



# A Family Affair

TODAY'S FAMILY BUSINESSES



**BARCLAYS**



# Foreword

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I am delighted to introduce this important piece of research by Barclays into the issues which face family businesses.

Family businesses are often small businesses and they have to confront all the challenges that normally face SMEs. In addition, they also have to deal with the changing nature of their family and how this affects the development of their enterprise, especially succession planning.

I inherited my family business from my father and when I wished to expand it I sought the advice of my local Barclays branch in Guildford. I can say with truth that without the guidance and support of its helpful manager, I could not have succeeded in establishing 14 branches before I entered Parliament in 1964.

I made my maiden speech on 'The Problems Facing Small Businesses', a subject about which I could speak with some knowledge and experience. And returning to the subject again and again, the government eventually set up the Bolton Committee on Small Firms whose recommendations were enacted in 1971. Sadly many of the problems remain.

This research looks at these needs, and outlines how such businesses adapt to change; how they train up the new generation; how they separate work and family life; how useful they find the sources of help available to them; how they treat family employees and how they plan for a secure financial future for their families and their businesses.

Family businesses are a distinct and important sector and this report will play a helpful role in raising the profile of their needs and concerns. The report shows that running a family business can be stressful and emotional, but I can vouch for the fact that, with the right financial guidance and support, it can also be creative, exciting, very rewarding – and successful!

**Lord Weatherill**

The Speaker, House of Commons 1983-92

# Keeping it in the family

When we think of family businesses, the first names that spring to mind may be the Ewings of Dallas or the Beales or Evanses of EastEnders. The truth of the matter is that around three out of every five businesses today are family run – and while they undoubtedly have their dramas, they survive and thrive from one generation to the next.

With these businesses such a major part of the UK economy, it stands to reason that the issues and challenges that affect them are of importance and relevance – not only to the banking and financial community, but also to our educationalists, politicians and legislators.

Although there are regional variations in the prominence of family businesses, as well as the sectors in which they operate, 'keeping it in the family' appears to be a national trait. Among other issues, this study looks at the objectives and motivations of family firms, how they view education and training, their sources of finance and advice, and the issues family members face in separating business and home life.

Barclays has commissioned this survey to help us understand more fully the aspirations and needs of this sector and we believe that its findings provide a valuable insight into an important facet of business.

**Mike Rogers**

Managing Director, Small Business, Barclays

# Family businesses at a glance

- Three out of every five businesses, with an annual turnover of less than £5 million, are owned and managed by family members related through blood or marriage.
- Although men are more likely to hold the reins, a greater number of women are found at the head of a family business than a non-family business. Owner-managers of family businesses tend to be a little older, and people of Indian origin are four times more likely to own and manage a family business than a non-family business.
- Geographically, family businesses are most prominent in the North West and East Anglia, and least so in London. They are also more likely to operate in 'people-centric' industries, such as retail and agriculture, where practical skills are a must.
- The family businesses themselves, whilst smaller, are seemingly more productive than their non-family counterparts – enjoying a greater sales turnover per employee. They have also been trading for an average of seven years longer.
- Those who own and manage family businesses find it difficult to separate their work and home lives – three-quarters take work home with them and two-thirds are finding it difficult to switch off at evenings and weekends.
- When it comes to guidance and support, the majority of family businesses – nearly eight out of every ten – actively seek it, primarily from accountants and banks or building societies.
- When looking ahead to retirement, six out of ten family business owners are undecided about what will happen to the business. Many believe it is too early to be thinking about retirement, but with two-thirds of them over the age of 45, this may well be something that needs thinking about sooner rather than later.

# We are family

## - defining the family business

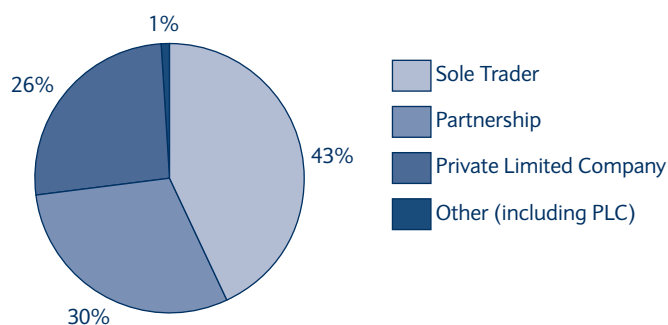
Open the business pages of any newspaper and you'll learn all about the ups and downs of a wide array of British businesses. However, those with an annual turnover of less than £5 million tend to get less coverage, despite the fact that this business sector accounts for 99% of the total business stock in England and Wales. Of these, around three-fifths are family businesses, proving that they are woven tightly into the fabric of the nation's economy.

Much has been written about family-owned businesses, supported by a great deal of research. But there is some disagreement about what a family business actually is.

While some researchers believe a family business is simply one that speaks of itself as such, others say that for a firm to be defined as a true family business, the family should hold a majority of the company's shares. In the case of a public company, an individual family group must hold at least 25% of the voting shares.

For the purposes of this report, a family business is one that meets all of these criteria.

Many previous studies into family businesses appear to have focused on larger, more established companies. But most family concerns are partnerships or sole trader businesses, and the challenges that affect these types of business can be very different to the issues faced by larger companies.



