THE STATE OF THE NATION

The UK Family Business Sector 2020-21

OXFORD ECONOMICS

IFB Research Foundation

An IFB Research Foundation Report prepared by Oxford Economics

ABOUT THE IFB RESEARCH FOUNDATION

The IFB Research Foundation is a charity (no. 1134085) established to foster greater knowledge and understanding of family firms and their contribution to the economy and society, as well as the key challenges and opportunities that they face.

The Foundation's vision is to be the UK's centre of excellence for family business research, and to this end its publications are designed to create a better understanding of family business for the benefit of all stakeholders. Alongside 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.
- **Family Business Challenges** – offering practical guidance for family business owners on a broad range of topics, including family business dynamics, governance, performance, succession and wealth management.
- **Family Business Case Studies** – showcasing family business exemplars.

ifb.org.uk/ifb-research-foundation

ABOUT THE IFB

The Foundation is independent of, but works closely with the Institute for Family Business (IFB), the UK family business organisation. The IFB's mission is to help family businesses remain successful across the generations. The IFB provides a safe space where family businesses can share their challenges and successes openly. Family businesses are the backbone of our economy and communities, and the IFB works closely with them championing their contribution and voicing their needs.

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FOREWORD

A message from the Chair of the IFB Research Foundation

This latest report from the IFB Research Foundations shows how, prior to the COVID-19 pandemic, family businesses were playing a critical role in the UK economy. The evidence shows that the sector had been performing well and was largely optimistic about the future.

The pandemic is likely to have had a dramatic impact on the outlook and expectations of many small and medium-sized enterprises (SMEs) in the UK. As our last family business sector report showed, some of the sectors in which family firms are most highly concentrated have been hit hard by COVID 19.

Adoption of new technologies can help family firms improve their productivity and foster innovation. UK Government-backed initiatives such as Evolve Digital are supporting small family businesses to adopt digital technology. This report includes detailed analyses of technology use among family-owned SMEs and shows that family-owned SMEs are important users of technology. After controlling for a variety of factors such as firm size, the reports shows there is little difference in technology use between SMEs that are family-owned and those that aren't.

The report draws on survey data from immediately before the onset of the COVID 19 pandemic in the UK, providing a benchmark for comparison with more recent government statistical data. Our next report, already underway, will explore the impact of the pandemic on UK family business in detail and examine whether family ownership makes any difference to how businesses have responded to this crisis and the strategies they have adopted to survive. What is already clear is that family businesses will be at the heart of the country's economic recovery and renewal.

Sir Michael Bibby
Chairman, IFB Research Foundation


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EXECUTIVE SUMMARY

The family business sector is vital to the UK economy. This report presents key insights into the UK family business sector and quantifies its economic importance in 2019. It investigates the family business sector's characteristics and the challenges in the year prior to the onset of the COVID-19 pandemic and government's policy response. In doing so, it provides a benchmark against which to assess the impact of the pandemic on the family business sector in the UK in 2020 and beyond.

This report provides an update to the IFB Research Foundation's previous *State of the Nation* report published in September 2020.[1] This included detailed evidence on the contribution the sector made to the UK economy, and the challenges and opportunities faced by family businesses in the UK in 2018. As this release follows the earlier report relatively rapidly and the sector has not changed that much between the two years, it does not go into the same depth.

KEY FINDINGS

→ **In 2019, family-owned firms made up the majority of private sector businesses in the UK.** There were 5.2 million businesses that were family-owned in the year, which was 86.2 per cent of the total. This represented a slight increase in the number of family-owned businesses in the UK, up from 5.1 million in 2018, but a small fall in the family share of private sector businesses from 87.6 per cent.

→ **As in previous years, family businesses were a key source of employment within the UK economy.** In 2019, we estimate that family firms employed over 14.2 million people. This accounted for 51.4 per cent of all those employed in the private sector, or 39.9 per cent of employees in the whole economy. The number employed by family businesses rose by about 46,000 between 2018 and 2019, while the share of private sector employment fell slightly from 51.6 per cent in 2018.

→ **In 2019, family businesses contributed £637 billion to UK GDP.** This was 29.3 per cent of the nation's economic output in 2019. This represents a fall of about £34 billion (in real terms) compared with 2018, and a reduction in the share from 30.7 per cent.

→ **Family businesses made a substantial tax contribution to the UK Exchequer in 2019.** We estimate that family firms in the UK paid £205 billion in tax receipts, which was around 26.0 per cent of the government's total receipts. This was a nominal rise compared with 2018, when family firms contributed about £196 billion in taxes, around 25.7 per cent of government revenue in that year.

→ **The sector is more important in some regions and UK countries than others.** For example, family businesses accounted for more than 62.7 per cent of all private sector employment in Wales, compared with 51.4 per cent across the UK as a whole.

→ **Family firms had a higher number of women in leadership roles compared with non-family firms.** Across all SMEs with employees, 77.6 per cent of family firms said they had least one female director, owner or partner compared with 50.0 per cent of non-family firms. Also, 16.4 per cent of family-owned SMEs were women-led compared with 12.8 of non-family SMEs.

→ **We carried out a detailed statistical analysis to understand whether family ownership of a firm affects its use of technology.** We found no evidence that family firms in 2019 were less likely to use technology than non-family owned firms once other factors had been taken into account. There is evidence that larger firms, firms that exported, and firms in predominantly office-based sectors were more likely to use technology irrespective of their ownership status.

1. INTRODUCTION

This report, commissioned by the IFB Research Foundation, analyses the role that family businesses play in the UK economy. It provides an update to work that has been conducted by the IFB Research Foundation and Oxford Economics since 2011. We use data from the Longitudinal Small Business Survey (SBS) (2019) which is conducted annually by the Department for Business, Energy and Industrial Strategy (BEIS). Fieldwork for the survey took place between July 2019 to February 2020, before the main onset of the COVID-19 pandemic in the UK, and so paints a picture of family businesses' experiences and expectations before the pandemic struck.[2] While the outlook for family businesses may have changed significantly because of the COVID-19 pandemic and the policy response to it, this report provides a benchmark for future research. We explore the economic contribution of family businesses, how they evaluated their future prospects at the time they were surveyed and what they perceived to be their key challenges.

1.1 WHAT IS A FAMILY BUSINESS?

We use an ownership criterion to define a family firm in our analysis. We use data from two sources.

First, we use BEIS' Longitudinal Small Business Survey (2019). In particular, we use the question: "Is your firm a family-owned business, that is one which is majority owned by members of the same family?" We use the proportion of firms in each employment size category responding "yes" to this question to estimate the prevalence of family firms among SMEs. The size categories we use in this analysis are micro (zero employees), micro (one to nine employees), small (10 to 49 employees) and medium (50 to 249 employees).

The second data source used for firms with 250 or more employees is a prevalence rate estimated in a study of businesses registered in the UK with turnover of over £500 million by RepGraph (2020).

This study defines a family business as a company where a family owns over 25 per cent of its equity. It should be noted that the 250 or more employee size category does not exactly map to the over £500 million turnover category. However, it is the best recent source of estimates of the proportion of family firms among large UK-registered firms that we are aware of.

We also note that the family ownership definition we use in our analyses does not take into account the nationality of the family (or families) who own the firm.

1.2 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 (GVA): the contribution a company, institution or sector makes to gross domestic product (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.
- Employment: measured on a headcount rather than a full-time equivalent basis to facilitate comparison with ONS data on employment, and it includes both employees and the self-employed.

1.3 SECTIONS OF THE REPORT

The report is structured as follows: Section 2 quantifies the economic contribution of family businesses within the UK economy, in particular, GVA, employment and taxation. Section 3 provides insights into the regional and sectoral composition of the family business sector, as well as family firms' legal structure and ownership. Section 4 explores the economic performance of family SMEs in the year preceding the survey, including the results of a statistical investigation into whether family ownership has any impact on whether SMEs use technology. Section 5 explores family SMEs' expectations pre-pandemic. Finally, Section 6 evaluates what family SMEs saw as challenges before the onset of the pandemic.

2. THE ECONOMIC CONTRIBUTION OF FAMILY BUSINESSES

Using data from the 2019 SBS, we estimate that there were 5.2 million family-owned businesses in the UK in 2019, up slightly from 5.1 million in 2018. They represented most (86.2 per cent) of the businesses in the private sector (Table 1). Most family businesses were micro businesses with no employees and in 2019 there were an estimated 4.1 million such businesses, 79.7 per cent of all family firms in the UK. Micro family businesses with between one and nine employees and small family firms with between 10 and 49 employees were the next most numerous, at 897,000 and 131,000 firms, respectively.

Family firms made up a progressively declining proportion of all private sector firms as firm size increased. For example, the prevalence of family firms (as a proportion of all private sector firms) fell from 89.9 per cent of micro firms with no employees to 19.8 per cent of large firms with 250 or more employees.

We estimate that family businesses in the UK generated nearly £2.0 trillion in turnover in 2019, 44.3 per cent of that earned by the UK private sector overall.[3] Family businesses in the wholesale and retail trade sector were the largest contributor to this figure, with an annual turnover of £737 billion, 38.2 per cent of the UK total (Table 2). This was considerably more than family businesses in the next highest earning sector, construction – which contributed £212 billion or 11.0 per cent of total family business turnover. Family businesses in all other sectors contributed less than 10.0 per cent of the total.

In 2019, family businesses contributed £637 billion to UK GDP, 29.3 per cent of total economic output produced in the UK in the year.[4] The professional, scientific, and technical activities sector generated the largest contribution to UK GDP at £107 billion, or 16.9 per cent of family businesses' total GVA. Three other sectors contributed more than 10 per cent each to the GVA of the family business sector as a whole – the wholesale and retail trade sector at 15.4 per cent (worth £98 billion), the construction sector at 12.5 per cent (worth £79 billion) and the administrative and support services sector at 11.7 per cent (worth £75 billion).[5]

Family businesses are a key source of employment within the UK economy. In 2019, we estimate that family firms employed over 14.2 million workers. This was around half (51.4 percent) of all the workers employed in the private sector (Table 3), or 39.9 per cent of all UK employment. While the share of family businesses was heavily weighted towards micro firms with no employees, the distribution of employment across family firms of different sizes was much more even. Micros (with or without employees) accounted for just over one-half of all employment in the family business sector (54.2 per cent), while small and large family firms were responsible for 17.9 and 15.1 per cent, respectively. For SMEs, the number of employees decreased with firm size – 4.5 million were self-employed at their own micro firms without employees, compared with 1.8 million for medium-sized firms. However, large family businesses (2.2 million) employed more than medium-sized family businesses.

