THE STATE OF THE NATION
The UK Family Business Sector 2015/16
Foreword

Family businesses account for a quarter of the UK’s gross domestic product, employ nearly 12 million people and contribute £125 billion to the UK government in tax revenues.

In this latest IFB Research Foundation UK Family Business Sector report we are putting the spotlight on the size and scope of one of the most important areas of the UK economy. Why is this? Family businesses, while not always as present in the media as other types of firm, bring a unique and powerful contribution to our national wealth.

Committed to the sustainable long-term success of their firms, family business owners often commit most or all of their investments into a single company. Besides reinvesting significantly in their assets, their success also involves a commitment to invest in people and ensuring that they have the necessary skills. In addition, family firms stand out for the support that they provide to the local communities in which they work.

The statistical evidence gathered in this report by Oxford Economics demonstrates why family businesses are a key engine of our nation’s wealth. I therefore commend the report findings to you.

Sir Michael Bibby
Chairman, IFB Research Foundation
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Executive summary

Most private enterprises in the UK are family-run firms …

- In 2014 there were an estimated 4.6 million family businesses in the UK. That is 87 per cent of all private sector firms, up from 86 per cent in 2013.
- While most family businesses are small firms (99.6 per cent), medium-sized businesses make up a further 0.3 per cent of family firms. And more than one in ten (or 10.9 per cent) of large firms in the UK are family firms.
- This report estimates that there are many more family businesses in the UK than did the previous report in the series, published in 2014. The difference is largely due to a decision by the Department for Business Innovation and Skills to classify all single-owner firms as family businesses in its most recent Small Business Survey; in previous such surveys, respondents were asked whether they were a family business or not. This and other changes affecting sources and methodology are assessed in this report.

... and they made a substantial contribution to the UK economy in 2014.

- Family businesses employed an estimated 11.9 million people in the UK in 2014. That is 47 per cent of all private sector employment (up one percentage point since 2013) and 36 per cent of total employment in the UK.
- The family business sector is estimated to have generated £1.3 trillion in turnover in 2014. This represents 34 per cent of the UK’s private sector turnover for the year, down slightly from 36 per cent in 2013.
- From that revenue, the family business sector is estimated to have made a £418 billion gross value-added contribution to UK GDP, which is 26 per cent of total UK gross value added for the year.
- Family firms with ten or more employees are estimated to have generated 53 per cent of all gross value added created by family firms in 2014, while family firms with nine or fewer employees generated 47 per cent.
- Family businesses paid an estimated £125 billion in tax in 2014, equivalent to 19 per cent of all taxes collected by the Exchequer.

Family firms are optimistic about the future …

- Survey data reveal that the turnover of 28 per cent of small and medium-sized (SME) family firms increased in the year to October 2014. And nearly 33 per cent of SME family businesses expected an increase in turnover in the next 12 months, compared with slightly more than 12 per cent expecting lower turnover. Thus in 2014, 20 percentage points separated firms with a more positive outlook relative to those with a more negative outlook (up from 10 percentage points in 2012).
Similarly, 21 per cent of SME family firms employed more staff in the year to 2014. The difference between the proportion of family SMEs that expected to hire more employees in the next 12 months and those that expected to employ fewer was 21 percentage points in 2014 (up from 5 percentage points in 2012).

Nearly 50 per cent of SME family firms aim to grow their businesses over the next two to three years. They will adopt a diverse range of strategies to achieve their objectives, including improving the skills of their workforce (44 per cent) and finding new markets within the UK (42 per cent).

… but they face a range of challenges.

In 2014, 37 per cent of family businesses surveyed regarded the economy and competitive pressures as the main obstacles to success.

Combined, red tape or regulation were cited by 14 per cent of family firms surveyed as the main obstacles to success. A further 7 per cent considered taxation to be the main obstacle they face.

An estimated 420,000 family SMEs (9 per cent of the total) will be sold or transferred in the next five years. Survey evidence suggests that inadequate succession planning may pose challenges to many such plans. This is important because it can result in suboptimal sale or transfer of family businesses, which could, ultimately, have a negative impact on the size and health of the family business sector.
1 Introduction

This report examines the role of family firms in the UK economy, and it follows on from previous IFB Research Foundation family business sector reports published in 2008, 2011 and 2014.

The state of family businesses matters because they make up a large proportion of all UK businesses. Across the length and breadth of the country, small-scale, family-run firms produce goods, provide services and create jobs in all sectors of the economy. They vary widely in size, management structure and longevity. They also face a number of challenges, some of which are unique to family firms.

This year’s report differs from last year’s because family businesses have grown more optimistic. The latest survey evidence shows that the economy is seen as less of an obstacle to success, and, looking ahead, many family firms expect turnover and employment growth. As a result, they are exploring ways to grow their businesses and expand into new markets.

The report begins by defining the sector, before analysing the contribution that it makes to the UK economy. It discusses the characteristics, recent performance and future outlook of family firms in the UK, and concludes by discussing some of the important challenges the sector faces.

1.1 What is a family business?
A firm is considered to be a family business if it has:

- fewer than 249 employees and a single owner; or
- between one and 249 employees, multiple owners, and self-identifies itself as a family business; or
- more than 249 employees and a UK family possesses a 25 per cent shareholding, or a first generation entrepreneur self-identifies the company as a family firm.

The number of firms matching the first two criteria is estimated using a survey by the Department for Business Innovation and Skills of micro, small and medium-sized enterprises. The number of firms fitting the third criterion is derived from a study of large firms in the UK by RepGraph. Both sources are described in greater detail later in this report.

1.2 Data sources
This report uses a range of data sources to analyse the family business sector. However, the following four sources underpin the estimates presented in the report:

- The Department for Business Innovation and Skills (BIS) Small Business Survey (SBS). This survey is published biennially by BIS and focuses on micro, small and medium-sized enterprises.

1 To accommodate definitional changes in the Department for Business Innovation and Skills’ Small Business Survey 2014, these criteria differ from those in previous editions of this report.
The UK Family Business Sector

(SMEs) – that is, firms with between zero and 249 employees. In this report, editions of the SBS are referenced according to the year they were conducted: “SBS (2014)” therefore refers to the latest version, conducted in 2014.2

- **BIS Business Population Estimates for the UK and Regions.** This annual report published by BIS produces estimates of the number and characteristics of businesses of different sizes in the UK, disaggregated by region, industry sector and legal status.

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

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

Later chapters include more information about data sources and methods.

### 1.3 Key terms
The key economic terms used in this report are:

- **Turnover.** The value of the annual sales volume of a business, net of all discounts and sales taxes.

- **Gross value added.** The contribution an institution, company or industry makes to gross domestic product (GDP). 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.** This is measured on a headcount rather than full-time equivalent basis to facilitate comparison with ONS data on employment, and includes employees and the self-employed.

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

- **Chapter 2** estimates family businesses’ contribution to the UK economy.
- **Chapter 3** discusses the characteristics of the UK family business sector.
- **Chapter 4** examines the recent performance of UK family businesses.
- **Chapter 5** analyses the outlook for family businesses.
- **Chapter 6** discusses several challenges that family companies face going forward.

