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# 2011 National Family Business Report Executive Summary

Lorna Collins  
Lazaros Goutas  
Nicholas Smith

## Introduction

Welcome to the National Family Business Report 2011 Executive Summary which reports on information gathered through a survey conducted between September and December 2010. The study was jointly funded by Veale Wasbrough Vizards and the University of the West of England, and was undertaken by the Family Business Research Cluster, Bristol Business School.

The survey instrument used to collect this data was developed collaboratively by Veale Wasbrough Vizards and the University of the West of England and was administered to approximately 2,500 businesses from across the UK. The survey was distributed in online and hard-copy format.

We received 233 responses; an approximate response rate of 10%.

This compares favourably with typical response rates to surveys of this type. Therefore, the sample size is considered to be statistically robust and the findings drawn from this data can be relied upon and can be taken in confidence.

The first part of the report highlights some of the key characteristics of the family businesses in our sample. The remainder of the report examines the two key areas where family businesses exhibit most of their distinct properties and the characteristics which differentiate them from other kinds of businesses. These relate to the management and the governance of the family business.



## Foreword



Family owned businesses are the mainstay of the UK economy accounting for something like 66% of private enterprises and employing around 40% of the private sector workforce. Family enterprises are also the bedrock of the Veale Wasbrough Vizards' (VWV) business client base both in our Bristol and London offices.

VWV has a true dedication to understanding and supporting our family business clients. Despite the importance of family businesses to the UK economy comparatively little attention is paid to the sector by the wider business community. We were therefore delighted to be asked to work with the University of the West of England in connection with this report.

In some ways the outcome of the research may not be a surprise to those with an interest in family businesses. The findings are likely to help confirm beliefs in the positive aspects of family owned businesses including:

- that family businesses tend to have low gearing and have proved well able to survive the credit crunch with less than 17% of respondents identifying raising finance or availability of funds as a significant strategic challenge
- that family businesses are in for the long haul with not a single respondent identifying short term maximisation of shareholder returns as a driving force of their business
- that the majority of family businesses attempt to achieve some balance of family and business interests in their decision making process and are arguably the foremost trading structure for dealing with work/life balance issues
- the correlation between longer lived and larger businesses and families that invest time and effort in working on formal governance processes

In other ways the research appears to explode some more negative and widely held myths about family business such as:

- family businesses perform poorly financially. Almost 80% of the respondents in our survey reported increased market shares and 40% increased their turnover during the last three years whilst the recession has been at its height
- family businesses are insular with over 30% of all respondents engaged in some form of international trade

I hope you agree that this executive summary of the report makes interesting reading. We will be pleased to hear any comments, observations and questions that you might have or if you would like a copy of the full survey findings.

Particular thanks are due to Dr Lorna Collins and Dr Lazaros Goutas and their colleagues in the Family Business Research Centre at the Bristol Business School for their hard work and dedication in connection with the report.

Finally we would like to pass on our thanks to all the family businesses which have participated in this research.

**Nicholas Smith**  
Head of Family Business  
Veale Wasbrough Vizards



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Veale Wasbrough Vizards  
Orchard Court  
Orchard Lane  
Bristol BS1 5WS  
0117 925 2020

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# 1. Characteristics of the Family Business Sector

## Survey Respondents:

The majority of respondents were family members who owned a particular business and were the founders, majority shareholders or owner-managers of that business (Figures 1 & 2). The remainder were non-family member professional managers.

