Hartmut Berghoff,
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Varieties of Family Business

Germany and the United States, Past and Present

Foundation for Family Businesses

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Varieties of Family Business

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Acknowledgments

This book offers readers a comparative history of family businesses in the United States and Germany. Its findings are based on a research project conducted by the Institute for Economic and Social History at the University of Göttingen, a project that was initiated, in many ways supported and financed by the Foundation for Family Businesses (Stiftung Familienunternehmen) in Munich.

The foundation enabled us to develop a research concept that pursues new methodological approaches and perspectives. A review of the research landscape in the history of family businesses shows that case studies have been the primary approach used on both sides of the Atlantic. Most academic publications—and popular studies as well—have focused on individual companies and families. In contrast, we were less interested in individual cases. Instead, we approach the topic from a macro-perspective that allows us to observe the fundamental historic transformation processes that occurred in these two economic systems and cultures. Our guiding question is: To what extent did dissimilar institutional structures affect the existence, success and shape of family businesses in the United States and Germany over the long term? Our comparison of economic, socio-cultural and political conditions uncovers both distinctions and similarities in the historic development of family businesses. The common goal of the foundation and the authors is to outline a historical matrix that will allow future research to better place the individual company histories into the general development contexts. This serves two purposes: the much-debated differences between US shareholder and central European stakeholder capitalism can be seen in a new light, and the motives, path-dependencies and decision-making processes of companies and their owners become historically transparent.

In particular, we would like to express our gratitude to the Executive Board and Advisory Board of the Foundation for Family Businesses, which made this project possible. We would like to say a special word of thanks

to Professor Rainer Kirchdörfer and Stefan Heidbreder, both of whom take a great interest in historical questions. We have pleasant memories of the stimulating discussions during our many meetings. Their knowledgeable notes and constructive questions contributed significantly to the quality of this study. We would also like to express our sincere gratitude to Dr. Bettina Wurster and Georg Blaha of the department of research and programs at the Foundation for Family Businesses. They supported us in many ways and patiently acquainted themselves with the work approaches that we apply as historians. Sibylle Gausing shouldered a number of rigorous editorial rounds. Her careful reviews of the manuscript, her valuable assistance with preparations for printing and the translation of the work into English lent the text the right form and gave it a finishing linguistic touch. We would also like to thank Charline Köhler of the foundation team for her tireless work in searching for historic photographs. Finally, the external proofreaders Jutta Pulter and Christel Schikora spotted many a linguistic or spelling mistake. Mary Tannert, Ph.D. skillfully translated the German version of this book into English with great professionalism and attention to detail.

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Family businesses embody history as no other form of company does. We hope that you enjoy our book and gain some new insights into the history and current state of family businesses from it.

Hartmut Berghoff and Ingo Köhler
Göttingen/Berlin, October 2020

Preview: The Key Results

Family businesses play an important economic role on both sides of the Atlantic. In addition to some parallels, there are also significant differences between Germany and America in terms of corporate and family cultures as well as the institutional environment for, and the lifespan of, family businesses.

This study investigates the differences and similarities between the development of family businesses in Germany and the United States from the mid-19th to the early 21st century. It analyses the causes and effects of the different corporate landscapes using a long-term, historical view. The focus is on the position of family companies in the two countries and the legal, structural, political and cultural environments that have emerged historically and influence the strategies of businesses and the families who own them. At a general level, the study concludes that the institutional fabric in Germany favored the development of multigenerational family businesses, while that of the United States tended to promote the dynamism of young companies, whose owners sold off all or parts of them after relatively short periods of ownership. German family businesses are, on average, much older than their US counterparts and more often focus on achieving intergenerational continuity.

Chapter A clarifies terminology and the statistical basis, while Chapter B provides a quantitative chronological overview. In Chapter C, the authors examine in detail the history of inheritance law, which for a long time was substantially less advantageous for family-business owners in the United States than for their German counterparts.

Chapter D compares the financing models of businesses in both countries. The German system of bank-based financing was diametrically opposed to America's capital-market-based system, which favored the rapid shift from family control to listed companies with a broad shareholder base. In Germany, on the other hand, long-lasting relationships between family businesses and their house banks were the order of the day, tending to promote conti-

nuity and a long-term mindset. Major differences in antitrust law pointed in the same direction. In the United States, there was a strong concentration of gigantic listed companies, whereas founder families continued to play a key role in some of Germany's biggest industrial companies for a very long time.