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2 The economic contribution of family businesses

This chapter outlines the size of the family business sector in 2014 and its role in the UK economy, including the number of firms, total employment, turnover, gross value added and payment of taxes.

- In 2014, there were nearly 4.6 million family businesses in the UK. This is 87 per cent of all private sector firms.
- Family businesses employed an estimated 11.9 million people in 2014, which is nearly 47 per cent of all private sector employment and 36 per cent of total employment in the UK.
- The family business sector generated an estimated £1.3 trillion in turnover in 2014, which is 34 per cent of the UK’s private sector turnover for the year. From that revenue, family businesses are estimated to have made a £418 billion gross value-added contribution to UK GDP. That is 26 per cent of gross value added created in the whole economy in 2014.
- Family businesses paid an estimated £125 billion in taxes in 2014, or 19 per cent of all taxes paid to the Exchequer for that year.

2.1 Number of firms and employment

Oxford Economics estimates that there were 4.6 million family-run businesses in the UK in 2014. They comprise 87 per cent of all private sector firms in the country.

Analysis of SBS (2014) survey data showed that family firms are most prevalent among small businesses with few employees (Figure 2.1). Micro businesses with no employees were determined to be family businesses in 92 per cent of cases in 2014, while 74 per cent of micro firms with between one and nine employees were considered family firms. Some 61 per cent of small firms (10 to 49 employees) and 51 per cent of medium-sized firms (50 to 249 employees) were family businesses.

Figure 2.1: Family firms as a share of all private sector firms (by employment size band) in 2014

Source: BIS and RepGraph (2015).
RepGraph’s (2015) *Large Family Business Identification* study

Because the BIS *Small Business Survey* series does not cover firms with 250 or more employees, the RepGraph (2015) *Large Family Business Identification* study, commissioned by the IFB Research Foundation, is an important extension of the knowledge base surrounding large family firms in the UK.

RepGraph (2015) investigated what proportion of the largest 1,000 companies in the UK, as measured by turnover, were family firms. Using the criterion that family shareholding must be greater than 25 per cent to qualify as a family business, it found 20.1 per cent of the largest 1,000 firms in the UK were family businesses. Some 10.9 per cent of the 1,000 companies were owned by UK families. This is similar to the findings of Franks et al. (2009). The proportion falls to 9.2 per cent ownership by UK families if wholly owned subsidiaries are removed from the dataset.

Similar to the SBS (2014) findings for firms with fewer than 250 employees, RepGraph (2015) found that the proportion of family businesses in the largest 1,000 UK companies was negatively correlated with turnover size. Of the 130 UK family firms identified out of the 1,000 companies, only 8.3 per cent occurred in the top fifth (Figure 2.2). Because the number of large family businesses in this report is estimated using a sample of the largest businesses in the UK – rather than a sample of “typical” large businesses, which would be smaller on average and therefore more likely to be family owned – these estimates are probably conservative.

**Figure 2.2: Number of UK family-owned firms in the top 1,000 by turnover ranking (subsidiaries included)**

<table>
<thead>
<tr>
<th>Company ranking by turnover (highest turnover at bottom)</th>
<th>Number of UK firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>1–100</td>
<td></td>
</tr>
<tr>
<td>101–200</td>
<td>5</td>
</tr>
<tr>
<td>201–300</td>
<td>10</td>
</tr>
<tr>
<td>301–400</td>
<td>15</td>
</tr>
<tr>
<td>401–500</td>
<td>15</td>
</tr>
<tr>
<td>501–600</td>
<td>15</td>
</tr>
<tr>
<td>601–700</td>
<td>15</td>
</tr>
<tr>
<td>701–800</td>
<td>15</td>
</tr>
<tr>
<td>801–900</td>
<td>15</td>
</tr>
<tr>
<td>901–1,000</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: RepGraph (2015).
Table 2.1: Employment in family businesses by size of firm, 2014

<table>
<thead>
<tr>
<th>Size of firm</th>
<th>Number of family firms</th>
<th>Percentage of all family firms</th>
<th>Employment in family firms (000 jobs)</th>
<th>Percentage of all family firm employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro (0 employees)</td>
<td>3,663,559</td>
<td>80</td>
<td>4,021</td>
<td>34</td>
</tr>
<tr>
<td>Micro (1–9 employees)</td>
<td>777,095</td>
<td>17</td>
<td>2,920</td>
<td>24</td>
</tr>
<tr>
<td>Small (10–49 employees)</td>
<td>118,792</td>
<td>3</td>
<td>2,322</td>
<td>19</td>
</tr>
<tr>
<td>Medium (50–249 employees)</td>
<td>15,938</td>
<td>0.3</td>
<td>1,557</td>
<td>13</td>
</tr>
<tr>
<td>Large (250+ employees)</td>
<td>735</td>
<td>0.02</td>
<td>1,098</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: BIS and RepGraph (2015).

Table 2.1 shows that, among all family firms, the vast majority – nearly 3.7 million (80 per cent of the total) – had no employees. Another 780,000 (17 per cent of the total) had between one and nine employees, and 119,000 (2.6 per cent of the total) had between 10 and 49 employees.³ Medium-sized firms with between 50 and 249 employees comprised a further 0.3 per cent of the family business total (or 15,900 firms) and large businesses with 250 or more employees accounted for 0.02 per cent of the total (or 735 firms).

While many family firms do not have employees, they are nonetheless substantial sources of employment in the UK.⁴ Family businesses employed an estimated 11.9 million people in 2014, which is 47 per cent of private sector employment and 36 per cent of total UK employment. This is more than double the number of people employed in the public sector in the UK, which was 5.4 million people in 2014 according to ONS (2015).

The concentration of family businesses among smaller firms means that in 2014 micro businesses contributed nearly 60 per cent of total family business employment, or 6.9 million jobs. A further 2.3 million people were employed in other small family firms, while 1.6 million were employed in medium-sized family firms and 1.1 million worked in large family firms.

2.2 Turnover and GDP

Oxford Economics estimates that family firms earned £1.3 trillion in revenue in 2014.⁵ This is 34 per cent of total private sector turnover in the UK.

³ To estimate the number of family businesses in each employment size band, the share of family firms in each employment size band according to SBS (2014) was multiplied by firm numbers in the BIS (2014a) Business Population Estimates for 2014. All SBS survey responses discussed are weighted. On page 124 of BIS (2015) – BIS Research paper number 214 – the authors state that this is to make results “representative of UK SMEs, according to targets drawn from the 2014 BPE. The main reasons for weighting were the disproportionate over-sampling of SMEs in Scotland and Northern Ireland, and those across the UK with 5–249 employees. The weighting also corrected any disparity by sector.”

⁴ “Employment” includes both employees and the self-employed. For micro firms with no employees, their employment contribution comes from the self-employed.

⁵ Similar to the calculation for firm and employee numbers, family firm turnover was estimated by multiplying the SBS (2014) family firm shares in each employment size category by the BIS (2014a) Business Population Estimates for turnover in each employment size category.
While family firms with ten or more employees only make up about 3 per cent of all family businesses, they are estimated to have created 53 per cent of all gross value added generated by family firms in 2014. Meanwhile, family firms with nine or fewer employees (97 per cent of the sector) generated the remaining 47 per cent of family firms’ gross value added.

