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**University of Jyväskylä**

# Statistical assessment research of family business populations in Finland

School of Business and Economics
Master thesis

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# Tiivistelmä

Tämän tutkimuksen tarkoituksena on luoda Tilastokeskuksen ylläpitämään Yritysrekisteriin perustuva menetelmä, jonka avulla voidaan kartoittaa perheyritysten määrää ja yhteiskunnallista vaikutusta Suomessa. Tutkimuksen tärkeimpinä lähtökohtina voidaan pitää perheyrittäjyyden määritelmää, joka rajaa tutkittavien perheyritysten joukon, sekä satunnaisotoksella suoritettua kyselyä.

Tutkimusmetodina käytettiin niin sanottua "vähennystekniikkaa" erottamaan perheyritykset muista yrityksistä omistuspohjan sekä oikeudellisen muodon perusteella. Jäljelle jääneistä neljästä oikeudellisesta muodosta (luonnollinen henkilö, kommandiittiyhtiö, avoin yhtiö sekä osakeyhtiö) päätettiin osakeyhtiömuotoisia yrityksiä tutkia tarkemmin satunnaisotokseen perustuvalla kyselyllä niiden suuresta määrästä sekä erilaisesta koostumuksesta johtuen.

Tässä tutkimuksessa saatu perheyritysten prosentuaalinen määrä Suomessa (noin 80%) perustuu laajalti osakeyhtiömuotoisille yrityksille tehdyn kyselyn tuloksiin. Tulosten perusteella voidaan todeta, että perheyritykset ovat erittäin näkyvä ja merkittävä ryhmä Suomen kansantaloudessa.

**Avainsanoja**
Perheyrittäjyys, perheyrittäjyyden tutkimus, perheyritysten joukko, perheyritysten tilastollinen mittausmenetelmä

# Summary

The main topic of the present study is to create and implement the foundation of a statistical framework necessary for assessing the size of the family business population in the Finnish economy. This framework is based on the data provided by the Business Register, published by Statistics Finland. The study is configured by two main aspects - the chosen definition of a family business, as it is in direct relation with the size of the family business population, and the sampling procedure.

The authors have applied a subtraction method, separating groups of potential family businesses from those groups of firms which could not qualify as family enterprises. After having narrowed down the lot of potential family businesses to only four legal groups – natural person, limited partnership, general partnership and limited company – it has been decided to conduct a random sampling of the firms contained in the 'Limited company' group, as this group was the most populated and heterogeneous in composition.

The findings of the study are based on the results of the random sampling of companies belonging to the 'Limited company' group. According to these results, family businesses account for up to 80 percent of all businesses in Finland and their contribution to the Finnish economy is vast.

**Keywords**

Family business, family business research, family business population, family business statistical assessment framework

# Introduction

Family firms have always been an integral and undetachable constituent of the economic landscape, thanks to their unique formula, bringing family and business together. Undeniably, family businesses represent a major share of any economy and contribute significantly to the prosperity and well-being of the modern society.

The phenomenon of family enterprise has sparked considerable interest among both academic and practitioner communities, and has served as an impetus for significant research progress, particularly in the last 20 years. Notable headway has been achieved in many areas of this complex subject, firmly establishing family business as a distinct science. And yet, after all these years of research, countless books and articles published, several pressing academic shortcomings persist and raise new questions, controversy and discussion. Statistical assessment of family business populations is one of these important topics, in urgent need of extensive and comprehensive study.

*In the present paper, the authors have set out to create the foundation of a framework for assessing family business populations in Finland, ultimately hoping to obtain a deeper insight into the activity of family businesses, their number, and ways how they influence and contribute to the Finnish economy.*

Chapter 1 of the present study is an synopsis of family business, aiming to acquaint the reader with the history of family firms and the activity of family business in the world and in Finland.

Chapter 2 represents an ample overview of the existing family business research literature, with a special emphasis on the definition of family firms. This Chapter follows the evolution of family business research, critiquing its insufficiencies and selectively suggesting further work to be carried out. Additionally, Chapter 2 offers an objective look at the state of family business research in Finland and investigates the progress of family business statistical assessment research.

Statistical assessment of family business populations requires more that just a theoretical approach. Therefore, second half of the present study focuses around empirical aspects of this subject. Chapter 3 is the methodological cornerstone, on which is based the empirical research carried out throughout the study, the findings being presented and analyzed in Chapter 4.

*"Other things may change us, but*
*we start and end with family."*
Anthony Brandt

# 1. Family business in the world and in Finland

## 1.1 Family business in the world

### 1.1.1 History of family business

Human civilization , since its early dawn, brought along the concept of business. This concept proved to be the engine that fueled the development of the human society.

Family businesses were the first category of enterprises to come into existence, obviously due to the circumstances of those times. Despite the fact that family business is quite young as an academic concept, it has existed for thousands of years. The very first forms of family businesses were farmers or artisans, whose work continued with their sons, who learned their craftmanship already in the early years helping their fathers. A long period of time passed since the first family businesses appeared, humanity went through various cultural and military dominations, wars, plagues, epidemics and revolutions, and yet, family businesses were the ones who persisted over the past centuries.

Family businesses are the predominant form of business organization in the early stages of a country's economic development. Payne (1983), in a historical survey of family businesses in Britain, comes to the conclusion that the family firm is "the vehicle whereby the Industrial Revolution was accomplished."

In Japan, family businesses came about as merchant houses during the Edo period (1603-1867) and, despite government's attempts to go public during the Meiji Restoration (1868) and their dismantling by the Allies after the Second World War (1945), they metamorphosed into the *zaibatsu*s, the great family-controlled banking and industrial combines of modern Japan. The leading zaibatsu (called *keiretsu* after World War II) are Mitsui, Mitsubishi, Dai - Ichi Kangyo, Sumitomo, Sanwa, and Fuyo (Columbia Encyclopedia). Japan currently boasts to be home to the world's oldest family-owned firm, which has been run by over 40 generations. The large Korean industrial conglomerates called *chaebols* began as small family businesses; their explosive growth occurred after the Korean war ended (1953).

In China, family businesses began during the Ming Dynasty (1368-1644) but, because of revolutions in the home country in the twentieth century, they could flourish only in the rim of countries bordering the mainland. (Okochi and Yasuoka 1984).

As seen above, the family almost omnipresently appears to be the fundamental economic unit of the society we live in. Its connection with business is thus obvious and unsurprising if we think of business as the ownership and management of productive assets residing in the family.

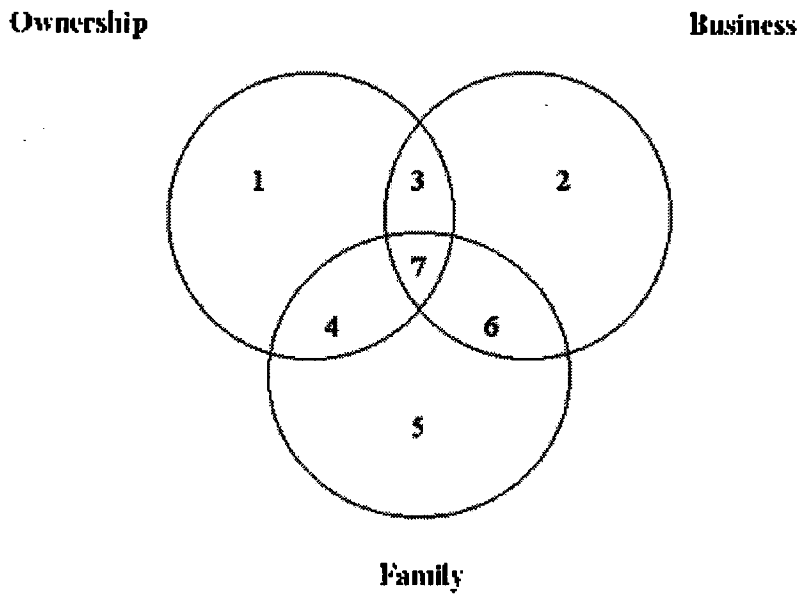
Family businesses have played different roles in different stages of development of our society. Ward & Aronoff (1995) pointed out that "families will continue to play a crucial role in business formation, serving as a means of capital accumulation; providing reliable, motivated labor; and offering psycho-social support for the traumas of entrepreneurship".

### 1.1.2 General concepts

**Three circle model**

Family business is defined in terms of **ownership, authority and responsibility.** Tagiuri and Davis (1982) have introduced the three-circle model (Fig. 1), which describes the family business system as three independent but overlapping subsystems: business, ownership, and family. Any individual in a family business system falls in one of the seven sectors created by the three circles. Each segment in the model represents someone with a stake in the family business and a point of view about what should be happening.

FIGURE 1 Three circle model




1. External investors

These are people and institutions who own part of the business but who do not work in it and are not members of the family; venture capitalists, banks and business angels. They are interested about return on their investment and often expect business decisions to be clearly separated from family dynamics. However, we believe that this is expecting the impossible. Those in this segment should be taking a more active interest in family issues (including succession planning) than is often the case.

2. Management and employees

This group are neither owners nor family members. They are concerned about career prospects and job security. Many family businesses recognize the problems created by these uncertainties, including how to recruit and retain the best employees, but they still feel that sometimes family has to come first. Indeed if family struggle occurs, the business can be overlooked and what appears to be irrational and emotional decision making can leave the business in crisis.

3. Owner managers

Sometimes the response to the problem of recruiting and retaining key non-family employees is to give them shares or equity linked rewards. However these are usually small stakes and in private companies are strictly controlled and not easy to realize. In addition the value of the investment is inevitably going to be affected by what happens elsewhere in the system.

4. Inactive owners

The ownership of a family business that survives the first generation often passes from a controlling owner to family members who do not work in the business - or inactive owners. Their interests tend to be a mixture of the expectations of external investors tempered by a sense of family responsibilities. In other words; they'd like to see a return on their investment but they don't want to destroy the family business.

5. Family

Every member of a business family has an investment in the family business whether or not they are actively involved in ownership or employment. They all have "sweat" equity and are interested in the business for lifestyle reasons and because of the impact it will have on the rest of the family such as the health and happiness of the present generation and future career prospects for children.

6. Family employees

Family who work in the business but do not own shares will be concerned with career development as much as those in segment 2, but they might have different expectations about the future. After all they could have grown up in the atmosphere of "one day my son/daughter all this will be yours". One area of conflict in family businesses well illustrated by the model is between family employees in this segment and inactive family owners in segment 4. The family employees' determination to grow the business might be tempered by the fact that their efforts will benefit the passive owners/relatives. These feelings are sometimes caused by a blurring of the distinction between rewards for employment and return on investment.

7. The controlling owner

Someone who owns a business, occupies a senior role in management and the family, will face many conflicting choices during their business and private life, especially when it comes to succession.

**Advantages and disadvantages of family-owned businesses**

Family businesses make numerous, critical contributions to the economy and to family well-being both in terms of money income and such intangible elements as time, flexibility, control, and personal expertise - if and when they work. When they don't, family businesses can be difficult to manage, sometimes even painful experiences.

The path to success for any business can follow many routes. Family businesses add the complexities of family life to business challenges, expanding the range of issues, personalities, needs and potential solutions for every decision. Therefore, knowing something about family types, communication patterns, managerial styles and the amount of support members can expect from their families may be as important to entrepreneurs as knowing how to manage cash flows or reach markets.

Family controlled firms display a wide range of characteristics, some of which are enumerated below:

| **Advantages** | **Disadvantages** |
|---|---|
| • Long-term orientation | • Less access to capital markets may inhibit growth |
| • Greater independence of action<br>- less(or no) pressure from stock market<br>- less(or no) takeover risk | • Confusing organization<br>- messy structure<br>- no clear division of tasks |
| • Family culture as a source of pride<br>- Stability<br>- strong identification/commitment/motivation<br>- continuity of leadership | • Nepotism<br>- tolerance of inept family members as managers<br>- inequitable reward systems<br>- greater difficulties in attracting professional management |
| • Greater resilience in hard times<br>- willing to plow back profits | • Spoiled kid syndrome<br>• Succession dramas |
| • Less bureaucratic and impersonal<br>- greater flexibility<br>- quicker decision making | • Internecine strife<br>- family disputes overflow into business |
| • Financial benefits<br>- possibility of great success | • Paternalistic/autocratic rule<br>- resistance to change<br>- secrecy<br>- attraction of dependent personalities |
| • Knowing the business | • Financial strain |

- early training for family members
- family members milking the business
- disequlibrium between contribution and compensation

**Entrepreneurship and Family Business**

It is important to create transparency in regard to the issues of entrepreneurship and family business. An entrepreneur is often defined as someone who specializes in making judgmental decisions about the coordination of scarce resources, is institution-free, deals with the factor of risk, and has influence over the flow of information. Although the literature often portrays the entrepreneur as a single individual, family business literature strongly suggests that families are vital and supportive environments for entrepreneurial behavior. Put simply, entrepreneurship is the start and core of most family businesses, and the phenomenon of an entrepreneurial family fosters, subsidizes, and enhances the efforts of its members who engage in entrepreneurship. Family business is the "wider-lens" view of entrepreneurship as the initial business efforts of one or more family members grow and change over time. (Bellet, Dunn, Heck, Parady, Powell, Upton 1995).

**Small business vs. family business**

Family businesses are often considered as small businesses in the public opinion (Mennen 1998, Lea 2000). Therefore, the authors feel it is important to clarify the confusion surrounding the notions of small and family business.

Due to the statistical difficulties of collecting and defining data, it is easy to consider all the small businesses as family businesses (Paasio, Heinonen, 1993). However, this definition excludes many medium and large sized companies, owned by one single family and includes businesses that have nothing to do with family. As Koiranen (1998) noted, almost all the small businesses are family businesses, but not all family businesses are small enterprises. Unlike family businesses, small businesses are relatively easy to define. In the European Community, the main defining criteria is the number of persons employed. There is a division made between micro, small, medium-sized and large companies. In order for a business to be considered as small, it can employ up to 249 persons. Additional criteria for small businesses includes turnover, financial and owner statements:

- annual turnover should be under 40 million ECU per year
- annual balance-sheet total under 27 million ECU
- not more than 25% of the capital of the enterprise should be controlled by one or more other enterprises. (Eurostat 1999)

But as mentioned before, small business criteria excludes many enterprises which have family involvement, and that is generally accepted to be the main reason for making the family business unique. For example, the 35% of the Fortune 500 companies in the US that are family businesses, simply cannot be "overlooked" (Life & Health / Financial services 1998). Those large companies have a huge influence on the country's job creation and taxpaying, among other factors. In Europe the situation is similar, for instance in Finland many public corporations are family businesses.

In the authors' opinion, the main difference between small business and family business is that small business is defined by its size, while the definition of family business is a of qualitatively different nature. For a more detailed insight into the complex matter of family business definitions, please see Chapter 2.

### 1.1.3 Importance of Family Business

The importance of family business has been widely recognized and acknowledged over the last decades. Further below, we will take a closer look at the implications of the family business on the economy and society.

**Economic Value**

In a recent review of the state of family businesses worldwide, the sheer number of family firms around the world can leave no doubt as to their predominance, and therefore their economic importance and significance (Lank 1994).

Researchers estimate that at least 90% of the businesses in the United States are family owned and controlled (Ibrahim & Ellis, 1994) and contribute somewhere between 30 and 60 percent of the nation's gross domestic product (GDP) and half of total wages paid (Glueck & Meson, 1980; Ibrahim & Ellis, 1994; Ward, 1987). For instance, as of September 30, 1994, the nominal US GDP was approximately $6.77 trillion. A conservative estimate of the family business economic universe would therefore be somewhere between $2.03 and $3.38 trillion in annual production of goods and services.

While accurate numbers are hard to come by, it has been estimated that there are at least 2 million family firms with revenues greater than $1 million (Forbes, 1989). Dreux (1990) suggests that one could conservatively estimate that there are 1.7 million business entities that are family-owned and controlled excluding sole proprietorships. More recent data show that except for about 3000 companies earning over $500 million plus annually, privately held companies outnumber publicly held companies in all other ranges of gross revenues (Dreux, 1994 [Dun's Market Indicators]). These greater numbers of privately held companies are substantial with gross sales in the range of $5 to $25 million. According to Dreux, publicly held family firms outnumber publicly traded firms 50 to 1. This ratio excludes actively traded, publicly owned companies that retain extensive family ownership. Dreux (1990) concludes that the family business universe approaches and possibly exceeds the entire publicly owned universe in size and scope of economic activity. He characterizes family firms as a "parallel economy."

The economic value provided by family firms is enhanced by their tendency toward long term strategies rather than a need for quarterly results, an aversion to debt, and their inclination to reinvest dividends (Gallo 1994). A number of studies have shown that family firms outperform their industry groups and their non-family counterparts. In 1969, Monsen found that family business net income to net worth ratio was 75% higher than manager-controlled firms. He concluded that family firms provide a greater return on investment, have a better-managed capital structure and more efficient allocation of resources. Jaffe (1990) states that a 1986 study by US News and Word Report found that of the 47 largest family firms, 31 outperformed the Dow-Jones index. Fast growth family firms are being recognized by companies such as Ernst and Young who award, in Texas, the Ernst and Young Fastest Growing Family Business Award (Genusa 1994). The family firm that won in 1994 demonstrated a 6000% growth rate.

