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Major family businesses in Germany

Data, facts, potential

Carried out by the Institut für Mittelstandsforschung Bonn

Results of the 2013 Spring Survey

Imprint

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Bundesverband der Deutschen Industrie e. V. (BDI) [Federation of German Industries]
Breite Straße 29
10178 Berlin
Telephone: +49 30 20 28-14 64
www.bdi.eu

Deutsche Bank AG
Taunusanlage 12
60325 Frankfurt am Main
Telephone: +49 69 910-3 90 18
www.deutsche-bank.de

Scientific Reporting:
Carried out by the Institut für Mittelstandsforschung [Institute for SME research] Bonn
Maximilianstraße 20
53111 Bonn
Telephone: +49 228 72 99 7-0
www.ifm-bonn.org

Project team:
Prof. Dr. Frank Wallau, Institut für Mittelstandsforschung [Institute for SME research] Bonn
Christoph Lamsfuß, Institut für Mittelstandsforschung [Institute for SME research] Bonn

Persons responsible:
Barbara Böttcher, Deutsche Bank Research
Josef Düren, BDI
Annika Jochum, BDI
Dr. Alexander Winkler, Deutsche Bank

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Contents

Summary

- At the beginning of 2013, within the framework of "The major family businesses in Germany" study series, 401 of the around 4,400 major family businesses in Germany with an annual turnover of more than 50 million euros provided representative information on the following **subjects: The economic situation, the euro crisis, areas of activity in economic policy, innovation and research activities** and **outlook for 2013.**

- In comparison with autumn 2012, the **major family businesses view the** current economic situation **with somewhat more scepticism.** Nonetheless, more than half of those surveyed assessed the current economic situation as "good" or "very good".

- The major family businesses made an **optimistic start to 2013.** More than one third of businesses intend increasing their employee numbers **during the course of the year.** Over 40% of those surveyed are planning to increase their **spending on investment** in 2013, while more than one in every two businesses expect a **rise in turnover figures.** Overall, the major family businesses expect that from the start of 2013 there will be a **slight improvement** in their **economic situation** over the **next twelve months.**

- The proportion of family businesses that experience **negative influences from the euro crisis** on their business activities declined significantly at the start of 2013 in comparison with autumn 2012. In an effort to combat the euro crisis, over the last two years in particular, companies have built up their **financial reserves** and improved their **cost structure.**

- The major family businesses believe that the greatest priority in terms of economic policy lies in **sustaining the euro.** In addition, they regard the further **reduction of bureaucracy** and **simplification of the tax system** as the other key **areas of activity for economic policy** for the next two years.

- Major family businesses mostly assess their own **innovative capabilities** as **better** than foreign companies and large national companies. More than three quarters of the companies surveyed have developed **new products / services** or improved **existing products / services over the last two years. In order to protect their innovations,** three quarters of companies have registered **commercial protective rights** over the last two years.

- High levels of activity in innovation are also evident in the **high levels of spending on research and development.** Family-run industrial businesses are at the forefront here with an average R&D quota of 4.5%. Three quarters of companies involved in research **are continuously engaged in research.**

- Around one in every two companies also engages in exchanges with other businesses and conducts research in **R&D cooperative arrangements. The most popular partners** for R&D cooperation in the last two years were **universities / research institutions.** The greatest **obstacle** to R&D cooperative partnerships was identified as **concern about a drain on expertise.** Another difficulty for many companies looking to enter into an R&D cooperative partnership is the lack of **suitable partners.** The importance of **R&D cooperative partnerships will increase with time.**

1. Introduction

Although major German family businesses have been the focus of more public attention in recent years, there is still a significant need for research into the special features of this type of business from a scientific perspective. It was for this reason that the Bundesverband der Deutschen Industrie e.V. (BDI) and Deutsche Bank AG commissioned the Institut für Mittelstandsforschung (IfM) Bonn with a long-term study series in 2010, following two research strands.

The aim of the first research strand is firstly to identify the major family businesses in Germany, to analyse the development of their sales and employment patterns and, building on this, to determine the importance of the major family businesses for the economy as a whole. Secondly, building on the analysis of balance sheet and profit and loss data, key business figures, such as equity ratios or profitability key figures, are to be gathered for major family businesses. The balance sheet and profit and loss accounting data for the years 2008 to 2010 was analysed in winter 2012/2013 and the development of the key figures was forecast for the year 2011.[1]

The balance sheet and profit and loss data is generally available after a delay of around two years. In order to compensate for this delay, up-to-date information about major family businesses is gathered through surveys in the second strand of research. Of the whole group of the around 4,400 major family businesses identified, around 400 representative businesses chosen at random have been surveyed three times to date on different key subjects, such as internationalisation, the euro crisis, management principles and current and future challenges in terms of personnel policy.

In spring 2013, another survey was carried out on 401 of the 4,400 major family businesses. The results of the survey are outlined below. First of all, major family businesses offer their assessment of the current economic situation as well as of the effects of the euro crisis on their business position (cf. chapter 3). Chapter 4 sets out the priorities identified by the family businesses in the Spring Survey for future economic policy measures in general and for the development of inheritance tax in particular. The survey focuses on innovation among major family businesses. This study answers the questions of what innovation strategies these family businesses favour, what they spend on research and development, with whom they enter into R&D cooperation and what protective rights they use.

Before the detailed study results are presented, in chapter 2, there will be a short description of the participating family businesses, which we would like to thank most sincerely here for their support.

[1] Cf. Lamsfuß/Wallau (2013), p. 1ff.

Design of the study

The basis for the current group of surveys is a representative random sampling[1] from the database of the 4,387 major family businesses in Germany produced in autumn 2011.[2] Businesses were surveyed from 22 January to 22 February 2013, primarily through 15-minute telephone interviews (CATI) conducted by TNS Emnid. Respondents were also able to participate in the study online by means of a web-based CAWI survey. Overall, of the 401 participating companies, 158 chose the online variant, 234 the personal telephone interview and nine provided their answers by fax, e-mail or post.

Although the study is not designed as a panel, one in every three businesses surveyed had participated in the 2012 Autumn Survey and around 30% in the 2012 Spring Survey. This means that additional evaluations are possible, enabling trends to be identified in relation to the economic development of the major family businesses in 2012 in comparison with the previous year. Furthermore, the survey results can be linked to the balance sheet and profit and loss account data for the years 2008 to 2011 from the third update of key figures.[3]

In 2011, the family businesses surveyed had an average equity ratio of 34.4%. This is exactly the same as the value determined in the third update of key figures using the balance sheet and profit and loss analysis for all 4,400 of the major family businesses for 2010.[4] Because similar correspondences are also evident for the other balance sheet and profitability key figures, the answers from the 401 family businesses surveyed reflect a representative sample of the around 4,400 major family businesses.

[1] For this study, to ensure a representative sample was taken from the database of major family businesses, only businesses with more than 20 employees were considered.

[2] Cf. Lamsfuß / Wallau (2011), p. 32.

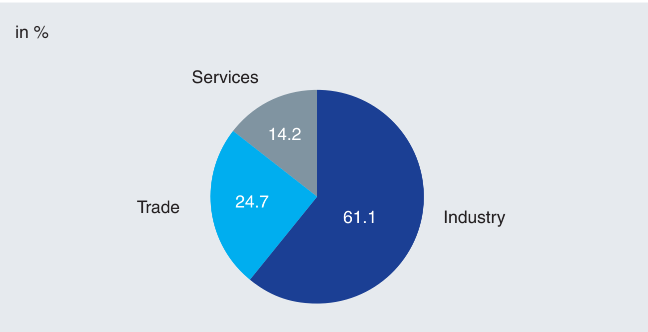
[3] Cf. Lamsfuß / Wallau (2013), p. 1ff.

[4] Cf. Lamsfuß / Wallau (2013), p. 17.

