



The State of the Nation: The UK Family Business Sector 2019–2020

IFBRF Research Briefing 1
September 2020

Key Findings

- In 2018, there were some 5.1 million family-owned businesses in the UK, representing 87.6 per cent of private sector firms.
- The UK family business sector employed 14.2 million people in 2018 – more than half of all employees in the private sector and almost two-fifths of the UK's total employment.
- The UK family business sector earned more than £1.9 trillion in revenue in 2018, 44 per cent of the private sector's total turnover.
- Family firms in the UK contributed £657 billion to UK gross domestic product in 2018, 31 per cent of the UK's total GDP.
- Family firms paid the UK Exchequer £196 billion in tax receipts in 2018, around one quarter of the UK Government's total revenue.
- Between February and May 2020, family firms' output is estimated to have contracted by 30 per cent. The 390,000 family firms in the arts, entertainment and recreation, and accommodation and food services sectors are among the hardest hit.
- In 2018, 81.1 per cent of all SME family firms had at least one woman in a leadership role (defined as an owner, partner, or director). Moreover, 22.6 per cent of family-owned SMEs described themselves as being "women-led".

About the research

This research briefing summarizes some of the key findings from the IFB Research Foundation's report, *The State of the Nation: The UK Family Business Sector 2019–20*. The report by Oxford Economics provides key insights into the UK family business sector, and is one of the primary sources of evidence on the size and impact of UK family companies. The full report can be [downloaded here](#).

The report uses data from the Department for Business, Energy and Industrial Strategy's (BEIS) Longitudinal Small Business Survey (BEIS, 2019) to examine the experiences of small and medium-sized (SME) family firms in the UK and the challenges they face. We have used recent government data (ONS, 2020a) on the impact of COVID-19 on UK business to assess the possible impact of the pandemic on the UK family business sector. The definition of family firms and a full list of the data sources used in this summary can be found in the full report.

How many family businesses are there in the UK?

There were 5.1 million family-owned businesses in the UK in 2018. Nearly 4.1 million or 79.6 per cent of them were micro businesses with no employees (see Table 1). In addition, there were 901,000 micro family businesses with 1-9 employees - some 17.5 per cent of the total.

Overall, around 88 per cent of all businesses were family-owned in 2018. The prevalence of family businesses as a proportion of all private businesses is inversely proportional to their size (Table 1). Family ownership is more common among smaller firms; some 78.0 per cent of micro employers were family-owned, compared with around half (51.9 per cent) of medium-sized private sector firms and 19.8 per cent of the largest firms¹ in the UK (Repgraph, 2020).

Table 1. Number of family business sector and private sector firms in 2018, by firm size

Size of firm	Number of family firms	Share of all family firms (%)	Number of private sector firms	Family firms as a share of all private sector firms (%)
Micro (0 employees)	4,091,815	79.6	4,457,820	91.8
Micro (1-9 employees)	900,649	17.5	1,155,385	78.0
Small (10-49 employees)	129,876	2.5	211,295	61.5
Medium (50-249 employees)	18,461	0.4	35,585	51.9
Large (250+ employees)	1,522	0.03	7,685	19.8
All family firms	5,142,322	100.0	5,867,770	87.6

Source: BEIS (SBS, 2018, BPE, 2018); RepGraph (2020)

Family businesses by sector and region

The highest concentration of family businesses was in transportation and storage with 95.7 per cent of firms being family-owned. The construction sector ranked second at 93.9 per cent, followed by professional, scientific and technical activities, which ranked third, with a family-owned share of 88.4 per cent.

There is considerable diversity in the number and prevalence of family businesses across the UK's nations and regions, largely reflecting the size of their economies and populations. The two regions with the greatest number of family firms were London and the South East. Some 895,000 family firms were based in London (17.4 per cent of the total), and a further 826,000 (16.1 per cent) were in the South East.

The highest concentration of family firms, as a share of all private firms in each region, was in the South West, where 92.1 per cent of firms were family-owned. The East Midlands and Yorkshire and the Humber had the next largest concentrations, with family businesses making up 90.9 per cent and 90.4 per cent, respectively, of all private firms.

