2012 Family Business Confidence Survey

Elizabethtown College

Elizabethtown, Pennsylvania

This research project was conducted jointly by the Department of Business and the S. Dale High Center for Family Business. Presented February 29, 2012.

Dear Reader:

We chose to focus this report on family businesses because of their crucial importance to our economy. Eighty to ninety percent of all business organizations in the U.S. are family-owned. Depending on how narrowly or broadly they are defined, family businesses employ between 27 percent and 62 percent of all U.S. workers (Shanker and Astrahan 2003). They generate a 6.65 percent greater return on assets (ROA) than non-family businesses and contribute 64 percent to the GDP (FFI, 2011). While state-level data are sparse, family businesses, conceivably, contribute to a high extent to Pennsylvania's economy as well.

Family businesses face unique challenges stemming from the complex weaving of family and professional relationships, succession concerns and preservation of family values over generations. These challenges can create significant constraints on a family firm's competitiveness; however, the interaction of family and business can also create unique advantages. In fact, when effective strategies are built on resources tied to the family, firms enjoy a unique familiness advantage. This project aims to provide firms with a better understanding of the business environment in the region, and the challenges faced by their customers, suppliers, and peers. In doing so, we aim to help them make better strategic decisions. The report will also help Pennsylvania policymakers understand the unique challenges of family businesses in our state.

The project was conducted jointly by the Department of Business and the Family Business Center at Elizabethtown College, and began, in November 2011, with a survey of family businesses in Lancaster County, Dauphin County, Allegheny County, Luzerne County, Indiana County, Bucks County and Montgomery County. We conducted the survey with three objectives in mind:

1. Assess family business confidence in the future, both broadly (are they optimistic about the future of the U.S. economy?), and more specifically (Do they expect a net income increase? Do they plan to hire? Do they plan on taking more debt? Increase their capital or technology investments? Increase their presence abroad?)
2. Learn about adoption of best practices that would position them better for the future. This includes transition practices, such as a formal ownership transition plan, a written strategic plan, a formal management succession plan, and HR practices, such as written job descriptions, defined career paths, formal performance reviews and standard bonus structures.
3. Understand how family businesses view the current economic and regulatory environment: What internal and external challenges do they face? What opportunities for regulatory change do they see?

In view of the volatile economic environment in recent years, the results from this report should serve as a compass to navigate the turbulent waters of today's economy. We also hope that the short time span between the data collection phase of this project and publication of findings will help family businesses make timely decisions for the current year.

Cristina E. Ciocirlan
Assistant Professor of Management
Department of Business
Elizabethtown College

Michael McGrann
Executive Director
S. Dale High Family Business Center
Elizabethtown College

Sanjay Paul
Associate Professor of Economics
and Chair of the
Department of Business
Elizabethtown College

Executive Summary

A total of 72 family business representatives responded to the survey, most of them holding senior leadership or ownership positions in their organizations. A large number of the family businesses in our sample operate in the construction, manufacturing, wholesale trade and distribution industries. The average age of the businesses is 50 years. On average, 2.14 generations have held control or ownership of the business. A majority of businesses are in the first, second and third generations and employ 74 full-time equivalent (FTE) employees on average. The majority of businesses (62) are small and medium-sized (under 250 employees) while 10 are large (over 250 employees). A majority of family businesses (78 percent) expect that the current family is somewhat or extremely likely to control the business in the next five years. For comparison purposes, our report also includes findings from a small sample of non-family businesses (19). However, due to differences in the size of the two samples, such comparisons should be interpreted with caution. The non-family firms are 63 years old and employ about 51 FTEs on average. The gender, age and education distributions of the non-family sample are similar to the family sample (see Methodology, p. 21).

Key findings

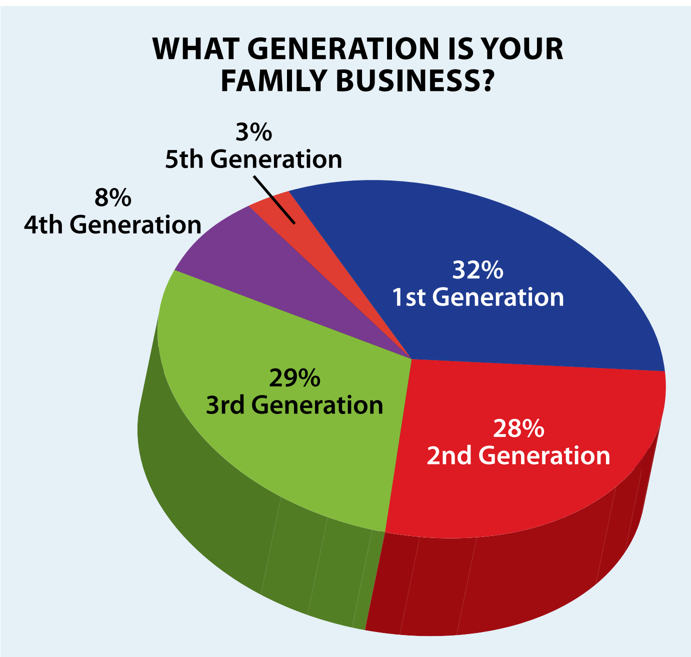
1. **Optimism about the future (p. 6-7):** A large proportion of businesses are upbeat about their own prospects. In fact, two-thirds of participating firms expect their gross sales and net income to increase in the coming year. While optimistic about their own future, family businesses are less optimistic about the U.S. economy: nearly half (47 percent) indicated that they are somewhat or very pessimistic about the country's economic future.
2. **Expectations regarding hiring and certain categories of expenditures (p. 7-8):** Realizing the importance of investing in human capital, a large percentage of family firms (97 percent) plan to keep constant or increase their Training and Development expenses. Similarly, family businesses consider innovation to be important, with 85 percent choosing to keep constant or increase their R&D expenses. Only a small percentage of family businesses (10 percent) plan to lay off employees during the next year, while a larger percentage (37 percent) plan to hire more employees.
3. **Strategic and succession planning (p. 10):** While half of the businesses surveyed have a written strategic plan outlining their plans over the next three to five years, only 29 percent have a formal management succession plan while slightly more (38 percent) have a formal ownership succession plan outlining how they will transition shares to the next generation.
4. **Human resource practices (p. 11):** About three-fourths of family businesses have written job descriptions outlining responsibilities, minimum qualifications and reporting structure for every position. Four-fifths conduct formal performance reviews for their employees. However, only slightly more than half (54 percent) have a standard bonus structure in place, and only a fifth have defined career paths by job category.
5. **State regulatory options (p. 12):** The state can make the regulatory environment more attractive for family businesses by cutting taxes (90 percent of businesses), providing a spur to business investment (70 percent) and improving the regulatory climate (69 percent). Lowering the costs of closing plants or starting a business are less important.
6. **Internal challenges (p. 12):** About 30 percent of companies are concerned with the lack of family unity in their business.
7. **External challenges (p. 13):** The three greatest external challenges to growth and survival of family businesses are health care costs (73 percent), labor costs (67 percent) and difficulty finding qualified workers (66 percent). Foreign competition and estate taxes are relatively unimportant.

About the Respondents

The family business sample

A total of 72 family business representatives responded to the survey, of whom 53 are males and 19 females (see the Methodology section for more details). The average age of respondents is 45. Most respondents (46) hold a bachelor's degree, 10 hold masters' degrees, 12 have some college education, one has a high school diploma and 3 hold an associate degree.

Figure 1. Generation



Most respondents report holding senior leadership positions in their organizations.

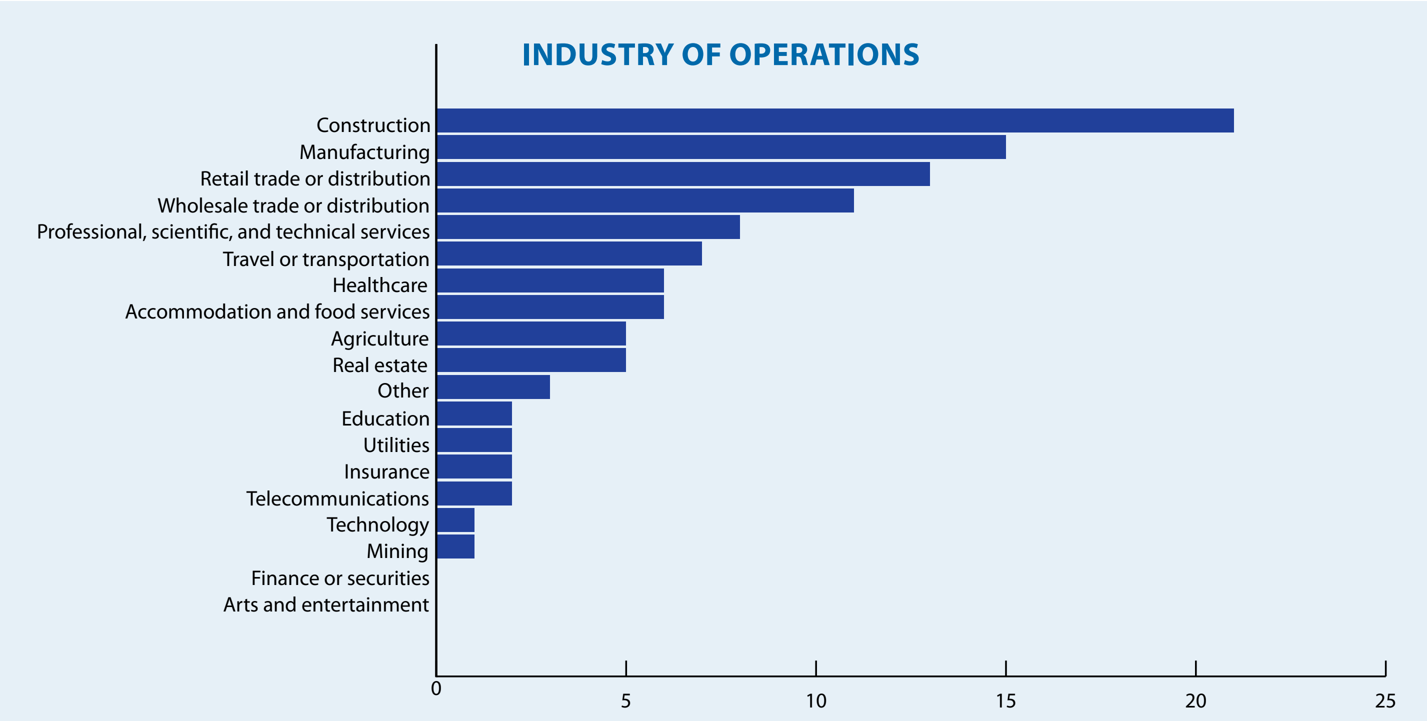
Twenty-seven are presidents/CEOs or chairmen/chairwomen, some of whom are also owners/co-owners of their business.