Politically, the German state played a role in ensuring the fortunes of the country's economy, especially the *Mittelstand* (small and medium-sized firms). This reflected Germany's economic model of cooperative capitalism. In the liberal market economy of the US, on the other hand, faith in market self-regulation remained strong. As Chapter E shows, state interventionism in this area did not start to increase until the second half of the 20th century and, in contrast to Germany, was relatively moderate and always controversial. Only after the crises of the 1970s did industrial policy in both countries tend to converge.

The differences in the two countries' corporate landscapes reach in part far back in history and are based on deep-rooted cultural characteristics—as Chapters F and G demonstrate. In Germany, the legacy of feudalism and the craft tradition left a lasting mark. A culture of continuity and quality, of balance and family associations, arose. In the US, individualism was much stronger, with the self-made man—not the preserver of family traditions—becoming the ideal. Uninterrupted immigration provided a steady flow of entrepreneurial talent: the US truly had no shortage of business founders. This energized the business community, but also made for cut-throat competition.

In Germany, a variety of factors—from the country's relative lack of raw materials to its multiple political upheavals—underscored the importance of solidarity within founding families, leading to a search for stable anchorage in the family in general and in family businesses in particular.

As multigenerational projects, family businesses were on the defensive in both countries throughout the 20th century—initially in the United States, where a modern consumer society arose much earlier than in Germany, offering potential successors options beyond traditional family roles and the world of family businesses. In general, however, since the last third of the 20th century, processes of convergence have been observable in a number of the areas examined here, processes that have worn down existing divergences without eliminating them altogether. The path dependencies attributable to the different types of capitalism in the two countries thus not only reach far into the past, they also have tremendous power to shape both the present and the future.

A. Introduction. Current Observations and Historical Questions

Across the globe, there are more family-owned enterprises than any other type of company. Regardless of their size or legal form, they are defined as companies under significant family control—usually through majority ownership of the company's capital, but occasionally also through multiple voting rights or pyramid structures. In the case of listed corporations, a blocking minority of 25 percent held by a single family or related families is often sufficient for the company to qualify as a family business. Owner-managed companies, i.e. those in which family members perform management duties, are a smaller sub-group within this broad definition of family businesses.

According to the Family Firm Institute of Boston, which largely follows this definition, in the second decade of the 21st century around two-thirds of all companies worldwide were family businesses, generating 70–90 percent of global gross national product (GNP) and providing 50–80 percent of jobs. These ratios are much higher in certain countries.[1] Figures like these initially reflect the enormous significance of small businesses and micro-enterprises: "Mom and pop stores […] tend to be owned by mom and pop"[2] and—statistically speaking—make up the majority of family businesses.

Family businesses as such are no better or worse than companies constituted in other ways, and are strongly represented in both dynamic and stagnating economies. Family businesses are trust-based, highly innovative entities in which employees, owners and management alike exhibit exceptionally high levels of loyalty and intrinsic motivation. They benefit from low transaction costs, good reputations, the mobilization of family resources, the transfer of knowledge and skills within the family, and a long-term perspective. Researchers with a different perspective, on the other hand, emphasize the lack of both transparency and efficiency in family businesses, in which insiders are free to act without external control and nepotism crowds out the principle of merit. They say that oligarchs have

a tendency towards political corruption and "rent-seeking". In their opinion, family businesses are conservative, averse to competition, and exhibit poor corporate governance.[3]

The advantages and disadvantages of family businesses certainly cannot be weighed up against each other wholesale, as they are visible only in individual cases. The objective of this study is thus not to pass judgement on the strengths and weaknesses of family businesses. Rather, it examines the hypothesis that the role of family businesses is a key distinguishing feature between the USA and UK on the one hand, and western and southern European countries on the other, between capital-market-driven Anglo-American capitalism and a model of capitalism in which not only social security schemes, but also family businesses play a bigger role.[4] This study focuses in particular on the United States and Germany, which are the most important exponents of these disparate systems, and uses a long-term historical comparison to investigate the extent and the causes of the contrasting status that family businesses enjoy in these two countries.