The wholesale and retail sector contributed the largest share of turnover among all family businesses. The sector had estimated revenues of £470 billion, accounting for 36 per cent of all family business revenue in 2014 (see Figure 2.3). Meanwhile, the business service sector\(^6\) contributed an estimated £196 billion in turnover (15 per cent of all family business turnover), with hotels, restaurants, transport and communications contributing an estimated £142 billion (11 per cent).

For comparison, the non-family wholesale and retail sector contributed only 32 per cent of the turnover of non-family businesses. The manufacturing sector is the second largest among non-family businesses, contributing an estimated 17 per cent of turnover, compared with 9 per cent among family firms.

From the revenue family businesses earned in 2014, Oxford Economics estimates that they made a £418 billion gross value-added contribution to UK GDP (Table 2.2).\(^7\) This is 35 per cent of private sector gross value added and 26 per cent of total UK gross value added.

**Figure 2.3: Sectoral breakdown of turnover – family versus non-family firms, 2014**

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6 Including financial services, real estate and professional and scientific services.

7 Gross value-added estimates were derived by multiplying estimates of family business turnover by ONS Annual Business Survey ratios of gross value added to turnover by sector in the UK.
Table 2.2: Turnover and gross value-added contributions of the family business sector, 2014

<table>
<thead>
<tr>
<th>Sector</th>
<th>Turnover (£ million)</th>
<th>Sector value added to turnover ratio</th>
<th>Gross value added (£ million)</th>
<th>Share of family business sector GVA (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale and retail trade, repairs</td>
<td>469,523</td>
<td>0.10</td>
<td>48,420</td>
<td>12</td>
</tr>
<tr>
<td>Real estate, renting and business activity</td>
<td>224,958</td>
<td>0.56</td>
<td>128,199</td>
<td>30</td>
</tr>
<tr>
<td>Transport, storage and communications</td>
<td>111,032</td>
<td>0.48</td>
<td>52,748</td>
<td>13</td>
</tr>
<tr>
<td>Construction</td>
<td>112,694</td>
<td>0.39</td>
<td>51,900</td>
<td>12</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>118,140</td>
<td>0.30</td>
<td>35,520</td>
<td>9</td>
</tr>
<tr>
<td>Agriculture, extraction and utilities</td>
<td>71,068</td>
<td>0.39</td>
<td>27,699</td>
<td>7</td>
</tr>
<tr>
<td>Financial services</td>
<td>53,633</td>
<td>0.46</td>
<td>24,620</td>
<td>6</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>31,248</td>
<td>0.50</td>
<td>15,579</td>
<td>4</td>
</tr>
<tr>
<td>Other community, social and personal services</td>
<td>35,643</td>
<td>0.34</td>
<td>12,237</td>
<td>3</td>
</tr>
<tr>
<td>Health and social work</td>
<td>29,460</td>
<td>0.63</td>
<td>18,650</td>
<td>4</td>
</tr>
<tr>
<td>Education</td>
<td>11,655</td>
<td>0.45</td>
<td>5,269</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>1,289,035</td>
<td>0.32</td>
<td>417,841</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Oxford Economics and BIS.

2.3 Contribution to the Exchequer

Family businesses contribute substantially to the Exchequer. By extrapolating from a broad range of sources, it can be estimated that the family business sector paid about £125 billion in tax in 2014. Based on HMRC (2015), that is equivalent to 19 per cent of total contributions to the Exchequer for that year (Table 2.3). Of this, 55 per cent was borne directly by family firms and their owners, with the remaining 45 per cent collected by family businesses from their employees. It is estimated that the family business sector contributed 28 per cent (£11.6 billion) of corporation tax receipts in 2014.

Within the total family business contribution, sole traders and partnerships contributed an estimated £20.5 billion to the Exchequer in 2014, family-owned SMEs contributed £77 billion and large family firms contributed £28 billion.

Table 2.3: The family business sector’s contribution to the Exchequer in 2014

<table>
<thead>
<tr>
<th>Type of firm</th>
<th>Type of family business</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small sole traders and partnerships</td>
</tr>
<tr>
<td>Taxes borne (£ million)</td>
<td>16,942</td>
</tr>
<tr>
<td>Taxes collected (£ million)</td>
<td>3,538</td>
</tr>
<tr>
<td>Total tax paid (£ million)</td>
<td>20,480</td>
</tr>
<tr>
<td>Share of government revenue (%)</td>
<td>3</td>
</tr>
</tbody>
</table>

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

8 Including owners’ income tax, owners’ NICs, corporation tax, business rates, directors’ income tax, directors’ NICs and employers’ NICs.

9 This report uses research by Chittenden and Sloan (2007) to estimate taxes borne and collected by sole traders, partnerships and small limited firms in 2014. Average taxes borne and collected in 2009 from sole traders, partnerships and small limited companies were projected forward to 2014 values using nominal GDP growth (21 per cent) and applied to the estimates for the number of sole traders and partnerships (3.5 million), and small and medium-sized family companies (1.1 million). For larger firms, data from a PwC survey of the 100 Group in 2014 (PwC 2014a) indicate that, on average, revenues from taxes borne and collected from the largest firms amounted to 13.6 per cent of their total turnover. In recent versions of the 100 Group survey, including 2014, PwC has not published survey participants’ total turnover, which is needed as the denominator in the average tax rate calculation. Therefore, the revenue of the 100 Group from 2010 is extrapolated by whole economy growth to arrive at a 2014 estimate.
2.4 Change in economic impact between 2010 and 2014
This section of the report shows how the impact of the family business sector in the UK has changed over time. One important caveat to this analysis is that SBS (2014) definitional changes\textsuperscript{10} and survey sample source changes,\textsuperscript{11} as well as Oxford Economics’ methodological changes from year to year\textsuperscript{12} mean that the economic impact of family businesses is not perfectly comparable over time.

Figure 2.4 shows that measured employment in family firms in 2014 is higher than it was between 2010 and 2013. In 2014, family firms are estimated to have been responsible for 26 per cent more employment than was estimated in 2013. However, roughly three-quarters of this change is estimated to have occurred because of BIS's change to the SBS (2014) definition of family businesses as well as methodological changes since the previous iteration of the report. The remainder – or six percentage points of growth – is estimated to be due to a combination of: genuine change in the UK economy and family firms’ role in it; and the effects of BIS’s change to the database used to select firms for the SBS (2014) survey. This calculation is described in detail in the Appendix to this report.\textsuperscript{13}

Figure 2.4: Total estimated employment and gross value added of family firms between 2010 and 2014

Source: Oxford Economics. These estimates contain data discontinuities.

\textsuperscript{10} In SBS (2014) BIS decided to “automatically include any business where there was a single owner in the family-owned business definition, whereas in 2012 the question was asked of all respondents.”

\textsuperscript{11} SBS (2014) notes that “SBS 2014 has introduced a significant change in that the primary sample source for employers was the Inter-Departmental Business Register (IDBR), whilst previously Dun & Bradstreet’s commercial database was the source for all SME interviews. This has led to some differences in the profiles of businesses between the 2012 and 2014 surveys.” One such change, termed “size band slippage”, affected 30 per cent of all respondents. For no employees, that figure was 25 per cent; for 1–4 employees, 45 per cent; for 5–9 employees, 51 per cent; for 10–49 employees, 23 per cent; and for 50–249 employees, 15 per cent.

