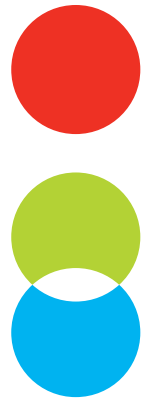


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A man with grey hair, wearing a blue denim shirt, is focused on working on a bicycle wheel. He is holding the spokes and the rim with his hands. The background is a workshop with various tools and equipment. The image is framed by a large blue circle that overlaps with the text below.

The Economic Impact of Family- Owned Enterprises in Canada

Report September 2019



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Any errors or omissions in fact or interpretation remain the sole responsibility of The Conference Board of Canada.



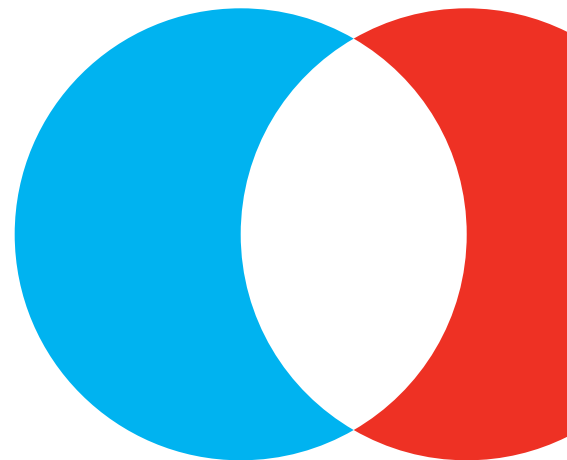
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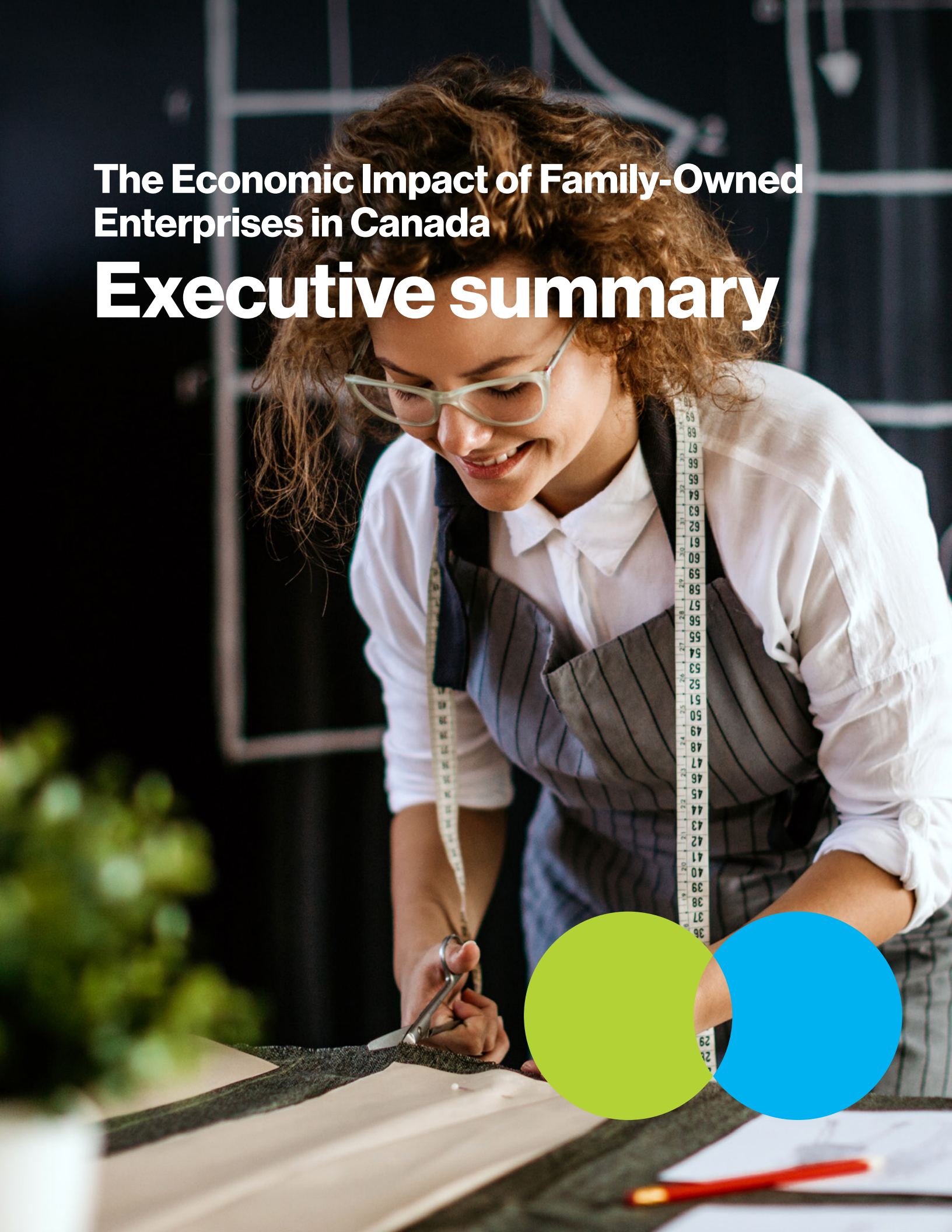
Key findings

- Overall, family-owned enterprises (FOEs) are an integral part of the private sector in Canada. Their footprint stretches across all industries and throughout Canada.
- FOEs generate 48.9 per cent of Canada's private sector real gross domestic product (GDP) (\$574.6 billion) and account for 63.1 per cent of all private sector firms in the Canadian economy. They employ 6.9 million people across the country, which is equivalent to 46.9 per cent of private sector employment.
- Small and medium FOEs contribute twice as much to the family enterprise footprint in Canada compared with larger family-owned enterprises.
- Data gaps remain the biggest challenge for further research. More in-depth information on topics such as family trusts and family firm governance must be developed and made available by organizations such as Statistics Canada to allow for a greater understanding of the family enterprise landscape in Canada.
- Given demographic trends and the looming succession of many family enterprises, the data gaps in our understanding of this important part of the economy are worrying.



