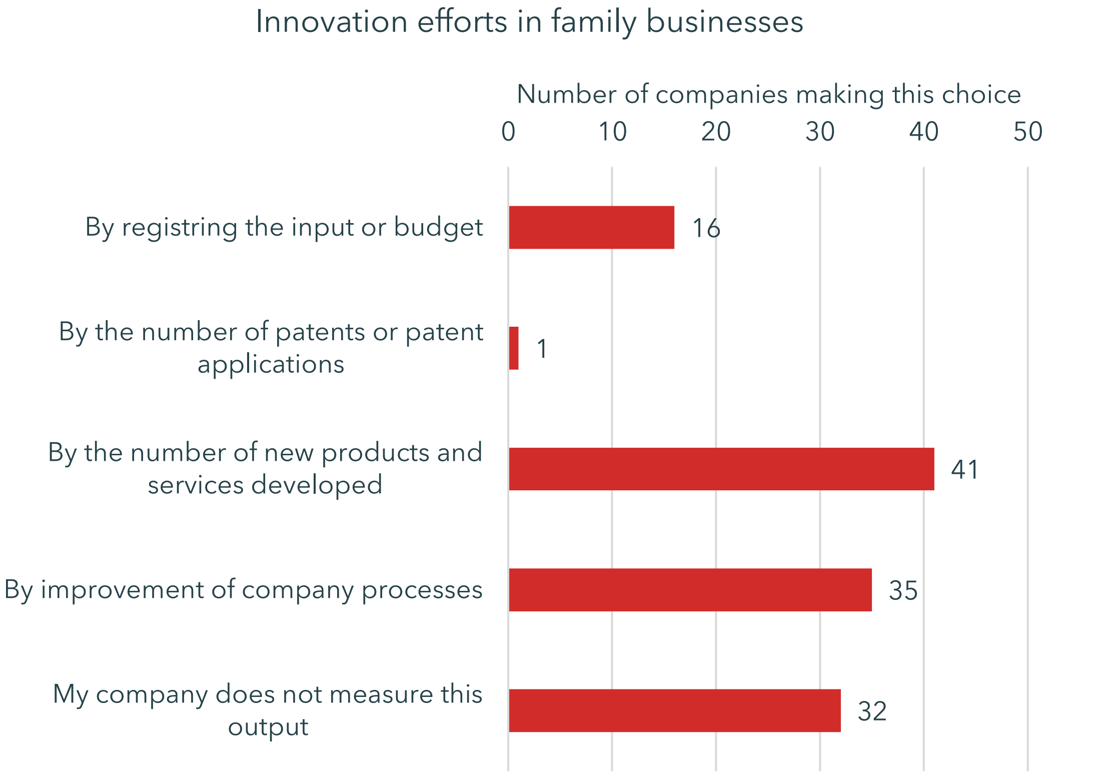
Family firms invest less in innovative projects on average, but achieve more success with less innovation input compared to non-family firms.

- Family businesses invest less in innovation, but are better at turning innovations into results, such as new products and processes.
  - A meta-study of over 100 scientific publications from more than 42 countries shows that average innovation inputs are lower among family firms than non-family firms. It also follows from this study that family firms are more effective and efficient in converting innovation inputs into innovation outputs and thus are more likely to achieve results from their innovations at lower costs. The overall level of innovation output does remain lower because the effectiveness and efficiency do not outweigh the lower investment (Duran et al., 2016).
- There is limited understanding about the factors influencing innovation in family firms, which calls for more research in the future.
  - A meta-study of more than 100 academic publications on the relationship between ownership structure and innovation shows that there is limited understanding of the specific factors within family firms that influence innovation inputs, the innovation process and the results achieved (Calabro et al., 2018). Future research should focus on measuring the influence that ownership structure has on the diligence of the decision to invest and what risks are acceptable to the firm in doing so.

INNOVATION – SURVEY RESULTS

The survey of a number of family businesses reveals that annual investments are made in innovation projects.

- The time horizon of investments is at least 10 years for 21 of the 104 companies in the survey.
- The annual innovation budget as a percentage of turnover varies widely and does not correlate with company size. Two-thirds of companies in the sample invest up to 5 percent of turnover in innovation annually and 4 companies more than 25 percent.
- Innovation success is measured mainly by the number of new products and services developed (41) and by the improvement of processes in the organisation (35 companies). Hardly any is measured by patents and patent applications.



