The UK Family Business Sector

December 2014
Foreword

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Family businesses account for a quarter of the UK’s gross domestic product, employ over 9 million people and make a significant contribution to the total UK government revenues received.

However, relatively little is known about the family business sector when compared with the much higher profile of its counterparts in the publicly listed company sector. Why is this? Family businesses are generally out of the view of the financial markets and can choose not to maximise short-term profits and dividend payments as other companies do to maintain their share price for their owners.

Regarding owners, who would run the risk of committing most or all of their investments to one company, to carefully steward for passing on to their children and future generations? But that is exactly what happens in family enterprises and that is why they are totally committed to the sustainable long-term success of the business.

Success involves investment in the people family businesses employ, alongside a commitment to the communities in which they work.

Family businesses have values that last – which people can trust – and this is ever more important in today’s demanding business world. There is no short termism here.

Peter Armitage
Chairman, IFB
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1 Executive summary

Two-thirds of businesses in the UK private sector are family run …

- Nearly 3 million family businesses operate in the UK economy, and these are predominantly small businesses. However, 46 per cent of medium-sized firms and more than one in ten (12 per cent) of large companies in the UK are family firms.

... with the sector’s footprint having expanded since 2010 …

- Family businesses employ a total of 9.4 million people, 39 per cent of all employment in the UK private sector and 0.5 million more than it employed in 2010. This means that family firms employ 75 per cent more people than the entire public sector.
- Turnover in the family business sector totals £1.1 trillion, 32 per cent of the whole private sector. From this, family businesses are estimated to make a total annual gross value added contribution to GDP of £360 billion, a quarter of UK GDP.
- Tax revenues from the operations of family businesses total £102 billion, equivalent to 15.5 per cent of all UK government revenues.

... despite a challenging macroeconomic environment

- The number of people employed by family businesses is estimated to have increased each year between 2010 and 2013. A combined increase of 5.2 per cent.
- Family businesses’ economic output is estimated to have fallen in 2011, but increased by 4.9 per cent over the past two years.

Demand for external finance appears to have returned to more “normal” levels …

- Survey evidence collated by the Department for Business, Innovation and Skills (BIS) shows small and medium-sized family businesses’ demand for external finance increased in 2010. The 2012 BIS survey saw demand return towards more normal levels, with the proportion of SME family businesses applying for finance falling from 28 per cent to 16 per cent.
- These family firms primarily applied for finance in order to support working capital; however, in the 2012 survey the demand for external finance to pay for investment in equipment increased.

... but supply side issues remain, particularly for SMEs

- The Bank of England’s Credit Conditions Survey suggests that the availability of credit to small businesses has grown slowly relative to larger companies, a problem that will particularly affect family businesses.
- BIS survey data shows a greater proportion of family firms being unsuccessful with applications for external finance compared with non-family firms (30 per cent compared with 26 per cent) in 2012. This represents a significant change from previous years where they were consistently more successful.

The future outlook appears to be brightening …

- BIS survey data shows that family firms have become more optimistic about their future growth prospects. In early 2014, 47 per cent of family SMEs expected revenues to rise in the next year, compared with 11 per cent who expected to see a decline.
- Employment is also forecast to rise, with 23 per cent of family SMEs expecting an increase, relative to 9 per cent who expect a decrease.
Policy overview for the family business sector

- Government should engage more directly with the family business sector to help shape economic policy and further develop its position as a Mittelstand for the UK.
- Policy-makers should openly recognise the strategic importance of the family business sector to a modern economy, include the family businesses narrative in debate about the economy and ensure the policy environment supports family-owned businesses.
- Many family businesses operate in an environment where a limited number of funding options are available. Alternatives to traditional bank lending should be introduced, developing greater choice and competition in business financing. The introduction of a private placement market, a bond market for SMEs and lending from the insurance market would be better suited to the needs of SMEs and more aligned to the longer-term investment horizons of family firms.
- Some 100,000 family businesses transfer ownership of their businesses to a new generation every year; this is a crucial transition that underpins the sustainability of the family business model. Maintaining business property relief (BPR) should be a key element of a broader tax and regulatory regime that supports and safeguards the employment and investment delivered by the family business sector.
- In the recovering economy, skills shortages are becoming a more significant issue. Political focus on promoting practical skills is essential, in particular through apprenticeships. The introduction of an HR tax credit for firms investing in apprenticeships should be implemented.
- Increasing the number of family firms that export should be a key focus for improving the UK’s international competitiveness. Government support should come in the form of access to market intelligence and stronger connections to UK Trade and Investment (UKTI), which is established as an important platform used by current and potential exporters.
- Family businesses play a crucial role in promoting entrepreneurship. One of the key policies that incentivises investment in early-stage businesses is the Enterprise Investment Scheme (EIS). However, restrictions mean that individuals with a spouse or relative who holds ownership in the company do not qualify. This represents a significant obstacle for firms that are family owned; relaxing the eligibility criteria would substantially improve the opportunities for small family firms to grow and established medium-sized and large family firms to diversify and invest in new entrepreneurial ventures.
2 Introduction

This report, commissioned by the IFB Research Foundation and prepared by Oxford Economics, examines the role of family firms in the UK economy. It begins with a detailed analysis of the importance and value of family-owned businesses, and then goes on to assess their contribution to the economic recovery, the challenges that they face, in particular regarding access to finance, and their prospects over the coming years.

The report follows on from previous IFB family business sector reports in 2008 and 2011, having been updated to cover the economic impact and characteristics of family firms in 2013.\(^1\)\(^2\) In its analysis of the current position of the sector, it considers a period of time where economic growth has returned and the outlook for many firms has improved, with important implications for the expectations of family firms and the challenges they face.

2.1 What is a family business?

Family businesses cover a large portion of the UK economy and, as a result, vary significantly in terms of their size, the sectors that they operate in, their management structure and their age. This report adopts the same definition of a family business that was used in the two previous IFB family business sector reports, and that was used in the final report of the European Commission Expert Group on Family Business.\(^3\) A firm is considered a family business if it meets the following criteria:

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

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2.2 Data sources
A number of different data sources are used in order to present a complete analysis of the family business sector:

- **BIS Small Business Survey.** This survey, published biennially by BIS, focuses on small and medium-sized enterprises (SMEs) – i.e. firms with between 0–249 employees. (In this report editions are referenced according to their year of publication: SBS (2012) refers to the latest version released in 2012.)
- **BIS SME Business Barometer.** Produced by BIS between two and five times per year, this again focuses on conditions facing SMEs, asking a number of questions about their growth, business environment and access to finance.
- **BIS Business Population Estimates for the UK and Regions.** This annual report published by BIS produces estimates for the population of businesses of different sizes in the UK, disaggregated by region, industry sector and legal status.
- **ONS Annual Business Survey (ABS).** This survey is produced by the Office for National Statistics (ONS) every year and gives a detailed breakdown of the population, employment, turnover and value added of firms in different sectors of the UK economy.