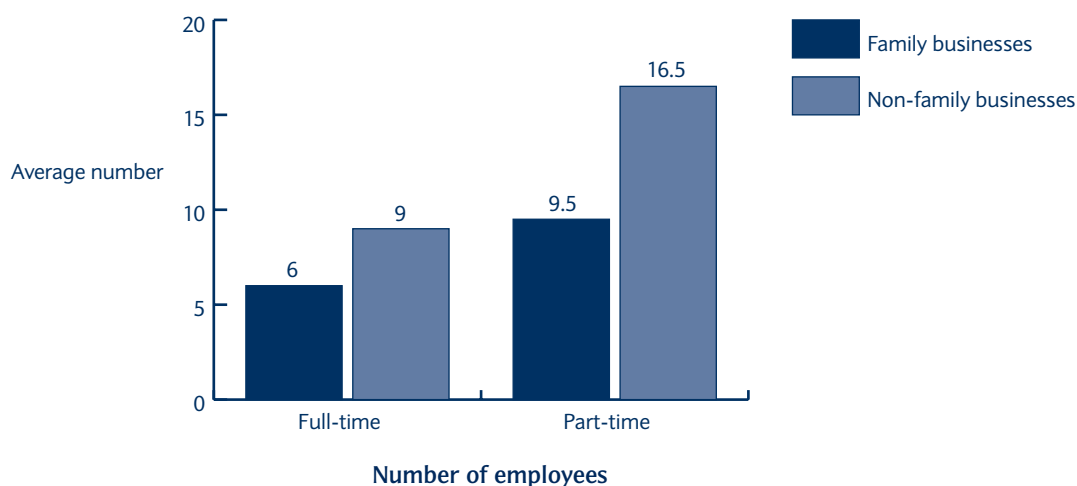
The legal status of family businesses

# Relative values

## - a snapshot of family businesses today

When it comes to the balance sheet, family businesses tend to be smaller than their non-family counterparts, with an average annual turnover nearly 10% lower – £322,000 compared to £351,000.

However, as family businesses operate with a third less full-time employees and 40% fewer part-time employees, they enjoy a greater turnover per member of staff – on average £29,000 per full-time employee against £21,000 in non-family businesses, implying a more productive workforce.

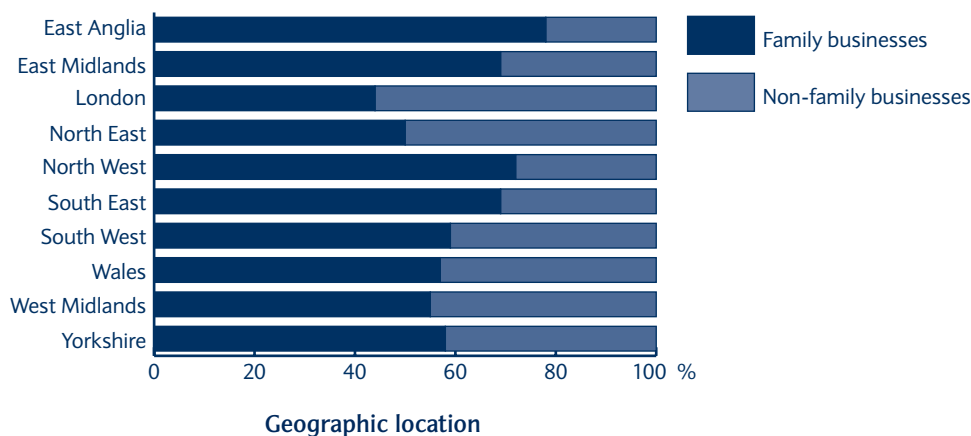


It appears that family ties may also hold the secret to corporate longevity. Family businesses have been trading for an average of 22 years, nearly half as long again as non-family businesses, which have been running for an average of just over 15 years.

Owner-managers of family businesses also tend to be a little older than those in non-family businesses, with nearly three-fifths (58%) over the age of 45 years. Only half of the owners of non-family businesses are in this age group.

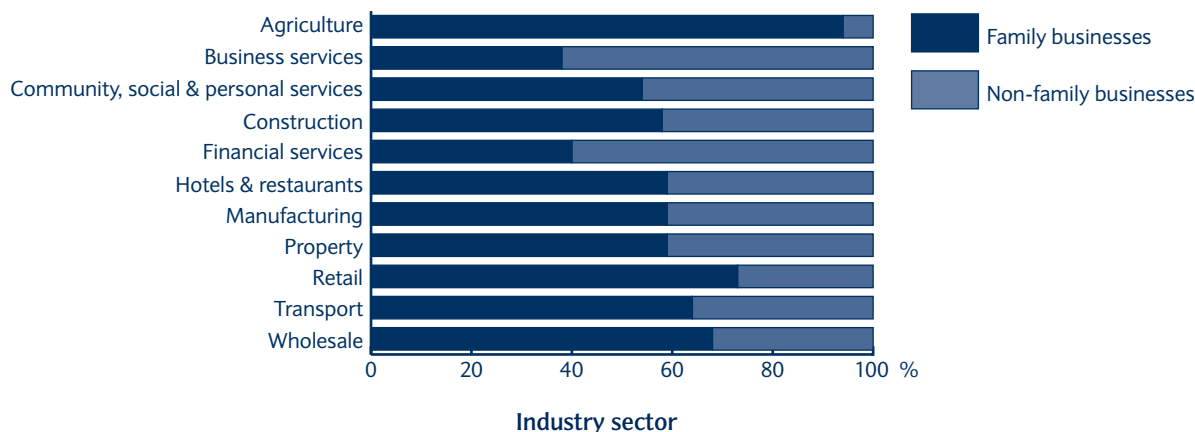
When it comes to ruling the roost, men run 71% of family businesses. However, women owner-managers are more likely to be found running a family business than a non-family business, as nearly three in ten family businesses have a woman at the helm. Only a quarter of non-family businesses are run by women.

