THE STATE OF THE NATION
The UK Family Business Sector 2016/17
Family businesses contribute £460 billion to the UK’s GDP, employ over 12 million people and contribute £133 billion to the Exchequer.

In this latest IFB Research Foundation report on the UK family business sector, we find that family firms create a significant number of new jobs, while contributing 6 per cent more tax and 10 per cent more GDP in 2015 than in the previous year. The importance of the sector to the economy is clear, and at a time of great change – the Brexit negotiations, new government policy and increased global uncertainty – its long-term approach, stable earnings profile and ability to create jobs needs to be properly understood.

The IFB Research Foundation is a charity, which aims to provide independent and rigorous research to improve knowledge about the UK’s family business sector. I think that the analysis by Oxford Economics in this report – in particular their examination of how large UK-owned family companies compare relative to their competitors – highlights some of the strengths and potential weaknesses of family firms, which should help develop better policy and governance to allow family businesses to flourish going forward.

I hope you find the report both interesting and educational.

Sir Michael Bibby
Chairman, IFB Research Foundation
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Executive summary

The vast majority of businesses in the UK are family run …

- In 2015 there were 4.7 million family-run businesses in the UK, up from 4.6 million in 2014 (a three per cent increase). They make up 87 per cent of all private sector businesses in the UK.
- Small family businesses dominate, comprising more than 97 per cent of the total.

… and they make a major contribution to the economy …

- Family businesses employed 12.2 million people in 2015. They provide 36 per cent of the UK’s jobs and close to half of the jobs in the private sector. Employment in family-run businesses was three per cent higher than in 2014 and 24 per cent higher than five years earlier.
- Family businesses earned £1.4 trillion in 2015, up six per cent from 2014. On this revenue they generated a £460 billion gross value added contribution to UK gross domestic product (GDP). This was 36 per cent of the entire private sector’s contribution. Family-run businesses’ gross value added was £43 billion or ten per cent higher than a year earlier, driven by increases in activity in the real estate, professional and business services, and wholesale and retail sectors. It was 21 per cent higher than in 2010.
- Some 52 per cent of the contribution of family businesses to UK GDP in 2015 was made by firms with fewer than 10 employees.
- Family businesses collected or paid nearly £133 billion to the Exchequer in 2015, including corporation tax, business rates, employee and employer national insurance contributions, and income taxes. This is six per cent higher than in the previous year.

This report assesses large family businesses in greater depth than previous reports …

- Large family businesses that are UK-owned tend to have smaller workforces than foreign-owned firms or those not run by families.
- But large UK-owned family businesses are more profitable than other types of large firm (based on return on capital employed).
- Large UK-owned family businesses tend to have more current assets than current liabilities to guard against possible liquidity problems, although this may also be a function of the industrial sectors in which the firms operate.
- Interest payments of large UK-owned family businesses were a far smaller proportion of their operating profits than their large firm competitors.
- But they are also forward-looking and inventive, with the median firm spending more than other types of large firms on R&D as a proportion of turnover.
1. Introduction

This report demonstrates the growing importance of family firms in the UK – comprising the vast majority of all businesses and providing close to half of all private sector jobs. The facts, figures and estimates presented in this report update what is known about family businesses, and build on research on the sector published in 2008, 2011, 2014 and 2015. And, for the first time, the report explores how large family businesses perform compared with their non-family-owned counterparts.

1.1 What is a family business?

A firm is considered a family business in this report if it has:

- fewer than 249 employees and a single owner; or
- between one and 249 employees, multiple owners and self-identifies 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 of micro, small and medium-sized enterprises by the Department for Business, Innovation and Skills. 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 in the next section.

1.2 Data sources

This report uses a range of data sources to analyse the family business sector. However, the following four are the foundation for most estimates:

- **The Department for Business, Energy and Industrial Strategy (BEIS) Small Business Survey (SBS).** This survey is published biennially by BEIS and focuses on micro, small and medium-sized enterprises (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 and published in March 2015.

- **The Department for Business, Energy and Industrial Strategy’s Business Population Estimates for the UK and Its Regions (BPE).** This annual report produces estimates of the number and characteristics of businesses of different sizes in the UK, disaggregated by region, industry sector and legal status.

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2 These definitions are consistent with those used in the previous edition of this report.

3 The Department for Business, Innovation and Skills (BIS) was replaced by the Department for Business, Energy and Industrial Strategy (BEIS) in July 2016.


5 BIS (2015a).
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.6

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. The study provides data on the characteristics of companies with more than 250 employees, which the BEIS SBS does not cover.7

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**: measured on a headcount rather than full-time equivalent basis to facilitate comparison with ONS data on employment, and it 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 performance of large UK-owned family firms registered in the UK relative to their competitors.
- **The Appendix** contains estimates of family businesses’ impact on the economy as they were published in previous editions of this report.