Family businesses demonstrate a high rate of activity all round the globe. In Germany, 75% of the workforce are employed by family businesses, who contribute 66% of the GDP. Reidel (1994) categorizes 80% (about two million companies) of all Germany's companies as family controlled and concludes that they are the "backbone" of the German economy. In Australia, Owens (1994) estimates that 75% of Australia's businesses are family owned and controlled, and that they account for 50% of the country's workforce.

In developing countries, family firms represent virtually the entire private economy.
In India, for example, family businesses account for 70% of the total sales and net profits of the biggest 250 private-sector companies. (The Economist 1996).

In Chile, Martinez (1994) concludes that family firms contribute greatly to Chile's GDP and employment, with around of 75% of the nation's businesses family owned and controlled. Chile is currently the most dramatic example of economic growth in all of Latin America, so the effect of family businesses on the economy there is a particularly positive one, given a recent finding that 65% of medium to large sized enterprises are family owned.

The statistics are similar in other regions (Gallo 1994). In Mexico 80% are family businesses and have been known to dominate the economy there for over 100 years. In Spain, it is known that for companies with over $2 million in annual sales, family firms account for 71% and that 17% of the top 100 Spanish firms are family businesses. In the United Kingdom, 76% of the top 8000 companies are family owned and controlled, with higher proportions expected in the wider business population. Gallo (1994, p. 47) found that across Western Europe, between 45% and 65% of the GDP and employment are contributed by family businesses. The lowest level of family business activity is in Portugal and the highest in Italy, where 99% of firms are run by families.

**Societal Value**

It is undeniable that family firms lead more directly to self-sufficient people in healthy communities. Private enterprise, by right, can be called "bricks and mortar" of any non-communist economy. The vast majority of businesses are built and managed on the fundament, comprising the individual characteristics of entrepreneurs, family culture and community involvement, along with other factors. These unique styles, values and techniques may or may not be transferred to the next generation, depending on the degree of success in the family business generational transitions.

The development of Western socioeconomic systems is continuously powered by the potent force that is family wealth and innovation (capitalism). Despite this truth, predominant attention has traditionally been given to larger, typically publicly-held conglomerates. Just recently, the media, sociologists and economists began to place focus on the ways and processes that shape families and family enterprises and how families and their businesses are influenced and shaped by the social and economic systems.

Considering the dominance of family firms in the Western economies, it is little wonder that increased attention has been paid to the importance of the family and the role of the family in the capitalistic system, with a particular concentration on smaller, privately-held and family firms. (Bellet, Dunn, Heck, Parady, Powell, Upton 1995). Ward (1987) pointed out that, as larger and larger numbers of family-held companies change hands from one generation to the next, more and more family legacies are lost due to poorly planned transitions. The new owners often possess different values, and therefore the impact of the transition is often negative, both in terms of company productivity and profitability, but also in terms of negative influence on families and communities. Sensitivity to the existing culture of the firm and the local community is critical to the continued success of the business, as shown by Astrachan (1988) in a study of family firms in transition.

The importance of the family firm for stimulating a dormant economy should be seriously considered. The current slowdown in the worldwide economy, induced by the failings of large public corporations, and dotcoms in particular, can only prove that family firms are the backbone of the economy in times of crisis.

Just as families are the building blocks of a stable society, so are family businesses important in building a stable economy. A family business tends, more than other types of businesses, to re-invest in itself to support and generate wealth in future generations. Besides this, in our opinion, family businesses possess special value, thanks to their willingness and capability to make long-term investments, as well as resist the temptation and pressure for short-term results, as opposed to the practice of publicly held corporations.

Family firms are powerful yet delicate entities that often require special understanding and guidance within the multiple systems they embrace (i.e., family, business, community). Additional and more advanced research into the family firm dynamics will affect not only the private enterprise but also the familial, societal and economic systems in which they are embedded.

## 1.2 Family Business in Finland

### 1.2.1 Family business and entrepreneurship in Finland

Finland is a country with old family business traditions. It is estimated that 4/5 of all Finnish companies are family-owned firms, generating approximately more than half of the annual Finnish Gross National Product and providing job opportunities for up to 50% of the nation's workforce. It is estimated that at least every 15th Finn is a family entrepreneur. (Koiranen / www.pkt.fi).

Small business ownership has traditionally been considered neither prestigious, nor financially sound in Finland. Approximately only a mere 7% of the Finnish population are entrepreneurs, a figure far below the European average of 12% (Eurostat 1995). These low numbers of entrepreneurs in Finland are explained by several reasons.

A primary explanation could be the fact that Finland enjoys a quite high level of prosperity and it has been demonstrated that diminished entrepreneurial activity is a prime consequence of high prosperity levels (due to the fact that possibilities for entrepreneurs are greater in countries with a low prosperity level).

Secondly, the low birth rate in Finland plays an important role along with the low presence of immigrant groups in the country, who traditionally belong to a highly-sensitive start-up category of entrepreneurs, and are more likely to start up businesses than other groups.

Thirdly, the general attitude towards entrepreneurship is rather negative within the Finnish society, partly due to the government factor, which affects the entrepreneurial drive through prohibitive high taxation rates and social security payments, among other limitations. (Ministry of Trade and Industry 1999).

An attitude change came about after the great recession of the early 1990s. Prior to that, Finland focused mainly on large-scale bilateral trade with the former Soviet Union. During the recession years, the plight of the Finnish economy worsened drastically, with eastern trade collapsing simultaneously as western exports came under threat. Unemployment rate was galloping high and many companies went bankrupt, bringing the Finnish economy into deep financial crisis. The only way to stimulate growth was to apply dramatic changes to the policies in use. With the help of a downsized public sector and a restructured industry, the rediscovery of small businesses in Finland commenced. (Littunen & Hyrsky 2000).

### 1.2.2 Economic contribution

Despite the widespread insufficiency of family business literature, research and information in Finland, the overall picture of the Finnish family business can be outlined by using the existing data on small- and medium-sized enterprises (SMEs) in junction with the available family business literature. Reliable data on family businesses in Finland is scarce, as most of the previous literature treats them as SMEs, if at all. Therefore, the authors will work with the notion of small- and medium-sized enterprise in this chapter.

Paasio and Heinonen (1993), in their book "Perheyrittäjyys Suomessa" have assumed all SMEs to be family businesses. Their study indicated that the starting point for a family business has traditionally been "craftsmanship", however nowadays that criteria does not suffice, due to the fact that entrepreneurship no longer only requires basic manual skills, but also education, experience etc. Hence the conviction that family business ought to include more dimensions than mere "one-man shows". Paasio and Heinonen (1993) assessed the Finnish family business population as the number of SMEs in Finland, using the criteria for small and medium sized firms widely adopted among the European Union policymakers. Paasio and Heinonen agreed that the number of employees or the turnover alone are not sufficient elements in order to define family firms, there must be certain quality differences as well, such as innovation, limited resources, focused decision-making and entrepreneurial thinking. Nevertheless, despite the selected criteria, the authors assumed the number of family businesses in Finland to be equal to the number of SMEs, for statistical reasons, in order to obtain a clear understanding of the spread of family businesses in Finland, and in order to compare it to other European countries.

The number of family businesses in Finland can reach as high as 99,8 % of all companies, within the boundaries of the provided SME criteria (SMEs, in this context, include companies employing under 250 employees, which is the standard European procedure for SMEs). A distinctive characteristic of the Finnish SMEs is that the average size of the company is very small, since almost 94% of the companies can be categorized as micro-small businesses. The average company size, in terms of employees, is 5 persons, whereas the EU-19 average runs at 6 persons (Ministry of Trade and Industry 1999). In general, the companies in Finland, are smaller, in comparison to European firms (see Figure 2 below).

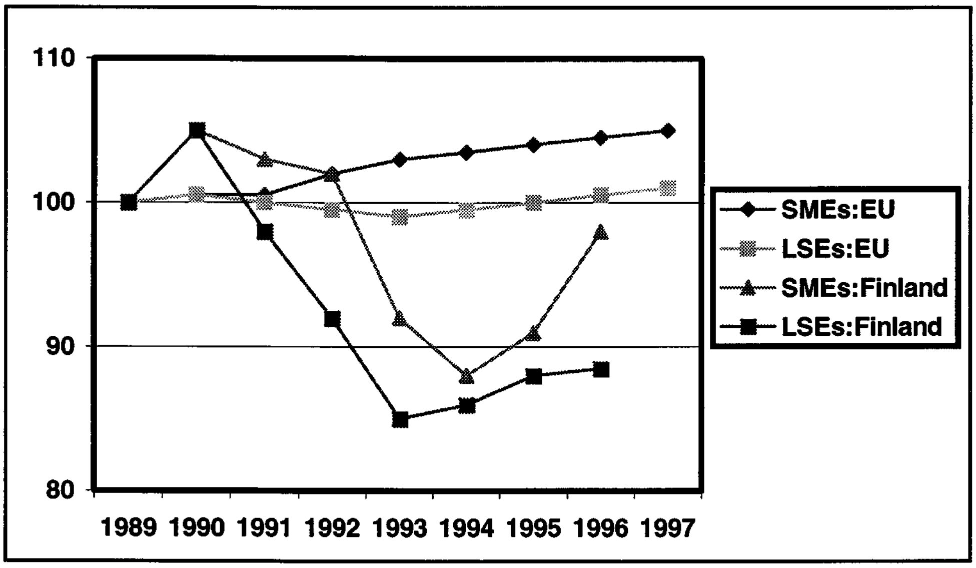



FIGURE 2 Comparison of Finnish and European firms by size class, 1989-1996.

The total annual turnover of SMEs in Finland accounted for 52% of all companies' turnover in 1998, where the share for micro-sized companies was 18%.

The significance and importance of the SME sector in Finland lies not only in the amount of turnover alone, but also in the employment opportunities, where SMEs provide more than 60% of private sector employment, and micro-sized firms account for 26% of the offered jobs in the private sector.

The SME profile (and, implicitly, family-owned business) in the Finnish economy is quite similar to that of SMEs ( and family owned businesses) elsewhere in terms of business sector presence. Not surprisingly, a third of all SMEs (and family businesses)are found in the Service sector, which accounts for nearly 35% of all such businesses.

Other important sectors, in terms of SME activity, are trade, manufacturing and constructions. (Figure 3). (Ministry of Trade and Industry 2000).

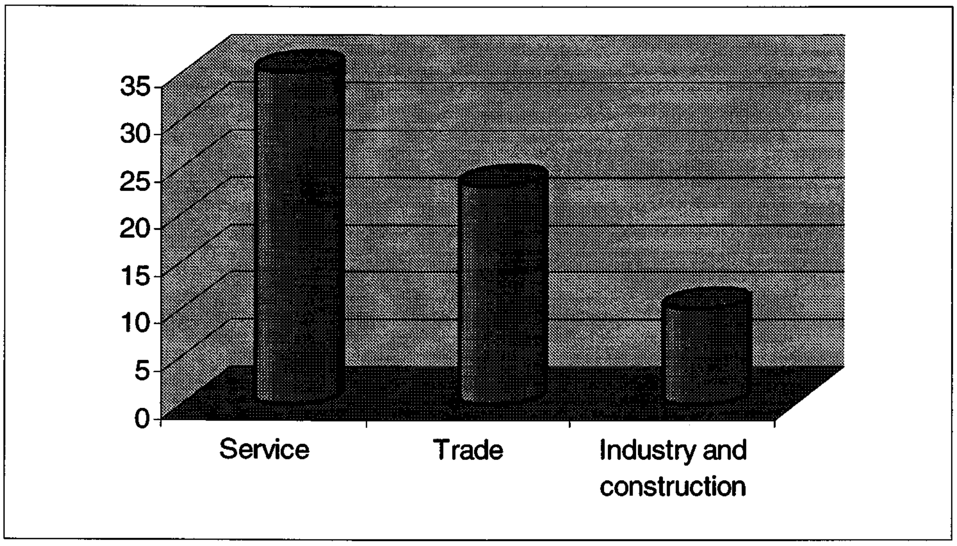



FIGURE 3 Division of sectors among SMEs in Finland

During the recession in the early 1990s the number of enterprises plunged predominantly in the financing and insurance businesses, whereas the service sector, and especially the hotel and catering businesses survived better than the others. This observation supports the conclusion that the SME sector is becoming increasingly important for the country and the economy. An interesting novelty on the Finnish business landscape is the rise of transportation and communications businesses, where the fastest employment growth rates can be observed (Ministry of Trade and Industry 1999). Many of these businesses start out as very small companies, gradually growing into internationally renowned firms.

Moreover, although the industrial sector seems to be the least populated by SMEs it is still the largest in the terms of employment (Ministry of Trade and Industry 1998). The share of SME employment in the industrial sector was as high as 27% in 1997, equaling to180000 employees in the private sector, while the second most important sector, retail trade, accounted for 22% of SME employment, the service sector being the third most important. The majority of businesses in the service sector are micro-sized firms and self-employed persons, and these economic entities traditionally belong to the notion of family business. Interestingly enough, neither the industry sector nor the retail trade sector have managed to compensate their losses suffered during the recession, whereas the service sector has continued to expand (Ministry of Trade and Industry 1999). See Figure 4 below.

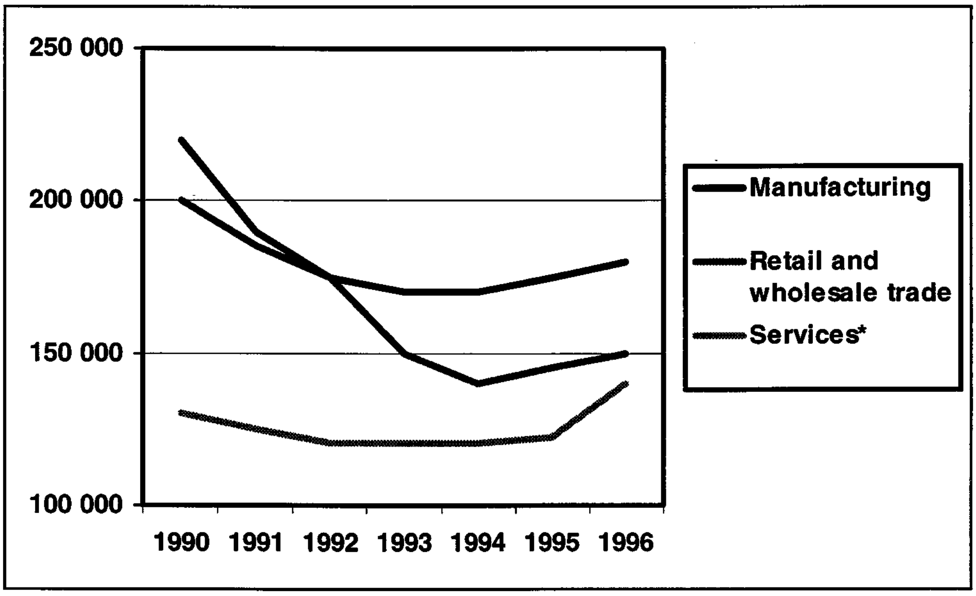



FIGURE 4 SME employment trends by sector, 1990-1996.

There are many forecasts available in Finland that expect the growth of employment in the service sector to continue (Ministry of Trade and Industry 1999). The service sector is expected to become the largest sector in terms of employment in SMEs in a few years. This forecast is based on, among other reasons, on the fact that the aging population will need welfare services in near future. The other explanation for the growing importance of the service sector is the dramatic growth of Information Technology businesses providing services in internet, multimedia, etc. The Finnish government, on its behalf, is stimulating the service sector by subsidizing the businesses providing household services. A law granting household services the benefit of reduced taxation came into validity in October 1997. This law has inspired entrepreneurs and ignited many start-ups.

# 2. Family Business Research

## 2.1 Previous Family Business research in the world

### 2.1.1 Evolution of family business research

Although the academic field of family business is young, it has already existed as a discipline in the United States for about 30 years, and in Europe around 10 years (Neubauer & Lank, 1998). However, only recently has the field drawn significant attention by academicians, researchers, and professional service providers.

In the past ten years, interest in family business has become an international phenomenon. As family businesses have drawn attention, significant numbers of professionals have been attracted to the study and practice of family business.

There is plenty of research conducted on family businesses and many aspects of such firms merit attention from both the business side and the family side It is a fact that the prevalent part of the existing research in the field of family business has been conducted in the United States. However, there is an equal body of knowledge on family business around the world, as various typologies and models of the family business have been proposed, developed and studied by the researchers across the globe, despite the fact that much of the research which has been published in English is conceptualized and tested in the United States.

Publications have been written in English on family business in more than 30 countries. Of course, other articles have been written in these same countries in many different languages. That literature seemingly is about the same age, approximately the past fifteen years. (Wortman 1995)

According to Wortman (1995), on six continents, the studies on family business issues are heavily weighted toward North America (75), consisting of Canada (8), Mexico (5), United States (62) and Europe (40). Asia has a significant number of studies emphasizing family business issues (19). Latin America (6), Australia (1), and Africa (3) have apparently not developed significant literatures on family business issues at this time.