Size of firms	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 (no employees)	4,105,230	79.7	4,567,775	89.9
Micro (1–9 employees)	896,802	17.4	1,156,925	77.5
Small (10–49 employees)	130,839	2.5	211,845	61.8
Medium (50–249 employees)	18,570	0.4	36,140	51.4
Large (250+ employees)	1,551	0.0	7,835	19.8
All family firms	**5,152,993**	**100.0**	**5,980,520**	**86.2**

Table 1. Number of family business sector and private sector firms in 2019, by firm size

Sources: BEIS (SBS, 2019, BPE, 2020) and RepGraph (2020)

Industry	Turnover (£ mn)	Share of family business turnover (%)	Gross value added (£ mn)	Share of family business sector GVA (%)
Wholesale and retail trade	736,525	38.2	97,785	15.4
Construction	211,881	11.0	79,249	12.5
Professional, scientific and technical	189,600	9.8	107,436	16.9
Manufacturing	153,055	7.9	45,576	7.2
Administrative and support services	141,513	7.3	74,517	11.7
Information and communications	112,826	5.9	55,518	8.7
Primary (Agriculture, mining and utilities)	101,882	5.3	37,469	5.9
Transport and storage	97,731	5.1	42,967	6.8
Accommodation and food services	50,254	2.6	26,162	4.1
Human health and social work	37,761	2.0	23,580	3.7
Financial services and real estate	32,833	1.7	22,505	3.5
Arts, entertainment and recreation	27,731	1.4	6,191	1.0
Other service activities	18,057	0.9	9,450	1.5
Education	15,346	0.8	8,124	1.3
All family firms	**1,926,996**	**100.0**	**636,529**	**100.0**

Table 2. Turnover and GVA contributions of the family business sector in 2019

Sources: BEIS (SBS, 2019) and Oxford Economics

Size of firm	Family firm employment (thousands)	Share of all family firm employment (%)	Private sector employment (thousands)	Family firm employment as a share of all private sector (%)
Micro (no employees)	4,463	31.3	4,966	89.9
Micro (1–9 employees)	3,253	22.8	4,196	77.5
Small (10–49 employees)	2,557	17.9	4,140	61.8
Medium (50–249 employees)	1,816	12.7	3,535	51.4
Large (250+ employees)	2,157	15.1	10,896	19.8
All family firms	**14,246**	**100.0**	**27,733**	**51.4**

Table 3. Employment in family businesses and the private sector in 2019, by firm size

Sources: BEIS (SBS, 2019; BPE, 2020) and RepGraph (2020)

	Type of family business			
	Small sole traders and partnerships	Small- and medium-sized companies	Large companies	All family firms
Taxes borne (£ mn)	21,078	71,375	16,763	109,216
Taxes collected (£ mn)	4,401	55,212	35,960	95,573
Total tax revenues (£ mn)	**25,479**	**126,587**	**52,723**	**204,789**
Share of government revenue (%)	3.2	16.0	6.7	26.0
Average tax revenue per firm (£)	7,058	82,109	33,985,397	39,742

Table 4. The family business sector's contribution to the Exchequer in 2019

Sources: Chittenden and Sloan (2007); ONS (2021); PwC (2020); BEIS (SBS, 2019) and Oxford Economics

Family businesses made a substantial tax contribution to the UK Exchequer in 2019. We estimate they paid £205 billion in tax receipts, which was around 26.0 per cent of total public sector current receipts in 2019/20 (Table 4) (ONS, 2020d).[6] This was 1.7 times the size of the NHS's total budget (excluding depreciation) in England in 2019–20 at £123.4 billion (Department of Health and Social Care, 2020). Small- and medium-sized family businesses made the largest contribution at £126.6 billion or 61.8 per cent of family businesses' total tax payments. The next highest contribution was from large firms at £52.7 billion (25.7 per cent of the total). Sole traders and partnerships contributed £25.5 billion.

3. CHARACTERISTICS OF THE UK FAMILY BUSINESS SECTOR

Family firms played a significant role in all sectors of the UK economy. They were most numerous in the construction sector: 945,000 firms or 18.3 per cent of all family businesses (see Table 5). This was followed by the professional, scientific and technical activities sector (782,000 firms or 15.2 per cent) and the wholesale and retail sector (481,000 firms or 9.3 per cent). At the opposite end of the scale, the smallest number of family firms operated in the financial services and real estate sector (167,000 firms or 3.2 per cent), the primary sector (182,000 or 3.5 per cent) and accommodation and food services (184,000 or 3.6 per cent).

Table 5 also presents family firms' share of all private firms, for each sector; as we can see, family ownership was the most common form of corporate ownership within each sector. Family firms were most prevalent in the construction sector, where they made up 95.2 per cent of all businesses. This was followed by the primary sector (93.6 per cent) and the transport and storage sector (92.5 per cent). They were least likely to be found in the human health and social work, other service activities, and financial services and real estate sectors (71.7, 71.9, and 76.1 per cent respectively).

The employment opportunities generated by family businesses were widely spread throughout the economy. The sectors in which family businesses provided the most jobs were the wholesale and retail (2.5 million), professional, scientific and technical activities (1.7 million), and construction (1.6 million) sectors (Table 6). These three sectors employed 17.4, 12.0, and 11.1 per cent of all the people employed at family businesses, respectively. Education at 396,000 (2.8 per cent), arts, entertainment and recreation at 400,000 (2.8 per cent), and other service activities at 426,000 people (3.0 per cent) rounded out the bottom three. Family businesses' share of private sector employment (51.4 per cent) was much lower than their share of the number of private sector firms (86.2 per cent). Sectors in which family businesses made

Sector	Number of family firms	Share of all family firms (%)	Number of private sector firms	Family firms as a share of private sector firms (%)
Construction	944,900	18.3	992,250	95.2
Professional, scientific and technical	782,432	15.2	873,170	89.6
Wholesale and retail trade	481,394	9.3	553,055	87.0
Administrative and support services	462,615	9.0	526,485	87.9
Transport and storage	320,395	6.2	346,520	92.5
Information and communications	317,402	6.2	381,610	83.2
Education	277,542	5.4	325,010	85.4
Human health and social work	272,533	5.3	379,920	71.7
Other service activities	262,082	5.1	364,370	71.9
Manufacturing	256,086	5.0	288,480	88.8
Arts, entertainment and recreation	241,880	4.7	312,395	77.4
Accommodation and food services	184,336	3.6	223,045	82.6
Primary (Agriculture, mining and utilities)	182,495	3.5	195,035	93.6
Financial services and real estate	166,901	3.2	219,175	76.1
All family firms	**5,152,993**	**100.0**	**5,980,520**	**86.2**

Table 5. Sectoral distribution of family businesses in the UK, 2019

Sources: BEIS (SBS, 2019); CMRC and UNIEI (2011) and Oxford Economics

Sector	Family firm employment (thousands)	Share of all family firm employment (%)	Private sector employment (thousands)	Family firm employment as a share of private sector employment (%)
Wholesale and retail trade	2,481	17.4	5,061	49.0
Professional, scientific and technical	1,704	12.0	2,768	61.6
Construction	1,582	11.1	2,177	72.7
Administrative and support services	1,321	9.3	3,062	43.2
Manufacturing	1,213	8.5	2,669	45.5
Accommodation and food services	1,212	8.5	2,478	48.9
Human health and social work	848	6.0	1,840	46.1
Transport and storage	807	5.7	1,582	51.0
Information and communications	749	5.3	1,444	51.9
Financial services and real estate	570	4.0	1,633	34.9
Primary (Agriculture, mining and utilities)	537	3.8	889	60.4
Other service activities	426	3.0	722	58.9
Arts, entertainment and recreation	400	2.8	806	49.6
Education	396	2.8	600	66.0
Total	**14,246**	**100.0**	**27,731**	**51.4**

Table 6. Sectoral distribution of family business employment, 2019

Sources: BEIS (SBS, 2019); CMRC and UNIEI (2011) and Oxford Economics

Region/nation	Number of family firms	Share of all family firms (%)	Number of private sector firms	Family firms as a share of private sector firms (%)
London	930,820	18.1	1,133,765	82.1
South East	797,486	15.5	931,675	85.6
East of England	530,137	10.3	598,250	88.6
South West	491,283	9.5	562,545	87.3
North West	493,960	9.6	561,675	87.9
West Midlands	420,835	8.2	483,020	87.1
Yorkshire and the Humber	374,381	7.3	422,435	88.6
East Midlands	360,547	7.0	396,900	90.8
North East	130,543	2.5	163,170	80.0
England	4,529,992	87.9	5,253,435	86.2
Scotland	311,173	6.0	369,945	84.1
Wales	186,725	3.6	208,830	89.4
Northern Ireland	125,103	2.4	148,305	84.4
UK	**5,152,993**	**100.0**	**5,980,515**	**86.2**

Table 7. Regional distribution of family businesses across the UK in 2019

Sources: BEIS (SBS, 2019); CMRC and UNIEI (2011) and Oxford Economics

up a high share of private sector employment were construction (72.7 per cent), education (66.0 per cent), and professional, scientific and technical activities (61.6 per cent). At the other end of the scale, family businesses accounted for the lowest shares of private sector employment in financial services and real estate (34.9 per cent), administrative and support services (43.2 per cent), and manufacturing (45.5 per cent).

Family businesses were widely spread across the UK's nations and regions in 2019 (Table 7). The majority were in England (4.5 million or 87.9 per cent), with 311,000 (6.0 per cent) in Scotland, 187,000 (3.6 per cent) in Wales, and 125,000 (2.4 per cent) in Northern Ireland. In England, the largest number of family businesses were in the capital, with 931,000 or 18.1 per cent based in London. The South East had the second largest share (797,000 or 15.5 per cent), and the East of England the third largest proportion (530,000 or 10.3 per cent). Family businesses were least likely to be found in the North East, with only 131,000 or 2.5 per cent of all UK family firms.

The prevalence rate of family businesses varied across the UK's nations and regions. The highest share was in the East Midlands at 90.8 per cent of all private sector firms, while the lowest share was in the North East at 80.0 per cent.

Looking further into the regional breakdown, it is possible to see where family businesses of different sizes are concentrated across the UK (Table 8). Family-owned micro firms, with and without employees, were most common in London, while small, medium and large family firms were most common in the South East. Family firms of all sizes were least common in the North East and Northern Ireland.

The size composition of family firms varied across the UK's countries and regions (Table 9). Usually, around 80 per cent of family firms within a region were micro firms without employees, and less than 0.1 per cent were large firms. Micro family firms with employees were more common in the West Midlands (19.9 per cent) or Yorkshire and the Humber (18.7 per cent) compared with London (14.9 per cent). The regional share of small family firms in the North West (2.9 per cent) was higher than the 1.8 per cent that comprise London's share of small firms. The distribution across the four countries was relatively similar, with England having a higher share of micros without employees than the other countries.