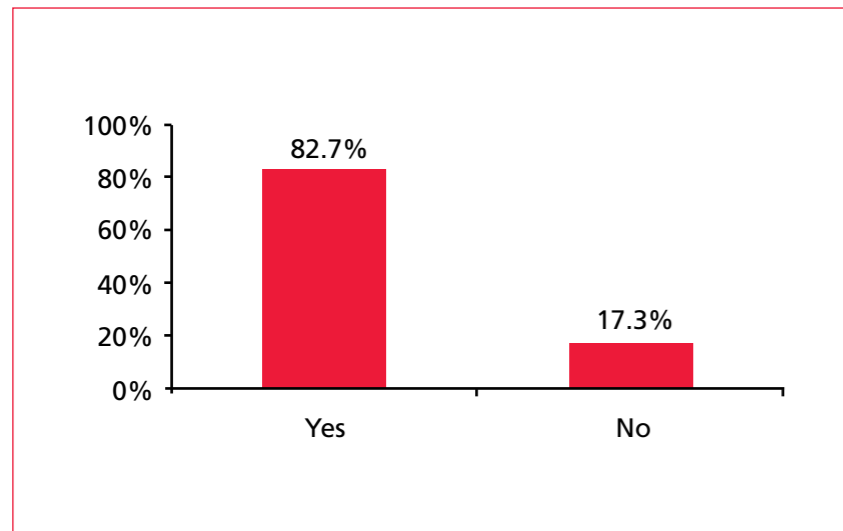


Figure 1

Are you a member of the family that owns this business?

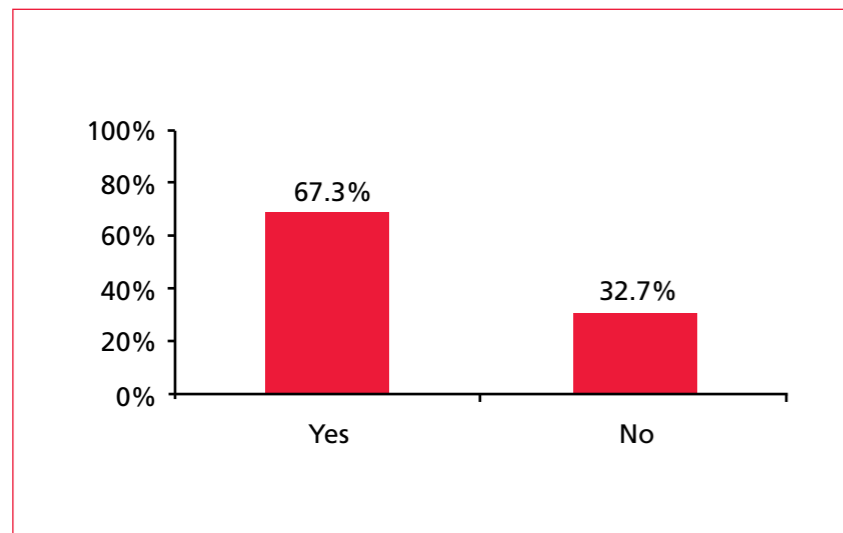


Figure 2

Are you the owner-manager, majority shareholder or founder of this business?

## Management Profile:

Approximately 80% of the respondents held a senior management position in the business (Figure 3). These initial figures highlight the continuous involvement of family members in the ownership and management of their business. This is a topic which will be discussed in detail later in this Executive Summary.

