Family Entrepreneurship

Family Enterprises as the Engines of Continuity, Renewal and Growth-intensiveness
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Family entrepreneurship. Family enterprises as the engines of continuity, renewal and growth-intensiveness

Abstract

The Family Entrepreneurship Working Group set up by the Ministry of Trade and Industry was assigned to draft a proposal for a definition of a family enterprise, to find out the number and size of family enterprises in Finland and to analyse their industrial structure and significance for the Finnish economy and regional development, as well as to evaluate the position of Finnish family enterprises in international comparisons and to come up with proposals for legislative amendments and industrial policy measures that would be important for family enterprises.

Family enterprises promote growth and maintain and improve employment in Finland and in the European Union. The most important development area is ensuring the continuity of activities and enhancing growth and renewal. The objective is that the transition periods in the ownership structure of an enterprise must not jeopardise the continuity of profitable business activity. The success of family business transfers is important for employment and the general welfare in Finland. Family enterprises also play a major role in regional and local economy, as they bring stability and permanence for the various regions. The owners do not very easily change their place of residence and thus the domicile of the enterprise often remains the same. Family enterprises often act the engines of regional economic development, since they have a positive attitude towards growth, and their growth is in general more profitable than that of other firms.

As for the definition work mentioned in the mandate of the working group, a multi-layer definition of a family enterprise, in which the concept of family enterprise functions as a kind of an umbrella, was chosen. The working group’s proposals for measures relate especially to securing the continuity of family enterprises and strengthening Finnish ownership. As its priority, the working group emphasised integration of its proposals for measures to improve the operating environment of family enterprises into the Government Strategy Document. The working group also considers that the measures proposed can mainly be implemented under the Entrepreneurship Policy Programme.

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Family entrepreneurship, business succession, industrial policy, enterprise policy

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The Ministry of Trade and Industry commissioned on 11 November 2004 the Family Entrepreneurship Working Group in association with the Entrepreneurship Policy Programme. Mr Philip Aminoff, Chairman of the Board of Directors of Electrosonic Oy Ab was invited to function as the Chairman of the Working Group. The members of the group were: Professor Matti Koiranen from the University of Jyväskylä (Vice-Chairman); Mr Heimo Hakamo, Managing Director of Hakamo Corporate Advisor Group – CAG Oy; Ms Tuija Hartikainen, Corporate Law Director at PricewaterhouseCoopers Oy; Ms Pia Hillgren-Pöyhönen, Managing Director of Kovotekniikka Oy; Ms Timo Parmasuo, Chairman of the Board of Directors at Meconet Oy; Ms Anu Vauhkonen, Corporate Communications Director at Tulikivi Oyj; Ms Helena Wallden, Executive Vice-President at OKO Bank and Mr Kimmo Hyrsky, Senior Adviser at the Ministry of Trade and Industry. Mr Kai Karsma, Senior Adviser at the Ministry of Trade and Industry and Ms Krista Elo-Pärssinen from the Family Business Network Finland were appointed as Secretaries to the Working Group.

The Working Group convened eight times. During the project, the Working Group heard various experts.

Upon completion of the project, the Working Group hereby presents its report to the Ministry of Trade and Industry.

Helsinki, 31 May 2005

Philip Aminoff, Chairman

Matti Koiranen
Heimo Hakamo Tuija Hartikainen
Pia Hillgren-Pöyhönen Timo Parmasuo
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Summary

The Family Entrepreneurship Working Group set up by the Ministry of Trade and Industry on 3 November 2004 was commissioned to draft a proposal for a definition of family enterprise, to investigate the number and size of family enterprises in Finland and to analyse their industrial structure as well as their significance to the Finnish economy and to regional development, and to evaluate the position of Finnish family enterprises in international comparisons. In addition to this, the Working Group may come up with proposals for legislative amendments and industrial policy measures that would be important for family enterprises.

Family enterprises promote growth and maintain and improve employment in the European Union. Evidently, more attention should be paid to the industrial policy on the improvement of possibilities for these well-established enterprises to develop. The Family Entrepreneurship Working Group considers that the most important development area in well-established entrepreneurship is to ensure the continuity of business activities and to enhance growth and renewal. The objective is that transition periods in the ownership structure of an enterprise must not jeopardise the continuity of profitable business activity. Successful family business transfers are important for employment and for the general welfare in Finland.

Family enterprises can be called the backbone of the economy. According to various estimates, between 80 and 86 per cent of enterprises in Finland are family enterprises. Family enterprises employ more than half of the workforce within the private sector and 75 per cent of those employed by SMEs are working in family enterprises. Family enterprises produce 40 per cent of the total turnover in all enterprises and their total share of the GNP is nearly half the GNP of Finland. This share is similar in magnitude to that in other western countries. Although the majority of family enterprises are SMEs, up to 20 per cent of the top 500 companies are family enterprises. More than 30 family enterprises are listed on the Helsinki Stock Exchange. Family enterprises are not only stable, they are also competitive and renewing, they follow developments in the market, create added value to the economy and create new entrepreneurship for their own part.

Family enterprises also play a major role in regional and local economies. They bring stability and permanence to their regions. The owners do not very easily change their place of residence and thus the domicile of the enterprise often remains the same. Family enterprises often have a special position in their local community, which is private and commercial at the same time. They often act as the engines of regional economic development, as they have a positive attitude towards growth,
and their growth is usually more cost-efficient than that of other firms. It can be said that the owners that put a face to their family enterprises are committed to developing their firms as well as to their continuity.

Regarding the definition tasks mentioned in the mandate for the Working Group, a multi-layer definition of family enterprise was chosen, in which the concept of family enterprise functions as a kind of umbrella. Below this, the concept of family enterprise, i.e. company-form family enterprises, is defined as follows:

*A firm is a family enterprise, if:*

1. The majority of votes is in the possession of the natural person(s) who established the firm, 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 child’s direct heirs.

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.

4. Listed companies meet the definition of a family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the right to vote mandated by their share capital.

The Working Group’s proposals for measures relate particularly to securing continuity of family enterprises and to strengthening Finnish ownership. It should be possible to avoid situations where a firm’s business activities are terminated – not due to poor competitiveness, but due to fiscal or legal consequences from a business transfer or because there is no successor. The objective for these proposals for measures is an operating environment that encourages family entrepreneurship and as good prerequisites as possible for the continuity, renewal and growth of profitable family entrepreneurship. To achieve the above-mentioned objective, the Working Group proposes as its strategic intent:

1. *The Government Strategy Document 2006 should include the measures proposed by the Family Entrepreneurship Working Group to improve the operating environment. The Working Group also considers that most of the measures proposed can be implemented under the Entrepreneurship Policy Programme led by the Ministry of Trade and Industry and co-ordinated by the Entrepreneurship Policy Programme.*
The following measures proposed relate to this strategic intent as well as to the main proposal of the Working Group:

(2) Adequate resources should be allocated to Statistics Finland to allow it to develop statistics on the creation on family entrepreneurship, as necessary, in co-operation with the National Board of Patents and Registration of Finland and the Finnish Tax Administration, to enable monitoring of business activities and of the development of family enterprises in separate reports and as a part of, e.g., the entrepreneurship review issued by the Ministry of Trade and Industry. The starting point for the development of statistics should be the definition proposal drafted by the Family Entrepreneurship Working Group.

(3) When developing the operations of Finnvera plc and Finnish Industry Investment, their financial products and services should be directed towards promoting family business transfers and growth.

(4) When developing and reforming inheritance and gift taxation, inheritance and gift taxes on company assets should be abolished from all shareholders in unlisted family enterprises, and in listed firms from those shareholders who are owners meeting the definition of a majority (25% of the votes) in the family entrepreneurship.

(5) In education and science policies, the status of family entrepreneurship should be reinforced and all education levels should invest in family entrepreneurial training in line with the continuum idea, and co-operation between family enterprises and educational institutions should be encouraged.

(6) A survey on the needs and resources should be performed for establishing a family entrepreneurship centre that would function in line with the public-private principle and its tasks.

(7) An extensive training programme on family business transfer should be developed where the generational transfer would be regarded as interaction between the incumbent and the successor.

(8) A service voucher or other similar support form should be introduced to evaluate and to activate family business transfers in firms and to enable firms to purchase those consultation services they need from the open market.
Organising national family entrepreneurship events should be continued in co-operation with the Ministry of Trade and Industry and service providers, and owners of family enterprises should be encouraged to plan a generational transfer in good time.

An international family enterprise conference is being organised in association with the EU Competitiveness Council meeting convening in Jyväskylä in summer 2006.

The Working Group also emphasises the need to monitor the implementation of and the effects from these proposals for measures. This is best achieved when:

The implementation of the Family Entrepreneurship Working Group proposals is monitored on an annual basis in the Cabinet Finance Committee which is recommended to integrate generational transfers and strengthening the Finnish ownership into its agenda.
1 Introduction and definition of the mandate

Family enterprises have a central role as employers of the population engaged in productive work in Finland. In Finland, 80% of all enterprises are family enterprises and family enterprises employ more than half of the workforce within the private sector and produce 40% of the total turnover of all businesses (Koiranen, 2002).

Public authorities have shown their consciousness of the central role of family entrepreneurship in advancing the vitality of the national economy and the national welfare by setting up the Family Entrepreneurship Working Group to enable discussions on levelling the playing field for family entrepreneurship. The Working Group was commissioned to define the concept of family enterprise. The Working Group was also commissioned to find out what percentage of all firms are family enterprises and what their significance is for the national economy. It was also hoped that the Working Group would make proposals on industrial policy measures to improve the operating environment for family enterprises.

The tasks of the Working Group:

1. To draft a proposal for a definition of family enterprise: what kind of a firm should be considered a family enterprise.

2. To investigate the number and size of family enterprises in Finland, to analyse their industrial structure and their significance for the Finnish economy and for regional development, as well as to evaluate the position of Finnish family enterprises in international comparisons.

3. If necessary, to come up with proposals on legislative amendments and on industrial policy measures that would be pivotal for family enterprises.

Background

The European Commission introduced a new EU strategy to promote growth and employment at the beginning of February 2005. Of the challenges faced in Europe, the ageing population is closely associated with family enterprises. Approximately one-third of European entrepreneurs, usually a family entrepreneur, will give up business activities within the next ten years. Annually, this affects 610,000 com-
panies and 2.4 million jobs. In Finland, 70,000–80,000 entrepreneurs will give up their businesses during the next ten years due to ageing (Employment Working Group final report, 2003). It has been estimated that this affects approximately 500,000–800,000 jobs.

To make Europe more attractive to owners, investors and employees, the Commission encourages in the Lisbon Strategy the member states to, e.g., direct subsidies to those fields with substantial growth potential and to create a favourable business environment for SMEs. According to the Strategy, growth is created through know-how and innovation. The Family Entrepreneurship Working Group sees that family enterprises are in a key position to achieve the objectives set out in the Lisbon Strategy.