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6 ONS (2015).
7 RepGraph (2015).
2. The economic contribution of family businesses

This chapter assesses the family business sector’s size and contribution to the UK economy across five important metrics: number of firms, total employment, turnover, gross value added and taxes paid. The result is conclusive. Family businesses are the dominant business vehicle in terms of firm numbers and they create a substantial amount of the economy’s total output.

Family businesses:

- made up 87 per cent of all private sector firms in the UK, accounting for 4.7 million businesses in 2015;
- employed an estimated 12.2 million people in 2015, up by nearly three per cent since 2014. This is also 47 per cent of all private sector employment and 36 per cent of all employment in the UK;
- generated nearly £1.4 trillion in turnover in 2015, a six per cent increase from 2014 and 35 per cent of the UK’s private sector turnover for the year;
- created a £460 billion gross value added contribution to UK GDP, up 10 per cent since 2014 and accounting for 25 per cent of economy-wide gross value added in 2015; and
- paid £133 billion in taxes in 2015, 20 per cent of all taxes paid to the Exchequer that year.

2.1 How many family businesses are there and how many people do they employ?

We estimate that there were 4.7 million family-run businesses in the UK in 2015, or 87 per cent of all private sector firms in the country.

Most of these family businesses – 3.8 million or 80 per cent of the total – are run by the owner and have no employees (Table 2.1). These are known as micro businesses without employees. About 795,000 firms (16.9 per cent of the total) employ between one and nine people, and are considered micro business with employees. Another 124,000 family businesses (2.6 per cent of the total) employed between 10 and 49 people in 2015, placing them in the small business category. Some 16,500 family firms (0.4 per cent of the total) are large enough to be considered medium-sized businesses, as they employed between 50 and 249 people. And there are just under 760 large UK-owned family businesses that employ 250 or more people (0.02 per cent of all family firms).

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8 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 (2014) Business Population Estimates. All BIS SBS survey responses discussed are weighted. On page 124 of BIS (2015b) 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.”
The number of family firms and employment in them increased for every firm size since 2014. The increase in firms was the greatest for the small and medium-sized segment, whose numbers increased by 4.5 per cent and 3.4 per cent, respectively.

Small firms employed 4.2 per cent more people in 2015 than 2014, while medium-sized firms employed 3.5 per cent more people. On average across all family business sizes, there was a 2.8 per cent increase in both firm numbers and employment.

Family-run firms are an important source of employment in the UK economy. These businesses employed an estimated 12.2 million people in 2015, about a third of whom were owners and the remainder employees.\(^9\) That is 36 per cent of all UK employment, and 47 per cent of all private sector employment.\(^10\) This is more than double the number of people employed in the public sector in the UK, which was 5.4 million people in 2015 according to the Office for National Statistics.\(^11\)

Among all micro businesses with no employees in the UK, 92 per cent of them are family businesses according to the 2014 BIS Small Business Survey (Figure 2.1). And among all micro businesses with one to nine employees, 74 per cent are family run. Some 61 per cent of small firms (10 to 49 employees) are family businesses, while 51 per cent of medium-sized firms (50–249 employees) and 10.9 per cent of large firms (250 or more employees) are family run.

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

10 ONS (2016a) and BIS (2015a).

11 ONS (2016a).
2.2 How much turnover and gross value added do family businesses create?

Turnover

Based on the latest BEIS Business Population Estimates and family businesses’ share of firms by employment size band, Oxford Economics estimates that family firms earned nearly £1.4 trillion in revenue in 2015. This is 35 per cent of total private sector turnover in the UK, and an increase from £1.3 trillion in 2014.

Family firms with ten or more employees made a disproportionately large contribution to all turnover generated by family firms. Family firms with ten or more employees generated 60 per cent of family firms’ turnover, despite accounting for just three per cent of all family firms. Family firms with nine or fewer employees, which made up the remaining 97 per cent of family firms, generated the remaining 40 per cent.

Many family firms are retailers or wholesalers, and this group earned £505 billion in turnover in 2015. That is nearly 40 per cent of the total for all family firms. Family construction firms accounted for another £140 billion of turnover (10 per cent), family professional services firms generated a further £125 billion (9 per cent) and family manufacturing firms had £123 billion in sales (another 9 per cent).

In terms of sectors, family firms are similar to non-family firms – the latter generated the largest portion of their turnover in retail and wholesale too (33 per cent of the

12 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 Business Population Estimates for turnover in each employment size category. This analysis assumes that the family business sector grew in line with the whole of the private sector in the UK in 2015.

“The family firms earned nearly £1.4 trillion in revenue in 2015 – representing 35% of total private sector turnover.”
total – see Figure 2.2). Non-family firms, however, are much more active in manufacturing, generating nearly 20 per cent of non-family firms’ total turnover.

