THE STATE OF THE NATION

The UK Family Business Sector 2017–18

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.

ABOUT THE IFB

The Foundation works closely with its sister organisation, the Institute for Family Business, which is a membership association representing the UK's family-owned business sector. The IFB supports and promotes the family business sector through events, connections and advocacy, while the Foundation, whose board includes independent directors not affiliated to the IFB, focuses on educational research in accordance with its charitable objectives. The IFB is a member of FBN International, the global network for family businesses.

"The family business sector is vital to the UK economy. In every industrial sector and in every part of the UK, family-run businesses are a driving force"

FOREWORD

If you walk down any high street, visit any business park or stand in any city centre in the UK family businesses will be all around you. Anyone who encounters a family business can feel their hard work, values, commitment to staff and central place in their community. Many have been around for several generations and what makes them special is often based on their culture and long-term outlook.

This significant new report prepared by Oxford Economics sheds light on the vital role the 4.8 million family firms in the UK play in creating a successful economy. Generating more than one-quarter of GDP, and employing more than 12 million people, family businesses really are the backbone of our economy, and the bedrock of our communities. Their contribution has continued to grow strongly over recent years.

The Government's recent Industrial Strategy highlighted the need to ensure businesses across the UK continue to grow, to support prosperous communities throughout the UK. With this report showing that two-thirds of family firms are based outside London and the South East, it is clear that family businesses have an important role to play in the UK's future prosperity.

The analysis in this report also highlights some of the strengths and potential weaknesses of family firms, which should help develop better policy and governance to allow family businesses to flourish going forward.

The IFB Research Foundation is a charity that aims to enhance our understanding of family business through independent and rigorous research. We have more work to do in order to deepen our knowledge about family business and what drives their performance, but I believe that this Sector report is a great base on which to build.

I would like to thank Oxford Economics for producing this report, and helping us to shine a light on the achievements of the UK's family business sector.

I hope you enjoy reading the report.

Sir Michael Bibby
Chairman, IFB Research Foundation

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EXECUTIVE SUMMARY

The family business sector is vital to the UK economy. In every industrial sector and in every part of the UK, family-run businesses are a driving force. They employ millions of people, generate more than a quarter of UK GDP, and contribute over 20 per cent of all the government's revenue every year.

This report presents the most up-to-date evidence on the family business sector. It investigates the characteristics of family firms: what industrial sectors they dominate, their legal structure and their size. It goes on to measure the economic contribution that family businesses make to UK GDP, employment and taxes. Furthermore, it provides an insight into how small and medium-sized (SME) family businesses with employees are performing, drawing on survey evidence from thousands of businesses across the country. Examining this evidence also sheds light on the unique challenges facing family businesses and their plans for the future.

There were 4.8 million family-run businesses in the UK in 2016, comprising 88 per cent of all private sector firms. This was a 4.3 per cent increase from the number of family-run businesses operating in 2015. Micro businesses, those with between zero and nine employees, dominate the sector, accounting for 97 per cent. Some 66 per cent of family businesses had a single owner and operated as sole proprietorships in 2016. A considerable share, 27 per cent, were incorporated companies and the remaining seven per cent were organised as partnerships.

In total, family businesses employed 12.2 million people in 2016. Employment by family firms remained broadly the same between 2015 and 2016. This figure includes both employees working at family firms, and self-employed individuals running their own businesses. This means that the family business sector accounted for 47 per cent of private sector employment in the year, and around 35 per cent of all employment in the UK.

Family businesses earned £1.4 trillion in revenue in 2016. This was around 35 per cent of total private sector turnover earned in the year. The largest proportion, some 36 per cent, was earned by family firms operating in the wholesale and retail industry, with their counterparts operating in real estate, financial and business services accounting for a further 22 per cent.

In 2016, family businesses generated a £519 billion gross value added contribution to UK GDP. This contribution grew 1.5 per cent from 2015 to 2016 in real terms. Family businesses' gross value added contribution accounted for 36 per cent of the private sector's total gross value added in the year, and 26 per cent of total UK GDP. The gross value added contribution made by family businesses was most important to the economies of Northern Ireland and Wales, where they generated 44 per cent and 39 per cent of the countries' economic output, respectively.

Family businesses also contributed £149 billion in taxes to the Exchequer, both directly and through their employment. This contribution grew by more than 12 per cent in real terms from 2015 to 2016, and accounted for 21 per cent of total government revenue raised in 2015/16. To put this into context, the tax revenue generated by the family business sector is larger than the NHS budget for 2016/17.

The economic impact of family businesses has grown considerably since this series of reports began. The number of family-run firms in the UK has increased by almost 35 per cent since 2010, and the proportion of all UK firms that are family run has grown by 10 per cent in this time. Looking at the family business sector's contribution to the economy, both the size of employment at family firms and their contribution to UK GDP have risen by 25 per cent.

Family businesses have grown strongly. When surveyed in 2016, some 34 per cent of SME family businesses with employees had increased their turnover over the previous 12 months, compared to 22 per cent which had earned less. A larger proportion of medium-sized family-run firms had been successful in increasing their turnover than their smaller counterparts.

The family business sector's positive experience is also demonstrated by its hiring decisions over the year. Some 41 per cent of family-run SMEs with employees reported having a larger workforce than 12 months previously. This was considerably higher than the comparable figure in the 2015 survey (24 per cent). However, the proportion of SME family businesses with fewer employees than a year before has also risen. Some 24 per cent of firms had shrunk their workforce in 2016, compared to nine per cent in 2015.

Looking forward, family businesses demonstrate optimism, with ambitious plans for growth. Over the next year, the percentage of family-run SMEs expecting to grow their turnover exceeds those that anticipate a decline by 29 percentage points. Similarly, there is a 13 percentage point gap between those family businesses expecting to grow the size of their workforce and those expecting a decline. Among family firms, medium-sized businesses – those with between 50 and 249 employees – were the most optimistic about their turnover prospects in 2017.

Looking further ahead, some 63 per cent of family-run SMEs with employees aim to grow sales over the next three years. Again, medium-sized family businesses were the most optimistic about growing their earnings. To achieve these growth ambitions, family businesses were planning a range of strategies. The most common strategy, which 60 per cent of firms planned to implement, is to improve workforce skills. Many of the family firms surveyed were planning to innovate, with introducing new working practices, and new products or services, being cited as favoured growth strategies for 38 per cent and 35 per cent of family-run SMEs, respectively.

Plans for succession or transfers in ownership are an important issue for family businesses. While the majority of family-run SMEs are in their first generation, multi-generational firms make up an important share of the family business sector, accounting for 21 per cent of family-run SMEs in 2016. Multi-generational firms tend to have more employees – some 38 per cent of medium-sized firms were in at least their second generation of family ownership, and three per cent in at least their fifth. However, some nine per cent of family-run SMEs with employees planned to fully transfer the ownership of their business in the next three years, and only 19 per cent of these expected to see ownership stay in the family.

While family-run SMEs are optimistic about the future, they continue to face a range of challenges. In 2016, family-run SMEs identified competition in the market and regulations to be the biggest obstacles to business success, with 48 per cent and 44 per cent considering these to be major obstacles, respectively. The most challenging regulatory burdens, affecting between 15 and 16 per cent of firms, were complying with tax, sector-specific regulations, and health and safety.

Some seven per cent of family-run SMEs expect to close in the next three years. This is slightly larger than the four per cent of non-family firms expecting the closure of their businesses. Smaller firms were the most likely to anticipate closing their business; seven per cent of firms between one and nine employees expect to close, compared to less than one per cent of medium-sized family firms.

Access to external finance continued to be an issue for the sector in 2016, as has been the case historically. Family-run SMEs were less likely to have applied for finance in 2016 than their non-family counterparts, and slightly more likely to have had an application rejected. Additionally, around 10 per cent of family businesses indicated that they had financing needs but had not sought external financing. These businesses were discouraged by the additional risk, potential cost and associated time burden of applying for and obtaining finance, and by the belief that they might be rejected by potential lenders.

1. INTRODUCTION

This report demonstrates the importance of family businesses to the UK economy. Building upon research published by the IFB Research Foundation and Oxford Economics in 2008, 2011, 2014, 2015 and 2016, it presents the most up-to-date evidence on the economic contribution made by the family business sector. It investigates the characteristics of family businesses, their recent performance and expectations for the future, and the challenges that they face.

1.1 WHAT IS A FAMILY BUSINESS?

The definition of a family business with fewer than 250 employees used in this report is consistent with that of the Department for Business, Energy and Industrial Strategy (BEIS) (2016), which defines family-run SMEs as businesses which are majority owned by one or more members of the same family. A family-run SME is a firm which has:[1]

- 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.

For large family businesses, we use a definition from RepGraph (2015). A large family business is a firm which has:

- more than 249 employees and a UK family possesses a 25 per cent shareholding, or a first generation entrepreneur self-identifies the company as a family firm.

The number of firms matching the first two criteria is estimated using the BEIS Longitudinal Small Business Survey (SBS). The number of firms fitting the third criterion is derived from a study of large firms in the UK by RepGraph (2015). 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:** 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. Chapters 2 and 3 detail the family business sector's contribution to the UK economy and explore its characteristics, respectively. The remaining three chapters explore evidence from the SBS on SME family businesses with employees. Chapter 4 investigates their recent performance in the year to 2016. Chapter 5 discusses their expectations for the next year, aims looking three years forward and their strategies to achieve these goals. Lastly, Chapter 6 examines some of the challenges that SME family businesses face.

2. THE ECONOMIC CONTRIBUTION OF FAMILY BUSINESSES

This chapter investigates the size of the UK's family business sector, and its contribution to the economy. The economic contribution of family businesses is measured using five metrics: the number of firms, total employment, turnover, gross value added and taxes paid.

The results demonstrate the vital importance of family businesses to the UK economy. Accounting for a considerable proportion of private sector firms in the UK, they employ millions of people and produce a substantial proportion of the economy's total output.

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

Oxford Economics estimates that there were 4.8 million family-run businesses in the UK in 2016, comprising 87.6 per cent of all private sector firms in the country.

In 2016, most family businesses (almost 3.9 million) were owner-only businesses run by a single owner or by multiple owners with no employees (Table 1).[2] These firms, known as micro businesses without employees, made up 80.4 per cent of all family businesses. More than 806,000 businesses (16.7 per cent of the total) employed between one and nine people and are known as micro businesses with employees. In addition, there were 120,000 small family businesses in 2016. Employing between 10 and 49 people, these firms made up 2.5 per cent of the family business sector. A further 15,700 family businesses (0.3 per cent of the total) employed between 50 and 249 people, putting them into the medium-sized business category. Finally, there were 785 large family businesses employing 250 or more people.

The number of family businesses in the UK grew by 4.3 per cent between 2015 and 2016.[3] This growth was driven by rising numbers of micro businesses. The largest increase, of 5.3 per cent, was in the number of micro family businesses with employees. The number of family-run micro businesses without employees also grew considerably, by 4.5 per cent.

The prevalence of family businesses in the private sector is greater among smaller firms. SBS (2016) found that the clear majority (92.8 per cent) of micro businesses with no employees were classified as family businesses (Figure 1). Family businesses also made up a large proportion of micro businesses with employees and small businesses, some 74.5 per cent and 59.0 per cent, respectively. Moreover, 47.2 per cent of medium-sized firms and 10.9 per cent of large firms were family run.

A number of reasons have been suggested as to why the proportion of firms that are family owned declines with firm size. One possible explanation put forward by Franks et al. (2009) is 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)	3,871,349	80.4	4,172,185	92.8
Micro (1–9 employees)	806,131	16.7	1,081,425	74.5
Small (10–49 employees)	120,065	2.5	203,550	59.0
Medium (50–249 employees)	15,725	0.3	33,310	47.2
Large (250+ employees)	785	0.0	7,200	10.9
Total	**4,814,055**	**100.0**	**5,497,670**	**87.6**

Table 1. Number of family business sector and private sector firms in 2016, by firm size

Source: BEIS (SBS, 2016) and RepGraph (2015)

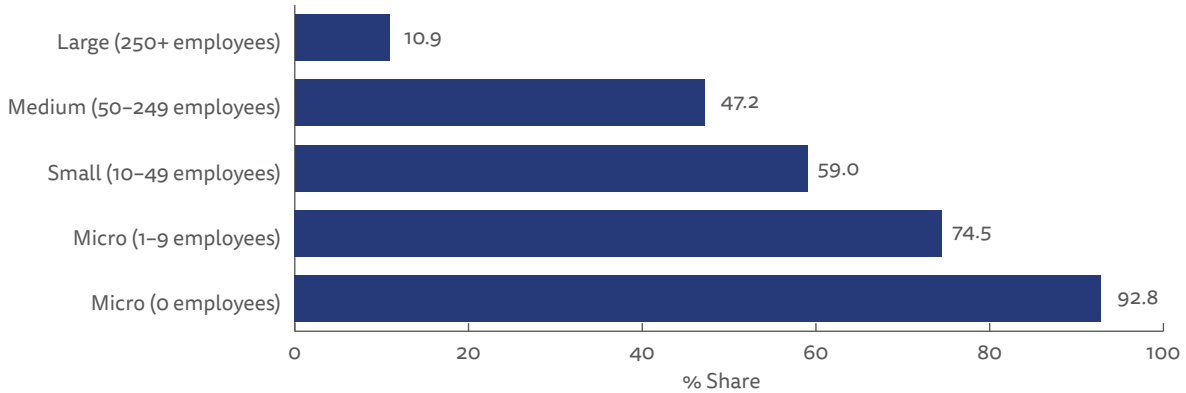

Figure 1. Family firms as a share of all private sector firms in 2016, by firm size
Source: BEIS (SBS, 2016) and RepGraph (2015)

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)	4,209	34.5	4,536	92.8
Micro (1–9 employees)	2,965	24.3	3,978	74.5
Small (10–49 employees)	2,342	19.2	3,971	59.0
Medium (50–249 employees)	1,534	12.6	3,250	47.2
Large (250+ employees)	1,141	9.4	10,470	10.9
Total	**12,192**	**100.0**	**26,205**	**46.5**

Table 2. Employment in family businesses and private sector in 2016, by firm size
Source: BEIS (SBS, 2016) and RepGraph (2015)

Family firms are an important source of employment in the UK. The family business sector employed around 12.2 million people in 2016, 46.5 per cent of total private sector employment (Table 2).[4] Family businesses were responsible for 35.3 per cent of all UK employment.

Family-run micro businesses employed 7.2 million people in 2016, 58.8 per cent of total family business employment. More than 2.3 million people (19.2 per cent of the total) were employed by small family businesses. Medium-sized and large family firms employed a further 1.5 million and 1.1 million workers, accounting for 12.6 per cent and 9.4 per cent of employment in the family business sector, respectively.

