THE STATE OF THE NATION

The UK Family Business Sector 2018-19

OXFORD ECONOMICS

IFB Research Foundation

An IFB Research Foundation Report prepared by Oxford Economics

ABOUT THE IFB RESEARCH FOUNDATION

The IFB Research Foundation is a charity (no. 1134085) established to foster greater knowledge and understanding of family firms and their contribution to the economy and society, as well as the key challenges and opportunities that they face.

The Foundation's vision is to be the UK's centre of excellence for family business research, and to this end its publications are designed to create a better understanding of family business for the benefit of all stakeholders. Alongside Family Business Research and White Papers, providing thought leadership on key family business characteristics and issues, its work covers a broad range of publications, including:

- **Family Business Sector Report** – benchmarking the size and importance of the sector.
- **Family Business Challenges** – offering practical guidance for family business owners on a broad range of topics, including family business dynamics, governance, performance, succession and wealth management.
- **Family Business Case Studies** – showcasing family business exemplars.

The Foundation disseminates knowledge and best practice guidance through printed publications, online media accessible via the IFB website and other activities.

ifb.org.uk/research

ABOUT THE IFB

The Foundation is independent of, but works closely with the Institute for Family Business (IFB), the UK family business organisation. The IFB's mission is to help family businesses remain successful across the generations. The IFB provides a safe space where family businesses can share their challenges and successes openly. Family businesses are the backbone of our economy and communities, and the IFB works closely with them championing their contribution and voicing their needs.

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FOREWORD

A message from the Chair of the IFB Research Foundation

As the UK looks to the future, to what our economy will look like in years to come, very few things are certain. But what we can be sure of, is that family businesses will continue to pay a central role in our economy and communities in the years ahead.

This latest report from the IFB Research Foundation not only sheds light on the vital role that family firms play in the UK economy, but also demonstrates that family firms remain a driving force across all regions and in all industries. And since family firms tend to look to the long-term, they can act as an important source of stability in uncertain political and economic times.

This report is the latest version of the IFB Research Foundation's Sector Report. Each year we work to increase knowledge and understanding of the family business sector. This year's report includes, for the first time, information on the prevalence of non-family managers, and of female and ethnic minority directors in family-owned small- and medium-sized enterprises (SMEs). The IFB Research Foundation's upcoming report on governance in large family companies builds on the evidence presented here.

While the family business sector is diverse, the majority of family firms are SMEs. In this report we look at how family SMEs are preparing for the future. More than one-third of family SMEs reported their turnover had grown in the previous 12 months, and, across the UK as a whole, family SMEs were more likely than non-family SMEs to say their workforce had grown. And they are looking to improve the skills of their workforce to support future growth.

The report flags up several avenues for future research. How family firms perceive and engage with social and environmental issues warrants further study. More data on family firms and further investigation of the differences between family businesses, particularly by firm size, are needed to give a fuller understanding of the sector.

I hope you enjoy reading the report.

Sir Michael Bibby
Chairman, IFB Research Foundation

CONTENTS

EXECUTIVE SUMMARY

The family business sector is vital to the UK economy. Throughout every region of the UK and every sector of its economy, family-owned businesses are a driving force, employing millions of people, generating more than one-quarter of the UK's annual GDP, and contributing over 20 per cent of the Government's total tax revenues each year.

This report presents the most up-to-date evidence on the family business sector. It investigates the characteristics of family firms: their size, structure, and concentration across different industrial sectors. It measures the economic contribution that family businesses make to UK GDP, employment, and taxes each year; providing in depth analysis of the geographical and sectoral spread of family firms. And it provides insights into how small- and medium-sized (SME) family businesses with employees are performing, drawing on survey evidence from thousands of businesses across the UK. The report also seeks to shed light on the unique challenges facing family businesses, and their plans for the future.

HEADLINE RESULTS

There were over 4.8 million family-owned businesses in the UK in 2017. They comprise 85 per cent of all the private sector firms in the UK.

Small and micro family businesses, with fewer than 50 employees, continued to dominate the sector, accounting for 99.6 per cent of all UK family firms. There were over 4.7 million micro-sized family firms and a further 121,000 small family businesses in 2017.

In 2017, family businesses employed 13.4 million people throughout the UK. The family business sector accounts for 50 per cent of private sector employment, and 38 per cent of all employment in the UK. This figure includes both self-employed individuals running their own businesses, and people employed by family firms.

Family businesses generated £1.7 trillion in revenue in 2017 representing 42 per cent of the private sector's entire turnover for the year. The largest proportion of this revenue (36 per cent) was generated by family firms in the wholesale and retail trade sector.

We calculate that family businesses contributed £598 billion to UK GDP in 2017. This equates to 28 per cent of the UK economy that year, and 42 per cent of the private sector's total contribution. The largest contribution to GDP (30 per cent) was made by family firms in the real estate, financial and business activity sector.

Family firms also contributed £182 billion in taxes to the Exchequer in 2017. These tax receipts, whether paid directly by family businesses or supported through the people they employ, made up 25 per cent of the Government's total revenue that year – large enough to fund the NHS's entire budget for 2017/18.

WHAT DO FAMILY-OWNED SMES LOOK LIKE IN 2017?

→ **Analysis of the latest Department for Business, Energy and Industrial Strategy (BEIS) Small Business Survey (SBS) (2017) shows that in 2017 more family-owned SMEs had female leaders than non-family firms.** Some 81 per cent of family-owned SMEs had at least one female director or partner, giving women a strong presence in family firms' leadership. The equivalent figure for non-family SMEs was 58 per cent.

→**Ethnic minority groups are underrepresented in leadership roles in family firms.** Only 11 per cent of family SMEs had a director or partner from an ethnic minority group, which is less than the 15 per cent for non-family firms and their 14 per cent share of the population of England and Wales according to the 2011 Census (ONS 2011). Further investigation is required into why ethnic minority groups are not more prevalent in leadership roles at family SMEs.

→**Family businesses are performing strongly** with some 36 per cent of SME family businesses reporting their turnover had grown in the past 12 months, compared with 19 per cent who had earned less. Compared to the previous year, more family-owned SMEs said they had increased their turnover in the year prior to the survey than said they had experienced a decline in their earnings.

→**Larger family-owned SMEs are leading this growth.** Some 56 per cent of medium-sized family SMEs reported growing their turnover over the previous year, and 51 per cent reported increasing the size of their workforce, exceeding their small- and micro-sized counterparts on both metrics.

→**Family business employment growth benefits all parts of the UK.** In every UK region, more family SMEs reported employing more paid staff than a year ago than had reduced the size of their workforce.

→**A similar proportion of family businesses exported more goods and services in the past year as before.** Some 18 per cent of SME family businesses reported selling abroad in the latest survey, compared to 17 per cent a year earlier. Most of these exporting family firms sold goods to both EU member states and to other countries.

→**Family firms are important contributors to innovation in the UK.** Some 35 per cent of SME family businesses reported introducing a new or significantly improved good or service in the last three years, while 19 per cent had introduced new processes for producing or supplying their products.

→**Access to external finance continued to be an issue for the sector in 2017.** Family SMEs were less likely to have applied for external finance than their non-family counterparts in the past year, but a larger share of family SME applicants were rejected.

WHAT DOES THE FUTURE LOOK LIKE?

→**Looking forward, family businesses are generally optimistic about their prospects.** In the 2017 Small Business Survey, the percentage of family-owned SMEs that expected to grow their turnover over the next year exceeded those that anticipated a decline by 29 percentage points. There was also a gap of nine percentage points between those family businesses expecting to grow the size of their workforce, and those expecting a decline. Medium-sized family businesses were the most optimistic about their prospects over the coming year.

→**SME family firms had ambitious growth plans in 2017, with some 59 per cent saying they had strategies to increase their sales over the next three years (among medium-sized family firms, this figure was 86 per cent).** To increase growth, the most common strategy was to improve workforce skills, with 59 per cent of family firms saying that they intend to do this.

→**While family businesses are optimistic about the future, they continue to face challenges.** In 2017, SME family firms identified market competition as the biggest barrier to the success of their business, with 53 per cent considering this a "major obstacle". Regulation and red tape, and tax were the next mostly frequently cited, by 47 and 45 per cent of firms, respectively.

→**In certain industries, staff recruitment and skills shortages are also seen as a major barrier to success.** While overall, some 37 per cent of SME family firms reported this as an obstacle to the success of their business, this figure rises to 52 per cent in the utilities and waste management sector and in the health and social work sector.

Overall, this report offers a positive assessment of the contribution of the family business sector to the UK economy.

1. INTRODUCTION

This report demonstrates the importance of family businesses to the UK economy. It builds upon evidence presented by the IFB Research Foundation and Oxford Economics in 2008, 2011, 2014, 2016, 2017 and 2018, to investigate the family business sector's central role in the UK economy. This report presents the most up-to-date evidence on the economic contribution of family businesses in the UK and considers their recent performance, their future expectations and the challenges they might face in the coming years.

1.1 WHAT IS A FAMILY BUSINESS?

This report employs a definition for family businesses used by the Department for Businesses, Energy and Industrial Strategy (BEIS). A family-owned SME is a business which is majority owned by one or more members of the same family and has:

- between zero and 249 employees and a single owner; or
- between zero and 249 employees, multiple owners, and self-identifies as a family-owned business – that is, one which is majority owned by members of the same family.

The number of SME family businesses matching these criteria is estimated using BEIS' Longitudinal Small Business Survey (SBS) (2017).

In this year's report, the definition of family firms for those employing more than 249 employees has been modified. We have decided to switch to all UK-resident family firms regardless of nationality of ownership, rather than just the ones that are UK-owned. This change is made for greater consistency with the way the Office for National Statistics (ONS) constructs the national accounts. As this is a substantial change on previous years, there are no comparisons to earlier years included in the main text of this report. Both sources are described in greater detail later in this report.

1.2 KEY TERMS

The key economic terms used in this report are:

- **Turnover:** the value of the annual sales volume of a business, net of all discounts and sales taxes.
- **Gross value added (GVA):** the contribution an institution, company or industry makes to gross domestic product (GDP). It is most easily thought of as the value a firm's output is sold at minus the cost of bought-in goods and services used up in that output's production.
- **Employment:** measured on a headcount rather than full-time equivalent basis to facilitate comparison with ONS data on employment, and it includes both employees and the self-employed.

1.3 REPORT STRUCTURE

The rest of this report is structured as follows. Chapter 2 details the economic impact of the family business sector in the UK economy, highlighting the key contribution made by family firms. Chapter 3 explores the characteristics of family businesses in the UK, including where they operate, in which sectors, and how they are structured.

The remaining three chapters analyse evidence from BEIS' Small Business Survey (SBS) (2017) on SME family businesses with employees. Chapter 4 investigates the recent performance of family-owned SMEs in 2017. Chapter 5 considers their outlook for the coming years, including their expectations, ambitions, and strategic plans. Chapter 6 considers some of the challenges that SME family firms face, how these struggles impact the firms and what support they say they receive.

2. THE ECONOMIC CONTRIBUTION OF FAMILY BUSINESSES

This chapter investigates the UK's family business sector's contribution to the economy in 2017, considering five metrics: the number of firms, total employment, turnover, gross value added, and taxes paid. This analysis will describe the size of the family business sector, its composition in terms of the size of family firms, and how it fits into the UK private sector as a whole.

2.1 HOW MANY FAMILY BUSINESSES ARE THERE, AND HOW MANY PEOPLE DO THEY EMPLOY?

Oxford Economics estimates that there were some 4.8 million family-owned businesses in the UK in 2017, which constitutes 85.1 per cent of all private sector firms in the country. Most of these family businesses, almost 3.9 million, were micro family businesses with no employees (Table 1).[1] These micro businesses without employees made up 79.8 per cent of all family businesses. A further 839,000 family businesses – some 17.3 per cent of the total – were micro family businesses employing between one and nine individuals.

There were 121,000 small family businesses in 2017, employing between 10 and 49 individuals. These firms account for just 2.5 per cent of the family business sector. A further 16,500 family businesses employed between 50 and 249 individuals, making them medium-sized family firms. Using the new definition (which ignores nationality of ownership), some 1,460 family firms had over 250 employees, defining them as large family firms. The medium and large family businesses are heavily outnumbered by their smaller counterparts, accounting for just 0.3 per cent and 0.03 per cent of all UK family businesses, respectively.

The prevalence of family businesses in the private sector was greater among small firms. Evidence from the SBS shows that 89.4 per cent of micro firms without employees belong to the family sector (Figure 1). Some 75.0 per cent of micro employers are family owned which is similar to the Enterprise Research Centre's (2018) estimate of 70.1 percent in their survey of 6,254 micro businesses with employees. Family firms also made up a large proportion of the UK's small businesses, accounting for some 58.1 per cent of the private sector total, while 48.8 per cent of all the medium-sized private sector firms were family-owned.

Kotlar *et al.* (2019) report that 20.1 per cent or just over 200 of the largest 1,000 businesses in the UK are family-owned. Of these, 57 per cent are UK-owned, and 43 per cent are internationally-owned. There are a number of possible reasons as to why the proportion of firms that are family-owned declines as the firm's size increases. Some reflect the way the statistics are constructed. Others such as the one put forward by Franks *et al.* (2012) reflect business needs.[2] They argue that in order for firms to grow, they usually need to raise external finance. If families choose to do so by issuing shares or selling their own equity stake, this dilutes family ownership. This "life cycle" effect is amplified by firm owners' incentives to diversify their wealth.

Size of firms	Number of family firms	Share of all family firms (%)	Number of private sector firms	Family firms as a share of all private sector firms (%)
Micro (0 employees)	3,869,764	79.8	4,327,680	89.4
Micro (1–9 employees)	838,651	17.3	1,117,810	75.0
Small (10–49 employees)	120,790	2.5	207,885	58.1
Medium (50–249 employees)	16,505	0.3	33,855	48.8
Large (250+ employees)*	1,464	0.03	7,285	20.1
All family firms	**4,847,175**	**100.0**	**5,694,515**	**85.1**

Table 1. Number of family business sector and private sector firms in 2017, by firm size

Sources: BEIS (SBS, 2017) and Kotlar *et al.* (2019)

*In the absence of any data on the share of large firms which are family-owned, here we have used Kotlar *et al.*'s (2019) estimate for the largest 1,000 businesses in the UK.

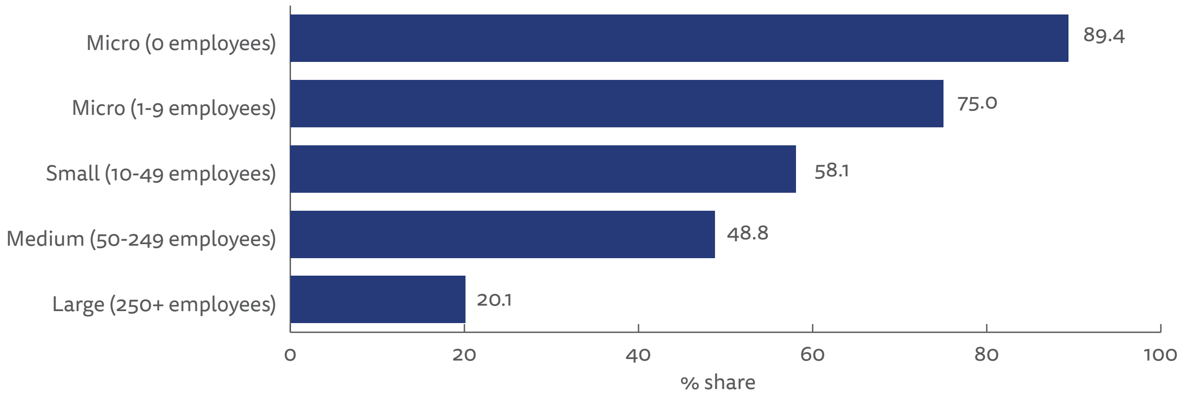

Figure 1. Family firms as a share of all private sector firms in 2017, by firm size

Sources: BEIS (SBS, 2017) and Kotlar *et al.* (2019)

Size of firm	Family firm employment (thousands)	Share of all family firm employment (%)	Private sector employment (thousands)	Family firm employment as a share of all private sector (%)
Micro (0 employees)	4,200	31.4	4,697	89.4
Micro (1–9 employees)	3,071	23.0	4,093	75.0
Small (10–49 employees)	2,358	17.6	4,059	58.1
Medium (50–249 employees)	1,607	12.0	3,297	48.8
Large (250+ employees)	2,126	15.9	10,576	20.1
All family firms	**13,362**	**100.0**	**26,722**	**50.0**

Table 2. Employment in family businesses and private sector in 2017, by firm size

Sources: BEIS (SBS, 2017) and Kotlar *et al.* (2019)

Family businesses are a vital source of employment for the UK economy. The family business sector employed some 13.4 million people in 2017, or 50.0 per cent of employees in the private sector (Table 2).[3] Family businesses were responsible for some 38.1 per cent of all UK employment.

Family business employment is spread throughout different sizes of firm. Micro-sized family firms collectively employed some 7.3 million people in 2017, which is 54.4 per cent of all the family business employment in the UK. A further 2.4 million individuals were employed by small family firms (or 17.6 per cent of the total). Medium-sized family firms employed a further 1.6 million individuals, while large family business employed over 2.1 million people in the UK. This accounts for 12.0 per cent and 15.9 per cent of all employment in the family business sector, respectively.

2.2 HOW MUCH TURNOVER AND GROSS VALUE ADDED DO FAMILY BUSINESSES CREATE?

Family businesses earn a substantial proportion of the UK economy's total revenue. Oxford Economics estimates that the family business sector earned nearly £1.7 trillion in revenue in 2017.[4] This is 41.8 per cent of the total private sector's turnover for the UK in 2017.

Family businesses in the wholesale and retail trade sector generate the most revenue. They earned £593 billion, or 35.7 per cent of all family business' turnover. Family firms in the real estate, renting and business activity sector earned a further £305 billion in turnover, equivalent to 18.4 per cent of the family sector's total share. The construction sector ranked third, with family firms generating £191 billion, or 9.6 per cent of the family sector's total turnover.

