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The quiet strength of the Dutch family business

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Content

Foreword

In 2016, PwC conducted research into the contribution made by family businesses to society in the Netherlands. We explored both their considerable role in the Dutch economy and their performance in less highlighted areas such as sustainability and innovation. This research was then repeated in 2023.

Family businesses are praised for having a long-term perspective in which the continuity of the firm takes precedence over the maximisation of profit. They are also seen as entrepreneurial, innovative and stable factors in their local communities. The Covid-19 pandemic served as the ultimate and eventually successful test of this impression. What we see in this research is that family businesses were resilient during the pandemic, managing not only to retain their employees, but actually increase the number of jobs in their companies. Compared to non-family firms, the revenue of family businesses increased significantly during the first period of the pandemic.

We believe that this resilience is linked, among other things, to their greater agility. The governance of family businesses is more informal, which allows for faster decision-making and anticipation of changing circumstances, aspects associated with true entrepreneurship. Perhaps even more important is that family firms are generally financed more cautiously than their non-family equivalents. Major cost reductions are avoided, as are large and risky investments. This enables family businesses to enjoy stable growth with few downturns, along with fewer peaks during times of economic boom. This is in line with their focus on continuity and their reputation of being a stable factor in the Dutch economic landscape.

The current study is based largely on an analysis of the annual reports of the hundred largest Dutch family businesses. We can deduce that there is still work to do in terms of transparency: it can sometimes be difficult to determine what these companies do and are hoping to achieve in areas which are not immediately captured in key financial figures, such as innovation and sustainability. Companies are increasingly expected to be transparent both by law and by a society that is increasingly looking over their shoulders. Family businesses are not so vocal, which perhaps also fits within the company culture. However, anyone who claims to be making an important contribution to society will have to substantiate this with hard data. And this study shows that family businesses need have nothing to fear in this respect.

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Summary

Research question

This research examines the importance of family businesses to the economy and society of the Netherlands. In order to determine that contribution we have looked at the performance and activities of family firms in five areas: employment, revenue, the labour market, sustainability and innovation. This study is a follow-up to previous PwC research carried out in 2016[1].

Our main findings

Family businesses were resilient during the pandemic

- The average number of jobs in family businesses increased by 4.8% between 2015 and 2020. Job growth was only 2.7% among non-family firms, representing a difference of more than 7 percentage points.
- Especially at the onset of the pandemic, differences in job growth increased: for all economic activities, the number of jobs in family businesses increased by 1.7% between 2019 and 2020, while the number of jobs in non-family firms actually fell by 3.4%, a difference of more than 5 percentage points.
- Compared to non-family businesses, the revenue of family firms has grown significantly between 2015-2020, especially in the latter phase of this period. The top 100 family businesses lag behind all family businesses, but still achieve better revenue growth than non-family businesses.
- If we look at the growth in jobs, revenue, number of businesses and added value, the importance of family businesses to the Dutch economy has clearly increased between 2015 and 2020.

Family businesses were resilient during the pandemic

- Family businesses allude to a 'family feeling' and an informal corporate culture or regularly emphasise their connection to a place or region to make it clear they are an attractive employer.
- What is notable, is that inclusivity and diversity lag behind as a topic used to interest people in working for family businesses.

Long-term value does not automatically lead to sustainability being number one

- While almost all businesses are involved in sustainability to a certain degree, with various examples being available, their efforts often seem to be ad hoc and small in scale.
- Some family businesses are very modest about what they do in the ESG field and fail to communicate in a clear way. We also see that communication is often qualitative in nature and rarely supported by data.

Innovation for most family businesses mainly means step-by-step renewal

- The focus for family businesses seems to lie on incremental innovation and the step-by-step improvement of internal processes, products and services.
- Family businesses regularly collaborate with universities and other research institutions in the field of innovation as well as with start-ups.
- Four Dutch top-100 family businesses appear in the top-30 most innovative companies in the Netherlands (compiled based on R&D expenditures), three of which are from the agrifood sector. These four family businesses are usually active in an ecosystem.

How did we carry out this study?

This study is based on qualitative and quantitative data from various sources, with a focus on an analysis of data published by the top-100 family businesses of EW (formerly Elsevier)[2]. The other major source is the Central Bureau for Statistics (CBS)[3]. Where necessary and possible, we compared the data of the family businesses with those from the annual reports of publicly traded companies. The findings from previous research by both PwC and other organisations was also utilised.

1 *https://www.pwc.nl/nl/assets/documents/pwc-belang-familiebedrijven-2016-n.pdf*

2 Elsevier uses the most commonly used definition of family business, that of the European Family Businesses, a lobby group of large family businesses. This definition states, among other things, that the majority of the control (direct or indirect) must be in the hands of one or more natural persons or blood relatives who founded or acquired the company.

3 CBS definition of a family business: Company where one family, directly or indirectly, has a majority of control (in publicly listed companies at least 25 percent). At least one family member must be formally involved in the management and the company must also be legally transferable.

Employment growth

Family businesses provide lots of work, albeit with major differences

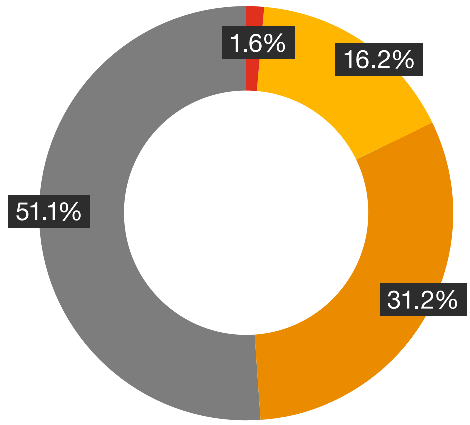
Family businesses offer relatively speaking the most employment in agriculture, hospitality and construction. CBS data also shows that job growth between 2015 and 2020 has been greater than was the case among non-family businesses. This growth mainly occurred at family firms with more than fifty employees, showing that larger family businesses are making a relatively significant contribution to employment growth in the Netherlands.

Family businesses provide relatively large number of jobs in agriculture, hospitality and construction

Family businesses in the Netherlands are major employers. According to data from the CBS, more than 31% of the total of 8.4 million Dutch jobs in December 2020 were at family businesses, namely 2.6 million jobs (figure 1). At the end of 2020, 15% of all legal forms in the Netherlands were a family business. Discounting those companies with a single employee and non-businesses, this percentage comes to 61%.

Compared to non-family businesses, agriculture, hospitality and construction are key job providers at family businesses (figure 2). For example, more than 75% of jobs in agriculture and more than 60% of jobs in hospitality and construction are at family businesses (see the appendix for a complete overview).

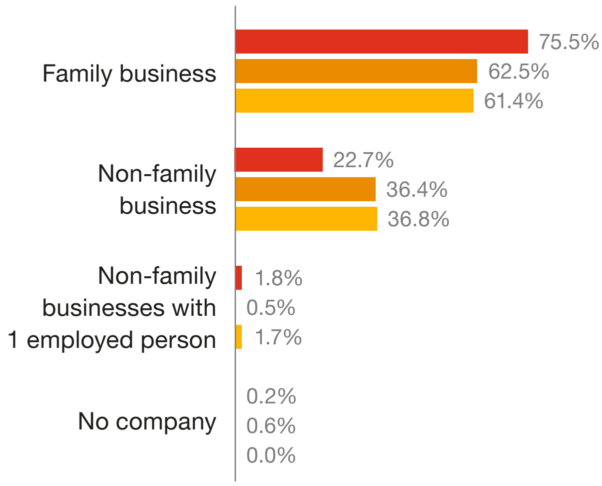
Figure 1 Distribution of jobs by legal form in 2020, as a % of all economic activities



Family business · Non-family business · Non-family businesses with 1 employed person · No company

Source: CBS.

