

McLean, Koehler, Sparks & Hammond

Certified Public Accountants/Business Consultants

2007 American Family Business Survey: Family Businesses Stable and Optimistic

In the summer of 2007, the American Family Business Survey canvassed family-owned businesses to gauge strengths, challenges and changes since the previous study, which took place in 2002. The 2007 Survey was interpreted by Kennesaw State University and underwritten by Massachusetts Mutual Life Insurance Company (MassMutual) and the Family Firm Institute. The study, interpreted by Kennesaw State University and underwritten by Massachusetts Mutual Life Insurance Company (MassMutual) and The Family Firm Institute, found that family business owners are:

1. More optimistic about future growth;
2. Lacking a sense of urgency around retirement and succession planning;
3. Selecting women leaders;
4. Holding themselves and their employees to a higher ethical standard;
5. Expanding their use of the traditional management toolkit;
6. More unified behind common family values; and
7. Placing their trust with family members and key financial advisors

1. Optimism

Even amid a housing market crisis and generally depressed business conditions, family business owners express general optimism. Only 26.5 percent of the respondents expect no change or a decrease in revenues next year. The vast majority of respondents are optimistic about the future; 22.3 percent expect increases in revenue of more than 11 percent and 51.3 percent of respondents expect an increase in sales revenues of up to 10 percent.

2. Urgency

While they are performing and growing well, family businesses face some significant challenges. Perhaps first among these is the issue of succession. Within 10 years, 40.3 percent of business owners expect to retire, creating a significant transition. Of these, fewer than half (45.5 percent) of those expecting to retire in five years and fewer than a third (29 percent) of those expecting to retire between 6 and 11 years have selected a successor, meaning there is much work to do and potential sources of instability for our economy.

Of those who have selected a successor, the successor's median age is about 18 years younger than the current chief executive. Co-CEOs, as in previous years, are being considered at a similar rate (42.2 percent).

Other urgent issues identified by respondents as being their most important challenges include, in order:

- Labor costs
- Health care costs
- Finding qualified employees
- Foreign competition
- Labor union demands
- Domestic competition
- Oil prices
- Availability of credit from lenders
- Estate taxes

3. Gender

In a major advance from 2002, 24 percent of the businesses surveyed have a female CEO or President. In 2002 that number was only 10 percent (which was already double 1997 numbers). As a result, within the past decade there has been an almost five fold increase in the number of woman leaders in family business since 1997. This far outstrips the numbers in the world of non-family business where, for example, some 2.5 percent of Fortune 1000 firms are led by women (Fortune Magazine, April 30, 2007). The trend of female leadership of family businesses should continue as 31.3 percent of firms indicate they may have a female successor. And the prevalence of women in leadership positions carries through the organization even when moving down the org chart. Nearly 60 percent (57.2 percent) of all firms have women in top management team positions. On average, the family businesses in the survey sample each employ nearly five family members, of which 60 percent are men and fully 40 percent are women.

4. Ethical Behavior and Social Responsibility

If family businesses are family and relationship oriented, then it stands to reason that they operate more ethically. Indeed, previous research shows they are less likely to lay off employees regardless of financial performance (Stavrou, Kassinis, & Filotheou, 2007). The survey clearly shows family exerts a strong impact on the business; 83 percent state their families have a high influence on the business and 91 percent indicate that the owning family's values are emphasized in the business. Family orientation does indeed seem to translate into more ethical behavior. For example, 57 percent of the respondents answered that being a family business affected their firms' ethical behavior.

While over one third (36.6 percent) of firms have a written code of ethical behavior, this does not mean that family businesses without written codes act irresponsibly or unethically, just that they have not made the investment in the kind of written code that is more common in larger firms. On the contrary, most of these family businesses (60 percent of respondents) believe that their ethical standards are more stringent than those of competing firms. The respondents also report ethical standards are discussed often or always at meetings with lower- and mid-level employees (54 percent), in discussions with customers (48 percent), in meetings with executives (45 percent) and suppliers (38 percent), and during board meetings (36.5 percent).

5. Professionalism

There is a common misconception that due to the relational nature of family businesses they are less professional and rigorous in their behavior. In one way this may be true. Slightly more than one third of the firms (36.6 percent) have a written strategic plan. Similarly, a bit less than one third (31.1 percent) use a formal process to establish a strategic plan. Strategic planning though is only one higher level example of professional behavior. On the other hand, the fact that 20 percent had or do have a non-family CEO (a large increase from 14 percent in 2002) indicates a desire for high behavioral and professional standards.

- Despite the apparent lack of formal strategic planning, the firms use other types of formal planning. For example:
- 37.4 percent have buy sell agreements or other arrangements defining who can own stock and how it is transferred.
- 64 percent have regular formal valuations of the worth of the business.
- One third have an active board of directors and over half (50.9 percent) rate their contribution as outstanding, a major increase from 2002 which was only 22 percent.
- Over half (55.4 percent) have formal family meetings at least once a year.
- And almost half of all firms (45.2 percent) have a full time employee responsible for human resource management matters such as recruiting, performance appraisals, and benefits administration.

6. Family unity

Family unity and cohesion are critical to family business success, especially when family members have identified unity as an important goal. The families here are unified; 87 percent say family members share values. We interpret this agreement on values, attitudes and beliefs among family members as indicative of family unity and cohesion. When it comes to the unity of the owning family in business matters such as strategy, ownership, and management, 82.9 percent of the respondents answered that they were completely or very unified as an ownership group. Research shows that the longest-lived family businesses can draw on various mechanisms stemming from family and business to bond their members closer together and increase family cohesion (Pieper, 2007). In this research, unity of the ownership group is significantly associated with family commitment to the business in each generation, predictions of sales growth, and demonstrations of past growth; the more family unity, the more they grew in the last three years and the more they expect to grow in the future.

7. Most trusted advisor

Unlike all prior surveys, in 2007, the business owner's spouse is seen as the most trusted advisor, followed by accountant, business peer, parent, lawyer, and financial services advisor. This represents some large shifts, particularly for lawyers and spouses. Additionally, when considering their top three most trusted advisors, business owners ranked their accountant first, just as they did in 2002; spouses second, up from fifth in 2002; and their lawyer third, down a spot from 2002.

Most Trusted

| 2002 | 2007 |
|---------------|--------------------|
| Accountant | Spouse |
| Lawyer | Accountant |
| Business Peer | Business Peer |
| Spouse | Parent |
| Parent | Lawyer |
| Banker | Financial Services |

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McLean, Koehler, Sparks & Hammond helps owners and business leaders become more successful by providing innovative financial, technology and management solutions for every stage of their organizations' life cycle. MKS&H's organizational consulting division, Tandem Partners, specializes in people strategies that drive business results. For more information on this article or MKS&H, please contact Margaret Wilson at 410-296-6200 or via email: margaret@mksh.com.

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McLean, Koehler, Sparks & Hammond

11311 McCormick Road, Suite 100
Hunt Valley, MD 21031
410.296.6200

www.mksh.com

70 Thomas Johnson Drive, Suite 100
Frederick, MD 21702
301.662.2400