Institute for
Family Business

The UK Family Business Sector

Working to grow the UK economy

November 2011

OXFORD
ECONOMICS

Foreword

November 2011

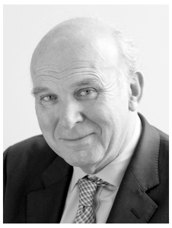
The Government welcomes the publication of the IFB Family Business Sector report, which serves to highlight a significant part of the UK economy.

Accounting for 66 per cent of the UK's small and medium sized enterprise (SME) population, family firms have a strong presence and include many businesses which are now powerful exemplars of British industry.

The government is firmly on the side of enterprising family businesses and enterprise more generally. That is why we are working to create the most competitive business tax system in the developed world, and simplifying our tax system. By boosting tax relief for start ups and entrepreneurs we will make Britain one of the best places in Europe to start, finance and grow a business. In addition we will continue cutting regulation as part our ongoing Red Tape Challenge, which has already saved businesses over £350 million per year.

Together we can drive growth and transform our economy.

Dr Vince Cable
Secretary of State for Business, Innovation and Skills



The UK Family Business Sector

Contents

1 Executive Summary

Family businesses account for two-thirds of firms in the UK private sector…

- There were 3 million family businesses in the UK, or two in three of all private sector firms, and they were made up predominantly of Small and Medium-sized Enterprises (SME).

…helping to generate a significant economic impact

- UK family businesses provided 9.2 million jobs, 40% of total private sector employment, or two in five private sector jobs. To place this in context, this is around 50% more than the entire UK public sector and makes family firms the largest source of employment in the private sector.
- Family firms generated revenues of £1.1 trillion in 2010, or 35% of private sector turnover. On these revenues, family firms made a £346 billion value-added contribution to UK GDP, or nearly a quarter of the total.
- Family businesses are estimated to have contributed £81.7 billion in tax receipts to the UK Exchequer, or 14% of total government revenues in 2010.

Family firms are concentrated most strongly in particular sectors…

- The highest sector concentrations were in agriculture and extraction (89%), hotels and restaurants (85%), and in wholesale and retail (77%). The sectors with the highest absolute number of firms were business services (including real estate) and construction.

…and make up at least half of all firms in each UK region

- The South East (499,000) and London (466,000) have the highest number of family businesses. In 2010, the East Midlands and Northern Ireland had the highest concentration of family firms (78%), while the West Midlands had the lowest (58%).

During the recession demand for credit rose, but family firms were more successful in obtaining external finance…

- According to survey data, the proportion of SME family businesses that applied for finance over the previous year rose from 18% in 2008 to 30% in 2010.
- Survey data show that 76% of family firms that applied for external finance in 2010 were successful compared to 68% of non-family firms.

…and family businesses appeared less vulnerable to corporate dissolutions

- Insolvency rates rose in family firms, but they were lower for family firms across all size bands than for their non-family counterparts, possibly a reflection of stronger balance-sheet fundamentals prior to the recession.

Policy summary for the family business sector

- Family firms, particularly smaller ones, need to have access to credit. Government supported policies on lending to SMEs are therefore important.
- We estimate that over the next five years, on average, 172,000 family businesses a year will leave the control of a generation. Given the scale of this movement there is a potential role for government in terms of providing support and advice.
- Taxation policy should enable owners planning for succession to have the ability to transfer ownership, without imposing an adverse financial impact on the company. Business Property Relief on Inheritance Tax is a highly significant policy on business transfer.
- Family businesses are recognised for their role in driving entrepreneurship. The promotion of a culture where the pursuit of enterprise is embedded in our business DNA should be a national priority.

2 Introduction

This report was commissioned by the IFB Research Foundation and prepared by Oxford Economics to provide a comprehensive evaluation of the UK family business sector. The findings in this report rely heavily on data collected by the Department for Business, Innovation, and Skills (BIS). This report follows up and extends analysis contained in the 2008 IFB Family Business Sector Report.[1] Along with updated figures for the key characteristics of the family business sector, this report analyses the performance of the sector in the financial crisis and subsequent recession. It then looks forward to examine family businesses' expectations over the next year. Comparison is drawn with non-family businesses' performance over the entire period.

2.1 What is a family business?

Although the term 'family business' typically invokes an image of a small firm which has been passed down through generations, family businesses vary considerably in terms of their size, the extent of family involvement and age. For consistency, this report uses the same definition of a family business as was used in the 2008 report: a firm qualifies as a family business if it meets the following criteria[2]:

- The majority of votes are held by the person who established or acquired the firm, or their spouse, parents, child or child's direct heirs, and
- At least one representative of the family is involved in the management or administration of the firm.
- In the case of a listed company, the person who established or acquired the firm, or their family, possesses 25% of the right to vote through their share capital, and that there is at least one family member on the board of the company.
- For micro (typically sole traders) businesses, subjective criteria are also needed. In particular, in the BIS Annual Business Survey firms are asked to self-identify as either family or non-family businesses.

[1] 'The UK Family Business Sector', An Institute for Family Business report by Capital Economics, February 2008.
[2] This definition was taken from the final report of the EC Expert Group on Family Business.
http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/family-business/family_business_expert_group_report_en.pdf

2.2 Data sources

This research draws on a variety of data sources in order to present an analysis of the family business sector that is as extensive as possible. The main sources are described below with a more detailed discussion of data issues relating to specific areas of analysis reserved for later chapters:

- BIS Small Business Survey – this survey is conducted every other year by BIS, with the most recent publication, for 2010, released this year. Questions are restricted to firms with less than 250 employees and the data are weighted to reflect any issues of sample representativeness. In this report, we reference editions of the Small Business Survey by their year of publication: SBS (2008) refers to the 2008 version.
- BIS Small and Medium-sized Enterprise Statistics for the UK and its regions – each year BIS produce a detailed set of business statistics for the UK quantifying the number and size (in terms of employment and turnover) of firms in the private sector. Breakdowns by region, sector, and legal status are provided. This report uses data from the 2006-9 releases and we reference editions of this publication by the year to which the data relate: BIS (2009) refers to 2009 data.
- BIS Business Population Estimates for the UK and its regions – similar to the above but with a revised methodology, which means that results are not strictly comparable with previous editions. The most recent publication was released in May 2011 and provides data on UK businesses in 2010.
- CMRC and UNIEI (2011) – a recent academic paper jointly published by the Leeds University Credit Management Research Centre (CMRC) and the University of Nottingham Institute for Enterprise and Innovation (UNIEI) commissioned by the IFB Research Foundation. It provides a rich data set of accounting information from privately owned incorporated firms in the UK between 2007 and 2009 drawn from Company House records.

2.3 Acknowledgements

We would like to take this opportunity to thank BIS for making these data available and for their continued support throughout the project. In addition, we would like to extend our thanks to Louise Scholes (University of Nottingham Institute for Enterprise and Innovation), Ian Drummond (Department of Business, Innovation, and Skills), Andrew Wates (Wates Family Holdings), Julian Franks (London Business School), Nick Wilson (Leeds University Credit Management Research Centre), Francis Chittenden (Manchester Business School), and PwC for sharing knowledge and expertise, which proved invaluable to our research.

3 The economic impact of family businesses

This chapter quantifies the economic footprint of the family business sector in terms of standard metrics: number of firms, employment, turnover, GDP, and tax receipts.

- In 2010, there were almost 3 million family businesses in the UK or more than three in five of all private sector enterprises. The vast majority of these were SMEs, with approximately 900 large family firms.
- Family businesses employed 9.2 million people, accounting for two in five of all private sector jobs.
- Family firms generated revenues of £1.1 trillion or 35.3% of total private sector turnover. From these revenues, family firms generated a £346 billion value-added contribution to UK GDP, or 23.8% of total GDP.
- In 2010, family businesses made a £81.7 billion contribution to the UK Exchequer or 14.2% of total government revenues in the calendar year.

In order to estimate the number of family businesses, data have been combined from three sources highlighted in the introductory chapter. By cross-classifying the responses to the question "Is your business a family-owned business" from SBS (2010) with the question about the number of employees, it is possible to obtain an estimate of the proportion of family businesses by employment size band. As the SBS does not contain information on firms with over 250 employees, we applied the proportion of large firms which are family-owned from CMRC and UNIEI (2011)[3] to the aggregate private sector data in the BIS annual statistics.

The methodological approach used to estimate the family business sector's contribution to employment and turnover is analogous to that used to quantify the number of firms.[4] However, a different approach was used to estimate the contribution to GDP, which is explained in more detail in Section 3.2.

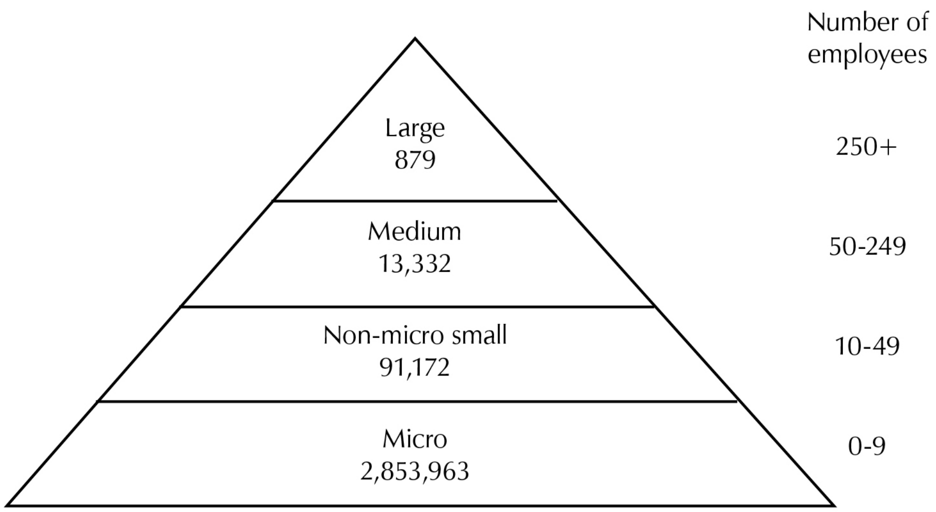
3.1 Employment and number of firms

In 2010, there were just under 3 million family businesses operating in the UK, representing 66% of the private sector total (Figure 3.1). In terms of distribution by size around 75% (2.2 million) of these firms were micro businesses with no employees, with a further 639,000 (or 22%) family firms employing between one and nine employees. Using the BIS SME size definitions of small, medium, and large, family businesses made up the balance of the sector with 3.1%, 0.5% and 0.03% respectively.