Across England and Wales, family businesses are most prominent in the North West of England and East Anglia, with around three-quarters of all businesses owned and managed by the family. By contrast, in London family businesses account for less than half of the business population.



In general, family businesses are most often found in ‘people-centric’ sectors, such as tourism, or those where manual skills are important. Nearly all agricultural businesses (94%) are family owned and managed, offering an explanation as to why East Anglia, an important location for agriculture, is home to the greatest proportion of family businesses.

The retail sector is also a common one for family firms, who make up nearly three-quarters of all businesses in the industry. By contrast, in the business services and financial services sectors, family businesses represent just 38% and 40% respectively. In all other industries, family businesses form between half and two-thirds of the total business base.



People of Indian origin are four times more likely to run a family business than a non-family business, which is not reflected amongst other ethnic minorities. The Indian community is the only ethnic minority community in Britain to make up more than 1% of family business owners, highlighting their family-oriented business culture and perhaps reflecting the fact that this community is one of the longest established in this country.

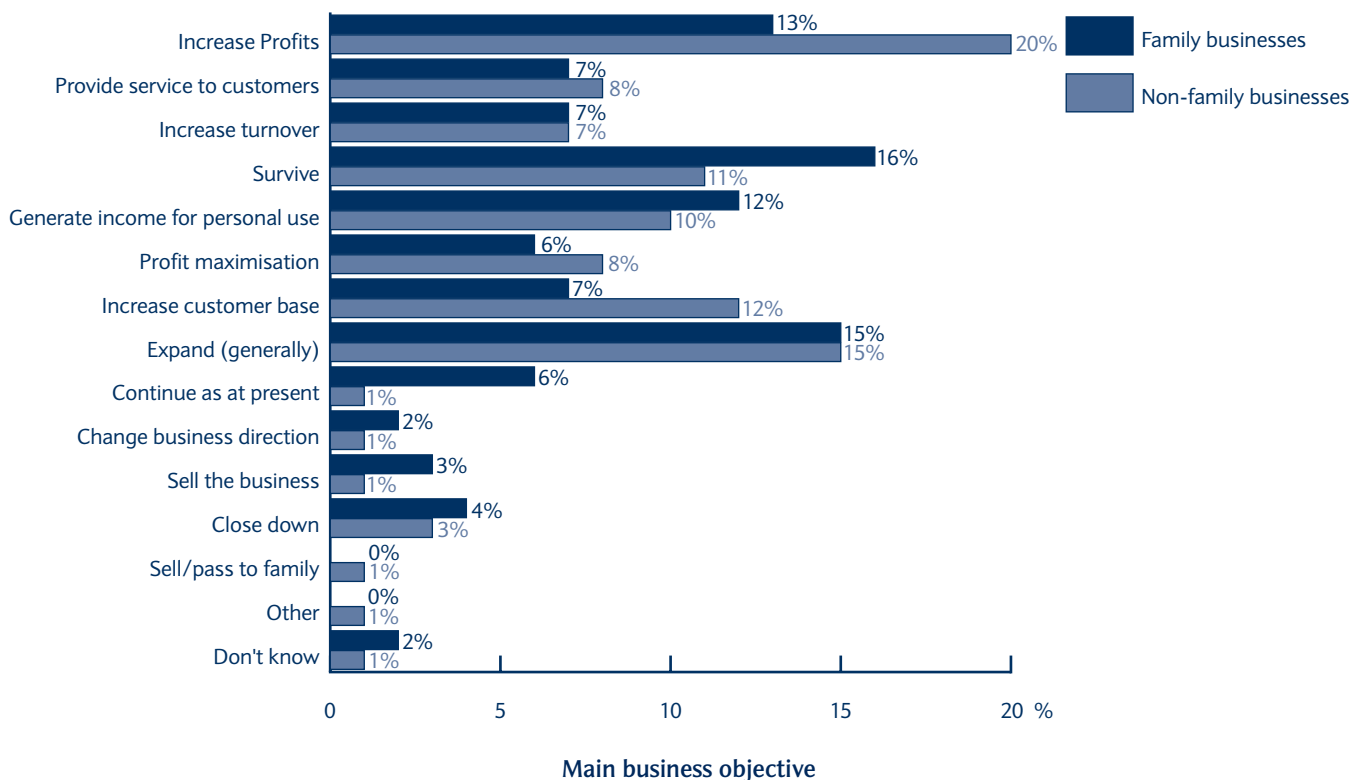
# The jungle out there

## - survival, strategy and beyond

It's a fast-changing world, and the business environment is no exception. Technology, management methods, supplier accountability, legislation, the global economy – these and a host of other issues are all constantly evolving, and all have an impact on British businesses, family-owned or otherwise.