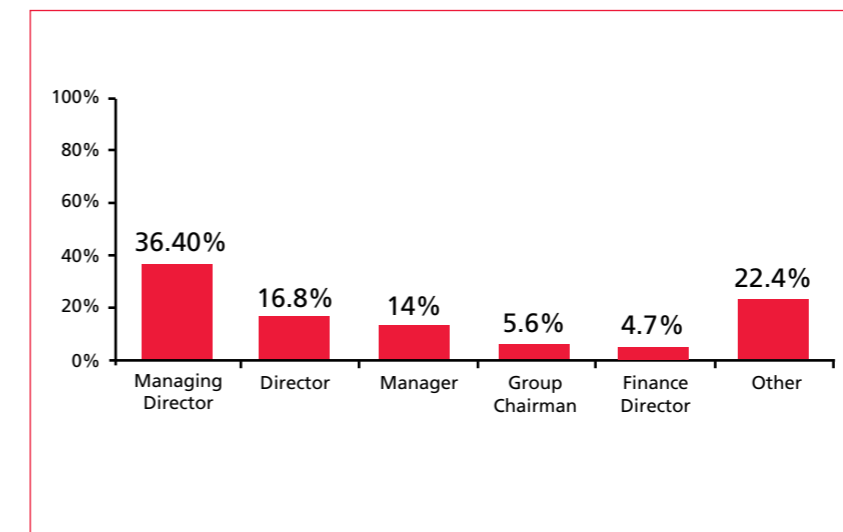


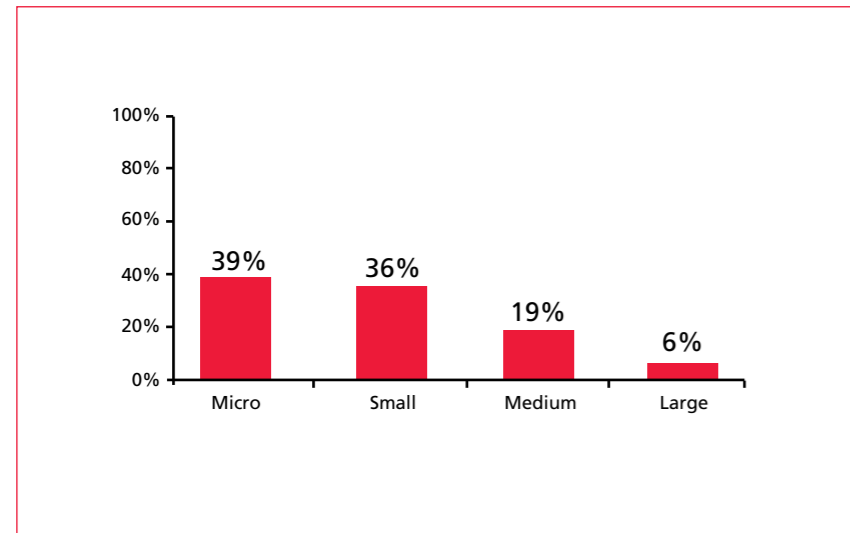
Figure 3

What is your title and role within the business?



**Structural Characteristics:**

In terms of their size, family businesses follow a similar distribution as the wider population of firms in the UK (Figure 4). 75% of the family businesses in our sample are classified either as micro-firms or small firms (see Table 1 for the European Commission Classification Scheme). An additional 19% of family businesses are classified as medium-sized and a remaining 6% of the family businesses are large firms.



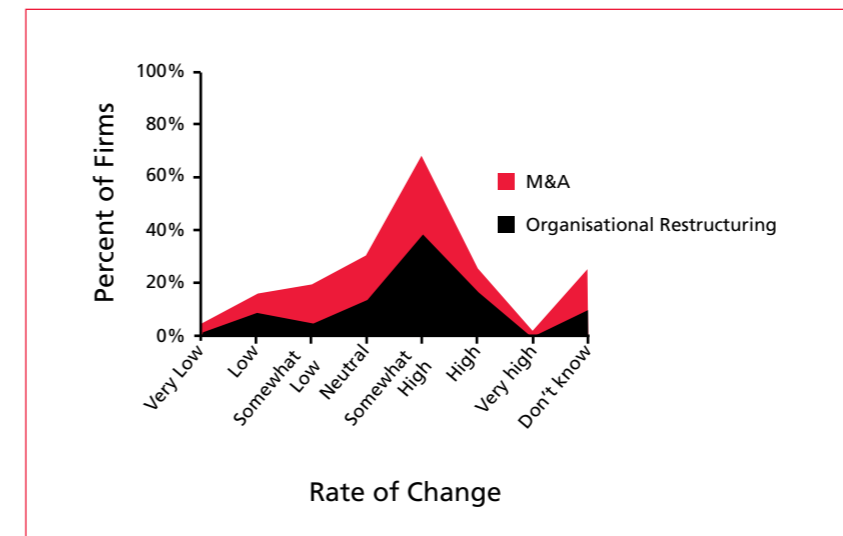
**Figure 4**  
What is the size of your business?