While the size of the family business sector's workforce did not change substantially over the year, the pattern of employment by firm size did. Micro firms' share of family business employment increased between 2015 and 2016, due to the sizeable growth in the number of these firms. The number of people working at micro family businesses with and without employees grew by 3.3 per cent and 4.1 per cent, respectively. This growth largely offset a decline in employment at small and medium-sized family businesses.

2.2 HOW MUCH TURNOVER AND GROSS VALUE ADDED FAMILY BUSINESSES CREATE

Family businesses earn a substantial proportion of the UK's total revenue. Oxford Economics estimates that the family business sector earned £1.4 trillion in revenue in 2016.[5] This was an increase of just over 0.1 per cent in real terms since 2015. Family firm revenues accounted for 35.2 per cent of total private sector turnover earned in the UK in the year.

With revenue of £512 billion, the wholesale and retail industry, including repairs, generated 35.6 per cent of the family business sector's turnover in 2016 (Figure 2), the largest contribution of any single industry. Family firms in the business services industry, including those in real estate, financial services, and professional and scientific services, ranked second with turnover of more than £314 billion (21.8 per cent of the total), and firms working in hospitality, transport and communications earned the third largest revenue at an estimated £172 billion (11.9 per cent of the total).

When comparing family and non-family businesses, the pattern of turnover by industry was broadly similar in 2016. However, the construction, and agriculture and extraction industries were notably larger sources of turnover for the family business sector in 2016.

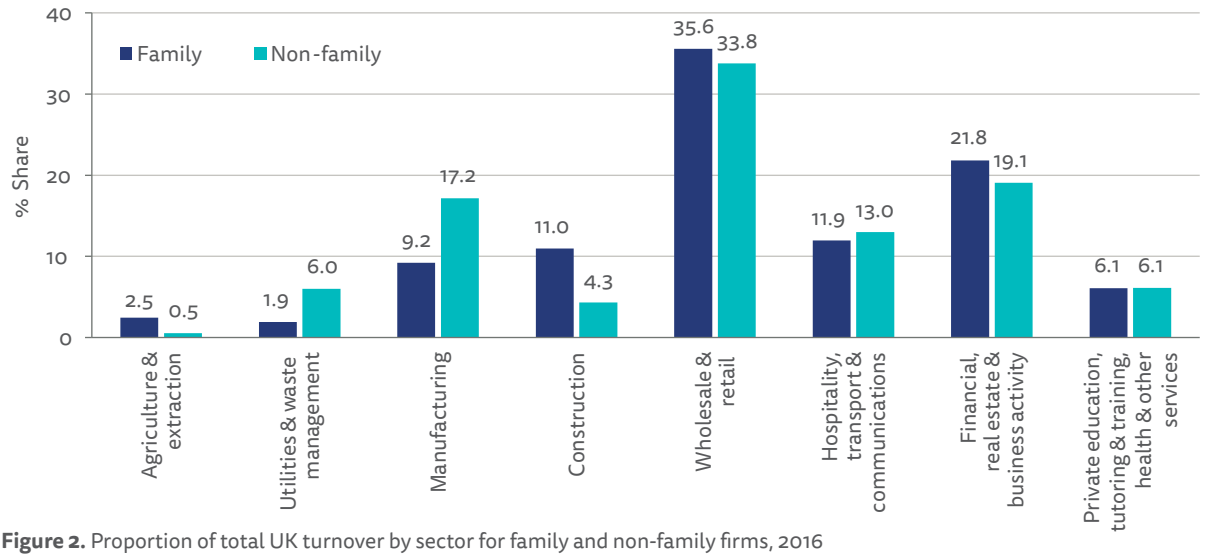

Figure 2. Proportion of total UK turnover by sector for family and non-family firms, 2016
Source: Oxford Economics, BEIS (SBS, 2016), and CMRC and UNIEI (2011)

Construction accounted for 11.0 per cent of family firm turnover compared to 4.3 per cent for non-family firms. Agriculture and extraction firms accounted for 2.5 per cent of family business turnover, compared to 0.5 per cent of the non-family business sector.

On the other hand, non-family firms were much more active in manufacturing, and utilities and waste management. Manufacturing firms earned 17.2 per cent of non-family firm turnover, compared to 9.2 per cent among family businesses. Non-family businesses in the utilities and waste management industry accounted for 6.0 per cent of total turnover, compared to their family businesses counterparts which accounted for just 1.9 per cent.

Family businesses are an important source of economic output in the UK, and create a substantial proportion of the country's GDP. Oxford Economics estimates that family businesses generated a £519 billion gross value added contribution to UK GDP in 2016.[6] This contribution was 36.4 per cent of the private sector's total gross value added in the year, and 26.5 per cent of total UK GDP. Family businesses' gross value added contribution grew 1.5 per cent from 2015 to 2016 in real terms, broadly in line with the 1.6 per cent growth of the UK's total gross value added.

Family businesses in real estate, renting and business services generated the largest proportion of this contribution, almost £156 billion in gross value added (30.0 per cent of the total) (Table 3). Wholesale and retail companies, transport, storage and communication firms, and businesses working in construction also made substantial contributions. Their gross value added contributions of £78 billion,

Industry	Turnover (£ million)	Gross value added (£ million)	Share of family business sector GVA (%)
Wholesale and retail trade	511,735	77,613	14.9
Real estate, renting and business activity	267,500	155,850	30.0
Construction	157,738	61,083	11.8
Transport, storage and communications	135,515	69,045	13.3
Manufacturing	132,575	42,545	8.2
Financial services	46,655	25,426	4.9
Other community, social and personal services	37,590	14,634	2.8
Health and social care services	36,605	22,986	4.4
Hotels and restaurants	36,391	19,388	3.7
Agriculture & extraction	35,451	15,206	2.9
Utilities and waste management	27,565	8,437	1.6
Private education, tutoring and training services	13,430	6,994	1.3
Total economy	**1,438,750**	**519,206**	**100.0**
Share of private sector (%)	**35.2**	**36.4**	

Table 3. Turnover and gross value added contributions of the family business sector, 2016
Source: BEIS (SBS, 2016) and Oxford Economics

Family owned wholesale and retail businesses employ more than 2m people

	Type of family business			
	Small sole traders and partnerships	Small and medium-sized companies	Large companies	Total
Taxes borne (£ million)	18,200	53,170	9,367	80,737
Taxes collected (£ million)	3,800	41,130	23,482	68,412
Total tax revenues (£ million)	**22,001**	**94,300**	**32,849**	**149,150**
Share of government revenue (%)	**3.2**	**13.6**	**4.7**	**21.5**
Average tax revenue per firm (£)	6,255	72,762	41,856,989	30,982

Table 4. The family business sector's contribution to the Exchequer, 2016

Source: Chittenden and Sloan (2007), PwC (2016), BEIS (SBS, 2016) and Oxford Economics

£69 billion and £61 billion made up 14.9 per cent, 13.3 per cent and 11.8 per cent of the family business sector's total, respectively.

In 2016, family businesses' labour productivity (gross value added per employee) was lower than for the overall private sector. The gap in part reflects differences in the size distribution of family businesses versus non-family businesses. Larger firms are usually found to have higher labour productivity than smaller firms.[7] As a result, family firms' greater concentration at the lower end of the size spectrum is likely to lower their average productivity relative to non-family firms. Further research in this area is warranted. The IFB Research Foundation intends to conduct further research on productivity in family firms to understand the effect of firm size, different industry mixes, and other factors.

2.3 HOW MUCH FAMILY BUSINESSES CONTRIBUTE TO THE EXCHEQUER

Family businesses are an important source of revenue for the Exchequer, generating and collecting a considerable amount in tax receipts every year. Using data from Chittenden and Sloan (2007), PwC (2016) and BEIS (SBS, 2016), Oxford Economics estimates that family-run businesses paid £149 billion in taxes in 2016. This contribution to the Exchequer was 21.5 per cent of total government revenue raised in the year (Table 4). To put this into context, these revenues are sufficient to fund the expenditure of the NHS budget in 2016/17.[8]

Small and medium-sized companies generated the largest proportion of family firms' tax contribution, £94 billion in 2016. Large family-owned companies generated a further £33 billion, with the remaining £22 billion borne and collected by family-run sole proprietorships and partnerships. The ranking reflects both the number of family businesses in each category and their average profitability, wage bill, and the size of the property they occupy and its usage.

Tax revenue borne and collected by family businesses in 2016 was 12.4 per cent higher than in 2015 in real terms. While all types of family business contributed more tax revenues, the increase was principally driven by large firms, which generated 20.5 per cent more in taxes in 2016 than the previous year. The company tax receipts of small and medium-sized family firms rose by 11.7 per cent, while sole proprietorships' and partnerships' tax payments were 4.6 per cent higher than in 2015.

2.4 CHANGE IN ECONOMIC IMPACT BETWEEN 2010 AND 2016

This section of the report examines how the family business sector's economic contribution in the UK has changed over time.[9]

Adjusting for definitional and methodological changes, family businesses' gross value added contribution to UK GDP grew by 1.5 per cent between 2015 and 2016, in real terms (Figure 3 and Table 5).[10] The family business sector's contribution was around 24.4 per cent higher than in 2010.

Family business employment in 2016 was broadly unchanged from 2015, at approximately 12.2 million people. Over the six years from 2010, employment grew by around 23.8 per cent.[11]

"In total, family businesses employed 12.2 million people in 2016"

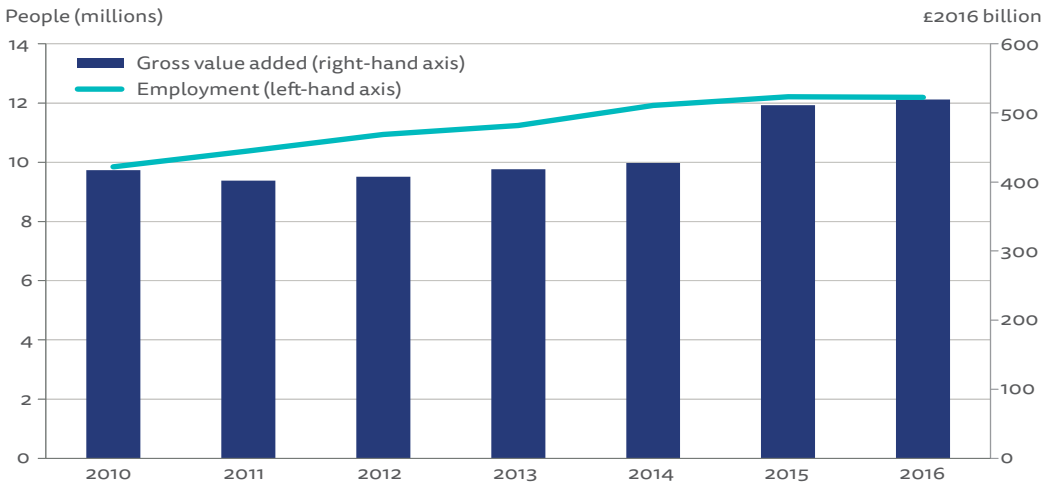

Figure 3. Total estimated employment and gross value added in family firms, 2010–2016
Source: Oxford Economics. These estimates contain data discontinuities from 2012 to 2013

Classification	Metric	2010	2011	2012	2013	2014	2015	2016	Growth since 2015 (%)	Growth since 2010 (%)
Family business sector	Number of firms (thousands)	3,579	3,751	4,090	4,226	4,576	4,614	4,814	4.3	34.5
	Employment (thousands)	9,846	10,377	10,937	11,235	11,918	12,211	12,192	-0.2	23.8
	Turnover (£2016 billion)	1,342	1,271	1,297	1,318	1,319	1,437	1,439	0.1	7.2
	GVA (£2016 billion)	417	402	407	418	427	511	519	1.5	24.4
Non-family business sector	Number of firms (thousands)	906	792	704	670	667	775	684	-11.8	-24.5
	Employment (thousands)	12,670	13,016	12,956	13,096	13,310	13,661	14,013	2.6	10.6
	Turnover (£2016 billion)	2,487	2,280	2,265	2,333	2,573	2,551	2,646	3.7	6.4
	GVA (£2016 billion)	797	748	734	764	808	862	906	5.1	13.7
Private sector (thousands)	Number of firms (thousands)	4,485	4,543	4,794	4,896	5,243	5,389	5,498	2.0	22.6
	Employment (thousands)	22,516	23,392	23,893	24,331	25,228	25,872	26,205	1.3	16.4
	Turnover (£2016 billion)	3,829	3,551	3,562	3,651	3,892	3,988	4,085	2.4	6.7
	GVA (£2016 billion)	1,214	1,149	1,141	1,182	1,236	1,373	1,425	3.8	17.4
Family business share	Percentage of firms (%)	79.8	82.6	85.3	86.3	87.3	85.6	87.6	2.3	9.7
	Employment (%)	43.7	44.4	45.8	46.2	47.2	47.2	46.5	-1.4	6.4
	Turnover (%)	35.1	35.8	36.4	36.1	33.9	36.0	35.2	-2.2	0.5
	GVA (%)	34.4	35.0	35.7	35.4	34.6	37.2	36.4	-2.1	6.0

Table 5. Number of firms, employment, turnover and GVA in family businesses and the private sector in the UK between 2010 and 2016
Source: BEIS (SBS 2010, 2012, 2014, 2015, 2016) and Oxford Economics

Family businesses pay £149bn in tax – more than the annual NHS budget

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?

Family firms are present in all sectors of the economy to differing degrees. In 2016, there were 1.2 million family firms (25.1 per cent of the total) in the real estate, renting and business activity industries (Table 6).[12] Construction ranked second with almost 911,000 family businesses (or 18.9 per cent of the total) and transport, storage and communications was third in scale.

The proportion of family-run firms in the private sector is markedly higher in certain industries, compared to others. The highest concentration was in agriculture and extraction, where family businesses comprised 96.1 per cent of firms in 2016. The next two most family-firm-concentrated industries were construction, and private education, tutoring and training services, where family-run businesses made up 93.4 per cent and 91.5 per cent of all firms, respectively.[13]

A number of reasons have been suggested to explain differences in the concentration of family businesses across industries. For example, Franks et al. (2012) argue that the dilution of family ownership often occurs when businesses need to raise external finance. Higher rates of family ownerships therefore tend to be seen in industries that are less reliant on capital expenditure or have lower levels of merger and acquisition activity.