The Economic Impact of Family-Owned Enterprises in Canada

Executive summary



Family businesses: An essential part of the Canadian economy

- Nearly **two-thirds** of all private sector firms in Canada are family owned.
- Although many of them are large companies, over **99 per cent of family businesses are SMEs**—firms that are often considered the backbone of the Canadian economy.
- Family firms generate nearly **half of Canada's GDP** in the private sector.
- They employed **6.9 million workers** in 2017, equivalent to 47 per cent of all private sector employment.
- Family businesses have a presence in all sectors, though they are **most prominent in agriculture**.



Family-owned enterprises (FOEs) are a critical component of the Canadian economy. Drawing on the latest data from Statistics Canada, family-owned enterprises account for 63.1 per cent of all private sector firms in the Canadian economy and generated 48.9 per cent of Canada's real GDP in the private sector, at \$574.6 billion.¹ They also employ 6.9 million people across the country, which is equivalent to 46.9 per cent of private sector employment.

In Canada, enterprises with family ownership have the largest footprint among firms with between one and 500 employees, considered to be small and medium enterprises (SMEs). SMEs account for over 99 per cent of all employers in Canada and are often considered the backbone of the Canadian economy, implying that family-owned SMEs are an integral part of our business landscape. We estimate that about two-thirds of the output and about 90 per cent of the jobs that family-owned enterprises directly support are in family-owned SMEs. However, the impact that family-owned SMEs have on the Canadian economy goes well beyond their contribution to GDP and employment. (See “Family businesses: an essential part of the Canadian economy”.)

While the role of families in some of Canada's largest firms is a common area of interest, our analysis shows that the most significant impact of family enterprises is in the SME space. Small and

¹ All references to GDP in this report are in 2012 chained dollars.

medium family owned enterprises contribute twice as much to the family enterprise footprint in Canada compared with larger family-owned enterprises. In total, we estimate that family enterprises directly supported 6.9 million jobs in 2017, which amounts to 46.9 per cent of private sector employment and 37.4 per cent of Canada’s entire workforce.

On an industrial basis, family-owned SMEs have the strongest presence in agriculture. Family-owned SMEs account for roughly 80 per cent of all GDP sustained by small and medium-sized agricultural firms in aggregate. A related conclusion is that family-owned enterprises are more prevalent in the Prairie provinces (Manitoba, Saskatchewan, and Alberta), where agriculture plays an outsized role in the economies of Western Canada. Elsewhere in the economy, family-owned SMEs also have an above-average footprint in sectors like accommodations, food services, fisheries, and retail.

Beyond the economic footprint, we selected a sample of incorporated family-owned enterprises to test their performance against the rest of Canadian corporations.

The evidence presented moves past the traditional anecdotal approach to discussing the economic impact and performance of

family firms; however, this is only a first step in quantifying the importance of family-owned enterprises in Canada. Data gaps remain the biggest challenge for further research. More in-depth information on topics such as family trusts and family firm governance must be developed and made available by organizations such as Statistics Canada to allow for a greater understanding of the family enterprise landscape in Canada. On a positive note, small steps have been made as Statistics Canada recently added a question on family ownership in its survey on Financing of Small and Medium Enterprises.

This study highlights the crucial role that family-owned enterprises play in the Canadian economy. The impact of family enterprises on the jobs and economy of various parts of Canada often increases as you move from the largest to smaller communities. Given demographic trends and the looming succession of many family enterprises, the data gaps in our understanding of this important part of the economy are worrying. A failure to understand the depth and breadth of family enterprises leaves discussion of this important driver of the economy in the dark.

Exhibit 1 **Impact of FOEs on the Canadian economy**



Source: The Conference Board of Canada.



Introduction

Family-owned enterprises present an interesting challenge as an area of investigation for economic impact. Family enterprises do not neatly fit into a single category or industry. They can have various ownership structures representing multi-generational ownership and connections between the business or businesses owned or operated and the family unit itself.

Much mythology exists around the merits and impacts of family enterprises on the Canadian economy. Anecdotally, commentators on the Canadian economic landscape point to studies of large family enterprises that are publicly listed companies to gain an understanding of family enterprise performance. These self-selected studies focus on many of the titans of Canadian business and the long-lasting performance of the enterprises that they lead. For example, the FP500 list of Canada's top companies is full of family enterprises that have risen to the top of Canadian business. They have widely recognized names such as the Westons, the Shaws, and the Irvings. This list also includes families that are less well known but whose enterprises form the foundation and core of our communities and cities.

On the other hand, popular press discussions of family-owned enterprises can also focus on assumptions about parts of the economy that have a more traditional family nature. From the family farm, to mom-and-pop shops, families are

seen to be at the heart of many small businesses. In many parts of Canada, family-owned enterprises are the biggest employers, particularly in small communities. While information about large family-owned enterprises—defined as firms with over 500 employees—is more abundant, they too have not benefited from the level of data collection and business analysis devoted to publicly traded enterprises.

However and beyond surface analysis, there is a significant data and awareness gap as it relates to family enterprises and their impact on the Canadian economy.

The Conference Board of Canada (CBoC) has collected the best information available in the country from a variety of statistical sources and datasets to provide the most comprehensive picture of family enterprises in Canada to date. The economic impact considers the contribution to GDP and employment from FOEs in the Canadian economy, which are subsequently broken down by industry.

In addition to the economic impact analysis, we highlight the performance of a sample of FOEs in Canada. We do this using a separate Statistics Canada dataset which allows us to identify a subset of organizations that we have identified as family-owned enterprises to examine various performance metrics for these types of firms. The metrics include financial statistics and longevity, in addition to industry and regional breakdowns of a share of family-owned enterprises compared with all other firms.

Significant work remains to be done to strengthen the country's analytical and statistical understanding of this important part of the economy. While we were able to move past the

traditional anecdotal approach to discussing the economic impact and begin to examine the relative performance on family firms, more research is needed to fully assess the full contribution of family-owned enterprises. This research will need to be supported by enhanced data collection techniques and initiatives by both private and public sector stakeholders.