\textsuperscript{12} Changes in methodology over time are necessary because of changing availability of data sources from year to year. In particular, because BIS conducts its Small Business Survey every two years, in interim years this IFB Research Foundation study must rely more heavily on the BIS Business Population Estimates and the ONS Annual Business Survey, which do not include detail on family businesses specifically.

\textsuperscript{13} While desirable, it is unfortunately not possible to disaggregate the impact of the sample source change from the genuine trend of more family businesses.
Similarly, measured gross value added is estimated in 2014 to be 16 per cent higher than in 2013. Again, roughly three-quarters of this change is likely due to definitional and methodological changes, while the remainder may be genuine growth and the effect of BIS’s sample source change.

Table 2.4 extends this analysis, adding estimates of the number of family businesses and their turnover to estimates of employment and gross value added from 2010 to 2014. The table also shows how the family business sector’s estimated impact compares to estimates for the impact of the whole private sector in the UK between 2010 and 2014.

The number of family firms in the UK is estimated to be 53 per cent higher than it was in 2013. The vast majority of this – 45 percentage points – is estimated to be due to definitional and methodological changes, while the remaining eight percentage points may reflect genuine growth and the sample source change.

Finally, family firms’ turnover is estimated to be 14 per cent higher than measured turnover in 2013. Roughly 12 percentage points of that amount is likely due to definitional and methodological issues, while the remaining two percentage points may reflect real expansion in sales revenue and the sample source change.

Table 2.4: Number of firms, employment, turnover and GVA in family businesses and the private sector in the UK between 2010 and 2014

<table>
<thead>
<tr>
<th>Classification</th>
<th>Metric</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Growth since 2013 (% or PPs)</th>
<th>Growth since 2010 (% or PPs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family business sector</td>
<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>
<td>4,576,118</td>
<td>53</td>
<td>55</td>
</tr>
<tr>
<td></td>
<td>Employment (thousands)</td>
<td>8,978</td>
<td>9,145</td>
<td>9,276</td>
<td>9,447</td>
<td>11,918</td>
<td>26</td>
<td>33</td>
</tr>
<tr>
<td></td>
<td>Turnover (£m)</td>
<td>1,150,977</td>
<td>1,086,076</td>
<td>1,098,875</td>
<td>1,134,789</td>
<td>1,289,035</td>
<td>14</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>GVA (£m)</td>
<td>357,940</td>
<td>343,364</td>
<td>345,272</td>
<td>360,092</td>
<td>417,841</td>
<td>16</td>
<td>17</td>
</tr>
<tr>
<td>Private sector</td>
<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>
<td>5,243,135</td>
<td>7</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>Employment (thousands)</td>
<td>22,516</td>
<td>23,392</td>
<td>23,893</td>
<td>24,331</td>
<td>25,228</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>Turnover (£m)</td>
<td>3,488,703</td>
<td>3,301,012</td>
<td>3,361,408</td>
<td>3,511,689</td>
<td>3,804,382</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>GVA (£m)</td>
<td>1,106,393</td>
<td>1,068,314</td>
<td>1,077,011</td>
<td>1,136,796</td>
<td>1,207,846</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>Family business share (%)</td>
<td>Number of firms</td>
<td>66</td>
<td>64</td>
<td>61</td>
<td>61</td>
<td>87</td>
<td>26</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>Employment</td>
<td>40</td>
<td>39</td>
<td>39</td>
<td>39</td>
<td>47</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Turnover</td>
<td>33</td>
<td>33</td>
<td>33</td>
<td>32</td>
<td>34</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>GVA</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>35</td>
<td>3</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Oxford Economics. These estimates contain data discontinuities.
3 Characteristics of the UK family business sector

This chapter discusses family businesses across sectors, regions and legal ownership types. The majority of data on SMEs are sourced directly from SBS (2014), while a CMRC and UNIEI (2011) study facilitated regional and sectoral breakdowns for large family businesses.14

- In 2014, the real estate, renting and business services sector had the largest number of family firms (1.1 million, or 25 per cent of the total). This was followed by the construction sector (892,000, or 19 per cent of the total) and the transport, storage and communications sector (523,000, or 11 per cent of the total).
- The highest concentration of family firms in 2014 was found in Scotland and Wales, where 92 per cent of private sector businesses were family run. They were followed closely by Yorkshire and the Humber and the East of England (each at 91 per cent). London had the lowest concentration of family firms at just 80 per cent.
- Some 68 per cent of family firms were sole traders in 2014 (3.1 million firms in total), while 24 per cent were incorporated companies (1.1 million firms). Meanwhile, 7 per cent were partnerships (nearly 340,000 firms). Some 92 per cent of sole trader family businesses had no employees. Approximately 27 per cent of partnerships and 52 per cent of incorporated firms had at least one employee.

3.1 Industrial sector breakdown

In 2014, some 1.1 million family firms (or 25 per cent of the total) operated in the real estate, renting and business services sector, more than any other sector (see Table 3.1). The construction sector ranked second (890,000 firms or 19 per cent of the total) and the transport, storage and communications sector ranked third (520,000 firms or 11 per cent of the total).

Family businesses were also significantly more concentrated in some sectors than others. For example, in 2014 family firms comprised an estimated 99 per cent of private sector firms in the utilities and waste management sector (which includes a wide range of activities from supplying air conditioning to scrap metal disposal).15 The next two most concentrated sectors were agriculture and extraction (96 per cent) and construction (94 per cent).

A number of factors determine the concentration of family businesses in certain sectors. Franks et al. (2012) argued that the need to raise external finances is the primary reason for the dilution of family ownership. Higher rates of family ownership therefore tend to be seen in sectors that are less reliant on capital expenditure or have lower levels of merger and acquisition activity.

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14 The CMRC and UNIEI data on large family firm sectoral breakdowns were adjusted to account for the difference between the estimated share of large businesses in the UK that were UK family owned in 2014 (12 per cent) compared with the estimated share in this report (10.9 per cent).

15 Encompassing, for example, production and distribution of air conditioning systems; dismantling of automobiles, computers, televisions and other equipment for materials recovery; and mechanical crushing of metal waste such as used cars, washing machines, bikes etc. with subsequent sorting and separation.
3.2 Regional breakdown

In 2014, nearly 750,000 family businesses (or 16 per cent of the total) operated in London, while another 720,000 (a further 16 per cent) operated in the South East (Table 3.2). The East of England had 11 per cent of the total number of family businesses, and the South West and North West accounted for 10 per cent each.

In 2014, six geographical areas – the East of England, North West, Yorkshire and the Humber, East Midlands, Scotland and Wales – had concentrations of family firms that were 90 per cent or higher (see Figure 3.1). London and the North East had the lowest concentration of family firms at 80 per cent and 82 per cent, respectively.

