

DRIVING UK FAMILY BUSINESSES FORWARD



A growing, diverse population and global pressures mean that family firms are changing in the UK. **Grant Gordon** and **Alex Scott** from the Institute for Family Business tell *Families in Business* what is on the agenda for UK family businesses now and in the future

Families in Business (FIB) What are some of the biggest issues facing UK family businesses today?

Institute for Family Business (IFB) In addition to the issues faced by all businesses, family businesses have other, equally complex challenges. The issue of succession is perennial but has maybe become more complex as families are seeing the young generation follow their own career paths. There are new models emerging where ownership and management roles are more clearly differentiated than in the past and where the family may no longer be running the business day to day. Another question is finding the ownership structure that best suits the circumstances of the family and its business.

FIB What are some of the best practices that UK family businesses have put in place to help them grow and succeed?

IFB Taking the best of UK plc's and adding stable ownership, foresight and flexible attitudes. Market forces impact all organisations large and small, family and non-family; there is nowhere to hide. However, family firms continue to stand out by practising long-term policies, and equally they can pursue unconventional strategies, as they are mostly removed from the pressures of the stock.

FIB How are UK family businesses different from others around the world?

IFB Oddly, it may be that they stay in family hands for less long: floating a business is a route followed in the UK by some family companies with enthusiasm. Going to the market is usually done because the business is hungry for capital, although some use it as a way of bringing in corporate governance rigour. Recent research by the IFB highlighted the continuing out-performance of the quoted family firm plc over their non-family peers.

But, generally the UK stands out for a leaning towards private ownership as the preferred structure. The behaviour of family firms usually builds in an element of caution towards risk taking, and an emphasis on long-term investment in activities that the family consider within their comfort zone.

FIB Is the growing number of Eastern European and Asian immigrants changing the face of family business in the UK?

IFB Many family businesses (and some of the most successful ones) are formed by entrepreneurial immigrants and this trend is likely to continue, with the ongoing surge in immigration that is taking place. As to changing the 'face' of family business, that is unlikely; entrepreneurs are entrepreneurs irrespective of race or religion. But as the UK becomes a more multi-cultural society year by year, the diversity of the family business community in terms of ethnic background is bound to grow.

FIB In many countries, family businesses are often thought of as 'mom-and-pop' businesses. Are you trying to change that perception or encourage the small businesses to grow into large businesses?

IFB Perceptions are always slow to change and it is true that the person on the street thinks of corner retail shops and other small businesses as the archetypal form of family firms. Of course, family firms are a very large constituent part of the SME economy. But surveys of large private businesses show that about one-third of them are in long-term family ownership, whereas 10% of the firms in the FTSE 250 are family businesses. So, family business is well represented in the top echelons of UK business, and many of these companies are leaders in their respective industries.

FIB How does the IFB help family businesses?

IFB We work like the other members of FBN International. Our aim is to help support the success and the sustainability of family business in our country. We help make this happen in two ways: by education and advocacy. Education is all about helping our members to share best practice. Advocacy is about promoting the case for family business and giving our members a voice. The IFB is filling a void in the UK by standing up and publicly promoting the case for family business. Winning the debate in public is vital in order to continue the development of policies that underpin a robust and successful family business sector making a powerful contribution to the UK economy.

FIB What are the future goals of the IFB?

IFB We want to be seen and recognised by key stakeholders, such as our Government and the Civil Service, as an organisation that knows the family business sector and with whom they can have a positive dialogue. At the same time we want to help our members to network so more families can learn more from each other as time goes on. In these two ways we can play a part in helping strengthen the family business sector in the UK. Above all, we have set a goal in our current business plan to double the association in size and reach 200 members by 2009.

FIB Your group seems as if functions as a bit of a support group for family businesses, where they can discuss different issues. What can they learn from each other?

IFB They are not alone! When families meet and talk to each other they quickly learn that their experiences are not unique. They open up and have a strong willingness to share knowledge. The IFB network has sparked off more sharing of knowledge and best practices. And we have proven that UK families open up once you give them the sort of forum that they are looking for which is provided through the association.

FIB Why is it important that family businesses learn from other family businesses, rather than just advisers or other business people?

IFB Actually, families generally benefit most from a combination of the two. On the one hand, by learning from other

families and on the other hand by getting advisers to bring an external perspective and to help design bespoke solutions. One caveat is that advisers should always be carefully selected and their family business knowledge and experience questioned very carefully.

FIB How are some family businesses encouraging the next generation to work in the business or at least become active shareholders in the business?

IFB By engaging them early, educating them and by having high expectations of their level of attainment, both within and outside the business. This area is on the top of the IFB research agenda now with some groundbreaking work pending at London Business School, where through the IFB Research Fellowship, we are working to understand the dynamics of today's young generation of family business members. We are learning about the next generation's opportunities and challenges as they move towards becoming the responsible owners of tomorrow.

FIB How are family businesses changing in the UK?

IFB The family business sector is facing a whirlwind of change; as is the world economy under the pressure of globalisation. The risks and opportunities for family firms are no different than other organisations; to meet these challenges family firms have to raise their game. Research from the London School of Economics showed that those firms who have outdated succession practices suffer from poor performance, and the market will punish them. But for the majority of well-owned family businesses the prospects are arguably strong.

Families need to periodically conduct proper risk assessment for their family business. In that process they should not just be evaluating the financial and strategic risks associated with their activities, but also consider the risks related to the family's involvement. Progressive family firms are used to dealing with these questions and commonly have in place governance structures such as Family Councils, Family Constitutions and Boards with strong Non-Executive presence. All these elements help them to ensure that the right decisions are being taken for the business and stakeholders including the family owners. If it all goes to plan there is also the fun and satisfaction of having their own show!

FIB What do you think the future holds for family businesses in the UK?

IFB The future of the sector is bright but depends on two factors. First, owners and their boards must continue to pursue long-term investment strategies that keep their companies in forward gear. Second, law makers have to ensure that the policy framework is maintained on a level playing field so there is nothing that gets in the way of family firms competing on equal terms with non-family companies. ■

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