There is an inverse relationship between firm size and the likelihood of family ownership. The academic literature puts forward a number of explanations. For example, Franks et al. (2010) argue that the need for external finance to grow the business is often met by issuing equity, which dilutes family control.

[3] One methodological issue with this approach is that the definitions of a large firm used in the BIS annual business statistics and CMRC and UNIEI (2011) differ. Whereas BIS categorises firm size according to employment, CMRC and UNIEI use a multi-dimensional approach which includes employment, turnover, and balance sheet size. Although this will have led to some inaccuracy, we are confident it will have been relatively small, as the data are in line with other sources in the literature and with Capital Economics' analysis of the FAME database in the previous report.
[4] The only caveat to this is that for financial services no figures for turnover are available in the BIS annual statistics. Therefore, we multiplied our estimate of employment by average value added per employee (£116,000 in 2009 according to ONS data) to generate an estimate of GVA. We transformed this into an estimate of turnover using the GVA-to-turnover ratio in the 2009 Annual Business Survey.

Figure 3.1: Number of family businesses by size of family firm in 2010



Source: Oxford Economics/BIS

The UK family business sector is estimated to have employed 9.2 million people (Table 3.1). This is 41% of total private sector employment. In contrast to the number of firms, the distribution of employment across the BIS size categories is fairly even. Micro businesses with no employees accounted for 25.7% of total employment, micro businesses with 1-9 employees had the largest share with 26%; small firms accounted for 19.5%, medium firms 14.1%, and large firms 14.7%. In terms of employee attitudes, there is some evidence that family businesses inspire greater loyalty, and more positive feelings about job security and inclusivity than with other employers.[5]

Table 3.1: Family businesses' employment by firm size in 2010

Size of firm	Number of employees	Number of family firms	Employment of family firms (thousand jobs)
Micro	0	2,215,120	2,378
	1-9	638,843	2,400
Non-micro small	10-49	91,172	1,799
Medium	50-249	13,332	1,298
Large	250+	879	1,361
Total		**2,959,346**	**9,235**
Share of private sector		**66.0%**	**41.0%**

Source: Oxford Economics/BIS

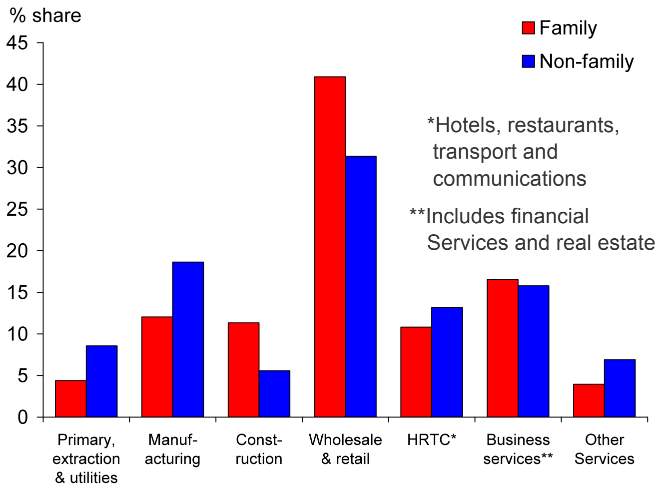
[5] See Siebert, Maimaiti, Peng, and Pearce-Gould (2011) of the University of Birmingham on behalf of the Unquoted Companies Group.

3.2 Turnover and GDP

Family firms are estimated to have earned £1.1 trillion in revenue. This equates to 35.3% of total private sector turnover.

The gross value added contribution to GDP earned on each £1 of revenue varies across industry sectors. This reflects the value of bought-in goods and services as a share of the price of the product. A sectoral breakdown of turnover for the family and non-family business sectors has been estimated.[6] A comparison of the breakdown for the respective sectors shows that family firms' turnover is relatively more concentrated in wholesale and retail trade (41% compared to 31%) and construction (11% compared to 6%), while non-family firms' revenues are more concentrated in manufacturing (19% compared to 12%) (Chart 3.1).

Chart 3.1: Sectoral breakdown of turnover: Family versus non-family firms in 2010



Source: Oxford Economics/BIS/CMRC and UNIEI (2011)

In total, it is estimated that the family business sector made a value added contribution to GDP of £346 billion in 2010.[7] This is 33.6% of private sector GDP, or 23.8% of total economy GDP. This is a slightly lower share than of turnover implying that, on average, family businesses are more concentrated in sectors which have relatively lower value added to turnover ratios (Table 3.2).

[6] This estimate was scaled so that it was equal to our estimate of family business sector turnover based on the size of the firm.
[7] The estimates of turnover by sector were transformed into figures for GVA by applying the sectoral GVA to turnover ratios in 2009 from the Office for National Statistics' (ONS) Annual Business Survey (ABS). The exception to this was financial intermediation, for which GVA had already been estimated (see footnote 4).

Table 3.2: Turnover and GVA of the family business sector in 2010

Sector	Turnover of family firms (£mns)	Sector value added to turnover ratio	Gross value added (£mns)	% share of family business sector
Wholesale and retail trade, repairs	463,205	0.131	60,630	17.5%
Real estate, renting and business activity	152,137	0.528	80,310	23.2%
Manufacturing	136,397	0.290	39,603	11.4%
Construction	128,370	0.372	47,815	13.8%
Transport, storage & communication	89,552	0.475	42,561	12.3%
Agriculture, hunting & forestry; fishing	49,723	0.363	18,039	5.2%
Financial intermediation	35,292	0.677	23,901	6.9%
Hotels and restaurants	33,075	0.456	15,071	4.4%
Other community, social and personal service activities	22,819	0.261	5,954	1.7%
Health and social work	15,158	0.639	9,689	2.8%
Education	6,843	0.364	2,490	0.7%
Total	**1,132,573**		**346,062**	**100%**
% share of private sector	**35.3%**		**33.6%**	

Source: Oxford Economics/BIS

To place these figures in context, in 2010 the family business sector employed almost twice as many UK workers as the entire public sector did and over five times as many as did firms listed on the FTSE 100 (Table 3.3). Meanwhile, the family business sector generated over twice as much UK turnover as did the FTSE 100 firms.

Table 3.3: Comparison of the scale of the family business sector with the FTSE 100 firms and the public sector[8]

Sector	Employment (millions)	Turnover (£bn)
Family business sector	9.2	1,133
FTSE 100 firms[9]	1.8	514
Private sector	22.5	3,212
Public sector	5.4	153

Source: Oxford Economics/BIS/PwC

[8] In the previous report a comparison was made with UK private-equity-backed firms, but since the British Venture Capital Association has not done a follow-up economic impact report since 2007, we were unable to make such a comparison.

[9] There is some small crossover between the family business sector and firms listed on the FTSE 100. Both family firms and FTSE 100 firms are included in the private sector figure.

3.3 Contribution to the Exchequer

It is also possible to quantify the economic impact of the family business sector via its tax contribution to the Exchequer. Chittenden and Sloan (2007) estimated that the average tax borne and collected[10] by sole traders and partnerships in 2009 was £4,900; for small limited companies this rose to £57,000. These figures have been projected forward in line with nominal GDP growth between 2007 and 2010 (3.6%), and applied to our estimates of the number of family SME sole traders and partnerships (2.2 million) and family SME limited companies (710,000). These calculations suggest that family SME sole traders and partnerships contributed £12.8 billion, and family SME companies a further £43.5 billion to the Exchequer in 2010 (Table 3.4).

Meanwhile, for large firms, survey data from PwC of the Hundred Group[11] in 2010 indicated that, on average, taxes borne and collected amounted to some 10.4% of total turnover. Applying this ratio to the estimate of the total turnover of large family businesses (£244 billion) suggests that these large family firms generated an additional £25.4 billion in tax revenues. Therefore, in total, it is estimated that the family business sector contributed £81.7 billion to the Exchequer in 2010, or 14.2% of government revenues. Of this, 52% was in taxes borne directly by family firms, and 48% was collected from family businesses based on the activity of their employees. In total, the family business sector generated £9.9 billion in corporation tax or 22% of total government corporate tax receipts in 2010.

Table 3.4: Contribution to the Exchequer by the family business sector in 2010

Type of firm (£mns)	Small sole traders and partnerships	Small & medium sized companies	Large companies	Total family business sector
Taxes borne	10,590	24,528	7,726	42,845
Employees' taxes collected	2,211	18,974	17,676	38,861
Total	**12,802**	**43,502**	**25,402**	**81,705**
% of Government revenue	**2.2%**	**7.5%**	**4.4%**	**14.2%**

Source: Oxford Economics/Chittenden and Sloan (2007)/PwC/BIS

[10] Taxes borne are those which directly affect a company's costs and include corporation tax, business rates, owners' income tax and NICs. Taxes collected, on the other hand, include employees' income tax and although NICs do not form part of businesses' costs, they can be legitimately attributed to the family business sector, since it is the jobs created by family businesses which enable the government to collect these taxes.

[11] The Hundred Group is comprised of the finance directors of the largest 100 limited public companies in the UK.

4 Characteristics of the UK family business sector

This chapter provides an overview of the characteristics of the UK family business sector in 2010 including breakdowns by sector, region and ownership structure. A similar methodology as was applied to estimate the total number of family firms by size[12] was used to estimate the sectoral, regional and ownership structure breakdowns. In addition, analysis is presented of trends in the growth of the family business sector relative to the private sector between 2006 and 2009.

- Between 2006 and 2009 the proportion of family businesses fell as a share of the private sector. Shares of private sector turnover and employment also declined, but to a lesser extent.
- The proportion of firms with no employees in the family business sector increased marginally between 2006 and 2009, a pattern that was matched in terms of employment. Large firms were the only group to increase their share of sector turnover during the same period.
- In 2010, the highest sector concentrations were in agriculture and extraction (89%), hotels and restaurants (85%), and wholesale and retail trade (77%). The sectors with the highest absolute number of firms were business services (including real estate) and construction.
- The South East (499,000) and London (466,000) had the highest number of family businesses. In 2010, the East Midlands and Northern Ireland had the highest concentration of family firms (78%), while the West Midlands had the lowest (58%).
- In terms of legal structure, almost 2 million family businesses were sole traders, with the majority of the remainder (710,000) being incorporated companies.

