



FAMILY
ENTERPRISE
XCHANGE
FOUNDATION

FAMILY ENTERPRISE MATTERS

HARNESSING THE MOST
POWERFUL DRIVER
OF ECONOMIC GROWTH
IN CANADA

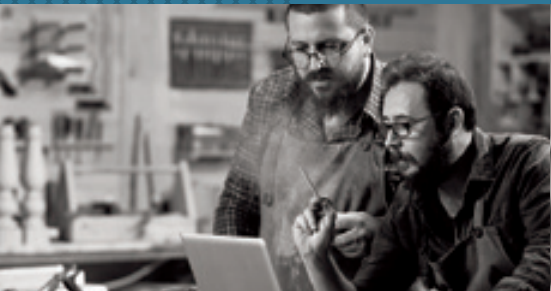
A black and white photograph of a man in a workshop. He is wearing safety glasses and overalls over a button-down shirt. He is looking down, focused on his work. The background shows a large window with a grid pattern and some industrial equipment.

**WE BELIEVE THE FUTURE HEALTH AND
GROWTH OF THE CANADIAN ECONOMY
DEPENDS ON A VIBRANT FAMILY
ENTERPRISE COMMUNITY**



Rooted in communities across our diverse geography, successful family enterprises sustain a multigenerational commitment to job creation and to the social cohesion that builds community and national prosperity. From the corner coffee shop to the home builder and the local manufacturer, from the farmer and the fish processor to the commercial real estate developer—family enterprises are found in all sectors of the economy.

FAMILY ENTERPRISES MATTER. In fact, they are the most powerful driver of economic growth in Canada.



FOREWORD

Family enterprises matter. In fact, they are the most powerful driver of economic growth in Canada and essential to the country's long-term global competitiveness.

Rooted in communities across our diverse geography, successful family enterprises sustain a multigenerational commitment to job creation and to the social cohesion that builds community and national prosperity. From the corner coffee shop to the home builder and the local manufacturer, from the farmer and the fish processor to the commercial real estate developer—family enterprises are found in all sectors of the economy.

The Family Enterprise Xchange (FEX) represents the Canadian family enterprise community with a strong and unified voice. We are committed to supporting research from which public policies that encourage the growth and continuity of family enterprise can be developed. We believe improved access to empirical evidence is needed to help these businesses reach their full economic potential, leading Canada into a more prosperous future.

As a necessary first step, the Family Enterprise Xchange Foundation commissioned a research paper by the Conference Board of Canada to accurately measure the economic and social impact of family enterprises. This report confirms that family enterprises account for approximately 50 per cent of private-sector gross domestic product and nearly 7 million jobs across the country.

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We hope this new research will inspire a robust conversation on the influence of family enterprise on Canada's economic and social development.

We hope the results of this new research will inspire a robust conversation on the influence of family enterprise on Canada's economic and social development. Continued rigorous data collection and analysis will be required to deepen understanding of this important business model.

FEX is dedicated to building a dynamic peer community for family enterprise members across Canada—one that connects family enterprises and their advisors to global best knowledge, resources, and learning opportunities. Better information leads to more strategic decisions, maximizing positive impact and minimizing trends that threaten the continuity of family enterprise.

We believe the future health and growth of the Canadian economy depends on a vibrant family enterprise community. Together we can empower these businesses to thrive and succeed for generations. Because family enterprises matter.

James A. Burton

Chair
Family Enterprise Xchange Foundation

FAMILY ENTERPRISES directly generated approximately \$574.6 billion in 2017—48.9 per cent of GDP originating from the private sector.



INTRODUCTION

Anecdotal evidence tells us that family enterprises have a deep and broad impact on Canadian economic performance. They are present in every community, from coast to coast to coast, and they represent a wide spectrum of evolutionary stages and industry sectors. They may be entrepreneurial start-ups, founder-led businesses, second-, third-, or fourth-generation diversified family enterprises, or any combination of these. Their business models range from partnerships to public companies, and encompass many types of ownership structure in between. Family enterprise is woven into the fabric of our country.