Canadian family enterprises: what we know

Knowledge on the family-owned enterprise model has expanded in the past several years globally, yet it remains in its infancy in Canada. Few studies have presented concrete evidence on family enterprises. Analyzing the family-owned enterprise landscape in Canada is a difficult task. Many of the existing studies were limited by data availability, resulting in analysis on only a small subset of family enterprises in the Canadian economy. For example, the Canadian Association of Family Enterprises (CAFE)¹ partnered with KPMG Enterprise to conduct a two-phased survey in 2011 and 2012 to explore and understand opportunities and challenges facing family-owned enterprises. The survey had several findings about family business, such as 38 per cent of respondents claimed that the business was in operation for more than 40 years.²

1 CAFE has now partnered with the Institute of Family Enterprise Advisors to become Family Enterprise Xchange.

2 KPMG Enterprise, "Family Ties."

Beyond the KPMG report, research from the Creaghan McConnell Group (CMG) in 2014 was similar in terms of sample size. CMG analyzed the performance of medium and large-size FEOs in Canada and found that companies controlled by the 500 wealthiest business families account for 23.0 per cent of the revenue of all medium and large enterprises in Canada, equivalent to \$313 billion.³

More recently, the National Bank of Canada (NBC) released its second edition of *The Family Advantage* in 2018. The report outlines several advantages of family enterprises globally, in addition to its performance using its newly designed NBC Canadian Family Index. The index tracks the performance of 43 Canadian family-controlled businesses relative to the S&P Dow Jones Indices.⁴ In addition to this being a small sample of family companies in Canada, many of the bank's larger-scale evidence on family business advantages were focused on international findings. Also in 2018, the Clarkson Centre for Board Effectiveness conducted a unique project looking at the long-term performance of Canadian family-owned firms to identify trends in performance sustainability and risk.⁵

Due to the difficulty of analyzing a comprehensive set of family enterprises in Canada, there has been little evidence on their economic footprint—a subject we explore later in this report. The Alberta Business Family Institute (ABFI) is perhaps the only organization that estimates the GDP and employment contributions of family

3 Creaghan McConnell Group, "Canada's Business Families."

4 National Bank of Canada, *The Family Advantage*.

5 Clarkson Centre for Business Ethics and Board Effectiveness, *The Long-Term Survival of Family Business*.

businesses. Overall, ABFI estimates that family-owned businesses generate about 60 per cent of Canada’s GDP, employ 6 million workers in Canada, and create 70 per cent of all new jobs in North America.⁶ While this is more than most other anecdotal evidence on family enterprises in Canada, ABFI offers little background as to how these numbers were calculated.

Defining family-owned enterprises

Existing definitions

While evidence on family-owned enterprises is still in its infancy stage in Canada, many international studies have been around for decades. For example, the *Family Business Review* is an Elsevier academic journal that publishes research on the dynamics of family-controlled enterprises. The journal was founded in 1988 and is among the longest-standing academic publishers of family business. In addition, the *Journal of Family Business Strategy* published its first volume in 2010 and has been another key provider of academic research on the subject, furthering new knowledge and understanding of family-owned enterprises on a quarterly basis.⁷ And beyond these journals that are directly dedicated to family business research, other publishers such as Sage’s *Entrepreneurship Theory and Practice* and Wiley’s *Strategic Management Journal* have published family business studies in the past.

Although academic inquiry is growing, researchers continue to find inconsistent relationships between family ownership and firm performance. One of the key reasons is a lack of consensus on which metrics are most appropriate for evaluating their performance. For example, various studies published in academic journals have used returns on equity or assets, sales growth over different periods of time, and even Tobin’s Q ratio to assess the performance of the firms in question.⁸ A more critical component of the varied results detailed across different studies has been the lack of a clear definition of what exactly constitutes a family enterprise in today’s economy. While many definitions of family business focus on ownership, prior definitions have been delineated along a firm’s governance, or management structure, as well as by succession characteristics. (See Table 1.)

Table 1
Definitions of family enterprises may vary

Family business measure	Examples
Ownership	Share of ownership or voting rights held by family members related by blood or marriage, founding family ownership
Governance	Share of family members on board of directors, influence on power or culture, family chairperson
Management	Family CEO, number of family members in management, share of managerial ownership
Succession	Family member as successor to ownership, multiple generations of key family members, number of generations involved in firm

Sources: Garcia-Castro and Aguilera; The Conference Board of Canada.

6 Alberta School of Business, “Alberta Business Family Institute (AFBI).”

7 Elsevier, *Journal of Family Business Strategy*.

8 Garcia-Castro and Aguilera, “Family Involvement in Business and Financial Performance.”

To get at an accurate representation of family enterprises, we believe the definition should be both broad and inclusive to allow the possibility that a firm could be considered a family enterprise regardless of size. In particular, we find many measures of family ownership will not accurately capture the number of large family companies in Canada. These companies were often founded by a family and subsequently became publicly traded, thereby not being labelled a family firm under some stringent definitions. Saputo Incorporated is a good example of this. The Montréal-based cheese company was founded by the Saputo family in 1954. In 1997 the company became publicly traded, and CEO and family member Lino Saputo continues to hold one-third of the company's shares.⁹ And despite the Saputo family having a controlling interest in the corporation, the company itself may not be considered "family-owned" under a common definition applied which requires that members of the same family hold majority ownership of a firm's voting shares.¹⁰

We therefore use a separate, less stringent criterion for large or publicly traded firms to accurately account for the number of family companies in Canada. This idea is not new. For example, the European Union has adopted this approach for determining if a company is a family business. According to the EU, a firm is family owned if:

- the majority of decision-making rights are in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the

share capital of the firm, or in the possession of their spouses, parents, child, or children's direct heirs;

- the majority of decision-making rights are indirect or direct;
- at least one representative of the family or kin is formally involved in the governance of the firm;
- listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the decision-making rights mandated by their share capital.¹¹

Essentially, a family enterprise in the EU is considered such if it meets the ownership, governance, and management requirements above. Unlike some definitions described in Table 1, the EU applies less stringent criteria for publicly traded firms that would allow it to include large family corporations like Saputo.