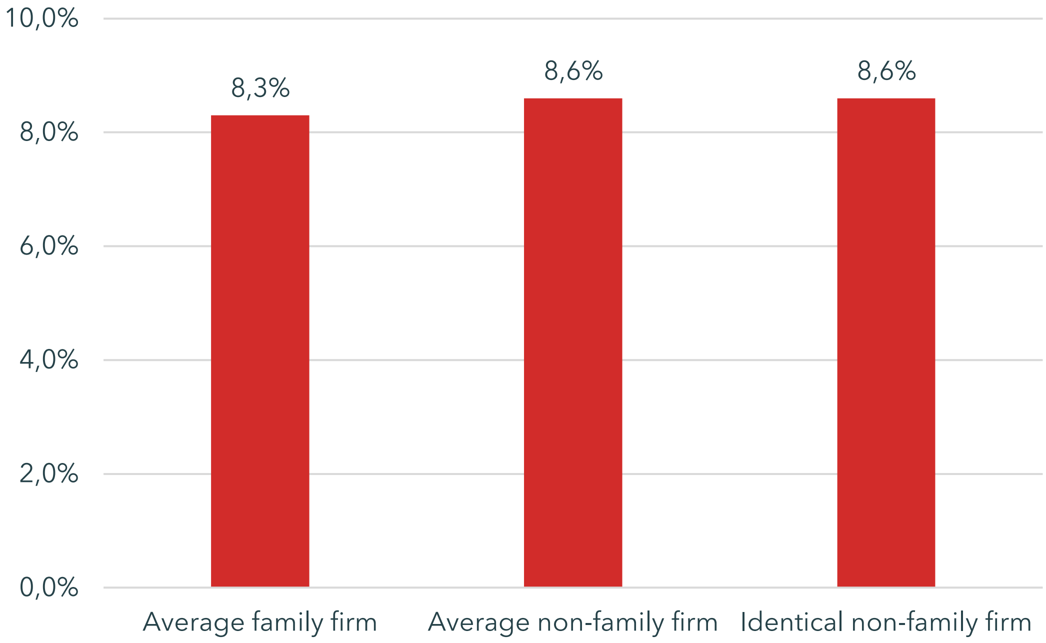
Note: Data based on a survey of 309 family firms. The total response consists of 104 firms. The question asked was the following: How do you measure the output of innovation efforts? Five answers are possible here.

INNOVATION – EMPIRICAL RESULTS

The use of innovation subsidies is lower among family firms, indicating less research and development. When innovation subsides are used, the difference is zero.

- Research and Development Promotion Act (WBSO scheme in Dutch) promotes innovation by reimbursing part of the labour costs of hours spent on research and development work.
- Family firms are less likely to use this scheme; a difference of 1.7 percentage points on a 9.4 percent use by an identical non-family firm.
- When looking at the intensity of the tax incentive's use by family and non-family firms, the difference almost disappears: 0.3 percentage points remain compared to an 8.6 percent use by an identical non-family firm.

Intensity of the use of the Research and Development Promotion Act among companies that have applied for it is slightly lower in family firms



