

The New Europe: The Family Business Vision



Summary

- i.** The debate surrounding the future of the European Union is long overdue. European Family Businesses (EFB) welcomes the proactive role of the European Commission in starting this process;
- ii.** Europe's citizens and leaders must decide together what kind of European Union do they want to leave for the next generation. Integration by stealth will not work in the long-run;
- iii.** EFB believes that the principle of subsidiarity must be strictly observed, and its application must be better monitored. More Europe only where and when it is needed;
- iv.** Europe can be proud of what has been achieved. The European Union must cherish and better communicate its legacy and achievements. It must redefine its mission/purpose and must be re-constructed for the long-term;
- v.** EFB's priorities for the future of Europe are: completing the single market, rebalancing the EU economy by promoting long-term sustainable financing, ensuring that Europe's citizens are equipped with the right skills for the future, concluding more ambitious trade deals, and empower the next generation of entrepreneurs.

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Introduction

We are living in an extraordinary time for Europe. The greatest political project in history is seemingly under threat. Things once thought to be unimaginable are now political realities. There is a real danger that years of integration, cooperation and partnership could be undone by both the misperception of solidarity and the regression into nationalism. Europe's citizens are becoming increasingly disconnected with European politics and decision making. Too many Europeans have come to perceive the EU as a bad deal. The sentiment of losing control and identity has been deepened by the impact of globalization.

Faced with this reality, now more than ever, we must come together and fight for the values and freedoms that we share. The free movement of goods, services, capital and people through our internal market are freedoms that must be preserved. These are freedoms that cannot be taken for granted.

We must tell the legacy of Europe and the benefits it has brought to its citizens and enterprises. European Family Businesses believes in the European Project, and we believe that it can deliver for everyone. We must get the people of Europe to buy back into the European project - the idea of Europe must again inspire people.

The new Europe must convince its citizens, in a more inclusive way, that it can provide them with the security and stability that they deserve. Therefore, the EU must utilise its strength by working together.

The construction of the European Union has sometimes been fraught. Understandably it has evolved and adapted to an ever-changing political and social landscape, sometimes favouring short term fixes instead of long-term solutions with painful short-term consequences. Finding long-term solutions in our political construct might be a paradox, but Europe must break the cycle of evolving from crisis to crisis. The long-term future of the European Union depends on it.

Family businesses at the heart of the EU economy

Family Businesses are the backbone of the European economy, with more than 14 million businesses providing over 60 million jobs in the private sector. The shared feature of these companies is the ownership/family aspect. Family businesses in Europe have been widely equated to SMEs, but this definition neglects larger family businesses.

Family businesses are particularly important for Europe because of their responsible business model: their personal investment in the business means they will make more responsible, long term decisions and family businesses tend to reinvest their own profits responsibly by means of equity financing. In fact, "the multi-generational character of family businesses reinforces the stability of the economy." (2015 European Parliament Resolution on Family Businesses).

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Values-based thinking is at the heart of any successful family business. Family companies will be driven by their values: thinking long-term, operating sustainably, acting in a socially responsible way, supporting their community, and responsible risk taking. They are constantly renewing themselves to ensure that they adapt to new circumstances and seize on opportunities, so they can last for generations. Effective business owners will seek to act as the stewards of the business; leaving the business in a better condition than they received it.

The European Union should be no different. These lessons, these values, can and should inspire our decision makers to present and create a more positive vision for Europe. **Family businesses form the basis of the EU's social market economy and are the cornerstone of responsible ownership and long-term entrepreneurship. For this to continue, Europe must become the most dynamic, innovative, stable, and sustainable area in which to do business.**

What family businesses need for the future

For European Family Businesses, there is no doubt that the future prosperity of Europe depends on the survival, renewal and growth of its millions of family businesses, most of which are SMEs. Ensuring that they have the right framework to grow is crucial. As such, the European Union must ensure that its businesses can benefit from the opportunities of the single market and globalisation, which in turn, will benefit the citizens of Europe.

Completing the single market

The single market is an important asset for family businesses currently operating across Europe. With its intelligent combination of common rules and competitive freedoms, it is with no doubt an outstanding success of the European integration process. Unfortunately, despite the best efforts of various stakeholders, it remains incomplete and distorted. Making the single market more efficient must be a priority for the future construction of the European Union.