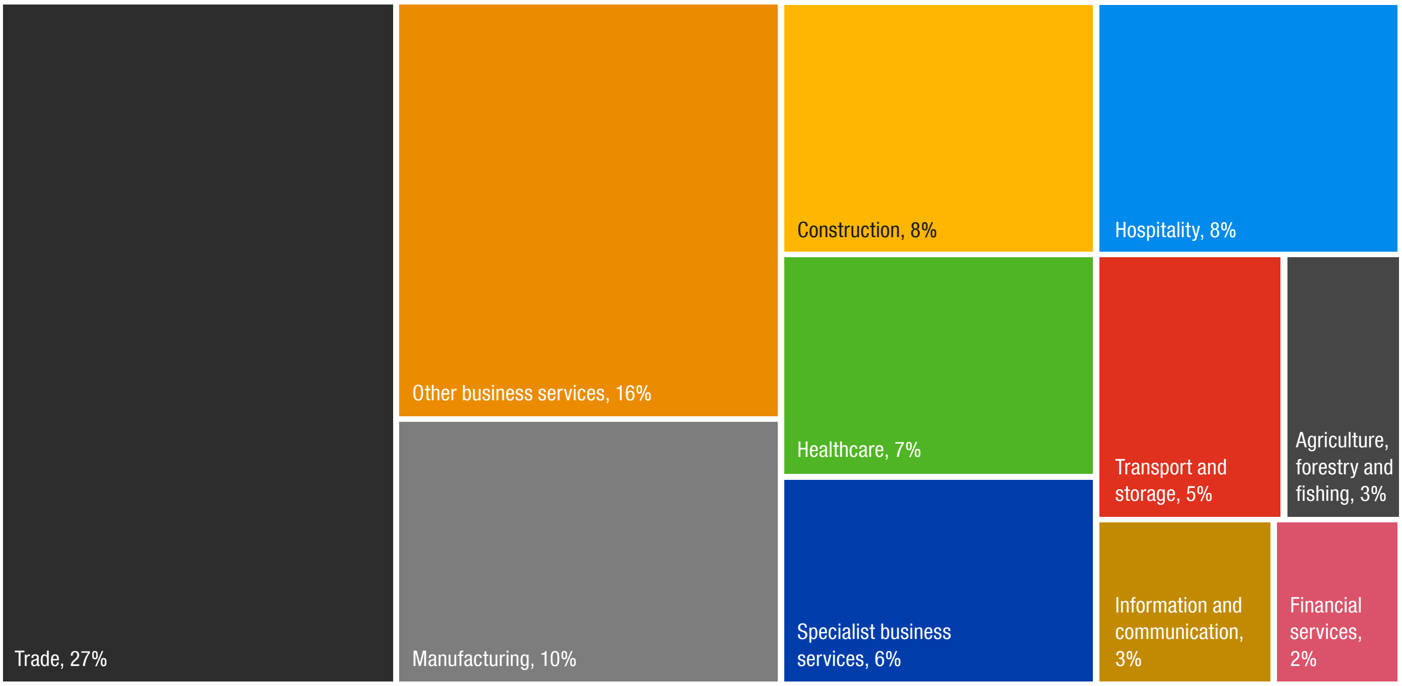
Figure 2 Percentage of jobs by legal form in 2020



Agriculture, forestry and fishing · Hospitality · Construction

Source: CBS.

Figure 3 Distribution of jobs among all family businesses in 2020



Source: CBS. Note: As we only show the percentage of jobs in the major economic activities at family businesses, the total is not 100%.

Trade is the largest employer within the group of family businesses

If we exclusively look at the distribution of the number of jobs by economic activity within the group of family businesses for 2020, the number in agriculture is limited to 3.1% (figure 3). In terms of the number of working people, agriculture is a small-scale activity compared to other activities of family businesses, and involves many firms with relatively few workers. This is evident from the low average number of jobs per family business in agriculture, which comes to 2.2 (compared to 6.4 for non-family businesses). Trade is a larger employer on balance, accounting for almost 27% of the total number of family business jobs, followed by 'rental and other business services' (16.2%; see the appendix for a complete overview).

Relatively strong growth in jobs between 2015 and 2020 among family businesses

The CBS figures lend themselves to some interesting comparisons between family and non-family businesses. Comparing 2015 with 2020, it is immediately apparent that jobs in family businesses have grown by just under 12%, more than in non-family firms, where job growth was 6.4% (table 1). In the period 2015-2020, the total number of jobs in the Netherlands grew by 6.9%, and gross domestic product by 5.5%.

While the growth percentages are high in sectors such as energy supply, the number of employees in family businesses is relatively small. However, the growth figure for a larger sector such as construction is more significant. This sector accounted for 207,900 jobs among family businesses in 2020, a growth of 20% since 2015 (compared to just 6.4% for non-family firms). In other sectors with a relatively large number of jobs, the difference between family and non-family businesses, although smaller, was still noticeable. Compared to family businesses, non-family firms achieved greater job growth between 2015 and 2020 in 'specialist business services' (16.8% versus 4.3%) and education (29.0% versus 15.5%). Most of this growth took place between 2015 and 2019.

Table 1 Growth in number of jobs per sector between 2015 and 2020

	Family business	Non-family business
All economic activities	11.9%	6.4%
Energy supply	120.0%	3.4%
Health and welfare care	42.0%	10.8%
Information and communication	36.4%	16.9%
Construction	20.0%	6.4%
Rental and trading of real estate	18.9%	-0.8%
Financiële dienstverlening	18.8%	-8.5%
Education	15.5%	29.0%
Rental and other business services	15.5%	-1.4%
Agriculture, forestry and fishing	14.5%	12.3%
Transport and storage	13.6%	1.2%
Manufacturing	12.4%	6.5%
Trade	11.5%	8.2%
Water companies and waste management	5.2%	6.8%
Public administration and government services	4.3%	16.8%
Other services	-9.5%	-18.7%
Culture, sports and recreation	-10.0%	-0.5%
Hospitality	-12.3%	-5.8%
Mining	-12.5%	-29.6%

Source: CBS.

Table 2 Growth in the average number of jobs per sector, 2015 and 2020

	Family business	Non-family business
All economic activities	4.8%	-2.7%
Energy supply	54.6%	-37.0%
Health and welfare care	32.7%	-15.1%
Information and communication	17.3%	3.5%
Trade	11.3%	0.0%
Agriculture, forestry and fishing	11.3%	20.2%
Manufacturing	9.2%	-4.6%
Water companies and waste management	5.2%	15.9%
Public administration and government services	4.5%	-2.2%
Transport and storage	4.1%	7.8%
Construction	2.7%	3.4%
Rental and other business services	-1.5%	-7.5%
Rental and trading of real estate	-2.2%	-4.6%
Specialist business services	-2.4%	12.2%
Mining	-3.7%	-23.0%
Education	-7.2%	-5.2%
Other services	-10.3%	-37.1%
Culture, sports and recreation	-18.2%	-8.1%
Hospitality	-19.9%	-21.7%

Source: CBS.

Job growth between 2015 and 2020 in most economic activities was higher among family businesses than non-family firms. The differences are even greater when a comparison is made between the average number of jobs in 2015 and 2020. Between 2015 and 2020, the average number of jobs in family businesses increased by 4.8% while decreasing by 2.7% at non-family firms, a difference of more than 7 percentage points. Job growth in family businesses was relatively high in companies with fifty or more employees, increasing by 21.6% between 2015 and 2020. Among non-family businesses this growth figure was 5.3%. Larger family firms therefore made a relatively significant contribution to employment growth in the Netherlands.

The pandemic seems to have widened differences between family and non-family businesses

The available data suggest that more jobs were preserved in family businesses during the first phase of the Covid-19 pandemic. A comparison between December 2019, just before the outbreak and December 2020, shows that this short period was a turning point in many respects.

Table 3 Growth in number of jobs per sector between 2019 and 2020

	Family business	Non-family business
All economic activities	1.7%	-3.4%
Mining	40.0%	-14.9%
Energy supply	22.2%	3.8%
Health and welfare care	18.8%	1.4%
Information and communication	11.2%	0.2%
Agriculture, forestry and fishing	11.0%	-8.2%
Manufacturing	8.7%	-5.2%
Trade	8.0%	-3.6%
Rental and trading of real estate	7.5%	-2.2%
Transport and storage	6.9%	-6.3%
Education	5.7%	9.4%
Financial services	5.6%	2.9%
Construction	5.4%	-2.7%
Water companies and waste management	5.2%	-0.5%
Specialist business services	-1.3%	1.2%
Other services	-6.8%	-7.7%
Rental and other business services	-7.0%	-9.0%
Culture, sports and recreation	-17.3%	-9.5%
Hospitality	-21.8%	-27.4%

Source: CBS.

Between 2019 and 2020, clear differences emerged between family and non-family businesses. The number of jobs in family businesses increased by 1.7% between 2019 and 2020 for all economic activities, while non-family firms saw a reduction of 3.4%, a difference of more than 5 percentage points (table 3). There was also a noticeable difference in the sector which was hardest hit by the pandemic, namely hospitality. Here the number of jobs fell by 21.8% in family businesses and by 27.4% in non-family firms between 2019 and 2020.

Mixed picture among top 100 family businesses in period 2015-2020

Comparing the CBS data for all family businesses in the Netherlands with that of the top-100, it is noticeable that the latter performed better in terms of employment growth over the longer period between 2015 and 2020. The number of employees at all Dutch family businesses increased by 11.6%, while the number of employees at the top 100 rose by 14.2%[4].

4 Here we use the top-100 family businesses of 2022.

The comparison is less favourable for the top-100 in the period 2019 and 2020 when the total number of employees decreased by 3.4%, while the number of employees at all Dutch family businesses only fell by 0.1%[5]. This development is in line with the CBS data, which shows the largest decline of employees being at family businesses with more than 250 employees: minus 1.9% to be precise. Almost 90% of companies in the top-100 come under this size. It's worth noting here that the CBS data shows the number of employees at family businesses with fifty to 250 employees rising by 3.4% between 2019 and 2020.