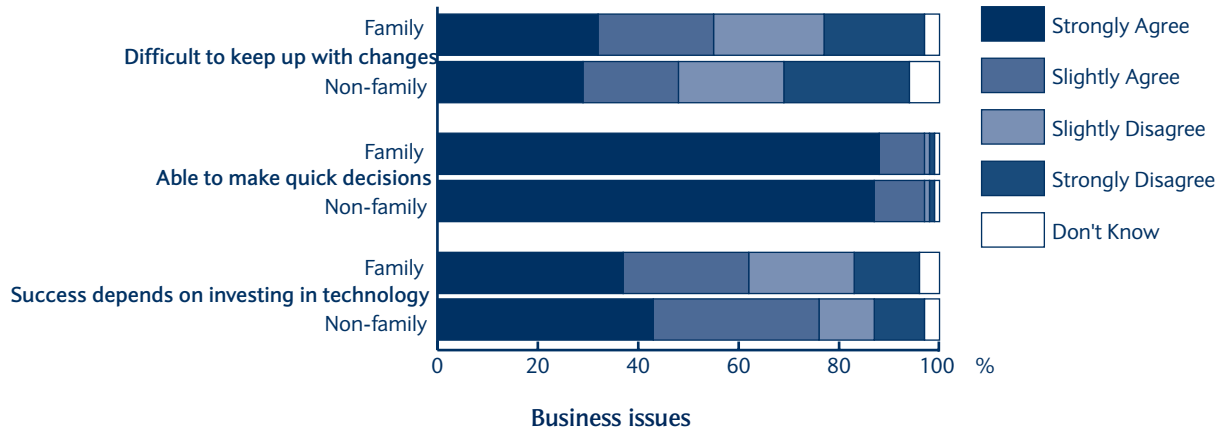
When it comes to business objectives, family businesses are quite diverse in the aims that they cite. On the one hand, nearly one in six family owner-managers are driven by the need for their business to survive until its next birthday, with six times more family businesses than non-family businesses being happy to continue running the business as it is at present. But equally important is the desire to expand and grow their business or focus on increasing profits.

Non-family businesses rate growing their profits and expansion as their main aims for the future.



The rapid pace of change in the business environment also affects the day-to-day running of businesses, with 55% of family businesses saying they find it difficult to keep up with the revolution. However, despite this, less than half of the owner-managers of non-family firms find the speed of market change to be an issue.

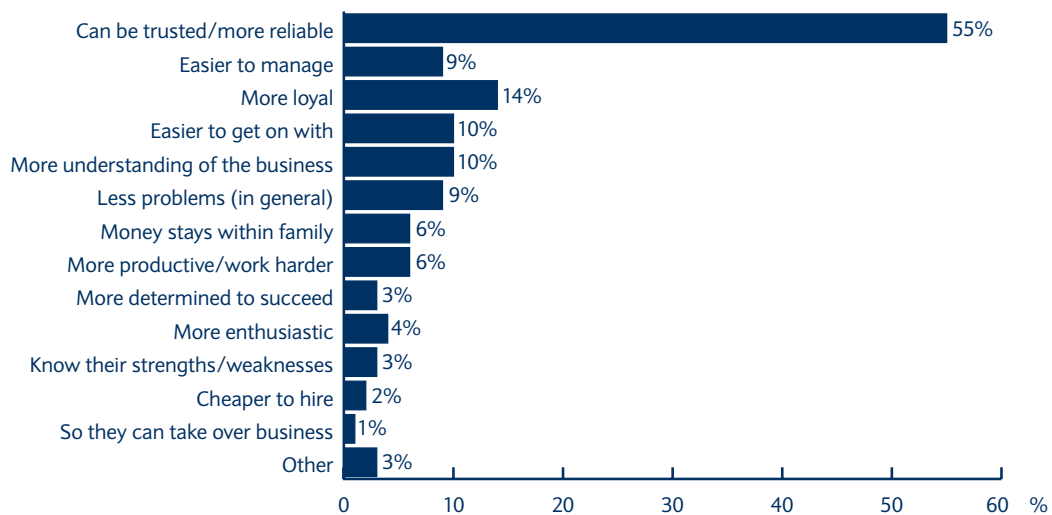
Although technological advancements support innovation and change, family businesses seem less likely than their non-family counterparts to invest in the latest technologies, with 20% fewer believing that the success of their business depends on such an investment.



# The value of relatives

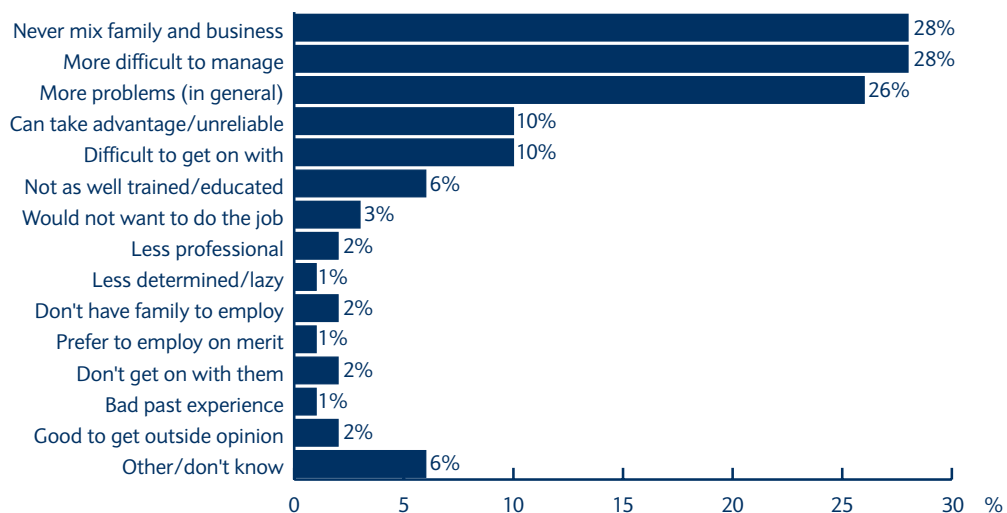
## - the truth about employing the family

Two in ten family business owners say that they prefer to, or do, employ other family members – twice as many as non-family business owners. Where this is the case, more than half say that this is because family members of staff are more trustworthy and reliable. They are also perceived to display a greater degree of loyalty to the business. In addition, family business owners believe that family members are easier to get on with and have a better understanding of the business.