More detailed discussions of the data issues faced during specific parts of the analysis are included in later chapters.

2.3 Key terms
The key economic terms used in this report are:

- **Turnover.** In this report, turnover is used to refer to the value of the annual sales volume of a business, net of all discounts and sales taxes.
- **Gross value added.** Gross value added (GVA) is the contribution an institution, company or industry makes to gross domestic product (GDP). The sum of the gross value added of all UK organisations is – with minor adjustments for taxes and subsidies – equal to UK GDP. Gross value added is most simply understood as turnover minus the cost of bought in goods and services used up in the production process.
- **Employment.** Employment is measured in terms of headcount rather than full-time equivalence. This is to facilitate comparison with ONS data on employment.

2.4 Report structure
The remainder of this report is structured as follows:

- **Chapter 3** outlines the economic impact of family business on the UK economy, including the number of firms and their employment, turnover and taxation.
- **Chapter 4** considers the characteristics of family firms, including their sectoral and geographic distribution.
- **Chapter 5** assesses how the family business sector has performed since 2010 and the contribution it is making to the recovery.
- **Chapter 6** focuses on family businesses’ demand for and access to external finance.
- **Chapter 7** examines the future outlook for the family business sector.
- **Chapter 8** reviews the conclusions of the report and addresses policy implications.
3 The economic contribution of family businesses

This chapter outlines the size of the family business sector and the role it plays in the UK economy, including the number of firms, total employment, turnover, gross value added and tax receipts.

- There are almost 3 million family businesses in the UK, making up three-fifths of firms in the private sector.
- Between them, family businesses in the UK employ an estimated 9.4 million people, representing 39 per cent of all private sector employment and 29.3 per cent of total UK employment.
- Family businesses generate total revenues worth an estimated £1.1 trillion, nearly one-third of total private sector turnover. They contribute a combined value added of £360 billion, 32 per cent of total private sector GDP and 25.2 per cent of total UK GDP.
- The family business sector contributes an estimated £102 billion to the Exchequer per year, representing 15.5 per cent of total government revenues.

Datasets from different sources highlighted in Chapter 2 were used to estimate the number of family businesses and their characteristics. SBS (2012) contained questions about whether a firm was a family business and its number of employees, from which the density of family businesses in different employment bands was estimated. This did not contain large businesses; estimates for the proportion of large firms that are family businesses were taken from Franks, Mayer, Volpin and Wagner (2011).

BIS Business Population Estimates contain data on the number of businesses in each employment band and their total employment. Combining this with the data described in the previous paragraph allows estimates for the number of family businesses in each size group to be calculated. The same process was used to estimate the turnover of firms; however, a different approach was used to estimate contributions to GDP (as explained in Section 3.2).

3.1 Employment and number of firms

It is estimated that there were a total of 3.0 million family-run businesses in the UK in 2013. This is 61 per cent of all private sector firms. Analysed by employment size category (see Figure 3.1), family firms constitute 61 per cent of all micro businesses (0 to 9 employees) and 56 per cent of all non-micro small businesses. Their share of medium (50 to 249 employees) and large companies (250 or more employees) is 46 per cent and 12 per cent, respectively.

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4 The financial services sector turnover figures are not available in the BIS statistics. Instead, the estimate for employment was multiplied by average value added per employee (£110,000 in 2013 according to ONS data) to give GVA. Turnover was estimated by applying the ratio of turnover to GVA for the financial services sector according to data from the 2013 ABS.
Figure 3.1: Family firms as a share of total firms (by employment size band)

Family businesses employed an estimated 9.4 million people in 2013, 38.8 per cent of private sector employment and 29.3 per cent of total UK employment. This made it 75 per cent larger than the entire UK public sector, which employs 5.4 million people.

The concentration of family businesses among smaller firms means that micro businesses contributed more than half of total family business employment, totalling 4.8 million jobs (Table 3.1). A further 2.1 million people are employed by other small firms, with 1.4 million in medium-sized firms and 1.2 million in large firms.

Table 3.1: Family businesses’ employment by firm size in 2013

<table>
<thead>
<tr>
<th>Size of firm</th>
<th>Number of employees</th>
<th>Number of family firms</th>
<th>Percentage of family firms</th>
<th>Employment of family firms (thousand jobs)</th>
<th>Percentage of family firm employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>0</td>
<td>2,241,077</td>
<td>75.0%</td>
<td>2,453</td>
<td>26.0%</td>
</tr>
<tr>
<td>1–9</td>
<td>625,875</td>
<td></td>
<td>21.0%</td>
<td>2,365</td>
<td>25.0%</td>
</tr>
<tr>
<td>Non-micro small</td>
<td>10–49</td>
<td>104,519</td>
<td>3.5%</td>
<td>2,051</td>
<td>21.7%</td>
</tr>
<tr>
<td>Medium</td>
<td>50–249</td>
<td>14,220</td>
<td>0.5%</td>
<td>1,389</td>
<td>14.7%</td>
</tr>
<tr>
<td>Large</td>
<td>250+</td>
<td>791</td>
<td>0.0%</td>
<td>1,189</td>
<td>12.6%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>2,986,482</td>
<td></td>
<td>9,447</td>
<td></td>
</tr>
<tr>
<td>Share of private sector</td>
<td></td>
<td>61.0%</td>
<td></td>
<td>38.8%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Oxford Economics/BIS.
3.2 Turnover and GDP

In 2013, family firms are estimated to have earned £1.1 trillion in revenue. This represents 32.3 per cent of total private sector turnover and was nearly seven times the size of the entire public sector’s earnings (worth £168 billion).

Sectorally, the wholesale and retail sector contributed the largest share of turnover among all family businesses, with estimated revenues of £450 billion. As Figure 3.2 shows, this equated to 40 per cent of total family business revenue in 2013. The business services sector\(^5\) contributed an estimated 14 per cent of turnover, with hotels, restaurants, transport and communications contributing an estimated 12 per cent.

In comparison, it is estimated that the wholesale and retail sector contributed only 28 per cent of the turnover of non-family businesses, meaning that the sector was overwhelmingly made up of family firms. The manufacturing sector is the second largest among non-family businesses, contributing an estimated 19 per cent of turnover, compared with only 9 per cent among family firms.

![Figure 3.2: Sectoral breakdown of turnover: Family versus non-family firms in 2013](image)


In total, the family business sector is estimated to have made a gross value added contribution to UK GDP of £360 billion in 2013 (see Table 3.2).\(^6\) This represented 31.7 per cent of the total UK private sector value added and 25.2 per cent of UK GDP.

\(^5\) Including financial services, real estate and renting.

