SUFABU

SUCCESSION IN FAMILY BUSINESSES

SUMMARY REPORT, 2020

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SUMMARY

This summary report for the ERASMUS+ project SUFABU (Project #2019-1-CZ01-KA204-061268) has been developed and collated from the partner organisations national reports.

Family businesses are the very backbone of the economies of all the countries involved in the project; from Norway to Spain, Czech Republic to UK, Italy to Belgium. They provide millions of employment opportunities and contribute substantially to the countries' GDP.

However, whilst they are fundamental for economic development and growth, only the Czech Republic has enshrined a thorough definition of family businesses in law, providing for easier data gathering and targeting of services. Since 1.3.2020, one can register a company as a "family business" at the Association of Small and Medium-sized Enterprises and Crafts of the Czech Republic if they meet the law definition. The registration is valid for 3 years and is linked to a Ministerial business portal. The registration is voluntary and allows businesses to file applications for interest-free loans and preferential guarantees with the Czech-Moravian Guarantee and Development Bank. There is a definition in Italian law but it isn't very thorough; from a legal standpoint, the family business limits itself to identifying it as a business in which members of the owners family collaborate in the everyday running of the family business; this type of business is effectively an individual business in which only the owner is recognised as the entrepreneur.

When it comes to succession, the global data suggests (EFB, 2012; KPMG, 2011)[1] that the successful transition rate globally is around 30% meaning that 30% of family businesses successfully secede to a second generation. This percentage is generally higher than the figures reported by the partner consortium where between 8% and 37% have made it to their second generation. The data does show us however, that there is a definitive friction point for family business when it comes to generational succession, and that whilst most countries can provide advice and support through trade and economic development agencies, there is little informal learning out there for family businesses looking to plan their succession.

This report will form the basis for the project moving forwards in order to provide family business with some of the information they require in order to successfully plan and transpose from one generation to another, whether this be a leadership or ownership transfer – or both.

[1] EFB. 2012. Family Business Statistics. Retrieved from: http://www.europeanfamilybusinesses.eu/uploads/Modules/Publications/family-business-statistics.pdf
KPMG. 2011. Family Business Succession. Retrieved from: https://assets.kpmg/content/dam/kpmg/pdf/2015/07/3468-succession.pdf

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DEFINITION

One key question that was investigated by the partners in their respective countries (CZ, NO, ES, IT, BE, UK) was whether there was a definition in law for family businesses. It transpires that there is no thorough legal definition in any countries other than Czech Republic, who anchored a definition in law via a government resolution in 2019. The Czech route towards legal definition may be linked to their recent history where family businesses grew exponentially from 1989 following the end of the socialist era within the country. As these family businesses are approaching 30 years old, many are realising the imminent need for succession planning. The Czech definition of family businesses is as follows:

A family business is a family business corporation or family entrepreneurship.

1. A family business corporation is a business corporation in which more than half of the members are members of one family and at least one member of the family is its statutory body, or in which members of one family directly or indirectly exercise most of the voting rights and at least one member of this family is a member of a statutory body of this business corporation. A family business corporation is also considered to be a business corporation in which most of the voting rights are exercised for the benefit of one family by a private foundation or a trust fund if at least one member of that family is a member of the statutory body of the private foundation or the trust fund.
2. Family entrepreneurship is a business in which participate at least two members of one family with their work or property and at least one member of this family holds a trade licence or other similar license or is authorized to do business for another reason.
3. For the purposes of a family business, the members of one family shall be the working spouses or partners, or relatives of at least one of the spouses or partners, and their relatives up to the third stage, relatives by affinity relationships up to the second stage and finally, direct line relatives or siblings. If there is a person who is not fully legally competent, he or she is represented by the legal guardian if the child is a minor; otherwise is represented by the guardian.