Unfortunately, however, the data used does not provide an explanation for these differences in growth related to company size. The top-100 includes several companies such as BCD Travel and ADG Dienstengroep which were heavily hit by a fall in business travel and the closure of offices respectively. Between 2019 and 2020, BCD saw a 25% reduction in employees and ADG 21%. On the other hand, companies like Boels and Hoogvliet did relatively well in these circumstances, with Boels seeing a 55% increase in employees over the same period and Hoogvliet almost 12%.

The fact is that the growth in the number of jobs at all family businesses in the Netherlands was stronger than at non-family firms: 11.9% versus 6.4% from 2015-2020 and 1.7% versus -3.4% in the period 2019-2020. The total number of jobs in the Netherlands fell by 1.9% between 2019 and 2020.

5 Please note: we are comparing here the number of employees at the top-100 using CBS data, not jobs as earlier in the text.

Competitive position in job market

The top-100 family businesses, like other Dutch companies, have to secure a good competitive position in a tight job market. Using the annual reports and websites of the top-100, we have examined how they profile themselves to attract new employees and what they do to retain existing staff.

Attract and retain by emphasising informal environment, family and regional ties

In the first instance it seems that the way family businesses position themselves in the job market is similar to other companies. They emphasise development opportunities, the chances for vertical and horizontal growth, the varied work available, flexibility and the freedom to choose directions. At the same time however, family businesses also try to attract people with characteristics which are typical for them, such as the benefits of an informal and non-hierarchical organisation. Family businesses frequently stress their connection with a particular place or region to make clear their attraction as an employer. Jumbo mentions its contacts with local organisations via sponsorship and even the national deployment of a 'job application bus' as a means to recruit people. Family businesses also frequently quote their collaboration with local educational institutions in support of their recruitment policy.

Furthermore, about ten percent of the top 100 companies explicitly communicate the importance of continuous good contacts between employees, with regular allusions made to a family feeling. Floral Trade Group literally invites people to 'Join the family' while Printing Company Em. de Jong states that employees become part of 'the warm Em. de Jong family'. The working environment created therefore lends itself well to informal management practices that, according to a study by the Erasmus Centre for Family Business, lead to better company performances among family businesses[6].

Diversity offers opportunity to attract and retain

A small number of companies, including BCD, Dura Vermeer, Van Leeuwen Pipes and Vroon, explicitly emphasise how they provide an inclusive and diverse working environment. Research by the Erasmus Centre for Family Business into the efficiency of the informal management of family firms shows that diversity lags behind other factors in which they excel. Improvements in the field of diversity at family businesses therefore offer the greatest upward potential, as there is still relatively much to be achieved. According to research by Glassdoor, 76% of job seekers indicate that diversity is a major factor in their evaluation of employers[7].

Improving internal processes and measuring satisfaction

Family businesses are revamping systems and processes to make them better able to attract and retain talent. Setting up their own job sites is mentioned as a way to be less dependent on third parties. SHV reports having further improved job vacancy management, while Kramp states that it has introduced an internal recruitment model.

Attention is also paid to gaining insights into the involvement and welfare of employees. Dura Vermeer, Jumbo, Best Fresh and Kramp make clear that they conduct research internally into satisfaction levels among employees via surveys in order to understand and respond to prevailing sentiments. The PwC Family Business Survey of 2023 shows that family businesses enjoy a relatively high degree of trust among customers and employees, and have more processes in place to gather and process feedback from customers and employees[8].

6 Erasmus Centre for Family Business, "Ongekend Vermogen; Hoe je als familiebedrijf scoort met informeel management" (*link*).
7 Glassdoor, "What Job Seekers Really Think About Your Diversity and Inclusion Stats" (*link*).
8 PwC, "Family Business Survey 2023" (*link*).

Revenue

The revenue of family businesses grew significantly between 2015-2020, especially towards the end of this period. They were relatively less affected by the Covid-19 pandemic than the rest of the business world. The importance of family firms to the Dutch economy has increased on balance over the period 2015-2020. While the top-100 family businesses lag somewhat behind that of all family businesses, they nevertheless achieved a higher revenue growth than non-family companies.

Relatively higher revenue growth at family businesses, especially between 2019 and 2020

Compared to non-family businesses, Dutch family firms were able to realise a significantly higher revenue growth between 2015 and 2020. During this period, the revenue growth of family businesses was 25.4%, while non-family businesses had a much lower growth of 8.1% (Table 4). Since revenue increased more at family firms than employment, one could cautiously suggest that labour productivity increased, although further research is required for any proper foundation.

Family businesses manage to achieve higher revenue growth compared to non-family firms in almost every sector. In other words: the difference in revenue growth is not determined by a single sector.

The major difference in revenue growth occurred during the pandemic: from the beginning of 2019 to the end of 2020, revenue at family businesses grew by 6.6% while non-family firms saw a fall of 9.9% (table 5). This difference of more than 16 percentage points shows that family businesses were better able to maintain their revenue during this challenging period than non-family businesses.

Table 4 Revenue growth per sector, 2015-2020

	Family business	Non-family business
Alle zakelijke sectoren zonder financiële diensten	25.4%	8.1%
Construction	52.9%	28.3%
Information and communication	46.1%	26.2%
Rental and other business services	38.1%	19.4%
Trade	22.5%	12.8%
Manufacturing	21.8%	2.8%
Specialist business services	15.7%	27.8%
Hospitality	-10.1%	-15.4%

Source: CBS.

Table 5 Revenue growth per sector, 2019-2020

	Family business	Non-family business
Alle zakelijke sectoren zonder financiële diensten	6.6%	-9.9%
Information and communication	15.0%	-5.9%
Trade	9.9%	-9.4%
Construction	9.3%	-1.4%
Manufacturing	7.8%	-10.9%
Specialist business services	-2.6%	5.5%
Rental and other business services	-5.7%	-21.5%
Hospitality	-27.1%	-40.0%

Source: CBS.

When we look at the revenue of different sectors within the group of family businesses, we see that construction and information & communication were able to achieve the highest revenue growth in the period 2015 and 2020, at 52.9% and 46.1% respectively. Revenue growth among non-family businesses in those sectors was much lower, as can be seen in table 6. The only sector where the revenue growth between 2015 and 2020 of non-family businesses was higher than at family firms was specialised business services. This sector includes activities such as legal services, management consulting, architecture firms, advertising and research.

The changes in revenue per industry between 2019 and 2020 show broadly the same trends. What stands out in this period is the relatively strong revenue growth among family businesses in the information & communication sector: 15% growth versus a fall of 5.9% for non-family businesses. Family businesses in the heavily hit hospitality industry also did better than non-family firms with revenue falling by 27.1% and 40% respectively. The only activity where non-family firms were able to achieve revenue growth between 2019 and 2020 was again in specialised business services.

As a result of these developments between 2015 and 2020, the share of family businesses in the total revenue of Dutch companies grew from 26% in 2015 to 28% in 2020. For non-family businesses this share fell slightly, from 69% in 2015 to 65% in 2020. Between January 2015 and January 2021, the number of family businesses increased by 5.6% and the number of non-family firms by 15.2% according to CBS data. In the same period and according to CBS data, the added value that can be attributed to family businesses increased by 24.9% and, in the case of non-family firms, by 11.6%. Relatively speaking, the share of family businesses in the Dutch economy has therefore increased during the period from 2015 to 2020.

Top-100 family businesses lag behind total

Although the top-100 family businesses achieved a higher revenue growth than non-family businesses, they did not perform better than all family firms. While revenue growth for the top-100 came in at 16.9% between 2015 and 2020, it fell by 5.2% between 2019 and 2020. As noted in the job growth figures, the top-100 includes both businesses that achieved growth and those that shrunk during the pandemic due to their activities. Family businesses in, for example, the retail sector for food and DIY products achieved revenue growth, while firms active in the field of travel, transport, hospitality and facility services saw their revenue decline.

Revenue increases as number of larger family businesses grows

According to CBS data, larger family businesses with more than 250 employees have achieved the highest revenue growth in both 2015-2020 (43.0%) and 2019-2020 (15.8%). In this case, it involves a significantly larger number of family businesses than the top-100 alone.

The increase in the number of family businesses with a relatively high number of employees can partly explain the revenue growth. The total number of family businesses with more than 250 employees increased by 44.6% in the period 2015-2020 (non-family businesses: 8.0%) and between 50 and 250 employees by 25.9% (non-family businesses: 6.2%). Simply put, there were more larger family businesses that could contribute to the revenue growth. In addition, the average revenue growth, or revenue growth per company, was much higher at 19.4% for family businesses versus -3.3% for non-family firms between 2015 and 2020.