How many people do they employ?

Family businesses provided vital employment opportunities across all UK regions in 2018, employing around 14.2 million people. Of these, over half (54.4 per cent or 7.7 million people) were employed in micro-sized family firms.

A further 2.5 million people were employed by small family firms (or 17.8 per cent of the total).

¹Firms with a turnover of more than £500 million

Large and medium-sized family businesses employed nearly 2.2 and 1.8 million people, respectively. This accounts for 15.2 and 12.7 per cent of all employment in the family business sector, respectively.

The family business sector is more important as a source of employment in some regions and UK countries than others; for example, family businesses provided more than 62.1 per cent of all private sector employment in the South West and Wales, compared with 51.6 per cent across the UK as a whole.

Employment in the sector was relatively stable in 2018. According to evidence from the 2018 SBS, two-thirds (65.4 per cent) of family-owned SMEs with employees had not altered the numbers they employed over the previous 12 months. Of those that did, one in five (22.2 per cent) increased the numbers they employed, while only 12.5 per cent said they had reduced the size of their workforce.

What is the value of the UK family business sector's turnover?

Family businesses in the wholesale and retail trade sector generate the most revenue. They earned £692 billion, or 36.0 per cent of all family business turnover. Family firms in the construction sector earned a further £232 billion in turnover, equivalent to 12.1 per cent of the family sector's total share. Professional, scientific and technical activities ranked third, with family firms generating £184 billion, or 9.6 per cent of the family sector's total turnover.

How much do family firms contribute to UK GDP?

Family businesses undertaking professional, scientific and technical activities generated the largest Gross Value Added (GVA)² contribution to GDP. At £108 billion, this contribution accounted for 16.4 per cent of the family business sector's total. Family firms in the wholesale and retail trade sector contributed another £92 billion GVA contribution to GDP (13.9 per cent of the family sector's total). The third largest contribution, meanwhile, came from family businesses in the construction sector, which contributed over £84 billion to the UK economy.

How much revenue do family firms contribute to the Exchequer?

Family businesses are estimated to have paid the Exchequer £196 billion in tax in 2018. This is more than 25.7 per cent of the UK Government's total revenue. The largest contribution was from small and medium-sized family firms, with £118 billion in tax contributions, accounting for 15.4 per cent of government revenue. The total contribution from large companies was £53 billion, about 6.9 per cent of government revenue.

² Gross value added (GVA) is the contribution an institution, company or industry makes to GDP. It is most easily thought of as the value a firm's output is sold at minus the cost of bought-in goods and services used up in that output's production.

How has the COVID-19 pandemic affected family firms?

To date, little is known about how COVID-19 has affected family-run firms in the UK. Clearly, we need to know much more about how the family business sector has been affected by the pandemic and the Government's response to it. Whilst the data used in this briefing were collected prior to the pandemic, it includes some preliminary analysis of the likely impact on the sector.

Between February and May 2020, we estimate that family firms' output is likely to have declined by 30.0 per cent. This is slightly higher than the 26.2 per cent estimated fall in non-family firms' output.