Above all else, family businesses seek certainty when entering foreign markets. The fiscal, legal and administrative environment in which family businesses operate is defined by the combined effect of corporate legislation and private law. Currently, the single market, with the fiscal and legal disparities contained within, discourages many family business owners from taking the risk and going abroad. This is particularly true for Family SMEs. As with the concept that underpins the Capital Market Union, owners should be able to live and operate anywhere across the Union with the relative legal and administrative assurances that they enjoy in their domestic markets.

The rules governing the single market are often very complex. Family businesses have consistently called for a reduction of administrative burden and the introduction of simpler tax rules. EFB acknowledges and welcomes the efforts of the European

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Commission, through its REFIT and SOLVIT programmes for instance, to make the single market simpler, fairer, and more accessible.

In the future construction of the European Union, it is imperative that rules are made as simple and clear as they can be, as well as being properly enforced. Information and digital tools must be made available to ensure that a business has everything it needs to operate across borders with certainty and confidence.

Promoting long-term sustainable financing

The long-term financing of the European Economy and access to finance are issues that have rightly taken centre stage in Europe. The European Union must play an active role in ensuring that the issue of taxation, and in particular, the treatment of long-term equity is being addressed as a matter of fair competition. This does not mean that good policy making and budget management by member states can no longer be expressed in smart national taxation.

In the wake of the European debt crisis it is of paramount importance to strengthen the equity base of European companies and to break Europe's addiction to debt. Equity is a prerequisite for all other finance. The need for equity finance will increase further as stricter regulations become the norm that force banks to demand higher equity ratios from their customers. Europe's preference for debt over equity is doing its economy a great disservice by not promoting the right dynamics for new business creation and stable financing of existing ones.

It is also worth considering, in relation to the previous point surrounding the completion of the single market, that the distortion of treatment of equity varies not only depending on the domicile of the company but also on the domicile of the owner (within the EU), and that the fiscal disparities not only distort competition but also discriminate owners and may work as a significant factor in limiting the free movement of capital.

Europe needs a cultural shift that puts equity finance on par with debt. We must promote a system that encourages the accumulation of equity. In other words, Europe must promote a system which better channels aggregate private and household savings into financing entrepreneurial endeavours.

Ensuring businesses have the right skills for the future

Businesses in all sectors are going through profound changes due to important disruptive technological and environmental changes. For European business to remain at the forefront and to remain competitive, major adaptations will be needed in the workforce

There is a "war for talent". The EU must focus on delivering the right skills for future jobs. It must help and encourage Member States to really focus on enabling businesses and individuals to take up the opportunities that technological changes will bring. Special attention must be given to promoting the role of apprenticeships and vocational learning as they have proven to be a successful form of work-based learning. Through the promotion of a dual educational system, with a focus on cross

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border initiatives, Europe will give itself the best chance of ensuring that the skills gap can be filled.

In the new Europe, it will be essential for both national governments and European institutions to work closely together with businesses to ensure that the workforce is equipped with the right skills to drive European industry forward. EFB is convinced that the European Union has a crucial role to play in this field, but it must devote more time and resources to meet this challenge. With a comprehensive and integrated jobs and skills agenda, the EU will be delivering concrete added value to both its citizens and businesses alike.

A real growth agenda for Europe

Ensuring that we encourage our SMEs to grow must be a priority for the future. Research has shown that existing companies contribute more to growth and employment when compared with start-ups. We must support the sometimes-dormant growth potential in existing businesses, which means broadening support schemes so that all types of companies regardless of size or age can benefit from them.

We must ensure that business support for SMEs does not incentivize businesses to stay below a certain size. Indeed, the creation of a medium-sized category could act as a transitional step to aid SMEs who have the potential and willingness to grow. In the new Europe, support must be channelled to companies that are underpinned by long-term ownership, sustainability, innovation, local commitment and growth potential.

Research in several Member States has shown that it is fact mid-caps that create most of the new jobs. Therefore, it is essential that Europe has a healthy mix of small, mid-sized, and large enterprises. Europe must not shy away from supporting our companies to grow.

The EU as an outward looking trading partner

As acknowledged in the Commission's reflection paper on 'harnessing globalisation', international trade and investment are important catalysts for economic growth and sustainable development and are often important for the success of businesses. Europe has greatly benefited from the increased interconnection and integration of the world economy.

The prosperity of Europe depends on it being an outward looking champion of free and fair trade. However, governments and businesses alike have failed in their responsibility to inform the public of the benefits of globalisation. Too many European citizens believe that free trade and globalization are harmful. As with the now stalled TTIP negotiations, it was evident that Europe's citizens were not properly informed of the potential benefits of a free trade agreement. Europe and its Member States must do better at informing their people about how open markets and enhanced trade partnerships can potentially benefit all citizens.