With the ageing of family enterprise owners, it is a topical issue in family enterprises to consider the continuity of the business. The successor may come from the family, but the firm may also continue through the ownership of the employees or a third party. However, in most cases those planning to become entrepreneurs are encouraged to set up a new business rather than to continue the operation of an existing company. There are many reasons in favour of continuing the operation of an existing company: established products, clientele and jobs and the reputation of the company. The likelihood for an existing company to survive is better than that for a recently established company. Research showed that, e.g., in Austria, 96 per cent of the firms that completed a business transfer survived the first five years after the transfer. The respective figure for start-ups was 75 per cent. In Finland, approximately half of start-up firms survive the first five years.

It should be possible to avoid situations where the firm’s business activities are terminated – not due to poor competitiveness, but because of fiscal or legal consequences from business transfers or because there is no successor.

The European Commission has motivated national and regional decision-makers to support business transfers to secure the continuity of many viable family enterprises, particularly in the EU. Business transfers can be promoted through fiscal, legislative and financial measures. Levelling and developing the playing field for the existing companies is also reflected in the increased number of start-ups.

The Commission emphasises in its Entrepreneurship Action Plan 2004 that political decision-makers, civil servants, commercial organisations and other stakeholders should pay similar attention in their operations to business transfers as to start-ups. There are grounds for this also in the industrial policy, since it was stated in the expert group final report on SME business transfers published by the Europe-
an Commission in May 2002 that: “existing companies usually retain five jobs whereas start-ups usually create only two new jobs”.

Family enterprises promote growth and maintain and improve employment in the European Union. Evidently, more attention should be paid to industrial policy to promote the development possibilities in these well-established enterprises.

The starting point

After discussions on the assignment, the Family Entrepreneurship Working Group set up by the Ministry of Trade and Industry decided to focus on the evaluation of possible actions to guarantee continuity and renewal of privately owned well-established business activity that is extremely important for the Finnish national economy. The Working Group felt that entrepreneurial training, problems for start-up entrepreneurs, seed capital action, actions to attract foreign institutional capital to Finland, financing methods for developing business operations etc. have already been thoroughly surveyed by other Working Groups. Instead, discussion on Finnish industrial policy has less often concerned the problems associated with Finnish privately owned firms or investigated means to develop an operating environment encouraging growth and development to persuade Finnish corporate capital to stay in Finland. This is very important as competition on responsible owners also increases between different countries.

Figure 1 illustrates the effects on the employment rate from industrial policy measures targeted towards the start-up phase of a firm as well as to well-established entrepreneurship. Public authorities can, through their actions, influence the increase or decrease of entrepreneurship and the employment rate. Current industrial policy focuses on increasing the number of start-ups (height of the triangle), although the major employment impact (the area of the triangle) is achieved by securing the continuity of well-established business activity (stretching the triangle along the time axis). This view is supported by the report issued by the Government Institute for Economic Research (Kiander, 2004) which questioned: “Is there too little self-employment in Finland?”. Kiander states that increasing the number of small-size companies is not of value as such. A high number of small companies may reflect a poorly functioning labour market and an inefficient economy. He feels that the objective of economic or entrepreneurial policy should be to promote the opportunities for growth and employment in the private sector rather than to maximise the number of companies. Also, the Kasvun ajurit
survey (2005) issued by the Confederation of Finnish Industries reports that a significant proportion of new jobs are created in growing companies. This survey also indicates that among growth firms only 3 per cent were start-ups. A growth firm had a median age of 20.5 years.

Figure 1. Promoting continuity in business activities increases entrepreneurship and employment

Figure 2 below is based on information from the “100 largest family enterprises” survey published by Talouselämä magazine in 2002 and shows that the largest family enterprises are also old firms. Nearly half of the 100 largest family enterprises were established more than 75 years ago and only six companies were established later than 25 years ago. The oldest firms also comprise the major share of the total turnover of 100 largest family enterprises. The average turnover in a firm established more than 100 years ago was more than €455 million and that of a family enterprise established less than 25 years ago was approximately €160 million. The total turnover of the 100 largest family enterprises is €26 billion, i.e. 0.4 per cent of the turnover of all firms. These companies employed a total of nearly 150,000 persons, i.e. 11.4 percent of the people employed by all companies.
The Working Group emphasises that the measures contributing to continuity and the willingness to engage in renewal in existing firms also create space for start-ups. The Harvard Business Review article (May 2005), "Building Breakthrough Businesses Within Established Organizations", also highlights this. Established family enterprises, start-ups and entrepreneurship as such are not contradictory objectives. It is important to consider, particularly at the national level of industrial and business policy, that it is extremely difficult to create completely new business activities without a well-functioning industrial environment.

To enable Finnish society to maintain and increase its wealth, it should be able to develop more productive ways to function by enhancing, e.g., the supply of services, and to increase the share of exports within the GNP. To achieve this goal, society cannot afford to lose any companies. Only profitable business activities increase employment.

The Family Entrepreneurship Working Group focused on issues related to the willingness and opportunities for family enterprises to grow and prosper from one decade to the next and thus also to their ability to contribute to the growth of the economy and to increase employment in our country. To enable proposals for measures targeted towards these business activities and to enable justifying them, the assignment by the Ministry needed to be defined and clarified.

*A particular challenge in family enterprises compared to other firms is generational transfer.* It is not possible for a privately owned firm to avoid the inevitable generational transfer in line with the human life span, whereas an institutionally owned com-
pany is timeless in this sense. Transition periods in the ownership structure of a family enterprise should not jeopardise the continuity of business activities (Figure 3).

Figure 3. A critical phase in a family enterprise

There are several ownership transition periods in a family enterprise within the firm’s life cycle and therefore family enterprises should be examined in the long term from one generation to another (Figure 4). This also affects the definition of the measures required to secure continuity in the business activities.

Figure 4. Several ownership-related critical phases in family enterprises
The Family Entrepreneurship Working Group considers promotion of growth and renewal to be the most important development areas in well-established business activities. In family enterprises, this means that transition periods in the firm’s ownership structure should not jeopardise the continuity of profitable business activities.

Functioning of the Working Group

The Working Group convened eight times between 2 November 2004 and 31 May 2005. The Working Group heard a total of 11 experts on various issues:

Antti Neimala, Ministry of Trade and Industry: Taking companies into account in the statutory preparation process.
Pertti Valtonen, Ministry of Trade and Industry: Development of financing possibilities.
Manne Airaksinen, Ministry of Justice: Company legislation reform and family enterprises.
Hannu Lipponen, Ministry of Trade and Industry: Globalisation report.
Ilkka Kajas, PricewaterhouseCoopers Oy: Inheritance and gift taxation.
Jouko Rajaniemi, Statistics Finland: Statistics on family enterprises.
Esa Kosonen, National Board of Patents and Registration of Finland: Statistics on family enterprises.
Kalevi Heiliö, National Board of Taxes: Statistics on family enterprises.
Juha Marjosola, Finnish Industry Investment: Family enterprises and financing.
Markus Sovala, Ministry of Trade and Industry: The policy programme on entrepreneurship.

In addition to hearing these experts, Leena Romppainen from law firm Asianajo-toimisto Castrén & Snellman, Marko Nokka and Ola Saarinen from PricewaterhouseCoopers Oy and Kari Villikka from Finnvera plc in particular have helped the Working Group to proceed in their task.

Structure of the report

The Family Entrepreneurship Working Group report first summarises some research investigating the social significance of family enterprises. Then, the challenges of and possibilities for continuity, growth and renewal for family enterprises
have been described. The report also describes the particular features of family enterprises in comparison with other companies.

Before any proposals for measures are presented, the financing and fiscal challenges typically faced by family enterprises have been discussed in a separate section. The proposed industrial policy measures have been discussed in view of the starting point defined by the Working Group: securing continuity, renewal and growth-orientation in well-established business activities during ownership transfer periods. The proposals for measures emphasise that a favourable operating environment should be created for family enterprises by abolishing obstacles and by increasing incentives. The structure of the sections in this report is as follows:

Section 1. Abstract
Section 2. Social significance of family enterprises
Section 3. Particular features of family enterprises
Section 4. Definition of family enterprise
Section 5. Financing and taxation
Section 6. Proposed measures
2 Family enterprises as the backbone and engines of the economy

For centuries, family enterprises have been responsible for social and economic welfare. Although there is no unambiguous definition of family enterprise, researchers have tried to investigate the social significance of family enterprises. Research is based on a certain sample that has been extrapolated to all enterprises. Therefore, the results are only indicative.

Koiranen (2002) has estimated that in Finland family enterprises comprise 80 per cent of all companies, employ half of the workforce within the private sector and accumulate 40 per cent of the total turnover of all businesses.

According to the Quo Vadis study (2003), conducted by the Small Business Institute at the Turku School of Economics and Business Administration, 86 per cent of all Finnish companies are family enterprises. They create at least half of all jobs within the private sector and 75 per cent of those employed by SMEs work in family enterprises. The total GNP share of family enterprises accounts for nearly half of Finland’s GNP. Although the majority of family enterprises are SMEs, up to 20 per cent of the top 500 companies are family enterprises. More than 30 family enterprises are listed on the Helsinki Stock Exchange.

Table 1 shows that the majority (92%) of Finnish family enterprises are micro-companies (fewer than ten personnel). Companies employing more than 50 employees, i.e. medium-size and large family enterprises, comprise only 1 per cent of the companies, but their role is considerably more significant if the extent of their activity is examined (Figure 1). Medium-size and large family enterprises employ 27 per cent of those working in family enterprises and their share of the total turnover of all family enterprises is 32 per cent.

Table 1. Number of family enterprises in Finland per size (Heinonen & Toivanen, 2003)

<table>
<thead>
<tr>
<th>Size (personnel)</th>
<th>Number of enterprises</th>
<th>Personnel</th>
<th>Turnover (€ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0–4</td>
<td>137,163</td>
<td>163,072</td>
<td>3,409</td>
</tr>
<tr>
<td>5–9</td>
<td>12,429</td>
<td>79,557</td>
<td>2,142</td>
</tr>
<tr>
<td>10–49</td>
<td>9,894</td>
<td>190,945</td>
<td>5,346</td>
</tr>
<tr>
<td>Above 50</td>
<td>1,620</td>
<td>159,001</td>
<td>5,230</td>
</tr>
<tr>
<td>TOTAL</td>
<td>161,106</td>
<td>592,575</td>
<td>16,127</td>
</tr>
</tbody>
</table>
When taking a closer look at the impact on employment by family enterprises per size (Figure 5) it can be seen that companies with a personnel level of 10–49 employees are those with the maximum employment effect. When the number of employees is proportioned to the number of enterprises, it can be seen that large companies are those with the relatively highest employment effect. A firm in the size category 0–4 employs an average of 1 employee and a firm with a personnel of above 50 employees employs an average of approximately 100 employees.

![Figure 5. Personnel in family enterprises per size](image)

Family enterprises represent responsible ownership putting a face to the business. According to the Quo Vadis study, Finnish family enterprises can be justly called the backbone of the economy since the renewing entrepreneurship in family enterprises actively following and exploiting the market creates stability and added value to the economy.

