



Family Business Specialist Summary 2006



Institute for
Family Business

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Total entrepreneurial activity (TEA) in the UK is 5.8% of the adult population aged 18-54. In other words, 5.8% of the population is engaged in starting up some form of business activity by themselves or with other people that is less than 42 months old. This figure is calculated from the responses to an adult population survey of 42,500 individuals across the UK conducted between April and September 2006 .

- Of the TEA active individuals, 19.8% will be setting up a business and expect them and/or their family to have a greater than 50% stake in the business in five years time. 22.2% of these businesses have come directly out of existing family firms.
- Some 9.8% of the UK population owns or manages a business. Of these, some 60.7% responded that they and their family have a greater than 50% stake. 12.7% of these businesses were developed out of existing family firms and 8.1% expected themselves or their family to have a greater than 50% stake in five years time.
- Gender does not make a difference to the probability that an individual will be expecting family members to be involved with their business in five years time, or to the probability that the business has developed from an existing family firm. However, women are significantly more likely to be owning or running an established business by themselves or with other family members than men.
- Young people between the ages of 18 and 24 are far more likely than other age categories to own or run a business by themselves or with other family members.
- Family-based start-ups use twice the amount of initial finance compared with non-family start-ups, and are far more likely to approach close family for their start-up finance, than those who do not have a family base.