The EU is not the only organization that has implemented separate criteria for larger businesses. The Institute for Family Business (IFB) in the United Kingdom implements a similar approach. For firms with 250 or more employees, IFB considers the company a family firm if "[t]hey have more than 249 employees and a UK family possesses a 25 per cent shareholding, or a first-generation entrepreneur self-identifies the company as a family firm."¹²

9 Information supplied by the Financial Post.

10 We define controlling interest as an amount of voting rights to control a company's management.

11 European Commission, "Overview of Family-Business-Relevant Issues."

12 IFB borrows this definition from RepGraph.

For businesses with fewer than 250 employees, the Institute borrows a criterion from the Department for Business, Energy and Industrial Strategy, which states that a family-run SME is a firm that has:¹³

- between zero and 249 employees and a single owner; or
- between zero and 249 employees, multiple owners, and self-identifies as a family-owned business—one that is majority-owned by members of the same family.

This definition is less stringent than that of the EU by allowing the possibility that a founder can deem the company a family firm despite any restrictions on ownership, management, governance, or succession.

Beyond the EU and IFB, there have been attempts at broader definitions of family enterprises in Canada. For example, the Clarkson Centre for Board Effectiveness (CCBE) at the Rotman School of Management, University of Toronto, characterizes family enterprise status by ownership structure. CCBE considers a company family-controlled if it met at least one of the following criteria at any point during its observation period between 1969 and 2017:¹⁴

- The company was described in *Moody's Industrial Manual* as being “controlled” by a family or a non-public family-owned entity (e.g., holding company).
- The company has been an issuer on the S&P/TSX Composite Index at any point between 2002 and 2017 and the CCBE's governance database shows that a family exercised 30 per cent or more voting control at any point.

13 Institute for Family Business, *The State of the Nations*.

14 Fullbrook, *The Long-Term Survival of Family Business*.

However, CCBE identifies family subsidiaries as a separate ownership structure. These are not directly family-controlled companies as above, but rather the company met at least one of the following criteria:

- It was controlled by a family-controlled company at any point during its observation period as identified by *Moody's Industrial Manual*.
- A family had at least 30 per cent of the voting control at any point.

By identifying family subsidiaries as an ownership structure, CCBE allows for the possibility that firms can be labelled not only as family-owned, but as a subsidiary of family companies. This allows for a broader discussion of the family enterprise landscape in Canada and the United States.

Our definition: broad and inclusive

Our definition of family enterprises is like the ones used above in the sense that we use a two-tiered approach by applying a separate definition of family enterprises for larger companies. First, firms are split into SMEs and large companies. SMEs are those firms that have between one and 500 employees,¹⁵ while large firms are those with 500 employees or more.

To determine if a firm is a family enterprise, we use an ownership approach by deeming a firm to be family-owned if the majority of ownership is held by members of the same family. The ownership approach is possible to quantify on a large scale using data from Statistics Canada and

15 Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2007*.



Given demographic trends and the looming succession of many family enterprises, the data gaps in our understanding of this important part of the economy are worrying.

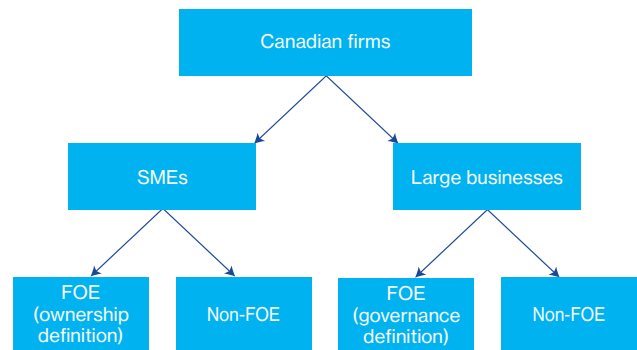
A failure to understand the depth and breadth of family enterprises leaves discussion of this important driver of the economy in the dark.

Innovation, Science and Economic Development Canada, such as their survey on financing for SMEs. The survey aims to determine the types of financing that these firms are using and to collect information on attempts by them to obtain new financing.¹⁶ In the 2007 and 2017 versions of the survey, firms were asked if they had majority ownership by members of the same family. We are then able to combine this information with data on GDP and employment to estimate the footprint of family-owned small and medium-sized enterprises.

For large corporations, we use the definition consistent with that proposed by IFB to determine if the company is a family-owned enterprise. In particular, we consider large enterprises to be family-owned if members of the same family collectively have a controlling interest in the company, or if the first-generation entrepreneur would likely identify the company as a family firm. We refer to this as our governance definition, as controlling interest was the central way for determining family-owned status for large companies in this report. The financial statistics and governance indicators required to make these assessments were based on financial information obtained on the largest (by revenue) 800 companies in Canada produced by the Financial Post.¹⁷ In total, we estimated that 120 of the top 800 companies in Canada were family-owned enterprises.

The two-sided approach is used for two reasons. First and foremost, it allows us to use a broad and inclusive definition of family business ownership in Canada. By using the governance approach for large companies, we are using a definition that can include many large corporations that do not have the majority of shares held by members of the same family, but still have a significant family ownership aspect to it. (See Exhibit 2.) Second, our definition is applicable to existing data from sources like Statistics Canada and the Financial Post to estimate the footprint of family-owned enterprises in Canada.

Exhibit 2
Two-sided approach to defining family-owned enterprises



Source: The Conference Board of Canada.

16 Innovation, Science and Economic Development Canada, Survey on Financing and Growth of Small and Medium Enterprises; Statistics Canada, Survey on Financing of Small and Medium Enterprises, 2007.

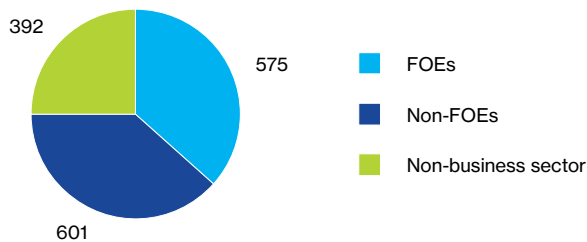
17 Governance indicators include major shareholders and voting rights to determine if one family has a controlling interest in the corporation.