Family entrepreneurship is also the engine of the national economy, since it “gives fuel to the wheels of economy” through employment and investment. Established family entrepreneurship also creates new business activities around it. Family enterprises maintain the welfare state by paying, e.g., employee income tax, social security fees, unemployment insurance fees, fees to the pension funds, value-added tax, real-estate tax, tax on retained earnings (state income tax, municipal corporation tax, dividends, capital income tax) etc.
2.1 Number of family enterprises according to various indicators

In the Quo Vadis study conducted by the Small Business Institute at the Turku School of Economics and Business Administration, the number of family enterprises was investigated using various indicators. As was expected, the number of family enterprises varies according to the family enterprise indicator used (2). If estimated using a structural and a subjective indicator, a significantly higher proportion of Finnish enterprises are family enterprises compared to the estimates using a functional or a generational-transfer indicator. A closer examination of the material shows that the difference is mainly caused by sole-proprietor businesses, which comprise approximately 40 per cent of Finnish enterprises (number of personnel in companies in 2003). It is also difficult regarding the definition if family members are involved in the sole proprietor’s business activities as wage-earners or as owners. Firms with the family involved in the firm’s operation and ownership comprise approximately one-third of all firms (30%). Eighteen per cent of firms have a history of generational transfer.

Table 2. Family enterprises in the research material according to various definitions (Heinonen & Toivonen, 2003)

<table>
<thead>
<tr>
<th>Definition</th>
<th>N</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Structural</td>
<td>425</td>
<td>86</td>
</tr>
<tr>
<td>b) Subjective</td>
<td>324</td>
<td>65</td>
</tr>
<tr>
<td>c) Functional</td>
<td>151</td>
<td>30</td>
</tr>
<tr>
<td>d) Subjective + functional</td>
<td>143</td>
<td>29</td>
</tr>
<tr>
<td>f) History of generational transfer</td>
<td>89</td>
<td>18</td>
</tr>
<tr>
<td>g) History of generational transfer + subjective</td>
<td>85</td>
<td>17</td>
</tr>
</tbody>
</table>

Various indicators form a continuum (Figure 6) where one end can be called a strictly defined family enterprise and the other end a broadly defined family enterprise. The stricter a definition of a family enterprise is used, the older a family enterprise often is. A generational transfer is typically performed in family enterprises at intervals of 25 years and it can thus be playfully said that family enterprises are also involved in the quarterly economy, but their quarter is 25 years.
2.2 Regional significances of family enterprises

Traditionally, family enterprises often operate locally and they are regionally very significant actors. Regionally, family enterprises often function as so-called engines and they have an important impact on the renewal and development of industrial and commercial activities. They are often significant employers locally and create welfare and added value in the community even more widely. Family enterprises function regionally as a base for creating and developing new business activities.

According to the Quo Vadis study conducted by the Small Business Institute, family enterprises are regionally rather evenly located in different provinces compared to non-family firms (Table 3). Like all firms, the majority of family enterprises are also located in the provinces of Southern Finland and Western Finland.

Table 3. Number of family enterprises per province (Heinonen & Toivonen, 2003)

<table>
<thead>
<tr>
<th>Provinces</th>
<th>Family enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Province of Southern Finland</td>
<td>43%</td>
</tr>
<tr>
<td>Province of Western Finland</td>
<td>40.1%</td>
</tr>
<tr>
<td>Province of Eastern Finland</td>
<td>9.2%</td>
</tr>
<tr>
<td>Province of Oulu</td>
<td>7%</td>
</tr>
<tr>
<td>Province of Lapland</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

According to the Quo Vadis study, the highest percentage of family enterprises seemed to be involved in trade and transportation and the lowest percentage in the service sector. In industry, the proportion of family enterprises was slightly higher than that of non-family firms.
Family enterprises bring stability and permanence to their regions. The owners do not very easily change their place of residence and thus the domicile of the enterprise often remains the same. Family enterprises often have a special position in their local community, which is private and commercial at the same time.

### 2.3 International significances of family enterprises

According to the IFERA (International Family Enterprise Research Academy) survey published in the Family Business Review in December 2003, the share of family enterprises of all firms varies in Europe between 60 and 93 per cent (Table 4). The survey is based on independent studies conducted in different countries using different criteria for the definition of family enterprise. In the United States, the share of family enterprises is approximately 95 per cent and in Central and South America it is 65 per cent. There is only limited information available from the Asian countries. One of the world’s oldest family enterprises, Hoshi, was established in Japan as early as in the sixth century.

The share of family enterprises of the GNP is substantially smaller in the United States and in Finland in proportion to the number of family enterprises compared to other countries. However, 35 per cent of the 500 largest companies in the United States are family enterprises. Approximately 20 per cent of the Finnish top 500 companies are family enterprises, including Kone Corporation, Ahstrom Corporation, Wihuri Group, Lemminkäinen Group, Myllykoski Group, Onvest Group and Oy Karl Fazer Ab.

There are many listed and unlisted family businesses around the world, such as Hermès, Danone, Michelin, Peugeot, L’Oréal, Henkel, BMW, Dr. Oetker, Beretta, Barilla, Johnson & Johnson, Kellogg’s, Mars, IKEA and Tetra Pak. With the exception of France and the Netherlands, family businesses are more employment-intensive than other companies. Their share of the employed workforce ranges between 50 and 80 per cent.
Table 4. *International comparison of family enterprises (IFERA, 2003)*

<table>
<thead>
<tr>
<th>Country</th>
<th>% of businesses</th>
<th>% of the GNP</th>
<th>% of the employed workforce</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>95</td>
<td>40</td>
<td>60</td>
</tr>
<tr>
<td>Italy</td>
<td>93</td>
<td></td>
<td>79</td>
</tr>
<tr>
<td>Finland</td>
<td>80</td>
<td>40–45</td>
<td>40–60</td>
</tr>
<tr>
<td>Greece</td>
<td>80</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cyprus</td>
<td>80</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sweden</td>
<td>79</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>75</td>
<td>65</td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>74</td>
<td>54</td>
<td>43</td>
</tr>
<tr>
<td>Portugal</td>
<td>70</td>
<td>60</td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>70</td>
<td>55</td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>70</td>
<td></td>
<td>&gt;50</td>
</tr>
<tr>
<td>Germany</td>
<td>60</td>
<td>55</td>
<td>58</td>
</tr>
<tr>
<td>France</td>
<td>&gt;60</td>
<td>&gt;60</td>
<td>45</td>
</tr>
<tr>
<td>Australia</td>
<td>75</td>
<td>50</td>
<td>50</td>
</tr>
</tbody>
</table>

In western countries, the share of family businesses ranges between 60 and 95 per cent. Their share of the GNP and of the employed workforce is approximately 50%. Statistical practices vary between countries.

### 2.4 Securing continuity of family enterprises

According to the survey issued by the European Union in 2002, it was estimated that one-third of the firms in the EU member states would transfer ownership to the next generation within the next ten years. In the 15 member states forming the EU at that time, an average total of 610,000 SMEs were annually transferred from one owner to another with an impact on approximately 2.4 million jobs. Along with start-ups and growth of business activities, generational transfer is the third main factor in the cycle to improve the competitiveness of Europe (Expert Group report on SME business activity transfers, EU 2002).

Generational transfer will also become very topical in Finland during the coming years. An estimated 70,000–80,000 entrepreneurs will give up their businesses due to ageing during the next ten years (Employment Working Group final report, 2003). This will affect approximately 500,000–800,000 employees. A business transfer means transfer of and continuity of business activities as the current entrepreneur-owner gives up the business. A business transfer can be performed as a
generational transfer when the successor comes from the family. The successor may also come from outside the family. According to the Quo Vadis study, 42 per cent of business transfers during the coming years will be implemented as generational transfers, 26 per cent of the businesses will be sold and 7 per cent view closing down the business as the method of transferring the business activities.

The majority of owner transfers naturally concerns family enterprises. It is therefore important that particular attention is paid to the generational transfer and to advancing the operational possibilities for family enterprises.

According to the survey performed by Asiakastieto (Koskenranta-Kouki, 2005), the businesses approaching generational transfer are larger and more solid than an average business. Turnover, balance and the number of personnel in the businesses approaching generational transfer were considerably higher than the key figures in firms in the reference group. Successful generational transfers have a great importance to the national economy.

The Research Institute of the Finnish Economy (Kaseva, 2005) has estimated that in the case that half of the generational transfers should fail, the financial position of the public economy would be impaired by €1.25 billion within four years, lost income tax would increase to €300 million, unemployment and pension expenditure would increase to €800 million and €150 million of indirect tax income would be lost. After four years, the general government net lending would be 0.7 percentage units (Figure 7) lower than that estimated. The number of lost jobs would be 60,000 and that of lost businesses 32,000. To secure continuity of employment and businesses’ capacity to pay taxes, avoiding failure in generational transfer would be the best option for everybody – businesses, employees, public authorities and other interest groups.

![Figure 7. Deficit in the public economy](image-url)
The challenges of generational transfers can be divided into “hard” (financing, taxation and legislation) and “soft” (e.g. transfer of know-how, giving up the business, pressure to continue, business co-operation relations, attitudes of the personnel). To succeed, it is not, however, sufficient that solutions to only the hard challenges are found. Most challenges in business transfers are related to the soft factors. In every family enterprise a generational transfer is, however, a unique process. This process can be facilitated by initiating discussions, planning, preparing and obtaining information in good time.

The successful implementation of family business transfers is important for employment and the development of general welfare in Finland.

2.5 Cost-effective growth in family enterprises

The Small Business Institute at the Turku School of Economics and Business Administration has studied growth companies. In this study, it was possible to examine family enterprises separately. The criteria for family enterprises used in this study included: the respondent perceived the firm as a family business; the ownership of family/close relatives is more than 50%; and a member of the family/close relative works in the company as a wage-earner. According to these criteria, 27 per cent of the firms in the study material were family enterprises. The prevalence of businesses with features of family enterprises, i.e. one of the above-mentioned criteria was met, was slightly higher, i.e. 41 per cent.

Appendix 1 summarises the number of growth companies according to various growth indicators and their shares with regard to the definition of family enterprise (Pukkinen, Stenholm, Malinen, 2005). The percentages indicated in the Appendix describe, per each indicator, the share of firms meeting the criteria out of all firms in each group.

In this comparison, only one statistically significant difference was observed, indicating that the growth in family enterprises has been more profitable than in other SMEs.

Indicative differences between family and non-family enterprises can be interpreted to appear also in partial international growth orientation and in the actual growth of the market share. In both these, the growth of family businesses has been or is expected to be stronger than in other firms. The figures in the table partly show that family businesses have grown slightly more than other businesses or they have
a slightly more positive attitude towards growth. However, these differences observed between family and non-family enterprises are only suggestive.

The Kasvun ajurit survey (2005) issued by the Confederation of Finnish Industries states that a growing firm is usually owner-driven and the owner is strongly committed to objective-oriented and sustained growth and development. A growth firm is not industry-bound. According to the report, growth firms show controlled risk-taking: growth is usually financed with income financing. Aptitude to expanding the ownership base is limited, suggesting that the entrepreneur desires to keep his autonomy and independence. These features of growth entrepreneurship are very similar to the special features of family enterprises described in the next section.