**Gross value added**

From their sales, family firms created a substantial gross value added contribution to the UK economy. In 2015, Oxford Economics estimates that family-run businesses generated a £460 billion gross value added contribution to UK GDP (Table 2.2). This accounts for 28 per cent of all gross value added in the UK in 2015 and 36 per cent of all private sector gross value added. Family businesses’ gross value added contribution to GDP in 2015 was up by 10 per cent on the previous year. This compares with a three per cent growth in gross value added across the whole economy.

Collectively, family-run real estate, professional and business services firms made the biggest gross value added contribution to the UK economy, at £143 billion or 31 per cent of the family business total. Retail and wholesale businesses, transport and communications companies and construction firms run by families also made substantial contributions, at £64 billion (14 per cent of the family business total), £59 billion (13 per cent) and £55 billion (12 per cent), respectively.

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13 Gross value added estimates were derived by multiplying estimates of family business turnover by Annual Business Survey (ONS, 2015) ratios of gross value added to turnover by sector in the UK. This analysis assumes that the family business sector grew and evolved in line with the whole of the private sector in the UK in 2015, including for key ratios like gross value added to turnover by industry.

14 ONS (2016b).
The family-run businesses in the real estate, professional and business services; wholesale and retail trade sectors; and transport, storage and communications sectors contributed 42, 38 and 14 per cent of the total increase, respectively. Their growth was partially offset by declines in the gross value added produced by family businesses in the agriculture and extraction sector and in financial services.

### How much do family businesses contribute to the Exchequer?

Family firms pay a substantial amount in tax receipts to the Exchequer every year. Oxford Economics estimates, based on data from a broad range of sources, that the family business sector paid £133 billion in tax in 2015, up six per cent on the previous year.\(^{15}\) The 2015 contribution to tax receipts is 20 per cent of central government revenue in that year (Table 2.3).\(^{16}\)

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.\(^{17}\) It is estimated that the family business sector contributed 28 per cent (£12.4 billion) of all corporation tax receipts in 2015.\(^{18}\)

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\(^{15}\) This report used research by Chittenden and Sloan (2007) to estimate taxes borne and collected by sole traders, partnerships and small limited firms in 2015. Average taxes borne and collected in 2009 from sole traders, partnerships and small limited companies were projected forward to 2015 values using nominal GDP growth (23 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 (1.2 million). For larger firms, data from a PwC survey for the 100 Group (PwC, 2015) indicates that, on average, revenues from taxes borne and collected from the largest firms amounted to 12.6 per cent of their total turnover. In recent versions of the 100 Group survey, including 2014 and 2015, 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 using the 100 Group’s share of private sector business turnover in 2012 via BIS Business Population Estimates 2010 to 2012 and applying it to private sector turnover in BIS (2015a).

\(^{16}\) ONS (2016c).

\(^{17}\) Including owners’ income tax, owners’ NICs, corporation tax, business rates, directors’ income tax, directors’ NICs and employers’ NICs.

\(^{18}\) HMRC (2016).
Table 2.3: The family business sector’s contribution to the Exchequer, 2015

<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>17,425</td>
</tr>
<tr>
<td>Taxes collected (£ million)</td>
<td>3,639</td>
</tr>
<tr>
<td>Total tax paid (£ million)</td>
<td>21,064</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.

Within the total family business contribution, sole traders and partnerships contributed an estimated £21.1 billion to the Exchequer in 2015, family-owned SMEs £84.8 billion and large family firms £26.8 billion.

2.4 Change in economic impact between 2010 and 2015

The family business sector continues to grow. Family firms are estimated to have generated ten per cent more gross value added in 2015 than a year earlier (Table 2.4), while the sector’s employment rose by three per cent in the year.

In order to undertake longer comparisons over time, it has been necessary to revise some of the previous reports’ estimates of family businesses’ contribution to the UK economy for earlier years. This reflects the BIS/BEIS change in the definition of what constitutes a family firm in SBS (2014) and methodological improvements made over time by Oxford Economics.19,20 This should show how family businesses’ contribution has altered over the previous five years. The Appendix to this report contains the original estimates made at the time in previous versions of the report.

In 2015, it is estimated there were 4.7 million family firms operating in the UK. This is 31 per cent higher than the estimate of 3.6 million in 2010. The growth in the number of family firms has significantly outstripped non-family firms, so their share of the total number of firms in the UK has increased from 80 per cent in 2010 to 87 per cent in 2015 (Table 2.4).

In the five years to 2015, family firms’ turnover is estimated to have increased by £137 billion or 11 per cent. Over the same time period, all private sector businesses’ turnover increased by 12 per cent.

19 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.”