Czech Government Resolution number 330 from 13/05/2019

There is a definition in Italian Law, but it isn't as thorough as in Czech Republic. This definition of family business was introduced for the first time in with the Family Law reform in 1975 (see article 230 bis of The Italian Civil Code) and identifies a family business as one in which the owner and family members collaborate in the running of the company which effectively remains an individual business in which only the owner is recognized as the entrepreneur.

For countries without a formal definition, other definitions are used. This can cause issues, as one definition in Norway provided by BI Norwegian School of Management who state 'we define a family firm as one where more than half the equity is owned by individuals related by blood or marriage up to the fourth degree of kinship', means that a family business owner by three families (33% each) would not be classed as a family business under their definition. Indeed, Family Business Norway believe that a formal definition will have its disadvantages due to the difficulty in finding a perfect legal definition of family business.

Belgium also doesn't have a legal definition of family business; however, it does have a 'Belgian' definition which isn't enshrined in law. The definition identifies a company as a family business if the controlling family has the majority of the voting rights and at least one member of the founding family is a member of one of the governing bodies or management of the business. Whilst not a legally binding definition, Belgian law does explicitly refer to 'family business' in certain areas, although not in corporate or company law.

NUMBERS

It is clear from the individual National Reports (which can also be found within Appendix I of this document[2]), that family businesses are integral and key to the national economies of all the partner countries.

In the UK, family businesses and firms comprise 85% of UK business, employ over 12 million employees and contribute 25% of UK GDP. Spanish family businesses cover over 88% of Spanish business, employing over 6.5 million employees and provide over 57% of the Spanish private sectors GDP. Italy provides similar quotients with 87% of all companies being family businesses. Norway, Belgium and the Czech Republic also have percentages within the same range showing (70%-80%) a reasonably consistent percentage of family owned businesses across the project partnership.

Table 1: Family Business by Country

Country	% of businesses that are family owned	Number of employees of family businesses	% of country's GDP provided by family businesses
Belgium	77%	45% total employment	33%
Czech Republic *	Est 80%	Est 2,000,000	Est >50%
Italy	87%	13,400,000 (76%)	>57%
Norway	70% (private sector)	630,000	No data available
Spain	>88%	>6,500,000	>57% (private sector)
UK	85%	>12,000,000	25%

Table 2: Family Business Generational Changes

Country	% of family businesses that are the first generation	% of family businesses that are the second generation	% of family businesses that are third+ generation
Belgium	63% (2011 data)	27% (2011 data)	9% (2011 data)
Czech Republic *	Est 90%	Est 9%	Est 1%
Italy	No data available	No data available	No data available
Norway	No data available	No data available	No data available
Spain	53.6%	37.3%	9.2%
UK	86%	8.5%	3%

Whilst the above generational data shows some slight differences across the countries, the partners have sourced additional data showing around 30% of global family businesses secede to second generation globally, whilst about 12% secede to third generation family ownership. Whilst not all partners could find relevant data for their country, the base data we do have shown consistency of challenges as family business go through their succession phases with the UK and Czechia showing a startling drop between first and second generation. One reason for this could be the increase in small businesses that the technical revolution has allowed for leading to a large number of young family businesses that inflate the first-generation figures and have yet to secede over to new generations.

SUCCESSION PLANNING

Research across the partnership investigating succession planning opinions are slightly mixed. A Czech report from 2018 suggests that 57% of family businesses plan to transfer the company to another member although only 5% have actually prepared a succession plan. Whilst we didn't find similar data in Italy, there was a tendency amongst the gathered data to show a reluctance for older generations to pass on the business reigns to other generations with a minority believing there would be a succession within the next decade.

[2] Note that the Appendix is only in English

* The above data for Czechia is based upon expert estimation from AMSP ČR and results from academic research (it is not from the Czech National Statistical Office).

