

A PROFILE OF FAMILY BUSINESS IN THE GREAT LAKES BAY REGION



COLLEGE OF BUSINESS & MANAGEMENT

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TABLE OF CONTENTS

3	Executive Summary
4	Survey Participants; Purpose of Study
5	Methodology; Response Rate; FB Longevity
6	Top Executive
8	Ownership; Family Involvement
9	FB Governance; Industry; Economic Contribution
10	Employees; Revenue
11	Philanthropic Giving
12	Shareholder Agreement
13	When Anticipating Reduced Earnings
14	FB Succession Planning
15	Joining the FB
16	Scope for Future Research; Conclusion
17	Acknowledgements

EXECUTIVE SUMMARY

Family-owned businesses (FOBs) are the bedrock of the American economy. They generate 64% of U.S. GDP; pay 65% of all wages in the U.S.; and are responsible for 75% of new job creation.

The College of Business and Management at Saginaw Valley State University found it important to better understand family businesses in the Great Lakes Bay Region, so that their significance can be better recognized and leveraged for the region's further economic growth and development. FOBs from the GLBR's four counties were asked questions about ownership and general business practices; financial success; community contributions; governance; succession planning; communications and problem solving; and desired services to further develop the business.

Family-owned businesses are often defined as those that are to be handed down to future generations. Of the businesses surveyed, 75% indicated the intention is that the business will succeed to the next generation. However, only 26% of those businesses have an actual plan to do so.

The majority (62%) of family businesses surveyed indicated that the founder was still in the top executive position of the business. Almost 40% of CEOs have been in the position for 20 years or more.

The predominant (30%) industry of family-owned business in the Great Lakes Bay Region is in the wholesale and retail sectors. When asked about production and sales, family businesses noted that 100% of them obtained consumables, 98% sell their products and services, and 96% produce their products within the United States.

To better understand the needs of family business in the Great Lakes Bay Region they were asked about their formal business practices. Slightly over half of family businesses have a formal shareholder agreement; however, only eight percent have a formal dividend policy.

The in-depth information in this report can serve as a guide for the business, university and public policy community to support the continued growth of family-owned businesses in the Great Lakes Bay Region.



THE IMPORTANCE OF FAMILY BUSINESS IN THE U.S. ECONOMY

- Family businesses generate 64% of U.S. GDP
- Family businesses account for 65% of all wages paid in the U.S.
- 75% of all new jobs are created by family businesses
- There are more than 5.5 million family businesses in the U.S.
- Sectors where U.S. family businesses are active include:
 - Manufacturing | 29%
 - Wholesale | 21%
 - Retail | 17%
 - Construction | 11%
 - Other | 22%

Source: Campden FB 2014

SURVEY PARTICIPANTS

The respondents of the survey were family businesses from the Great Lakes Bay Region of Michigan, which is made up of Saginaw, Midland, Bay and Isabella Counties. In order to have a better understanding of the demographics of these family businesses, we asked questions about the respondents' positions within the company, gender, age, and their length of employment.

- ▶ **59% of respondents** are owners that are currently working in the business.
- ▶ **56% of respondents** are a member of the owning family.
- ▶ **62% of respondents are male**, and a majority are **50 years or older**.
- ▶ **72%** have been working in the business for a period **greater than 10 years**.

PURPOSE OF STUDY

With more than 5.5 million in the U.S., family businesses are a major force in our nation's economy. They generate 75% of all new jobs, account for 65% of all wages paid, and employ about 62% of U.S. workers (Campden FB 2014). And, they're not necessarily small businesses – 60% of all public companies are family businesses (Campden FB 2014), and about 35% of Fortune 500 companies are family-controlled (Businessweek.com, 2006).

The College of Business and Management at Saginaw Valley State University is deeply committed to studying and serving family businesses in the region. Its Stevens Center for Family Business – an endowed center – has been serving FOBs since 2000. The CBM offers a Concentration in Family Business for business majors, and many CBM faculty are involved in research pertaining to family businesses.

Because of their significant impact, the College of Business and Management wanted to get a better picture of the family owned businesses in the Great Lakes Bay Region (Saginaw, Bay, Midland and Isabella Counties). The study sought to identify family businesses in the region, and create a profile of them which would help policy-makers and others better serve and support this vital component of our economy and society.

METHODOLOGY

In order to reach out to family businesses we contacted all the chambers of commerce and all the economic development corporations in the Great Lakes Bay Region. We gathered lists of all businesses in our region from the eight entities.

It was then a three step process:



We created and mailed a postcard to all privately-owned, for-profit businesses from the lists asking them to indicate if they were a family business or not.



We received postcards back from both family and non-family businesses with their email contact information.