Eighteen are vice-presidents, or hold other C-level positions in their organization (not counted in the first set).

The average age of family businesses in the sample is 50 years. On average, 2.1 generations have held control or ownership of the business (see Figure 1). A majority of businesses are in the first or second generations (60 percent). The businesses in our sample each employ an average of 74 full-time employees. Eighty-six percent of our businesses are small and medium-sized (with under 250 employees).

A large number of the family businesses in our sample operate in the construction, manufacturing and wholesale trade and distribution areas (see Figure 2). The 'other' category includes areas such as, mechanical services, grounds maintenance and rental equipment. By contrast, the non-family business sample only includes one construction company, two manufacturing companies and no wholesale companies. It is composed to a larger degree of insurance, healthcare and professional/technical services companies.

Figure 2. Industry of operations



The non-family business sample

The gender distribution of the non-family business sample respondents is similar to that of the family business sample, although the average age is higher (53 years compared to 45 years). All of the respondents are CEOs or Presidents, with the exception of two, who are the HR Director and CFO of their organizations. On average, non-family business firms are 63 years old and employ 364 FTE employees. However, the non-family sample included an outlier with 6,000 employees. When this outlier was excluded, the average number of FTE employees fell to 51. The non-family business sample was similar to the family business sample in terms of educational attainment, with the majority of respondents holding either a Bachelor's or a Master's degree.

#1 Confidence in the Future

Optimism and Expected Changes in Business Indicators

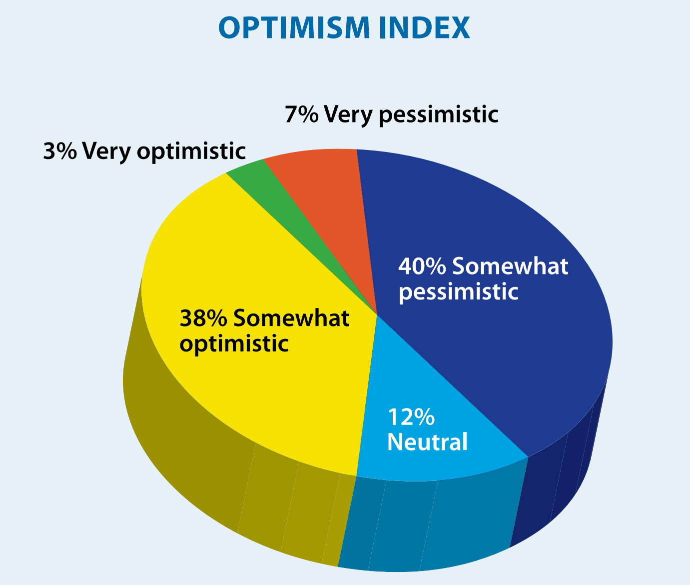
Optimism index

Family businesses fared relatively well in recent years. Despite the recession, average sales revenue increased 7.1% from three years ago. [1]

Family businesses are split in their optimism about the U.S. economy for the next 1-3 years: just under half (47 percent) indicate that they are somewhat or very pessimistic, while 40 percent indicated that they are somewhat or very optimistic. Non-family firms are more pessimistic, with 64 percent indicating that they are somewhat or very pessimistic and only 26 percent indicating slight optimism *(see Figure 3)*.

Next, we categorized industries as 'optimistic,' 'pessimistic' and 'neutral.' [2] The very few 'optimists' are concentrated in the mining, and to a slightly lesser degree, in the wholesale and retail trade or distribution industries. The 'pessimists' are clustered mostly in the following industries: construction, accommodation and food services, travel or transportation, insurance, utilities, and real estate. The 'neutral' industries included education, healthcare, and telecommunications *(see Figure 4)*.

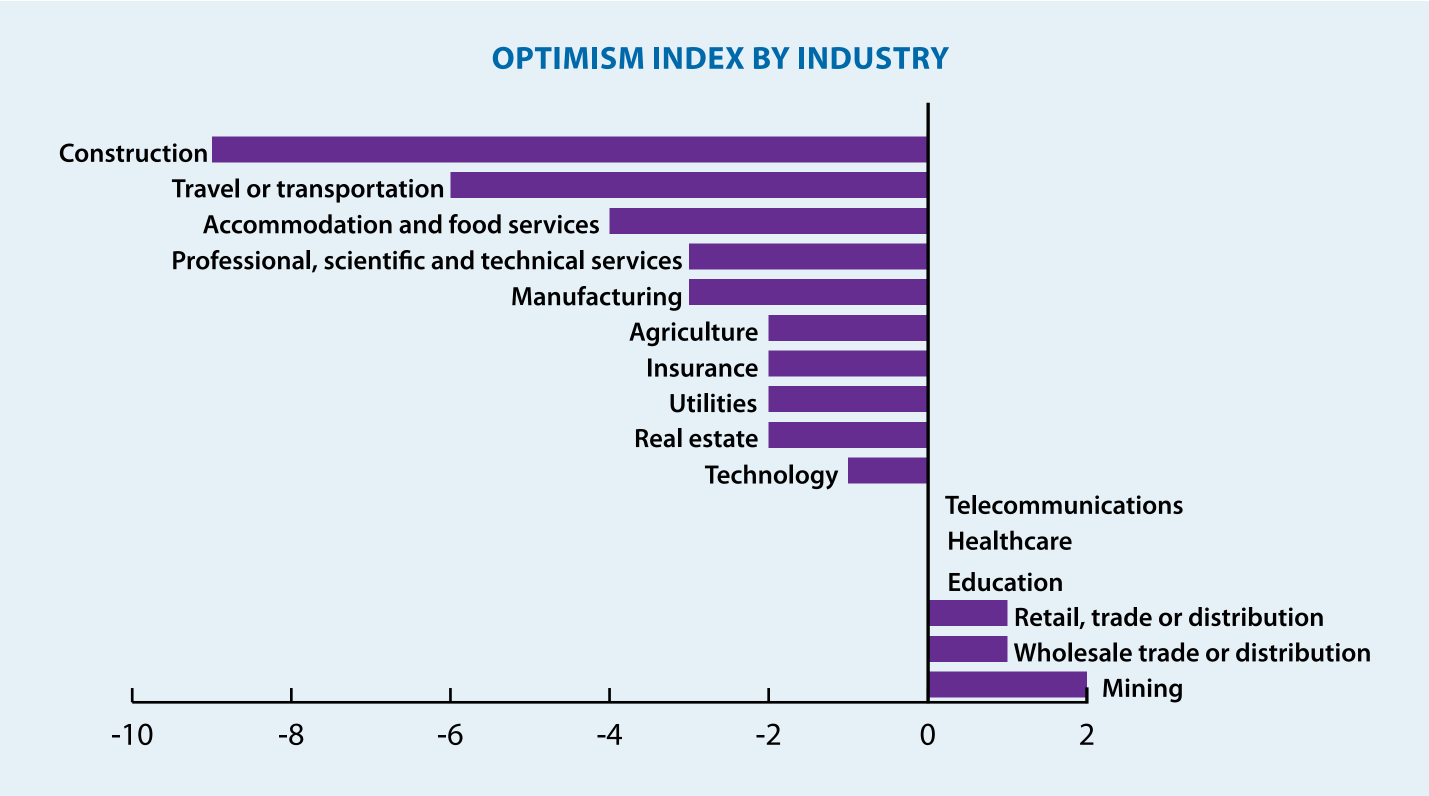
Figure 3. Optimism



[1] The non-family sample generated, on average, $76.3 million in sales last fiscal year. However, when a large outlier is excluded, the figure drops to $18.57 million, which is much smaller than the figure for the family business sample. The average change in gross sales revenues within the past 3 years was 8 percent, which is slightly higher than that of the family business sample. All of the manufacturers in the non-family sample reported an increase or no change in the average cost of key materials; none reported a decrease.

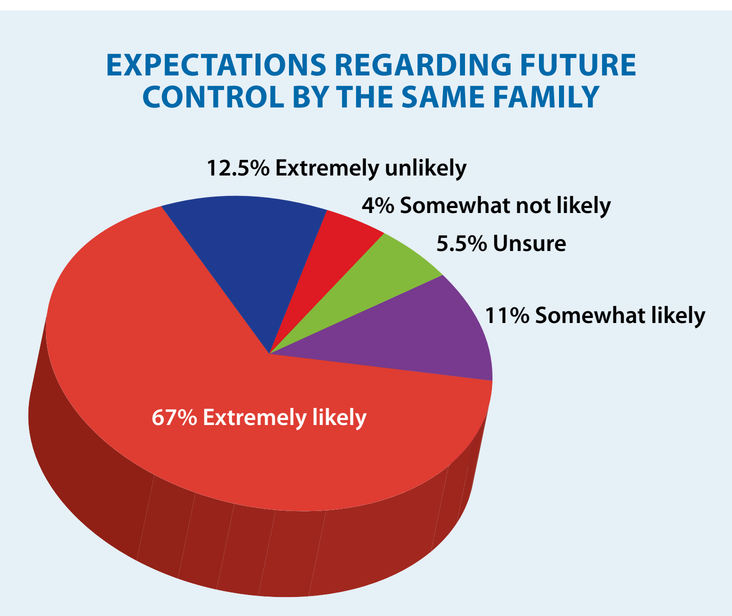
[2] The optimism index for each industry was calculated as a weighted average of the number of companies selecting each category. The weights were: -2 for very pessimistic, -1 for somewhat pessimistic, 0 for neutral, 1 for somewhat optimistic and 2 for very pessimistic.

Figure 4. Optimism by industry



Expectations regarding future control of the family business

Figure 5. Future control



More than three-fourths of family businesses (78 percent) expect to retain their controlling interest over the next five years *(see Figure 5)*.

Only 5 percent of businesses expressed uncertainty regarding the future control of the business.

Regarding ownership, two-thirds indicated that family members are potential future owners, while 6 percent said that the business will be closed sometime this year.
Only 3 percent plan to go public.

Expected change in company indicators

Net income and sales

In contrast to a mixed view on the near future of the U.S. economy, family businesses are far more optimistic about prospects for their companies. Two-thirds expect their gross sales revenues and net income to increase in the next year. In the case of non-family businesses, the proportion is even higher (75 percent).

