

FAMILY BUSINESSES IN FINLAND

Preface

The global economy is currently going through a significant period of slow growth with an uncertain outlook for the future. The financial crisis that began in 2007 left its mark on economies throughout the world. At present, the impact of the information technology revolution at all levels of society has only begun to be felt. Nations are desperately searching for policy tools to foster stable economic growth, job creation and increased long term investments.

The financial crisis proved that the financial sector, when left to its own self-regulatory devices, can be a threat to economic stability. The banking sector along with financial markets behave in a pro-cyclical manner, increasing leverage in good times, while cutting it during economic downturns. This has then increased the impact of economic cycles. It has therefore become apparent that the financial structure of the company, its share of equity and composition of ownership in the long term may be more important drivers of investments and stable growth than previously believed. Equity may be the king, but there appears to be scant understanding of how policy should reflect this.

The model that most clearly captures the long term ownership perspective is that manifested by the family business, wherein ownership is stabilized through the generations. It can potentially provide the model for steady growth regardless of economic cycles, thus reducing cyclical variation.

According to the European Commission, family businesses constitute a substantial part of existing European companies, and have a significant role to play in the strength and dynamism of the European economy. But how significant? At the moment there is insufficient data concerning the role and economic importance of family businesses in Europe.

In order to discern how long term ownership and its relationship to the nature of economic cycles affects company performance, more detailed information is required. This information is also necessary in order to provide policy-makers and other relevant stakeholders with the tools necessary for credible, comparable and systematic indicators on the impact of family businesses and other ownership models on national economies as well as providing practical input for relevant decision makers. Thanks to the EU COSME program, Finland is privileged to have been chosen as one of seven countries participating in the collection of data on family businesses as an initial step toward a comprehensive data collection program.

It is the beginning of what we hope to be a compilation of studies that investigate macroeconomic and financial stability implications of various ownership models. The aim is to build a large data set that combines cyclical variations with individual company data with the expectation that the other European countries do the same. Ownership matters.

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1. Introduction

Entrepreneurship is the growth engine of economic development. This is why a good deal of time and effort is invested studying its form and impact on the wider society. However, only a small part of current research focuses on the role of ownership structure, and in particular family ownership, within the economy. This is due, in part, to the lack of statistical analysis regarding company ownership.

To overcome this shortcoming, the EU COSME Programme¹ aims to identify family businesses in order to assess their relevance, scope and nature. This study is part of a seven country effort. Similar studies are being conducted in Denmark, Malta, Italy, the Netherlands, Poland and Bulgaria.

The data collected across countries will provide the basis for further European, national and regional policy development and provide an impetus for consistent cross-country data collection with particular regard to family owned businesses in general and on ownership structures of companies in particular. The aim is to provide policy-makers and relevant stakeholders with credible, comparable and systematic information. In addition, the role of family businesses in national economies is examined, thereby providing usable and practical information to stakeholders for their decision making (European Commission 2015). On the national level, the main objective of the project is to improve long-term reliable statistics on family businesses and to increase the visibility of the role of such businesses within the Finnish economy.

The data have been provided by Statistics Finland (STAT), based upon the identification of ownership of companies provided by Kalevi Tourunen, PhD, Lecturer of Economics and Statistics at Haaga - Helia University of Applied Sciences, Helsinki. The report and analysis is prepared by Aleksi Kinnunen, researcher at the Finnish Family Firms Association (FFFA). Their work was supervised by a steering group (Leena Mörttinen (FFFA), Krista Elo-Pärssinen (FFFA), Reetta Moilanen (STAT), Jarkko Niemistö (STAT) and Jouko Rajaniemi (STAT).

The report begins with a brief overview of previous family business research in the next section (2). Since building a consistent data set is one of the major objectives of the study, Section 3 explains the data, and the methodology employed in its compilation. Section 4 presents, as a point of departure, the structure of the Finnish economy. The following sections delve deeper into the specificities of family companies as compared to non-family businesses. In Section 5, a number of key indicators in assessing the economic significance of the family businesses in Finland are presented. Sections 6 and 7, the industrial structure of family businesses as well as their geographical distribution are covered in order to showcase the economic significance of this particular ownership model. Section 8 provides an initial first glimpse of the financial performance of such companies by comparing key financial indicators with non-family businesses for the year 2014. Conclusions and suggestions for further research are presented in Section 9.

¹ The Programme for the competitiveness of enterprises and small and medium-sized enterprises (2014-2020).

2. Previous research

The data on family firms is extremely limited. In Finland, there exists one study of national scope (Tourunen 2009) identifying Finnish family businesses. All other family business studies to date have been confined to either listed firms, smaller samples of firms, or individual firm case studies. Dr. Tourunen concludes that family businesses account for 20 % of GDP and 23 % of total employment within Finland. He also concludes that large and medium-sized family businesses are slightly more profitable than businesses with other ownership structures in comparable size categories.

In the United States, family businesses are estimated to account for 29 % of GDP and for 27 % of total employment² (Astrachan & Shanker 2003). These figures are close to the estimates for most developed countries around the world (La-Porta, Lopez-de-Silanes, & Shleifer 1999). Within Europe, studies tend to vary significantly: in the Netherlands, family businesses account for 53 % of GDP and 49 % of total employment (Flören, Uhlaner & Berent-Braun 2010), while in Sweden, family businesses account for 20 % of GDP and 25 % of total employment (Johansson, Sjögren & Bjuggren 2009). Such large variations between countries can partially be explained by the differences in the definition of a family business and by differences in estimation methods³. The size of the public sector may also affect the results, as the public sector is larger in Finland and Sweden as opposed to the United States. However, more information is nonetheless needed to assess these differences between countries.

Large variations between countries can partially be explained by the differences in the definition of a family business and by differences in estimation methods

The data compiled in this study thereby becomes a stepping stone for the further improvement of family business data in Finland. In the medium-term, the goal is to develop a comprehensive data set which would enable further study of the impact of ownership structure with regard to company performance.

Globally, a growing body of research regarding ownership structure has focused on the impact of family ownership concentration with regard to performance (Anderson and Reeb 2003; Habbershon et al. 2003; Chrisman et al. 2003; Cronqvist and Nilsson 2003; Maury 2006; Villalonga and Amit 2006; Bennesen et al. 2007; Miller et al. 2007; Eddleston et al. 2008; Adams et al. 2009; Arosa et al. 2010). The

results of these studies have not been conclusive, however. In addition, existing studies focusing on the relationship between family ownership and firm performance use data collected on the whole from larger firms.

Overall, family business studies show significant variation in results which is why drawing conclusions becomes difficult (see, for example, Rantanen, Tuominen, P. & Tuominen, T. 2016). At least four factors appear to drive the variation: the definition of a family business, geographic location, industry affiliation, and intertemporal variation in economic conditions.

- 1. Family business definition.** As Villalonga and Amit (2006) present, the performance differences between family businesses and non-family businesses depend on how family businesses are defined, and in particular how family ownership, control, and management are equated within the definition. By particularizing the family firm definition they find a positive impact on performance from family ownership per se, but, on the other hand, a negative effect on performance from family control which is in excess of ownership, and, thirdly, an impact regarding firm performance that is entirely contingent upon the family's generation (positive for founders, negative for subsequent generations).
- 2. Geographic location.** There is also geographical variations in these results. By way of example, Barontini and Caprio (2006) found that, in Western Europe, there is a positive effect related to family ownership, especially with the founder-CEO model. However, they found no significant descendant-CEO negativeness. Maury (2006) found similar results within Europe, which included a positive factor for family management, although he did not distinguish among generations. Amit, Ding, Villalonga, and Zhang (2010) found a negative association between family firm's relative performance and the degree of institutional development within different regions of China.
- 3. Industry affiliation.** Several studies have shown that there is significant variation across industries with regard to the prevalence of family businesses (Anderson and Reeb 2003; Villalonga and Amit 2006; Miller et al. 2007). Villalonga and Amit (2010), who examine what drives family control of firms and industries, further concluded that the value of family control — the positives and negatives of family firms relative to non-family firms — also varies significantly across industries.
- 4. Intertemporal variation in economic conditions.** Villalonga (2010) examines the issue of how (or whether) the advantage of family control changes with economic conditions. Using a sample of both U.S. and European companies, she finds that the difference in value between family and non-family businesses changed significantly from before or after the 2007–2008 financial and economic crisis. Her conclusion is that the differences are attributable to variations in structural characteristics between the two groups of firms, rather than in variations in their responses to the crisis. Consistent with the perspective that families “manage for the long run” and strive to maintain control of their firms, family firms also have a more conservative financial and strategic management policies, which benefit both family and non-family shareholders during economic downturns. These findings suggest that the value of family control is countercyclical, meaning family businesses tend to be more stable and enduring than non-family businesses, in spite of performance levels being lower after the founder's generation ceases to exist.

Family businesses tend to be more stable and enduring than non-family businesses.

²The results of the study vary significantly depending on the definition of family businesses. The GDP estimates vary between 29–64 % whereas employment estimates vary between 27–62 %.

³ Certain estimation methods like generalization to the entire population from a possibly biased sample may cause a serious bias in results. These studies may exist in the field of family business studies so the results in studies should be critically previewed before making any comparisons.

3. Data and methodology

Data with respect to the ownership of a company is usually unavailable from conventional statistical offices' information sources. At the very least what would be required is detailed tax information combined with financial statistics of the companies. Ownership is often difficult to track due to the, at times, complicated company structures binding all the parts together.

Getting to the root of family business ownership can be even more complicated. Simple data does not necessarily provide the means to deduce the relevant, though undocumented, motivations of the owner to transfer the business within the family or sell it at a later stage. This requires explicit subjective information on the intention of the individual or individuals which obviously can be difficult to obtain.

This handicap is overcome in this particular study through acquiring such subjective information of the intention of the present owner. While the underlying data of the studied companies is provided by Statistics Finland, motives for continuation of the businesses have been identified by Dr. Tourunen. The identification of a company as first generation family business, subsequent (or later) generation family business or non-family business was determined via interviews, telephone communication, questionnaires, website searches, or a combination thereof. This, of course, has the benefit of revealing the true nature of the ownership from the perspective of the owner⁴. If the family business ownership is determined only by using available firm statistics, there is the risk of misidentifying non-family firms as first generation family businesses.