2. Key figures for the family businesses surveyed

Of the 401 family businesses that took part in the survey, 61% come from the industrial sector, 25% from trade and 14% from the service sector. Thus, the distribution of sectors is almost exactly the same as in the previous surveys in spring and autumn 2012 and in the key figure updates.[1]

The surveyed family businesses according to economic sectors



n = 401 © IfM Bonn

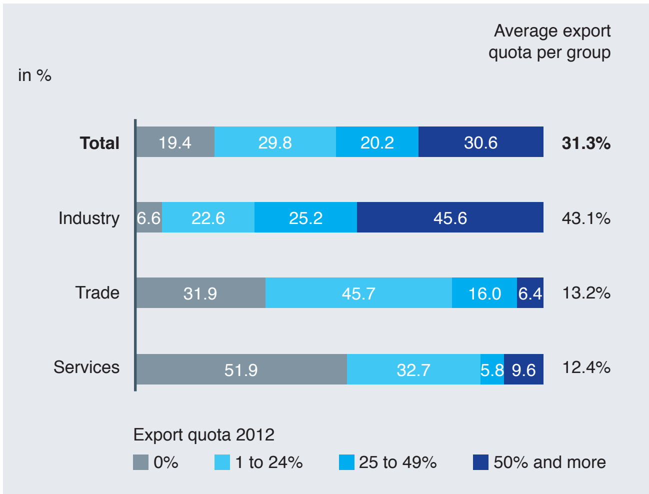
On average the family businesses surveyed achieved a worldwide annual turnover of around 440 million euros (median[2]: 116 million euros) in 2012. The average of the around 10% of businesses with an annual turnover of more than 500 million euros is very much in excess of the baseline. As in the previous year, around 40% of major family businesses achieved an annual turnover of less than 100 million euros.

If one considers the development of turnover among the around 175 businesses that participated both in the current survey and one of the surveys from the previous year, there are signs of a largely positive development in turnover figures. More than half of businesses succeeded in increasing their turnover from 2011 to 2012. Less than one in four businesses reported a decline in turnover in the same period.

Industrial family-run businesses: world export champions

The export of products and services is a key pillar in generating income for many of the family businesses surveyed. Four out of five of major family businesses exported goods and services abroad. More than half of these family businesses had an export quota of 25% or more in 2012. Across all the family businesses surveyed, the average export quota for 2012 was 31.3%.

Distribution of the export quotas for 2012 by economic sector



n = 372; median = 25.0% © IfM Bonn

Significant differences are also evident here according to economic sector. With an average export quota of around 43%, family-run industrial businesses are the driving force behind exports. If one considers businesses with export quotas of 50% and more, nine out of ten of these come from the industrial sector.

[1] Cf. Lamsfuß / Wallau (2012), p. 8, Lamsfuß / Brink / Wallau (2012), p. 8, and Lamsfuß / Wallau (2013), p. 9.

[2] The median is the value below which 50% of the measured values / cases occur in a distribution. Unlike the arithmetically calculated mean, the median has the advantage that it is less susceptible to so-called anomalies, i. e., extremely high or low values.

For the around 175 companies that already took part in one of the surveys the previous year, export quotas have developed in different ways. However, overall, businesses succeeded in increasing their average export quota from 30.5% in 2011 to 31.7% in 2012.

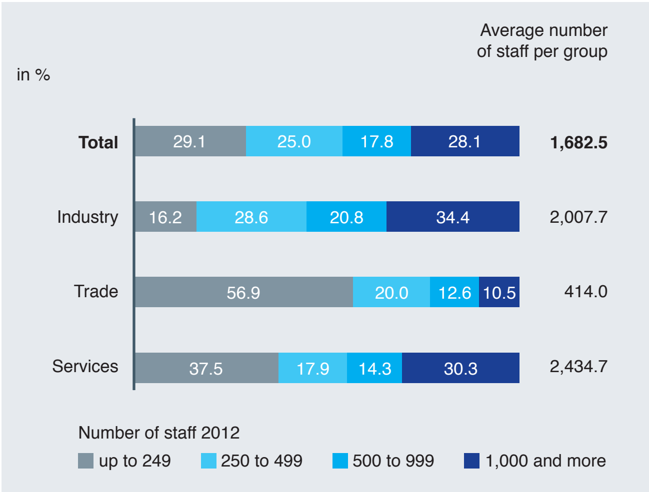
One in ten of major family businesses employs more than 3,000 people

In 2012, major family businesses employed an average of around 1,680 employees worldwide (median: 425). Around one in ten of the family businesses surveyed had over 3,000 employees at the same point in time. As in 2011, around 30% of businesses had fewer than 250 employees in the period under review.[1]

If the three main branches are considered in isolation, clear differences become evident, as is to be expected. The average number of employees in the trade sector is significantly lower than in the other sectors, due to the higher turnover per employee. The high average number of employees in the service sector is strongly influenced by a small number of very large service providers in the sample. Differentiation according to employment size classes shows that in 2012 more than every second large service company employed fewer than 500 people.

In the same year, major industrial family-run businesses employed an average of around 1,700 employees. One in three businesses in this sector employed 1,000 people or more in 2012. More than three quarters of the businesses with 1,000 employees were active in the industrial sector.

Employment size classes for 2012 by economic sector



n = 392; median = 425 employees

[1] Cf. Lamsfuß / Brink / Wallau (2012), p. 9.

Family businesses created new jobs in 2012

For the 185 businesses that participated both in the current survey and one of the surveys from the previous year there are signs of a largely positive development in employment figures from 2011 to 2012. More than 40% of businesses were able to increase their staff numbers. However, this is balanced against somewhat more than one third of businesses that reduced their staff in 2012. Overall, the businesses in question succeeded in increasing their staff numbers by 1.6% from 2011 to 2012. These results would seem to indicate that major family businesses have succeeded in creating additional jobs in 2012, just as they had done in 2010 and 2011.[1]

Majority of employees employed in Germany

Unlike many of the businesses listed in the DAX, major family businesses continued to employ the majority of their staff in Germany. Around 70% of the businesses surveyed employed more than three quarters of their staff in Germany in 2012. Only around 15% of businesses employed the majority of their staff outside Germany.

The question of whether a business employs people outside Germany and, if so, how many, largely depends on the sector it belongs to. While in total only around one in three large family businesses have no employees outside Germany, in the trade sector this figure is 60% of businesses. On the other hand, the proportion of staff employed abroad is particularly high among large family businesses in the industrial sector. More than one in five of these businesses employed more than 50% of their staff abroad in 2012.[2]

[1] A more precise analysis will only be possible within the framework of the fourth update of the key figures, which will be available in winter 2013/2014.

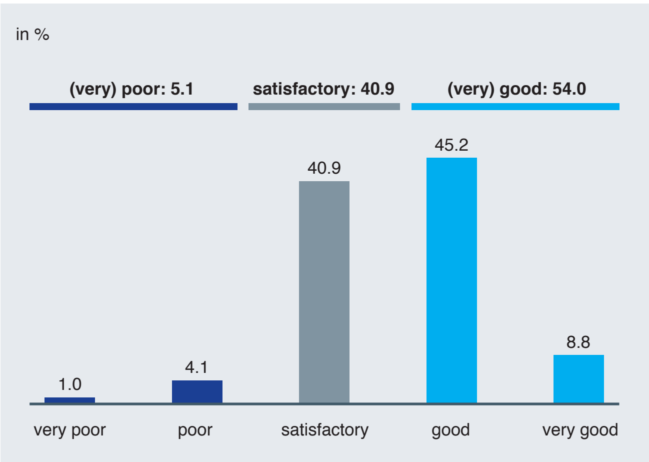
[2] The main reason for this is probably the different level of globalisation in the different economic sectors. This is also evident in the disproportionately high export quotas among family-run industrial businesses.

3. Current economic situation

The current economic situation of the major family businesses: good (minus)

The businesses surveyed are mostly positive about their current economic situation. Only around one in every twenty businesses surveyed assesses the current economic situation as “poor” or “very poor”.

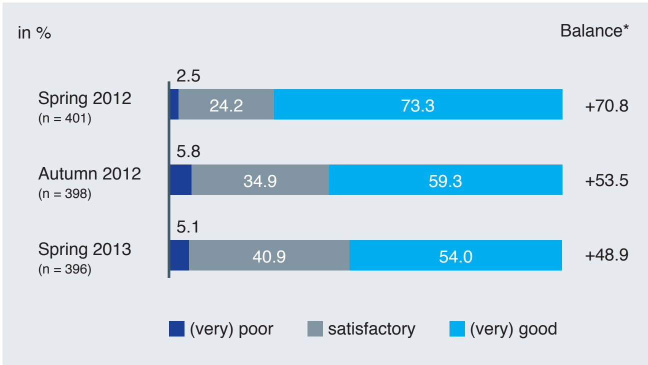
Assessment of the current economic situation from the perspective of the major family businesses



n = 396 © IfM Bonn

Overall, the positive assessments (good or very good) outweigh the negative assessments (poor or very poor) by around 49 percentage points. In comparison with autumn 2012 (balance 54 percentage points), the current economic situation is viewed with a little more scepticism. The difference in comparison with spring 2012 (balance 71 percentage points) is even greater. At this point, more than 73% of those surveyed assessed the current economic situation as “good” or “very good”.