Costs and prices

During the past 3 months, all of the manufacturers reported an increase or no change in the cost of key materials. None of the manufacturers in our sample reported a cost decrease. Interestingly, more than half of the family firms (58 percent) participating in our survey reported key material cost increases, while less than half of our non-family firms (43 percent) reported cost increases. In addition, most businesses plan to keep about the same (60 percent) or increase (32 percent) the price of their own goods and services in the next three months. Very few (4 percent) plan to decrease their prices.

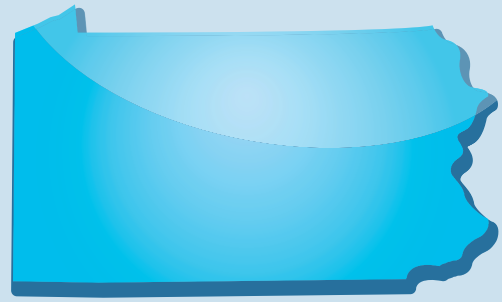
Capital expenditures and hiring plans

This positive outlook with respect to sales and net income is also reflected in the capital and employment plans of family businesses.

Only a small percentage of companies (12 percent) plan to reduce their capital expenditures, while 38 percent plan to increase them. Half of the companies expect no change in the level of capital expenditures (see Figure 6).

Slightly more than a third of family businesses plan to hire more employees next year. Only a small number of family-owned businesses (10 percent) plan to lay off employees during the next year, while slightly more (12 percent) of non-family companies plan to do so.

Investment in human capital and innovation appear to be priorities for family businesses. Almost all family firms (97 percent) plan to keep constant or increase their Training and Development expenses, while a very large number (85 percent) intend to keep constant or increase their R&D expenses. The picture for non-family firms is similar.



Selected state and county data

Over the past 10 years, Pennsylvania's unemployment rate has been lower than that for the country. In 2011 the unemployment rate in PA was 7.9 percent, while the national rate was 9.0 percent.

The 2011 unemployment rates for two counties that the study draws heavily on were lower than the state unemployment rate--6.7 percent in Lancaster County and 7.6 percent in Dauphin County vs. 7.9 percent in Pennsylvania.

The construction industry employs 8 percent and the manufacturing industry 18 percent of the Lancaster County workforce.

In Dauphin County, the construction companies employ about 4 percent, while the manufacturing companies employ 6 percent of the workforce.

In Lancaster County, 14 percent of households have an income lower than 20,000 and 18 percent have an income higher than $100,000. State level income distribution is similar to the income distribution of Lancaster County.

The median household income in Lancaster County is $55,504, higher than in Dauphin County ($48,792) and the state of Pennsylvania ($49,501).

About 9 percent live below the poverty level in Lancaster County, compared to 13 percent in Dauphin County and the state of Pennsylvania.

Source: The United States Census Bureau, Bureau of Labor Statistics.

Technology investments, inventories, overall debt and sales abroad

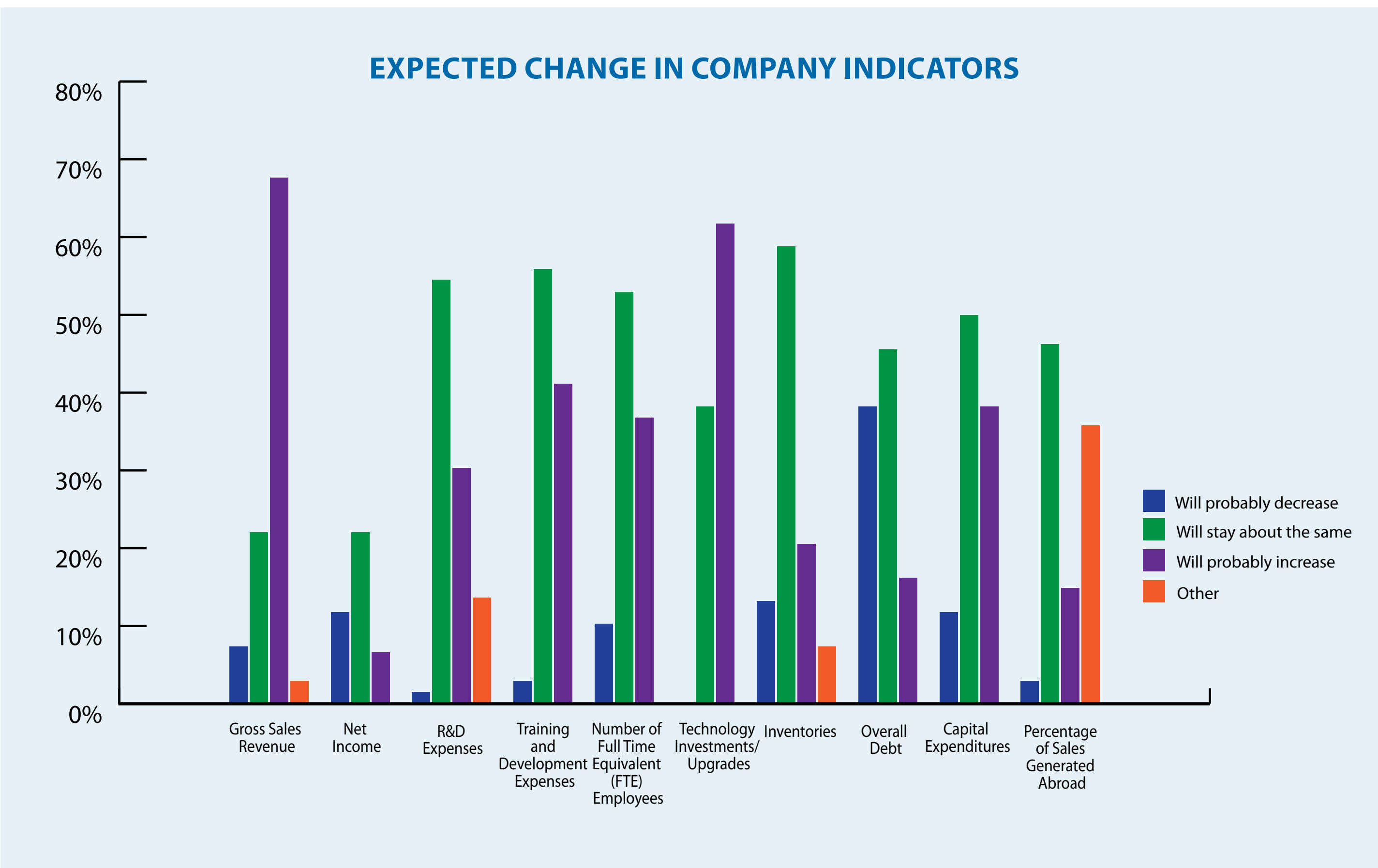
The majority of respondents (62 percent) expect their technology investments to increase, while 38 percent do not plan to change these investments. None of the family firms expected to reduce their technology investments *(see Figure 6)*.

With respect to inventories, 13 percent project a decrease, while 21 percent project an increase. A majority of respondents do not plan to change their inventory levels in the next fiscal year. Many companies (38 percent) plan to reduce their overall debt, while only 16 percent plan to take more debt. Slightly less than half plan to keep their debt constant.

A large proportion of our respondents (36 percent) indicate that they do not have sales abroad. From those that do, the majority (72 percent) plan to keep their international sales constant, while slightly less than a quarter expect to increase their presence abroad. Only 5 percent expect to reduce their international sales.

Consistent with their belief that sales and net income will be increasing in the coming year, a majority of respondents indicated they planned to increase spending on technology and capital. Yet we also observe a conservative approach to finances in that less than a quarter of respondents expect to increase inventories and even fewer (16 percent) plan to borrow more money. Presumably, family firms will be using internally generated cash to fund the increased spending.

Figure 6. Expected change in company indicators



#2 Best practices

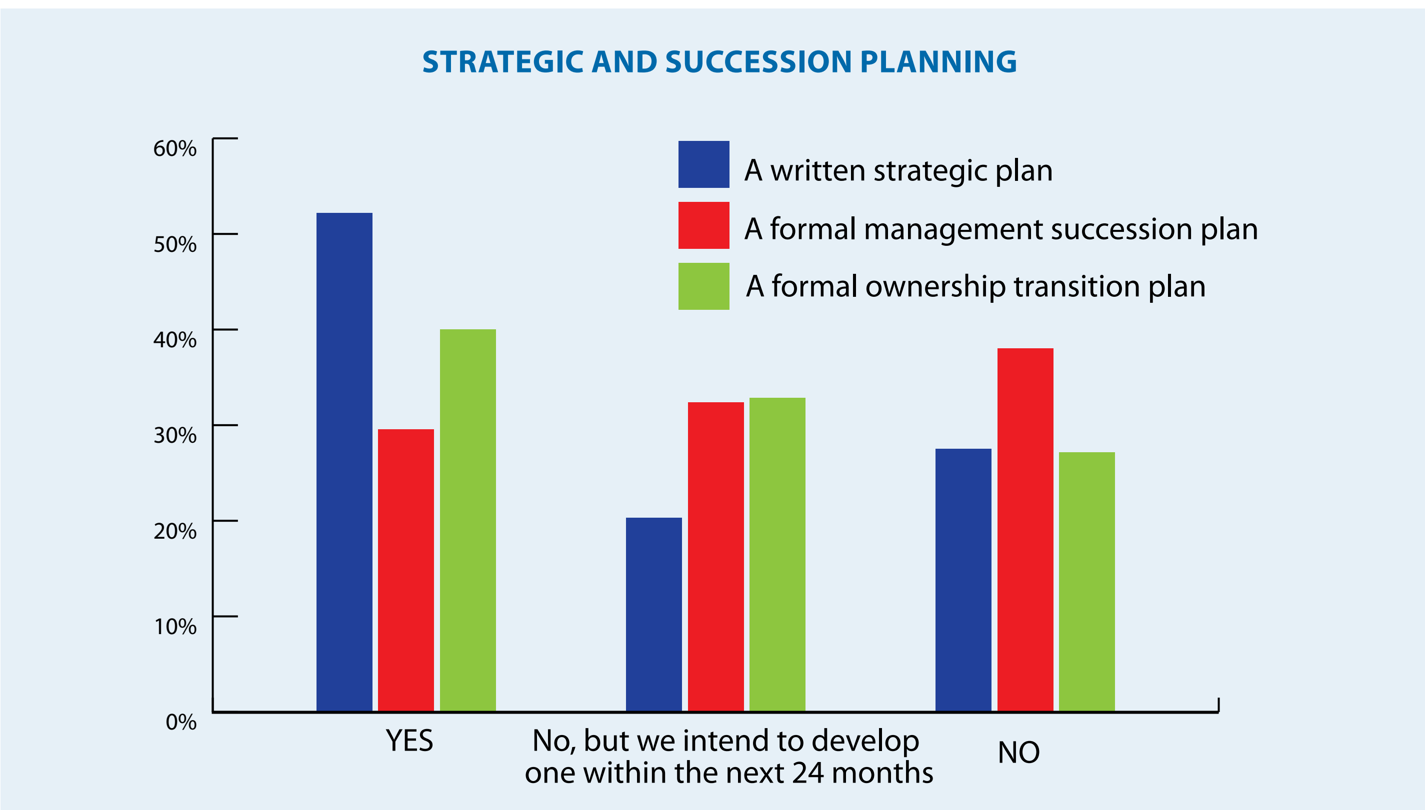
Strategic planning, Succession Planning, Human Resources