The identification of a company was determined via interviews, telephone communication, questionnaires, website searches, or a combination thereof.

The sampling frame for this study covers all potential small (excl. Self-employed), medium and large-sized family companies operating within Finland in 2014⁵. Medium and large-sized companies are studied at complete population level⁶, while small-sized companies are studied based upon a stratified sample of 2085 companies (for detailed description of the data, see Appendix 2). The data provides information on the companies' demographics (size, industry, location and company form), family business status and financial condition for year 2014. The details about these financial indicators are provided in Appendix 3.

Small, medium and large-sized companies are further divided into first generation family businesses, second (or subsequent) generation family businesses, non-family domestic business and foreign owned business⁷. A company is defined as a family business by using a common European definition of family business (2009). A firm, of any size, is a family business, if:

- a) "The majority of decision-making rights are in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs.
- b) The majority of decision-making rights are indirect or direct.
- c) At least one representative of the family or kin is formally involved in the governance of the firm.
- d) Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25% of the decision-making rights mandated by their share capital."

Classification of size follows closely the staff headcount classification rules defined in the EU recommendation 2003/361⁸: large-sized company employs more than 250 people, medium-sized company employs 50-249 people, while small-sized company employs 1-49 people. The industry classification used in the study is based on standard industrial classification (TOL 2008) and is discussed in more detail in Appendix 4.

In many studies self-employed are included in calculating the share of family businesses. However, since we have not been able to identify the true intention of self-employed as regards the transfer of business to the next generation, for the most part in this study we show the corresponding numbers (in parentheses) when all self-employed are defined as family businesses. Their information is thereby used in assessing the potential economic significance of family businesses.

Regarding group structures, it should be noted that a company is classified according to the size of its group. In other words, if a small-sized company is a subsidiary of a larger group of companies, then the smaller-sized company is classified according to the size of the whole group of companies. For example, if a company employing 10 people is part of a group employing 250 people, it is classified as a large-sized company.

The data used in this study is available for unrestricted use at http://suhdan-nepalvelu.stat.fi/main/P1794_4641/data. The username and password is available by contacting The Finnish Family Firms Association.

Medium and large-sized companies are studied at complete population level, while small-sized companies are studied based upon a stratified sample.

⁴ If a company is considered as family business by the common European definition of family business (2009) but it does not consider itself as a family business, it is not defined as family business in the study.

⁵ Numbers of different businesses by size, form and family business status are shown in Appendix 1.

⁶ Agriculture, forestry and fishing and Water supply; sewerage, waste management and remediation activities were excluded because there are no financial figures available. These industries are relatively small and contribute 2.1 percentage in GVA.

⁷ Foreign businesses are considered as non-family businesses, although we don't have information about the ownership status. Thus, family businesses in the study can be thought as domestic family businesses.

⁸ In the study, EU recommendation based small and micro-sized companies are both defined as small-sized companies.

4. Structure of the Finnish economy

In order to provide a holistic view of the Finnish economy, the distribution of Finland's Gross Value Added⁹ (GVA) in 2014 is provided in Chart 1. In this presentation the aim is to study the relevance of family businesses, in particular, within Finland's business sector (non-financial domestic corporations, domestic public corporations and foreign affiliates). This will be the usual point of reference throughout the study. The business sector creates 59.8 % of the GVA¹⁰. It consists of approximately 280,000 companies out of the 363,587 total businesses listed¹¹.

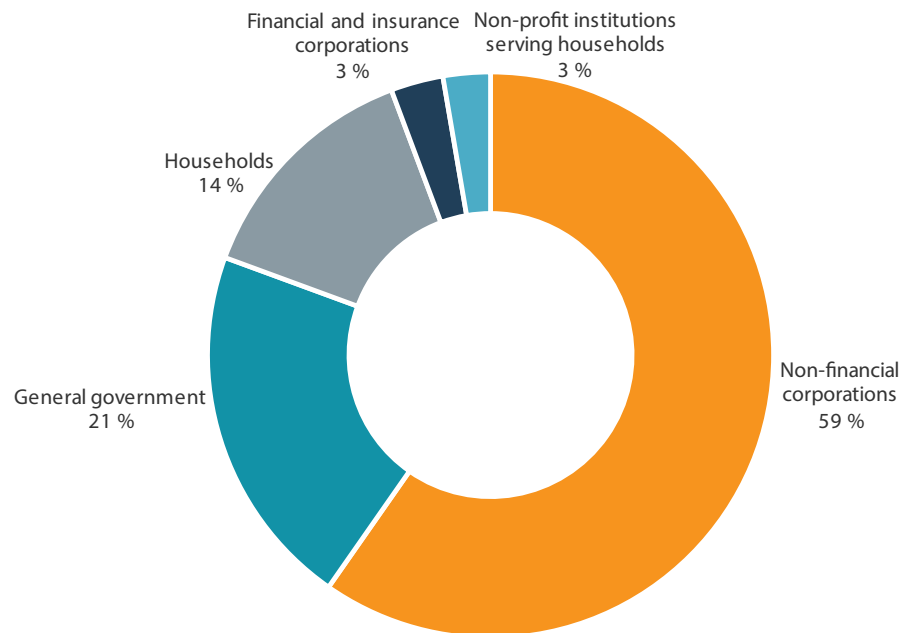


Chart 1. Distribution of Gross Value Added in Finland (2014).
Source: Statistics Finland, Annual National Accounts.

The structure of the Finnish business sector is quite typical in a small open economy. In Chart 2, the distribution of the business sector GVA by industry is provided¹². Manufacturing (34 %), Transportation and information (17 %) and Services (17 %) industries are the largest contributors to the GVA, whereas Accommodation and food services (3 %) industry is the smallest. Although manufacturing has decreased with regard to its share of employment over time with services gaining in importance, Finland nonetheless still relies on manufacturing with respect to exports.

⁹ Gross Value Added is the measure of the value of goods and services produced in the economy. It is closely related to Gross Domestic Product (GDP). The relationship is: $GVA = GDP - \text{taxes on products} + \text{subsidies on products}$.

¹⁰ The business sector GVA does not contain all businesses as the Households sector contains businesses where household and business activity is inseparable. These businesses operate usually in Agriculture, forestry and fishing industry.

¹¹ In 2014, the total number of businesses was 363 587 and 89.5 % of these employed less than four persons. The businesses had total revenue of 385 billion EUR from which companies employing more than 250 persons made 42.2 %. These companies employed 33.7 % of the total personnel (1.434 million). Foreign affiliates (4425 companies) employed 16.6 % of the total personnel and their share of the total turnover was 22.7 %. (Source: Statistics Finland, Finnish structural business and financial statement statistics.)

¹² Industry classification used in the study is based on standard industrial classification (TOL 2008) and is discussed in more detail in Appendix 4. Industries Agriculture, forestry and fishing and Water supply; sewerage, waste management and remediation activities have been excluded due to lack of data.

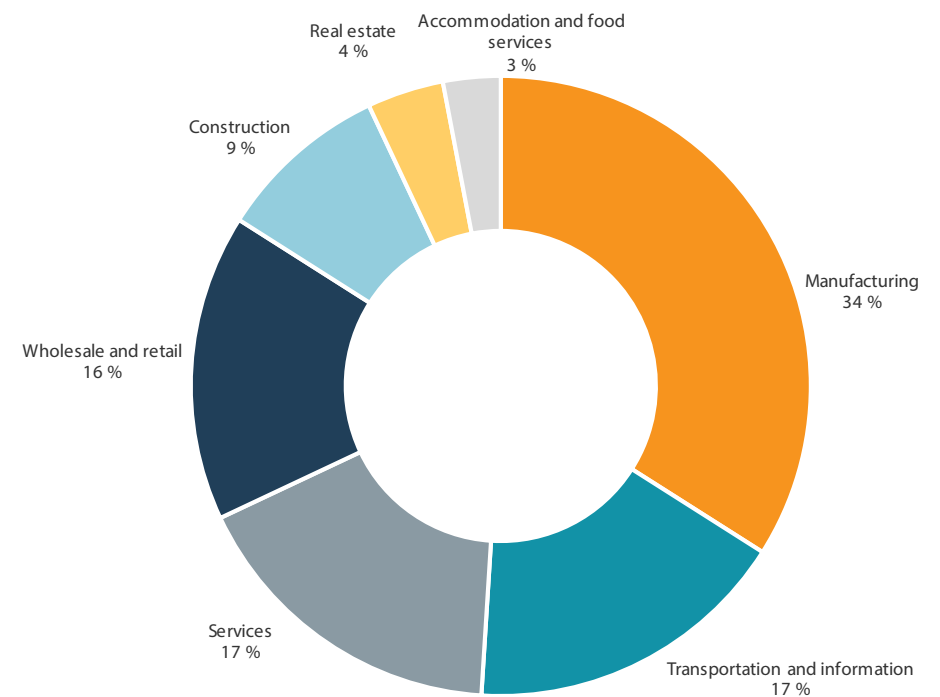


Chart 2. Distribution of Gross Value Added by industry. Source: Statistics Finland, Annual national accounts, 2014.

The number of companies categorized by industry are presented in Table 1. It is of interest to note that while services represent over 35,5% of all companies, its share of GVA is only 17 %. On the other hand, while manufacturing represents only 8,3% of all companies, they produce 34% of GVA. This is indicative of the level of productivity in the manufacturing industries and relatively larger size of the companies.

	Number of businesses	Share of businesses	Number of personnel
Manufacturing	22 788	8,3 %	320 860
Construction	41 827	15,3 %	153 683
Wholesale and retail	44 342	16,2 %	246 097
Transportation and information	31 298	11,4 %	203 631
Accommodation and food services	11 687	4,3 %	57 851
Real estate	24 871	9,1 %	18 828
Services	97 295	35,5 %	326 463
Total	274 108		1 327 413

Table 1. Number of businesses, share of businesses and number of personnel by industry. Source: Statistics Finland, Finnish structural business and financial statement statistics, 2014.

