Massachusetts Mutual Life Insurance Co.’s third survey of family business owners in as many years finds that the owners’ growing concern over estate taxes may be leading them to do more formal planning.

The 1995 nationwide survey of 1,029 owners of family firms shows a dramatic upward trend in the incidence of formal planning at family firms. For example, the number of owners who report having a formal plan to guide the transition of the business from one generation of family leadership to the next has more than doubled since the first survey, increasing from 21 percent in 1993 to 44 percent in 1995.

It appears that estate tax concerns may be motivating this increased planning activity. When asked to rate their level of concern over specific taxes, twice as many owners (28 percent) expressed concern over estate taxes than named capital gains taxes (11 percent). Also, 58 percent of owners said they had a good idea of their estate tax liability, compared to 43 percent who did so in the 1994 survey.

Provisions made for estate tax liabilities that can reach 60 percent of the value of the estate have caused 26 percent of family firms to reduce their capital investment in their businesses. This suggests that some one-fourth of family businesses are being either downsized or exposed to greater risk in response to anticipated estate tax liabilities.

The nation’s more than 12 million family businesses are estimated to account for well over half the U.S. gross domestic product. Despite the massive size of this sector, it is only recently that family firms have been the subject of significant research, educational and marketing efforts.

Outreach efforts to family firms have emphasized the need for increased formal planning among a sector that tended to shun the type of formal management practices that non-family firms employ. The 1995 survey shows that family firms are beginning to do more formal planning, at least when it comes to tax and succession issues.

The survey was conducted by Mathew Greenwald & Associates, Inc. of Washington, D.C., and the Gallup Organization as part of MassMutual’s ongoing research and service efforts on behalf of family firms. The survey involved a random selection of family business owners from across the country.

Respondents were owners, presidents or chief executive officers of businesses who have been in business for more than 10 years, have more than $2 million in annual rev-
enue and more than 10 employees. Highlights from the survey include the following findings.

Owners report few problems with access to capital. When it comes to financing, owners of family firms of all sizes report uniformly high expectations for receiving the capital they require. Improvement is especially pronounced among smaller firms (those with revenues of $10 million or less).

Male relatives carry more clout in family firms. Male relatives are more likely than females to be involved in family businesses, to hold more influential positions and to be identified as the key decision-makers for the business. Sons are four times as likely as daughters to be identified by owners as controlling ownership and governance decisions in the next generation.

Owners encourage children’s participation in the family firm. Some two-thirds of the people who own family businesses were raised in families that owned a business, and three-quarters of all owners with children said they would encourage their children to follow in their footsteps.

Decisions are made by consensus and fostered by trust. Decisions on key issues are made by a small number of people who make decisions through consensus. Most owners feel the key decision makers trust one another, but are less certain they share goals or achieve what they set out to accomplish.

Owners remain split on Clinton but have high hopes for the Republican-led Congress. Family business owners
remain positive about the overall economy during President Clinton’s term, but have a less enthusiastic attitude toward the effect Clinton’s policies have on family businesses in particular. In contrast, the owners look with hope toward the Republican-led Congress as a positive factor for family firms.

**Family businesses focus on improving value of the firm.** Value and profitability continue to stand out as the top priorities of family business owners, while growth once again ranked considerably lower among financial considerations. These findings show that family businesses focus on long-term goals and not on growth for growth’s sake.

**About the Author**
Established in 1851, MassMutual is a provider of individual life insurance, annuities, employee group life, health, pension and investment services. It is one of the nation’s premier life insurance companies and among the 100 largest U.S. businesses in terms of assets.