Assessment of the current economic situation of the major family businesses in the period 2012 to 2013



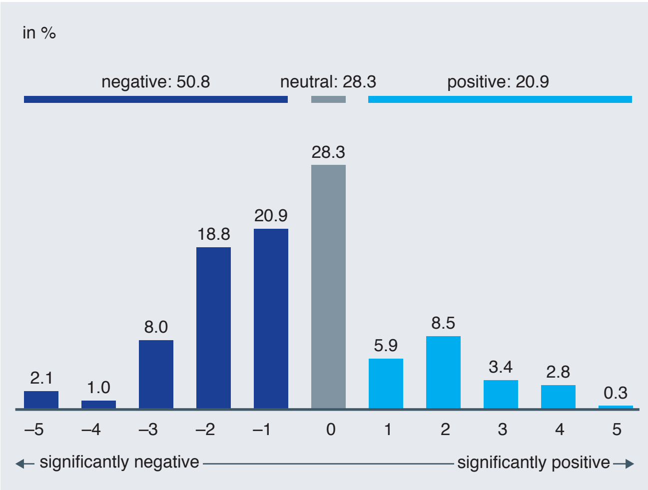
*Balance in percentage points: (very) good minus (very) poor © IfM Bonn

The current economic situation of the major family businesses is currently to be evaluated with a grade of good (minus). The assessment of the current economic situation is irrespective of the sector, employment size class or export activity of the major family businesses.

Overall, the euro crisis is having a slightly negative influence

The slightly more negative assessment of the current economic situation is mainly reflected in the negative effects of the euro crisis. Thus, a little more than half of survey respondents indicated at the beginning of the year that the euro crisis was currently exerting a negative influence on their own business activities. In most cases, according to the businesses, these were slightly negative influences. On the other hand, highly negative influences were extremely rare. On the other, more positive side, almost 30% of businesses had not experienced any appreciable impact and felt that positive and negative effects balanced each other out.[1]

The impact of the euro crisis on the business activities of the major family businesses



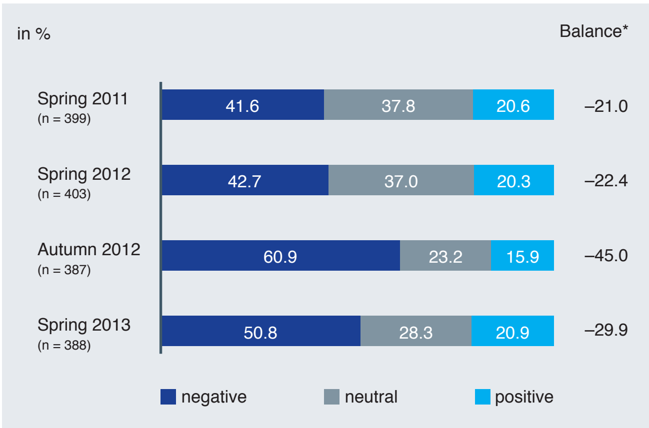
n = 388 © IfM Bonn

It is noteworthy that significantly more large industrial family enterprises (around 60%) report negative influences on their business as a result of the euro crisis. The background to this is that the businesses with the strongest export track record – mainly industrial businesses – are more affected by the euro crisis.

The peak of the negative impact of the euro crisis has passed from the perspective of family businesses

While six months ago more than 60% of the family businesses surveyed believed that the euro crisis was having a negative impact on their business activities, this figure was around 10 percentage points less in spring 2013. This result indicates that the mood in the euro zone had relaxed by the beginning of 2013 and that family businesses had also taken different steps to deal with the euro crisis.

The impact of the euro crisis on business activities in the period 2011 to 2013



*Balance in percentage points: positive minus negative assessments © IfM Bonn

[1] Around a dozen respondents are still unclear about the consequences of the euro crisis for their business and did not offer a concrete assessment of the effects of the euro crisis.

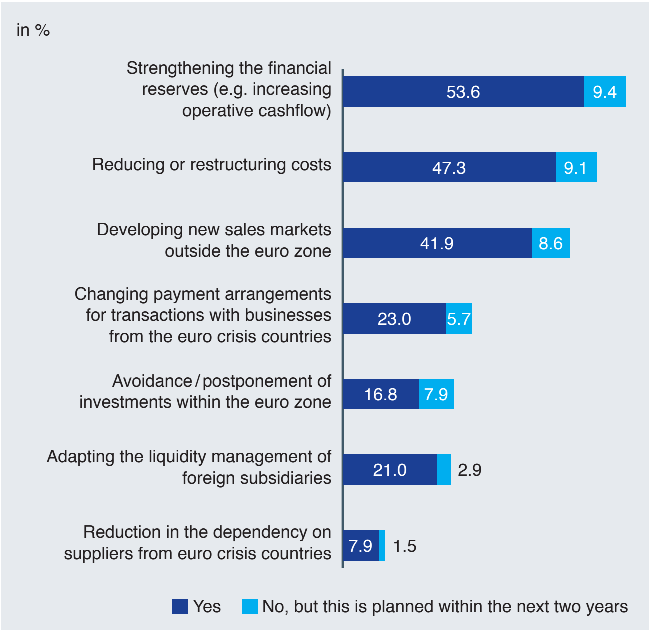
The most important response to the euro crisis: strengthening of financial reserves

Against the background of the on-going euro crisis, there were three major steps available to family businesses in the last 24 months for combating the negative effects of the crisis.

The most frequent measure taken was to ensure a more stable foundation for the company. Thus, around two third of the businesses surveyed had increased their financial reserves in the last two years or were planning to do so in the future. Almost every second company had completed a cost-cutting / restructuring exercise as a result of the euro crisis. Almost 42% of the major family businesses indicated that they had developed new sales markets outside the euro zone. The latter was necessary because more than two thirds of the major family businesses had experienced a decline in sales in the euro crisis countries in the past.[1] In particular, businesses with large staff numbers and that were active in the export and industrial sectors developed new sales markets outside the euro zone in response to the euro crisis.

In addition, around every fourth business surveyed had reacted by changing payment arrangements relating to transactions with businesses from the euro crisis countries in recent months or were planning to do so in the next 24 months. A similar number of businesses have adjusted the liquidity plans for their foreign subsidiaries as a result of the euro crisis or were planning to do so in the future. This applies in particular to businesses with more than 1,000 employees, which would seem to be much more likely to have foreign subsidiaries.

Measures implemented over the last two years or planned for the next two years on the basis of the euro crisis



n = 383–396; out of one hundred minus percentage points: no measures implemented or planned for the future

© IfM Bonn

The lack of planning security[2] and the plan to create financial reserves also meant that around 25% of businesses have postponed or completely refrained from investments in the euro zone as a response to the crisis. At the same time, around one in ten businesses had already reduced their dependency on suppliers from the euro crisis countries or were planning to do so in the near future.

[1] Cf. Lamsfuß / Brink / Wallau (2012), p. 14.

[2] The lack of planning security and problems with the sale of goods / services in the euro crisis countries were identified by the major family businesses as the most negative influential factors of the euro crisis in the 2012 Autumn Survey. Cf. Lamsfuß / Brink / Wallau (2012), p. 14.