The first step is to thoroughly examine the key differences between the two economies today, taking that as a basis to look at their differing historical developments. If we compare the proportion of family businesses to the total number of companies in both countries, we initially see that they are closely matched.

Table 1: Quantitative significance of family businesses, 2014

	In percent of all companies	*In percent of all employees*	*Revenue in percent of GDP*
USA	80–90	57	57
Germany	95	56	63

Source: Economic Impact of Family Businesses and Family Firm Institute, Global Data Points.

The figures published by the Family Firm Institute (Table 1) show a similar presence of family businesses in Germany and the US in 2014. In the categories "in percent of all companies" and "revenues in percent of gross domestic product", Germany has a slight lead over the US and occupies the top position worldwide. When it comes to employees of family businesses as a share of all employees, the corresponding figures of 57 percent and 56 percent are virtually identical. On the basis of statistics published

by the Mannheim Enterprise Panel (MUP) of the Centre for European Economic Research (ZEW) in 2014, the Foundation for Family Businesses calculated somewhat lower figures for Germany in 2013—91 percent (percentage of all companies) and 48 percent (revenue percentage)—while the employee percentage was the same, at 56 percent. The figure for owner-managed family businesses as a percentage of all companies in Germany was 87 percent.[5]

Table 2: Percentage shares of different forms of family businesses in the UK, France, Germany and the US, 2000–2003

	UK	*France*	*Germany*	*USA*
Family is largest shareholder	30%	32%	30%	10%
Family is largest shareholder, business is owner-managed	23%	22%	12%	7%
Family is largest shareholder, business is owner-managed plus primogeniture	15%	14%	3%	3%
Founder is largest shareholder	14%	18%	5%	18%
Founder is largest shareholder and CEO	12%	10%	2%	11%
Number of companies examined	152	137	156	290

Source: Bloom and Van Reenen, "Measuring", p. 58.

Consequently, family businesses are by no means a marginal phenomenon in the US. Indeed, they constitute a substantial share of the economy. Nonetheless, their significance differs considerably between the two countries—as a glance at medium-sized and large companies reveals. A representative sample of 735 selected medium-sized manufacturing companies in France, Germany, Great Britain and the US for the period 2000–2003 was, in the authors' opinion, "reasonably representative of medium-sized manufacturing firms" (50–10,000 employees). This sample makes it possible to compare

the significance of family businesses in this segment (which, expressed more precisely, comprises medium-sized and small major companies). An analysis of these, more precisely, medium-sized and small major industrial enterprises with their differing legal forms and ownership structures (see Table 2) shows that the percentage of family businesses in this category was significantly lower in the US. The corresponding figures for European countries were, on the whole, quite comparable to each other and higher than in the US. This was the same for both family-controlled and family-managed companies. In both categories, German companies had a much higher percentage share than the US.[6]

It is notable, however, that the US had a substantially higher percentage of first-generation (= founder-generation) companies than Germany, meaning that founders played a much bigger role in the economy than family businesses of the second or later generations. There are comparatively many business founders in the US, but over successive generations, there is a pronounced movement away from family ownership—one not evident to the same extent in Germany. In other words, the lifespan of American family businesses appears to be shorter and the probability of their transformation into other types of company is higher.[7] One could also—and this is a key argument—speak of a comparatively strong start-up culture in the US and a relatively strong culture of multigenerational family businesses in Germany.

Table 3: Share of family businesses among the biggest companies in the US and Germany, 2013–2015 (in absolute and percentage terms)

	100 largest companies		*200 largest companies*	
	absolute	*in %*	*absolute*	*in %*
USA	7	7	13	6.5
Germany	21	21	42	21

Sources: Own survey on the basis of statistics from Fortune 500 (see Note 8), Top 500 Unternehmen (see Note 9) and the Global Family Business Index (see Note 10).

Striking differences are also observable if we leave the segment of medium-sized and small major enterprises, and turn to the family businesses among the very largest companies. The largest US and German companies by revenue in 2014 and 2015 respectively were recorded using the figures in the

Fortune 500 list[8] and the Top 500 Unternehmen (Top 500 Companies) list published by *Die Welt,* a German daily newspaper.[9] In order to calculate the share of family businesses among the top 100 and top 200 biggest companies in both countries, these two lists were then compared with the Global Family Business Index (GFBI)[10] published by the Center for Family Business of the University of St. Gallen.[11] The analysis revealed quite pronounced and stable differences.