20 Changes in methodology over time are necessary because of changing availability of data sources from year to year. In particular, because BEIS conducts its Small Business Survey every two years, in interim years this study must rely more heavily on the BEIS Business Population Survey and the ONS Annual Business Survey, which do not include detail on family businesses specifically.
Family businesses’ share of all private sector turnover remained unchanged between 2010 and 2015 at 35 per cent of the total.

Between 2010 and 2015, family businesses are estimated to have employed 2.4 million more people (Figure 2.3). This is a growth in employment of 24 per cent over the five years. The increase is 72 per cent of the additional employment in the private sector over the period. As a result, family businesses’ share of private sector employment has increased from 44 per cent in 2010 to 47 per cent in 2015.

Over the five years, the family business sector’s gross value added contribution to UK GDP increased by £80 billion or 21 per cent. The rate of growth exceeded the whole of the private sector, which increased by 16 per cent. As a consequence, family businesses’ share of gross value added contributed by the private sector increased from 34 per cent in 2010 to 36 per cent in 2015.

The one piece of bad news over the five years to 2015 is the slight decline in family businesses’ productivity. Measured by the gross value added produced per worker, productivity in family businesses fell from £38,600 in 2010 to £37,600 in 2015, a three per cent fall in nominal terms. This contrasts with one per cent nominal growth in productivity at all private sector firms.21 Productivity can be volatile over time, so care should be taken when interpreting this change. However, it is

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21 The productivity comparison over time is undertaken in nominal prices, so does not make allowances for inflation.
possible that it is in part explained by the modestly changed composition of family businesses within industries. Between 2010 and 2015, the share of family firms operating in industries that could be broadly categorised as having higher than average productivity (construction and financial services, for example) decreased by three percentage points, while the share of family firms in industries that could broadly be described as having lower than average productivity (education and personal services, for example) increased by three percentage points.
3 Characteristics of the UK family business sector

This chapter examines how family business characteristics vary across sectors, regions and legal ownership types in the UK. Data are sourced from Business Population Estimates (BIS, 2015a) and the Small Business Survey (SBS, 2014), while a CMRC and UNIEI (2011) study facilitated regional and sectoral breakdowns for large family businesses.22

- The real estate, professional and business services sector had the largest number of family firms, at 1.2 million, or 25 per cent of the total. This was followed by the construction sector, with 900,000 family firms (19 per cent of the total), and the transport, storage and communications sector, with 530,000 family firms (11 per cent of the total).
- Family-run firms are disproportionately important in Wales, Scotland, Yorkshire and the Humber, the East of England and the North West. In each of those regions, family businesses make up 90 per cent or more of all private sector businesses.
- Family businesses with no or few employees tend to be organised as sole traders or partnerships, while family businesses with ten or more employees are highly likely to be incorporated companies. Some 67 per cent of family firms were sole traders in 2015 (3.2 million firms in total), while 26 per cent were incorporated companies (1.2 million firms) and 7 per cent were partnerships (320,000 firms).

3.1 In which industries do family firms operate?

Family businesses are concentrated in certain industrial sectors. In 2015, 1.2 million family firms operated in the real estate, professional and business services sector, which is 25 per cent of all family businesses and more than any other sector (Table 3.1).

Family businesses made up a significantly higher proportion of all firms in some industrial sectors than others. For example, in 2015 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).23 The next two most concentrated sectors were agriculture and raw materials 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 dilution of family ownership often occurs when businesses need to raise capital. 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.

22 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).

23 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.
Table 3.1: Sectoral distribution of family businesses in the UK, 2015

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of family firms</th>
<th>Share 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>Real estate, professional and business services</td>
<td>1,180,108</td>
<td>25</td>
<td>1,341,330</td>
<td>88</td>
</tr>
<tr>
<td>Construction</td>
<td>899,313</td>
<td>19</td>
<td>956,105</td>
<td>94</td>
</tr>
<tr>
<td>Transport, storage and communications</td>
<td>528,182</td>
<td>11</td>
<td>613,745</td>
<td>86</td>
</tr>
<tr>
<td>Wholesale and retail trade, repairs</td>
<td>464,873</td>
<td>10</td>
<td>522,690</td>
<td>89</td>
</tr>
<tr>
<td>Other community, social and personal services</td>
<td>487,960</td>
<td>10</td>
<td>591,020</td>
<td>83</td>
</tr>
<tr>
<td>Education</td>
<td>249,919</td>
<td>5</td>
<td>267,550</td>
<td>93</td>
</tr>
<tr>
<td>Health and social work</td>
<td>266,292</td>
<td>6</td>
<td>371,375</td>
<td>72</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>237,117</td>
<td>5</td>
<td>275,565</td>
<td>86</td>
</tr>
<tr>
<td>Agriculture and extraction</td>
<td>153,414</td>
<td>3</td>
<td>159,845</td>
<td>96</td>
</tr>
<tr>
<td>Utilities and waste management</td>
<td>22,623</td>
<td>0</td>
<td>22,905</td>
<td>99</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>149,093</td>
<td>3</td>
<td>183,180</td>
<td>81</td>
</tr>
<tr>
<td>Financial services</td>
<td>64,613</td>
<td>1</td>
<td>84,140</td>
<td>77</td>
</tr>
<tr>
<td>Total</td>
<td>4,703,508</td>
<td>100</td>
<td>5,389,450</td>
<td>87</td>
</tr>
</tbody>
</table>

