WORLD FEDERATION OF EXCHANGES

Family Firms and Listing: Opportunities for Public Capital Markets

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Executive Summary

Many businesses around the world are family firms. While they share many attributes with traditional companies, they also have unique features that impact how they approach the running of their business and associated financing decisions. Understanding these is therefore important for exchange operators who wish to attract more family firms to their markets.

This report (relying on desktop research, interviews and a survey of 50 listed and 76 unlisted family firms from around the world) therefore looks at:

- the specific characteristics of family firms;
- the impact of these on the management of the firm; and
- specific opportunities and challenges for family firms when considering public equity as a source of funding.

We find that family firms in our sample have the following characteristics:

- for family firms the business is more than an investment;
- family firms have a long-term strategic outlook;
- family owners/managers are emotionally attached to the company;
- family values shape the organisation; and
- family firms perceive themselves as such and have an affinity for other family firms.

These characteristics have the following consequences for the management of the firm:

- family firms are not motivated solely by a desire to maximise profit for shareholders (their need to provide for the family over the long-term may make them more conservative than other firms – this can be both positive and negative); and
- family firms might experience corporate governance challenges – at least as perceived by outsiders.

In relation to use of finance (particularly equity markets), our research findings also suggest that:

- family firms tend to favour internal or traditional resources of finance;
- unlisted family companies are concerned that listing could result in a disconnect between family values from business values, hamper the long-term outlook of the company and worsen the cooperation among family members; but
- these concerns seem not to be borne out by the experience of listed family firms.

The report concludes with a set of recommendations for market operators in jurisdictions where there are large numbers of viable (for listing) family firms. In particular, to attract family firms to list, stock exchanges should:

- develop a family business competence, where the exchange is able to demonstrate an understanding of the unique attributes of family firms and their specific concerns;
- create opportunities for family firm engagement, to bring together listed and unlisted family firms;
- showcase family firms, emphasising their positive experience and performance. This might include the creation of a dedicated index; and
- assess opportunities to address concerns about listing, through for example, the use of structures that allow firms to list while maintaining control (subject, of course, to requisite corporate governance and investor protection concerns).

Introduction

Family firms dominate the business landscape across both developed and developing markets. They are major contributors to both employment and gross domestic product, accounting for over 50% of both of these in many markets, and range from micro-enterprises to some of the largest listed companies in the world. While these businesses share many of the same qualities as more traditional companies, they also have unique attributes and specific characteristics that impact the way they approach the management and growth of the business. In a family firm, professional life, work relations and business decisions coexist with emotional attachment, informal bonds and personal choices. The integration of family and business can be both a source of strategic advantage, with well-run family firms outperforming other businesses,[1] but also potentially the source of inertia and governance-related challenges.

While the peculiar characteristics of family businesses are likely to influence how they think about listing, these companies will also be influenced by economic, financial and managerial considerations that have little or nothing to do with being owned and managed by a family. Thus, one may find a founder-owned and managed firm, characterised by a strong paternalistic outlook and distrust of outsiders, would probably be reluctant to list on a stock exchange. At the other end, a third-generation owned and professionally managed company would consider going public, should listing be needed to sustain the long-term growth of their company.

Given the prevalence of family firms across markets and the importance of their economic contribution there is value, particularly for market operators, in understanding the impact of 'family-ness' on the listings decision and in identifying possible mechanisms to enhance the attractiveness of equity markets for these firms.

This report uses a combination of desk-based research, interviews and surveys to examine the attributes that make family firms a discrete category of business, the impact of these on the management of the firm and the potential implications for firms' use of public equity markets. The report concludes with recommendations around enhancing the attractiveness of markets for family businesses.

Box 1: Survey overview

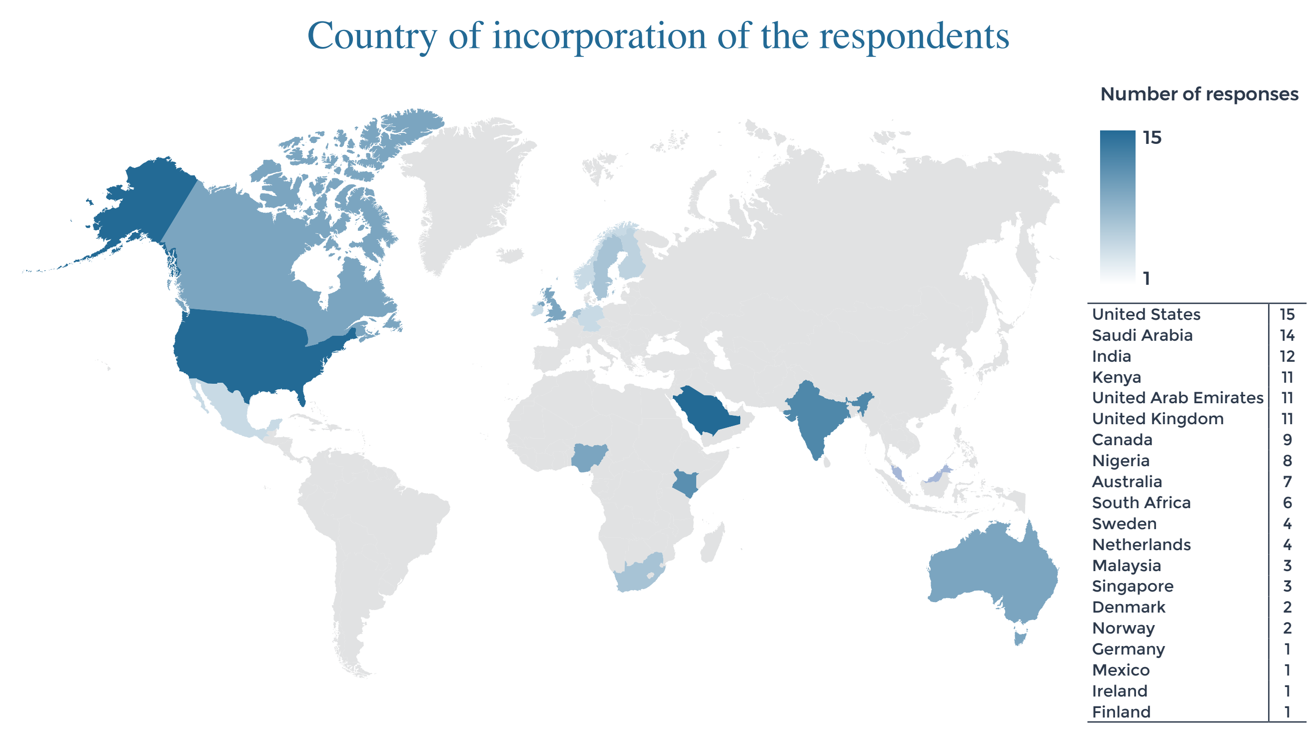
As part of this research we surveyed 50 listed and 76 unlisted family firms from across the world (see Figure 1). To be eligible for the survey, firms had:

- to be majority-owned by family members;
- to define themselves as family firms;
- to be of reasonable size (more than 25 employees in emerging markets and more than 50 employees in developed markets);
- to be located in jurisdictions where it was possible to conduct the survey in English.

The survey was designed to identify the specific characteristics of family firms and to explore the implications of these attributes both on family firm behaviour and the decision to list (or otherwise). The survey, conducted as a Computer Assisted Telephone Interview, included the following types of questions:

- **rating questions**, used to make respondents rate their level of agreement with certain statements, or the importance of certain features. Questions used a scale from 1 to 5 to allow respondents to take a neutral position if they did not feel strongly about a statement. Ratings questions related to listing generally included a request to provide additional qualitative information on the response selected[2];

Figure 1: Geographic dispersion of survey respondents



- **multiple choice questions**, used to make respondents select options among factors;
- **mutually exclusive questions**, used to make respondents choose among factors; and
- **open-ended questions**, used to collect qualitative data when we felt that respondents could give more meaningful information if left free to state their opinion.[3]

Survey respondents – an overview

The average company in our sample is sizable: as at end of 2016, it had more than 10,000 employees and generated revenues of more than US$3.6 billion. However, our survey sample also includes a fair number of small and medium enterprises (SMEs), with forty percent of the companies (51 out of 126) having fewer than 500 employees. On average, the listed companies in our sample are substantially larger than the unlisted ones, both in terms of number of employees (averaging over 16,000 employees for listed companies, as opposed to 6,000 for unlisted companies) and revenues (more than US$5.2 billion for listed companies, versus just over US$2.6 billion for unlisted companies).