4.1 What happened to the family business sector between 2006 and 2009?

The data[13] suggest that the proportion of family businesses in the UK private sector has declined in recent years. In 2006, 73.7% of private sector firms were family businesses. In 2009, this proportion had declined to 66.1% (Table 4.1). The trend is less marked in terms of both employment and turnover, with the family business sector's share of private sector employment having declined by 4 percentage points (45.5% to 41.5%), while its share of private sector turnover fell by 5.2 percentage points (40.8% to 35.6%) (Chart 4.1)[14].

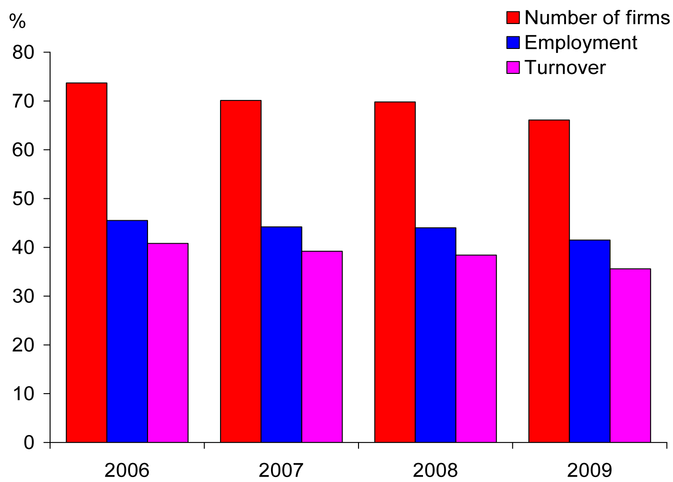
[12] Each approach generates a slightly different estimate of the total number of family businesses. To ensure consistency, the number of firms was scaled to be the same as when estimated through the size of firm.
[13] The analysis has been repeated for 2009 and for each year going back to 2006 in order to assess the relative performance of the family business sector during those four years. Since the BIS annual SME survey is carried out every other year, the recorded proportions of family firms by size from the 2008 survey were applied to the aggregate private sector data from BIS for both 2007 and 2008. For large firms, for 2006, it is assumed that the concentration of family firms was the same as in 2007. It is worth emphasising that due to a change in methodology in the way that BIS estimate the number of micro businesses, the results for 2010 are not comparable to previous years.
[14] Given that the vast majority of firms are micro enterprises this result is driven by the changing assumptions implied by results from different versions of the SBS. Since survey evidence inevitably generates some margin of error, we suggest that caution is warranted in interpreting the results.

Table 4.1: Number of family business as a percentage share of the private sector 2006-2009

Size of firm	Number of employees	2006	2007	2008	2009
Micro	0	75.7	70.1	70.1	67.3
	1-9	70.0	72.4	70.9	64.5
Non-micro small	10-49	63.1	61.5	61.6	53.5
Medium	50-249	52.3	48.7	48.7	48.0
Large	250+	16.0	16.0	15.6	14.8
Total		**73.7**	**70.1**	**69.8**	**66.1**

Source: Oxford Economics/BIS

Chart 4.1: Family business sector firms, employment and turnover as a percentage share of the private sector 2006-2009



Source: Oxford Economics/BIS

Meanwhile, an analysis of the changing composition of the family business sector suggests that micro firms with no employees have become marginally more prevalent since 2006 accounting for 76.2% of all family businesses in 2009, compared to 75% in 2006. This rise came mainly at the expense of other micro and small firms. This is reflected in the equivalent employment shares; micro firms with no employees accounted for 28% of all family firm employment in 2009 compared to 26.5% in 2006. However, this pattern is not matched in the turnover statistics, where micro enterprises with no employees accounted for 14% of family business sector turnover in 2009 compared to 14.7% in 2006. Large firms (with over 250 employees) were the only category of family business to increase their share of the family business sector's turnover rising from 18.9% in 2006 to 21.2% in 2009 (Table 4.2). Given the scale of the recession in 2008/9, the lack of volatility in the share of the family business sector by firm size is perhaps surprising.

Table 4.2: Share of the family business sector by firm size 2006–2009 – number of firms, employment and turnover

	Number of firms				Employment				Turnover			
Number of employees	2006	2007	2008	2009	2006	2007	2008	2009	2006	2007	2008	2009
0	74.98	73.94	74.47	76.16	26.49	26.30	26.76	28.01	14.74	14.14	14.13	13.99
1-9	21.39	22.50	21.93	20.60	25.64	26.89	26.75	25.97	25.30	26.92	25.79	24.91
10-49	3.18	3.13	3.18	2.81	19.90	19.55	19.74	18.36	22.14	22.30	23.08	21.92
50-249	0.42	0.40	0.39	0.40	13.50	12.49	12.39	13.34	18.96	16.98	16.77	17.98
250+	0.03	0.03	0.03	0.03	14.47	14.77	14.35	14.33	18.87	19.67	20.24	21.19

Source: Oxford Economics/BIS

4.2 Sectoral breakdown of family businesses

The large differences in the number of firms in each sector mean that the industries with the highest concentration of family businesses are not those with the highest absolute number of family firms. In 2010, the greatest number of family businesses was in business services, including real estate (673,000) and in construction (663,000 in Table 4.3). Together they account for almost half of all UK family businesses.

The industries with the highest concentration of family businesses are estimated to be agriculture, hunting, forestry, fishing, and extraction and utilities (89.1%); hotels and restaurants (84.9%); and wholesale and retail trade and repairs (77.1%). The sectors with the lowest concentration of family businesses are health and social work (36.5%), and other community, social and personal service activities (46.2%). Franks et al. (2011) explain differences in the sectoral distribution of family businesses by suggesting that "family control is concentrated in industries with low investment opportunities and low M&A activity."[15]

[15] Franks et al. (2011), p.8. This finding is limited to countries that have strong investor protection, well-developed financial markets, and active markets for corporate control; all are characteristics that seem to apply to the UK economy.

Table 4.3: Sectoral distribution of family businesses in 2010

Sector	Number of family firms	Percentage of all family firms	Number of private sector firms	Percentage share of family businesses
Real estate, renting and business activity	673,073	22.7%	988,010	68.1%
Construction	663,346	22.4%	899,180	73.8%
Wholesale and retail trade, repairs	383,567	13.0%	497,755	77.1%
Transport, storage & communication	308,443	10.4%	515,930	59.8%
Other community, social and personal service activities	204,302	6.9%	442,485	46.2%
Manufacturing	160,167	5.4%	229,950	69.7%
Agriculture, hunting & forestry; fishing	150,422	5.1%	168,785	89.1%
Education	130,781	4.4%	224,900	58.2%
Hotels and restaurants	128,185	4.3%	151,045	84.9%
Health and social work	106,121	3.6%	290,915	36.5%
Financial intermediation	50,940	1.7%	75,585	67.4%
Total	**2,959,346**	**100%**	**4,484,540**	**66%**

Source: Oxford Economics/BIS

4.3 Regional breakdown

Due to their relatively high rates of economic activity (and hence number of firms) the South East and London were home to the highest number of family firms, together accounting for over a third of the total. In 2010, the regions with the highest concentration of family businesses are estimated to be Northern Ireland and the East Midlands where 78% of firms are family-owned (Table 4.4 and Figure 4.1). Meanwhile, the least-concentrated region was the West Midlands where just 58% of businesses were family-owned.

Table 4.4: Regional distribution of family businesses in 2010

Region	Number of family firms	Percentage of all family firms	Number of private sector firms	Percentage share of family businesses
South East	498,874	16.9%	732,190	68.1%
London	465,665	15.7%	706,435	65.9%
North West	301,603	10.2%	434,120	69.5%
East of England	297,965	10.1%	473,635	62.9%
South West	249,804	8.4%	421,475	59.3%
East Midlands	237,608	8.0%	305,750	77.7%
Yorkshire & the Humber	213,251	7.2%	336,025	63.5%
West Midlands	204,098	6.9%	352,115	58.0%
Scotland	178,573	6.0%	287,830	62.0%
Wales	131,188	4.4%	191,800	68.4%
Northern Ireland	94,146	3.2%	121,030	77.8%
North East	86,573	2.9%	122,135	70.9%
Total	**2,959,346**	**100%**	**4,484,540**	**66%**

Source: Oxford Economics/BIS

4.4 Legal status of family businesses

Family businesses have different legal forms. In 2010, nearly 2 million (or 66% of total) were estimated to be sole traders (Table 4.5). Incorporated companies (24%) and partnerships (10%) made up the remainder.

There is a marked difference in the concentration of these different legal forms by size. The vast majority (89%) of sole traders fall within the BIS definition of a micro firm (0 employees). This compares to 54% and 44% of partnerships and incorporated companies respectively. A higher share of incorporated companies are in the medium and large category. This is consistent with family businesses altering their legal structure as they grow.

Table 4.5: Breakdown of family business sector by size and legal status in 2010

Type of firm	Number of employees	Sole Traders	Partnerships	Incorporated companies	Total
Micro	0	1,743,905	155,987	315,228	2,215,120
	1-9	188,831	101,885	348,128	638,843
Non-micro small	10-49	23,188	32,371	35,613	91,172
Medium	50-249	139	458	12,735	13,332
Large	>250	0	10	869	879
Total		**1,956,063**	**290,711**	**712,573**	**2,959,346**
% by legal status		**66%**	**10%**	**24%**	**100%**

Source: Oxford Economics/BIS

Figure 4.1: Heat map of UK family businesses' penetration in 2010

Source: Oxford Economics/BIS

5 Finance and the impact of the ‘credit crunch’

The banking collapse in 2008 triggered a widespread ‘credit crunch’ in which financial firms sought to protect their balance sheets by restricting the availability and increasing the price of external finance. This chapter investigates how the demand, supply and price of external finance changed for family firms.

- According to survey data, the proportion of SME family businesses which applied for finance over the previous year rose from 18% in 2008 to 30% in 2010.
- Survey evidence suggests that SME family firms increased their demand for external finance in order to obtain working capital, rather than to fund investment projects during the recession.
- Of the SME family firms which applied for external finance in 2010, 76% were successful compared to 68% of non-family SME firms.
- Data show that in 2009 both medium-sized and large family firms had higher ratios of retained earnings to total assets than did their non-family counterparts. This may have been linked to the relative balance sheet strength of family firms prior to the recession.