Table 3.2: Regional distribution of family businesses, 2014

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of family firms</th>
<th>Percentage of all family firms (%)</th>
<th>Number of private sector firms</th>
<th>Family firms as share of private sector firms (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>London</td>
<td>747,030</td>
<td>16</td>
<td>935,379</td>
<td>80</td>
</tr>
<tr>
<td>South East</td>
<td>720,295</td>
<td>16</td>
<td>836,253</td>
<td>86</td>
</tr>
<tr>
<td>East of England</td>
<td>497,198</td>
<td>11</td>
<td>548,665</td>
<td>91</td>
</tr>
<tr>
<td>South West</td>
<td>457,411</td>
<td>10</td>
<td>513,250</td>
<td>89</td>
</tr>
<tr>
<td>North West</td>
<td>454,335</td>
<td>10</td>
<td>507,235</td>
<td>90</td>
</tr>
<tr>
<td>West Midlands</td>
<td>356,995</td>
<td>8</td>
<td>412,760</td>
<td>86</td>
</tr>
<tr>
<td>Yorkshire and the Humber</td>
<td>322,764</td>
<td>7</td>
<td>353,286</td>
<td>91</td>
</tr>
<tr>
<td>East Midlands</td>
<td>296,092</td>
<td>6</td>
<td>330,820</td>
<td>90</td>
</tr>
<tr>
<td>North East</td>
<td>123,401</td>
<td>3</td>
<td>150,655</td>
<td>82</td>
</tr>
<tr>
<td>Scotland</td>
<td>298,097</td>
<td>7</td>
<td>322,878</td>
<td>92</td>
</tr>
<tr>
<td>Wales</td>
<td>196,775</td>
<td>4</td>
<td>213,017</td>
<td>92</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>105,526</td>
<td>2</td>
<td>118,795</td>
<td>89</td>
</tr>
<tr>
<td><strong>UK</strong></td>
<td><strong>4,576,118</strong></td>
<td><strong>100</strong></td>
<td><strong>5,243,135</strong></td>
<td><strong>87</strong></td>
</tr>
</tbody>
</table>

Figure 3.1: Family firms as a share of all private sector firms in the UK, 2014

3.3 Legal status and size

In 2014, there were 3.1 million sole traders, accounting for 68 per cent of all family-run firms in the UK (see Table 3.3). The second most popular legal structure was incorporated companies, comprising 1.1 million firms (or 24 per cent of the total). Partnerships were the least numerous, with 0.3 million firms (or 7 per cent of the total; that is compared with 18 per cent of the total for non-family firms).

Of the various legal structures, incorporated family SMEs were the most likely to have employees. In 2014, over half of them had one or more employee. More than 10 per cent had 10 or more employees. Sole trader family SMEs were the least likely to have employees: in 2014, 92 per cent of sole trader family businesses were micro businesses with no employees.

Table 3.3: Legal status of family businesses, 2014

<table>
<thead>
<tr>
<th>Firm type</th>
<th>Firm size (number of employees)</th>
<th>Sole traders</th>
<th>Partnerships</th>
<th>Incorporated companies</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro (no employees)</td>
<td>0</td>
<td>2,877,806</td>
<td>246,414</td>
<td>539,339</td>
<td>3,663,559</td>
</tr>
<tr>
<td>Micro (with employees)</td>
<td>1–9</td>
<td>233,082</td>
<td>79,146</td>
<td>464,867</td>
<td>777,095</td>
</tr>
<tr>
<td>Small</td>
<td>10–49</td>
<td>9,988</td>
<td>10,003</td>
<td>97,801</td>
<td>118,792</td>
</tr>
<tr>
<td>Medium</td>
<td>50–249</td>
<td>209</td>
<td>244</td>
<td>15,484</td>
<td>15,938</td>
</tr>
<tr>
<td>Large</td>
<td>250+</td>
<td>1</td>
<td>7</td>
<td>728</td>
<td>735</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>3,121,086</td>
<td>336,815</td>
<td>1,118,218</td>
<td>4,576,118</td>
</tr>
</tbody>
</table>

Share by legal status (%) | 68 | 7 | 24 | 100

Source: Oxford Economics and BIS.
4 Recent performance of the UK family business sector

The IFB Research Foundation’s UK Family Business Sector report published in December 2014 documented how the family business sector fared following the global financial crisis and recession. This chapter extends that analysis, looking at how family firms have performed in 2014 and early 2015. It draws comparison with non-family firms.

- Family businesses are heavily dependent on the domestic economy. Some 88 per cent of family SMEs rely solely on customers within the UK according to survey data. Domestic demand is therefore an important determining factor. Domestic demand grew by 3.5 per cent in 2014 and 1.8 per cent in the first half of 2015.
- Substantially more family firms reported an increase in employment and turnover in the 12 months to October 2014 than in the 12 months to September 2012: the proportion of family firms reporting they had hired more people rose by 7 percentage points to 18 per cent; the share reporting an increase in turnover rose from 24 per cent to 28 per cent over the same period.16

4.1 Macroeconomic background

Survey data suggests that most family businesses are heavily dependent on the domestic economy. SBS (2014) data show that 88 per cent of family SMEs rely solely on customers within the UK, while 12 per cent also sell to customers abroad. None rely solely on export markets. By contrast, non-family firms are more likely to have customers abroad. Some 19 per cent of non-family SMEs have customers both at home and abroad.

Thus, the fortunes of the domestic economy are critical to determining the outlook for family firms in the UK. In 2014, domestic demand grew by 3.5 per cent and in the first half of 2015 it increased by a further 1.8 per cent (Figure 4.1). Nearly three-quarters of the growth has originated from higher levels of consumer expenditure.17

4.2 Family business turnover and employment in the last year

Family firms’ recent performance has been encouraging. In 2014, 28 per cent of family SMEs said that their annual turnover was higher than it was 12 months ago (see Figure 4.2). Slightly fewer, 24 per cent, said that annual turnover was lower than it was 12 months ago. This is an improvement on results from the 2012 SBS survey, when 36 per cent of respondents said turnover was lower than 12 months prior and only 24 per cent said it was higher.

However, the experience of family firms has been less positive than that of non-family firms. Some 43 cent of non-family SMEs reported their turnover had increased over the previous 12 months compared with 17 per cent reporting a decline.

16 BIS conducted the SBS (2014) between July and September 2014, while SBS 2012 was conducted between June and September 2012.

Hiring decisions among many family firms also demonstrate optimism. Among family SMEs with one or more employees, 21 per cent said that they had more employees than 12 months prior. Some 17 per cent said they had fewer employees than they did a year ago (Figure 4.3).\(^{18}\)

Non-family firms have hired at an even faster pace in the year to 2014. The percentage of non-family firms with at least one employee reporting an increase in employment in the last year was 24 per cent, while 15 per cent reported a decrease.

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\(^{18}\) Firms with no employees were selected for comparison separately, because they cannot have had fewer employees in the past. Including them in a comparison with firms with employees introduces a biased comparison, where the trend is influenced towards a negative or null change.
Among family SMEs with no employees, 19 per cent said they had employees a year ago but no longer have any. That is slightly higher than for non-family SMEs, of which 17 per cent indicated that they no longer have employees.

**Figure 4.3: SME survey evidence on the change in employment versus a year ago in firms with at least one employee**

*Source: BIS.*
5 Future outlook for family businesses

The previous chapter showed how family businesses performed in 2014 and early 2015, and discussed the macroeconomic context surrounding that performance. This chapter explores how family businesses expect to perform over the coming years. It also provides a foundation for the discussion in Chapter 6 about several of the challenges that family firms face.