Strategic and succession planning

While half of the family businesses have a written strategic plan, only two-fifths (38 percent) have a formal ownership succession plan, outlining how shares will be passed to the next generation *(see Figure 7)*. While these firms may not have a formally defined means of transitioning stock to the next generation, 78 percent expect to retain "controlling interest" in their company. The proportion of firms with a formal management succession plan is even smaller, at less than a third (29 percent). Yet the fact that 95 percent of family firms express some degree of confidence that the family will remain in control of the management of the business implies that succession planning has been more intuitive than intentional.

Family businesses without strategic plans are either small or medium-sized ($11-100 million in gross sales) or very small (under $10 million). By contrast, all medium and large companies have written strategic plans. One-fourth of family businesses with strategic plans are in the first generation. Among family businesses without any strategic plans, only one-fifth are in the first generation; almost four-fifths are second generation or higher. Similar to strategic plans, all of the companies that do not have a management or an ownership succession plan are either small or very small.

Figure 7. Strategic and succession planning

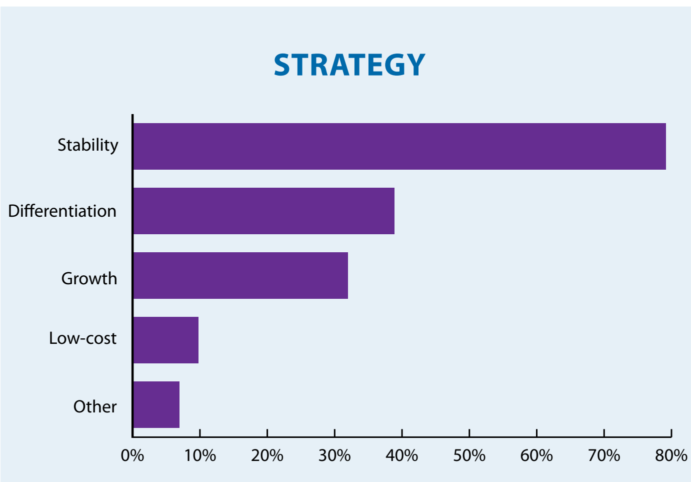


Corporate strategy

In responding to our survey, many companies indicated they are pursuing a combination of strategy options. The "stability" strategy is best known for what it is not. It is characterized by an absence of significant changes. The company continues to do what is currently doing. A "growth" strategy is characterized an expansion of markets or products served – either through a company's current business or the creation of new business units. A "low cost" strategy seeks to provide a product or service at the lowest cost in the market.

About four-fifths of companies indicated they are pursuing a 'stability' strategy, while 38 percent indicated a focus on creating a differentiated product or service. Nearly 20 percent choose to compete utilizing a differentiation/innovation strategy, while only 10 percent are pursuing a low-cost strategy *(see Figure 8)*.

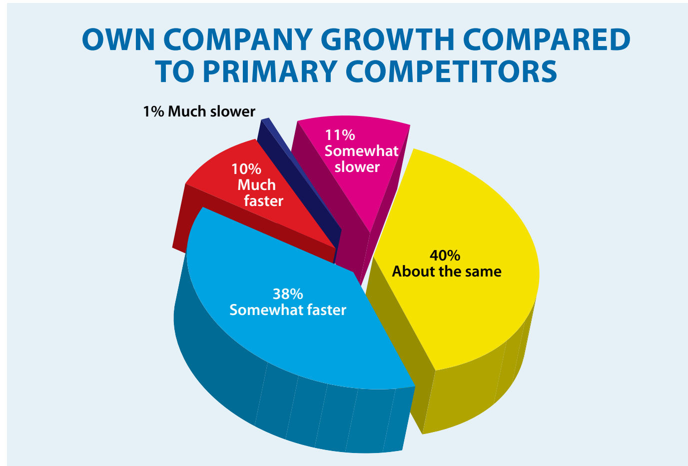
Figure 8. Strategy



Comparison with competition

Almost half the companies (48 percent) perceived that their company grows somewhat or much faster than their competitors. By contrast, only 12 percent indicated that they grow somewhat or much slower than their competitors. The remaining 40 percent indicated a growth rate comparable to their primary competitors *(see Figure 9)*.

Figure 9. Comparison with competition



Human resources

About three quarters of family businesses have written job descriptions outlining responsibilities, minimum qualifications and reporting structure for every position in the business. Four-fifths conduct formal performance reviews for their employees. Slightly over half (54 percent) have a standard bonus structure in place, while only a fifth have defined career paths by job category. For non-family firms, a higher proportion (44 percent) reported defined career paths by job category *(see Figure 10)*.

Figure 10. Best practices in Human Resources

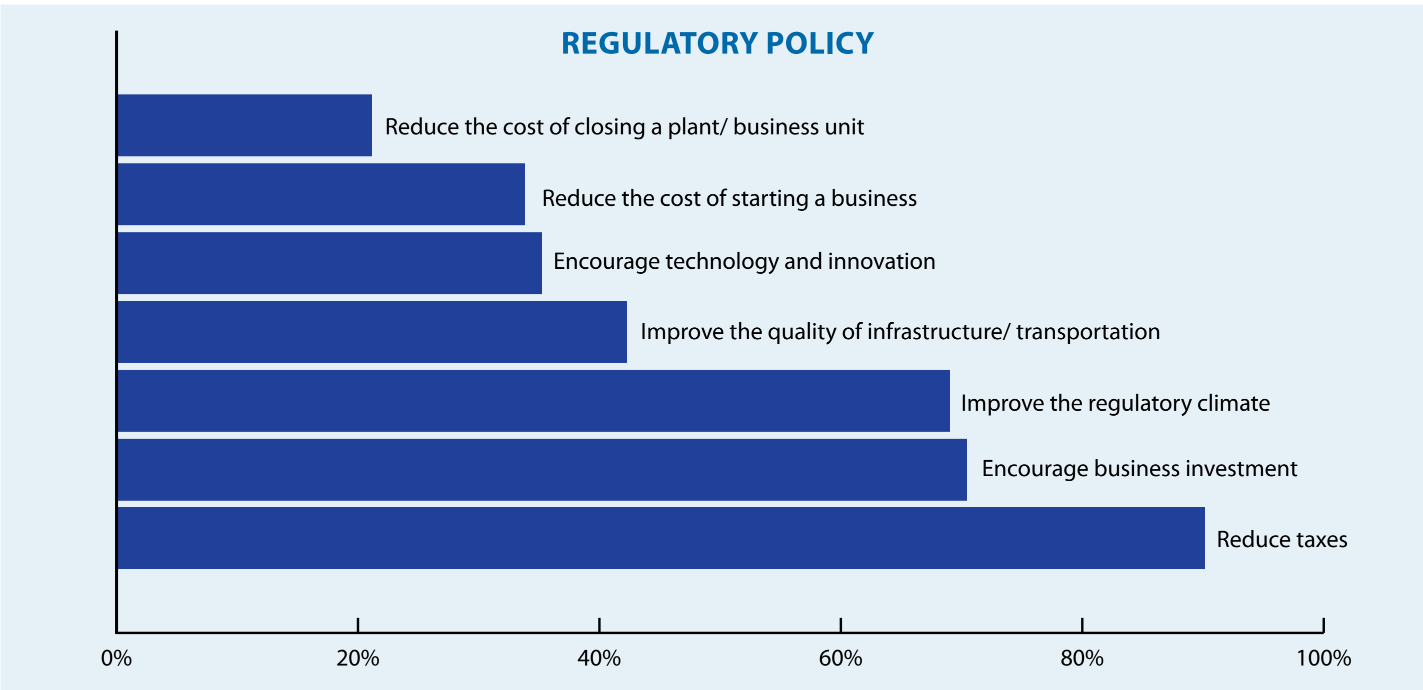
#3 The most significant challenges

Regulatory policy, internal and external challenges

Regulatory policy

When asked what the state could do to make the regulatory environment more attractive for family businesses, the respondents cited cutting taxes (90 percent), providing a spur to business investment (70 percent) and improving the regulatory climate (69 percent) as the main activities. Lowering the costs of closing plants or starting a business were seen as less important *(see Figure 11)*.

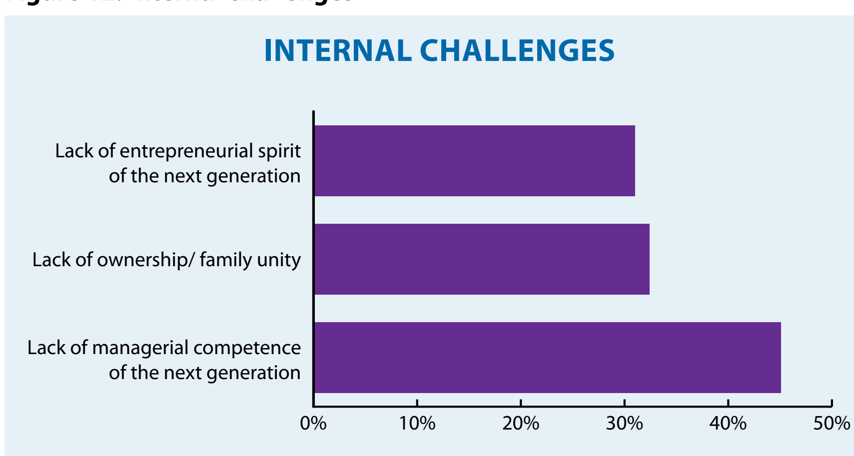
Figure 11. Regulatory policy



Internal challenges

The most important internal concern of the senior generation was the lack of managerial competence of the next generation; 45 percent of companies placed this concern in the top two internal challenges facing the business. Given this concern, it is curious that only one-fifth of companies surveyed provide their employees (and potential successors) with a clear career path. About a third of companies placed 'lack of family unity' and 'lack of entrepreneurial spirit' in the top two concerns as well *(see Figure 12)*.