Family-owned enterprises: economic footprint

Not only are family enterprises difficult to define, but existing data sources make it challenging to quantify their contribution to the Canadian economy. However, our two-tiered definition of family enterprises does allow us to use an ownership approach to label firms as family-owned. We are then able to bring together data sources that do exist and provide an estimate of the footprint that family enterprises make on Canada.

In total, we estimate that family-owned enterprises delivered \$574.6 billion in real GDP in 2017. That represented 48.9 per cent of Canada’s private sector activity. (See Chart 1.) Broken down, about one third—or \$191.9 billion—of this is generated by large family-owned enterprises, equivalent to 34.0 per cent of all GDP generated by large companies regardless of ownership structure in the country.

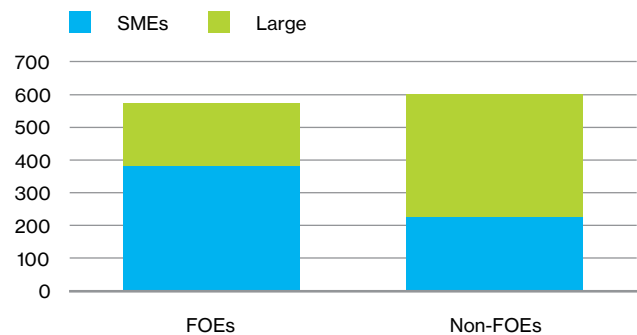
Chart 1
Family enterprises accounted for over half a trillion in GDP, 2017
 (GDP, 2012 \$ billions)



Note: According to Statistics Canada, the non-business sector is composed of all enterprises that are not organized for profit or do not produce goods and services for sale at a price at least to approximate the costs of production.
 Sources: The Conference Board of Canada; Statistics Canada.

Although our definition allows for large firms to be an important part of our family-owned enterprise footprint, it is among small and medium-sized firms where these family enterprises are most prominent. In fact, even when including larger FOEs using our criteria, small and medium-sized firms still make up the bulk of the economic footprint. In total, two-thirds of the real GDP that is generated by family enterprises—totalling \$382.7 billion—originated from small and medium firms in 2017. This is equivalent to 62.6 per cent of the output generated by all SMEs, which suggests that family-owned SME’s contribute twice as much to the family-owned enterprise footprint in Canada compared with larger family-owned enterprises. (See Chart 2.)

Chart 2
Family enterprises have a greater presence among SMEs than large companies, 2017
 (GDP, 2012 \$ billions)



Sources: The Conference Board of Canada; Statistics Canada.

Broken down, family-owned enterprises have a stronger contribution in a variety of sectors, most notably in agriculture, where they account for four-fifths of GDP in the sector. This is not surprising given many farms are owned and operated by members of the same family. For example, the United States Department of Agriculture found that 96.7 per cent of farms south of the border were family-owned in 2012.¹⁸ In Canada, a high share is likely as well, given that there are often exemptions for land transfer tax of farmed land between family members.¹⁹ It is worth noting that beyond the farming of crops, animals, and aquaculture, many of these family firms in agriculture operate in segments such as forestry, logging, fishing, and hunting.

Family-owned enterprises also have an above-average presence in sectors like accommodations, food services, and retail. (See Chart 3.) We find that many small businesses such as restaurants, bed and breakfasts, and general merchandise shops are founded by one person or by a few members of the same family.

Beyond GDP, family-owned enterprises are significant providers of employment not only for their own families, but also for a significant portion of Canada’s working population. In total, we estimate that family-owned enterprises directly supported 6.9 million jobs in 2017, which amounts to 46.9 per cent of private sector employment and 37.4 per cent of Canada’s entire workforce. (See Chart 4.) Around 90 per cent (6.4 million) of these jobs are in family-owned small and medium enterprises. (See Chart 5.)

18 United States Department of Agriculture, *2012 Census of Agriculture*.

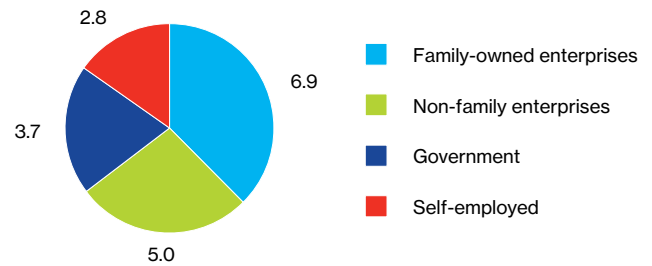
19 Ontario Ministry of Finance, “Exemption for Certain Transfers of Farmed Lands.”

Chart 3
Small and medium family enterprises common in a variety of sectors, 2017
 (family-owned share of SME GDP, per cent)



Sources: The Conference Board of Canada; Statistics Canada.

Chart 4
Family enterprises directly support nearly 7 million jobs, 2017
 (number of jobs by type of employer, millions)

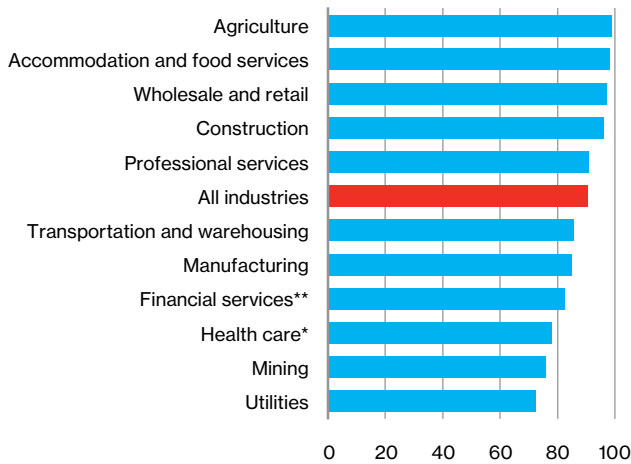


Sources: The Conference Board of Canada; Statistics Canada; Innovation, Science and Economic Development.