- In 2014, family SMEs were notably more optimistic about the future than they were in 2012. Just 17 per cent of family SMEs surveyed in 2014 viewed the economy as their main obstacle to success, down from 42 per cent in 2012.
- The share of firms expecting an increase in turnover in the next year, minus the share expecting a decrease, grew to 20 percentage points in 2014 (up from 10 percentage points in 2012). And the difference between the share of firms expecting to hire more people in the next 12 months and the share expecting a decrease grew to 21 percentage points (up from 5 percentage points in 2012).
- Despite more positive expectations, slightly fewer family firms stated that they aimed to grow in 2014 (49 per cent) relative to 2012 (54 per cent).
- Fewer family businesses than non-family businesses said they anticipated closure or transfer of ownership of their business within the next five years.
- Of those wishing to transfer their business, just 30 per cent anticipate transferring it to another family member, while 63 per cent envision transferring it to someone else.

5.1 Family businesses’ expectations about the next year

Survey evidence shows that family SMEs were notably more optimistic in 2014 than they were in 2012.

In 2014 just 17 per cent of family-run businesses said that the economy was their main obstacle to success, down from 42 per cent in 2012 (Figure 5.1). This is a slightly more favourable view than that

Figure 5.1: Proportion of SME firms stating that the economy was the main barrier to success

![Proportion of SME firms stating that the economy was the main barrier to success](image)

Source: BIS.
held by non-family businesses, 18 per cent of which regarded the economy as their main obstacle to success in 2014.

In 2014, nearly 33 per cent of SME family businesses expected an increase in turnover in the next 12 months, compared with slightly more than 12 per cent expecting lower turnover. The difference – 20 percentage points – is a measure of the balance of optimism versus pessimism for the future (see Figure 5.2).\(^{19}\) This balance has improved substantially since 2012, when 10 percentage points separated the optimists from the pessimists.

Similarly, in 2014 21 percentage points separated those who anticipated hiring more employees in the next 12 months and those who expected to employ fewer people. That is up from five percentage points in 2012.

### 5.2 Business strategies for the future

In 2014, 49 per cent of SME family firms said they aimed to grow their businesses over the next two to three years (Figure 5.3). This was down slightly from 54 per cent in 2012. It is fewer than the 77 per cent of non-family businesses that said in 2014 they aimed to grow their business over this period.

The proportion of respondents indicating an intention to grow their business over the next two to three years exceeded the proportion who said they expect to see growth in turnover and employment in the next 12 months. This difference might reflect an expectation that economic growth will be stronger in 2016 and 2017 than in 2015, which would support expansion beyond the current year if it materialises. However, some caution in believing this interpretation may be warranted: the average of 15 medium-term forecasts collected by HM Treasury (2015) is for 2.6 per cent GDP growth in the UK in 2015, 2.5 per cent in 2016 and 2.4 per cent in 2017. That may affect the ability of family firms to meet their expectations of growth over the next few years.

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\(^{19}\) Percentage point calculations may not sum to totals due to rounding.
In terms of how they plan to achieve their growth ambitions, survey data suggest that family firms will adopt a variety of strategies. In 2014, 43 per cent of family SMEs said that they would seek to improve the skills of their workforce (see Figure 5.4). While that is down slightly from 2012 (44 per cent), it is higher than for any other strategy, including: exploiting new markets (42 per cent); developing and launching new products and services (37 per cent); increasing labour productivity by investing in machinery equipment or improved premises (33 per cent); and increasing the leadership capability of managers (28 per cent). The popularity of increasing workforce skills may reflect expectations of a tightening labour market. This is consistent with HM Treasury’s (2015) comparison of independent forecasts, which suggests the unemployment rate is predicted to fall from 5.5 per cent in 2015 to 5.0 per cent in 2017.
While many family SMEs have a strategy to exploit “new markets” within the next two to three years, very few plan to do so in markets outside the UK. Less than 1 per cent of family firms that do not currently export have plans to do so in the next year (Figure 5.5). The majority of family businesses that do not currently export – 87 per cent – have no plans to start within the next 12 months.

Looking further into the future, survey data show that a proportion of family business owners are planning to sell or close their businesses. In 2014, 16 per cent of SBS respondents said that they anticipated closing their business within the next five years (Figure 5.6). A further 9 per cent anticipated transferring ownership of their business. This represents a more optimistic outlook than family business owners expressed in 2012, when 19 per cent said they anticipated closure of their business within the next five years.

In 2014, fewer family businesses (9 per cent) than non-family businesses (10 per cent) said they anticipated a transfer of ownership within the next five years. The reverse was the case in the 2008, 2010 and 2012 iterations of the Small Business Survey.
Of the family SME owners who said they anticipated transferring the ownership of their business, 30 per cent were expecting to transfer it to a family member (see Figure 5.7). A larger share – 63 per cent – anticipated transferring the business to someone else. The remaining 7 per cent do not know to whom they will transfer their business.

The challenges firms face when it comes to transferring ownership – particularly having detailed plans in place – are discussed in the next chapter.

**Figure 5.7: To whom family SMEs expect to transfer their businesses over the next five years, 2014**

Source: BIS.
6 Challenges facing family firms

This chapter explores several challenges family businesses face, including competitive pressures, regulation, taxation and succession planning. It also provides an update on family firms’ access to external finance, which was previously a significant issue but is now less important.

- In 2014, as in previous years, family SMEs tended to indicate that the economy or competitive pressures were the main obstacles to success (together, 37 per cent of respondents).20
- Combined, red tape or regulation was cited by 14 per cent of the family firms surveyed as being the main obstacle to success. That is higher than for non-family firms (10 per cent), indicating that regulation and red tape are regarded as relatively more burdensome for family firms.
- Taxation is also considered a main obstacle by many firms, with 7 per cent of family SMEs saying that was the main problem obstructing their success. Of those, nearly half said value-added tax (VAT) was one such tax obstacle, while one-fifth included each of national insurance, business rates and corporation tax among the obstacles.
- In the 2014 survey, fewer SME family firms than in 2012 reported having applied for external finance (13 per cent, down from 16 per cent in 2012), and fewer applicants were rejected (34 per cent, down from 45 per cent in 2012). Together, these data indicate that access to finance for family firms is a less pressing issue than in the years closely following the financial crisis and recession.
- In a 2014 BIS study that featured interviews with 40 SMEs, only nine of the interviewees had prepared detailed plans to sell their firm or transfer it to a family member. The continued success of the family business sector in the UK may hinge, in part, on how successfully family firms manage such transitions.

6.1 Main challenges facing family firms

Family firms, like all businesses, face a range of challenges. When asked to rate the main obstacle in the 2014 SBS, more SME family firms cited the economy (17 per cent) than any other issue, although this was down from 42 per cent in 2012 (see Figure 6.1). This issue was followed by competition in the market (11 per cent) and not being able to increase prices (9 per cent).

These results are reinforced by a recent PwC (2014b) survey of UK family businesses (Figure 6.2). Of the 119 UK firms surveyed, two-thirds of respondents said that market conditions and euro uncertainty would be “key issues” over the coming year. This was followed by a third of respondents saying that competition would be a key issue.