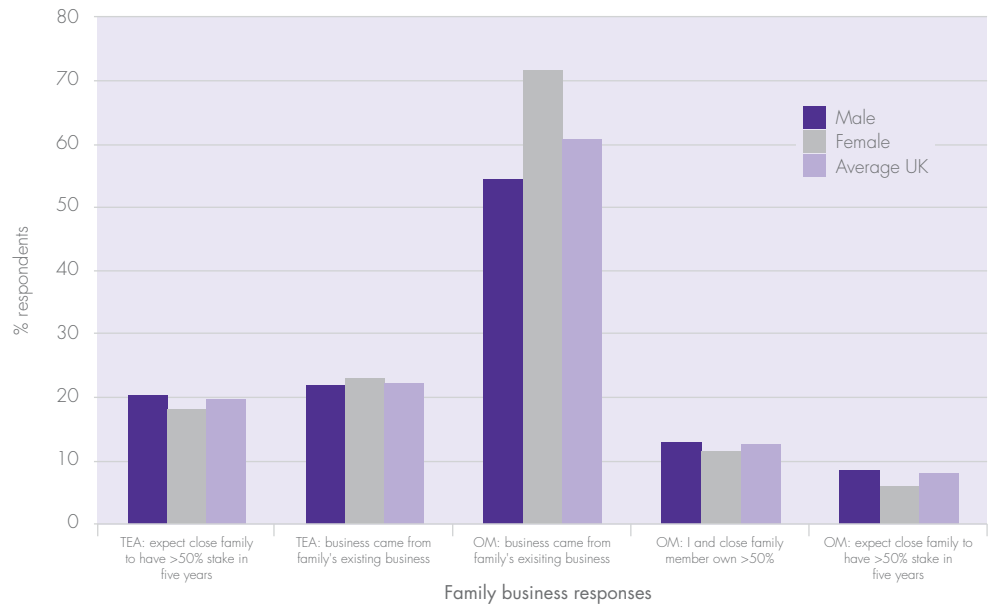


Figure 1: Family business responses (%): UK totals by gender

Source: GEM UK Adult Population Survey (APS) 2006

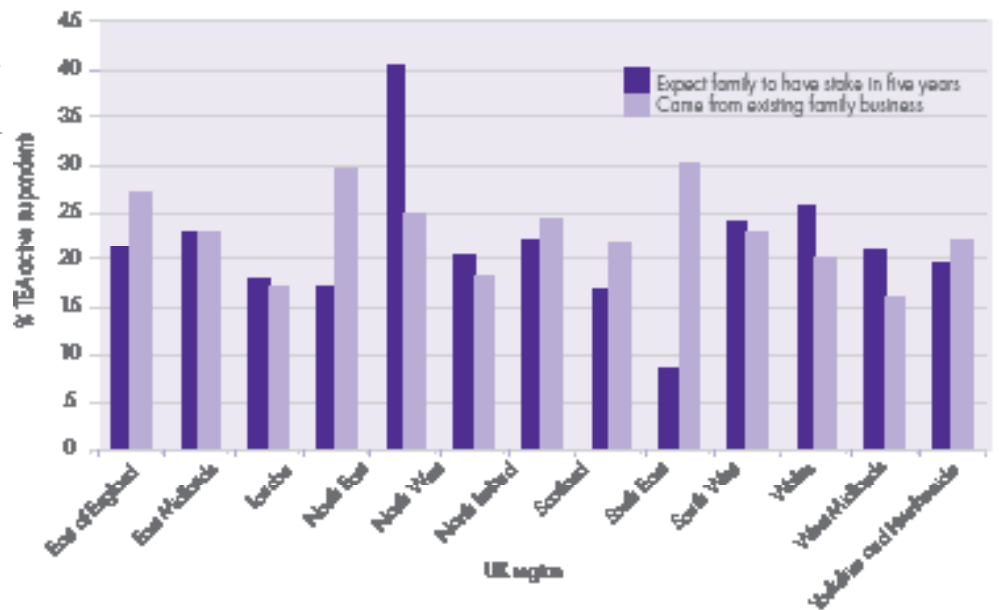


Figure 2: Family-based TEA activity in UK regions Source: GEM APS 2006

	18-24	25-34	25-44	45-54	55-64
% TEA active respondents					
I expect myself/family to have greater than 50% stake in five years.	20.8	21.2	19.0	21.2	15.4
The business came from our existing family business.	19.6	16.5	23.6	30.9	21.4
% Owner-managers					
I own and run the business by myself/with other family members.	75.8	70.9	56.6	56.0	61.5
The business came from our existing family business.	14.9	14.2	12.1	13.8	10.7
I expect myself/family to have greater than 50% stake in five years.	36.6	6.5	5.0	7.9	10.2
UK TEA 2006 by age (% 18-64)	3.7	7.0	7.3	5.7	3.9

Table 1: Family-based entrepreneurs by age group Source: GEM UK APS 2006

TEA active: Do you expect your family to own a greater than 50% stake in the business in five years time?		
Source of finance	Yes	No
Close family	56.6	11.4
Other relatives/extended family	37.4	4.8
Work colleagues	19.3	23.6
Individual investor not previously known	1.3	11.5
Friends or neighbours	12.0	11.4
Banks	71.6	53.0
Government	26.0	40.1
Other sources	9.9	19.6

Table 2: Sources of finance by whether or not the individual expects themselves and/or their family to own their start-up entity in five years Source: GEM UK APS 2006

FAMILY BUSINESSES IN THE UK

The Global Entrepreneurship Monitor in the UK (GEM UK) asks individuals whether or not they are involved in start-up activity and calculates a figure for total early stage entrepreneurial activity (TEA), which is the estimated percentage of the adult population who are engaged in some form of start-up or baby business activity that has been running for less than 42 months. The survey also asks individuals if they own or manage a business entity.

In order to establish how many of these entrepreneurs were engaged in family-based activity, we additionally asked them whether or not they owned the firm by themselves and with other family members, whether they expected family ownership to be more than 50% in five years time and whether the entity they were owning or building came from an existing business run by their close family. The responses are given in Figure 1 for the UK as a whole and by gender.

Several points can be made from Figure 1:

- Levels of self and family ownership are significantly higher amongst established businesses owners than early stage start-up entrepreneurs. Some 60.7% of all owner-managers responded that they and their family had a greater than 50% stake in the business.
- The levels of self and family ownership are significantly higher for women than for men: 71.8% compared with 54.6%.
- Other gender comparisons are not statistically significant, either amongst TEA active individuals or amongst owner-managers.
- Significantly more early stage entrepreneurial activity has been developed from existing family businesses than for owner-manager activity at 22.2% and 12.7%.

The North West has the highest number of TEA active respondents who are expecting that their families will have a greater than 50% stake in their firms over the next five years. The South West is the region where the highest level of entrepreneurial businesses came from an existing family firm.

There are some interesting differences by age, as illustrated in Table 1:

- Irrespective of age, TEA active respondents are equally likely to expect their families to own 50% or more of the business in five years time. However, for all owner managers, the age differences are significant, with young people substantially more likely to expect themselves or their families to own a greater than 50% stake in five years time.
- There are more start-ups from existing family businesses than there are from owner-managed firms. Older groups are more likely to be using an existing family as a base for starting up than younger age groups.
- Young people between the ages of 18 and 24 are much more likely than any other group to be owners or managers of a company of which they and their family own more than a 50% stake.

FAMILY BUSINESS FINANCE

The median amount of start-up finance required for a family based business (expecting self and family to own greater than 50% stake in five years time) is £30,000. This compares to £15,000 amongst those who are not expecting themselves or their family to own a greater than 50% stake in five years.

The sources of start-up finance are listed in Table 2.

There are some interesting and significant differences in sources of start-up finance by whether or not the business will remain in the individuals and family's hands after five years:

- Those who expect to retain their family base are far more likely to approach family members (either close family members or their extended family) for finance.
- Bank finance is important for both categories, but is significantly more important for those who will retain their family connection with the firm.
- Government finance is significantly more important as a source of finance for those firms who will not retain their family base.

CONCLUSIONS

This is the first attempt at analysing the GEM UK data for evidence relating to family firms, and it has yielded some interesting results. There are high levels of family engagement in start-up firms but exceptionally high levels of individual or family participation in the more established firms. Young people are more likely to be running a family based firm than any other group and this suggests that the family firm is a way of "cutting teeth" for young entrepreneurs.

In terms of finance, it appears that those firms who are looking to keep their activities within their families over the next five years are substantially more likely to access family based finance in the first place. This is the case for the more established firms as well and suggests that the informal, network-based approach to finance is more dominant amongst family entrepreneurs.

Finally, government programmes are used to a lesser extent by family firms. If more effort is to be put into boosting levels of family owned businesses in the UK, dedicated programmes to provide mentoring as well as access to finance for family firms could be developed.

About the IFB

The Institute for Family Business (UK) is an independent, not-for-profit organisation supporting a dynamic family-owned business sector in the UK through advocacy, education and research. We are a voice for family firms and our aim is to highlight the vital contribution this sector makes to the UK economy and the issues that family firms face.

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