FAMILY BUSINESS IN THE NETHERLANDS
CHARACTERISTICS AND SUCCESS FACTORS

A Report
for the Ministry of Economic Affairs

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EXECUTIVE SUMMARY

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

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

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

Family Business in the Dutch Economy

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

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

- Although the proportion of family businesses declines by size class, 44% of firms in the 100-199 size class range and 27% of firms greater than 200 employees still meet the GEEF definition for a family business.[4]

- Family businesses represent the majority of firms in eight out of nine sectors, with the one exception being financial services (43% being family firms). The highest proportion of family businesses are found in agriculture and fishing (87%) and other services[5] (89%).

- Regarding business transfer, 40% of all Dutch businesses report having had a transfer since the firm's inception. This is the same rate for both family and non-family

firms. Extrapolating from the sample, results also suggest that approximately 22,500 businesses (6%) of all Dutch firms are working on a transfer of the firm at the moment, a number consistent with more recent estimates that suggests Dutch firms on average plan only 1 to 1 ½ years in advance of transfer.[6]

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

· In 30% of family businesses, the business under study represents 100% of family assets. For more than 60% of the families, the growth of family assets is an important long-term objective.

Key Differences between Family and Non-family Businesses

· Comparing family and non-family businesses on company and owner characteristics, family businesses tend to be smaller although the age distributions are roughly similar. Family businesses also tend to have fewer owners. 89% of all Dutch family businesses have one or two owners, compared with 62% of non-family firms. At the other end of the spectrum, 11% of all non-family businesses have more than 100 owners compared with only 1% of family businesses.

· Regarding differences in business goals, 74% of all non-family businesses as compared with 63% of family businesses agree or strongly agree that growth is an important goal. Furthermore, 91% of family firms as compared with 98% of non-family businesses agree or strongly agree that continuity is an important objective. On the other hand, no differences are observed between non-family firms versus family firms in terms of having a strategy aimed at being the first on the market with new products or services.

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

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

Success Factors of Dutch Family Businesses

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

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

- Regarding ownership behaviors, family and non-family owners perform equally well on the three identified ownership behaviors (although only the first two ownership behaviors positively influence a business' financial performance):
  - owners as resource (e.g. talk enthusiastically about the business; keep their investment in the business as long as needed);
  - entrepreneurial effort (help to expand the business' network; help to seek out or create new opportunities for the firm); and
  - active governance (e.g. play a key role in monitoring the work of management).
- Regarding ownership attitudes, family and non-family owners do not differ in terms of having a shared vision (e.g. agreement about the key objectives of the business, commitment to managing wealth as a group rather than as individuals). Owners of family businesses do report better quality of relationships with each another (i.e. trust, honesty, a cooperative relationship and teamwork) as compared with owners of non-family businesses. Both attitudes (a shared vision and quality of relationships amongst owners) enhance business financial performance.

Overall Implications and Recommendations

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

- Family businesses are a major driver in the Dutch economy, playing an even larger role than previously thought.
- Family businesses perform as well as non-family business counterparts, in the financial sense. They perform better with respect to corporate social responsibility. In particular, family businesses are more likely to play an active role in supporting local, national and international charities than non-family businesses.
- The lack of formal use of Boards of Directors does not necessarily reflect less professional performance on the part of family businesses. Although less likely to be used in the family businesses, presence (or absence) of a Board appears to make no difference in a firm's financial performance.
- The roles that owners serve as a resource base for contacts, information, patient capital, entrepreneurial ideas and opportunities are much more important success factors than their role as active monitors of the business.

· The quality of relationships amongst owners (e.g. trust, cohesiveness, and teamwork) and a shared vision of the firm's future are key success factors for both family and non-family businesses. These factors may actually be even more important differentiators for the performance of multiply-owned non-family businesses.

· Future research needs to focus even more specifically on business transfer and innovation in both family and non-family firms.

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[1] The project was also supported by Berk Accountants en Belastingadviseurs and ABN AMRO.

[2] European Commission (2009). *Final report of the Expert Group. Overview of family-business-relevant issues: Research, networks, policy measures, and existing studies*. Enterprise and Industry Directorate-General. http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/family-business/.

[3] Flören, R.H., and Zwartendijk, G.W., (2003). *Star en toch flexibel*. ESB, nr. 4402, 15 mei, p. D20-21.

[4] In all further references to family business below, this is based thus on the GEEF definition.

[5] Other services sector includes, for instance: 'temp' (temporary work) agencies, advertising agencies, architectural services, engineering services, law offices, and economic services, detective and investigative services, research and computer-service agencies.

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