Manufacturing companies employ 24.2 % number of personnel within the business sector while services employ 24.6 %. The conclusion becomes that the service industry is very labour intensive. Thus the weaker scalability translates into lower productivity (Chart 3).

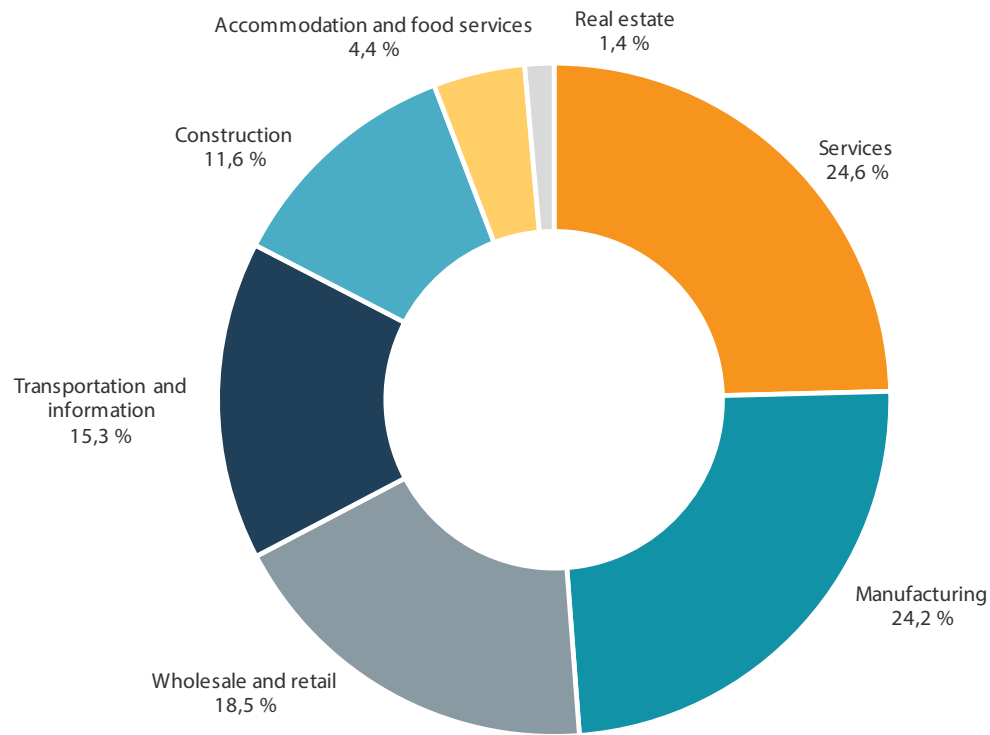


Chart 3. Distribution of number of personnel by industry.
Source: Statistics Finland, 2014.

In Chart 4, the distribution of businesses, value added and number of personnel within the business sector by different form/size of businesses is presented. Companies are displayed in four different forms/sizes: Self-employed, small-sized company (employing 1-49 people), medium-sized company (employing 50-249) and large-sized company (employing more than 250).

Chart 4 indicates that while almost half of value added is created by large-sized companies, they represent only 2 % of the number of total businesses. Small-sized companies are quite significant when measured by all three indicators. They represent approximately 30 % of the total share of business, number of personnel and GVA. The self-employed are a growing group in Finland. The data indicates that they represent nearly 68 % of all businesses. The share of the self-employed in the economy is expected to increase in the future with digitalization and the loss of traditional manufacturing and administrative jobs.

Small-sized companies represent approximately 30 % of the total share of business, number of personnel and GVA.

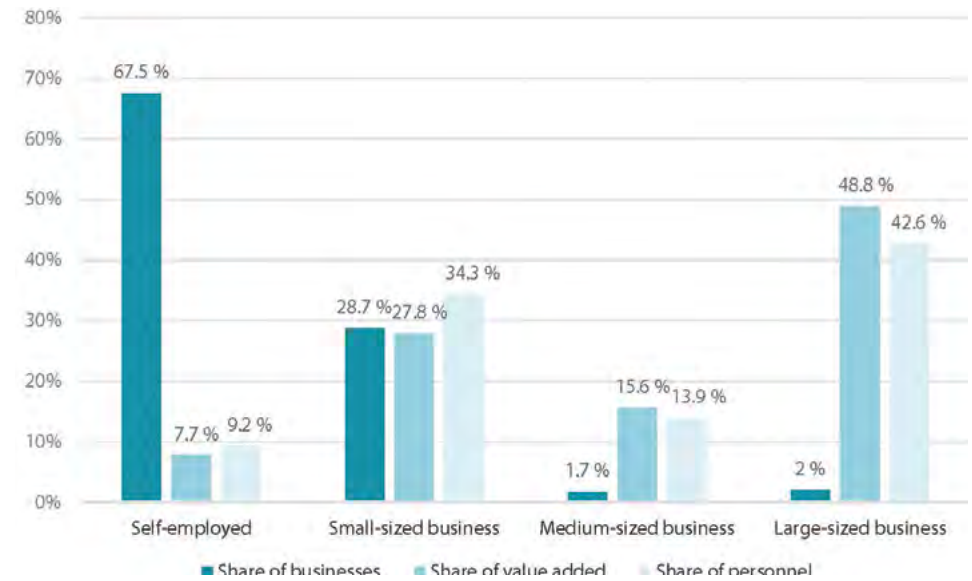


Chart 4. Distribution of businesses, value added and number of personnel between different form/size of businesses. Source: Statistics Finland.

The geographical distribution of the business sector (excl. self-employed) is presented in Chart 5. Most businesses are located in the southern part of Finland. The regions with the lowest number of businesses are Ahvenanmaa (772), Kainuu (1032) and Keski-Pohjanmaa (1048). Unsurprisingly, the largest share of businesses, 33442 companies, are located within the metropolitan area of Helsinki, the capital of Finland.

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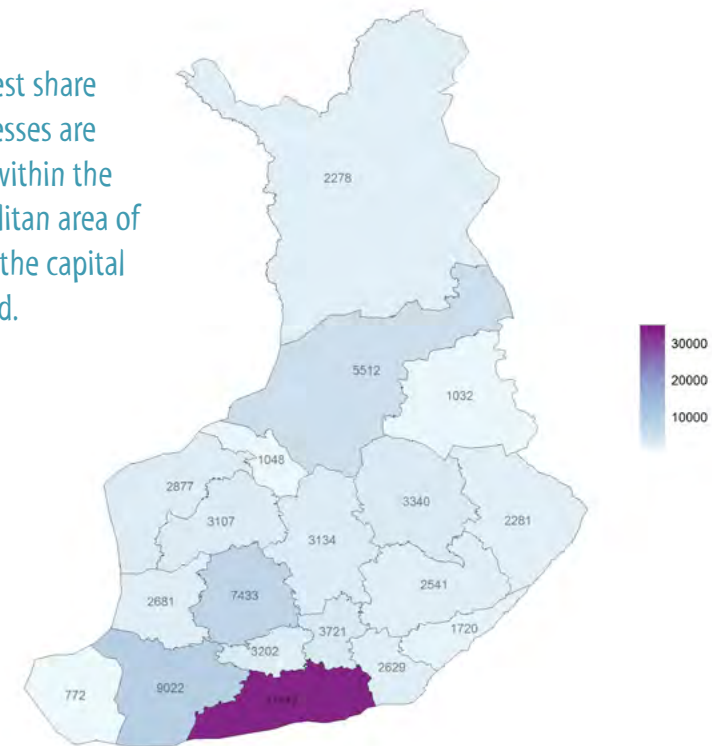


Chart 5. Number of businesses by region. Source: Statistics Finland.

5. Economic significance of family businesses

In this section, the economic significance of family businesses in Finland (2014) is examined¹³. The economic relevance is of particular importance from the perspective of policy makers. Diversity of ownership models is a benefit within any economy. However, there may be benefits to the greater society from different forms of long term ownership as well.

Family businesses are rather more labour intensive than other enterprises.

As stated above, Finnish family firms have a significant role to play in the Finnish economy. Of the total of all Finnish non-financial companies, which employ, 70 % (90 % including self-employed) are identified as family businesses.

Family businesses are shown to contribute 15.6 % (19.7 %) of the total GVA and 29.9 % (37.7 %) of the business sector value added. When compared with

other areas of the business sector, it should be noted that family businesses are rather more labour intensive than other enterprises. They contribute 37.4 % (46.6 %) of business sector number of personnel, 24.8 % (29.9 %) of turnover and 21.8 % (33.1 %) of business sector net investment. Absolute numbers upon which the percentages are calculated are presented in Appendix 5.

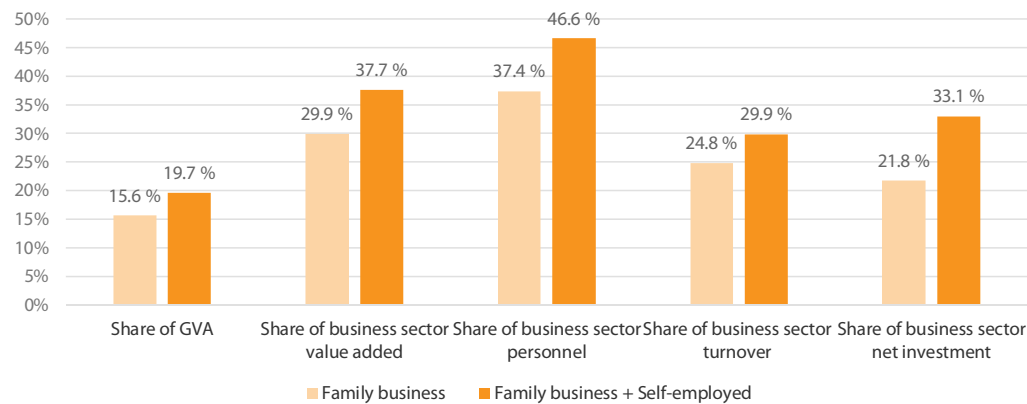


Chart 6. Economic contribution of family businesses.
Source: Statistics Finland.

