Introduction

CBIA is pleased to collaborate with our sponsors in producing Connecticut’s sixth annual Survey of Family Businesses, aimed at better understanding and responding to the needs of family-owned and family-managed enterprises in our state. Survey findings guide us in developing programs, services, and public policies that help Connecticut’s family businesses succeed.

Family businesses are vital to their communities and to the economy. They represent as many as 90% of all businesses in North America, contributing 50% of the U.S. gross domestic product, employing 60% of the nation’s workforce, creating over three-quarters of new jobs, and outperforming nonfamily firms on measures such as operating return on assets.

In 2012, CBIA launched an initiative to support and grow the state’s thousands of family businesses. Sponsored by First Niagara Bank, CohnReznick, and Reid and Riege PC, CBIA’s Family Business Program coordinates resources from its sponsors and others to provide thought leadership and forums celebrating the success of family businesses in the state while addressing the challenges unique to the family-owned and family-run model. We encourage family businesses throughout the state to participate as we discuss topics such as:

- Financial management: building and preserving wealth
- Family issues impacting family businesses
- Governance
- Leadership
- Banking strategies
- Succession planning
- Legislative issues affecting family businesses
- Compensation strategies
- Evaluating company and employee performance

For more information, contact CBIA’s Mark Soycher at 860.244.1138 or mark.soycher@cbia.com.

Who Are Connecticut’s Family Businesses?

Family-owned enterprises represent a cross-section of the state’s business community. Participants in this year’s...
survey include manufacturers; service providers; retailers; construction companies; finance, insurance, and real estate firms; and businesses engaged in communications, transportation, and wholesale trade.

The greatest share (40%) of respondents are second-generation family companies. Roughly one in five (21%) are third-generation businesses, and one in ten (11%) are fourth-generation or beyond. On average, our respondents represent businesses established around 50 years ago.

A significant number of family businesses, however, are newer. More than one in four respondents (28%) are first-generation businesses.

**Key Findings**

- Among second- and third-generation family businesses, roughly half are manufacturers. First-generation companies, on the other hand, belong primarily to the service sector (30%), followed by manufacturing (20%), construction (18%), and retail (14%). These findings suggest two possible trends. First, the nature of Connecticut’s family businesses may have shifted over the past generation from manufacturing to services. Alternatively, or in addition, manufacturers might have more staying power than other types of family enterprises, lasting well beyond the first generation.

- Slightly more than half of the family businesses surveyed (52%) expect an increase in sales or revenue in 2013; close to two-thirds (65%) anticipate rising sales and revenues in 2014.

- About half of the businesses surveyed (47%) expect their workforce to remain stable. Another 34% expect to add jobs.

- Workforce development is the greatest internal challenge facing family businesses.

- Specific human resources challenges over the next five years for Connecticut family businesses surveyed are—in order of prevalence—skill deficits, leadership development, implementation of Obamacare, workforce shortages, compliance with labor laws and mandates, and creating a business culture aligned with growth plans.

- Taxes and regulations are the biggest external challenges for Connecticut’s family businesses, cited by 41% of those surveyed.

- Top concerns regarding business growth are a slow economy (cited by 25% of respondents as the number-one concern) and overall business costs (23%).

- Though this year’s survey shows modest improvement over years past when it comes to professionalizing family businesses, the need persists for clearly articulated strategic plans, consistent employment policies, and other facets of organizational structure.
While 40% identify Connecticut’s customer base as their greatest source of growth this year, half of the family businesses surveyed trace most of their market growth in 2013 to other states. Ten percent see the strongest growth in international sales.

Outlook for 2013–14: Modest Improvement Expected

For family businesses, overall business expectations are reasonably good. Many anticipate that revenues will increase in 2013 (52% of respondents) or remain stable (28%). They are more optimistic about 2014, with 65% of respondents anticipating a rise in revenues.

Only 9% of respondents foresee a decrease in revenues in 2014, compared to 20% who project a shortfall this year.

The employment outlook among family businesses is also relatively positive. While some job losses are expected for 2013 (11% of respondents) and 2014 (9%), about half of our respondents expect their workforce to remain stable, and a sizable number plan to add jobs this year (34% of respondents) and next year (42%).

Family businesses also plan to make significant investments, greater than a typical year, in equipment (63% of respondents), IT (41%), facilities (35%), employee recruitment and retention (35%), and training (25%).