Family businesses have a positive attitude towards growth and their growth is profitable.
3 Continuity – a prominent characteristic for family enterprises

Family enterprises share many similar characteristics, even if they are very different from one another. A family business may be small or large, listed or unlisted, and it can operate in any line of business. A common feature for all family enterprises different from other companies is that family, business and ownership are intertwined. Tagiuri and Davis (1982) presented the three circle model (Figure 8) where these segments are described as separate, but they are in very close interaction. Everyone in the family business system has one or several roles. He may be the owner of the family enterprise only or he may fall into all three segments at the same time as, e.g., an owner, family member and an operative manager.

Figure 8. Family business system (Tagiuri & Davis, 1982)

A weakness in this three circle model is that it is static. Family, business and ownership are in constant change and this is not considered in the model. In Figure 9 below, time has also been taken into account. The rate of change is usually fastest in business, second fastest on the family axis and slowest in the transfer of ownership. Transition periods are particularly sensitive and susceptible to risks in any of the segments in the family business system. These changes are also reflected in the other segments.
A dilemma in family enterprises is the difference between the requirements of family life and business life. Collisions between the family and business occur e.g. in making a decision to employ a family member, to reward family members, to finance expansion of the business or to appoint a successor for the business. However, successful owners of family enterprises are aware of these challenges and strive to overcome them.

In any case, the family is often a major competitive factor in family businesses. The family shares a common history and identity that often strengthen the base for the business activities. Family members, in a manner of speaking, grow to form an entity with the business and this gives them better opportunities to acquire silent information on the business. The owning family puts a face to the business and the products often bear the name of the owner family. Family brings emotions to business activities, which gives an additional dimension to the rational decision-making.

The family members’ set of values has a great impact on the formation of the business culture in the family enterprise. The culture of family entrepreneurship strongly determines the success of a family enterprise, generation after generation.

Family enterprises often have unofficial decision-making systems and less formal organisational structures that enable more flexible management practices and improve the efficiency and swiftness of decision-making. It is easy to define the authority in family enterprises, which may in turn contribute to the swiftness of decision-making.

The shares of a family business are often illiquid. They have no market value and they are often transferred within the family enterprise as an inheritance, gift or purchase to the next generation. Some family businesses are listed on a stock exchange, which improves the liquidity of the shares and enables the acquisition of new assets. Listed family enterprises usually combine the best aspects of the worlds of fa-
family enterprises and stock exchanges. According to an article published in Newsweek in December 2004, the share prices of family-enterprise shares increased by 206 per cent in Spain within a ten-year period (1993–2003) while share prices of other firms increased by only 47 per cent. In France, the respective figures were 203 per cent and 76 per cent. The ten best family businesses in Europe combine the strength of the family and the “discipline” of listed companies.

**Commitment** is usually strong in family enterprises. Ownership in a family business is usually seen as "a gift from the previous generation and as a loan from the next generations". The objective of a family business owner is to transfer the family business to the next generation in better shape than that received from the previous generation. Long-term strategic planning is valued in family enterprises more than responsiveness to the figures in the interim report. Long-term planning also affects the business results. Maury (2004) shows that long-term and active commitment by the family enhances the firm’s performance.

**Balance sheets are usually solid** in family enterprises. This was observed in the survey on the 100 largest family enterprises performed by Talouselämä magazine in 2002, which showed that the median equity ratio in family enterprises was 49 per cent. Reasons for solid balance sheets may be preparation for the future, the independence of investors and securing continuity.

The culture of family entrepreneurship usually involves major concern for the interest groups and for the surrounding community. (Kenyon-Rouvinez et al., 2002) They carry a strong responsibility for the employees, customers and subcontractors. In many family businesses, the employee turnover is low and employment may continue from one generation to the next.

When a family business is transferred from one generation to the next, a major challenge is to avoid losing entrepreneurialism and innovation. The first generation owner-entrepreneur had a certain mission at the start-up of the business for which he was willing to work day and night and even to take some risks. The future owners of the family business should be encouraged to preserve this entrepreneurialism to make them responsible owners of the family business and not only investors.

The characteristics of family enterprises – continuity, putting a face to the company and close interaction between the family and the business – may have a strong impact on the strategic choices in the business. If the entrepreneur has a vision to transfer the business to the next generation, his strategic choices are likely to be different to those of an entrepreneur who wants to make quick money from his business.

The owners of family enterprises putting a face to the business are committed to the continuity of business activities.
4 Defining family enterprises

The main issue on competitiveness in the Lisbon Strategy of the European Union and in the green paper on entrepreneurship is securing the continuity of enterprises. This also secures employment. As was previously agreed, the policy programme on entrepreneurship leaves open the question on how to promote generational transfers and the continuity of businesses. To support the life-cycle perception presented here, a similar extensive social discussion and decision-making process is required covering all interest groups and resulting in improved awareness and knowledge of family entrepreneurialism.

Therefore, action at both national and community level is required. The Constitution of Finland (§ 18, 11.6.1999/731) prescribes that public authority should protect the workforce. Considering the characteristics of family enterprises and considering that they create employment, it should be investigated whether a definition of family enterprises is required on the national level that would support and specify the legislation, for example, in connection with reforms of the legislation on inheritance and that of the Companies Act. It should be considered whether a separate law on family enterprises is necessary to enable a better definition of the grounds as to how the society can advance, as proposed here, long-term accumulation of company assets creating employment.

A community-level consensus is also required for the recommendation to promote continuity of family businesses and transfer of company ownership to secure continuity of entrepreneurship and thus also employment. Taking into account the particular features of family businesses described here, as well as their importance to the national economy and in creating employment, this consensus can be mainly built on the same principles as the European Commission recommendation (96/280/EC) on SMEs with the objective to promote the efforts of national governments to encourage and support SMEs.

Family enterprises are not officially defined, which impedes the gathering of statistical information on family businesses. Decision-makers need statistical information on family businesses to support their decisions and to assess the effects from these decisions. It is difficult to obtain statistics on family enterprises and their activities since there is no definition of family enterprise.

In the academic world, the criterion of a family enterprise has varied between share of ownership, strategic control, participation of different generations in the
operation of the business and the intention to maintain the firm as a family business. Appendix 1 describes in more detail various definitions of family enterprise issued by various researchers. On the basis of some of these criteria, it is difficult, maybe even impossible, to gather statistical information on family enterprises. In addition to the statistical needs, a definition of family enterprise is required for legislative purposes if the aim is to promote the continuity of well-established family business activities and to secure employment by allocating certain measures to family enterprises and to their owners. There are also national economic grounds for these measures, since the research shows that a new company employs an average of two employees whereas an average of five jobs are retained in generational transfer.

4.1 Various indicators for family enterprises

The study “Quo Vadis the Finnish Family Business” conducted by the Small Business Institute at the Turku School of Economics and Business Administration used the following indicators to investigate the essence of family entrepreneurship.

1) Subjective indicator

The easiest way to define a firm as a family enterprise is to ask the owner-entrepreneur or similar whether he thinks that the firm is a family business. Thus, the answer obtained is either yes, it is a family business, or no, it is not a family business. The weakness in this method is that the concept of “family business” is not – despite its apparent simplicity – by any means unambiguous to the respondent. Operationalisation of the concept is easy but the reliability of the obtained results suffers.

2) Structural – ownership-based indicator

The definition often internationally used is based on the family control in the firm. A firm is a family business if a family owns more than 50% of the firm, or if for any other reason it has control over the firm. Surprisingly, the basic concepts ”family” and ”enterprise” may be difficult. From the view of using this indicator, sole entrepreneurs in particular and those with no family are problematic for the definition. One may wonder whether a sole entrepreneur has a business or whether a person with no family has a family.
3) Functional indicator

The definition should include a functional dimension describing the “presence” of a family in the firm. In this study, family involvement in the business activities was defined by two questions: does any other family member have a share of the ownership in this firm and is any other family member a wage-earner in the firm?

The above description creates a three-level indicator whereby family enterprises and non-family enterprises are separated by a “grey area”. There are firms with only some characteristics of family enterprises.

4) Generational transfer completed indicator

According to this indicator, a company is a family enterprise only when it has completed a generational transfer.

Figure 10 below summarises the contents and challenges in the various indicators.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FUNCTIONAL</strong></td>
<td>- How is control defined?</td>
</tr>
<tr>
<td>- Does any other family member have a share of the ownership in the firm, and is any other family member a wage-earner in the firm?</td>
<td>- Sole entrepreneurs and those with no family.</td>
</tr>
<tr>
<td><strong>SUBJECTIVE</strong></td>
<td>- The concept of family means different things to different people.</td>
</tr>
<tr>
<td>- Does the owner–entrepreneur consider the business a family enterprise?</td>
<td>- Who is asked?</td>
</tr>
<tr>
<td><strong>STRUCTURAL</strong></td>
<td>- Who is a family member?</td>
</tr>
<tr>
<td>- Does the family own more than 50% of the firm, or does it otherwise have control of the firm?</td>
<td>- How to define working.</td>
</tr>
<tr>
<td><strong>GENERATIONAL TRANSFER</strong></td>
<td>- How to define completed generational transfer?</td>
</tr>
</tbody>
</table>
4.2 Working Group’s definition of a family enterprise

When the Working Group pondered the concept of family enterprise, the starting point was ownership-based control. The Working Group approached the issue of control through owners in different forms of companies (Table 6).

Table 6. The ownership base in the control of business activities

<table>
<thead>
<tr>
<th>COMPANY FORM</th>
<th>OWNER</th>
</tr>
</thead>
<tbody>
<tr>
<td>- self-employed person - one-man business</td>
<td>- a natural person - a family</td>
</tr>
<tr>
<td>- general partnership - limited partnership</td>
<td>- a natural person - family/kin - another company institution</td>
</tr>
<tr>
<td>- unlisted limited liability company</td>
<td>- a natural person (family/kin) - another company institution fund - municipality - state</td>
</tr>
<tr>
<td>- co-operatives - mutual companies</td>
<td>- a natural person (family/kin) another company - municipality - state</td>
</tr>
<tr>
<td>- listed companies</td>
<td>- a natural person (family/kin) - family holding company - institution (bank, insurance company, or another company) - fund (pension or investment) - municipality - state</td>
</tr>
</tbody>
</table>

Family entrepreneurship measured by various indicators exists in all forms of companies, more in some company forms and less in others. At the beginning of its life cycle, a firm usually operates as a one-man business or as a partnership. As the business grows and develops, the company form chosen is usually a limited liability company. The company may later go public when e.g. searching financing for its growth.

The Working Group considered it important that the definition be unambiguous and easy to update. The definition should be neither too narrow nor too broad. Too-broad definitions do not distinguish family enterprises sufficiently from non-family enterprises and too-narrow definitions limit them into too small groups. The Working Group ended up with a multi-layer definition of family enterprise in which the concept of family enterprise functions as a kind of umbrella above the concept of family business, i.e. only company-form family businesses. The Working Group issued a more detailed definition of the concept of family business.
The starting point for the definition was the control of the family or kin that is expressed in the definition as the majority of the vote. In calculations of the majority of the vote, the Working Group also considers indirect ownership (structural indicator) to be significant.