As the economic significance within size groups is examined, a familiar pattern can be identified within other studies as well. There is an inverse relationship between family ownership and the size of the company. This is most likely due to the need for large amounts of capital in the development of larger companies which, in turn, often forces the diversification of the ownership structure.

There is an inverse relationship between family ownership and the size of the company.

Yet family ownership is the most dominant model within small-sized companies, as 75 % of all companies are family businesses¹⁴. Family businesses provide 69 % of number of personnel and 64 % of value added within this group size (Chart 7).

As company size increases, other ownership structures tend to become dominant. Family companies form 38 % of medium-sized companies and their share of value added being 31 % and contributing 42 % number of personnel. But family companies only represent 20 % of large-sized companies. They create 15 % of value added and 18 % number of personnel within this size group.

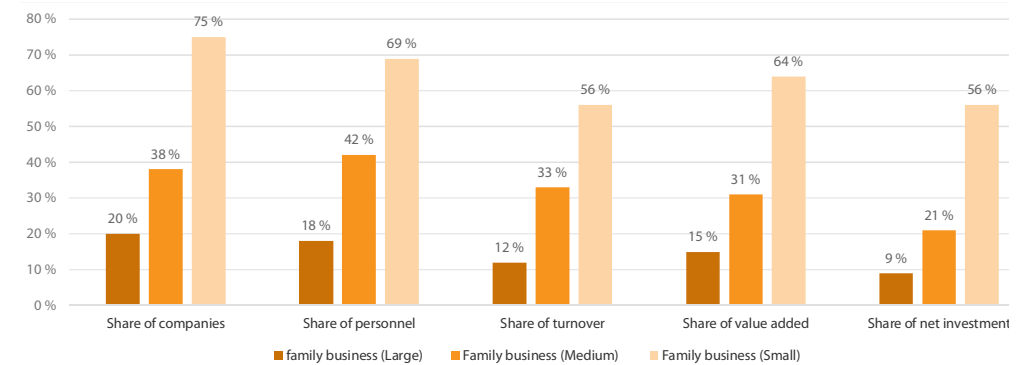


Chart 7. Share of family businesses: Companies, share of personnel, turnover, value added and Net investment within size class (large, medium, small). Source: Statistics Finland.

The relatively low share of value added and net investment for family businesses within each class size should be noted. This may be explained by their relatively smaller size within each group.

¹³ We don't have information on family businesses operating in Agriculture, Forestry, Fishing or Water supply; sewerage, waste management and remediation activities so the numbers presented are slightly smaller than if contribution from these sectors would be included (these missing sectors create around 2.1 percent of the total economy GVA).

¹⁴ The number of businesses are calculated so that a group of businesses is not counted as one e.g. a group consisting of 2 companies is taken into account as 2 companies in the calculations. This approach differs from the approach of Dr. Tourunen so the proportions of his study (2009) are not comparable to the results of this study.

However, this should not be interpreted as indicating a lower propensity to generate investments. For example, Chart 8 shows that overall large-sized family businesses created investments in similar proportions to turnover as did large-sized non-family businesses (with the exception of the real estate sector/real estate family businesses outperformed non-family companies that particular year) in 2014.

Large-sized family businesses created investments in similar proportions to turnover as did large-sized non-family businesses.

Overall, there does not seem to be a large difference in relative “propensity” to invest. A key difference may relate to the size of the company and be explained by the fact that maintaining ownership while at the same time obtaining leverage under the present financial market conditions

throughout the economic cycle may limit growth ability. Analysis of this particular factor would require a compilation of data across the economic cycle.

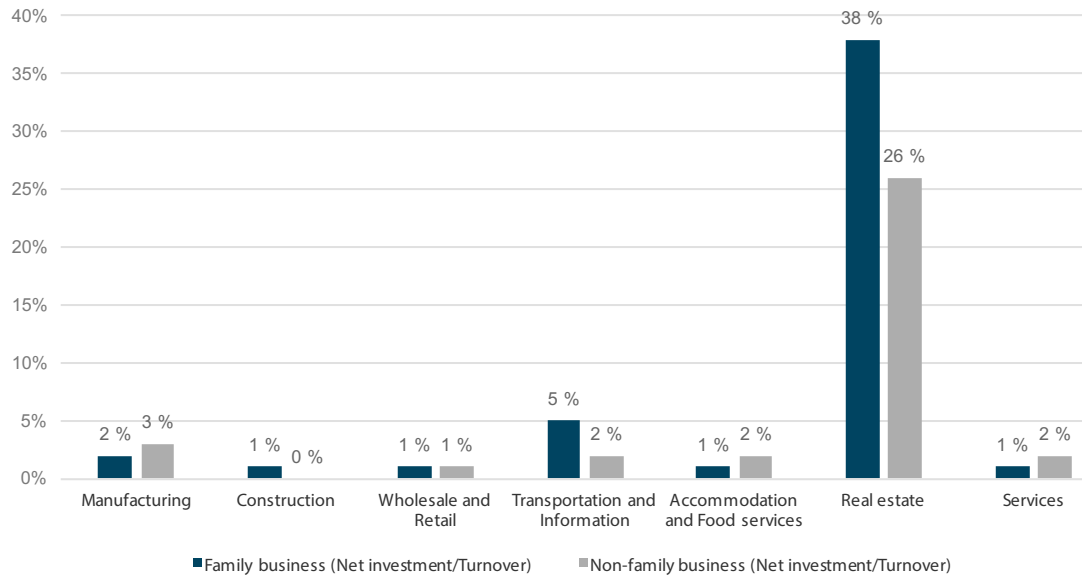


Chart 8. Net investment/turnover for large-sized family and non-family businesses within industry. Source: Statistics Finland

Finally, there is an interesting and important question regarding the significance of family businesses, from an economic perspective, of their willingness to grow. While these are just initial results, some conclusions can be drawn from the composition of family businesses in different size groups. The study is able to separate first generation family businesses from subsequent generations.

As shown in Chart 9, there is a much larger share of first generation family businesses among small-sized family companies (90%) than in the medium (55%) and large-sized family companies (35%). Although a number of different explanations are possible, this result shows a particular pattern of growth – many companies when first founded by a family start as small, but over a period of time and generations of owners, grow to become medium-sized companies or larger. However, a more thorough analysis would require a data set that allows for analysis of individual firms over a longer time period, preferably of generations, to assess the growth pattern of family companies compared to other ownership models.

90 % of small-sized family companies are first generation family businesses.

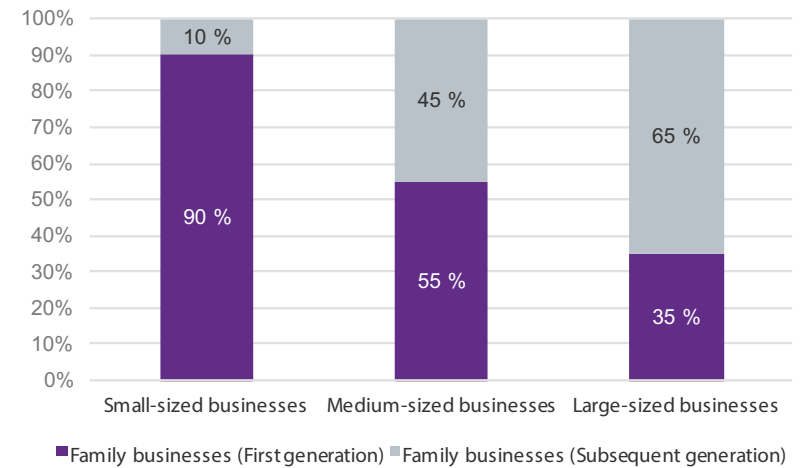


Chart 9. Distribution of first and subsequent generation family businesses within size class. Source: Statistics Finland.

6. Industry analysis of family businesses

Family businesses operate in every industry (Chart 10). Their share varies within each industry according to size. The overall analysis indicates that family businesses dominate Accommodation and Food services in particular regardless of size group. Large-sized family businesses have the largest shares in both the Accommodation & Food services (67 %) and Wholesale & Retail (39%) industries. Medium-sized family businesses also have the highest share in Accommodation & Food services (70 %), while the second largest is in Construction (56 %). Small-sized family businesses dominate in Accommodation & Food services (85 %) and Construction (85 %).

