



## Commission on Ownership

### IFB submission- May 2011

#### 1. The Family Business Sector

The Institute for Family Business (IFB) is the trade body for the family business sector. This is a sector that plays a powerful role in promoting national economic development and growth.

##### 1.1 IFB and its membership;

The IFB represents family businesses throughout the UK. The association has 206 member companies with a combined turnover of more than £40 billion. Our members span all sectors of the economy, from agriculture to construction, and include some of Britain's biggest and most high profile companies, as well as some SME family firms. As the only family business specific organisation of its kind in the UK, we also speak on behalf of the family business sector as a whole.

The mission of the IFB is to help sustain a successful family business sector in the UK, making a powerful contribution to the national economy. These aims are achieved through our forums, representation and research work. The IFB particularly recognises the importance of developing the next generation of owners and leaders.

#### 2. The sector in figures

##### 2.1 The UK sector

Family owned firms are part of the backbone of the UK economy contributing over **30% of total GDP**. There is ample evidence that the sector is not only very large but that it has certain distinguishing characteristics that result in it providing diversity to the overall economy, and giving counterweight to other ownership sectors including FTSE quoted and the Private Equity sectors.

In terms of more detailed analysis of some of the distinguishing features of the sector they include but are not limited to the following:

- The UK family business sector is made up of **3 million firms** turning over in excess of £1'000BN. In terms of employment the sector includes over **9.5m employees** working in family firms, making the sector the largest in terms of numbers of employees, as compared to 7.5m for FTSE companies, or 2.8m for Private Equity owned firms.

Source: [The UK Family Business Sector](#) (IFB/Capital Economics 2008)

## 2.2 International comparisons

International statistical comparisons put the UK in line with other European countries in terms of the overall economic importance of family firms.

The European Commission commissioned an Expert Group report on Family Business. This report underlined how **across Europe family business forms a strategically vital part of the economic fabric** of our economies. The report also drew attention to the diversity of the sector, emphasising that family firms not only cover the full spectrum of industries, but the same applies in terms of size. A key observation is that the sector is not limited to SME firms and includes many larger sized enterprises. Germany's Mittelstand, of which the majority are family controlled businesses, is perhaps the best example of how sector firms are often leaders in their chosen industries.

(Source: [European Commission Expert Group](#) 2009)

- The UK has **proportionately fewer large (top 1000) family firms** than other main EU economies where family control of large firms is more prevalent in both the quoted and private sector. There is a greater tendency for larger UK family firms to naturally grow and for their owners to relinquish control over time, perhaps following a listing of the company. Private ownership however remains the default choice for most large UK family firms.

(Source: Life Cycle of the Family Ownership: London Business School 2010)

## 3. Family business performance

At the firm level family businesses generally are considered to **perform neither better or worse** than non-family firms, but they do have characteristics that make them distinctive. For example while on average they tend to be smaller than their non-family competitors in terms of net worth, they have higher levels of retained profits. Arguably the main distinction of a family firm financially is their **balance sheet strength** with respect to low relative levels of borrowing.

- One consequence of the average low leverage in the sector is that during the recession there were lower comparable failure rates for family firms, as many sector firms had a financial cushion to help them ride through a harsh trading environment they were facing.

Source: Nottingham University Business School- 2010 UK Family Business Benchmarking report

- Regarding sector trends the most recent 2010 Global PwC Family Business Survey highlights family firms' **positive confidence in their competitive position**. With a supply of surplus cash available to the majority of respondents sector firms are well positioned to take advantage of opportunities for investment and growth.

#### 4. Family business ownership

- An earlier IFB Report **Responsible Ownership** (IFB, 2007) highlighted the strategies deployed by successful sector role models to achieve business success. The building blocks that are visible in many of the UK's most successful family firms include:
  - Clear and powerfully articulated vision for the family and the firm
  - Defined succession planning
  - Encouragement of the next generation to prepare for ownership
  - Governance structures that have a key role on unifying the family owners and give clarity strategically to the business via the board (add link to the report)
  
- In a new IFB report in collaboration with Tomorrow's Company the structure of successful and sustainable family businesses is analysed. The Family Business Stewardship model is described in terms of four different forms of capital, where family capital plays a key role along with people, financial and social capital. The unique benefits that derive from family capital can include a strong sense of **owner's emotional attachment to the business**. When this is translated into a clear vision and strong set of values that are shared with the board and management the organisation benefits through having a clear purpose.

The engagement of family business owners who take an active, interested and involved stance offers good potential for an organisation that is backed by a strongly motivated management who are guided by a clear mission. This is often referred to as the "**socialisation**" of the organisation and its **employees**; the best family firms are often good exemplars of this approach. Source: Family Business Stewardship: IFB and Tomorrow's Company, 2011

- In [\*\*Five Attributes of Enduring Family Businesses: McKinsey's 2010\*\*](#) the report highlights the importance of balancing **professional management leadership** in an organisation with owners who are capable of carrying the business on. Backing leadership up with **strong governance** helps to ensure strong accountability and an organisation that is better able to respond to risks and opportunities.

##### 4.1 Family business ownership challenges

One area where family firms encounter particular problems that non-family firms don't have to face is business transfer – ownership has to be passed down through the generations of the family for the company to remain a family firm. Government estimates *The UK Family Business Sector pp20-21*, **100,000 businesses in the UK may be affected by business transfer failure**, either closing, or becoming less effective. A failed process of succession to the next generation is a key cause of ownership transfer failure. When businesses fail because of ownership transfer problems,

economic capital such as knowledge, established contacts and other intangible assets are destroyed, jobs are lost and economic growth is reduced.

This is an area of concern for the sector as otherwise sound businesses can fail due to lack of support at crucial times in their development. The IFB would like to see better use of public resources, such as the Business Link website and other online tools, to give owners more information about best practice and also a better partnership between Government and the sector's trade bodies to promote a stronger family business sector.

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## **Annexe: The Family Business Sector – policy framework**

### **Taxation issues and legislative environment**

- **Tax policy:** There are measures in place that specifically take into account the unique nature of a family business, but there are other areas where changes to legislation could enable family businesses to achieve greater long-term growth and manage generational transition more effectively encouraging corporate stability.

These documents set how government policy and taxation affects the family business sector most directly.

IFB 2011 submission to the Office of Tax Simplification  
[http://ifb.org.uk/media/119541/ots\\_ifb\\_submission.pdf](http://ifb.org.uk/media/119541/ots_ifb_submission.pdf)

IFB 2010 Autumn Submission to the Treasury  
<http://ifb.org.uk/media/44016/ifb%20autumn%20submission%20to%20hm%20treasury%202010.pdf>

- **Raising Capital:**  
See the BIS submission Financing a Private Sector Recovery  
<http://ifb.org.uk/media/44238/ifb%20submission%20-%20financing%20a%20private%20sector%20recovery%20consultation.pdf>