The pervasiveness of these businesses and the variety of ownership forms complicate definitions and challenge data collection. FEX Foundation commissioned the Conference Board of Canada to collect and analyze available statistical data to test the assumption that family enterprises matter and to facilitate a robust conversation on the role and impact of this key business model.

Family enterprises produce nearly 7 million jobs in Canada. Empirical research also confirms that these businesses account for approximately 65 per cent of the output and 90 per cent of the jobs generated by small and medium-sized companies, which are frequently described as the backbone of the Canadian economy and are essential to our supply chains.

FAMILY ENTERPRISES produce nearly 7 million jobs in Canada.



FAMILY ENTERPRISE DEFINED
The complex array of family enterprise ownership models presented a challenge to Conference Board of Canada researchers. Their initial research deemed a firm to be family-owned if the majority of ownership was held by members of the same family. Large enterprises were defined as family-owned if members of the same family collectively had a controlling interest in the company, or if the first-generation entrepreneur was likely to identify the company as a family firm.

The new research in this report reveals that family enterprises directly generated approximately \$574.6 billion in 2017, more than 35 per cent of Canada's real (inflation-adjusted) gross domestic product and 48.9 per cent of GDP originating from the private sector. Some \$191.9 billion of the total was produced by large family enterprises, equivalent to 34 per cent of all GDP generated by large companies, regardless of ownership structure. The impact is substantial, even when the research is challenged by incomplete data.

Yet demographics, unintended consequences of tax policy, and a lack of trained advisors are threatening the continuity of family enterprise and its positive impact on our social and economic fabric.

It is therefore essential to produce research that supports and encourages comprehensive, holistic planning by multidisciplinary advisory teams

with the expertise to help sustain this key business model. We must work collaboratively to strengthen the family enterprise ecosystem and enhance its growth and performance.

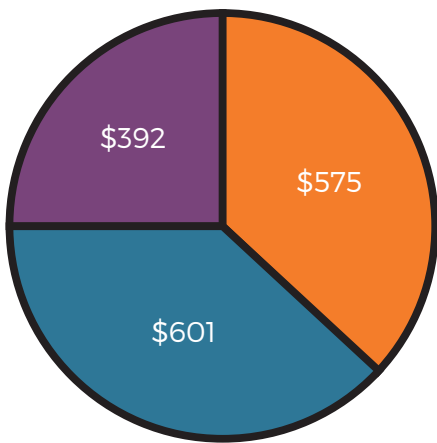
A better understanding of the challenges faced by family enterprises will build a strong foundation for improved public policy support, advanced education, and informed professional advice. We must meet the needs of multi-generational, multijurisdictional family enterprises to allow them to thrive and grow, expanding their connection to the global economy through export channels.

Family enterprises are essential to Canada's economic future and long-term global competitiveness. They are the most powerful driver of economic growth in the country, as can be seen by their share of the GDP.



IMPACT

FAMILY ENTERPRISES AS A PROPORTION OF GDP

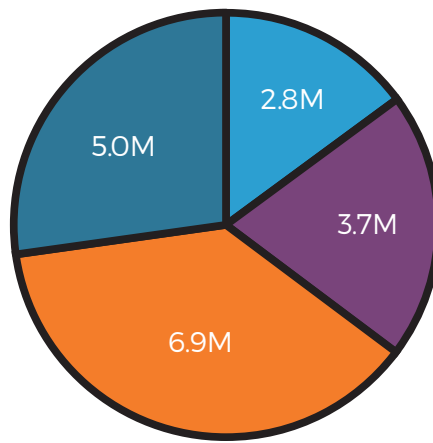


\$ billions generated

- Family-owned enterprises
- Non-family-owned enterprises
- Non-business sector

Sources: Conference Board of Canada; Statistics Canada

FAMILY ENTERPRISES DIRECTLY SUPPORTING CANADIAN JOBS



Millions of jobs generated

- Family-owned enterprises
- Non-family-owned enterprises
- Government
- Self-employed

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

The economic footprint of family enterprises

Family enterprises also provide employment for a significant portion of Canada's working population. The research indicates that family-owned businesses directly accounted for 6.9 million jobs in 2017, amounting to 46.9 per cent of private sector employment and 37.4 per cent of the entire workforce. Over 90 per cent of these jobs (6.4 million) are in small and medium-sized family enterprises.