Photo 1: Sam Walton's single-price business (5&10 store) in Bentonville, Arkansas—the origins of Walmart, the largest family business in the United States. The company museum is now located in this building.

In Germany, family businesses made up a good fifth of the top 100 companies by revenue during the survey period (2013–2015) and exactly the same share of the top 200 companies. In the US, family businesses accounted for only seven and 6.5 percent of these two groups. In other words, once US companies cross a certain growth threshold, they are much less likely to remain family-controlled. In both countries, only a minority of the very larg-

est enterprises are family businesses. So, while there is a general correlation between size and the transition to external control, it is much more pronounced in the US. Conversely, large family businesses in Germany display much longer lifespans and greater continuity.

If we look at lists of the 25 largest family businesses in both countries, we mainly notice similarities, such as the wide variety of different industries covered (though retail is strongly represented). In both countries, a number of family businesses occupy positions at the very top of their economies. Tables 4 and 5 include global players and household names, strong automotive brands such as BMW and Ford as well as powerful media groups like Bertelsmann and 21st Century Fox. The biggest family businesses in the US are more likely to be active in the service sector and generally generate higher revenues than their German counterparts, which is why they usually outrank the latter.

The differences are even more pronounced when we shift our focus from the largest companies to the top performers in the medium-sized segment. The term "hidden champions",[12] coined by management consultant Hermann Simon in the 1990s, is used today to refer to companies with annual revenues of up to five billion euros that occupy one of the top three positions internationally in their segments (often niche markets). The majority of these companies are family-owned and many of them owner-managed.[13] They boast strong capital ratios, are extremely specialized, display a high degree of vertical integration and invest heavily in research and development. They are also highly protective of their independence, continuity and high quality standards, and maintain close relationships with their customers. They often have closely meshed distribution and service networks in many foreign markets, and are, in Germany, part of historically strong clusters. Due to their compact size and their restraint in the public sphere, the majority of these companies are not well known.

Of the 2,734 hidden champions across the globe that Simon identified in the latest edition of his book in 2012,[14] 1,307, or 48 percent, are from Germany. Other surveys conducted in 2015 even identify as many as 1,620 world market leaders among Germany's small and medium-sized enterprises (SMEs).[15] Figure 1 is based on Simon's figures and shows that, despite the sheer size of the US market, the absolute number of companies of this type in the USA is not even one-third that of Germany. Compared with other countries, the US still fares relatively well, with a clear lead over all other nations. Yet Germany boasts a uniquely high concentration of such companies.

Table 4: The 25 largest family businesses in Germany, 2013–2015 (by revenue)

Name	*Position in global ranking*	*Founded in*	*Revenue (in USD billion)*	*Employees*	*Owner family*	*Family's share of capital*
Volkswagen AG	2	1937	261.6	572,800	Porsche	32.2%
BMW AG	8	1916	101.0	110,351	Quandt	46.7%
Schwarz Group (Lidl, Kaufland)	9	1930	89.4	335,000	Schwarz	100%
Continental AG	24	1871	44.3	177,762	Schaeffler	49.9%
ALDI Group	32	1913	37.2	100,000	Albrecht	>50.0%
PHOENIX Pharmahandel GmbH & Co KG	45	1994	29.4	28,555	Merckle	100%
Heraeus Holding GmbH	59	1851	23.5	13,716	Heraeus	100%
Henkel AG & Co. KGaA	65	1876	21.7	46,800	Henkel	58.7%
Bertelsmann SE & Co. KGaA	66	1835	21.7	111,763	Mohn	100%
Marquard & Bahls AG	68	1947	21.1	9,281	Weisser	100%
C. H. Boehringer Sohn AG & Co. KG	79	1885	18.7	47,500	Boehringer	100%
Rethmann SE & Co. KG	97	1934	15.3	30,600	Rethmann	100%
Dr. August Oetker KG	100	1891	14.9	26,907	Oetker	>50%