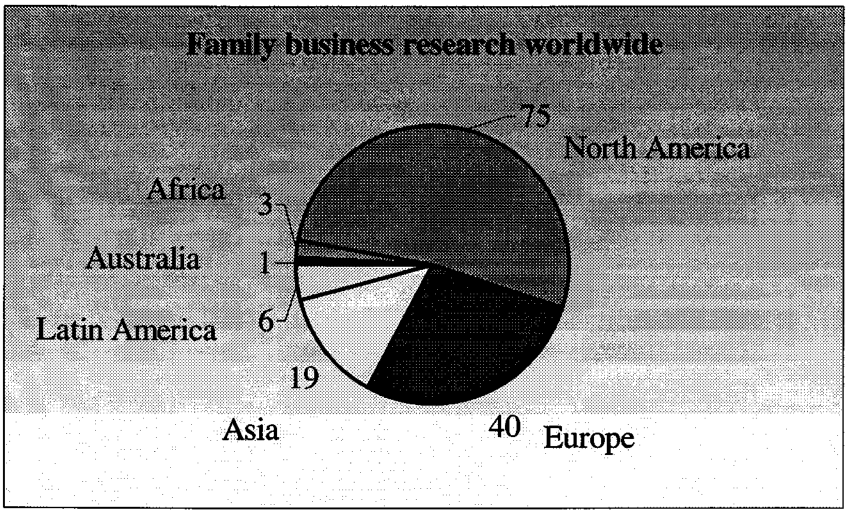



FIGURE 5 Family business research in the world (Wortman 1995)

In his 1995 study "Critical issues in family business : an international perspective of practice and research" Wortman asserts that the field of family business is, in fact, being driven by practice. Family business owners and other individuals closely related to the field of family business (family business consultants, accountants, insurance providers, financial planners, lawyers, therapists and psychologists) are the ones generating and contributing new ideas in this domain, and therefore they are the real driving force behind the progress made in the field of family business, and not the researchers, who are merely formatting and standardizing the information obtained. The needs for studying family business are initially identified on a pragmatic level, as family business owners and service providers in the field of family business are demanding new innovative and creative ways of addressing challenges, these needs representing a platform for developing the family business theory by the researchers.

Family businesses drive the economies of almost all the countries in the world. In the United States, 90 percent of all firms are family businesses and 50 percent of gross domestic product is produced by these family businesses (Wortman 1995). However, outside the United States, family businesses in many countries have made even higher contributions to their economies. Survival rates of family businesses are not high. Only one-third of the firms survive into the second generation, and only one-tenth survive into the third generation. Therefore, although researchers have analyzed many different topics in family business, they have tended to focus on issues that are related to the long-term survival of the family business and on those that are dysfunctional in the short-term survival of the firm.

**Why study Family Business?**

Research on family businesses has been of growing interest in many countries, particularly during the last 10-15 years (Gandemo 1998). The interest for research of entrepreneurship and family business was originally brought up by the economists who wanted to study the role of the entrepreneur in economic growth and innovation (Schumpeter and Baumol in Brockhaus 1994). From the phase of prescriptive research the study of entrepreneurship reached more diverse stage on the early 1970s (Vesper 1982). The trend was to propose studies to companies as consulting services. However, in the present the study of family businesses has acquired a much more advanced and significant status, as researchers, practitioners and lawmakers are becoming increasingly aware of the importance and impact of family business on the economy and society.

It is only natural to wonder why so many researchers are attracted to studying family business, and what are the reasons behind the boost in attention towards this field. We study family businesses because researchers believe that the family component shapes the business in a way that the family members of executives in non-family firms do not and cannot. (Lansberg 1983 in Chua, Chrisman, Sharma 1999)

As Aronoff and Ward (1995) indicate, the importance of family business research lies in the following factors:

- The dominant bulk of independent businesses are owned by families.
- Family business owners tend to prioritize their business objectives differently than non-family business owners.
- Family businesses are likely to be managed differently from non-family businesses.
- It is noted that family-business owners are more likely to be concerned with transferring the business to the next generation of family members. Therefore the fiscal regime issue (i.e., inheritance and capital gains tax) is a delicate and important matter to owners of family businesses.

Policy makers would like to know whether family businesses perform better or worse than non-family businesses, in order to encourage competitiveness, creation of wealth and jobs Policy makers may consider, in some instances, that it is appropriate to provide special support that will encourage the survival and development of family businesses. However , they are reluctant to introduce new policies or change the tax regime without reliable information on the scale, nature, and economic contribution of family firm activity, thus identifying another reason for studying family business (Westhead & Cowling 1998).

In addition, due to the fact that the analysis of family business is mostly carried out on the theoretical level, there is not much quantitative data to rely on. The field of study can vary from small to large, depending on the definition used. Lack of sufficient quantitative data and definitional vagueness also drive the further research efforts in the field of family business.

**Insufficiency of family business studies**

Despite the prevalence and economic importance, beyond expectation, of the family-owned firms (e.g. Ahlström family in Finland, Agnelli family in Italy, Ayala family in Philippines, Li Ka-shing family in Hong Kong, Kyuk Ho Shin Family in Korea, Wang family in Taiwan, Molson family in Canada, etc.), researchers have largely neglected the study of family owned businesses. The only exception is performance investigation for this type of organization. Some studies already found that owner-operated firms outperform their professionally managed counterparts (Radice 1971, Williamson 1981, Demsetz 1983, Daily and Thompson 1994, Yeh and Shu 2000).

Researchers have identified three main reasons behind the lack of sufficient scientific research of families (Daily and Dollinger 1992):

- First, scholars have, unfortunately, accepted the idea originally offered by Berle and Means (1932) that professional managers, and not families, should be the ones running the business.
- Second, it is difficult to study both family and business systems simultaneously because each belong to a different scientific research.
- Third, there exists a common concept that family and work exist as distinct, self-contained systems, and they should be left as such.

The most important of these three reasons for failure to study the field of family business is the idea provided by Berle and Means (1932). They argued that control of large (American) firms had shifted from owners to professionals. Furthermore, this new professional class owned no important shares of the stocks in the corporation and are often motivated by different interests than the owners of the firm, namely, the shareholders.

Family business research is aggravated by the absence of an agreed framework for either model development or for hypothesis formulation (Brockhaus, 1994; Hoy & Verser, 1994 in Westhead, Cowling 1998), as affirmed by Carsrud (1994), who maintains that family business is a field in search of a research paradigm.

### 2.1.2 Critique of previous research

It seems that the problems facing the earlier studies of entrepreneurship and family business have persisted until the present day, and continue to challenge researchers worldwide. (Churchill 1992).

Existing previous research in the field of family business has investigated, to an extent, a number of issues which affect the management and performance of family-owned businesses (Westhead & Cowling 1998). However, there is a considerable amount of insufficiencies and weaknesses when it comes to the quality and essence of the previous research conducted in this field.

Among the main obstacles, a primary one is the scarcity of secondary data sources, which forces researchers to carry out field research, which in its turn, is relatively difficult to conduct due to the family business owners' disinterest in taking part in such studies and deficiency of hypothesis testing theories. (Brock 1994).

One of the most important issues, in our opinion, is the lack of a widely-accepted definition of a family firm, a very serious impediment encountered by all researchers. Any researcher needs to build his/her study on a solid theoretical basement, which is the definition, and therefore, due to the nonexistence of a common, workable definition, we find ourselves in a situation with as many definitions of family business as there are researchers, leading to a state of relative chaos, heterogeneity and impossibility of comparison of studies carried out in the field. A thorough analysis of this problem will be conducted in Chapter 2 of the present study.

Another significant feature of the previous research consists in its focus on quoted companies listed on the Stock Exchange (Stoy Hayward 1992), rather than concentrating on independent companies, which compose the core of family business firms. As Carsrud (1994) justly indicated, the studies of quoted public companies "while convenient from a data collection standpoint, are certainly confounded and limited in their explanatory power for the broad community of family firms".

**Comparative studies**

Another notable weakness of the previous research is the tendency for studying family businesses in isolation (Westhead & Cowling 1998), the field of family business is lacking extensive comparative studies in which family businesses would be contrasted with non-family businesses, on the basis of such factors as size, number of family members, financial performance, etc. (Brockhaus 1994; Donckels & Fröhlich 1991; Gallo 1995; Daily & Dollinger, 1992, Daily & Dalton 1992, Daily & Thompson 1994 in Hufft 1999).

However the awareness of the significance of such comparative studies is increasing, in order to understand the differences between family and non-family firms, as well as the aspects of management and performance of family-owned firms, as compared to non-family companies.(Brockhaus, 1994; Dyer & Handler, 1994; Reynolds, 1995 in Westhead &Cowling 1998, Gandemo 1998).

Research assessing the relative contributions of family and non-family firms should also identify "real" management and performance differences rather than `demographic sample' differences (for instance, location of the business, business age and size, main industrial activity, etc.) between family and non-family firms.

Among the most important authors contributing to this aspect of family business research, we could mention Donckels and Fröhlich (1991), who, in their seminal study *"Are family businesses really different? European experiences from STRATOS"* found differences between family and non-family firms in both culture and the personalities of the managers.

Luostarinen & Hellman (1994) compared the patterns of internationalization in family and non-family businesses, finding that in family businesses there is often a resistance to change, that family firms show slower internationalization than non-family firms, and that there are also differences between the two in goals, organizational climate and corporate culture.

Cromie et al. (1995) formulated and tested various hypotheses on differences between family and non-family businesses, collecting data by questionnaires. Family businesses were found to be more frequent within the manufacturing and business service areas and to have a greater number of employees than non-family firms.

Westhead & Cowling (1997) found the business of family firms to often be locally anchored, but they obtained no significant differences between such firms and non-family firms in terms of a number of economic performance measures, such as growth rate for sales and number of employees.

Gandemo (1998), in his study "Financial performance of family and non-family businesses", found that family firms are as good as non-family firms in carrying out normal business operations. Despite their higher debt/equity ratio, family firms do not seem to be negatively treated in the credit market,. They have a higher return on equity, mainly due to their higher debt/equity ratio. Family firms do suffer, however, in their treatment by the tax system, their calculated effective corporate income tax rates being higher than those for non-family firms.

As we can see above, certain attempts to break through this state of passivity in the field of comparative family business research have been made, however they are not yet sufficient, either in number, or in quality.

**Longitudinal Studies**

Apart from lack of inconclusive comparative studies, the field of family business is also experiencing a deficiency in the number and quality of longitudinal studies. (Van de yen 1992).

The factors affecting the success and continuity of family-owned businesses are multi-year processes-not mere individual events, therefore the necessity of longitudinal studies, which focus on change over time, is becoming increasingly stringent.

As Brock (1994) points out, the reasons behind this research insufficiency are quite pragmatic. Firstly, it is quite seldom that family business owners are willing to participate in studies that require a single response from them, and are being conducted over a prolonged period of time. The survival rates of family businesses are quite modest, thus making it quite difficult to follow up on them in course of longitudinal research.

Apart from the reasons mentioned above, another notable aspect leading to the deficiency of longitudinal studies is the need for young researchers to continuously produce academic material for journal articles in relatively short periods of time in order to obtain promotion. (Brock 1994)

**Relevancy of issues**

A common weakness of the previous (in 1970s and 1980s) family business/entrepreneurial research is that there was rarely a direct link existing between the issues examined and the real concerns and needs of the family business owners (Brock 1994). As Brockhaus (1988) indicates, there was practically no solid connection between the topics reported in the leading entrepreneurship journals and the problems facing entrepreneurs. Churchill (1992) pointed out that the field of family business/entrepreneurship research is actually harmed by the research conducted solely for purposes of academic progress of the author, i.e. promotion and tenure.

Lansberg, Perrow, and Rogolsky (1988) found that family business research has tended to focus more on issues of service to family businesses. It is believed, however, that this positive circumstance will become more threatened as the current family business researchers, who enjoy pragmatic, consulting relationships with family businesses, are being supplemented by those with a more theoretical background. These newcomers are expected to possess better researching skills, however they may display less interest in research topics that are less relevant to issues facing family business owners.

**Research methodologies**

A characteristic weakness of the family business research is the inability of the researchers to provide appropriate research designs, along with the absence of sophisticated statistical techniques (Aldrich 1992 in Brock 1994). This deficiencies are caused by the fact that the first generation of family business researchers came from a very applied background, and therefore had no comprehensive training in research practices and techniques (Brock 1994). It has been noted that the quality of family business research and the use of statistical tools improved considerably with the coming of a younger generation of researchers into the field (Handler 1989).

The number and quality of data banks is continuously growing and developing, thus allowing researchers with adequate research design and statistical skills to access these sources of information in search of new perspectives for research (Katz 1992 in Brock 1994).

### 2.1.3 Suggested selective research

When it comes to further research suggestions, it is quite difficult to identify studies that need to be conducted on a global level, due to the diversity of research subjects and issues covered worldwide. Therefore, only a brief summary of primary aspects for consideration and study in family business will be proposed below.

**Theoretical framework and definitional aspect**

- Family business research is aggravated by the absence of an agreed framework for either model development or for hypothesis formulation (Brockhaus, 1994; Hoy & Verser, 1994 in Westhead, Cowling 1998), as affirmed by Carsrud (1994), who maintains that family business is a field in search of a research paradigm. As Wortman (1994, p. 19) pointed out, there is currently a persistent lack of extended conceptual studies conducted in the field of family business. It is therefore implied that there is a stringent need for developing a theoretical framework for family business, including a network of cause and effect relationships. While developing these frameworks with a wide spectrum of subsequent sub-frameworks (e.g. family conflicts, succession, etc.), researchers should use "concept transfer", i.e. borrow concepts, theories, as well as research, from other fields (in the case of family business, this would include the disciplines of psychology, sociology, economics, law, organization theory, policy sciences, general systems, organization behavior, social issues in management, family development, and family sciences), where theoretical frameworks are already in place.(Wortman 1995).

- In addition to the above-mentioned aspect, it is essential that a precise and all-inclusive definition of family business is developed, as presently there is a broad range of definitions available developed by researchers, however this fact seems to only complicate the situation, as far as the elaboration of a conceptual framework is concerned. Researchers face difficulties due to definitional clarity issues. The results of the studies may vary greatly depending on which definition has been used (Westhead, Cowling, 1998; Shanker, Astrachan 1996; Neubauer, Lank 1998).

**Impact of Globalization/Internationalization/Technology on the family business**

Besides the subjects named above, there is a whole range of smaller pragmatic topics, which are worth studying. For instance the aspect of globalization/internationalization/technology and their impact on family firms.

The global business arena is the latest challenge to entrepreneurs and family businesses. A serious amount of literature has been produced on the subject of growth and internationalization for large, public, multinational corporations (Donckels 1996 in Gandemo 1998). Theories of international business once focused on large-scale multinational of enterprises somewhat neglecting family firms. This was appropriate, in the past, as international business and family enterprises were almost mutually exclusive. This situation is changing. Nowadays, family firms are starting to receive proper attention.

It used to be that internationalization was generally a consideration of large corporations, while family firms tended to be local. However, innovative technology is facilitating trade, as are the relaxation of regulations and the removal of trade barriers. The internationalization of markets has become inevitable, even for small family firms.

In the past, those who wished to avoid uncertainties of international markets intentionally kept their firms domestic in scope. This option is disappearing. International competition penetrating domestic markets increasingly threaten even the small, local, family business. Thus, success in enterprise is becoming a function of a firm's international competitiveness, regardless of size or geographic scope.

Increasing global competition is changing the nature of knowledge necessary for survival in the world of business. Government deregulation and freer trade offers great opportunities and threats to family enterprises. The availability of venture has facilitated the process of creating a new venture, but staying in business is a greater challenge than ever before. Free trade agreements will help enterprises penetrate foreign markets, but consumers will still have different preferences for various goods, and people will retain a variety of customs; success in any market will require an appreciation for nuances in various business environments.

International competition is rapidly coming to previously protected domestic markets, while opportunities are arising in foreign markets. The distinction between domestic and foreign is becoming fuzzier as protective barriers crumble. Entrepreneurs will need a new orientation with new attitudes, new skills, and new operating knowledge with sensitivity to different environments. Success will be a function of the ability to be globally competitive even when refraining from competing abroad. Therefore, family firms must be prepared to develop new strategies, while dealing with international competitors at home as well as abroad.

In the light of these recent changes and developments, the use of a different methodology could prove to be a crucial factor for a thorough understanding of internationalization and globalization in the family business context. For example, utilizing longitudinal case studies or using multiple respondents from the same organization as part of a longitudinal data collection. Or future researchers may consider exploring other statistical analysis options such as structural equations modeling or categorical regression with optimal scaling. (Harveston, Davis 1997).

Researchers working n the field of family business need to develop theories that deal with the adoption and implementation of technology in family-owned businesses, as it has been found (Harveston, Davis 1997) that technology stimulates and facilitates growth and internationalization.

As market realities change, strategies of family businesses will need a new orientation with new knowledge and sensitivity. Research emphasis must be placed on the changing role of governmental forces, the changing nature of competition, and market forces including a variety of social-cultural variables.

Future researchers may investigate the influence of industry in affecting firm internationalization or the influence of antecedents to internationalization in the family business including the entrepreneur's background and training, external constituents (i.e., banks and other providers of capital) or the interactions of family members with the entrepreneur.

Because familial relationships can be complex, the dynamics of different interactions should be considered, such as the role of potential successors and their relationship with the entrepreneur/founder, as well as with other family members who work within the family business.

**Family Business Statistics**

Last, but not least, the authors strongly feel that there is a great need for outstanding research efforts in regard to the issue of family business statistics. Researchers have only scratched the surface of this deep and challenging issue. In the following chapters, the authors will attempt to make their contribution to the study of Family Business Statistical Assessment Research (FBSAR).