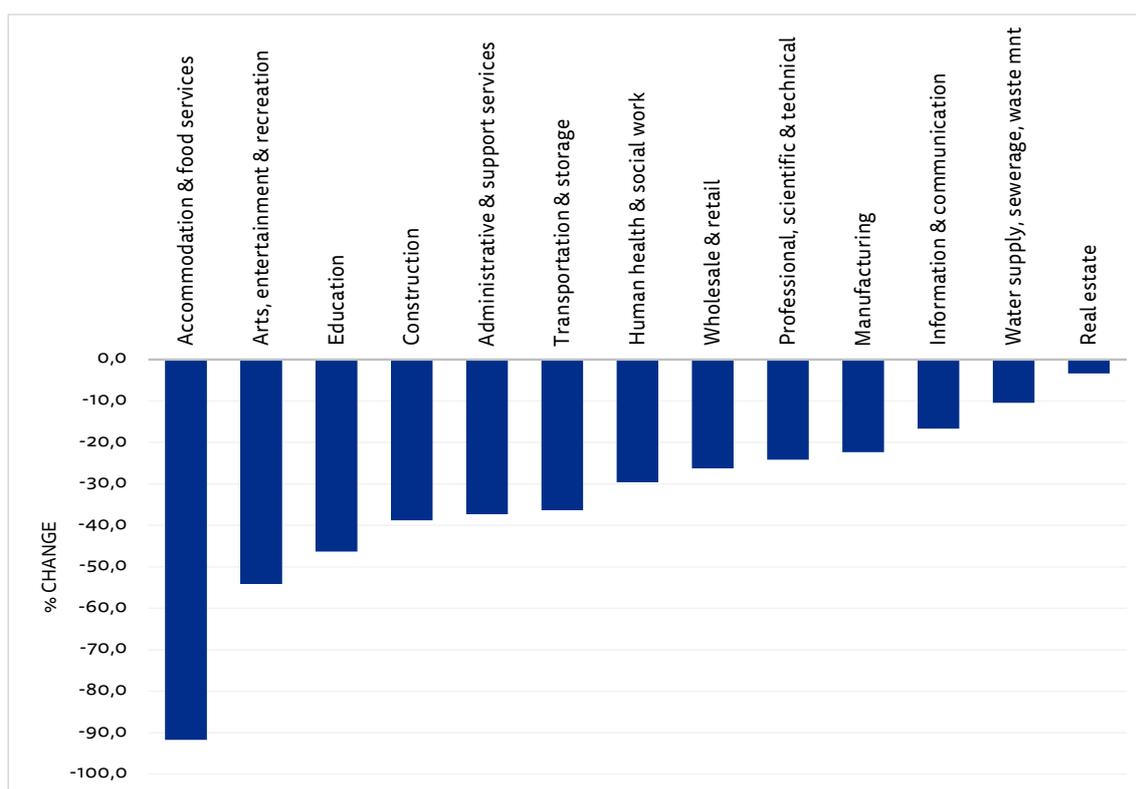
In the 14 months to February 2020, family firms' output was very stable. The onset of the pandemic started to have an effect in March, when there was an estimated 8.3 per cent decline in output. Policy measures announced on 23 March further contributed to a decline in output.

In April, we estimate that there was a further decline in family firms' output of 27.7 per cent, but a slight rebound in family firms' output of 5.6 per cent in May. Over the three months combined, we estimate that family firms' output in May stood 30.0 per cent below its level in February. This compares with an estimated decline of 26.2 per cent in non-family businesses' output.

Analysis by industrial sector shows that businesses operating in the accommodation and food services sector experienced the greatest loss in output between February and May 2020, contracting by 91.7 per cent (Figure 1). Arts, entertainment and recreation firms were the second hardest hit, with their output contracting by 54.1 per cent in three months. Family businesses operating in the administrative and support services sector suffered a 46.3 per cent decline in output.

The 390,000 family firms in the arts, entertainment and recreation, and accommodation and food services sectors are likely to have been among those which have faced the greatest challenges during the COVID-19 pandemic.

Figure 1. Percentage change in family firms' turnover between February and May 2020, by industry



Sources: ONS; Oxford Economics

Challenges facing family SMEs in the UK

The findings in the remainder of this briefing relate to family-owned SMEs with employees only and are drawn from data collected in the UK's 2018 Small Business Survey.

Family-owned SME businesses interviewed between July 2018 and January 2019 reported facing a variety of barriers to success:

Competition: Almost half (46.5 per cent) of family SMEs cited competition as a major obstacle.

Regulation and red tape: Almost half (45.3 per cent) identified regulations and red tape as an obstacle to business success. Family businesses were more likely to see issues of regulation/red tape as an obstacle than their non-family counterparts, 36.8 per cent of which identified it as a main obstacle.