Name	*Position in global ranking*	*Founded in*	*Revenue (in USD billion)*	*Employees*	*Owner family*	*Family's share of capital*
Schaeffler AG	101	1883	14.9	77,359	Schaeffler	100%
Porsche Automobil Holding SE	107	1931	14.3	19,456	Porsche-Piëch	98.4%
Merck KGaA	109	1668	14.2	38,154	Merck	70.3%
Adolf Würth GmbH & Co. KG	120	1945	12.9	63,571	Würth	100%
HELM AG	122	1900	12.8	1,431	Schnabel	100%
dm-drogerie markt GmbH + Co. KG	135	1973	11.5	52,062	Werner	98.8%
Tengelmann Warenhandelsgesell. KG	142	1867	10.7	83,437	Haub	100%
WISAG Dienstleistungsholding GmbH	151	1965	10.0	39,674	Wisser	100%
Droege International Group AG	156	1988	9.8	59,700	Droege	100%
C&A Mode AG	177	1841	8.8	35,672	Brenninkmeijer	>50%
Beiersdorf AG	188	1882	8.2	16,708	Herz	50.5%
Voith GmbH	200	1867	7.5	43,134	Voith	100%

Source: Global Family Business Index (see Note 10). The revenue data relates to 2013 or to the most recent status in 2015.

Table 5: The 25 largest family businesses in the United States, 2013–2015 (by revenue)

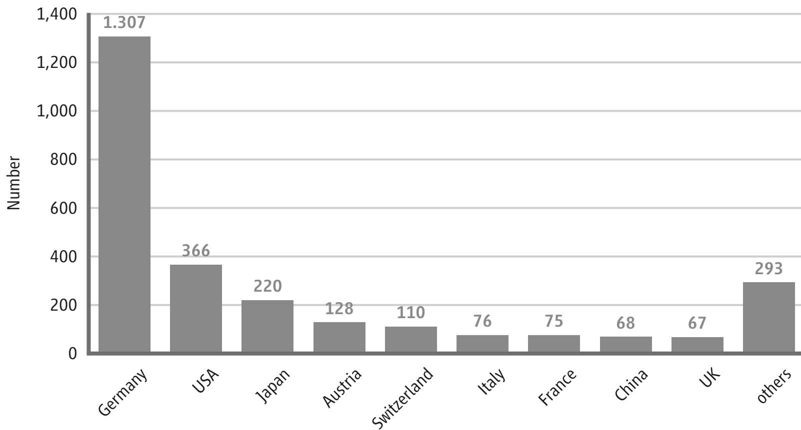
Name	*Position in global ranking*	*Founded in*	*Revenue (in USD billion)*	*Employees*	*Owner family*	*Family's share of capital*
Walmart Stores, Inc.	1	1962	476.3	2,200,000	Walton	50.9%
Berkshire Hathaway	3	1955	182.2	330,745	Buffett	34.5%
Ford Motor Comp.	5	1903	146.9	181,000	Ford	40%
Cargill, Inc.	6	1865	136.7	143,000	Cargill/Mac-Millan	90%
Koch Industries Inc.	7	1940	115	100,000	Koch	84%
Comcast Corp.	16	1963	64.7	136,000	Roberts	33.6%
The Long & Foster Companies, Inc.	20	1968	56	11,500	Long and Foster	>50%
Enterprise Products Partners LP	22	1968	47.7	6,600	Duncan	36.9%
Bechtel Group Inc.	31	1898	37.9	52,700	Bechtel	40–100%
Sears Holdings Corp.	33	1886	36.2	226,000	Lampert	48%
Tyson Foods, Inc.	36	1935	34.4	115,000	Tyson	27.1%
Mars, Inc.	38	1891	33	72,000	Mars	100%
Pilot Travel Centers LLC.	40	1958	32.1	21,000	Haslam	>50%

Name	*Position in global ranking*	*Founded in*	*Revenue (in USD billion)*	*Employees*	*Owner family*	*Family's share of capital*
21st Century Fox	41	1979	31.9	27,000	Murdoch	39.4%
Publix Super Markets, Inc.	47	1921	29.1	166,000	Jenkins	68.6%
Love's Travel Stops & Country Stores Inc.	50	1964	26	10,500	Love	100%
Reyes Holdings L.L.C.	64	1976	22	16,500	Reyes	100%
C & S Wholesale Grocers Inc.	67	1918	21.7	17,000	Cohen	100%
H.E. Butt Grocery Comp.	72	1905	20	76,000	Butt	100%
Penske Corp.	77	1969	19	39,000	Penske	>50%
Paccar Inc.	86	1905	17.1	21,800	Pigott	>50%
Enterprise Holdings Inc.	90	1957	26.4	83,000	Taylor	98%
The GAP	91	1969	16.1	137,000	Fischer	45.4%
Cox Enterprises Inc.	95	1898	15.3	500,000	Cox	99%
CBS Corp.	96	1986	15.3	19,490	Redstone	79%

Source: Global Family Business Index (see Note 10). The revenue figures relate to 2013 or to the most recent data from 2015.