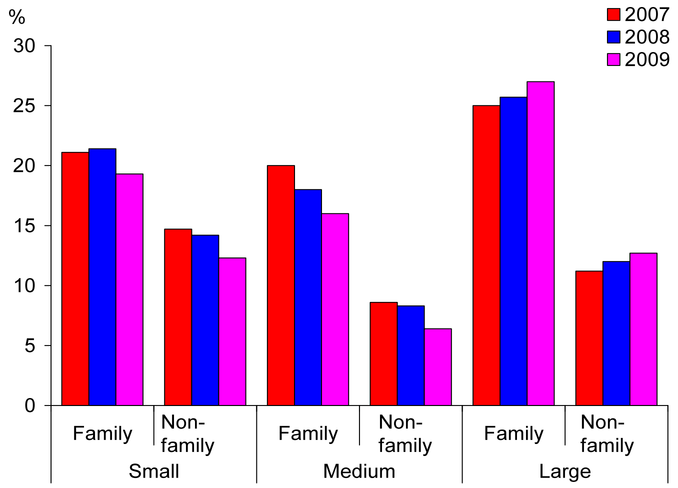
5.1 Demand for external finance

Theoretically, a firm will prefer to use internal rather than external finance to fund investment projects and working capital and (or) cash flow needs, because it is cheaper and carries less risk.[16] Family businesses’ access to internal finance is likely to have been significantly constrained during the credit crunch because of the depth of the recession, which adversely affected corporate profitability. For example, according to ONS data, the gross operating surplus of private non-financial corporations (PNFCs) fell by 11.7% in 2009, the largest annual fall in post-war UK history. Meanwhile, the gross rate of return[17] for PNFCs fell to its lowest level since 1993.

Analysis of accounting data shows the amount of internal finance available as a share of balance sheet size fell for the median small and medium-sized family and non-family business in 2009 (Chart 5.1). But even after this decline small and medium-sized family firms had greater reserves compared to their non-family counterparts (19.3% versus 12.3% for small and 16.0% versus 6.4% for medium). This suggests that family firms benefitted, on average, from a more cautious approach in the run-up to the crisis. On the other hand, the median ratio of retained profits to total assets for large family firms increased to 27.0% in 2009 with a similar pattern for non-family firms. This indicates that large firms were able to strengthen their balance sheet during the recession – despite the squeeze on profits – by cutting back on investment. Overall, the evidence suggests that the recession constrained access to internal finance for both small and medium-sized firms, although due to balance sheet strength prior to 2009, family businesses were in a better position to cope with the squeeze.

[16] Internal finance is equity and retained profit from previous years.
[17] The gross rate of return is the ratio of gross operating surplus to gross capital employed.

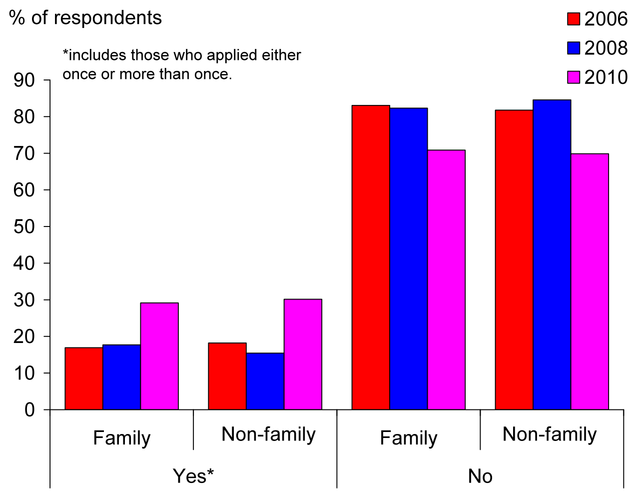
Chart 5.1: Retained profits as a proportion of assets: Family versus non-family firms by size



Source: CMRC and UNIEI (2011)

The decline in the availability of internal finance to family businesses increased their demand for external finance. The SBS survey contains a question asking SMEs: "have you tried to obtain finance for your business over the last 12 months". The results indicate that there was a significant increase in firms' demand for external finance across the six years for which data are available. The proportion of family businesses that had applied for finance (at least once) over the past 12 months in the 2010 survey was 30% compared to 18% in the 2008 survey, and 17% in the 2006 survey (Chart 5.2). A similar pattern was evident for non-family firms.

Chart 5.2: Proportion of businesses that applied for external finance in the last year: Family versus non-family SMEs



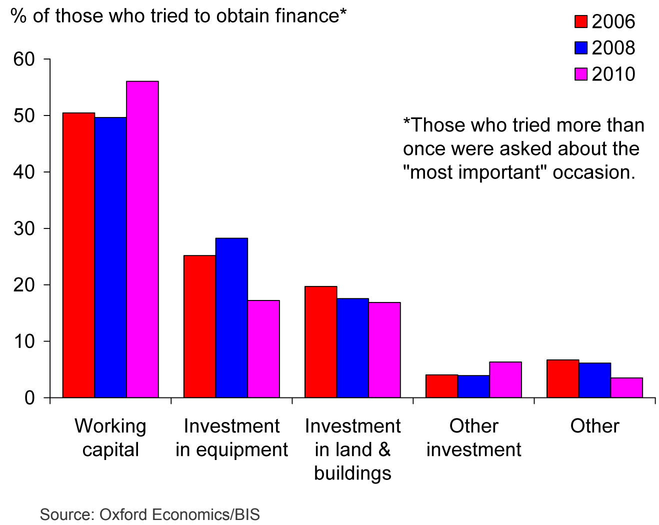
Source: Oxford Economics/BIS

5.2 Purpose for acquiring finance

Firms typically access external finance either to acquire working capital to fund current operations or in order to fund capital investment. The sharp deterioration in economic conditions following the global financial crisis is likely to have swung the balance much more towards working capital funding. Recessions are typically accompanied by a sharp fall in the desire to invest.[18] Working capital needs often increase too, as revenue declines due to falling demand and from trade creditors lengthening payment times. The SBS data enable investigation of this hypothesis as firms are asked their motivation for applying for finance. This survey evidence suggests there was a small increase in the proportion of SME family businesses seeking external finance for working capital, with the percentage increasing to 56% in 2010 compared to just 50% in 2006 and 2008. Conversely, there was a small fall in the share of SME family businesses wanting external finance for investment projects. The share of respondents citing this motive fell to 40% in 2010 from 49% in 2006 and 50% in 2008 (Chart 5.3).

A comparison of the responses from family and non-family firms which tried to access external finance indicates no significant difference between the two. For example, the proportion of respondents who cited working capital as a reason for applying for finance was virtually identical for family (55.1%) and non-family (56.1%) firms.

Chart 5.3: Motivation for applying for external finance for SME family businesses



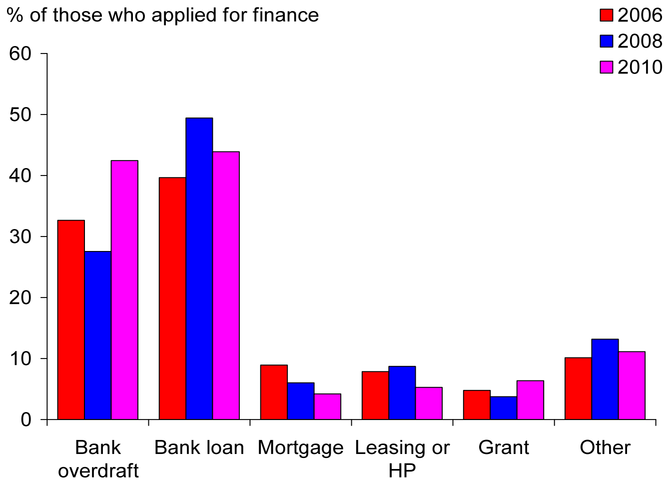
5.3 The types of external finance family businesses sought in 2010

The SBS also asks SMEs which had applied for finance over the past 12 months about the type of finance that they had attempted to access (whether successfully or unsuccessfully). The breakdown for family firms for the past three surveys shows that bank overdrafts and bank loans are, by some distance, the most popular form of external financing (Chart 5.4). There is some evidence of a shift towards bank overdrafts in the 2010 survey, perhaps reflecting an increased need for unplanned funding given the sharp fall in demand during 2009.

[18] Gross fixed capital investment in the UK contracted by 15.4% in 2009.

In interpreting the SBS data on types of finance for family businesses it is important to remember that the survey is only completed by SMEs. The types of finance available to firms are thought to vary with size. Smaller firms are typically thought to be dependent on bank finance, while their larger counterparts have greater access to the financial markets, although banks remain their primary source of external funding.

Chart 5.4: Types of external finance applied for by SME family businesses in 2010

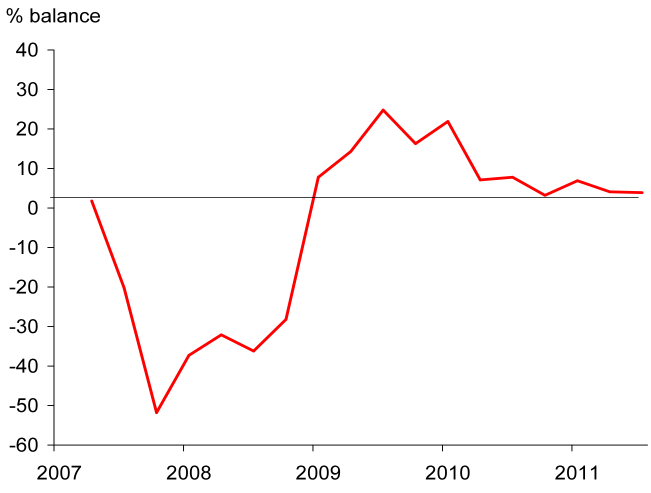


Source: Oxford Economics/BIS

5.4 Access to finance

There is considerable evidence that the financial crisis triggered a sharp retrenchment in the availability of external finance. For example, the Bank of England's Credit Conditions Survey shows that the lenders decreased the availability of loans to PNFCs from 2007Q3 until 2009Q2 (Chart 5.5). The survey also shows a marked tightening in the terms and conditions which businesses had to fulfil to obtain loans (such as the provision of increased collateral).