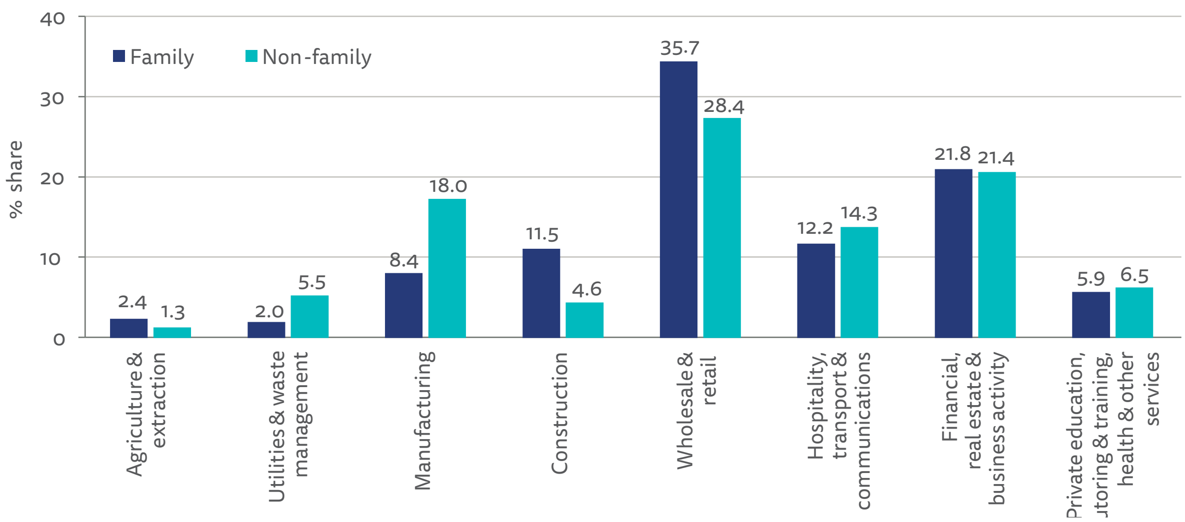

Figure 2. Proportion of total UK turnover by sector for family and non-family firms, 2017

Sources: Oxford Economics, BEIS (SBS, 2017), and CMRC and UNIEI (2011)

There were some marked differences in the industrial sectors generating the most turnover between family and non-family businesses in 2017. The wholesale and retail sector's 35.7 per cent of total turnover earned by family business is significantly larger than its 28.4 per cent share for non-family firms (Figure 2). Similarly, the construction sector provided family firms with more than twice the share of turnover than it did for non-family firms, 11.5 per cent versus 4.6 per cent.

The manufacturing and utilities and waste management sectors were less important in generating revenue for the family business sector relative to non-family firms. Family firms in the manufacturing sector accounted for just 8.4 per cent of family firm turnover, whereas the equivalent figure for non-family manufacturers was 18.0 per cent. Likewise, non-family businesses in the utilities and waste management industry accounted for 5.5 per cent of total turnover, compared to their family businesses counterparts which accounted for just 2.0 per cent.

Family businesses make a significant contribution to the country's GDP. Oxford Economics estimates that family businesses generated a £598 billion gross value added contribution to UK GDP in 2017 (Table 3).[5] This is equivalent to some 41.8 per cent of the private sector's total gross value added in 2017, and 29.2 per cent of the UK's total GDP (ONS 2019).

Family businesses in the real estate, renting and business services sector generated the largest gross value added contribution to GDP. At £179 billion, this contribution accounted for 29.9 per cent of the family

Industry	Turnover (£ million)	Share of family business turnover (%)	Gross value added (£ million)	Share of family business sector GVA (%)
Wholesale and retail trade	593,044	35.7	94,207	15.7
Real estate, financial and business activity	304,971	18.4	178,980	29.9
Construction	191,442	9.6	73,606	12.3
Transport, storage and communications	158,597	11.5	78,668	13.1
Manufacturing	139,083	8.4	44,247	7.4
Financial services	56,691	2.0	29,770	5.0
Hotels and restaurants	43,484	2.4	22,937	3.8
Agriculture & extraction	43,183	3.4	15,355	2.6
Other community, social and personal services	40,609	2.6	16,733	2.8
Health and social work	40,296	2.6	25,289	4.2
Utilities and waste management	33,817	2.4	10,767	1.8
Private education, tutoring and training services	14,973	0.9	7,940	1.3
All family firms	**1,660,191**	**100.0**	**598,498**	**100.0**
Share of private sector (%)	**41.8**		**41.8**	

Table 3. Turnover and gross value added contributions of the family business sector, 2017

Sources: BEIS (SBS, 2017) and Oxford Economics business sector's total. The family wholesale and retail trade sector contributed another £94 billion gross value added contribution to GDP (15.7 per cent of the family sector's total). The third largest contribution, meanwhile, came from family business in the transport, storage and communication sector, which contributed nearly £79 billion to the UK economy.

2.3 HOW MUCH DO FAMILY BUSINESSES CONTRIBUTE TO THE EXCHEQUER?

Family-owned businesses generated a considerable contribution to the Exchequer in tax receipts in 2017. Using data from Chittenden and Sloan (2007), PwC (2017) and BEIS (SBS, 2017), Oxford Economics estimates that family-owned businesses paid £182 billion in taxes in 2017 (Table 4). This was equivalent to 24.8 per cent of total government revenue; a contribution that would have been sufficiently large to fund the entire expenditure of the NHS in 2017/18.[6]

Small- and medium-sized family firms made the largest contribution, with a total tax contribution of £104 billion. The average contribution of each of these family firms topped £75,000. Large family companies, meanwhile, made a total contribution of nearly £56 billion to the Exchequer in 2017. The average tax contribution per large company was over £38 million. This reflects their average profitability, wage bill, and the size of the property they occupy and how they use it. The remaining £23 billion was borne and collected by smaller, family-owned sole proprietorships and partnerships. The average tax revenue per firm was lower, around £6,500.

	Type of family business			
	Small sole traders and partnerships	Small and medium-sized companies	Large companies	Total
Taxes borne (£ million)	18,683	58,609	16,839	94,131
Taxes collected (£ million)	3,901	45,337	38,931	88,169
Total tax revenues (£ million)	**22,585**	**103,945**	**55,770**	**182,300**
Share of government revenue (%)	**3.1**	**14.1**	**7.6**	**24.8**
Average tax revenue per firm (£)	6,505	75,668	38,086,860	37,609

Table 4. The family business sector's contribution to the Exchequer, 2017

Sources: Chittenden and Sloan (2007), PwC (2017), BEIS (SBS, 2017) and Oxford Economics

"In total, family businesses employed 13.4 million people in 2017"

3. CHARACTERISTICS OF THE UK FAMILY BUSINESS SECTOR

This chapter explores the characteristics of family businesses across industries, regions and legal ownership types in the UK.

3.1 IN WHICH INDUSTRIES DO FAMILY BUSINESSES OPERATE?

The prevalence of family firms varies across industrial sectors. Over 1.2 million family firms in the UK – or 25.2 per cent of all family firms – were in the real estate, renting and business activity industry (Table 5).[7] Construction ranked second with some 932,000 family firms (or 19.2 per cent of the total) and transport, storage and communications was third in scale, with 616,000 family firms (or 12.7 per cent of the total).

While these sectors had the highest numbers of family firms, the prevalence of firms that are family-owned was higher in other sectors. The highest concentration of family firms was in the agriculture and extraction sector, where 95.7 per cent of private sector firms were family-owned in 2017. The health and social work sector ranked second with a share of family-owned firms of some 93.9 per cent, followed by the construction sector, which ranked third, with a family-owned share of 92.5 per cent.

Difference in the prevalence rate of family firms across industries occurs for a number of reasons. Franks, Mayer and Wagner (2012) argue that the dilution of family ownership often occurs when businesses need to raise external finance. Higher rates of family ownership are therefore likely in industries that are less reliant on capital expenditure or have lower levels of merger and acquisition activity. For other industries, there may be sector specific reasons, for example, the high concentration in the agriculture sector might reflect families wanting to pass the land down the generations.

The distribution of employment in family businesses across industrial sectors is less concentrated, with employment more diversely spread across a range of sectors. Real estate, renting and business activity is the largest employer, with over 3.0 million family firm employees, some 22.7 per cent of all family firm

Sector	Number of family firms	Share of all family firms (%)	Number of private sector firms	Family firms as share of private sector firms (%)
Real estate, renting and business activity	1,222,318	25.2	1,446,305	84.5
Construction	932,185	19.2	1,007,500	92.5
Transport, storage and communications	616,326	12.7	696,770	88.5
Wholesale and retail trade, repairs	450,326	9.3	542,150	83.1
Other community, social and personal services	443,312	9.1	595,205	74.5
Private education, tutoring and training services	278,110	5.7	296,305	93.9
Health and social work	272,038	5.6	362,115	75.1
Manufacturing	228,310	4.7	265,775	85.9
Hotels and restaurants	163,738	3.4	202,060	81.0
Agriculture and extraction	155,079	3.2	162,080	95.7
Financial services	65,026	1.3	86,410	75.3
Utilities and waste management	20,408	0.4	31,840	64.1
All family firms	**4,847,175**	**100.0**	**5,694,515**	**85.1**

Table 5. Industry distribution of family businesses in the UK, 2017

Sources: Oxford Economics, BEIS (SBS, 2017), and CMRC and UNIEI (2011) employment (Table 6). The wholesale and retail trade sector is the second largest employer, with 2.3 million family firm employees (or 17.4 per cent of total). A further four sectors have more than 1 million family firm employees: construction; transport, storage and communications; manufacturing; and hotels and restaurants.

3.2 WHAT IS THE GEOGRAPHICAL SPREAD OF FAMILY BUSINESSES ACROSS THE UK?

Family businesses operate throughout the length and breadth of the UK. The two regions with the greatest number of family firms in 2017 were London and the South East. Some 862,000 family firms were based in London in 2017 (17.8 per cent of total), and a further 793,000 (16.4 per cent) in the South East (Table 7). A further 512,000 (10.6 per cent) and 476,000 (9.8 per cent) of family firms were located in the East of England and the South West, respectively. This largely reflects the size of these regions' economies and populations.

The highest concentration of family firms, as a share of all private firms in each region, can be found in the South West, where 89.6 per cent of firms were family owned in 2017. The East of England and Yorkshire and the Humber had the next largest concentrations, with family businesses making up 89.5 per cent and 89.1 per cent, respectively, of all private firms in these regions.

Small- and medium-sized family firms had higher concentrations in regions away from London. The North West accounted for 11.7 per cent of small family firms and 11.2 per cent of medium-sized family business (Table 8). Likewise, the East Midlands accounted for 8.2 per cent and 10.2 per cent of small- and medium-sized family firms, respectively.

London had a relatively low share of small and medium-sized firms, with 11.8 per cent and 12.6 per cent, respectively. More large family business, employing over 250 individuals, were based in the South East (17.9 per cent of all large family businesses) than in London (15.9 per cent). Micro firms without employees had higher concentrations in London than in the South East. These two regions were home to 18.5 per cent and 16.9 per cent of family firms without employees, respectively.

Family businesses employ individuals throughout the length and breadth of the UK. The largest numbers are employed in London and the South East at over 2.0 million each. These regions account for 16.7 and 15.3 per cent of the total family business employment, respectively (Table 9).

Relative to all private sector employment, family-owned businesses are the most important providers of jobs away from the capital. Family businesses provided 60.7 per cent of all private sector employment in the South West, where they employed some 1.2 million people. Similarly, in Wales, 60.0 per cent of all private sector jobs were at family businesses, equating to some 504,000 people in employment.

To assess the importance of family business to each country and region as a whole, their employment is compared to the wider economy, including both the public and private sectors. In 2017, family businesses and the employment they support were most

Sector	Family firm employment (thousands)	Share of all family firm employment (%)	Private sector employment (thousands)	Family firm employment as share of private sector employment (%)	Family firm employment as share of total employment (%)
Real estate, renting and business activity	3,035	22.7	6,104	49.7	45.6
Construction	1,552	11.6	2,112	73.5	67.5
Transport, storage and communications	1,364	10.2	2,856	47.8	41.9
Wholesale and retail trade, repairs	2,328	17.4	5,039	46.2	46.7
Other community, social and personal services	770	5.8	1,426	54.0	38.1
Private education, tutoring and training services	406	3.0	562	72.2	13.9
Health and social work	873	6.5	1,773	49.3	19.9
Manufacturing	1,153	8.6	2,606	44.3	43.1
Hotels and restaurants	1,117	8.4	2,314	48.3	46.5
Agriculture and extraction	397	3.0	527	75.2	77.3
Financial services	272	2.0	1,068	25.5	24.1
Utilities and waste management	94	0.7	332	28.4	26.7
All family firms	**13,362**	**100.0**	**26,719**	**50.0**	**38.1**

Table 6. Industry distribution of family business employment, 2017

Sources: Oxford Economics, BEIS (SBS, 2017), and CMRC and UNIEI (2011)

Country/region	Number of family firms	Share of all family firms (%)	Number of private sector firms	Family firms as share of private sector firms (%)
London	862,105	17.8	1,062,285	81.2
South East	793,315	16.4	928,850	85.4
East of England	512,130	10.6	572,420	89.5
South West	476,424	9.8	531,965	89.6
North West	442,227	9.1	529,785	83.5
Yorkshire and the Humber	373,559	7.7	419,215	89.1
West Midlands	372,494	7.7	449,835	82.8
East Midlands	324,739	6.7	370,795	87.6
North East	108,895	2.2	142,495	76.4
England	4,265,888	88.0	5,007,645	85.2
Scotland	298,491	6.2	346,180	86.2
Wales	180,226	3.7	208,975	86.2
Northern Ireland	102,571	2.1	131,715	77.9
UK	**4,847,175**	**100.0**	**5,694,515**	**85.1**

Table 7. Country and regional distribution of family businesses in 2017

Sources: Oxford Economics, BEIS (SBS, 2017), and CMRC and UNIEI (2011)

Country/region	Number of family firms, by firm size					Total number of family firms
	Micro (no employees)	Micro (1–9 employees)	Small (10–49 employees)	Medium (50–249 employees)	Large (250+ employees)	
London	716,801	128,966	14,028	2,078	233	862,105
South East	655,380	119,294	16,079	2,299	262	793,315
East of England	404,535	93,523	12,382	1,523	168	512,130
South West	383,314	79,364	12,299	1,316	131	476,424
North West	348,245	77,997	13,985	1,847	153	442,227
Yorkshire and the Humber	298,009	65,071	8,871	1,522	86	373,559
West Midlands	290,986	68,931	11,256	1,196	124	372,494
East Midlands	255,483	57,726	9,764	1,672	94	324,739
North East	82,316	23,063	2,988	473	55	108,895
England	3,435,069	713,936	101,651	13,927	1,305	4,265,888
Scotland	226,763	61,049	9,311	1,289	80	298,491
Wales	136,351	38,905	4,348	560	63	180,226
Northern Ireland	75,214	22,763	3,892	685	16	102,571

Table 8. Country and regional distribution of family businesses in 2017, by firm size

Sources: BEIS (SBS, 2017), Kotlar *et al.* (2019)

Country/region	Family firm employment (thousands)	Share of all family firm employment (%)	Private sector employment (thousands)	Family firm employment as share of private sector employment (%)	Family firm employment as share of total employment (%)
London	2,226	16.7	5,285	42.1	38.1
South East	2,047	15.3	3,897	52.5	41.2
East of England	1,486	11.1	2,922	50.9	46.9
North West	1,280	9.6	2,457	52.1	34.8
South West	1,205	9.0	1,983	60.7	40.9
Yorkshire and the Humber	1,075	8.0	2,229	48.2	36.4
West Midlands	1,047	7.8	2,088	50.1	39.2
East Midlands	972	7.3	1,999	48.6	39.9
North East	351	2.6	710	49.5	30.0
England	11,689	87.5	23,570	49.6	39.2
Scotland	885	6.6	1,751	50.6	31.3
Wales	504	3.8	839	60.0	33.3
Northern Ireland	284	2.1	561	50.7	32.4
UK	**13,362**	**100.0**	**26,721**	**50.0**	**38.1**

Table 9. Country and regional distribution of family business employment in 2017

Sources: Oxford Economics, BEIS (SBS, 2017) and CMRC and UNIEI (2011)

Firm type	Firm size (number of employees)	Number of family businesses by legal structure			
		Sole proprietorships	Partnerships	Incorporated companies	Total
Micro (no employees)	0	2,916,626	231,231	721,907	3,869,764
Micro (with employees)	1–9	224,474	79,209	534,967	838,651
Small	10–49	9,152	10,877	100,762	120,790
Medium	50–249	195	238	16,073	16,505
Large	250+	1	8	1,455	1,464
All family firms		**3,150,449**	**321,563**	**1,375,164**	**4,847,175**
Share by legal status (%)		**65.0**	**6.6**	**28.4**	**100.0**

Table 10. Family businesses by legal structure, 2017
Sources: BEIS (SBS, 2017) and Oxford Economics

important to the East of England, where some 46.9 per cent of the total workforce were employed by family-owned firms (Table 9). This was followed by both the South East and the South West, where family firms accounted for 41.2 per cent and 40.9 per cent of the total employment, respectively. In contrast, family-owned businesses accounted for the smallest proportion of total employment in the North East at 30.0 per cent and Scotland at 31.3 per cent.

3.3 HOW ARE FAMILY BUSINESSES LEGALLY ORGANISED?

Family businesses in the UK have adopted a number of different legal structures. The most common legal structure for family firms in 2017 was sole proprietorships (firms with a single owner), accounting for some 65.0 per cent of all family firms (Table 10). A further 1.4 million (28.4 per cent) family businesses were structured as incorporated companies and 322,000 (6.6 per cent) operated as partnerships.

The legal structures of family businesses vary greatly by the size of the firm. Most single-owner firms do not have any employees, with 75.4 per cent of micro family firms without employees operated as sole proprietorships in 2017. Partnerships were most commonly found among family-owned micro employers and small firms, accounting for 9.4 per cent and 9.0 per cent of these firm sizes, respectively.