A partial explanation for the lower number of family businesses among large and medium-sized enterprises in the US compared with Germany is that the latter's capital market has always been substantially smaller, both in absolute and relative terms, than in both the US and the UK—even though it has gained considerably in magnitude since the second half of the 1990s. In other words, going public was always much more difficult in Germany than in the US, making it less likely that family businesses would make the transformation to listed companies or be sold to investors from outside the founding family. Conversely, one could argue that in Germany, fewer companies wanted to go public and that the reason for the relatively low level of market capitalization was that family businesses were less interested in changing their status. In the US, by contrast, the sale of shares in a company forms part of a conscious strategy of asset diversification. The role of business owner is more often perceived to be a temporary phase in an entrepreneur's life and less often an obligation spanning generations.

Figure 1: International comparison of number of hidden champions, 2012



Source: BMWi, German Mittelstand, p. 8. Data for the USA from 2009.

The US capital market is liquid enough to accommodate a high number of company shares due to its size and maturity alone—not just in absolute figures (which reflect the sheer size of the country), but also relative to gross domestic product (GDP). The ratio of the value of all listed domestic companies to GDP is a good indicator of a capital market's liquidity (Table 6).[16]

Table 6: Market capitalization of domestic listed companies, 1975, 1990, 2000 and 2015 (as a percentage of GDP)

	1975	1990	2000	2015
USA	41.7%	51.7%	101.0%	140.0%
Germany	10.5%	20.1%	65.1%	51.1%
UK	35.5%	77.7%	106.0%	n.a.

Source: World Bank, http://data.worldbank.org/indicator/CM.MKT.LCAP.GD.ZS (accessed: August 12, 2018).

In Germany, founder families tend to retain control of their enterprises for longer and ensure that the family holds a relatively large share of the company's capital—even though family stakes definitely do decrease over time and as the company grows. A random sample of 592 German family businesses in the late 1990s revealed that founder families retained an average capital stake of 95 percent. Of these companies, 465 were even wholly owned by the family in question. The larger and older the companies, the lower the percentage of enterprises that were still wholly owned by their founding families. However, the ratio was still 60 percent of all the family businesses analyzed, even in the category of companies with annual revenues exceeding deutschmarks (DM) one billion.[17] Consequently, there is nothing inevitable about the transfer of company shares from founding families to external investors. As a rule, shares in family businesses in Germany—or at least the majority of those shares—are likelier to remain with the families than is the case in the United States, which is a country more strongly geared to the capital market.

The advanced state of financialization in the US[18] is associated with the much greater role of institutional investors, whether in the form of hedge funds, pension funds or private equity investors. On the lookout for worthwhile acquisitions, they can offer family business owners attractive conditions for the sale of their firms. The market for corporate control is thus larger and stronger in the US. This more advanced state of financialization in the US also triggered a shortening of time horizons at the expense of long-term strategies: in 1960, the average holding period for shares listed on the New York Stock Exchange was still around eight years; by 2015, it had fallen to eight months.[19]

A longevity comparison of the 80 largest German family businesses included in the St. Gallen index for 2013–2015 revealed an average age that

was over one-fifth (22.4 percent) higher than in the US: the average age of the German companies was 107 years, as opposed to 83 years in the control group in the US.[20]

Even if we ignore large enterprises, the higher longevity of German family businesses compared with those in the US is obvious. Two regional case studies—which do not permit an exact comparison due to their differing methodologies and time frames—nevertheless indicate that medium-sized German family businesses are older on average than their US counterparts. John Ward chose a random sample of 200 family businesses in Illinois that had at least 20 employees in 1924 and had been in existence for a minimum of five years. By 1984, 80 percent of those businesses had disappeared. Only 13 percent were still in the ownership of the same family as in 1924. Seven percent had been sold.[21]