Enterprise category	Number of employees	Turnover	Balance sheet total
Medium-sized	< 250	≤ € 50 million	≤ € 43 million
Small	< 50	≤ € 10 million	≤ € 10 million
Micro	< 10	≤ € 2 million	≤ € 2 million

**Table 1**  
European Commission Classification Scheme, according to number of employees, turnover and balance sheet total

**Sector Activity:**

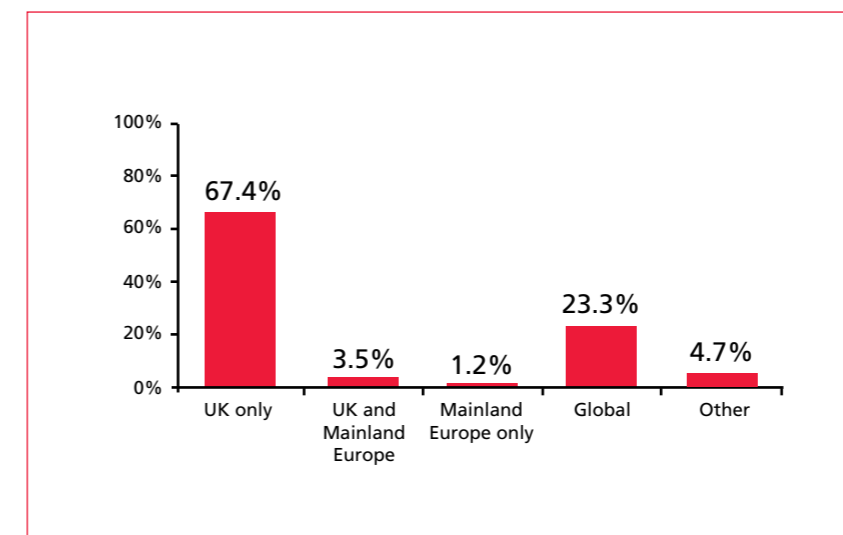
Although family businesses tend to operate in relatively settled industrial sectors, our findings showed that the average rate of mergers & acquisitions and organisational restructuring was somewhat high (Figure 5). This is not unexpected given the increased rate of change, uncertainty and consolidation that has been taking place in most industries within the UK during the past 2-3 years. However, these results contrast starkly with the respondents' own expectations for their businesses, with approximately 80% saying that they do not anticipate ownership change within the next two years.



**Figure 5**  
Rate of M&A and organisational restructuring

**Markets:**

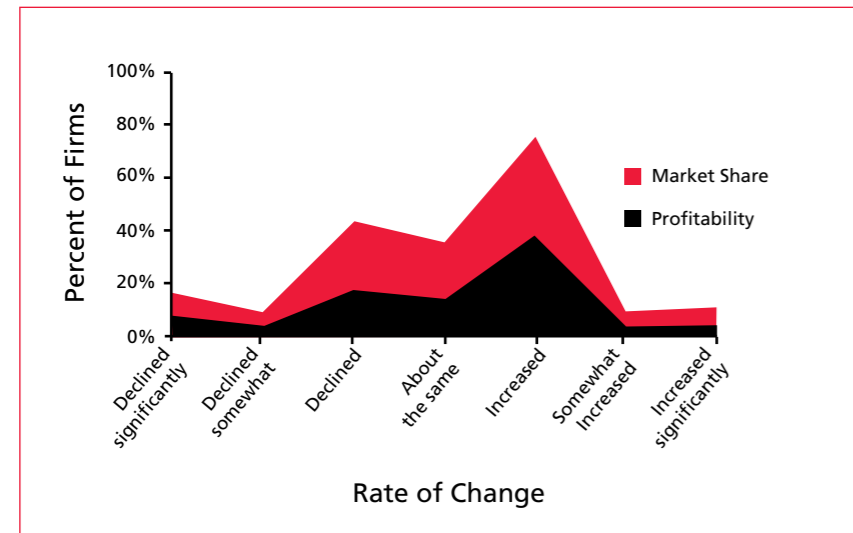
The majority of these family businesses trade in the UK, however, a large proportion also trade globally (Figure 6). The large number of family businesses serving only the UK market is hardly surprising, given that the majority of Small and Medium-sized Enterprises (SMEs) tend to cater for local markets. Nevertheless, the high proportion of family businesses trading globally points towards the notion that family involvement in a business does not exclude these firms from maintaining a global focus.