Table 1: Summary statistics of survey respondents

	Mean		
	Whole sample	Unlisted	Listed
Number of employees	10,101	6,039	16,277
Revenues (USD)	3,675,125,721	2,628,570,073	5,265,890,306
Years from establ.	44	44	45
Years from listing	-	-	21
Number of companies	126	76	50

Number of employees and revenues as at December 2016. Revenues in USD, full numbers. Years from listing figures based on listed companies only (50 observations).

The family business landscape

• Defining family firms

Part of the challenge of conducting research into family business (and estimating the size and prevalence of family firms) is that there is currently no standard definition of a 'family firm'. There is a diversity of views about what factors should be considered to determine whether a firm is a family firm and what thresholds should be used for these factors. Moreover, there is also a debate about whether firms, rather than being viewed as either a family firm or not, should instead be viewed along some continuum of 'family-ness'.[4] This notwithstanding, there appears to be some consensus that a company is a family firm if the founding family exerts a meaningful level of control over the business.[5] This is expressed in a variety of ways, though typically includes elements of:

I. **ownership**: the founding family has a reasonable ownership stake in the company. While not all definitions require that the family exerts control through a majority stake, participation in the business should in general be relevant (rarely less than 25%);

II. **management**: the controlling family is involved in the management of the company, generally through family members holding senior management or key decision-making roles within the firm.

Finally, many studies will also include an element of self-perception, namely a family firm is one in which the business sees and identifies itself as such.

• Prevalence of family firms

The actual size of the family business sector is very hard to quantify, due both to the lack of an agreed definition and reliable statistics (particularly on unlisted family firms).[6] A 2000 study on the contribution of family firms to the real economy in the United States concluded that there were 10.8 million family businesses, accounting for 39% of tax returns, 59% of GDP and 58% of the workforce (77 million individuals).[7] These figures are close to EY estimates for North America (US and Canada), according to which family firms employed 57% of the North American workforce, and generated 57% of the US GDP and 60% of the Canadian GDP in 2013.[8] In Europe, the European Commission determined in 2008 that family firms represented between 70% and 80% of all businesses, and accounted for 40% to 50% of the employment (European Commission, 2008). KPMG estimated in 2015 that family businesses accounted for 70% of global GDP and over 50% of all jobs.[9]

While many family businesses would also be categorised as SMEs, these companies are also among the largest firms in the world. The Global Family Business Index (which defines a privately held family business as one where the family controls more than 50% of the voting rights, and a publicly listed family business as one where the family holds at least 32% of the voting rights) is comprised of the 500 largest family businesses in the world. According to the 2015 figures, these 500 firms generated nearly US$7 trillion in revenues and employed over 24 million people. Nearly 45% of the companies in the index are incorporated in Europe and accounted for an estimated 14.5% of the European GDP in 2015.[10] Similarly, a 2013 McKinsey study looking at companies with revenues in excess of US$1 billion estimates that 80 to 90% of these firms in Southeast Asia were family owned, 70 to 80% in India and Latin America, and 60 to 70% in the Middle East.[11]

Despite the fact that listing may pose certain challenges for family firms, they make up many of the public listed companies worldwide. Just under half the companies in the Global Family Business Index referred to above are public companies. A study focusing on the US found that 37% of listed Fortune 500 firms were *controlled* by families during the 1994-2000 period, while another concluded that families *owned* nearly 18% of the companies in the S&P 500 during the 1990s.[12] [13] An academic study focusing on western European companies estimated that as at 1999, families controlled 44% of the firms in the sample, and had a family member in a senior management position in 43% of the cases.[14] Another study finds comparable figures for a sample of East Asian countries: as at 1998, families controlled 53% of non-financial firms in the sample, and had a family member in a senior management position in 57% of the cases, with peaks at 85% in Indonesia and Malaysia.[15] [16]

What makes a family firm unique?[I]

Family firms are a discrete category of business[17], with specific characteristics that impact the way they take decisions, perceive their activity and relate to their stakeholders and other companies. The research has identified several features that make family firms intrinsically different from other types of companies. For the purposes of this research, we identified five important attributes that strongly influence the way family businesses conduct themselves.

- ## The family business is more than just an investment

For the family owner/manager the company is not simply an investment, but also a source of income and professional realisation for current and future family generations.[18] Family owners/managers also extract significant non-financial benefits from owning and administering a family firm, such as the pleasure of owning and controlling a company that has their own name, or the benefit of influencing social events and/or the public opinion through their business.[19] The result is that family owners/managers (especially founders) place a premium on maintaining control over the company and having family members involved with the firm.[20]

This desire for control was evident among our survey respondents. Among unlisted companies, the family on average held 91% of the shares while among listed companies, the average family-shareholding was 67% (see **Table 2**). We also see evidence of the desire to include future generations in the firm. Firms overwhelmingly agreed with the proposition that *"The family expects future generations to participate in the business"* (83% for unlisted firms and 64% for listed firms – see **Figure 2**). Furthermore, only 12% of the firms in our sample were solely founder-owned, with over 80% owned by the founder and/or subsequent generations **(Figure 3)**.

Table 2: Family ownership, and generations of family owners

		Mean	Min	Max
Unlisted companies				
		Mean	Min	Max
Ownership share				
	Family	91%	51%	100%
	Non-family	9%	0%	49%
Generations of family owners				
	Founder(s)	90%	-	-
	Second generation	80%	-	-
	Third generation	20%	-	-
Number of companies		76		
Listed companies				
		Mean	Min	Max
Ownership share				
	Family	67%	51%	95%
	Non-family	33%	5%	49%
Generations of family owners				
	Founder(s)	70%	-	-
	Second generation	90%	-	-
	Third generation	20%	-	-
Number of companies		50		

Number of employees and revenues as at December 2016. Revenues in USD, full numbers. Years from listing figures based on listed companies only (50 observations).

I In Tables and Graphs, unless otherwise stated, statistics are calculated using whole sample of respondents (126 companies).

Figure 2: The family expects future generations to participate in the business

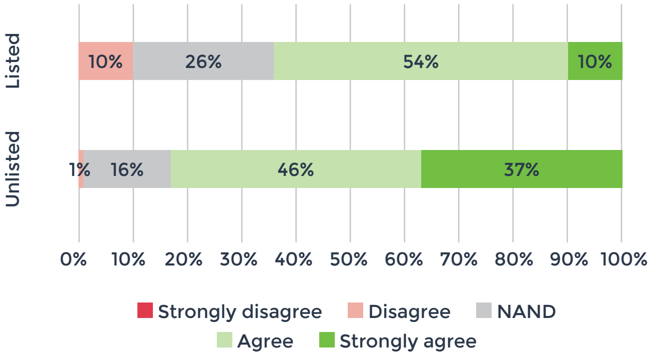
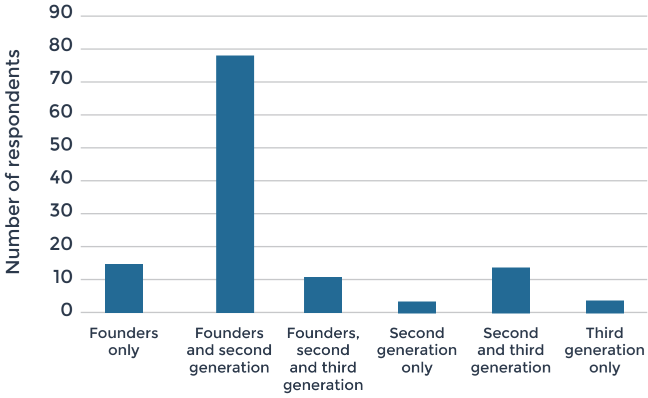


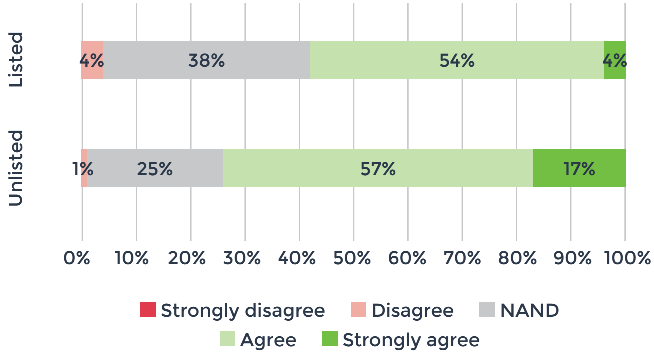
Figure 3: Generations of owners



• Family businesses have a long-term strategic outlook

Given the perception of the family firm as a source of economic stability and professional realisation for the family over generations, family owners/managers naturally prefer that the firm continues to exist beyond their own direct involvement with the firm.[21] They consequently adopt a long-term, multi-generational outlook for the company aimed at ensuring the continuation of the firm. This impacts how the firm is run, in both positive and negative ways. While this outlook was strongly prevalent among unlisted companies, it seems to persistent even among listed firms (see **Figure 4**). Nearly three-quarters of surveyed unlisted firms and nearly 60% of listed firms agreed or strongly agreed that *"Being a family business means the company has a long-term strategic outlook"*.