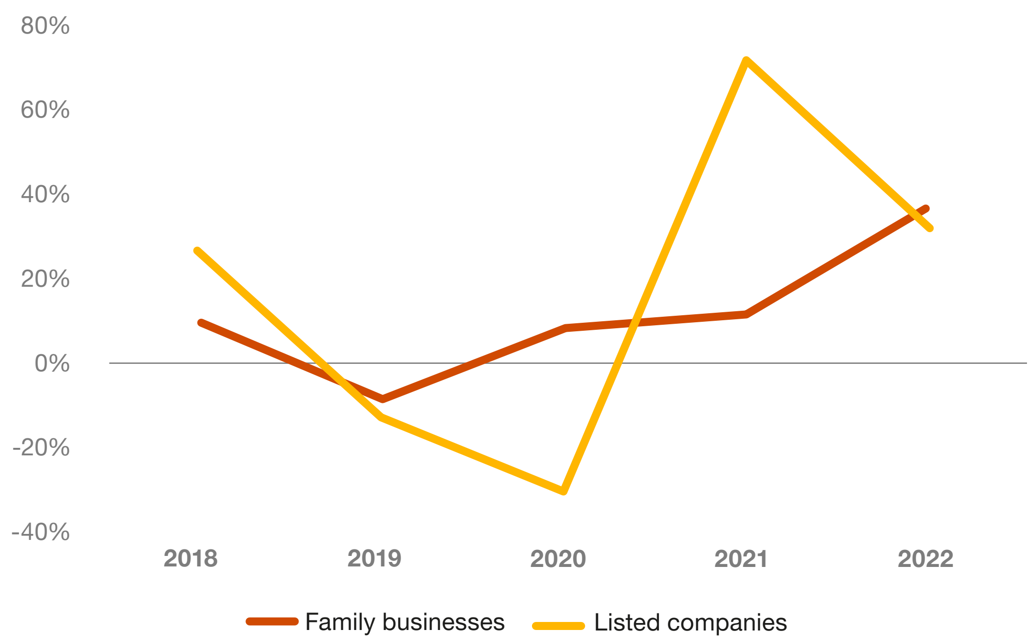
Family businesses have less volatile revenue

We also compared the financial measures of 81 family businesses out of the top-100 with 43 companies listed on the Dutch stock exchange. On this basis, an alternative comparison between family and non-family businesses is possible.

Figure 4 Annual revenue growth of family and listed companies

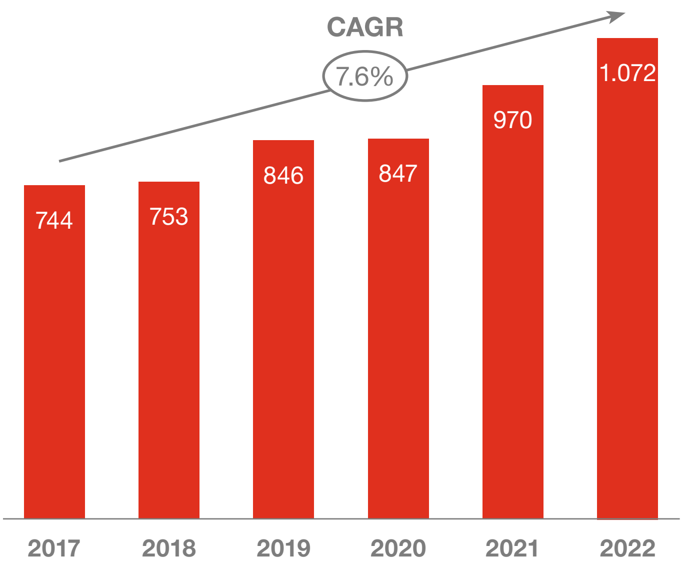
Source: PwC analysis.

Figure 5 Annual EBITDA growth of family and listed companies



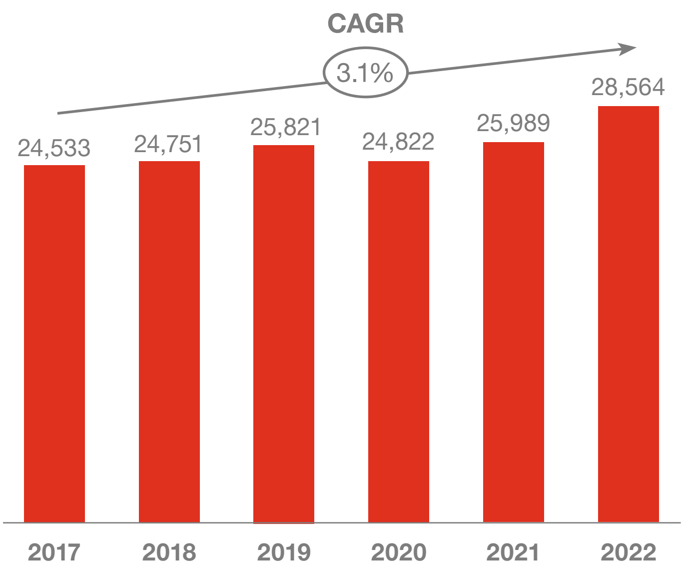
Source: PwC analysis.

Figure 6 Average assets at family businesses in million euros



Source: PwC analysis. Note: CAGR stands for 'Compound Annual Growth Rate'.

Figure 7 Average assets at listed companies in million euros



Source: PwC analysis. Note: CAGR stands for 'Compound Annual Growth Rate'.

This comparative analysis confirms that family businesses appear better able to maintain their revenue levels in adverse conditions, as evidenced by less volatile revenue and EBITDA[9] growth over the past five years (figures 4 & 5). However, listed companies showed greater resilience when we look at the extent to which revenue and EBITDA grew from 2020. This recovery was stronger than at family businesses, which is inherent to their lower volatility. Based on this one could argue that the downside of family businesses being more resilient is that they have less upward potential when conditions improve.

Asset growth at family businesses

Balance sheet figures show that family businesses were able to achieve a higher growth of average assets than publicly traded companies, namely a compound annual growth rate of 7.6% in the period 2017-2022 versus 3.1% for the listed companies in the same period (figures 6 and 7). This is a reflection of the growth of family businesses in other areas such as employment, revenue and the rise in the size of family businesses.

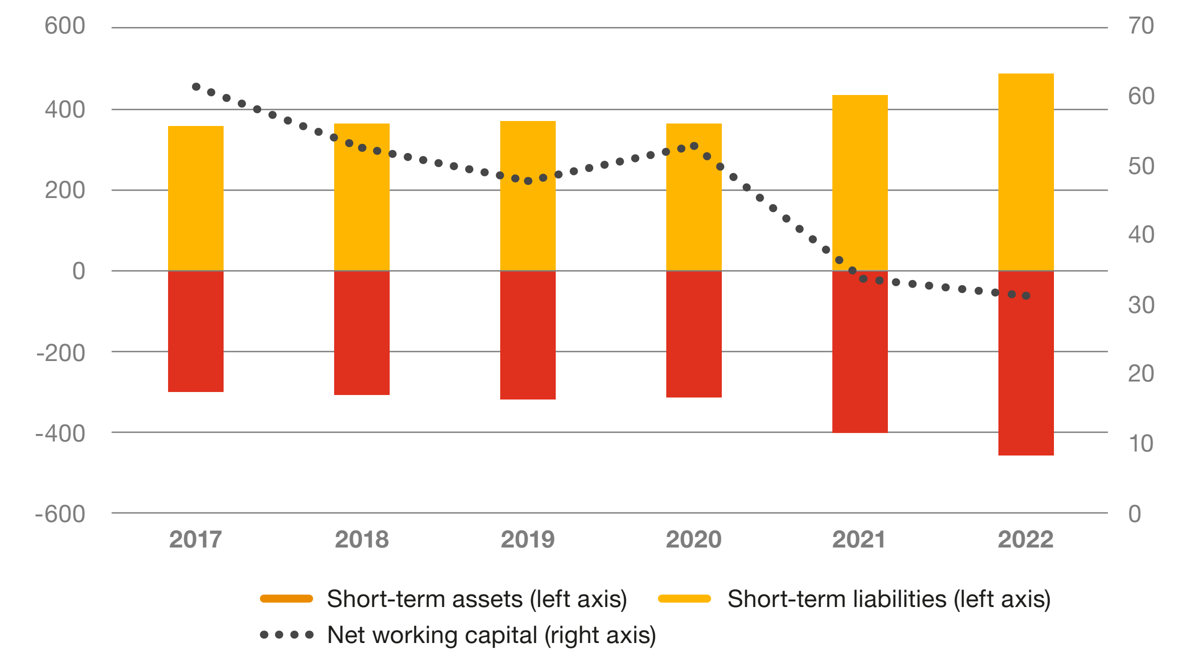
Working capital decreased at family businesses

Listed companies further distinguish themselves by a much stronger increase in their net working capital position, both in absolute terms and relative to revenue, especially over the past three years (figures 8 & 9). This is particularly visible in the increase in working capital relative to revenue (figure 10). When we look at trends in working capital itself, the substantial growth of cash assets is the biggest explanatory factor.