4. Areas of activity in economic policy

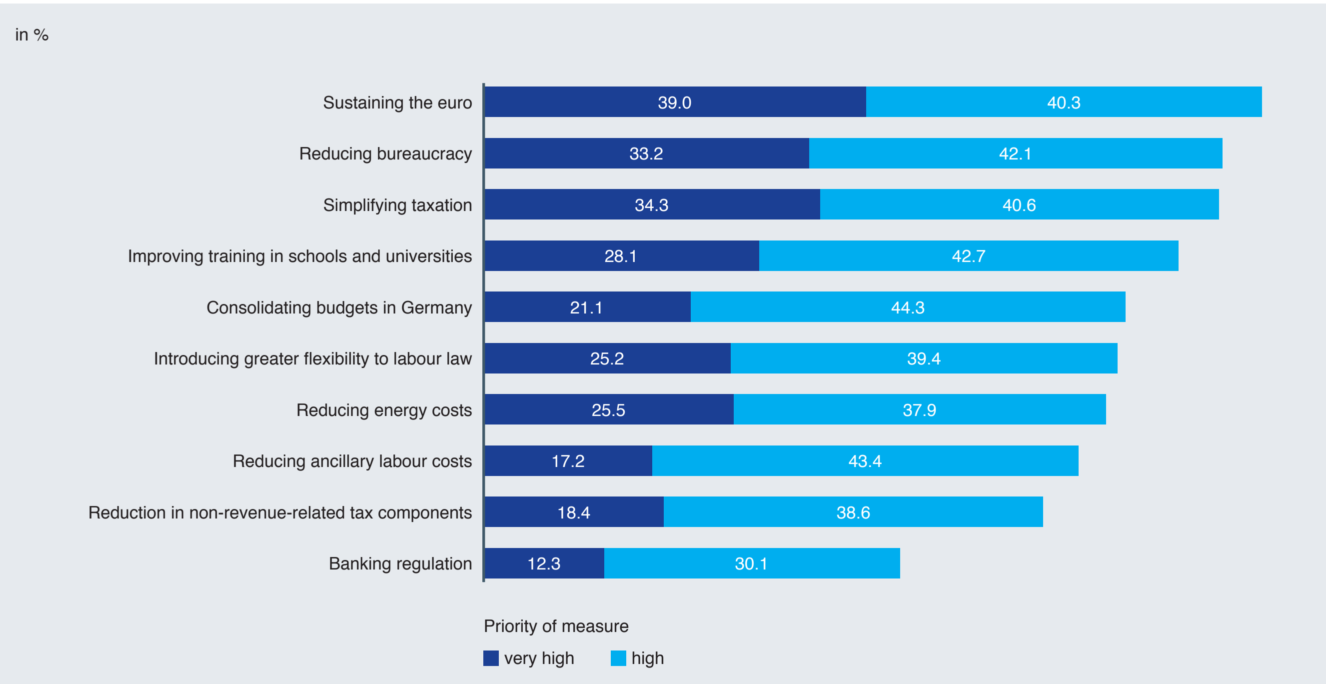
Political priority no. 1: sustaining the euro

For the major family businesses, the main priority in the key areas of activity for economic policy for the next two years lies in sustaining the euro. Eight out of ten of the major family businesses believe that the stabilisation of the euro is a very high or high priority. This probably reflects concerns that serious negative repercussions for the companies' own development could be expected if the single currency were to fail.

Avoidance of bureaucratic red tape

When it comes to reducing bureaucracy, there is still a lot of work to be done from the perspective of family businesses. The German government has taken up this issue in the last two legislative periods. Thus, by the end of 2012, one quarter of the annual bureaucracy costs arising from reporting obligations, estimated at around 50 billion euros, had been cut.[1] Nonetheless, according to the 2013 Spring Survey, further reductions in red tape are a central concern for more than three quarters of family businesses. It is therefore to be welcomed that the reduction in bureaucracy will no longer only be restricted to reporting obligations, but also to compliance costs.

Areas of activity in economic policy for the next two years



n = 381–401; out of one hundred minus percentage points: medium to very low priority

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[1] Bundesregierung (2012), p. 18f.

Simplifying taxation

Almost three quarters of family businesses are calling for a more simplified tax regime. For many of the major family businesses, the bureaucratic burden is directly related to the assessment and deduction of taxes and contributions. In addition, the "thirst for change" among legislators also leads to an increase in terms of the bureaucratic burden on businesses. It was agreed in the recent coalition agreement that taxation law should be significantly simplified and freed of unnecessary red tape. The fact remains, however, that tax law has become increasingly impenetrable, so that the tax system has become more and more difficult to fathom.

Greater efforts required in the area of education and training

Almost 70% of major family businesses, irrespective of their size, continue to regard education and training as the most important area of activity for the future. In the 2012 autumn survey, the major family businesses often criticised the lack of qualifications among applicants.[1] The onus is on politicians to secure the availability of specialist staff with professional training[2] for the German economy, as in today's information age this is an essential basis for further growth.

Continuing budgetary consolidation – securing state capacity for activity

Budgetary consolidation in Germany is one of the most important economic policy measures according to two thirds of the family businesses surveyed. In 2011, the financial policy of the German government switched to a course of consolidation in order to meet the requirements of the debt limit anchored in the Basic Law. In 2012, the state, consisting of the federal, regional, local and social security budgets, achieved a budget surplus of around 4.2 billion euros for the first time in five years. From the perspective of the major family businesses, the aim must be to press forward with the already established path of consolidating state budgets.

Introducing greater flexibility to labour law

The list of economic policy priorities continues to be dominated by the call for greater flexibility in labour law and a relaxation of job protection provisions. Almost two thirds of family businesses want greater flexibility in this area in the coming two years. As the conduct of the major family businesses during the financial and economic crisis has shown[3], this is not reflected in a hire-and-fire mentality. Instead, particularly in more volatile economic times, businesses want greater flexibility in order to limit the risks associated with new appointments.

Reducing energy costs

Increasing energy costs are placing a growing burden on the competitiveness of German family businesses. The changeover to alternative energy sources entails both risks and opportunities for German entrepreneurs. Around 63% of the businesses surveyed believed that the reduction of energy costs was an important area of activity for economic policy in the future. A significant seven out of ten family-run industrial businesses want to see a reduction in energy costs.

[1] Cf. Lamsfuß / Brink / Wallau (2012), p. 20.

[2] Cf. also Lamsfuß / Brink / Wallau (2012), p. 19.

[3] Cf. Lamsfuß / Wallau (2013), p. 10ff.

Reducing ancillary labour costs

The reduction of social contributions, and therefore ancillary labour costs, is a perpetual topic. In the current survey, almost 60% of the family businesses are in favour of further reliefs. The current good financial position of the social security systems created scope to reduce additional labour costs to below 40% by 1 January 2013. The economic developments currently expected would indicate that contributions will at least remain stable in the coming years. In the medium to long term it must be the task of politicians to make social security systems "proof against demographic change". Without the appropriate adjustments to demographic development, the link between social insurance contributions and wage income will lead increasingly to a massive burden on the factor of work, thus threatening the competitiveness of family businesses.

Reduction in non-revenue-related tax components

Corporate taxation was last reformed in 2008. In recent years, however, the elements of the reform that sharpen the crisis have been revealed. Thus, some changes in the law, such as the interest barrier, the purchasing of so-called shell companies or additional trade tax charges, have led to the substance of various businesses being taxed. Under the Citizens Relief Act, the first two elements mentioned were already amended for the 2008 and 2009 financial years. Nonetheless, more than half of the family businesses surveyed call for further improvements here.

The various economic sectors share very similar concerns

The list of priorities for the economic policy measures to be taken up is almost identical for the family businesses in the various economic sectors. The only area in which more significant differences are in evidence is the reduction of energy costs. This is one of the top six issues for family-run industrial companies. In addition, the prime concern for service providers is not the saving of the euro, but rather the simplification of the tax regime. This may have something to do with the fact that a single currency is seen as having less significance for service providers who are more focused on the internal market.

The top economic policy issues for the next two years – by economic sector

Ranking	Industry	Trade	Services
1.	Sustaining the euro	Sustaining the euro	Simplifying taxation
2.	Reducing bureaucracy	Simplifying taxation	Reducing bureaucracy
3.	Simplifying taxation	Reducing bureaucracy	Sustaining the euro
4.	Improving training in schools/universities	Improving training in schools/universities	Improving training in schools/universities
5.	Reducing energy costs	Consolidating budgets	Consolidating budgets
6.	Introducing greater flexibility to labour law	Introducing greater flexibility to labour law	Introducing greater flexibility to labour law

n = 381–401

Inheritance tax reform

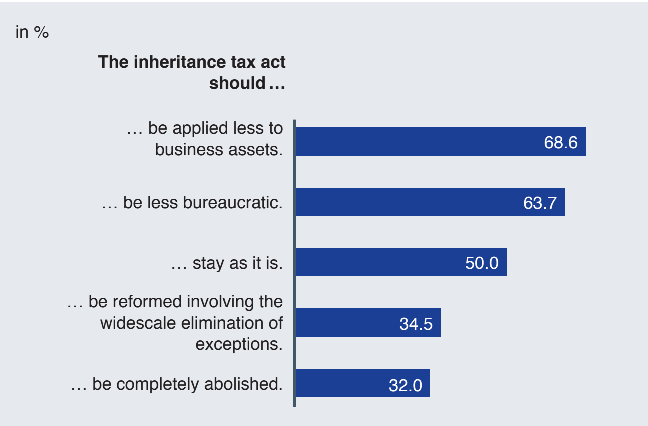
One of the most important aspects of inheritance tax reform in 2009[1] was that it permitted tax obligations to be substantially or even completely waived in the case of business succession, irrespective of tax class. According to the provisions of Sections 13a and 13b ErbStG (German Inheritance and Gift Tax Act), it is possible for 85% of the value of business assets to be exempted from inheritance tax (referred to as relief). This exemption requires that the total wage bill over a period of five years in businesses that employ 20 people or more is not less than four times the initial wage bill.[2]

Instead of the five-year retention period, the beneficiary can also opt for seven years and the target is then seven times the initial annual wage bill, rather than four times. By extending the period to seven years, beneficiaries can increase the relief from 85% of the business assets received to 100%, so that they are fully exempted from inheritance tax.