The distribution of employment at family businesses across the different industrial sectors is more diversely spread than the number of firms. Real estate, renting and business activity firms employed 22.8 per cent of all family firm employees in 2016, almost 2.8 million in total (Table 7). Wholesale and retail, and construction firms employed approximately 2.0 million (16.4 per cent) and 1.4 million people (11.7 per cent), respectively.

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	1,208,028	25.1	1,389,120	87.0
Construction	910,769	18.9	974,625	93.4
Transport, storage and communications	589,133	12.2	651,710	90.4
Wholesale and retail trade, repairs	470,992	9.8	544,490	86.5
Other community, social and personal services	444,603	9.2	555,420	80.0
Private education, tutoring and training services	285,793	5.9	312,220	91.5
Health and social care services	277,450	5.8	347,700	79.8
Manufacturing	235,067	4.9	265,735	88.5
Hotels and restaurants	153,387	3.2	185,510	82.7
Agriculture and extraction	151,009	3.1	157,075	96.1
Financial services	70,655	1.5	89,215	79.2
Utilities and waste management	17,170	0.4	24,850	69.1
Total	**4,814,055**	**100.0**	**5,497,670**	**87.6**

Table 6. Industry distribution of family businesses in the UK, 2016
Source: Oxford Economics, BEIS (SBS, 2016), and CMRC and UNIEI (2011)

Sector	Family firm employment (thousands)	Share of all family firm employment (%)	Private sector employment (thousands)	Family firm employment as share of private sector employment (%)
Real estate, renting and business activity	2,775	22.8	5,981	46.4
Construction	1,422	11.7	2,048	69.5
Transport, storage and communications	1,201	9.8	2,749	43.7
Wholesale and retail trades	2,005	16.4	5,022	39.9
Other community, social and personal services	747	6.1	1,375	54.3
Private education, tutoring and training services	389	3.2	579	67.2
Health and social care services	859	7.0	1,758	48.9
Manufacturing	1,126	9.2	2,602	43.3
Hotels and restaurants	980	8.0	2,176	45.0
Agriculture and extraction	364	3.0	476	76.5
Financial services	241	2.0	1,079	22.3
Utilities and waste management	82	0.7	363	22.6
Total	**12,192**	**100.0**	**26,208**	**46.5**

Table 7. Industry distribution of family business employment, 2016
Source: Oxford Economics, BEIS (SBS, 2016), and CMRC and UNIEI (2011)

3.2 IN WHICH COUNTRIES AND REGIONS DO FAMILY BUSINESSES OPERATE?

Family businesses operate across the length and breadth of the UK, with hundreds of thousands of firms in every country and region (Table 8). The largest number of family businesses, some 811,000 (16.8 per cent of total), were based in London in 2016, and a further 788,000 (16.4 per cent) in the South East. Between 9.5 per cent and 10.3 per cent of family firms were located in the East of England, South West and North West, with between 458,000 and 497,000 family businesses based in each of these regions. The concentration of family firms in these regions reflects, to a large extent, the size of each country's and region's economy and population.

Although London and the South East dominate in terms of numbers of family businesses, the family business sector is most important to the economies of countries and regions further from the capital. Relative to the total size of the private sector in each of the UK's countries and regions, the highest concentration of family firms was in Wales – some 93.6 per cent of all private firms in the country were family run in 2016. The East Midlands, Scotland and Northern Ireland also had a large concentration, with family businesses making up between 90.5 per cent and 91.8 per cent of all private firms in each.

Analysing the country and regional distribution of family businesses by size, micro employers, small and medium-sized firms were the most evenly spread across the UK in 2016 (Table 9). Micro firms without employees were overrepresented in London and the South East. These two regions were home to 17.4 per cent and 16.7 per cent of family firms without employees, respectively. Large family firms were also heavily concentrated in these two regions. Some 17.8 per cent of all family businesses with 250 or more employees were in the South East, and a further 15.6 per cent were in London.

Family businesses operating in London and the South East employ the largest number of people. In 2016, there were around 1.9 million people employed by family firms based in London and the South East, some 15.8 and 15.2 per cent of total family business employment in the year, respectively (Table 10).

By contrast, the family business sector's employment is most important to countries and regions away from the capital. The proportion of private sector workers who are employed by family businesses is greatest in Wales and Northern Ireland; the 514,000 and 305,000 people working at family firms made up 59.8 per cent and 57.2 per cent of total private sector employment in each of the two countries, respectively.

To assess the importance of family businesses to each country and region, their employment was also compared with the wider economy, including both the public and private sectors. In 2016, family businesses' employment was most important to the East of England and the East Midlands, where the workforce of family-run businesses accounted for 40.4 per cent and 39.0 per cent of total employment, respectively. Family business employment accounted for the smallest proportion of total employment in Scotland and the North East, at 30.5 per cent and 30.7 per cent, respectively.

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	810,755	16.8	1,011,595	80.1
South East	788,220	16.4	900,055	87.6
East of England	496,605	10.3	555,645	89.4
South West	459,146	9.5	516,340	88.9
North West	458,141	9.5	521,795	87.8
West Midlands	361,819	7.5	412,985	87.6
Yorkshire and the Humber	352,360	7.3	391,355	90.0
East Midlands	340,200	7.1	370,705	91.8
North East	132,539	2.8	146,545	90.4
England	4,199,785	87.2	4,827,020	87.0
Scotland	293,973	6.1	324,790	90.5
Wales	207,745	4.3	221,885	93.6
Northern Ireland	112,553	2.3	123,975	90.8
UK	**4,814,055**	**100.0**	**5,497,670**	**87.6**

Table 8. Country and regional distribution of family businesses in 2016

Source: Oxford Economics, BEIS (SBS, 2016), and CMRC and UNIEI (2011)

Country/ region	Size of family firm					Total number of family firms
	Micro (no employees)	Micro (1-9 employees)	Small (10-49 employees)	Medium (50-249 employees)	Large (250+ employees)	
London	673,773	119,002	15,892	1,965	122	810,755
South East	645,286	122,845	17,782	2,167	140	788,220
East of England	401,993	81,619	11,401	1,501	91	496,605
South West	367,644	78,469	11,982	980	71	459,146
North West	361,670	80,790	13,543	2,055	82	458,141
West Midlands	286,034	63,717	10,654	1,349	64	361,819
Yorkshire and the Humber	282,657	59,789	8,461	1,407	46	352,360
East Midlands	272,407	56,729	9,681	1,333	50	340,200
North East	106,841	21,821	3,331	519	27	132,539
England	3,398,306	684,782	102,726	13,277	695	4,199,785
Scotland	224,059	58,978	9,610	1,282	43	293,973
Wales	166,107	36,958	4,066	583	31	207,745
Northern Ireland	86,241	22,318	3,348	630	15	112,553

Table 9. Country and regional distribution of family businesses in 2016, by firm size

Source: BEIS (SBS, 2016), RepGraph (2015)

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	1,925	15.8	5,200	37.0	33.5
South East	1,859	15.2	3,838	48.4	37.7
East of England	1,266	10.4	2,821	44.9	40.4
North West	1,205	9.9	2,384	50.5	33.5
South West	1,090	8.9	1,955	55.7	37.0
West Midlands	975	8.0	2,157	45.2	34.4
Yorkshire and the Humber	940	7.7	2,056	45.7	34.0
East Midlands	906	7.4	1,987	45.6	39.0
North East	369	3.0	700	52.7	30.7
England	10,534	86.4	23,098	45.6	35.7
Scotland	839	6.9	1,722	48.7	30.5
Wales	514	4.2	859	59.8	35.8
Northern Ireland	305	2.5	533	57.2	35.2
UK	**12,192**	**100.0**	**26,212**	**46.5**	**35.3**

Table 10. Country and regional distribution of family businesses' employment in 2016

Source: Oxford Economics, BEIS (SBS, 2016) 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	2,936,321	247,289	687,739	3,871,349
Micro (with employees)	1–9	231,324	81,642	493,165	806,131
Small	10–49	9,526	10,629	99,911	120,065
Medium	50–249	224	318	15,183	15,725
Large	250+	1	5	779	785
Total		**3,177,396**	**339,882**	**1,296,776**	**4,814,055**
Share by legal status (%)		**66.0**	**7.1**	**26.9**	**100.0**

Table 11. Family businesses by legal structure, 2016
Source: BEIS (SBS, 2016) and Oxford Economics

3.3 HOW FAMILY BUSINESSES ARE LEGALLY ORGANISED

Family businesses are organised in a variety of legal structures. Sole proprietorships – firms with a single owner – were the most common type of family firm in 2016. The almost 3.2 million sole proprietorships in the UK made up 66.0 per cent of all family businesses in 2016 (Table 11). A further 1.3 million (26.9 per cent) family businesses were organised as incorporated companies and 340,000 (7.1 per cent) were operating as partnerships.

The legal structures of family businesses vary by firm size. The majority of single-owner firms do not have any employees. Some 75.8 per cent of micro family firms without employees were operating as sole proprietorships in 2016. Partnerships were most commonly found amongst micro family firms with employees and small firms, and making up 10.1 per cent and 8.9 per cent of these firm size categories, respectively.

The more employees a family business has, the more likely it is to be an incorporated company. Almost all large and medium-sized family firms were structured as incorporated companies in 2016: 99.2 per cent and 96.6 per cent, respectively. The proportion of incorporated companies amongst small family businesses was smaller but still considerable at 83.2 per cent. The proportion falls to 61.2 per cent for micro businesses with between one and nine employees.

3.4 HOW MANY GENERATIONS HAVE FAMILY BUSINESSES BEEN OPERATING?

In 2015, the SBS, which is a survey of SME businesses in the UK, introduced a question asking family-run SMEs how many generations they have been family owned. The responses from the SBS (2016) show that by the definition used in the SBS most family businesses (86.0 per cent) were in their first generation of family ownership (Figure 4). Multi-generational businesses were more common amongst firms with a greater

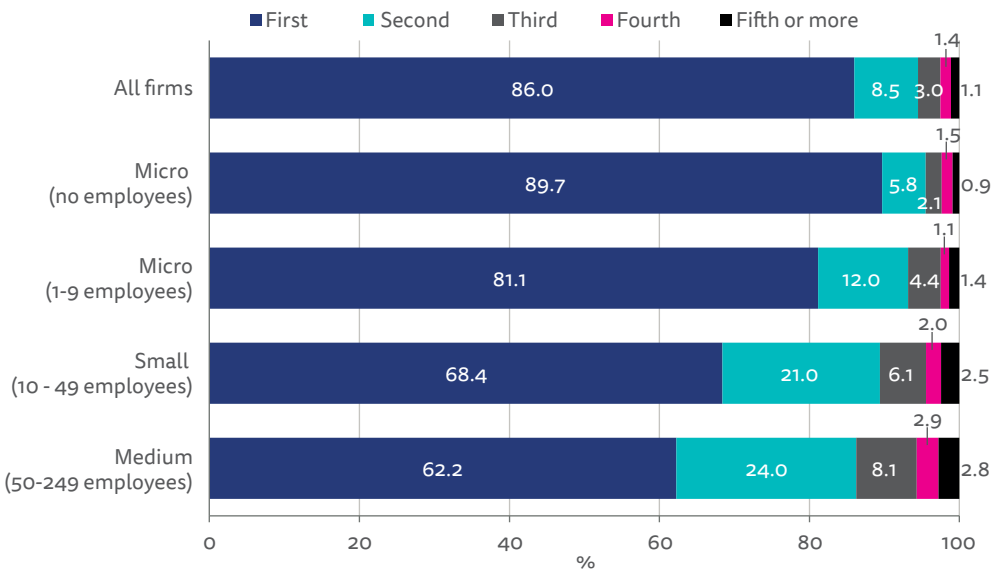

Figure 4. Family-run SMEs by generation of ownership in 2016, by firm size
Source: BEIS (SBS, 2016)

number of employees. Some 37.8 per cent of medium-sized family firms and 31.6 per cent of small family firms were in at least their second generation of family ownership.

The proportion of family-run SMEs that are in at least their second generation varies substantially by industry. Multi-generational family businesses were most common in the agriculture industry in 2016, with 77.4 per cent of firms being in at least the second generation of ownership and 6.8 per cent in the fifth or more. The utilities and waste management, and manufacturing industries had the next largest proportion of businesses that had been in the family for more than one generation, at 23.3 per cent and 22.1 per cent, respectively.

Evidence on large family businesses from PwC's (2017) *UK Family Business Survey* suggests that they are more likely to have been in the family for more than one generation. PwC surveyed 100 family businesses in the UK with turnover of between £8 million and £1 billion.[14] When asked about ownership, around 82 per cent of firms reported that their business had been in the family for at least two generations, and 22 per cent for at least four generations (Figure 5).

"In 2016, family businesses generated a £519 billion gross value added contribution to the UK GDP"

Family firms generate £519bn GVA – up 24% since 2010

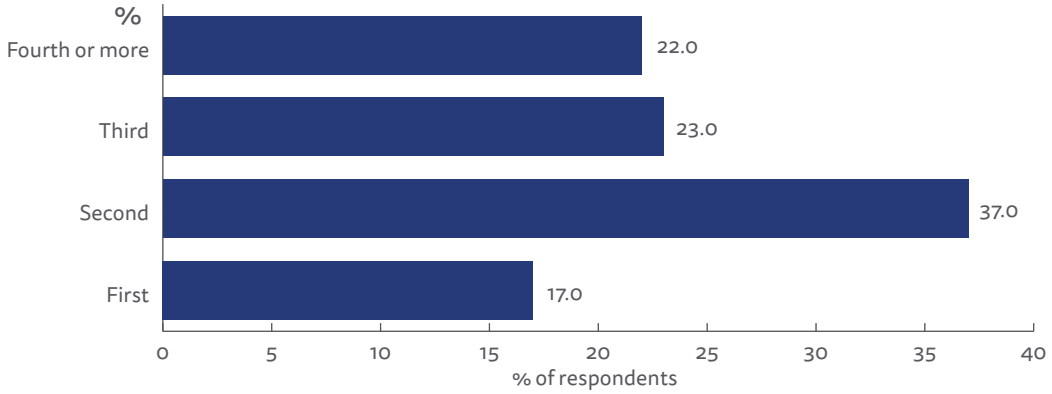

Figure 5. PwC family business survey evidence on the generation of family business ownership in 2016[15]
Source: PwC (2017)

"Looking forward, family businesses demonstrate optimism, with ambitious plans for growth"

4. RECENT PERFORMANCE OF SME FAMILY BUSINESSES

Chapters 4 to 6 investigate the performance, expectations and challenges facing SME family businesses using the BEIS Longitudinal Small Business Survey for 2016. The analysis just focuses on firms with employees. SME family firms without employees are excluded as their motivations and ability to expand are likely to be constrained by their resources. Our splitting of the two cohorts is consistent with BEIS' analysis of the SBS. 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. A discussion of large family businesses' performance can be found in the previous edition of this report.