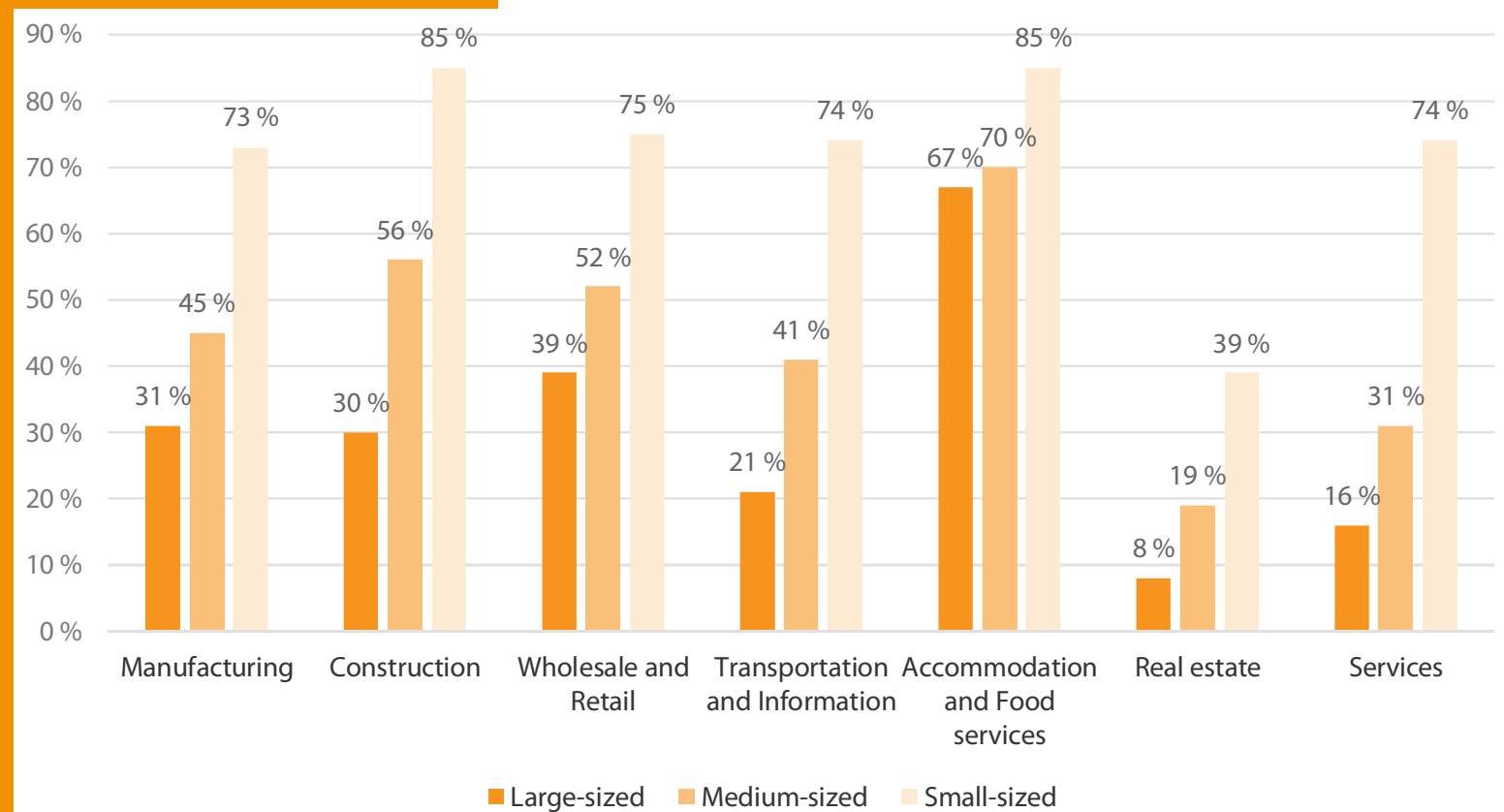


Chart 10. Share of family businesses by sector within size class.
Source: Statistics Finland.

It is also interesting to note how industry composition within family businesses differs from the industry composition of non-family businesses. These are depicted in Charts 11 (large-sized businesses), 12 (medium-sized businesses) and 13 (small-sized businesses). The industry composition of family companies is surprisingly even. Three largest industries for large and medium-sized family businesses are: Manufacturing (L:25 %, M:27 %), Services (L:18 %, M:17 %) and Wholesale & Retail (L:16 %, M:17 %). However, Accommodation and Food Services also have a high share, particularly among large-sized family businesses (L:13 %, M:5 %). On the other hand, the three largest non-family businesses are Real estate (L:40 %, M:29 %), Services (L: 24 %, M:23 %) and Manufacturing (L:14 %, M:21 %).

Small-sized family businesses are mainly distributed among Services (27%), Construction (20 %) and Wholesale & Retail (20 %). Small-sized non-family businesses operate on the whole in Services (32 %), Wholesale and Retail (19 %) and Transportation and Information (16 %).

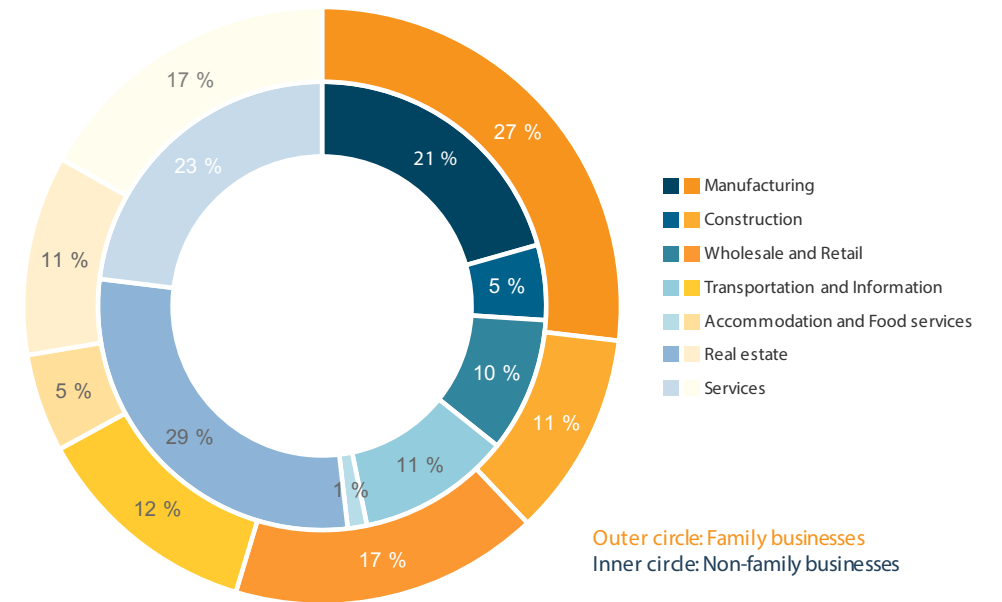


Chart 12. Distribution of medium-sized family businesses and non-family businesses by industry. Source: Statistics Finland.

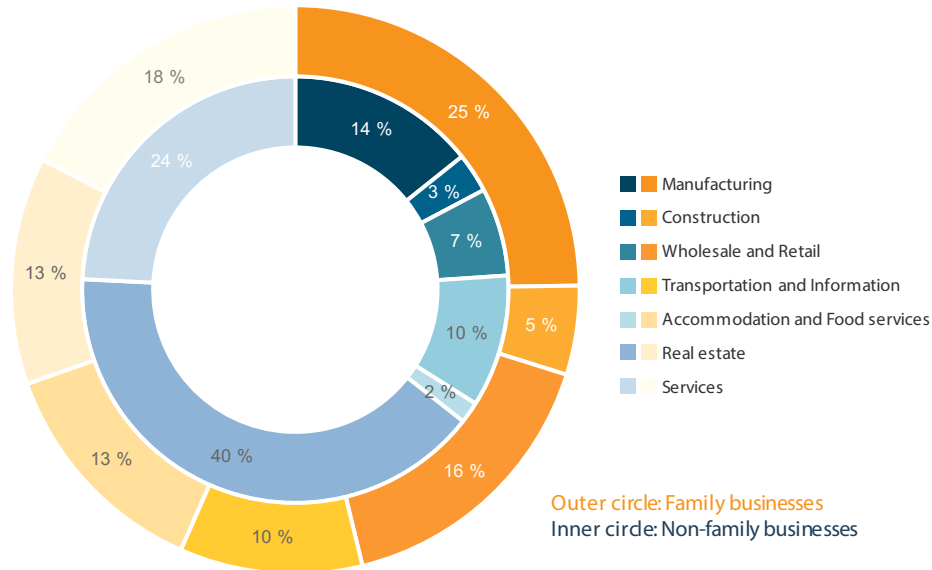


Chart 11. Distribution of large-sized family businesses and non-family businesses by Industry. Source: Statistics Finland.

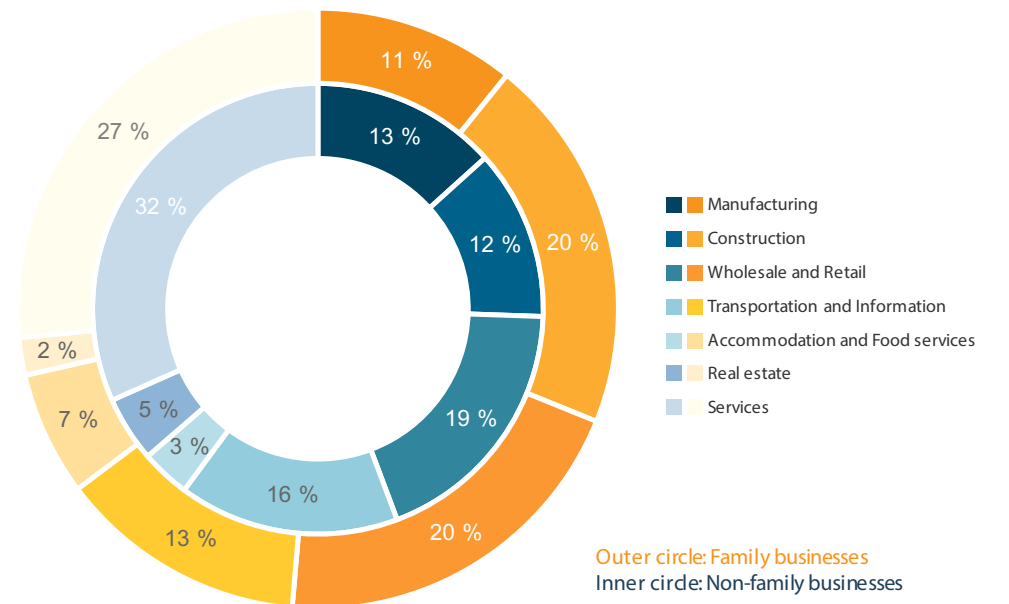


Chart 13. Distribution of small-sized family businesses by industry. Source: Statistics Finland.

It is also most likely that, in many areas, family businesses are the major employers within the region. Their contribution to number of personnel by region is shown in Chart 16. The share of total number of personnel by the business sector exceeds 55 % in Päijät-Häme (69 %), Pohjois-Karjala (59 %), Pohjois-Savo (59 %) and Keski-Pohjanmaa (58 %), Pohjois-Pohjanmaa (58 %). Family businesses employ below 45 % in Etelä-Karjala (44 %), Satakunta (44 %), Ahvenanmaa (42 %), Keski-Suomi (41 %) and Uusimaa (32 %). The numbers employed by family businesses is highest in Uusimaa (180 815) and lowest in Ahvenanmaa (3 078).