However, in 2012 the Federal Fiscal Court (BFH) declared inheritance tax to be fundamentally unconstitutional and submitted the regulations to the Federal Constitutional Court for examination. In particular, the inequitable treatment of private assets and business assets was found to be unconstitutional by the Federal Constitutional Court. In this context, the major family businesses were surveyed about how a future inheritance tax law should be framed.

If amendments to the inheritance tax act are required under the constitution, it is a serious concern for the major family businesses that business assets should remain exempt. This is the view of more than two thirds of family businesses, irrespective of their sector of industry or size. As the major family businesses generally seek to follow an internal succession solution[3], an effort should be made to avoid having to sell business assets after succession in order to pay off tax liabilities. This will ensure continuity when a business undergoes generational change, as well as guaranteeing the continuation of the success model operated by family businesses.

Reform of the inheritance tax act



n = 388; multiple answers: 965 answers © IfM Bonn

Relief on business assets continues to play an important role

Half of the family businesses surveyed believe that the current inheritance laws should be retained. In other words, the current relief for business assets has proven effective from their perspective and represents a key criterion for the necessary easing of succession. When it comes to inheritance tax reforms, one third of major family businesses would call for a complete abolition of this tax.

Reducing bureaucracy relating to succession

As in other tax-related issues, the desire to reduce the red tape associated with inheritance tax is also highly relevant. This particularly relates to the effort required in order to evaluate assets at current market value.

[1] ErbStRG 2009, in conjunction with the Growth Acceleration Act of 22 December 2009 (retrospective amendment of the relief rules for business assets as of 1 January 2009).

[2] The initial total wage bill is the average annual wage bill of the business in the last five years prior to succession.

[3] Cf. Lamsfuß / Wallau (2012), p. 27.

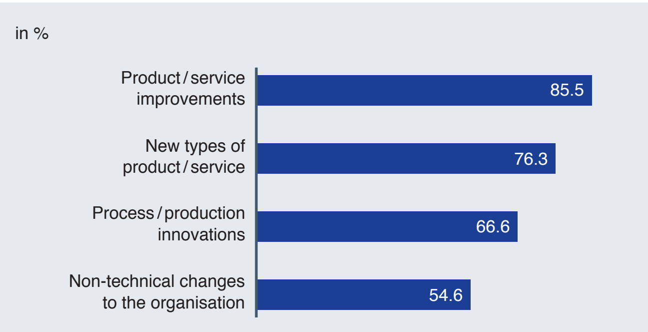
5. Innovation and research activities

The development and market introduction of innovative products and services are important requirements for the economic success of businesses. At the same time, research and innovation activities on the part of businesses make an important contribution to the added value offered by a country. In this context, the major family businesses were asked about their innovation activities in the last two years.

High level of innovation among the major family businesses

Almost all of the businesses surveyed had implemented an innovation project in the last 24 months. A more detailed look at the various areas of innovation shows that the strength of German family businesses lies in the development of new or significantly improved products. Over 85% of major family businesses had already initiated projects aimed at improving existing products or services. More than 76% of the major family businesses had brought completely new products or services to market in the last two years. It tends to be larger industrial companies with greater involvement in the export sector that bring new products / services to the market more often.

Innovation areas in the last two years



n = 392; multiple answers: 1,109 answers © IfM Bonn

However, innovation activities are not just limited to changes in output. Likewise, innovations in processes and production are very significant for the major family businesses. Two out of three businesses were innovative in this area in the last two years. Here too, innovations in processes and production are mainly driven by larger industrial companies with greater involvement in the export sector.

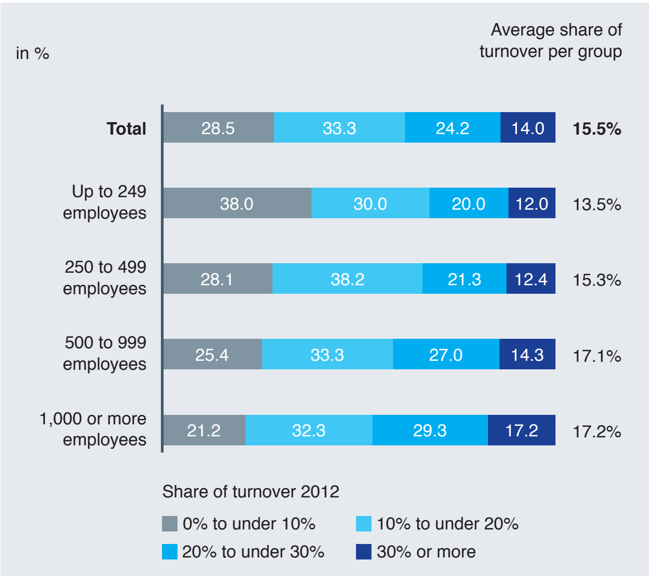
Overall, almost every second major family business was active in several of the innovation areas mentioned. They implemented product and service improvements over the last two years, developed new types of product and at the same time introduced innovations in the production process.

A high level of turnover with new or improved products / services

In order to obtain a reference point for the success of major family businesses in driving innovation, the businesses in the current survey were asked about the share of turnover they had achieved in 2012 with the products / services that were replaced or improved over the last two years.

The results show that overall around 16% of current turnover is accounted for by sales of new or significantly improved products / services. Significant differences are also evident according to employment size classes. Family businesses with fewer than 250 employees only achieve around 13.5% of turnover with new or significantly improved products / services, while this share was over 17% in businesses with more than 500 employees.

Proportion of turnover achieved with new and/or significantly improved products/services in 2012*



n = 351; median = 10.0% © IfM Bonn
* Products/services brought to market in the last two years

This may be due to the fact that smaller businesses bring fewer innovations to market. In addition, smaller companies often belong to the trade sector and innovations tend to be implemented by the producers of the traded goods. Thus, the proportion of turnover involving new and/or significantly improved products in trade was only around 12% in 2012, while industrial family-run businesses achieved around 17% of their turnover with new or improved products/services. The share of turnover is particularly high (around 20%) in businesses with export quotas of 50% and more.

Achieving success with tailor-made products/services

Success with new/significantly improved products/services is partly the result of the fact that most major family businesses try to create individual solutions for their customers, or concentrate on specific market segments. Around half of major family businesses also focus on technological leadership within the industry. Larger industrial companies that are more involved in the export sector and more active in research tend to focus on this strategy particularly often. Thus, technological leadership was one of the strategies practised by two thirds of the industrial family businesses over the last two years. In addition, almost half of the companies introduced one or more new technologies for their own business.

For their part, competitors seek to achieve a competitive advantage through innovation. Aiming to prevent this, around half of family businesses respond to innovations by their competitors.

Overall, the major family businesses focus on a bundle of innovation strategies in order to maintain their innovation capabilities. Thus, around 40% of the major family businesses used four or more of the innovation strategies mentioned over the last two years. The businesses with the strongest export track record and those with high R&D quotas take a particularly multifaceted approach.

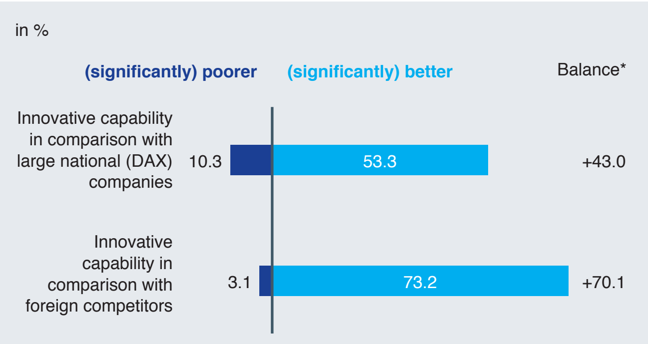
Innovation strategies in the last two years

n = 391; multiple answers: 1,239 answers © IfM Bonn

The major family businesses regard their own innovative capabilities as very important

Because of the innovative strategies chosen, the major family businesses mostly assess their own innovative capabilities as significantly better than other national (DAX) companies (balance +43.0). The result is even clearer in comparison with foreign competitors (+70.1).