Family enterprises are an integral part of the Canadian private sector. Their footprint can be seen in all industries and provinces, and they generate a large share of employment in multiple economic sectors. In the agricultural sector, for example, these businesses accounted for more than 80 per cent

of employment in 2017. The share of family enterprise employment is also significant in transportation and warehousing (85.4 per cent), accommodation and food services (71.3 per cent), and construction (68.5 per cent).

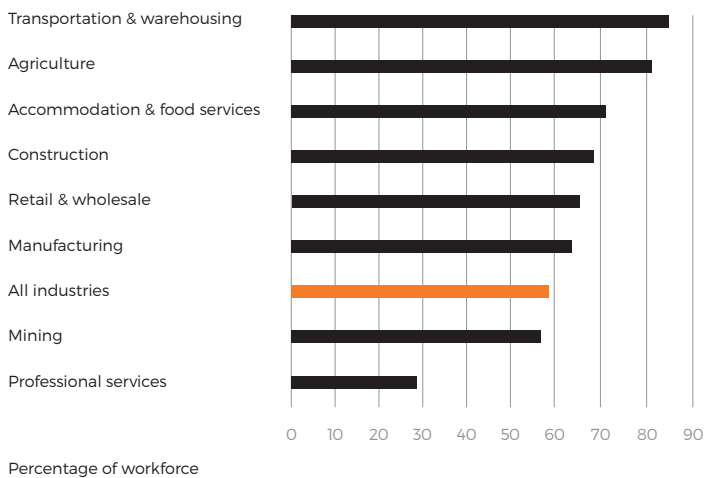
Family enterprises are the backbone of the economy

In terms of number of firms, family enterprises constitute a sizable proportion of all businesses in Canada. The analysis shows that, although conventional wisdom suggests small and medium-sized enterprises (SMEs) are the backbone of the economy¹, it is more accurate to assign this function to family enterprises. The impact of family businesses on the economy stretches beyond their contribution to output and employment, and speaks to their role in every channel and segment of supply chains, in the Canadian labour market, and in communities themselves.

While larger enterprises have an important role, the analysis shows that small and medium-sized enterprises constitute a greater share of the overall economic contribution of family-owned enterprises, with a substantial presence in areas such as accommodation and food services, fisheries, and retail. This general finding is consistent with research conducted in other countries, using similar definitions of family enterprises.

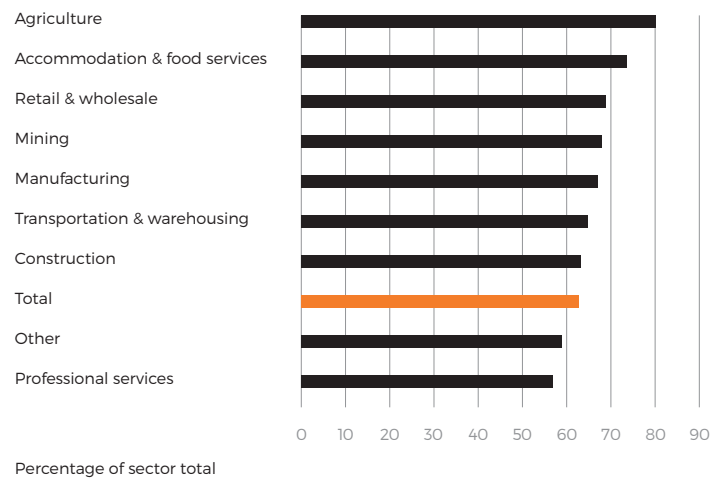
¹ Michael Burt and Richard Forbes, *Partners in Growth: 2017 Report Card on Canada and Toronto's Financial Services Sector* (Ottawa, ON: Conference Board of Canada, 2017)