Note: Tables 3.1 and 3.2 have slightly different private sector firm totals due to rounding differences between the Business Population Estimates by sector versus by region.
Source: Oxford Economics and BIS.

3.2 In which regions do family firms operate?
Family firms operate in every nation and region of the UK (Table 3.2). Nearly 780,000 family businesses were in London (17 per cent of the family business total) and another 760,000 were in the South East (16 per cent). The East of England, South West and North West each hosted between 470,000 and 480,000 family businesses, each accounting for about 10 per cent of the family business total in the UK. In part, the differences reflect the size of each nation’s and region’s economy and population.

Table 3.2: Regional distribution of family businesses, 2015

<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>779,592</td>
<td>17</td>
<td>975,835</td>
<td>80</td>
</tr>
<tr>
<td>South East</td>
<td>756,123</td>
<td>16</td>
<td>878,125</td>
<td>86</td>
</tr>
<tr>
<td>East of England</td>
<td>478,169</td>
<td>10</td>
<td>527,840</td>
<td>91</td>
</tr>
<tr>
<td>South West</td>
<td>473,895</td>
<td>10</td>
<td>531,755</td>
<td>89</td>
</tr>
<tr>
<td>North West</td>
<td>476,807</td>
<td>10</td>
<td>532,260</td>
<td>90</td>
</tr>
<tr>
<td>West Midlands</td>
<td>345,605</td>
<td>7</td>
<td>399,795</td>
<td>86</td>
</tr>
<tr>
<td>Yorkshire and the Humber</td>
<td>349,164</td>
<td>7</td>
<td>382,320</td>
<td>91</td>
</tr>
<tr>
<td>East Midlands</td>
<td>318,433</td>
<td>7</td>
<td>355,915</td>
<td>89</td>
</tr>
<tr>
<td>North East</td>
<td>110,959</td>
<td>2</td>
<td>135,525</td>
<td>82</td>
</tr>
<tr>
<td>Scotland</td>
<td>314,367</td>
<td>7</td>
<td>340,370</td>
<td>92</td>
</tr>
<tr>
<td>Wales</td>
<td>196,358</td>
<td>4</td>
<td>212,795</td>
<td>92</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>103,836</td>
<td>2</td>
<td>116,920</td>
<td>89</td>
</tr>
<tr>
<td>UK</td>
<td>4,703,508</td>
<td>100</td>
<td>5,389,450</td>
<td>87</td>
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</tbody>
</table>

Note: Tables 3.1 and 3.2 have slightly different private sector firm totals due to rounding differences between the Business Population Estimates by sector versus by region.
Figure 3.1: Family firms as a share of all private sector firms in the UK, 2015

Relative to the total number of firms in each of the nations and regions, family firms are most important in Scotland, Wales, Yorkshire and The Humber, the East of England and the North West, where over 90 per cent of all private sector firms are family businesses (Figure 3.1). They are least important in London and the North East, constituting 80 and 82 per cent of all firms, respectively.

However, in absolute terms London and the South East still have the greatest number of family firms, at 780,000 and 756,000, respectively. In turn, the family firms in London and the South East employ the greatest number of people, at 2.1 million and 1.9 million, respectively (Figure 3.2).

As a share of both private and public sector employment, the importance of family firms is greatest in London, where 48 per cent of all employment is in family firms. Family firms’ share of regional employment is also high in the South East (43 per cent of all employment), South West (also 43 per cent) and East Midlands (42 per cent). Those shares are notably higher than the UK average of 39 per cent. Meanwhile, family businesses’ employment as a share of all employment is lowest in Scotland (30 per cent) and the North East (31 per cent).

3.3 How are family firms legally organised?

Family-run businesses take a variety of legal forms, including operating as sole traders, partnerships and incorporated companies (Table 3.3). Some 3.2 million family firms operated as sole traders in 2015 (67 per cent of the total); partnerships accounted for another 320,000 family businesses (7 per cent of the total) and 1.2 million family firms were incorporated companies (26 per cent of the total).