A special feature in family enterprises is that the family and the company are intertwined. This is considered in the definition by the requirement that at least one representative of the family or kin should be involved in the operative or administrative management of the family enterprise (functional indicator).

The definition of a family business excludes commercial and business activities of a natural person who can be called an entrepreneur, a businessman or a self-employed person. In this form of business activity, the assets and liabilities of the entrepreneur are in his ownership without a general partnership, a limited partnership company or a limited liability company between the entrepreneur’s person and the business activities. The business or profession of the entrepreneur cannot be separated from the entrepreneur and they therefore form an entity. In these forms of business activity, no company assets transferable from one generation to the next will be created.

The Family Entrepreneurship Working Group defined a family enterprise as follows.

A firm is a family enterprise, if:

1. The majority of votes is in possession of the natural person(s) who established the firm, 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 child’s direct heirs.

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.

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 right to vote mandated by their share capital.
5 Funding and taxation – the challenges of generational transfer of a family enterprise

The demanding process of generational transfer, with the current challenges in financial and fiscal obligations, decreases solvency, reduces the possibilities for investment and development and reduces the ability to take risks as well as the stability of employment and the creation of new jobs. This also affects the decision as to whether the business should continue as a family enterprise or whether to give up the business. The common objective for society and enterprise-owning families is to secure the continuity of business activities in Finland.

Financial arrangements in a generational transfer include the use of equity loans, subordinated liabilities or the so-called mezzanine financing. The use of subordinated loans and mezzanine financing-type loans in generational-transfer situations has been increasing.

Family enterprises are also significant contributors to the tax income collected by the State and thus levelling the playing field for businesses through the means allowed by taxation is also essential. Legislative reforms and changes in the interpretation of various tax laws affect family enterprises and their owners substantially more often and with a greater impact than other companies. Although taxation of natural persons and enterprises is separate, greater importance should be given to the unity of family and kin than is given in current taxation practices.

It is clear that our society needs growing and successful family enterprises. Controlled growth and success necessitate increases in the company assets, i.e. growth indicated by the firm’s balance sheet and increases in the taxable net assets of the firm. The importance of this has already been taken into account in the current tax legislation where increases in net assets may at the same time increase the amount of dividend subject to single taxation.

5.1 Funding to secure employment in and continuity of family enterprises

There are particular challenges in financing generational transfer. Generational transfer does not typically increase company assets – on the contrary, capital is typi-
cally reduced when distributable retained earnings are used for redemption of shares from the owners giving up their partnership or when the firm pays extra dividends to cover the taxation consequences from generational transfer. Redemption of shares from the previous generations leads to increases in the amount of the firm’s and the successor’s liabilities, leading to an at least temporarily decreased stability of the firm and reduced creditworthiness. It is typical in these situations that the assets of the firm to be purchased cannot be used as security collateral to finance the purchase of shares and therefore collateral deficiency is almost always created. To arrange financing in these situations, new funding instruments have been introduced, such as subordinated loan and mezzanine financing products, for which it is typical that higher risk-taking leads to higher interest costs to finance a transition period that is more susceptible to risks.

![Firm’s financing structure diagram]

The new Companies Act currently in preparation (May 2005), according to which subordinated loans are no longer considered part of the equity, will reduce the equity ratio in many family enterprises. This will create a problem, since the Basel II framework on banking coming into force at the beginning of 2007 connects the margins of bank-issued business credit more closely than before to the firm’s equity ratio. At the same time, the pressure in pricing of the margins for bank-issued subordinated loans in comparison to ordinary credit will increase substantially.

The interpretation of the Committee for Corporate Analysis (Yritystutkimus-neuvottelukunta, YTN) plays a significant role, if subordinated loans meeting the provisions in the new Companies Act will not be considered part of the equity. The YTN defines the equation formula to be used by banks, e.g. when calculating the
solvency of a business. The YTN should determine that subordinated loans should still in the future be considered as part of the equity.

Generational transfers may not be such an appealing investment for professional capital investors due to the low profit expectation associated with them. Their attractiveness is also reduced by the limited possibilities for the investor to detach from the investment. Capital investors detach from their target firms within a limited investment period of three to seven years, either by selling the firm to a new owner or by listing it on a stock exchange. This method of detachment is not very suitable for generational-transfer situations where the objective is to keep the firm in the ownership of the family.

There are no actual products to finance generational transfer aiming at continuity of ownership. Banks offer loans, mezzanine financing and subordinated loan products for generational-transfer situations. Additionally, Finnvera corrects this deficiency in the market by offering various financing products for generational-transfer situations: entrepreneur loans, capital loans and capital guarantees that are suitable as such also in generational-transfer situations.

The entrepreneur loan granted by Finnvera is intended for payment of a contribution or for increasing the share capital in a limited liability company, general partnership or limited partnership as well as for purchase of shares or interests. The entrepreneur loan is an entrepreneur’s personal loan. It can also be granted to several persons establishing the same company. Those applying for the entrepreneur loan should be shareholders in the limited liability company with a share of a minimum of 20% of the share capital and the right to vote or he should be a partner in a general partnership or the general partner in a limited partnership company. The applicant should participate in the business activities with full-time work input and earn his livelihood from the firm.

The capital loan granted by Finnvera is intended for financing the working capital created as a result of investment, product development and growth as a part of other Finnvera funding. It can also be used for financial arrangements in company acquisition and generational-transfer situations. The capital loan is not allowed to carry a collateral from a debtor company or corporate and it is entered on to the balance sheet as an equity item. The amount of a capital loan is usually €20,000-3,000,000 and the term of the loan is normally five to six years, up to ten years. No collateral is required from the firm for a capital loan, but in some cases the owners have issued a personal security. The supply and use of the capital guarantee in the Finnvera product range has been very limited.

The role of the Finnish Industry Investment in generational-transfer arrangements has been very limited so far.
5.2 Tax incentives for corporate assets to create jobs

In generational transfer, the owner-business entity does not create completely new corporate assets and it does not bring a positive cash flow to the firm. In generational transfer, inheritance and gift taxes levied from the successor usually fall to the firm for payment since the successor has to finance the taxes using dividends or by taking a loan from the firm. Inheritance and gift taxes thus put a strain on the firm’s financing structure and impair the possibilities for the successor to carry out their responsibilities as an owner. In the worst case, the fiscal consequences of generational transfer may form an obstacle for keeping the firm as a family enterprise. It may be necessary in such a situation to consider selling the family enterprise partly or entirely to an external owner to secure the financing of the generational transfer. Since there are so few potential domestic buyers and as the business market is so small in Finland, the only option is often to try to find foreign buyer candidates for the business.

Personal income tax as well as the combined effect from capital income tax, inheritance tax, gift tax, asset-transfer tax and net-worth tax currently levied on natural persons put Finnish owners of company assets in an unequal position with regard to institutional and foreign owners. Additionally, a family enterprise is levied income tax on the firm’s business income.

5.2.1 Inheritance and gift taxation in generational transfer

When transferring family-enterprise capital from the parents to the children by means of inheritance or a gift, it is often necessary due to the capital tied up to the business to divide the ownership of the business between several children or other beneficiaries to implement the principle of equality.

The transfer of company assets as an inheritance or a gift is promoted through tax relief. A condition for tax relief is, however, that a minimum of 10 per cent of the ownership is transferred to each successor at a time. However, current tax-relief regulations do not take into account any possible previous acquisitions of ownership in the same company by an heir, but meeting the criteria for the relief is considered separately each time for each transference. If the family enterprise has different sets of shares with different rights and with different rights to vote, the criteria for the relief are not met even if the generational transfer would mean that of the majority of the number of votes is transferred concurrently with a transfer of shares less than 10 per cent. This causes problems particularly in listed family enterprises.
On the other hand, obtaining relief in accordance with the Inheritance and Gift Tax Act (perintö- ja lajhaverolaki, PerVL) does not necessitate a family relationship between the person leaving an inheritance and the heir.

Centralising ownership is usually not economically possible for the successor of the business since he has to compensate the other heirs for the value of shares in the estate. Division of the ownership into smaller shares of ownership leads to a situation where the ownership is scattered among such a large group that the 10 per cent ownership required for the tax relief cannot be achieved. This leads to unequal treatment with a consequence that the transfer of company assets causes a significantly higher total tax burden than in a situation where the relief is obtained.

To enforce the intent in the relief regulation, a provision should be included in the Inheritance and Gift Tax Act that when transferring stock or shares entitling ownership in a farm or a firm within the family, the transferee should be entitled to tax relief independently of the magnitude of the share in the ownership inherited or received as a gift. This would facilitate keeping together the fragmented ownership that is still under the control of the family. This would particularly promote the possibility of keeping the ownership within Finnish hands.

**Company assets subject to relief in the Inheritance and Gift Tax Act**

The assets owned by a firm can be divided into three different income sources for taxation purposes. These income sources are business income, agriculture income or personal income.

After the reform of the legislation on generational-transfer relief, a question emerged on targeting the relief particularly towards company assets categorised as business income. The guidelines issued by the National Board of Taxes state that it is possible to grant relief on gift tax on that part of the shares entitling the person to ownership of company assets. According to this guideline, if a substantial part of the company assets are subject, according to the Income Tax Act, to the taxable so-called Income Tax Act (TVL) income source, it is possible to decide when levying the gift tax that the assets subject to the TVL income source are not regarded as subject to relief.

Tax exemption should be particularly favoured on the assets regarded as a TVL income source when the assets in the firm can be shown to have accumulated during years of entrepreneurship and when the above-mentioned division in income sources has not been questioned in the company income taxation.
In practice, considering assets subject to relief means that the tax to be levied is based on the book value of the assets. As the book value is often lower than the current value, due to e.g. frontloading depreciations, imposing tax on the basis of the book value is more favourable to the taxpayer compared to taxation on the current value.

The taxation practices applied by tax offices and the guideline issued by the National Board of Taxes in June 2004 led to a major disagreement on the interpretation of the calculation of the share value when applying the relief regulations. The guideline issued by the National Board of Taxes and the gift tax decisions issued by some tax offices are not in line with the clear position taken in the justifications of the legislation reform passed in the Parliament that the legislation reform should not affect the grounds for the relief itself, but the established practice for granting the relief should be followed and it should be targeted towards all assets owned by a firm. If part of the tax imposed on the company’s assets is based on the current value in generational-transfer situations, this will lead to increased taxation compared to the previous practice, whereas the objective of the legislation was to facilitate the implementation of generational transfer. Appeal processes are already ongoing due to decisions that are not in line with the justifications of the legislation reform, but the position to be taken by the Supreme Administrative Court may still be pending for some time.

Predictability of and equality in taxation before the law provides that the assets of a limited liability company carrying on business activities should be considered as such subject to relief. This way, the factitious conflicts in the interpretation can be discarded in one stroke and it is easier for the owners to be prepared for the future generational transfers and the taxation consequences from them.