Reasons for preferring to employ family members in the family business

By contrast, nearly half of family businesses would rather not have family members as staff. When asked the reasons why not, owner-managers of family firms believe that relatives are more difficult to manage and having them on board causes more general problems for the family or the business. Nearly three in ten believe that family and business should never be mixed.



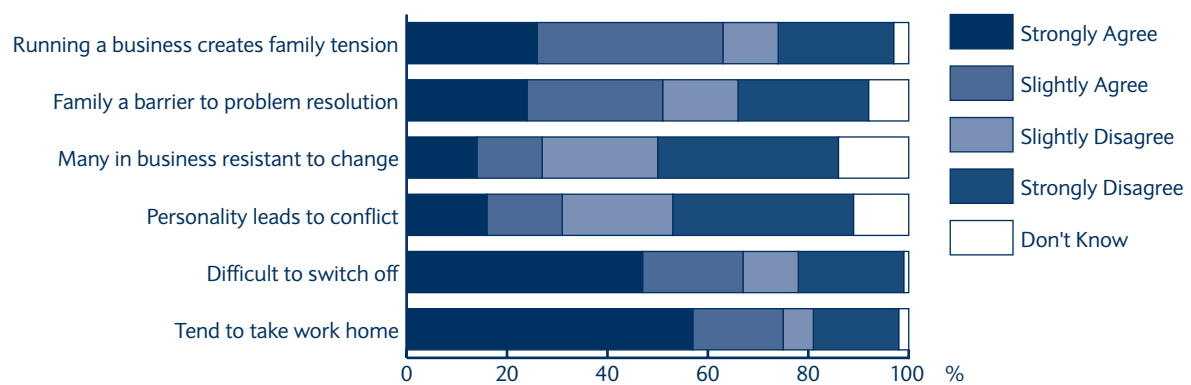
Reasons for preferring not to employ family members in the family business

Nearly half of all family owner-managers do not believe that staff who are also family have difficulties gaining the respect of other employees within the business. However, a quarter of them do feel that this can be a problem.

The issues of trust and respect also extend to the wider business environment. One in ten family business owners feel at a disadvantage with customers, and believe it would be easier to gain the respect of their customers if they were working for a non-family business.

Similarly, one in seven feel compromised when dealing with financial institutions, and nearly one in five felt their family status diminished their standing within professional organisations.

Nearly two-thirds of family business owners agree that running a business can create tension in the family, but far fewer – only half – feel that the family itself presents a barrier to resolving any business issues or problems that may arise. In reality, only 4% of family businesses have experienced management conflict that was serious enough to result in a member of the management team leaving the company.



Potential causes of conflict in the family business

By far the most frequently occurring issue is that family business owners find it difficult to separate running the business from their lives outside of work. Three-quarters take work home with them and over two-thirds find it difficult to switch off at evenings and weekends.