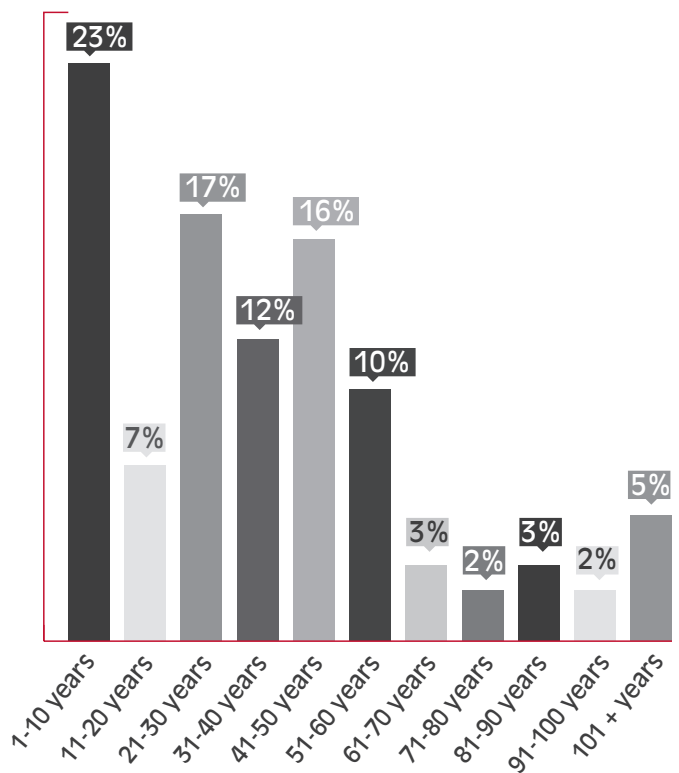
We followed up by sending an online survey containing 58 detailed questions to the family businesses that responded back to the postcard query.

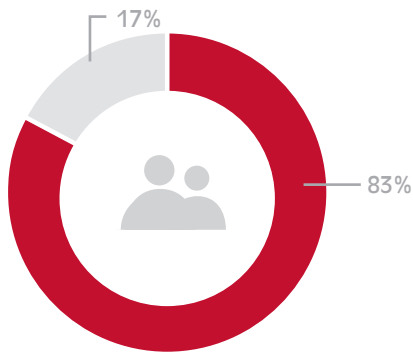
RESPONSE RATE

2,625 postcards were sent out to businesses in the Great Lakes Bay Region. We asked if the business considered themselves to be a family business and requested their email address. 207 postcards were returned (8%), and of those 207 returned postcards 175 (7% of original 2,625 postcards) identified themselves as family businesses. An additional 56 family business emails were acquired from the Steven Center of Family Business member list. In total, 231 family businesses were sent the survey, and 61 family businesses responded to the survey (26%).

FAMILY BUSINESS LONGEVITY

The data reveals that, on average, family businesses in the Great Lakes Bay Region are considerably older than the national average. The average age of FOBs responding to this survey was 39 years, as compared to the U.S. average life span of FOBs of 24 years (familybusiness-center.com, 2010). 70% of respondents have been in existence for 21 years or longer; 41% are 41 years old or older; and 5% are centenarians and beyond.



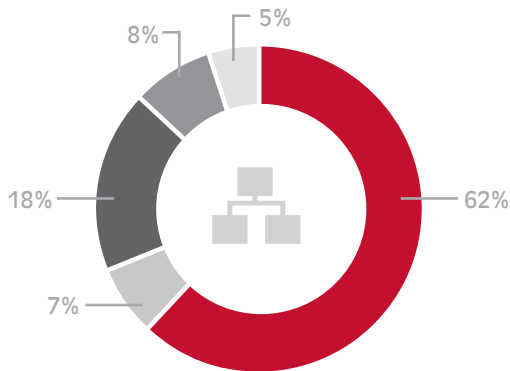


TOP EXECUTIVE

GENDER

This study revealed that most of the CEOs of family businesses in the Great Lakes Bay Region are male (83%). Nationally, 24% of family businesses are run by a woman (Campden FB 2014).

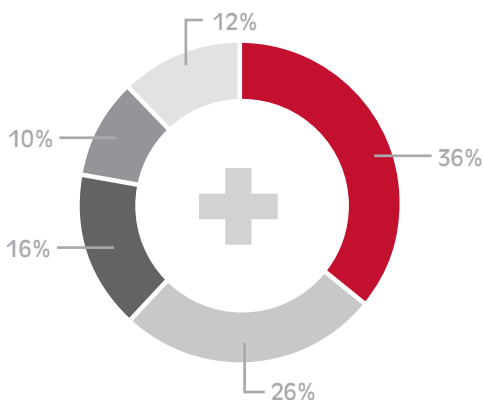
■ Female ■ Male



GENERATION

More than 60% of the respondent businesses still have the companies' founders in the position of CEO. This probably reflects the age of the FOBs who responded to the survey, and the fact that CEOs of family businesses on average retain their leadership position for six times as long as do CEOs of non-FOBs

■ Founder ■ 2nd Generation
 ■ 1st Generation (Not Founder) ■ 3rd Generation
 ■ 4th Generation or more



TENURE

Roughly corresponding with the age distribution of the FOBs who responded to the survey (23% are 1-10 years old), 36% of the companies' CEOs have been in that role for ten years or less. However, reflecting the typical longevity of FOB CEOs, 38% have been in the top leadership role for 21 years or longer, with a remarkable 12% holding that position for more than 41 years.