\(^6\) Value added per sector was estimated by applying the 2012 GVA to turnover ratios from the ONS Annual Business Survey to our estimates of sector-level turnover. The only exception to this was financial intermediation, for which GVA had already been estimated (see footnote 4).
Table 3.2: Turnover and GVA of the family business sector in 2013

<table>
<thead>
<tr>
<th>Sector</th>
<th>Turnover (£m)</th>
<th>Sector value added to turnover ratio</th>
<th>GVA (£m)</th>
<th>% share of family business sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale and retail trade, repairs</td>
<td>450,800</td>
<td>0.120</td>
<td>54,235</td>
<td>15.1%</td>
</tr>
<tr>
<td>Real estate, renting and business activity</td>
<td>174,410</td>
<td>0.545</td>
<td>94,992</td>
<td>26.4%</td>
</tr>
<tr>
<td>Transport, storage and communications</td>
<td>104,600</td>
<td>0.457</td>
<td>47,777</td>
<td>13.3%</td>
</tr>
<tr>
<td>Construction</td>
<td>100,554</td>
<td>0.375</td>
<td>37,669</td>
<td>10.5%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>98,307</td>
<td>0.299</td>
<td>29,368</td>
<td>8.2%</td>
</tr>
<tr>
<td>Agriculture and extraction</td>
<td>74,663</td>
<td>0.467</td>
<td>34,876</td>
<td>9.7%</td>
</tr>
<tr>
<td>Financial intermediation</td>
<td>45,840</td>
<td>0.459</td>
<td>21,051</td>
<td>5.8%</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>29,914</td>
<td>0.484</td>
<td>14,490</td>
<td>4.0%</td>
</tr>
<tr>
<td>Other community, social and personal service activities</td>
<td>25,332</td>
<td>0.300</td>
<td>7,589</td>
<td>2.1%</td>
</tr>
<tr>
<td>Health and social work</td>
<td>22,881</td>
<td>0.639</td>
<td>14,627</td>
<td>4.1%</td>
</tr>
<tr>
<td>Education</td>
<td>7,488</td>
<td>0.456</td>
<td>3,418</td>
<td>0.9%</td>
</tr>
<tr>
<td>Total</td>
<td>1,134,789</td>
<td></td>
<td>360,092</td>
<td>100%</td>
</tr>
<tr>
<td>% share of private sector</td>
<td>32.3%</td>
<td></td>
<td>31.7%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Oxford Economics/BIS.

3.3 Contribution to the Exchequer

Family businesses are estimated to make a significant contribution to the Exchequer. Chittenden and Sloan (2007) estimated the average tax borne and collected by sole traders, partnerships and small limited firms. These estimates were projected forward to 2013 values using nominal GDP growth (13.8 per cent) and applied to the estimates for the number of sole traders and partnerships (2.1 million), and small and medium-sized family companies (890,000). As Table 3.3 shows, these calculations suggest that family sole traders and partnerships contributed £11.7 billion and family SMEs £57.8 billion to the Exchequer in 2013.

For larger firms, data from a PwC survey of the Hundred Group in 2012 indicated that, on average, revenues from taxes borne and collected from the largest firms amounted to 14.3 per cent of their total turnover. Applying this to our estimates for the turnover of large family businesses suggests that they provide a further £32 billion contribution to the Exchequer.

In total this means that an estimated 15.5 per cent of government revenues (£102 billion) were generated by the family business sector. Of this, 52 per cent was borne directly by family firms, with the remaining 48 per cent collected by family businesses from their employees. In total, the family business sector contributed 24 per cent (£10 billion) of corporation tax receipts in 2013.
Table 3.3: Contributions to the Exchequer by the family business sector in 2013

<table>
<thead>
<tr>
<th>Type of firm (£m)</th>
<th>Small sole traders and partnerships</th>
<th>Small and medium-sized companies</th>
<th>Large companies</th>
<th>Total family business sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes borne</td>
<td>9,661</td>
<td>32,590</td>
<td>10,346</td>
<td>52,597</td>
</tr>
<tr>
<td>Taxes collected</td>
<td>2,017</td>
<td>25,210</td>
<td>21,715</td>
<td>48,942</td>
</tr>
<tr>
<td>Total tax</td>
<td>11,679</td>
<td>57,800</td>
<td>32,061</td>
<td>101,539</td>
</tr>
<tr>
<td>% of government revenue</td>
<td>1.8%</td>
<td>8.8%</td>
<td>4.9%</td>
<td>15.5%</td>
</tr>
</tbody>
</table>

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

Sole traders and partnerships pay most of their taxes through income tax and national insurance, together worth 58 per cent of the taxes paid by the owners of the business, at the same time as not paying corporation tax (Figure 3.3). Having a more limited number of employees means that employee income tax and both employer and employee national insurance contributions (NICs) are less significant, contributing only 17 per cent of total tax revenues.

Small and medium-sized incorporated family companies contribute a much larger share of their taxes in the form of employee income tax and national insurance (44 per cent), as well as employer national insurance (21 per cent). Taxes on owner earnings are a smaller share (17 per cent); these firms also pay corporation tax but it only makes up 12 per cent of their total tax bill.

Figure 3.3: Types of taxes paid by small and medium-sized family businesses
3.4 Change in economic impact since 2010

The influence of family businesses on the UK economy has changed over the course of the economic recovery. Between 2010 and 2013 there were an estimated 30,000 new family businesses created (Table 3.4). Over this period of time the sector created half a million new jobs, increasing employment by more than 5 per cent (Figure 3.4). Despite decreasing significantly in 2011, the gross value added of the family business sector grew strongly in 2013, taking it above its 2010 level.

Table 3.4: Number of firms, employment, turnover and GVA in family businesses and the private sector

<table>
<thead>
<tr>
<th></th>
<th>Family business sector</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2011</td>
<td>2012</td>
<td>2013</td>
</tr>
<tr>
<td>Number of firms</td>
<td>2,959,180</td>
<td>2,885,007</td>
<td>2,926,280</td>
<td>2,986,482</td>
</tr>
<tr>
<td>Employment (thousands)</td>
<td>8,978</td>
<td>9,145</td>
<td>9,276</td>
<td>9,447</td>
</tr>
<tr>
<td>Turnover (£m)</td>
<td>1,150,977</td>
<td>1,086,076</td>
<td>1,098,875</td>
<td>1,134,789</td>
</tr>
<tr>
<td>GVA (£m)</td>
<td>357,940</td>
<td>343,364</td>
<td>345,272</td>
<td>360,092</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Private sector</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2011</td>
<td>2012</td>
<td>2013</td>
</tr>
<tr>
<td>Number of firms</td>
<td>4,484,535</td>
<td>4,542,765</td>
<td>4,794,105</td>
<td>4,895,655</td>
</tr>
<tr>
<td>Employment (thousands)</td>
<td>22,516</td>
<td>23,392</td>
<td>23,893</td>
<td>24,331</td>
</tr>
<tr>
<td>Turnover (£m)</td>
<td>3,488,703</td>
<td>3,301,012</td>
<td>3,361,408</td>
<td>3,511,689</td>
</tr>
<tr>
<td>GVA (£m)</td>
<td>1,106,393</td>
<td>1,068,314</td>
<td>1,077,011</td>
<td>1,136,796</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>FB % share</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of firms</td>
<td>66.0%</td>
<td>63.5%</td>
<td>61.0%</td>
<td>61.0%</td>
</tr>
<tr>
<td>Employment</td>
<td>39.9%</td>
<td>39.1%</td>
<td>38.8%</td>
<td>38.8%</td>
</tr>
<tr>
<td>Turnover</td>
<td>33.0%</td>
<td>32.9%</td>
<td>32.7%</td>
<td>32.3%</td>
</tr>
<tr>
<td>GVA</td>
<td>32.4%</td>
<td>32.1%</td>
<td>32.1%</td>
<td>31.7%</td>
</tr>
</tbody>
</table>

Source: Oxford Economics.