20 Firms were only allowed to cite one “main” obstacle.
Figure 6.1: Main obstacle to SME success for family and non-family businesses, 2014

Source: BIS.

Figure 6.2: “Key issues” for UK family businesses in the next 12 months

Source: PwC (2014b).
6.2 Regulations and red tape

After market pressures and competition, red tape or regulation was perceived to be the next most important impediment, being cited by a combined 14 per cent of SBS (2014) respondents. The PwC survey produced similar, albeit stronger, findings: government regulation was cited as a “key issue” by 29 per cent of respondents.

The share of family firms indicating either regulation or red tape to be the main obstacle to success is higher than for non-family firms. Among the latter, just 10 per cent cited either regulations or red tape as the main obstacle to success. This may be because regulations and red tape disproportionately impact smaller firms, which have more limited resources to obtain advice to meet regulatory requirements or outsource them. In addition, regulatory burdens can be considered an “overhead cost”, and smaller firms have fewer employees between whom to spread that overhead. This poses a challenge to profitability.

Family firms that cited regulations as the main obstacle to success were asked to name specific regulations (see Figure 6.3). The highest proportion mentioned sector specific regulations (20 per cent). Another 17 per cent cited health and safety regulations, while 13 per cent mentioned environmental regulations. A further 12 per cent indicated that it was regulations in general rather than any specific one that was the obstacle to success.

Figure 6.3: Regulations considered main obstacles to the success of family SMEs in the UK, 2014

Source: BIS.


6.3 Taxation

Taxation was cited by 7 per cent of family SME respondents as the main obstacle to success in SBS (2014). As with regulations and red tape, family businesses were slightly more likely to say that taxes were an obstacle (7 per cent) than were non-family businesses (5 per cent).

Of the respondents from family firms who cited taxes as their main obstacle, nearly half said that VAT was an obstacle (Figure 6.4). Another 20 per cent cited business rates and corporation tax as obstacles, while 19 per cent cited national insurance. Income tax (PAYE) was considered by the fewest number of respondents to be an obstacle.

6.4 Access to finance

The previous report in this series showed that, at the time, access to finance was a critical impediment to success for family-run businesses. There is mixed evidence about how family firms’ access to credit has evolved since then, although survey results suggest that there has been an improvement overall.

A recent Bank of England Credit Conditions Survey found that the availability of credit to small businesses in the latter half of 2014 deteriorated somewhat (Bank of England, 2015). However, in SBS (2014) – which was carried out between July and October 2014 – the share of respondents from family SMEs saying that obtaining external finance was an obstacle to their success was just 20 per cent, compared with 31 per cent in 2012. A small share of 2014 survey respondents (4 per cent of family SMEs) reported access to external finance being the main obstacle to their success. Interestingly, this share is unchanged from 2012. One potential explanation is that, compared with 2012, the need for or availability of external credit became a bigger concern for a smaller number of family SMEs in 2014.

Figure 6.4: Types of tax considered to be a barrier to success for family SMEs in the UK, 2014

Source: BIS.

21 SBS (2014) did not distinguish between the difficulty of paying versus complying with taxation.
Indeed, fewer family SMEs sought external finance in 2014 than in 2012. Some 12 per cent of family SMEs sought external credit at least once in 2014 (see Figure 6.5), whereas 16 per cent did so in 2012. Family firms sought external finance in 2014 at about half the rate of non-family firms in 2014.

More family firms reported getting all the credit they needed in 2014 than did so in 2012. Of the family firms that applied for finance in 2014, 65 per cent were able to get all the finance they needed, while 35 per cent were unable to do so (Figure 6.6). In 2012, 55 per cent of respondents from family businesses said they got all the external funds they needed while 45 per cent did not.

In addition, in 2014 fewer family businesses than non-family businesses had problems obtaining finance. As Figure 6.6 shows, this is a reversal of their stated experience in 2012, when more family SMEs than non-family SMEs reported that they did not get all the finance they sought.

Figure 6.5: SME firms in the UK that applied for finance at least once, 2014

Source: Oxford Economics and BIS.

Figure 6.6: SMEs in the UK that did not get all the financing they sought, 2006–14

Source: Oxford Economics and BIS.
6.5 Family business succession issues will remain a challenge

According to SBS (2014) survey data, each year over the next five years nearly 85,000 family SMEs, or 9 per cent, are likely to be sold or gifted to new owners. The rate of intention to transfer ownership is highest among those with between 10 and 49 employees (14 per cent), followed by those with between one and nine employees (13 per cent).

The continued success of the family business sector in the UK depends in part on how well existing family businesses manage the transfer or sale of their business. BIS (2014b) notes that numerous, difficult issues can arise during the planning and execution stages of family firms’ succession, including:

- differing growth plans and management strategies between generations;
- desired timing of succession by current owners and potential transferees;
- perceived role of non-family members by current owners and potential transferees;
- the skills and interests of potential transferees; and
- the strength of inter-familial relationships.

The wider literature finds that roughly a third of family businesses remain so after the founder leaves.22 The same studies find that those second generation family firms go on to be third generation family-run firms with about the same frequency. A recent UK family business survey by Praxity (2015), a trade body of independent accountancy, tax and business consulting firms, found similar ratios. Of the family firms surveyed by Praxity, 64 per cent were operated by the first generation owners (Figure 6.7), while, 25 per cent were being operated by the second generation and 10 per cent by the third generation. Just 8 per cent were being operated by either fourth or fifth generation family owners.

Figure 6.7: Survey evidence on the generation of family business ownership in the UK

<table>
<thead>
<tr>
<th>Generation of ownership</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>64</td>
</tr>
<tr>
<td>Second</td>
<td>25</td>
</tr>
<tr>
<td>Third</td>
<td>10</td>
</tr>
<tr>
<td>Fourth</td>
<td>7</td>
</tr>
<tr>
<td>Fifth</td>
<td>1</td>
</tr>
</tbody>
</table>


---

22 BIS (2014b) indicates that several studies have found similar results, including Poutziouris (2001); Wang et al. (2000); and Ibrahim et al. (2001).
A frequent finding among surveys is that inadequate succession planning is common. This may be problematic because it can result in suboptimal sale or transfer of family businesses, negatively impacting both those who are leaving the business and those who are taking it on.

A BIS (2014b) survey of 40 family businesses in 2014 found that just 9 of 40 interviewees had put in place detailed succession or sale plans. Of those who did, seven wanted to transfer the business to a family member and two wanted to sell the business to someone else (see Figure 6.8). The remaining 31 interviewees had no detailed succession or sale plan.

PwC (2014b) found that even fewer UK family businesses – just 13 per cent – have a succession plan in place that is both “robust and documented”. This is lower than the average of 16 per cent found across 40 countries surveyed. The authors of the PwC study conclude that “the all-important issue of succession has still not been fully grasped or effectively addressed by far too many UK family firms”.

**Figure 6.8: Forty family firms’ plans for succession or sale, 2014**

![Figure 6.8: Forty family firms’ plans for succession or sale, 2014](image)

Source: BIS (2014b).