**An example of the amounts of inheritance and gift tax**

The following example illustrates how the relief referred to in § 55 in the Inheritance Tax Act affects the taxation of the heirs. The example shows clearly that when there are no prerequisites for continuing the business or for the share of ownership, the amount of tax levied becomes manifold. In this example, heirs A, B, C, D, E and F represent an ownership of 5-30 per cent. Beneficiaries A and C continue in the firm (taxation practices provide full-time employment and/or membership in the board) and as they have received a share of ownership of a minimum of 10 per cent in the firm, they are entitled, on the basis of § 55 of the Inheritance Tax Act, to 40 per cent relief of the taxable value as well as an interest-free payment period of five years. Heirs B, D, E and F are not granted relief and thus the amount of tax levied is calculated using the current value of the share of the ownership subject to taxation and the tax is liable for payment immediately.
5.2.2 Capital gains taxation in generational transfer and other comments on taxation

The increase in capital gains taxation has complicated ownership transfers in many family enterprises implementing generational-transfer situations.

According to current legislation, in a generational transfer exempt from capital gains tax the beneficiary should be a child of the incumbent or a direct heir of this child, or his sister, brother, half-sister or half-brother. The above-mentioned list is complete and thus this regulation on tax exemption is not applied to a transfer to e.g. nieces and nephews. It is typical in many generational-transfer situations that the firm purchases the shares held by the incumbent since the successor does not have the economic means to personally purchase the shares.

The group of beneficiaries limited only to close relatives complicates controlled generational transfer, particularly in old and successful family enterprises. The capital gains tax relief applied in generational transfer should also be expanded to apply to other transfers inside the owner family on similar grounds, i.e. provided that the purchaser continues the business activities for a certain period of time.

In preparation for the new Companies Act, purchasing the firm’s own shares has been considered as one way to distribute the assets of the firm. As the new Companies Act under preparation (May 2005) also takes a positive stance on the purchase of own shares, an amendment to the tax legislation, particularly for generational transfer, as described above would be warranted.

A 1.6 per cent asset-transfer tax is levied regardless of the implementation method of the generational transfer whether the successor purchases the shares or the company purchases shares from the incumbent. In this regard, family enterprises are not

### Table 7. An example of an inheritance and gift tax calculation

<table>
<thead>
<tr>
<th>Share of ownership</th>
<th>Event</th>
<th>Current value 10,000,000.00</th>
<th>Taxable value 7,000,000.00</th>
<th>Relief in accordance with § 55 of the Income Tax Act</th>
<th>Total tax in €</th>
<th>Instalments</th>
<th>Tax/year</th>
</tr>
</thead>
<tbody>
<tr>
<td>A 30% Continues</td>
<td>3,000,000.00</td>
<td>2,100,000.00</td>
<td>840,000.00</td>
<td>132,135.00</td>
<td>5</td>
<td>26,427.00</td>
<td></td>
</tr>
<tr>
<td>B 30% Does not continue</td>
<td>3,000,000.00</td>
<td>2,100,000.00</td>
<td>No relief</td>
<td>477,735.00</td>
<td>1</td>
<td>477,735.00</td>
<td></td>
</tr>
<tr>
<td>C 10% Continues</td>
<td>1,000,000.00</td>
<td>700,000.00</td>
<td>280,000.00</td>
<td>42,535.00</td>
<td>5</td>
<td>8,507.00</td>
<td></td>
</tr>
<tr>
<td>D 10% Does not continue</td>
<td>1,000,000.00</td>
<td>700,000.00</td>
<td>No relief</td>
<td>157,735.00</td>
<td>1</td>
<td>157,735.00</td>
<td></td>
</tr>
<tr>
<td>E 5% Continues</td>
<td>500,000.00</td>
<td>350,000.00</td>
<td>No relief</td>
<td>77,735.00</td>
<td>1</td>
<td>77,735.00</td>
<td></td>
</tr>
<tr>
<td>F 5% Does not continue</td>
<td>500,000.00</td>
<td>350,000.00</td>
<td>No relief</td>
<td>77,735.00</td>
<td>1</td>
<td>77,735.00</td>
<td></td>
</tr>
</tbody>
</table>
equal to similar purchases on the stock exchange that are exempt from the asset-transfer tax. The abolition of asset-transfer tax from purchases of shares associated with generational transfer would be consistent with the current legislative development considering that this concerns an asset transfer within the family.

Generational transfer is often implemented through the firm purchasing its own shares from shareholders using assets from distributable profits. The shares purchased by the firm are usually made void later on. According to current legislation, such purchase of a firm’s own shares from a shareholder may be considered as a disguised dividend. The current taxation practice does not allow shareholders to give up their shares gradually.

Reform of group contribution legislation

In taxation, a significant factor often impairing the competitiveness of family enterprises is group contribution, which is a method often used by institutional investors and major corporations to balance the result between different companies and through this to reduce the group’s total tax burden. With the group contribution, the company can subsidise a loss-making company belonging to the same group and this subsidy is a deductible expense in taxation for the donor. One of the conditions is that, e.g., the inter-group ownership between the companies is more than nine-tenths (9/10). In many family enterprises, the ownership in companies belonging to the same group of owners is distributed between several family members. Such cases often do not meet the ownership requirements for group contribution and it is thus not possible to balance the result between various companies owned by the family. The effective tax rate for family enterprises may thus be substantially higher than that of rival companies.

As a consequence of the Marks & Spencer case (C-446/03, HM Inspector of Taxes, Marks & Spencer plc vs. David Halsey), it is likely that major amendments will be made to the group contribution regulations. When preparing the amendments, the special features of family enterprises should also be taken into account.
6 Promoting family enterprises and ownership

The action proposals presented by the Family Entrepreneurship Working Group are particularly related to securing continuity in family enterprises and to promoting Finnish ownership. Public authorities should create an operating environment encouraging family entrepreneurship and they should also create the best possible conditions for continuity, renewal and growth of family business activities. The European Agenda for Entrepreneurship by the Commission of the European Communities also considers it important that a fair environment for risk-taking is created and unnecessary obstacles are removed. This should also be one of the main objectives in industrial policy. When creating an industrial strategy, the importance of family enterprises should be taken into account, e.g., development of new business activities and in pursuing an improved standard of living and in striving to increase national wealth. To achieve this objective, efficient integration and the correct allocation of private and public resources is necessary.

The action proposals presented by the Working Group focus on the issues of how society can improve the operating environment for family enterprises and promote their continuity and growth. The action proposals are also linked to the reforms implemented in several European Union member states indicating the direction of development. The examples are taken from the expert group final report 2002 on SME business transfers published by the European Commission and from the final report of the MAP 2002 project as well as the GEEF (European Group of Family Enterprises) Benchmarking Study 2005. The actions proposed by the Working Group are not just independent ideas but they are also measures implemented elsewhere to remove unnecessary obstacles for the continuity and renewal of well-established business activities and to promote positive economic development in line with Government industrial policy.

The Working Group proposes that:

(1) *The Government Strategy Document 2006 should include the measures proposed by the Family Entrepreneurship Working Group to improve the operating environment. The Working Group also considers that most of the measures proposed can be implemented under the Entrepreneurship Policy Programme led by the Ministry of Trade and Industry and coordinated by the Entrepreneurship Policy Programme.*
6.1 Why statistics on family enterprises should be developed

Attempts to investigate the number and importance of family enterprises have been made in some studies, but the results are only indicative since actual statistics on family enterprises are lacking. As the Working Group heard experts from the National Board of Taxes, Statistics Finland and National Board of Patents and Registration of Finland, it concluded that it would be technically possible to provide statistical information on the basis of the existing authorities’ practices and information.

In the trade register, family enterprise would be one information item on the company properties, like e.g. line of business, turnover or number of personnel. The statistics on family enterprises should be developed to make the Finnish system the best European practice. When a definition is available and statistical information is obtained, an annual report could be published on the importance of family enterprises, e.g. as a part of the current entrepreneurship review. Resources are required to achieve all this and, e.g., Statistics Finland could receive a commission from the Ministry of Finance.

The Working Group proposes that:

(2) Adequate resources should be allocated to Statistics Finland to allow it to develop statistics creation on family entrepreneurship, as necessary, in cooperation with the National Board of Patents and Registration of Finland and Finnish Tax Administration, to enable monitoring of business activities and of development of family enterprises in separate reports and as a part of, e.g., the entrepreneurship review issued by Ministry of Trade and Industry. The starting point for the development of statistics should be the definition proposal drafted by the Family Entrepreneurship Working Group.

6.2 Public corporate funding to encourage generational transfer and the successor’s aptitude for growth

Public authorities can support family enterprises in their transition periods by creating instruments to facilitate generational transfer and to encourage growth. Public funding is particularly important for the regional development of business activi-
ties. Support provided to, e.g., a company in North Karelia, may avoid the loss of many jobs in remote areas.

Securing sufficient allowances for public financing institutions, e.g. Finnvera plc and Finnish Industry Investment, for financing growth and generational transfer in family enterprises should be secured in the state budget.

The Finnvera entrepreneur loan can also be granted to support generational transfer, but Finnvera should, while offering its products, highlight more prominently that its products are also suitable for generational-transfer situations. It can be seen that there is a need for products complementing private financing. A more extensively offered Finnvera capital guarantee could facilitate obtaining the so-called patience capital, i.e. long-term capital for the generational transfer of a business. If bank loans and capital loans were guaranteed by Finnvera, the cost of bank-issued financing could also be reduced as their price demands would be considerably lower. It can be estimated that demand for and the significance of capital guarantee would increase in generational-transfer situations if it is proactively developed and offered and obstacles are removed to develop its supply. This could also be promoted if the state bore a part of the losses from Finnvera’s capital guarantee, as is the case in other Finnvera domestic financial products.

Industry Investment should also have a clear role in mezzanine financing for generational transfer. This would mean that Industry Investment should develop a new generational-transfer programme. The capitalisation of Industry Investment should be continued to secure the extent of the financing programme. The primary task for Industry Investment would be to offer equity loan financing, but it should also be able to offer unsecured loans and mezzanine financing products. The generational-transfer projects financed by Industry Investment could focus on the relatively large family enterprises with the turnover of more than €10 million and with a financing requirement of €0.5–10.0 million. The efficiency of the financing would be supported by the generational transfer plan issued before financing.

The Working Group proposes that:

(3) When developing the operation of Finnvera plc and Finnish Industry Investment, their financing products and services should be directed to promoting family business transfers and growth.

One possible role distribution in domestic financing between these special financing institutions could be that Finnvera starts an extensive supply of capital guarantee and would thus respond to the lack in the market of loan financing, capital loans
and share-capital investment as a guarantor, particularly for SME family enterprises. Industry Investment would again respond to the lack in the market of equity loan funding mainly for relatively large companies.

**European examples**

*Denmark* has a bond guarantee programme supporting business transfer by granting guarantees covering the payment of business value (goodwill) financed by the bank. The guarantee covers 75% of the bank loan, however, to a maximum of €336,000.