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Currently we face the threat of a protectionist backlash in the U.S. and the risk that global institutions and rules are becoming increasingly irrelevant. However, a strong international liberal trade regime is vital for the EU. Therefore, it is now urgent to make sure that the EU can and will speak with one voice. Member States should refrain from trying to make separate deals with the U.S. Secondly the EU must be prudent in its approach and try to avoid escalation, which would finally result in a fully-fledged trade-war. Such a trade war would not have a winning side but only losers everywhere.

In general, we must better explain that free trade agreements are a tool to shape globalization: through them we can set the highest levels of protection for consumers, health and the environment. If Europe does not take the lead, other countries will set standards in the coming years which will not be as protective as ours. We must strengthen the notion that, as a Union, we can get the best trade deals that enhance our growth prospects as well as promoting our societal values. Finally, the EU should develop a proactive policy with the aim to create a barrier free European Economic area that covers the whole continent.

Empowering the Next-Generation

The transfer of business or business succession is and always will be an enormous challenge for family businesses. But, at the same time, if prepared correctly, if properly fostered by the legal, administrative, and fiscal environment, it is a huge potential for renewed growth in Europe.

A family business transfer must be considered as, not only a transfer of management, but a transfer of ownership, where that ownership is not a liquid asset but something which is built up and developed by the family over generations, including values, traditions and know how. As a result, because of the inherent complexity of family business succession, it is crucially important that the environment, where the transfer takes place, gives a family business the best chance of survival.

It is crucial, along with a dedicated SME policy for example, that the EU and its Member States, implement a strategy that will support the transfer of business. There is a huge entrepreneurial opportunity waiting to be unleashed if we give it the right push.

Re-constructing the European Union for the long-term

Ultimately, regardless of which route is taken by the Member States on the future construction of the European Union, we need a model that is long-term and sustainable in its outlook. The only way for family businesses to be able to plan and think reliably in the long term is to have a sustainable environment in which to grow. Europe needs to define its strategy and agree on a common vision.

In addition, it is of paramount importance to reengage our citizens into the European project. The question of whether we need more or less Europe can't be answered in a general way. In a broadly conducted discussion, Europe's businesses and citizens must be convinced why further joint European action in a particular policy field will bring

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advantages to them. Both the business community and the political class **must present a vision for the future of Europe that is positive, inclusive, and inspiring.**

It has become clear that the disturbed balance between supra-national power and national original autonomy is the main reason for growing so-called Euro-scepticism and the strengthening of populist movements. During past decades progress of European integration was increasingly understood as a transfer of power from the national to the supranational level. The assumption that more EU wide rules or institutions could create "more Europe" is a misunderstanding of the nature of integration. Instead the principle of subsidiarity must be strictly observed, and its application must be better monitored. This should also be, as mentioned above, combined with a renewed and strengthened policy to cut unnecessary red tape and to reduce administrative burdens, which stem from EU rule making.

Stability will not be reached by any politicized bargaining and the simple rule of law, which is the binding element for the EU, must be restored. In addition, the European Union must also be flexible enough to allow the Member States that want to do more together the possibility to do so. Finally, it is crucial that Member States refrain from using the EU as a scapegoat in the future; we must aim to have a transparent decision-making process.

Family Business commitment to Europe

Family businesses have been and will continue to commit to Europe. We will keep growing and investing for the long-term. **What we need from our decision makers is simple: recognition of the indisputable and valuable contribution that responsible owners from family businesses make to support and maintain stable local and regional economies. We maintain that the prosperity of Europe and its citizens is directly linked with the health prosperity of the domestic family business sector.**

Therefore, in response to the debate concerning the 'Future of Europe', **European Family Businesses maintains that a pro-growth, business friendly agenda that, above all else, prioritises providing its citizens with the right skills and jobs is the way forward. We believe that further integration should only happen in areas where true added value is obtained.**

European Family Businesses is a EU Federation of 14 national associations representing family owned companies. Our members represent a turnover of more than one trillion Euros, over 9% of the European GDP. We strive to raise awareness about the crucial role of family businesses in the European economy by pressing for policies that put family owned companies on a level playing field with other companies, and policies that favour and promote long term responsible ownership. Our field of interests include: the transfer of business; debt and equity financing; access to finance; gift and inheritance tax; growth; succession planning; entrepreneurship education; the future of Europe.