The net working capital of family businesses steadily decreased in relation to revenue in the period 2020 to 2022. This development is mainly the result of a strong increase in working capital compared to a slight increase in revenue after 2020. It can initially be explained by a relatively high decrease in net working capital with a slightly increasing revenue (figure 10). In addition, the change in net working capital is largely due to a relatively significant rise in short-term obligations and inventories.

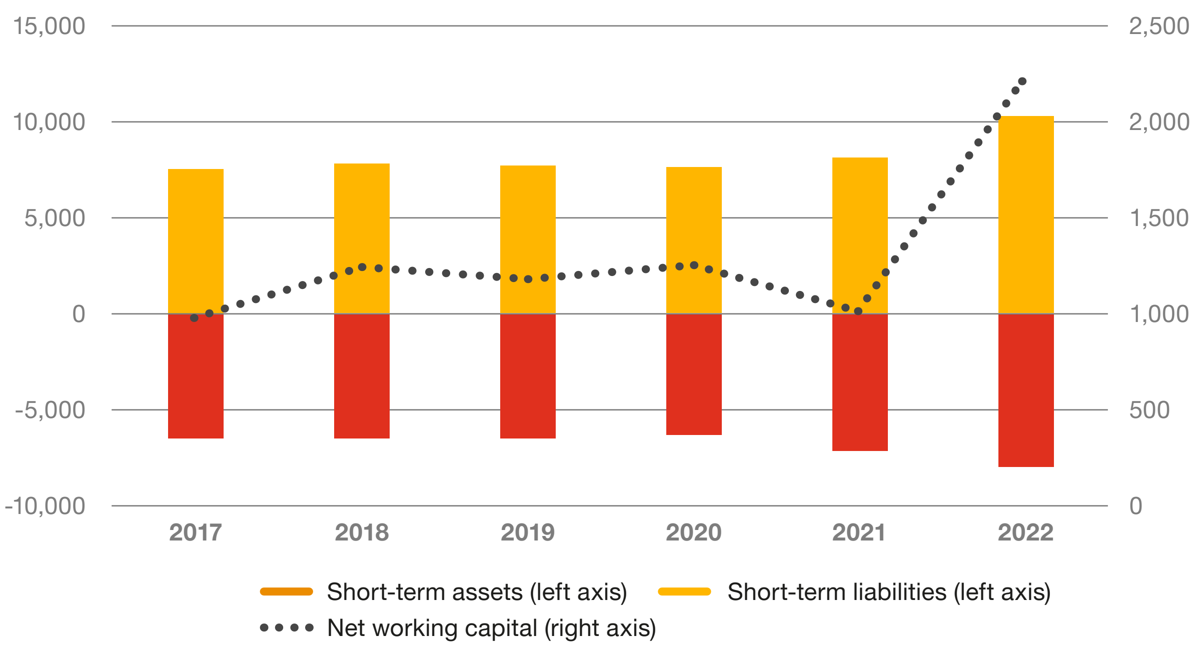
9 EBITDA stands for: 'Earnings Before Interest, Depreciation and Amortisation', or in other words: income before interest costs, depreciation and amortisation.

Figure 8 Working capital in family businesses in million euros



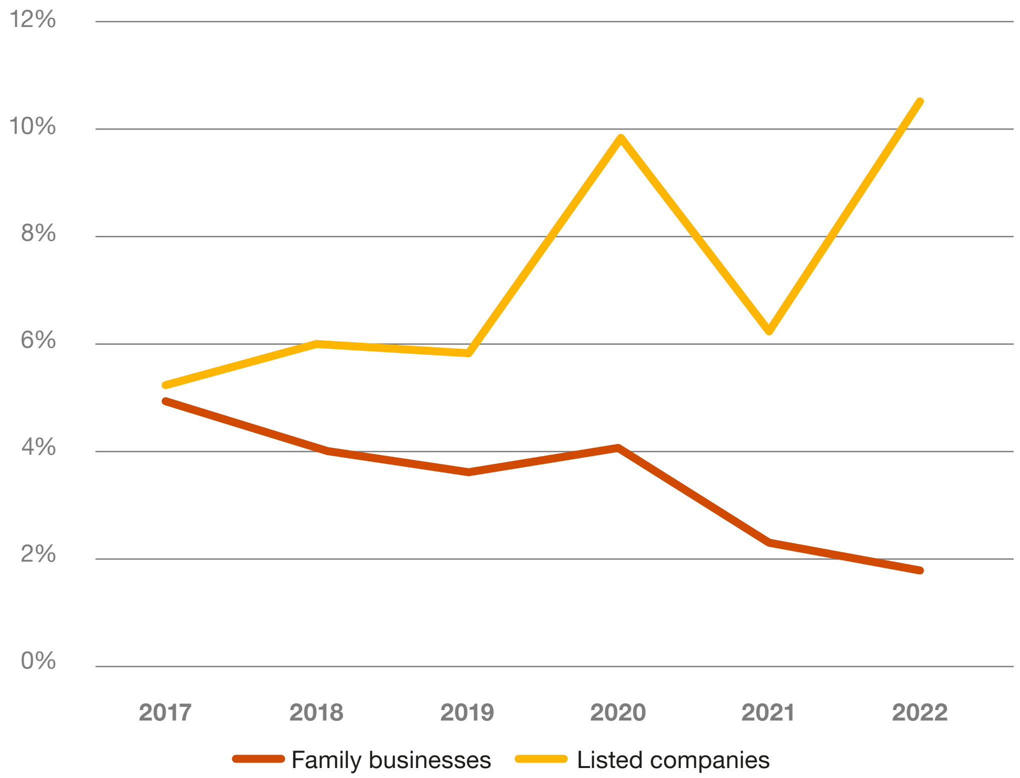
Source: PwC analysis.

Figure 9 Working capital in listed companies in million euros



Source: PwC analysis.

Figure 10 Net working capital as percentage of turnover in family and listed companies



Source: PwC analysis.

Observations from the PwC practice

Family businesses are strongly driven by entrepreneurship and are therefore generally agile. They are also well represented in sectors which provide the primary necessities of life that were less exposed to restrictive measures during the pandemic.

Family firms are generally more focused on continuity and more likely to aim for stable growth in both good and less good times. A consequence of this is that they are more risk averse and less quick to switch to more risky investments that could potentially yield a high return as a reward. Family businesses are also less inclined to resort to substantial cost reductions, which partly explains the job growth in less favourable times.

Especially in medium-sized and small family firms, we see that postponed repayments of tax debts due to the pandemic can be challenging. Financing can also be more difficult due to higher interest rates. Family businesses could do more scenario planning as this enables companies to stay ahead of the curve and deal with financing challenges at an early stage.

‘Family businesses have done well during the pandemic, but could do more in scenario planning.’