Self-assessment of the innovation capabilities of major family businesses



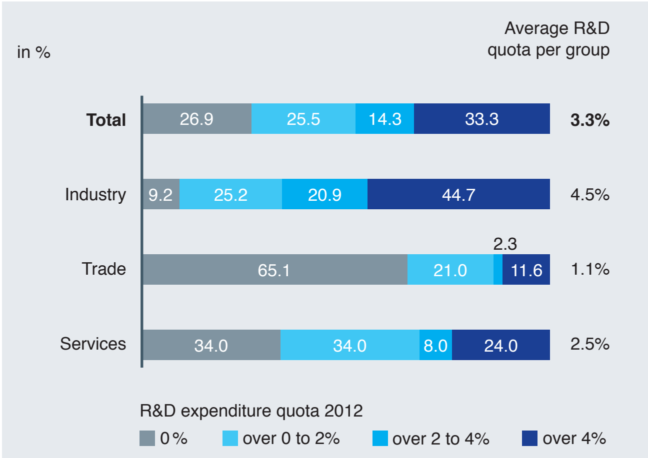
n = 354–379; out of one hundred minus percentage points: the same innovation capabilities
*Balance in percentage points: (significantly) better minus (significantly) worse © IfM Bonn

Family businesses with solid R&D quotas

The high level of innovation among the major family businesses has been hard won and also requires increased effort for the future. Thus, the major family businesses invested 3.3% of their annual turnover in research and development in 2012. Every third business had an average R&D quota of over 4%. Thus, the research intensity of the major family businesses is significantly above the value of 1.9%, which is indicated for all German businesses in 2011.[1]

In particular, major family-run industrial businesses are at the forefront here with an average R&D quota of 4.5%. Among these family businesses, the proportion of businesses involved in research and development is very high at over 90%. In addition: The bigger the business and the greater its involvement in export activities, the greater the proportion of expenditure on R&D. This can also be traced back to the fact that the need to innovate is not the only aspect that increases as a company grows and becomes more international in outlook. Increasingly, businesses also have the financial and personnel resources to conduct their own research and development.

Distribution of R&D expenditure quotas for 2012 by economic sector



n = 342; median = 2.0% © IfM Bonn

Of the around 100 businesses that already participated in the 2012 Spring Survey, around 40% have increased their R&D quotas from 2011 to 2012, while only one in three businesses experienced a decline in R&D quotas.

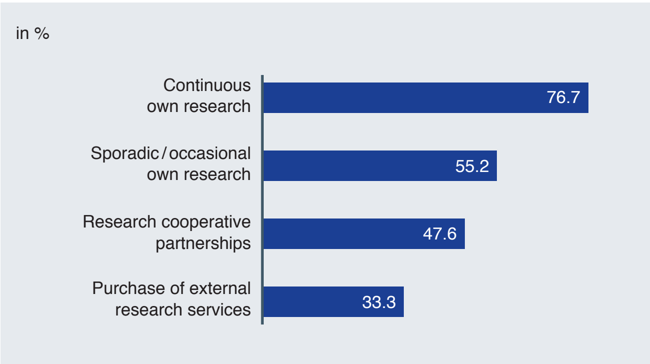
[1] Cf. Stifterverband (2013), p. 4.

Most major family businesses carry out continuous research

Family businesses generally spend the resources provided on their own research. More than three quarters of major family businesses carry out continuous research. The largest proportion of businesses with continuous research activities of their own are found in the industrial sector (83.3%). Thus, the major family businesses conduct continuous research and development more frequently than the comparable group among all German businesses. The proportion of businesses with continuous R&D activities of their own is highest in the research-intensive industrial sector at 42%.[1]

In addition to continuous research, more than one in two major family businesses conduct research and development on an occasional basis, e.g. at a customer's request.

The most commonly practised forms of research and development



n = 288; multiple answers: 613 answers © IfM Bonn

Research and development cooperative partnerships

Many family businesses are now also involved in research cooperative partnerships. Thus, cooperative partnerships are a significant part of the research activities of around one in two family companies. Because a cooperative partner has to contribute its own resources and expertise, it is hardly surprising that it is mainly family businesses that invest in their own continuous R&D activities that also enter into R&D cooperative partnerships. In addition, R&D cooperative partnerships are also mainly pursued with greater than average frequency by industrial family-run businesses as part of their R&D activities. R&D cooperative partnerships are also of greater relevance for businesses that increasingly focus on strategic alliances as part of their innovation activities.

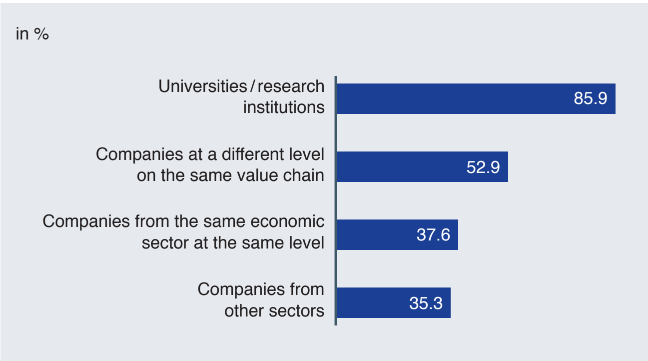
Universities and research institutions are popular research partners

Survey results show that R&D cooperative partnerships are entered into with every conceivable partner from the corporate sector. However, the majority of cooperative partnerships involve one or more university / research institutions. While not so long ago, partnerships between universities / research institutions and business were seen as unusual and difficult to arrange, the current situation signals a significant change. This form of cooperation is particularly prevalent among family-run industrial businesses. Nine out of ten family-run industrial businesses that entered into R&D cooperative partnerships in the last 24 months chose one or more universities / research institutions as partners.

[1] Cf. Rammer et al. (2013), p. 7.

The second most important research partners for the major family businesses are businesses along their own value chain. Thus, cooperative partnerships with businesses on a vertical plane are more likely to attract family businesses than cooperation with businesses on the same added value level. R&D cooperation with partners from other sectors is somewhat more unusual and is practised by around one third of companies.

Partners for R&D cooperative arrangements in the last two years



n = 170 © IfM Bonn

Around one in four major family businesses restricts its R&D cooperative activities to one partner, while around 40% of businesses choose two partners and every third company has three or more cooperative partners.

Obstacle to cooperation no. 1: concern about a drain on expertise

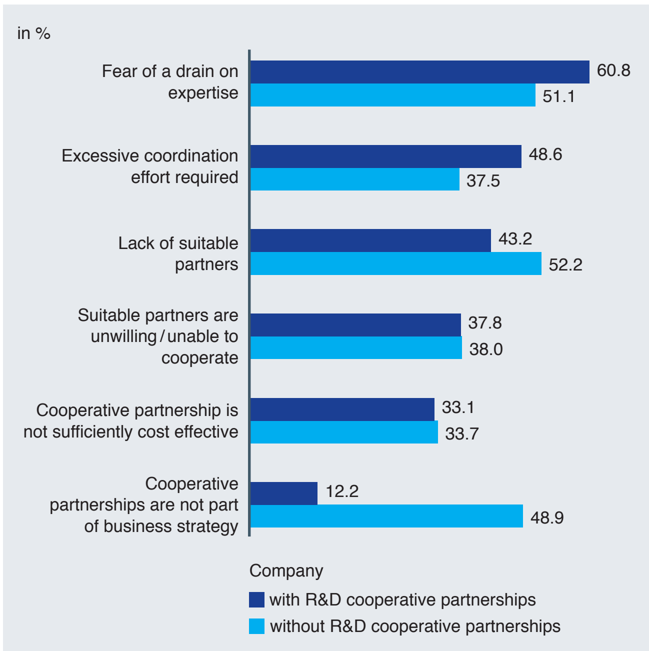
R&D cooperative partnerships can provide advantages, such as reduced costs or access to new technology. On the other hand, cooperation-specific obstacles can also threaten the success of the project. Thus, the greatest obstacles to R&D cooperation for the surveyed companies that already have experience in cooperative activities are concerns about a drain on expertise. In particular, an above-average number of family-run industrial businesses see this as their greatest problem. Thus, companies enter into R&D cooperative partnerships less often with other companies on the same level of the value chain.

Obstacle to cooperation no. 2: excessive coordination effort required

R&D cooperation often calls for significantly more coordination effort than a company's own research and development activities. For almost half of companies that are already active in R&D cooperative partnerships this is a significant obstacle to their cooperative activities. Another important element in achieving the objective of the cooperative partnership is finding suitable partners who are also ready or suitable for cooperative ventures. This often seems like an obstacle that should not be underestimated.