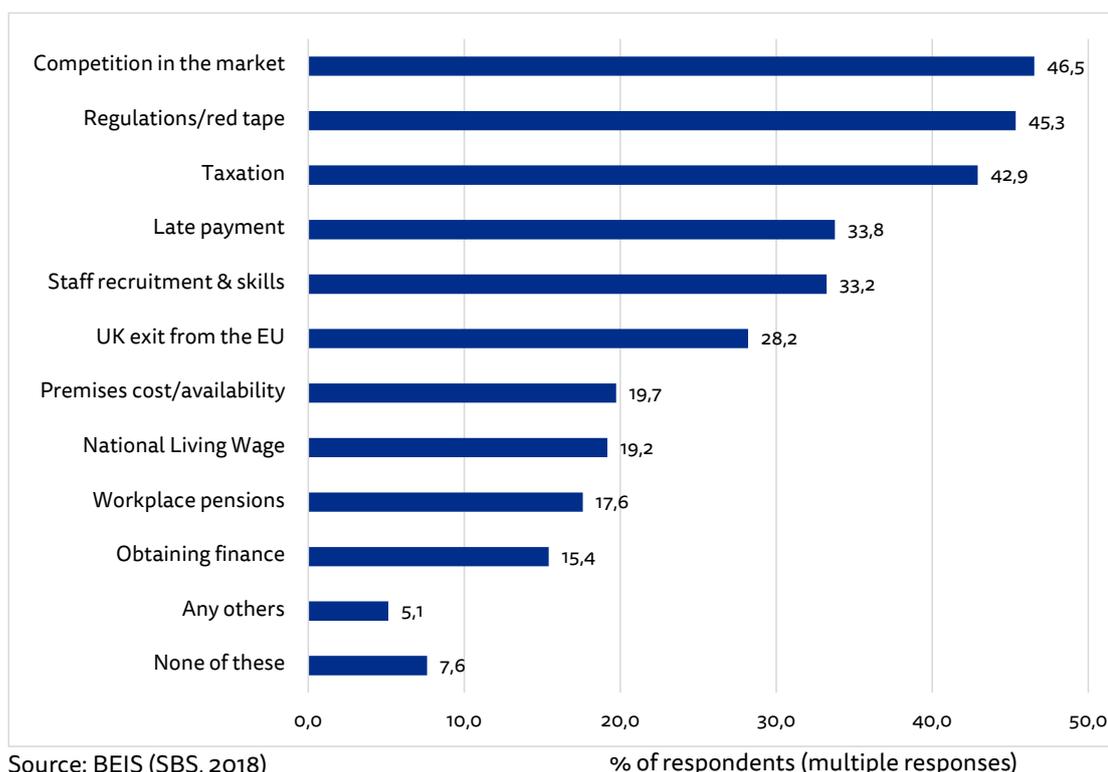
Taxation: 42.9 per cent of family SMEs identified taxation as a major difficulty.

Late payment: Around one-in-three family SMEs identified late payment as a key challenge for them.

Recruitment, training and retention of skilled staff: Similarly, one-third of family SMEs (33.2 per cent) identified staff recruitment and skills as a major obstacle to their success. This was most likely to be perceived as an obstacle for larger family SMEs and was most commonly reported as an issue by firms operating in the health and social work sector.

Access to finance: Another key challenge that many SMEs face is being able to access to external finance. This is a problem for the economy as a whole as it hinders SMEs' ability to operate and grow. In the SBS (2018), 14.6 per cent of family-owned SMEs that sought external finance had their application rejected, compared with a slightly lower figure of 11.3 per cent for non-family-owned SMEs (Figure 2).