Large family firms were much more likely to be structured as incorporated companies in 2017. Almost all large and medium-sized family firms operated as incorporated companies, with 99.4 per cent and 97.4 per cent, respectively, using this legal structure. The proportion of incorporated companies among small family firms was lower, 83.4 per cent, and this trend continued to micro employers, as 63.8 operated as incorporated companies in 2017.

3.4 WHAT IS THE SHARE OF FEMALE AND ETHNIC MINORITY DIRECTORS AMONG SME FAMILY FIRMS?

The SBS (2017) contains other questions about the characteristics of family firms with less than 250 employees. Sections 3.4 to 3.6 therefore only include SMEs and do not include large family firms.

Mandl (2008) argues that family firms sometimes offer more flexible working practices and this increases diversity among employees. Female directors and partners had a strong presence in SME family businesses in 2017. Survey evidence from the SBS (2017) shows that some 81.3 per cent of all SME family firms have at least one female in a leadership role, defined as an owner, partner, or director (Figure 3). This figure is significantly higher than the equivalent for non-family SMEs of 58.3 per cent. The proportion of family firms with a female in a leadership role declines as the size of the SME increases, but it is always greater in family SMEs compared with non-family SMEs. Kotlar *et al.*'s (2019) study, however, suggests that in the family firms among the largest 1,000 companies registered in the UK female board representation is low compared to the FTSE 100 average; 12.5 per cent versus 23.5 per cent.

SBS (2017) respondents were also asked if their business was "women-led", defined as over half of the owners, partners or directors being female. Only 17.8 per cent of family-owned SMEs reported being "women-led". This compares to 23.9 per cent of non-family SMEs.

Around one in ten (10.5 per cent) family SMEs had a director, owner, or partner from an ethnic minority group in 2017 (Figure 4).[8] This compares to a 14.0 per cent share of the population in England and Wales in the 2011 Census (ONS, 2011). Some 13.9 per cent of micro-sized family employers had a leader from ethnic minority groups.

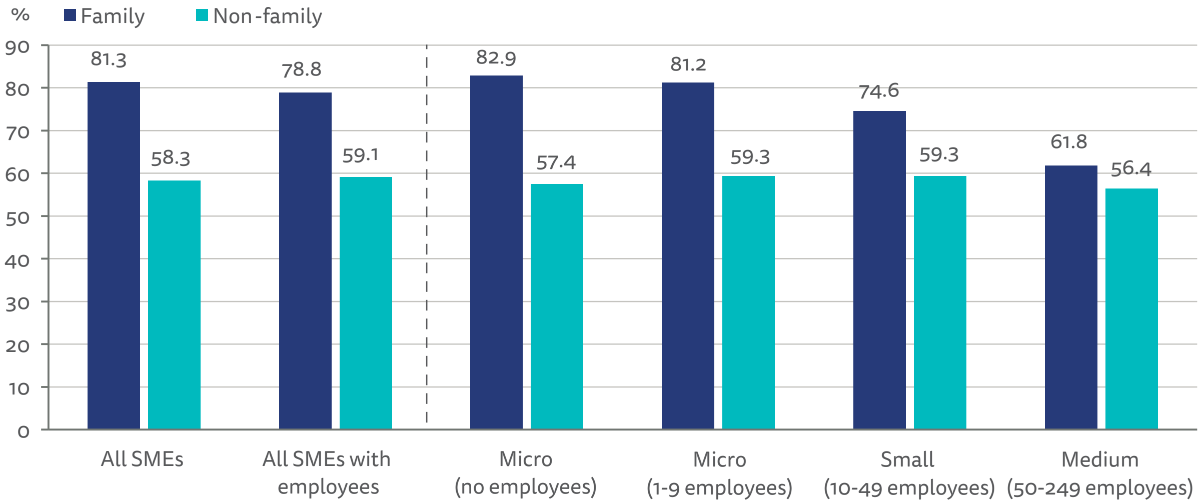

Figure 3: Family-owned SMEs with at least one female director, owner or partners in 2017, by firm size
Source: BEIS (SBS, 2017)

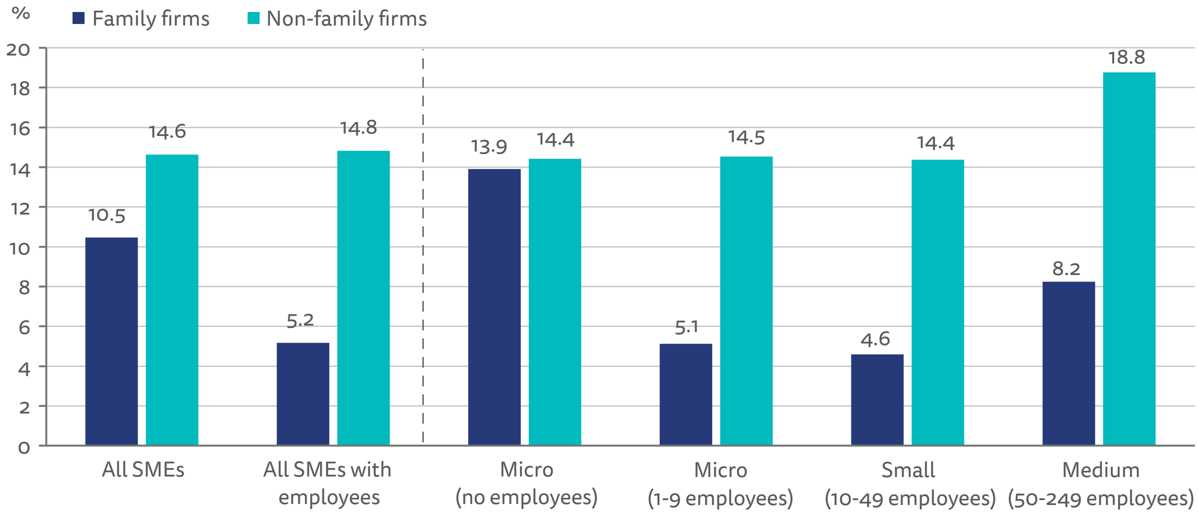

Figure 4: Family-owned SMEs with directors, owners, and partners from ethnic minority groups in 2017, by firm size
Source: BEIS (SBS, 2017)

Further survey evidence shows that some 5.3 per cent of family SMEs were "ethnic minority-led", such that over half of the owners, partners or directors were from ethnic minority groups. This is slightly more than the 4.7 per cent of non-family owned SMEs.

3.5 WHAT PROPORTION OF FAMILY-OWNED SMEs HAVE A NON-FAMILY MANAGER?

There is some debate on the capacity of non-family managers of family-owned firms relative to family members, and whether their employment changes firm behaviour. For example, the ONS' Expectations and Management Survey found no evidence that employment of a non-family manager improves the quality of management for SMEs (ONS 2018c).[9]

However, according to the SBS (2017), 13.8 per cent of family-owned SMEs with employees had directors in day-to-day control of their business who were not owners (Figure 5). As businesses grow, they are more likely to employ non-family members to run the business. The share of non-family managers increases to 22.4 per cent for small family firms, and 48.6 per cent for medium-sized family businesses.

3.6 OVER HOW MANY GENERATIONS HAVE SME FAMILY BUSINESSES BEEN OPERATING?

Most family business SMEs that participated in the 2017 SBS were relatively young; some 83.8 per cent of family-owned firms were in their first generation of family ownership (Figure 6). First generation ownership

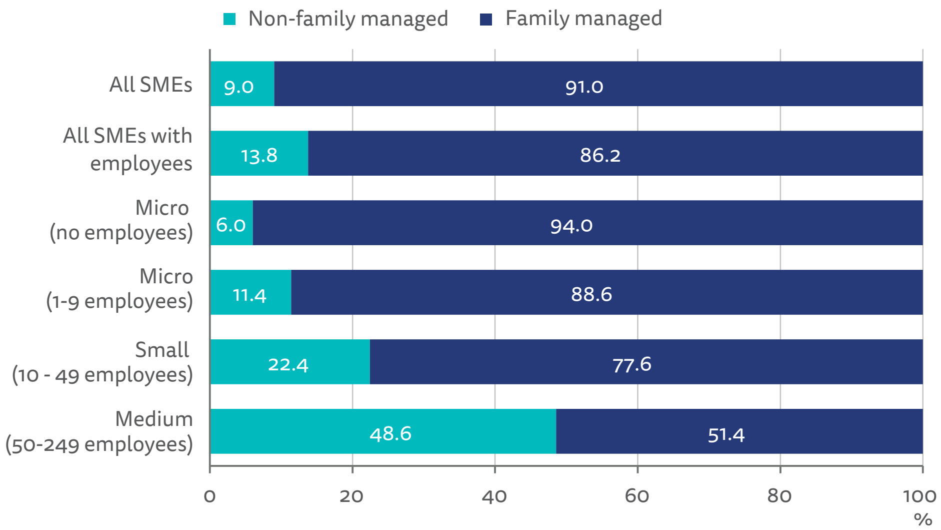

Figure 5. Family-owned SMEs with non-family management in 2017, by firm size
Source: BEIS (SBS, 2017)

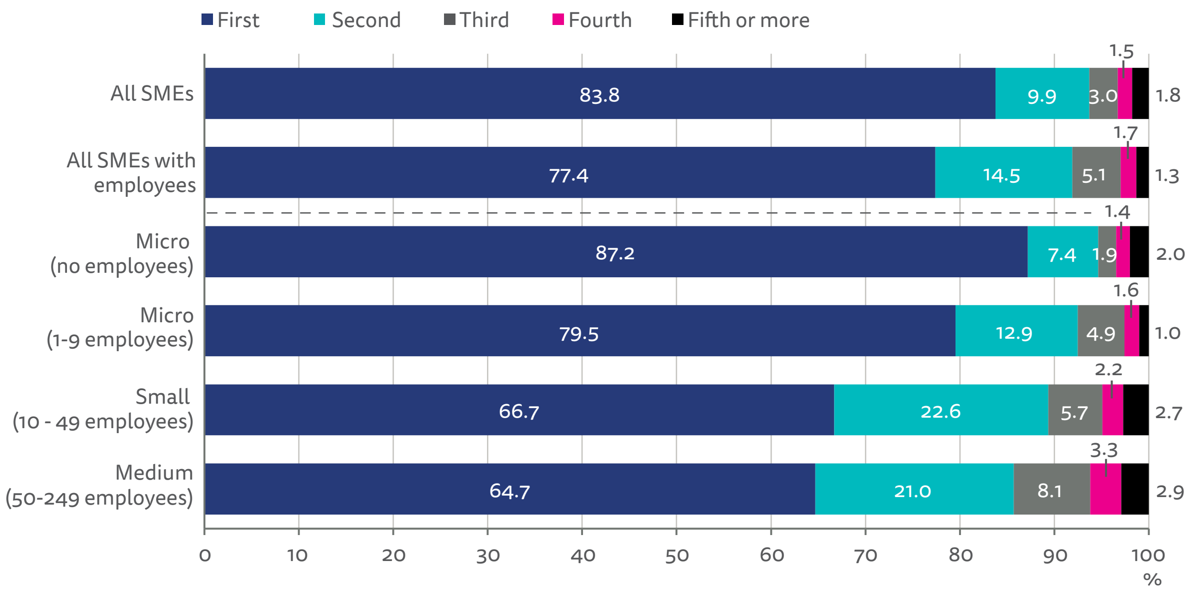

Figure 6. Family-owned SMEs by generation of ownership in 2017, by firm size
Source: BEIS (SBS, 2017)

is more likely among small family firms. Some 79.5 per cent of family micro employers had yet to be transferred down a generation. This figure drops to 66.7 per cent for small family firms and 64.7 per cent for their medium-sized counterparts.

Multi-generational businesses were more common as firms increase in size. Some 35.3 per cent of medium-sized family firms and 33.3 per cent of small family firms were in at least their second generation of family ownership. Furthermore, some 14.3 per cent of medium-sized firms were in the third, or higher, generation of ownership. Across family SMEs of all sizes in total, some 6.3 per cent were in at least their third generation of ownership.

The retention of family ownership in SMEs varies substantially by industry. Multi-generational family businesses were most common in the agriculture industry in 2017, with some 72.1 per cent of firms being owned by the family for more than one generation, and 20.2 per cent for four, or more, generations. The manufacturing and real estate sectors had the next largest proportion of multi-generational family firms – albeit much lower than in the agricultural sector – at 31.6 per cent and 29.6 per cent, respectively.

4. RECENT PERFORMANCE OF SME FAMILY BUSINESSES

Chapters 4 to 6 investigate the performance, expectations and challenges facing SME family businesses with employees using BEIS' Small Business Survey (SBS) for 2017. SME family firms without employees are excluded as their motivations and ability to expand are likely to be constrained by their resources. Large firms are not included in this discussion, as there are no surveys of large firms that are sufficiently comprehensive in scope and ask comparable questions to the SBS.

This chapter examines how SME family businesses with employees performed in 2017. Considering family firms' turnover, employment and exports, among other metrics, this analysis compares the recent performance of family-owned firms with previous years, drawing comparisons with non-family firms.

4.1 HOW SME FAMILY BUSINESSES PERFORMED IN 2017

Survey evidence collected between August 2017 and January 2018 shows that the family business sector performed strongly in 2017. According to the SBS (2017), some 36.4 per cent of family-owned SMEs had increased their turnover in the past 12 months (Figure 7).[10] This is higher than the equivalent figure in the SBS (2016), which was 34.2 per cent. Further to this, only 18.8 per cent of family firms had experienced a decline in their turnover in the 12 months to completing the 2017 survey, fewer than in 2016 (21.6 per cent).

Family firms with more employees were more likely to have increased their turnover in the past year. Evidence from the SBS shows that just over half (55.7 per cent) of medium-sized family firms had increased their turnover in the past 12 months. This is higher than the share of small-sized family firms (40.5 per cent) and family-owned micro employers (35.5 per cent). Conversely, 19.3 per cent of micro family firms experienced a decrease in turnover over the past year, compared to only 12.8 per cent of medium-sized family firms.

Family businesses' hiring decisions follow a similar pattern, with larger family firms more likely to have increased the size of their workforce. When asked how the size of their workforce had changed over the 12 months before being interviewed, some 36.5

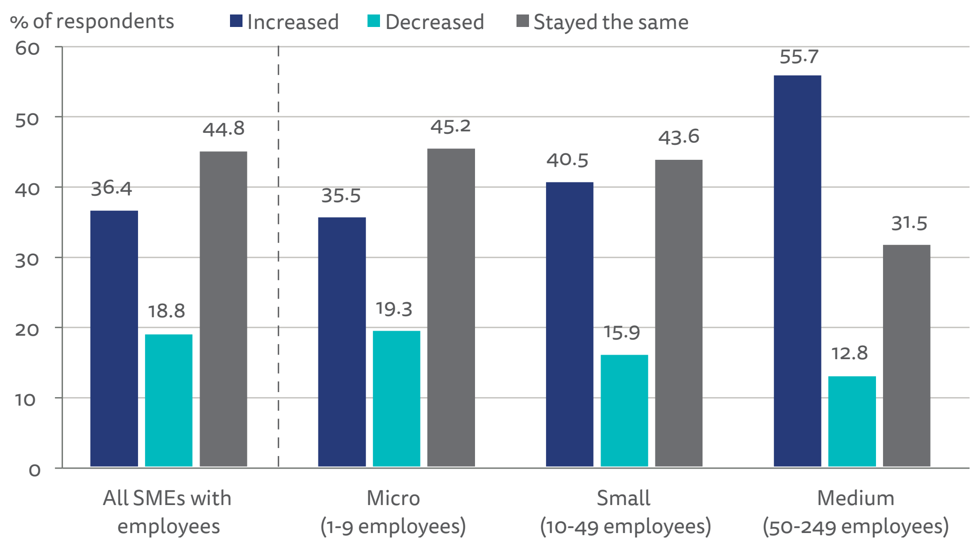

Figure 7. How family-owned SMEs' turnover has changed in the past 12 months, by firm size
BEIS (SBS, 2017)

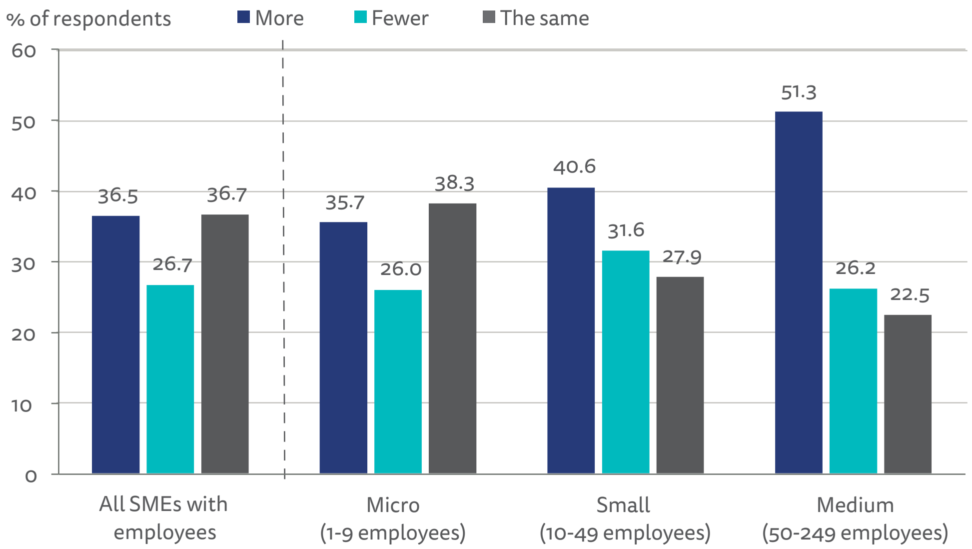

Figure 8. Family-owned SMEs' reported change in the number of paid staff relative to a year ago, by firm size
BEIS (SBS, 2017)

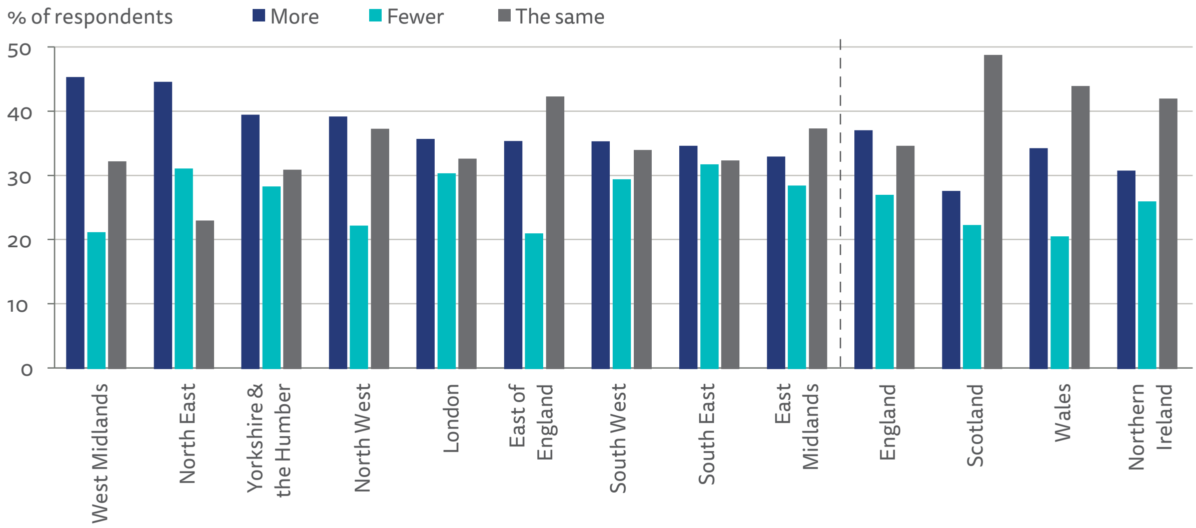

Figure 9. Family-owned SMEs' reported change in paid staff relative to a year ago, by nation and region
Source: BEIS (SBS, 2017)

per cent of family SMEs said it had increased (Figure 8). This is slightly lower than the 41.1 per cent that reported hiring more paid staff over the previous 12 months in 2016. In contrast, the proportion of family SMEs reporting that they employed fewer individuals than the year before was 26.7 per cent in 2017, compared to 23.7 per cent in 2016.

