

Governments Must Encourage Family Enterprise Growth

R. Adam Smith (RAS CAPITAL PARTNERS LLC)

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Walmart, a family business started in Arkansas, has become a global retail giant, significantly impacting the state's economy by creating thousands of jobs and generating billions in revenue. Similarly, in Michigan, the Ford Motor Company, still influenced by the Ford family, has not only shaped the automotive industry but also played a pivotal role in driving the state's manufacturing sector and economic stability.

From these stories and many others, it's clear that family businesses contribute greatly to economic stability and job creation, and carry powerful cultural and social values across generations. Encouragement from government and policymakers helps family businesses continue to shape economic legacies in their home region, and in many cases serve as the backbone of economies worldwide. Policymakers need to recognize the extensive impact these businesses have on local, national, and even international communities, and ensure that efforts are made to support their continuity and growth.

Family Firms as Economic Engines

Family business leaders tend to focus on the next generation rather than the next quarter's results to please shareholders. This means they often embrace strategies that prioritize customers and employees, emphasize social responsibility, and maintain a legacy. For example, Mars, Inc., a family-owned company, has continuously reinvested in its communities and workforce while maintaining strong family governance. On average, over the course of their history, family businesses typically control around six firms, create five

new ones, acquire or merge with three others, spin off two, and shift their industry focus twice (Conway Center for Family Business). These figures illustrate the dynamic nature of family enterprises.

Beyond these numbers, family businesses drive job creation, foster innovation, and play a crucial role in intergenerational wealth transfer. In many countries, family businesses contribute significantly to GDP and employment. In the United States, family-owned businesses contribute approximately 57% of GDP and employ 63% of the workforce. In the UK, they account for 88% of private sector firms and employ over 14 million people, contributing more than £1.4 trillion to the economy annually (FFI Digital Publications). In Germany, small to medium-sized family enterprises are considered the backbone of the economy, representing over 99% of local businesses and employing about 60% of the country's workforce.

But that's not all they do. Companies like Ford and Mars have created jobs and been instrumental in community development through philanthropy and long-term investment in local economies. Family businesses are, by their nature, deeply intertwined with national identity and local communities and their economies. These figures illustrate the significant contributions family enterprises make to economic legacies.

Family Firms as Models of Great Management

Along with contributing significantly to GDP and employment, family businesses often have distinct characteristics that allow them to outperform non-family-owned businesses in various sectors. In one study by McKinsey (an analysis of 600 publicly listed family-owned businesses across 75 countries), these entities recorded an average total shareholder return of 2.6%, slightly higher than the 2.3% observed in non-family-owned businesses. Further, the economic spread, which measures the difference between a company's

return on invested capital and its weighted average cost of capital, was found to be 33% higher for family-owned businesses, demonstrating their superior financial management and strategic execution.

Another factor contributing to their success is the ability of family-owned businesses to diversify and allocate resources dynamically. Around 40% of top-performing family-owned businesses derive at least half of their revenues from outside their core business. This indicates a strong focus on diversification and expansion into new markets or industries. This strategic diversification may also be coupled with a nimble approach to capital allocation, allowing these businesses to shift resources effectively and avoid the risks of stagnation or over-reliance on a single revenue stream.

In addition to operational and financial strategies, family businesses often excel in governance and talent management. For example, the Mars family, owners of Mars Inc., has implemented a robust governance structure that includes an independent board with non-family members and a family council responsible for aligning the company's strategy with family values.

According to PwC's 2023 Family Business Survey, top-performing family businesses demonstrate a strong commitment to governance structures, with 90% of the best performers having independent boards of directors and a significant involvement of non-family executives in strategic decisions. This governance model helps attract and retain top talent, which is critical for long-term success. In fact, 86% of outperforming family-owned businesses reported that they attract the best talent in their respective industries, a testament to the strong leadership and employee engagement practices prevalent in these organizations.

All of these management strengths contribute to the continued vitality of the family firm – and the communities and other outside stakeholders that benefit from it.

How Governments Are Helping

In America, state-level initiatives have recognized the importance of family businesses. Delaware offers tax incentives and streamlined regulatory processes for family-owned businesses, making it easier for these companies to operate and expand. Likewise, in Pennsylvania, some companies, like the Family

Business Alliance, provide resources such as succession planning, leadership training, and networking opportunities to support family-owned enterprises in maintaining their legacy.

The U.S. government offers various forms of support, including favorable tax treatments and access to federal loans, particularly for small and medium-sized family businesses. These measures help ensure that family enterprises can continue to be a driving force in the economy, fostering innovation, job creation, and economic stability (FFI Digital Publications). The U.S. utilizes a robust small business program that can help family businesses and related companies get better access to capital. For example, the U.S. Small Business Administration (SBA) loan programs – together with the 7(a) Loan Program and the 504 Loan Program – provide critical financing options that help family-owned companies with capital for expansion, equipment purchases, real estate acquisition, and other essential business needs. Family-owned businesses, like many small businesses, benefited from these programs (which provided over \$33 billion in lending according to the SBA)

In Europe, the German government provides a robust support system, with policies that promote innovation, export opportunities, and succession planning to ensure these family businesses can thrive across generations (Family Enterprise Legacy Institute).

Other countries focus on the unique challenges faced by family enterprises, such as succession planning, governance, and adapting to technological advancements. For instance, in Canada, where a significant wealth transition is underway (over 60% of family enterprises are expected to change hands within the next decade), there is a strong emphasis on equipping the next generation with the skills and knowledge necessary to sustain these businesses (Family Enterprise Legacy Institute). Institutions like the Family Enterprise Legacy Institute (FELI) are leading efforts to create new knowledge and best practices that address these challenges.

Similarly, in India, the government has initiated the Family Business Reforms Program, which provides educational resources, succession planning tools, and mentorship opportunities to next-generation family business leaders (CEO Worldwide). Furthermore, state-level policies increasingly recognize the need for

sustainable development within family enterprises - businesses are now adopting ESG principles as part of their operational strategies. This shift aligns with global sustainability goals and enhances long-term viability. For instance, transforming legacy family businesses into sustainable enterprises often involves embedding societal and environmental values into their core operations while maintaining economic robustness (FFI Digital Publications).

More Needs to be Done

Governments play a crucial role in reinforcing the success of family businesses by implementing state-level policies that address their unique challenges, such as succession planning, knowledge transfer, technology adoption, and access to capital. Given their substantial economic impact, it is no surprise that national and state governments increasingly prioritize policies supporting these valuable entities. However, more can be done. For example, governments can offer attractive loans and tax exemptions on the value of a business, making it easier for families to pass on their enterprises to the next generation.

Such family-friendly policies are essential for ensuring the long-term continuity and economic health of family enterprises. For example, with 50% of family businesses lacking a formal succession plan, states can offer subsidized advisory services to encourage effective succession planning. Expanding access to capital through initiatives like the U.S. Small Business Administration's loan programs, which have provided over \$33 billion in lending to family-owned companies, can further strengthen these businesses.

Additionally, promoting sustainable practices through grants or tax breaks for adopting ESG principles can help align family enterprises with global sustainability goals, enhancing their viability across generations. By fostering an environment where family businesses can grow, governments not only support economic stability but also contribute to preserving the cultural and societal values that these enterprises embody.