Figure 2. Family-owned SMEs' major obstacles to business success in 2018

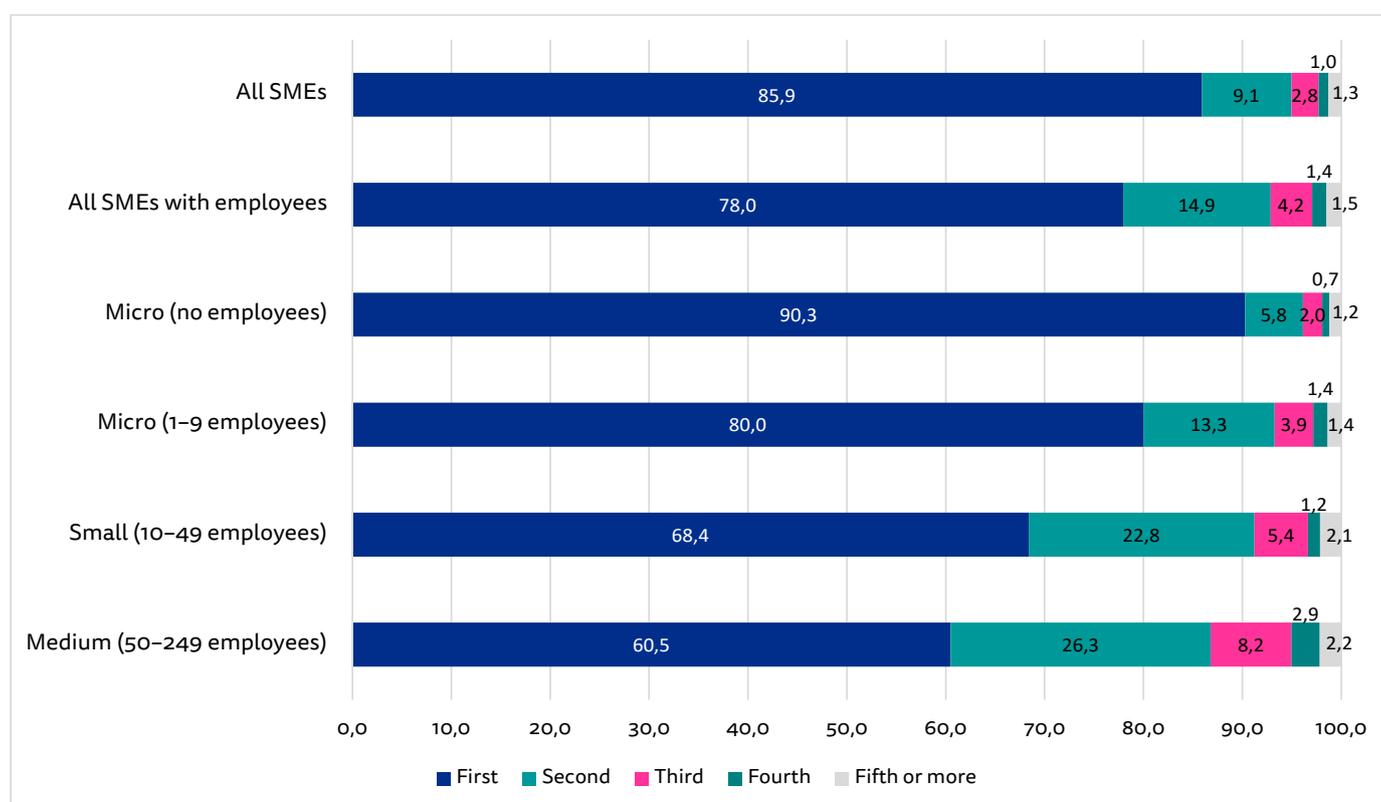


Multi-generation family SMEs

Multi-generational businesses are more common as firms increase in size (Figure 3). Evidence from the 2018 SBS indicates that almost two out of every five (39.5 per cent) medium-sized family businesses had passed down through at least one generation of the same family, compared with just one in five (20.0 per cent) of micros with employees.

That is, medium-sized family firms were twice as likely as micro family firms with employees to be in at least their second generation of ownership. Across family SMEs of all sizes, around one in twenty were in at least their third generation of ownership.