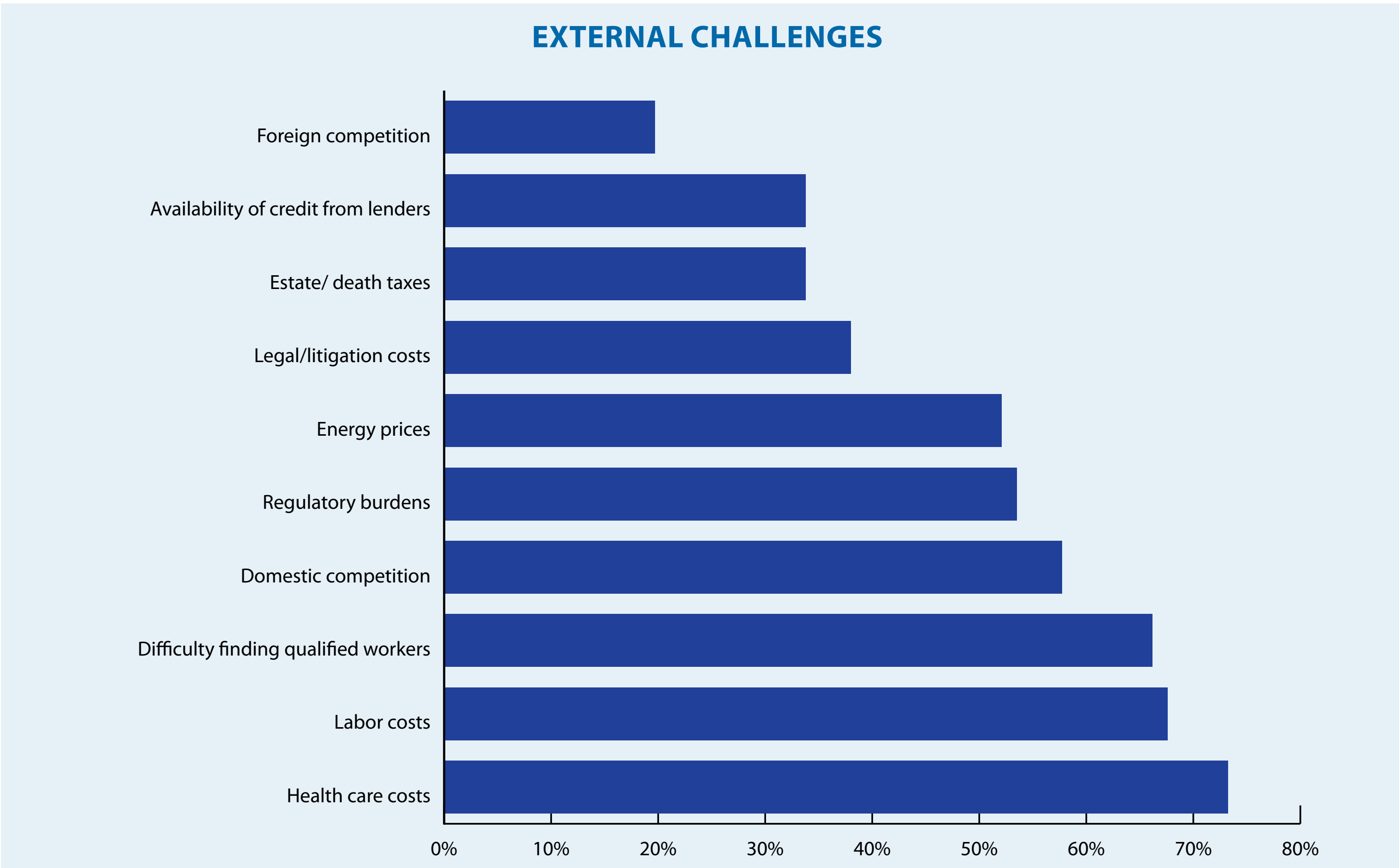
Figure 12. Internal challenges



External challenges

Survey respondents noted that the three greatest external challenges to growth and survival of family businesses were health care costs (73 percent), labor costs (67 percent) and difficulty finding qualified workers (66 percent). Foreign competition and estate taxes were seen as relatively unimportant *(see Figure 13)*.

Figure 13. External challenges



Since companies in the construction and manufacturing industries represent a large proportion of our family business sample, we provide a more in-depth analysis of these two industries (see pages 14-19).

Spotlight:
Family businesses in the construction industry

Half of the construction companies in our sample are first-generation companies. Three-fourths are small (6-99 employees), and a fifth are medium-sized (100-499 employees). A vast majority of these firms (75 percent) expect that control of their company will pass to the next generation.

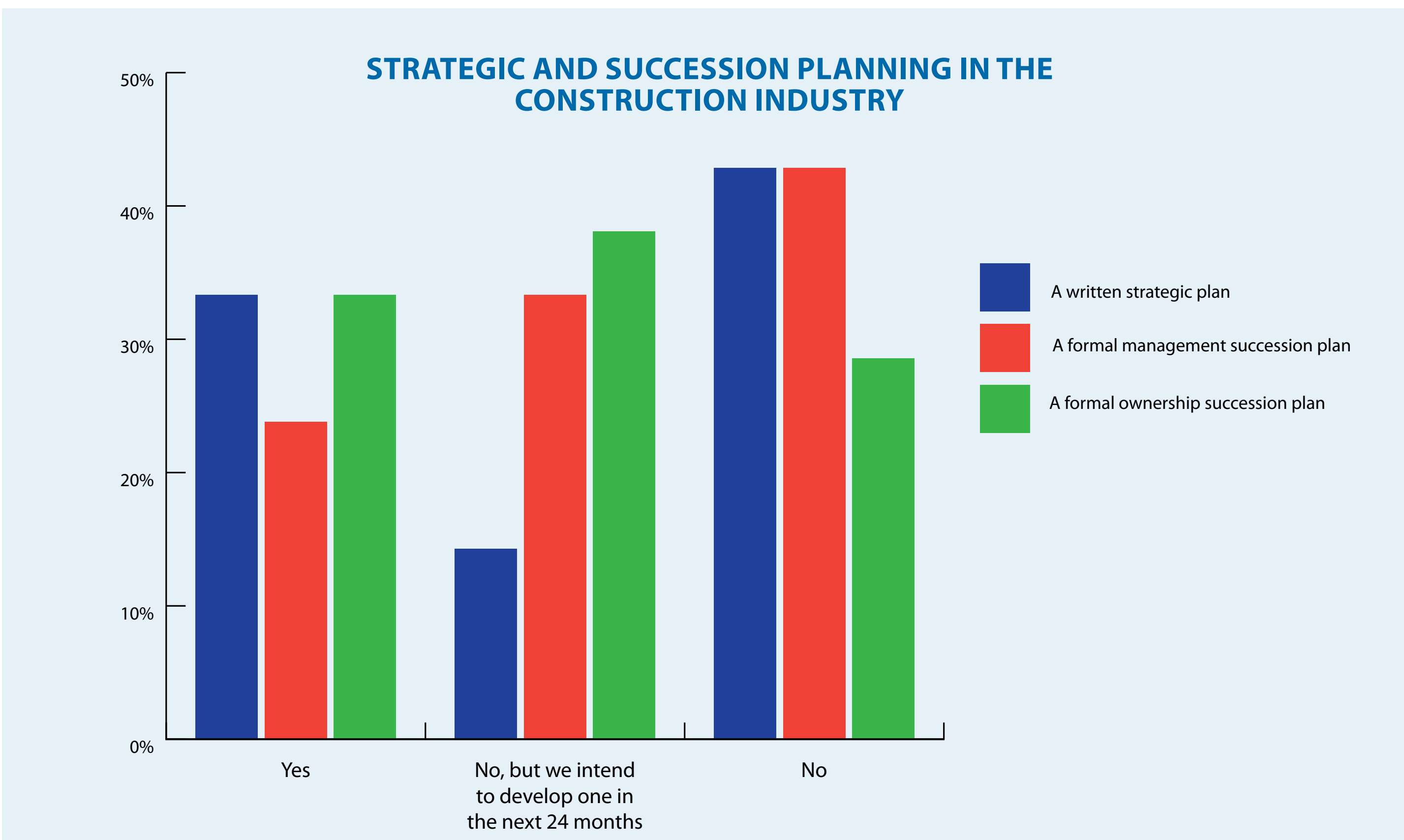
Similar to other survey participants, our construction industry firms are cautiously optimistic about their futures. In fact, a large number (67 percent) project a net income increase in their operations for the next year. Only a fifth of the firms expect a decrease in their net income. More than two-thirds (71 percent) expect their sales revenues to increase, while only a fifth expect revenues to decrease (see Figure 15). On the other hand, two-thirds of these firms remain pessimistic with respect to the overall US economy.

A majority of the construction companies (62 percent) indicate that the cost of key materials has increased during the past 3 months. The remaining firms note that these costs have remained constant. None report a decrease in the cost of key materials. Despite overall cost pressures, however, half the companies plan to keep their prices constant, while a third plan to increase them. A tenth of the firms plan to reduce their prices.

More than two-thirds of the companies (71 percent) report following a strategy of stability — i.e., focusing on existing markets and customers. The other firms report following a growth strategy, i.e., focusing on expanding into new markets. More companies opt for an innovation strategy rather than a low-cost strategy (33 percent vs. 19 percent).

Two-fifths of the companies do not have written strategic plans or management succession plans, nor do they expect to write them in the near future. Over a quarter of the firms (28 percent) do not have written ownership succession plans *(see Figure 14)*.

Figure 14. Strategic and succession planning in the construction industry



[3] About 13 percent of Lancaster county businesses operate in the construction industry. The corresponding figure for manufacturing is 7 percent.

Consistent with their optimism for the future, about four-fifths of construction companies plan to increase their T&D expenses and 86 percent plan to maintain or grow their workforce. More than 38 percent of construction firms plan to increase capital expenditures and half of companies plan to increase investments in technology; none plans to reduce them. About half the companies plan to keep their debt constant, while a third plan to reduce it. A fifth plan to take on more debt *(see Figure 16)*.