Around one third of family businesses that carry out research complain that R&D cooperative partnerships are not cost-effective. This may be an expression of the fact that although cooperative ventures often lead to a reduction in expenditure, the benefits of the results have to be shared with other companies.

Obstacles to R&D cooperation



n = 148–184; multiple answers: 349–481 answers © IfM Bonn

The lack of suitable partners is the greatest obstacle for entry into R&D cooperative arrangements

Companies that have not been involved in R&D cooperative partnerships in the last two years report the lack of suitable partners as the greatest obstacle (52.2%) to involvement in R&D cooperation. At the same time, in comparison with businesses with the requisite experience, they tend to underestimate the coordination effort required by such a cooperative arrangement. Only about one in three recognises this as an obstacle to R&D cooperation.

Almost half of companies that have not been involved in R&D cooperative partnerships in the last two years reject this form of research and development for their company on principle. However, this restriction in terms of business strategy means that they also miss out on the positive effects of fully functional R&D cooperation.

Utilisation of protective rights

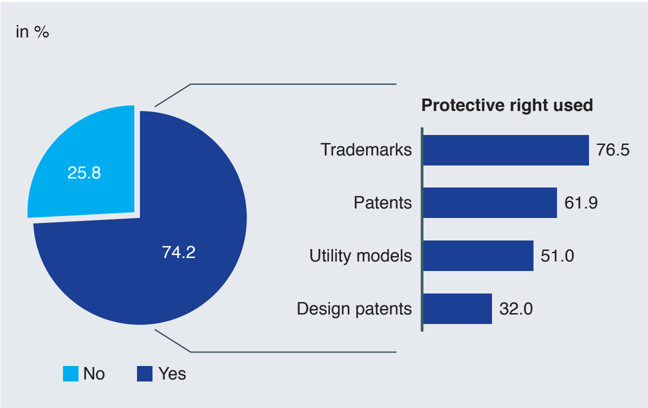
Innovative businesses secure competitive advantages for themselves not just through their products, processes or services. Instead, businesses can also distinguish themselves from their competitors through their choice or name or design. The protection of ideas and innovations is particularly important in the context of internationally competitive, knowledge-based business practices. The various protective rights represent an economic incentive whereby the innovative activities of businesses and individual inventors can pay off.

Four protective rights were examined as part of the following investigation: the patent (protection of technical developments, products or processes), the brand (protection of a product name for goods and services), the utility model (protection of technical products, but not processes) and the design patent (protection of creative services in relation to form and design).

Family businesses protect their innovations

Three quarters of major family businesses have registered protective rights for their innovations over the last two years. Significant industry-specific variations are in evidence. While up to 86% of family-run industrial companies use protective rights, in trading companies, which tend to be generally less involved in research, every second major family business utilises protective rights. In addition, the size of the company also influences the utilisation of protective rights. Over 95% of family-run industrial companies with more than 1,000 employees use protective rights, while only six out of ten companies do so in the case of family-run industrial businesses with fewer than 250 staff members. Unsurprisingly, there is a positive correlation between the utilisation of protective rights and the level of R&D activity. Eight out of ten of major family businesses that invest in research and development have registered protective rights over the last two years.

Protective rights used in the last two years



n = 396

n = 294; multiple answers: 651 answers
© IfM Bonn

Trademarks and patents are very frequently used

The protective rights used by family businesses primarily involve trademarks and patents. Companies from the trade and services sectors tend to favour trademarks.

The most important protective right for technical inventions is the patent. It is therefore hardly surprising that eight out of ten family-run industrial businesses focus on patents. At the same time, the proportion of businesses that use patents increases significantly the larger the company and the bigger the spend on R&D.

Because of the object to be protected, it is no wonder that utility models are used by major family-run industrial businesses with higher than average frequency. The same also applies to the so-called design patent. Overall, around one third of major family businesses that have used protective rights in the last two years use this instrument.

Almost one third have only used one type of protective right in the last two years, while another third have used two and a little more than one third have used three or four of the specified protective rights.

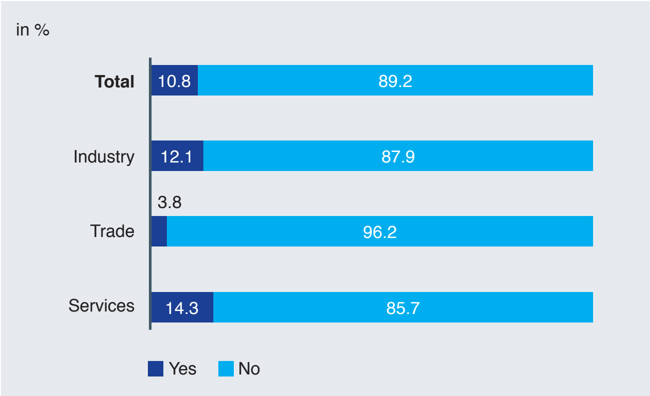
One in ten family businesses seriously affected by protective rights violations

Commercial protective rights are subject to the territoriality principle. This means that the owner of the protective right can only put this right to commercial use in the country in which the protective right was registered. If someone makes use of a protective right without the permission of the owner, then the latter has the right to take action against this abuse.

Patents and protective rights are most often violated by brand and product piracy. The economic damage caused by the violation of intellectual rights is estimated at up to 50 billion euros for the Germany economy alone.[1]

Of the surveyed family businesses that use at least one of the protective rights outlined above, around one in nine has suffered a substantial loss through violations of protective rights in the last two years. It is notable that trade that is based more on the internal market is less susceptible to substantial protective rights violations.

Substantial losses suffered due to violations of protective rights in the last two years – according to economic sector



n = 287 © IfM Bonn

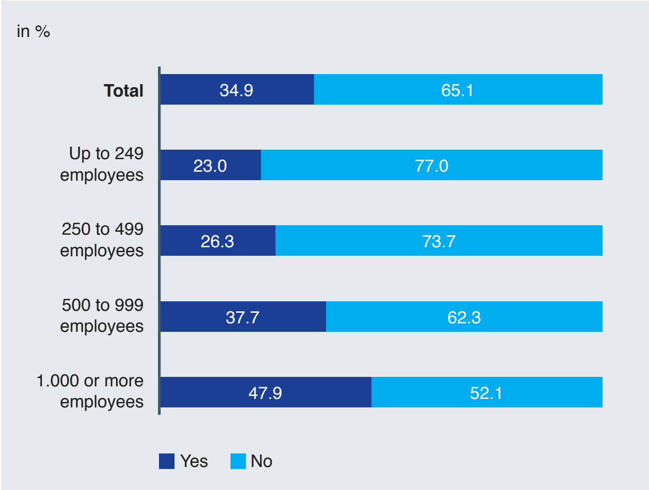
[1] Cf. Blind et al. (2009), p. 5.

One third of family businesses systematically pursue protective rights violations

Protective rights violations are a serious problem that should not be ignored. In addition to the around 10% of family businesses that suffer substantial losses due to violations of protective rights, there are also businesses that incur minor to medium losses. This is the only way to explain why more than one third of major family businesses have systematically pursued violations of protective rights (through the courts) in the last two years. In family-run industrial businesses, the figure stands at more than 40%.

Three quarters of the businesses that suffered substantial losses due to violations of protective rights in the last three years take a systematic approach in trying to reduce losses caused by violations of protective rights. Larger companies also tend to fall back on such measures significantly more often.

Protective rights systematically pursued (through the courts) in the last two years – according to employment size class



n = 284

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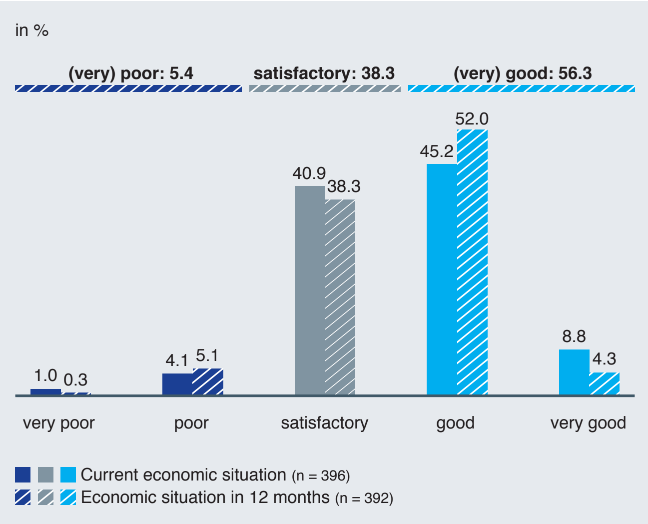
Even in the future, legal provisions based on the principle of territoriality will not be enough to prevent product and brand piracy.