Region/nation	Share of family firms, by firm size (%)					Share of family firms (%)
	Micro (no employees)	Micro (1–9 employees)	Small (10–49 employees)	Medium (50–249 employees)	Large (250+ employees)	
London	18.8	15.5	13.2	12.5	16.1	18.1
South East	15.7	14.8	14.8	13.4	18.1	15.5
East of England	10.4	10.0	9.4	10.4	11.0	10.3
North West	9.4	10.2	11.2	11.2	10.5	9.6
South West	9.5	9.5	10.0	8.2	9.0	9.5
West Midlands	7.9	9.4	9.0	8.2	8.4	8.2
Yorkshire and the Humber	7.1	7.9	7.6	9.6	6.1	7.3
East Midlands	7.0	7.0	7.3	7.9	6.5	7.0
North East	2.5	2.5	2.6	3.3	3.7	2.5
England	88.3	86.8	85.0	84.6	89.5	87.9
Scotland	5.8	6.8	7.4	7.6	5.2	6.0
Wales	3.5	3.9	4.4	4.0	4.2	3.6
Northern Ireland	2.4	2.5	3.2	3.8	1.1	2.4
UK	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Table 8. Distribution of family firms across UK nations and English regions in 2019, by firm size

Sources: BEIS (SBS, 2019) and RepGraph (2020)

Region/nation	Share of family firms, by firm size (%)					Total share of family firms
	Micro (no employees)	Micro (1–9 employees)	Small (10–49 employees)	Medium (50–249 employees)	Large (250+ employees)	
London	83.0	14.9	1.8	0.2	0.03	100.0
South East	80.7	16.6	2.4	0.3	0.04	100.0
East of England	80.5	16.9	2.3	0.4	0.03	100.0
North West	78.2	18.4	2.9	0.4	0.03	100.0
South West	79.9	17.2	2.6	0.3	0.03	100.0
West Midlands	76.9	19.9	2.8	0.4	0.03	100.0
Yorkshire and the Humber	78.1	18.7	2.6	0.5	0.03	100.0
East Midlands	79.5	17.5	2.6	0.4	0.03	100.0
North East	79.6	17.3	2.6	0.5	0.04	100.0
England	80.1	17.1	2.4	0.3	0.03	100.0
Scotland	77.0	19.4	3.1	0.4	0.03	100.0
Wales	77.8	18.8	3.0	0.4	0.03	100.0
Northern Ireland	78.2	17.9	3.3	0.6	0.01	100.0
UK	**79.8**	**17.3**	**2.5**	**0.4**	**0.03**	**100.0**

Table 9. Distribution of family firms across UK nations and regions in 2019, by firm size

Sources: BEIS (SBS, 2019) and RepGraph (2020)

Family businesses are important providers of employment across the UK. Most employment in family firms in the UK was in England (12.5 million or 87.6 per cent; Table 10), reflecting the size of the English economy relative to the other home nations. This was followed by Scotland (901,000 worker or 6.3 per cent), Wales (538,000 workers or 3.8 per cent) and Northern Ireland (328,000 workers or 2.3 per cent).

Looking at the nine English regions, family businesses employed the most people in London. Some 2.5 million people, or 17.2 per cent of all family firm employment, were in the capital. The South East ranked second, with 2.1 million or 14.7 per cent of all employment at family firms. This was followed by the East of England, where 1.5 million people worked for family businesses, which was 10.7 per cent of the total.

The picture is different when assessing the importance of family businesses as providers of employment in each nation and the English regions. Family businesses provided the highest share of employment in England at 41.0 per cent of total employment. This in part reflects the importance of the public sector as a provider of jobs in the other three nations, as family businesses in England provided the lowest share of private sector employment at 50.8 per cent. Within England, family firms accounted for 43.4 per cent of employment in the private sector in London compared with 59.5 per cent in the South West. Family businesses provided the greatest share of all employment (including public sector employment) in the East of England at 46.8 per cent.

Family businesses of different sizes often operate under different legal structures. Some two-thirds (64.0 per cent) were sole proprietorships in 2019 (Table 11). These were almost all micro businesses. Incorporated companies were the second most common (29.9 per cent of family firms) and this is the dominant corporate form for family businesses with employees. Partnerships were least common, just 6.0 per cent of family businesses.

Region/nation	Family firm employment (thousands)	Share of all family firm employment (%)	Private sector employment (thousands)	Family firm employment as share of private sector employment (%)	Family firm employment as share of total employment (%)
London	2,447	17.2	5,645	43.4	40.5
South East	2,100	14.7	3,940	53.3	42.3
East of England	1,530	10.7	2,985	51.2	46.8
North West	1,427	10.0	2,606	54.8	37.2
South West	1,254	8.8	2,106	59.5	41.3
West Midlands	1,205	8.5	2,389	50.4	40.9
East Midlands	1,063	7.5	2,076	51.2	43.7
Yorkshire and the Humber	1,059	7.4	2,043	51.8	38.5
North East	396	2.8	765	51.7	33.2
England	12,480	87.6	24,555	50.8	41.0
Scotland	901	6.3	1,749	51.5	32.0
Wales	538	3.8	858	62.7	36.2
Northern Ireland	328	2.3	573	57.2	35.9
UK	**14,246**	**100.0**	**27,735**	**51.4**	**39.9**

Table 10. Regional distribution of family business employment across the UK in 2019
Source: Oxford Economics, BEIS (SBS, 2019) and CMRC and UNIEI (2011)

Family businesses by legal structure (number and percentage share)	Firm size					
	Micro (no employees)	Micro (1–9 employees)	Small (10–49 employees)	Medium (50–249 employees)	Large (250+ employees)	All family firms
Sole proprietorships	3,089,795	200,766	7,565	134	1	3,298,261
% share	75.3	22.4	5.8	0.7	0.1	64.0
Partnerships	238,819	64,320	8,068	275	7	311,489
% share	5.8	7.2	6.2	1.5	0.4	6.0
Incorporated companies	776,616	631,716	115,206	18,160	1,543	1,543,243
% share	18.9	70.4	88.1	97.8	99.5	29.9
Total number of firms	4,105,230	896,802	130,839	18,570	1,551	5,152,993
% share	100.0	100.0	100.0	100.0	100.0	100.0

Table 11. Family businesses by legal structure, 2019
Sources: BEIS (SBS, 2019) and Oxford Economics

The distribution was similar to that in 2018, with the share of incorporated firms rising across all firm size categories. The biggest rise was in the share of incorporated firms in the micro (with employees) category. There was a slight reduction in the share of firms that are sole proprietorships across all size bands. The share of family firms structured as partnerships declined slightly, from 6.2 per cent to 6.0 percent, between 2018 and 2019.

Most family-owned SMEs with employees had a family member as the manager in 2019 (Figure 1). According to the SBS (2019), 81.8 per cent of family-owned SMEs had directors in day-to-day control of their business who were family owners. As businesses grew in size, they were much more likely to employ non-family members to run the business. The share of non-family managers increased to 30.0 per cent for small family firms, and 58.3 per cent for medium-sized family businesses.

Across all SMEs, most businesses are in their first generation (76.4 per cent). However, there is a clear relationship between the size of family SMEs and the number of the generations that the business had been in control of the same family (Figure 2). Multi-generation firms tend to be larger; for example, 26.6 per cent of medium-sized family SMEs were in their second generation of ownership, 9.1 per cent in their third, and 5.9 per cent in their fourth. This compared with 13.9 per cent of micro-sized SMEs with employees which were in the second generation, 3.5 per cent in their third, and 3.8 per cent in the fourth generation. In each size band, however, most firms were in their first generation of family ownership. This was broadly similar to the results in 2018. However, there was a small reduction in the percentage of first-generation businesses across all size bands in 2019 compared with 2018 (and higher percentages of firms stating they were second generation or higher).

There was a strong presence of female directors, owners or partners among family businesses in 2019 compared with non-family firms. Across all SMEs with employees, 77.6 per cent of family firms said they had least one female director, owner or partner compared with 50.0 per cent of non-family firms. The difference between family and non-family firms was more apparent among the smaller sized firms; the biggest gap was within micro-sized firms with employees, where 78.6 per cent of family businesses had at least one female leader

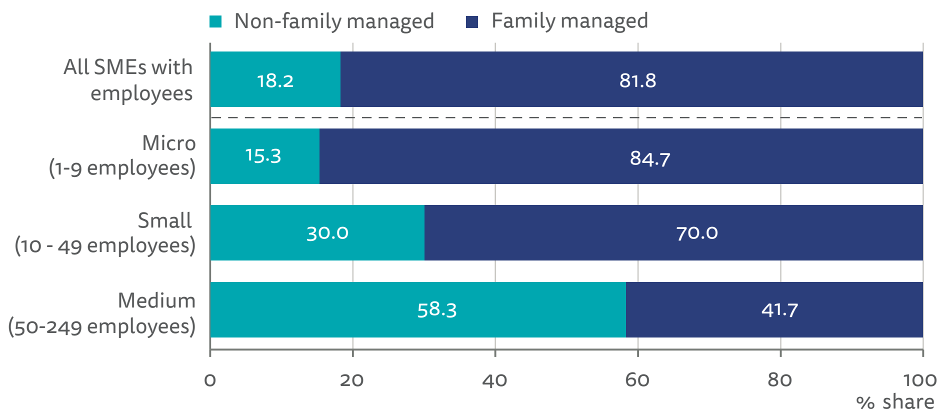

Figure 1: Family-owned SMEs with non-family and family management in 2019, by firm size
Source: BEIS (SBS, 2019)

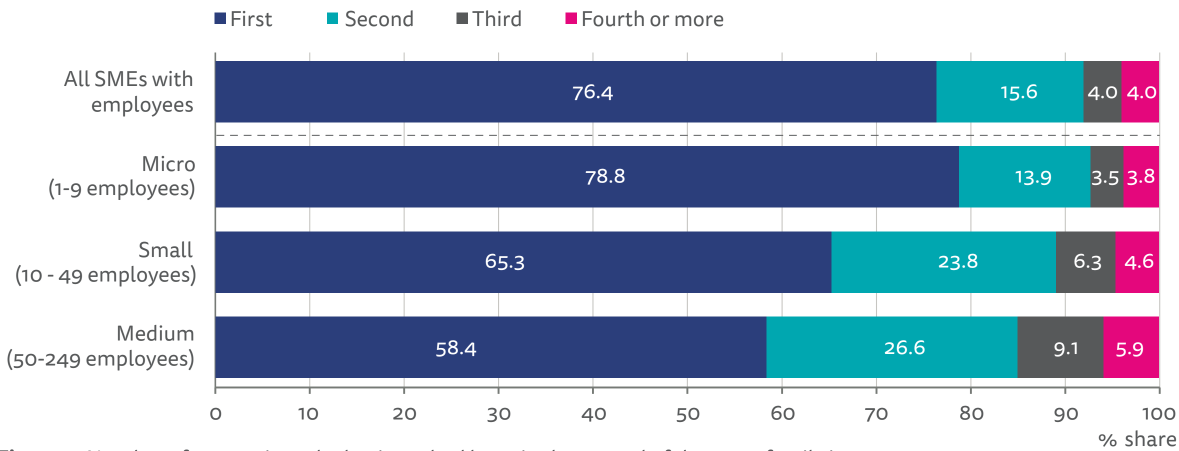

Figure 2: Number of generations the business had been in the control of the same family in 2019[7]
Source: BEIS (SBS, 2019)