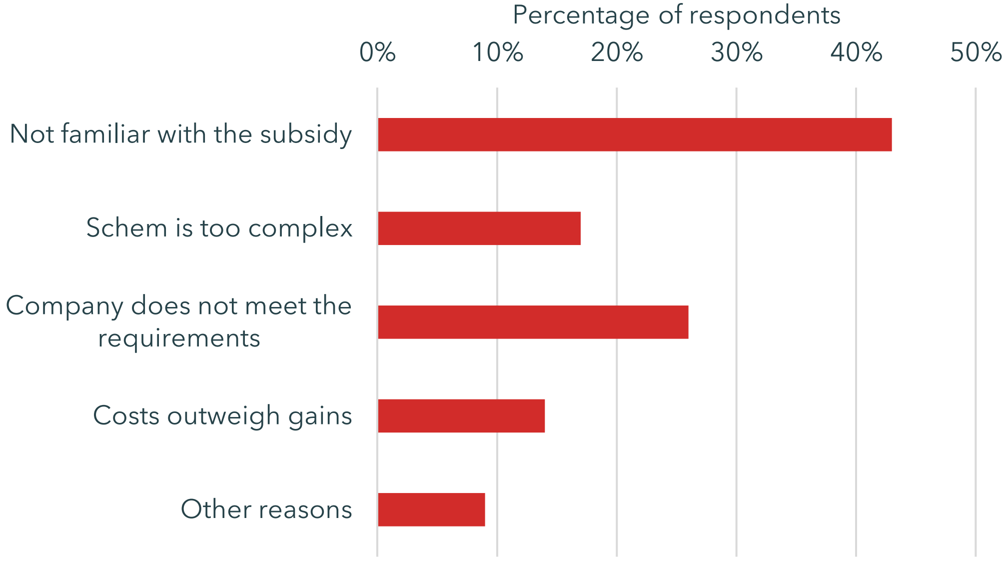
Note: The share of research and development hours in total hours worked expressed as a percentage. The higher this percentage, the more innovation and new knowledge is expected to be produced in the company.

INNOVATION – SURVEY RESULTS

The survey among 104 family businesses asking about the reasons for using innovation schemes, such as Research and Development Promotion Act and Innovation Box, reveals that a third are not familiar with the schemes and a fifth find the schemes too complex.

- 44 percent of family businesses in the survey use the Research and Development Promotion Act and 29 percent the Innovation Box, which is significantly higher than the average in the Netherlands.
- Of Research and Development Promotion Act users, 90 percent have been using the scheme for more than five years.
- Among family businesses that do not use the schemes, 34 percent are not familiar with the Research and Development Promotion Act and Innovation Box, which may lead to underutilisation.
- A quarter of the companies do not meet the conditions and 17 percent consider the scheme too complex.

Especially unfamiliarity is a reason for not using innovation subsidies



Note: Data based on a survey of 309 family firms. The total response consists of 104 firms. The question asked is the following: You indicate that you do not use the Research and Development Promotion Act /Innovation Box. Can you indicate why this is the case? Five answers are possible here.

5. NEED FOR FISCAL POLICY

REASONS FOR BUSINESS SUCCESSION SCHEMES

EU countries have tax entrepreneur schemes. By nature, these schemes are all aimed at business continuity (in case of business transfer).

- Tax schemes for business succession focus on continuity in business transfers.
  - The European Commission has called several times since the 1990s for nurturing family businesses and facilitating their continuity fiscally; most recently in the *SME Relief Package* (EC, 2023).
  - Encouraging and protecting the family business and the employment provided are also common arguments for tax schemes in several European countries (PwC, 2015).
  - The most recent bill to amend tax regimes in the Netherlands emphasises the importance of continuity.

- The main schemes in the Netherlands are the BOR and DSR.
  - The business succession arrangements inheritance and gift tax (BOR) is designed to safeguard the continuity of family businesses by ensuring that the tax burden on the transfer of business assets remains manageable.
  - The pass-through income tax benefit from substantial interest or cessation profit (DSR) scheme is there to defer or avoid taxation when a business is transferred within a family or to a new owner (taxation then occurs at the time of sale to third parties).

INTERNATIONAL PERSPECTIVE

From an international perspective, the Netherlands is slightly below the EU average; after the recently implemented measures, the schemes are less favourable for larger companies.

- European countries interpret business succession schemes differently (KPMG, 2023).
    - Both the level of tax exemption and the course of the scheme vary greatly between countries. In addition, the Netherlands has a tax-free base, which fully exempts small companies.
    - Finally, countries differ greatly in the possession requirement (of the transferee) and ownership requirement. Both requirements impose restrictions that limit entrepreneurial flexibility (such as changing course), but from a tax perspective seek to minimise abuse.
- The implementation of the schemes is perceived as complex by companies, advisers and tax authorities in many countries, mainly due to discussions on the concept of wealth (OECD, 2021).
- KPMG (2023) points to negative side effects of retrenchment of entrepreneurial schemes.
    - If the transfer of larger businesses is less strongly facilitated, there is a possibility that these businesses will fall into the hands of external parties. This may change the nature of the business, employment size and local activity. Positive effects of family businesses on local society and stability may be lost.
    - An uneven international playing field gives an incentive to continue the business outside the Netherlands. This eliminates tax revenues and the net effect for the treasury is much lower than assumed by the Ministry of Finance.

