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Study: Family businesses growing steady and strong but face future risks

2007 American Family Business Survey

highlights opportunities and challenges for family firms across the U.S.

(November 1, 2007) -- Family businesses are optimistic about their robust growth but not completely immune to future challenges, according to a survey released today and sponsored by Massachusetts Mutual Life Insurance Company (MassMutual), the Family Firm Institute, and the Cox Family Enterprise Center at the Kennesaw State University Coles College of Business. Increasingly led by women and driven by strong ethical and family-oriented values, family businesses are most at risk for financial troubles centered on the lack of formal succession planning and preparation, and the personal financial issues of family business owners, according to the study.

The survey, conducted every five years, found that family-owned businesses are growing both in terms of revenues and jobs, and they expect to continue doing so. Women are often leading that growth and have assumed leadership positions in family businesses at much higher rates than

their counterparts have in primarily non-family firms in the Fortune 1000, of which only 2.5 percent are currently led by women (Fortune magazine, April 30, 2007).

Importantly, this unique research study also raised red flags: many family business owners have not adequately prepared for managerial and ownership succession, nor have they prepared a personal estate plan to ensure an efficient transfer of wealth to heirs.

“This survey is just one example of the Institute’s dedication to raising public awareness about trends and developments in the family business field,” said Judy Green, Ph.D., executive director, Family Firm Institute. “This research study is the oldest of its kind in America and a leading measure of family business trends. It is particularly important because family businesses fuel the American economy,” according to Green.

“The research results demonstrate that many family businesses can benefit from a variety of professionals who understand the unique issues, needs and challenges faced by family business owners,” said Beth Wood, marketing director, U.S. Insurance Group, MassMutual, which offers its agents access to the Certified Family Business Specialist Program, the first accredited graduate program developed exclusively with The American College for MassMutual. “To ensure continuity and future growth and security, family business owners need to focus attention on succession, estate planning and other family business and financial issues.”

The independently conducted survey canvassed 1,000 family-owned, predominantly closely held businesses to gauge strengths, challenges and changes since the last survey was conducted in 2002. Among its many findings:

- Nearly three out of four firms report increased revenues over the past three years, with more than one-third reporting increases in excess of 11 percent. Looking forward, 22 percent expect double digit growth and more than half expect an increase in sales revenues up to 10 percent. More than one-third expect to add employees.
- Among family business owners who expect to retire in five years, fewer than half have selected a successor; of those expecting to retire in six to 11 years, less than a third have done so. Nearly a third has no estate plan beyond a will, nearly double the number of

those surveyed in 2002. And only 54 percent report a clear understanding of the impact of estate taxes, which can jeopardize future generations' ability to continue the business.

- There has been an almost five-fold increase in the number of women leaders in family business since 1997, and almost a third of firms indicate they may have a female successor.
- Most family businesses (60 percent) believe that their ethical standards are more stringent than those of competing firms. More than one third (37 percent) have written ethics codes, and discussions about ethics with employees, customers, and partners are frequent.
- Despite perceptions that family businesses are less rigorous planners, significant percentages of family businesses use traditional business tools and processes, such as strategic plans, buy-sell agreements, and regular formal valuations, and have active boards.
- Family unity and cohesion are critical to family business success, according to respondents. Eighty-seven percent say family members share values and 83 percent reported unity on ownership matters such as strategy and management. Eighty-five percent report that the family shares similar values with employees and customers.

“While a succession plan has its place, what’s critical is that family businesses establish a board of directors and conduct ongoing organization-wide strategic planning, which can lead to a successful succession,” said Dr. Joe Astrachan, executive director for the Cox Family Enterprise Center. “In fact, this is exactly why the Center developed an executive MBA for Families in Business. Students will explore issues that may surface when leading a family business and will be ready to respond by creating effective strategies that leverage competitive advantages unique to them to achieve business goals and chart the families’ futures.”

To learn how the Family Firm Institute can help family businesses or to become a member, visit www.ffi.org. To learn more about the Executive MBA for Families in Business and

how the Cox Family Enterprise Center can help family businesses, visit <http://www.kennesaw.edu/fec>. To learn more about how MassMutual can help family businesses, visit <http://www.massmutual.com/familybusiness>.

Note to editors and reporters: An executive summary of the research results is available upon request.

About the Institute

The Family Firm Institute is an international professional membership organization dedicated to providing interdisciplinary education and networking opportunities for family business and family wealth advisors, consultants, educators and researchers and to increasing public awareness about trends and developments in the family business and family wealth fields. For more information, visit www.ffi.org.

About the Cox Family Enterprise Center

For 20 years, The Cox Family Enterprise Center has promoted family businesses around the globe through research based insights, education and recognition. The Center's goals are to be consistently one referral away when anyone asks for family business advice, the first thought when anyone asks about family business research, and the most emulated academic program in the world. The Cox Family Enterprise Center is one of the oldest and largest family business centers in the world and has received numerous awards for its scientific research that translates into instant application and results for thriving families in business. For more information, visit www.kennesaw.edu/fec.

About MassMutual

MassMutual Financial Group is a marketing name for Massachusetts Mutual Life Insurance Company (MassMutual) and its affiliated companies and sales representatives, with more than \$450 billion in assets under management at year-end 2006. Assets under management include assets and certain external investment funds managed by MassMutual's subsidiaries.

Founded in 1851, MassMutual is a mutually owned financial protection, accumulation and income management company headquartered in Springfield, Mass. MassMutual's major affiliates include: OppenheimerFunds, Inc.; Babson Capital Management LLC; Baring Asset Management Limited; Cornerstone Real Estate Advisers LLC; MML Investors Services, Inc., member FINRA and SIPC (www.finra.org and www.sipc.org), MassMutual International LLC and The MassMutual Trust Company, FSB. MassMutual is on the Internet at www.massmutual.com.