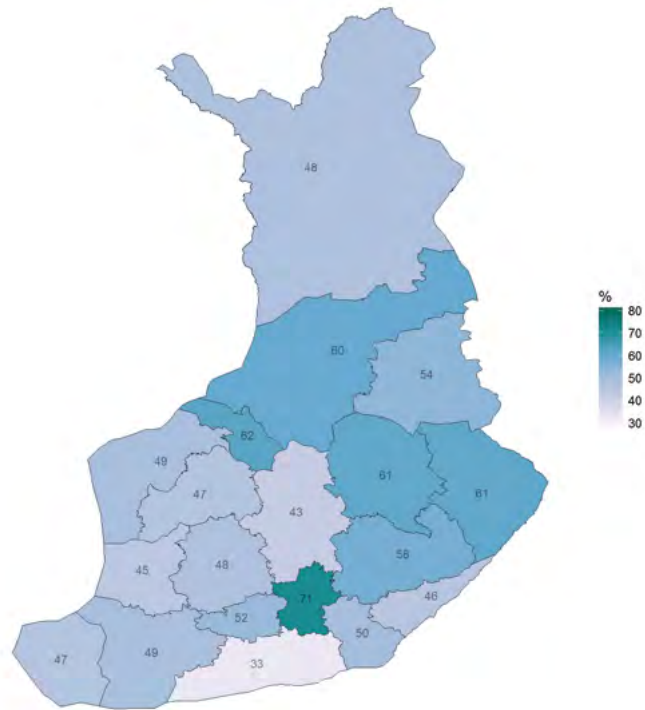


Chart 16. Family businesses' share of number of personnel by region. Source: Statistics Finland.

Regional differences are in all likelihood due to different industry structures and the size of the business population.

In Chart 17 two relative indicators are combined which show family businesses' share of companies versus their share of number of personnel. Unsurprisingly, this chart depicts a positive correlation between the two with a tight distribution. Again, it clearly shows that family businesses dominate the group of smaller companies as number of personnel is always lower than the percentage of family companies in the region.

In many areas, family businesses are the major employers within the region.

Ahvenanmaa and Kainuu appear to be outliers in this Chart. In the case of Ahvenanmaa, the correlation is 85 % of companies are family owned, while the share of number of personnel is at 42 %, which is due to a large-sized local non-family shipping company in addition to a bank, which together generate nearly half of the region's number of personnel. In the case of Kainuu, the share of family companies is 64 %, the lowest among the different regions in Finland. However, the share of number of personnel of family businesses is still relatively high and above national average at 52 %.

The absolute numbers of businesses and personnel by region are presented in Appendix 6.

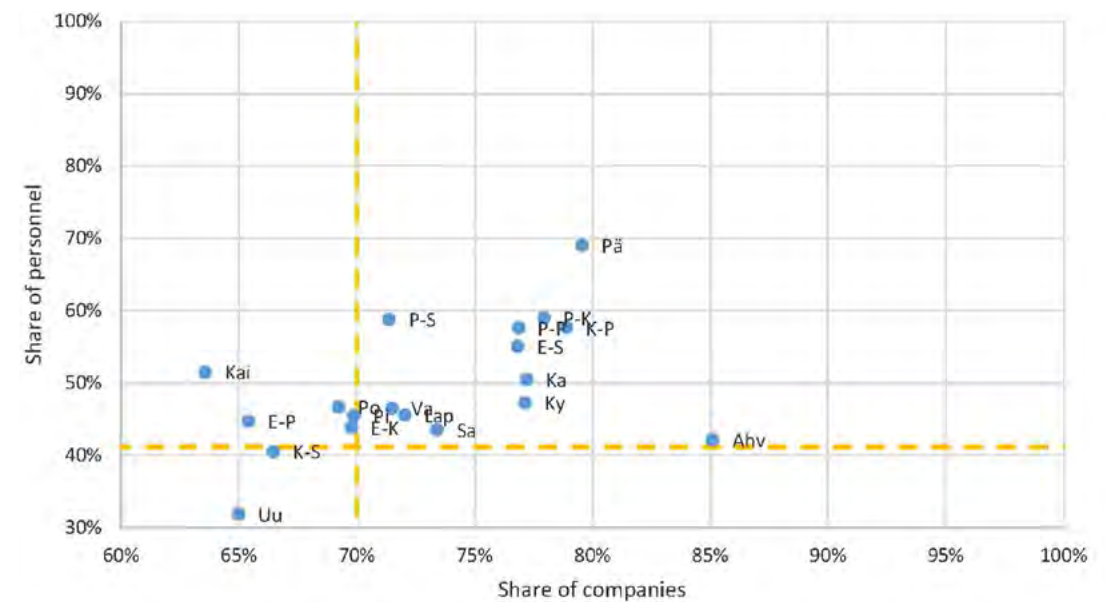


Chart 17. Family businesses' share of companies and number of personnel (averages are shown in yellow dashed line. Source: Statistics Finland.

Label coding:

LABEL	REGION	LABEL	REGION
Uu	Uusimaa	P-K	Pohjois-Karjala
Va	Varsinais-Suomi	K-S	Keski-Suomi
Sa	Satakunta	E-P	Etelä-Pohjanmaa
Ka	Kanta-Häme	Po	Pohjanmaa
Pi	Pirkanmaa	K-P	Keski-Pohjanmaa
Pä	Päijät-Häme	P-P	Pohjois-Pohjanmaa
Ky	Kymenlaakso	Kai	Kainuu
E-K	Etelä-Karjala	Lap	Lappi
E-S	Etelä-Savo	Ahv	Ahvenanmaa
P-S	Pohjois-Savo		

8. Financial performance of family businesses

While the economic contribution of the family businesses is of great interest to policy makers, one should never limit analysis to only these indicators. A company that is significant in the economy in terms of value added and employment and at the same time profitable, as measured in return on investment, deserves to be studied in order to understand what explains the combination of these qualities.

It should be noted that it may be preferable to conduct such analysis over a longer time period in order to control for cyclical variation. However, this study has only been able to compile data for the financial year 2014. Due to this, this section only serves as an initial look at company performance. No extensive conclusions can be drawn from the differences between different models of ownership¹⁶.

Financial performance is described by profitability (Net profit-%)¹⁷ and Return on Investment¹⁸ (ROI), indebtedness (Equity ratio¹⁹) and productivity²⁰ (Turnover to employee²¹). The average financial performance figures are studied by utilizing three different group sizes. Furthermore, four ownership classes are analyzed: 1. Family business (First generation), 2. Family business (Subsequent generation), 3. Non-family business (Domestic), 4. Foreign business.

An interesting pattern appears to emerge from the Charts 18 and 19. Family businesses appear to dominate in all indicators for large-sized companies in terms of Net profit-% and Return on Investment. For Net profit-%, domestic non-family owned companies dominate in the case of small-sized companies, while both domestic and foreign medium-sized companies outperform family companies (Chart 18).

Foreign owned medium-sized companies also dominate the medium-sized family businesses in the case of Return on Investment (Chart 19). However, family businesses outperform in every class size when compared to domestic non-family businesses. First generation family businesses perform slightly better compared to subsequent generation family businesses. These results are consistent with previous research (see Kansikas, J., Tourunen, K. and Laaksonen, S. 2011).

Family businesses outperform in every class size when compared to domestic non-family businesses.

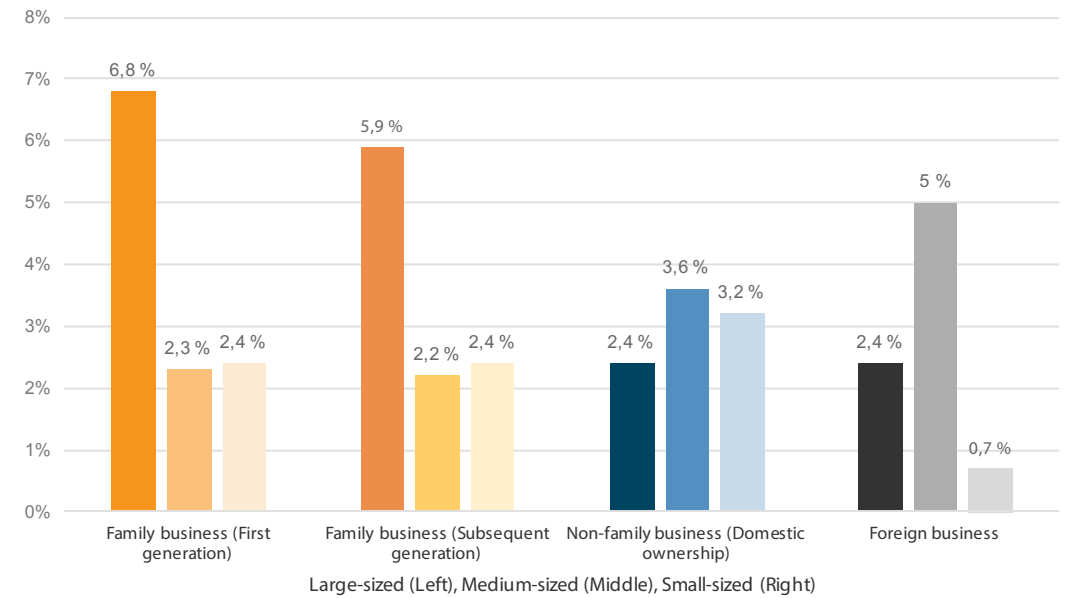


Chart 18. Net profit-% by ownership structure and size. Source: Statistics Finland.