■ 1-10 Years ■ 31-40 Years
 ■ 11-20 Years ■ 41-50 Years
 ■ 21-30 Years

CO-LEADER

35% of respondents indicated that they have co-leaders in a top capacity, such as co-CEO or co-president.



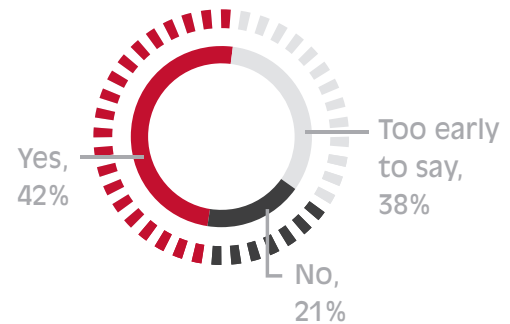
EXECUTIVE WORKED OUTSIDE OF THE BUSINESS

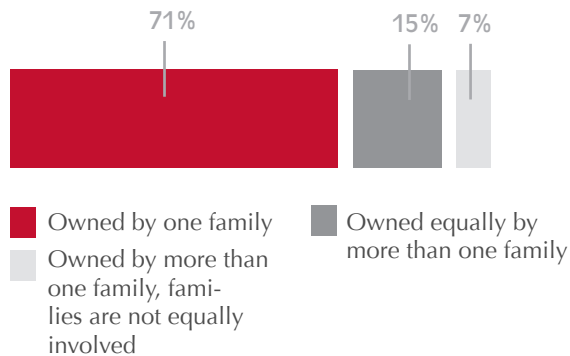
54% of respondents indicated that their top executive has worked outside of the family business in a significant professional position.



NON-FAMILY MEMBER AS AN EXECUTIVE

42% of respondents indicated they would consider a non-family member as a candidate for succession to the top executive position, while 38% said it is too early in the life of the FOB to say. Interestingly, 21% said they would not consider a non-family top executive, which could result in the discontinuation of the business as a family business, if a suitable family member were not available.

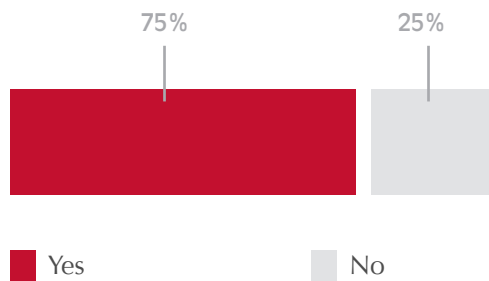




OWNERSHIP

OWNERSHIP

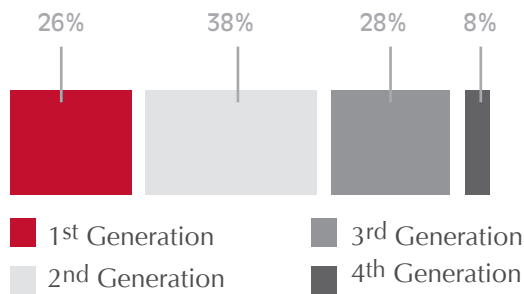
Most of the FOBs --71%-- responding to this survey are owned by one family. In 15% of the cases, more than one family equally owns the business; and in 7%, more than one family owns the businesses but the families are not equally involved.



FAMILY INVOLVEMENT

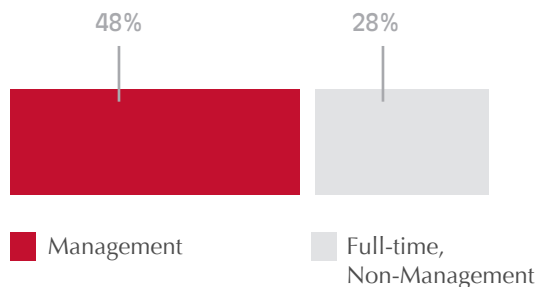
HANDED DOWN

75% of the survey respondents indicated that their family business is intended to be handed down to future generations.



YOUNGEST GENERATION WORKING IN THE FAMILY BUSINESS

Reflecting the relative maturity of the FOBs in the Great Lakes Bay Region, 28% of them have moved into having the third generation working in the company. Another 8% have fourth generation family members working in the company. Those still confined to the first (founding) generation account for 26%, while 38% have moved into the second generation.