Figure 4: Being a family business means that the company has a long-term strategic outlook



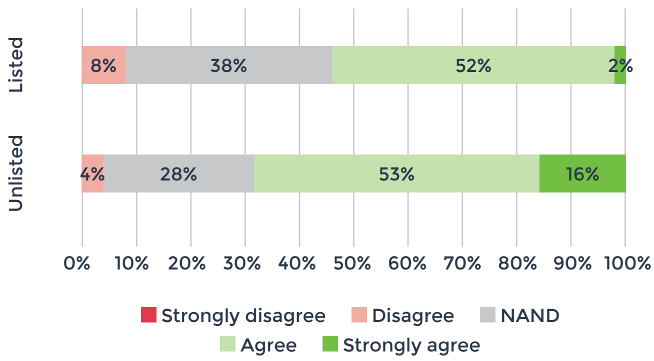
• Family owners/managers develop an emotional sense of belonging

In family firms, family members often develop a strong sense of belonging and attachment towards the family business.[22] This is particularly true for those who are directly involved in the firm's activities, but it also applies to family members who do not actively participate in the company but are personally affected by it. This sense of belonging generally develops when good economic results have a positive influence on family life and relations (and vice versa) over a period of time.[23] This is the result of the interrelationship between professional and personal life that naturally arises in family businesses, but it also reinforces this relationship. This emotional attachment towards the company moulds the way family owners/managers perceive and run the business: it might reinforce their reluctance to dilute control, induce them to be more risk averse or stimulate them to increase cohesion among family members when running the business.

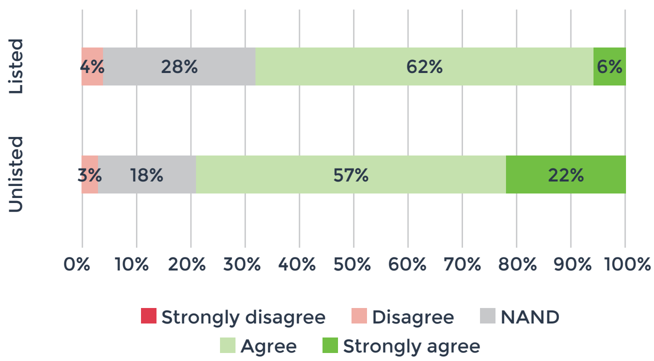
Over 50% of companies (both listed and unlisted) agreed *that "Family and business are intertwined in the company"* and that *"When family relations are healthy, the business also benefits"* (see **Figure 5**).

Figure 5: Family and business inter-connectedness

Family and business are intertwined in the company



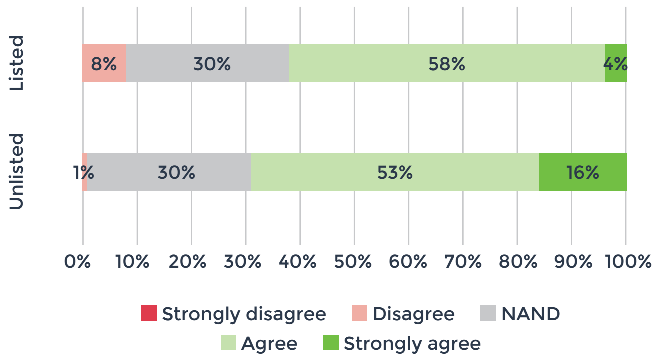
When family relations are healthy, the business also benefits



• Family values shape the organisation as a whole

The norms and values that underlie family conduct and relations come to strongly define the identity of the firm as a whole[24], extending to non-family relations inside (non-family employees) and outside (suppliers, finance providers, clients and the like) the company. Over 60% of both unlisted and listed firms in our survey agreed that the business and the family share the same values (see **Figure 6**). There is also some support for the proposition that one of the main features family firms look at when choosing a finance provider is whether their values match with those of the firm, and failing to understand the values that inspire the company is in many cases a deal breaker.[25]

Figure 6: The controlling family and the business share the same values



The extent of alignment with family values may impact on decisions about whether to hire a non-family employee or to take on a new client.

• Family firms identify themselves as such, and are sympathetic to each other

Finally, family firms identify themselves as such and seem to have a sense of affinity with other family businesses. In the above-mentioned KKR report, two case studies describe the peculiar situation of family businesses who diversified their main activity by professionally giving funding to other family firms. Not only were they motivated by a sense of solidarity towards other family firms, but they report that being family businesses themselves is a fundamental feature for the success of the business, as lender and borrower manage to better understand their reciprocal needs and therefore form a trustworthy relationship. This self-identification similarly has a pervasive effect on the way a family business is run and managed.

Consequences for management of the business

As mentioned, the peculiar attributes of family business have an influence on the way family firms are run. This is discussed in more detail below.

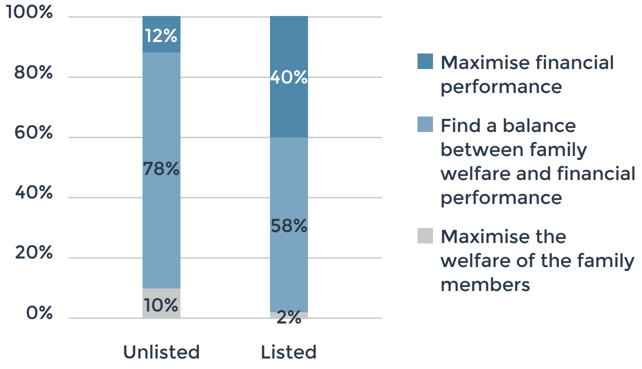
- ### Family firms may not be pure profit-maximisers

Because of their desire to satisfy family interests and maintain control of the firm, the family may manage the company in a way that deviates from traditional expectations of profit maximisation.[26] This can have both positive and negative consequences. Family owners/managers might overlook important short-run opportunities in their desire to plan for the longer-term, fail to invest in relevant projects because of their reluctance to take on external funding, or take less risk than entrepreneurial practice would dictate to ensure that the company will provide resources to future generations.[27] While this may limit the short-term growth opportunities of the film, it may also make the firm more resilient during times of economic downturn and/or ensure the longer-term survival of the firm[28] (one of the key objectives of family firms).

This need to balance family and firm was apparent among our survey respondents, though more strongly for unlisted firms than listed firms. While a majority of both unlisted and listed family firms said management tries to balance financial performance and family welfare (see **Figure 7**), 40% of listed companies said their management objective was to maximise financial performance, as compared with a mere 12% of unlisted companies. It is worth noting that a small number of respondents (10% of unlisted companies, and 2% of listed companies) said their primary objective was to maximise family welfare.