Clearly, the family business arena is broad and holds many other possible perspectives for research of family business that have not been enumerated here.

## 2.2 Family business research in Finland

Despite the relatively wide spread of family enterprises, there is not much family business literature presently available in Finland. Partly, due to the fact that the field is young, yet mainly because the small business entrepreneurship has never been too popular in Finland for the following reasons.

SME population statistics alone do not comprehensively cover the whole category of family businesses. According to the classification in use, the group of small- and medium-sized companies includes many non-family businesses, while excluding a significant share of family firms. As discussed earlier in the present study, the family business cannot be measured in terms of turnover or employees alone. An adequate characterization of a family business requires certain quality parameters, which distinguish it from other businesses.

There is no extensive family business statistical assessment research available in Finland yet, nevertheless several descriptive studies have been conducted, investigating the qualitative characters of the family firms.

As pointed out earlier, Paasio and Heinonen, when conducting their family business study in Finland (1993), applied the SME criteria throughout their research. Littunen and Hyrsky (2000) have examined the early entrepreneurial stage in Finnish family and non-family firms, focusing on the groups of metal-based manufacturing and business services. The study carried out by Hautamäki (2000) is dedicated to the research of successful firms in the Finnish countryside, most of them being or having started out as family businesses. Varamäki, of the Seinäjoki Polytechnic, in her 1999 publication, has been studying the locational aspect of the family business in Etelä-Pohjanmaa, where she investigated whether the county in question still retains its entrepreneurial roots and how the generational transition has been handled among the family businesses there.

Undoubtedly, the biggest name on the Finnish family business research landscape is Matti Koiranen, who is the first professor holding the chair of family business in Finland and the entire Scandinavia. Koiranen's research has covered a wide variety of aspects within the family business spectrum. Koiranen has investigated the quality variables of Finnish family businesses in several studies (Koiranen 1998; Koiranen and Tunkkari 1999, Koiranen 1999, among others). In his studies, Koiranen has researched such topics as the spread of family businesses, personal characters of family business entrepreneurs, family relations, generation shift, positive and negative factors of family business, family business environment and the share of growing family firms, etc.

One particular study, bearing special interest for the present research, is the cross-cultural comparison between Finnish and Malaysian family businesses (Koiranen and Tunkkari 1999), where the results show the importance of cultural studies. This study demonstrated that although there are basic similarities between Finnish and Malaysian family-owned firms, the characteristics vary depending on which continent and which country is being examined. The need for more comprehensive studies in this area is supported by the fact that the business world is currently undergoing a process of globalization and more family businesses will also expand their businesses abroad. Therefore, it is important to study both Finnish and foreign family businesses in the terms of numbers and characters, in order to understand the family business culture in different countries and thus achieve success in foreign operations.

The few studies conducted in the field of family business in Finland have only managed to scratch the surface of this profound and captivating subject. There is currently need for modalities of statistical assessment of family businesses in Finland, in order to achieve more reliable results and to draw attention to the issue of family business. As the necessity for such studies is high, further research greatly relies on the successful creation of a statistical assessment framework, which will provide researchers with a solid base for future study.

Following an increasingly growing interest toward family business, The Family Business Network Finland was established in the spring 1997. The objectives of this organization are to promote better relations between member companies, share experiences of family business entrepreneurship, strengthen the family business status in the society, encouraging family businesses to overcome problems regarding the generational transfer and to improve, promote and assist the level and scale of family business research and education. (FBN 1997).

By the year 2000, Family Business Network Finland already had over 130 members, with the total turnover of member companies reaching approximately FIM 100 billion, and employing over 112000 persons.

To qualify for membership in the Family Business Network, the candidate company has to satisfy the following requirements:

1. The entrepreneur(s) commands alone or together with their families a significant part of the capital; or
2. The entrepreneur(s) or owner families have decisive influence on the direction of the firm, regardless whether the management of the firm is carried out by themselves or by a professional manager;

As mentioned in the FBN publication "Perheyritys" 3/2000, family businesses are the "backbone" of the economy in Finland, as well as in the rest of the world. Family businesses, being innovative, entrepreneurial entities, maintaining continuity and upholding family values, in combination with their employing capacity, are vital for any society.

The family business research in Finland is currently entering the phase of rapid development, thanks to the activities and efforts of such organizations and people as The Family Business Network Finland, and professor Matti Koiranen, who are raising the awareness of the society and media to the problems and needs of family businesses.

## 2.3 Definitions of Family Business

Generally, the traditional image of a family business is that of a small, proverbial mom-and-pop business. Yet, family firms cover a very wide range of business size categories, from publicly-traded giants, such as Campbell Soup in the US, News Corporation in Australia, to private companies like Levi Strauss, Mars Candy, Bechtel in the US, Tata Industries in India, and the large "Grupos" of Mexico, and to the tiniest street kiosk or a family farm.

The most obvious form of family business is the one most frequently associated with the term – a company started, managed, and owned by one family, who is enjoying the benefits, as well as enduring and overcoming all the hardships of a family enterprise together.

It is absolutely clear that family businesses possess unique qualities and represent an extensive spectrum of backgrounds, industries, wealth and locations, while displaying many of the elements of a traditional business (Mennen 1998).

### 2.3.1 Lack of definitional clarity

The determination of family versus non-family owned businesses is a matter of much discussion and little consensus. Davis (1982, in Carsrud et al. 1997) indicated that the "search for a uniform definition to distinguish between these various types of family firms would seem an almost daunting task". Nevertheless, it is critical to the family business scientific research that a workable typology is developed and agreed upon.

The benefits of the development of this typology would be the opportunity to identify the unique features of a family business, which make it different from other commercial organizations, such as an entrepreneurial firm, a publicly-traded company, etc.

As Carsrud et al (1997) noted, a significant share of the world economy is left unstudied, without an understanding of what is a family firm. Shanker and Astrachan (1996) have shown that the economic contribution of family business is being directly influenced by the chosen definition.

Carsrud et al. (1997) indicated that there have been made numerous attempts to provide various models for family business research, however most of these studies have been quite restrictive, as they only focused on one of the following aspects:

- transition from owner management to professional management,
- degree of ownership,
- degree of family involvement,
- life cycle,
- degree of interaction between interdependent subsystems,
- number of family or generations present,
- succession processes, or
- non-family "business relatives".

One of the main existing problems in the field of family business research is the lack of a theoretical discussion on which operational definitions of the family firm could be based. Under these circumstances, some firms are included in samples when they should not be, while other types of family businesses are excluded. Some firms may be defined as a family firm, despite the fact that they do not consider themselves as such, while other firms may consider themselves family business, but according to the operational definitions they cannot be regarded as such. This field is so vague and confusing that many non-family firms may display typical family business features, while in certain cases family firms do not act or appear as such. (Carsrud et al. 1997).

### 2.3.2 Previous Definitions

Management researchers have been preoccupied by the development of definitions, taxonomies, and typologies of business organizations, including family firms, for over thirty years. (Carsrud 1994).

The attempts to push forward with the research of family businesses seem to have ended up in the same ditch, which is the lack of a widely accepted and commonly agreed-upon (both by researchers and businessmen), workable definition of family businesses.

As Westhead & Cowling (1998) pointed out, it is problematic for researchers to accurately inform government, policy makers, and practitioners without an appreciation that the family firm definition selected has a direct impact on the scale of the `target group' for policy intervention.

Lansberg et al (1988) stated that "until researchers agree on what a family business is, they will find it difficult to build on each other's work and to develop a usable knowledge base". It is the authors' profound conviction that there is no one single definition of a family business that is widely acceptable. We have, therefore, identified several definitions intended to measure the scale of family business activity.

It seems like the number of available family business definitions equals the number of researchers interested in the field. In her dissertation, Handler (1989) arranged the existing definitions of family business into four major categories:

1) ownership or management,
2) interdependent subsystems,
3) generation transfer, and
4) multiple conditions.

Carsrud et al. (1997) justly appreciated that the value of the typology proposed by Handler (1989) lies in the opportunity for the development of a system for defining various kinds of family firms, rather than forcing a single definition.

**I. Ownership management:**

- Barry (in Handler 1989): "An enterprise, which in practice is controlled by the members of a single family".
- Barnes & Hershon (1976): "Controlling ownership [is] rested in the hands of an individual or of the members of a single family".
- Alcorn (1982): "A profit-making concern that is either a proprietorship, a partnership or a corporation. If a part of the stock is publicly owned, the family must also operate the business"
- Dyer (in Handler 1989): "A family firm is an organization in which decisions regarding its ownership or management are influenced by a relationship to a family (or families)"

- Stern (in Handler 1989): "[A business] owned and run by members of one or two families"
- Lansberg, Perrow, & Rogolsky (1988): "A business in which the members of a family have legal control over ownership"
- "A FB is any business where more than one member of a family takes on management or active ownership, responsibility. You have a FB if you work with someone in your family in a business you both own or which you may someday own. The essence of the family business is that blood, work, and business ownership are held in common". (Jaffe 1991)
- In their study "Are family businesses really different? European experiences from STRATOS" (1991), Donckels and Fröhlich, have summed up the essence of family business in the next simple formula-a family business is "that in which one family holds the majority of the shares and controls management".
- Whether the majority of ordinary voting shares in the company were owned by members of the largest family group related by blood or marriage (Church 1969, Stoy Hayward 1992b, Smynios & Romano 1994, Cromie et al.1995, Reynolds 1995 in Westhead & Cowling 1998).
- Ram & Holliday, Binder Hamlyn, Carsrud (in Westhead & Cowling 1998) believe it is critical that the Chief Executive, Managing Director or Chairman perceived the company as being a family business.

**II. Interdependent Subsystems (family involvement in the business):**

- Beckhard & Dyer (1983): "The subsystems in the family firm system include

(1) the business as an entity,

(2) the family as an entity,

(3) the founder as an entity,

and (4) such linking organizations as the board of directors".

- Davis (1983): "It is the interaction between two sets of organization, family and business, that establishes the basic character of the family business and defines its uniqueness".
- "A Family Business is defined as an organization whose major operating decisions and plans for leadership, succession are influenced by family members in management or serving on the board" (Handler 1989).
- William G. Mennen IV (1998) has come to the conclusion that a family business is " one in which those who share your lineage or personal life also experience all of the business'

highs and lows. Financial participation, while often present, is not a requirement." Well, this definition is quite broad, however it does provide us with general guidelines on the constituency of a family business.

**III. Generational Transfer:**

- Churchill & Hatten (1987): "What is usually meant by 'family business' is either the occurrence or the anticipation that a younger family member has or will assume control of the business from an elder".
- Ward (1987): "[A business] that will be passed on for the family's next generation to manage and control.
- Ward and Aronoff (1994) seem to prefer a definition based on intentions more than current family dynamics in order to portray a more proactive, longer range connotation to strategy development: "We find the most useful definition of a family business to be a business intended for the next generation of family, *intention* being the critical word. When owners start thinking about the next generation being part of the business, family concentrations become important. Before that time the business may be better defined as an owner-managed business. Owner-managed businesses reflect more purely the personal goals and personality of the owners".
- Whether the company had experienced an inter-generational ownership transition to a second or later generation of family members drawn from a single dominant family group owning the business (Channon, 1971; Gasson et al., 1988 in Westhead & Cowling 1998).

**IV. Multiple Conditions:**

- Donnelley (in Handler 1989): "A company is considered a family business when it has been closely identified with at least two generations of a family and when this link has had a mutual influence on company policy and on the interests and objectives of the family".
- Rosenblatt, de Mik, Anderson, & Johnson (1985) "Any business in which the majority ownership or control lies within a single family and in which two or more family members are or at some time were directly involved in the business".
- Bork (1986): "Strictly speaking, a FB is one that has been started by a family member and has been passed on, or is expected to be passed, to succeeding generations of the family, sometimes through marriage. Descendants of the original founder will own and control the business. Also, members of the family work, participate in, and benefit from the enterprise."

- "Most simply stated, a family firm is one that includes two or more members of a family that has financial control of the company" (Astrachan, Ward, Aronoff 1996).
- According to Smyrnios et al. (1997), in order to be categorized as a family business, a firm should fulfil at least one of the following four criteria:

- More than 50% of the ownership being held by a single family,
- More than 50% of the ownership being held by more than one family,
- A single family group effectively controlling the business,
- The majority of senior management being drawn from the same family.

- Chua, Chrisman and Sharma (1999) propose a definition based on the following components, which are the "*involvement of family in the business*, along with *the shared vision held for the firm by a family or a small group of families and the intention of the dominant condition to shape and pursue this vision, potentially across generations of the same family or small group of families*". In other words, they consider a family business as a business which is governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families.

It is probably safe to declare that the studies, which exhibit the highest numerical dominance of family businesses, have applied the broadest definitions, by asking respondents whether their business satisfied one specific criterion. Handler (1989) observed that researchers who define family business only by ownership-management criterion may be studying organizations that have fundamental differences from those who use the family's involvement in the business as their criteria.

In the authors' opinion, an adequate characterization of a family business requires the use of a combination of criteria. Therefore, in the present study, the workable definition developed for the purposes of statistical assessment of family business populations will be based on a fusion of criteria representing all the four dimensions described above. The authors are convinced that this is the optimal modality for defining family business in terms of reliable and credible results.

## 2.4 Family Business Statistical Assessment Research (FBSAR)

### 2.4.1 Necessity of FBSAR

The interest for family business statistical assessment research (FBSAR) has only emerged recently, in the light of attention paid by government bodies, policy makers and other parties involved in understanding and helping family owned businesses, as well as by those working within family owned businesses. These parties are interested in a pragmatic and reliable assessment of the population of family owned firms due to several reasons.

Firstly, family business owners would like to obtain the possibility to lobby their interests in various instances. To obtain this opportunity, family business owners need to come into possession of realistic figures, including family business population numbers, which would truthfully reflect the state of affairs and thus enable them to successfully defend and promote their vital interests, for instance, such as lower inheritance tax.

Secondly, a clear picture depicting the amount of family businesses within a country would greatly contribute to a further organization and consolidation of family owned firms thus leading to the creation of an improved image, prestige and respect for these enterprises.

Thirdly, with a proper statistical assessment framework in place, the task of comparison of international (and not only) economic indicators would be simplified manifold, while academic researchers could greatly benefit from such a framework in their studies.

### 2.4.2 Classification of business statistics

There has been conducted very limited research dedicated to the statistical assessment of family firms, primarily due to the crucial problem of lack of a universally accepted definition of a family business. Some of the most notable academic efforts belong to Shanker and Astrachan, who, in their seminal article titled "Myths and Realities: Family Businesses' Contribution to the US Economy – A Framework for Assessing a Family Business Statistics" (1996), have proposed a classification into four categories of business statistics:

1. "Street Lore"

This is the information which is undoubtedly lacking research origins or coinciding family business definitions. It is no surprise that vast majority of family business statistics belong to this category. According to this data, 90-98% of all US businesses are family-owned.

2. Educated Estimates

The data in this category originates from experts in the field. For instance, much of the information available on family firms in Finland is of this nature.

3. Extrapolations

This category of statistics provides information based on the available or small samples of family businesses that have been projected out to the entire universe. In this category fits the work of Binder Hamlyn (1994) who indicated that 70% of surveyed private companies in the United Kingdom were traditional family-owned companies.

4. Family Business Facts

These facts represent the smallest share of statistics available on the market, and they are based on empirical research, which applies a precise definition of a family business. In this category, we could place the work of such authors, as Donckels and Fröhlich, who in their study "Are family businesses really different? European experiences from STRATOS" (1991) found that family firms accounted for 67% of independent small and medium-sized manufacturing firms in Great Britain.

In a discussion at an ICSB workshop in Stockholm in 1996 David Storey declared "The number of family businesses depends on how you define them". The criteria used to identify a family business includes:

- Percentage of ownership
- Voting control
- Power over strategic direction
- Involvement of multiple generations
- Active management by family members and others

This criteria can be divided into three following groups, depending on the degree of family involvement :

1) Broad- little direct family involvement (effective control of direction)

This model implies a Low Family Involvement (Broad) Definition, and is based on the application of the broad family business definition in two business subgroups-public companies and private firms.

According to the existing research, it is suggested that at least 60% of all public companies are family operated businesses. However, public companies represent less than 2% of all US companies and this fact, with approximation, is also valid for other economies. (Burch 1972, McConaughty 1994, and Jetha 1993 in Shanker & Astrachan 1996)

The other group, privately-held companies represent a significantly larger proportion of businesses. Shanker and Astrachan worked with tax returns to determine the number of private corporations that are family-run. This is an effective method for identifying ownership, however this method does not work properly in other countries, including Finland, as it is impossible to establish the degree of family involvement in ownership based on the taxation information. Shanker and Astrachan estimated that 60% of all privately-held firms are family-run businesses. When added to the estimated number of public companies, the total share of family-run firms in the US economy reaches 92% of all businesses, or 20.3 million firms, figure which is comparable to the "Street Lore" prediction of 90-98% (Shanker & Astrachan 1996)

2) Middle- some family involvement (all criteria of broad group plus the requirement that the founder or descendant runs the company);

3) Narrow- a lot of family involvement (all other criteria plus multiple generational involvement) The total number of family businesses in the US according to this definition is 4.1 million.

As seen above, the difference between results obtained, 20.3 million firms and 4.1 million firms, is overwhelming. Shanker and Astrachan have thus succeeded to demonstrate that many firms which are included in the “Street Lore” category of data, have very little direct family involvement, and that the definition applied has a primary role in obtaining reliable results.