Figure 3.4: Total employment and GVA of family firms between 2010 and 2013

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7 Small methodological changes in this version of the report mean that the economic impact results are not strictly comparable to those presented in the previous report. Therefore, results for 2010 and 2011 presented in Table 3.4 have been re-estimated based on a consistent methodology.

8 Figures for 2011 were calculated by interpolating the share of UK private sector businesses across different size bands according to the results of SBS (2010) and SBS (2012).
4 Characteristics of the UK family business sector

This chapter provides an overview of the breakdown of family businesses across sector, region and legal ownership type. These breakdowns were calculated employing a similar methodology to that used to estimate firm size, utilising the distribution of firms according to characteristics in the BIS Business Population Estimates.

- The largest proportion of family businesses are found in the real estate, renting and business services sector (23 per cent of the total), followed by construction (18 per cent) and transport, storage and communications (13 per cent). When analysed as a share of all firms within a sector, the greatest concentration of family firms (85 per cent of all firms) occurs in the agriculture and extraction sector.

- The south-east of England is estimated to have the greatest number of family businesses, with more than 450,000 (15 per cent of all family businesses); this is followed by London, which is host to an estimated 380,000 family-run businesses (13 per cent). Three-quarters of firms in Northern Ireland are family businesses, the greatest concentration of any region.

- Almost three-fifths (1.75 million) of all family businesses are sole traders, with a further 30 per cent (890,000) incorporated companies and 11 per cent (340,000) partnerships. The majority of micro businesses with no employees are sole traders (70 per cent); in contrast, incorporated companies make up the vast majority of medium and large-sized family businesses (96 per cent and 99 per cent, respectively).

4.1 Sectoral breakdown

In 2013 some 692,000 family firms (or 23 per cent of the total) operated in the real estate, renting and business services sector, more than any other. The construction and transport, storage and communications sectors ranked second and third, with 540,000 (18 per cent of the total) and 394,000 (13 per cent) family businesses. These three sectors were also the three largest in the private sector when taken as a whole (Table 4.1).

Family businesses were also found to be significantly more concentrated in some sectors than others. It was estimated that more than 85 per cent of firms in the agriculture and extraction sector were family businesses. The next two most concentrated sectors were wholesale, retail and repairs (72 per cent) and transport, storage and communications (68 per cent).

A number of factors determine the concentration of family businesses in certain sectors. Franks et al. (2011) argue that the need to obtain finance is the primary reason for the dilution of family ownership. Higher rates of family ownership are seen in sectors that have lower levels of merger and acquisition activity and fewer investment opportunities.
Table 4.1: Sectoral distribution of family businesses in 2013

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of family firms</th>
<th>Percentage of all family firms</th>
<th>Number of private sector firms</th>
<th>Percentage share of family businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real estate, renting and business activity</td>
<td>692,211</td>
<td>23.2%</td>
<td>1,155,425</td>
<td>59.9%</td>
</tr>
<tr>
<td>Construction</td>
<td>540,426</td>
<td>18.1%</td>
<td>890,850</td>
<td>60.7%</td>
</tr>
<tr>
<td>Transport, storage and communications</td>
<td>394,308</td>
<td>13.2%</td>
<td>580,900</td>
<td>67.9%</td>
</tr>
<tr>
<td>Wholesale and retail trade, repairs</td>
<td>357,791</td>
<td>12.0%</td>
<td>496,370</td>
<td>72.1%</td>
</tr>
<tr>
<td>Other community, social and personal service activities</td>
<td>223,958</td>
<td>7.5%</td>
<td>467,545</td>
<td>47.9%</td>
</tr>
<tr>
<td>Health and social work</td>
<td>163,317</td>
<td>5.5%</td>
<td>333,310</td>
<td>49.0%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>159,850</td>
<td>5.4%</td>
<td>274,295</td>
<td>58.3%</td>
</tr>
<tr>
<td>Agriculture and extraction</td>
<td>155,125</td>
<td>5.2%</td>
<td>181,780</td>
<td>85.3%</td>
</tr>
<tr>
<td>Education</td>
<td>132,513</td>
<td>4.4%</td>
<td>255,890</td>
<td>51.8%</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>112,673</td>
<td>3.8%</td>
<td>169,325</td>
<td>66.5%</td>
</tr>
<tr>
<td>Financial intermediation</td>
<td>54,310</td>
<td>1.8%</td>
<td>89,960</td>
<td>60.4%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,986,482</strong></td>
<td><strong>100%</strong></td>
<td><strong>4,895,650</strong></td>
<td><strong>61%</strong></td>
</tr>
</tbody>
</table>

Source: Oxford Economics/BIS.

4.2 Regional breakdown

Some 454,000 family businesses (or 15 per cent of the total) operated in the south-east of England (see Table 4.2). London ranked second with 378,000 (or 13 per cent of the total). The east, north-west and south-west of England each accounted for 11 per cent of all family businesses.

Northern Ireland had the greatest concentration of family firms. Of its 113,000 firms, an estimated 75 per cent were family businesses (see Figure 4.1).
Table 4.2: Regional distribution of family businesses in 2013