**Figure 6**  
Where does your business trade?

**Profitability and Market Share:**

The majority of the family businesses reported an increase in their profitability and market share during the past three years (Figure 7). These initial figures challenge some of the conventional views of family businesses appearing as laggards compared to other forms of business organisation during challenging economic conditions.

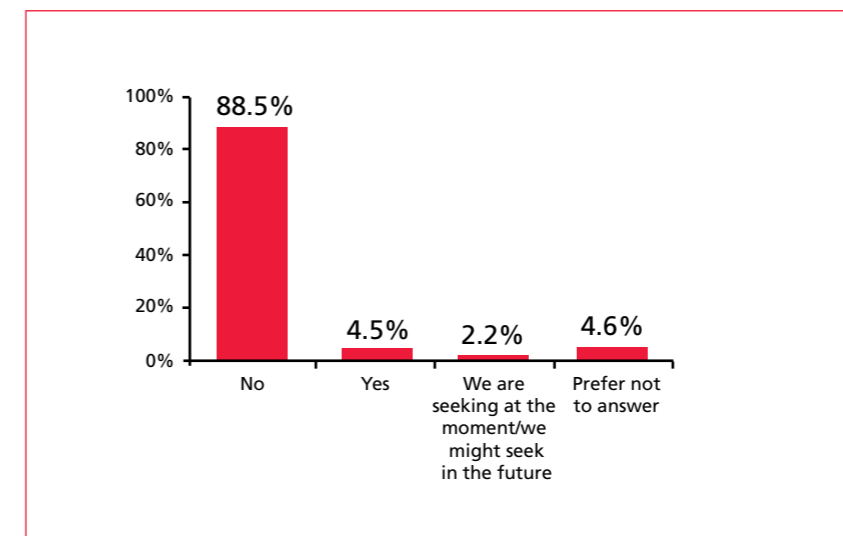


**Figure 7**

What has happened to your profitability and market share over the past three years?

**Investment:**

Finally, the majority of family businesses continue to rely on the traditional financing channels in order to fund their business activities. Debt and internally generated income remain the primary means of financing for family businesses, whereas alternative forms of finance (eg venture capital investment, business angel financing) do not appear to play a central role in the financing structures of family businesses (Figure 9). The shorter-term focus of these alternative forms of finance largely explains the low rate of adoption of these financing forms, given the long-term investment horizons that typically define family businesses.

