Dauphine FONDATION

Dauphine | PSL
CHAIRE ENTREPRISES FAMILIALES

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RESEARCH LETTER #1

FAMILY BUSINESSES AROUND THE WORLD

This research letter is the first in a series of analyses dedicated to family businesses. Family businesses represent a substantial part of the French, European, and global economies in terms of their number and economic weight. Although there is a great deal of research on the governance of family businesses, we have limited knowledge of the overall impact of family businesses on a country's economic situation.

Family businesses are characterized by:

- **The long-term orientation of their shareholders**: because their shareholders potentially span several generations, these companies can adopt a long-term vision and objectives that other forms of governance find harder to promote.
- **Identification of the company with the family group**, which accentuates the importance attached to the values, reputation, and territorial roots of family businesses.
- **Operational, financial, and tax challenges linked to business transfers**: due to the demographic characteristics of business leaders, a significant proportion of family businesses will face a generational transition in the next decade.

The research chair aims to quantify the impact of these companies on the economy and to analyze their dynamics and challenges, particularly in terms of growth, internationalization, technological choices, innovation, territorial footprints, and resilience, as well as legal and tax aspects.

This first newsletter stresses the importance of family businesses worldwide, depending on the definitions used.

FAMILY BUSINESSES AROUND THE WORLD

A definition with blurred edges

The number of family businesses varies widely depending on the definition and control threshold.

There are almost as many definitions of family businesses as there are studies. They are based on different criteria, such as capital ownership, control (voting rights), and whether or not the family is involved in management. The thresholds vary from 10% to 50%, depending on the study. The definition adopted has a major impact on the scope of companies considered. As shown in Figure 1, if we consider only companies listed in France (Euronext CAC all tradable, between 2013 and 2019), at the 50% threshold, 34% of companies are family-owned, while at the 10% threshold, 61% are (Figure 1).

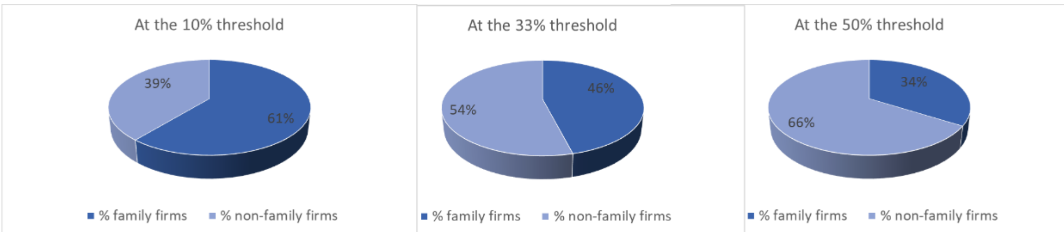

Figure 1: Proportion of family businesses by ownership threshold. Source: Belot and Waxin, 2022.

The European definition of a family business requires holding a majority of voting rights, either directly or indirectly, AND at least one family member involved in governance. By exception, for listed companies, a single condition is set: the family must hold 25% of the voting rights.

Family businesses are numerous in Europe and France

While family firms are a global phenomenon, their concentration, size, and influence can vary significantly based on regional economic structures, cultural norms, and legal frameworks. In particular, Asia, Europe, and Latin America are known for their high density of family-owned enterprises, which play a critical role in their economic systems.

Family businesses are numerous in continental Europe, Asia, and Latin America..

At the 20% voting rights threshold, family businesses represent 22.4% of listed companies in the USA, 15.8% in the UK, 34.6% in India, 46.8% in China, and 51.8% in Brazil. In Europe, 43% of listed companies are family-owned, ranging from 59.1% in Italy to 54.1% in France and 51.5% in Germany (Figure 2).

Among French listed companies, 54% are family-owned at the 20% voting rights threshold.