A German sample compiled by Christina Lubinski analyzed 161 family businesses based in Munich and Düsseldorf in 1960 with at least 250 employees each. Of this sample, 100 companies (62 percent) were more than 50 years old, while 29 (18 percent) were even more than 100 years old. In 2009, 41 of them were still independent family businesses with an average age of 130.[22] An analysis of 408 German family businesses with annual revenues of 50 million euros and more revealed an average age of 84 years in 2012, with the average age for industrial enterprises in this segment even reaching 91 years.[23]

In general, German companies have long lifespans, with family businesses being slightly older on average than other corporate forms. Of the 270,000 companies registered across Germany in 1995 with annual revenues of over DM two million, 28.5 percent were established prior to 1945, and the corresponding figure for family businesses was even higher at 31 percent. Of the 8,575 companies that existed before 1871, 6,388 were family businesses.[24] In general, the founding families hold very large capital shares in German family businesses, but with older companies, the share tends to be higher than with younger family businesses: a study of 1,014 family businesses with annual revenues of DM two to 50 million in 1995 revealed that 94–96 percent of the shares in companies established before 1959 were still in family ownership at the end of the 20th century, in some cases in the third or fourth generation. The figure for companies founded later was still between 90 and 94 percent.[25]

These statistics give rise to a number of key questions for the following historical analysis, which begins in the 19th century. What effective, long-term economic, sociocultural and legal factors explain the greater signifi-

cance of family businesses in Germany, especially among medium-sized and large companies? Why do they have longer lifespans and remain family businesses for longer periods? Are there major national differences in the underlying conditions for family businesses in general and, in particular, for the transition between generations? Where are the parallels and similarities? We will also look at the political acceptance and/or promotion of family businesses in both countries, and consider similarities and differences in how the key challenges facing family-based companies (including financing, succession and innovative strength) are tackled.

Special attention must be paid to points of divergence in inheritance and competition law, in the training systems, the nature of the capital markets, demand structures as well as in the cultural and political appreciation of family businesses. A further point concerns the mindset and make-up of the founding families: What were their priorities and goals? What attitude did they have in dealing with their property?

Chapter B of this study begins by examining long-term trends as reflected in statistical findings. Despite many insoluble problems with regard to definitions and data, it attempts to describe historical trends, highlighting not only clear differences and points of divergence, but also similarities. Chapter C looks at the history of inheritance law. Here, clear national differences are apparent that have had a profound effect on the probability of intergenerational continuity. Chapter D analyses the growth of capital markets in both countries and explores how those market structures interact with the respective forms of corporate governance and modes of corporate financing. The focus here is on the size and composition of the capital market and its impact on family businesses.

Chapter E examines the extent to which the government's economic policy may potentially have promoted or hampered family businesses. The next two chapters deal with highly complex issues of cultural history. What corporate cultures became dominant and when? How did families perceive their roles? What written—and, above all, unwritten—rules existed? What are the origins of certain attitudes and mentalities? Chapter F looks at historical path dependencies that had a long-term impact. As a legacy of the 19th century they have shaped the cultural framework for family businesses and their owners to this day. Chapter G analyses the different historical paths taken by corporate culture in the US and Germany. It asks what general cultural factors influenced families and explain the average—though not necessarily individual—differences in behavior of business families on both sides of the Atlantic.

B. Long-term Trends. Structural and Institutional Change

Any statistical analysis of family businesses is fraught with difficulty since there is no agreed definition of a family business and the necessary data is not available or does not match the definitions. This problem manifests itself all the more in the case of a long-term historical study, because the official statistics it draws on have repeatedly changed their criteria over the decades.

Let's take a look at the plethora of definitions. The Witten Institute for Family Businesses (WIFU), one of a number of pioneers of academic research into family businesses, uses the following restrictive definition: "The transgenerational aspect is essential to a family business. For this reason, it is strictly speaking only correct to refer to a company as a family business if the family is planning to hand down the company to its next generation. Start-ups and owner-managed companies are therefore not yet family businesses in their own right." At the same time, another definition is presented which emphasizes the connection between ownership and management: "We use the term family business when an enterprise is owned wholly or partly by one family, several families or family associations and the latter have a determining influence on the development of the company based on entrepreneurial responsibility."[26]

Apart from the fact that the two definitions contradict each other, the first one eludes statistical analysis because plans and intentions cannot be reliably captured. The other definition published by the Witten Institute is similar to our own (Chapter A), but can also be operationalized only to a limited extent. Coalitions of families or business associations may be particularly opaque, and this is exacerbated by the fact that details of ownership are often kept strictly confidential.