In *Luxembourg*, there is an unsecured loan for young entrepreneurs with no capital to start or purchase their first company.

### 6.3 Taxation reform to support employment and growth

As mentioned in Section 2, generational transfer or closing down the business will become topical in the near future in approximately one-third of Finnish family enterprises. Planning and implementation of generational transfer belong to the most significant and risk susceptible periods in the life cycle of a family enterprise. In addition to the family members’ personal, firm-related and business-related issues, the entire scene of preserving the preconditions for the business operations and the financing of the ownership transfer should be taken into account. Generational transfer does not create new assets or income, and transfer of the business activities to the successor is needlessly burdened when income taxation of the incumbent and the successor, inheritance and gift taxation of the successor as well as taxation of the transferred business and asset-transfer taxation on the assignment are taken into consideration.

Even when there are no taxation consequences from the generational transfer, it is one of the major risk factors for the continuity of business activities, and thus tax legislation should be made as simple and predictable as possible. Because of the current tax legislation, family enterprises have to invest their resources for tax planning in generational transfer and for financing the tax burden of the successor whereas when considered from the point of view of society and of the operation of family enterprises, investments should be focused on securing the commercial prerequisites and also preparing the successor of the family enterprise for securing the operation of the enterprise in the future.
The current legislation needs swift adjustment and simplification of the regulations.

The Working Group proposes that:

(4) When developing and reforming inheritance and gift taxation, inheritance and gift taxes on company assets should be abolished from all shareholders in unlisted family enterprises, and in listed firms from those shareholders that are owners meeting the definition of majority (25% of the votes) in the family entrepreneurship.

When amending and developing the legislation, adjunctive consequences from the net-worth tax abolition in 2006 should be taken into account. As the net-worth tax is abolished, it would be of primary importance that the definitions of current value in various tax types are harmonised and a potentially separate regulation is prepared for situations when the value of the assets is assessed. A separate regulation for the assessment of the value could improve the predictability of taxation and equality of taxpayers. Furthermore, the concept of company assets in accordance with the Inheritance and Gift Tax Act should cover the entire company assets and the division into TVL income source should be abolished. The relief in the capital gains taxation applied in generational transfer should be expanded to also apply to transfers between parties other than close relatives. Purchase of the firm’s own shares as part of the generational-transfer process should not be treated as a disguised distribution of dividends.

**International development**

In recent years, generational transfers in family enterprises have been facilitated in many countries in various ways. Thus, amendments have been implemented, e.g. in taxes and tax rates to be applied. For example, the following countries have abolished inheritance tax during the last five years:

**Sweden** in 2005 (both inheritance and gift taxation);

**USA** in 2005;

**Spain** an ongoing tendency to abolish inheritance tax through decisions issued by autonomous local authorities;

**Italy** in 2001 (both inheritance and gift tax).

There is no inheritance tax in the Baltic States.
6.4 Promotion of research and training on family entrepreneurship

Systematic research on family entrepreneurship has been started only very recently. In Finland, research on family enterprises was practically initiated only in the 1990s. The first joint meeting of family business researchers took place in March 2002.

The major role of the research is to support the enterprise policy by producing relevant and exploitable objective information to support political decision-making. The research filters to the policy the effects and changes in the field. Research allows assessment of the effects from various actions and programmes to the operation of family businesses. Research also elicits new points of view affecting the operation of and the preconditions for family enterprises that political decision-makers should be aware of. Research may, at its best, be a useful tool for enhancing the efficacy and quality of political actions and for improving allocation of these actions.

For instance, it has been assessed in public debate that the significance of family enterprises and generational transfers to the national economy is considerable. In reality, there is only a limited amount of more detailed information and it is not adequately based on research data. As for the credibility of Finnish research data on family enterprises, it should be based on credible data, which again requires that statistical information on family entrepreneurship should be created. Another interesting research area would be the growth of family enterprises and the effect of existing businesses on the creation of new business activity. To enable comparisons between various studies, it would be of utmost importance that the same definition of family enterprise, e.g. the one proposed by this Working Group, should be used.

High quality and useful research on family entrepreneurship requires closer cooperation between family enterprises and the universities. The Working Group thus suggests that university-level research on and training in family entrepreneurship should be promoted and supported, and conditions for co-operation between family enterprises and universities should be created. Co-operation with family enterprises is also important when implementing family entrepreneurial training at all levels.

The theme of family entrepreneurship in family entrepreneurial training should be included in the strategic intent of the education administration (National Board of Education and Ministry of Education) as a continuum from all-round entrepreneurial education up to university-level education. It would be best if some secondary education institutions and polytechnics in particular were to specialise in family entrepreneurship. The Working Group also proposes that family enterprises should be included in the strategic intent of the Academy of Finland.
The Working Group proposes that:

(5) In education and science policies, the status of family entrepreneurship should be reinforced and all education levels should invest in family entrepreneurial training in line with the continuum idea, and co-operation between family enterprises and educational institutions should be encouraged.

European examples

In Germany, courses in generational transfer are planned to be included in the studies on entrepreneurship.

In Italy, research on generational transfer is performed in co-operation between the universities, chambers of commerce and other business organisations.

6.5 Co-operation between public authorities and business life to facilitate generational transfer

It is also necessary to develop co-operation between public authorities and businesses as well as efficient co-ordination of their resources to facilitate generational transfer. Co-ordination could be improved by establishing a certain type of operational centre to advance co-operation between the various actors. Those participating in the activities of this centre and supporting its operation could include the Ministry of Trade and Industry, Finnvera plc, Finnish Industry Investment, the Association of Family Enterprises (Perheyritysten liitto ry), the universities and other necessary public and private actors.

This centre could, e.g., promote and monitor the efficacy of public or private actions to advance generational transfer, serve as a data bank, and serve as a public utility network leaning on the existing organisations in various regions and develop co-operation between various public actors, particularly in education and research to strengthen the continuity of family enterprises and Finnish ownership. This possible Centre for Family Entrepreneurship could also function virtually, for example, in connection with the www.yrityssuomi.fi portal.

The Working Group proposes that:

(6) A survey on the needs and resources should be performed for establishing a family entrepreneurship centre that would function in line with the public-private principle and its tasks.
The objectives for the Centre for Family Entrepreneurship could include e.g.:

- joining forces of the existing private and public service providers;
- serving as an expert and a mentor to the incumbent and the successor in generational transfer;
- creating an information network between the public and private sectors for family entrepreneurial issues;
- increasing the expertise of public authorities in the challenges faced by family enterprises;
- advancing ownership of family enterprises, counselling and training in business management and leadership;
- promoting research on family entrepreneurship.

To achieve its objectives, the Centre for Family Entrepreneurship would co-ordinate counselling in generational transfer, which would be facilitated, as proposed by the Working Group, by using a service voucher. Its tasks would also include promoting awareness on generational transfer and development of mentoring. The Centre for Family Entrepreneurship could function on the same principle as the Women’s Enterprise Agency.

Good examples of the counselling services to be offered to family enterprises include the ViestinVaihto programme and the brochure Yrittäjä – Kuka jatkaa työtäsi issued by the Employment and Economic Development Centre. The ViestinVaihto programme can help to support SMEs in a generational-transfer situation to prepare for the generational transfer process and to implement the selected options and decisions in a controlled manner. The programme consists of three company-specific consultation sessions. As a result, the company receives a written generational-transfer plan with action plan recommendations.

The brochure Yrittäjä – Kuka jatkaa työtäsi is a programme to support generational transfer, helping the entrepreneur to evaluate the situation in his firm and to prepare for the ownership transfer. This service is provided by the Employment and Economic Development Centre for Uusimaa and the Ministry of Trade and Industry with their partners (www.yrittajat.fi/kukajatkaa).

Once a solution has been found to the financial and fiscal challenges related to the generational transfer, there is still a long way to go before the generational transfer can be said to be successful. In generational transfer, 20% consists of hard factors (financing, taxation and legislation) and 80% consists of soft factors (e.g. interacti-
The training programme should be performed as a so-called public-private co-operation project in which a family entrepreneurship community (e.g. the Family Business Network Finland with its interest groups) could serve as a significant expert body.

The Working Group proposes that:

(7) *An extensive training programme in family business transfer should be developed where the generational transfer would be regarded as interaction between the incumbent and the successor.*

Important target groups for the above-mentioned programme could also include civil servants and consultants that are involved with these issues.

The Working Group feels that a system of incentives is needed for planning generational transfer in good time, facilitating interaction between generations, assessing the risks and possibilities in generational transfer as well as various implementation options. This has already been partly implemented in the Viestinvaihto service provided by the Employment and Economic Development Centres. Since the public supply does not in this regard correspond to the number of companies in certain regions, a service voucher or another similar form of support could be developed to encourage firms to use generational transfer-related services. This would respond better to the needs of the firms in various regions. It would be possible to use the service voucher to finance at least half of the limited number of counselling and assessment services as well as training in entrepreneurship and for continuing the business as an owner. In the memorandum of the advisor group for growth entrepreneurship, service vouchers are mentioned as a way to enable purchase of business services, and service vouchers have also been discussed in the Suomalaiset yrityspalvelut Working Group. When applying and implementing the propositions of the above-mentioned Working Group, the propositions of the Family Entrepreneurship Working Group should also be taken into account.

The Working Group proposes that:

(8) *A service voucher or another similar support form should be introduced to evaluate and to activate family business transfers in firms to enable the firm to purchase those consultation services they need from the open market.*

A firm using a service voucher would be responsible for submitting the basic information in the evaluation report to the organisation that issued the voucher, since this would enable determining a schedule for the generational transfer as well as the
firm’s status in the generational-transfer process. This would provide information on the generational-transfer status in our companies, since accurate information has been lacking until now. Financing the service voucher system and organising the practical issues through the Centre for Family Entrepreneurship would be more cost-efficient to the state and more efficient than building a separate organisation.

The objective for communications is to awaken the incumbent generation to plan the generational transfer in good time and also to encourage the new owner and entrepreneur generation to assume responsibility. The best results are achieved through long-term dialogue between various interest groups.

The dialogue would be made available by arranging annual seminars on family entrepreneurship similar to that in 2004 in co-operation with the Ministry of Trade and Industry and together with the service providers as well as by producing information materials.

The Working Group proposes that:

(9) Organising national family entrepreneurship events should be continued in co-operation with the Ministry of Trade and Industry and service providers, and owners of family enterprises should be encouraged to plan the generational transfer in good time.

European examples

In Germany, the chamber of commerce and industry in Erfurt has established a centralised service point on business transfer for entrepreneurs in the transition phase. Incumbents and successors interested in the topic can meet lawyers, tax consultants and other experts who can provide them with all the necessary information on business transfer in the same office premises.

In the Netherlands, a council of independent entrepreneurs has, in co-operation with a bank and an accountancy bureau, developed a support system for facilitating transfers of family enterprises consisting of actions, workshops and personal consultation, increasing awareness. The objective was to combine the resources of several organisations.