EFFECTIVENESS OF ENTREPRENEURIAL SCHEMES

Evaluations indicate that business regulation concerning transfer of ownership (in the family) are effective and achieve their purpose.

- The question is the extent to which companies have adequate resources in the event of business transfer.
  - BOR. KPMG (2021) indicates that 20 percent of family businesses have sufficient capital to finance the transfer. CPB (2022) finds that because of the BOR, there are hardly any problems with business transfers, making the scheme effective. However, CPB does not sufficiently take into account that the larger the business, the more difficult it becomes to meet or externally finance the transfer.
  - DSR. The DSR makes it possible to defer or avoid taxation when an enterprise is transferred within a family or to a new owner. This scheme is also considered effective by CPB (2022) because deferral of tax prevents obstruction of transfer (taxation then occurs when the business is sold to third parties).
- Requirements for schemes.
  - The OECD (2021) is critical of entrepreneurial schemes and suggests that strict requirements should be imposed in application and enforcement. These requirements are met in the Netherlands, including by limiting the concept of assets to business assets in the future.
- Evaluated reforms are scarce and dated but show little material impact in Germany (Houben & Maiterth, 2011) and Greece (Troutsoura, 2015).

EFFICIENCY OF BUSINESS SUCCESSION SCHEMES

Evaluations and international reviews indicate limited efficiency of business transfer tax schemes.

- Limited efficiency.
  - In a review of schemes, the OECD (2021) indicates that business transfer schemes can boost wealth inequality. This argument applies in case the business is successfully continued and dividends are paid to shareholders.
  - CPB (2022) points out that often sufficient funds are available and in other cases a loan would be more appropriate. This does not take into account differences in firm size.
- High implementation costs limit efficiency.
  - The arrangements are complex and not clearly circumscribed in many countries. This leads to discussion with tax authorities. One improvement is the Dutch proposal to limit the BOR to business assets.
- Possible alternatives.
  - The OECD (2021) indicates that loans for business transfers are more efficient, provided access to finance is sufficiently secured. Hoogeveen (2011) suggests a payment scheme to prevent taxation from jeopardising business continuity.
  - The disadvantage of these alternatives is that more taxable dividends have to be paid, which has a negative impact on solvency and liquidity. Moreover: if a large company has insufficient resources, this has a greater social impact on employment, for example, than if it is a small company.

CONCLUSION BUSINESS SUCCESSION SCHEMES

Business transfer tax schemes achieve their purpose and are effective. Efficiency can be improved by clearly defining the concept of assets. An international level playing field is necessary to ensure the positive effects of family businesses.

- The schemes achieve their purpose and are effective. The efficiency of the schemes is enhanced by among others limiting the definition and scope of wealth, which reduces the cost of implementation.
- It is important to ensure am international level playing field. The Netherlands is slightly below average, but the most recent adjustments taking effect from 2025 make it more vulnerable to continuity when larger companies transfer ownership.
- The empirical analysis and the academic literature suggest that family firms are more stable because they are more prudent and focused on the long term. This leads to positive effects and lower social costs during an economic downturn, for example, as family firms are on average better able to absorb shocks with their high solvency and liquidity. This greater focus on continuity is a reason to keep tax schemes.
- A more uneven playing field may also lead to lower tax revenues in the Netherlands if companies move their operations abroad.

6. CONCLUSION

CONCLUSION

Family firms differ from non-family firms. It is important to make this distinction when considering continuity and macroeconomic stability.

- 60 percent of the over 490,000 companies in the Netherlands are family businesses (2022). They account for almost a third of all employee jobs in the Netherlands and realise almost 30 percent of the added value in the (non-financial) business sector.
- Positive effects of family businesses exist because of higher liquidity and solvency, making them less likely to cause social costs such as bankruptcies and job losses during recessions.
- This strategy of maintaining financial stability is one of the reasons why tax schemes in business transfers can be understood. It increases macroeconomic stability.
- The greater commitment to employees and financial stability of family businesses contribute positively to society and the economy, and they are more often located in municipalities with greater social capital and commitment. The social contribution of family businesses is difficult to pinpoint quantitatively and requires data collection and further research.
- Family firms are (based on WBSO data) less innovative, but when they carry out innovation projects, they achieve the same rate of return as in non-family firms.