In the following chapter, the authors will introduce and present own methodological approach designed to measure the population of family businesses in Finland.

# 3. Methodology

## Introduction

There has been no extensive research previously conducted in regard to the population of family businesses in Finland. Nevertheless, it is estimated that the percentage of family firms reaches 70% of all enterprises, this guess being primarily based on the amount of micro-small companies in Finland. There is a clear need for such research, in order to lay the foundation for further family business studies, particularly in the quantitative area.

Due to the extensive amount of data and the novelty of the research subject, the researchers opted for a cooperation with the Statistics Finland, who provided assistance and support throughout the study.

The Business Register, which is a Statistics Finland publication updated on a monthly basis, provided the researchers with the necessary data for the study. This Business Register serves as the most adequate and appropriate foundation for the present study, being the most comprehensive register of businesses in Finland, covering all enterprises, corporations and self-employed persons which are liable to pay value added tax or have paid employees. The data from the 1999 Business Register was used in the present study.

The first step of the present study was the designing of a deductive approach, consisting of a subtraction method, meaning that firstly business forms which, by definition, cannot be family businesses, for instance, such as state owned companies, are subtracted from the total number of companies in Finland, based on the information available from the Business Register. Upon the completion of the pragmatic application of this deductive approach, there were four legal form categories (natural person, general partnership, limited partnership, limited company) left. It was assumed that businesses falling into the categories of 'natural person' as well as 'general' and 'limited partnerships' are family firms, therefore it was only one category of businesses which was left for examination, the 'limited company' group of enterprises.

The next logical step was to assess the scale of family business presence within this category mentioned above. The only possibility to carry out this estimation was the application of a random sampling technique among the firms represented in the 'limited company' group.

A random sample was compiled, based on the data available in the Business Register, and a questionnaire was sent out to the 895 companies selected for the sample. The spread of family-owned businesses among limited companies was obtained on the basis of the valid returns from the random sample.

The total amount of family-owned firms in the Finnish economy represented the sum of the number of firms identified as family businesses among limited companies and the companies belonging to the other 3 groups-'natural person', 'limited partnership' and 'general partnership'.

## 3.1 Subtraction technique

Following several constructive meetings with the experts from Statistics Finland, the 'subtraction' approach was chosen as the cornerstone for the methodology of the study, meaning that the so called "clear cases", like state owned companies, will be removed/subtracted from the total number of businesses presenting interest for this research. This 'subtraction' approach would function as a base method and a starting point for the present study. The real family business rate will be defined following the determination of the number of potential family businesses.

### 3.1.1 Definition of family business applied in the study

In order to start the deduction process, it was vital that the definition of family business was agreed upon. The subtraction approach lacked validity in the absence of a proper and accurate definitional foundation.

After careful overview of the previous research carried out in regard to the issue of family business definitions, the authors identified several criteria necessary for defining the population of family businesses in Finland.

It was decided that a tighter definition would lead to more reliable findings, therefore the working definition was based on the elements listed below. A business can be considered a family business if a) it satisfies the *ownership* criterion (more than 50% of the ordinary shares in the company were owned by a single family group related by blood or marriage), and b) it additionally satisfies *at least one* of the other criteria:

1. The establisher of the company, managing director and/or chairman perceived their business to be a family firm,
2. A single family group effectively controlling the business,
3. The business has already experienced /going to experience a generational transition.

It was decided that a relatively strict definition for a family business should be used in the study, in order to gain the best validity and reliability for the results of the research and therefore the authors combined elements from a wide range of definitions, belonging to several researchers. Some of these researchers were even so strict in their definition of what is a family business that they insisted a business could be called a family business only on the condition of a generational transfer having taken place. However, the generational transition is less relevant for the purposes of our study than it is for other scholars, as the elements of ownership and management were primarily considered in this study, while the aspect of generational transfer bears no extensive significance under the circumstances of the Finnish economy and society.

### 3.1.2 Deduction by type of ownership

Gandemo's (1998) publication, titled " Financial performance of family and non-family businesses" provided the main guidelines necessary for designing the subtraction technique. Gandemo had divided companies into two groups depending on the form of the ownership (private and public), and then subtracted the so-called 'clear' cases. According to Gandemo (1998) family businesses *are not*:

- government or municipality-owned firms,
- consumer's cooperatives,
- producer's cooperatives,
- foundations,
- foreign companies and
- public companies.

The firms that are left after the deduction are then considered as family businesses.

In order to develop the idea presented above into a further, more detailed picture of spread of family businesses, it was decided to use the number of employees as one parameter in defining family businesses, and a random sample survey of limited companies as another tool for determining the number of family firms, together with the 'subtraction' procedure.

Under the given circumstances, the authors started the pragmatic research by deducting companies from the total number of firms, according to their type of ownership and their legal form. According to Statistics Finland, the existing types of ownership of companies in Finland can be categorized into six different groups:

- Private domestic,
- State,
- Municipality,
- Region of Åland,
- Foreign-owned (enterprises in which at least ten per cent of the equity is in foreign ownership and subsidiaries of foreign-owned enterprise groups),
- Other type of ownership.

The first step was to deduct all the firms belonging to other forms of ownership than "private domestic" companies and "region of Åland" companies, as it is obvious that enterprises owned by the state and municipalities cannot be family businesses. Companies belonging to the 'other type of ownership' group are, firstly, numerically insignificant, and secondly, family involvement is hardly traceable. A further filtering of companies within these two remaining groups has been done according to their legal form.

### 3.1.3 Deduction by legal form

In the Business Register compiled by Statistics of Finland, companies are categorized according to their legal form, as shown in Table 1:

TABLE 1 Business Register classification by legal form.

| BR code | Legal form | BR code | Legal form |
|---|---|---|---|
| 11 | Natural person | 35 | Housing company |
| 12 | Decedent's estate | 41 | Co-operative society |
| 13 | Corporation subject to taxation | 51 | Foundation, fund |
| 14 | General partnership | 52 | Voluntary association |
| 15 | Bankrupt's estate | 53 | Mutual indemnity insurance assoc. |
| 21 | Limited partnership | 54 | Economic association |
| 22 | Shipping company under joint ownership | 61 | Government authority |
| 31 | Limited company | 62 | Government enterprise |
| 32 | Mutual insurance company | 63 | Public corporation |
| 33 | Savings bank | 71 | State church |
| 34 | Pension foundation or fund | 72 | Other religious body |
| | | 90 | Other legal form |

It was relatively safe to filter out such cases which cannot be owned by a single family or whose functional interest is non-profit activity, such as cooperative societies, foundations, government enterprises, state church and other religious body, banks and insurance companies, voluntary -and economy associations, shipping company under joint ownership and a public companies.

However, there were a few cases left where the family ownership could have been present, such as decedent's estate, bankrupt's estate, housing company and corporation subject to taxation, but they were decided to be excluded due to the fact that their influence on the results would have been statistically insignificant, as they only accounted for 0,048 % of all companies in Finland and not because they could not be family businesses.

After the subtraction of companies by legal group, the following forms were left:
- 11 Natural person,
- 14 General partnership,
- 21 Limited partnership,
- 31 Limited company.

Upon the completion of the deduction process, there were four legal forms left, which provided the base for further study.

### 3.1.4 Natural person, general partnership, limited partnership and limited companies

It was decided that the approximately 121000 firms belonging to the groups of 'natural person', 'general partnership' and 'limited partnership' could be considered family businesses for several reasons. The legal form of 'natural person' can obviously be considered a family business, by definition, according to its ownership parameter. This type of companies is owned and managed by a single person, thus having all rights to be qualified as family business. The businesses belonging to the group of 'natural person' represented the biggest group of firms, approximately 90 000, while the other two groups, 'limited partnership' and 'general partnership', accounted only for approximately 30 000 enterprises.

Micro-sized enterprises, employing under 5 employees, accounted for 92 per cent of these 30 000 companies, and micro-small sized companies have traditionally been considered as family businesses in the existing literature. Thus, only approximately 8 per cent of businesses included in the groups of 'general partnership' and 'limited partnership' could potentially be firms other than family-owned enterprises. Hence the authors' assumption that the firms contained in the categories of 'general partnership' and 'limited partnership' are considered family businesses, as in the present study micro-sized companies are regarded as family firms.

The group of limited companies, in itself, accounted for approximately 91 000 business units, a figure which displays the importance of this single group of firms, whereas the other three groups altogether included 121 000 enterprises. It was necessary to consider limited companies as a separate group due to the great size and influence of this category.

After having decided that firms belonging to the groups of 'natural person', 'limited partnership' and 'general partnership' are family businesses, the authors already had detailed information on more than 120 000 enterprises. There was no statistical data available for limited companies which could indicate the degree of ownership or any other parameter for a direct identification as family businesses, therefore this particular business group gained the majority of attention within the study.

It was decided to use different criteria for identifying those public limited companies which are family businesses, because their organizational structure differs from the private-owned limited companies. However, the authors did not want to exclude this important group of businesses from the study, since undoubtedly, some of them are definitely family firms, with long traditions (generation to generation) and are a part of the Finnish business environment, and therefore their share of the total number of family firms in Finland has to be acknowledged.

The authors understand that very few public limited companies are family businesses, nevertheless it is believed that these firms and their contribution to the society and the economy, as employers and taxpayers, cannot be neglected or underestimated. These public limited companies are usually much larger in terms of turnover and employees than private limited companies, and if they were included in the total number of limited family companies, their possible influence on the figures could distort the results. Due to these reasons, public limited family companies were defined differently than others, in the present study.

The authors realize that it is quite rare that more than 50% of the stocks of a public limited company belong to a single family, and therefore it was decided that a minimum required ownership of 8% of the total amount of stocks, and at least one family member on the board of directors or active family involvement in the decision-making process would qualify a public limited company for the status of family business. This condition will be the definition for public limited family companies.

In practice, the public limited family firms were pointed out one by one with the help of professor Koiranen and the Family Business Network Finland, because the group of public-owned limited companies was small and it was possible to complete the work manually.

### 3.1.5 Family farms

Before going any further, one business group has to be declared separately. Due to the fact that there are doubts whether to include farms into the family business category, it was decided to consider this business group separately, according to the data provided by the Agricultural Entrepreneurs' Pension Foundation (MELA-Maatalousyrittäjien Eläkelaitos) and Statistics Finland. Statistics Finland gathers data regarding farms which pay salaries or value added tax, whereas MELA has information on all farms paying pension fees. The farms included in the Business Register were handled as any other ordinary business group, however the farms which do not employ any paid workers (although many farms do not pay salaries, it does not mean that family members are not working for the farm, as, in many cases, family members work part-time or even fulltime receiving paid remuneration) were considered as a separate group of family businesses in this study.

The authors were only interested in the number of agricultural enterprises in this context, since it is difficult to determine the number of agricultural entrepreneurs based on the pension insurance fee which is voluntary for other family members.

As pointed out earlier, MELA is a private pension foundation for agricultural entrepreneurs in Finland. MELA is responsible for retirement insurance of farmers, fishermen and reindeer farmers. According to Finnish law, every farmer has to pay a mandatory annual contribution to the pension insurance fund.

However, due to the difficulties associated with tracking down the number of farms outside the Business Register, the authors have decided to disregard any data other than the information provided by the Business Register.

## 3.2 Survey of private limited companies

### 3.2.1 The matrix

Classification by size group

The next step was to divide the private limited companies into smaller sub-groups according to the number of employees, and 12 size categories were formed in order to get very specified divisions. These categories are shown in Table 2.

TABLE 2 Limited companies, by size group.

| Size group, by personnel | Number of enterprises |
|---|---:|
| **Total** | 90 171 |
| 0 | 24 324 |
| 1 | 20 357 |
| 2 | 11 029 |
| 3 – 4 | 11 938 |
| 5 – 9 | 11 229 |
| 10 – 19 | 6 080 |
| 20 – 49 | 3 510 |
| 50 – 99 | 949 |
| 100 – 249 | 501 |
| 250 – 499 | 138 |
| 500 – 999 | 82 |
| 1 000 + | 34 |

It was decided that size-groups with under two employees will be considered family businesses, since, according to the family business theory, almost all of those companies fulfil the requirements necessary for qualifying as family businesses. There was also the case of holding companies or functionally dead companies which do not meet the family business criteria, but it was decided to include them here as well, as their influence on the results was not statistically remarkable.

The two size-groups, zero employees and one employee, formed up together about 44 700 companies, so there were only about 45 500 companies left, which did not provide any indications whether they belong to the group of family businesses. Statistics Finland did not possess any information regarding the ownership of these companies, thus the authors were left with the strategy of interviewing those companies. With the limitation of available funds and time, it was decided that it was necessary to compile a comprehensive random sample of those companies with the help of professionals from Statistics Finland.

At this point there were companies which were divided into size groups by size of their personnel. The authors found it both interesting and useful to divide the 45 000 companies left into business groups according to their main industry profiles, because detailed information on family business companies of that interviewed group of businesses was of high interest for the study.

**Classification by industry sector**

Thus, the next step was to break down the economy into six main business activity sectors, for the purposes of identification of the sector with the highest degree of family business penetration, as well as for a simplification of further research in the field of family business, according to Standard Industrial Classification (Appendix 1).

The selected industries were:

1. Manufacturing (categories C and D);
2. Services (E,H,J,K,M,N,O);
3. Wholesale and retail trade (G);
4. Agriculture (A,B);
5. Communications and transportation (I);
6. Constructions (F).

A secondary goal of the present study, besides the primary interest in identifying the number of family businesses in Finland, was to obtain additional information on the family business activity in the Finnish economy, particularly, which are the main sectors of the economy with the highest presence of family businesses, and therefore it was decided not to use the categories accepted by Statistics Finland, because their division was too detailed, and thus confusing, for the purposes of the present study.

**The matrix**

In order to simplify this research, as well as the random sample for the companies to whom the questionnaires will be sent, it was decided to create a matrix, which will include the two relevant vectors: a) size category (according to the number of employees) and b) business industry sector (according to SIC):

TABLE 3 Private limited companies, by size group an industry (excluding 0 and 1 employee groups).

| | Size group | | | | | |
|---|---|---|---|---|---|---|
| SIC | **Total** | 2 - 4 | 5 - 9 | 10 - 99 | 100 - 499 | 500+ |
| All Industries | **45 490** | 22 967 | 11 229 | 10 539 | 638 | 116 |
| C, D | 8 709 | 3 135 | 2 093 | 3 101 | 317 | 63 |
| E, H, J, K, M, N, O | 14 969 | 8 502 | 3 544 | 2 773 | 131 | 18 |
| G | 10 501 | 5 657 | 2 616 | 2 122 | 85 | 21 |
| A, B | 855 | 489 | 223 | 142 | 1 | |
| I | 3 556 | 1 800 | 893 | 787 | 65 | 11 |
| F | 6 900 | 3 384 | 1 860 | 1 614 | 39 | 3 |

### 3.2.2 The sample

A random sample of target companies was drawn from the matrix shown above. It would have been unjustified to extract an equal amount of enterprises from each cell of the matrix, as there are significant qualitative and quantitative differences within the matrix. Therefore it was decided to extract a weighted number of enterprises from each cell of the matrix, according to their importance and contribution to the economy, with an important share of the big companies, as they are the ones with the greater influences on the economy.

TABLE 4 Spread of sampled companies, by personnel size and industry sector.

| | Size group | | | | | |
|---|---|---|---|---|---|---|
| SIC group | 2-4 | 5-9 | 10-99 | 100-499 | 500+ | **Total** |
| C,D | 50 | 40 | 40 | 30 | 30 | 190 |
| E,H,J,K,M,N,O | 50 | 40 | 40 | 30 | 18 | 178 |
| G | 50 | 40 | 40 | 30 | 22 | 182 |
| A,B | 30 | 30 | 30 | 1 | 0 | 91 |
| I | 30 | 30 | 30 | 30 | 11 | 131 |
| F | 30 | 30 | 30 | 30 | 3 | 123 |
| Total companies | 240 | 210 | 210 | 151 | 84 | **895** |

Statistics of Finland provided the data on these 895 firms, necessary for the successful completion of the survey. The information provided by Statistics of Finland included such aspects as the Business Register code(*LY-tunnus*), name of company, postal address, postal code, city of registration (*postitoimipaikka*), county (*kotikunta*), province (*maakunta*), telephone code and number, business profile (*tomiala*)(according to Standard Industry Classification-95), personnel (in 1999), turnover (1999), legal form, type of ownership, language, number of offices (*toimipaikkojen lukumäärä*), export/import activity (*tuoja/viejä*).

### 3.2.3 The questionnaire

The final stage of the pragmatic research was carrying out the random sampling of the selected companies. For this purpose, a basic questionnaire for use in random sampling was compiled. This questionnaire comprised four simple questions, which could be answered with an unequivocal response (i.e. 'Yes/No'). A more detailed questionnaire could have been created, however it was decided that a simple approach should be pursued, due to the novelty of the research topic for Finland, as well as due to the limitation of response time and the desire to obtain the maximum amount of returns.