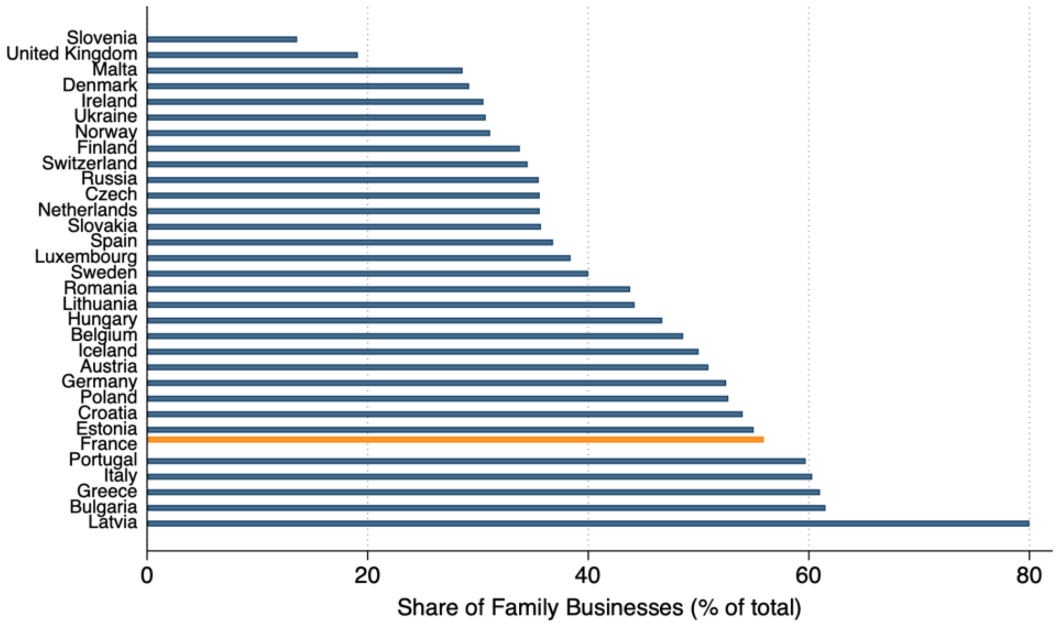

Figure 2. The share of family businesses by country in Europe. Source: Aminadav & Papaioannou, 2020.

Similar proportions are observed among unlisted companies in France. With a more restrictive definition (majority control and family involvement in corporate governance), a BPI study (2023) estimates that 48% of French SMEs and mid-sized companies are family-owned (BPI study, 2023).

Our work will test several ownership or control thresholds and various definitions of a family business.

A favorable institutional context?

Several studies have highlighted the influence of legal origin on ownership structures, beginning with the work of La Porta et al. (1999). Family businesses are less prevalent in countries governed by common law (such as the United States and the United Kingdom) than in those governed by civil law, particularly in continental Europe. More recent, comprehensive data provided by Aminadav & Papaioannou (2020) support this finding (see Figure 3).

Family businesses are less numerous in countries with a "common law" legal environment.

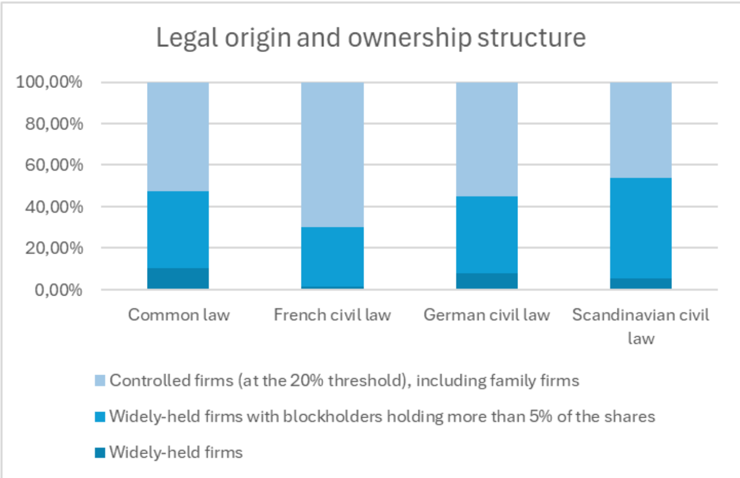

Figure 3. Control of listed companies by legal origin. Source: Aminadav & Papaioannou, 2020

The more egalitarian a country, the more closely its companies' capital is controlled, especially by families.

The reasons for these variations in shareholding structures across countries and legal origins relate to differences in minority investor protection, stricter regulation of capital markets, labor, and products in civil law-type legal environments.

Holderness (2017) offers a complementary explanation for the frequency of closely held companies based on cultural factors. One in particular is significant: the index of egalitarianism in society.[1] This index seems to correlate with a high degree of employee legal protection. According to the author's hypothesis, companies with a concentrated shareholder base, in particular family businesses, would be better able than companies with a dispersed shareholder base to manage industrial relations in such a context, and this would explain why they represent a larger fraction of companies in these countries.

[1] This index is an average measure for each country of the belief that all individuals have the same value and should be treated similarly by society (see Siegel, 2011).