6. Outlook 2013

Assessment of the future economic situation: good

The major family businesses are mostly positive about their business activities over the next twelve months. More than one business in two expects that its own economic situation will be "good" over the next twelve months. In addition, around 4% of those surveyed assessed the economic outlook as "very good". Thus, at 56.3%, the number of positive responses ("good" and "very good") is higher than positive figures for the current economic situation (54.0%). The balance of positive and negative votes (+50.9 percentage points) has risen by around two percentage points in comparison with the current economic situation. Overall, the major family businesses presume that the economic situation will be good over the next twelve months.

Assessing the future economic situation from the perspective of the major family businesses



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The major family businesses agree on this assessment, irrespective of their sector, employment size class or export activity. Only those companies that largely experience negative effects as a result of the euro crisis are less optimistic for the future. 46% of these companies assessed their own economic outlook as "(very) good".

Positive development in turnover and export figures expected

The basic positive mood is also evident in other figures. Around 57% of major family businesses assume that their turnover will increase in 2013. Only one in eight of them expects lower turnover than in the previous year. In particular, companies with large numbers of staff assume that their turnover will develop positively. Three quarters of the businesses with more than 1,000 employees expect their turnover to rise in 2013.

At the same time, the businesses with the strongest export track record increasingly assume that their turnover will increase in 2013. This assessment is driven by the fact that more than two thirds of these businesses aim to increase their exports. Thus, it can be assumed that a large proportion of growth in turnover will be achieved by increasing exports to countries outside the euro zone.

The major family businesses are expected to have a positive impact on employment

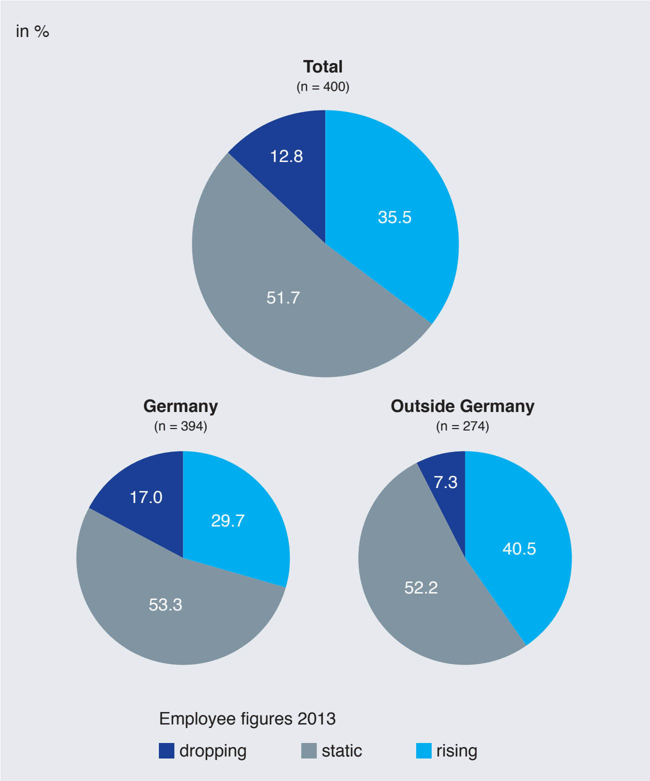
The positive assessment of the current year is also evident in the planned investment activities and the expected development of employment among the major family businesses. More than one third of large family businesses plans to increase staffing levels in 2013. However, this is balanced against the fact that around one in eight businesses expect to have fewer staff in 2013 than in the previous year.

Only around one in five of all companies that expect their staffing levels to grow in 2013 intends increasing employee numbers abroad only. The remainder intend increasing staffing levels in Germany only (44%) or plan to take on new staff both in Germany and abroad (36%).

Overall, around 30% of businesses assume that they will increase their staffing levels in Germany. The expected rise in exports will not only secure existing jobs in Germany, but also create new employment.

In order to support their activities in the area of internationalisation, the major family businesses will probably grow somewhat stronger abroad. Around 40% of the companies that have subsidiaries abroad intend increasing staffing levels abroad in 2013.

Expected development in staffing levels in 2013



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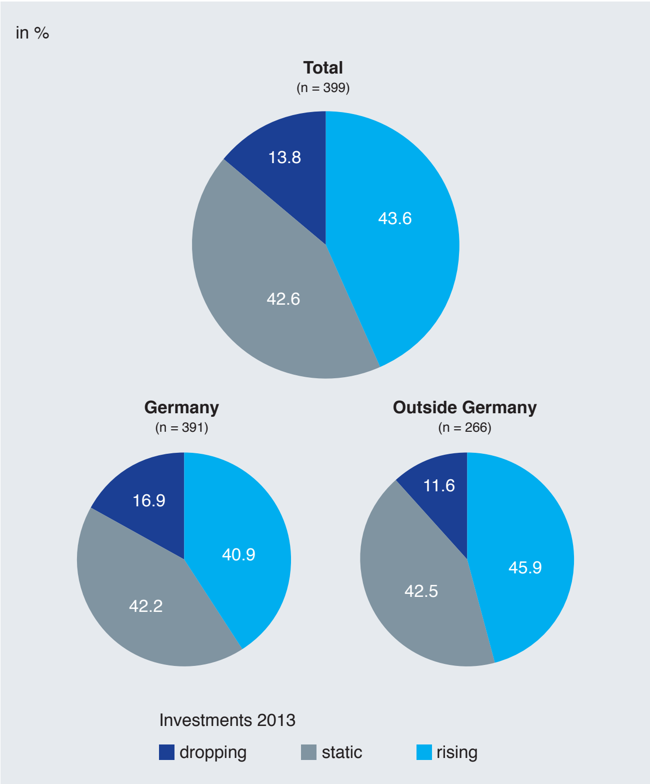
Higher levels of investment planned for 2013

Irrespective of their sector, employment size class or export activity, more than 40% of the major family businesses intend to increase investment activities in 2013. This applies both in Germany and abroad. On the other hand, only around 14% of business are looking to reduce their investment activities in 2013. In particular, those companies that assess their current and future economic situation positively intend to increase their investment activities this financial year.

Expected development in investments in 2013



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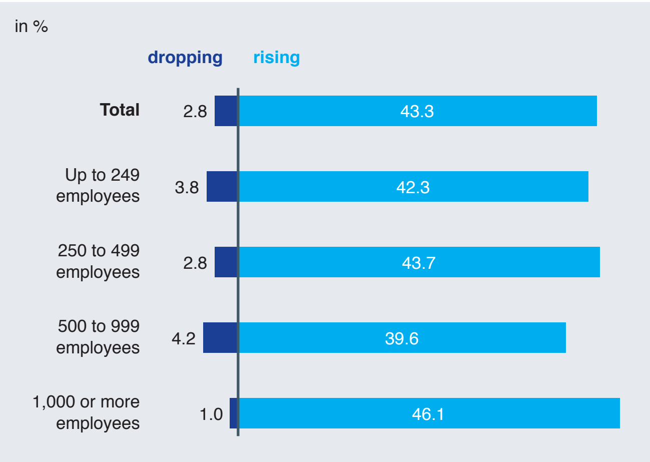
Increased spending on innovation/R&D planned for 2013

Four out of ten of major family businesses that spent in the area of research and development in 2012 intend increasing their expenditure in research and development / innovation over the next two years. More than one in two of these businesses intends sustaining research and development at the same level over the next two years. Only a minority is planning to reduce its innovation / R&D activity in the next two years. This result is irrespective of the size of the companies surveyed.

Development of spending on innovations/R&D in 2013 – according to employment size classes



n = 247; out of one hundred minus percentage points: spending remains unchanged © IfM Bonn

The relevance of R&D cooperative partnerships is set to increase

The importance of R&D cooperative partnerships will also increase in future. Of the companies that have already been involved in R&D cooperative partnerships in the last two years, almost half assume that R&D cooperative partnerships will become more important. The figure is different in companies that have not previously been involved in R&D cooperative partnerships: around 16% of these businesses envisage involvement in an R&D cooperative partnership in the next two years.

Overall, businesses expect that the 2013 financial year will be successful. The success story of the biggest family businesses seems to be continuing this year too.

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This study presents the results of the 2013 Spring Survey of major family businesses in Germany with an annual turnover of 50 million euros or more. The study focuses on innovation and research activity among major family businesses. In addition, the family businesses were asked about the current and future economic situation, the euro crisis and future areas of activity in economic policy.