<table>
<thead>
<tr>
<th>Region</th>
<th>Numbers of family firms</th>
<th>Percentage of all family firms</th>
<th>Number of private sector firms</th>
<th>Percentage share of family businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>South-east</td>
<td>453,572</td>
<td>15.2%</td>
<td>790,540</td>
<td>57.4%</td>
</tr>
<tr>
<td>London</td>
<td>377,903</td>
<td>12.7%</td>
<td>840,900</td>
<td>44.9%</td>
</tr>
<tr>
<td>East of England</td>
<td>324,516</td>
<td>10.9%</td>
<td>505,405</td>
<td>64.2%</td>
</tr>
<tr>
<td>North-west</td>
<td>322,159</td>
<td>10.8%</td>
<td>480,515</td>
<td>67.0%</td>
</tr>
<tr>
<td>South-west</td>
<td>314,530</td>
<td>10.5%</td>
<td>467,040</td>
<td>67.3%</td>
</tr>
<tr>
<td>West Midlands</td>
<td>252,167</td>
<td>8.4%</td>
<td>379,385</td>
<td>66.5%</td>
</tr>
<tr>
<td>Yorkshire and the Humber</td>
<td>242,448</td>
<td>8.1%</td>
<td>353,710</td>
<td>68.5%</td>
</tr>
<tr>
<td>East Midlands</td>
<td>204,223</td>
<td>6.8%</td>
<td>314,355</td>
<td>65.0%</td>
</tr>
<tr>
<td>Scotland</td>
<td>196,715</td>
<td>6.6%</td>
<td>325,570</td>
<td>60.4%</td>
</tr>
<tr>
<td>Wales</td>
<td>127,189</td>
<td>4.3%</td>
<td>189,660</td>
<td>67.1%</td>
</tr>
<tr>
<td>North-east</td>
<td>86,787</td>
<td>2.9%</td>
<td>135,455</td>
<td>64.1%</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>84,274</td>
<td>2.8%</td>
<td>113,120</td>
<td>74.5%</td>
</tr>
<tr>
<td><strong>UK</strong></td>
<td><strong>2,986,482</strong></td>
<td><strong>100%</strong></td>
<td><strong>4,895,655</strong></td>
<td><strong>61%</strong></td>
</tr>
</tbody>
</table>

Source: Oxford Economics/BIS.

Figure 4.1: Heat map of UK family business penetration
4.3 Legal status

Most family businesses are sole traders: these firms make up 1.75 million, or nearly three-fifths of all family-run firms (see Table 4.3). Partnerships account for 340,000 family businesses, slightly more than one in ten, and incorporated companies contribute the remaining 30 per cent (890,000 firms).

The vast majority (90 per cent) of sole trader family businesses are micro firms with no employees. In contrast to this, less than 50 per cent of incorporated companies are micro firms with no employees and a significant number have more than ten employees.

Table 4.3: Legal status of family businesses in 2013

<table>
<thead>
<tr>
<th>Type of firm</th>
<th>Number of employees</th>
<th>Sole traders</th>
<th>Partnerships</th>
<th>Incorporated companies</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>0</td>
<td>1,574,424</td>
<td>235,401</td>
<td>431,252</td>
<td>2,241,077</td>
</tr>
<tr>
<td></td>
<td>1–9</td>
<td>168,924</td>
<td>94,529</td>
<td>362,423</td>
<td>625,875</td>
</tr>
<tr>
<td>Non-micro small</td>
<td>10–49</td>
<td>8,240</td>
<td>12,440</td>
<td>83,838</td>
<td>104,519</td>
</tr>
<tr>
<td>Medium</td>
<td>50–249</td>
<td>164</td>
<td>436</td>
<td>13,620</td>
<td>14,220</td>
</tr>
<tr>
<td>Large</td>
<td>250+</td>
<td>1</td>
<td>7</td>
<td>783</td>
<td>791</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>1,751,753</td>
<td>342,813</td>
<td>891,916</td>
<td>2,986,482</td>
</tr>
<tr>
<td>% by legal status</td>
<td></td>
<td>59%</td>
<td>11%</td>
<td>30%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Oxford Economics/BIS.
5 The recent performance of UK family businesses

The previous report documented the adverse impact of the global financial crisis and subsequent UK recession on the family business sector. This chapter investigates how family businesses have fared since 2011, using recent survey data and broader evidence related to the performance of the macroeconomy.

- Family businesses are particularly reliant on domestic demand. However, domestic demand has recovered slowly since the 2008 recession.
- The state of the economy was highlighted as the key barrier to growth in 2012, with 42 per cent of family firms reporting it as the primary factor, an increase from 35 per cent in 2010.
- Between 2010 and 2012 the stagnation in the economy was seen in the greater number of firms reporting declines in turnover and employment than increases. As of 2014, and as the recovery has strengthened, more firms are reporting increases in revenue.
- This return to growth was also seen in the proportion of firms reporting a profit in early 2014.

5.1 Macroeconomic background

Survey data suggests that most family businesses are heavily dependent on the domestic economy. Data from SBS (2012) shows that 88 per cent of family SMEs rely solely on customers within the UK, while 12 per cent also sell to customers abroad. This compares to 16 per cent of non-family businesses exporting, making family firms more reliant on domestic demand.

The recession had a significant impact on domestic demand. It initially fell by 9 per cent, which was followed by a period of relatively slow growth (Figure 5.1). By the first quarter of 2014 domestic demand still had not returned to pre-recession levels.

Figure 5.1: GDP, exports and domestic demand in the UK economy since 2008
The importance of the economy is highlighted in the *SME Business Barometer*, which asks participating firms which issue they rank as the biggest obstacle to growth. The economy remains the largest issue among all SMEs: however, as Figure 5.2 shows, there has been a steady decline in its importance, from 45 per cent of respondents in the middle of 2011 to 28 per cent in 2014. Over this period the same question was asked of family businesses in the SBS: in 2012 this found that 42 per cent highlighted the economy as the primary issue (also shown in Figure 5.2), compared with only 37 per cent of non-family SMEs, indicating that it has been a particular issue for family businesses following the recession.

**Figure 5.2: Proportion of firms stating that the economy was their most significant barrier to growth**

5.2 Impact on family business employment and turnover

The decline in SME businesses’ concern about the state of the economy is also seen in the performance of family businesses. The *SME Business Barometer* asks businesses how their turnover and employment compares with 12 months previously. For turnover, the net balance has increased from the nadir of February 2010 (−31 per cent) to turn positive (+6 per cent) in the February 2014 survey (Figure 5.3).

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5 The sector responses from the BIS SME Business Barometer were weighted for sectoral penetration rates (Section 4.1).
A broadly similar pattern can be observed from analysis of the employment survey questions (Figure 5.4). There is also some evidence of a slightly stronger performance of the non-family business sector, particularly since 2011. The same sharp improvement in the net balance indicator for family businesses is evident in the February 2014 survey although it remained in negative territory.\(^\text{10}\)

While the SME Business Barometer suggests that family firms’ performance has only strengthened recently, PwC (2012b) found growth returning sooner, with more UK family businesses identifying sales growth than reductions (47 per cent to 33 per cent) in 2012. However, this was below sales growth among family businesses globally (65 per cent seeing growth versus 19 per cent seeing a reduction).

\(^{10}\) It is worth noting, given that the BIS population data indicate that SME employment rose strongly in each year from 2011–2013, that there seems to be some discrepancy between the official hard data and the survey evidence presented here. However, the direction of change in the survey evidence is consistent with broad trends in the labour market observed at the macro level.
5.3 Impact on family business profitability

Survey evidence also points towards a recovery in profitability. The SME Business Barometer asks firms whether their profits increased or decreased, or whether they made a loss (Figure 5.5). Taking the net balance of those who reported growing profits minus those with decreasing profits or making a loss shows that many family firms saw profits contract or they made a loss between 2009 and 2012. However, survey responses are consistent with the recent upturn in the economic outlook, with the net balance having rebounded strongly (into positive territory) in 2014. This return to profit growth in 2014 mirrors the turnover growth seen in Figure 5.3.