When asked how they fare with respect to their competitors, a majority (57 percent) indicate that they grow at the same pace with the competition, while a third report that they grow much faster or somewhat faster than the competition. A tenth think that they grow somewhat slower than their competitors.

Almost half the companies (47 percent) are concerned about the lack of family unity, and 21 percent of these firms are concerned about the lack of managerial competence of the next generation.

Figure 15. Construction industry – Selected indicators

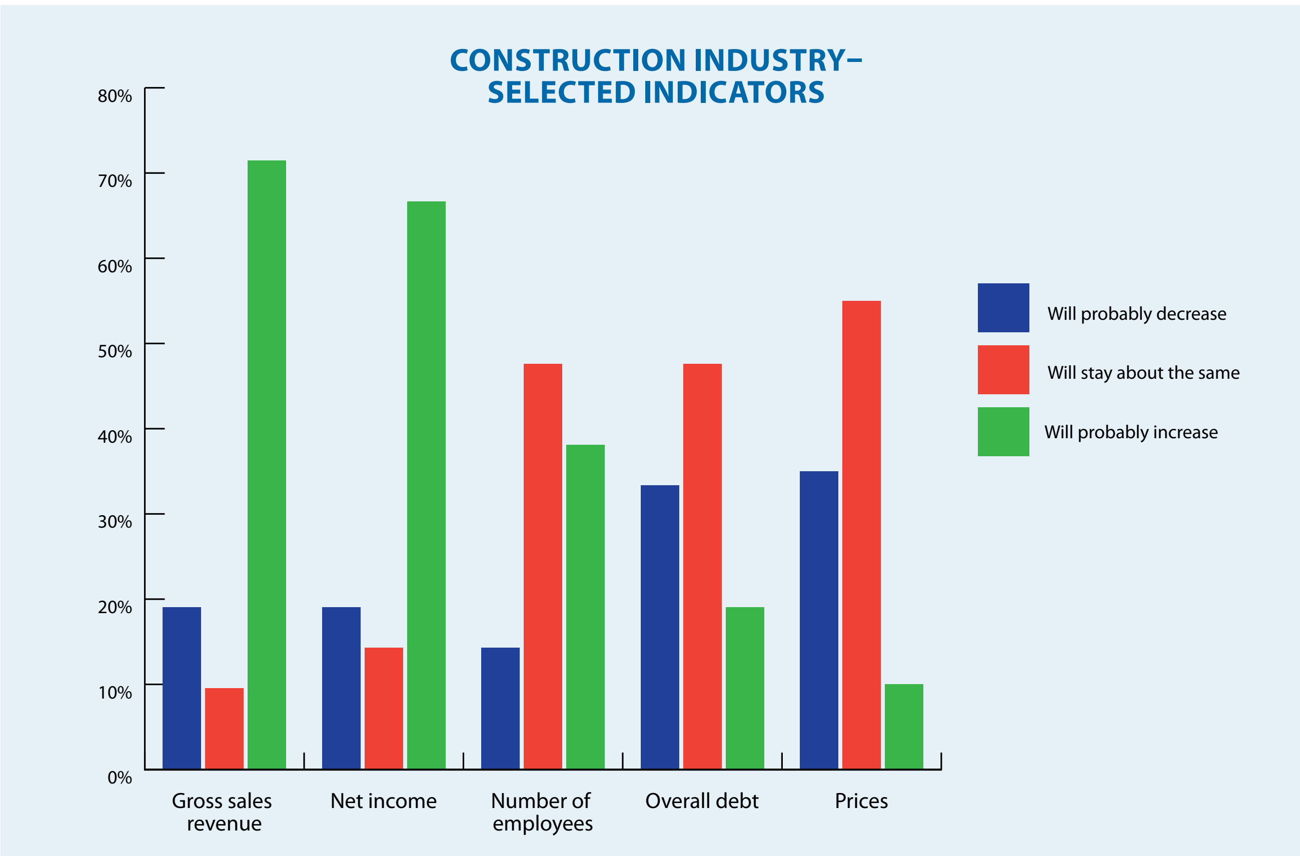
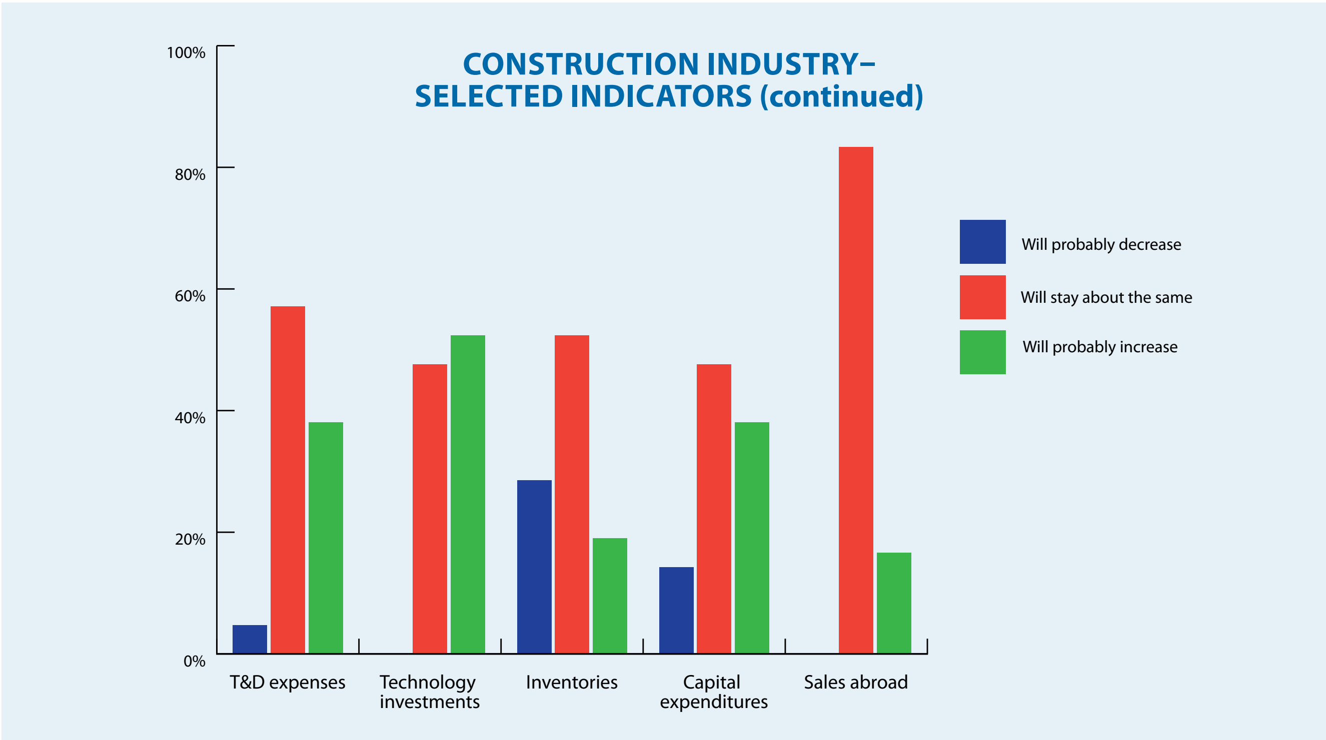


Figure 16. Construction industry – Selected indicators (continued)



Regarding state regulations, 90 percent of companies indicate that reducing taxes is either the most significant or the second most significant regulatory option. Improving the regulatory climate is also cited as a top concern by half the companies. By contrast, they are less concerned about regulation hindering the starting or closing of a business.

With respect to external factors, four-fifths cite difficulty finding qualified employees as one of their three top concerns. Other major concerns were labor costs and domestic competition (cited by 78 percent and 74 percent in the top three concerns, respectively). By contrast, companies are not very concerned about estate taxes (cited by only 55 percent as being in the top three concerns).

Recommendations

While finding time to plan for the future is always difficult, particularly when a firm is battling to survive, planning the firm's approach to the coming years, planning for a leadership succession, and planning for an ownership succession is always time well spent. As the economy improves, it is our hope that construction firms will make time for developing proactive plans at the management and ownership levels. As the cost of home ownership continues to decline relative to renting, one might expect opportunities to arise for residential builders. Despite rising rents, many people choose to rent rather than own a home, due to uncertainty regarding their employment prospects (McKim 2012). Local data confirm this trend: between 2000 and 2010, the percentage of homeowners in Lancaster County dropped by about 2 percent, while the percentage of renters in the county increased by roughly the same amount. While the supply of renting units may increase, it is expected that average rent will continue increasing (McKim 2012). Construction companies might pay closer attention to this trend and evaluate it against the backdrop of falling housing prices.[4]

[4]It is likely that construction companies in PA have fared better than construction companies nationally, as the housing turmoil in the past three years did not affect them as much. Locally, the median value of owner-occupied housing units in 2010 was higher in Lancaster County ($177,700) compared to national values of housing units ($152,300) (The U.S. Census Bureau, 2012) and housing prices in PA have not fallen as much as housing prices nationally.

Spotlight:
Family businesses in the manufacturing industry

Compared to the construction firms, manufacturers are better in planning ahead. Two-thirds have written strategic plans in place. Almost three-fourths have ownership succession plans or envision writing them in the next 24 months. A fifth do not have a written strategic plan or do not envision writing one in the near future. Two-fifths do not have a management succession plan yet and do not plan on writing one in the near future (*see Figure 17*).

In contrast to the construction industry, manufacturers are split with respect to their optimism regarding the future of the U.S. economy, with 47 percent indicating slight or extreme pessimism and 40 percent indicating slight optimism. However, as in the case of the construction industry, manufacturing firms are more confident about their own prospects in the near future. Almost three-quarters of manufacturing companies expect an increase in their net income, while only 13 percent expect a decrease. Further, only one company expects to lay off employees this year, with the majority (72 percent) planning to keep their workforce constant. More than a quarter of the companies (27 percent) plan to hire in 2012 *(see Figure 18)*.

Optimism about their own prospects is also reflected in their intended expenditures on R&D and T&D. Almost half the companies (47 percent) plan to increase their R&D spending. Just over a half (53 percent) plan to increase their T&D spending. The majority of companies (60 percent) plan to increase their capital expenditures, while 13 percent plan to decrease them.

Most manufacturing companies plan to increase (67 percent) or keep constant (33 percent) their investments in technology. None plan to reduce either technology or R&D expenditures. About three quarters of the companies (73 percent) plan to keep their inventories constant, while 7 percent plan to increase them *(see Figure 19)*.