Martin Bond

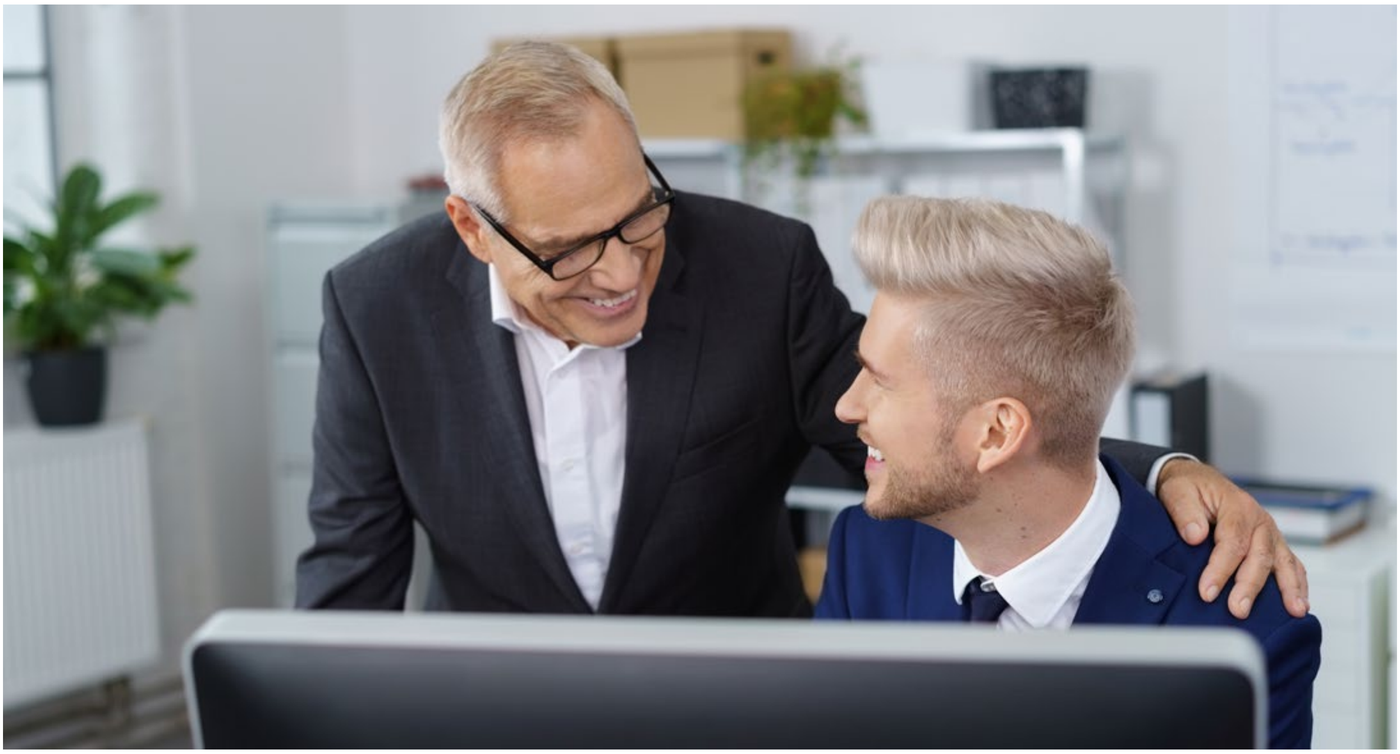
Observations from the PwC practice

What stands out is that the largest listed companies have a much lower growth of assets (3.1%) than family businesses (7.6%). However, a reverse development is seen with working capital. In my conversations with family firms, a focus on controlling cash flow is increasingly apparent. Banks have become more cautious in providing financing. In addition to profitability, a focus on cash generation has become increasingly important for family businesses looking to maintain control over necessary investments and realise their business plans.

‘Focus is on controlling cash flow’

Diederik Kolfschoten

Sustainability



Sustainability aligns with character of family businesses

Family businesses are characterised by a long-term perspective, a desire for continuity and a close bond with the staff and region in which they operate. This approach aligns well with sustainable business practices, as other international research confirms. According to a study by Nyenrode, family businesses invest in sustainability as they feel responsible for future generations[10]. The drive for sustainable policies stems from intrinsic motivation more than external factors such as financiers or legislation.

The 2023 PwC Family Business Survey shows that family firms with a supported and communicated ESG[11]-strategy enjoy greater trust from customers and employees alike. They are also more positive about their growth prospects for the coming two years[12]. Other features include faster decision-making in order to adapt to changing circumstances, with relatively more input from employees.

While only minority have ESG strategy ready, ambition levels are high

Responses to the PwC Family Business Survey of 2023 in the Netherlands indicate that 24% have either formulated and communicated an ESG strategy, or are well on their way to achieving this (41%). Some 27% of respondents consider this a priority for the future. Almost all companies are involved with sustainability policy in some way, although these have yet to all be translated into concrete plans. According to the survey, ESG only comes in fourth place on the 'priority list' of family businesses. Creating long-term value for investors and the family comes first, followed by delivering value to customers and attracting & retaining talent.

10 Nyenrode, "Zorg om nieuwe generatie motiveert duurzaamheid bij familiebedrijven" (*link*).
11 ESG stands for Environment, Social, Governance.
12 PwC, "Family Business Survey 2023" (*link*).

Observations from the PwC practice

In my practice I see that many family businesses have yet to set a (science-based) net-zero goal. However, many of them are motivated to work more sustainably and their operations and products are becoming more sustainable. For family businesses, this is often far more related to 'business as usual' or 'meeting market demands' than a sustainability strategy aimed at achieving net-zero goals. I think that the age of the directors plays a role here with the younger generations more alert to the issue than their predecessors.

If family businesses lag behind anything compared to non-family firms it is in the field of reporting. They often substantiate their performance with anecdotal evidence rather than hard facts. This sometimes makes it seem as if nothing or little is happening, yet that is not what I see in practice. Even when companies implement a climate strategy along the lines of costs, revenues and customer demand, the performance can be significant.

Better reporting is clearly something family businesses should start working on as their environment is now becoming more regulated than was previously the case. The CSRD, which[13] requires companies to report on their performances in the field of ESG, will also come into force for the large family businesses from fiscal year 2025. The collection and processing of data to meet that regulation is proving an enormous task even for large listed companies who have more capacity and technology available.

'Sustainability is often business as usual for family businesses.'

Renate de Lange

13 CSRD stands for Corporate Sustainability Reporting Directive.

This mixed picture is confirmed in another study Nyenrode conducted together with Van Lanschot. This shows that a large majority of family business directors are concerned about the long-term health of the planet, especially among the younger generation. Seventy percent of the surveyed directors would like to be known as a 'sustainable' employer or to gain that reputation. Nonetheless, a majority also admit to being poorly prepared for innovation, competition and legislation in the field of sustainability.

The most recent Family Business Survey from PwC shows that ambitions are high. Almost 70% of respondents in the Netherlands see a chance for family businesses to play a leading role in sustainable business operations.

The 'S' of ESG shows a mixed picture

The section above on the way family businesses present themselves in the labour market has already indicated that they are not at the forefront in terms of diversity and inclusion. The Family Business Survey confirms this: diversity is low on the priority list, with only 22% of respondents in the Netherlands professing a clear commitment to improving diversity and inclusion, and 27% saying they are working on it. However, the 'S' in ESG also concerns the impact companies are having on their surroundings. Family businesses are very involved in this, with as many as three-quarters of Family Business Survey respondents contributing to the local community.

Best practices of sustainable family businesses from top-100

Several family businesses have significantly reduced their greenhouse gas emissions. Sligro has achieved a reduction of 33.4% compared to 2010 by focusing on reducing the materials used in packaging and making energy savings. The company has replaced its packaging lids with resealable seals, reducing plastic use per package by 20%. Sligro also focuses on more sustainable operations by, for example, significantly saving on electricity use in its branches.

Royal Wagenborg has managed to achieve a CO_2 reduction of 23.2% compared to 2008 by using fuel more efficiently and transporting more cargo per ship. The company is also investing in research into more sustainable fuels such as methanol and its current fleet will be replaced with more climate-friendly vessels from 2025.

SHV Holdings has introduced carbon-neutral fish feed to the market, which makes sustainable fish farming possible. This product was shortlisted for the final of the ‘Product Innovation of the Year’ category at the 2022 edition of the Sustainability Leaders Awards. Another example is the efforts of construction company Vorm Holding to build carbon-neutral. The company even goes a step further with a number of construction projects that are carbon negative.

Family businesses are also preparing for the transition to sustainable energy sources. For example, SHV Holdings is investing in the construction of the world’s largest magnetic fusion device (tokamak). This device promotes further research into cleaner and more efficient energy. On a more practical level, Hoogvliet collects used cooking oil from which to make biodiesel. The combustion of this biofuel is CO_2 neutral and Hoogvliet collected 120,000 kilos of cooking oil in a year.

Family businesses also pay attention to energy saving. For example, beer brewer Swinkels has been able to achieve an energy saving of 15% with a major project at its location in Lieshout. Family businesses also support their employees in saving energy: Hago Zorg (a subsidiary of Vebego Holding) set up an initiative to help employees better insulate their homes which has achieved a CO_2 reduction of 23,517 kilograms to date.

One area to which less attention is being paid is nature restoration, yet efforts by Van Oord show how valuable such initiatives can be. The company is committed to setting up the world’s first commercial ‘seaweed farm’ in an offshore wind farm. This is part of the larger North Sea Farm project, which is expected to yield its first harvest of seaweed in the spring of 2024.

Several family businesses are busy implementing the new CSRD legislation. An important requirement herein is to make emissions transparent through the value chain. Family businesses can benefit from these legal obligations in two ways.

Firstly, making emissions transparent through different business units can be used to improve customer interaction. For example, Hoogwegt Group is currently working on setting up an interactive portal where customers can see exactly how much a specific product creates in terms of emissions through the value chain. This increases transparency and enables customers to make informed choices.

Secondly, the obligation to map emissions means that family businesses will be better able to formulate a targeted sustainability strategy in the future. Zeeman demonstrates the added value of this. By making CO_2 emissions transparent, the company has been able to establish a strategy that is based on the targeted reduction of emissions. In addition to making Zeeman more sustainable, this has also improved the company’s cost efficiency.

While our examination of annual reports showed that companies often provide examples of sustainable initiatives, concrete figures are just as often lacking. This means that the scale, progression or impact of such activities can be unclear. Of the top-100 family businesses, only 16 communicate a concrete zero-emission goal and 25 have an emission-neutral goal. The number of top-100 family businesses that have chosen Sustainable Development Goals and communicate them is significantly higher at 65.