Chart 5

SMEs account for most of Canadian employment, 2015

(share of private sector employment in SMEs, per cent)



*Health care includes social assistance.
 **Financial services includes real estate.

Sources: The Conference Board of Canada; Statistics Canada; Innovation, Science and Economic Development.

By industry, family-owned enterprises account for a high share of employment in many sectors. Again, employment in FOEs was much more prominent among SMEs compared with large companies, and particularly large within agriculture. In 2017, family-owned enterprises directly supported 80 per cent of employment in the agricultural sector. The share of family-owned enterprise employment is also higher than average in transportation and warehousing (85.4 per cent), accommodations and food services (71.3 per cent), and construction (68.5 per cent). (See Chart 6.)

Chart 6

Family-owned SMEs support jobs in many sectors, 2017

(family-owned share of SME employment, per cent)



Sources: The Conference Board of Canada; Statistics Canada.

In terms of number of firms, family-owned enterprises comprise a sizable share of all businesses in Canada. We estimate that 63.1 per cent of all Canadian firms are family-owned businesses and, because SMEs comprise 99.8 per cent of all businesses in Canada,²⁰ almost all family enterprises are SMEs. When we refer to SMEs as the backbone of the Canadian economy,²¹ our analysis shows that we should more accurately be characterizing the backbone of the economy as family-owned enterprises. The impact of family-owned enterprises on the Canadian economy stretches beyond their contribution to output and employment and speaks to their role in supply chains, labour markets, and in communities themselves.

20 Statistics Canada, Table 33-10-0037.

21 Burt and Forbes, *Partners in Growth*.

Overall, family-owned enterprises are an integral part of the private sector in Canada. Their footprint stretches across all industries and throughout Canada. While most research on family businesses up to now has been anecdotal in nature, we present specific evidence by first applying a two-tiered definition of family-owned enterprises that is similar to those used in the EU and by IFB. We are then able to apply our definition to data from a variety of sources to quantify the economic footprint of family-owned enterprises in the Canadian economy. While larger family-owned enterprises play an important role in the aggregate footprint, our analysis shows that it is family-owned small and medium-sized enterprises that account for the larger share—a finding that is consistent with research conducted in other countries having used similar definitions.



The impact of family-owned enterprises stretches beyond their contribution to GDP and employment and speaks to their role in supply chains, labour markets, and in communities themselves.

Family-owned enterprise performance

Defining family-owned enterprises: a subset of our definition

Our broad and inclusive definition of family-owned enterprises allowed us to explore the footprint of these businesses in Canada. However, the focus of most prior research has been on attempting to find the differences between family enterprises and non-family enterprises in terms of operational performance. Unfortunately, due to insufficient data quality, collection, and availability in Canada, it is impractical to use this definition when assessing financial performance and firm dynamics. We are able to employ a narrower definition of family enterprises that can provide guidance on these issues by considering the information contained in Statistics Canada's Canadian Employer-Employee Dynamics Database (CEEDD). CEEDD is a matched employer-employee database that became available to research organizations outside of Statistics Canada in 2016. The database includes both firm-level and individual-level characteristics. It is a link between various tax files—including the T1 personal, family, and business declaration files; the T2 files (corporate tax return and owner files); and the T4 supplementary and summary files—as well as the longitudinal immigration database for all privately held businesses in Canada.²² The database covers the entire universe of unincorporated firms and Canadian-controlled private corporations (CCPC), though we must

²² Statistics Canada, Data Sets.

restrict our analysis to only CCPC here due to data limitations.²³

Within CEEDD, we acquired 2013 data and used an ownership criterion to define family-owned enterprises.²⁴ In particular, we were able to match businesses to their owners to define a business as family-owned if it meets at least one of two criteria:

- the majority of the business is owned by a couple (married or common-law); or
- the majority of the business is owned by two or more people with the same family name.

It is important to emphasize that the definition of family-owned enterprises identified through CEEDD is only a subset of family-owned CCPC in Canada. First, it does not consider single-owner firms to be family owned, even though the lone owner is a family unit. In 2013, single-owner firms accounted for 58 per cent of all incorporated firms in Canada and thus, a significant segment of family-owned enterprises is excluded. Second, larger firms where one family has control over the management or governance but owns less than 50 per cent of the shares are excluded because ownership share is the lone metric used by CEEDD to determine whether an enterprise is family-owned or not, and many FOEs in Canada have less than the required share. Lastly, this definition will not include majority business owners who are related but have different surnames from marriage.

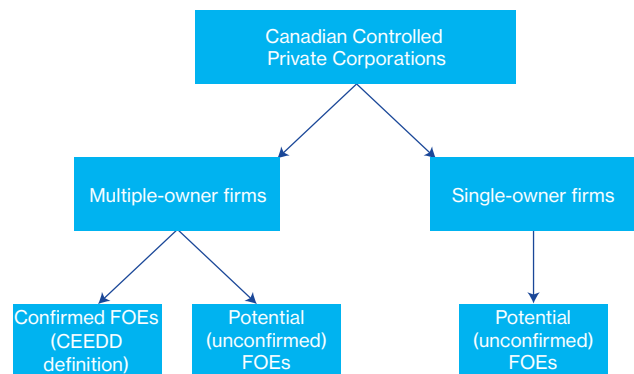
23 Unincorporated firms have much narrower data available and cannot be accurately tracked over time.

24 At the time of access, 2013 was the latest available dataset.

In our broad and inclusive definition that was used to produce the economic impact results above, and which we believe to be a more accurate depiction of the family-owned enterprise structure in Canada, neither of these limitations applied.

Nevertheless, although the definition is not as broad as the one used in our footprint analysis, it does have several advantages. First, using CEEDD allows access to statistics for the entire universe of CCPC using administrative data, which is more comprehensive and accurate compared with data created using a survey of firms. Second, we believe firms flagged as family-owned in CEEDD would be labelled family firms in our broad and inclusive definition. Therefore, we refer to family-owned enterprises in CEEDD as confirmed (or CBoC-identified) family-owned enterprises. It is important to acknowledge that all remaining CCPCs are still potentially family enterprises as some unknown share of these companies may still have family firm characteristics. (See Exhibit 3.)