The questions contained in the questionnaire follow the guidelines of the definition chosen for the purposes of present research. It has been decided that, based on the questionnaire response, a business which, primarily, gave a positive reply to the question concerning the concentration of more than half of voting stock/decision power in the hands of a single family, and, secondarily, which gave a positive answer to at least one of the other three questions comprised in the above-mentioned questionnaire will be considered a family business.(Appendix 2)

Questionnaires were sent out to the 895 companies selected. Due to the limiting factor of time, respondents were asked to return the filled-out form within the period of 20 days.

The final number of family firms in Finland was obtained by summing up the results of the implementation of the two methods used in the present study-the subtraction procedure and random sampling, as well as adding the number of public limited companies, that are known to be family firms..

The results obtained are presented, analyzed and discussed in Chapter 4.

# 4. Findings of the study

## 4.1 Results

### Introduction

The first three chapters of the present study have laid the theoretical foundation which made possible the empirical research, results of which are presented in this chapter.

In the previous chapter the authors have assumed that companies belonging to four legal groups, such as natural person, general partnership, limited partnership and limited company (both, private and public owned ones), could qualify for the status of family businesses.

The task of the present study was to identify a modality for measuring the number of family businesses in Finland, on the basis of data provided by the four legal groups enumerated above.

TABLE 5 Total number of businesses in Finland in 1999, by legal form

| Legal form | Number of businesses |
|---|---|
| Natural person | 93 454 |
| Corporation subject to taxation | 1 620 |
| General partnership | 8 984 |
| Limited partnership | 27 472 |
| Limited company | 103 287 |
| Housing company | 6 490 |
| Co-operative society | 1 683 |
| Foundation, fund | 773 |
| Voluntary association | 6 710 |
| Economic association | 1 239 |
| Other forms | 2 449 |
| **Total** | **254 161** |

Business Register 1999, Statistics Finland

Table 5 above describes the basic classification of all companies in Finland, divided by their legal group. As seen in the table, the total number of enterprises in Finland amounts to 254 161 entities, number which also includes all 'dead' and inactive companies. However, in the detailed tables presented in this chapter, the 'dead' and inactive companies will be disregarded.

As described in the Methodology chapter, the authors decided that the current study will focus on four categories of companies - the groups of 'natural person', 'general partnership', 'limited partnership' and 'limited company'. The authors had agreed to pursue a deduction technique and therefore each group of companies will be presented and analyzed separately below.

The data presented in this chapter was provided by the Business Register, a Statistics of Finland publication from the year 1999 (the most recent available at this point).

### 4.1.1 Natural person, General partnership and Limited partnership

**Natural Person**

The group of 'Natural person' is the second largest group among all legal groups, after 'Limited company', in terms of population of businesses. As seen in the table 6 below, the value of this group for the Finnish economy is undeniable.

TABLE 6 Legal group 'Natural person'

| Size group, employees | Number of enterprises | Number of employees | Number of salaried jobs | Turnover FIM 1000 | Salaries FIM 1000 |
|---|---|---|---|---|---|
| 0-1 | 82 409 | 62 898 | 11 542 | 24 902 261 | 1 241 397 |
| 2-4 | 3 777 | 11 203 | 8 778 | 5 695 809 | 951 491 |
| 5-9 | 720 | 5026 | 4 509 | 4 359 435 | 520 214 |
| 10-99 | 394 | 6067 | 5 777 | 6 413 292 | 715 463 |
| **Total** | **87 300** | **85 194** | **30 606** | **41 370 797** | **3 428 565** |

The legal form of 'natural person' was almost without any doubts corresponding to the family business definition selected for this study. 94,39% of all these businesses belong to a size group of '0-1 employees', which means, in most cases, that the owner of the business also is the one who runs it. In such small entities as these companies, the family involvement in the business activity is direct and visible.

The small business influence is great in this group, as only 0,45% of all businesses are larger than micro-sized companies. This leads to the assumption that all businesses within this group can be considered family businesses. Therefore, at this point, the number of family business in Finland equals to 87 300 enterprises.

## General Partnership

As Table 7 below indicates, the 'General partnership' legal group of companies is approximately 10 times smaller, in terms of numbers of enterprises, than the previous 'Natural person' group. Nevertheless, this category of companies contributes significantly to the prosperity of the Finnish economy.

TABLE 7 Legal group 'General partnership'

| Size group, employees | Number of enterprises | Number of employees | Number of salaried jobs | Turnover FIM 1000 | Salaries FIM 1000 |
|---|---|---|---|---|---|
| 0 - 1 | 6 188 | 5 352 | 1 725 | 3 574 638 | 178 021 |
| 2 - 4 | 1 482 | 4 277 | 3 676 | 2 518 472 | 391 287 |
| 5 - 9 | 400 | 2 582 | 2 503 | 1 635 869 | 278 381 |
| 10 - 99 | 139 | 2 267 | 2 228 | 1 575 242 | 268 626 |
| 100 - 499 | 1 | 109 | 109 | 64 688 | 13 629 |
| **Total** | **8 210** | **14 586** | **10 241** | **9 368 909** | **1 129 944** |

This group hosts a large amount of micro-sized companies, which account for up to 98,29% of all companies contained in this category, and as mentioned previously, businesses of that size are considered as family businesses in the present study.

The total count of family businesses in Finland, at this stage, is 95 510 firms, as a result of summing up the number of businesses contained in the groups 'Natural person' (87 300 firms) and 'General partnership' (8 210 firms).

## Limited Partnership

The 'Limited partnership' group of companies is presented in Table 8 below. This category of companies follows the same trend as the 'General partnership' group, although as a number of businesses its influence is greater, this particular business group containing 25 445 business units.

TABLE 8 Legal group 'Limited partnership'

| Size group, employees | Number of enterprises | Number of employees | Number of salaried jobs | Turnover FIM 1000 | Salaries FIM 1000 |
|---|---|---|---|---|---|
| 0 - 1 | 17 291 | 14 628 | 5 945 | 10 013 250 | 640 390 |
| 2 - 4 | 5 474 | 16 045 | 14 102 | 10 391 366 | 1 555 157 |
| 5 - 9 | 1 902 | 12 175 | 11 875 | 8 049 241 | 1 360 405 |
| 10 - 99 | 775 | 13 138 | 12 975 | 8 652 922 | 1 545 335 |
| 100 - 499 | 3 | 416 | 415 | 149 551 | 53 339 |
| **Total** | **25 445** | **56 402** | **45 312** | **37 256 330** | **5 154 626** |

As an effect of introduction of the new law on general and limited partnerships in Finland in 1997, these groups of companies are no longer experiencing a booming growth, and more and more entrepreneurs prefer to start up limited companies.

At this phase of the study, the total number of family businesses in Finland equals the sum of the number of all businesses contained in the 'Natural person', 'General partnership' and 'Limited partnership' categories, thus bringing the total family firm count to120 995 enterprises.

### 4.1.2 Limited companies

**Public limited companies**

As explained in the preceding chapter, the authors decided to handle private and public limited companies separately from the categories of 'Natural person', 'General partnership' and 'Limited companies', which have been assumed to be 100% family businesses. However, the trouble starts with the limited companies, as , obviously, not all limited companies are family businesses.

When it comes to public limited companies, the situation is relatively simple - family businesses were hand-picked out of the total number of public limited companies, due to the small number of these businesses, and the results for all public-owned limited family companies are presented in the table 9 below.

TABLE 9 Family-owned Public limited companies

| Size group, employees | Number of companies | Number of employees | Number of salaried jobs | Turnover FIM 1000 | Salaries FIM 1000 |
|---|---|---|---|---|---|
| 2 - 4 | 4 | 13 | 13 | 7 970 | 4 183 |
| 5 - 9 | 2 | 11 | 11 | 32 996 | * |
| 10 - 99 | 11 | 301 | 301 | 299 726 | 75 472 |
| 100 - 499 | 12 | 3 239 | 3 239 | 2 672 856 | 495 324 |
| 500 - | 10 | 15 519 | 15 519 | 17 163 743 | 2 222 345 |
| **Total** | **39** | **19 082** | **19 082** | **20 177 291** | **2 800 101** |

* Data not available

When compared to the data for other three legal forms presented earlier in the study, one can easily observe the importance of the group of public limited companies. Despite the fact that there only are 39 public limited companies which are family businesses, these enterprises employ over 19 thousand persons and the total turnover of these firms exceeds FIM 20 billion After the investigation of the four legal groups above, the total number of family businesses equals the sum of companies represented in the 'Natural person' group (87 300 enterprises) plus the number of companies belonging to the 'General partnership' group (8 210), added the number of companies contained in the 'Limited partnership' group (25 445 companies), plus the public limited companies, which qualify for the status of family-owned firms (39). Thus, the total number of family businesses, at this point, amounts to 120 994 enterprises.

**Private limited companies**

The last, and by far, the most important group of businesses to be researched, is the group of private limited companies. Determining which firms are family enterprises and which are not in the group of private limited companies is not as easy a task, as in the previous cases, due to its size as a business group, while its ownership did not give any clear indication whether the companies were family businesses or not. However as the authors have already mentioned the main objective of this study was not to obtain the exact precise number of family firms, but to primarily develop a workable framework for the assessment of family firms, while leaving the purely statistical work to future researchers.

TABLE 10 Legal group 'Private limited companies'

| Size group, employees | Number of companies | Number of employees | Salaried jobs | Turnover FIM 1000 | Salaries FIM 1000 |
|---|---|---|---|---|---|
| 0 | 24 324 | 9 917 | 2 598 | 17 045 866 | 363 155 |
| 1 | 20 357 | 23 122 | 18 339 | 17 249 403 | 2 510 084 |
| 2 | 11 029 | 23 789 | 21 131 | 16 846 729 | 2 807 016 |
| 3 - 4 | 11 938 | 41 509 | 39 774 | 30 953 753 | 5 313 409 |
| 5 - 9 | 11 229 | 72 862 | 72 079 | 59 331 927 | 9 816 146 |
| 10 - 19 | 6 080 | 81 653 | 81 131 | 64 943 647 | 11 338 065 |
| 20 - 49 | 3 510 | 104 441 | 104 094 | 93 961 147 | 14 858 900 |
| 50 - 99 | 949 | 64 969 | 64 871 | 64 516 778 | 9 576 063 |
| 100 - 249 | 501 | 76 433 | 76 403 | 75 448 218 | 11 590 265 |
| 250 - 499 | 138 | 48 068 | 48 064 | 53 713 631 | 7 719 425 |
| 500 - 999 | 82 | 57 791 | 57 790 | 61 092 412 | 9 104 180 |
| 1 000 - | 34 | 78 925 | 78 925 | 155 853 331 | 12 804 627 |
| **Total** | **90 171** | **683 478** | **665 199** | **710 956 842** | **97 801 335** |

In the case of other legal groups, the authors had included all small businesses into the category of family businesses, due to the fact that most of them are family-owned and managed, even though the owner him/herself did not always consider their business as a family business, mainly due to the confusion surrounding this phenomenon and the vague definition of a family business. In this case of private limited companies, the authors had similarly considered all firms employing less than 2 employees to be family businesses. Within the group of private limited companies, there are 44 680 firms which employ 0 or1 person and which the authors have automatically assumed to be family businesses, and therefore have added this number of enterprises to the total number of family businesses, which at this moment is 165 675 firms of all Finnish companies.

**Random sample**

After having decided that private limited companies employing 0 or 1 employees will be considered family businesses in the present study, there were some 45 490 companies, employing 2 or more persons, left to examine in the category of private limited companies.

In this situation, the only reasonable solution for determining the share of family businesses within the group of limited companies employing 2 or more persons was to conduct a random sampling of the companies in this category.

Therefore, the next logical step was to send out a questionnaire to the selected 895 companies contained in the random sample (Table 4). The questionnaire included predefined answers (Attachment 2), thus providing the results with a high degree of reliability. The respondents were asked to return the questionnaire within a period of 20 days.

**Rate of response**

A total of 380 questionnaires have been returned, the response rate being 42.5 percent. For a postal survey, a response rate of 42.5% is extremely high (Study of family firms, Bournemouth University 1999; Storey 1994 pp.16-17; Arthur Andersen/MassMutual American family business survey 1997) and it is a clear indication of the importance and value which Finnish family-owned businesses themselves attach to this study. Westhead & Cowling, in their crucial study of family firms (Fall 1998), have obtained an exceptionally high response rate of 48%, however only after a three-wave mailing procedure and a data-collection period of 4 months. The authors strongly believe that, considering the circumstances of the present study, as well as the limited response time, a response rate of 42.5% is a clear success.

However, out of the 380 returned questionnaires only 360 were valid ones, thus lowering the valid response rate to 40.2%

To assess whether the results from the sample can be generalized to the population of limited private companies in Finland as a whole, chi-square and Student's 't' test analyses should usually be conducted to measure response rate bias with regard to industry, location of the business by standard region as well employment size of the company and the turnover of the company. However, in the case of the current study, it was not necessary to conduct the tests mentioned above, as the group of companies selected for random sampling already was a representative sample of private limited companies.

### 4.1.3 Analysis of response

Out of the 360 valid responses obtained, 266 qualified as family businesses and 94 did not. The authors have arranged all the positive answers(i.e. answers which qualify a company as a family business) into Table 11 below, by industry, size of personnel, number of salaried jobs, turnover, and salaries paid.

TABLE 11 Matrix of positive answers, family business survey
Legal form: Limited companies (Excluding public owned limited companies)
Statistical year 1999

| SIC group | Size | Number of firms | Size of Personnel | Number of salaried jobs | Turnover 1 000 mk | Salaries 1 000 mk |
|---|---|---|---|---|---|---|
| **All industries** | **Total** | **266** | **20 948** | **20 926** | **20 627 032** | **2 980 494** |
| | 2 - 4 | 73 | 210 | 199 | 121 998 | 26 933 |
| | 5 - 9 | 71 | 449 | 446 | 305 171 | 57 204 |
| | 10 - 99 | 72 | 1 589 | 1 584 | 1 509 626 | 221 186 |
| | 100 - 499 | 40 | 7 047 | 7 044 | 7 763 489 | 1 088 221 |
| | 500 - | 10 | 11 652 | 11 652 | 10 926 748 | 1 586 950 |
| C, D | Total | 50 | 6 944 | 6 940 | 4 754 944 | 965 428 |
| | 2 - 4 | 16 | 50 | 48 | 26 328 | 6 387 |
| | 5 - 9 | 9 | 58 | 57 | 30 631 | 7 443 |
| | 10 - 99 | 16 | 409 | 408 | 389 739 | 58 394 |
| | 100 - 499 | 4 | 606 | 605 | 633 217 | 92 460 |
| | 500 - | 5 | 5 823 | 5 823 | 3 675 029 | 800 744 |
| E, H, J, K, M, N, O | Total | 43 | 4 072 | 4 068 | 1 259 055 | 438 668 |
| | 2 - 4 | 15 | 44 | 42 | 19 087 | 6 195 |
| | 5 - 9 | 13 | 83 | 83 | 29 966 | 11 101 |
| | 10 - 99 | 9 | 174 | 172 | 43 644 | 20 958 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | 100 - 499 | 4 | 792 | 792 | 332 293 | 107 309 |
| | 500 - | 2 | 2 980 | 2 980 | 834 065 | * |
| G | Total | 55 | 4 565 | 4 560 | 10 382 456 | 756 784 |
| | 2 - 4 | 17 | 47 | 45 | 40 763 | 5 977 |
| | 5 - 9 | 12 | 74 | 74 | 106 450 | 9 888 |
| | 10 - 99 | 13 | 348 | 348 | 766 586 | 53 738 |
| | 100 - 499 | 11 | 2 054 | 2 053 | 3 646 476 | 322 433 |
| | 500 - | 2 | 2 042 | 2 042 | 5 822 181 | * |
| A, B | Total | 34 | 319 | 316 | 138 592 | 33 757 |
| | 2 - 4 | 8 | 23 | 21 | 15 684 | 2 420 |
| | 5 - 9 | 12 | 73 | 73 | 30 191 | 7 492 |
| | 10 - 99 | 14 | 223 | 223 | 92 717 | 23 845 |
| I | Total | 39 | 1 717 | 1 712 | 1 312 692 | 272 793 |
| | 2 - 4 | 10 | 31 | 30 | 13 688 | 4 202 |
| | 5 - 9 | 13 | 85 | 84 | 79 280 | 11 617 |
| | 10 - 99 | 9 | 244 | 242 | 117 713 | 35 100 |
| | 100 - 499 | 7 | 1 356 | 1 356 | 1 102 011 | 221 874 |
| F | Total | 45 | 3 331 | 3 330 | 2 779 293 | 513 064 |
| | 2 - 4 | 7 | 15 | 14 | 6 448 | 1 752 |
| | 5 - 9 | 12 | 76 | 76 | 28 653 | 9 663 |
| | 10 - 99 | 11 | 193 | 192 | 99 227 | 29 151 |
| | 100 - 499 | 14 | 2 240 | 2 240 | 2 049 492 | 344 145 |
| | 500 - | 1 | 808 | 808 | 595 473 | * |

* data not available

The negative answers (i.e. answers which qualify a company as a non-family business) have been analyzed in a similar way:

TABLE 12 Matrix of negative answers, family business survey
Legal form: Limited companies (Excluding public owned limited companies)
Statistical year 1999

| SIC group | Size | Number Of firms | Number of personnel | Number of salaried jobs | Turnover FIM 1000 | Salaries FIM 1000 |
|---|---|---|---|---|---|---|
| **All industries** | **Total** | **94** | **31 277** | **31 268** | **39 626 516** | **4 593 694** |
| | 2 - 4 | 14 | 42 | 39 | 80 257 | 6 021 |
| | 5 - 9 | 11 | 76 | 75 | 111 669 | 11 604 |
| | 10 - 99 | 29 | 866 | 861 | 646 836 | 132 185 |
| | 100 - 499 | 18 | 3 414 | 3 414 | 2 401 914 | 536 713 |
| | 500 - | 22 | 26 880 | 26 880 | 36 385 840 | 3 907 171 |
| C, D | Total | 22 | 8 088 | 8 087 | 9 617 733 | 1 240 257 |
| | 2 - 4 | 3 | 9 | 9 | 4 692 | 1 466 |
| | 5 - 9 | 4 | 25 | 24 | 26 722 | 3 367 |
| | 10 - 99 | 5 | 100 | 100 | 62 802 | 13 524 |
| | 100 - 499 | 5 | 952 | 952 | 860 520 | 138 632 |
| | 500 - | 5 | 7 003 | 7 003 | 8 662 997 | 1 083 268 |
| E, H, J, K, M, N, O | Total | 29 | 4 703 | 4 700 | 3 095 869 | 809 411 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | 2 - 4 | 4 | 10 | 10 | 2 986 | 1 647 |
| | 5 - 9 | 1 | 9 | 9 | 2 005 | * |
| | 10 - 99 | 11 | 364 | 361 | 160 788 | 59 186 |
| | 100 - 499 | 8 | 1 212 | 1 212 | 658 839 | 179 757 |
| | 500 - | 5 | 3 109 | 3 109 | 2 271 251 | 567 694 |
| G | Total | 16 | 12 391 | 12 390 | 21 852 796 | 1 461 332 |
| | 2 - 4 | 4 | 13 | 12 | 59 934 | 1 906 |
| | 5 - 9 | 1 | 9 | 9 | 36 806 | * |
| | 10 - 99 | 2 | 58 | 58 | 270 355 | * |
| | 100 - 499 | 1 | 144 | 144 | 227 972 | * |
| | 500 - | 8 | 12 168 | 12 168 | 21 257 729 | 1 421 213 |
| A, B | Total | 6 | 143 | 141 | 39 418 | 16 288 |
| | 2 - 4 | 1 | 3 | 2 | 1 604 | * |
| | 5 - 9 | 1 | 9 | 9 | 3 316 | * |
| | 10 - 99 | 4 | 131 | 130 | 34 498 | 14 831 |
| I | Total | 9 | 3 879 | 3 878 | 3 613 141 | 724 662 |
| | 2 - 4 | 1 | 3 | 2 | 8 624 | * |
| | 5 - 9 | 1 | 5 | 5 | 31 211 | * |
| | 10 - 99 | 2 | 35 | 35 | 15 388 | * |
| | 100 - 499 | 2 | 522 | 522 | 130 604 | * |
| | 500 - | 3 | 3 315 | 3 315 | 3 427 314 | 629 236 |
| F | Total | 12 | 2 073 | 2 071 | 1 407 559 | 341 744 |
| | 2 - 4 | 1 | 4 | 4 | 2 417 | * |
| | 5 - 9 | 3 | 20 | 20 | 11 609 | 2 956 |
| | 10 - 99 | 5 | 179 | 177 | 103 005 | 29 785 |
| | 100 - 499 | 2 | 584 | 584 | 523 979 | * |
| | 500 - | 1 | 1 286 | 1 286 | 766 549 | * |

* data not available

All valid answers received in the sampling process have been arranged into Table 13, by size group and industry.

TABLE 13 Spread of all answers, by size group and industry.

| | Size of personnel | | | | | |
|---|---|---|---|---|---|---|
| | 2-4 | 5-9 | 10-99 | 100-499 | 500+ | **Total** |
| SIC group | | | | | | |
| C,D | 19 | 13 | 21 | 9 | 10 | 72 |
| E,H,J,K,M,N,O | 19 | 14 | 20 | 12 | 7 | 72 |
| G | 21 | 13 | 15 | 12 | 10 | 71 |
| A,B | 9 | 13 | 18 | 0 | 0 | 40 |
| I | 11 | 14 | 11 | 9 | 3 | 48 |
| F | 8 | 15 | 16 | 16 | 2 | 57 |
| **Total** | 87 | 82 | 101 | 58 | 32 | **360** |

All positive answers have been arranged in a similar manner as above, by size group and industry, Table 14 below being a simplified version of Table 11.

TABLE 14 Positive answers, by size group and industry.

| | Size of personnel | | | | | |
|---|---|---|---|---|---|---|
| | 2-4 | 5-9 | 10-99 | 100-499 | 500+ | **Total** |
| SIC group | | | | | | |
| C,D | 16 | 9 | 16 | 4 | 5 | 50 |
| E,H,J,K,M,N,O | 15 | 13 | 9 | 4 | 2 | 43 |
| G | 17 | 12 | 13 | 11 | 2 | 55 |
| A,B | 8 | 12 | 14 | 0 | 0 | 34 |
| I | 10 | 13 | 9 | 7 | 0 | 39 |
| F | 7 | 12 | 11 | 14 | 1 | 45 |
| **Total** | 73 | 71 | 72 | 40 | 10 | **266** |

Based on the two matrixes above (Tables 13 an 14), the following percentages, corresponding to the number of family businesses within each industry and size group, have been calculated, as shown in Table 15.

TABLE 15 Share of family businesses of all surveyed private limited companies, %

| | Size of personnel | | | | |
|---|---|---|---|---|---|
| | 2-4 | 5-9 | 10-99 | 100-499 | 500+ |
| SIC group | | | | | |
| C,D | 84,21 | 69,23 | 76,19 | 44,44 | 50,00 |
| E,H,J,K,M,N,O | 78,95 | 92,86 | 45,00 | 33,33 | 28,57 |
| G | 80,95 | 92,31 | 86,67 | 91,67 | 20,00 |
| A,B | 88,89 | 92,31 | 77,78 | 0 | 0 |
| I | 90,91 | 92,86 | 81,82 | 77,78 | 0 |
| F | 87,50 | 80,00 | 68,75 | 87,50 | 50,00 |

Table 16 below is a matrix representing the spread of all private limited companies in Finland, by size group and industry.

TABLE 16 Total number of private limited companies by industry and size group.

| | Size of personnel | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 0 | 1 | 2-4 | 5-9 | 10-99 | 100-499 | 500+ | **Total** |
| C,D | 2375 | 2238 | 3135 | 2093 | 3101 | 317 | 63 | 13323 |
| E,H,J,K,M,N,O | 12329 | 8915 | 8503 | 3544 | 2773 | 131 | 18 | 36212 |
| G | 6190 | 5122 | 5657 | 2616 | 2122 | 85 | 21 | 21813 |
| A,B | 570 | 421 | 489 | 223 | 142 | 1 | | 1846 |
| I | 824 | 1000 | 1800 | 893 | 787 | 65 | 11 | 5380 |
| F | 2036 | 2661 | 3384 | 1860 | 1614 | 39 | 3 | 11597 |
| **Total** | 24324 | 20357 | 22968 | 11229 | 10539 | 638 | 116 | **90171** |

Based on the information provided in the two tables above (Table 15 and 16), the next step was to apply the percentage obtained in the sampling process (Table 15) into each corresponding cell of the matrix containing all private limited companies( except 0 and 1 employee groups), thus obtaining the estimated number of family business among private limited companies, based on random sampling. The results are shown in Table 17 below.

TABLE 17 Estimated number of family businesses among private limited compamies.

| | Size of personnel | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 0 | 1 | 2-4 | 5-9 | 10-99 | 100-499 | 500+ | **Total** |
| C,D | 2375 | 2238 | 2640 | 1449 | 2363 | 141 | 31 | 11237 |
| E,H,J,K,M,N,O | 12329 | 8915 | 6713 | 3291 | 1248 | 44 | 5 | 32545 |
| G | 6190 | 5122 | 4579 | 2415 | 1839 | 78 | 4 | 20227 |
| A,B | 570 | 421 | 435 | 206 | 110 | 0 | 0 | 1742 |
| I | 824 | 1000 | 1636 | 829 | 644 | 51 | 0 | 4984 |
| F | 2036 | 2661 | 2961 | 1488 | 1321 | 34 | 1 | 10502 |
| **Total** | 24324 | 20357 | 18964 | 9678 | 7525 | 348 | 41 | **81237** |

Table 18 below is a comparison between the total number of limited companies and the total estimated number of family businesses among limited companies by size group.

TABLE 18 Family businesses among all private limited companies, by size of personnel.

| Size categories, by personnel | Total number of enterprises | Number of family firms |
|---|---|---|
| 0 | 24324 | 24324 |
| 1 | 20357 | 20357 |
| 2-4 | 22967 | 18964 |
| 5-9 | 11229 | 9678 |
| 10-99 | 10539 | 7525 |
| 100-499 | 639 | 348 |
| 500 + | 116 | 41 |
| **Total** | **90171** | **81237** |
| % of all limited companies | **100%** | **90,09%** |

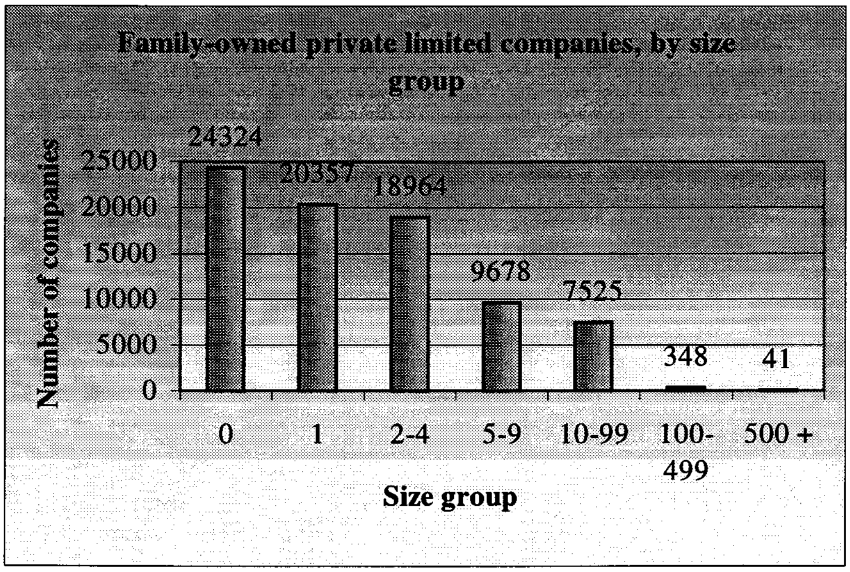



FIGURE 6 Family-owned private limited companies, by size group

Figure 6 above is a graphical representation of Table 18. It can be easily observed that the majority of family businesses among private limited companies are concentrated in size groups of 0, 1 and 2 – 4 employees, thus leading to the conclusion that most of family businesses within the category of private limited companies are micro-sized firms.

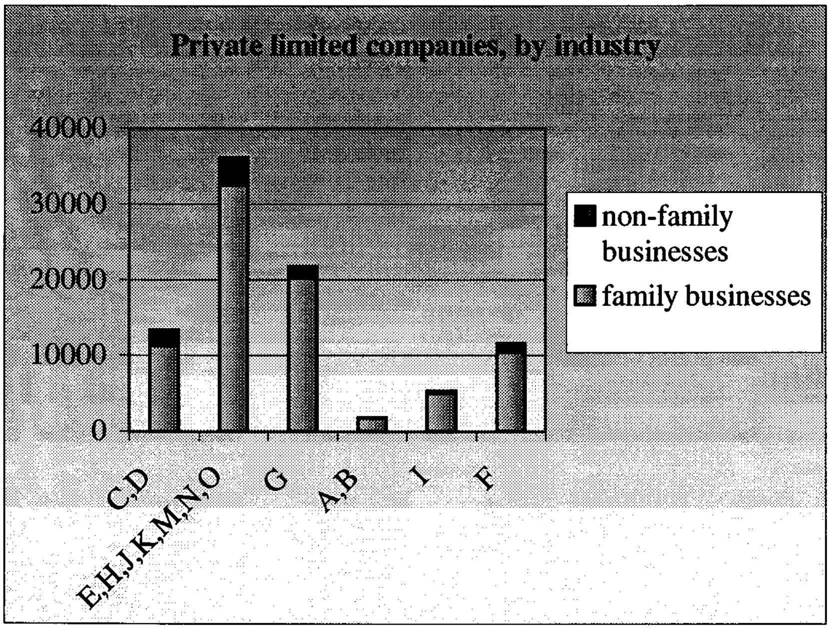



FIGURE 7 Family businesses among private limited companies, by industry

Several indicators directly related to the activity of private limited family firms in the Finnish economy are presented in Table 19 below.

TABLE 19 Average share of family businesses and economic indicators related to them among private limited companies, by size group.

| Personnel size | Number of firms | Family firm Share | Number of family firms | Personnel | Salaried jobs | Turnover FIM 1000 | Salaries FIM 1000 |
|---|---|---|---|---|---|---|---|
| 0 | 24 324 | 100 % | 24 324 | 9 917 | 2 598 | 17 045 866 | 363 155 |
| 1 | 20 357 | 100 % | 20 357 | 23 122 | 18 339 | 17 249 403 | 2 510 084 |
| 2-4 | 22 967 | 83 % | 18 964 | 54 197 | 50 551 | 39 674 400 | 6 739 953 |
| 5-9 | 11 229 | 86 % | 9 678 | 62 661 | 61 988 | 51 025 457 | 8 441 886 |
| 10-99 | 10 539 | 71 % | 7 525 | 178 254 | 177 568 | 158 629 316 | 25 398 850 |
| 100-499 | 639 | 54 % | 348 | 67 231 | 67 212 | 69 747 398 | 10 427 233 |
| 500 + | 116 | 35 % | 41 | 47 851 | 47 850 | 75 714 064 | 7 448 994 |
| **Total** | **90 171** | **90 %** | **81 237** | **443 233** | **426 106** | **429 085 904** | **61 330 155** |

Table 19 provides important data in regard to the contribution of family-owned private limited companies to the economy of Finland, in terms of employees, salaried jobs, turnover and paid salaries. This table clearly indicates that, in spite of the fact that the number of micro-sized companies dominates this category, the significance of medium-sized and large companies is much higher, due to the large number of personnel employed in these companies, the turnover and salaries paid in these companies. Especially, the group of companies employing from 10 to 99 persons seems to be highly important, as this group employs almost half of all personnel within this legal group thus leading to the conclusion that family businesses (which account for up to 71 % of all companies within this segment) are an important employer and job-creator.

## 4.2 Family business population in Finland

### 4.2.1 Analysis of findings

According to the findings of this study, there are over 202 thousand family businesses in Finland, employing over 618 thousand persons and generating a total turnover of over FIM 537 billion, as seen in Table 20 below.

The largest share of family businesses lies with the 'Natural person' and the 'Private limited companies' group. The 'Natural person' category dominates in terms of number of businesses, however the share of personnel employed in family-owned private limited companies is by far the most significant one of the entire workforce employed in family businesses.

TABLE 20 Number of family businesses in Finland.

| | Number of businesses | Number of employees | Salaried jobs | Turnover 1000FIM | Salaries 1000FIM |
|---|---|---|---|---|---|
| Natural person<br>General partnership<br>Limited partnership | 90 454<br>7 984<br>22 534 | 156 193 | 86 166 | 87 996 491 | 9 713 794 |
| Public limited companies | 39 | 19 082 | 19 082 | 20 177 291 | 2 800 101 |
| Private limited companies | 81 237 | 443 233 | 426 106 | 429 085 904 | 61 330 155 |
| **TOTAL** | **202 248** | **618 508** | **531 354** | **537 259 686** | **73 844 050** |

Table 20 indicates an interesting fact - in the group of family-owned private limited companies, the number of salaried jobs is almost equal to the number of all workforce (while in the family-owned public limited companies the number of salaried jobs is equal to the number of all employees), however in the categories 'Natural person', 'General partnership' and 'Limited partnership' (NGL) the figures are notably different, showing that the number of salaried jobs is almost half of all employees working in NGL. This observation leads to the logical conclusion that NGL is family business stronghold, as obviously, families are the largest providers of unpaid workforce.

The trend described above is valid also for other indicators, such as turnover. Table 20 shows that 156 193 family businesses in the NGL categories generate a total turnover of almost FIM 88 billion, while only 39 family-owned public limited companies have a turnover of approximately FIM 20.1 billion. This is an important observation, in the light of commonly accepted disbelief that public limited companies can not be family businesses. Well, as shown in table above, public limited companies can be family businesses and they also contribute significantly to the prosperity of the Finnish economy. The numbers speak for themselves.