Chart 5.5: Change in the availability of credit provided to the corporate sector over the previous three months

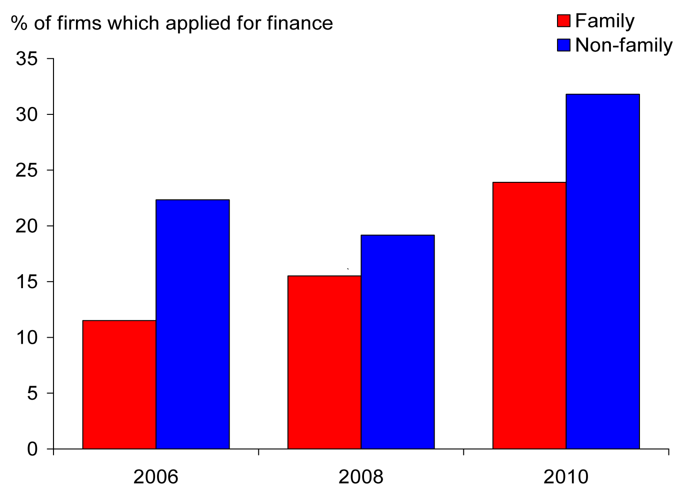


Source: Bank of England

The evidence suggests that while the demand for external finance rose during the credit crunch, the supply was significantly constrained. An implication of this is that the proportion of family firms unable to access external finance rose. In each of the three SBS reports considered, firms which applied for finance are asked whether they were eventually successful in securing all the funds that they required. Across the three surveys there is a rise in the proportion of SME family businesses which were unsuccessful in getting all the external funding they wanted. (Chart 5.6).

In each of the three SBS surveys, the proportion of unsuccessful SME applicants for external finance is higher in the non-family businesses sector than amongst family businesses. In the 2010 survey, 24% of family businesses applicants were rejected compared to 32% of non-family firms. This could potentially reflect a number of factors, including family businesses having sounder balance sheets or more cautious growth strategies.

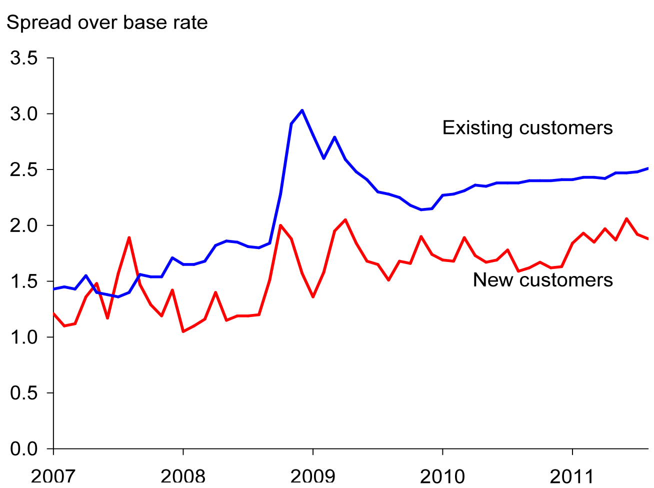
Chart 5.6: Proportion of SME applicants that could not obtain all external finance required



Source: Oxford Economics/BIS

As well as quantity rationing, the credit crunch also impacted on the amount that corporates had to pay to obtain loans. The Bank of England's Effective Interest Rate data suggest that interest rate spreads on loans to both new and existing customers widened sharply in late 2008 (Chart 5.7). Although the spreads subsequently narrowed, they have not returned to that 2008 level.

Chart 5.7: Credit spreads on loans to new and existing corporate customers



Source: Bank of England

6 The impact of the recession on UK family businesses

Conditions for UK businesses have deteriorated sharply since 2008. The global financial crisis triggered the deepest recession in post-war Britain and growth in the subsequent recovery has been sluggish. This chapter investigates the impact of the recession on family firms and compares their performance to their non-family firm peers.

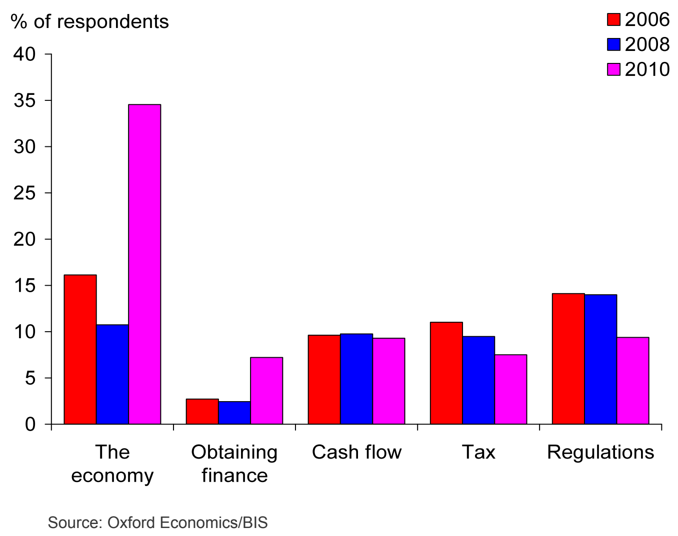
- A PwC (2011) survey suggests that 60% of family businesses felt demand for their products had declined or remained constant over the last year, compared to just 33% of these businesses in the 2007 survey.
- Survey data showed that 35% of family businesses perceived the economy to be the biggest obstacle to their success in 2010 compared to 11% of them in 2008.
- Family businesses' profit growth slowed sharply for both medium-sized and large firms during 2009. The slowdown seemed to affect both family and non-family firms similarly.
- Corporate insolvency rates rose sharply for both family and non-family firms during 2009, but family firms remained less likely to dissolve, possibly reflecting stronger balance sheets prior to the recession.

6.1 Impact on domestic demand

Family businesses are primarily reliant on customers within the UK. SBS (2010) reports that 81.5% of family businesses were totally dependent on domestic sales for their revenue. Moreover, 77.1% have no future plans to export. Both figures probably over estimate the true figure, as the survey is only completed by SMEs and larger firms tend to export more. But the dependency on the performance of the UK economy is still likely to hold.

The recession had an adverse impact on domestic demand. In 2009, domestic demand fell by 5.5%. This reduced expenditure on family businesses' products and services. Illustrative of this is the latest PwC (2011) survey of family businesses, which reports that 60% experienced a decline or no growth in demand over the previous year. This compares to just 33% in 2007. Further confirmation comes from the SBS question on family businesses' judgement of the biggest obstacle to their success. In 2010, 35% of SME family businesses cited the economy as their current biggest challenge. This compares to just 11% of them in the 2008 survey and 16% in 2006 (Chart 6.1).

Chart 6.1: Biggest obstacles to growth for SME family businesses



6.2 Impact on family businesses' employment and turnover

Such a fall in demand inevitably affected firms' turnover. The SBS also provides a means to generate a more definitive indicator of the impact of the recession by examining changes in firms' responses to questions about how their turnover and employment have changed over the past year.[19] The net balance for both employment and turnover falls sharply in 2008Q4, consistent with the contraction in domestic demand, and then remains broadly constant until 2009Q4 when base effects make year-ago comparisons more favourable. The proximity of the lines in the charts indicate that there was little difference between the performance of family and non-family firms.

Chart 6.2: Change in turnover versus a year ago

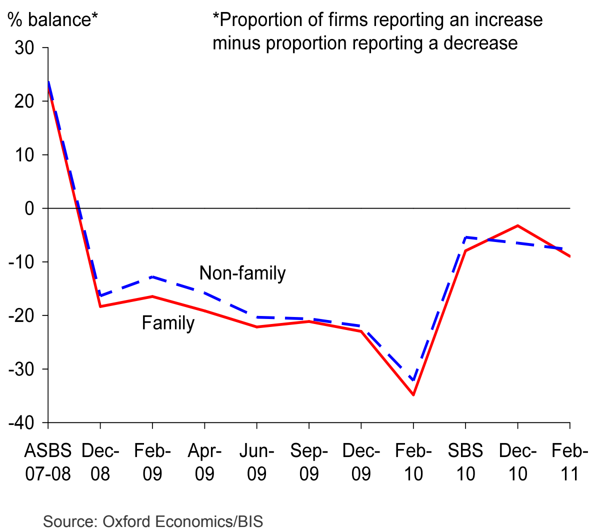
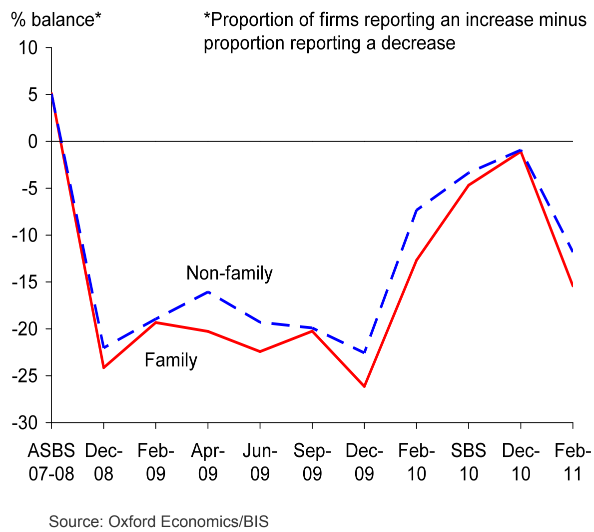


Chart 6.3: Change in employment versus a year ago

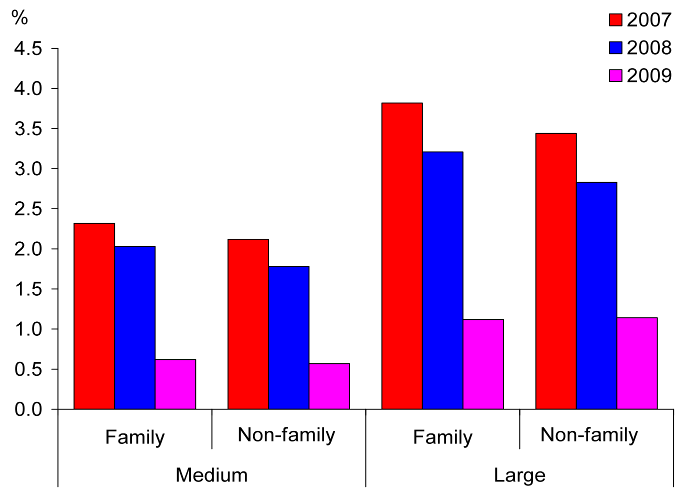


[19] The sector responses from the BIS SME Barometer were weighted by sectoral penetration rates (see Section 4.2)

6.3 Impact on family businesses' profitability

Both family and non-family firms experienced a sharp slowdown in profit growth during 2009. For medium-sized family firms the mean rate of growth in pre-tax profits slowed to 0.62% in 2009 compared to 2.03% in 2008, while for non-family firms the equivalent figures were 0.57% and 1.78%. Meanwhile, large family firms saw pre-tax profit growth slow to 1.12% in 2009 compared to 3.21% in 2008, while for non-family firms growth slowed to 1.14% from 2.83% (Chart 6.4).

