MassMutual • Kennesaw State University • Family Firm Institute

2007 American Family Business Survey

MassMutual
FINANCIAL GROUP®
We'll help you get there.℠

Kennesaw State University
Coles College of Business

ffi
Family Firm Institute

Family-owned businesses are stable and optimistic, even in uncertain economic times, their business results justify their optimism.

October 2007

Dear Colleague,

Entrepreneurial spirit abounds in the United States, serving as a foundation for continued innovation, ingenuity, economic stability, and growth in the private sector. Critical to this spirit is the family enterprise, which continues to develop and grow businesses and change the way we live and work. Family business owners and their successive generations are thriving and resilient, networking their products and services in a virtual and global environment.

Supporting continued growth of the family enterprise benefits all Americans and provides an opportunity for consistent innovation within these firms. By championing insightful research, we continue to uncover both the challenges and the strategic advantages of American family business.

To that end, we are pleased to sponsor the 2007 American Family Business Survey, the seventh in a series of surveys monitoring trends in family business since 1993. The 2007 survey is a comprehensive study that explores the issues of planning, growth and succession as they relate to family business in America. These survey results expand on prior results from 1993 through 2002.

The sponsors of this research owe a vast debt of gratitude to the Loyola University Chicago Family Business Center, and to Kennesaw State University's Torsten M. Pieper, Ph.D., and Timothy P. Blumentritt, Ph.D, who were instrumental in delivering the keen insights uncovered during the study. We also wish to extend a special note of thanks to the family firms that responded to the questionnaire and shared their concerns and thoughts about the future with our researchers.

We anticipate that the trends, insights and challenges identified in this report will help to guide the American family business community toward greater future success.

Sincerely,

Bill Glavin
Co-Chief Operating Officer
MassMutual

Joe Astrachan
Executive Director,
Cox Family Enterprise Center,
Coles College of Business
Kennesaw State University

Judy Green
Executive Director
The Family Firm
Institute, Inc.

Executive Summary

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 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 (Optimism – page 6)
2. Lacking a sense of urgency around retirement and succession planning (Urgency – page 7)
3. Selecting women leaders (Gender – page 7)
4. Holding themselves and their employees to a higher ethical standard (Ethical behavior and social responsibility – page 7)
5. Expanding their use of the traditional management toolkit (Professionalism – page 8)
6. More unified behind common family values (Family unity – page 8)
7. Placing their trust with family members and key financial advisors (Most trusted advisor – page 9)

A total of 1,000 companies responded to the 2007 Massachusetts Mutual Life Insurance Company (MassMutual) – Kennesaw State University – Family Firm Institute American Family Business Survey, providing the latest views by family businesses on the challenges they face and the secrets of their success. The businesses were surveyed during the summer of 2007, making the results timely and relevant.

The businesses represented are overwhelmingly controlled by families, with 83.1% of them being wholly family owned. More than three quarters (76.2%) of all firms own 100 percent of the voting shares, providing the owning families with total control of their firms. And the families decidedly want to keep their businesses in family hands, with 86.3 percent of the respondents believing that the business will still be controlled by the same family in five years. The vast majority of the firms are in their first (61.8 percent) or second (25.6 percent) generation of family ownership.

Methodology

The database was created expressly for this survey. A professional survey firm (TNS) used their extensive panel to identify family firms and then surveyed the firms on-line. The survey yielded responses from 1,035 firms. As in previous years, we selected firms that were at least ten years old and had at least $1 million in sales. The median age of the companies was 22 years (the oldest four firms in the sample are from the 1800s). The sample reported here contains 650 firms. The questionnaire was constructed by a team of academics and based on prior surveys to ensure consistency and comparability for trend analysis. New questions were added to reflect contemporary issues and recent research and theory development.

Company Characteristics

The opinions represented here are of the corporate decision makers as 71% of the respondents are the highest-ranked persons in their companies. The median age of the top executives was 50 years. Almost one fourth (24%) of the respondents were female. 67% of the respondents were family members, 25% were in-laws, and 8% were non-family executives.

Family businesses are not limited to a particular industry. A broad range of industries are included in this survey: Retail/wholesale trade or distribution (143), Energy and other (142), Business/professional services (106), Manufacturing (61), Healthcare and education (43), Real estate (43), Travel or transportation (39), Insurance and finance or securities (37), Communications, technology and utilities (36).

The sample represents an appropriate cross-section of the United States; the following regions were represented: Middle Atlantic (122), Pacific (117), East North Central (105), South Atlantic (92), West North Central (52), New England (49), Mountain (41), West South Central (37), and East South Central (28), Not reported (7).

Key Findings:

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. These figures confirm that family businesses are better able to weather economic hardship and stabilize the economy than their non-family counterparts.