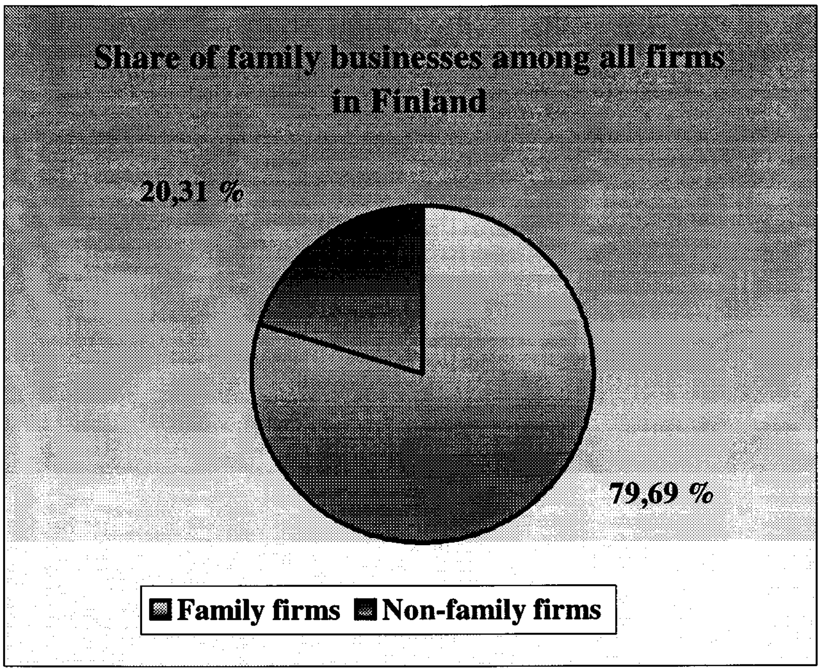



FIGURE 8 Family business share of all businesses in Finland

Figure 8 conveys a very important message, in fact it is the culminating point of the present study. This figure shows that the share of family businesses among all businesses in Finland reaches almost 80 %, when applying a rather broad family business definition.

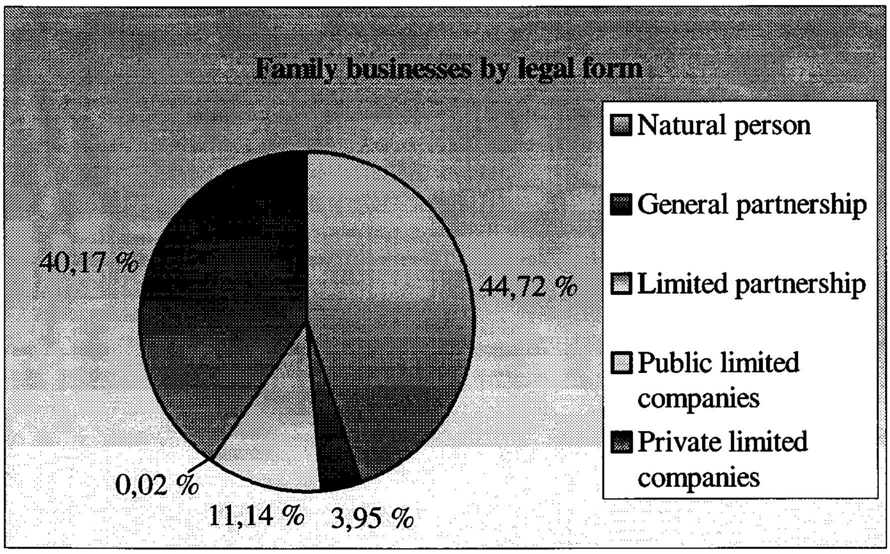



FIGURE 9 Family business share, by legal form.

Figure 9 above shows the division of all family business according t their legal group. This figure indicates that the 'Natural person' group accounts for the largest share of family businesses in Finland, approximately 45 %. The figure clearly shows that the share of family-owned public limited companies among all family businesses in Finland is tiny, however the influence of this group in terms of employees, turnover and paid salaries can not be overlooked.

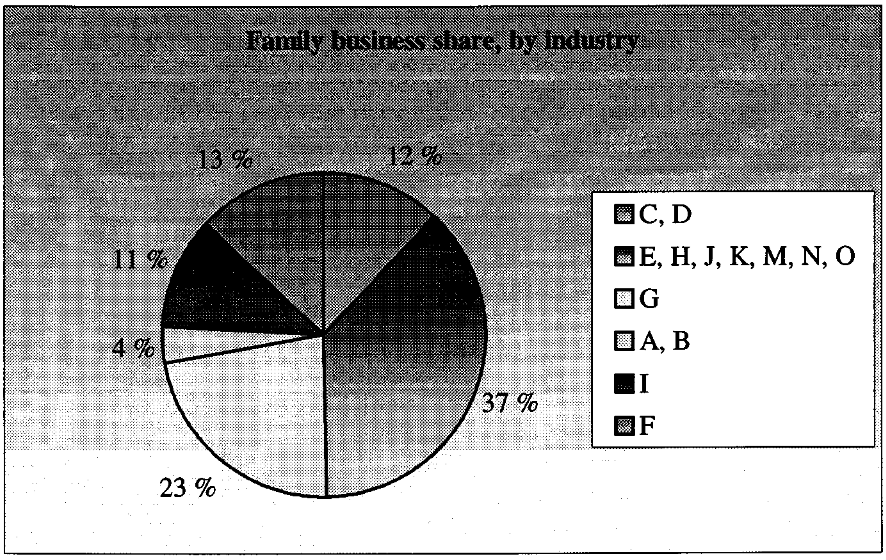


FIGURE 10 Family business share, by industry

Figure 10 above clearly indicates that most of all family businesses in Finland are found, as expected, in the E, H, J, K, M, N, O category, which is primarily a group of companies rendering services. The second largest share of family businesses is represented by the wholesale and retail trade sector, G. The A, B category of companies (agriculture and fishing) accounts for the smallest share of family businesses, only 4 %.

Family businesses in Finland employ 618 508 persons. Figure 11 below shows what share of total family business employment is accounted for by each legal group of companies. Not surprisingly, the group of private limited companies is the largest employer, with 72% of all family business workforce activating in this category. The group of public owned family businesses is a very important employer, despite the fact that only 39 companies make up this category. When compared the number of companies in each of the two categories mentioned above to the share of all family business employment of each of these groups, the reality is striking.

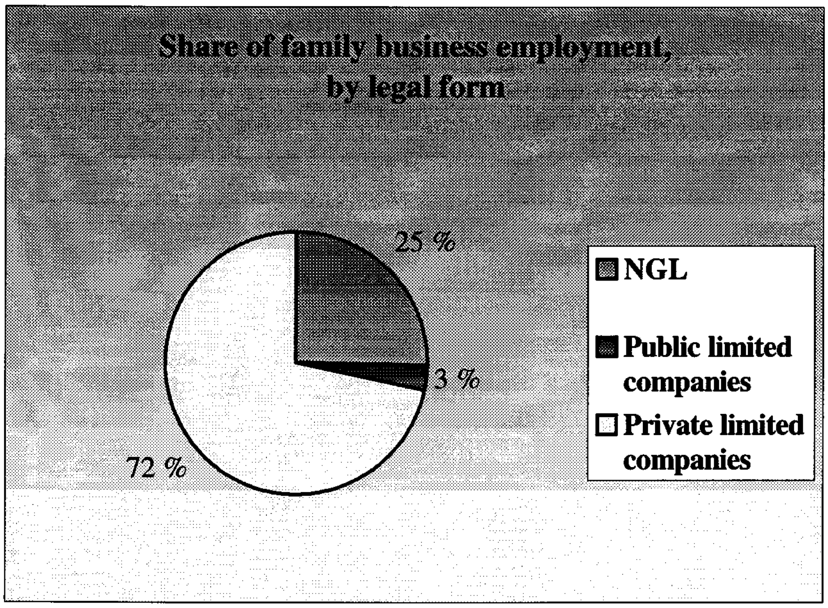



FIGURE 11 Share of family business employment, by legal form

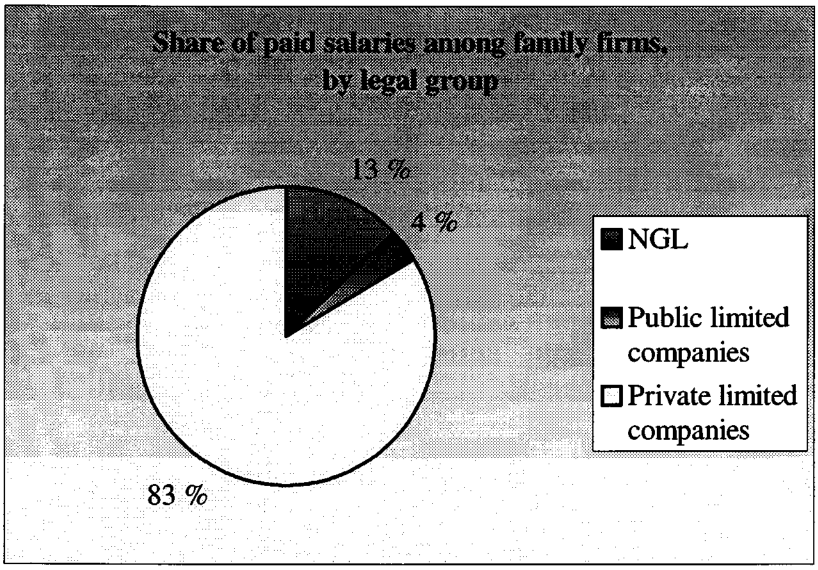



FIGURE 12 Share of paid salaries among family firms, by legal group

Figure 12 above shows the division of paid salaries among all family firms, by legal group. Once again, private limited companies account for the largest share of all salaries paid by family businesses. An interesting observation is that the NGL group of companies pay only 13 % of all salaries paid by family businesses, while this group of companies employs 25 % of the family business workforce. On the other hand, private family owned limited companies pay 83 % of salaries and employ 72 % of all family business workforce. This trend is visible also in the case of public family owned companies which employ 3 % of all family business personnel in Finland while the salary share of this group of companies reaches 4 % of all salaries paid.

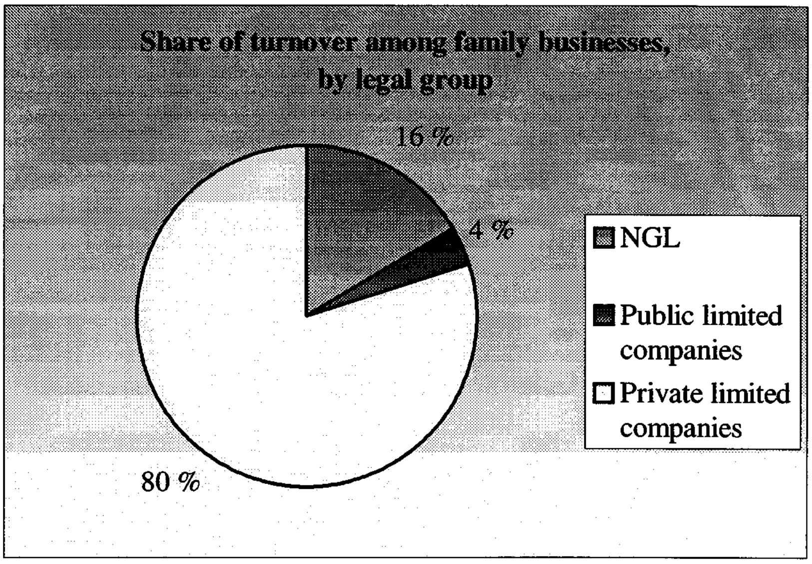



FIGURE 13 Share of turnover among family businesses, by legal group

The total turnover of all family businesses in Finland amounts to FIM 537.3 billion. Figure 13 above describes the share of turnover of each particular legal form in the total turnover of all family businesses in Finland. The trends are similar to the other indicators described above. Private limited companies account for 80 % of all turnover of family businesses in Finland. This figure is consistent with the employment and salary indicators for this particular group. However in the case of groups 'Natural person', 'General partnership' and 'Limited partnership', the share of turnover of these companies is 16 %, while this category employs 25% of all workforce and pays 13 % of all salaries among family businesses in Finland.

**Key findings of the study**

- there is an estimated population of 202 000 family businesses in Finland, or approximately 80 % of all businesses
- the 'Natural person' group of companies accounts for up to 45 % of all family businesses in the Finnish economy
- 37 % of all family businesses in Finland are represented in the tertiary (services) sector
- private limited companies employ up to 72 % of all personnel among family businesses
- private limited companies pay up to 83 % of all salaries among family businesses in Finland
- private limited companies account for 80 % of the total turnover of all family businesses in Finland.

The figures above speak for themselves and the authors hope that the findings of this study will stimulate further profound research of family businesses populations in Finland and their contribution to the Finnish economy.

# Conclusions an implications for future research

The main objective of this study was to develop and implement a working framework which would allow an accurate statistical assessment of the family business population in the Finnish economy. Looking back at the results of the research, the authors feel that this primary goal has been achieved – a framework necessary for statistical assessment of family business populations has been designed, described and implemented in the present study. The findings of the study are particularly valuable, as they represent a shift from the 'street lore' knowledge towards a qualitatively new level of hard facts about family business populations in Finland. Thus, the real value of this study lies in its novelty, rather than in the figures it contains. The authors are convinced that, once the framework has been created, it will be continuously improved, optimized and perfected, resulting in more and more accurate facts on family business populations and their value to the economy and the society.

This study has confirmed that family companies in Finland are a numerically important group of business and that they account for a great share of employment, turnover, paid salaries and taxes, directly contributing to the prosperity and well-being of Finland.

It has once again been demonstrated that the number of family businesses in an economy is directly dependent on the definition of what is a family enterprise, and policy makers and practitioners must be aware that the scale of family firm activity is highly sensitive to the definition employed. Handler (1989, p. 257) stated that "studies have only scratched the surface in terms of addressing the complexity of family businesses and how they are similar and different from other forms of organization.". Indisputable progress in the field of family firms research has been achieved, yet we believe that this statement is still valid, and therefore it is important to continue studying how various family business definitions affect the numbers of family firms in an economy.

The authors feel that there is need for additional research on the topic of family farms. In the present study, only the farms present in the Business Register have been taken into account, however there is a large number of farms registered with MELA, which ought to be investigated, in order to obtain an accurate and precise figure of family businesses in Finland.

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# Appendix 1

## Standard Industry Classification

A. Agriculture, hunting and forestry

B. Fishing

C. Mining and quarrying

D. Manufacturing

E. Electricity, gas and water supply

F. Construction

G. Wholesale and retail trade

H. Hotels and restaurants

I. Transport, storage and communication

J. Financial intermediation

K. Real estate

L. Public administration and defense

M. Education

N. Health and social services

O. Other community.

# Appendix 2

**Maaliskuu 2001**
**Jyväskylä**

**Arvoisa Yrittäjä!**

Olemme ryhmä kauppatieteiden opiskelijoita Jyväskylän yliopiston Taloustieteiden tiedekunnasta ja teemme pro gradu -opinnäytetyötä perheyritysten määrästä ja yhteiskunnallisesta vaikutuksesta Suomessa, minkä vuoksi lähestymme Teitä perheyrittämiskyselyn merkeissä.

Tämä kysely on osa tutkimusta, jossa selvitetään perheyritysten määrää osakeyhtiöistä. Pyydämme ystävällisesti nyt Teitä, Yrittäjä, vastaamaan seuraaviin yritystänne koskeviin kysymyksiin. Tiedot käsitellään ehdottoman luottamuksellisesti ja ne menevät ainoastaan tutkimusta tukeviin tarpeisiin. Kyselyyn vastaaminen on tehty Teille vaivattomaksi, sillä se vie vain muutaman minuutin ajastanne.

Vastaamalla perheyrittäjyyttä koskevaan kyselyyn Teillä on mahdollisuus osallistua tärkeään tutkimukseen ja osaltanne edistää perheyrittäjien näkyvyyttä ja asemaa Suomessa.

Voitte vastata kyselyyn täyttämällä oheinen lomake ja palauttamalla se kirjekuoressa, jonka postimaksu on Teidän puolestanne valmiiksi maksettu. Vaihtoehtoisesti otamme kyselyjä vastaan myös sähköpostitse, osoitteisiin: nilehtin@st.jyu.fi tai aveaces@st.jyu.fi.

Tutkimuksen sujumisen kannalta toivomme, että voisitte palauttaa kyselyn viimeistään maanantaina, 9. huhtikuuta.

Yhteistyöstä etukäteen kiittäen,

| | |
|---|---|
| Ninni Lehtinen<br>Kauppatieteiden ylioppilas | Slava Arion<br>Kauppatieteiden ylioppilas |

**Kysely perheyrittäjyydestä osakeyhtiömuotoisille yrityksille**

Yrityksen nimi ______________________________

LY-tunnus ______________________________

---

Vastaa alla oleviin kysymyksiin rastimalla joko "kyllä" tai "ei" ruutu.

1. a) Oletteko tämän yrityksen toimitusjohtaja ja/tai sen perustaja?
   - ❑ Kyllä ❑ Ei

   b) Jos kyllä, pidättekö yritystänne perheyrityksenä?
   - ❑ Kyllä ❑ Ei

2. Omistatteko tai omistaako perheesi yli puolet tämän yrityksen äänivaltaisista osakkeista? (Perheellä tarkoitamme sekä "verisukulaisia" että avo-/avioliiton kautta sukuun tulleita perheen jäseniä)
   - ❑ Kyllä ❑ Ei

3. Osallistuuko perheenne aktiivisesti tämän yrityksen johtamiseen?
   - ❑ Kyllä ❑ Ei

4. Onko yrityksen omistus siirtynyt, tai onko se aikeissa siirtyä perheen jäsenten välillä (sukupolvenvaihdos)?
   - ❑ Kyllä ❑ Ei

Kiitämme vaivannäöstänne tutkimustamme kohtaan ja toivotamme Teille ja yrityksellenne oikein hyvää menestystä!