In Austria, the objective is to develop process-based training for generational transfer concentrating on the entire process, and not only on individual measures.

In the Netherlands, a test period for an innovation voucher was launched in autumn 2004. In the first phase, 100 vouchers amounting to €7,500 were offered to SMEs. Since a great number of applications were received and the experiences from the first application round were positive, it was decided that a total of 1,000 vouchers would be distributed in two application rounds in 2005. The use of vouchers is limited primarily
to public research and development organisations, but it is also possible to obtain innovation services from the research and development units in large companies. However, the enterprise itself decides which of the listed organisations is selected for obtaining the service. A voucher is applied from and granted by a state-owned organisation for special financing, SenterNovem, that is also responsible for the payments.

### 6.6 Family entrepreneurship on display during the Finnish EU Presidency

The continuity of family enterprises has also been considered important on the level of the EU. As part of the Lisbon Strategy and to strengthen employment and competitiveness, it is proposed that during its EU Presidency in 2006 Finland will aim to highlight the societal importance of family enterprises and generational transfers. The objective is to advance the continuity of family enterprises all over the EU. The Working Group considers that this requires concrete actions and an international seminar could function as such.

The Working Group proposes that:

10. An international family enterprise conference be organised in association with the EU Competitiveness Council meeting convening in Jyväskylä in summer 2006.

The theme of the conference could be, for example, “Significance of Family Enterprises as the Engines of Economic Growth” and the results from the work of this Family Entrepreneurship Working Group could be included in the agenda.

### 6.7 Monitoring of implementation of and the effects from the actions

It is important that family enterprise activities and implementation of and effects from the actions proposed by this Working Group are actively monitored.

The Working Group proposes that:

11. The implementation of the Family Entrepreneurship Working Group proposals is monitored on an annual basis in the Cabinet Finance Committee, which is recommended to integrate generational transfers and strengthening the Finnish ownership into its agenda.


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### Appendix 1

#### Number of growth firms according to various indicators

<table>
<thead>
<tr>
<th>Definition</th>
<th>% shares</th>
<th>Features of a family business</th>
<th>Non-family business</th>
<th>All</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover (actual growth during last 3 years)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>relative growth &gt;0%</td>
<td>77</td>
<td>77</td>
<td>79</td>
<td>78</td>
<td></td>
</tr>
<tr>
<td>relative growth =50% (rapid growth firms)</td>
<td>27</td>
<td>25</td>
<td>25</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>subjective estimate (minor/substantial growth)</td>
<td>75</td>
<td>70</td>
<td>73</td>
<td>72</td>
<td></td>
</tr>
<tr>
<td>Turnover (growth forecast during next 3 years)</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>relative growth &gt;0%</td>
<td>92</td>
<td>84</td>
<td>87</td>
<td>87</td>
<td></td>
</tr>
<tr>
<td>relative growth =50% (rapid growth firms)</td>
<td>25</td>
<td>20</td>
<td>26</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>subjective estimate (minor/substantial growth)</td>
<td>78</td>
<td>71</td>
<td>77</td>
<td>75</td>
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</tr>
<tr>
<td>Steadiness of the turnover growth (actual and forecast)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>autorelative actual and forecast growth &gt;0%</td>
<td>73</td>
<td>70</td>
<td>73</td>
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<td>Number of personnel (actual growth during last 3 years)</td>
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<td>Number of personnel (growth forecast during next 3 years)</td>
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<td>Steadiness of the growth in the number of personnel (actual and forecast)</td>
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<td>Firm’s profit and loss/profitability</td>
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<td>Growth intent</td>
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<td>intention to grow at least to some extent</td>
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<td>intention to grow partly also on the international market</td>
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<td>Other growth</td>
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<td>several companies owned by the same owner</td>
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<td>Combinations of the above</td>
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<td>turnover and number of personnel (actual)</td>
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<td>turnover and profitability (actual)</td>
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<td>47</td>
<td>52</td>
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<td>turnover (actual) and growth intent</td>
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<td>50</td>
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</table>

## Appendix 2

### Definition of family enterprise according to various researchers

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Family Business Definition</th>
</tr>
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<tbody>
<tr>
<td><strong>1. Family Involvement/ Perceived to be a Family Business</strong></td>
<td></td>
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<tr>
<td>Binder Hamlyn (1994, 10)</td>
<td>The directors in the company had a family relationship</td>
</tr>
<tr>
<td>Carsud (1994, 10)</td>
<td>A firm’s ownership and policy making are dominated by the members of an “emotional kinship group” whether members of that group recognise the fact or not.</td>
</tr>
<tr>
<td><strong>2. Family Ownership</strong></td>
<td></td>
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<tr>
<td>Donckels &amp; Fröhlich (1991, 149)</td>
<td>Family members in one family own 60% or more of the equity in the business.</td>
</tr>
<tr>
<td><strong>3. Family Management</strong></td>
<td></td>
</tr>
<tr>
<td>Daily &amp; Dollinger (1992, 126; 1993, 83)</td>
<td>Two or more individuals with the same last name were listed as officers in the business and/or the top/key managers were related to the owner working in the business.</td>
</tr>
<tr>
<td><strong>4. Inter-generational Ownership Transition</strong></td>
<td>A useful start to researching family businesses is to identify the critical differences between family businesses and those that are owner-managed. These differences seem to be two: involvement of family business members in the business, and non-market-based transfers of power between family members… there are two aspects of this transfers of ownership or control of property rights, and a transfer of management control of the business operations and strategic direction.</td>
</tr>
<tr>
<td>Churchill &amp; Hatten (1987, 52)</td>
<td></td>
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<tr>
<td>Ward (1987, 252)</td>
<td>A firm passed on for the family’s next generation to manage and control.</td>
</tr>
<tr>
<td>Handler (1989, 262)</td>
<td>A family business is defined here as an organisation whose major operating decisions and plans for leadership succession are influenced by the family members serving in management or on the board,… this definition indicates that current family involvement in the business, even though these family members may not necessarily be in line for succession, would qualify the organisation as a family business.</td>
</tr>
<tr>
<td><strong>5. Multiple Conditions</strong></td>
<td></td>
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<tr>
<td>Church (1969, 211)</td>
<td>The whole capital is privately held, practically all the important and administrative posts are filled by members of the family.</td>
</tr>
<tr>
<td>Author</td>
<td>Year</td>
</tr>
<tr>
<td>--------</td>
<td>------</td>
</tr>
<tr>
<td>Channon</td>
<td>1971</td>
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<td>Gasson</td>
<td>1988</td>
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<tr>
<td>Stoy Hayward</td>
<td>1992</td>
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<tr>
<td>Smyrnious &amp; Romano</td>
<td>1994</td>
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<tr>
<td>Cromie et al.</td>
<td>1995</td>
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<tr>
<td>Reynolds</td>
<td>1995</td>
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<tr>
<td>Shanker &amp; Astrachan</td>
<td>1996</td>
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Tiivistelmä

Perheyrittäjyy. Perheyrykset jatkuvuuden, uusiutumisen ja kasvuhakuisuuden moottorina

Kauppa- ja teollisuusministeriön asettaman perheyrittäjyystyöryhmän tehtäväksi annettiin tehdä ehdotus perheyrityksen määritelmäksi, selvittää perheyrystysten määrää, koko, toimialarakenne ja merkitys Suomen taloudelle ja alueelliselle kehitykselle sekä arvioida, miten perheyrystysten asema Suomessa asettuu kansainvälisessä vertailussa ja lisäksi mieltä ehdotuksia perheyrystysten kannalta keskeisistä lainsäädännön muutoksista ja elinkeinopolitiikasta.


KTM:n yhdyskunta: Elinkeino-osasto/ Kai Karsma, p. (09)1606 3671 ja Kimmo Hyrsky, p. (09)1606 2641
Referat

Den av handels- och industriministeriet tillsatta familjeföretagsarbetsgruppen fick till uppgift att lägga fram ett förslag till definition av familjeföretag, utreda familjeföretagens antal, storlek, branschstruktur och betydelse för Finlands ekonomi och regionala utveckling samt uppskatta hur familjeföretagens ställning i Finland placerar sig i en internationell jämförelse och ytterligare fundera på förslag till lagändringar och näringspolitiska åtgärder av betydelse för familjeföretagen.

Familjeföretagen främjar tillväxten och upprätthåller och förbättrar sysselsättningen i Finland och i Europapåsien. Att säkra en fortsatt verksamhet och att främja tillväxt och förnyelse är det viktigaste utvecklingsområdet. Målet är att övergångsskeden i ett företags ägarstruktur inte får äventyra kontinuiteten i en lönsam företagsverksamhet. Lyckade generationsskiften i familjeföretagen har stor betydelse för sysselsättningen och välståndet i Finland. Familjeföretagen är viktiga för den regionala och lokala ekonomin.

De innebär stabilitet och fortbestånd för regionerna. Ägarna flyttar inte så lätt och därmed förblir också företagens hemort ofta densamma. Familjeföretagen är ofta den drivande kraften i den regionala ekonomiska utvecklingen, eftersom de är positivt inställda till tillväxt och deras tillväxt är vanligtvis lönsammare än andra företags.

I fråga om det definitionsarbete som nämndes i fastställande av arbetsgruppens uppgifter kom man fram till en definition med flera skikt, där familjeföretag är ett övergripande begrepp. Familjeföretagsarbetsgruppens åtgärdsförslag gäller framför allt trygghet av familjeföretagens fortsatta verksamhet och en förstärkning av det finländska ägandet. Arbetsgruppen betonade att de förslag till åtgärder för att förbättra familjeföretagens verksamhetsbetingelser som gruppen framför bör intas i regeringens strategidokument. Arbetsgruppen anser också att de föreslagna åtgärderna i huvudsak kan genomföras inom ramen för politikprogrammet för företagsamhet.

HIM:s kontaktpersoner: Näringsavdelningen/Kai Karsma, tfn (09)16063671 och Kimmo Hyrsky, tfn (09)16066241
Previous publications in this series

1/2006 Ministry of Trade and Industry Administrative Domain Operating and financial plan for the years 2007–2011 (Finnish)

2/2006 Empirical methods of competition analysis I: Principles for assessment implementation (Finnish)

3/2006 Empirical methods of competition analysis II: Analyses of Pilot Industries (Finnish)


Family Entrepreneurship
Family Enterprises as the Engines of Continuity, Renewal and Growth-intensiveness

The objective of the action proposals presented by The Family Entrepreneurship Working Group (2005) is an operating environment encouraging family entrepreneurship and as good conditions as possible for continuity, renewal and growth of profitable family entrepreneurship. The objective is that transition periods in the ownership structure of an enterprise must not jeopardise the continuity of profitable business activity. Family enterprises often act as the engines of regional economic development, since they have a positive attitude towards growth, and their growth is in general more profitable than that of other firms.

The Working Group emphasised as its intent that the proposals for measures presented by the Family Entrepreneurship Working Group for improving the operating environment of family enterprises should be integrated into the Government Strategy Document. The Working Group also considers that the main parts of the measures proposed can be implemented under the Entrepreneurship Policy Programme.