

## News Release

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### **TUM researchers guide stock index development, will define composition German stock exchange to create two new "family firm" indices**

**In Frankfurt, Deutsche Börse AG has announced the launch of two new stock indices based on research done in Munich – at TUM, the Technische Universität München. Beginning on January 4, 2010, the DAXplus Family and the DAXplus Family 20 Index will become part of the DAX index family. The first index is tracking all listed German family firms, as defined by criteria developed at the university's Center for Entrepreneurial and Financial Studies (CEFS). The second one is focused on the 20 largest German "family firms."**

Researchers here have shown that this group of companies, listed on the German stock exchange but strongly influenced by founding families, represents a large and distinctive segment of the economy. Some 130 such firms occupy a dynamic middle ground between widely held public companies and privately held businesses.

"As far as we know, these are the first official family firm indices worldwide," says Prof. Christoph Kaserer. Beyond developing the indices in cooperation with Deutsche Börse, the research institute co-directed by Prof. Christoph Kaserer and Prof. Ann-Kristin Achleitner will play an ongoing role in their operation. "The continuous tracking of each index will be done by our institute, CEFS. So we will define the composition of those indices quarter by quarter, and then Deutsche Börse will do the calculation of the index values not only day by day but minute by minute."

The researchers have discovered that this group of family firms has performed differently over the past eight years – in some respects better – than the broader DAX. Their studies also reveal some distinctive patterns in management and operations. For example: Family firms appear to be governed with long-term sustainability in mind; though they tend to be smaller, they create new jobs at a faster rate; and though downturns such as the current worldwide recession may hit them harder than more diversified companies, they may be positioned to recover more quickly when conditions improve.

"We can't judge how the family firms sailed through the whole crisis," Achleitner says, "because obviously the crisis hasn't been finished yet, so we're not able to judge that. But

Technische Universität München Corporate Communications Center 80290 München [www.tum.de](http://www.tum.de)

Dr. Ulrich Marsch	Head of Corporate Communications	+49.89.289.22779	<a href="mailto:marsch@zv.tum.de">marsch@zv.tum.de</a>
Patrick Regan	International Public Relations	+49.89.289.22743	<a href="mailto:regan@zv.tum.de">regan@zv.tum.de</a>

consider the level of equity you find in family firms – 51% as compared to about 30% in other quoted firms, which I would say is a pretty comfortable cushion."

A so-called "founding family definition" is the most important criterion distinguishing the new indices from the German Entrepreneurial Index or GEX, which also was developed cooperatively by Deutsche Börse and CEFS. In the 130 or so businesses represented by the new indices, the founding family can exercise its influence through ownership and/or management – specifically, by holding at least 25% of the company's voting rights or by holding at least 5% of the voting rights and having a family member on either the management board or the supervisory board.

In family firms, Kaserer says, so-called "agency problems" that contributed to the current economic crisis either do not exist or are mitigated. "By agency problems we mean the fact that the management of the company is not always acting in the interest of the owners of the company. But the family has an interest in seeing that the company is run in the best interest of all the shareholders."

Around 30% of "prime standard" listed firms belong to this diverse group – including pharmaceutical, chemical, technology, and construction companies as well as manufacturers such as Volkswagen and software providers such as SAP – and they represent around 20% of German market capitalization. The family firm indices will for the first time give investors, economists, government officials, and the public a way to track the performance of this important part of the economy. "Investors might also be interested in participating in this performance," Kaserer says, "by buying these companies, or by buying certificates or other products that are related to their performance."

On another level, Achleitner says, "This crisis has made us rethink our ideas about the economy and has highlighted the importance of a long-term perspective. It would make sense, if we look at the reasons for this crisis, to consider investing more specifically in long-term-oriented companies. It would be interesting to see if investors put their money where their mouth is."

According to Kaserer, similar family firm indices could be economically informative and financially important in Italy, Switzerland, France, and other continental European countries, or on a larger scale. "I'm pretty sure," he says, "that the idea will come up for index providers to create a European-wide family firm index." He adds that family firms are also important in Asian economies and even, to a lesser degree, in the United States – but that for some exchanges, such as the New York Stock Exchange, providing such indices simply is not part of the business model.

Technische Universität München Presse & Kommunikation 80290 München

Dr. Ulrich Marsch	Head of Corporate Communications	+49.89.289.22779	marsch@zv.tum.de
Patrick Regan	International Public Relations	+49.89.289.22743	regan@zv.tum.de

In the next phase of research, funded in part by the German Research Foundation (DFG), the Center for Entrepreneurial and Financial Studies will investigate issues including innovation management, communication, and executive compensation in family firms. The center has also begun building a database to study family firms that are not listed on the stock exchange but could be.

**Contact:**

Prof. Christoph Kaserer  
Department for Financial Management and Capital Markets & CEFS  
Technische Universität München  
Arcisstr. 21  
D-80290 München, Germany  
Tel: +49.89.289.25489  
Fax: +49.89.289.25488  
Mobile / Tel / Fax (global number): +49.(0)7000.5273737  
Mobile: +49.(0)162.2918349  
E-mail: [christoph.kaserer@wi.tum.de](mailto:christoph.kaserer@wi.tum.de)

Prof. Ann-Kristin Achleitner  
KfW Chair in Entrepreneurial Finance & CEFS  
Technische Universität München  
Arcisstr. 21  
D-80290 München, Germany  
Tel: +49.89.289.25181  
Fax: +49.89.289.25188  
E-Mail: [ann-kristin.achleitner@wi.tum.de](mailto:ann-kristin.achleitner@wi.tum.de)

**More information:**

Center for Entrepreneurial and Financial Studies home page: <http://www.cefs.de>  
Film about the two new "family firm" indices: <http://www.tum.de/film/index.html>

**Technische Universität München (TUM)** is one of Germany's leading universities. It has roughly 440 professors, 6,500 academic and non-academic staff (including those at the university hospital "Rechts der Isar"), and 24,000 students. It focuses on the engineering sciences, natural sciences, life sciences, medicine, and economic sciences. After winning numerous awards, it was selected as an "Elite University" in 2006 by the Science Council (Wissenschaftsrat) and the German Research Foundation (DFG). The university's global network includes an outpost in Singapore. TUM is dedicated to the ideal of a top-level research based entrepreneurial university. <http://www.tum.de>

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Dr. Ulrich Marsch	Head of Corporate Communications	+49.89.289.22779	<a href="mailto:marsch@zv.tum.de">marsch@zv.tum.de</a>
Patrick Regan	International Public Relations	+49.89.289.22743	<a href="mailto:regan@zv.tum.de">regan@zv.tum.de</a>