Firms with nine or fewer employees (including those with no employees) tend to be organised as sole traders and partnerships. Those two types of organisation account for 76 per cent of all family firms with zero to nine employees. On the other hand, family firms that grow large enough to have ten or more employees tend to be incorporated companies. Some 85 per cent of small, medium and large companies – those with ten or more employees – are incorporated companies.

**Figure 3.2: Family firms’ employment by region and share of regional employment, 2015**

Compared with 2010, the number of small family businesses registered as sole traders or partnerships has fallen significantly, from about 56,000 to 21,000. Small firms are now much more likely to be incorporated companies, taking advantage of the limited liability that is unavailable to sole traders and partnerships and perhaps encouraged by the ease of registering online within 24 hours.24 The number of small, incorporated companies has increased from 36,000 in 2010 to 104,000 in 2015, an increase of 190 per cent.

24 See the UK government website at https://www.gov.uk/register-a-company-online (accessed 5 October 2016).
Recent performance of large family firms

This chapter focuses on the financial performance of large family businesses operating in the UK in the decade to 2014. It looks at how large UK-owned family businesses differ from their similar-sized non-UK-owned family counterparts and non-family businesses.

- According to the two measures of profitability (return on capital employed and return on total assets), large UK-owned family businesses are more profitable than other types of large firm.
- The median large UK-owned family business held capital equivalent to 26 per cent of its assets to guard against potential losses. This was slightly less than the large non-UK-owned family and non-family firms. But among the most weakly capitalised, and therefore most likely to get into financial distress, large UK-owned family business held the largest capital buffer.
- To guard against liquidity risk, the median large UK-owned family firm held a higher ratio of current assets to current liabilities in 2014 than the two other types of large firm. Current assets exceeded current liabilities by three per cent.
- In 2014, the median large UK-owned family firm spent 0.5 per cent of its income on R&D expenditure. This is more than the median large non-UK-owned and non-family business.

4.1 Introduction

In 2015, RepGraph researched the ownership of the largest 1,000 limited companies registered in the UK as measured by turnover. Using the criterion that family shareholding must be greater than 25 per cent to qualify as a family business, it found 10.9 per cent of the largest 1,000 firms in the UK were UK-owned family businesses. This chapter reviews their financial performance using data sourced from their annual accounts filed at Companies House in the decade to 2014. It contrasts that performance with non-UK-owned family businesses and non-family businesses, which comprise 9.3 and 79.8 per cent of the largest 1,000 firms, respectively.

The dataset is not ideal as it is based on the financial accounts of limited companies registered at Companies House. The accounts are organised according to the company’s chosen structure, rather than restricted to the activities of its operations within the UK’s national borders. So all three group’s financials will be contaminated by their overseas earnings and operations. It seems plausible to speculate the non-UK-owned firms may have a greater contamination from overseas activities, albeit all have UK operations, hence the need to register at Companies House.

It is also important to remember the analysis uses financial accounting information. This is quantitative by nature, while some of the factors that distinguish family businesses from non-family businesses may not be easily measured in these terms. For example, longer-term planning and differences in values may not be readily apparent from, or may even be masked by financial data.

26 The RepGraph (2015) analysis excludes financial firms from its dataset.
4.2 Number and size of large family firms versus non-family firms

As discussed in Section 4.1, there are fewer family-owned firms than non-family-owned in the top 1,000 firms registered in the UK (as measured by turnover). Some 20.2 per cent of large firms were family-owned compared with 79.8 per cent that were not. Split by nationality of ownership, 10.9 per cent of the largest 1,000 firms in the UK were UK-owned family businesses (using the criterion that family shareholding must be greater than 25 per cent to qualify as a family business), compared with 9.3 per cent that were foreign-owned family firms.

A number of reasons have been put forward as to why family businesses are under-represented among the largest companies, given their dominance of the smaller business sector. These include the issuance of shares to gain external finance to fund growth (either organic or through M&A activity), which dilutes family ownership, and challenges related to succession and inter-generational
transfer that can trigger a sale of the family business. Franks et al. (2012) argue family firms’ under-representation among large firms only occurs in countries that have strong investor protection, well-developed financial markets and active markets for corporate control. In countries with weak investor protection, less-developed financial markets and inactive markets for corporate control, family control is very persistent over time.

To give an indication of the scale of large UK-owned family businesses, the median (or typical) firm employed 3,124 people in 2014. This is 24 per cent smaller than the median for large non-UK-owned family businesses, which employed 3,871 people, and 33 per cent smaller than 4,165 people employed at the median large non-family business (Figure 4.1). Except at the lowest quintile, UK-owned family businesses employ fewer people than their foreign-owned counterparts, and fewer again than in non-family businesses.