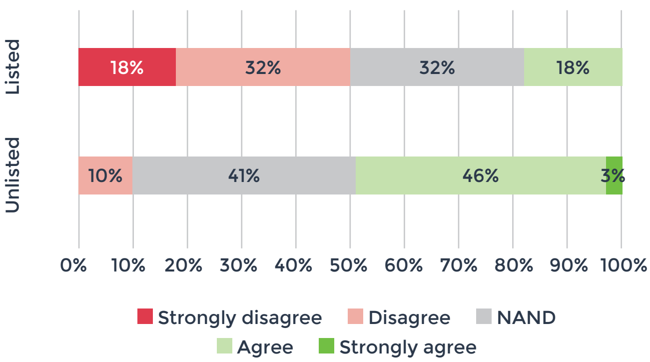
Figure 7: Balancing Family and Firm

"Which statement best describes the management style of your company?" The management tries to:



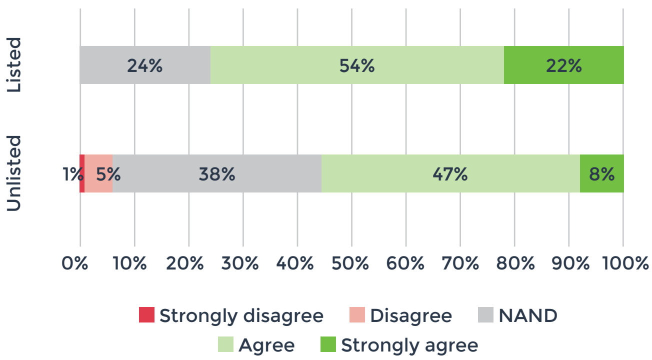
Survey responses further suggest that in some instances the desire to maintain control of the firm may outweigh more standard economic considerations, predominantly amongst unlisted companies. Forty nine percent of unlisted family firms agreed with the statement that *"The family would accept lower profits or slower growth to keep control"*. While 18% of listed firms also agreed with this proposition, a large proportion (50% of listed firms) disagreed with the statement (see **Figure 8**).

Figure 8: The family would accept lower profits or slower growth to keep control of the firm



Overall, however, family firms do seem to view the company not simply as an extension of the family but as a business in its own right. Again, this was much more the case for listed firms than unlisted firms, though even among unlisted firms over 50% agreed that *"business comes first and family second"* (see **Figure 9**).

Figure 9: In the company, business comes first, family second



• Family firms may have corporate governance challenges

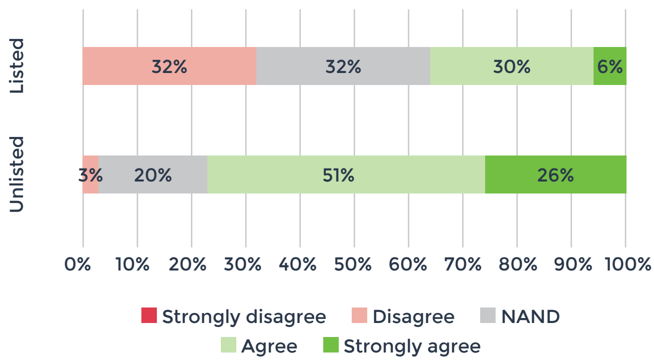
As noted, for the family, the company is more than an investment or a source of income: it is a way to provide economic stability to the family, a source of emotional attachment, and an expression of family values and routines. The inter-connectedness of the family and the firm may cause the firm owners and managers to use company resources simply to achieve family objectives or to privilege family members over outsiders.

This may create corporate governance challenges, for example when family owners/managers use the business to guarantee employment for family members who do not possess the required skills, or to ignore shirking or under-performance by family members.[29] However, it is also possible that a family member or employee might be the most suitable candidate[30] particularly when being part of the family provides a unique source of knowledge or insight.[31] Additionally, family control and informal family relations may provide a solution to weak investor protection, especially in countries with a more informal institutional framework.[32]

Amongst our surveyed companies, unlisted firms in particular tended to prefer hiring family members relative to non-family members (see **Figure 10**), with nearly 80% of firms agreeing with the proposition that when hiring, a family member would always be preferred to a non-family member. Listed firms were overall much more neutral and evenly dispersed on the issue.

Figure 10: Hiring of family members

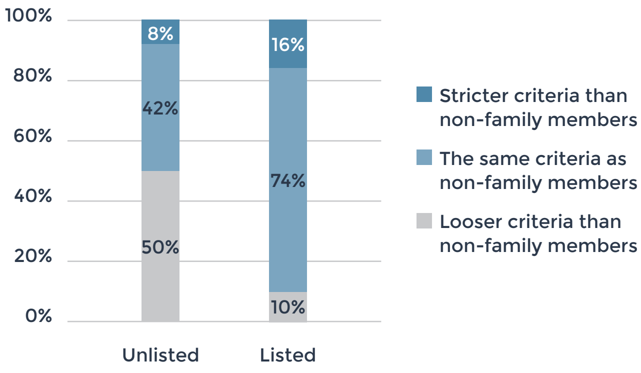
For a senior role in the company, between a family and a non-family candidate with the same skills, the family candidate would always be preferred



This, however, does not necessarily translate into favouring family members in hiring decisions. While unlisted firms showed some tendency to give special treatment to family members (see **Figure 11**), listed firms overwhelmingly claimed to treat family and non-family applicants to senior positions in the same way.[33]

Figure 11: Employment criteria

To be appointed to a senior role within the firm, family members are required to meet:



The desire to maintain control of the firm for the benefit of the family may also manifest in a lack of formal governance structures or approaches that do not strictly align with traditional notions of corporate governance.

As listing by definition imposes a certain governance framework on companies, deviations from what might be regarded as standard corporate governance practices were more apparent among unlisted companies than listed companies in our survey sample (see **Table 3**). The majority of unlisted companies did not have formal governance boards and when they did, these tended to be dominated by family members. The management teams of unlisted firms were also largely dominated by family members and in 90% of cases, the chief executive officer (CEO) of the firm was a family member. By contrast, all surveyed listed companies had a formal governance board and management team, which were, on average, dominated by non-family members. Similarly, in only 50% of listed companies was the CEO a family member.

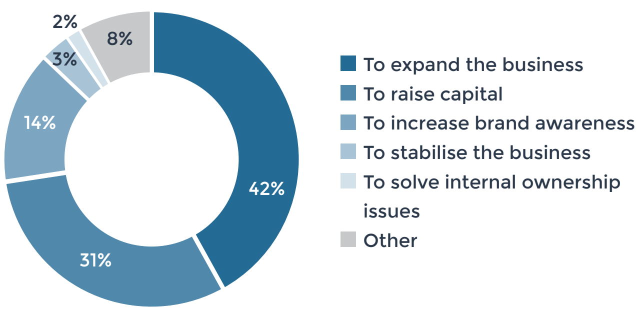
Table 3: Governance board and management team

	Unlisted companies		
	Mean	Min	Max
Governance board:			
Has a formal GB	40%	-	-
% non-family members	30%	0%	90%
Management team:			
Has a formal MT	80%	-	-
% non-family members	40%	0%	70%
Held by a family member:			
Chief executive officer	90%	-	-
Chief financial officer	40%	-	-
Chief operating officer	30%	-	-
Number of companies	76		
	Listed companies		
	Mean	Min	Max
Governance board:			
Has a formal GB	100%	-	-
% non-family members	60%	20%	90%
Management team:			
Has a formal MT	100%	-	-
% non-family members	70%	30%	80%
Held by a family member:			
Chief executive officer	50%	-	-
Chief financial officer	20%	-	-
Chief operating officer	20%	-	-
Number of companies	50		

Implications for use of public equity markets

Turning now to family firms and listing on stock exchanges, while family firms differ from other businesses in several ways, they are also motivated by many of the same entrepreneurial motivations as non-family businesses.[34] This creates an interesting dynamic, where family firms will have certain perspectives about listing and additional factors which they may weigh when deciding whether or not to list. Thus, as the family generally wants to retain control of the firm, they may be reluctant to bring in outside shareholders. The family may also resent the levels of external scrutiny and the need to comply with governance or other requirements that do not align with their own family-focused objectives. Tightly controlled, traditional family firms might perceive going public as a threat to the family's authority, and a challenge to their identity, values and independence. However, it is also clear that once firms have overcome these concerns to the point where they are considering a listing, their reasons for listing are very similar to those of other firms. Thus, family firms may list to obtain funding at cheaper terms, to fund long-run projects and enable growth, to increase their visibility and to affirm their competitive advantage[35] (see **Figure 12** for a summary of reasons why listed firms in our sample decided to list).

Figure 12: Reasons why listed family businesses decided to list



Based on 50 listed firms in our sample

Box 2: Exchange roundtable on family firms and use of markets

We convened a roundtable of WFE member exchange executives to explore their experience with family businesses.