Chart 6.4: Annual growth in pre-tax profits for family versus non-family firms



Source: CMRC and UNIEI (2011)

6.4 Firm dissolutions in the recession

The recession also impacted on firms' survival rates. CMRC and UNIEI (2011) show that the corporate insolvency rate rose in 2009 for both family and non-family businesses of all sizes (Table 6.1). The increases are significant in proportionate terms, with the insolvency rate of small firms more than doubling to 1.6%, for medium-sized firms more than tripling to 2.67%, and for large firms increasing by over a factor of four to 3.23%. Dissolutions unrelated to insolvency also seem sensitive to the economic cycle. Broadly speaking, for family businesses these rose each year between 2007 and 2009; this may be due to additional family reasons for the dissolution of family businesses, such as lack of succession options.

The other noteworthy point to be drawn from the data is that family firms consistently have lower insolvency and non-insolvency related dissolution rates than non-family firms do, irrespective of size. The data suggest that family firms have been less vulnerable in terms of business closure during the economic crisis.

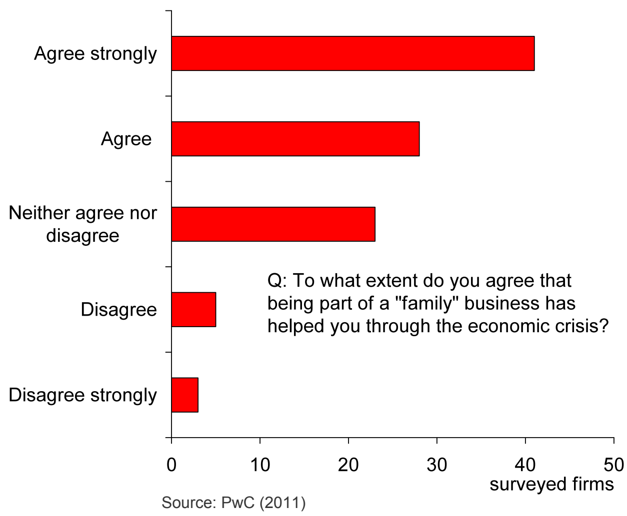
Table 6.1: Insolvency and non-insolvency related dissolutions

		Insolvencies		Dissolutions not related to insolvency	
Year	Size	Family business (%)	Non-family businesses (%)	Family business (%)	Non-family businesses (%)
2007	Small	0.90	1.25	4.37	5.73
	Medium	1.23	1.58	5.58	6.82
	Large	1.31	1.66	0.74	0.93
2008	Small	0.69	0.90	4.27	5.47
	Medium	0.73	0.99	5.97	6.30
	Large	0.65	0.98	1.23	1.05
2009	Small	1.60	1.98	6.43	9.02
	Medium	2.67	3.09	8.59	9.85
	Large	3.23	3.60	1.98	1.90

Source: CMRC and UNIEI (2011)

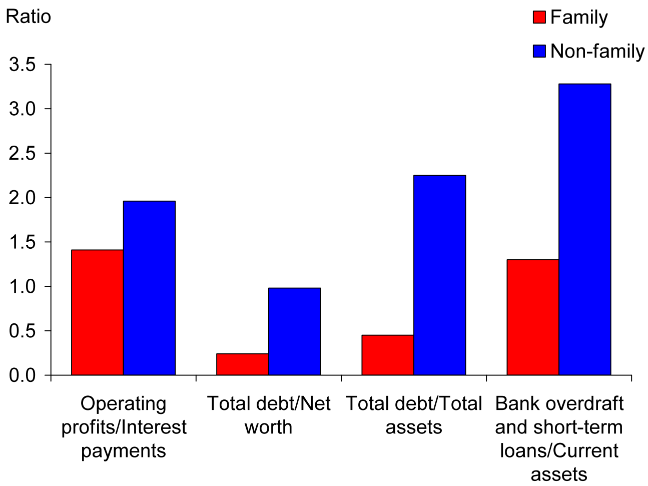
The suggestion that family firms were somehow better off during the crisis is corroborated by survey evidence from PwC (2011). This shows that a majority (69%) of family firms agreed or strongly agreed that being a family business had helped during the economic crisis (Chart 6.5). Of course, this relates to a perception on behalf of family businesses, but combined with the lower rates of insolvency and their greater success in accessing external finance, a solid case can be made that the characteristics of family firms were advantageous during the economic crisis.

Chart 6.5: Perceived benefits of being a family business in the economic crisis



One potential explanation for the superior performance of family firms during the recession is that they benefited from a more cautious strategy during the boom years, which left them less exposed to the downturn in demand. CMRC and UNIEI (2011) present a series of indicators comparing the leverage of large family and non-family firms in 2007, prior to the recession (Chart 6.6). The figures suggest that, among large firms at least, the family business sector was significantly less leveraged with much lower debt to net worth and debt to assets ratios.

Chart 6.6: Indicators of leverage for large family versus non-family firms prior to the recession (in 2007)



Source: CMRC and UNIEI (2011)

7 The future outlook for family businesses

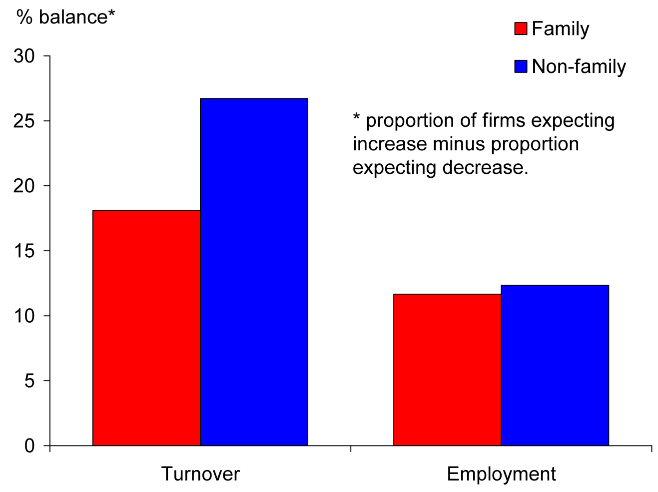
So far, the focus of this report has been exclusively backward-looking. This chapter presents a more forward-looking analysis using survey evidence on family businesses' expectations and strategies for the future. It also reviews evidence about obstacles to success – with a particular focus on regulation – in order to inform policy recommendations for the sector.

- In 2010, a net balance of +17% of family businesses thought turnover would increase over the next year, compared +27% for non-family businesses.
- A net balance of +12% of family businesses in 2010 thought employment would increase over the next year, relative to 13% for non-family businesses.
- Survey evidence suggests that family firms have reacted to slower growth by shifting their relative focus away from strategies aimed at increasing revenue (exploiting new markets, developing new products) towards cost minimisation.
- Survey evidence from PwC suggests that investment intentions have fallen markedly across all business areas compared with the pre-recession era.
- In 2010, 48% of family businesses found taxation to be an obstacle to growth, compared to 37% of non-family businesses. Regulation was perceived to be an obstacle by 44% of family businesses, compared to 37% of non-family businesses.

7.1 Family businesses' expectations

SBS (2010) asked SMEs about their expectations of turnover and employment growth in 2011. Firms are asked whether they expect turnover and employment to increase, decrease, or stay the same over the next 12 months. A net balance of +17% of family businesses thought turnover would increase. This compares to +27% for non-family businesses. A net balance of +12% of family businesses thought employment would increase; this compares to +13% for non-family businesses (Chart 7.1). This more positive outlook should perhaps be tempered; the survey was undertaken in June 2010, so the comparison is made relative to a fairly low base.

Chart 7.1: SME businesses' expectations in 2010 about the change in turnover and employment over the next 12 months

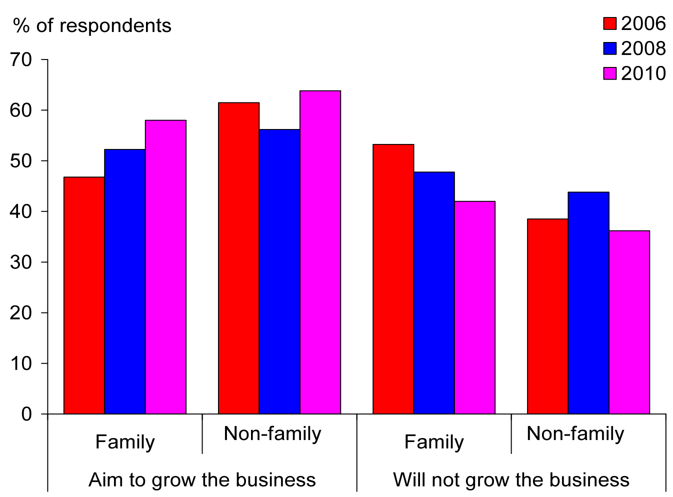


Source: Oxford Economics/BIS

7.2 Business strategies for the future

The SBS asks SMEs a range of questions relating to future growth and business strategies. Participants are asked about whether they aim to grow their business over the next two to three years. The answers to this question are split between family and non-family firms for the three survey years covered. Somewhat surprisingly, the responses suggest that family firms were more bullish in SBS (2010) than in either of the two previous surveys, with 58% of businesses aiming to grow the business compared to 47% in 2006 and 52% in 2008 (Chart 7.2). Non-family businesses were more aggressive in their expansion plans in each survey year than family businesses were, which may correspond to their greater risk appetite, although the gap between the two has narrowed significantly since the 2006 survey.

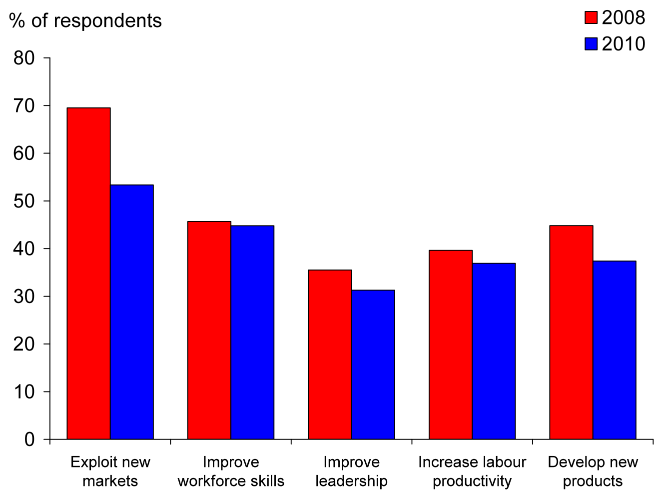
Chart 7.2: Plans for growth in the next 2 to 3 years: Family versus non-family SME businesses



Source: Oxford Economics/BIS

The SBS also asks SMEs about their strategies to achieve this growth. The options can be divided into those focused on increasing revenue (exploit new markets, develop new products) and those aimed at reducing costs[20] (improve workforce skills, improve leadership, increase labour productivity). The percentage of family businesses planning to implement each of the listed strategies fell. The largest declines were for exploiting new markets (down 16.2 percentage points since 2008) and developing new products (down 7.4 percentage points (Chart 7.3). Therefore, to some extent, the results suggest a shift in focus towards more internal cost-minimisation strategies, rather than to achieving stronger revenue growth. Such a finding is consistent with the increased level of macroeconomic uncertainty. It also suggests that, if family businesses are becoming more aggressive in terms of their expansion plans, the means of achieving this growth may have shifted towards increasing their existing market share, rather than expanding into new markets and developing new products.