According to the SBS (2017), more family businesses grew their workforce than their non-family owned counterparts. Only 29.1 per cent of non-family SMEs reported increasing their paid workforce (compared to 36.5 per cent for family-owned firms), while 34.2 per cent reported employing fewer individuals (higher than 26.7 per cent for family firms).

Some 51.3 per cent of medium-sized family SMEs reported having more employees than a year ago. Again, this is more than the equivalent proportion of small and micro employers. Micro-sized family firms were the least likely to reduce the size of their workforce, with 26.0 per cent experiencing cutbacks.

Looking across the UK, three out of the four regions with the largest proportion of family-owned SMEs reported an increase in paid employment are located in the North of England. In the West Midlands and North East, some 45.9 per cent and 45.1 per cent of family-owned SMEs reported having more employees than in the 12-month period before the survey, respectively (Figure 9). Yorkshire and the Humber and the North West rank third and fourth, with 40.0 per cent and 39.7 per cent reporting an increase in employees, respectively.

Survey evidence shows it was most common for family firms in the South East and North East to report having fewer paid staff than a year ago. The proportion of family-owned SMEs that reported having fewer employees in those two regions was 32.2 per cent and 31.5 per cent, respectively.

4.2 SME FAMILY BUSINESSES AND THE UK ECONOMY

SME family firms are more dependent on the domestic economy than non-family firms. Survey evidence from SBS (2017) shows that 81.8 per cent of family-owned SMEs were entirely reliant on custom from the UK, while 18.2 per cent of family firms had exported a good or service in the 12 months prior to the interview (Figure 10). The proportion of non-family-owned SMEs solely reliant on domestic customers was lower at 76.5 per cent, with 23.5 per cent exporting products in the past year.

Different reasons have been put forward to explain family firms' lower propensity to export. Gomez-Mejia, Makri and Kintana (2010) highlight family firms' greater risk aversion which deters them from the potential risks and expertise related costs associated with deviation from previously proven strategies.[11] Arregle *et al.* (2017) point to the high fixed costs of exporting, alongside the reluctance of family firms to dilute control by accessing external finance.

Family firms with more employees were more likely to export in 2017. Some 32.2 per cent of medium-sized family-owned SMEs reported exporting goods or services. The equivalent figures for small SMEs and micro firms with employees was 22.4 per cent and 17.3 per cent, respectively.

With a greater dependence on UK markets, the performance of the domestic economy has important implications for family firms. Domestic demand grew by just 1.2 per cent in 2017, significantly slower than the

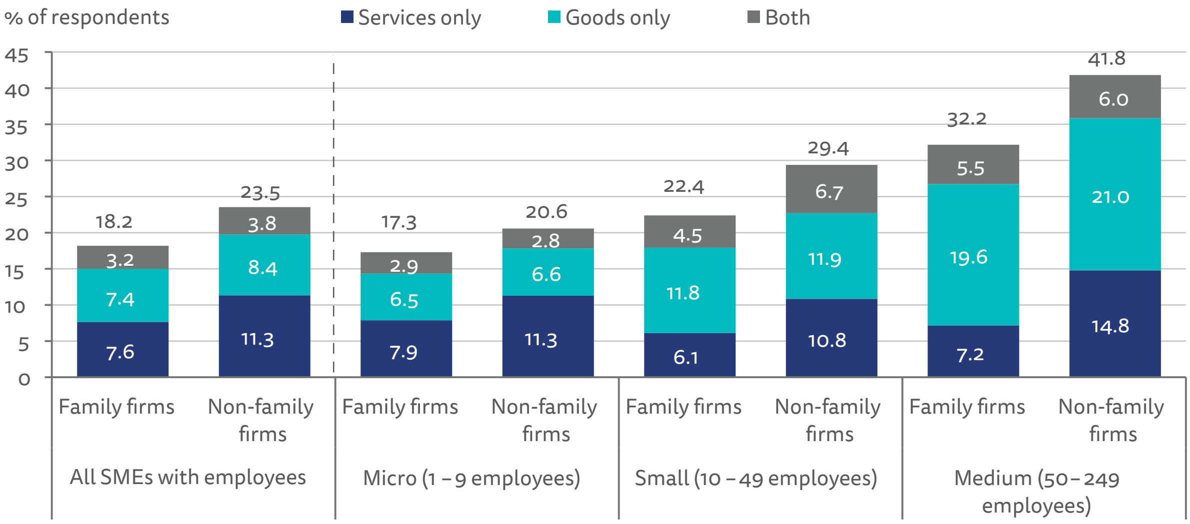

Figure 10. The proportion of family-owned SMEs that reported exporting in 2017, by size

Source: SBS (2017)

2.4 per cent growth observed in 2016 (Figure 11). Export growth was far more buoyant at 10.9 per cent in 2017, compared to 7.2 per cent the year previous. This in part reflects the depreciation of sterling.

Family businesses sold exports across the world in the year prior to the survey. Some 9.3 per cent of family-owned SMEs exported goods or services to both countries in the EU and rest of the world (Figure 12). A further 4.6 per cent said they export only to the EU, while another 3.1 per cent only sold products to countries outside of the EU.[12]

4.3 FAMILY BUSINESSES AS DRIVERS OF INNOVATION

It is unclear whether family firms should be inherently more or less innovative than their non-family counterparts. Chrisman and Patel (2012) observe that family firms exhibit traits associated with both high and low levels of innovation. Concentrated family control allows for long-term strategising, which is essential for innovation where investment is often slow to bear fruit. Whereas Schmid *et al.* (2014) argue a tendency towards risk aversion could hinder innovation. Evidence from the SBS (2017) shows that, while family firms introduce new products and services, fewer do so relative to their non-family counterparts.

Nonetheless, in 2017, family-owned SMEs remained important drivers of innovation in the UK, bringing new and improved goods and services to market. Around one-third of family-owned SMEs – some 34.6 per cent

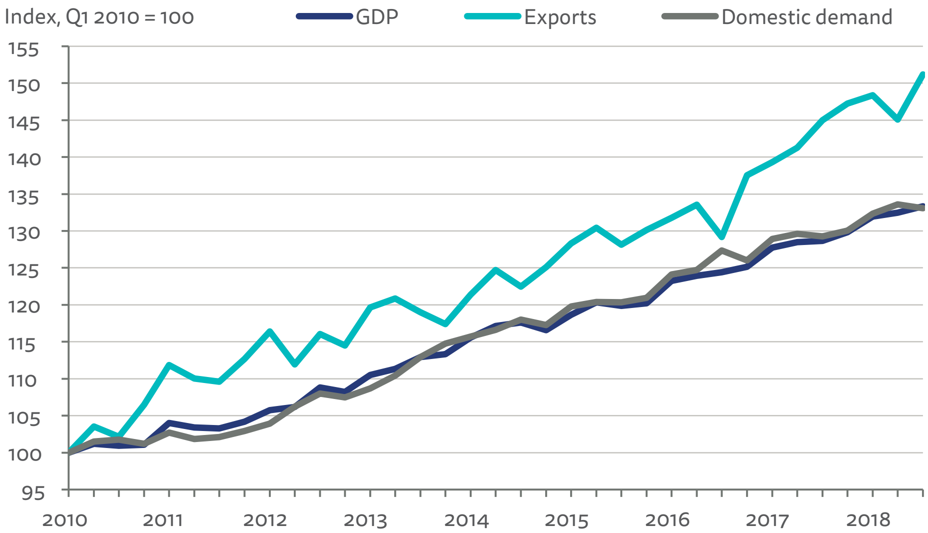

Figure 11. UK GDP, exports and domestic demand since 2010
Source: ONS (2018)

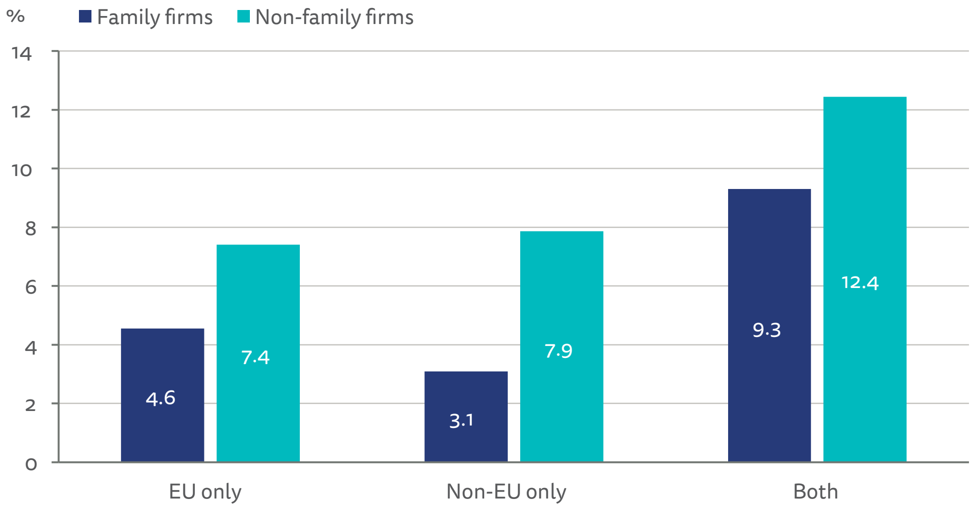

Figure 12. SMEs exporting goods and services in 2017, by location
Source: BEIS (SBS, 2017)

– had introduced a new, or significantly improved, good or service in the past three years (Figure 13). The equivalent figure for non-family owned SMEs was 37.6 per cent. Research by *The Financial Times* (2016) corroborates this finding, but also found that family firms have much higher convertibility rates from R&D to innovation i.e. low spend on R&D but high levels of innovation.

The introduction of new or improved products were most common among larger family SMEs, with 40.3 per cent of medium-sized family SMEs introducing upgraded goods or services in the past three years, compared to 35.6 per cent of small-sized family SMEs.

Of the family-owned SMEs that introduced new products over the past three years, some 29.1 per cent of these new goods or services were new to the market, rather than just new to the firm (Figure 14). Medium-sized family firms, in particular, were most likely to introduce a product that was new to the market, with some 33.9 per cent reported doing so.

Larger family SMEs were more likely to have introduced new business processes in 2017. Some 19.1 per cent of family-owned SMEs had developed new business processes for producing and supplying their goods or services in the three years prior to the survey (Figure 15). Medium- and small-sized family firms were the most likely to have upgraded their processes, with 35.8 per cent and 24.9 per cent of these firms, respectively, introducing new operations.

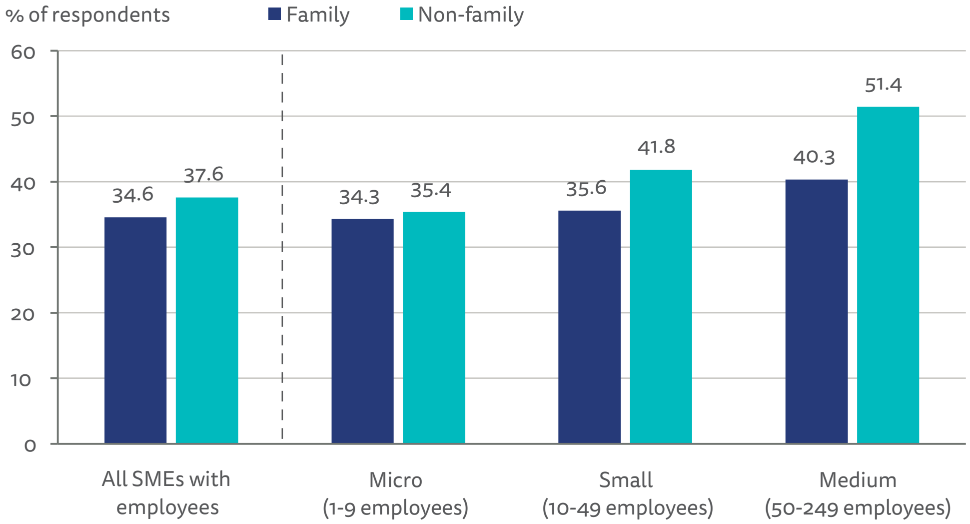

Figure 13. SMEs introducing new, or significantly improved, goods or services in the previous three years
Source: BEIS (SBS, 2017)

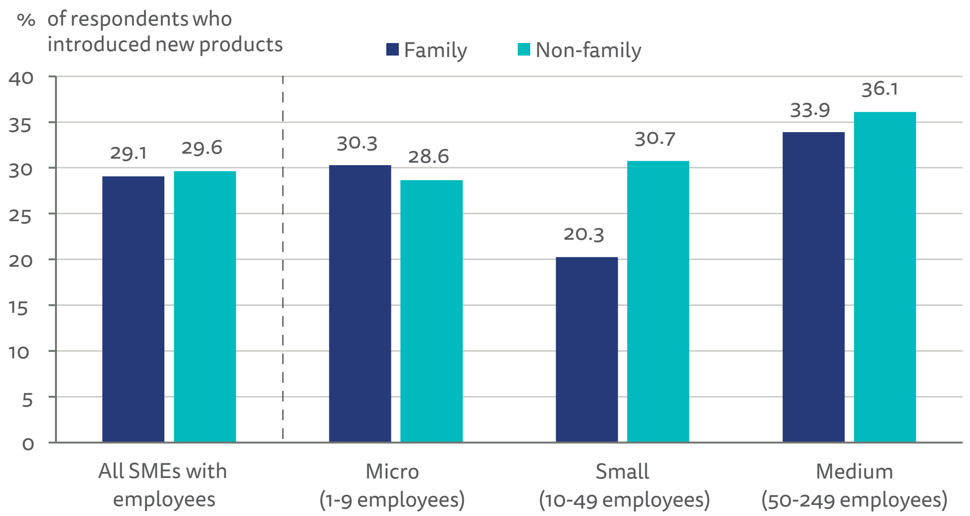

Figure 14. SMEs introducing goods or services new to the market in the previous three years
Source: BEIS (SBS, 2017)

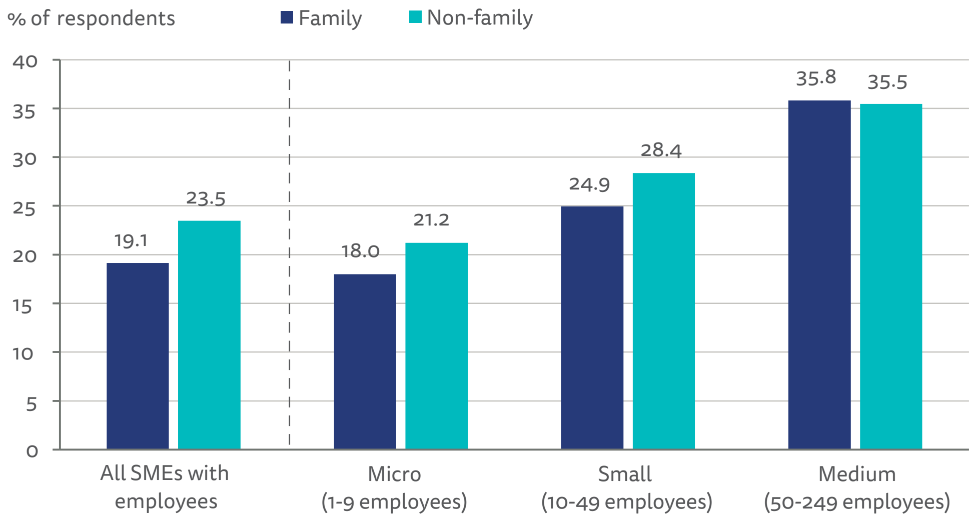

Figure 15. SMEs introducing new, or significantly improved, processes for producing or supplying goods and services in the previous three years
Source: BEIS (SBS, 2017)

5. THE OUTLOOK FOR SME FAMILY BUSINESSES

The previous chapter examined the recent performance of family businesses, focusing on 2017. In this chapter, we explore how family-owned SMEs expect to perform in the coming years, and what strategies they intend to implement to achieve their aims.