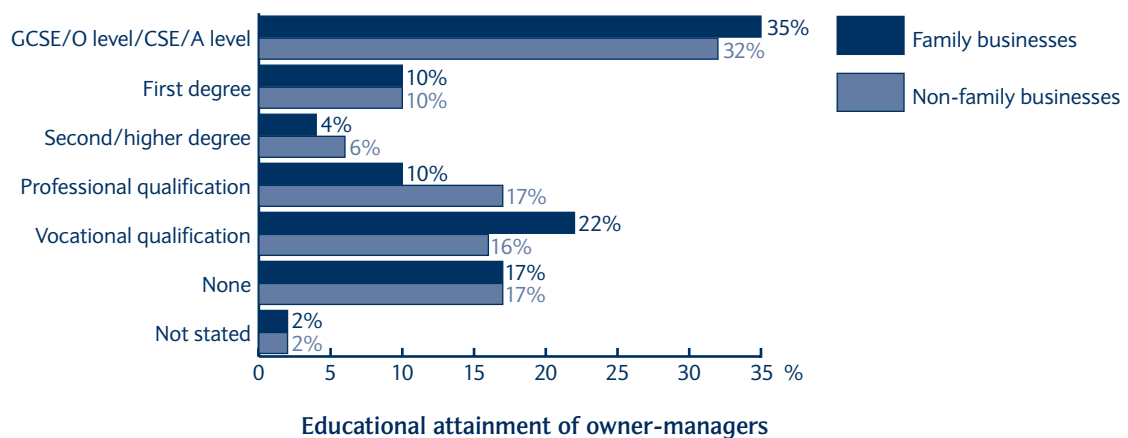
# Teach your children well

## - education and training

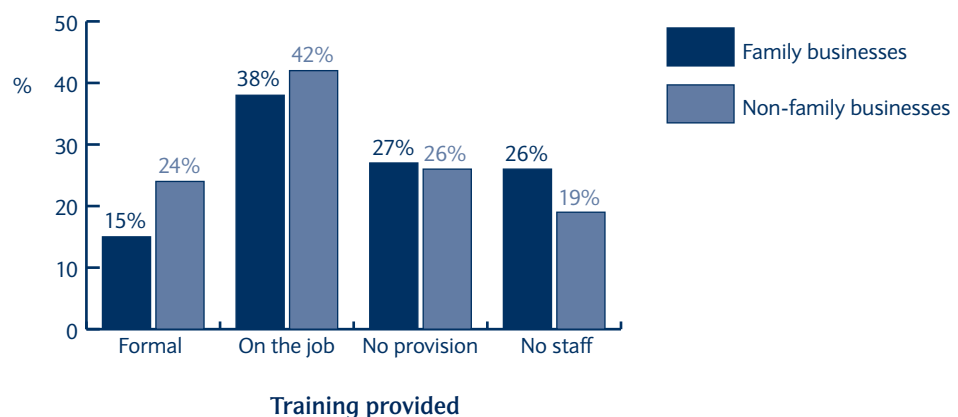
More than eight in ten owner-managers of family businesses have educational qualifications, exactly the same proportion as their non-family equivalents.

However, the focus of their qualifications is very different. 50% more family business owners hold a vocational qualification, such as an NVQ, City and Guilds or HND, whereas nearly double the number of non-family business owners have studied for a professional qualification.

By the very nature of family businesses, practical skills are invaluable. The educational choices of owner-managers imply that many are tailoring their study paths to achieve the most appropriate qualification for the needs of their business.

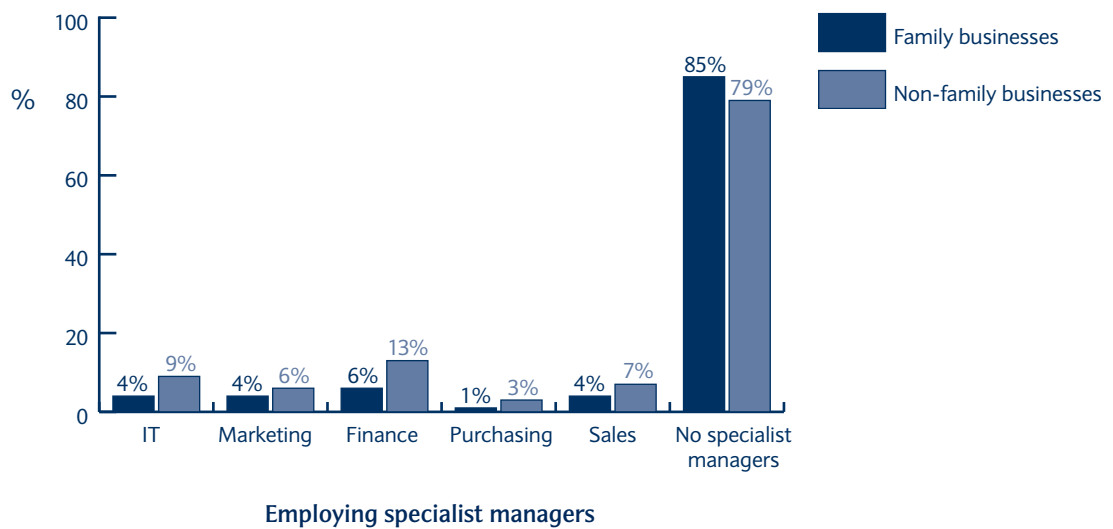


Formal training of any kind appears to be the exception rather than the rule among many businesses, with more than a quarter providing no training at all. Of those businesses that do train their employees, family businesses tend to focus more on informal, on-the-job training. As many as a quarter of family businesses do not have any staff to offer training to.



Cost is not a barrier to businesses offering training, as only 2% of family businesses and 5% of non-family businesses raised this as a reason for not providing training. Instead, nearly 40% of family business owners believe that staff are already suitably qualified, and nearly half feel that training isn't necessary for the work involved.

Family firms appear to eschew specialist managers to a greater degree than their non-family counterparts – perhaps as a result of employing relatives who are generalists or not feeling the need for them. Only 15% of family businesses employ a specialist manager of any kind, compared to 21% of non-family firms, with around half as many family businesses employing specialist IT, finance and sales managers.