Chart 7.3: Family businesses' strategies in the next 2 to 3 years

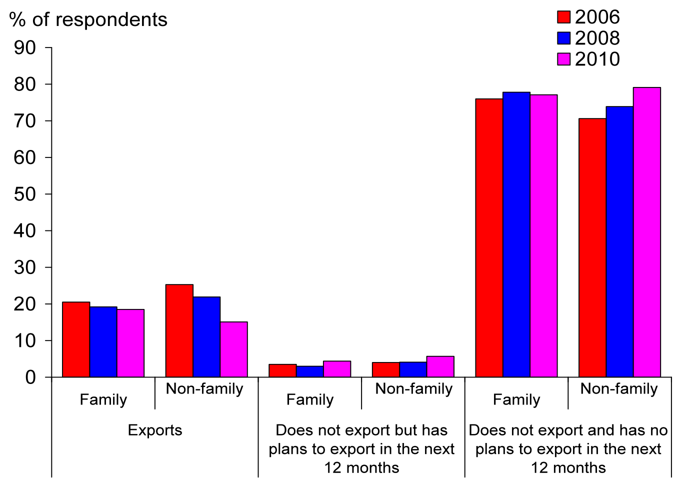


Source: Oxford Economics/BIS

With prospects for domestic demand growth remaining subdued, attention has increasingly focused on firms' ability to generate revenues from exports. The SBS asks SMEs whether they had sold or licensed their product abroad over the past 12 months and whether they have plans to export over the next 12 months. In the 2010 survey, 19% of family SMEs sold some exports in the previous year, this is above the proportion of 15% for non-family SMEs (Chart 7.4) which also showed a significant drop in their intentions to export since 2006. For both family and non-family firms there was a small rise in the proportion of firms with plans to export, thus providing some indication of a switch to a more externally focused sales strategy.

[20] Of course, cost-reduction strategies can have the indirect impact of increasing turnover through market share if the cost reduction is passed through to price, rather than being used to increase margins.

Chart 7.4: Propensity to export for family versus non-family SME businesses

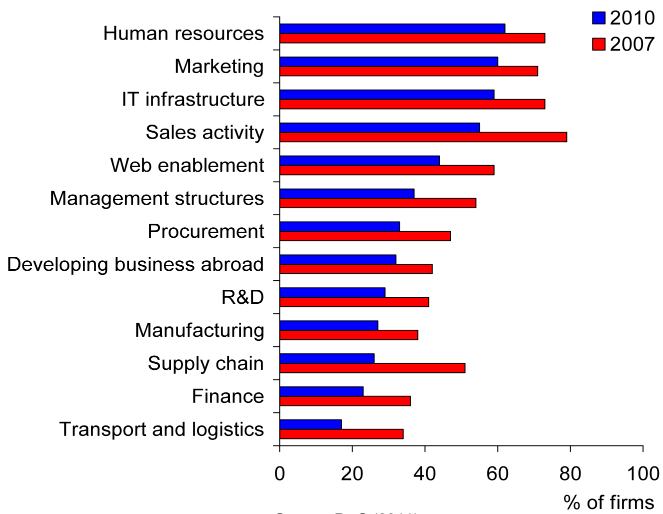


Source: Oxford Economics/BIS

7.3 Investment intentions

Since the main driver of corporate growth is investment, another potential indicator of a more cautious approach in the post-crisis era would be a significant fall in investment intentions. PwC (2011) surveyed 100 UK family businesses about areas in which they planned to invest over the next 12 months in order to enhance productivity and competitiveness. A comparison of the results for 2007 and 2010 shows that investment intentions were lower across all categories in 2010 compared to 2007 (Chart 7.5). The biggest absolute falls were in sales activity and the supply chain, while the smallest was in developing business abroad. The latter may perhaps reflect the relative unimportance of export markets to these firms.

Chart 7.5: Investment plans in the next 12 months for larger family firms

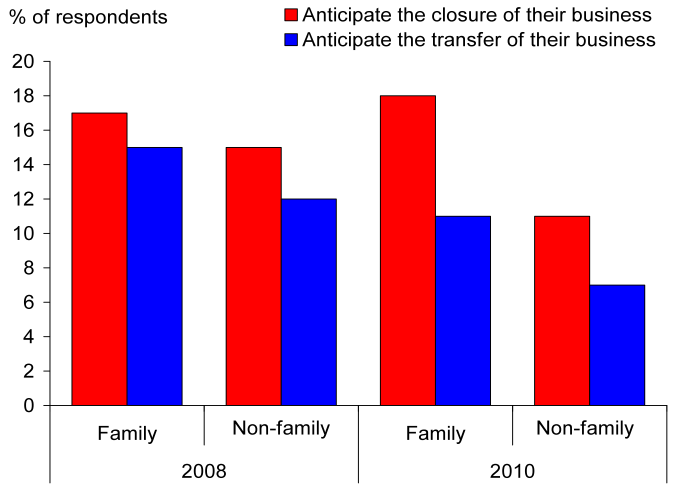


Source: PwC (2011)

7.4 Ownership transfer

The SBS asks participating SMEs about whether they anticipate the closure or full transfer of their business within the next 5 years (Chart 7.6). In both the 2008 and 2010 surveys, a higher proportion of family businesses expected the closure or transfer of their business compared to non-family firms. In 2010, 29% of family businesses expected the closure or transfer of their business. This compares to 17% of non-family businesses. In absolute terms, this would imply that, in 2010, 860,000 family SMEs were expecting either the closure or the transfer of their business within the next five years. This means, on average, 172,000 firms a year are expected to leave the control of a generation. Business transfer is therefore a strategic issue for the family business sector and managing this process effectively supports maintaining employment and business continuity.

Chart 7.6: Expected ownership transfer plans over the next five years for family versus non-family SMEs

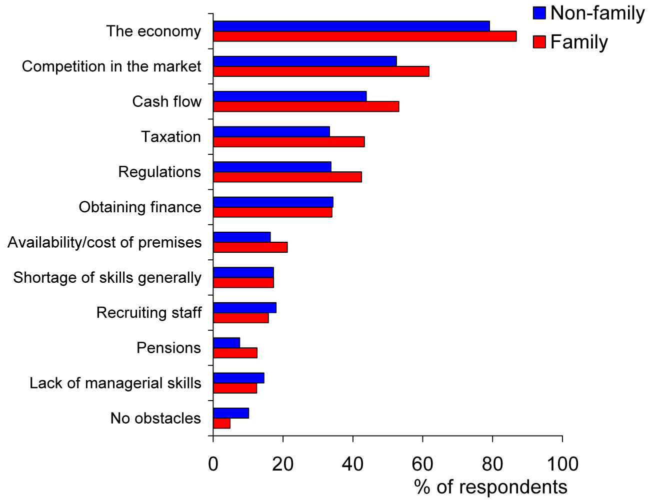


Source: Oxford Economics/BIS

7.5 Impact of tax and regulation

SBS (2010) also asks SMEs about the biggest obstacle facing their business. Most (87%) family businesses considered the economy currently to be an obstacle to growth, with a majority of firms also citing competition in the market and cash flow problems (Chart 7.7). Although the future strength of the recovery remains highly uncertain, the importance of the economy and cash flow as obstacles should recede to some extent. At this point, taxation and regulation issues will increase in relative importance (in previous surveys these issues have rivalled the economy and competition in the market as the most important obstacles). In 2010, 48% of family businesses found taxation to be an obstacle to growth, compared to 37% of non-family businesses. Regulation was perceived to be an obstacle by 44% of family businesses compared to 37% of non-family businesses.

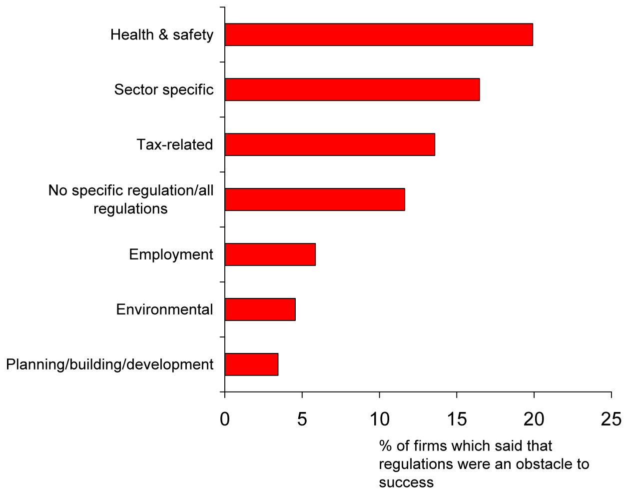
Chart 7.7: Obstacles to success for family versus non-family SME businesses in 2010



Source: Oxford Economics/BIS

In addition, SBS (2010) asks those SMEs that cite regulations as an obstacle to success to specify which ones they consider to be burdensome. Respondents are allowed to choose more than one regulation but the first-mentioned regulation is separately identified. Health and safety (19.9%) was the area that was most commonly referenced, followed by sector-specific (16.5%) and tax-related regulations (13.6%) (Chart 7.8).