Another commonly used indicator of firm size is turnover. Large UK-owned family firms are also the smallest of the three groups using this indicator. The median, or typical, UK-owned family business earned £1.0 billion in turnover in 2014. This is smaller than the £1.2 billion earned by the median non-UK-owned family business and £1.3 billion earned by the median non-family business (Figure 4.2). UK-owned family businesses earn less than their non-UK-owned counterparts and non-family businesses at every quintile. At some points in the distribution, non-UK-owned family businesses earn more than non-family businesses, while at others the ranking is reversed.

Figure 4.1: Employment at large firms, 2014

![Figure 4.1: Employment at large firms, 2014](image)

Source: Oxford Economics.

Franks et al. (2012).
Over the three years 2012 to 2014, the median annual growth in turnover of each of the three types of large firm was very similar. The median annual growth in large UK-owned family firms’ earnings was between three and just over five per cent (Figure 4.3). Earlier in the period, there was greater disparity in performance. Although the median of all three types of large firm experienced a slowdown in earnings growth in 2009 (when GDP contracted by 4.2 per cent), the decline in the median large UK-owned family businesses was much less marked than for the other two types of firm.28 The sensitivity to the economic cycle may reflect differences in large UK-owned family firms’ risk appetite compared with the other two groups, as is borne out by some of the risk indicators discussed in Section 4.4.

28 ONS (2016b).
4.3 Profitability of large family firms versus non-family firms

Given their smaller scale, the median large UK-owned family firms made smaller profits in 2014 than their non-UK-owned counterparts and, in turn, non-family businesses. This result holds true in each of the ten years for which the data are available. But at the weaker end of the profitability spectrum, they performed better: at least one-fifth of large non-family firms made a loss in 2014, compared with a profit of £5 million and £1 million for the UK-owned and non-UK-owned large family firms at the first quintile (Figure 4.4). They also did not make a loss in 2008 and 2009 compared with the other two groups at this point in the distribution, when real GDP declined by 0.5 and 4.2 per cent on an annual basis, respectively.\footnote{ONS (2016b).} This points towards a lower sensitivity to the economic cycle.

Figure 4.4: Pre-tax profits of the lowest earning fifth of firms, 2006–14

![Graph showing pre-tax profits of firms 2006-2014](image)

Source: Oxford Economics.

Relative to capital employed, large UK-owned family firms were the most profitable in 2014 across the whole performance spectrum (Figure 4.5). The median return on capital employed was 14 per cent compared with the median large non-UK-owned family firm and non-family business at 12 and 9 per cent, respectively. This result holds for the median firm since 2006 and across the performance distribution over the same timeframe. Others who have found a similar result for family versus non-family businesses in Sweden have argued that this reflects lower equity to asset ratios, or alternatively the higher debt/equity ratios observed in family businesses.\footnote{London Economics (2002).}

“Relative to capital employed, large UK-owned family firms were the most profitable across the whole performance spectrum in 2014.”

\footnote{ONS (2016b).}
Large family businesses were also more profitable than non-family businesses as measured by their return on assets in 2014 (Figure 4.6). For the median large firm, the group of firms with the highest return on assets was non-UK-owned family business at over five per cent, followed by UK-owned family business at five per cent and non-family businesses at four per cent. The ranking between UK-owned and non-UK-owned changes between years, but both are always above non-family.

**Figure 4.6: Large firms’ return on total assets, 2014**

Source: Oxford Economics.
4.4 Riskiness in large family firms versus non-family firms

Large firms face a variety of risks. Some of these can be captured in financial ratios drawn from their balance sheets and profit and loss accounts, but many cannot.

One of the risks firms face is insolvency, whereby losses erode the value of assets to below the value of a firm’s liabilities, and the firm is no longer financially sound. Businesses can guard against this by holding capital against potential losses. There is no clear picture across the distribution as to which type of large firms holds the largest capital buffers. For the median firm, large UK-owned family firms have the lowest capital ratio at 26 per cent (Figure 4.7). The UK-owned family firm at the lowest quintile holds more capital than its comparators. This may be more important, as the firms that are likely to get into distress may come from the weaker end of the spectrum.

Another of the major risks firms face is liquidity risk. This occurs when there is a mismatch between the maturity of their assets and liabilities. So although they are financially sound, their assets are long term compared with the shorter-term profile of their liabilities.

In 2014, a greater proportion of large UK-owned family firms’ liabilities were current than both their non-UK-owned family counterparts and non-family businesses. This holds across the distribution of firms (Figure 4.8). It may reflect large UK-owned family businesses’ ability to issue commercial paper and bond finance, which is more limited than in some other countries like Germany for non-UK-owned businesses. As a result, large-UK-owned family firms may be more dependent on banks for external finance than their foreign-owned counterparts operating in the UK. It is also likely to be a function of the business mix. Wholesalers, import/exporters and finance companies have a higher proportion of current liabilities than other types of businesses. Regardless of the cause, this balance sheet indicator suggests large UK-owned family firms are more at risk of facing liquidity problems, if these current liabilities are all withdrawn at the same time.