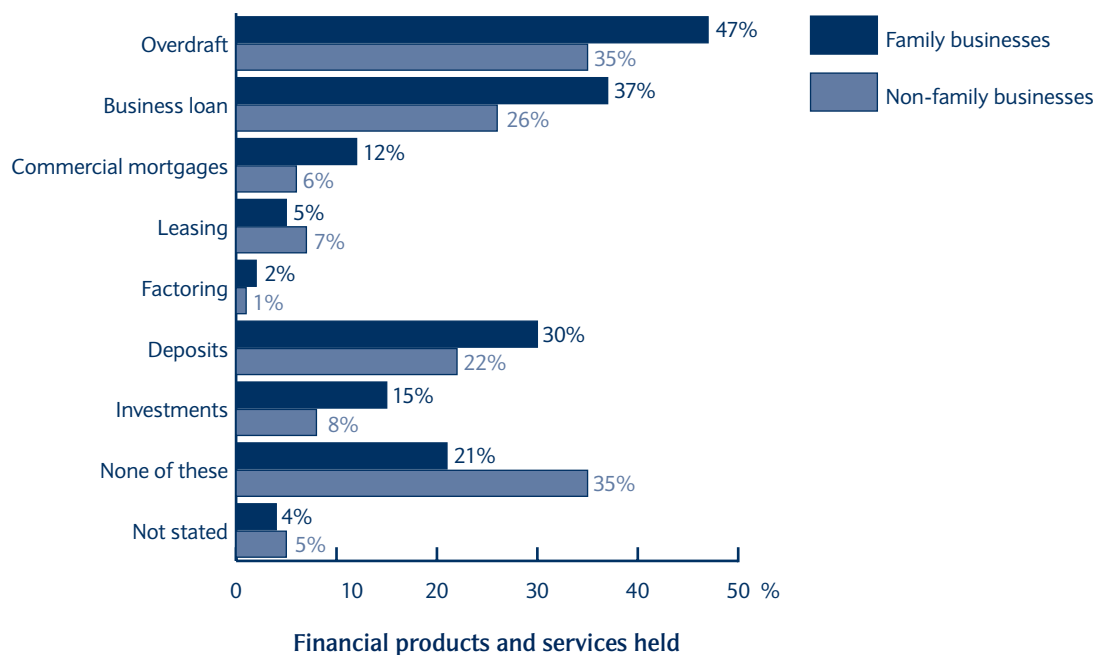


# Friends of the family

## - banking, finding finance and seeking guidance

When it comes to managing the finances of the business, three-quarters of family owner-managers would use banks and other financial services organisations to raise funds, compared to just over two-thirds of their non-family counterparts. 30% more family businesses currently use overdrafts or business loans and twice as many use commercial mortgages, compared to managers of non-family businesses.

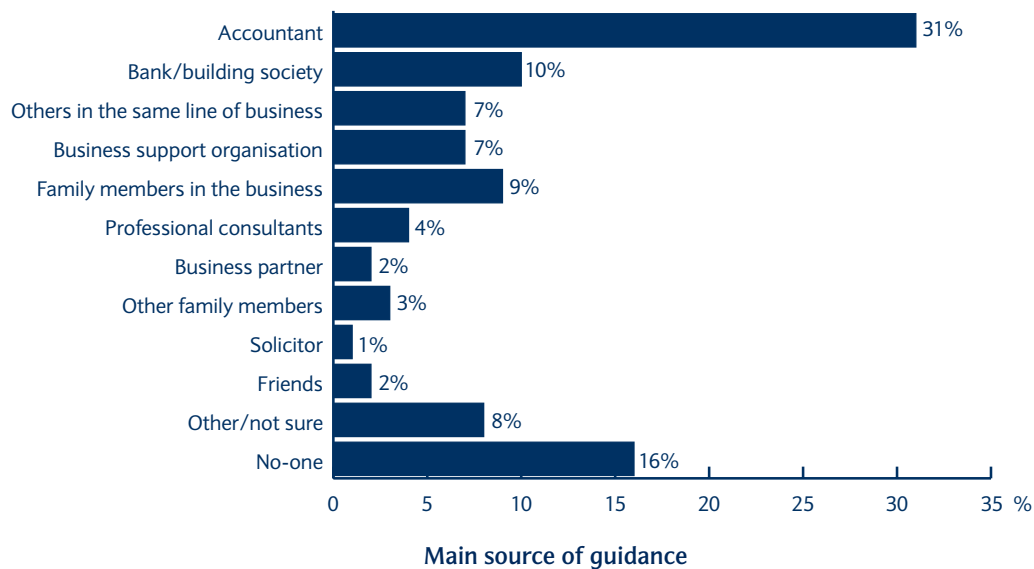
The decision about whether to borrow, coupled with the fact that family businesses are less likely to sell equity to fund business growth, could reflect a desire to retain independence and prevent shareholder interference.



And where are family businesses turning to for guidance and support? Do they even think they need it?

For the most part yes, around 80% of family businesses seek some form of guidance about their business, with accountants and banks or building societies the main source. Family businesses are more likely to seek guidance, compared to non-family businesses, where just over three-quarters look for it.

However, it appears that family business owners also value opinions from within the business, their family or their circle of friends, as less than half agree that external guidance and support is always welcomed.



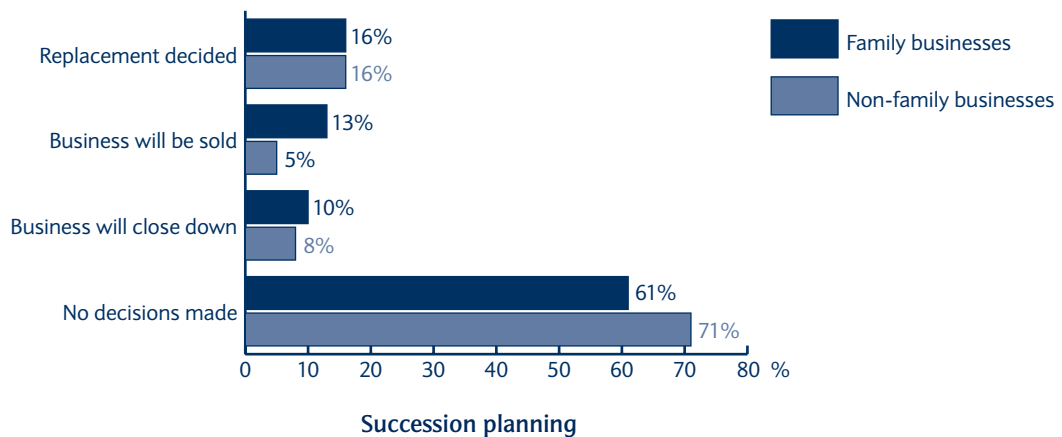
Results from a joint Barclays and National Federation of Enterprise Agencies tracking study show that businesses who seek external guidance, for example from an enterprise agency, are more likely to survive and grow. The issue of external guidance and support is one that the remaining businesses not currently seeking it may well need to address.