Strong presence in B2C, but also in high value-added sectors

Listed family businesses are present in all sectors, particularly in the consumer goods sector, where family values reinforce brand identity.

Listed family businesses exist in most sectors (see Figure 4), particularly in the consumer goods sectors. Here, they are favored by lower barriers to entry and opportunities for direct engagement with consumers, reinforcing the links between brand identity and family values. They are also present in the IT, media, and industrial sectors in countries with strong manufacturing bases.

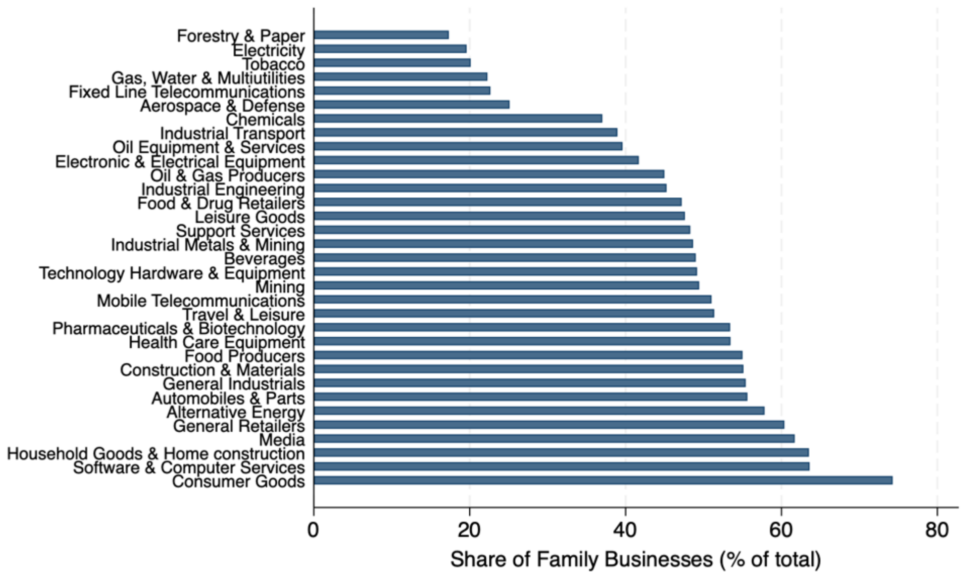

Figure 4. Worldwide share of family businesses across sector. Source : Miroshnychenko et al., 2020 (Supplemental document).

A strong and potentially underestimated economic footprint

In 2020, family businesses (held at the 25% capital threshold) accounted for around a quarter of total assets (23.8%), total sales (24.7%), employees (26.2%), and market capitalization (23.5%) of European listed companies (Gregorič et al., 2022). These proportions do not consider listed family businesses with less than 25% ownership nor unlisted companies, most of which are family-owned.

In France, family businesses account for over 50% of employment and sales, a rough first estimate that our work will refine.

The French National Institute of Statistics and Economic Studies (INSEE) estimates that SMEs, excluding microenterprises, account for 29.4% of employees in France in 2019 and that this proportion is 24.3% for ETIs. If we consider that at least 50% of these companies are family-owned (a low estimate that we are in the process of refining) and that employment by family-owned listed companies in France is close to the European average, then the share of total employment by family-owned companies in France would be at least 53%. Similarly, family businesses would account for over 50% of sales and around 45% of total assets in France. The economic footprint of family businesses is likely much larger, and our work aims to establish a more robust estimate of these shares in economic activity.

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CHAIR

FAMILY BUSINESS AND LONG-TERM INVESTMENT

Developing research on family-owned companies and their dynamics

Family businesses at all levels - global, European, and French - represent a significant portion of the economy in terms of numbers and business share.

What are these companies' performance, strategies, economic and social models? Are they equipped to meet the challenges of ongoing digital and environmental transitions? These are the questions that the new “Family Businesses and Long-Term Investment” Chair at the University Paris Dauphine - PSL aims to address.

This Chair is affiliated with the Dauphine Research in Management Laboratory (DRM) and the Dauphine Research in Economics Laboratory (LEDA).

Edith Ginglinger & Farid Toubal

Professors at University Paris-Dauphine, scientific co-directors of the Family Business and Long-Term Investment Chair.

UNIVERSITÉ PARIS DAUPHINE - PSL
Place du Maréchal de Lattre de Tassigny - 75775 Paris cedex 16
Dauphine.psl.eu