Top choices for financing, if the need arises, are bank loans or lines of credit (82% of respondents), business earnings (39%), family assets (22%), and vendor credit (14%).

Business/Economic Climate

In an open-ended question, we asked family businesses to identify their company’s proudest achievement in the last year. Responses paint as clear a picture of the strengths and priorities of Connecticut’s family businesses as they do of the weak economic climate in which they operate.

Forty-four percent of respondents were proudest of recent growth/expansion or their ability to maintain/achieve profitability. Another 23% noted success in new business models or certifications, lean initiatives, facility renovations, staff development, or corporate citizenship.

Significantly, however, 27% identified no major achievement or reported that they were simply proud to have survived the past year.

“...most family-owned enterprises plan to make significant investments in areas ranging from equipment, facilities, and technology to employee recruitment, retention, and training. Growth in Connecticut will continue to depend on positive collaboration between for-profit companies and state government creating incentives for businesses to stay and thrive here.”

Chad Stewart | Vice President, Commercial Lending, First Niagara Bank, N.A.
Indeed, 90% report that Connecticut is not a business-friendly state. The three single biggest concerns weighing on family business owners in terms of growth are a slow economy (25%), overall business costs (23%), and difficulty finding employees (13%).

The CBIA/BlumShapiro 2013 Survey of Connecticut Businesses, also conducted this summer, found that a large percentage of business leaders surveyed have a negative view of Connecticut as a place to do business and that controlling state government spending is their top recommendation for improving the business climate. Family business owners were, of course, widely represented in that survey.

These earlier findings, together with the sentiment expressed in our current survey of family businesses, point to a problem of confidence in state policymaking that can negatively impact decisions about hiring and investment. They also raise questions about how much better things might look if business confidence in the state was strong.

Workforce

Looking out over the next five years, a combination of skill deficits and a workforce shortages pose the greatest human resources challenge for nearly one-third of family businesses surveyed.

“...It is no surprise that continued skill development and, in particular, leadership development and the coaching of employees are some of the most significant challenges identified in the survey. What is often overlooked in business is the significant financial impact strong, effective leadership can have on the bottom line of an organization. As Connecticut-based family businesses continue to expand their operations outside of the state’s borders as part of their growth initiatives, it is more important than ever for their leaders to effectively communicate their vision, rally their teams, and model the way forward.”

John Turgeon, CPA, HCS | Partner, CohnReznick

Developing new leadership and finding the right people to take over the business are also key challenges (more than 23% of respondents), as is changing the business culture to reflect growth plans (10%).
The greatest employee training and development areas over the next five years are leadership, managerial, and coaching skills (identified by 41% of respondents as their company’s primary training need), industry-specific technical skills (35% of respondents), strategic planning (13%), and project management (8%).

More than 60% of family businesses provide professional development opportunities for their employees, such as sales, Six Sigma, or technical training; graduate courses; and/or tuition reimbursement. While these employers represent a majority, that still leaves a considerable number of family businesses—close to 40%—who have identified training needs but not the resources to address them. (In difficult economic periods, company training and marketing budgets are frequently the first to get cut.) Among family businesses surveyed, the average share of revenue set aside annually for employee training is just over 2%.

Internal networks are vital for family businesses’ employee recruitment efforts. Among 61% of respondents, employee referrals are a key resource to fill jobs. Classified ads (35% of respondents) are slightly ahead of Internet job boards, such as CareerBuilder (34%). One-quarter of the businesses we surveyed commonly hire walk-in applicants; at the other end of the spectrum, 24% use search firms. Referrals from colleagues are also a source of new talent, as are temporary staffing agencies, colleges, and job fairs.

In addition to workforce/skills shortages, other human resources challenges over the next five years are costs and compliance issues associated with labor laws and mandates (identified by 11% of respondents) and implementation of Obamacare (15%).

### Governance

Most businesses surveyed describe their company culture as informal/having limited structure (51%) or very informal (7%). Only 6% claim a highly structured environment with formal policies and procedures.

Like most entrepreneurial ventures, family businesses typically start out with little structure or formality. As they grow and become more complex, however, it becomes increasingly important for family businesses to professionalize.

More than half of our survey respondents (58%) conduct formal performance reviews for all their employees; 53% have detailed, written job descriptions.

While many respondents (35%) have documented salary grades for each job title, most do not. In fact, 43% do not use any outside resources—including salary data available on the Web—to determine appropriate salaries for their employees.