This chapter examines how SME family businesses with employees performed in 2016, comparing family firms' recent performance with previous years and drawing comparisons with non-family firms.[16]

4.1 SME FAMILY BUSINESSES AND THE UK ECONOMY

Survey evidence continues to find that family businesses are more dependent on the domestic economy than non-family businesses. According to the SBS (2016), 90.0 per cent of family-run SMEs were solely reliant on custom from the UK, while 10.0 per cent said they had exported in the 12 months prior to interview (Figure 6).[17] The proportion reliant on domestic customers is slightly lower for non-family-run SMEs at 86.5 per cent, with 13.5 per cent reported as being exporters.

Due to their reliance on the UK market, the performance of the domestic economy is vital to family firms. Domestic demand grew by around 0.1 per cent in the second half of 2015 and 0.8 per cent in 2016. This was slower than corresponding overall real UK GDP growth reported by ONS (2017) of 1.0 per cent and 1.8 per cent, and export growth of 5.2 per cent and 3.7 per cent (Figure 7).

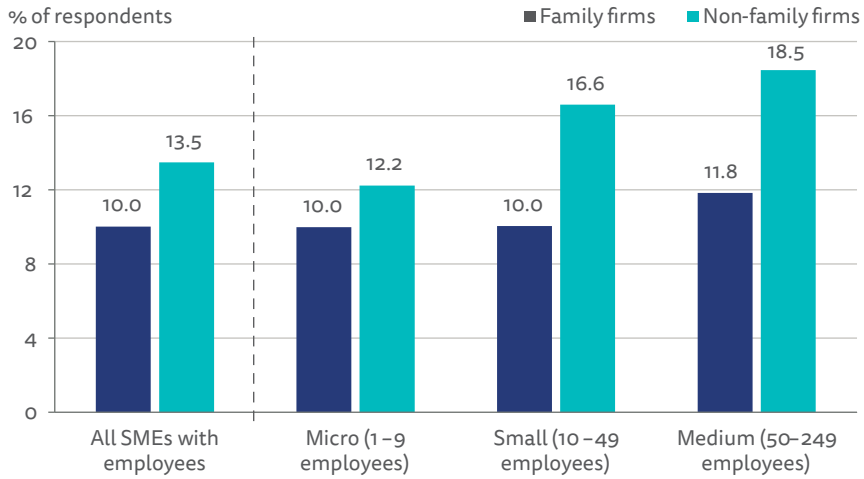

Figure 6. The proportion of family-run SMEs that reported exporting in 2016, by size
Source: BEIS (SBS, 2016)

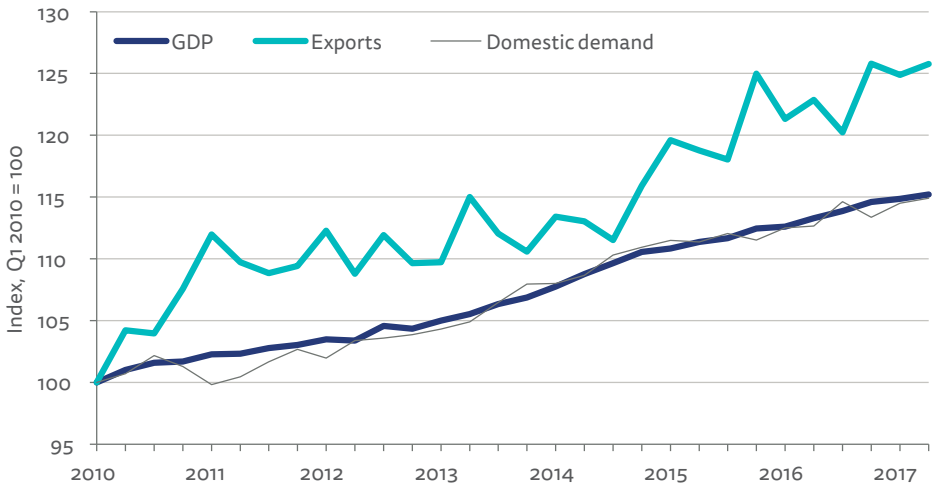

Figure 7. UK GDP, exports and domestic demand since 2010
Source: ONS (2017)

4.2 HOW SME FAMILY BUSINESSES PERFORMED IN 2016

As demonstrated by the growth in gross value added discussed in Chapter 3, the family business sector as a whole performed well in 2016. Survey evidence from the SBS (2016) indicates that the experience of the SME family business sector has also been positive. In the SBS (2016), 34.2 per cent of family-run SMEs said that their turnover increased in the previous 12 months (Figure 8). This was slightly lower than the 39.4 per cent reporting higher turnover in the SBS (2015). Some 21.6 per cent of family-run SMEs said their turnover had decreased compared with 12 months ago, a small increase from the 17.8 per cent in 2015.

Results for non-family-run SMEs indicate that their experience was also positive. Some 35.9 per cent reported that turnover had increased compared with 12 months previously, and only 18.3 per cent said that their turnover had decreased. Non-family firms also had a slightly less positive experience in 2016 than in 2015, when 40.0 per cent of SMEs reported increased turnover, and 16.4 per cent reported a decrease.

Analysing how family firms have performed by size, it is evident from the SBS (2016) that firms with more employees were more likely to have increased their turnover than smaller firms. Some 52.2 per cent of medium-sized family firms reported that their turnover had increased compared with 12 months prior to the survey, as well as 39.5 per cent of small family firms. Medium-sized family firms were also the least likely to have seen turnover decrease over the year – some 15.3 per cent of medium-sized family firms reported decreased turnover.

Family businesses' hiring decisions in 2016 demonstrated greater optimism than in 2015. In the SBS (2016), when asked about how the size of their workforce had changed over the 12 months before the interview, some 41.1 per cent of SME family businesses said that they had more employees than 12 months before (Figure 9). This is considerably higher than the 23.5 per cent that reported hiring more staff in 2015. However, the proportion of SME family businesses with fewer employees than a year before has also risen. Some 23.7 per cent of firms had fewer employees than a year ago in 2016, compared to 9.5 per cent in 2015.

Family businesses hired at a faster pace than non-family businesses in the year prior to the SBS (2016) survey. A slightly smaller proportion of non-family businesses (39.7 per cent) had more employees compared with one year before, while a larger proportion (28.9 per cent) had fewer employees.

The large proportion of family-run SMEs with more employees was driven by firms with a greater number of employees. Some 51.9 per cent of medium-sized family businesses reported having more employees than a year previously. This is considerably more than the equivalent proportion of small and micro employers, 42.1 per cent and 40.8 per cent of whom had more employees than 12 months before, respectively.

Some 46.4 per cent of SME family businesses in the South East reported having more employees than a year ago in 2016. This was the largest proportion of any country or region (Figure 10). In the North East and Wales, 45.2 per cent and 44.5 per cent of family businesses had more workers than 12 months before, respectively. It was most common for family firms in the East of England and Wales to report having fewer employees than a year ago. The proportion of family-run SMEs that reported having fewer employees in those two regions was 28.6 per cent and 28.0 per cent, respectively.

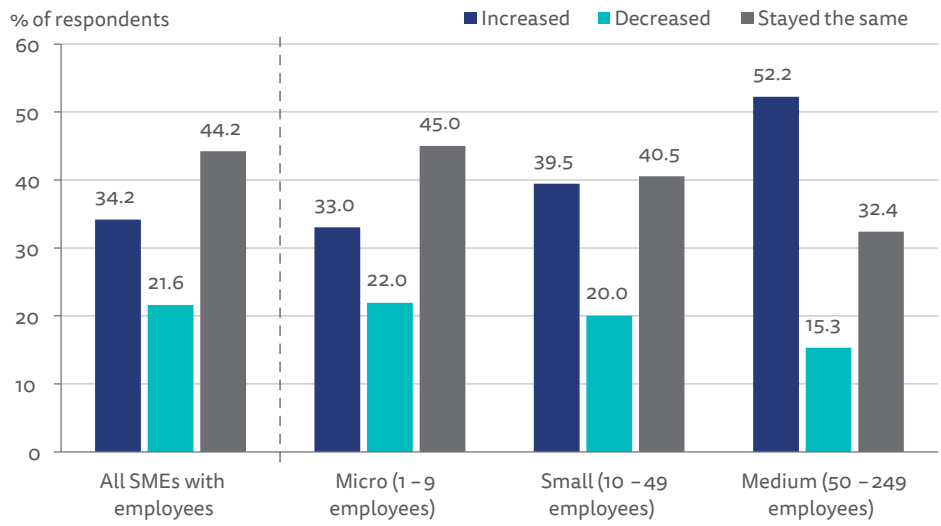

Figure 8. Family-run SMEs' change in turnover versus 12 months before in 2016, by firm size
Source: BEIS (SBS, 2016)

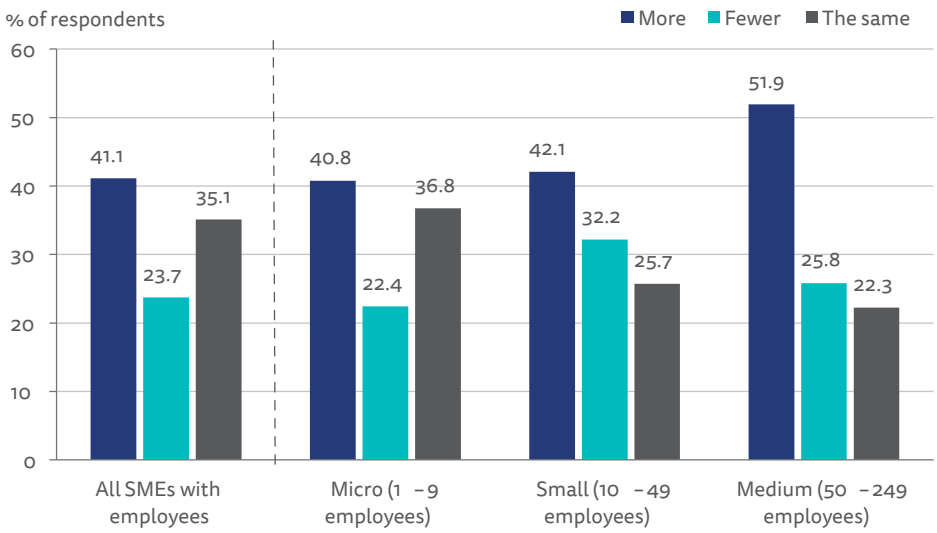

Figure 9. Family-run SMEs' change in number of employees compared with 12 months earlier in 2016, by firm size
Source: BEIS (SBS, 2016)

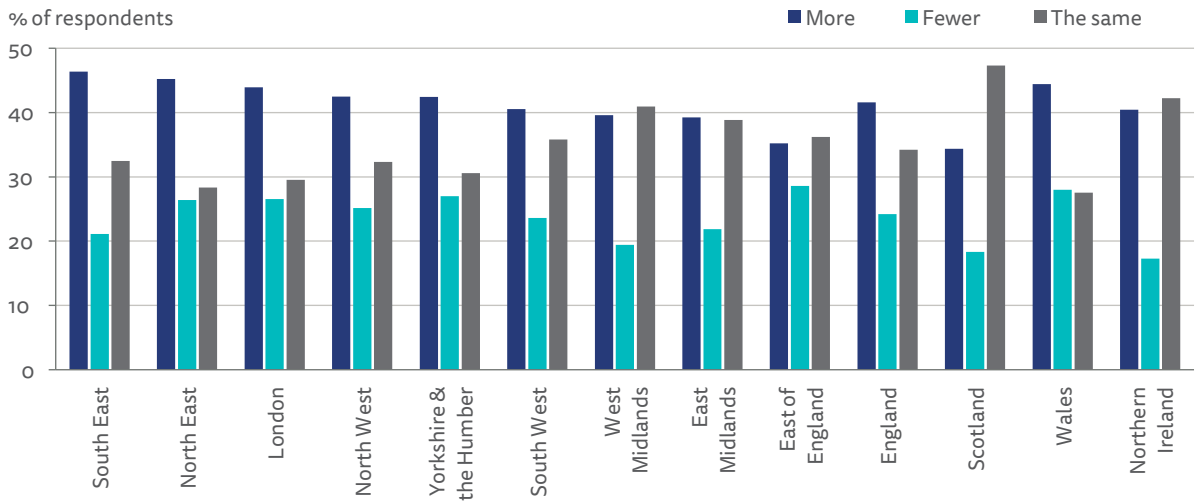

Figure 10. Family-run SMEs' change in employment in 2016, by region
Source: BEIS (SBS, 2016)

5. THE OUTLOOK FOR SME FAMILY BUSINESSES

The previous chapter examined the recent performance of family businesses, focusing on the end of 2015 and 2016. In this chapter, we explore how family-run 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

Evidence from the SBS (2016) finds that family businesses were slightly less optimistic about the next year in 2016 than they were in 2015. Around 40.3 per cent of family-run SMEs were expecting turnover to rise in the next 12 months, while 11.4 per cent anticipated lower turnover. These percentages can be translated into a measure of the balance of optimism versus pessimism for the future (an "optimism gap"), by subtracting the percentage of firms expecting lower turnover from the percentage expecting higher turnover. The resulting difference, 28.9 percentage points, is lower than the 38.3 percentage points difference estimated for 2015 (Figure 11).

Similarly, family firms' expectations for employment growth in 2016 were less optimistic than they were in 2015. In the 2016 survey, around 24.5 per cent of family-run SMEs anticipated hiring more employees in the next 12 months, while 11.1 per cent expected to have a smaller workforce. The 13.4 percentage points separating those expecting an increase and those a decrease is slightly lower than the 14.7 percentage points calculated for 2015 (Figure 12).

Comparing the responses of family and non-family-run SMEs shows that family-run businesses were slightly less optimistic about the future than non-family businesses. Family firms were less likely to expect to grow their turnover, and more likely to expect it to decline over the next year. In terms of employment, family businesses were slightly less likely than non-family firms to expect to grow their employment numbers, and slightly more likely to expect their workforce to shrink.