# Keeping it in the family

## - planning for retirement and the future

Retirement, take-over and succession are among some of the most significant issues facing family businesses today, although one in ten family business owners do not see themselves retiring at all.

However, more than six out of ten family business owners have not yet made a decision about the future, or what will happen to the business when they are no longer at its helm. Many feel that retirement is too far away – 12 years on average – to be worth worrying about. But with nearly two-thirds of them over the age of 45, this is something that may well need considering sooner rather than later.

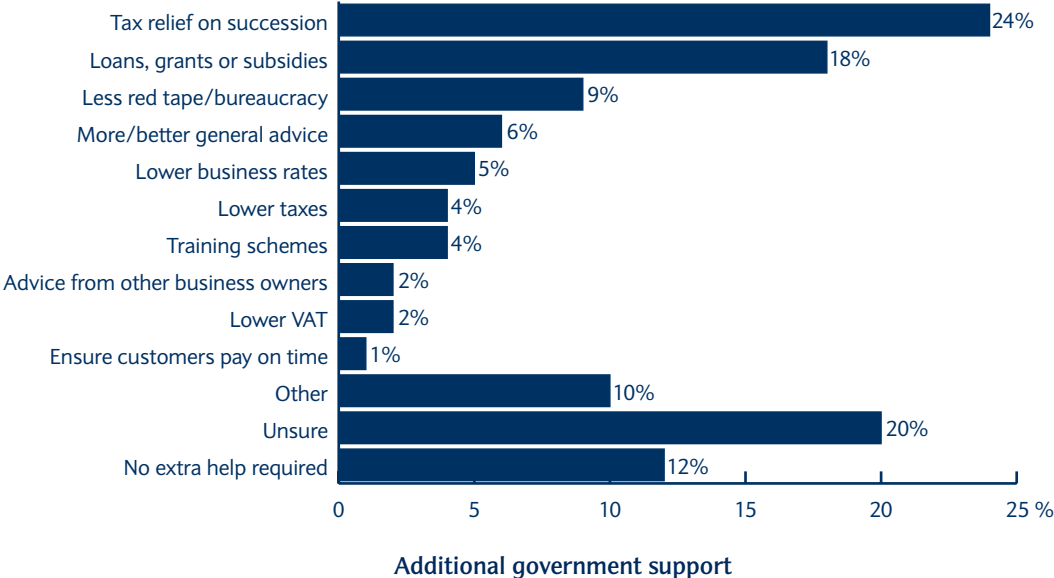


Nearly three times as many family business owners as non-family business owners will sell their businesses upon retirement. This may well be because family business owners more commonly use proceeds from the sale of the business to supplement their retirement income. Owner-managers of non-family businesses may well have retirement investments distinct and separate from the businesses they run.

A tenth of family business owners intend to close the business upon retirement, a similar number to non-family businesses, which may well indicate that there is no suitable successor.

When family businesses were asked what additional help they would like from the government, tax relief on succession was mentioned most frequently – one in four family business owners want support in this area. Provision of loans, grants and subsidies, better advice and reduced business rates were also highlighted.

Around one in eight said they felt that no extra help was required, displaying a little of the independent streak so often attributed to family businesses.



# A family affair

## - today's family businesses

There can be no doubt about the vibrant entrepreneurial spirit of this vital and significant sector. As this survey shows, family businesses certainly prosper in many parts of the country and in many industry sectors, and we must see all of them as the sturdy business backbone that they really are.

These family-run enterprises are the thriving businesses of tomorrow, the breeding grounds for the next generation of inspired and inspiring entrepreneurs. Educators, legislators and financial institutions in general have a distinct challenge - to understand the concerns of these entrepreneurs, whether it's the difficulty of separating home, family and business life, or the financial and emotional headaches involved in passing the result of years of hard work to the next generation.

Only once we understand their deepest motivations and desires will we be able to help them continue to prosper and grow well in to the future.

# Further information

## Useful websites

The following websites may be of interest:

Small Business Service	<a href="http://www.sbs.gov.uk">www.sbs.gov.uk</a>
Business Link	<a href="http://www.businesslink.org">www.businesslink.org</a>
Barclays	<a href="http://www.smallbusiness.barclays.co.uk">www.smallbusiness.barclays.co.uk</a> <a href="http://www.barclayscorporate.com">www.barclayscorporate.com</a>

## Sources of research / methodology

Critical Research Ltd carried out this research on behalf of Barclays.

All interviews were conducted using Computer Assisted Telephone Interviewing (CATI) from Critical Research's telephone unit in Luton, Bedfordshire.

A total of 750 interviews were conducted between 18 and 27 February 2002, among a randomly selected cross-section of businesses with annual sales turnover of up to £5m. Quotas were applied by region and industry sector.

All data has been weighted by industry, turnover and region in England and Wales, to be reflective of the total business stock with annual sales turnover of up to £5m, based on estimates by Yellow Pages.

Reference is made to the Barclays and NFEA tracking study 'Profiting from support'. Research was undertaken by the SME Research Team, Barclays using 274 customer relationships. At the end of July 2001, at least 26 months since business formation, 76% of those businesses that sought advice from their local Enterprise Agency before or at start-up were still trading, compared with 63% of those that did not receive advice.





