Speaking points Mr. Jan van Walraven at the HEARING ON FAMILY BUSINESSES IN EUROPE – Brussels April 22, 2015

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Chairman and members of the Parliament, members of the committee on Industry, Research and Energy of the European Parliament, thank you very much for the invitation to speak on the subject of Family Businesses in Europe.

In 1924 my grandfather started as a plumber in the small village, Mijdrecht, in the Netherlands. My grandmother started a few years later a shop in which she sold gallantry. During the Second World War business for both was of course very bad. In 1942 my grandfather had the opportunity to buy the zinc roof of an old villa. With this zinc he produced typical products for the war like “Wonder stoves” and Carbide lanterns, which my grandmother could sell in her shop. Directly after the war, he started to produce pipe clips for rain and water pipes. This is why we say that our production started in 1942. My grandfather and mother had 6 children, 5 sons and a daughter. All 5 sons started their own business, two became plumber, 1 became editor and my father and uncle continued the production. Over time, all these businesses passed on to the descendants of my grandfather and grandmother.

Today, our family business The Van Walraven Group, develops, produces and sells pipe supports with our own subsidiaries in 10 European Union countries, and through companies in Russia, Ukraine, United States, Turkey, United Arab Emirates and China. In total we have about 1000 employees, of which almost 200 in the Netherlands, 500 in the rest of the EU and 300 in the rest of the world. In 1968, when I joined the company, we had around 40 employees and I am convinced that the growth to 700 employees in the EU, today, was very positively influenced by the development of the European Union. Also the speed with which the Middle and Eastern European countries joined the EU was very good for our company. Today about 350 of our employees work in these countries.

There were good and bad times in history, but we never made losses. The financial result and balance sheet are very healthy. Two years ago I retired as CEO and my youngest son Pelle took over this position. Today the executive board consists of 1 family member and 2 non-family executives. We also have a Supervisory Board, with one family member (myself) and 3 outside independent members. In total 6 family members actively work in the company, 1 member of the 3rd and 5 of the 4th generation. 18 family members jointly own the company: 7 of the 3th generation and 11 of the 4th generation. There is a family constitution in place and we put a lot effort in keeping our shareholders involved.

This was a brief introduction of our family business and our activities in Europe. Now I would like to make some remarks on the challenges for family businesses and the draft Own Initiative Report.

The importance of Family Businesses in Europe is clearly shown. I agree with the observation that the current definition is clear enough and not statistically workable. Therefore I think it is very important that a clear and statistically workable definition will be made urgently. This definition should accommodate the diversity of family businesses depending on criteria such as ownership constellation, size and/or activities. Our company, a 4th generation globally active family business with 17 family shareholders, has different challenges and needs than a founder who is passing on his local company to his 2 children. A family business definition will be of great help to develop specific enterprise policies in Europe and in the Member States but also to develop a Family Business Test, like the SME test, that allows to also test new regulations and legislation on e.g. ownership and governance structure or privacy and security matters.

Another challenge I want to address is the effective use of resources both from the private sector as well as from the EU. Let me explain that with an example from our family business. Already in 1991 we started a new business in the Czech Republic. We never received any support from any government but soon we employed 300 people in a rural area and we are still there. Many years later a big international Dutch company decided to built a new factory in Czech Republic. Unfortunately they decided to close the factory again a few years later. This can happen. But what struck me is that they received many millions support from the Government and from the EU only to close a factory again, fire people and create unemployment. It might be a good idea to test such support on long-term commitment and responsible ownership criteria that family businesses live by. It could have guaranteed that the money was much better spend with family businesses and that there is less capital destruction due to short-termism.

I already explained that we have several companies in rural areas, like in Mijdrecht in the Netherlands, Cista and Horka in Czech republic, but also in Bayreuth in Germany. Bayreuth may not sound rural, but when we started there in 1986 it was at the outset of Europe. The reason to start in those areas was usually that we decided to take over a not performing existing company, but with skilled and committed people. And when we become owners of a company we feel responsible for the stakeholder's area and if possible stay there. We act as responsible owners with a long-term view and we are involved in the communities where we are active. Continuity and Stability are key factors in our strategies to ensure business success.

Three of the most important characteristics of family businesses are in my view:

Financial stability. We reinvest most of the profit. And the average family business has a very high solvability.

Flexibility. If needed decisions can be made very quick and if circumstances change we have developed the tacit knowledge within our families to adapt.

Innovation. Family businesses often work in market niches; they have a very deep knowledge of those markets and are able to identify opportunities. Therefore they are able to come with innovative products and solutions.

I have however a big concern around financial stability in relation with succession, especially in succession in ownership. In most European countries exemptions for gift and inheritance tax are in place with regards to the business assets. This works very well for the financial stability and so for the future of these companies, as for example shown in a recent report of PWC. But in several member states there are discussions to take away or minimize these exemptions, usually under pressure of budget deficits. Long term patient capital that is needed for business continuity and innovation should not be eroded by unexpected taxable events such as the death of an owner. It should be facilitated.

Already since my grandfather started the company we have the philosophy that we can only innovate if development and production are very close to each other. This is the reason that we never substantially outsourced production to China, but produce in Europe for the European countries and several export countries. We just started a new factory in China because our sales in China now justify a factory that produces for the Chinese market. In this factory we also start an innovation center for the Chinese market. That stimulates innovation to the maximum. One of our goals is that 20% of the turnover must each year be made in products that are less than 3 years old.

A final comment I want to make is the role that business-owning families play in supporting and stimulating entrepreneurship. In our area (The Green Hart of Holland) I am the chairman of a foundation called "Green Hart Summer Entrepreneurs". With this foundation and the cooperation of several local town councils and a lot of companies we offer a program during Summer time to young people with a business idea. We stimulate and support them to start their own company during their summer holidays. Every year we have a group of between 30 and 40 young people participating and at least 50% continues as an entrepreneur. They start either next to their study or they already see it as a real job. The most valuable part of this program are the visits to companies and the stories they hear from entrepreneurs and family business owners.

This experience within our own local community we also apply in Europe. The first years that we were active in Middle Europe come to my mind, the early nineties. People were willing to learn and had to learn. So an entrepreneur who shared experiences was very important in those days. A simple example, if you asked in those days a company for a price for a product they would usually ask what it might cost and not what the cost would be. This meant educate them to calculate a cost price, and which we did.

Today, 25 years later and a lot of the companies that started in those days are facing succession as the founders reach retirement age and their children step up to take over. Again a new subject for them, on which the experiences of family business owners can be helpful. I think that it is very important that education will include topics like entrepreneurship, business continuity, succession and working together as a family. Family business owners with experience on these subjects could share their experience and stories. This can help stimulate others, improve awareness and to better ensure a sound base of Family Businesses, who take responsibility, are financially stable, flexible and innovative.

To summarize:

- Better understanding of what a family business is and contributes to economy and society begins with a statistically workable definition.
- Financial stability allows innovating, growing and continuing beyond an entrepreneurs' lifetime.
- Societal impact through tapping on the tacit knowledge of business owning families and their willingness to contribute to education an the communities they live and work in.
- Strengthening business continuity by ensuring exemptions on gift- and inheritance tax for business assets

- Family businesses with their drive for commitment and long-term patient capital may be better to provide funds and support as the returns are better for the member states and the society.

Chairman, thank you very much for the possibility to share my experiences and views with you. I hope your work will contribute to an entrepreneurial Europe that will grow and where Family Businesses can flourish so they can do good for our communities and our children and grandchildren.

JvW

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