Within the family business sector, medium-sized firms were the most optimistic about the next year, in terms

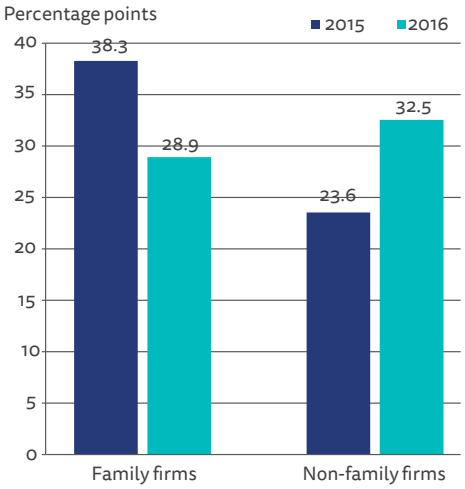

Figure 11. Percentage of SMEs expecting an increase in turnover in the next year, minus the percentage expecting a decrease
Source: BEIS (SBS, 2015 and 2016)

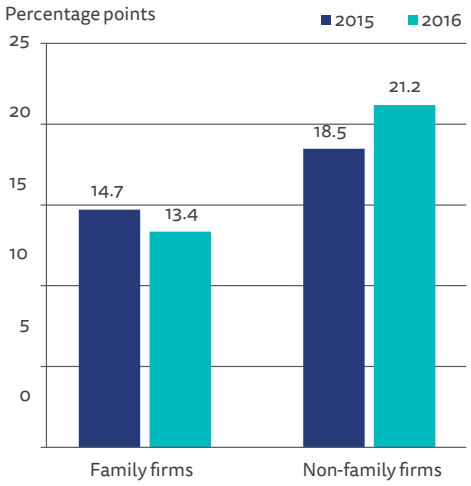

Figure 12. Percentage of SMEs expecting an increase in employment in the next year, minus the percentage expecting a decrease
Source: BEIS (SBS, 2015 and 2016)

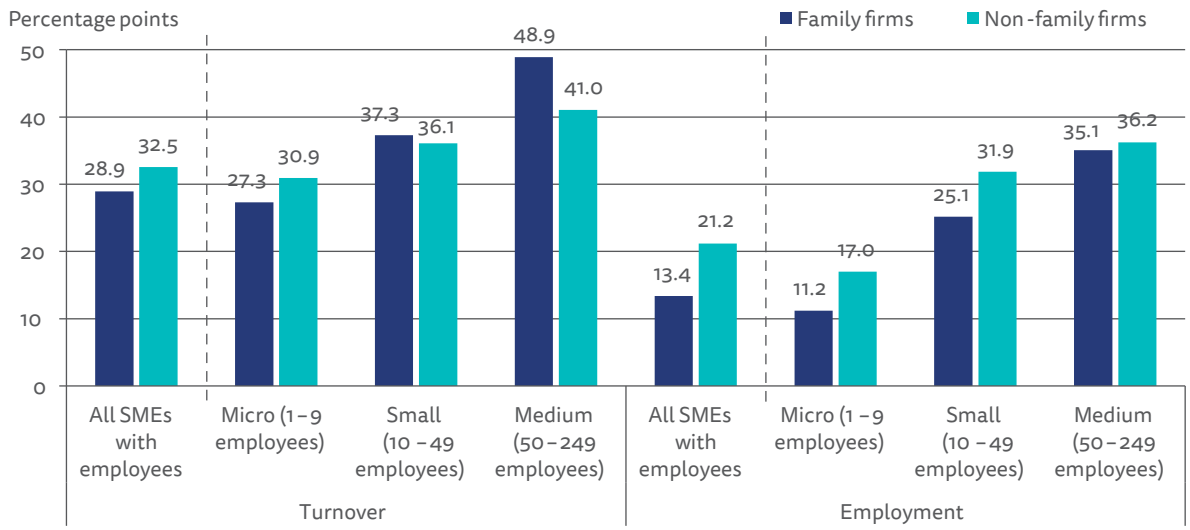

Figure 13. SMEs' optimism gap in 2016, by firm size
Source: BEIS (SBS, 2016)

of both turnover and employment. The 48.9 percentage point difference between medium-sized family firms expecting higher and lower turnover is even greater than the 41.0 percentage points estimated for their non-family-run counterparts (Figure 13). The equivalent optimism gap for expected employment levels is 35.1 percentage points for family-run medium-sized firms, slightly smaller than the 36.2 percentage points for non-family medium-sized businesses.

5.2 SME FAMILY BUSINESSES' AMBITIONS AND STRATEGIES

Looking further ahead, 63.1 per cent of family-run SMEs said they aimed to grow their business' sales over the next three years (Figure 14). This is lower than the 67.4 per cent of family businesses who reported that they aimed to grow sales in the 2015 survey.

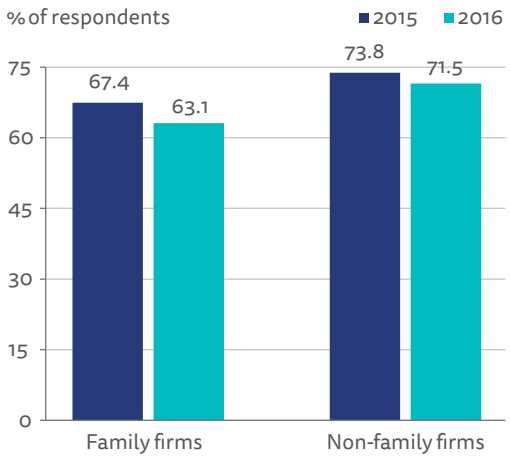

Figure 14. The percentage of SMEs that aimed to grow sales in the next three years in 2015 and 2016
Source: BEIS (SBS, 2015 and 2016)

Family-run SMEs were less likely to aim to grow their sales than non-family-run SMEs in both 2015 and 2016. Some 71.5 per cent of non-family businesses reported aiming to grow sales over the next three years in 2016, slightly lower than the 73.8 per cent in 2015. This may reflect differences in objectives, such as the pursuit of non-profit-maximising objectives and a greater emphasis on stability and succession.[18] However, as with short-term expectations, this gap shrinks amongst firms with more employees (Figure 15). Approximately the same proportion of family and non-family medium-sized firms (86.5 per cent and 87.0 per cent) reported ambitions to grow sales over the next three years.

Evidence from the 2016 survey indicates that family businesses were planning a range of strategies to achieve their growth ambitions over the next three years. Firms were asked which strategies they planned, from a multiple response list of options. The most common option, identified by 59.6 per cent of family-run SMEs, was to increase the skills of their workforce (Figure 16). Introducing new working practices and capital investment were also common strategies, planned by 37.8 per cent and 35.9 per cent of family-run SMEs, respectively.

There were some differences in the growth strategies being employed by family businesses across the size spectrum. While workforce skills were a priority for every size of firm, the next most common strategy for medium-sized and small firms was increasing the leadership capabilities of managers, identified by 74.1 per cent and 55.3 per cent of these firms, respectively (Figure 17). A clear majority of medium-sized firms (65.8 per cent) also had plans for capital investment in plant and machinery. In contrast, micro family

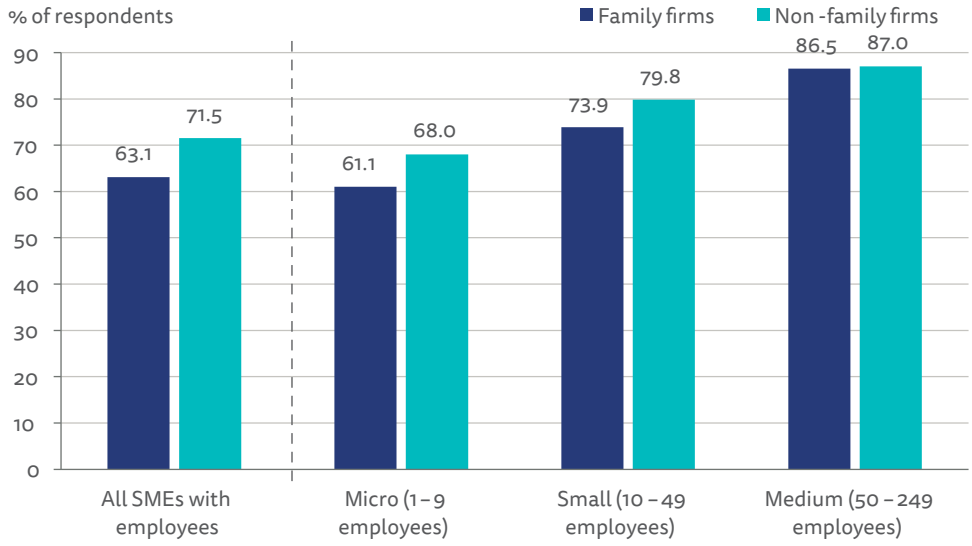

Figure 15. The percentage of SMEs that aimed to grow sales in the next three years in 2016, by size

Source: BEIS (SBS, 2016)

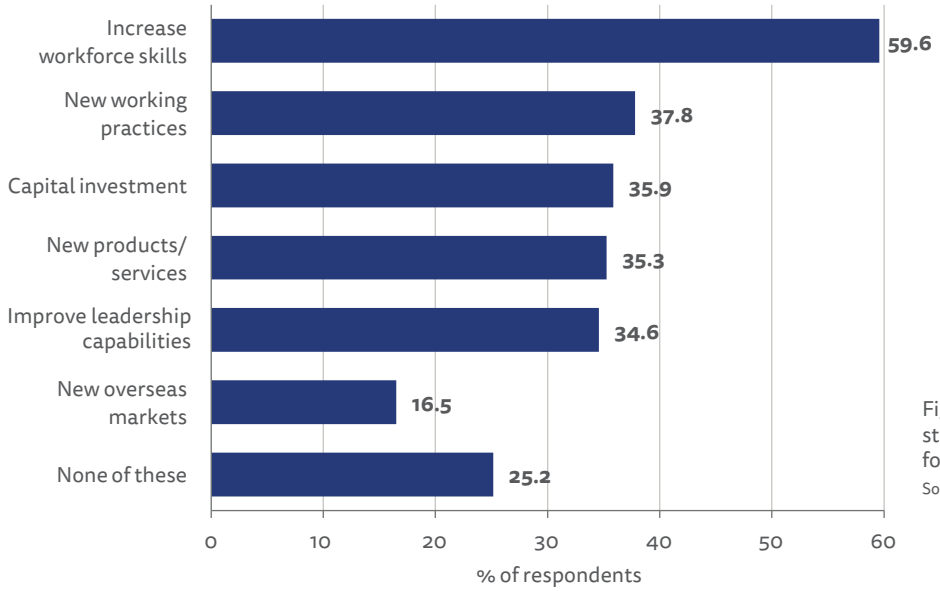

Figure 16. Family-run SMEs' strategies to achieve growth for the next three years in 2016

Source: BEIS (SBS, 2016)

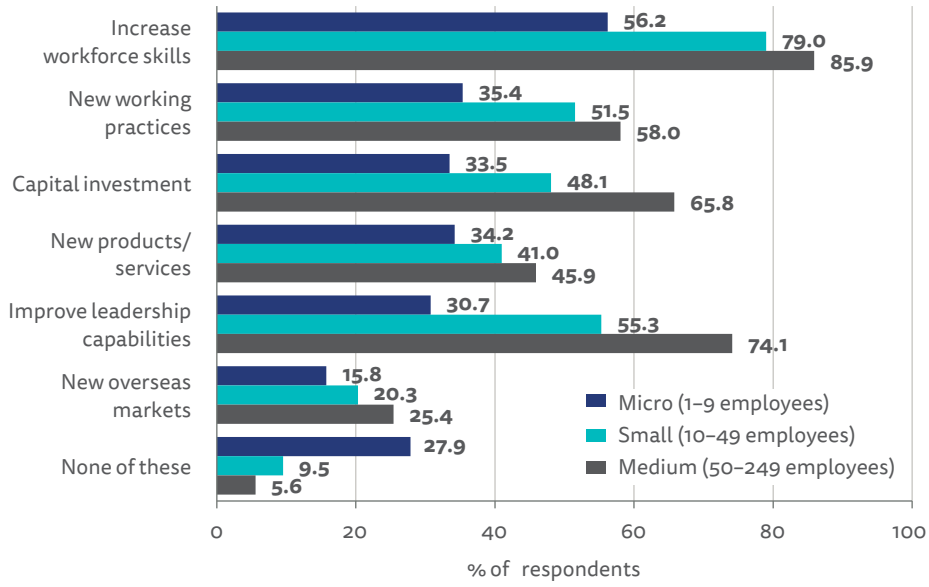

Figure 17. The proportion of family-run SMEs' planning selected strategies over the next three years in 2016, by size

Source: BEIS (SBS, 2016)

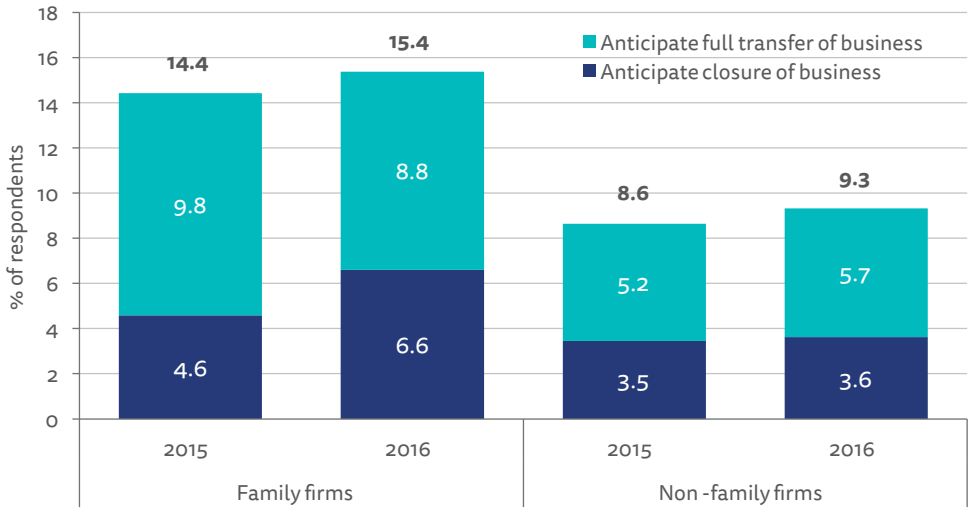

Figure 18. Proportion of SMEs anticipating the closure, or a full transfer of the ownership of their business in the next three years in 2015 and 2016

Source: BEIS (SBS, 2015 and 2016)

businesses' second and third most popular strategies were introducing new working practices and products.

Evidence from the 2016 survey shows a notable proportion of family firms anticipated either transferring or closing their business in the near future. Some 6.6 per cent of SME family-run firms expected the closure of their business in the next three years, while a further 8.8 per cent anticipated fully transferring ownership of their business (Figure 18). This is virtually the same as in SBS (2015), when 4.6 and 9.8 per cent of family SMEs anticipated closure or full transfer of ownership, respectively.