RESEARCH JUSTIFICATION

AUTHORS

This research was conducted by a team that regularly conducts research on companies (policies) with empirical analysis using surveys and microdata.

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SUPERVISORY COMMITTEE

For this study, a supervisory committee was set up and met three times in autumn 2023.

- The members of the guidance committee are:
  - Drs. Thomas Grosfeld, VNO-NCW and MKB Nederland
  - Dr. Anneleen Michiels, Hasselt University
  - Prof. dr. Henk Volberda, University of Amsterdam
  - Prof. dr. Dinand Webbink, Erasmus University Rotterdam

- From the side of the family firm's organisations, the study was supervised by:
  - Albert Jan Thomassen on behalf of FBNed | Familie Bedrijven Nederland (Family Business Network Netherlands)
  - Floris Croon on behalf of Stichting Familie Onderneming (Family Enterprise Foundation)

INTERVIEWS WITH EXPERTS

For the purpose of this study, a number of experts in the fields of taxation, policy and research, and education were interviewed.

- Taxation
  - Ministry of Finance, tax specialists from the Directorate of Fiscal Affairs
  - Tilburg University, tax and legal experts with expertise in entrepreneurial schemes
  - KPMG, specialists in business succession schemes
- Policy and research
  - CPB, researchers who recently reviewed business succession schemes
  - Ministry of Economic Affairs and Climate, staff of the Directorate of Business and Innovation
  - VNO-NCW and MKB Nederland, specialists in entrepreneurial schemes
- Entrepreneurship
  - Nyenrode Business University , education specialists and trainers
  - Free University, education specialists and trainers
  - Rotterdam School of Management, education specialists and trainers

MICRODATA FROM STATISTICS NETHERLANDS

- **General Business Register (ABR)** Population of businesses in the Netherlands and information on their basic characteristics (sector, size class, location, etc.).
- **Business Demographic Framework (BDK)** Business demographic characteristics of businesses in the Netherlands, including (from 2015) whether a business is a family business or not.
- **Turnover tax (VAT) return** Information on total turnover of companies in the Netherlands per reporting year based on turnover tax returns.
- **Statistics Finance of Non-Financial Enterprises (NFO)** Balance sheets and income statements of companies operating in the non-financial sector in the Netherlands.
- **Research and Development Promotion Act (WBSO scheme)** Deployment of Dutch companies in the field of research and development (R&D) under the Research and Development Promotion Act (WBSO scheme). Used as a proxy for the extent of a company's innovative activities.
- **Data Corona support measures (COVID19)** Use by companies of various measures created by the government to support entrepreneurs to cope with the consequences of the corona crisis.
- **Jobs and Wages based on the Polis Administration (SPOLISBUS)** Jobs and wages of employees at Dutch companies.

EMPIRICAL METHODS

Analyses on value added, liquidity, solvency, the shares of fixed and flexible contracts, and use of R&D tax incentives and COVID support measures

- Simulations of the 'average family business' and the 'average non-family business' based on (i) random effects models including an indicator for family businesses, year, sector and province fixed-effects and control variables for labour, capital, R&D tax incentive use and business age and (ii) the mean values of these independent variables for these two types of businesses. For the 'identical non-family firm', the mean values for family firms were used, *except for* the indicator for family firms.

Income distribution analyses

- Percentiles of hourly earnings controlled for gender, age, education level, sector and hours worked using a linear regression model. Hourly earnings calculated as basic earnings divided by basic hours on all individuals who worked between 40 and 200 hours within a month.

Analyses of employment during the corona pandemic

- Macro data (summations) on all enterprises excluding the financial sector, real estate, households and extraterritorial organisations (SBI codes K, L, T, U). Full-time equivalents (FTE) were calculated as the sum of basic hours from the Polis Administration divided by 1,976 hours.

Social capital analyses

- Correlations between the percentage of family farms in a municipality and the z-score of collection yields per household in (taken from the Dutch Fundraising Regulator), voter turnout (TK2017, GEM14, GEM18) and the number of blood donors per 1,000 inhabitants in a municipality. See Odding & Ter Weel (2022) for further specification.

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