FAMILY ENTERPRISES AS A PROPORTION OF EMPLOYMENT BY SECTOR



Sources: Conference Board of Canada; Statistics Canada

FAMILY SMEs BY SECTOR



Sources: Conference Board of Canada; Statistics Canada



Family enterprises performed better than other firms included in the dataset, as determined by growth and longevity metrics.

PERFORMANCE

Family enterprises are stronger by many measures of performance and competitiveness

The researchers referred to Statistics Canada's Canadian Employer–Employee Dynamics Database to compare the operational and financial performance of family enterprises to that of other types of firms. They assessed financial statistics, longevity, industry and regional metrics.

Family enterprises performed better than other firms included in the dataset, as determined by growth and longevity metrics. Between 2007 and 2013, total revenues grew 14.6 per cent on average among family enterprises, compared to 13.9 per cent for all other firms. Of firms that were operating in 2007, 70.1 per cent of confirmed family enterprises were still operating in 2013, compared to just 65.2 per cent of other firms. In other words, family firms had a higher survival rate than other types of firms over the period under analysis.²

The family enterprises in the comparison were generally much smaller than other firms across a range of performance metrics. On average, the firms identified as family enterprises had just over one-third of the total annual revenue

FAMILY AND NON-FAMILY ENTERPRISE PERFORMANCE

	Confirmed family enterprise	Other firms in dataset
Total annual revenue	\$969,826	\$2,767,290
Net annual income	\$189,121	\$383,291
Annual revenue per employee	\$120,450	\$164,171
Operating in 2007	70.1%	65.2%
Revenue growth, 2007–13	14.6%	13.9%
Number of employees	8.1	16.9

Source: Statistics Canada, Canadian Employer–Employee Dynamics Database

and just under half the annual net income of other firms. In addition, the family enterprises had 8.1 employees on average, compared to 16.9 for other firms.

Family enterprises can find opportunities in export markets

Beyond size, growth, and longevity, the evidence identifies an opportunity for family enterprises to become more export oriented. Just 1.9 per cent of these companies were exporters in 2013, compared to 2.2 per cent of the other firms in the sample. And regardless of their size, family enterprises that were directly involved in exports tended to have a smaller share of their business rely on that channel.

Despite this finding, the export performance of family enterprises is likely to go beyond the measurable value of their exports. For example, family farms may sell their commodities to food processors that subsequently export final goods. In this case, the family farm

enterprise plays an important role in the supply chain for exports. Supply chains within multiple economic ecosystems depend on family enterprises that supply raw goods, materials, and services in communities across the country.

Canada's multicultural heritage is also as present in family enterprises as it is in our communities. Family roots and connections spanning the globe present an opportunity to diversify and extend our markets.

² Barbara Schecter, "Family businesses survive longer and offer less investment risk, Rotman study finds," *Financial Post*, 30 April 2018, <https://business.financialpost.com/news/fp-street/family-businesses-survive-longer-and-offer-less-investment-risk-rotman-study-finds>.



Considering the positive impact family-owned businesses have on Canadian society and economic development, it is essential to promote research that will support their performance and growth.

FUTURE RESEARCH

Broadening opportunities for economic growth

Good public policy requires a strong foundation of empirical evidence and reliable information. Although family enterprises generate almost half of Canada's real GDP in the private sector, the character of their economic impact and operations is not fully clear. Compared to our picture of non-family businesses, such as public companies and other privately held firms, we know very little about developing trends relating to family enterprises, about their access to financing, or about the impact of public policy on the growth and ecosystem of these businesses.

Better access to information regarding ownership structures, governance models, philanthropic influence, and social impact will produce greater understanding of this economic driver.