Family-run SMEs with more employees were less likely to anticipate either full transfer or closure. Some 6.1 per cent of medium-sized family firms reported plans to either close or pass on ownership, compared to 11.3 per cent of small family firms and 16.2 per cent of micro family firms (Figure 19).

When asked about their plans for ownership transfer, the overwhelming majority of owners of family-run SMEs who intend to transfer ownership (76.0 per cent) anticipated their firm transferring to somebody outside of the family. Only 18.9 per cent expected to pass the business on to someone in their family (Figure 20). Owners of multi-generational businesses were more likely to expect to transfer ownership to a family member. Between 32.2 per cent and 67.7 per cent of family businesses in their second, fourth or fifth plus generation expected the next owner to be from their family.

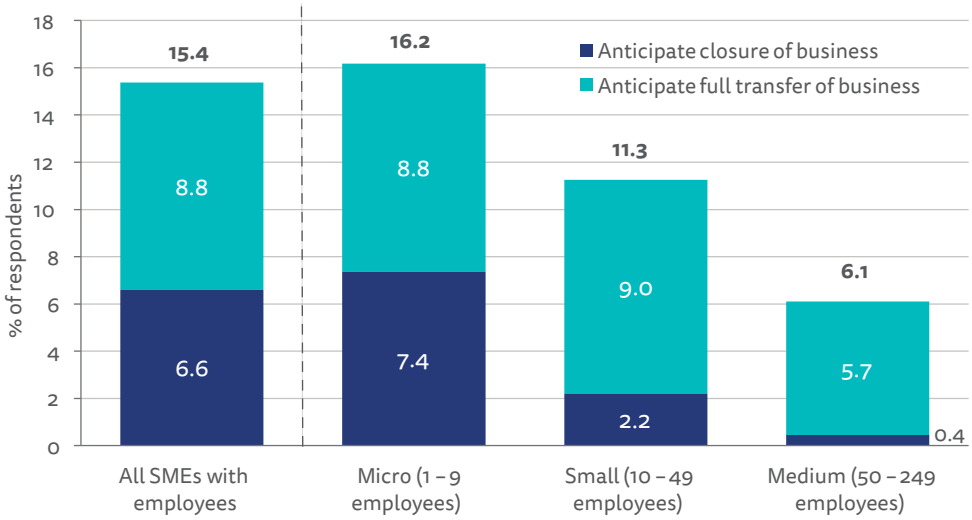

Figure 19. Proportion of family-run SMEs anticipating the closure, or a full transfer of the ownership of their business in the next three years in 2016, by firm size

Source: BEIS (SBS, 2016)

"Evidence from the 2016 Small Business Survey shows that a notable proportion of family firms anticipated either transferring or closing their business in the near future."

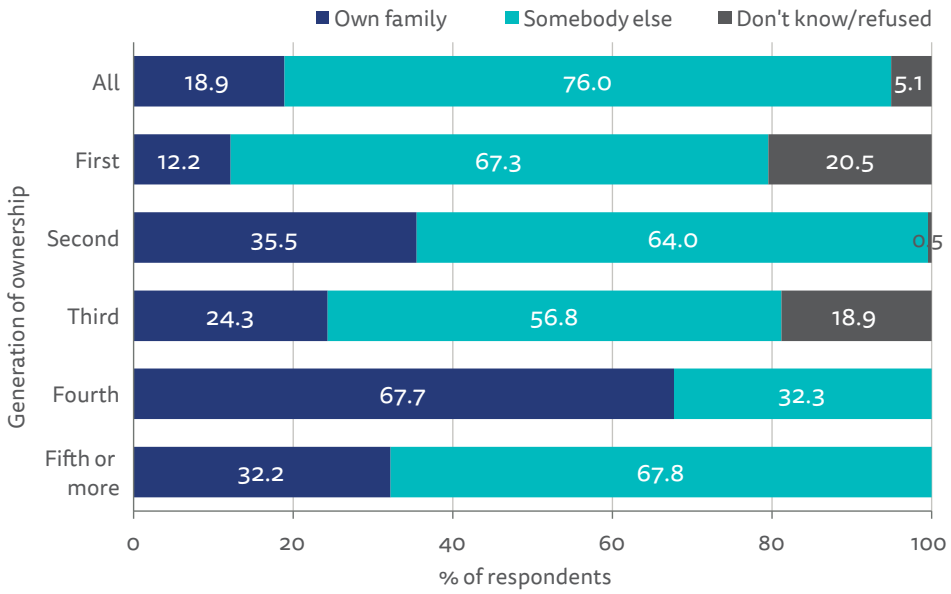

Figure 20. Likely new ownership of family-run SMEs anticipating full transfer of their business over the next three years in 2016, by generation of ownership
Source: BEIS (SBS, 2016)

6. CHALLENGES FACING SME FAMILY BUSINESSES

This chapter explores the challenges facing SME family businesses, including regulation, taxation, access to external finance, and skills and recruitment. In particular, it investigates how the obstacles family businesses identify differ to those faced by non-family firms, and how challenges differ by business type.

6.1 THE MAIN CHALLENGES FACING SME FAMILY BUSINESSES

Family-run SME businesses face a range of challenges to business success. In SBS (2016), SMEs were asked what their major obstacles were to business success from a multiple response list of options. Their responses indicate that SME family businesses viewed competition in the market, and regulations and red tape as their biggest obstacles. Some 47.9 per cent and 43.9 per cent of SME family firms cited these as major obstacles to success, respectively (Figure 21).

Every size of SME family business was most likely to view competition as their main obstacle. Thereafter, perception of the main challenges they face varied with size (Figure 22). Small and micro family businesses saw regulation as the next biggest challenge, while their medium-sized counterparts were faced with issues with staff recruitment and skills.

The biggest challenges facing family businesses vary by industry. In seven out of the 12 industrial sectors, the largest proportion of family-run firms indicated that competition was a major obstacle to success. In four industries – agriculture and extraction, utilities and waste management, construction, and financial services – family-run SMEs most commonly identified regulations as their major obstacle, while taxation was the number one obstacle for firms in the remaining sector, hospitality.

6.2 HOW REGULATIONS AND RED TAPE AFFECT SME FAMILY BUSINESS SUCCESS

In the SBS (2016), family-run SMEs identified regulations and red tape to be their second most important challenge to their business' success. Some 43.9 per cent cited regulations and/or red tape as one of their major obstacles to success. Family businesses were more likely to see regulations and/or red tape as an obstacle than

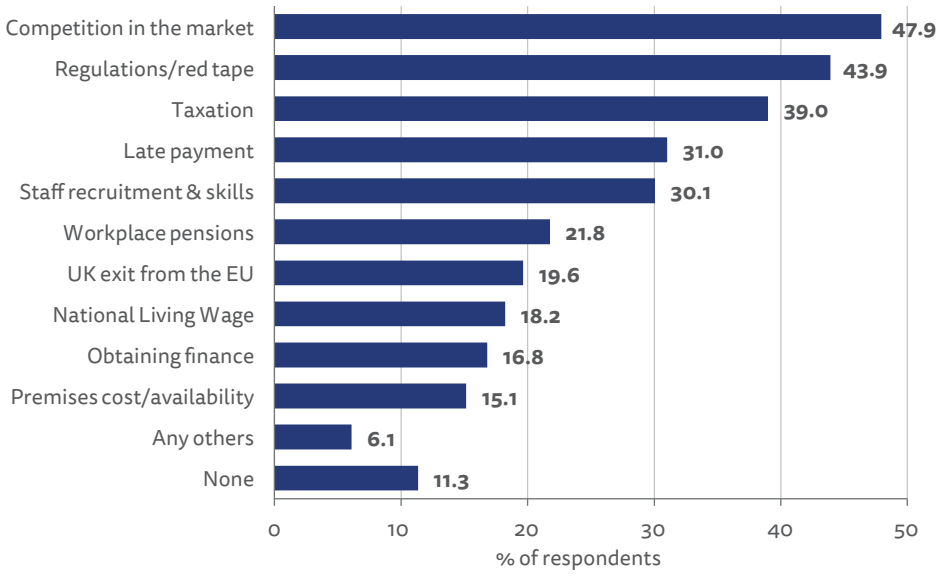

Figure 21. Family-run SMEs' major obstacles to business success in 2016
Source: BEIS (SBS, 2016)

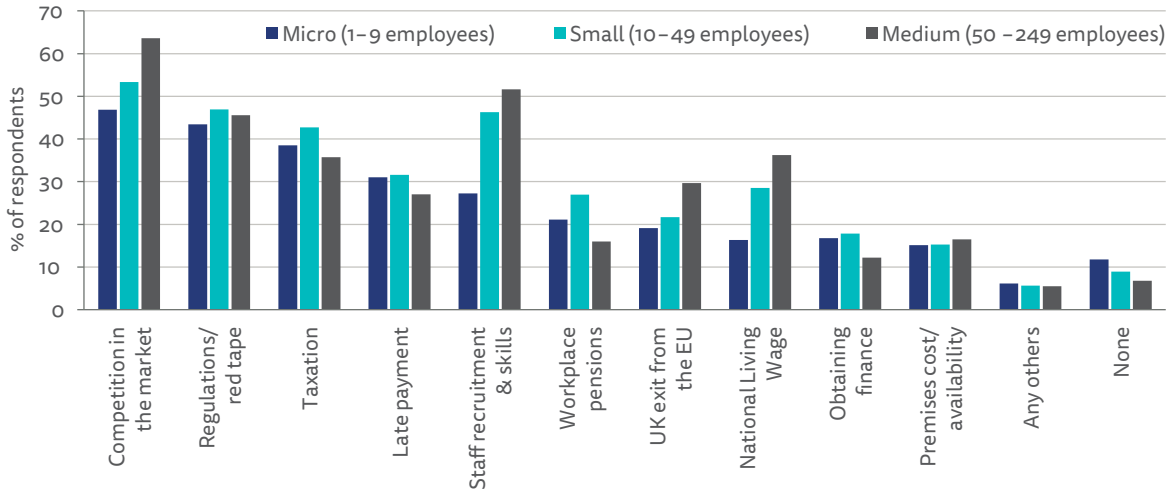

Figure 22. Family-run SMEs' major obstacles to business in 2016, by firm size
Source: BEIS (SBS, 2016)

their non-family counterparts, 37.3 per cent of whom identified it as a main obstacle. Regulatory burdens were most commonly identified as a challenge by small firms. Some 46.9 per cent of family businesses with between 10 and 49 employees cited regulation and red tape as an obstacle.

Firms that reported regulations and red tape as a main obstacle to success were then asked which regulations pose the biggest challenges, from a multiple response list of options. The results indicate that tax regulations were the most burdensome for family firms, identified as an obstacle by 16.3 per cent of firms (Figure 23). Sector-specific regulations and health and safety regulations were each reported as an obstacle by 15.3 per cent and 14.8 per cent of family firms, respectively. A further 13.0 per cent of SME family businesses indicated that regulatory burdens in general, rather than any specific regulation, were an obstacle to success.

6.3 HOW TAXATION AFFECTS SME FAMILY BUSINESS SUCCESS

The third biggest challenge identified by respondents for SME family businesses was taxation, identified as being an obstacle to business success by 39.0 per cent in the 2016 survey. SME family businesses were more likely to see taxation as a barrier to success than their non-family counterparts, of whom 29.5 per cent cited it as an obstacle. Additionally, tax-related regulations were the most frequently identified regulation obstacle.

When asked about their taxation obstacles in more detail, SME family businesses were most likely to say that they struggle with both the level of tax and the effort required in compliance with tax returns. Some 47.1 per cent of all SME family businesses identified both as an obstacle to success (Figure 24). A further 21.2 per cent cited just the level of taxation as an obstacle, and 11.5 per cent the effort required to comply with tax returns.

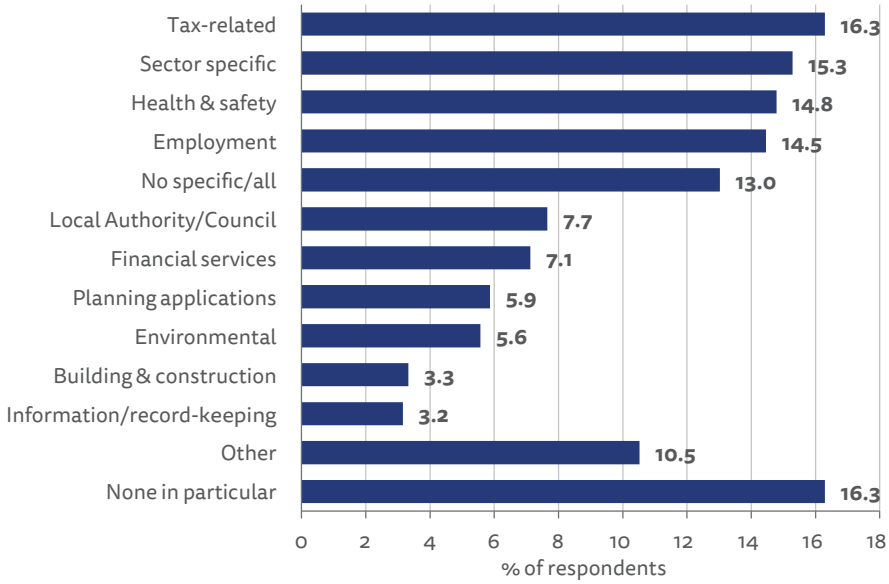

Figure 23. The types of regulations considered an obstacle to success by family-run SMEs in 2016
Source: BEIS (SBS, 2016)

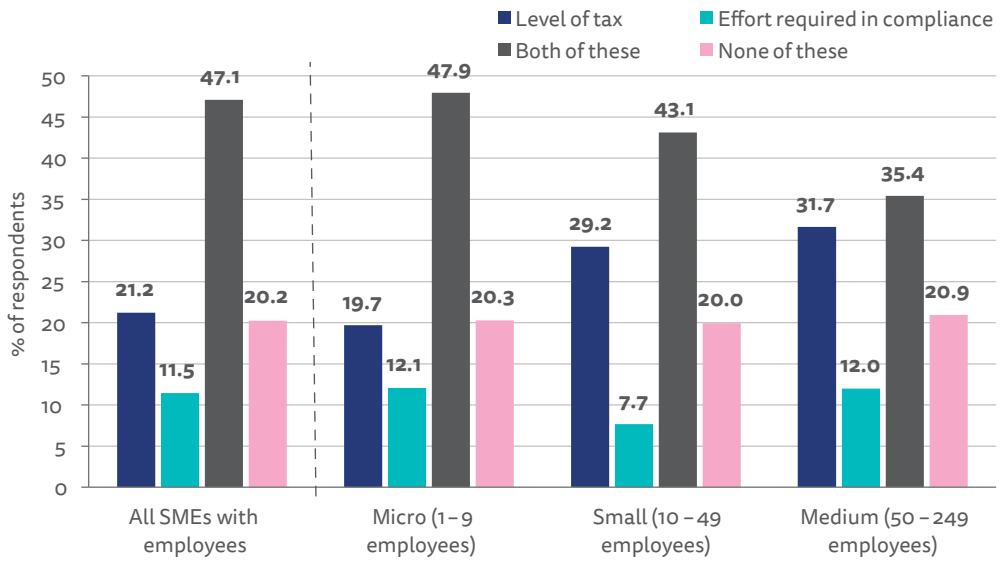

Figure 24. Features of tax that family-run SMEs identified as an obstacle in 2016, by size

Source: BEIS (SBS, 2016)

6.4 DO FAMILY BUSINESSES STRUGGLE TO ACCESS EXTERNAL FINANCE?

As discussed in previous reports in this series, access to external finance has historically been an impediment to success for family businesses. There is evidence to suggest that some SMEs still see this as a key issue for their business.