Figure 17. Strategic and succession planning in the manufacturing industry

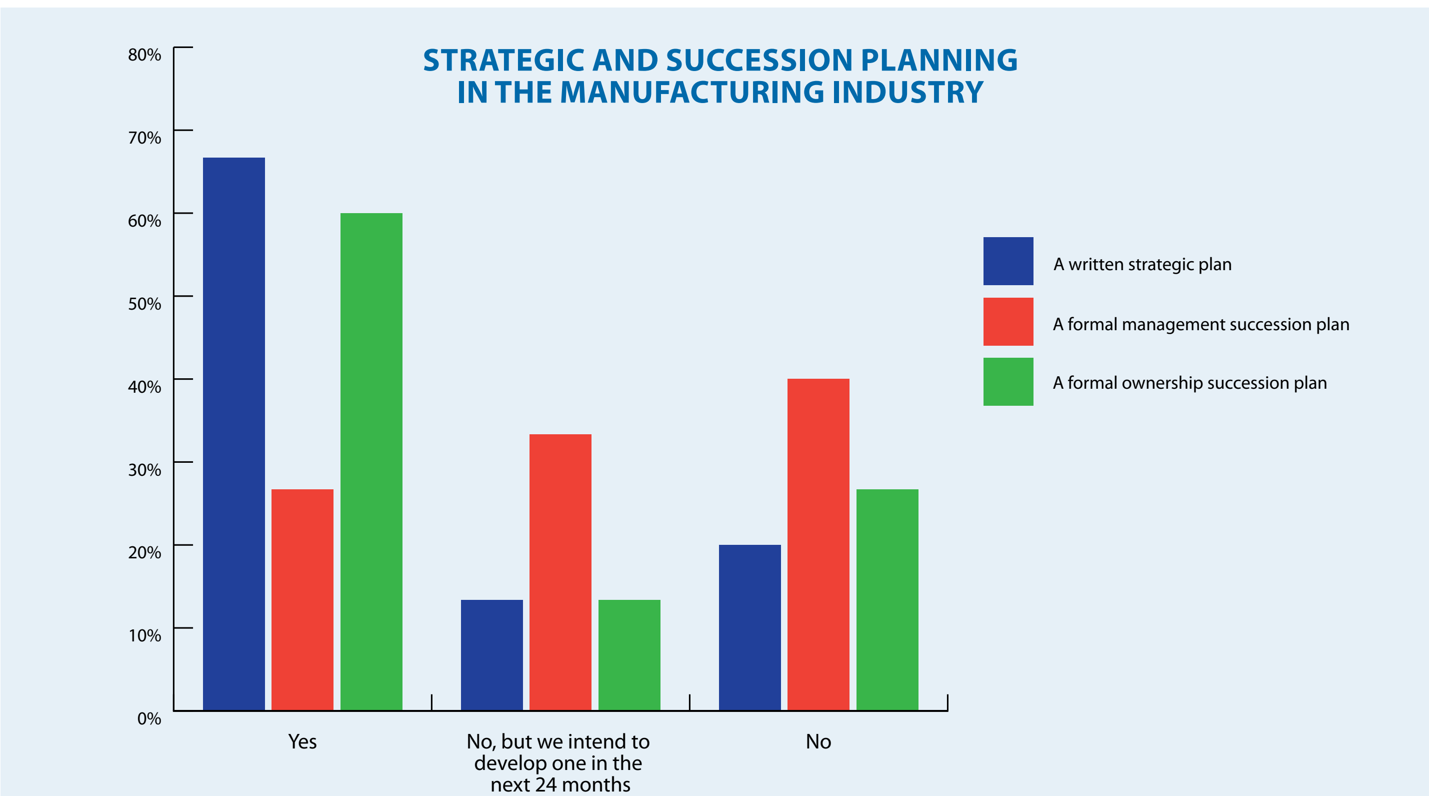
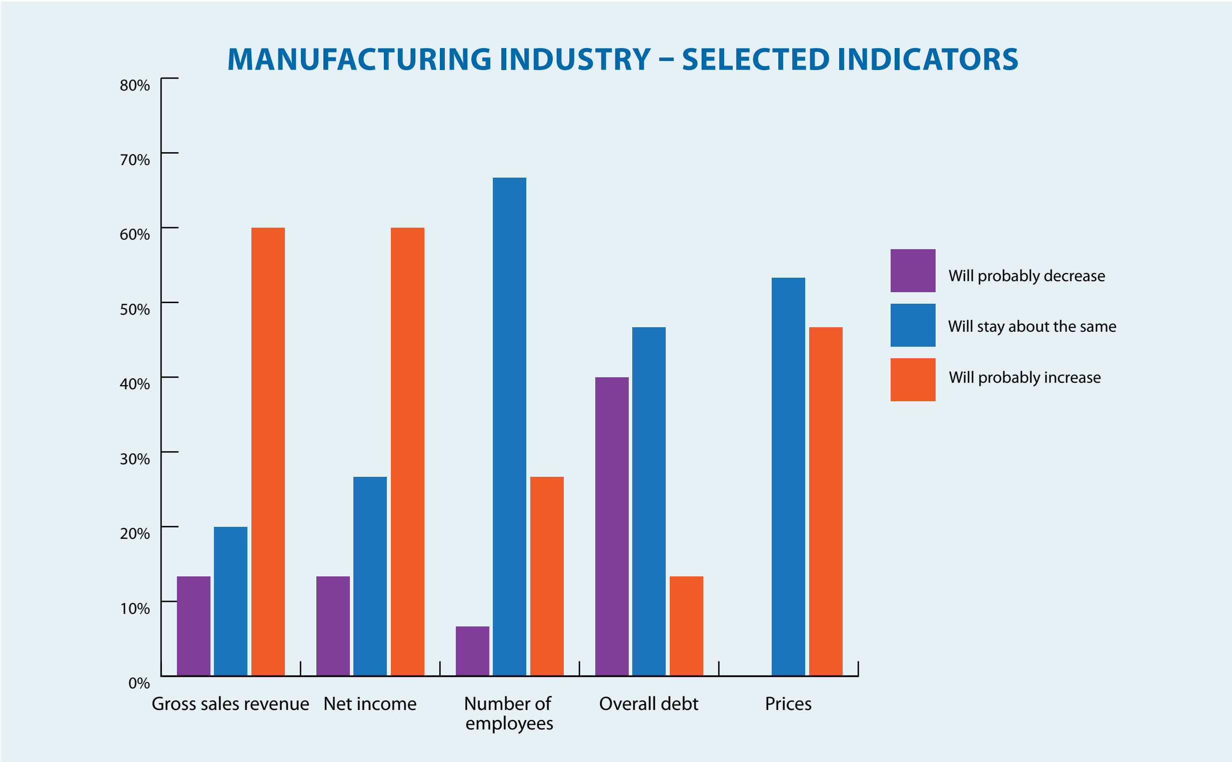


Figure 18. Manufacturing industry – Selected indicators

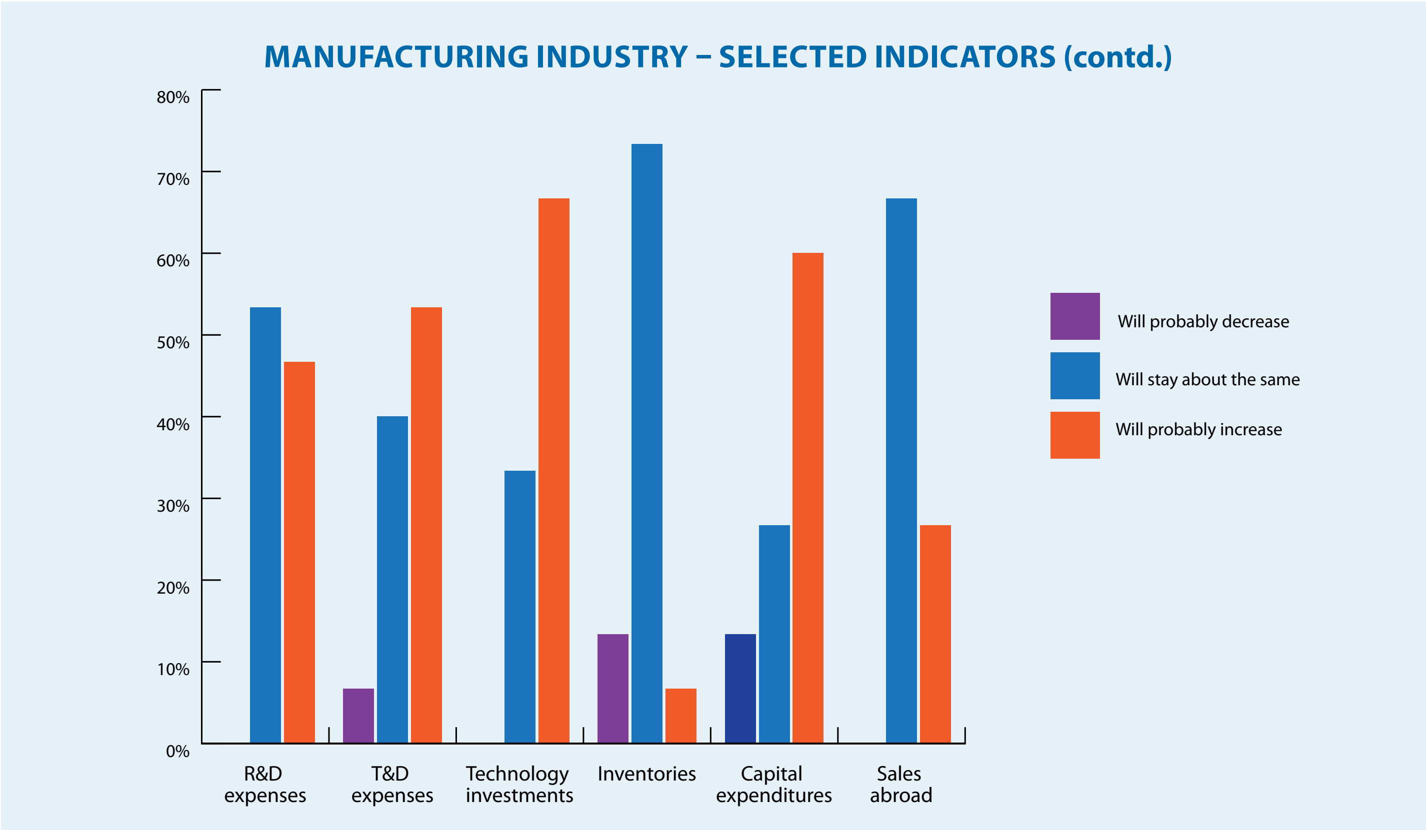


In our sample of 15 family businesses in manufacturing, 14 have foreign sales. For the next year, 28 percent plan to increase their sales abroad. A large majority of firms (72 percent) indicate that they expect their international sales to remain constant. Despite recent turbulence in global markets, none of the companies projected a decrease in international sales for the upcoming year.