Supporting progressive public policy

Enhanced data collection techniques by both private and public sector stakeholders will strengthen analytical and statistical comprehension of this important part of the economy. While information about large family enterprises is more abundant, they too have not benefited from the level of data collection and business analysis devoted to publicly traded enterprises.

More in-depth information is necessary to gain a clearer grasp of the family enterprise landscape across Canada. The following is a sample list of categories in which more insight is required:

- Ownership and leadership succession
- Next-generation leadership development
- Impact of philanthropy and community giving
- Ownership and governance models
- Performance-related metrics
- Demographic and cultural trends (gender and ethnicity).

The process of refining the data has already begun. Statistics Canada recently added a question on family ownership to its Survey on Financing and Growth of Small and Medium Enterprises. The inclusion of this information in future analyses will help build a more complete picture of family enterprise and more precisely define the size and impact of this economic engine.

A stronger identifier of family firms in Statistics Canada's Canadian Employer–Employee Dynamics Database will also improve the measurement criteria used to analyze firm performance and dynamics.

Encouraging continuity to strengthen Canada's economic resilience

Demographics, tax policy, and inadequate professional advice are the key threats to family enterprise.

Considering the positive impact family-owned businesses have on Canadian society and economic development, it is essential to promote research that will support their performance and growth. With that foundation, advisory teams will be able to engage in comprehensive, holistic planning to strengthen the family enterprise ecosystem. And improved tax and public policies will extend this trend to boost Canada's overall economic resilience.

WHILE INFORMATION about large family enterprises is more abundant, they too have not benefited from the level of data collection and business analysis devoted to publicly traded enterprises.

FAMILY ENTERPRISES, their advisors, and our public policymakers need more accurate information to enhance the future health of the family enterprise landscape.

CONCLUSION

Decisions based on empirical evidence reduce the likelihood that taxation, social, industrial, and regulatory policy will have unintended consequences. In order to develop appropriate economic policies, we must recognize their implications for family enterprises—and for that, robust data is required.

Over time, greater knowledge of family firm dynamics will help us to understand the unique challenges that these businesses face, and by extension their consequences for the broader economic base. And that in turn will facilitate improved educational support for family enterprises themselves.

Research shows that family enterprises exhibit unique characteristics and deliver different positive impacts than publicly held companies do. Given demographic trends and the looming succession issue

that confronts many family enterprises, the data gaps are worrisome. Family enterprises, their advisors, and our public policymakers need more accurate information to enhance the future health of the family enterprise landscape.

Informed appreciation of the depth and breadth of family enterprises will illuminate economic discussions and ensure that this important driver of the Canadian economy is fully considered in regional and national economic and fiscal policy.

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FAMILY ENTERPRISE XCHANGE FOUNDATION

Family enterprise plays a critical and integral role in the economic and social well-being of Canada. The Family Enterprise Xchange Foundation (FEX-F) believes we should be doing everything in our power to support this vibrant community.

The Family Enterprise Xchange Foundation's commitment is to support and help provide a platform for the voice of family enterprises in Canada. Our FEX-F goal is to empower this essential movement, uniting, promoting and uplifting family enterprise—supporting Canadian business families to succeed.

The Foundation focuses on engaging global thought leaders in the field of family enterprise, along with funding the most holistic, highest impact research, advocacy and educational programming. The Foundation's Leadership Council is comprised of family enterprise subject matter experts who bring specialist knowledge, abilities and experiences.

The Council focuses on four key aspects for family enterprise:

- Learning and development
- Family enterprise research
- Global family enterprise community
- Global advisor community

Help us empower and inspire family enterprise to greater heights, to have a stronger voice and even more substantial impact on Canada—sustaining our culture, our ideals and our economy.

Conference Board of Canada

The Conference Board of Canada equips leaders and decision-makers with the economic reports, research, data, networks, and events they need to solve our country's most pressing challenges. We are non-partisan, evidence-based, and stand at the intersection of research, policy, and business—where insights meet impact.

For more information

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