

New Nationwide Survey Points to Bright Spot In American Economy – Family-Owned Businesses

MassMutual Financial Group, Raymond Institute Study Shows Family Firms "Have Come a Long Way from Main Street" – Despite Economy's Woes

Telling Trends in Revenues, Succession and the Role of Women

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SPRINGFIELD, Mass.) — Forget the "mom and pop" image. A new, nationwide study of more than 1,000 family-owned businesses (co-sponsored by MassMutual Financial Group and the George and Robin Raymond Family Business Institute) shows that this critical segment of the American economy is experiencing robust growth - even in the face of a stumbling economy.

Results of the **MassMutual Financial Group/Raymond Institute American Family Business Survey**, announced today, show that mean revenues from family-owned firms surveyed have grown to \$36.5 million, up more than 50 percent since 1997. Family business experts from Kennesaw State University, Loyola University Chicago and Babson College conducted the research.

Providing further evidence of the generally robust health of American family-owned businesses, the study reveals that more than 50 percent of respondents report they plan to increase staff by up to 5 percent over the next year. Participating family firms have not decreased employment levels over the last three years, a hallmark of the commitment of family firms to their employees even in hard economic times.

However, the MassMutual Financial Group/Raymond Institute American Family Business Survey also points to a diminished emphasis on strategic planning, raising fears about the ability of the family-owned business segment to continue its strong growth over the long-term. Further, almost nine out of 10 family-owned business leaders believe the same family or families will control their businesses in five years, but 55 percent of companies with CEOs aged 61 or older who expected to retire within five years have not chosen a successor, setting the stage for a difficult or chaotic transition.

These are just a few of the findings of the MassMutual Financial Group/Raymond Institute American Family Business Survey, which was conducted over a six-month period in the spring and summer of 2002. Twenty-page questionnaires were sent nationwide to more than 38,000 family businesses, defined as companies controlled by family members. There are more than 24 million family-owned businesses nationwide today.

"Make no mistake: Family business is big business, and as our new survey results clearly demonstrate, it's one of the brightest spots on the American economic horizon," said Matthew E. Winter, Executive Vice President, Individual Insurance Group, Massachusetts Mutual Life Insurance Company (MassMutual). "Identifying the unique issues and challenges this market faces today is important to family businesses, MassMutual and the American economy as a whole."

Mr. Winter stated: "For more than 150 years, MassMutual has been helping small and family-owned businesses prepare for future uncertainties. Sponsoring this research is just one way we can help these businesses continue to thrive."

He added that MassMutual sponsors about 60 Family Business Centers throughout the country to provide a source of education and networking for family business members. Most are located at major colleges and universities and some at non-profit organizations.

In addition, MassMutual has developed alliances with groups such as the International Franchise Association (IFA) and the Independent Community Bankers of America (ICBA) to provide small and family-owned business clients with customized insurance, investment and retirement products.

While most business and economic news over the last year has been bleak, the picture for family-owned and family-run enterprises appears much brighter, said Robin Raymond, who co-founded the Raymond Institute with her husband, George G. Raymond, Jr. "We at the Raymond Institute have long believed in the strength of the family-business model as the backbone of the U.S. economy. It's no coincidence that the Forbes and Fortune lists are well-populated with family businesses - and yet the vital contributions of family enterprises are too often overlooked. We're proud to offer quality research that quantifies those contributions."

The MassMutual Financial Group/Raymond Institute American Family Business Survey provides important insights into the critical challenges facing family businesses, including leadership changes, sales and hiring trends, strategic and succession planning, the influence of boards, the role of women and the status of non-family management.

It builds on a similar survey co-sponsored by MassMutual in 1997, which has become one of the world's most widely cited studies on family business.

Following are some additional key findings based on survey results:

■ **Family-business leaders share a positive outlook.**

More than 60 percent of respondents say they are "very" optimistic about their company's prospects. In the next year, 48 percent expect sales-revenue growth of at least 6 percent, and more than half expect staffing increases of up to 5 percent.

■ **Debt remains comfortably low.**

More than 25 percent of survey respondents report no debt other than trade payables, and another 30 percent have moderate debt levels, in the range of 1 percent to 25 percent of equity.

"While family firms' high liquidity positions them well to withstand tough times and to remain poised for growth, it also raises the question of whether they're optimizing their opportunities," said Joseph H. Astrachan, Ph.D., lead researcher of the American Family Business Survey and director of the Cox Family Enterprise Center at Kennesaw State University. "Often, family businesses avoid debt out of misguided fear or because they resist unwanted accountability. It's important that these attitudes be examined, as they have potential to thwart family firms' growth and survival."