It is likely that manufacturers plan to finance the expected increase in R&D expenditures, capital expenditures, and T&D expenditures from internally generated cash flow, rather than debt. Indeed, only 13 percent of companies plan to incur more debt and quite a few companies plan to even reduce their debt (40 percent). Almost half the companies (47 percent) plan to keep their debt at current levels. Slightly over half (53 percent) do not plan on changing their prices; the remaining 47 percent plan to increase their prices in the upcoming year. None of the manufacturers expect to reduce their prices.

Only 13 percent of the manufacturing companies report following a low-cost strategy, while the majority (53 percent) focuses on an innovation strategy. Most manufacturers (80 percent) have chosen a strategy of stability, centered on existing markets and customers, while 33 percent have chosen a strategy of growth.

Figure 19. Manufacturing industry–Selected indicators (contd.)



At the top of manufacturers' top wish list for regulatory change was a *reduction in taxes*, with 78 percent placing it in the top two concerns. Another important concern was *encouraging business investment*, with 50 percent placing it in the top two concerns. With respect to internal challenges, more manufacturers (46 percent) were concerned with the lack of family unity rather than the lack of entrepreneurial spirit (23 percent) or managerial competence of the next generation (8 percent). Similar to the construction industry, many manufacturing companies (86 percent) mentioned the finding qualified workers among the top three external challenges. Further, 78 percent mentioned labor costs, and 64 percent mentioned health costs as significant challenges.

Recommendations

It is difficult to ask shareholders to commit to the long-term if management has not provided them with a clear strategy for the future and a plan for succession. On the other hand, it is difficult for management to develop a strong strategy for the future if the ownership group has not defined the return they expect on their capital. The ownership succession process would define this expected return. Manufacturing businesses therefore need both a clear ownership strategy, which outlines the shareholders broad expectations, and a clear management-led strategic plan. For this purpose, ownership unity is critically important to the creation and maintenance of "patient capital" within shareholders. This kind of long-term outlook and commitment from shareholders is particularly important in the manufacturing industry, which requires significant capital in order to remain competitive. In addition, to increase their prospects of finding qualified workers, manufacturers might think about creating partnerships with local colleges and universities, vocational schools, offering more internships, and increasing their on-the-job training to new employees.

Methodology

The survey had 24 questions, including multiple choice, ranking and open-ended questions. Some survey questions were adapted or taken from various surveys such as the *American Family Business Survey* (conducted by MassMutual Financial Group, Kennesaw State University and The Family Firm Institute), *Family Business Program Survey* (conducted by the Connecticut Business and Industry Association and the University of Connecticut) or *The NFIB Small Business Economic Trends* (conducted by the NFIB Research Foundation).

The survey instrument was judged for pertinence with two groups: 1) a restricted group of specialists, who did not respond to it, but analyzed the quality of the survey and 2) a group of respondents (10 family business owners/managers), who responded to it and were also motivated to offer suggestions. Nine out of ten respondents indicated that the survey had an appropriate length. Some changes to the wording of answer choices and questions were made as a result of the pretest. The survey questions are available upon request.

The survey was sent via email using the site www.constantcontact.com in late November and early December, while reminders were sent about a week after that. Surveys were sent to members of a variety of family business centers in Pennsylvania, including The S. Dale High Family Business Center at Elizabethtown College, The Family Business Forum at King's College, The Delaware Valley Family Business Center, The Institute for Entrepreneurial Excellence at the University of Pittsburgh, The Center for Family Business at the Indiana University of Pennsylvania, The Network of Family Businesses in Harleysville, PA and to a database held by the United Way of Lancaster County (this latter sample includes both family and non-family businesses). The following counties are represented: Lancaster County, Dauphin County, Allegheny County, Luzerne County, Indiana County, Bucks County and Montgomery County.

Responses were collected in an anonymous fashion. The survey was sent to a total of 777 businesses. Ninety-one businesses responded, out of whom 72 were family and 19 non-family firms. The response rate was about 12 percent. Five interviews were also conducted with randomly selected family businesses.

Conclusions and Recommendations

This report draws on survey responses from a sample comprising 72 family businesses and 19 non-family businesses in the south-central Pennsylvania region. We find that many family businesses are pessimistic about the prospects of the U.S. economy in the near future; however, most of them express confidence in the outlook for their own companies, projecting an increase in their net income and gross sales for the next year. Consistent with this optimistic outlook, a large number of companies expect to increase their R&D expenditures, T&D expenditures, capital expenditures, or technology expenditures. They plan to finance such increases from a projected boost of their net income, rather than from relying on the credit market.

Many companies do not have written strategic plans, management succession or ownership plans. This lack of planning for the future is troubling, especially since most companies are more concerned about the lack of entrepreneurial spirit or managerial competence of the next generation. Many companies also lack defined career paths for employees as well a standard bonus structure. The importance of regular strategic planning cannot be underestimated. Research shows that strategic planning is highly correlated to long-term family business success. Regular family meetings and some form of board oversight were the other two factors. Further, involving the next generation in the process of strategic planning helps develop the next generation of leaders (Aronoff and Astrachan 1996; MassMutual, Kennesaw State University and Family Firm Institute 2007; Mazzola, Marchisio and Astrachan 2008). Thus, we recommend that companies engage in a collaborative process of strategic planning, and ownership and management succession planning, and also seek to professionalize their human resources practices.

The government can make the state more hospitable to family businesses by cutting taxes, encouraging business investment and improving the regulatory climate. The survey also highlights the need for the federal and state governments to rein in rising health care costs, cited as the greatest external challenge faced by family businesses. Other challenges, such as domestic competition, are less susceptible to government intervention and may be best left to market forces.

It is noteworthy that a large number of companies express concerns related to finding qualified workers in a high-unemployment economy. In order to alleviate such concerns, family businesses might consider creating partnerships with local colleges and universities, vocational schools, offering more internships, more part-time positions with full-time prospects and increasing their on-the-job training to new employees.

Acknowledgments

We would like to thank the following people: Gale Martin, Director of Marketing and Membership at The S. Dale High Center for Family Business at Elizabethtown College, members of The Family Business Forum at King's College, members of The Delaware Valley Family Business Center, members of The Institute for Entrepreneurial Excellence at the University of Pittsburgh, Ellen S. Ruddock, Director of The Center for Family Business at the Indiana University of Pennsylvania, Steve Moyer, Director of The Network of Family Businesses in Harleysville, Pa., David Lewis, Vice President, United Way of Lancaster County and Joe Molony, Instructor at Elizabethtown College. We also thank Jordan Jones, Elizabethtown College student, for research assistance in collecting state and local economic data. This project could not have been completed without them.

References

Astrachan, J.H. and Shanker, M.C. (2003). "Family Businesses' Contribution to the U.S. Economy: A Closer Look," *Family Business Review*, September 2003.

Aronoff, C. E., & Astrachan, J. H. (1996). Reducing the risks of family-business growth. *Nation's Business*, 84(3), 52.

Family Firm Institute (FFI, 2011). *Global Data Points*. Retrieved on January 5, 2012 from http://www.ffi.org/default.asp?id=398

The Bureau of Labor Statistics (2011a). *Industries at* a *Glance: Construction*. Retrieved from http://www.bls.gov/iag/tgs/iag23.htm on January 21, 2012.

The Bureau of Labor Statistics (2011b). *Industries at a Glance: Manufacturing*. Retrieved from http://www.bls.gov/iag/tgs/iag31-33.htm on January 21, 2012.

MassMutual, Kennesaw State University and Family Firm Institute (2007). *American Family Business Survey*. MassMutual, Kennesaw State University and Family Firm Institute.

Mazzola, P., Marchisio, G. and Astrachan J. (2008). Strategic planning in family business: A powerful developmental tool for the next generation. *Family Business Review 21(3):* 259-257.

McKim, J. (January 26, 2012). In tight local market, no relief for renters, apartment hunters. *Boston.com*. Retrieved from http://articles.boston.com/2012-01-26/realestate/30667416_1_rents-housing-advocates-boston-housing, on February 1, 2012.

The U.S. Census Bureau (2012). *State and county quick facts.* Retrieved from http://quickfacts.census.gov/qfd/states/42/42071.html on February 1, 2012.

About the sponsors

The S. Dale High
Center
for
Family
Business
at Elizabethtown College

The Family Business Center at Elizabethtown College

The S. Dale High Center for Family Business provides education, resources, and information for family-owned businesses. From family issues to best business practices, we have developed an innovative blend of networking tools, guest speaker series, and access to resources dedicated to empowering entrepreneurial families.

Founded in 1995 by a group of business people, family business owners, and representatives of Elizabethtown College, its 43 member family businesses provide employment to more than 10,000 people in quality work environments in Central Pa. The High Center now offers personalized consulting services to help your family business achieve unity, prosperity, and wealth creation across generations.

For more information, go to www.centerforfamilybusiness.org or call 717-361-1275.

About the sponsors

The Department of Business at Elizabethtown College

The Department of Business at Elizabethtown College offers baccalaureate degrees in Accounting, Business Administration, Economics and International Business, all within a strong liberal-arts curriculum.

Students in the Department of Business augment their academic requirements in myriad ways. THEY

- Participate in internships, both domestically and abroad
- Engage in collaborative research with faculty
- Present papers at student conferences
- Become members of SIFE and Delta Mu Delta
- Spend a semester abroad
- Participate in study tours to Prague, Geneva, Tokyo, and Washington DC

The Department of Business maintains close links with regional businesses and executives. The Sara Lodge Executive-in-Residence program provides for a visiting professor, usually a senior business executive, in the fall semester.

A large number of executives serve on the Accounting, Business and International Business Advisory committees. They meet students on campus, provide mentoring services, and help with generating internships and jobs.

For more information, visit www.etown.edu/business or call (717) 361-1270.

EDUCATE · FOR · SERVICE · 1899

Elizabethtown College

www.etown.edu

252-0312