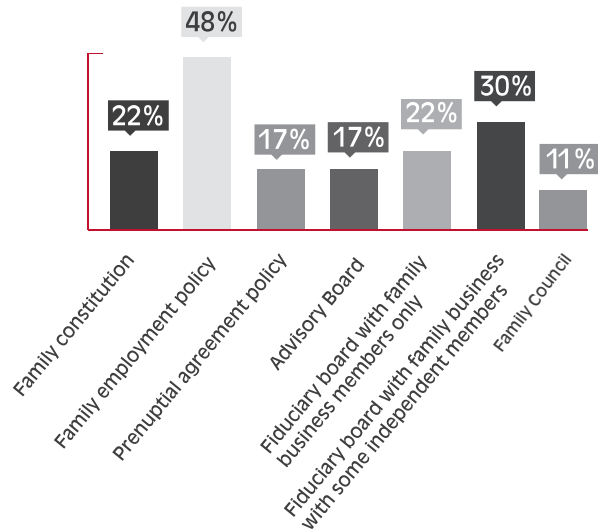


FAMILY WORKING IN THE BUSINESS

As would be expected, the FOBs responding to this study have a great deal of family involvement in the business. Almost half -- 48% -- have family members working in management positions within the company, while another 28% have family members working in another full-time capacity.

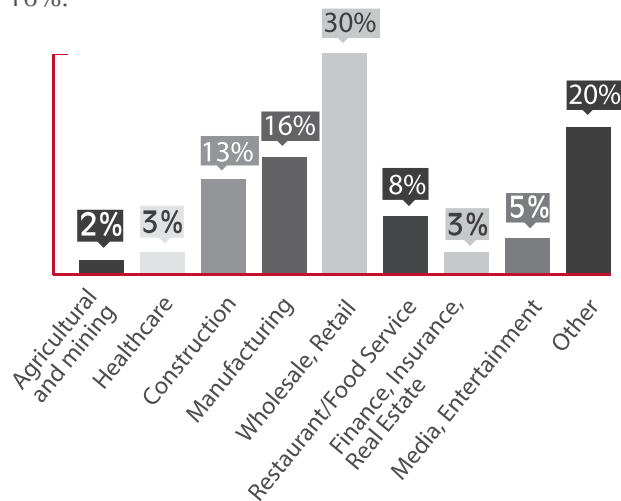
FAMILY BUSINESS GOVERNANCE

Family business governance is set in place to help the FOB define its values, culture, mission, and policies and procedures. A wide variety of documents and mechanisms may be utilized – family constitution; family council; prenuptial agreements; an advisory board; a fiduciary board with or without outside (non-family) members; a family employment policy, etc. The graph below shows some methods utilized by our respondents.



INDUSTRY

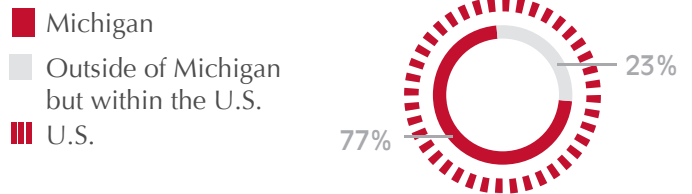
The largest sector of family-owned businesses responding to this study are in the wholesale/retail sector (30%). The second largest discrete sector is manufacturing, at 16%.



ECONOMIC CONTRIBUTION

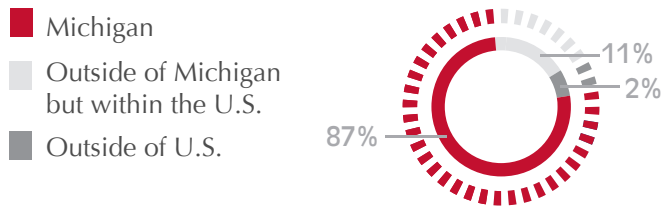
OBTAIN CONSUMABLES

All of the family businesses surveyed indicated that they purchase their consumables within the United States, with 77% confining their purchases to Michigan



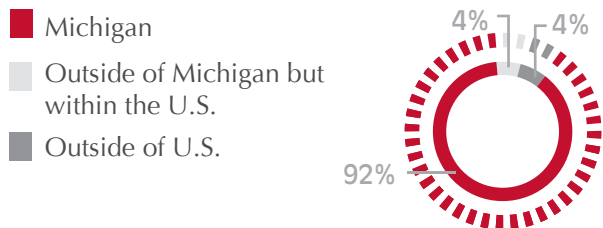
SALES

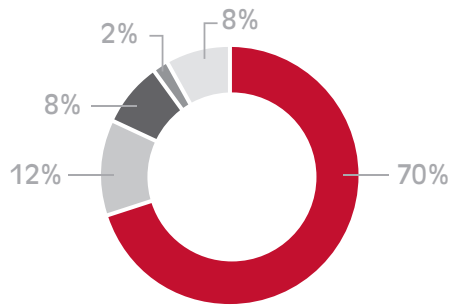
Only 2% of the family-owned businesses responding to this survey indicated that they sell their goods/services outside of the United States. A large majority – 87% -- sell solely within Michigan.



PRODUCTION

As would be expected of FOB respondents based in the Great Lakes Bay Region, 92% indicated their production is based in Michigan. 4% indicated production outside of Michigan but within the U.S.; another 4% indicated production outside of the U.S.