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**Greatest Training and Development Need**

Over the next 5 years

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<th>Training Area</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Leadership, managerial, coaching skills</td>
<td>41%</td>
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<tr>
<td>Technical skills for my industry</td>
<td>35%</td>
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<tr>
<td>Strategic planning</td>
<td>13%</td>
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<tr>
<td>Project management skills</td>
<td>8%</td>
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employees. Those who do consult salary data use Internet resources (31%), CBIA compensation surveys (30%), and Department of Labor statistics (18%).

More than three-quarters of family businesses report that their policies for hiring, training, promotion, performance evaluation, and retirement benefits do not distinguish between family and nonfamily members. Family businesses are less consistent, however, when it comes to compensation (34% have different policies for family and nonfamily members), bonuses (39% have different policies), ownership (72%), and termination (27%)—patterns that suggest limited opportunities for employees who are not part of the family.

These findings point up the potential for legal risks and negative exposure for family businesses, and they shed light on areas where better education and clearly defined plans and policies are needed.

With 72% of family businesses into their second generation or beyond, there is ample room for improvement in the areas of corporate governance and succession planning.

Family (and Nonfamily) Matters

Most companies surveyed (76%) have multiple generations involved in the family business. (The majority have two generations working side by side.)

Relatives most commonly employed in the family business are:

- Parents/children (68% of companies)
- Siblings (44%)
- Spouses (38%)
- Cousins/aunts/uncles (23%)
- In-laws (9%)

The median tenure for employees who are part of the family is 20 years. For nonfamily members, it is half that—10 years—although some businesses report nonfamily workers who have been with their company for three decades or longer.

In fact, employee tenure at family businesses (20.6 years of service, on average, for family members; 12.3 years, on
average, for nonfamily members) is substantially higher than the national average for employees overall: 4.6 years as of January 2012, according to the Bureau of Labor Statistics.

While 75% of family business owners believe they effectively balance the needs of the company with the needs of their family, 26% admit that balancing interpersonal, financial, and operational obligations can be a struggle.

Over one-third of businesses surveyed (35%) report a separation of full-time employment involving a family member over the last decade, in most cases because of a personal choice to pursue other opportunities. In one out of ten companies, family members were forced out.

Legacy, Succession, and Business Valuation

Eighty-four percent of family business owners believe that leaving a positive, lasting legacy upon retirement is important or very important. Although 58% intend to pass their business on to the next generation, only 7% say they are positioned to do that successfully. Steps needed for an effective transition include training and development (identified by 36% of respondents), ensuring the health of the business (24%), and proper succession planning (16%).
Forty percent of family businesses lack a succession plan; 20% report that they have a well-defined but undocumented plan. The remainder have a written succession plan (17%) or have incorporated one into their estate plan (23%).

Forty-two percent of company owners do not plan to pass their business on to the next generation in their family. Of those, most plan to sell their business to outside parties (65%) or employees (11%). The rest have not yet determined a plan.

Thirty-five percent of owners surveyed who plan to sell their business have buy-sell agreements in place, up from prior surveys. Of those, 45% based their selling price on an appraisal; 33% used a formula based on company performance; and 14% periodically revaluate and reset pricing.

Advice, Guidance, and Best Practices

Experienced family business owners often rely on family councils, advisory boards, or single- or multiple-family offices (SFO, MFO) to guide decision-making, investment, and best practices. Rather than exclusively involving family members or establishing “rubber-stamp” boards likely to agree with all of an owner’s decisions, successful leaders seek input from individuals outside the family.

Adoption of these strategies continues to be spotty among survey respondents.

Only 17% of respondents have an active or very active advisory board, 16% have a family council, and 10% have a family office—not a considerable change over previous years.

A significant improvement over last year is the percentage of family businesses belonging to an organization that meets and understands their needs—34% in 2013, compared to 20% in 2012.

Among their group of professional consultants, family businesses largely consider accountants (69%) and attorneys (56%) to be their most trusted advisors and confidants.

Only 31% of respondents have a formal strategic plan; those who do keep it current (the majority have reviewed and/or updated their plan in the last two years). The average plan looks out over five years.
A small number of businesses surveyed have an informal strategic plan (6%) or anticipate developing a formal plan in the near future (7%). Twenty-one percent of businesses without a strategic plan acknowledge that they don’t know how to create one, uncovering an area where professional consultants and organizations can play a meaningful role.