Even today there are major problems in statistically capturing the significance of family businesses in the USA and Europe. According to Shanker and Astrachan, all empirical and quantitative attempts at doing so are based on fictitious accounts or street lore, more or less educated estimates, extrap-

olations based on small samples or facts on individual companies that are generalized.[27] In order to render such analyses more precise, they propose classifying family businesses into three groups based on the degree of family involvement in the business—from a broad definition (effective management control, significant ownership) through a middle-ground definition (founders or descendants run the company and have legal control of the majority of voting rights) to a narrow definition (multiple generations, family directly involved in running and owning the business, more than one member of owners' family has significant management responsibility). However, the available data remains problematic even for an analysis based on these criteria: depending on the definition you use the results will be completely different. If you sort the numerous studies conducted for the USA in the 1980s and 1990s on the basis of the broadest and the narrowest definition, you find that, depending on your choice, as many as 3.2 million (approximately 60 percent) of all partnerships and corporations could potentially be considered family businesses, or as few as 1.1 million (approximately 21 percent).[28] In comparison, a range of 78.5 percent to 15 percent for the proportion of family businesses in the United Kingdom has been determined by researchers in the UK using similar data records.[29]

Any attempt to contrast this—already heterogeneous—data from the Anglo-Saxon legal and economic system with the situation in Germany creates additional challenges for the task of finding a definition. Management analyst Sabine Klein has come up with another way of approaching the problem, which complicates the matter further. In her research, she expands the concept of family business yet again by also incorporating sole proprietorships and partnerships as potential multigenerational projects. Her definition is: "A family business is a company that is influenced by one or more families in a substantial way. A family is defined as a group of people who are descendants of one couple and their in-laws as well as the couple itself. Influence in a substantial way is considered if the family either owns the complete stock or, if not, the lack of influence in ownership is balanced through either influence through corporate governance (percentage of seats in the Aufsichtsrat [Supervisory Board], Beirat [Advisory Board], or others held by family members) or influence through management (percentage of family members in the top management team). For a business to be a family business, some shares must be held within the family."[30]

This approach can be attacked from several angles: even when looking at an individual entity, there are often only sketchy details of which groups

of shareholders or owners have how much influence in the company. This applies specifically when, to determine whether family influence is relevant under the definition, the analyst must consider ownership interests that are so small that they can hardly be identified. What is more, it is impossible to capture companies that are established and owned as a collective by several (lines of) families. In general, there is controversy among researchers about the issue of whether founders or sole owners can consistently be attributed to the group of family business. Klein justifies their inclusion in the statistical-empirical analysis by introducing the status of "'potential family businesses' but clearly not non-family businesses". We agree with the finding that the term family business is a higher-level catch-all category for "family-owned, family-managed and family-controlled firms", which can occur in all sizes and legal constructs.[31] In reality, therefore, we are dealing with many overlapping and grey areas. It seems more than vague, for example, to include all sole proprietorships and partnerships in the definition as future family businesses and to assume that anyone establishing a company will want to pass it on to future generations. However, since the statistics produced by government and industry associations as well as the accessible historical data series and registers documenting the corporate and industry landscape only distinguish companies according to basic criteria such as legal form or size, this approach is, for all its imprecision, the only feasible solution. The problems with the definition and the way data is collected are the reason that we can only provide rather crude statistical approximations and describe general trends.

The longevity of family businesses yields the most accurate comparison between the two countries. Successful family businesses that have established themselves at the top among the largest companies in their respective country tend to be significantly older in Germany than in the USA. For the German case, the Institute for SME research and entrepreneurship at the University of Mannheim conducted a study in 2015 in which it collated the years of establishment of the 500 largest family businesses by revenue and workforce size. It shows that 70.5 percent of family businesses were formed before 1950, and 31.7 percent of them before 1900. In 4.4 percent of the cases, the year of establishment was even before 1800. The average age of the German family business included in the study was therefore 101.8 years.[32]