Exhibit 3
Confirmed family enterprises

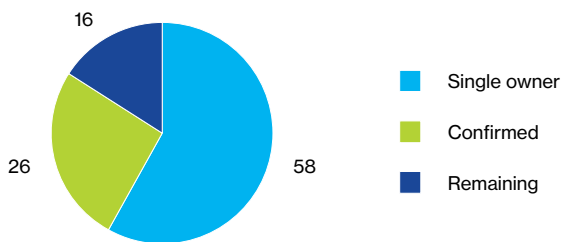


Sources: Statistics Canada's CEEDD; The Conference Board of Canada.

Performance of confirmed family-owned enterprises

Within CEEDD, confirmed family-owned enterprises still account for 26.0 per cent of all CCPCs in 2013. While this is much lower than the 63.1 per cent using our broad and inclusive definition, recall that single-owner CCPCs comprise 58.0 per cent of firms in CEEDD and are not confirmed family enterprises here. If we limit our sample to multiple-owner CCPCs, we find that confirmed family-owned businesses account for 61.9 per cent of multiple-owner CCPCs, a finding more in line with our estimates using our broad and inclusive definition. (See Chart 7.)

Chart 7
Confirmed FOEs account for over one-quarter of CCPCs, 2013
 (share of CCPCs, per cent)



Sources: Statistics Canada's CEEDD; The Conference Board of Canada.

In terms of size, we find that our identified family-owned enterprises were much smaller on average than other firms across a range of performance metrics. On average, the firms we identified had just over one-third of the revenue and half the net income compared with other firms. In addition, confirmed family firms had 8.1 employees on average, compared with 16.9 for all other firms.

Although confirmed family-owned enterprises in CEEDD were much smaller than remaining firms, they did perform better along growth and longevity metrics. Between 2007 and 2013, revenues grew 14.6 per cent in total on average among confirmed family firms, compared with 13.9 per cent in total for all other firms. In addition, 70.1 per cent of confirmed family-owned enterprises in 2007 were still in operation in 2013, compared with just 65.2 per cent for the rest of the firms included in the dataset. In other words, despite being much smaller on average, family firms seem to have a higher survival rate than other types of firms over the period under analysis.²⁵ (See Table 2.)

Table 2
Confirmed FOEs are smaller, but showed more longevity and growth, 2013
 (average performance metrics for CCPCs)

Metric	Confirmed FOEs	Potential FOEs
Net income (\$)	189,121	383,291
Revenues (\$)	969,826	2,767,290
Number of employees	8.1	16.9
Revenue per employee (\$)	120,450	164,171
Revenue growth (2007–13) (per cent)	14.6	13.9
Operating in 2007 (per cent)	70.1	65.2

Source: The Conference Board of Canada.

Beyond size, growth, and longevity, our identified FOEs tend to be much less export-oriented. In total, 1.9 per cent of these companies were exporters in 2013, compared with 2.2 per cent for the rest of the firms in the sample. Not only were confirmed family firms slightly less likely to be exporters, among those that did export,

²⁵ Schecter, "Family Businesses Survive Longer and Offer Less Investment Risk."

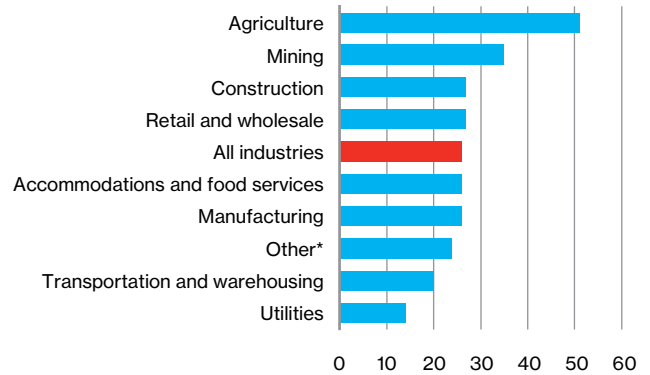
this tended to account for a smaller share of their business, and this result was consistent regardless of firm size. Despite this finding, the export performance of these firms is likely to go beyond the value of their exports. For example, family farms may sell their commodities to food processors that could subsequently export final goods. In this case, the family farm played an important role in the supply chain of exports despite not being the exporter itself.

Broken down by industry, we find confirmed family-owned firms are more common in certain sectors compared with others. As with the broader definition applied to generate the footprint results above, the CEEDD definition of confirmed family-owned enterprises also points to a much higher presence of such enterprises in the agricultural sector than in any other. Indeed, 50.8 per cent of agricultural CCPCs were confirmed family-owned, well above other sectors found to have a high share in the previous section, such as retail and accommodations and food services. (See Chart 8.)

The industrial breakdown of confirmed family-owned enterprises is a main determinant of regional differences. For example, we find that Saskatchewan and Manitoba have higher shares of confirmed FOEs than other regions. (See Chart 9.) This is a direct result of the fact that these provinces have a high degree of agricultural businesses overall. According to Statistics Canada's Business Register, one out of 10 businesses in Saskatchewan and Manitoba combined are in the agricultural sector. That is well above all other regions identified and well above the 3.8 per cent for the entire country, implying that family farms are an important part of the footprint in the Prairie provinces.

Chart 8
Over half of agriculture firms are confirmed FOEs

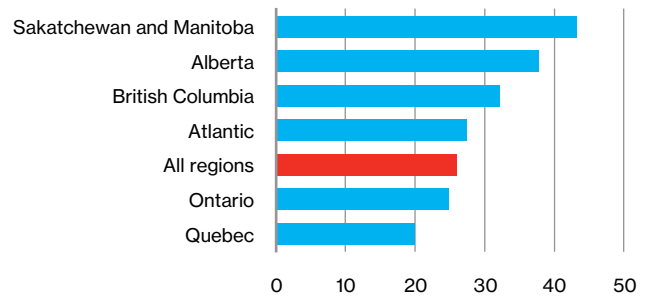
(share of confirmed family-owned CCPCs by industry, per cent)



*Finance and insurance are included in the "other" category, which has a below-average share of confirmed family-owned businesses.
Sources: Statistics Canada's CEEDD; The Conference Board of Canada.