5.1 SME FAMILY BUSINESSES' EXPECTATIONS FOR THE NEXT YEAR

Family businesses' future optimism about turnover growth changed little between 2016 and 2017. Survey evidence from the SBS (2017) finds that some 40.3 per cent of family-owned SMEs were expecting their turnover to rise in the next 12 months, compared to 11.6 per cent that anticipated lower turnover. These percentages can be shown as an "optimism gap" – a measure of the balance of optimism versus pessimism for the future, formed by subtracting the percentage of firms expecting lower turnover from the percentage expecting higher turnover. The resulting difference, 28.6 percentage points, is very similar to the 28.9 percentage points difference estimated for 2016, though it is lower than the equivalent figure for non-family firms (Figure 16). Family firms' lower growth expectations may be linked to Saridakis *et al.*'s (2017) finding that they are more averse to risk.

Bassanini *et al.* (2013) suggest that family firms are more likely to maintain stable levels of employment than non-family firms. This is due to their higher levels of employee retention and a tendency to adjust wages in response to cyclical fluctuations rather than the number of employees. Analysis of the SBS is consistent with this – for example, 65.8 per cent of family firms anticipated no change in their number of employees over the next year.

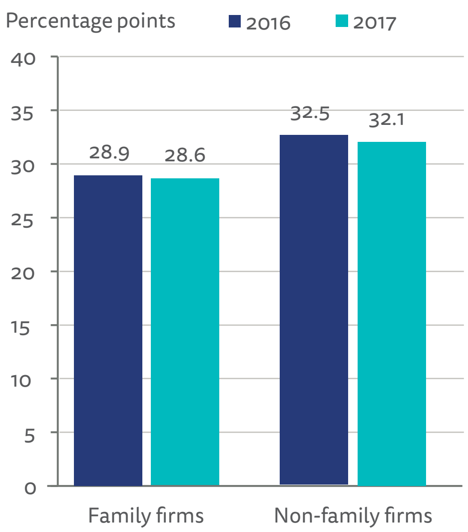

Figure 16. Percentage of SMEs expecting an increase in turnover in the next year, minus the percentage expecting a decrease

Source: BEIS (SBS, 2016 and 2017)

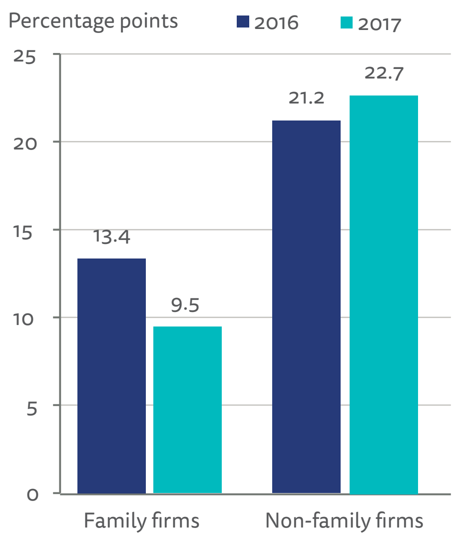

Figure 17. Percentage of SMEs expecting an increase in employment in the next year, minus the percentage expecting a decrease

Source: BEIS (SBS, 2016 and 2017)

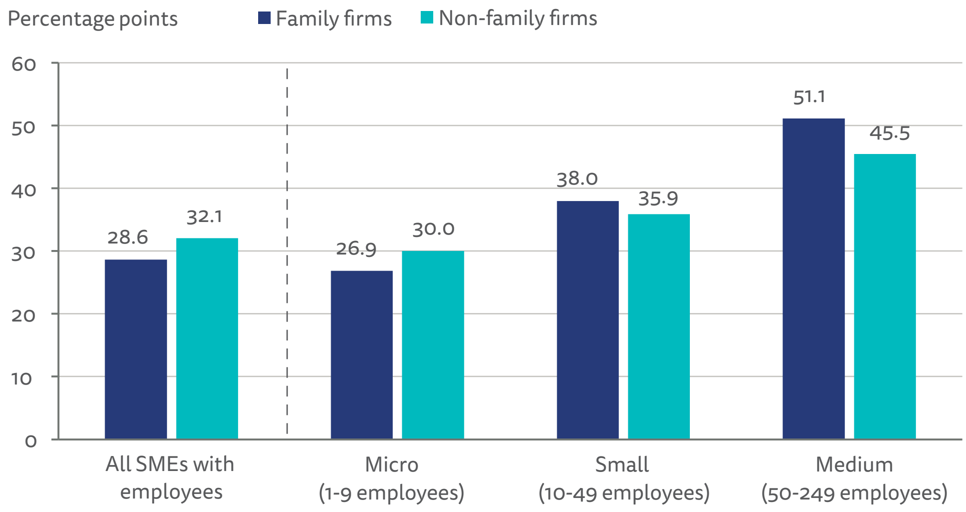

Figure 18. SMEs' turnover optimism gap in 2017, by firm size
Source: BEIS (SBS, 2017)

Family-owned SMEs' expectations for employment growth were less optimistic in 2017, compared to the previous year. Survey evidence shows that, in 2017, some 21.9 per cent of family SMEs anticipated having more employees on their payroll in 12 months' time, while 12.4 per cent expected to reduce the size of their workforce. The 9.5 percentage points separating those expecting an increase and those a decrease is lower than the 13.4 percentage points calculated for 2016, signifying a downturn in family-owned SMEs' employment expectations (Figure 17). Meanwhile, non-family SMEs experienced a growth in optimism over the same time period.

There were notable differences in optimism within the family business sector, with larger SMEs feeling more optimistic about the coming year. Medium-sized SMEs were the most optimistic about increasing their turnover in the coming year. The 51.1 percentage point gap between medium-sized family SMEs expecting higher and lower turnover is greater than the 45.5 percentage point optimism gap estimated for their non-family-owned counterparts, as well as higher than the equivalent figure for small- and micro-sized family SMEs (Figure 18).

For expected employment growth, the equivalent optimism gap for medium-sized family SMEs is 35.7 percentage points (Figure 19). This is slightly higher than the corresponding figure for non-family-owned SMEs of this size (35.0 percentage points) and is also higher than the equivalent gap for small family firms (24.1 percentage points).

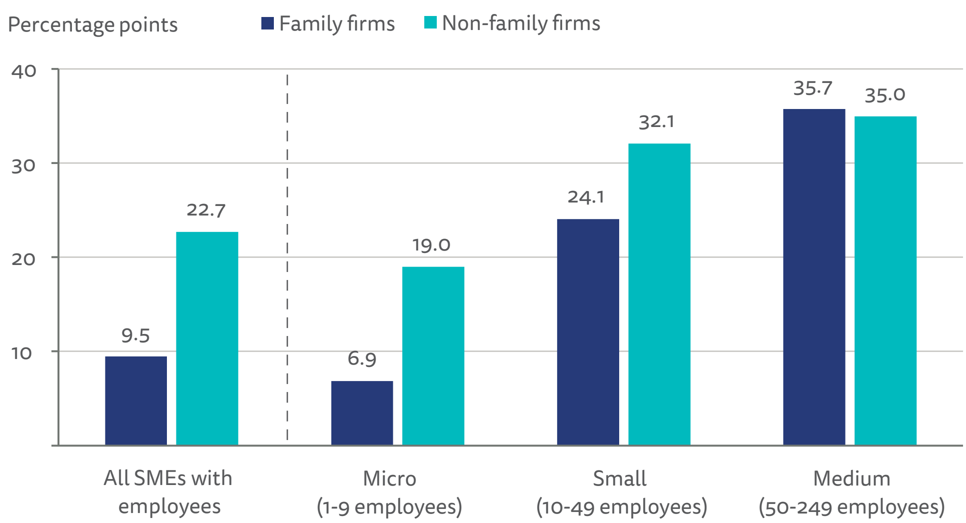

Figure 19. SMEs' employment optimism gap in 2017, by firm size
Source: BEIS (SBS, 2017)

BOX 1: IS FAMILY-OWNED SMEs' OPTIMISM REALISED?

This box explores how realistic family firms' expectations are and whether differences in their attitudes influences their performance and outlook compared with non-family firms. The analysis uses longitudinal data from BEIS' Longitudinal Small Business Survey (LSBS) to replicate Saridakis *et al.*'s (2017) analysis of SMEs' expectations and how they align with what actually happened the following year.[13]

Research by Mandl *et al.* (2008) and Awano *et al.* (2018) suggests that family firms are more risk averse than their non-family counterparts. This has been attributed to the prioritisation of longevity over profit maximisation leading to more conservative behaviour. Analysis of the LSBS indicates that while around the same proportion of family and non-family SMEs successfully grew turnover in 2015 and 2016 (39.3 per cent versus 38.8 per cent in 2015 and 32.1 per cent versus 34.4 per cent in 2016), a greater proportion of family SMEs had *expected* increases in turnover. This finding is unexpected as risk averse agents such as family businesses are often associated with low but certain payoffs.

These results suggest that a greater proportion of family firms are over-optimistic in relation to turnover relative to their non-family counterparts (Figure 20). Of firms that expected to grow, 41.8 per cent of family firms did not manage to do so, compared to 38.1 per cent of non-family firms. Following Saridakis *et al.* (2017), we have used regression analysis to assess whether this result is applicable to all UK firms or due to the particular characteristics of the sample of firms in the LSBS. We found the above results are not statistically significant; that is, the growth expectations of family and non-family SMEs are not significantly different from one another.

A similar analysis of expectations in relation to employment growth indicates that a greater proportion of family firms expected there to be no change in employment. This result tallies

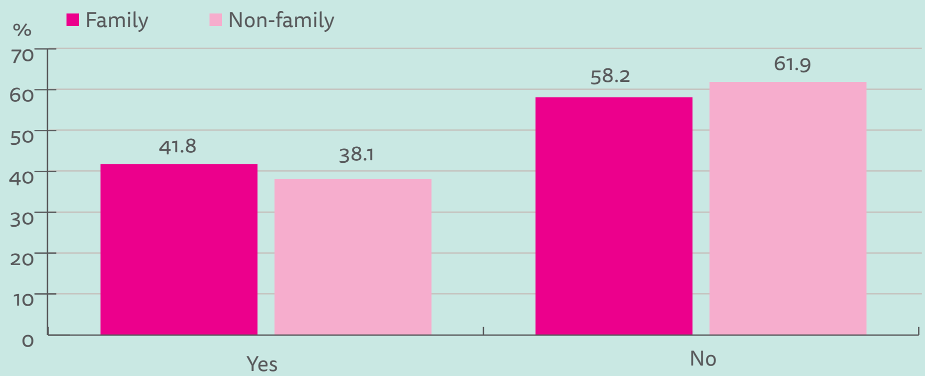

Figure 20. Are SMEs' growth expectations over-optimistic?
Source: BEIS (SBS, 2017)

with research by Bassanini *et al.* (2013) which suggests that family SMEs tend to maintain more stable levels of employment than non-family firms, adjusting to shocks through wages rather than head count. Further analysis confirms that this effect is statistically significant. We found that the probability of expecting employment growth given the SME is family owned is 7.1 per cent less than for non-family SMEs in 2015. However, results for 2016 are not significant.[14]

While the majority of family SMEs did not anticipate growth in employment, those that did tended to be over-optimistic. Of the 14.8 per cent of family firms who believed that they would increase employment in 2016, 76 per cent did not manage to do so. The comparable figure for the 13.6 per cent of non-family firms was 59.4 per cent.

Overall, we find that family and non-family businesses are no different in their ability to realise their expectations of turnover growth. Family firms are, however, significantly more likely to maintain employment levels than their non-family counterparts. This may reflect their greater levels of risk aversion.

"Family firms are significantly more likely to maintain employment levels than their non-family counterparts"

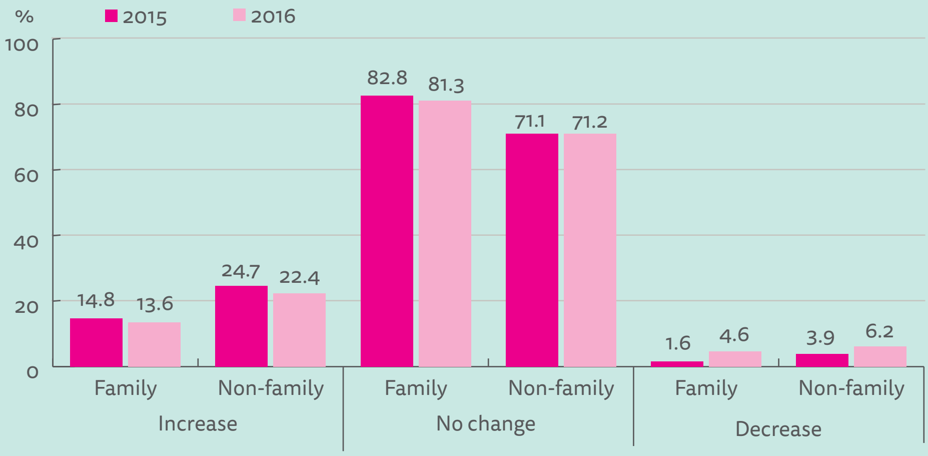

Figure 21. Did SMEs manage to increase their employment as they planned over the next 12 months?
Source: BEIS (SBS, 2017)

5.2 SME FAMILY BUSINESSES' OBJECTIVES

Andersson *et al.* (2017) and Clinton *et al.* (2018) report that family firms often do not necessarily engage in profit maximising behaviour, preferring instead to prioritise longevity and transfer instead. This long-term vision may also lead them to emphasise major future challenges such as the environment and demographic pressures. Lumpkin *et al.* (2010) found that family firms' focus on long-term orientation can lead to innovation and the businesses proactively pursuing opportunities, while risk-taking behaviour and the firms' efforts to outperform competitors are likely to be limited.[15]

The SBS (2017) asked SMEs which of six goals were important to them over the past five years. Some 90.1 per cent of family SMEs, naturally, felt financial goals – turnover or profit – were important to them (Figure 22).[16] This compares to 85.0 per cent of non-family SMEs (Figure 23). Beyond this, many family-owned SME employers prioritised environmental goals: 41.2 per cent said offering solutions to environmental problems such as climate change and food waste was of medium or high importance to them, compared to 36.7 per cent of non-family owned SMEs. More non-family SMEs deemed the other

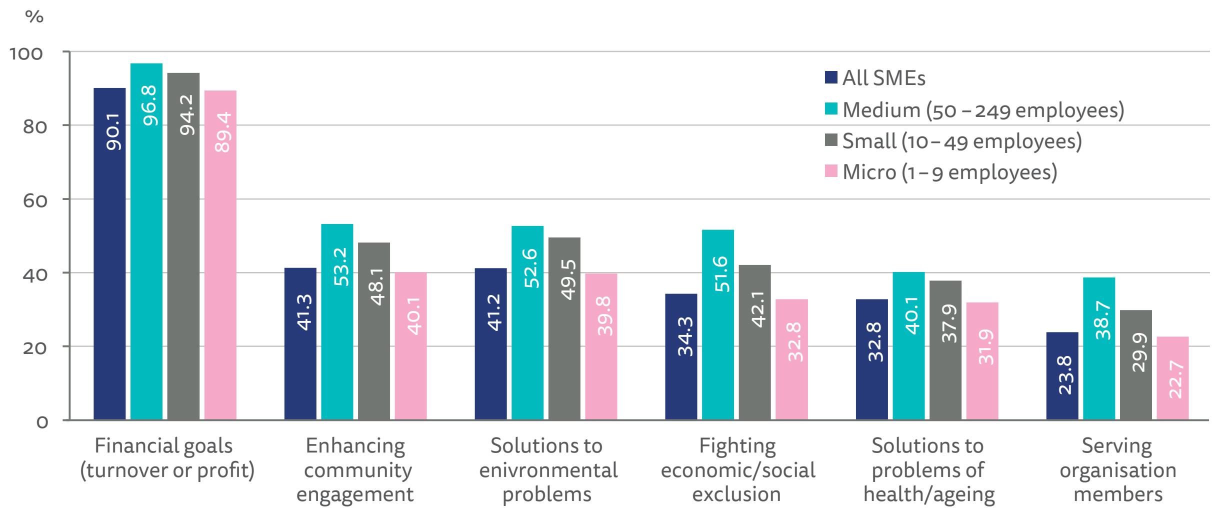

Figure 22. Family SMEs' important goals over the past five years
Source: BEIS (SBS, 2017)

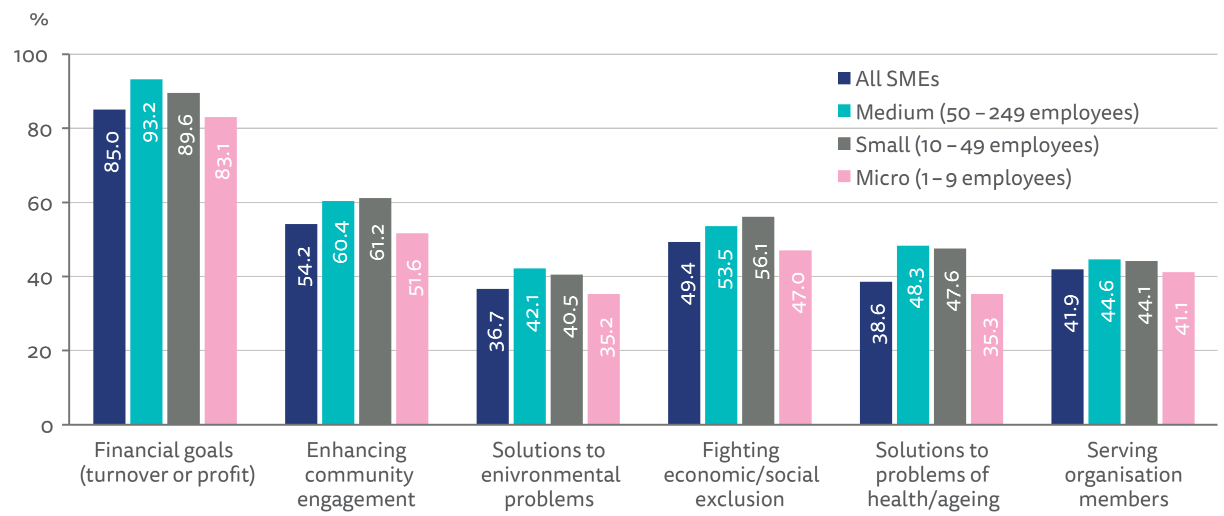

Figure 23. Non-family SMEs' important goals over the past five years
Source: BEIS (SBS, 2017)

four goals the survey asked about to be important to them. For example, 32.8 per cent of family-owned SMEs considered offering solutions to problems of health and/or ageing as an important goal, compared to 38.6 per cent of non-family SMEs.

