Family Owned Business in West Michigan

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Many people may be surprised when they learn that family owned businesses contribute 57% to the U.S. economy and over 70% to the GDP in many other free democratic societies around the world. However, it isn’t necessarily surprising to those of us living in a community led by family businesses that include Amway, Bissell, Gordon Food Services, Iwrin Seating, Lacks, Meijer and Steelcase. Family business scholars have begun to explore the importance of family owned businesses as well as the unique role they play in a community.

The tangible and intangible benefits of the prevalence of long-term stable family businesses in West Michigan may be one of the reasons West Michigan has been ranked as a top place to raise a family (Forbes, 2014) and to live (Relocate America, 2011) and to retire (AARP, 2013). While many areas of the auto-dependent Michigan economy have struggled, something truly unique has been occurring in West Michigan. There may not exist a better geographic region to study family owned businesses. And this is exactly what the Family Owned Business Institute (FOBI) at the Seidman College of Business intends to do. FOBI’s mission is to champion and serve family owned businesses through education and research.

In collaboration with Dr. Laurel Ofstein at the Haworth College of Business at Western Michigan University, FOBI conducted a survey of family businesses in West Michigan. Ellie Frey, the Director of the Family Business Alliance, also contributed to this project, as did Seidman faculty members Dr. Paul Isely and Rita Grant as well as Kevin McCurren, the Executive Director of Seidman’s Center for Entrepreneurship & Innovation. The database consists of 690 family businesses, and the 2014 survey had a 23% response rate.

Findings: While 80% of the family businesses surveyed planned on handing down the business within the family, only 19% had a formal written succession plan in place. Not surprisingly, the number one topic requested for future workshops was in the area of succession planning. The lack of planning may be part of the reason why family businesses have such a difficult time surviving successions. (Only 30% survive from the first to second generation transfer, 14% from the second to third, and less than 5% from the third to fourth generation.)

Given the difficult succession rate and lack of formal planning for succession, one might expect to see few older family owned businesses. Supporting Schumpeter’s Creative Destruction theory, we have continued to see the average age of businesses decrease. On the S & P 500 in 1958, the average age of a business was 61 years. In 1980 it was 25 years and in 2011, only an 18 year lifespan (Foster & Kaplan, 2011). However, the results of the 2014 survey found something very different is occurring in family businesses in West Michigan. The age of family owned businesses in the survey ranged from 1 to 155 years old. Surprisingly, the mean was 50 years and 11% were over 100 years old. Maybe it wasn’t just fluoride that was added to the water in Grand Rapids in 1945. Further research could explore factors that may contribute to this interesting phenomenon that has been occurring in West Michigan and how it has impacted our communities.

In most geographic regions, family owned businesses are small to medium size enterprises (SMEs). This is a European Union designation for companies with less than 250 employees and sales under 50 million EUR. In our survey, 88% of our sample...
had sales under 50 million USD (63 million EUR). Family owned businesses appear to also behave in ways that the Local First movement would appreciate. Ninety percent produce their products or services in Michigan, and 66% obtain their consumables in Michigan (only 2% purchase consumables outside of the U.S.).

We know from the literature that family owned businesses live out their values in their business as well as in the community. In our survey, 90% engaged in philanthropy with up to 82% giving up to $100k. In the future FOBI will be conducting a study to explore the philanthropic impact of family businesses in West Michigan.

While family owned businesses have been criticized for being risk averse and not taking on more debt when the economy is on an upswing, the lack of debt during a downturn allows FOBs to function very differently. While publicly traded companies move quickly to reduce their workforce to survive a downturn, family owned businesses will only lay off as a last resort. As a matter of fact, our survey found that the first course of action (mentioned by 76% of family businesses) would be reducing or eliminating distributions to owners. In addition, 58% would reduce or eliminate salaries to family members if revenues significantly declined. Subsequently, we believe that family businesses may function as a type of ‘ballast’ during a downturn buffering the effect of unemployment and stabilizing the areas where they are more prominent.

While we have known that family owned businesses have been extremely important as key employers providing well paying and stable jobs in West Michigan, they may actually be playing a larger role in our local economy and in making our community a great place to live. As we learn more about the important role family business plays in our economy and community, the Family Owned Business Institute at the Seidman College of Business will begin to advocate for public policies to sustain and grow family businesses in our community, our state, our country and our world.

Reference