Innovation

Innovation has become a key factor for the success and survival of companies. This also applies to family businesses in the Netherlands as they focus on a successful transfer of their activities to the next generation. Although these companies vary in size, culture and values, they have similarities when it comes to encouraging innovation.

Tight labour and material markets drive innovation

According to recent research by the University of Nyenrode and RSM, an increasing shortage on the Dutch labour market and a scarcity of materials is encouraging family businesses to invest more in innovation compared to previous years[14]. Some 42% of the family firms studied say that innovation is a way to deal with shortages in the job market. The Family Business Survey by PwC also suggest that family businesses in the Netherlands are paying considerable attention to innovation[15]. Improvement of digital capabilities has the highest priority for 62% of respondents over the coming years.

Family businesses focus primarily on incremental innovation

We can generally discern three types of innovation: incremental, radical and disruptive. Incremental innovation is characterised by a gradual improvement of a product, service or process within an organisation. If this leads to a significant improvement of existing products or services we can speak of radical innovation. Disruptive innovation is when an existing market is strongly influenced by the introduction of a new product or service, potentially creating a new market for existing or new customers. The introduction of paid rides by Uber and streaming of media content by Netflix are good examples of disruptive innovations.

14 Nyenrode, RSM, “Schaarste en het familiebedrijf” (*link*).
15 PwC, “Family Business Survey 2023” (*link*).

Observations from the PwC practice

Martin Bond: 'We see that family businesses are strongly inclined to follow the path of incremental innovation. There is a greater focus on product and process innovations with less attention paid to disruptive innovations. Such an approach generally involves less risk and direct capital as family firms use accumulated expertise to improve and innovate step by step. You could say that family businesses innovate close to the customer. Instead of working twenty years in a lab on a new product, they respond to demands for better products or services.'

Philip Vossenberg: 'It is difficult to obtain an overview of the innovations made by family businesses. You might read in an annual account about investments in a new machine, but it is unclear whether this is for a replacement or an all-new, self-developed improvement. Just like with the topic of sustainability, I see the younger generation giving the main impulse to innovation. External management often puts this high on the agenda too.'

Renate de Lange: 'There's no escaping the fact that measures to combat climate change and advancements in technology will strongly influence business models. The entrepreneurship of family businesses and the way they are deeply embedded in an ecosystem puts them in a very good starting position for further innovation successes.'

'Innovation is meeting customer demand'

Philip Vossenberg, Martin Bond en Renate de Lange

Innovation is investing in future of the company

The vast majority of family businesses see growth as important to very important as it provides the resources for companies to continue investing in the future of their company[16]. The first investments in the innovative process are usually related to research and development (R&D), whereby potential opportunities for innovation are studied and tested. By doing this themselves, the possibility arises for companies to patent a promising innovation in an early stage or legally establish intellectual property in order to secure a larger share of the success and revenue at a later stage.

Leading innovators among top-100 family businesses

A list of top-30 most innovative Dutch companies was compiled in 2021 based primarily on R&D expenditure[17]. It included four of the top-100 family businesses in the Netherlands, namely VDL (7th place in the top-30), Rijk Zwaan (11), EnzaSeeds (17) and Lely (18).

VDL spent 162 million euros on research and development in 2021, the most in absolute terms of all top-100 family businesses according to publicly available reporting (table 8). We should note though that the majority of family businesses do not precisely disclose how much they spend on R&D via their reporting.

A family business from the top-100 that is missing from the R&D top 30 is Heineken. The brewer spent 103 million euros on R&D in 2021, which would place Heineken in twelfth position overall after Rijk Zwaan. However, Rijk Zwaan tops the list when it comes to R&D expenditure in relation to revenue; the grower and trader of vegetable seeds spent nearly 29% of its 2021 revenue on research and development. In the case of VDL this was 3.4%, and with Heineken a far more modest 0.4%. In 2021, Lely dedicated almost 7% of its revenue to R&D and Rijk Zwaan's industry peer Enza Zaden 6%. Relatively high percentages like these underscore the importance of innovation to these companies.

Table 8 Research & development expenditure and patent applications in 2021

Company	R&D expenditure (mln)	R&D expenditure as a % of revenue	Number of patent applications
VDL	€ 162	3.44%	7
Rijk Zwaan	€ 143	28.73%	9
Heineken	€ 103	0.39%	22
Lely Industries	€ 42	6.85%	20
Van Oord	€ 30	1.98%	2
Enza Zaden	€ 22	6.04%	5
Sligro	€ 18	0.95%	0
Pon Holdings	€ 11	0.53%	0
Terberg	€ 8	0.76%	0
VolkerWessels	€ 5	0.08%	0
Heerema	$2	0.28%	3
MCB	€ 0.2	0.02%	0

Source: annual reports, Google Patents.

16 PwC, "Family Business Survey 2023" (link).
17 R&D top 30 van Technisch Weekblad, via Batenburg Beheer (link).

Collaborating to achieve greater innovation

Family businesses often partner with universities and research institutes to create new innovative products or services. For example, Enza Zaden Beheer works closely with Wageningen University and the Vrije Universiteit Amsterdam, while Enza is a co-founder of KeyGene, a biotech company based in Wageningen that develops innovative technologies in the field of plant crops.

Wageningen is the centre of the so-called Food Valley ecosystem. Ecosystems are attractive to companies looking to maintain contacts, collaborate and find inspiration.

In addition to Rijk Zwaan and Enza, companies such as VDL are active in the Automotive Campus Helmond and Brainport ecosystem, Heineken in RoboHouse and Green Circles, Lely Industries in the High Tech Software Cluster, Van Oord in PortXL, and Sligro in Agrifood Capital.

In its 'Better Together' publication, PwC describes how companies can create more value and have a greater impact via collaborations in ecosystems[18]. At the same time, however, they can become more dependent on ecosystem contacts and more exposed to the vitality of ecosystem partners.

18 Strategy+Business, "Better Together" (*link*).

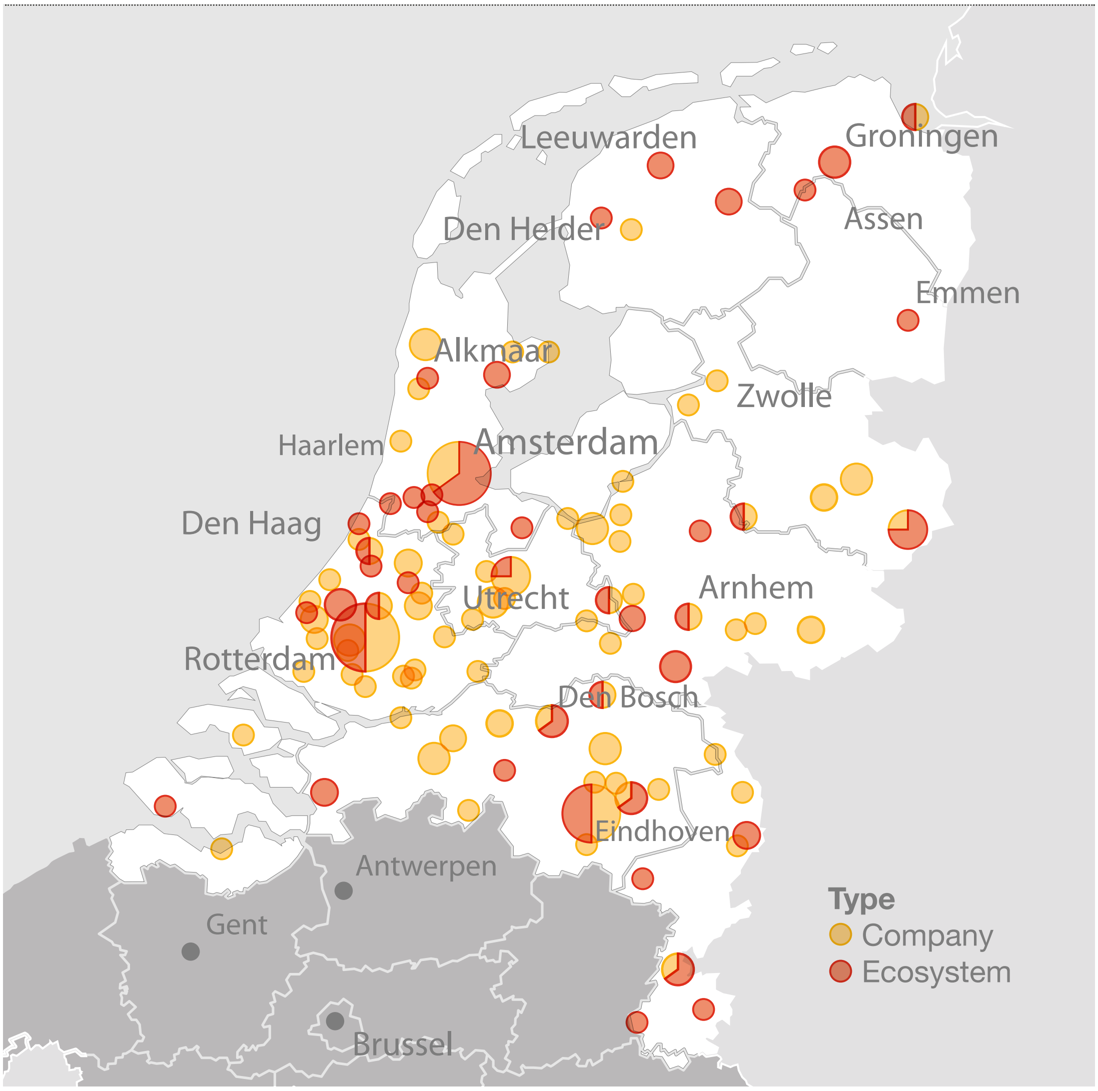
Multiple family businesses are part of an ecosystem