Figure 3. Family-owned SMEs by generation of ownership in 2018, by firm size



Source: BEIS (SBS, 2018)

Leadership in family SMEs

There is some debate as to whether the employment of a non-family manager improves the performance of family firms, but leadership from outside the owning family is rare in family SMEs. According to the SBS (2018), just 8.2 per cent of family-owned SMEs had directors in day-to-day control of their business who were not owners.

As family businesses grow, however, they are more likely to employ non-family members to run the business. For example, the proportion that employ non-family managers increases to 21.1 per cent for small family firms, and 37.3 per cent for medium-sized family businesses.

In 2018, 81.1 per cent of all SME family firms had at least one woman in a leadership role (defined as an owner, partner, or director). Moreover, 22.6 per cent of family-owned SMEs described themselves as being “women-led”³. Both figures significantly exceed the equivalent findings for non-family SMEs, at 52.6 and 14.4 per cent respectively.

Family firms were less successful in providing senior roles for people from ethnic-minority groups in 2018. Only 5.8 per cent of family SMEs had a director, owner, or partner from an ethnic-minority group in 2018, with just 4.8 per cent saying they were “ethnic minority-led”⁴. Both figures are lower than for non-family-owned SMEs, at 10.4 and 6.7 per cent respectively.

Innovation, use of technology, and R&D in family SMEs

There is new evidence from the 2018 SBS on the use of technology and R&D among family SMEs, suggesting they may act as important drivers of innovation. Around one quarter (23.7 per cent) of family SMEs said they had brought new and improved goods and services to market over the previous three years. In addition, around one in five (21.0 per cent) said they had improved their own processes for producing or supplying goods and services.

The use of technology or web-based software is relatively high and broadly similar across both family and non-family SMEs. Some 75.0 per cent of family SMEs reported using technology or web-based software, compared with 77.0 per cent of non-family SMEs. The proportion increased substantially with firm size, and was greatest among medium-sized firms (89.7 per cent).

Finally, 15.1 per cent of family SMEs said they had invested in R&D over the last three years. Of these firms, one in five (20.2 per cent) had applied for R&D tax credits, of which 82.2 per cent were successful in their applications.

³ A business being “women-led” is defined as over half of the owners, partners or directors being female.

⁴ An “ethnic minority-led” business is a business where over one half of the owners, partners or directors are from ethnic-minority groups.

References

BEIS. 2018. "Business Population Estimates for the UK and Regions". Department for Business, Energy and Industrial Strategy. Available at:

<https://www.gov.uk/government/statistics/business-population-estimates-2018>

BEIS. 2019. "Longitudinal Small Business Survey: SME employers (businesses with 1–249 employees) – UK, 2018". Department for Business, Energy and Industrial Strategy.

ONS. 2020a. "Business Impact of COVID-19 Survey (BICS) results". Accessed 7 July 2020. Available at:

www.ons.gov.uk/economy/economicoutputandproductivity/output/datasets/businessimpactofcovid19surveybicsresults

ONS. 2020b. "Gross Domestic Product at market prices". Accessed 11 February 2020. Available at:

www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/bklt/qna?referrer=search&searchTerm=bklt

RepGraph. 2020. "The Largest Family Businesses in the UK". 2 July. Available at: https://www.ifb.org.uk/media/4265/uk-largest-family-businesses_web.pdf

Additional information

The full report The State of the Nation: The UK Family Business Sector 2019–20, can be [downloaded here](#).

If you have any questions or comments relating to this research, please email: research@ifb.org.uk

Published by the IFB Research Foundation 2020

© IFB Research Foundation. Some rights reserved. This work is made available under a Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International Licence



Anyone can download, save, or share this work in any format without written permission and free of charge under the following conditions:

BY: Attribution must be given to the original source

NC: Works may not be used for commercial purposes

ND: Any adaptations of works such as translations may not be distributed without written permission

IFB Research Foundation

22-24 Buckingham Palace Road
London SW1W 0QP

020 7630 6250

ifb.org.uk/ifb-research-foundation

research@ifb.org.uk



IFB Research
Foundation



OXFORD
ECONOMICS