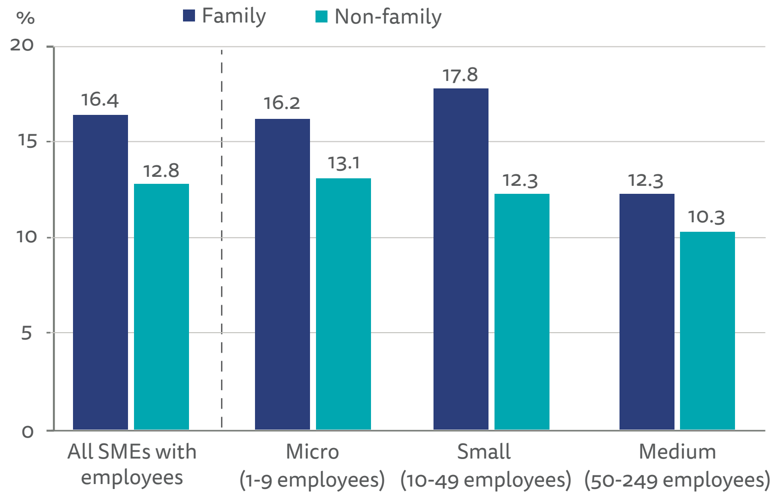

Figure 3: Proportion of SMEs that were women-led in 2019, by firm size and ownership
Source: BEIS (SBS, 2019)

compared with 49.4 per cent of non-family firms, a gap of 29.2 percentage points.

The 2019 SBS also investigated whether the business was "women-led", defined by BEIS as the businesses with more than 50 per cent of its directors, owners or partners being women.[8] Again, this was more common among family-owned SMEs, 16.4 per cent of which reported as being women-led compared with 12.8 of non-family SMEs (Figure 3). As with the percentage of firms having female directors, owners or partners, the difference between family and non-family firms was less pronounced among larger sized firms; for medium-sized SMEs, 12.3 per cent of family businesses were women-led, compared with 10.3 per cent of non-family firms.

The share of women-led family-owned SMEs varied across sectors. The sectors with the highest proportion of women-led family SMEs were human health and social work (at 48.3 per cent); accommodation and food services (at 29.0 per cent); and arts, entertainment and recreation (at 28.5 per cent). At the other end of the scale, fewer than 10 per cent of family-owned SMEs in the transport and storage, construction, and information and communication sectors were women-led.

This finding in part reflects the gender split of employees across sectors in the UK economy. According to ONS data (2020a), human health and social work activities is the sector with the highest proportion of female employees, with 77.5 per cent of workers being women, while construction (12.3 per cent), and transport and storage (18.9 per cent) are the two lowest.

Respondents to the SBS were asked a similar question relating to the ethnicity of SME leaders. Non-family firms were more likely to report that they had at least one director, owner or partner from a minority ethnic group in 2019. Across all family-owned SMEs with employees, 5.6 per cent reported that they had one leader from a minority ethnic group, compared with 10.2 per cent of their non-family counterparts. This was the case across all firm size categories.

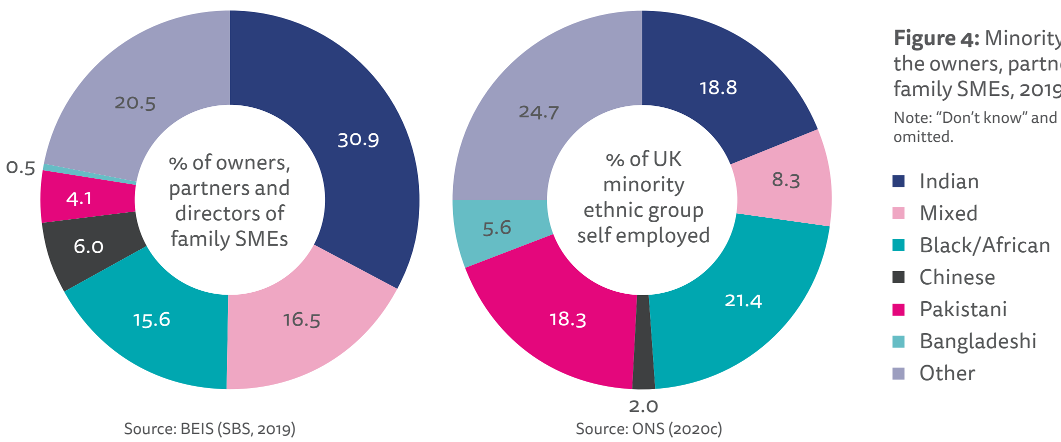

Figure 4: Minority ethnic groups of the owners, partners and directors of family SMEs, 2019
Note: "Don't know" and "Refused" have been omitted.

Some 30.9 per cent of family SMEs who said they had owners, partners or directors belonging to a minority ethnic group said they were of Indian descent (Figure 4). This was higher than the 18.8 per cent of self-employed individuals in the UK belonging to a minority ethnic group which said they were of Indian descent.[9] Mixed White and Asian, and Black/African made up the second and third largest share of family SMEs' leaders who were from minority ethnic groups.

A business is defined by BEIS as "minority ethnic group-led" if more than 50 per cent of its directors, owners or partners were individuals from a minority ethnic group. In 2019, 5.7 per cent of family SMEs reported they were minority ethnic group-led (Figure 5), similar to the 5.4 per cent of non-family SMEs. Looking at the breakdown by firm size, the proportions were roughly the same for family and non-family micro and small firms. However, for medium-sized firms, family firms were more likely to be minority ethnic group-led than non-family firms (7.1 compared with 4.2 per cent).

Minority ethnic group-led family SMEs were most prevalent in the human health and social work sector (9.7 per cent of family SMEs in that sector). This was followed by the information and communication sector with 8.5 per cent, and the wholesale and retail sector, and accommodation and food services at 7.4 per cent. They were least prevalent in the transport and storage sector (0.9 per cent), primary sector (1.0 per cent) and education sector (1.8 per cent).

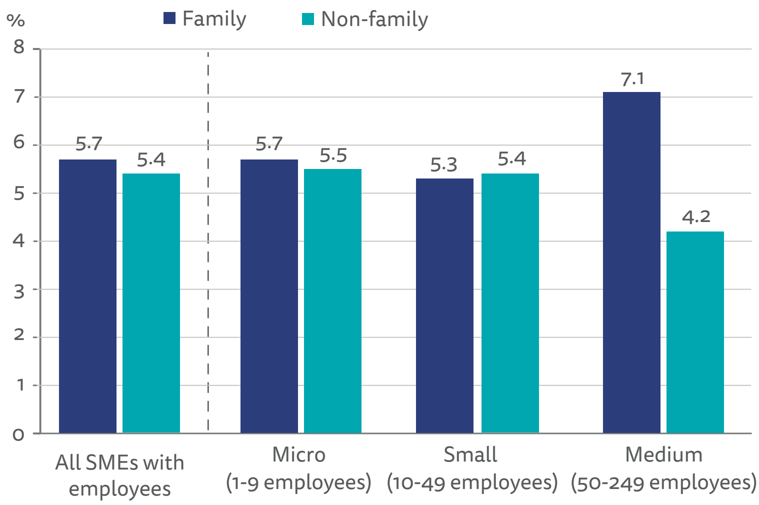

Figure 5: Proportion of SMEs with employees that were minority ethnic group-led, by firm size and ownership, 2019

Source: BEIS (SBS, 2019)

4. THE ECONOMIC PERFORMANCE OF SME FAMILY BUSINESSES

This section investigates the economic performance of SME family businesses in the period just before the onset of the COVID-19 pandemic. This should serve as a benchmark with which future research on the impact of the pandemic can be compared. The section looks at how family SMEs' turnover and employment changed over the year prior to being surveyed. We also take an in-depth look at the technology usage of family firms and how this compares with non-family firms.

Around one-third (34.5 per cent) of family SMEs with employees reported growth in their turnover over the year prior to being surveyed (Figure 6).[10] This exceeded the 19.5 per cent that reported that the value of their sales had decreased over the year before they were surveyed. The difference in the proportion of family SMEs with employees that experienced an increase in their turnover (over the previous year) minus those that experienced a decrease in turnover widened with firm size; for micros, the difference was 13.8 percentage points, compared with 36.2 percentage points for medium-sized family firms.

Looking at the size of the workforce, the majority of family SMEs (60.1 per cent) reported no change in the numbers they employed in the year prior to being surveyed (Figure 7). Some 22.3 per cent reported they had increased the number of employees, slightly more than the 17.6 per cent that reported reducing employment. This result was mainly driven by micro firms, who make up the majority of the SME population. By contrast, 41.1 per cent of medium-sized family SMEs reported that they had increased the size of their workforce in the previous year, compared with just 21.3 per cent that said their workforce had shrunk in size over this period.

A smaller proportion of family-owned SMEs with employees exported goods and services in 2019 than their non-family counterparts, across all size categories (Figure 8). Only 19.2 per cent of family SMEs sold goods or services abroad, compared with 22.7 per cent for non-family-owned SMEs. For both family and non-family SMEs, the share that received export earnings increased with firm size.