Participants noted that while family firms made up a large percentage of businesses in their jurisdiction, there was some variation around the extent to which these firms were listed on the local exchange. Borsa Istanbul estimates that in Turkey, a large number of listed companies are also family-owned while in Canada, nearly a quarter of the companies in the TSX60 (index made up of the large companies listed on the exchange) are family firms (defined as being firms in which a family maintains voting control). Similarly, the Shenzhen Stock Exchange estimates nearly 60% of its listed companies are family firms.

By contrast, in Nigeria, Saudi Arabia and Israel, while family firms are a similarly large proportion of the total business environment, fewer family firms are listed on the local exchange. To the extent that family firms are listed, they tend to be the smaller companies in the region. In Saudi Arabia, for example, only 19% of the companies listed on the main market are family businesses, as compared to over 90% of the companies listed on their SME market. The Kazakhstan Stock Exchange has dealt with this by explicitly aligning SMEs and family firms in their listings strategy.

Exchange operators agreed that aspects of listing, such as meeting the requisite free-float requirements or corporate governance standards (such as the number of independent directors and/or the separation of the role of CEO and Chairman) may discourage listing of family firms. While no exchange adopted modified requirements specifically aimed at family businesses,[36] some exchanges noted that the existence, for example, of dual-share structures may make listing less challenging for family firms.

Most exchanges agreed that the listings decision was primarily motivated by a desire to access funds but suggested that listing was also seen by some firms as an opportunity to improve overall governance structures in the firm or to enable heirs who were not interested in the firm to exit.

• Family firms and use of finance

Overall, family firms tend to prefer financing choices that do not open them to external control. This translates into a preference for use of internally generated funds (such as retained earnings), and to prefer debt over equity finance to fund their operations and investments.[37]

Over the past three years the average family firm in our sample mostly relied on retained earnings (used by 70% of the respondents) and bank funding (50% of the respondents) with no major differences in their use between listed and unlisted companies (see **Table 4**). A small proportion of unlisted companies (20%) were backed up by either venture capital or private equity, while 10% of both listed and unlisted companies also made use of crowdfunding. Despite this large reliance on internal sources of finance, firms did not appear to be particularly constrained in their access to finance (see **Box 3** for more detail).

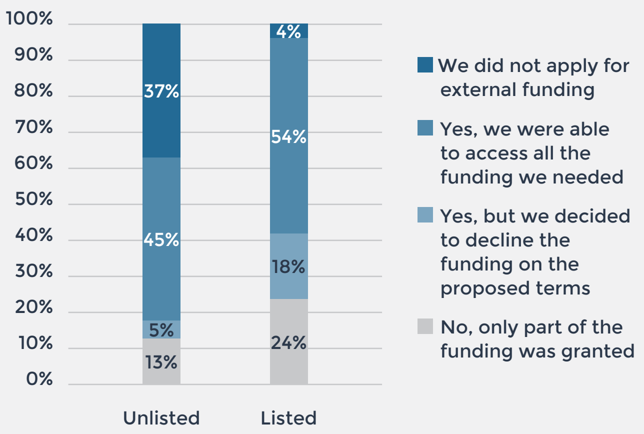
Table 4: Sources of finance

	Mean		
	Whole sample	Unlisted	Listed
Sources of funding in the last three years:			
Retained earnings	70%	70%	60%
Bank finance	50%	50%	50%
Venture cap. / private equity		20%	Not used
Listed equity		Not used	20%
Public debt		Not used	80%
Crowdfunding	10%	10%	10%
Number of companies	126	76	50

Box 3: Family firms and financing constraints

Overall, the firms in our sample were only negligibly or mildly constrained in their access to finance.[38] The majority of firms (both unlisted and listed) said they were able to access all the funding they required, on terms they found acceptable (45% and 54% respectively – see **Figure 13**). Listed firms seemed to be slightly more finance-constrained than unlisted firms, with 42% of respondents noting they were only able to access part of the funding they required or only able to access it on unacceptable terms, compared to only 18% of unlisted firms. However, this could be at least partly because 37% of unlisted firms also did not seek external finance in the period, as compared to only 4% of listed firms.

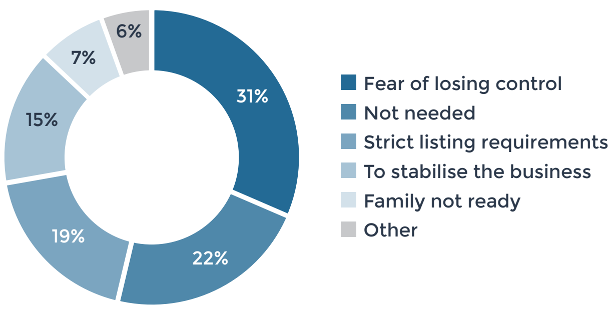
Figure 13: Financing constraints



• The family firm and perceptions of listing

A large proportion of unlisted firms in our survey (70%, 53 respondents) said they had never considered listing the firm. Concern about loss of control was the most commonly cited reason for not listing (see **Figure 14**). The second most frequently given reason (that additional funding was not required) may be viewed as not being particular to family firms, but it is possible this is the result of strategic choices aimed at ensuring the family retains control of the firm. The third and fourth most frequent themes confirm, however, that family firms are also motivated by reasons that have little to do with 'family-ness': strict listing requirements, compliance and paperwork deterred respondents from considering a listing in 19% of the cases, while respondents did not feel ready for a listing (in terms of company size/competitiveness and adherence to listing requirements) in 15% of the cases.[39] This suggests that while being a family business is important in shaping firms' perception of the costs and opportunities of listing, other considerations also matter.

Figure 14: Reasons for not considering a listing



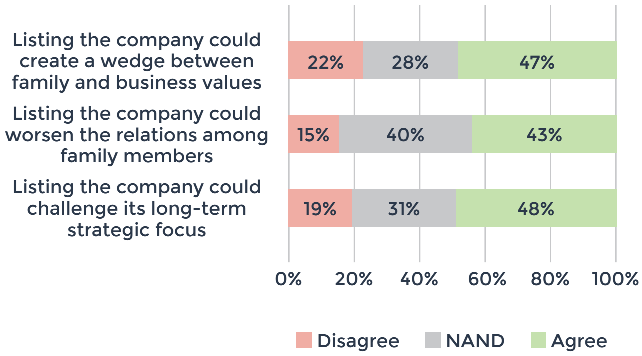
Based on 53 unlisted companies who indicated they had not considered listing.

Non-family senior financial manager of an unlisted Malaysian financial firm: "The major concern [about listing] is that the ownership will always be at stake. Plus, there is no freedom in operating as a public company."

In addition to specific concerns about loss of control, a fair proportion of unlisted firms also thought listing might:

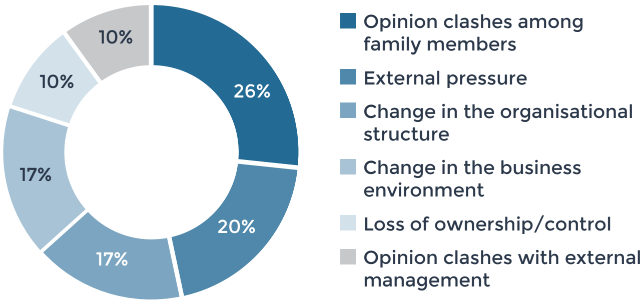
- challenge the long-term focus of the firm;
- worsen relations among family members; and
- create a wedge between family and business values.

Figure 15: Unlisted firms' perceptions of impact of listing on the family firm



Upon elaborating about why they thought listing might drive a wedge between family members, respondents mentioned factors linked to loss of control, potential for increased conflict between family members, and imposition of external/non-family perspectives on the company's strategy and management.

Figure 16: Unlisted firms' reasons why listing would drive a wedge between the family and business values



Based on 34 unlisted companies who agreed with the statement "Listing could create a wedge between the family and the business values".

> *Family executive chairman of an unlisted UAE industrial firm*: "We might have to follow procedures which are against our business values."

On the issue of long-term focus, unlisted firms suggested that the need to respond to external shareholder demands and scrutiny would cause the company's strategy to drift from the long-run approach currently pursued as a private company.

> *Family vice-president of an unlisted German manufacturing firm*: "Due to listing, the long-term goals would be decided by the board members and not solely by the family members."