Figure 11 shows that multiple family businesses from the top-100 are located in or near ecosystems. The Amsterdam, Rotterdam and Eindhoven regions are dominant when it comes to combinations of top-100 family businesses and ecosystems, as you can see with the two relatively large two-tone circles. The map also shows that relatively few large family businesses and ecosystems are located in the northeast of the Netherlands.

The PwC Private Business Attractiveness Index 2023 shows that the Netherlands is relatively attractive for private enterprises in Europe because of existing startup ecosystems, ranking fourth after Switzerland, Sweden and Germany[19]. The Netherlands occupies the same position in the 'private business landscape' indicator, which depicts how good countries are at forming and maintaining a vibrant community of private enterprises in multiple sectors.

19 PwC, "EMEA Private Business Attractiveness Index 2023" (*link*).

Figure 11 Locations of the top-100 family businesses and ecosystems in the Netherlands



Source: PwC analysis.

In addition to universities and research institutes, family businesses often collaborate with startups to strengthen their innovative capacity and ensure business continuity in the future. This form of collaboration is called external corporate venturing. Family businesses usually have a clear vision of where their business will be in the near future. Corporate venturing can help them find new insights, however, as startups by their nature are looking to challenge the status quo. Kramp Lab, an innovator in the field of agriculture, invests in multiple startups each year and strives to help them grow and develop into profitable companies using Kramp Group's digital expertise. In doing so the group also positions itself towards emerging markets and business strategies.

Informal management contributes to innovation

Companies continue to work on ensuring properly functioning management. The previously mentioned focus on informal management practices, which generally guarantees a sense of identity and binds employees to the company, also promotes innovation and productivity. This is partly because the initiative for improvement is entrusted to employees. The informal nature of management gives family businesses a higher score on innovation than non-family businesses, meaning they usually perform better in terms of productivity[20].

Innovation and development centres

Despite the frequent lack of clarity regarding how much family businesses actually spend on R&D, innovation centres or programmes are a common way of stimulating innovation and improving various aspects of the business. The Jumbo Food College is an innovation centre that develops sustainable, health & wellness, technological and customised food & drink products for the supermarket chain. VDL has a knowledge and development centre for electric mobility and the energy transition called VDL Enabling Transport Solutions. This is focused on heavy vehicles such as buses and energy storage, using a building-block approach. The pursuit of developing new and innovative products helps these companies meet the changing needs and preferences of their customers.

Innovation for creating unique customer experiences

The shift from product sales to the creation of a unique customer experience is also a common approach among family businesses. Family firms in the Netherlands embrace the importance of customer satisfaction, with 70% of them having set targeted goals[21]. Customer-oriented innovation, where new products and services are developed based on the needs and preferences of customers, is taken very seriously in order to remain relevant in the future. Jumbo has, for instance, invested in technology to improve the shopping experience such as digital price tags and self-checkout. Heineken has various innovation hubs worldwide which collate local customer data and experiences. It uses the data to develop new products aligned with local preferences such as less-bitter types of beer and beer made with soju, an Asian distilled liquor.

Some companies focus on a composite innovation team that develops new technologies and products. Lely Holding, a manufacturer of automation solutions for the agricultural sector, has set up a team that works closely with farmers, scientists and other industry experts to identify new opportunities and challenges in the market.

20 Erasmus Centre for Family Business, "Ongekend Vermogen; Hoe je als familiebedrijf scoort met informeel management" (*link*).
21 PwC, "Family Business Survey 2023" (*link*).

Innovation to reduce environmental impact

Family businesses are also taking steps to reduce their environmental impact via innovation. In addition to renewable energy sources, sustainable packaging and sustainable agriculture, the circular economy has gained in popularity, this is an economic system aimed at minimising waste and maximising the (re)use of resources. Swinkels Family Brewers, for example, developed the Swinkels Circularity Index to measure and monitor its production process and supply chain, with the aim of reducing waste and increasing the efficiency of resource use.

Employees challenged to participate

Family businesses enable employees to contribute to new developments by suggesting innovative ideas. A good example is the Dura Vermeer Innovation Award, a prize for the best idea of the fiscal year which encourages creative input from colleagues.

'Hacking Innovation' is another initiative by Royal Swinkels Family Brewers Holding. It stimulates innovation by encouraging collaboration and knowledge sharing between employees and external stakeholders. The programme includes organising hackathons and challenges where participants are invited to work together on new ideas and solutions for specific challenges. The Hacking Innovation programme has successfully generated new ideas and solutions for the company.

Appendix

Table A1 Number of jobs per sector in 2020, and as a percentage of total per activity

	Family businesses	Non-family businesses	Non-family businesses with 1 employed person	No company
All economic activities	31.2%	51.1%	1.6%	16.2%
Agriculture, forestry and fishing	75.5%	22.7%	1.8%	0.2%
Hospitality	62.5%	36.4%	0.5%	0.6%
Construction	61.4%	36.8%	1.7%	0.0%
Trade	48.9%	50.3%	0.8%	0.0%
Rental and other business services	42.6%	55.4%	0.3%	1.7%
Manufacturing	34.7%	55.0%	0.3%	10.0%
Transport and storage	34.7%	61.0%	0.4%	4.0%
Rental and trading of real estate	31.1%	51.2%	5.1%	12.5%
Specialist business services	31.0%	58.7%	7.0%	3.3%
Other services	29.3%	16.6%	1.4%	52.8%
Culture, sports and recreation	26.3%	45.3%	1.1%	27.4%
Mining	26.3%	71.3%	0.0%	1.3%
Information and communication	25.4%	71.0%	2.1%	1.5%
Water companies and waste management	22.4%	56.4%	0.3%	20.7%
Financial services	18.6%	61.9%	18.1%	1.4%
Health and welfare care	12.7%	83.0%	0.6%	3.8%
Education	4.0%	5.1%	0.3%	90.7%
Energy supply	3.9%	95.1%	0.7%	0.0%
Public administration and government services	0.0%	0.0%	0.0%	99.9%

Source: CBS.

Table A2 Number of jobs per sector in thousands, and as a percentage of total per type, December 2020

	Family businesses	Family businesses %	Non-family businesses	Non-family businesses %	Non-family businesses with 1 employed person	No company
All economic activities	31.2%	51.1%	1.6%	16.2%		
Trade	705.9	26.8%	726.2	16.9%	11.0	0.5
Rental and other business services	425.9	16.2%	554.4	12.9%	3.4	17.1
Manufacturing	266.1	10.1%	421.3	9.8%	2.4	76.6
Construction	207.9	7.9%	124.6	2.9%	5.7	0.1
Hospitality	205.4	7.8%	119.5	2.8%	1.6	2.0
Health and welfare care	186.0	7.1%	1217.6	28.3%	8.1	56.0
Specialist business services	165.8	6.3%	313.6	7.3%	37.5	17.6
Transport and storage	133.9	5.1%	235.2	5.5%	1.5	15.3
Agriculture, forestry and fishing	81.9	3.1%	24.6	0.6%	1.9	0.2
Information and communication	74.2	2.8%	207.7	4.8%	6.2	4.5
Financial services	51.1	1.9%	169.8	3.9%	49.6	3.8
Other services	38.3	1.5%	21.7	0.5%	1.8	69.0
Culture, sports and recreation	32.4	1.2%	55.9	1.3%	1.3	33.8
Education	22.3	0.8%	28.0	0.6%	1.5	502.4
Rental and trading of real estate	21.4	0.8%	35.2	0.8%	3.5	8.6
Water companies and waste management	8.1	0.3%	20.4	0.5%	0.1	7.5
Mining	2.1	0.1%	5.7	0.1%	0.0	0.1
Energy supply	1.1	0.0%	27.0	0.6%	0.2	0.0
Public administration and government services	0.0	0.0%	0.2	0.0%	0.0	547.8

Source: CBS.

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