Even when family-owned SMEs surveyed in 2019 said they did export, for most businesses the earnings they received from abroad provided only a small proportion of their turnover in the year prior to being surveyed. Among exporting family SMEs, just over one-third earned less than five per cent of their total turnover from customers overseas (Figure 9). By contrast, around

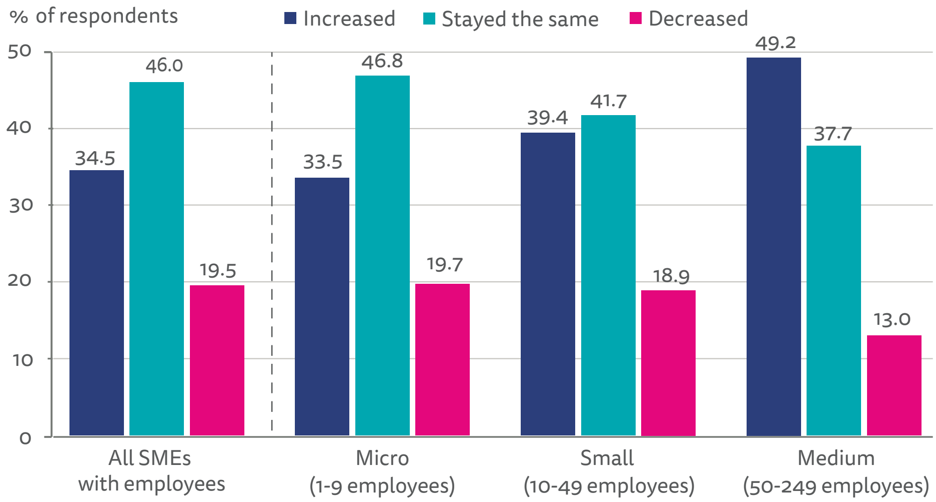

Figure 6. How family-owned SMEs' turnover changed in the past 12 months in 2019, by firm size
Source: BEIS (SBS, 2019)

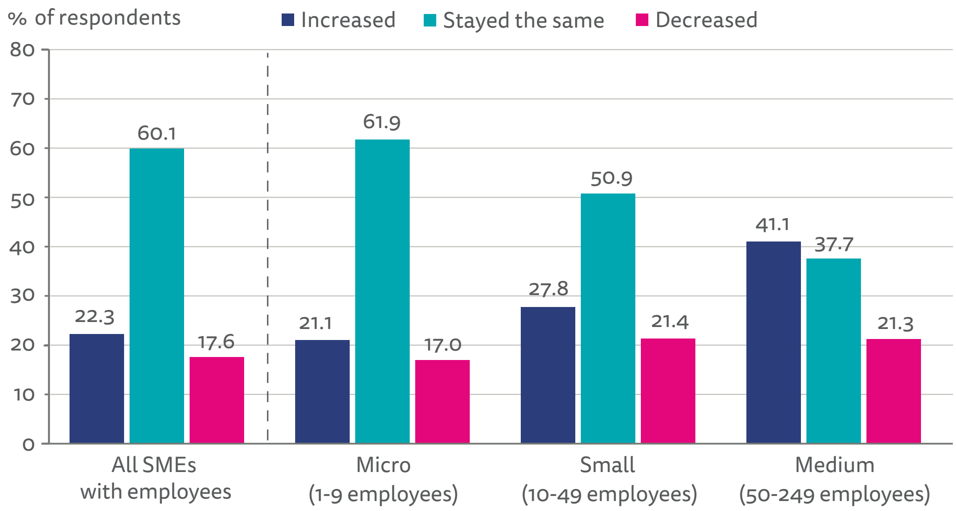

Figure 7. How the number of paid staff employed by family-owned SMEs has changed in the year prior to being surveyed in 2019, by firm size
Source: BEIS (SBS, 2019)

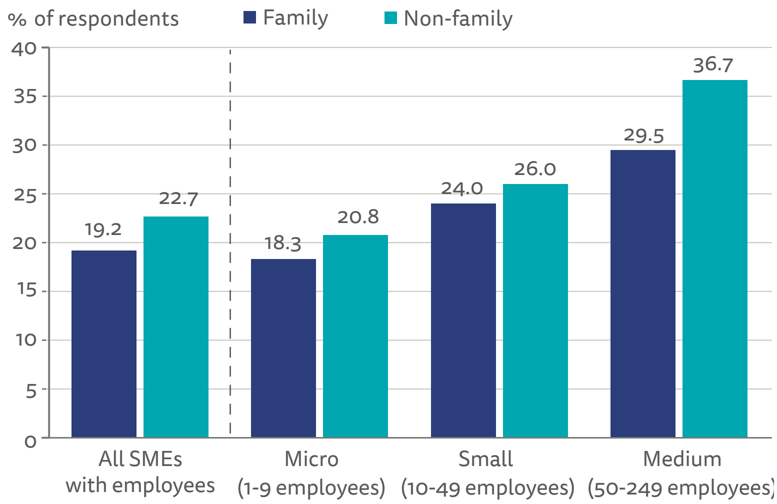

Figure 8. The proportion of SMEs that reported exporting goods and services in the past year in 2019, by firm size
Source: BEIS (SBS, 2019)

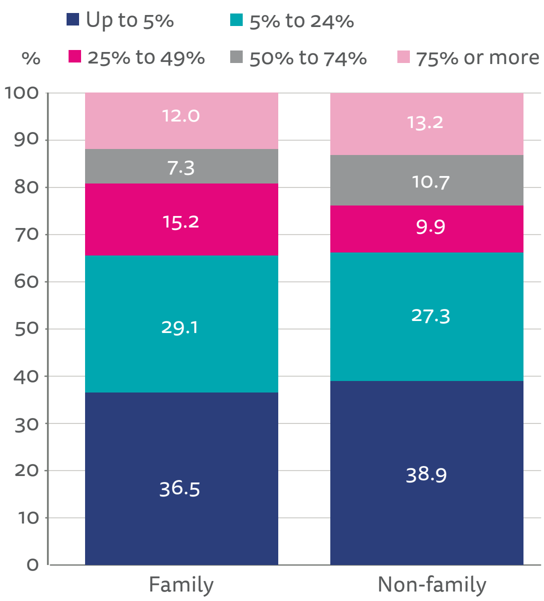

Figure 9. Share of exporting SMEs' turnover attributable to exports in the last 12 months in 2019, by ownership
Source: BEIS (SBS, 2019)

one in five family firms that exported reported that overseas sales accounted for more than half their turnover. The distribution of SMEs' turnover provided by exports among family-owned and non-family SMEs that exported was broadly similar.

The SMEs surveyed were also asked whether they use technology to manage their business or sell to customers. A smaller proportion of family-owned SMEs used technologies or web-based software to sell to customers, or for use in management, compared with their non-family counterparts. Some 47.8 per cent of family SMEs reported using technology or web-based software in 2019, compared with 53.8 per cent of their non-family counterparts (Figure 10). Box 1 (p.19) investigates whether the difference in technology usage between family and non-family firms remains after other factors are taken into account.

In addition, the SMEs that stated they used technology were asked which technologies they currently use, with firms able to choose from five types (with multiple responses allowed).[11] Accountancy software was overwhelmingly the most popular response. Some 40.6 per cent of family-owned SMEs reported using this type of software in the 2019 SBS (Figure 11).[12] All other technologies were used at a much lower rate. HR management technology was used by 7.2 per cent of family SMEs. Virtual reality and augmented reality was least likely to be used at 1.2 per cent of family SMEs. Non-family SMEs were more likely to say they used four out of the five types of technology compared with family firms.

Larger family-owned SMEs were more likely to say that they used the five technologies and web-based software specified in the 2019 SBS (Table 12). Across four of the five technology types, the usage rate increased progressively as businesses increased in size. Looking at family firms, this difference was particularly stark for HR management software and enterprise resource planning software, where the difference between micro and medium-sized firms was 20.9 and 15.4 percentage points respectively. For medium and small-sized firms, non-family SMEs were generally more likely than family SMEs to say they used each of the five technologies, the sole exception being artificial intelligence use among small firms.

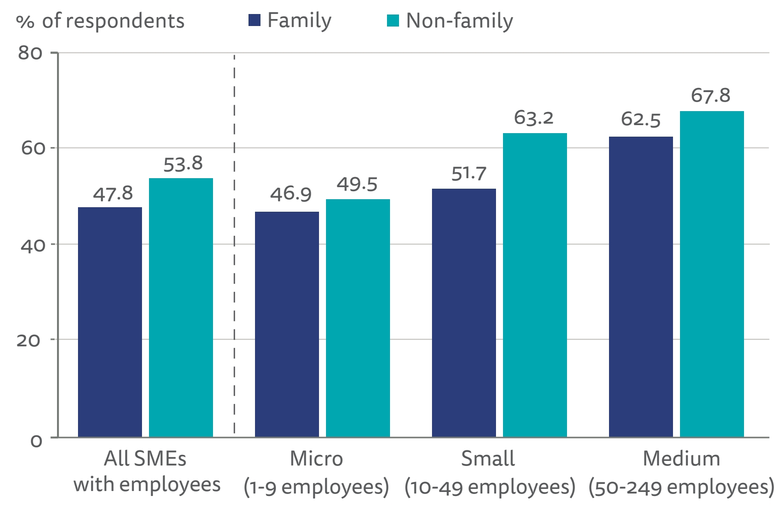

Figure 10. Proportion of SMEs which report using technologies or web-based software in 2019, by firm size and ownership
Source: BEIS (SBS, 2019)

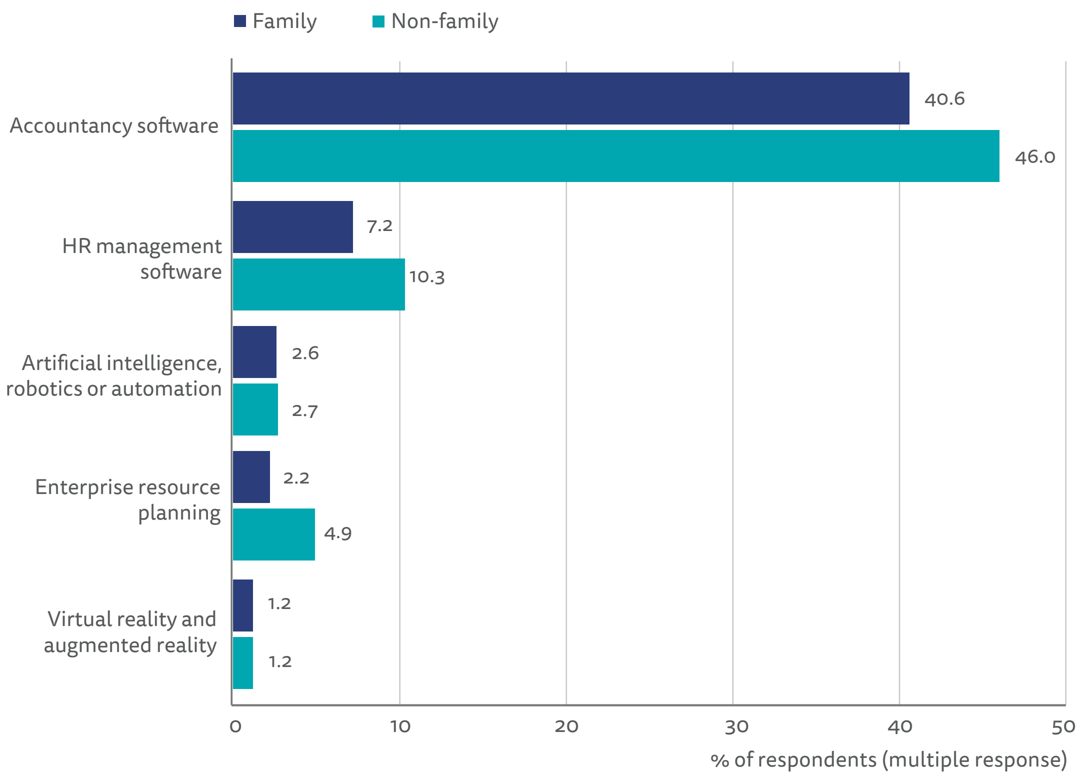

Figure 11. Type of software or technology used by SMEs in 2019, by ownership
Source: BEIS (SBS, 2019)