**Figure 5.5: BIS survey evidence on the change in profits versus a year ago**

![Graph showing changes in profits over years](image)

*Proportion of firms reporting an increase in profits minus proportion reporting a decrease or a loss*

Source: Oxford Economics/BIS.
6 Supply and demand for external finance

The financial crisis marked the beginning of a period when lending to businesses contracted significantly. This chapter considers how the demand, purpose and supply of external finance have changed for family businesses.

- After an increase at the height of the recession, the number of SMEs applying for external finance has fallen, signalling a return towards pre-recession conditions.
- The primary reason for SMEs seeking external finance in 2014 was to finance working capital; however the desire to invest in equipment has risen consistently since late 2011.
- In 2012, a greater proportion of SME family businesses were unsuccessful when applying for external finance than non-family SMEs (29.5 per cent, compared with 25.6 per cent). This contrasted noticeably with trends apparent in previous surveys, where they were more successful.
- The availability of credit to businesses grew through 2013 and early 2014, although this growth has been slower for small and medium-sized firms. In contrast, while spreads on loans are increasing for all business sizes, they are doing so significantly more slowly for small firms, indicating that borrowing costs are not increasing as fast for family businesses.

6.1 Demand for external finance

The SBS survey asked SMEs whether they have tried to obtain finance for their business in the last 12 months. In 2012 16 per cent of family SMEs had applied for finance, a similar level to that seen in 2006 and 2008, before and at the beginning of the recession (Figure 6.1). The significant increase in applications for finance from both family and non-family SMEs (to 29 per cent and 30 per cent, respectively) in 2010 had abated. This suggests that the special funding requirements that drove this increase during the recession were less of a factor by 2012.

Figure 6.1: Proportion of businesses that applied for external finance in the last year: Family versus non-family SMEs

*includes those who applied either once or more than once.

Source: Oxford Economics/BIS.
Since 2012 the evidence on family firms’ demand for external finance is mixed. The February 2014 SME Business Barometer indicates that the demand for finance has continued to fall, with only 12 per cent of all SMEs having sought external finance, down from a peak of 23 per cent. The report also shows the number applying for finance more than once falling to 2 per cent, the lowest level since the series began in 2008. This question does however focus on the past six months.

In contrast, the Bank of England’s Credit Conditions Survey suggests that banks perceive SMEs’ demand for bank loans to have increased. The backward looking net balance stood at +28 per cent in the May 2014 survey, compared with an average of +1 per cent in 2013 and –8 per cent in 2012.

6.2 Purpose for acquiring finance

Findings from SBS (2010) showed that the increase in demand for external finance came alongside an increase in the demand for working capital as a share of all finance demand, from 50 per cent to 56 per cent of applicants (Figure 6.2). However, by 2012 it had fallen back to 53 per cent. The demand for working capital therefore seems to have peaked when recessionary pressures were the greatest, before receding in the most recent survey.

There was a small recovery in the desire to invest in equipment, increasing to 24 per cent in 2012, from 17 per cent in 2010. However, it still lagged behind its 2008 level of 28 per cent. The number of family SMEs seeking finance to invest in land and buildings has fallen consistently, decreasing from 20 per cent in 2006 to 13 per cent in 2012. Non-family businesses applied for external finance for broadly similar reasons to family businesses, with the main difference being a smaller desire to access finance for investment in equipment or land and buildings, but significantly more desire for non-specific “other investment”.

Among all SMEs, the SME Business Barometer has shown a continued increase in the proportion of firms applying for external finance to invest in equipment, with this being the primary reason for application for 35 per cent of firms in February 2014, second only to working capital, which was the main reason for 40 per cent of applicants.

Figure 6.2: Motivations for applying for external finance for SME family businesses

![Bar chart showing the proportion of those who tried to obtain finance for different purposes over time.

Source: Oxford Economics/BIS.](image)
6.3 The types of external finance sought

The SBS goes further to ask SMEs that had applied for external finance over the previous 12 months what forms of finance they applied for.

Bank loans remained the most significant form of finance sought by family SMEs in 2012 (Figure 6.3), despite decreasing slightly from their 2010 level (from 44 per cent to 40 per cent of applications). Since 2010, the demand for bank overdraft financing fell slightly from 42 per cent of small or medium-sized family businesses who sought finance to 37 per cent; however, it remained above 2008’s low of 28 per cent. This suggests a small change back towards more normal financing conditions, following the increased demand for short-term finance needed to support working capital during the recession. Non-family SMEs favour bank loans over bank overdrafts to a greater extent than family businesses.

Figure 6.3: Types of external finance applied for by SME family businesses in 2012

More recently the SME Business Barometer shows that, among all SMEs, the demand for bank loans has risen, from 39 per cent of applications in June 2012 to 45 per cent in February 2014. The demand for overdrafts has receded, to 23 per cent from 36 per cent in 2012, while the demand for leasing and hire purchase rose marginally, from 14 per cent to 16 per cent.

6.4 Access to finance

Faced with the financial crisis and deterioration in corporate credit quality in the recession, banks markedly reduced the availability of credit. However, since late 2012 the Bank of England Credit Conditions Survey has suggested that there has been an increase in the willingness to lend to SMEs. Lenders reported growth in the availability of credit over the previous three months; positive net balances for backward looking credit availability have been seen throughout 2013 and so far in 2014. The forward looking measures of credit availability closely mirror this pattern (Figure 6.4).
In its May 2014 Inflation Report, the Bank of England (2014b) commented on recent improvements in credit availability, but highlighted the more limited recovery for smaller businesses, arguing that: “The improvement in credit availability appears to have been greater for large PNFCs [private non-financial corporations] than for small and medium-sized ones, continuing recent trends.” The large number of family firms that are small businesses makes this a key concern.

In 2012 the SBS found that family SMEs were more likely to be unsuccessful when applying for finance, with 30 per cent failing in their applications for finance compared with 26 per cent of non-family businesses (Figure 6.5). This marks a noticeable change compared with previous surveys, where family firms have been relatively more likely to successfully obtain finance from external sources.

Without access to the balance sheet data used in the previous study, it is difficult to attempt to explain the driving forces behind such a change. Indeed, it may be that at least part of the change simply reflects statistical noise. However, it will be interesting to see whether this trend persists or reverts based on future survey data.

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11 Forward and backward looking net balances are offset so that they relate to the same quarters.
The cost of borrowing for businesses has increased over recent years. While spreads on loans to small businesses were perceived to have fallen in 2011 and 2012, the Bank of England’s Credit Conditions Survey shows that they have increased through 2013 and into 2014 (Figure 6.6), with fees and commissions also increasing. This same pattern can be seen for large or medium-sized businesses, but to an even greater extent.