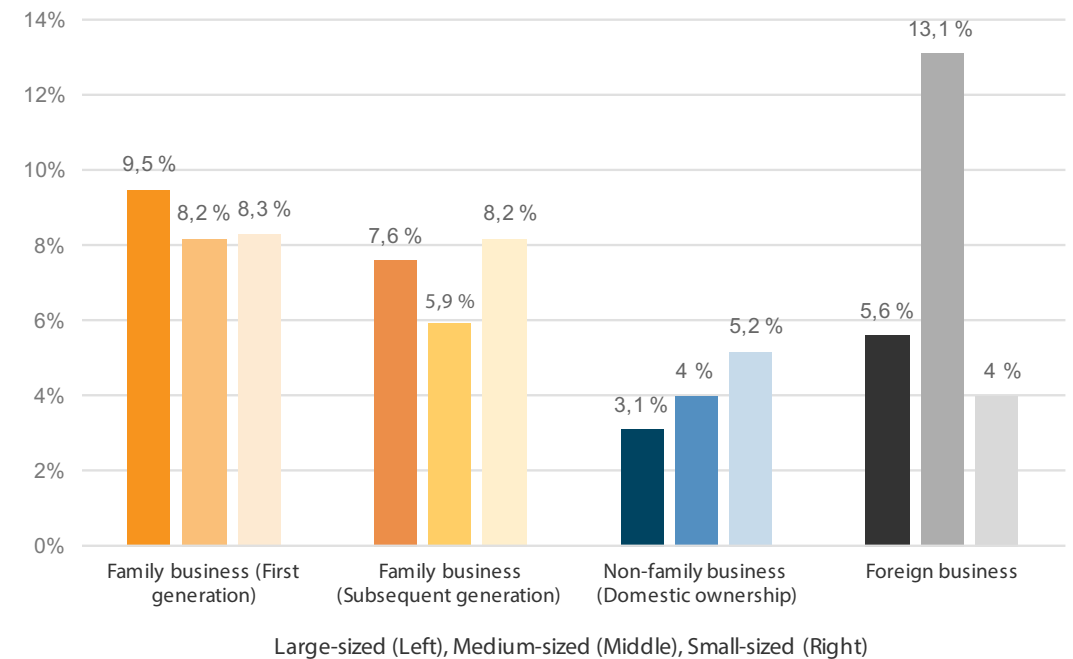


Chart 19. Return on investment by ownership structure and size. Source: Statistics Finland.

¹⁶ In the study, we didn't calculate confidence intervals so the results should be interpreted with caution. We aim to calculate these in the future studies.

¹⁷ Formula for the Net profit-% is: Net earnings/Turnover. Net profit-% measures the relative proportions of profits to the turnover generated, thus it measures the profitability of a company.

¹⁸ Formula for the Return on Investment is: EBIT/Capital Invested. Return on investment measures the relative proportion of profits to the assets invested (excl. non-interest debt), thus it measures the profitability of a company.

¹⁹ Formula for the Equity ratio is: Total equity/Total assets. The Equity ratio measures the relative proportion of the total assets that are financed by stockholders, thus it measures the financial solidity of a company.

²⁰ Measuring productivity is controversial in this way (see, for example, Maliranta 2006). We aim to assess the problems and to take a deeper approach in the future studies.

²¹ Formula for the Turnover to employee is: Turnover/Average number of personnel. Turnover to employee measures the amount of revenue generated by an employee.

In Chart 20, the average equity ratios for different companies of different sizes are indicated. It appears that subsequent generation family businesses have higher equity ratios compared to others. Large-sized first generation family businesses have a lower equity ratio compared to large-sized non-family businesses, whereas small-sized first generation family businesses have a higher equity ratio in comparison to small-sized non-family businesses.

Subsequent generation family businesses have higher equity ratios compared to others.

Intuitively, this seems to be a plausible result. First generation family businesses have to build a stronger balance sheet through retained earnings. Subsequent generations benefit from this strong balance sheet and are thus in a better position to withstand economic shocks, thus maintaining ownership within the family. In cases of financial trouble or an unbearable tax burden, and the company is sold, it often ceases to be a family company. Furthermore, since family owners wish to maintain their ownership within the family, it is likely that they rely less on debt financing than other owners in order to avoid financial vulnerability.

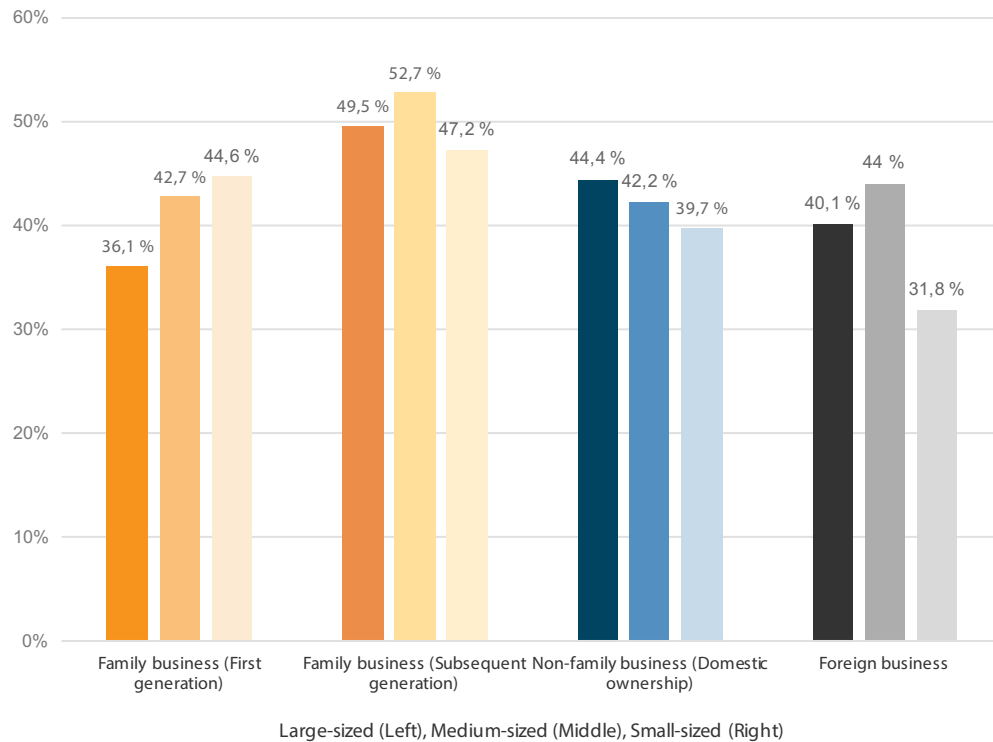


Chart 20. Equity ratio by ownership structure and size. Source: Statistics Finland.

The productivity of different size businesses as measured by turnover per number of personnel is covered in Chart 21. Non-family businesses have the highest productivity in the large-size category, while foreign businesses dominate in the other class sizes. The result is that family companies tend to generate less revenue per employee is concluded in a Spanish family business study (Family businesses in Spain (2015)). In that study, the authors conclude that the lower productivity is partially explained by the family businesses' greater commitment to employment. They also find that the productivity differential between family and non-family businesses is reduced as company size (measured in employees) increases.

Family companies tend to generate less revenue per employee.

It is hoped that future studies will answer the question exactly what causes productivity differences.

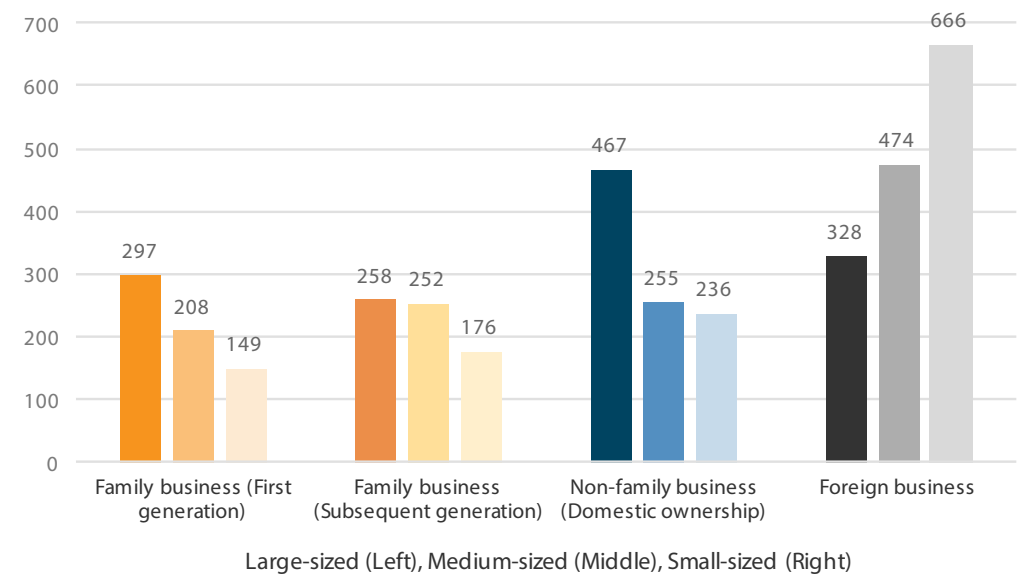


Chart 21. Turnover to number of personnel (1 000 €) by ownership structure and size. Source: Statistics Finland.

Family businesses represent 30 % of total business sector value added and 37 % of business sector number of personnel.

9. Conclusions

This study is an attempt to shed light on the significance of Finnish family businesses within the economy. According to the survey of previous studies, there are a number of shortcomings in current research, particularly with regard to the quality of data. The lack of the compatibility of definitions is among the greatest obstacles to conduct cross-country comparisons. The COSME programme is a significant starting point to develop common concepts and methods related to family business analysis across Europe. This would eventually lead to greater and more significant knowledge related to country-specific differences and would allow researchers to answer questions regarding whether type of ownership matters and how it differs depending on various policy environments.

Family ownership is a widely distributed model globally. This means that Finland is no different than the rest of the world. Family companies can be found everywhere in Finland and, in many regions, are the major source of employment. Of the Finnish non-financial businesses, 22 % can be identified as family businesses. Family businesses represent 20 % of large-sized companies, 38 % of medium-sized companies and 75 % of small-sized companies. Family business industry composition differs from non-family companies. Therefore, more analysis is required to understand what explains these differences.