---

23 BIS (2014b) identified family businesses by searching for businesses in Companies House where two or more shareholders had the same surname, as well as consulting “umbrella organisations” and consultants. Of the 40 owners interviewed, three-quarters agreed that they were “family businesses” when asked directly.
Appendix: An estimate of the size of the family business sector on a consistent basis over time

Due to SBS (2014) definitional changes and survey sample source changes, as well as Oxford Economics’ methodological changes from year to year, the economic impact of family businesses is not perfectly comparable over time. This section attempts to estimate the family business sector’s gross value added and employment contribution to the UK economy on a consistent basis between 2010 and 2014.

Example calculation: Oxford Economics’ best estimate of the 2013 to 2014 employment change due to genuine trends in the UK economy

Chapter 2 found that measured employment in family firms is estimated to be 26 per cent higher in 2014 than 2013. As shown in the second to last column in Table A.1, Oxford Economics’ best estimate is that 6 percentage points of this change – or roughly one-quarter – is due to genuine changes in the UK economy, although the effect of the SBS (2014) sample source change may also play a role. The remaining 20 percentage points – or roughly three-quarters – of the change is likely due to definitional and methodological changes across the years.

Estimates of the number of family firms in the UK, and their turnover, employment and gross value-added contribution to the economy are notably different in 2014 than in 2013 and earlier years. This is due to a combination of:

1. BIS’s new definition of family firms in SBS (2014);
2. BIS’s choice to use a new database to select firms for SBS (2014);
3. Oxford Economics’ differing methodology in even-year analyses compared with odd-year analyses; and
4. real changes to the structure of the UK economy and family businesses’ role in it.

This appendix re-estimates results from previous years by attempting to hold the first and third items in the list above constant.24 It approximates holding (1) constant by automatically categorising sole proprietors as family businesses in the SBS 2010 and 2012 datasets.25 It holds (3) constant by using only even-year estimates of the share of family businesses in each employment size category relative to the whole private sector, then interpolating shares for odd years. Based on this methodology, Table A.1 shows the re-estimated share of all private sector businesses that were family businesses between 2010 and 2014.

---

24 In order to capture the effect of (4) by itself, it would be desirable to hold (2) constant as well. This is, unfortunately, not possible.
25 This will underestimate the true share of family businesses to the extent that it excludes businesses of other legal types that have a single owner but which did not self-identify as a family business; the number of such firms is not known.
Table A.1: Re-estimated share of all private sector businesses that are family businesses between 2010 and 2014

<table>
<thead>
<tr>
<th>Business size (by employee numbers)</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro (no employees)</td>
<td>84%</td>
<td>87%</td>
<td>90%</td>
<td>91%</td>
<td>92%</td>
</tr>
<tr>
<td>Micro (with employees)</td>
<td>72%</td>
<td>73%</td>
<td>75%</td>
<td>73%</td>
<td>74%</td>
</tr>
<tr>
<td>Small</td>
<td>55%</td>
<td>56%</td>
<td>58%</td>
<td>59%</td>
<td>61%</td>
</tr>
<tr>
<td>Medium</td>
<td>47%</td>
<td>47%</td>
<td>47%</td>
<td>49%</td>
<td>51%</td>
</tr>
<tr>
<td>Large</td>
<td>12%</td>
<td>12%</td>
<td>12%</td>
<td>11.5%</td>
<td>10.9%</td>
</tr>
</tbody>
</table>

Source: BIS SBS and Oxford Economics.

Using the re-estimated family businesses’ shares in Table A.1, Oxford Economics re-estimated the employment and gross value-added contributions of family firms between 2010 and 2014 (see Figure A.1).

Finally, Table A.2 shows the re-estimated number of family firms, and employment, turnover and gross value-added contributions to the UK economy by family firms compared with the whole private sector between 2010 and 2014. The second to last column is Oxford Economics’ best estimate of the change between 2013 and 2014 that is due to real changes to the structure of the UK economy and family businesses’ role in it, although it also necessarily includes the effects of the SBS (2014) sample source change.

Figure A.1: Re-estimated employment and gross value-added contributions to the UK economy by family firms between 2010 and 2014

Source: Oxford Economics.
Table A.2: Re-estimated number of family firms, and employment, turnover and gross value-added contributions to the UK economy by family firms relative to the whole private sector between 2010 and 2014

<table>
<thead>
<tr>
<th>Classification</th>
<th>Metric</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Growth since 2013 (% or PPs)</th>
<th>Growth since 2010 (% or PPs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family business sector</td>
<td>Number of firms</td>
<td>3,578,584</td>
<td>3,750,529</td>
<td>4,090,136</td>
<td>4,226,064</td>
<td>4,576,118</td>
<td>8</td>
<td>28</td>
</tr>
<tr>
<td></td>
<td>Employment (thousands)</td>
<td>9,846</td>
<td>10,377</td>
<td>10,937</td>
<td>11,215</td>
<td>11,918</td>
<td>6</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>Turnover (£m)</td>
<td>1,222,815</td>
<td>1,181,329</td>
<td>1,223,737</td>
<td>1,267,775</td>
<td>1,289,035</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>GVA (£m)</td>
<td>380,281</td>
<td>373,478</td>
<td>384,504</td>
<td>402,291</td>
<td>417,841</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>Private sector</td>
<td>Number of firms</td>
<td>4,484,535</td>
<td>4,542,765</td>
<td>4,794,305</td>
<td>4,895,655</td>
<td>5,243,135</td>
<td>7</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>Employment (thousands)</td>
<td>22,516</td>
<td>23,392</td>
<td>23,893</td>
<td>24,331</td>
<td>25,228</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>Turnover (£m)</td>
<td>3,488,703</td>
<td>3,301,012</td>
<td>3,361,408</td>
<td>3,511,689</td>
<td>3,804,382</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>GVA (£m)</td>
<td>1,106,393</td>
<td>1,068,314</td>
<td>1,077,011</td>
<td>1,136,796</td>
<td>1,207,846</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>Family business share (%)</td>
<td>Number of firms</td>
<td>80</td>
<td>83</td>
<td>85</td>
<td>86</td>
<td>87</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Employment</td>
<td>44</td>
<td>44</td>
<td>46</td>
<td>46</td>
<td>47</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Turnover</td>
<td>35</td>
<td>36</td>
<td>36</td>
<td>36</td>
<td>34</td>
<td>–2</td>
<td>–1</td>
</tr>
<tr>
<td></td>
<td>GVA</td>
<td>34</td>
<td>35</td>
<td>36</td>
<td>35</td>
<td>35</td>
<td>–1</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Oxford Economics.

**Metrics most influenced by the definitional change**

The definitional change disproportionately affects micro family firms (businesses with between zero and nine employees) because they are more likely to have a single owner than other firm types. In 2014, it is estimated that micro firms comprised 97 per cent of all family businesses, but only 58 per cent of all employment by family firms and 47 per cent of gross value added by family firms. Thus, the definitional change is most consequential for estimates of the number of family firms, and less consequential for estimates of employment and gross value added. This is reflected in the second-to-last column of Table 2.4.
Bibliography


BIS SBS: BIS Small Business Surveys are listed under SBS below.


CMRC and UNIEI (2011) UK Family Business: Industrial and Geographical Context, Governance and Performance, November. Leeds University Credit Management Research Centre (CMRC) and the University of Nottingham Institute for Enterprise and Innovation (UNIEI).


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