For most family businesses, however, strategic plans are a low priority: 39% consider them irrelevant, and 24% report a lack of time needed to develop and manage such plans. Here, too, professional advisors can influence new ways of thinking.

Conclusion

Family businesses are a keystone of our economy, generating a significant share of Connecticut’s wealth and economic output, providing good jobs for people throughout the state, and contributing greatly to local communities and the state’s quality of life. Some of the oldest businesses in Connecticut are family-owned and -operated. Lyman Orchards in Middlefield, for example, started in 1741; Bevin Brothers Manufacturing in East Hampton, in 1832; and Hubbard-Hall in Waterbury, in 1849.

Many family businesses, such as Barnes Group Inc. in Bristol, the Siemon Company in Watertown, Laticrete International in Bethany, Santa Energy in Bridgeport, and Cooper-Atkins Corp. in Middlefield, have outgrown their small beginnings and now collectively employ thousands of Connecticut residents. Still others have not only grown but have become household names—for example, Munson’s Chocolate in Bolton and Bigelow Tea in Fairfield.

We hope the information collected in this survey helps family enterprises capitalize on their strengths, minimize their risks, and position themselves for continued growth. We also hope it guides policymakers in shaping a regulatory and economic climate responsive to the needs of Connecticut’s family businesses.

Two facts are in stark contrast and should come as a wakeup call to policymakers: While 78% of new jobs are created by family-owned firms, 90% of family business owners surveyed say Connecticut is not a business-friendly state.

In 2014, CBIA will continue to maintain a powerful presence at the State Capitol, urging lawmakers to adopt policies that allow family businesses to grow, prosper, and create jobs in Connecticut now and far into the future.

“Family-owned and operated businesses’ stability and agility is a strength that has enabled them to remain a consistent force in producing the products, services, and jobs critical to our state’s economy, social fabric, and quality of life. It’s imperative that our state government and agencies recognize and take affirmative steps to sustain Connecticut’s family businesses.”

Mark Soycher | Counsel, Human Resource Services, CBIA
Methodology

Surveys were emailed in August 2013 to top executives at approximately 1,500 family-owned companies throughout Connecticut; 209 questionnaires were completed, for a response rate of 14% and a margin of error of +/- 6.9%.

Annual gross sales/revenues for responding companies averaged $38.3 million, with a median of $5 million.

All figures are rounded to the nearest whole number and may not total 100%.

Demographics

Industries represented in the survey:

- **Manufacturing** (40%)
- **Services** (15%)
- **Other** (12%)
- **Construction** (11%)
- **Retail Trade** (11%)
- **Wholesale trade** (6%)

- **Finance, insurance, and real estate** (4%)
- **Transportation, communications, electric, gas, and sanitary services** (1%)
- **Agriculture, forestry, and fishing** (1%)
CohnReznick recognizes that family-owned businesses face a distinct set of challenges as they focus on realizing both long- and short-term goals. In addition to contending with strategic planning and the setting of priorities for continued growth, they must deal with the many complex family dynamics and multigenerational issues that can often disrupt them from moving forward and achieving the success they desire.

Our team of highly experienced family business advisors is able to help guide closely held businesses through their unique set of circumstances and successfully address the issues and opportunities of today while helping them prepare for the challenges of tomorrow. In addition to the core accounting and tax compliance services we deliver, a few additional value-added capabilities we bring to our family-owned clients include:

- Developing a thoughtful succession strategy—one that is financially-based, as well as leadership-focused—with an actionable plan to implement it
- Educating future generations regarding the foremost financial matters impacting the organization, and helping them develop the leadership and other necessary skills they will need to succeed as they progress in the business
- Providing current and long-term effective tax and estate planning strategies to help create and preserve the family’s wealth
- Ensuring ownership is preserved in a manner consistent with the family’s desires through the use of appropriate buy-sell agreements, life insurance programs, and periodic business valuations
- Providing guidance and services in unique areas such as risk management, human capital/organizational effectiveness, and information technology infrastructure design and maintenance that will ensure they can meet their business needs today and tomorrow
- Organizing and facilitating advisory boards that bring together the appropriate resources to offer sound counsel and share best practice ideas that assist in making informed decisions
CohnReznick is proud of its sustained success in working with family-owned businesses. With origins dating back to 1919, CohnReznick LLP is the 11th largest accounting, tax, and advisory firm in the United States, combining the resources and technical expertise of a national firm with the hands-on, entrepreneurial approach that today’s dynamic business environment demands. CohnReznick serves its clients with more than 280 partners, 2,200 employees, and 26 offices. The Firm is a member of Nexia International, a global network of independent accountancy, tax, and business advisors. For more information, please contact John Turgeon, CPA, HCS, at 860.678.6014 or john.turgeon@cohnreznick.com.