Size of firm		Accountancy software	HR management software	Enterprise resource planning	Artificial intelligence, robotics or automation	Virtual reality and augmented reality
Family firms	All SMEs with employees	40.6	7.2	2.2	2.6	1.2
	Micro (1–9 employees)	39.0	5.8	1.5	2.3	1.2
	Small (10–49 employees)	48.7	14.7	5.2	3.9	0.6
	Medium (50–249 employees)	60.5	26.7	16.9	8.1	2.8
Non-family firms	All SMEs with employees	46.0	10.3	4.9	2.7	1.2
	Micro (1–9 employees)	40.1	5.3	2.6	2.0	0.7
	Small (10–49 employees)	58.7	19.1	8.9	3.2	2.3
	Medium (50–249 employees)	64.9	36.5	17.6	8.8	3.2

Table 12. Type of software or technology used by SMEs in 2019, by firm size and ownership
Sources: BEIS (SBS, 2019) and Oxford Economics

BOX 1: ARE FAMILY-OWNED SMEs LESS LIKELY TO USE TECHNOLOGY THAN THEIR NON-FAMILY COUNTERPARTS?

One of the defining trends of the past few decades has been the growth in the quantity and quality of technology available to help run and manage businesses. The importance of technology has further been highlighted during the COVID-19 pandemic and the transition to remote working for many businesses and working at home for many employees. A survey of 1,000 SMEs across the UK carried out by the Enterprise Research Centre (2020) in autumn 2020 found that 65 per cent of SMEs moved the introduction of new digital technology up their list of priorities as a result of the pandemic. In a survey of 375 UK businesses, Riom and Valero (2020) found that between the start of the pandemic and the associated response (late March to late July 2020) around 60 per cent of businesses adopted new digital technology; of these firms, 95 per cent stated that the pandemic had prompted or accelerated the decision.

SMEs have typically had lower adoption rates of new technology than larger businesses. For example, a recent study by the OECD (2019) found that in 2018 small businesses were half as likely to purchase cloud computing services compared with large firms across OECD countries, and that the gap between small and large firms with access to high speed broadband had grown between 2011 and 2018 across 25 European countries.

A recent study by BEIS (2019a) interviewed a sample of 40 SMEs in England to investigate what factors inhibited technology adoption. Several common factors were identified – for example, limited access to funding and making a profit (before implementing changes) was seen as a priority by many SMEs. Looking at specific types of technology, some of the SMEs in the study were reluctant to buy accountancy software without assurances that it would work effectively; when asked about customer relationship management or human resource software, some businesses stated they did not need such technology to run businesses of their size. Among less innovative SMEs, limited understanding and awareness of helpful technology were common barriers to technology adoption, as was their ability to actually use it. The cost of technology was also cited as a reason for lower technology adoption, while others thought cultural change was needed within the business before it would adopt new technology.

These findings are echoed by other work in this area. For example, a survey of 502 business leaders of SME firms by Dun & Bradstreet (2018) found that only 56 per cent thought they had staff who were qualified to use new technology within their business. A recent report by Be the Business (2020) identified five key barriers to adoption based on a survey of 1,500 UK SMEs:

1. an inability to find products specific to their needs;
2. adoption was seen as a difficult and costly process;
3. worries about risks associated with changing technology;
4. a lack of technology expertise; and
5. resistance from employees to change how they currently work.

In autumn 2020, the Enterprise Research Centre (2020) surveyed 1,000 UK SMEs about a variety of issues, including technology adoption. Among firms implementing more than two digital technologies, 39 per cent of firms had found a lack of digital skill among employees to be an obstacle to adoption. Other reasons cited were a lack of compatibility with current equipment (35 per cent), issues with broadband capacity (33 per cent), concerns about cyber risk (32 per cent), a lack of funding (32 per cent), and resistance within the organisation (30 per cent). In addition, among firms that had implemented two or fewer digital technologies, 19 per cent stated that improved digital skills would increase technology adoption. The other factors that firms stated would improve technology use were more certainty about equipment compatibility

(17 per cent), better broadband (17 per cent), more information regarding cyber risk (16 per cent), better advice (15 per cent), more access to funding (15 per cent), and more workforce enthusiasm about tech adoption (8 per cent).

In a study of Italian manufacturing SMEs, Alessandrini *et al.* (2010) found that difficulties in accessing finance reduced process and product innovations. Giotopoulos *et al.* (2017) conducted a study of SMEs in Greece and found that "being involved in R&D and innovation activities and participating in research projects or collaborations increase the likelihood of adopting ICTs in SMEs" (2017: 67), as did having staff that had a higher level of ICT skills. Finally, in a survey of 94 SMEs in northern Spain that looked at use of cloud computing, Trigueros-Preciado *et al.* (2013) identified a lack of knowledge of cloud computing as the main barrier to adoption. Riom and Valero (2020) found smaller firms were more likely than larger firms to say that financial, informational and infrastructure constraints were a major barrier to innovation (such as adopting new technology).

Less work has been done, however, on whether family ownership of a firm affects its use of technology. The aforementioned study by BEIS (2019) did find that family owned and run SMEs "tended to be more restrictive in terms of their likelihood to innovate, especially when coupled with an older business where the key decisionmakers had been in place for a long time" (2019: 17).

One reason family firms may act differently to non-family firms is the role of socioemotional wealth.[13] Souder *et al.* (2017), in a study of cable TV operators between 1983 and 1987, found evidence of a negative relationship between technology adoption and family ownership, arguing that the use of new technology may diminish the socioemotional wealth of a family business. This is because the introduction of new technology may disrupt how the firm operates – and the family values that underlie it – or because the need for capital to finance the adoption may lead to the dilution of family control. Similar results were reported by Kotlar *et al.* (2013) in a study of Spanish manufacturing firms which found that family management led to lower acquisition of external technology, with the authors citing a reluctance to undertake decisions that threatened the family's socioemotional wealth. This follows more general findings that families may sometimes be reluctant to cede family control, even if this involves facing higher risk (for example Gómez-Mejía *et al.* 2007), or be reluctant to make investments, in order to protect their socioemotional wealth (for example Chrisman and Patel, 2012; Patel and Chrisman, 2014).

In the 2018 SBS, questions were introduced asking SMEs in the UK about their use of technology. This question was asked again in the 2019 iteration of the survey. Using these data, we have carried out some preliminary analyses to examine whether there is any difference in technology use between family and non-family SMEs in the UK.

Respondents in the SBS were asked, "Do you use any technologies or web-based software to sell to customers, or for use in the management of your [business]?" Those who said they did, were then asked about the types of technology they used. These were: 1. Accountancy software, 2. HR management software, 3. Enterprise resource planning (ERP) software, 4. Artificial intelligence, robotics or automation and 5. Virtual reality and augmented reality. Firms were also able to respond "None of these".

We used logistic regression to investigate whether family ownership had a significant influence on SMEs' technology use, and if so, which type of technology they used. We restricted our analysis to firms with employees.

A simple logistic regression of the decision to use technology on whether the firm is a family firm or not indicated that family firms were less likely to use technology than non-family firms. Comparing the probabilities of technology usage, we found that family firms were 6.1 per cent less likely to use technology than non-family firms.

However, once we included additional explanatory factors into the regression analysis, we found no evidence to indicate that family firms were less likely to use technology than non-family firms. We analysed a wide range of other possible explanatory factors, namely: firm size; age; turnover; region;

sector; and whether they exported. We also created a variable for whether the sector was predominantly office-based or not.[14]

We followed a general-to-specific estimation process, testing the model with a large pool of explanatory variables first and then sequentially removing the variables that were not statistically significant. We then re-tested the model and continued the process of removing variables until we were left only with variables that were statistically significant.

The final model includes the variables firm size, whether the firm exports, and whether the sector was office-based or not. The final model indicated that there was no evidence that family firms were less likely to use technology than non-family firms – that is, the coefficient on whether the firm was a family firm or not was not statistically significant. However, larger firms, firms that exported and firms in predominantly office-based sectors were statistically more likely to use technology. These results are summarised in Table 13. Overall, there is no statistically significant difference in the usage of technology between family and non-family firms. Small firms are 8.2 per cent more likely to use technology than micro firms with employees, and large firms are 15.0 per cent more likely to do so, and these differences are statistically significant at the 1 per cent significance level. Firms that export are 23.0 per cent more likely to be technology users compared with those that do not, and firms in predominantly office-based sectors are 16.9 per cent more likely to use technology than their counterparts in sectors that are not predominantly office-based.

Variable	% difference
Family firm (vs Non-family firm)	−3.1
Small firm (vs micro firm)	8.2***
Large firm (vs micro firm)	15.0***
Firm exports (vs firm does not export)	23.0***
Sector is office-based (vs not office-based)	16.9***

Table 13. Regression results on the determinants of technology use by SMEs

Sources: BEIS (SBS, 2019) and Oxford Economics.

Note: * 10% level, ** 5% level, *** 1% level. N=2,708 firms. Pseudo R2: 0.0513. These are the estimated marginal effects with all other variables taken at their mean value.

In conducting some robustness checks, we repeated the analysis using data from the 2018 SBS. Again, we found no evidence that family firms were significantly less likely to use technology than non-family firms, after the inclusion of firm size, the decision to export, and whether the sector was predominantly office-based. On the other hand, firm size, export decisions, and whether the sector was predominantly office-based were all positively correlated with technology use.

We also conducted the regression analysis on the survey respondents' data on specific technology use (namely accountancy software, HR software, ERP software, artificial intelligence and augmented/virtual reality). Again, we found no evidence of difference in technology usage between family and non-family firms across all five types of technology when firm size, the decision to export, and whether the sector was predominantly office-based were included in the regression.