Optimistic about the company's prospects

	2002	2007
Very much so	61%	71%
For the most part	13%	13%
Somewhat	17%	2%
Slightly	8%	12%
Not at all	2%	2%

Mirroring their optimism on revenues, the family businesses in our sample expect to add significant numbers of employees. More than one third (37.6 percent) expect the number of full-time employees to increase. Only a minority of 6.8 percent of respondents is less optimistic and expects the number of full-time employees to decrease next year, far fewer than the number expecting revenue reductions.

Their optimism is well-founded as they have performed well; over the past three years, revenues rose 74.4 percent (as compared with 65 percent in 2002). Over one third (35.2 percent, as compared with 30.2 percent in 2002) increased their revenues by more than 11 percent. These figures are even more encouraging than those reported in the 2002 survey, especially when it comes to increases in sales revenue.

The performance of these businesses is even more impressive when compared to their primary competitors. Many report growing faster (27.1 percent), and only 15.4 percent report growing slower, than their competitors. The figures demonstrate that family businesses have a sustainable competitive advantage.

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 six 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).

Many have less certainty about retirement, which is also a tremendous risk. Almost a third (30.5%) have no plans to retire, ever; and nearly another third (29.2%) report that retirement is more than 11 years away. Since the median age of the current leaders is 51, this means that many people plan to die in office, which is not beneficial to the family, the firm, its employees and its clients.

Further exacerbating the substantial succession risk is the fact that nearly a third (31.4 percent) have no estate plan beyond a will. This is worse than the 2002 survey, in which only 19 percent had no estate plan beyond a will. Likewise, in 2002, 68 percent had a good understanding of estate taxes that could be due, whereas in 2007 this number deteriorated to only 53.5 percent having a good understanding. This lack of financial preparedness jeopardizes the ability of the next generation to maintain the business, particularly because paying estate taxes can have a damaging effect on business prospects.

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

These challenges paint a picture of an economy that is doing well, businesses that want to continue to expand, and businesses that favor a conservative approach and a tight lid on costs.

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 women leaders in family businesses since 1997. This far outstrips the numbers in the world of non-family businesses where, for example, some 2.5 percent of Fortune 1,000 firms are led by women (*Fortune* Magazine, April 20, 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 our 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). Our 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).

Many have less certainty about retirement, which is a tremendous risk.

Furthermore, the firms in our sample are deeply embedded in their local communities, and proximity has been identified as an important factor that increases the likelihood of ethical decision-making and moral behavior (Jones, 1991). More than two-thirds (67.2 percent) of our respondents told us that their businesses contributed significantly to their family's identity in their communities. This finding is in line with research on larger family firms. In their study of S&P 500 firms, Dyer & Whetten (2006) find that family firms exhibit more social responsibility than non-family firms. The authors relate such behavior to the owning families' concern about image and community reputation.

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.

Professionalism bodes well for these companies and may support their optimistic views of future growth and performance.

6. Family unity

Family unity and cohesion are critical to family business success, especially when family 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.

Family unity affects other stakeholders too. For example, unified families are more likely to share their values with employees; 85 percent report that the family shares values with employees to a large or even great extent. The overlap between individual and organizational values may result in increased levels of employee loyalty, commitment, and organizational citizenship behavior. We also find that 85 percent of the respondents share similar values with their customers. Such synchronized values between families in business and their customers may improve relationships and foster economic stability.

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

Top Three Most Trusted

2002	2007
Accountant	Accountant
Lawyer	Spouse
Business peer	Lawyer
Banker	Business peer
Spouse	Parent
Parent	Financial services
Financial services	Banker

Family business owners rely on their spouse and most trusted advisors for input and guidance as they build their enterprise.

To learn more about how MassMutual can help small and family-owned businesses visit www.massmutual.com/familybusiness

Selected literature

Dyer, W. G., & Whetten, D. A. 2006. Family firms and social responsibility: Preliminary evidence from the S&P 500. *Entrepreneurship Theory & Practice*, 30 (6): 785-802.

Jones, T. 1991. Ethical decision making by individuals in organizations: An issue-contingent model. *Academy of Management Review*, 16 (2): 366-395.

Pieper, T. M. 2007. *Mechanisms to assure long term family business survival: A study of the dynamics of cohesion in multigenerational family business families*. Frankfurt: Peter Lang Publishing Group.

Stavrou, E, Kassinis, G., & Filotheou, A. 2007. Downsizing and stakeholder orientation among the Fortune 500: Does family ownership matter? *Journal of Business Ethics*, 72 (2): 149-162.

MassMutual
FINANCIAL GROUP®

Massachusetts Mutual Life Insurance Company
and affiliates, Springfield, MA 01111-0001

www.massmutual.com

MassMutual Financial Group is a marketing designation (or fleet name) for
Massachusetts Mutual Life Insurance Company (MassMutual) and its affiliates.

DM2007022 1007
CRN000000-000000