Chart 9
FOEs are more common in prairie provinces

(share of confirmed family-owned CCPCs by region, per cent)



Sources: Statistics Canada's CEEDD; The Conference Board of Canada.

On the other end of the spectrum, Quebec has a well below average concentration of agricultural firms. In addition, over 7 per cent of firms in Quebec are in transportation and warehousing, which is higher than the national average and happens to be an industry where

confirmed family-owned enterprises have a well below average presence in CEEDD.²⁶ In addition, Ontario has the second-lowest share of confirmed family firms. This is due partially to the province having the lowest share of firms in agriculture at less than 2.0 per cent and the highest share of financial sector firms of any province.²⁷

Important considerations

We were able to move past the traditional anecdotal approach to discussing the footprint and performance on family-owned firms; however, we recognize this is only a first step in assessing the contribution that family enterprises make to the Canadian economy. Although our broad and inclusive definition allowed us to quantify the economic impact and employment that family-owned enterprises contribute, it is important to note its challenges. First, our estimates capture GDP and employment, but there is no information on performance of family-owned enterprises compared with other enterprises using this approach. As a result, factors including growth, survival rates, or tax contributions cannot be appropriately assessed using our broad and inclusive definition.

In terms of financial performance and firm dynamics, we were able to find evidence about the performance of our identified family-owned firms in terms of factors such as employment and financial statistics compared with all other private corporations. However, there were challenges with our approach. First, this was just a starting point for the evidence as we were only able to identify a subset of family-owned enterprises in CEEDD. Second it is important to emphasize that we still used the best available and most comprehensive dataset of enterprises in Canada. Thus, more in-depth data on family-owned enterprises should be collected. While on the surface this seems like a difficult task, the approach used in this report clearly shows that such enterprises are an important contributor to the Canadian economy and exhibit characteristics that are different than non-family firms. Thus, they are worthy of more specific analysis, which requires more comprehensive data collection by firm ownership structure.

There are small steps that could be taken to begin overcoming existing data limitations with minimal effort. For example, our methodology in “Defining Family-Owned Enterprises” included assumptions around the Survey on Financing for Small and Medium Enterprises. The survey asked about 15,000 firms several questions on their financing practices, including a question about whether the business had majority ownership by members of the same family. The survey, which takes place approximately every three years,

26 Despite having an above-average presence under our broad and inclusive definition, the transportation and warehousing industry comprises many single-owner corporations in subsectors like trucking and couriership, which are excluded from our set of confirmed family-owned enterprises.

27 Finance and insurance are in the “other” category in Chart 8, which has a below average share of confirmed family-owned enterprises.

Family enterprises are a critical part of the Canadian economy, accounting for \$574.6 billion in real GDP and supporting 6.9 million jobs in 2017.



removed the family ownership question after the 2007 version. We have requested that Statistics Canada re-include this question in future versions of this survey. It agreed with this assessment of the situation and family ownership was once again counted in the 2017 survey. This will allow more up-to-date information on family firm ownership in the coming years and lead to better evidence on family firms.

Including a question about family ownership in the survey on financing for SMEs is just one small step toward understanding the full scope of family-owned enterprises in Canada. Ideally, a stronger identifier for family firms in CEEDD would also be made available. Because the database includes administrative and tax data for the entire universe of private companies in Canada, it is ideal for analyzing firm performance and dynamics, which could help us better analyze things like tax contributions by family-owned enterprises as IFB does.²⁸ The CEEDD definition allows only for a subset of family-owned firms to be confirmed as such, meaning that many family enterprises are excluded from the analysis.

Finally, another important consideration for future research is family trusts. Family trusts are a significant part of the footprint of family enterprises in Canada and may have control over several businesses, which would allow us to get at family subsidiaries much like CCBE does. As well, family trusts are an important tool for succession planning of family businesses. Consequently, more information on this aspect

of family-owned enterprises would allow for a more in-depth discussion surrounding issues like multi-generational family enterprises and their challenges. For example, according to Statistics Canada's 2016 Census of Agriculture, just 8.4 per cent of farmers report having a succession plan in place, signalling that many family farms will face difficulty surviving through multiple generations.²⁹ We believe that greater knowledge of family firm dynamics over time would help researchers better understand the unique challenges that family enterprises face.

Conclusion

Our analysis has shown that family enterprises are a critical part of the Canadian economy.

In total, we estimate family enterprises directly accounted for \$574.6 billion in real GDP and supported 6.9 million jobs in 2017, comprising 48.9 per cent and 46.9 per cent of its private sector GDP and workforce, respectively. As well, we found family enterprises are more prominent in the SME space compared with large-scale firms—two-thirds of output and about 90 per cent of employment sustained by all family enterprises in Canada can be attributed to SMEs.

In addition to estimating their contribution to GDP and employment, we used a narrower definition of family-owned enterprises to analyze the operational and financial performance of confirmed family-owned firms compared with other firms.

28 Institute for Family Business, *The State of the Nations*.

29 Statistics Canada, "2016 Census of Agriculture."

Although we were able to quantify family enterprises along several dimensions, data limitations remain the biggest challenge. In particular, it was not possible to accurately evaluate the performance of family firms using our broad and inclusive definition. Instead, we used only a subset of family firms and compared them with the remaining firms—a group about which we did not have enough information to determine whether they were family companies. More available data on the characteristics of family firms compared with non-family firms would allow for broader, more robust findings on the subject matter.

What is clear is that family-owned enterprises are an important contributor to the Canadian economy and that a more comprehensive understanding of the interactions between industrial, taxation, and regulatory structures and family-owned enterprises is a critical next step for the country. The significant gaps in data and awareness around family enterprises in Canada is a serious impediment to good decision-making on this important part of the economy. This study sets the groundwork for what we hope will be an increasing wave of rigorous research to better understand this part of the economy.



Appendix A

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