**Figure 6.5: Proportion of SME applicants that could not obtain all external finance required**

![Bar chart showing the proportion of SME applicants that could not obtain all external finance required from 2006 to 2012. The chart indicates a trend where the proportion increased from 2006 to 2012.](chart1)

**Source:** Oxford Economics/BIS.

**Figure 6.6: Credit spreads on loans to small, medium and large businesses, net percentage balance**

![Line graph showing credit spreads on loans to different sizes of businesses from 2010 to 2014. The graph indicates that spreads increased for all sizes of businesses, although the increase was more pronounced for large businesses.](chart2)

**Source:** Bank of England (2014a).
7 The future outlook for family businesses

So far this report has analysed the performance of family businesses since the previous edition was released in 2011. This chapter investigates the prospects for family businesses over the coming years and the challenges they may face.

- In February 2014 family businesses expected to increase both turnover and employment over the next 12 months, with positive net balances of +34 per cent and +14 per cent respectively. This shows a marked improvement since early 2011 when forecast increases were much more modest.
- Business investment remained very low in the few years after 2008. Since then the proportion of family businesses planning to increase or bring forward investment has risen from 4 per cent to 12 per cent, while the number planning to reduce or delay investment has fallen from 33 per cent to 16 per cent.
- Structural issues, including taxation and regulation, are more prominent for family businesses and grew in importance between 2010 and 2012.
- VAT was regarded as the primary tax issue by 56 per cent of family businesses who consider tax a barrier to success. This is an increase from 52 per cent in 2012 and affected them significantly more than non-family SMEs.

7.1 Family businesses’ expectations

Forward looking survey evidence suggests family businesses are optimistic about the future. The BIS SME Business Barometer indicates strong positive net balances for both turnover and employment growth in family SMEs over the next year (+36 per cent and +14 per cent respectively).12 In late 2013 and early 2014 turnover expectations were as strong as they have been at any point since before the survey began in late 2008, with 47 per cent of businesses expecting growth (Figure 7.1). In contrast, employment expectations have been more consistent throughout the course of the recovery.

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12 As in Section 5.2, sector responses from the BIS SME Business Barometer were weighted for sectoral penetration rates.
A longer-term outlook is presented by PwC (2012b), which found that 81 per cent of UK family businesses expected to see quick or steady growth over the next five years, with a further 16 per cent expecting consolidation and only 3 per cent expecting to shrink. These growth expectations were nearly identical to the average among family businesses globally.

### 7.2 Business strategies for the future

A number of questions about future growth and business strategies were asked in SBS (2012). In 2012, 54 per cent of family businesses responded that they were planning on growing their business over the next two to three years. This compared with 63 per cent of non-family SMEs, meaning that family firms have more limited growth plans (Figure 7.2).

More timely evidence from the BIS SME Business Barometer has shown relatively little change in the proportion of SMEs that expect to grow, with 66 per cent of all SMEs expecting growth in 2014, a level in line with most periods since 2010, excluding a decrease in 2012.
Historically, export markets play little role for family businesses in the UK. In 2012 the SBS found that 85 per cent of family SMEs neither exported nor planned to do so in the next 12 months. Furthermore, it found that only a declining proportion of family firms saw exploiting new markets as one of their growth strategies in 2012 (Figure 7.3).

The share of foreign customers is also low relative to their European counterparts. PwC (2012a) found that exports only contribute 11 per cent of total sales of family businesses in the UK. This compares to a Western European average of 29 per cent and rates as high as 31 per cent in Germany and 43 per cent in Italy.

The SME Business Barometer shows little change in export intentions between 2012 and 2014, indicating again that business ambitions have not been significantly influenced by economic conditions.

Of all the potential barriers to exports, in a survey of UK family businesses PwC (2012b) found that the main challenges to international operations were fluctuations in exchange rates, competition and regulations in the target economy, with these factors highlighted by 33 per cent, 31 per cent and 28 per cent of UK family businesses respectively.
One factor that has been significantly influenced by economic conditions is business investment. Low rates of business investment have been a feature of the recession and recovery seen in the UK; indeed, in its 2013 Q4 Quarterly Bulletin, the Bank of England stated in late 2013 that, “UK business investment growth has been weak since the financial crisis struck in 2007”.

More recently, however, an improvement can be seen. Whereas only 4 per cent of family SMEs planned to increase or bring forward their investment as recently as February 2012, this had increased to 13 per cent by the start of 2014, at the same time as the proportion decreasing or delaying investment halved from 33 per cent to 16 per cent, illustrated in Figure 7.4 by the narrowing of the gap between the upper and lower lines. Such findings are consistent with macroeconomic performance, with real gross fixed capital formation having expanded strongly for the past five quarters reaching a year-on-year growth rate of 9.7 per cent in 2014 Q1.\textsuperscript{13}

\textsuperscript{13} Gross fixed capital formation is the metric used in the national accounting framework to track investment spending.
7.3 Ownership transfer

Ownership transfer remains a major concern for family businesses. In 2012, 15 per cent of family firms expected to transfer the ownership of their business in the next five years (Figure 7.5). This was higher than in the previous two surveys and equates to 481,000 firms expecting the transfer of their business. A further 278,000 (9.3 per cent) expect the closure of the business over the next five years, significantly fewer firms than expected closure in 2010.

Figure 7.5: Ownership transfer expectations over the next five years for family and non-family SMEs

Source: Oxford Economics/BIS.
A range of factors influence family business decisions over succession and other forms of ownership or management transfers. Surveying family business around the world, PwC (2012a) found that 41 per cent of businesses planned on passing on both the ownership and management of the business to the next generation. A further 25 per cent planned on bringing in professional management and only passing on the ownership, while 17 per cent planned to sell or float the company.

7.4 Impact of tax and regulation

In the 2012 SBS survey, structural issues began to take on a greater prominence. Taxation was highlighted as an issue by slightly over 50 per cent of family businesses, an increase from 43 per cent in 2010 and comparing to 40 per cent of non-family businesses in 2012 (Figure 7.6). Regulation also went from being an obstacle for 43 per cent of family businesses to 50 per cent, compared with only 39 per cent for non-family businesses.

![Figure 7.6: Obstacles to SME success for family and non-family businesses](image)

The issue of regulation was also raised in the 2014 Institute for Family Business member survey, with 84 per cent of firms highlighting the regulatory burden placed on business as an “important” or “very important” barrier to their future growth.