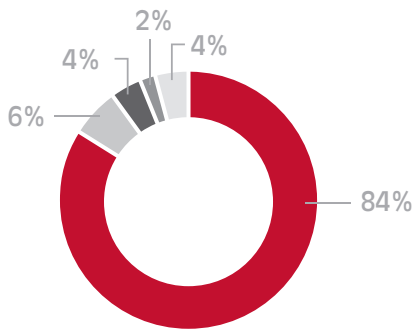
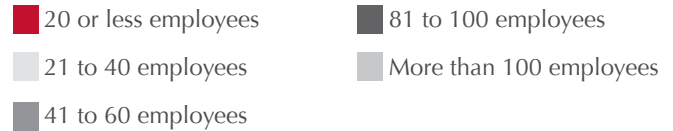




EMPLOYEES

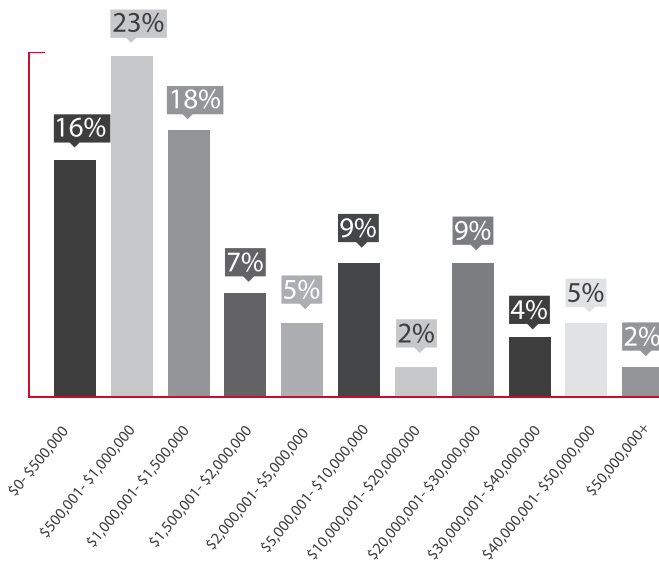
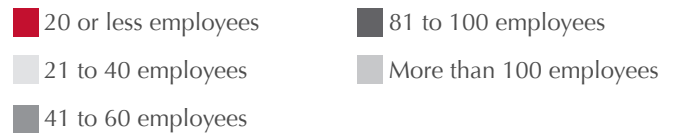
FULL-TIME

Data from this survey shows that 70% of respondents have 20 or fewer full-time employees. 8% have 100 or more FTEs.



PART-TIME

Part-time and/or seasonal employees constitute a considerable portion of Great Lakes Bay Region family-owned businesses' workforce; 16% of respondents said they employ more than 21 part-time employees annually, with 4% of respondents having more than 100 part-time employees on their payroll.



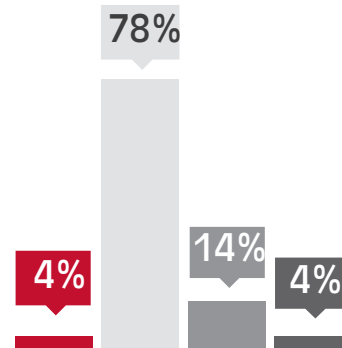
REVENUE

While only 44 of the total 61 survey respondents provided revenue data, some observations can be made. 57% of them have revenues of \$1.5 million annually or less. However, 11% have revenues of \$30 million or more, demonstrating that "family business" and "small business" are not synonymous.

PHILANTHROPIC GIVING

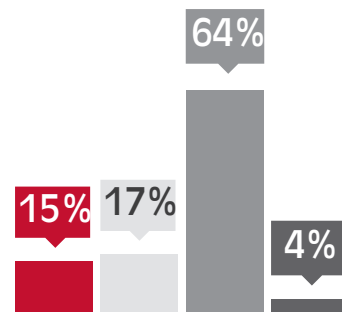
GIVING

An impressive 96% of the FOB respondents indicate that they give back to the community in some form of philanthropy. Roughly corresponding with the relatively small size of the companies responding to this survey, 78% indicated contributions of less than \$50,000 annually.



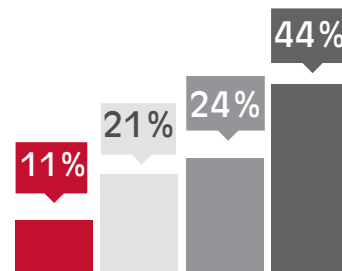
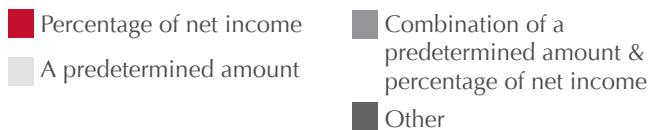
METHOD

Most family owned businesses who responded to this survey make their philanthropic donations as a combination of individual and business giving (64%). Respondents were about evenly divided between solely on an individual basis and solely on a business basis (15% and 17%, respectively). Four percent indicate they do their philanthropic giving through a foundation.



DETERMINANTS

When asked how they determine the amount of their philanthropic donations annually, only 11% indicated that they dedicate a percentage of net income for charity. 24% use a percentage of net income plus a predetermined amount, while 21% simply set a predetermined amount. Others responded that their charitable giving is not predetermined, but based on more arbitrary factors such as number and type of solicitations, and contributions of in-kind or services.