Evidence from the SBS (2016) indicates that family firms are slightly less likely to have tried to obtain new or additional external financing in the previous 12 months than non-family firms. Some 13.0 per cent of family-run SMEs in the 2016 survey indicated that they had sought external finance at least once in the year, compared to 13.9 per cent of their non-family counterparts (Figure 25). This proportion is also somewhat lower than the 16.6 per cent of SME family businesses that reported having sought finance in the SBS (2015).

Family-run SMEs who reported seeking finance in the 2016 survey were asked what they intended to use it for. The most common reason, given by 67.1 per cent of SME family businesses, was for use as working capital, for example to fund general growth, or cover a short-term gap in funds. A further 22.7 per cent intended to buy capital equipment or vehicles, and 17.5 per cent to buy, rent or lease new buildings or land, or improve their existing premises.

SME family businesses that did apply faced more difficulties obtaining external finance than non-family businesses. In 2016, 13.6 per cent of family-run SMEs who sought finance had an application for external finance rejected, compared to 12.8 per cent of non-family-run SMEs (Figure 26). This is also higher than the 7.6 per cent of family-run SMEs that reported they had an external finance application turned down in the SBS (2015).

Within SME family businesses, there were considerable differences in the proportion of firms having their applications for external finance rejected according to their size. Smaller businesses, by employment numbers, were more likely to be rejected for finance. Some 14.5 per cent of micro family businesses with employees had their applications rejected compared to 7.7 per cent of medium-sized family firms. The result holds true as well for non-family firms.

Additionally, evidence from the 2016 survey indicates that some family firms do not seek all of the finance they need. Some 9.5 per cent of family-run SMEs reported needing finance which they did not apply for. This includes both firms who did not seek any finance, and firms who needed more finance than they applied for. A slightly lower proportion, 7.7 per cent, of non-family firms did not apply for all the finance that they needed. This suggests that family firms are not alone in being discouraged from applying for external finance.

The most common reason that both family and non-family firms gave for not seeking external finance was additional risk, although family firms were less likely to be concerned by this than non-family firms – 23.3 per cent compared to 29.3 per cent (Figure 27). Aside from additional risk, family businesses' concerns surrounding external finance differed to those of their non-family counterparts. Some 17.6 per cent of family firms did not seek external finance as they thought they would be rejected. A further 15.7 per cent were discouraged as they thought it would be too expensive, while 14.1 per cent were put off by the time or hassle involved.

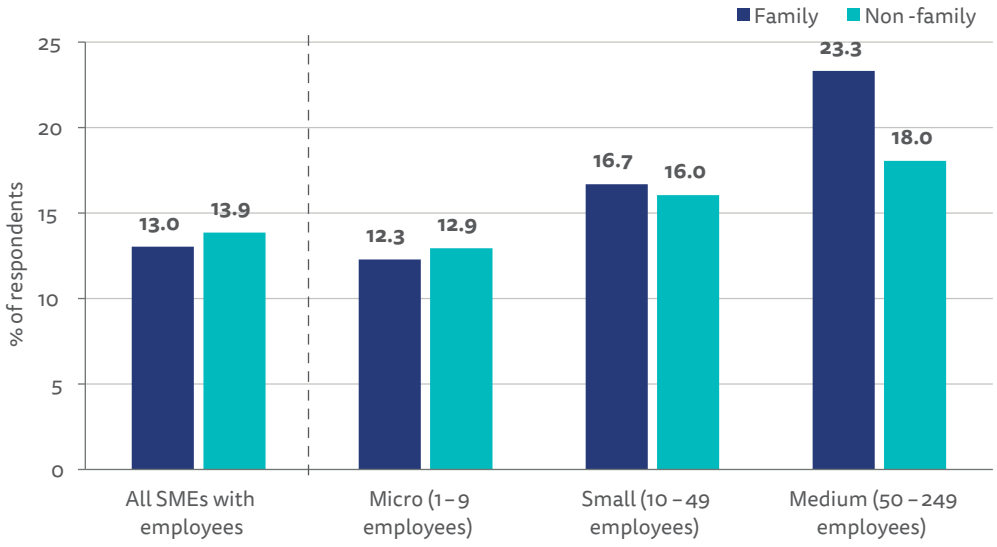

Figure 25. The proportion of SMEs that tried to obtain external finance at least once in the previous 12 months in 2016, by firm size
Source: BEIS (SBS, 2016)

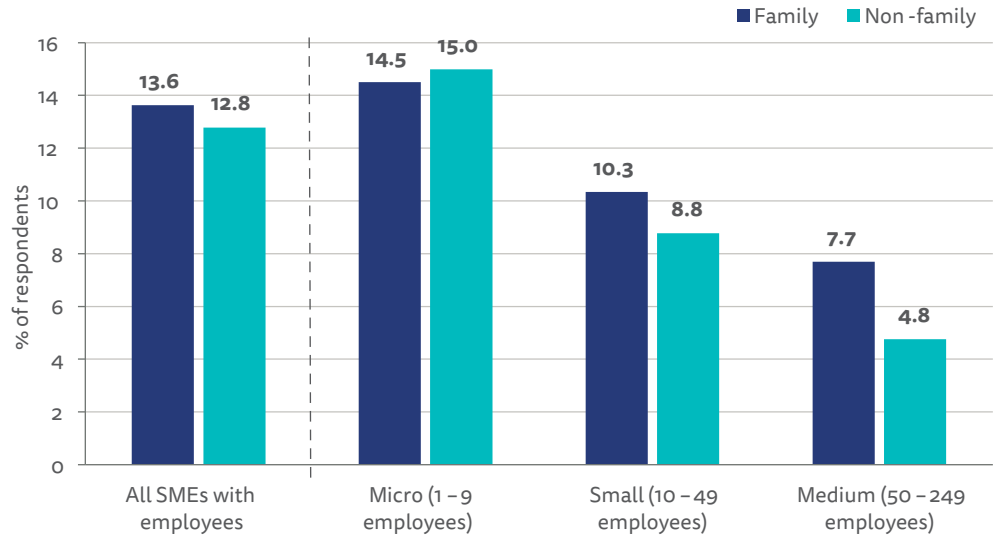

Figure 26. The proportion of SMEs applying for but not obtaining finance in the last 12 months in 2016, by firm size
Source: BEIS (SBS, 2016)

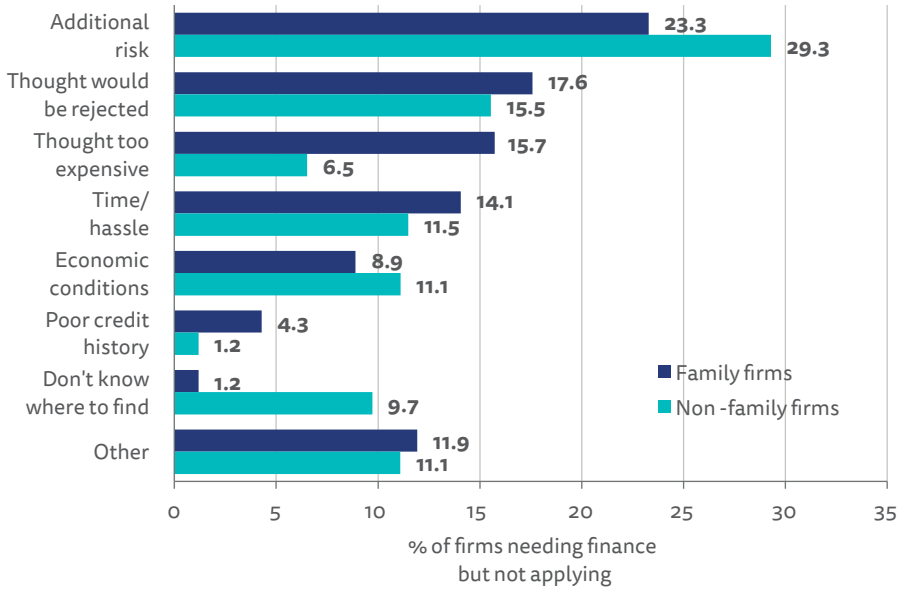

Figure 27. The reasons SMEs did not apply for some or all the finance they needed in 2016
Source: BEIS (SBS, 2016)

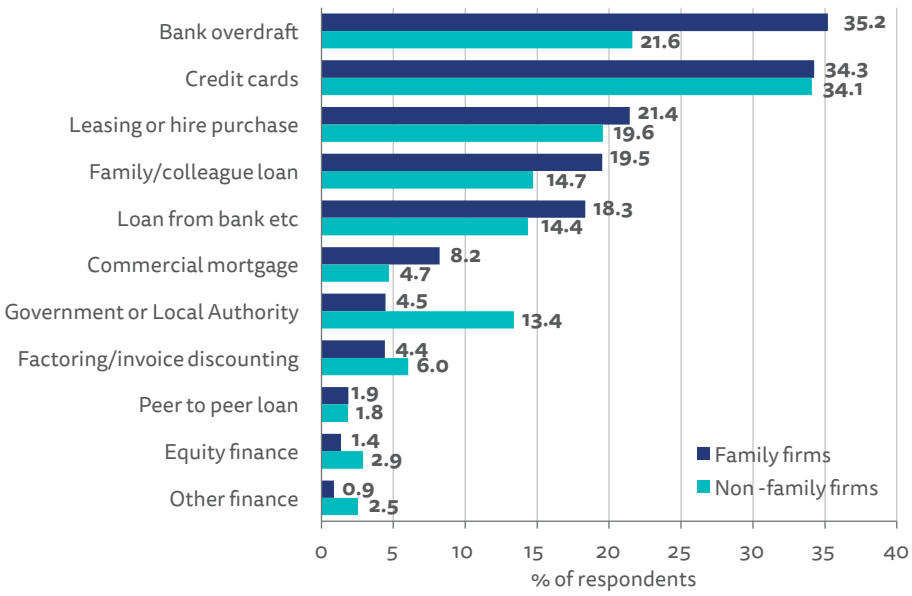

Figure 28. The proportion of SMEs using different types of external finance in 2016
Source: BEIS (SBS, 2016)

Across all sizes of SME family businesses, bank overdrafts and credit cards were the most common source of external finance, used by 35.2 per cent and 34.3 per cent of all family-run SMEs in 2016, respectively (Figure 28). They therefore remain quite dependent on banks for external finance. The next most common sources of external finance for family firms were leasing or hire purchase (used by 21.4 per cent of firms), and loans from family members or colleagues (19.5 per cent).

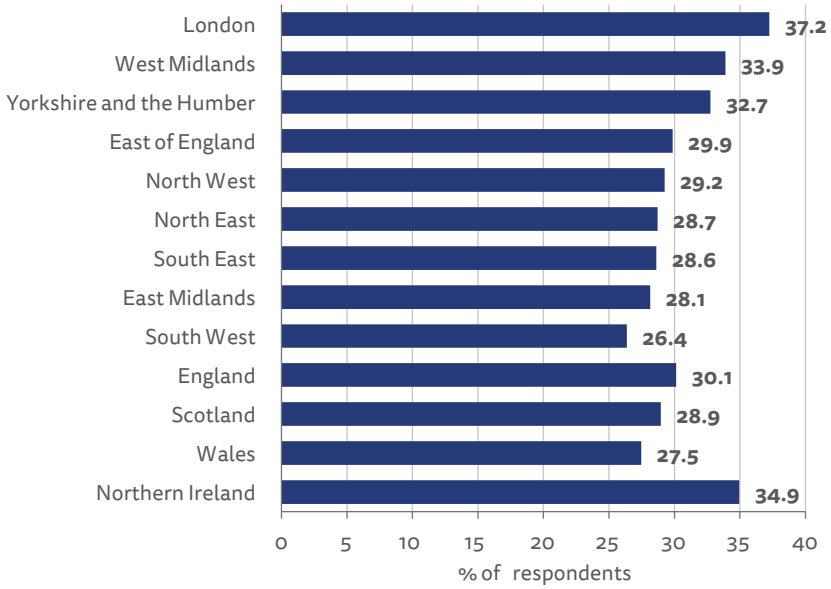

Figure 29. The proportion of family-run SMEs citing recruitment and skills as a main obstacle to success in 2016, by country and region
Source: BEIS (SBS, 2016)

6.5 HOW STAFF RECRUITMENT AND SKILLS AFFECT SME FAMILY BUSINESS SUCCESS

Staff recruitment and skills were also important challenges facing family businesses in 2016. Some 30.1 per cent of all family-run SMEs indicated that it was a major obstacle to their business' success in the 2016 survey. Recruiting and retaining skilled staff was more likely to be a challenge for family businesses, the larger their workforce. Among family-run SMEs, recruitment and skills were a challenge for 51.6 per cent of medium-sized firms and 46.3 per cent of small firms, compared to 27.2 per cent of micro firms.

While problems with recruitment and skills affect firms in every part of the UK, evidence suggests it was a more challenging obstacle in some countries and regions. It was most commonly reported as an obstacle by family businesses in London, affecting 37.2 per cent of firms (Figure 29). Recruiting and retaining skilled staff was also a challenge for a substantial proportion of family firms in Northern Ireland and the West Midlands, affecting 34.9 per cent and 33.9 per cent of family-run SMEs in each of these nations and regions.