A range of different regulations are seen as obstacles and became more of a concern between 2010 and 2012 (Figure 7.7). Health and safety is the most commonly identified issue (24 per cent of respondents who identified regulation as an issue), with sector specific regulations close behind (21 per cent). The most significant increases came from employment regulation (increasing from 6 per cent to 12 per cent of respondents) and planning, building and development regulation (increasing from 3 per cent to 9 per cent). The increasing concern around employment and development-related regulations seen in 2012 are likely to have come from renewed plans for expansion.
The SBS also asks businesses who identified tax as an obstacle to growth to identify which taxes specifically affect them. Some 56 per cent of small and medium-sized family businesses reported VAT as an issue, making it more than twice as much of a concern as the next most popular response, business rates (Figure 7.8). VAT is a more significant issue for family businesses than non-family businesses (56 per cent compared with 50 per cent). This is probably because the SME wholesale and retail sector is disproportionately made up of family businesses (see Chapter 3).

The changes between the 2010 and 2012 SBS surveys partly reflect policy changes made over that period of time. VAT increased from 17.5 per cent to 20 per cent at the beginning of 2011, following an increase from 15 per cent a year before. The employer national insurance rate also rose from 12.8 per cent to 13.8 per cent for the 2011/12 financial year. Both of these taxes were perceived as a greater issue by 2012. The standard rate of corporation tax has decreased in importance as an obstacle over this period, at the same time as it has been cut from 28 per cent in 2010/11 to 24 per cent in 2012/13, with further cuts scheduled.
8 Policy overview

This report demonstrates the importance of family firms in the UK economy and the significant role that they play in the continued UK economic recovery. This importance needs to be recognised, including through a stronger dialogue between family businesses and policy-makers, as well as by addressing a number of key policy issues. This section considers these concerns.

Family business – the UK’s Mittelstand: A strategic economic partner for government
The recognised and widely admired success of the German economy is often attributed to its Mittelstand – medium-sized, family-owned businesses. The demonstrable performance and contribution of the family business sector in the UK – as analysed in this report – merits recognition of the UK’s Mittelstand. In this context, government should engage more directly with the UK’s family business sector as a key strategic partner and establish a more regular dialogue. This would help shape a policy environment that delivers a level playing field for family firms, boosting competitiveness and driving growth.

Recognising strength in business ownership model diversity
Family ownership is a proven, dynamic, robust and competitive model of business ownership. It is no coincidence that some of the largest and most successful businesses around the world are family owned and that the world’s most successful economies have at their heart a strong family business sector. Not only are family businesses commercially successful and economically valuable, they demonstrate characteristics and behaviours that bring broader benefits – such as the commitment to pass something better on to future generations, a naturally long-term perspective, and a firm foundation of strong family values and community engagement.

It is important therefore for policy-makers to openly recognise the strategic importance of the sector to a modern economy, to include the family business narrative in debate about the economy and to ensure the policy environment supports family-owned businesses. Equally, that appropriate mechanisms are in place to capture and transfer learning from the family sector to other businesses to help improve the perceptions and performance of private enterprise.

Broadening financing options for family firms by expanding choice and competition in business financing markets
Access to finance is a key issue for family businesses, who were greatly affected by the sharp decrease in bank financing through the recession and the slow recovery that has been seen since. This has been magnified by the especially limited recovery in lending to smaller firms, as identified by the Bank of England’s Credit Conditions Survey. Alongside this, the Small Business Survey found that family-run SMEs are more likely to fail in their applications for finance, having previously seen a higher success rate.
There is therefore a need to improve the ways in which the lending market reflects the needs of family businesses; in particular this requires a broader range of funding options to be available. Greater choice and competition needs to be introduced to generate a wider number of options for those firms seeking financing. Areas that require focus include extra support for medium-sized firms to enter the bond market, lending from the insurance market and improving access to the private placement market.

**Supporting succession in family firms**

Nearly half a million family businesses expect to transfer ownership of their firm in the next five years. This represents an important transition for around 100,000 businesses every year. Government can play an important role in smoothing the transition process and providing specialist support. In particular, taxation policy should work in a way that prevents owners from having to place significant financial burden on their business as they plan for succession. Doing this successfully is essential for the economy to safeguard jobs and investment.

One essential component of this is business property relief (BPR), which ensures that individuals who inherit a business will not face a significant tax charge upon transfer, thus creating important stability. BPR helps ensure a level playing field between family firms and other forms of enterprise at the point of transfer of the business. It also helps ensure that the continuity of family ownership and long-term stewardship – and the significant benefits such ownership brings to the wider economy – remain a valid and viable option for family business leaders at the point of ownership transition. Supporting the long-term growth of a robust family business sector is critical to building the sustainable competitive capacity and capability of the UK’s Mittelstand. The success of this policy has led to the government committing to maintaining it, as well as its adoption overseas. Maintaining BPR is an essential part of supporting the diversity of business ownership types in the UK economy.

**Increasing the supply of skilled workers**

As the UK’s economic recovery has continued, employment growth has been strong, with unemployment falling sharply through the second half of 2013 and 2014. One of the clearest consequences of this has been the declining availability of skilled workers, with business surveys recently highlighting the increasing shortage of suitable candidates. This has also been seen in the 2014 Institute for Family Business member survey, in which 71 per cent of respondents reported that the supply of people with the necessary skills and experience was an “important” or “very important” barrier to their future growth.

These shortfalls can be addressed through enhancing the skill levels of the next generation of workers. Apprenticeships are a crucial part of this. Enhanced financial incentives for apprenticeships can boost vocational training, as can better engagement between the National Apprenticeship Service and business representatives such as the Institute for Family Business.

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14 The July 2014 REC/KPMG Report on Jobs, produced by Markit, highlighted skills shortages, with the decline in staff availability being the fastest in history (available at: https://www.rec.uk.com).
Expanding family business exports
Family businesses are less likely to export than non-family firms. As well as this, the proportion of family SMEs who saw exploiting new markets as a growth strategy decreased by more than one-third between 2008 and 2012. This failure to exploit foreign demand, combined with the sluggish growth of the domestic economy, has limited the growth of the family business sector over recent years. Increasing the number of family businesses who export is therefore an important focus. Government support can play an important role in helping family businesses to achieve this goal. Support should come in the form of access to market intelligence and stronger connections to UKTI, which is established as an important platform used by current and potential exporters.

Promoting entrepreneurship
Family businesses play a crucial role in promoting entrepreneurship; however, the legislative environment that they face is often less supportive of them than it could be, especially in the early years that businesses are active. One of the key polices that incentivises investment in early-stage businesses is the Enterprise Investment Scheme (EIS). However, restrictions mean that individuals with a spouse or relative who has an ownership stake in the company do not qualify. This provides a significant obstacle for firms that are family owned; relaxing the eligibility criteria would substantially improve the opportunities for small family firms to grow, and for established medium and large family firms to diversify and invest in new entrepreneurial ventures.
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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 the Family Business Sector Report, its work covers a broad range of publications, including:

- **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 Research and White Papers** – thought leadership on key family business characteristics and issues.
- **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, including the IFB Research Foundation Annual Lecture.

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 business sector. The IFB is a member of FBN International, the global network for family businesses.

www.ifb.org.uk
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