To help understand the importance of the five social or environmental goals in the survey, SMEs were asked to attach a priority to them. Some 28.5 per cent of family SMEs felt the five social or environmental goals listed were at least as important to them as financial or other goals (Figure 24). A further 41.8 per cent felt the five social or environmental goals were secondary to financial or other goals, while 25.8 per cent did not have these five social or environmental goals as objectives.

The SBS survey results on the four outward looking social and environmental goals warrants further investigation, but two plausible explanations come to mind. First, the four social goals listed may not be those that are of interest to family firms. Second, the responses are likely to be sensitive to the phrasing of the societal goals which include global and society-wide issues, such as solving the problems of an ageing population or climate change. This may not have a strong resonance with family SMEs which operate on a much smaller local scale. Supportive of this is that micro and small firms make up a higher proportion of family SMEs than for non-family firms.

The Institute for Family Business Research Foundation plans to conduct further research into family firms' community impact. This is much wider in scope than these five goals. It is also better suited to what family firms actually can achieve in the locality. The objective of the research will be to better understand how family-owned businesses engage with the communities to which they belong, the impact they have on those communities, and how they contribute to the vitality, well-being and sustainability of those communities.

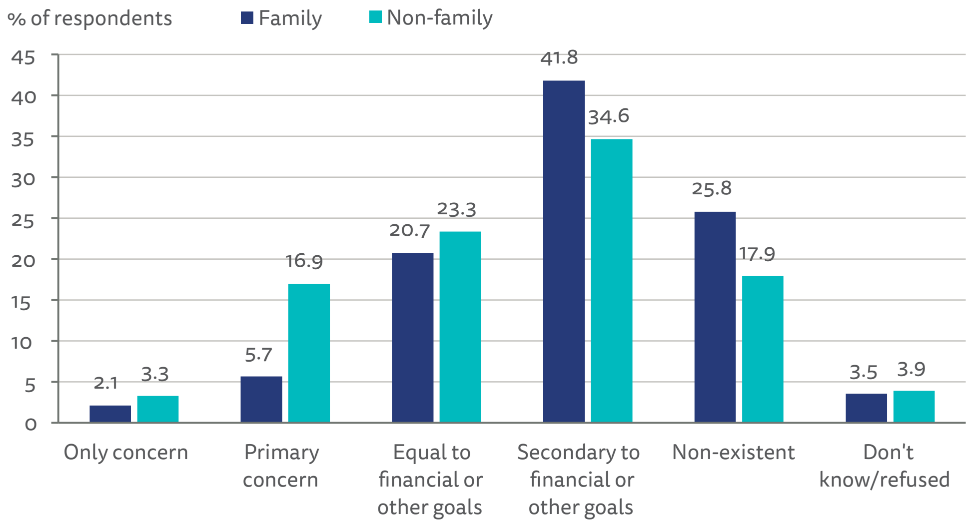

Figure 24. The importance of social or environmental goals to SMEs
Source: BEIS (SBS, 2017)

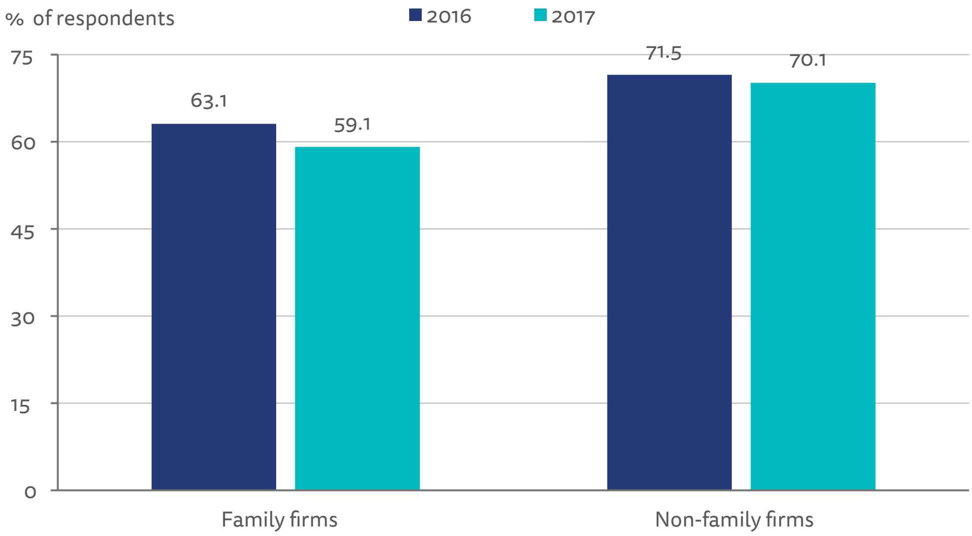

Figure 25. The percentage of SMEs that aim to grow their sales in the next three years
Source: BEIS (SBS, 2017)

5.3 SME FAMILY BUSINESSES' AMBITIONS AND STRATEGIES

In 2017, 59.1 per cent of family SMEs said they aim to grow their sales of goods and services over the next three years (Figure 25). This is slightly lower than the equivalent figure reported in the 2016 survey (63.1 per cent). Non-family SMEs – despite experiencing a similar fall between 2016 and 2017 – were more likely to aim to grow sales in the next three years. Some 70.1 per cent of non-family SMEs shared this objective. This may reflect differences in objectives between the family- and non-family sectors, including the pursuit of non-profit-maximising objectives and a greater emphasis on stability and succession.[17]

Larger family SMEs were more optimistic about growing their sales. As with short-term expectations for employment and turnover, family SMEs with more employees displayed more optimism, with some 85.9 per cent of medium-sized family SMEs planning to increase their sales of good or services in the next three years (Figure 26). Likewise, some 74.5 per cent of small family firms intended to grow sales over the next three years. Both these sizes of family firm displayed levels of optimism similar to their non-family counterparts.[18]

Responses to the SBS (2017) show which strategies family businesses were planning to use to achieve their growth intentions over the next three years. Firms were asked which strategies they planned to adopt, from a multiple response list of options. Some 58.7 per cent of family-owned SMEs planned to improve workers' skills and their ability to pursue growth (Figure 27).[19] Capital investment, cited by 36.5 per cent of family SMEs, was the next most popular strategy, followed by introducing new working practices, cited by 36.2 per cent of family-owned SMEs. There was little change in the strategies that family SMEs planned to adopt across the 2017 and 2016 surveys.

Improving workforce skills was the most popular growth strategy for each size of family firm, with medium-sized firms most likely to select it. This is consistent with Kotey and Folker's (2007) view that there is a greater need for formal training and specific technical skills as businesses expand. Some 82.6 per cent of medium-sized family SMEs planned to use this strategy, notably more than the proportion of micro-sized SMEs (55.3 per cent). The second most popular growth strategy for medium- and small-sized family firms was improving leadership capabilities, adopted by 72.9 per cent and 58.2 per cent respectively (Figure 28).[20] A further 68.0 per cent of medium-sized family firms also had plans for capital investment in plant and machinery.

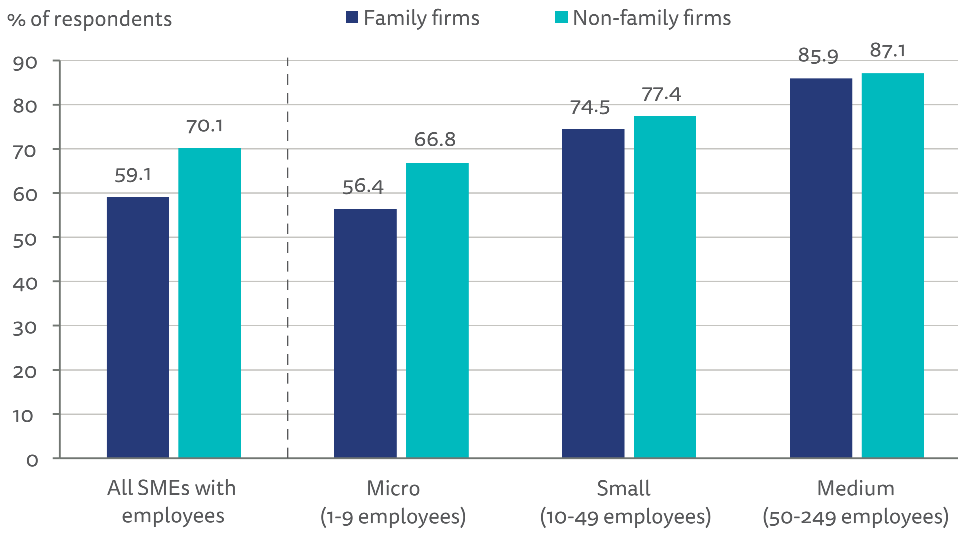

Figure 26. The percentage of SMEs that aim to grow their sales in the next three years, by size

Source: BEIS (SBS, 2017)

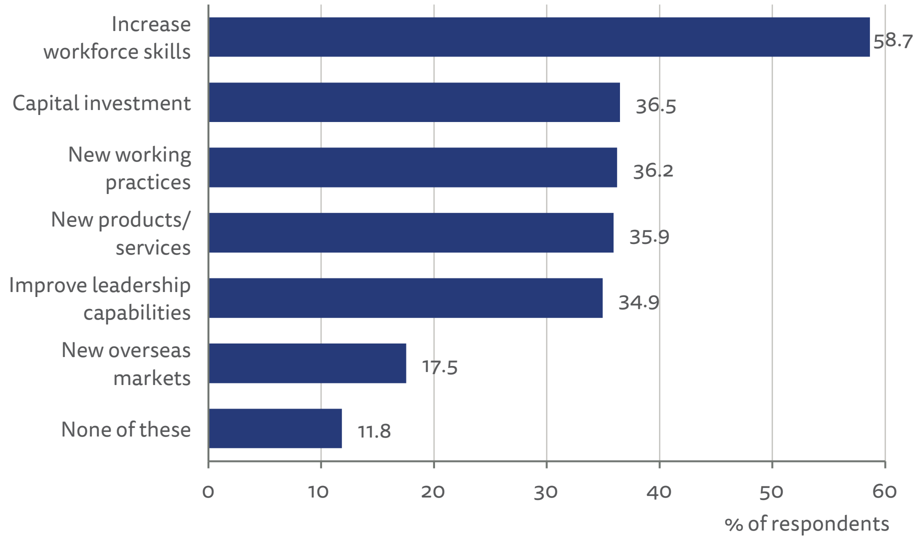

Figure 27. Family-owned SMEs' strategies to achieve growth over the next three years

Source: BEIS (SBS, 2017)

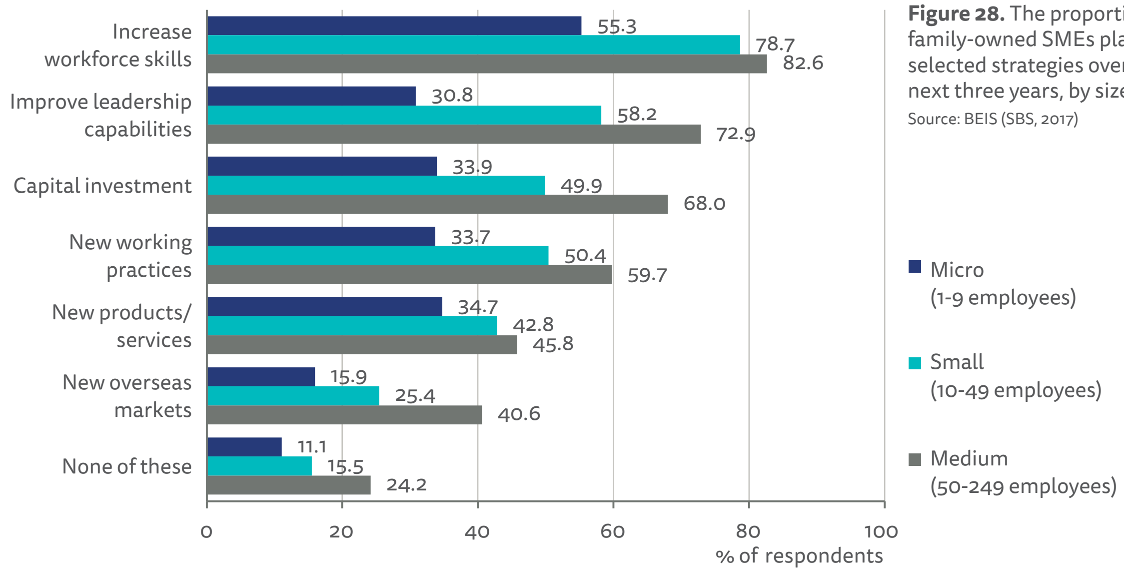

Figure 28. The proportion of family-owned SMEs planning selected strategies over the next three years, by size

Source: BEIS (SBS, 2017)

6. CHALLENGES FACING SME FAMILY BUSINESSES

This chapter explores the challenges facing SME family businesses, including competition, regulation, taxation, staff recruitment, and skills. More specifically, it investigates how the obstacles family businesses said they face differ from those faced by non-family firms; how these challenges differ by business type; and what support is available to family business SMEs.

6.1 THE MAIN CHALLENGES FACING SME FAMILY BUSINESSES

Family-owned SME businesses face a variety of barriers to success. In the SBS (2017), SMEs were asked to identify the major obstacles they face from a multiple response set of 14 options. Their responses are shown in Figure 29.

SME family businesses viewed competition in the market, followed by regulations and red tape as their greatest obstacles. Some 52.8 per cent of SME family firms cited competition as a major obstacle, while 46.8 per cent of SME family firms said regulations were a central issue for their firm (Figure 29). Taxation ranked third, with 45.0 per cent of family SMEs identifying this as a main barrier to their success. These findings were consistent with the survey evidence from SBS (2016). However, in 2017, staff recruitment and skills had overtaken late payment as the fourth most commonly cited obstacle facing family firms.

Competition was the most frequently cited major obstacle across the spectrum of SME family businesses.

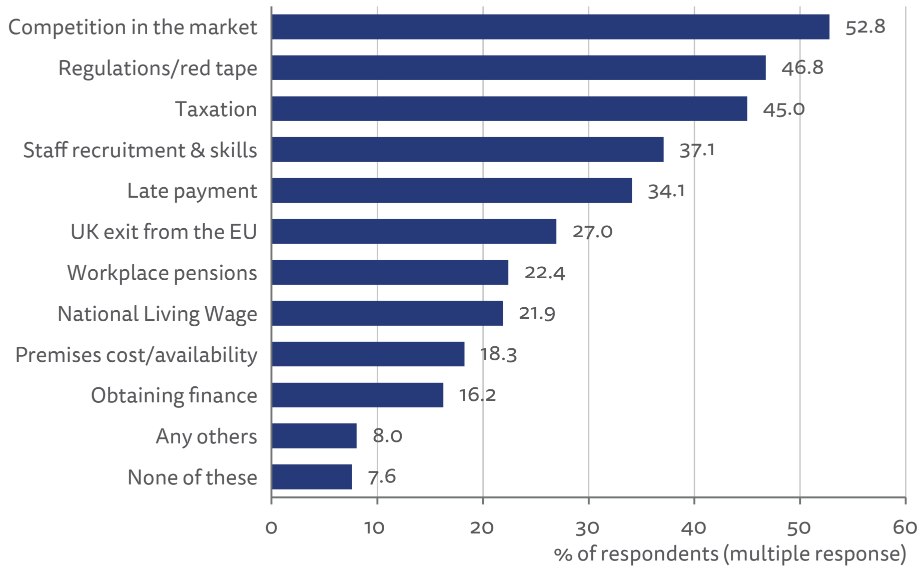

Figure 29. Family-owned SMEs' major obstacles to business success

Source: BEIS (SBS, 2017)

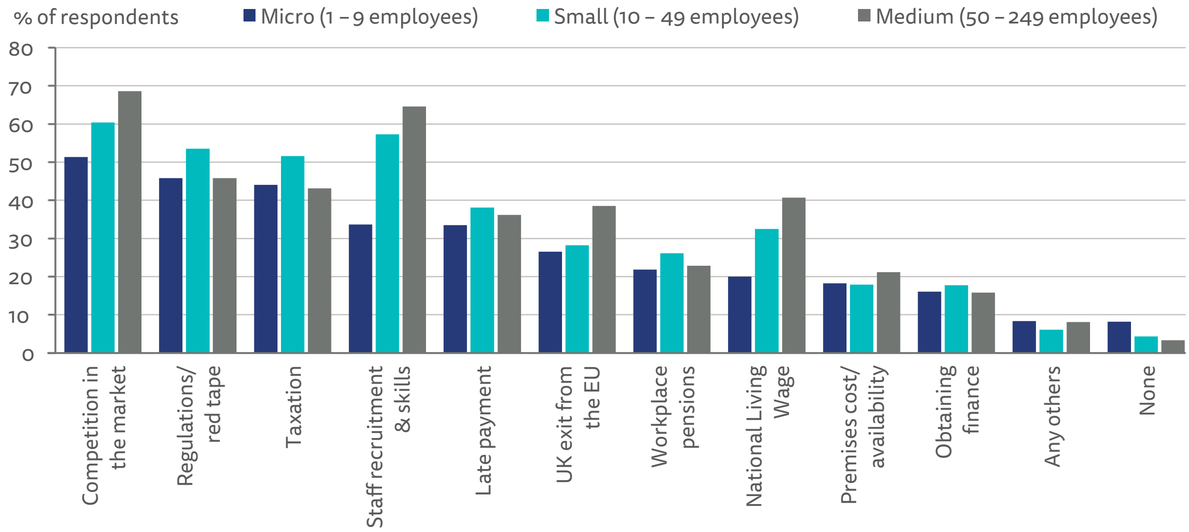

Figure 30. Family-owned SMEs' major obstacles to business, by firm size
Source: BEIS (SBS, 2017)

Thereafter, the main challenges they said they face varied with size (Figure 30). Staff recruitment and skills ranked second for medium- and small-sized family businesses, closely followed by regulatory issues for both. Family-owned micro employers, meanwhile, regarded regulation and red tape as their next biggest challenges, followed by taxation.