Family businesses contribute substantially to employment and GDP in Finland, as they represent 30 % of total business sector value added and 37 % of business sector number of personnel. In terms of propensity to invest (as measured by net investments to turnover) they do not differ from other companies in any significant way. Emphasis on strong balance sheets, that provide stability through economic cycles, may be an explanation as to why emphasis has been less oriented towards aggressive growth. The next step is to enlarge the data base, across time and types of companies, that would thereby enable a more sophisticated assessment of potential growth obstacles for family businesses.

In terms of profitability, for the year 2014, large-sized family companies are on average more profitable in terms of Net profit-% and Return on Investment. For Net profit-%, domestic non-family owned companies tend to dominate. In the case of small-sized companies both domestic and foreign medium-sized companies outperform family companies. In terms of Return on Investment, family businesses perform better in every size class when compared to domestic non-family businesses. It is interesting to note that family companies generated less turnover per person employed in 2014. At the moment, however, it is not possible to pinpoint which factors are responsible.

Because of the previous data collection amassed by Dr. Tourunen (2009), and data collected for this study, the next step is to build a more comprehensive data base covering the decade, 2004-2014, consisting of financial statistics for medium and large-sized family companies as well as non-family companies. This data base would hopefully provide answers to some of the pressing questions regarding impact on GDP, employment, obstacles for growth as well as financial stability implications of the different ownership models throughout a business cycle. The hypothesis is that family ownership is countercyclical, that it smooths the business cycle. Furthermore, the goal is to improve the richness of the data by supplementing it with detailed family influence factors such as CEO and governance variables and also by a deeper examination of the "founder effect". This would, in turn, provide an understanding, and hopefully tools, to improve the family ownership model as well. Family businesses contribute substantially to employment and GDP in Finland.

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Appendix

APPENDIX 1.

	Total	Family businesses
Self-employed	185 051	
Small-sized company	78 741	59 246
Medium-sized company	4 780	1 824
Large-sized company	5 430	1 106
Total	274 002	62 176

Number of different businesses. Source: Statistics Finland

APPENDIX 2.

The data building by Dr. Tourunen

The data in this study is based upon Finnish structural business and financial statement statistics of the year 2014 (abbreviated here to SBFS). Statistics Finland produces SBFS statistics and its description is found on https://www.stat.fi/til/yrti/meta_en.html. SBFS itself is based Register of Enterprises and Establishments.

Family business identification process concentrates on SBFS firms employing 50 or more persons i.e. middle-sized and large-sized businesses on population level. Small-sized firms employing at least 1 but less than 50 persons are examined based on stratified random sample. Stratification include 8 branches of industry and 4 size (personnel) groups. Firms' legal forms comprise mainly Limited companies, General and Limited Partnerships. Businesses representing the legal form sole proprietorship and firms employing less than one person on SBFS are examined -on contribution analysis- as either family or non-family businesses without family ownership identification²².

The observation unit of family business identification phase was an enterprise group (parent company) or an independent firm when the firm did not belong to an enterprise group. Identification of family ownership and governance status of the firm was completed in two phases. First potential family firms were drawn from the population of middle-sized and large-sized firms excluding for example public utilities, savings banks, insurance companies and foreign owned companies. On this pre-screening phase, we also excluded firms that belong to a certain ownership category or branch of industry where domestic family firms cannot be represented. These data i.e. pre-screened middle-sized and large-sized firms contain 1167 enterprise groups (6509 firms incl. affiliates) and 760 independent firms. However, all excluded companies are included in research data as non-family businesses. Pre-screening was also made among the population of small-sized firms similarly. This resulted in 74807 potential small-sized family firms from which a stratified random sample of 2085 firms was drawn. Altogether we needed to identify family ownership status of 4012 potential family firms.

Next family ownership and governance status was examined firm by firm among the population of potential medium-sized and large-sized family firms and sample of potential small-sized family firms. Ownership recognition among potential family firms was finalized by scrutinizing these firms' and other web-sites and directing phone call or postal inquiry to the CEO or other top management representative of the potential family firm up to the family business definition provided by EU. Additionally, precise ownership status of the identified family firm was inquired and categorized as to first generation or second or elder generation family firm. Response rates were over 90 %. Observing careful the distribution of branches of industry of identified family firms we selected 8 branches for the financial performance comparison study. As noted above this helped us to design stratification of the sample of small-sized firms. Selected branches cover all FBs and exclude only few non-FBs. Family business contribution analysis includes all SBFS firms.

Finally, three-dimensional 'family ownership variable' was linked with the income statement and balance sheet statistics of firms set forth in this study. It is noteworthy to mention that enterprise group structure of firms was opened because SBFS does not include their complete income statement and balance sheet data. This is a limitation of this study though.

Details Regarding the sampling of small companies

The sampling frame of small-sized companies covers the majority (74 807) of Finnish companies employing less than 50 people. Before the sampling, the sampling frame is divided into 32 stratifications based on company size (4 levels) and industry (8 levels). The sampling fraction used is approximately 0.0214 (1600/74807) but a minimum of 40 companies is included in each stratification. The sample is a representative sample. The number of companies in the sampling frame are presented in the first table, whereas the number of companies in the samples are presented in the second table.

Sector	Companies (total)	Personnel size			
		1-4	5-9	10-19	20-49
Sector (total)	74 807	48 452	14 890	7 612	3 853
A	2 242	1 519	471	193	59
B+C+D	8 218	4 303	1 797	1 267	851
F	13 534	8 508	2 828	1 487	711
G	14 280	9 442	2 947	1 291	600
I	4 403	2 598	1 128	480	197
H+J	9 946	6 463	1 959	1 006	518
K+L	2 519	1 950	355	160	54
M+N+P+Q+R+S	19 665	13 669	3 405	1 728	863

The number of companies in the sampling frame. Source: Statistics Finland.

²² These businesses are referred as self-employed in the study.

Sector	Companies (total)	Personnel size			
		1-4	5-9	10-19	20-49
Sector (total)	2085	1046	399	320	320
A	160	40	40	40	40
B+C+D	212	92	40	40	40
F	323	182	61	40	40
G	345	202	63	40	40
I	176	56	40	40	40
H+J	261	139	42	40	40
K+L	162	42	40	40	40
M+N+P+Q+R+S	446	293	73	40	40

The number of companies in the samples. Source. Statistics Finland.

APPENDIX 3

The financial figures in the data

Turnover

Number of staff employed

Staff costs

Net capital expenditure

Value added

Earnings before Interest, Taxes, Depreciation and Amortization/Turnover-%

Net earnings + Depreciation and Amortization/Turnover-%

Net earnings/Turnover-%

Net earnings +- Interest +- Taxes /Turnover-%

Net earnings +- Extraordinary income and expenses/Turnover-%

Return on Investment-%

Return on Equity-%

Return on Assets-%

Equity ratio-%

Debt to Turnover ratio-%

Quick ratio-%

APPENDIX 4

Details regarding industries used in the study

Industry classification used in the study is based on standard industrial classification (TOL 2008). Industries in the study are formed from TOL 2008 industries as follows:

Manufacturing: Mining and quarrying (B), Manufacturing (C), Electricity, gas, steam and air conditioning supply (D)

Construction: Construction (F)

Wholesale and retail; Wholesale and retail trade; repair of motor vehicles and motorcycles (G)

Transportation and information: Transportation and storage (H), Information and communication (J)

Accommodation and food services: Accommodation and food service activities (I)

Real estate: Real estate activities (L)

Services: Professional, scientific and technical activities, Administrative and support service activities, Education, Human health and social work activities, Arts, entertainment and recreation, Other service activities (M+N+P+Q+R+S)

A	Agriculture, forestry and fishing
B	Mining and quarrying
C	Manufacturing
D	Electricity, gas, steam and air conditioning supply
E	Water supply; sewerage, waste management and remediation activities
F	Construction
G	Wholesale and retail trade; repair of motor vehicles and motorcycles
H	Transportation and storage
I	Accommodation and food service activities
J	Information and communication
K	Financial and insurance activities
L	Real estate activities
M	Professional, scientific and technical activities
N	Administrative and support service activities
O	Public administration and defence; compulsory social security
P	Education
Q	Human health and social work activities
R	Arts, entertainment and recreation
S	Other service activities

Industry coding TOL 2008. Source. Statistics Finland

APPENDIX 5

	Total	Family businesses	Family businesses + Self-employed
GVA	176 877 000	27 654 180	34 790 626
Business sector value added	92 338 309	27 654 180	34 790 626
Business sector number of personnel	1 331	498	621
Business sector turnover	385 469 602	95 645 545	115 141 393
Business sector net investment	11 738 027	2 556 512	3 879 815

Values for GVA, Business sector value added, employment, turnover and net investment by Total, Family businesses and Family businesses + Self-employed (All values are divided by 1000). Source: Statistics Finland.

APPENDIX 6

Region	Number of businesses	Number of personnel	Number of family businesses	Number of personnel in family businesses
Uusimaa	33 442	566 864	21 730	180 815
Varsinais-Suomi	9 022	90 463	6 449	42 087
Satakunta	2 681	45 758	1 968	19 927
Kanta-Häme	3 202	35 703	2 472	18 017
Pirkanmaa	7 433	92 866	5 194	42 227
Päijät-Häme	3 721	38 764	2 961	26 769
Kymenlaakso	2 629	27 347	2 028	12 937
Etelä-Karjala	1 720	24 785	1 200	10 864
Etelä-Savo	2 541	21 350	1 952	11 758
Pohjois-Savo	3 340	32 064	2 384	18 855
Pohjois-Karjala	2 281	22 657	1 778	13 365
Keski-Suomi	3 134	39 114	2 083	15 861
Etelä-Pohjanmaa	3 107	36 331	2 032	16 250
Pohjanmaa	2 877	34 444	1 992	16 076
Keski-Pohjanmaa	1 048	11 116	827	6 409
Pohjois-Pohjanmaa	5 512	63 563	4 237	36 618
Kainuu	1 032	9 764	656	5 029
Lappi	2 278	26 528	1 641	12 092
Ahvenanmaa	772	7 306	657	3 078

The numbers of businesses and personnel by region.
Source: Statistics Finland.



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