SHAREHOLDER AGREEMENT

FORMAL AGREEMENT

A slight majority (59%) of family-owned businesses have a formal shareholder agreement in place to establish ownership shares or other details.

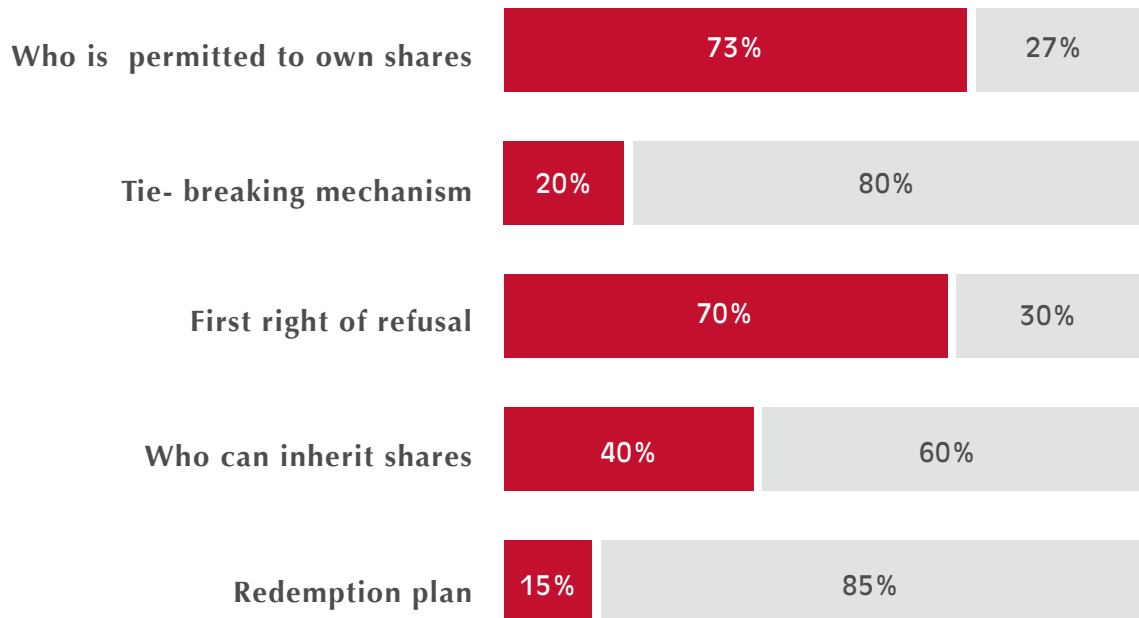
DIVIDEND POLICY

92% of family businesses surveyed indicated that the owning family does not have a formal dividend policy.

FACTORS

Of those family businesses who have a formal shareholder agreement, most specify who is permitted to own shares (73%) and that the company or shareholders have the first right of refusal (70%). 40% of shareholder agreements address who can inherit shares, and 20% have a tie-breaking mechanism in the event of a family dispute pertaining to shareholding.

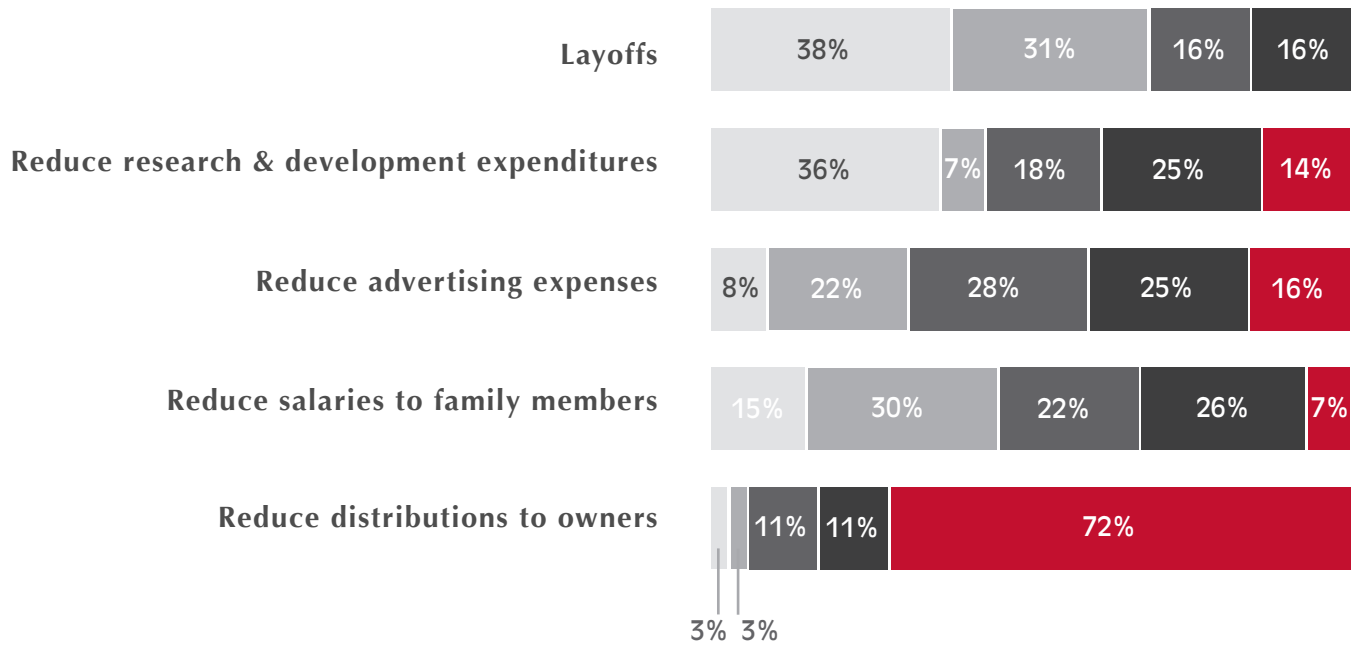
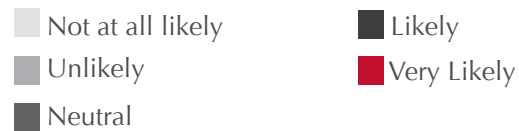
■ Yes ■ No