In addition, for the regressions on specific technology use, we also restricted the sub-sample to only SMEs that used technology (of any kind) as a further robustness check. Again, we found no evidence of difference in technology usage between family and non-family firms.

These results give a preliminary indication that, once a variety of other explanatory variables are taken into account, there is no statistically significant difference between family and non-family SMEs in their technology use in general and across five specific types of technology use.

More research is needed to better understand how family firms take strategic decisions to buy and implement technological applications into their business compared with non-family firms. Other variables that we were unable to include in our analysis, such as access to finance (for which we were unable to come up with a suitable measure given the BEIS SBS survey data), are also likely to be important, and so a more advanced research design is required to draw further, more robust conclusions.

5. FUTURE EXPECTATIONS OF FAMILY SMES IN 2019

This section explores family-owned SMEs' future expectations when they were interviewed between July 2019 and February 2020. The outbreak of the COVID-19 pandemic in the UK in early 2020 and the impact of government measures to contain the spread of the virus in 2020 and early 2021 are likely to have heavily affected their ability to meet these expectations. But these data shed light on the forward thinking (plans to invest, access external finance, etc) that SMEs were engaged in before the pandemic took hold, and provides a baseline for post-pandemic comparisons.

Evidence from the SBS shows that family-owned SMEs were relatively optimistic about how their turnover might change over the next year when interviewed in late 2019 and early 2020. Some 38.9 per cent expected their turnover to increase over the next year, compared with 12.3 per cent that expected a decrease. These expectations can be usefully represented as an "optimism gap" – which is calculated as the percentage of firms expecting an increase in turnover over the next year minus the percentage of firms expecting a decrease in turnover over the next year. An optimism gap of +26.6 percentage points was slightly below the +28.6 percentage point gap in 2018 (Figure 12).

As in 2018, family-owned SMEs were less optimistic about turnover growth over the next year than their non-family counterparts. Family SMEs' optimism gap of 26.6 percentage points was below their non-family counterparts' expectations of 33.0 percentage points.

Looking at employment intentions, around one-quarter (26.8 per cent) of family-owned SMEs expected a rise in the numbers on their payroll over the next year (from the point at which they were surveyed). This compares with 16.9 per cent who expected a fall (Figure 13). This translates into an optimism gap of 9.9 percentage points in 2019 for family SMEs, a slight fall from the figure of 13.0 percentage points in 2018. That is, net optimism about employment growth was slightly lower in 2019 compared with 2018. Non-family SMEs' employment expectations were more optimistic than family SMEs' across both years. In 2019, 19.2 per cent more non-family firms expected the numbers they employ to rise over the next year than thought it would fall.

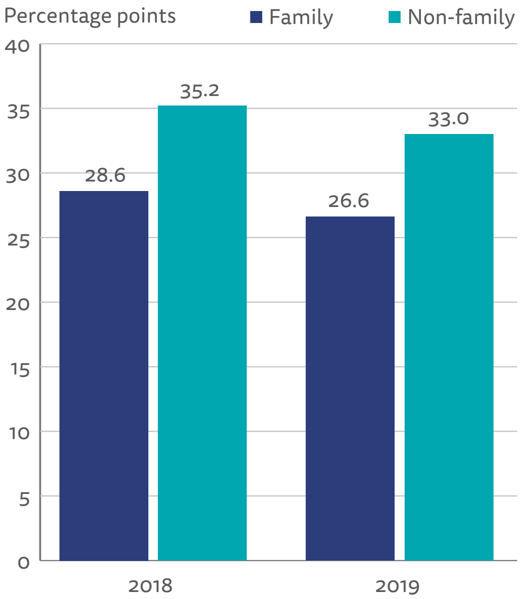

Figure 12. Percentage of SMEs expecting an increase in turnover in the next year, minus the percentage expecting a decrease, by ownership and survey year

Source: BEIS (SBS, 2018, 2019)

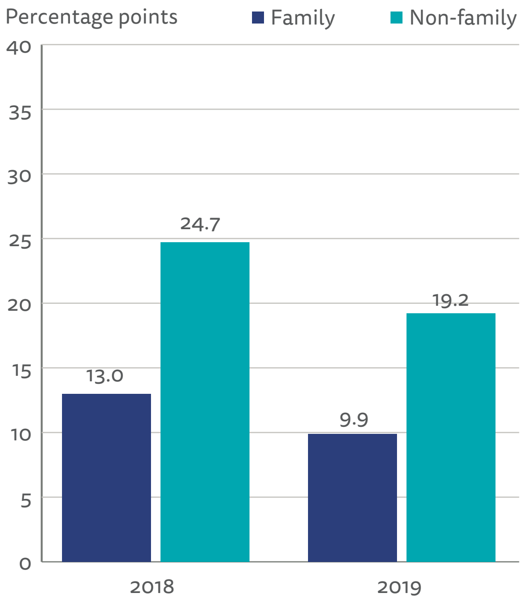

Figure 13. Percentage of SMEs expecting an increase in employment in the next year, minus the percentage expecting a decrease, by ownership and survey year

Source: BEIS (SBS, 2018, 2019)

6. CHALLENGES FACING SME FAMILY BUSINESSES

In this final section of the report, we look at the challenges or obstacles that family firms said they face in achieving their business objectives.

SMEs surveyed between July 2019 and February 2020 were asked what they thought were the major obstacles to achieving their business objectives (Figure 14). For both family and non-family SMEs, competition in the market was cited more frequently to be a major barrier (48.5 versus 47.0 per cent, respectively). Regulation and red tape was the next most cited barrier to success for both family SMEs (44.7 per cent) and their non-family counterparts (39.7 per cent). The third most cited barrier was different for family and non-family SMEs. The third most cited barrier to success for family businesses was taxation, at 42.4 per cent. For non-family firms the third most cited barrier was late payment, at 36.4 per cent.

There was a large difference between the percentage of family and non-family SMEs citing taxation as an obstacle to success (Figure 15). While the difference was relatively large across all size bands, it was particularly high within small firms, where 51.4 per cent

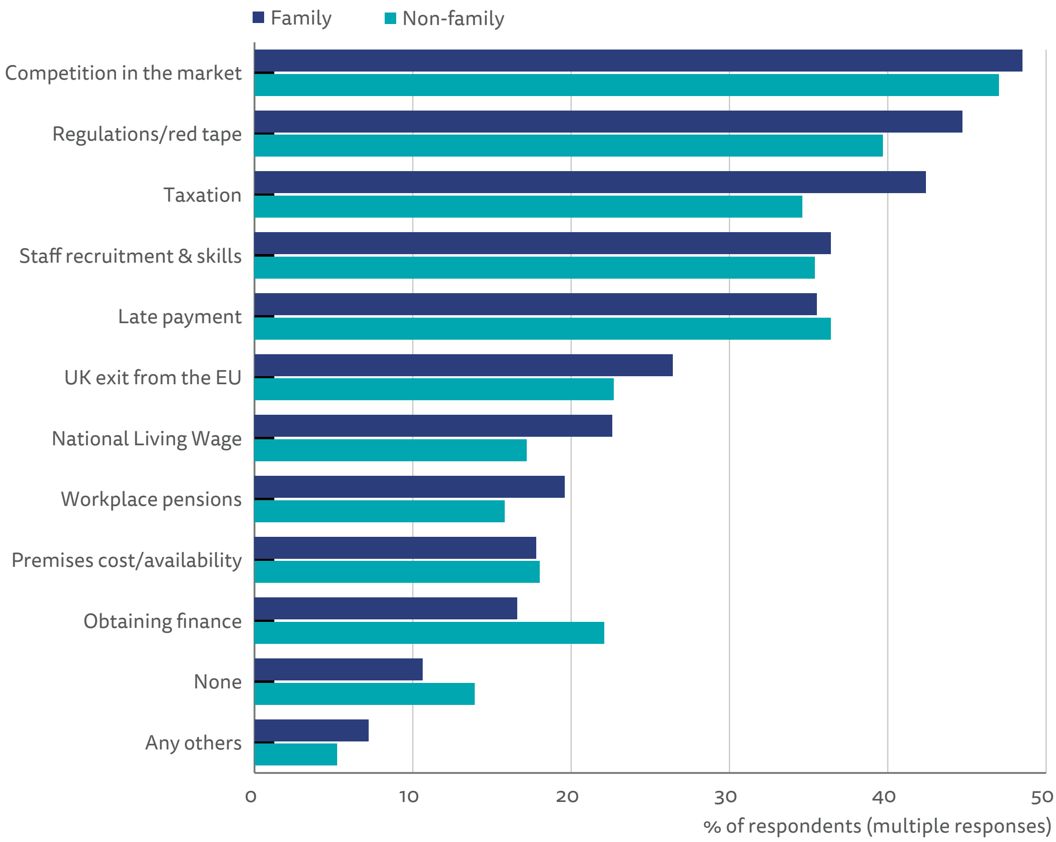

Figure 14. Major obstacles to achieving business success SMEs with employees perceived they faced in 2019, by ownership
Source: BEIS (SBS, 2019)

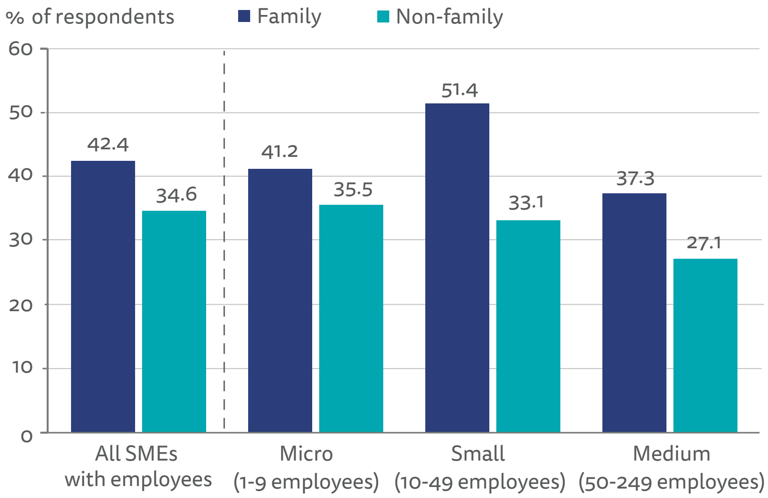

Figure 15. The proportion of SMEs citing taxation as a major obstacle to success in 2019, by firm size and ownership
Source: BEIS (SBS, 2019)