Visit cohnreznick.com.

First Niagara Bank

First Niagara Financial Group, through its wholly owned subsidiary, First Niagara Bank, N.A., is a multi-state community-oriented bank with approximately 420 branches, $37 billion in assets, $27 billion in deposits, and 6,000 employees providing financial services to individuals, families and businesses across New York, Pennsylvania, Connecticut, and Massachusetts. First Niagara provides a wide range of consumer and business financing solutions including banking and cash management, consumer and commercial financing, investment and wealth management services, and more. Its subsidiary, First Niagara Risk Management, is a nationally recognized, full-service insurance agency which provides insurance products including personal and commercial insurance, surety bonds, risk management, employee benefits and administration, and life, disability and long-term care coverage.

For more information on how First Niagara can help you meet your financial goals and grow your business, visit firstniagara.com.

Reid & Riege P.C.

Founded in 1950, Reid and Riege, P.C., is a full-service law firm providing legal counsel and representation to many of the region’s leading businesses and nonprofit organizations, financial institutions, privately-owned companies, and individuals. The firm’s focus includes the following practice areas: commercial finance; corporations, limited liability
ABOUT THE SPONSORS

companies and other business organizations; business succession planning; executive agreements and compensation; mergers and acquisitions; pension and other employee benefits; employment and personnel; environmental; health care; estate planning and estate settlement; executive and physician planning; fiduciary and probate litigation; fiduciary services; general litigation; insolvency; nonprofit organizations; real estate; Taft-Hartley benefit plans; and tax. Reid and Riege understands its clients and their needs and provides them with practical solutions to complex legal issues.

While Reid and Riege is proud to represent a significant number of public companies, our practice also includes serving as general counsel to family owned and other closely held businesses throughout our region. In addition to the day-to-day legal requirements of all businesses (contract negotiation, employment and personnel decisions, regulatory compliance and the like), closely held businesses face unique challenges due to their ownership structure. We are well versed in crafting buy-sell arrangements among owners and executive compensation programs, as well as tailoring corporate governance mechanisms to the particular needs of the group. We are also experienced in advising our clients concerning issues unique to these businesses when they are sold. Often the most significant and challenging step in the life of the business is designing and implementing the succession plan to transfer ownership and management from one generation to another in a manner that preserves the financial security of the older generation, protects the viability of the business, and vests ownership and control to a younger generation. We have helped many clients achieve this objective successfully.

Reid and Riege was a founding sponsor and long-time active participant in the University of Connecticut’s Family Business Program. We are now proud of our affiliation with the Connecticut Business and Industry Association in its initiative to serve the family businesses and family business owners among its membership. Our affiliation and sponsorship of the Survey of Family Businesses provides us with the opportunity to work with and learn from many of Connecticut's leading family businesses.

Visit rrlawpc.com.
Connecticut Business & Industry Association

CBIA is Connecticut’s leading business organization, with 10,000 member companies. Our public policy staff works with state government to help shape specific laws and regulations to support job creation and make Connecticut’s business climate competitive. Our councils, committees, and roundtables give our members forums in which to influence the legislative and regulatory processes.

One of CBIA’s most important functions is to provide our members with information to help them better manage their businesses. We conduct training seminars and workshops; arrange for consulting services; and hold conferences on environmental regulations, health and safety, human resources, compensation and benefits, taxes, energy, economic conditions, and healthcare. Our free telephone consulting service gives members access to our experienced staff of professionals on a wide range of business topics.

Many CBIA members take advantage of our employee benefits plans, discount programs, and group purchasing opportunities. These include innovative health and dental insurance programs through CBIA Health Connections—CBIA’s private-sector health insurance exchange—as well as other insurance lines, retirement plans, a COBRA continuation program, an eyewear savings plan, group energy purchasing, and member discounts on everything from packaging materials to background checks.

Learn more at cbia.com.
2013 SURVEY OF FAMILY BUSINESSES