Finally, there was a sense among some unlisted companies (40%) that listing could be perceived as a failure by the controlling family.

> *Non-family financial manager of an unlisted UK service firm*: "...when you get listed on a stock exchange, the business you own is no longer yours..."

These somewhat negative views about the possible impacts of listing contrasted with the experience of listed companies in our survey group, who largely disagreed that listing had the effect of worsening relations among family members (66%), detaching family members from the business values (68%), or introducing a short-term approach to strategic planning (60%).

Among the listed firms who did not agree that listing had a negative impact on the firm's long-term outlook, it is evident that going public was a strategic choice that was necessary for the company to achieve its goals. Respondents said listing focused the firm on the long-term, gave the firm the necessary financial support, provided new business opportunities, and increased the firm's visibility. A minority of respondents also mentioned that listing supported the long-run vision of the firm by providing the company with better organisational structure and processes.[II]

> *Non-family senior finance manager of a listed Indian telecoms firm*: "By listing, we can develop a strategy that can be followed in the long-term as we will have the financial support from investors."

On the issue of listing and family values, some listed companies suggested that listing brought family members closer together (23% of respondents) and that the formality imposed by listing actually introduced greater alignment between family and business values (18% of respondents).[III]

> *Non-family director of a listed Nigerian telecoms firm*: "Our purpose of doing business is to always provide high quality services to our clients. And in order to do that, we have always relied on the traditional values that we have inherited from the family and are still in existence."

II Based on the comments of 30 listed companies who selected that they "Disagree" or "Strongly disagree" to the statement "Listing the company challenged its long-term strategic focus".

III Based on the comments of 24 listed companies who selected that they "Disagree" or "Strongly disagree" to the statement "Listing could create a wedge between the family and the business values".

Listing as a means to address family challenges

Listing may also create opportunities to address issues that are specific to family firms. Succession, understood as the transfer of leadership in a company's management, is an important moment for any firm. However, because of the specific attributes of family firms, succession moments may be particularly fraught. Despite the fact that family owners/managers generally wish to transfer the family business to their offspring, most family firms do not manage to survive succession, and very few family firms last beyond the third generation.[40] The transfer of leadership can generate conflict and tension among family members. The chosen heir(s) might not feel suitable for the role, or might simply feel compelled to continue their parents' activity despite their desire to pursue alternative projects. Family members who are not selected to take over the firm might feel as if they are being side-lined, or treated unfairly. Finally, family members may wish to exit the firm and thereby sever their relationship with either the family or the firm. As a consequence, the moment of transferring the (leadership of the) company is a crucial one in the life of a family firm, and one that may present opportunities for change.[41]

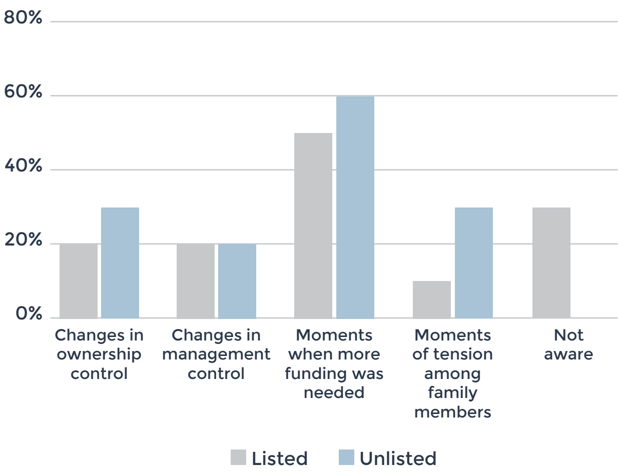
Listing could provide family firms with the tools to manage the organisational change that the succession moment necessarily causes. Disinterested heirs (or other family members) would be able to take advantage of the increased liquidity of their investment to easily sell their stakes.[42] Incoming family owners/managers could take advantage of listing to gather funding for their own entrepreneurial projects, and to set their own vision for the firm.

Listing, together with the required corporate governance practices and the level of external monitoring, could also bring greater structure to family firms and limit the ability of family owners/managers to use corporate resources for family or personal targets. The enhanced visibility may enable the company to attract external and perhaps more professionally qualified employees. Listing the company could therefore be a way to professionalise the firm and remove some of the excessive informality that too often characterises family businesses.[43]

There is some (limited) evidence in support of these propositions among our survey respondents. While discussions about listing among our survey respondents predominantly occurred when firms required more funding, changes in ownership and management control and moments of tension among family members also featured (see **Figure 17**).

Figure 17: Discussions around listing

In the past, (discussions about) listing took place around:



Both listed and unlisted firms agreed that listing would or did enhance the company's ability to attract external talent (49% of unlisted firms and 86% of listed firms), and 52% of listed firms said they thought listing helped to resolve conflicts among family members.

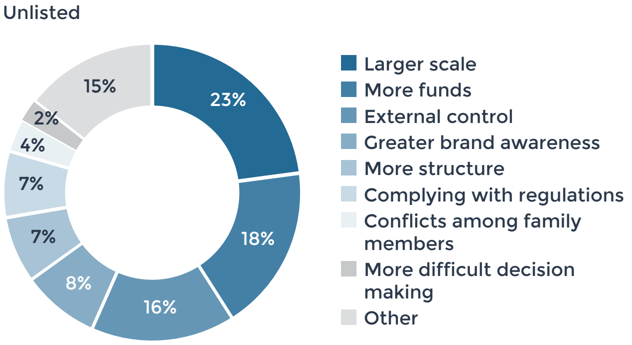
Finally, it seems the thought of listing becomes more palatable over time.[44] In our survey sample, all of the listed companies include second or third generations (none are solely founder-owned). However, over 50% of unlisted firms disagreed with the proposition that "the next generation will list the company on a stock exchange".

Increasing the attractiveness of listing for family firms

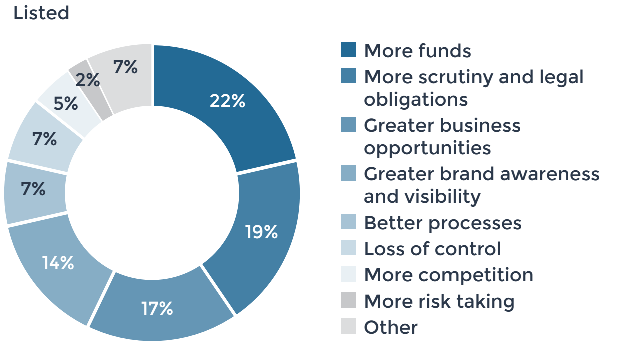
The discussion above suggests that unlisted companies have specific family-related perceptions about the potential impact of listing on their ability to retain control on the firm, and their freedom to operate, and are concerned that listing could challenge the family/business values and long-term strategic focus of the business. Listed companies, however, seem to be satisfied with their listing overall, and did not experience the negative consequences that unlisted firms anticipate. When asked about what they associated with being a public, listed company, unlisted firms cited many of the positives identified by listed firms, yet still mention family-specific negatives such as “external control”, “conflicts among family members” and “more difficult decision making”. Listed firms, on the other hand, while highlighting challenges, such as “more scrutiny and legal obligations” do not raise issues that are specific to the family.

Figure 18: Unlisted and listed firms’ perception of being listed

What do you think of when you think of being a public listed company?



Based on all 76 unlisted companies in the sampe.



Based on all 50 listed companies in the sample

• Recommendations for exchanges

Taken together, these findings suggest an opportunity for those market operators who want to attract more family firms to list. We set out some suggestions as to specific things exchanges could do in this regard, below.

1. ***Define the market size:*** As a starting point, the exchange should quantify the size of the market opportunity. This means identifying the number of family firms in the jurisdiction that are of sufficient size to meet the listings requirements (either the main market or the SME market, if present). Sources of information in this regard are local chambers of commerce or institutions dedicated to family firms (these could be in universities, within professional services firms or standalone organisations).