REACTION OF FAMILY-OWNED BUSINESSES WHEN ANTICIPATING REDUCED EARNINGS

We asked, when anticipating reduced earnings, what course of action the family owned business was most likely to take. In order of priority, based on the responses, a little over 83% would consider reducing distributions to owners (likely or very likely), nearly 41% would consider reducing advertising expenses (likely or very likely), a little over 39% would consider reducing research and development expenditures (likely or very likely), a little over 33% would consider reducing distribution to owners (likely or very

likely), and only about 16% would consider laying off employees (likely). This is an interesting finding that in times of difficult financial conditions, family owned businesses intend layoffs to be a last resort. They would take reduced distribution to owners and reduce salaries of family members before they would consider retrenchment as an option. Also it is interesting to note that none of the respondents checked “very likely” to consider laying off employees as an option when anticipating reduced earnings.



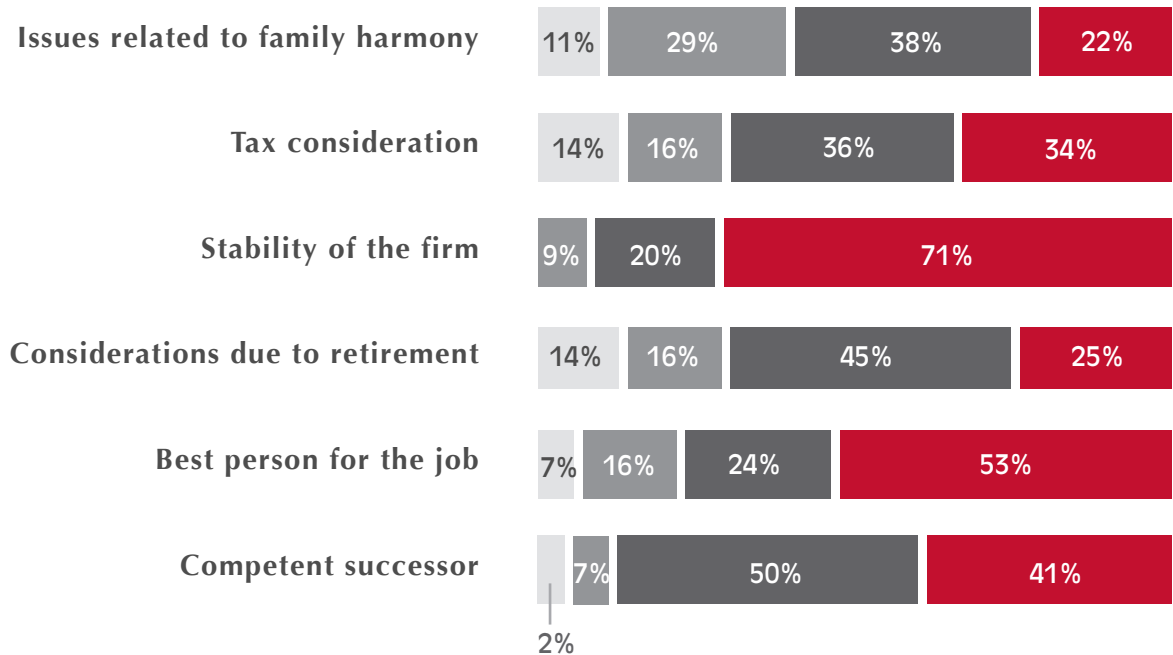
FAMILY BUSINESS SUCCESSION PLANNING IMPORTANT FACTORS

Although more than 75% of respondents indicated they intend to pass their family-owned business along to future generations, only 26% have a formal succession plan in place to guide them. This significant finding unfortunately is in line with national statistics. The most recent PwC survey on U.S. family business (2015) indicates that 73% do not have formal succession plans.