The obstacles that family-owned SMEs said they face varies by industry. In seven out of the 12 industrial sectors, competition in the market was considered the main obstacle to success. In fact, the only sector where it was not the first or second most significant obstacle for family firms was the health sector. The most pressing issue for family firms in the health sector was staff recruitment, with some 52.1 per cent of family firms reporting this as an issue.

In three industries – agriculture and extraction, utilities and waste management, and construction – regulation was cited most frequently as a major obstacle to the success of family firms. Whereas in the hotel and restaurants sector, taxation was considered the main obstacle to success. These findings are broadly consistent with previous findings from the SBS (2016).

6.2 HOW REGULATIONS AND RED TAPE AFFECT SME FAMILY BUSINESS SUCCESS

Regulations/red tape were the second most significant obstacle that family businesses said they faced. In the SBS (2017), almost half (46.8 per cent) of family SMEs cited regulations/red tape as one of their major obstacles to success. They were slightly more likely to see issues of regulation/red tape as an obstacle than their non-family counterparts, 43.8 per cent of whom identified it as a main obstacle. This was particularly the case with small family firms, with 53.5 per cent of family business employing 10 and 49 individuals citing regulations/red tape as a major obstacle.

Firms that reported regulations/red tape as a major obstacle to success were asked which regulations pose the biggest challenges for them, choosing from a multiple response list of options (these are shown in Figure 31). Tax regulations were seen as particularly burdensome for family SMEs, with 19.4 per cent of firms considering this an obstacle. The importance of this issue is broadly the same compared to last year, with only 16.3 per cent of family-owned SMEs reporting tax regulations as an issue in the SBS (2016). Employment regulations were reported by 16.5 per cent of family firms, while a further 14.6 per cent of family employers indicated that the regulatory burden in general, rather than any specific regulation, was an obstacle to success.

6.3 HOW STAFF RECRUITMENT AND SKILLS AFFECT SME FAMILY BUSINESS SUCCESS

The recruitment, training and retention of skilled staff was a significant concern for family businesses in 2017. Some 37.1 per cent of family SMEs indicated that staff recruitment and skills were a major obstacle to their success. This is more than the 30.1 per cent of family SMEs that reported these issues as problematic in the survey one year earlier.

Survey evidence shows staff recruitment and skills were perceived to be a more important obstacle for larger family SMEs. It was the obstacle cited by the second highest percentage of small- and medium-sized family

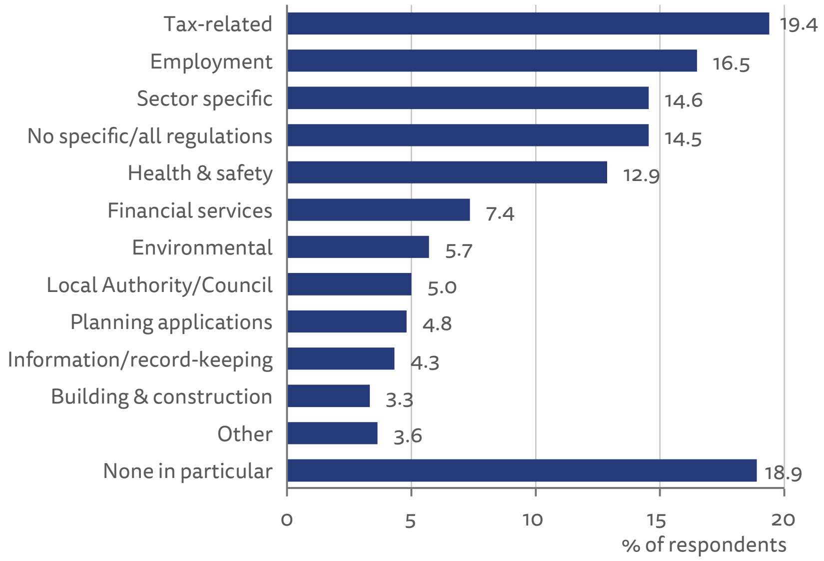

Figure 31. The types of regulations considered an obstacle to success by family-owned SMEs
Source: BEIS (SBS, 2017)

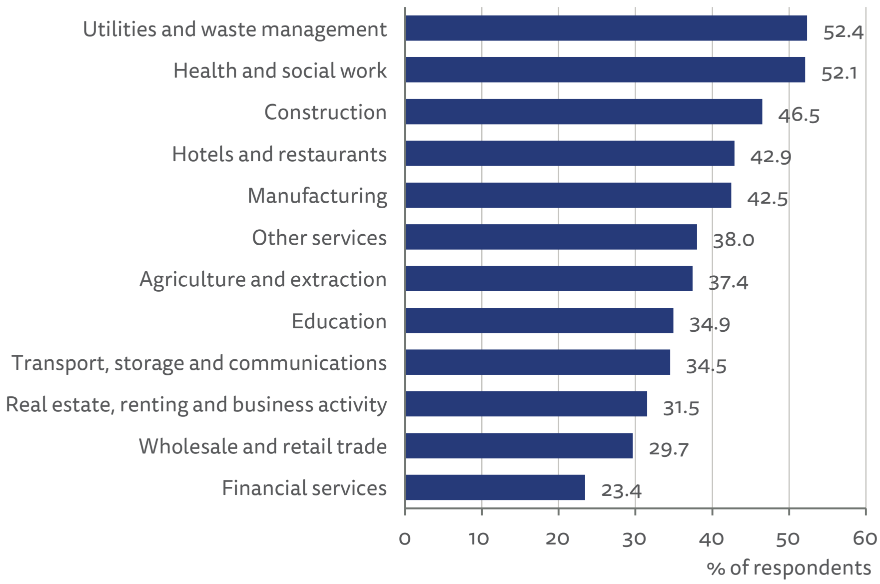

Figure 32. The proportion of family-owned SMEs citing recruitment and skills as a main obstacle to success, by sector
Source: BEIS (SBS, 2017)

firms, reported as an issue by 57.3 per cent and 64.6 per cent of these firms, respectively. This compares to just 33.6 per cent of micro-sized family firms.

The strength of family SMEs' perceptions over how important an obstacle to achieving their business objectives recruitment and skills are varies across industries. For example, it was most commonly reported as an issue by family SMEs operating in the utilities and waste management sector, where it affects 52.4 per cent of firms (Figure 32). It was also perceived to be an issue that affects some 52.1 per cent and 46.5 per cent of family SMEs in the health and construction sectors respectively.

6.4 ACCESS TO EXTERNAL FINANCE

Family firms have been shown to prefer lower levels of debt due to the potential risks. Michiels and Molly (2017) and Gallucci *et al.* (2017) attribute this to risk aversion, alongside a preference to concentrate control within the family which may discourage firms from applying for external finance. The European Commission (2015), nevertheless, sees a lack of access to external finance as a key impediment to the success of family businesses.

Survey evidence indicates that family SMEs were slightly less likely to report having tried to obtain external finance over the previous 12 months compared with their non-family owned counterparts. Some 12.3 per cent of family-owned SMEs reported that they had sought external finance at least once in the past year, compared to 14.6 per cent of non-family firms (Figure 33). Larger family SMEs were more likely to have tried to obtain external finance, with 23.6 per cent of medium family firms applying compared to 19.9 per cent of small-sized family firms.

Family-owned SMEs who reported trying to obtain external finance in the 2017 survey were asked what they intended to use it for. The most common reason, given by 59.4 per cent of family-owned SMEs, was for working capital, for example, to fund general growth, or cover a short-term gap in funds. This figure has fallen compared to the previous year's figure of 67.1 per cent, as reported by the SBS (2016). A further 26.0 per cent intended to use the additional finance to purchase capital equipment and vehicles – up from 22.7 per cent in 2016 – while 17.3 per cent of firms want the funds to purchase, rent or lease new buildings or land, or improve their existing premises.

SME family businesses applying for external finance faced more obstacles than their non-family owned counterparts. This is somewhat surprising as previous research has indicated that banks consider family businesses to be better borrowers with lower moral hazard than non-family firms.[21] Survey evidence shows that 11.0 per cent of family-owned SMEs who sought external finance had their application rejected, compared to a slightly lower figure of 10.2 per cent for non-family-owned SMEs (Figure 34). However, this figure is lower than the 13.6 per cent of family-owned SMEs that reported having an application turned down in the SBS (2016).

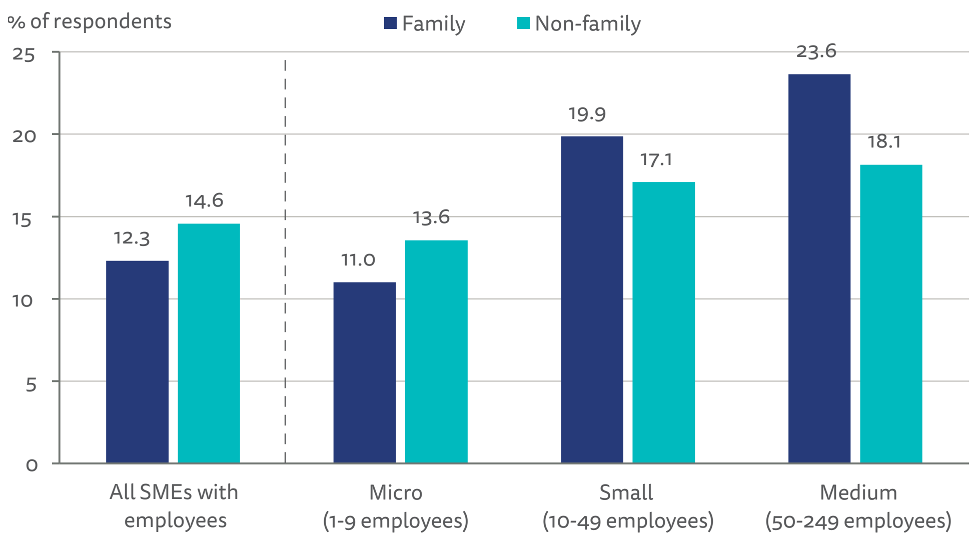

Figure 33. The proportion of SMEs that tried to obtain external finance at least once in the previous 12 months, by firm size

Source: BEIS (SBS, 2017)

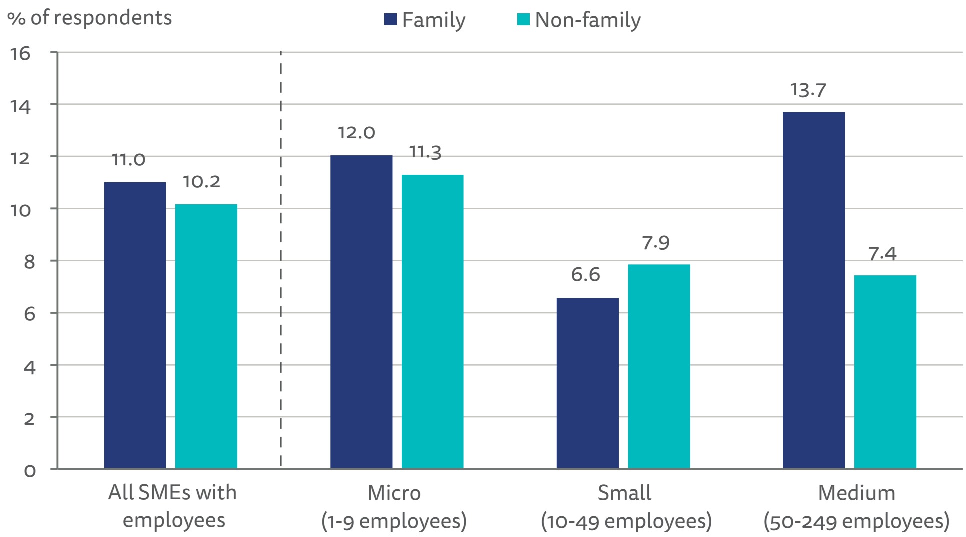

Figure 34. The proportion of SMEs applying for but not obtaining finance in the last 12 months, by firm size

Source: BEIS (SBS, 2017)

There is some disparity between different sizes of family firms, with only 6.6 per cent of small family firms having an application rejected, compared to 13.7 per cent of medium-sized firms. This figure has risen notably compared to the previous year, as only 7.7 per cent of medium-sized family firms reported being rejected for finance in 2016. The difference between family- and non-family owned SMEs is greatest among these medium-sized firms, with family businesses twice as likely to be rejected for finance than their non-family owned counterparts.

Family firms are not applying for all the external finance they need. Survey evidence shows that some 9.3 per cent of family-owned SMEs required finance they did not apply for (either by not applying for any external finance, or by applying for less finance than they required in the previous 12 months). This is slightly higher than the non-family firm equivalent figure of 8.7 per cent.

The main reason given by family firms who did not apply for all the external finance they required was a concern about the additional risk it entailed. Some 29.8 per cent of the family SMEs that needed finance but did not apply reported this as an issue (Figure 35). This is notably higher than the equivalent figure of 18.7 per cent for non-family owned firms and equally marks a rise from the 23.3 per cent of family firms which reported additional risk as an impediment to making a full application in SBS (2016).

Some 14.7 per cent of family-owned SMEs were put off applying for external finance in anticipation of their application being rejected, while a further 13.9 per cent thought the application process would be too expensive. Family firms were, however, less concerned about economic conditions than their non-family owned counterparts, with only 9.4 per cent of family firms dissuaded for applying by the state of the economy, compared to 18.8 per cent of non-family SMEs.

Michiels and Molly (2017) argue family firms tend to prefer forms of debt rather than equity financing in order to prevent the dilution of family control. Bank overdrafts and credit cards were, as such, the most commonly used source of external finance by family SMEs. Some 35.3 per cent used bank overdrafts – notably more than the 20.1 per cent of non-family

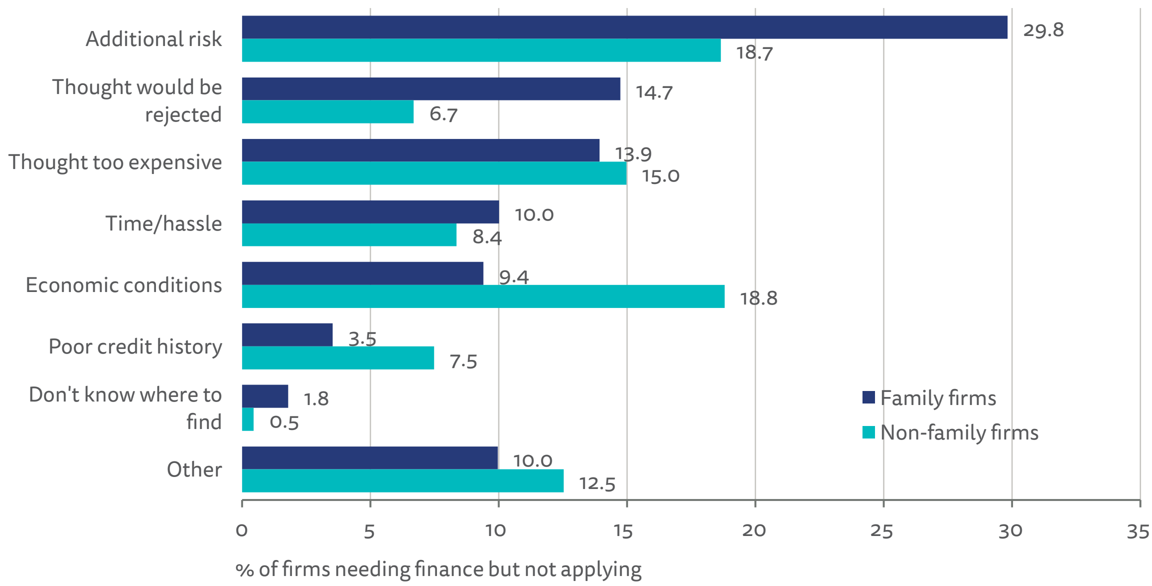

Figure 35. The reasons SMEs gave for not applying for some or all the finance they needed in the last 12 months
Source: BEIS (SBS, 2017)

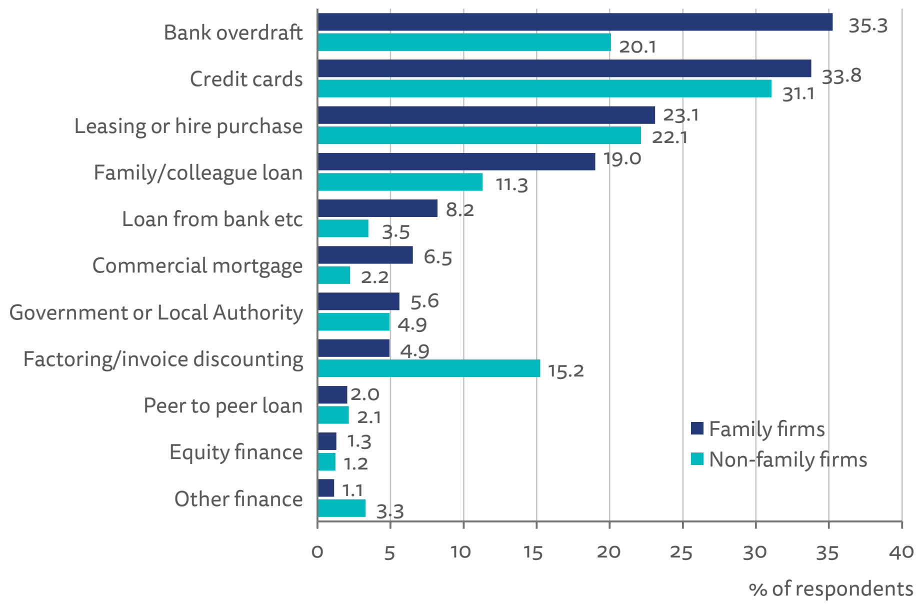

Figure 36. The proportion of SMEs using different types of external finance in 2017

Source: BEIS (SBS, 2017)

owned SMEs that reported doing the same (Figure 36) – while some 33.8 per cent of family SMEs used credit cards. These results were very similar to those from SBS (2016), as the proportion of family firms using bank overdrafts and credit cards for external finance was 35.2 and 34.3 per cent, respectively. Another 19.0 per cent of family SMEs relied on a loan from family or colleagues, and were more likely to do so than non-family firms (11.3 per cent).