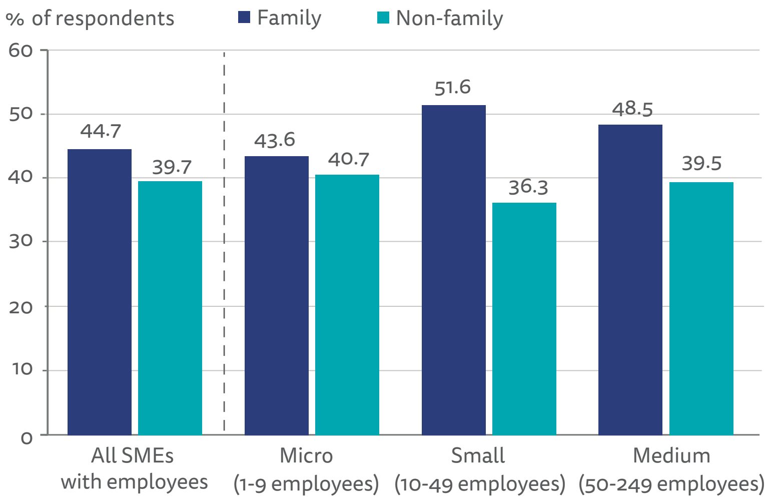

Figure 16. The proportion of SMEs citing regulations/red tape as a major obstacle to success in 2019, by firm size and ownership
Source: BEIS (SBS, 2019)

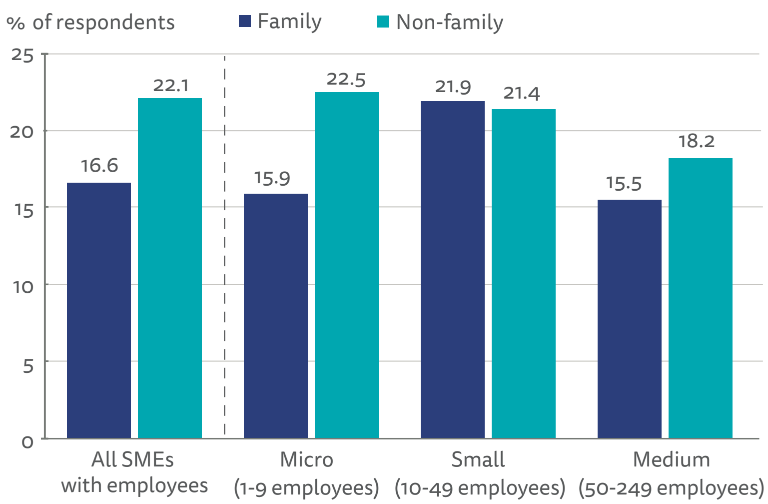

Figure 17. The proportion of SMEs citing obtaining finance as a major obstacle to success in 2019, by firm size and ownership
Source: BEIS (SBS, 2019)

of small family firms reported taxation as an obstacle, compared with only 33.1 per cent of non-family firms.

There was a similar story for firms citing regulations and red tape as a main obstacle to success (Figure 16). While family firms were more likely to identify it as an obstacle than non-family firms, the difference was most pronounced for small firms (51.6 compared with 36.3 per cent).

The third obstacle where there is a large difference between the proportion of family and non-family SMEs citing it as an obstacle is access to finance (Figure 17). Across SMEs of all sizes, a greater proportion of non-family firms viewed access to finance as an obstacle compared with family firms (22.1 per cent versus to 16.6 per cent). The gap was particularly high among micro firms (22.5 per cent to 15.9 per cent). However, roughly the same proportion of family and non-family businesses reported this concern within the small size band.

Looking at the obstacles, or difficulties that family SMEs perceived they faced in achieving their business objectives in 2019, competition in the market was the most frequently cited as an obstacle by all three sizes of business (Figure 18). In general, micro family-owned SMEs cited all obstacles less frequently than their larger counterparts.

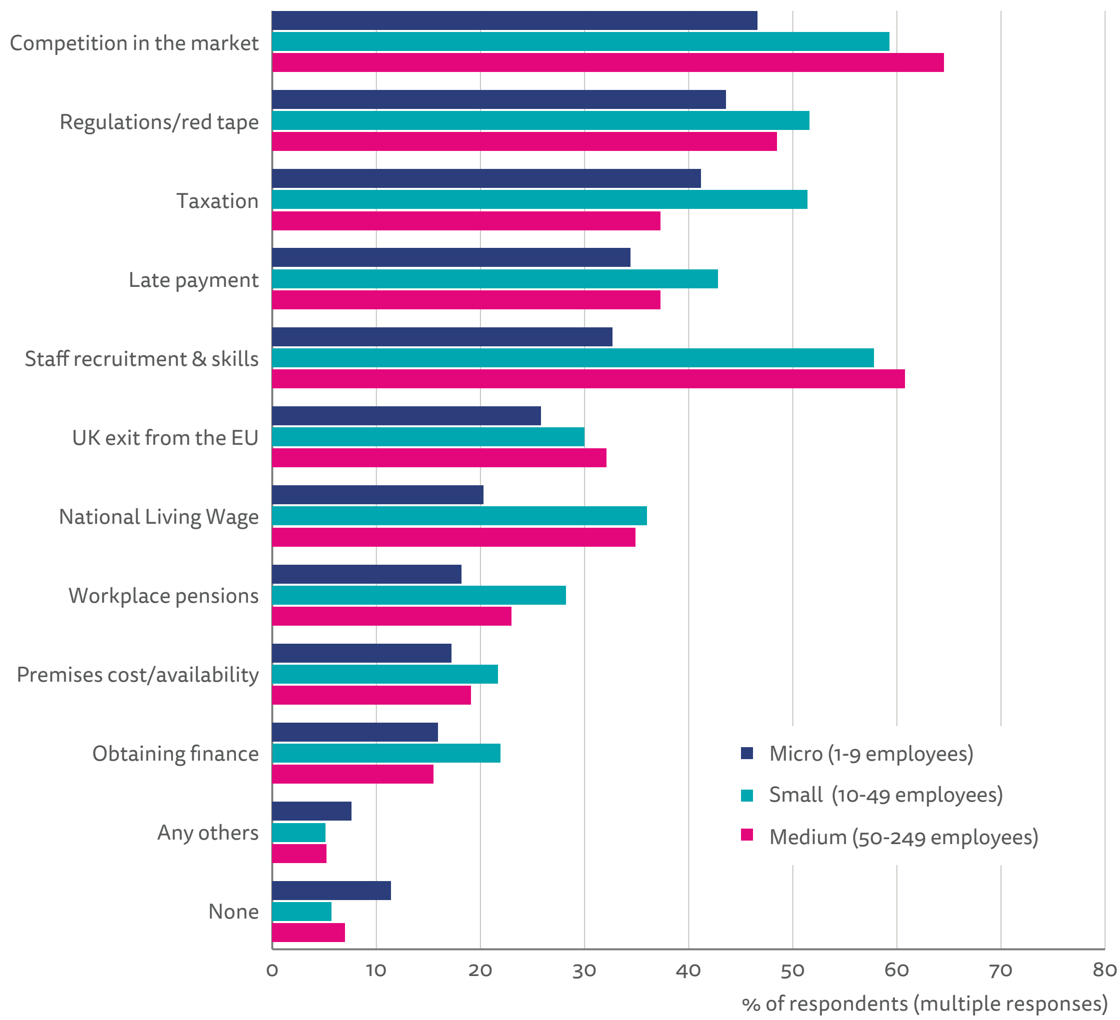

Figure 18. The major obstacles family-owned SMEs with employees perceived they faced in 2019, by firm size
Source: BEIS (SBS, 2019)

7. CONCLUSION

The family business sector plays an important role within the UK economy. Prior to the pandemic, in 2019, the 5.2 million family businesses (86.2 per cent of all private businesses) in the UK employed over 14.2 million workers. They contributed £637 billion to UK GDP (29.3 per cent of the UK economy), as well as £205 billion in tax receipts (which was 26.0 per cent of government revenue). Family businesses were represented in all regions and sectors of the economy.

Beyond their economic contribution, family businesses play an important role in UK society. A substantial number of family businesses have female leaders and directors, and they are also important users of technology which will foster innovation.

Prior to the COVID-19 pandemic, family businesses had been performing well and were largely optimistic about the future. The pandemic is likely to have dramatically affected the outlook and expectations of many SMEs in the UK. This Sector Report, while shorter than previous reports, provides a useful benchmark for future research on the impact of the pandemic on the family business sector.

Given their importance to the UK economy, family businesses will be vital for achieving a speedy and sustained economic recovery from the pandemic. If the UK economy is to thrive over the coming years, it is essential family businesses remain at the heart of it.

ENDNOTES

1 This report is available at: www.ifb.org.uk/media/4303/the-state-of-the-nation-2020-web.pdf

2 For simplicity, when referring to statistics estimated using the BEIS SBS, we refer to the time period as "2019".

3 Data on turnover of all private sector businesses taken from BEIS (2021).

4 The ONS estimated UK GDP at market prices was £2,218,439 million in 2019 (ONS, 2020b).

5 The following definitions for sectors are taken from ONS (2016). The primary sector is comprised of four sectors: agriculture, forestry and fishing; mining and quarrying; electricity, gas, steam and air conditioning supply; and water supply, sewerage, waste management and remediation activities. Administrative services include industries such as rental and leasing; employment agencies; travel agency, tour operator and other reservation services; security and investigation activities; services to buildings and landscapes; office administrative, office support and other business support activities. The education sector includes "education at any level or for any profession" and "includes public as well as private education" (p. 221). Other service activities "includes the activities of membership organisations, the repair of computers and personal and household goods and a variety of personal service activities not covered elsewhere in the classification" (p. 235).

6 Variable of interest is CG [Central Government]: Total revenue: £m CPNSA [Current Prices Not Seasonally Adjusted]; ONS four letter identifier MF6R.

7 Sole proprietors were excluded.

8 See BEIS (2020) for definition of women-led and minority ethnic group-led businesses.

9 We note that self-employed individuals represent only a proportion of SMEs in the UK. However, we believe that it is a more accurate comparison that the UK population as a whole. Data on self-employed individuals were taken from ONS (2020c).

10 Fieldwork for the survey took place in July 2019 to February 2020.

11 The five types of technology were: 1. Accountancy software, 2. HR management software, 3. Enterprise resource planning (ERP) software, 4. Artificial intelligence, robotics or automation and 5. Virtual reality and augmented reality. Firms could also respond "None of these".

12 The sample of firms is all those who answered "Do you use any technologies or web-based software to sell to customers, or for use in the management of your [business]"; those who answered "No" to the question were coded to a "No" response for all five technology questions.

13 Socioemotional wealth is defined by Gómez-Mejía *et al.* as "non-financial aspects of the firm that meet the family's affective needs, such as identity, the ability to exercise family influence, and the perpetuation of the family dynasty" (2007: 106).

14 We define the following sectors as predominantly office based: information and communications; financial services and real estate; administrative and support services; professional, scientific and technical activities.

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