2. ***Develop a family business competence:*** Given that family firms are a unique category of business with a strong tendency to identify as such, exchanges are more likely to engage effectively if they can demonstrate they understand the firms and the specific issues that may concern them. Rather than developing this in-house, exchanges could look to partner with organisations with existing expertise. For example, many of the large professional services firms have dedicated family business offerings.[45]

3. ***Create opportunities for family firm engagement:*** Following from the above, exchanges could host sessions that bring together family firms and relevant experts to discuss matters of common interest. These sessions could also be used as an opportunity to address unlisted family firms' fears of the impact of listing and could include:

    a. presentations by listed family firms to unlisted firms on their experiences with listing, noting both challenges and positive outcomes (such as professionalisation of the firm, greater access to talent, provision of opportunities for exit etc.)

    b. focused education sessions for unlisted family firms on issues specific to family firms and the use of capital markets.[46]

4. ***Showcase listed family firms:*** Assuming the universe of listed family firms is large enough, the exchange could create case studies showcasing their (positive) experience, create an index of family firms[47] (see, for example, the DAXplus Family 30 Index which tracks the performance of German and international family businesses) and commission dedicated research into family firms. Again, this could be done in partnership with relevant domestic entities with specific expertise in these areas.

5. ***Assess opportunities to address concerns about listing:*** Maintaining sufficient control of the firm to ensure it remains a 'family firm' is a core objective for family businesses. While some of the fear of loss of control through listing may simply be a perception issue, and could be addressed through some of the interventions identified above, in more practical terms, the exchange listings rules may allow the use of structures that could address some of these control concerns. For example, in many markets the free float requirements are such that the family could comfortably retain control even after listing. Additionally, some exchanges have markets with differentiated listings requirements, including free-float requirements, which may make listing even more attractive. Some markets permit the issuing of dual-class shares, which would allow the family to retain greater control than its ownership stake may suggest. Some markets also occasionally allow waivers to enable firms to move to requisite governance standards over time, rather than having these in place from the moment of listing. Finally, exchanges may also have corporate debt markets which may serve as a more palatable alternative to listing firm equity. Making family firms aware of these options (to the extent they exist) may enhance their willingness to use public markets.

Conclusion

For this report, we surveyed 126 listed and unlisted family firms worldwide and assessed whether they possess peculiar characteristics linked to their family-ness, whether these characteristics influence the way the company runs the business, and whether this affects their decision to list on a stock exchange. We found that family firms possess unique features, and that these affect their perception of listing. In particular, we found that unlisted family firms are reluctant to dilute control, afraid of losing their values and identity and are concerned that listing would affect their long-run strategic vision. At the same time, however, we found that these concerns are largely not shared by listed family firms: while it is true that even listed family firms prefer to retain control, their experience was that going public did not negatively impact the specific family nature of their firm, and in many instances, it instead enriched it. In addition, being a public, listed firm often imposed better governance structures, helped to professionalise the firm and generated new business opportunities.

This disconnect between unlisted firm perceptions and listed firm reality conveys a key message: while it is true that family firms have specific attributes that impact how they think about running the firm, this does not mean they are completely different from non-family firms. Instead, they still need to be competitive and to obtain funding on the best available terms. We see this quite clearly from our survey responses: while concerned about family-specific issues, our unlisted family company respondents still put obtaining funding at better terms, increasing their visibility and affirming their competitive advantage at the heart of their motivations for considering a listing, as any other firm would do. Their perception of what being listed entails is also largely aligned to the opinions of non-family businesses.

Family firms are present in most markets, and are often competitive, profitable companies with all the potential to be listed on a stock exchange. Exchanges that believe this could be a viable segment for them and wish to attract more family firms to listing should therefore focus on developing an offering that speaks to their uniqueness, while recognising that what makes them similar to other businesses could be exactly their reason for listing.

Notes

1 See for example the Euronext Family Business Index (https://www.euronext.com/en/products/indices/NL0012171292-XAMS) relative to the performance of the CAC40 and a 2015 National Bank of Canada study on family business (https://www.bnc.ca/content/dam/bnc/en/about-us/news/news-room/press-releases/study-the-family-advantage-national-bank.pdf). The report shows that in Canada family firms largely outperform widely held companies. The report attributes this performance to the ability of family firms to capitalise on their value and culture to build a better reputation and a long-term strategy, to their ability to retain talent and to a better financial management.

2 The use of likert scales is quite common in survey-based research on family businesses (Astrachan et al., 2002; Fiegener et al., 1994; Nicholson and Björnberg, 2004; Sonfield and Lussier, 2004).

3 Given the nature of our research questions, we decided to use a research method that gives preponderance to quantitative analysis. We however also believe that the complexity of the relation between the decision to list and: emotional intertwinement between family and business; the generation of knowledge and development of talent within the company; the succession moment; issues related to nepotism; the extent to which family and entrepreneurship overlap; can be better grasped through the collection and analysis of qualitative data. We therefore decided to triangulate the quantitative data with qualitative data points (Creswell and Plano Clark, 2010).

4 A popular ‘continuous’ measure is the F-PEC scale (Astrachan et al., 2002). The metric assesses through a questionnaire to what degree the controlling family exerts power on, and influence the culture of, the business. While the measure is successful at grasping the complexity family firms, it requires a relevant amount of resources to be implemented.

5 The following studies on the economic performances of listed family firms, for example, use dual definitions: Adams et al. (2009); Anderson and Reeb (2003); Andres (2008); Barontini and Caprio (2006); Björnberg et al. (2016); Hamadi and Heinen (2015); Sraer and Thesmar (2007); Villalonga and Amit (2006). A comparison across the cited contributions would also give a good idea of how family firm definitions differ from study to study.

6 As mentioned in Astrachan and Shanker (2003), and also to the point of the lack of an agreed definition: “Given the private nature of most family businesses, accurate information about them is not readily available. The even greater challenge in quantifying family businesses’ collective impact is that there is no concise, measurable, agreed upon definition of a family business. Experts in the field use many different criteria to distinguish these businesses, such as percentage of ownership, strategic control, involvement of multiple generations, and the intention for the business to remain in the family.”

7 In their paper, the authors show that figures change dramatically depending on how they define family businesses. When they consider sole proprietors as family firms (their “broad” definition), the contribution of family firms to the US GDP is 64%. When they consider only sole proprietors whose main activity is that of running a business (their “middle” definition), the contribution of family firms to the US GDP is 59%.When they consider family firms as companies that employ family members and involve multiple generations in the running of the company (their “narrow” definition), the contribution of family firms to the US GDP

is ‘only’ 29%.See Figure 3 in their paper for a comprehensive summary of their findings. .

[8] Figures taken from EY, “Family business in North America, Facts and figures” (2014). See also National Bank of Canada, “The family advantage” (2015), The study can be found here: https://www.bnc.ca/content/dam/bnc/en/about-us/news/news-room/press-releases/study-the-family-advantage-national-bank.pdf

[9] Presentation delivered at the KPMG Family Business Conference, Athens, May 26, 2015 – available at: https://home.kpmg.com/content/dam/kpmg/pdf/2016/03/gr-pr-1stf-bf-bernard.pdf

[10] Statistics are taken from EY, Family Business Yearbook (2017). EY publishes a yearbook on family businesses containing summary statistics on the 500 companies composing the Global Family Index, broken down by region. http://familybusiness.ey.com/insights/family-business-yearbook-2017.aspx

[11] Statistics taken from Björnberg et al. (2014).

[12] Villalonga and Amit (2006). Their definition of family control is however particularly loose.

[13] Anderson and Reeb (2003).

[14] Faccio and Lang (2002). Their sample is roughly 94% of the population of listed companies in Western Europe.

[15] Statistics taken from Claessens et al. (2000). Their sample is representative of the population of listed companies in East Asia. See in particular Table 6, where differences in capital structure are assessed at the 10% and 20% thresholds. The table also emphasises jurisdictional differences, with Japanese companies overall widely helpd (only 9% of the companies in the sample were family controlled at the 20% threshold), as opposed to Indonesian, Malaysian, Thai and Hong Kong companies, family controlled in more than 60% of the cases for all four jurisdictions.

[16] See also La Porta et al. (1999). These studies challenge the (back then) common wisdom that the “Berle and Means” corporation with widely dispersed shareholders and a clear division between ownership and control is the prevalent form of business organisation among listed companies (Berle and Means, 1932; Jensen and Meckling, 1976). These studies find rather the opposite: large corporations have large shareholders with great involvement in the management of the company, and separation between ownership and control in anything but the golden rule. These studies are of great relevance for our report, as they show that family businesses are a prevalent form of organisation among listed public companies (Sraer and Thesmar, 2007).