6.5 THE BUSINESS SUPPORT AVAILABLE FOR SME FAMILY BUSINESSES

To address the obstacles facing the day-to-day operations or growth plans of their business, family firms can seek advice or information from a number of sources. But Mandl (2008) and Gomez-Mejia *et al.* (2010) argue that they may be more reluctant to do so than non-family firms due to a perception that their aims and structure will be misunderstood by external parties. According to evidence from the SBS (2017), some 25.9 per cent of family SMEs had received advice or information, either from a professional or free-to-use service, in the past 12 months (Figure 37). This is lower than the 37.4 per cent of non-family SMEs who said they had received advice in the past year. Larger family firms were more likely to receive information, with 43.6 per cent of medium-sized family firms doing so, compared to 24.5 per cent of their micro-employer counterparts. For each size of firm, non-family-owned businesses were more likely to seek advice or information.

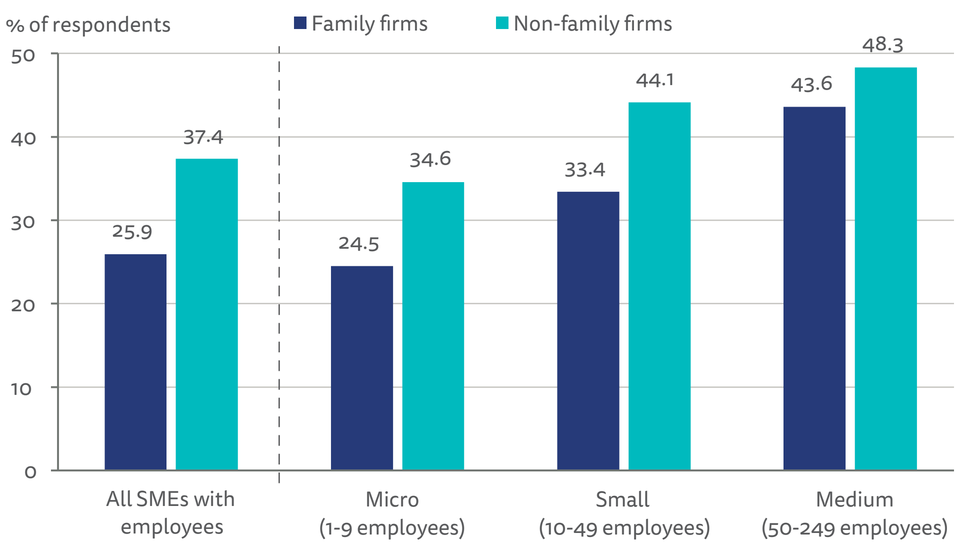

Figure 37. The proportion of family-owned SMEs who said they had received advice or information in the previous 12 months, by firm size

Source: BEIS (SBS, 2017)

Family SMEs were most likely to say they had received advice from accountants in the past year. When presented with a multiple response list of advice options, some 38.7 per cent of family businesses had received information from an accountant (Table 11). A further 29.0 per cent of family-owned SMEs said they had obtained advice from an external consultant, while 17.2 per cent contacted their trade association or other business networks. Family firms were slightly more likely to say they had received information from these three sources than their non-family owned counterparts. Conversely, only 9.3 per cent of family firms received advice from a solicitor or lawyer, compared to 19.1 per cent of non-family businesses.

Family businesses were most likely to say they had sought advice over the past year to aid business growth. From a multiple response list of options, 23.5 per cent of family SMEs reported receiving had information for this reason (Table 12). Financial advice for the general running of the firm ranked second, cited by 20.8 per cent of the firms.

"To address the obstacles facing the day-to-day operations or growth plans of their business, family firms can seek advice or information from a number of sources."

Source of advice	Family firms (% of firms receiving advice, from multiple response options)	Non-family firms (% of firms receiving advice, from multiple response options)
Accountant	38.7	30.3
Consultant/general business adviser	29.0	28.6
Business networks/trade associations	17.2	16.4
Solicitor/lawyer	9.3	19.1
.GOV website	5.4	4.1
Internet search	5.1	4.5
Work colleagues	4.8	2.8
(Specialist) financial adviser	4.7	3.3
Bank	3.9	1.0
Chamber of Commerce	2.4	1.6
Local Council/Authority	2.4	5.0
Universities/other education sector	1.5	1.9
Local Enterprise Partnership	1.5	1.0
The Pensions Regulator	1.3	0.5
Friend or family member	1.0	0.1
Invest NI	0.0	0.1
Other	3.7	7.3

Table 11. Sources of advice for family-owned SMEs in the previous 12 months
Source: BEIS (SBS, 2017)

Reason	Family firms (% of firms receiving advice, from multiple response list of options)	Non-family firms (% of firms receiving advice, from multiple response list of options)
Business growth	23.5	21.6
Financial (accounting etc)	20.8	15.5
Tax/NI law & payments	14.2	9.2
Efficiency/productivity	11.6	11.4
Legal issues	10.7	17.2
Employment law	9.5	11.7
Workplace pensions	7.1	1.9
Health and safety	6.9	4.4
Marketing	6.6	6.2
Financial (how & where)	6.0	8.1
Regulations	6.0	7.9
E-commerce/technology	5.3	5.4
Training/skills	3.3	1.9
Innovation	2.8	3.0
Management/leadership	2.4	2.4
Exporting	2.3	2.5
Relocation	1.8	0.4
Other	6.4	4.3
Don't know	23.3	4.6

Table 12. Reasons SMEs sought advice or information in 2017
Source: BEIS (SBS, 2017)

7. CONCLUSION

The family business sector continues to be central to the UK economy. There were 4.8 million family-owned firms in 2017 and the sector accounts for some 85 per cent of all private sector firms. The sector employed 13.4 million throughout the UK's nations and regions. This is 50 per cent of all private sector employment. The family business sector made a £598 billion contribution to UK GDP and generated £182 billion in tax revenues.

The family business sector performed strongly in 2017. Some 36 per cent of family-owned SMEs reported their turnover had grown in the past 12 months, more than in the previous year. The growth benefitted all parts of the UK. More family firms reported growing their workforce than reported reducing their workforce in every UK region.

The outlook for family businesses is positive. The share of family-owned SMEs expecting to grow their turnover over the coming year (2018) exceeded those expecting their turnover to decline by 29 per cent. The majority of family businesses had strategies to increase their sales, with the majority of these firms planning to develop their workforce skills in order to fuel growth.

Despite their strong performance, SME family businesses continued to face challenges. Market competition remained the biggest obstacle to the success of family-owned SMEs, but regulation and tax obstacles were the next most commonly cited challenges. Access to external finance continued to hamper family business, while application rates were below their non-family-owned counterparts, family SMEs were still more likely to have their application rejected.

APPENDIX 1

HOW HAS THE FAMILY BUSINESS SECTOR'S IMPACT CHANGED OVER TIME?

As mentioned in the introduction, this year we have changed the definition of family businesses that has been applied in our analysis. For the first time in this series of reports, we now estimate the number of large family firms (250 or more employees) using an estimate of family firms' share of all large UK-resident firms, regardless of the nationality of their owners, rather than focusing on the subset which are UK-owned. This gives greater consistency with the way the national accounts are compiled and the treatment of SMEs. It comes at the cost of creating a break in the time series that means we are unable to compare the results for 2017 to previous years.

To give valid comparisons over time, the analyses presented in this Appendix employ the old definition of the share of large family firms. This focuses on UK-owned large firms as opposed to all family firms, regardless of nationality of ownership. However, we have used a more up-to-date estimate of the share of large firms that are UK-owned family firms for the 2017 estimate. This is based on new evidence from Kotlar *et al.* (2019) who have replicated the analysis carried out by RepGraph (2016) and estimate that 11.1 per cent of the 1,000 largest companies registered in the UK were owned by UK families, compared to RepGraph's (2016) estimate of 10.9 per cent. The following estimates are constructed on this basis.

The family business sector has continued to show strong growth since 2016. The gross value added contribution of the family business sector, and its turnover, have grown by 4.5 per cent and 3.3 per cent, respectively, since 2016 (Table 13). Family business employment rose by 1.8 per cent over this period, while the number of family firms was 0.7 per cent greater in 2017 compared to the previous year.

The growth of the family business sector since 2016 follows a positive trend that can be observed

Classification	Metric	2010	2015	2016	2017	Growth since 2016 (%)	Growth since 2010 (%)
Family business sector	Firms (thousands)	2,959	4,704	4,814	4,847	0.7	63.8
	Employment (thousands)	8,978	12,246	12,192	12,411	1.8	38.2
	Turnover (£2018 million)	1,151	1,360	1,439	1,486	3.3	29.1
	GVA (£2018 million)	358	460	519	543	4.5	51.6
Non-family business sector	Firms (thousands)	1,525	686	684	848	24.0	-44.4
	Employment (thousands)	13,538	13,591	14,013	14,311	2.1	5.7
	Turnover (£2018 million)	2,338	2,564	2,646	2,485	-6.1	6.3
	GVA (£2018 million)	748	826	906	889	-1.9	18.8
Private sector	Firms (thousands)	4,485	5,389	5,498	5,695	3.6	27.0
	Employment (thousands)	22,516	25,837	26,205	26,722	2.0	18.7
	Turnover (£2018 million)	3,489	3,924	4,085	3,971	-2.8	13.8
	GVA (£2018 million)	1,106	1,287	1,425	1,432	0.5	29.4
Family business share	Firms (%)	66	87	88	85	-2.8	29.0
	Employment (%)	40	47	47	46	-0.2	16.5
	Turnover (%)	33	35	35	37	6.3	13.5
	GVA (%)	32	36	36	38	4.0	17.2

Table 13. Number of firms, employment, turnover and GVA in family businesses and the private sector in the UK between 2010 and 2017

throughout the time series, with the family business sector's gross value added contribution to GDP rising by 51.6 per cent since 2010. Meanwhile, the number of family firms has risen by 63.8 per cent and the family business sector's total employment has grown over this period by 38.2 per cent.

The growth of the family business sector has been inconsistent through the UK's nations and regions. The number of family business in London grew by 6.3 per cent since 2016, more than any other region (Table 14). This was closely followed by Yorkshire and the Humber, where the number of family businesses grew by 6.0 per cent over the same period. Across the UK as a whole, the number of family firms has grown by 0.7 per cent since 2016.

The North East and Wales, in particular, experienced a fall in the number of family businesses, with the total contracting by 17.9 per cent and 13.3 per cent in these regions since 2016, respectively. The overall business populations in these areas fell by 2.8 per cent and 5.8 per cent, respectively, over the same time period (ONS 2016, 2017).

Across the UK as a whole, the number of family businesses has grown by 34.5 per cent since the turn of the decade. This growth has been strongest in London, where there were 96.3 per cent more family firms in 2017 compared to 2010. This is higher than the second fastest growing region, the South East, where there were 44.4 per cent more family firms in 2017 than in 2010. All of the UK's nations and regions have experienced strong growth in the number of family businesses since 2010, with the exception of Northern Ireland, where there was been a 4.1 per cent fall over this time period.

Country/region	2010	2015	2016	2017	Growth since 2016 (%)	Growth since 2010 (%)
London	413	793	811	862	6.3	96.3
South East	546	742	788	793	0.6	44.4
East of England	396	463	497	512	3.1	25.5
South West	369	475	459	476	3.8	24.3
North West	379	457	458	442	-3.5	21.0
Yorkshire and the Humber	300	338	352	374	6.0	17.6
West Midlands	305	341	362	372	2.9	18.7
East Midlands	258	313	340	325	-4.6	31.7
North East	102	120	133	109	-17.9	30.2
England	3,067	4,042	4,200	4,265	1.6	36.9
Scotland	227	293	294	298	1.5	29.8
Wales	168	189	208	180	-13.3	23.9
Northern Ireland	117	91	113	103	-8.9	-4.1
UK	3,579	4,614	4,814	4,847	0.7	34.5

Table 14. Number of family firms in the UK between 2010 and 2017, by region (000s firms)
Sources: BEIS (SBS) and Oxford Economics

APPENDIX 2

DATA SOURCES

This report uses a range of data sources to analyse the family business sector. However, the following four sources underpin most of the estimates included in this report:

The Department for Business, Energy and Industrial Strategy (2018) *Longitudinal Small Business Survey.* This annual longitudinal survey published by BEIS, previously conducted once every two years, focuses on micro, small and medium-sized enterprises (SMEs) – that is, firms with between zero and 249 employees. In this report, editions of the SBS are referenced according to the year they were conducted: "SBS (2017)" therefore refers to the latest version, conducted in 2017 and published in August 2018.

The Department for Business, Energy and Industrial Strategy (2017) *Business Population Estimates for the UK and its Regions.* This annual report produces estimates of the number of private businesses of different sizes in the UK and their associated employment and turnover, disaggregated by region, industry and legal status in 2017.

The Office for National Statistics (2018) *Annual Business Survey.* This gives a detailed breakdown of the population, employment, turnover and value added of firms in different industries of the UK economy between 2008 and 2017.

Kotlar *et al.* (2019) *Corporate Governance in Large UK Family Firms.* The IFB Research Foundation commissioned Kotlar *et al.* to construct a database of the largest 1,000 companies registered in the UK as measured by turnover. The study examines their corporate governance arrangements.

ENDNOTES

1 The number of family businesses in each employment size band was estimated by multiplying the proportion of family firms in each employment size band according to the SBS (2017) by the total number of private sector firms reported in BEIS (2017a). All the results presented in this report using SBS data have been weighted using weights calculated by BEIS. How these weights are calculated is explained in BEIS' Longitudinal Business Survey Year 3 (Technical Report); weights were calculated to correct any disparity between the sample and population by sector, size and nation (BEIS 2018).

2 BEIS' SBS classifies all SMEs with a single owner/partner as a family firm. Only SMEs with multiple owners/partners are asked whether they are a family-owned business.

3 "Employment" includes both employees and the self-employed. For micro firms with no employees, their employment contribution comes from the self-employed.

4 Family firm turnover was estimated by a similar methodology used to estimate the number of firm and employees; that is, by multiplying the SBS (2017) family firm shares in each employment category size by the total turnover of firms in each of these size categories reported in BEIS (2017a).

5 Gross value added estimates were derived by multiplying the estimates of family business turnover by ratios of gross value added to turnover for each industry in the UK, which were sourced from the ONS' Annual Business Survey (ONS 2018a).

6 The UK Government's mandate to NHS England 2017–18, Department of Health (2018).

7 "Business activity" includes firms working in financial and professional services.

8 SBS (2017) defined ethnic minority directors or partners as those belonging to any of the following groups: mixed race backgrounds (mixed white and black Caribbean, mixed white and black African, mixed white and Asian, other mixed background), Indian, Pakistani, Bangladeshi, other Asian background, black Caribbean, black African, other Black background, Chinese, Arab or Gypsy or Irish traveller.

9 Further evidence in this area is available from the ONS' Management Expectations Survey (ONS 2018c). The survey was conducted in 2017 from a sample of 25,000 firms, covering questions on management practices and firms' expectations and uncertainties. The survey found that 15.3 per cent of small-sized family firms have professional managers in charge of the business. This figure rises to 20.3 per cent for medium family businesses and 31.5 per cent for large family firms.

10 "Past 12 months" refers to the 12 months prior to the surveyed businesses' response in the SBS (2017).

11 Although such risk aversion might also encourage diversification strategies including exporting as a means to reduce expose.

12 These data, also shown in Figure 12, suggests 16.9 per cent of family businesses exported goods. This figure omits the 1.2 per cent of respondents who answered "Don't Know" or "Refused" in response to this survey question. That is why this figure does not match the 18.2 per cent shown in Figure 10.

13 The longitudinal survey dataset includes 4,165 firms who were interviewed in each year of the Small Business Survey from 2015–2017. With three years of data now available, the survey enables analysis of changes in attitudes and behaviours over time.

14 It is difficult to form a clear conclusion based on a non-significant result as it simply suggests that the null-hypothesis cannot be rejected.

15 Long-term orientation can be defined as the tendency of a firm to prioritise important parts of their business that arise only after an extended period of time (Lumpkin *et al.* 2010).

16 An issue is considered important to the firm if respondents said the given issue was of "high" or "medium" importance in the SBS (2017).

17 See London Economics (2002) for a literature review explaining why family ownership may lead to the adoption of different objectives for firms.

18 In research carried out on the UK Industrial Trends Survey, Driver (2017) found that past performance rather than size is a key factor in understanding firm expectations.

19 Family firms have been found to be less skill intensive than non-family firms, in part due to their concentration in labour intensive sectors (Andersson *et al.* 2017). However, their ability to achieve similar outcomes suggests that there may be a focus on more informal tacit knowledge.

20 The ONS' Management and Expectations Survey found that being family owned negatively affected a firm's management score only if the firm was large, i.e. with over 250 employees (Awano *et al.* 2018).

21 Moral hazard in this scenario refers to a situation in which the business engages in additional risky behaviour beyond that set out in the financial agreement.

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IFB Research Foundation

22-24 Buckingham Palace Road
London SW1W 0QP

020 7630 6250

ifb.org.uk/research
research@ifb.org.uk