■ **The desire to remain family-owned predominates.**

Nearly 90 percent of participants report that the family will continue to control the firm in five years. In nearly 80 percent of responses, the current CEO is related to the controlling family by blood or adoption, and another 14 percent are connected by marriage. Of those who have identified a successor to the CEO, 85 percent say the successor will be a family member, typically a 40-year-old college graduate.

■ **An unprecedented power shift is anticipated.**

Results show 39 percent of family-owned businesses will change leadership within the next five years, as CEOs retire or semi-retire. This expected turnover is dramatic because the average CEO tenure at a family-owned business can be six times longer than at a typical non-family public company. Yet, despite the disruption likely to accompany poorly planned leadership transitions, 55 percent of CEOs aged 61 or older who are expected to retire within five years have not chosen a successor.

■ **Women gain ground in family-owned businesses.**

While fewer than 10 percent of participants say a female CEO currently leads their firms, 34 percent suggest the next CEO may be a woman. Of the respondents expecting their companies to be run by two or more co-CEOs, nearly half indicate one of the CEOs may be female. Currently, 52 percent of the respondents employ at least one female family member full-time, and 10 percent report two female family

members among their full-time ranks. Interestingly, women-owned firms tend to have Boards with better gender balance.

"Proponents of women as business leaders will be excited to learn how women are making their mark on U.S. family firms," said I. Elaine Allen, Ph.D., researcher for the American Family Business Survey and associate professor of math and statistics at Babson College. "An upcoming release of additional findings regarding women-owned business will provide even more information about how women are transforming family-business management."

▣ **Family-business Boards represent a lost opportunity.**

Ideally, a Board plays a crucial role in a family firm - helping choose successors, setting executive compensation levels and guiding other major decisions. While 58 percent of respondents rate their Boards' contributions as outstanding or good, 25 percent cite no Board contribution at all. Almost half of the Boards meet only once or twice a year, while 13 percent "never" meet. Only 30 percent say their Boards meet three or more times annually. Further, only 29 percent of respondents say their Boards include an audit subcommittee. Not surprisingly, members of family-business Boards tend to be compensated modestly or not at all.

▣ **Inadequate estate planning causes succession risk.**

Nineteen percent of respondents say they have not completed estate planning, other than to prepare a will, though a majority say they have a "good" understanding of the amount of estate tax that will be due upon their deaths. Only 62 percent of significant shareholders report knowing of the senior generation's share-transfer intentions. Such gaps in understanding are likely to impede the business' capital-needs plans for estate taxes and stock redemptions, as well as generate friction among family members. Further, respondents' plans to rely heavily on life insurance to cover most of the death-tax tab may be unrealistic, since 55 percent of respondents fail to conduct regular, formal valuations of company share value and, therefore, cannot accurately forecast estate taxes.

▣ **Domestic competition and concerns about management strength top the list of challenges.**

Fourteen percent of respondents cite domestic competition as their key challenge, followed by management strength (13 percent), recessionary environment (12 percent), lack of qualified workers (9 percent) and management succession (8 percent.)

▣ **Most family businesses lack written strategic plans.**

Only 37 percent of respondents report having a written strategic plan. Respondents with written strategic plans tend to engage in other types of planning as well: They are more likely to have buy/sell agreements, formal redemption plans and formal company-share valuations. They hold Board meetings more frequently and rate their boards' contributions more positively. They also employ more workers, tend to have qualification policies for employing family members and are more likely to have selected a successor. In addition, they post higher sales revenues and greater international sales. These findings appear to demonstrate a correlation between the existence of a written strategic plan and taking actions commonly viewed as essential to family business survival.

▣ **Family-owned businesses share a fierce desire to survive.**

But to do so will require constructively addressing the many issues they face in the interest of both business success and family harmony. The study shows that 61 percent were very optimistic about their company's future prospects.

For complete survey results, visit www.massmutual.com.

MassMutual Financial Group - comprised of member companies with over \$233 billion in assets under management as of year-end 2001 - is a global, growth-oriented, diversified financial services organization providing life insurance, annuities, disability income insurance, long-term care insurance, retirement planning products, structured settlement annuities, trust services, money management, and other financial products and services. We're on the Internet at www.massmutual.com.

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The George & Robin Raymond Family Business Institute is a not-for-profit foundation that strives to be the global authority on fostering ideal conditions for effective family-business management. The Raymond Institute provides and enhances networking opportunities and supports interdisciplinary research and teaching initiatives.

The leaders of the survey team included: Joseph H. Astrachan, Ph.D., Director, Cox Center and Distinguished Research Chair of Family Business at Loyola University Chicago; I. Elaine Allen, Ph.D., Kevern R. Joyce Term Chair and Associate Professor of Math and Statistics, Babson College; Stephen Spinelli Jr., Ph.D., Director, Arthur M. Blank Center for Entrepreneurship at Babson College; and Carol B. Wittmeyer, Ed.D., President, Raymond Institute.