Firms who reported recruitment and skills as a main obstacle to business success were then asked what specific issues they face, from a multiple response list of options. Most commonly, family-run SMEs reported difficulties in recruiting staff (77.3 per cent). In addition, 70.0 per cent cited a shortage of skills in the external labour market as a challenge; and 44.6 per cent reported

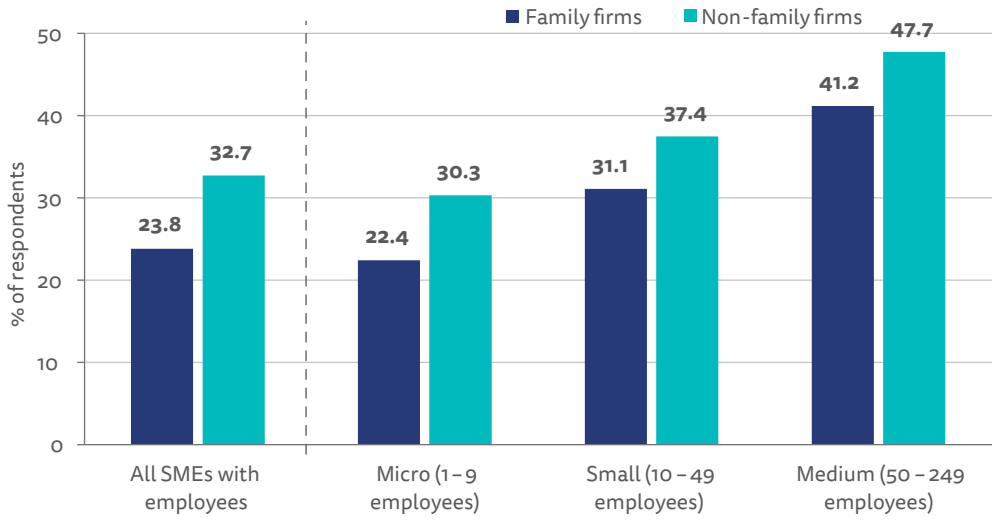

Figure 30. The proportion of family-run SMEs receiving advice or information in the previous 12 months in 2016, by firm size
Source: BEIS (SBS, 2016)

a shortage of skills in their existing workplace. Shortage of managerial skills or expertise affected fewer firms, but was nonetheless an obstacle for 28.7 per cent of family-run SMEs.

6.6 THE BUSINESS SUPPORT AVAILABLE FOR SME FAMILY BUSINESSES

For businesses facing obstacles, or those requiring advice for day-to-day operations or growth plans, there are many channels through which they can obtain advice or information. When asked whether they received any advice or information, either paid for or for free, some 23.8 per cent of family-run SMEs said that they had in the last 12 months (Figure 30). This is lower than the 32.7 per cent of non-family-run SMEs who had in the previous year. The portion of firms who had received any advice or information was higher the larger the firm, as measured by employee numbers, for both family and non-family firms.

In the 2016 survey, businesses were asked for details on who they sought advice and information from, in the form of a multiple response list of options. The most common source of advice for family-run SMEs was accountants, with 34.1 per cent of firms having received information this way (Table 12). A further 27.2 per cent of family businesses cited a consultant or general businesses adviser as a source of information or advice in the last 12 months, while 11.2 per cent had received advice from a business network or trade association. The sources of advice used by non-family firms were broadly similar to family firms, although they were more likely to have used a solicitor or other lawyer.

Businesses were also asked why they sought advice or information, from a multiple response list of options. By subject matter, the largest proportion of family SMEs who received advice did so to help with business growth, 21.0 per cent of firms (Figure 31). A considerable proportion also received accounting or other general financial advice (16.8 per cent of family firms) and information on tax and National Insurance laws (13.1 per cent).

Source of advice	Family firms (% of firms receiving advice)	Non-family firms (% of firms receiving advice) Multiple response
Accountant	34.1	28.4
Consultant/general business adviser	27.2	24.6
Business networks/trade associations	11.2	13.5
Internet search	8.7	8.1
Solicitor/lawyer	7.4	14.2
.GOV website	5.9	3.9
(Specialist) financial adviser	5.7	5.4
Local Council/Authority	3.7	7.0
Bank	3.4	2.3
Local Enterprise Partnership	1.8	1.2
Friend or family member	1.2	1.0
Chamber of Commerce	1.1	1.6
The Pensions Regulator	1.0	1.4
Work colleagues	1.0	1.4
Universities/other education sector	0.8	1.2
Invest NI	0.4	0.3
Inter-Trade Ireland	0.0	0.0
NI Business Info website	0.0	0.1
Other	20.2	18.3

Table 12. Sources of advice for family-run SMEs since 2016
Source: BEIS (SBS, 2016)

"For businesses facing obstacles, or those requiring advice for day-to-day operations or growth plans, there are many channels through which they can obtain advice or information."

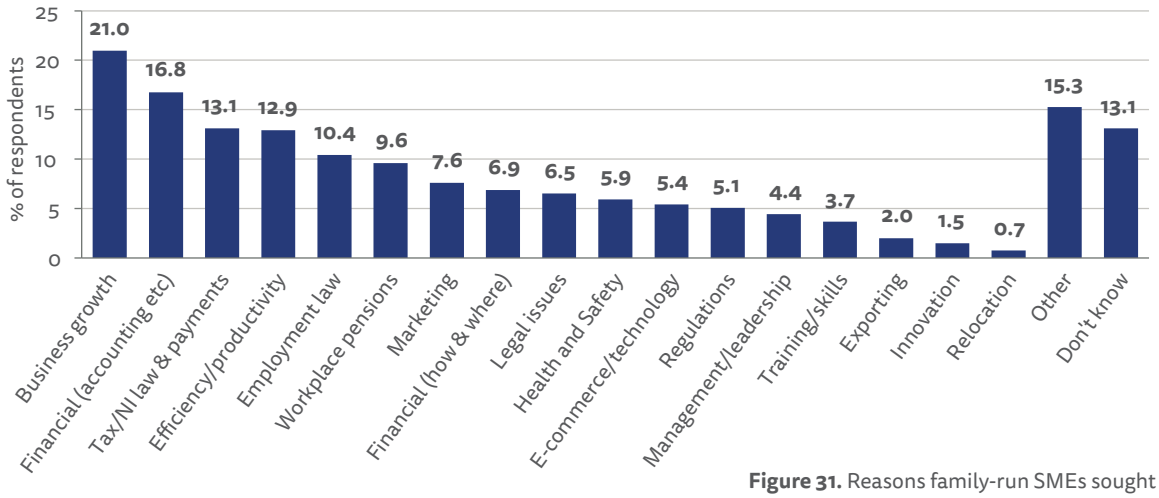

Figure 31. Reasons family-run SMEs sought advice or information in 2016

Source: BEIS (SBS, 2016)

APPENDIX 1:
HOW METHODOLOGICAL CHANGES HAVE AFFECTED ECONOMIC IMPACT ESTIMATES OVER TIME

This Appendix presents the original estimates of family businesses' contribution to the UK economy, as calculated for the previous editions of this report to highlight how changes in methodology and data sources have affected the economic impact over time.

Section 2.4 presents estimates of change in the family business sector's economic contribution to the UK since 2010 using a consistent methodology over time and up-to-date data sources, some of which were not available at the time of producing previous reports. This is to allow comparison over the period 2010–2016. But as there have been changes in the definition of family businesses over this period and improvements made to Oxford Economics' methodology over time, these results are different from those published in previous editions of this report. This Appendix reproduces the results as they were published at the time.

Figure 32 and Table 13 present the original estimates for family businesses' employment and gross value added contributions between 2010 and 2016.

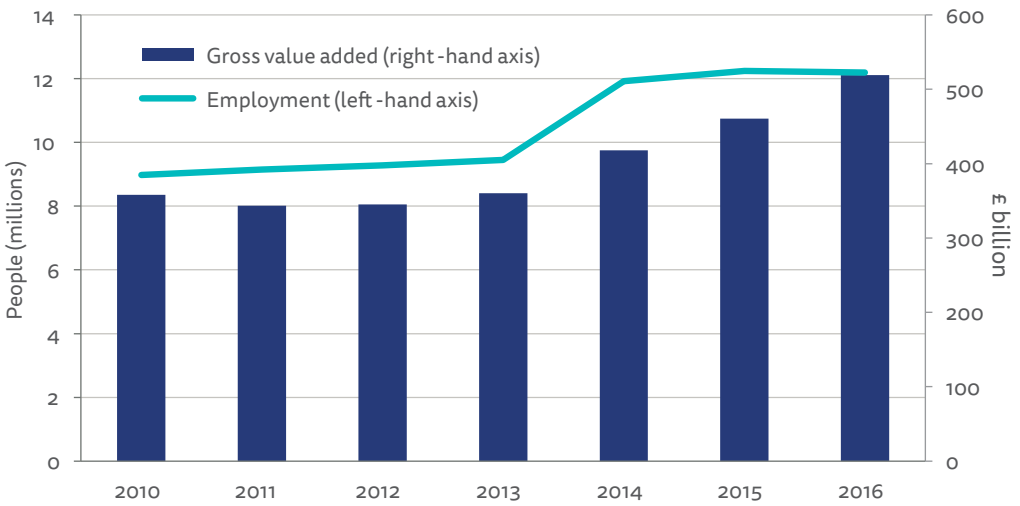

Figure 32. Original estimates of family businesses' employment and gross value added published in previous editions of this report, 2010–2016

Source: Oxford Economics. These estimates contain data discontinuities.

Classification	Metric	2010	2011	2012	2013	2014	2015	2016	Growth since 2015 (%)	Growth since 2012 (%)
Family business sector	Number of firms (thousands)	2,959	2,885	2,926	2,986	4,576	4,704	4,814	2.4	64.5
	Employment (thousands)	8,978	9,145	9,276	9,447	11,918	12,246	12,192	-0.4	31.4
	Turnover (£ billion)	1,151	1,086	1,099	1,135	1,289	1,360	1,439	5.8	30.9
	GVA (£ billion)	358	343	345	360	418	460	519	12.8	50.4
Non-family business sector	Number of firms (thousands)	1,525	1,658	1,868	1,909	667	686	684	-0.3	-63.4
	Employment (thousands)	13,538	14,247	14,617	14,884	13,310	13,591	14,013	3.1	-4.1
	Turnover (£ billion)	2,338	2,215	2,263	2,377	2,515	2,564	2,646	3.2	17.0
	GVA (£ billion)	748	725	732	777	790	826	906	9.6	23.8
Private sector	Number of firms (thousands)	4,485	4,543	4,794	4,896	5,243	5,389	5,498	2.0	14.7
	Employment (thousands)	22,516	23,392	23,893	24,331	25,228	25,837	26,205	1.4	9.7
	Turnover (£ billion)	3,489	3,301	3,361	3,512	3,804	3,924	4,085	4.1	21.5
	GVA (£ billion)	1,106	1,068	1,077	1,137	1,208	1,287	1,425	10.8	32.3
Family business share	Percentage of firms (%)	66	64	61	61	87	87	88	0.3	43.5
	Employment (%)	40	39	39	39	47	47	47	-1.8	19.8
	Turnover (%)	33	33	33	32	34	35	35	1.6	7.7
	GVA (%)	32	32	32	32	35	36	36	1.8	13.6

Table 13. Original estimates of the number of family firms, employment, turnover and gross value added published in previous editions of this report between 2010 and 2016

Source: BEIS (SBS 2010, 2012, 2014, 2015, 2016) 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 (2016) *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.[19] In this report, editions of the SBS are referenced according to the year they were conducted: "SBS (2016)" therefore refers to the latest version, conducted in 2016 and published in August 2017.

- **The Department for Business, Energy and Industrial Strategy (2016) *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.

- **The Office for National Statistics (2016a) *Annual Business Survey.*** Published every year, this gives a detailed breakdown of the population, employment, turnover and value added of firms in different industries of the UK economy.

- **RepGraph (2015) *Large Family Business Identification study.*** The IFB Research Foundation commissioned RepGraph to identify which of the 1,000 largest companies in the UK in 2015 (measured by turnover) were family businesses. The study provides data on the characteristics of companies with more than 250 employees, which BEIS' SBS does not cover.

ENDNOTES

1. This definition is also consistent with those used in the previous edition of this report.
2. The number of family businesses in each employment size band was estimated by multiplying the share of family firms in each employment size band according to the SBS (2016) by the number of firms in BEIS (2016). All BEIS SBS survey responses discussed are weighted, using weights derived by BEIS. On page 15 of BEIS' Longitudinal Business Survey Year 2 (2016) Technical Appendix, the authors explain the data weighting, which was calculated using "sector within size band within nation" data, to correct any disparity between the sample and population by sector, size and nation.
3. Estimates for 2015 have been recalculated since the release of The State of the Nation 2016, using data from the SBS (2015).
4. "Employment" includes both employees and the self-employed. For micro firms with no employees, their employment contribution comes from the self-employed.
5. Family firm turnover was estimated by a similar methodology to the calculation for firm and employee numbers, by multiplying the SBS (2016) family firm shares in each employment category size by BEIS (2016) for turnover in each employment size category.
6. Gross value added estimates were derived by multiplying estimates of family business turnover by ratios of gross value added to turnover by industry in the UK, from the ONS (2016a).
7. See van Ark and Monnikhof (1996).
8. The government's mandate to NHS England 2016–17, Department of Health (2017).
9. An important caveat to this analysis is that different family business definitions used in the SBS prior to 2014, survey sample source changes and Oxford Economics' methodological changes from year to year, mean that the economic impact of the family business sector is not directly comparable over time.
10. Excluding the impact of inflation.
11. This excludes the impact of methodological and definitional changes, and therefore reflects genuine growth and any effect of BEIS' sample source change.
12. Business activity includes firms working in financial and professional services.
13. Private sector education, tutoring and training services excludes any publicly funded schools, colleges or universities.
14. PwC (2017) defines family businesses as those with the majority of votes held by the person who established or founded the businesses or their direct heirs, those with at least one family member involved in the management or administration of the firm, or a listed company with 25 per cent of the right to vote shares held by the family and a family member on the board. This definition is broadly consistent with our definition of a family business.
15. May not sum to 100 due to rounding in the report.
16. SMEs with no employees have been excluded from the dataset on which this report is based. Separate analysis of SMEs with and without employees is consistent with BEIS' approach, and reflects the significant differences between these firms.
17. SBS (2016) interviews were held between July and November 2016. Performance over the previous year therefore refers to performance in the second half of 2015 and 2016, depending on when the business' owner or manager was interviewed.
18. See London Economics (2002) for a literature review explaining why family ownership may lead to the adoption of different objectives for firms.
19. The SBS (2016) surveyed 9,428 UK SME owners and managers.

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12.2 m people work in family firms – up by nearly 24% since 2010

IFB Research Foundation

22-24 Buckingham Palace Road
London SW1W 0QP

020 7630 6250

ifb.org.uk/ifb-research-foundation
research@ifb.org.uk