Belgium provided data similar to Czech with a 2018 study showing just over 50% of surveyed family businesses considering passing the business over to the next generation or passing ownership to the next generation. In Spain, the opposite seemed to be the norm with over 67% of family businesses not having any plans for ownership transfer. Interestingly, within Spain, other data also suggests that over 36% of family businesses have agreed on the succession process of the manager with an additional 6% currently in the process of doing so.

EXISTING LEARNING

The research found some evidence of existing learning availability in the partner countries although nothing too substantial or formal.

The Czech Republic has a number of business organisations that can provide some advice although there doesn't appear to be a one-stop-shop covering all aspects of succession planning for family businesses. There is a similar issue in Italy with many trade and sector organisations providing assistance and advice where possible, but nothing freely available with relevant actors in the area being the expected consultants, subject matter experts, banks and trade associations.

Belgium does have a substantial amount of programmes aimed at family businesses, all ran by business schools or universities. It is also worthwhile to understand that many Belgian universities have dedicated family business centres within them. In terms of other support, there are similarities with Italy in that there are many organisations who can provide support and assistance, along with the specific expertise of FBN Belgium.

It is a similar issue in Spain where there is formal education available, but no specific training on business succession planning, indeed one key conclusion from the Spanish report is that training in this area has a large margin to provide strong benefits for family businesses in Spain. Norway also report that advice and assistance can be provided either by the state, or by legal advisors and auditors both via free seminars and websites, or via paid professional services.

The UK is similar to other countries in that advice can be sought from professional service providers, whilst those public and non-public organisations assisting business understand the need for support, but products they create soon become stale.

It would also appear from the data and research gathered, that whilst there is advice available for the transactional process of ownership transfer via existing corporate and tax laws, there appears to be a large gap when it comes to the succession planning process and timelines, as well as the psychological issues that may come into play upon any succession.

OTHER RELEVANT INFORMATION

During discussions with relevant stakeholders, a number of different points were raised across the different partners which we feel is worthwhile identifying in this summary report, whilst signposting readers towards the national reports for more detailed information. For the purposes of this section, the national report mentioning the specific point is noted in the title.

- **Ownership Transfer (NO, BE)** - The cost of ownership transfer is a challenging factor for owners in those countries with inheritance tax or insecurity around future tax situation. There is a lack of consistency across Europe in the levying of tax and that, in certain countries, it is essential to be 'tax literate' (those who are aware of exemptions and reliefs and that qualify for them) to give your family business the best chance of survival. In addition, inheritance and gift taxes might create a substantial disadvantage

for family businesses that have a long-term outlook. The different tax treatment of inheritance and retirement can also lead to changes to the families' behaviours. For example, the leaders of family businesses may hold on to control of the business for tax reasons, which can be frustrating for the next generation and act as a constraint on business growth. Furthermore, in those instances where families and businesses have to fund tax liabilities arising as a result of events which are inevitable, and which result in no economic return to them, it is imperative that the fiscal and administrative burden is proportionate to the associate risk of loss of activity for local communities. Often, financial resources have to be used to fund these liabilities resulting in less money for future business investment. Investment of course drives increased employment and growth, key issues for all governments and economies.

- **Goodwill (UK)** - the concept of 'goodwill' within a business may not be seen on a balance sheet as often is in the past, however it is a key element to bear in mind whilst planning a business succession process.
- **Demand (NO)** - interestingly, the Norwegian data gathering did not 'identify any demand for an official definition of family business in Norway'.
- **Timescales (UK)** - a number of UK support agencies referenced a misunderstanding from business owners at the amount of time it may take to successfully go through the process.
- **Changing Demographics (IT)** - the Italian report discusses issues with an ageing population combined with an exodus of young people, causing issues for family business succession.
- **Leadership vs Ownership (UK)** - mentioned by all partners during a partner meeting and also mentioned by a UK support agency, was ensuring understanding of the difference between succession planning for a change of owner, and that of a change of leader.
- **Outgoing Owner (UK)** - another possible friction point in the process mention by a UK support agency was that of the outgoing owner and their own financial situation.

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