[17] It is by now acknowledged that family firms are a stand-alone category of business, with peculiar characteristics that make them a legitimate target of scientific investigation (Anderson and Reeb, 2003; Habbershon and Williams, 1999; Short et al., 2009). The interest of academic research on the topic has been steadily increasingly in the last 30 years, and by now the study of family firms is a well-established field on its own that deserves specialised journals and the attention of top outlets in different fields (Anderson et al., 2005; Astrachan, 2003; Gomez-Mejia et al., 2011; Litz et al., 2012; Sharma, 2004). Private sector research and consultancy firm reports also recognise the economic relevance and the uniqueness of family businesses, as proven by the space dedicated to family business reporting by international and governmental organisations, as well as major global consultancy companies who have practices dedicated to family firms. Finally, there are business associations, research centres and even pri-

vate companies that provide family firms with dedicated services, such as business and financial advice, education, reporting or simply news (e.g. Family Business United, and IMD Global Family Business Centre).

[18] As remarked in Kenyon-Rouvinez and Ward (2005, page 23) family business are usually the primary source of income for family members.

[19] See Demsetz and Lehn (1985), who suggest that "there is nonpecuniary income associated with the provision of general leadership and with the ability to deploy resources to suit one's personal preferences". They call such nonpecuniary benefit "amenity potential", concept further expanded theoretically in Burkart et al. (2003). See also Croci et al. (2011). See also a chapter written by Astrachan and Stider in the contribution "Family Business: Key Issues" edited by Kenyon-Rouvinez and Ward (2005), where the family business is literally compared to a heirloom, "a symbol of the financial, social and cultural continuity of the family" (page 39).

[20] See mentioned literature on the topic: Burkart et al., 2003; Croci et al., 2011; Demsetz and Lehn, 1985.

[21] Churchill and Hatten (1997) propose on this lines the intriguing concept of "biological inevitability".

[22] Björnberg and Nicholson (2012) find evidence of such feelings of belonginess and emotional attachment among next generation family members, and propose the presence of "emotional ownership" as a stand-alone concept typically arising in family businesses. While their findings pertain to next generation family members specifically, the authors don't exclude that emotional ownership can be felt by senior family members (such as founders), and call for

[23] That is, when the family experiences a positive "family climate", a self-reported measure of family functioning purposefully developed for the field of family business (Björnberg and Nicholson, 2007).

[24] The literature on *family capital* (Arregle et al., 2007; Danes et al., 2009; Gudmunson and Danes, 2013; Sorenson et al., 2009; Sorenson and Bierman, 2009) builds on the idea that in family firms capital can be divided in three components: social, human and financial capital. Social capital is the one that more distinctively defines family firms, and differentiates them from other types of business (Sorenson and Bierman, 2009). It is built upon "contextual values, beliefs, and norms that emanate out of family structure, roles, and rules" (Danes et al., 2009, referring to Arregle et al., 2007). In their seminal contribution, Arregle et al. (2007) conjecture from a theoretical point of view that Family Social Capital shapes the Social Capital of the Organisation, extending to non-family internal and external actors. In this report we refer to "family values" for the sake of exposition. For the academic attentive reader, the references cited in this note are good starting point to understand the construct of family capital.

[25] KKR and Campden Markets (2015)

[26] The organization literature suggests that the undisputed control over family resources that owners/managers enjoy can lead to a use of corporate resources for personal or family purposes, especially when paired with low levels of self-control. On the concept of self-control in economics, see the seminal contributions from Shefrin and Thaler (1988); Thaler and Shefrin (1981). On the organization literature focusing on agency costs in family firms see Lubatkin et al. (2005); Schulze et al. (2003, 2002, 2001).

[27] For a non-academic reference, see the article below on The Economist (7 December 2017): https://www.economist.com/news/britain/21732097-desire-pass-business-next-generation-means-they-value-stability-over

[28] Quoting Bertrand and Schoar (2006, page 75) verbatim: “The link that binds current generations to future ones provide family firms with ‘patient capital,’ a focus on maximizing long-run returns and the desire to pursue investment opportunities that more myopic widely held firms would not”. Their paragraph on long-termism in family businesses also contains interesting case-study like examples from illustrious family businesses, to which we refer.

[29] See Lubatkin et al. (2005); Schulze et al. (2003, 2002, 2001).

[30] See discussion on the topic in Bertrand and Schoar (2006); see discussion on “family human capital” in Danes et al. (2009); Gudmunson and Danes (2013); Sorenson and Bierman (2009).

[31] Fiegener et al. (1994) explain in great detail how on-the-job training is an important and characterising process in the development and choice of a suitable successor in family firms.

[32] Burkart et al. (2003) propose this explanation, later recalled (among others) by Bertrand and Schoar (2006).

[33] See Kenyon-Rouvinez and Ward (2005), pages 23-25 for a non-academic reference on the topic.

[34] See Anderson et al. (2005); Nordqvist et al. (2013); Short et al. (2009); Zahra et al. (2004).

[35] Listing is not just a way to obtain funding, but involves more involved motivations. Ravasi and Marchisio (2003) combine qualitative and quantitative methods to provide evidence on the decision to go public for Italian SMEs. In the qualitative part of their study, the authors show that firms list for reasons that go beyond corporate finance: to increase their reputation, to attract better human capital, or to increase their bargaining power with supplier. While these aspects are hardly captured by formal economic models, there’s evidence that they matter for both SMEs and family firms (Rydqvist and Högholm, 1995; WFE, 2017; WFE and Milken, 2017).

[36] This is different to the approach exchanges adopt in relation to SMEs where many exchanges have a market with tiered listings requirements aimed specifically reducing the compliance burden for smaller firms.

[37] Family firms adopt a behaviour largely consistent with that of Pecking Order Theory, as noted by (Blanco-Mazagatos et al. (2010). See also KKR and Campden Wealth (2017), who report in their “equity” section that family firms use retained earnings as their main equity funding choice, and that they are reluctant to use equity funding because unwilling to dilute control.

[38] We assessed whether companies’ credit was totally or partially rationed, or self-rationed. See Casey and O’Toole (2014) for a similar categorisation of credit constraints.

[39] These results are overall in line with the ones emphasised in WFE (2017) for SMEs.

[40] See Miller et al. (2003)

[41] In a recent report however, PwC (2016) notes that only 15% of family firms over a sample of over 200 worldwide have a clear and structured succession plan, and that this number hasn’t risen over the last few years.

[42] Rydqvist and Högholm (1995) for example show that Swedish (family) firms who listed between the 70s and the 90s renounced to important ownership stakes at the time of listing (that is, many families realised their investment). This evidence is consistent with the idea of listing to look for an exit, for all or part of the family members.

[43] Informality can seriously hinder family firms entrepreneurial drive, and lead actors within the family firms to consciously or unconsciously make wrong decisions. In their recent report, KKR feature a case study describing a young manager of an Italian family firm who did not feel free to advice his father about financial decisions, despite being professionally and academically more prepared than him on the topic. As a consequence, the company often ended up obtaining funding at non-advantageous rates. From an informal conversation with the daughter or an Italian family business owner, it emerged that when she was training in the family firms to obtain on-the-job experience, non-family managers and employees did not feel free to criticise or advise her when she was making a mistake, given her position in the owning family. She however lamented that she did not learn much as she could from the experience, exactly because of the excessive carefulness demonstrated by non-family employees.

[44] Dyer (1988) and McConaughy and Phillips (1999) argue that founders have a more “paternalistic” approach to family business, as opposed to 2nd and 3rd generations (or subsequent ones), where the approach tends to be more “professional”. Sonfield and Lussier (2004) find that the second generation is more willing to go public than the founding one, but that the third generation is not more prone to listing than the second. The literature also finds that conflict among family members increases as further generations take over (Beckhard and Dyer, 1983; Davis and Harveston, 1999, 2001).

[45] See PWC, E&Y, McKinsey etc. The head of the E&Y family business practice notes that servicing family firms effectively requires understanding points of difference and alignment with more ‘traditional’ businesses.

[46] See, for example, the Euronext FamilyShare programme: “A unique programme to comprehensively enlighten family businesses on the stock market.” - https://www.euronext.com/listings/family-business/familyshare-programme

[47] See the Euronext index referred to in 1 above.

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