Figure 4.7: Large firms’ shareholders’ funds to total assets ratio, 2014

![Figure 4.7: Large firms’ shareholders’ funds to total assets ratio, 2014](chart.png)

Source: Oxford Economics.
Perhaps to compensate for this risk, the median large UK-owned family firm held a higher ratio of current assets compared with their current liabilities (termed their “liquidity ratio”) in 2014 than the two other types of large firms (Figure 4.9). The median large UK-owned family firm held sufficient current assets to meet its current liabilities. For firms with high liquidity ratios (for example at the fourth quintile), non-family firms tend to have stronger ratios than family firms.

Source: Oxford Economics.
Interest rates are currently very low. But one measure of risk is a firm’s ability to make the interest payments on its debt (sometimes termed “income gearing”). The interest payments of large UK-owned family businesses in 2014 were a far smaller proportion of their operating profits than their two types of competitors (Figure 4.10). This suggests they are more likely to be able to meet their interest payments. The lower level of interest payment to profits is in part likely to reflect large UK-owned firms taking on less debt than the other two groups of large firms.

**Figure 4.10: Large firms’ interest payments as a percentage of profits before interest payments, 2014**

![Graph showing interest payments as a percentage of profits before interest payments for different quintiles of large firms.](image)

The last measure of risk we consider is a firm’s ability, or inability, to bring on stream a range of innovative products through R&D investment, or lack thereof. Figure 4.11 shows that the median large UK-owned family business spent 0.5 per cent of its turnover on R&D in 2014. This is more than its non-UK-owned family and non-family competitors. Elsewhere in the distribution, UK-owned family firms actually spent less than their rivals.

4.5 **Conclusion**

Large UK-owned family firms tend to be smaller than non-UK-owned large family businesses and large non-family businesses. However, on some measures, large family businesses excel. Relative to capital employed, large UK-owned family firms were the most profitable in 2014 across the whole performance spectrum, and in five of the eight years between 2007 and 2014 large UK-owned family firms’ turnover grew at a faster rate than either of the other two. In some respects, UK-owned family businesses appear to be less risky: among the lowest earning fifth of large firms, UK-owned family businesses were the only group that did not make a pre-tax loss during the 2009 recession, suggesting that they are less sensitive to the economic cycle. That is important. Firms that continue to make positive contributions to UK GDP even during challenging times can act as a valuable bulwark for the UK economy.
Figure 4.11: Large firms’ expenditure on R&D as a proportion of turnover, 2014

Source: Oxford Economics.
Appendix: How data and methodological changes have affected economic impact estimates over time

Section 2.4 of this report presents estimates of the family business sector’s economic contribution to the UK calculated using a methodology that is consistent with that used in the remainder of the report to produce estimates for 2015. This is to allow comparison over the period 2010 to 2015. But as there have been changes in the data definitions the calculations in this report draw on and improvement in the methodology over time, these results are different from those published in previous editions of this report. This Appendix reproduces the results as they were published at the time.

Figure A.1 shows the original estimates of family businesses’ employment and gross value added published in previous editions of the report. Table A.1 adds estimates of the number of family firms, their turnover and productivity.

**Figure A.1: Original estimates of family businesses’ employment and gross value added published in previous editions of this report, 2010–15**

Source: Oxford Economics. These estimates contain data discontinuities.
Table A.1: Original estimates of the number of family firms, employment, turnover and gross
value added published in previous editions of this report, 2010–15

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<thead>
<tr>
<th>Classification</th>
<th>Metric</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>Growth since 2014 (% or PPs)</th>
<th>Growth since 2010 (% or PPs)</th>
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<tbody>
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<td>12,246</td>
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<td>Turnover (£ million)</td>
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<td>1,086,076</td>
<td>1,098,875</td>
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<td></td>
<td>GVA (£ million)</td>
<td>357,940</td>
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<td>417,841</td>
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<td></td>
<td>Productivity (£)</td>
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<td>37,223</td>
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Source: ONS and Oxford Economics.
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BIS/BEIS SBS: 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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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 *Family Business Research and White Papers*, providing thought leadership on key family business characteristics and issues, its work covers a broad range of publications, including:

- **Family Business Sector Report** – benchmarking the size and importance of the sector.
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The Foundation works closely with its sister organisation, the Institute for Family Business, which is a membership association representing the UK’s family-owned business sector. The IFB supports and promotes the family business sector through events, networking and representation, while the Foundation, whose board includes independent directors not affiliated to the IFB, focuses on educational research in accordance with its charitable objectives. The IFB is a member of FBN International, the global network for family businesses.

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