This disconnect between intentions and actual plans is a major factor in the demise of family businesses. National statistics show that 30% of FOBs survive to the second generation, 12% are still viable in the third generation, and 4% make it to the fourth generation and beyond. Other research has shown that having a succession plan in place is a key element in the longevity of family businesses.

Despite the lack of formal succession plans, family-owned businesses in the Great Lakes Bay Region highly value the stability of their firms. They want their businesses to pass to a competent successor, and feel that the best person should be chosen for the top executive position, regardless of whether that person is a family member.

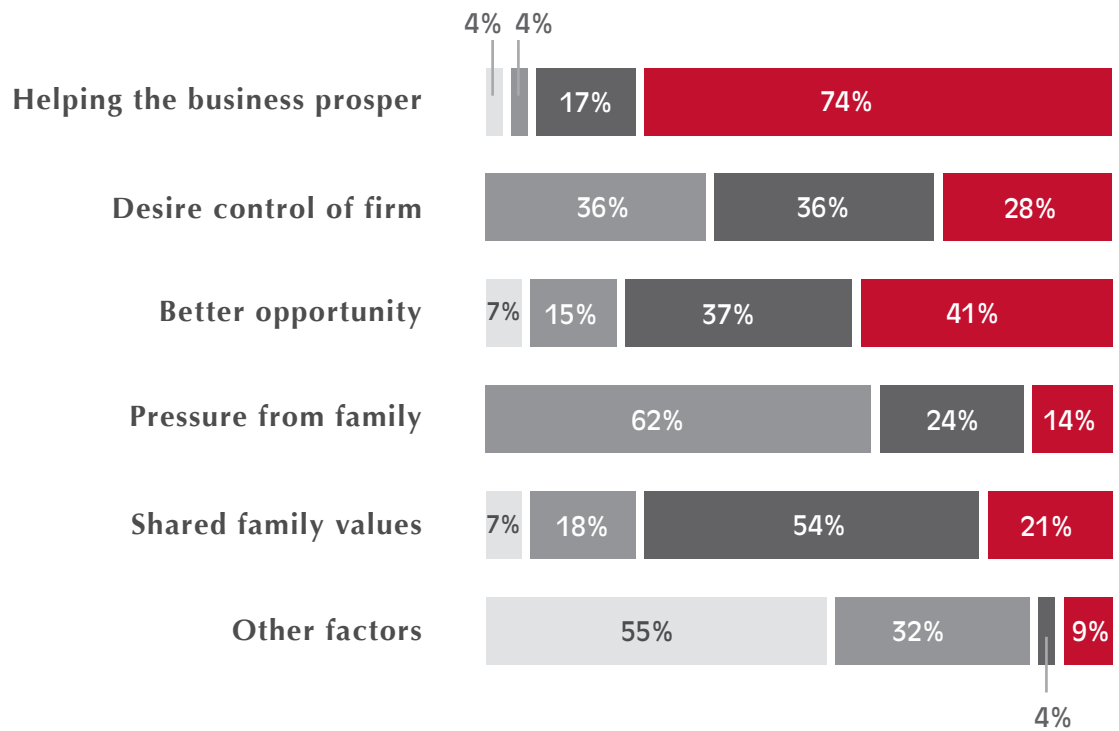
The chart below illustrates how important our respondents believe the indicated factors are, in succession planning for their firm.



JOINING THE FAMILY BUSINESS

By their very nature, family businesses involve an intricate blending of family relationships, emotions and interpersonal dynamics with the hard financial realities of running a business. The reasons why an individual or a family may choose a family business situation for their livelihood are frequently based on familial feelings, values, attitudes and philosophies.

Respondents to this survey were asked to indicate the degree of importance they placed on a variety of factors, in making their decision to found or join their family business.



SCOPE FOR FUTURE RESEARCH

We hope to expand this study, in partnership with other institutions, to get an even better understanding of family businesses in the Great Lakes Bay Region and throughout Michigan. This type of research can help inform policy makers about the significant economic contributions of family businesses. A study including both family and non-family business would allow for a comparison of economic contribution between the two categories.

CONCLUSION

This profile of family businesses in the Great Lakes Bay Region of Michigan indicates they are a robust, dynamic and vital force in the region's economy. Many that were founded 100 or more years ago are still operating (5%), and the family business model continues to be a relevant platform for entrepreneurship (23% founded since 2004).

With the importance of family businesses to the GLBR, it's useful to look at what the future may hold for family enterprises in the region.

A very positive indicator is that the large majority of respondents (70%) plan and expect to grow during the short-term future. Of these:

- ▶ 60% expect to expand their market share
- ▶ 42% anticipate the creation of a new product or service
- ▶ 37% plan to open another store
- ▶ 56% project increasing their number of employees

Another significant finding is that more than 75% of respondents said they intend their company to be passed down to the next generation, thus perpetuating the enterprise and its value not only for the owning family, but for the community and the region, as well.

With family-owned businesses being such an important part of the national, state and regional economy, recognizing their value and supporting their further growth can be a long-sustaining economic strategy for our region.

ACKNOWLEDGEMENTS

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