Chart 7.8: Regulations as an obstacle to the success of family SME businesses in 2010

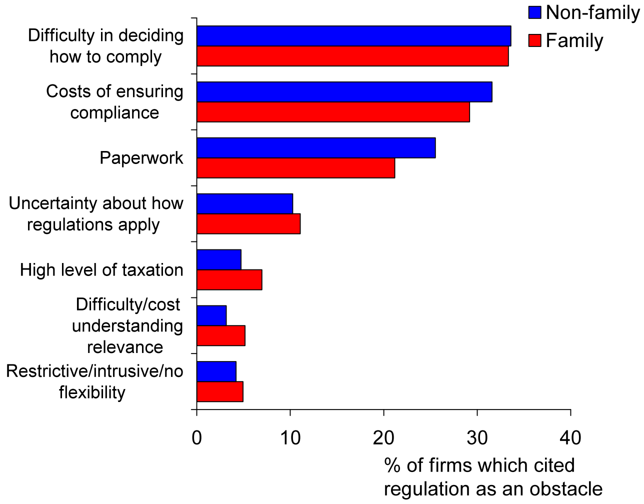


Source: Oxford Economics/BIS

In the SBS (2010) survey, the 16.6% of SMEs that cite sector-specific regulations as an obstacle to the success of their business are then asked about the way in which they are an obstacle. Two issues dominate. The problem cited most frequently by family firms is the difficulty and (or) effort in deciding how to comply with the regulations (33.3%). Uncertainty about whether or how regulations apply to your business is also an issue (11.1%). This suggests that there is a need for greater clarity in sector-specific regulations.

The SBS (2010) survey also suggests that the cost of compliance is a problem. Of the SMEs citing sector-specific regulations as an obstacle to success, the costs of making changes to ensure compliance was cited by nearly a third (29.2% in Chart 7.9). This may be a one-off change to business processes. The ongoing cost in terms of additional paperwork and administrative procedures was cited by just over a fifth (21.2%).

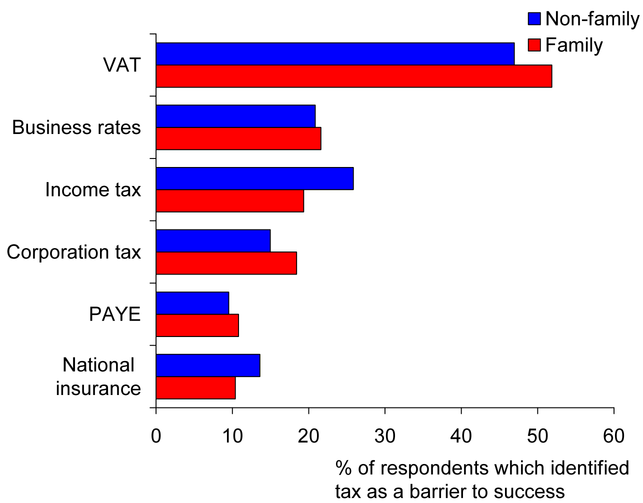
Chart 7.9: Ways in which regulations act as an obstacle to business success for SMEs



Source: Oxford Economics/BIS

The 2010 survey also drills down into the 17% of family SMEs citing tax as an obstacle. Of these (Chart 7.10), most (51.9%) of the family firms cited VAT as an issue, followed by business rates (21.6%), and income tax (19.3%). There is not much difference between the responses of family and non-family firms. Clearly, the burdens of both tax and regulation remain key concerns for small firms. Here, the establishment of the Office of Tax Simplification is a promising development.

Chart 7.10: Types of tax considered to be a barrier to success for SMEs



Source: Oxford Economics/BIS

8 Policy overview

The legislative environment has generally been supportive of the family business sector in recent years, but there are still opportunities to encourage further growth through targeted policy measures. This section looks at some general barriers to growth that can affect family businesses.

- Accessing credit to fund investment will continue to be a critical issue. The evidence in this report suggests that many family firms (particularly medium and larger-sized companies) have benefited from relative balance sheet strength, but continued attention needs to be focused particularly on ensuring the flow of credit to smaller family businesses. The loan guarantee scheme, lending targets for banks via Project Merlin, the Business Growth Fund, and other policies are all important building blocks in this respect. There could also be encouragement by government for the creation of a bond market accessible to medium-sized companies to fill a void that now exists. Active markets for loan capital with longer-term maturity dates accessible to medium-sized firms exist in both the US and Germany.
- The most recent PwC survey showed that 48% of family firms surveyed had yet to identify their successor. Succession will become a larger issue as the 'baby-boomer' generation reaches retirement age over the next few years – it has been estimated that over the next five years an average of 172,000 family firms will leave a generation's control each year. There is a potential role for government here in terms of providing tailored support in this process. To this end, taxation policy should enable owners planning for succession to have the ability to transfer ownership without imposing an adverse financial impact on the company, thus protecting investment and jobs. An increase in successful business transfers will have immediate beneficial effects for the UK economy. Existing companies conserve, on average, five jobs whereas start-ups generate, on average, two jobs.[21]
- The tax regime should continue to support a balanced economy where different forms of ownership are encouraged to flourish, including family businesses. HM Government's commitment to maintain the 100% Business Property Relief (BPR) on Inheritance Tax is a highly significant plank of policy on business transfers. BPR means that when inheriting a share of the family business – and successfully continuing the business – the next generation of owners do not face a tax charge which they do not have the liquidity to fund. This policy has been highly successful in the UK, and other countries in the European Union (such as Sweden) have adopted a similar strategy.
- In SBS (2010), over 15% of family SMEs identified a general shortage of skills in the labour force as an obstacle to growth, and anecdotal evidence suggests that the same issue affects large-sized family firms. There would therefore appear to be scope for the government to encourage more vocational training by increasing financial incentives for apprenticeships and for the National Apprenticeships Service to work closely with the Institute of Family Business (IFB) and other employer organisations to target family firms. As the leading source of employment in the private sector, it is important for family firms that education reforms are pursued so that the next generation obtains practical skills that will enable them to add value in the modern work place.

[21] BEST project report on the transfer of small and medium-sized enterprises May 2002.

- Furthermore, government should do more to promote employment, eliminating the barriers that promote a culture where firms are reluctant to hire; reducing national insurance contributions over time (perceived as a tax on jobs) should be a long-term priority. Rationalising and simplifying all forms of employment legislation is also vital to ease the burden of red tape, particularly on smaller family companies.
- Scaling up is an issue for family businesses that have growth ambitions. Building greater management capability is therefore critical to enabling family firms to develop strongly. Promoting existing national networks of mentors for growing companies and for those who have already acquired critical mass, such as mentorsme.co.uk, would be helpful. The importance of good governance practices and the role that such processes play in ensuring effective leadership is an area that both government and trade bodies should emphasise.
- Family businesses are recognised for their role in driving entrepreneurship. The promotion of a culture where the pursuit of enterprise is embedded in our business DNA should be a national priority. However current legislation hinders investment in early-stage family companies by family investors. A key incentive for investment in early-stage businesses is the Enterprise Investment Scheme (EIS). Restrictions imposed on connected parties could be reformed so that kinship[22] is not taken into account in considering qualification for EIS relief.
- Another area where there is potential is international growth; government action can help to give family firms access to basic support, such as market intelligence and UKTI which already provide a good platform for existing and new exporters to leverage.

[22] Associates for these purposes exclude siblings but are otherwise those as for a close company: business partners, trustees of a settlement (where they are either a settler or a beneficiary), and relatives (spouses or civil partners, parents and godparents, children and grandchildren).

9 Bibliography

Bank of England (2011), ‘Credit Conditions Survey: Survey Results 2011Q3’, September.

Bank of England (2011), ‘Effective Interest Rates: August 2011’, Statistical Press Release, September.

BIS (2006), ‘BIS Small and Medium-Sized Enterprise (SME) Statistics for the UK and Regions’, Department for Business, Innovation, and Skills, August 2007.

BIS (2007), ‘BIS Small and Medium-Sized Enterprise (SME) Statistics for the UK and Regions’, Department for Business, Innovation, and Skills, July 2008.

BIS (2008), ‘BIS Small and Medium-Sized Enterprise (SME) Statistics for the UK and Regions’, Department for Business, Innovation, and Skills, October 2009.

BIS (2009), ‘BIS Small and Medium-Sized Enterprise (SME) Statistics for the UK and Regions’, Department for Business, Innovation, and Skills, October 2010.

BIS (2010), ‘BIS Population Estimates for the UK and Regions’, Department for Business, Innovation, and Skills, May 2011.

Capital Economics (2008), ‘The UK Family Business Sector’, An Institute for Family Business report by Capital Economics, February 2008.

Chittenden, F, and Sloan, B, (2007), ‘The Chancellor’s Last Budget Statement: Politics or Economics: An evaluation of the likely impact on SMEs of Budget 2007’, Manchester Business School, May 2007.

CMRC and UNIEI (2011), ‘UK Family Business: Industrial and Geographical Context, Governance and Performance’, November, mimeo.

Franks, J, Mayer, C, Volpin, P and Wagner, H (2011), ‘The Life Cycle Ownership: International Evidence’, Working paper, June 2011

Office for National Statistics, (2011), ‘Annual Business Survey 2009 Provisional Results’, November.

PwC (2011), ‘Global Family Business Survey 2010’, PricewaterhouseCoopers.

SBS (2006), ‘BIS Small Business Survey 2006’, Department for Business, Innovation, and Skills, October 2007.

SBS (2008), ‘BIS Small Business Survey 2007/2008’, Department for Business, Innovation, and Skills, April 2009.

SBS (2010), ‘BIS Small Business Survey 2010’, Department for Business, Innovation, and Skills, April 2011.

Shaw, J (2011), ‘Business Population Estimates for the UK and Regions’, Economic and Labour Market Review, Vol. 5(4), 47-67.

Siebert, W, Maimaiti, Y, Peng, F, and Pearce-Gould, R (2011), ‘HRM practices and performances of family-run workplaces: Evidence from the 2004 WERS’, 15 April, mimeo.

Research Foundation

About the IFB Research Foundation

The IFB Research Foundation is dedicated to promoting a deeper understanding of family business which makes a significant contribution to the economy and society. The knowledge fostered through the Foundation helps ensure the continued success and sustainability of the UK family business sector. The Foundation is a registered charity (no. 1134085) and its activities are divided into two principal areas:

Research – developing an enhanced understanding of best practice and seeking fresh insights into the sector for the benefit all stakeholders including owners, policy makers and the general public.

Dissemination – enabling the sharing of best practice through publications and other means.

The Foundation works closely with its sister organisation the **Institute for Family Business** which is an independent, not-for-profit, politically neutral, membership association supporting the UK family-owned business sector through Education (IFB Forum) and Representation. The IFB is a member of FBN International, the global network for family businesses.

The IFB positioning is politically neutral and the organisation is uniquely equipped to contribute constructively and positively to policy debates on family business issues.

www.ifb.org.uk/research-foundation

ISBN 978-0-9551898-9-0

The voice for UK family business

Institute for Family Business
32 Buckingham Palace Road
London SW1W 0RE
Tel **020 7630 6250**
Fax **020 7630 6251**
www.ifb.org.uk

£9.50 (including p&p)