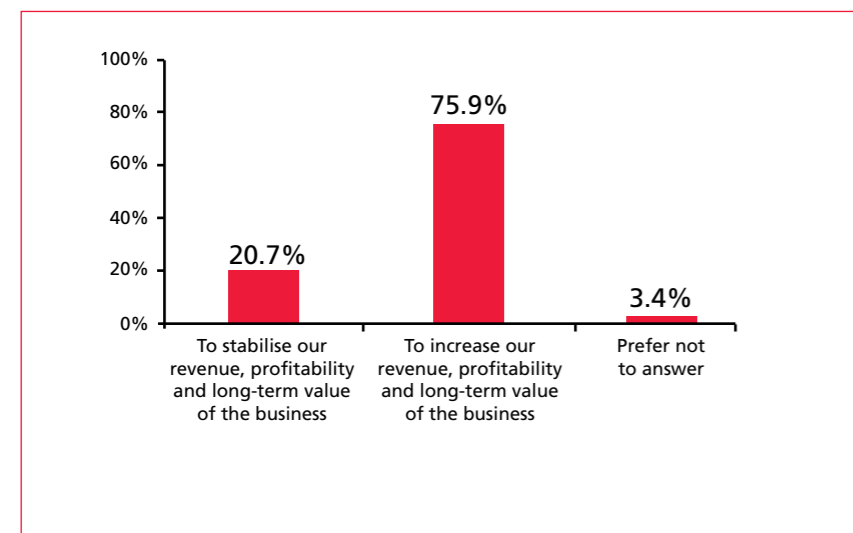


**Figure 9**

Has your business ever obtained/is your business currently seeking any private equity investment?

**Business Aim:**

Also, instead of focusing on maintaining existing levels of turnover and profitability, the majority of the family businesses surveyed in this report their key objective remains the increase of revenue, profitability and the long-term value of their business (Figure 8).



**Figure 8**

What is the main aim of your business?

**Conclusion**

The main results concerning the family businesses in our sample can be summarised under the following points:

- in terms of size, family businesses follow a similar distribution as the wider population of UK firms
- family businesses do not appear to be excluded from any particular sector, even though the majority of these firms tend to focus on serving local markets
- the long-term commitment of family members towards their business is largely associated with the reliance of family business on the more traditional sources of finance.



In summary, this long-term perspective constitutes one of the defining features of family businesses. At this stage it is interesting to examine another key area where we find that family businesses exhibit a number of distinct properties, namely the management of the family business.

## 2. Management of the Family Business

### Decision Making:

Family relationships have an immediate impact on the management of family businesses. The influence of these relationships in business matters is primarily reflected in the ways in which decisions are made. Respondents confirmed that the criterion of family wellbeing largely applies to the decision-making process. Therefore, even though a large number of respondents confirmed that business comes first when making a decision, the majority of respondents highlighted the inherent 'tension' between family and business-related objectives that is encountered in family businesses.

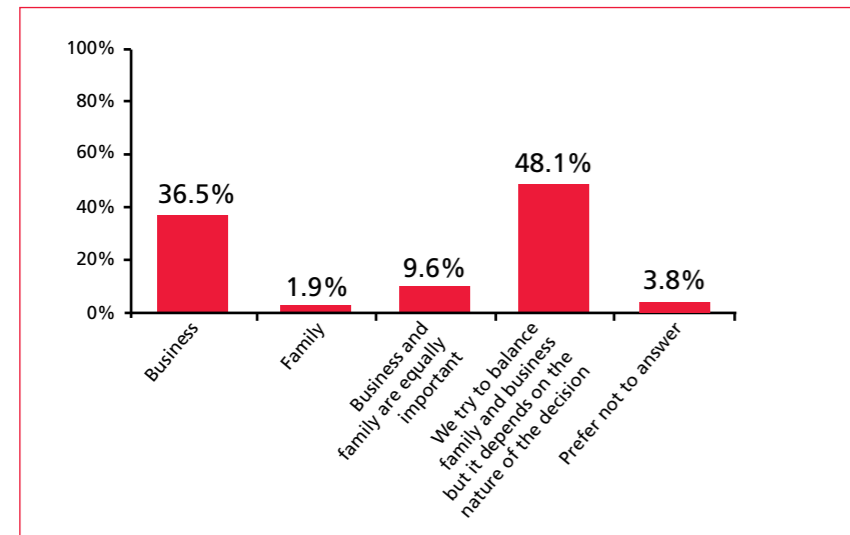


Figure 10

When there is a decision to be made that relates to the business, which comes first?

### Discussing Issues:

Respondents also identified a diverse mixture of settings where business issues are discussed (Figure 11). These results are not related to the size of a family business or to the generation of family members that own and manage a business. A number of the larger second and third generation family businesses exhibit such informal structures, which should not be seen as an obstacle towards growth, but rather as a unique feature of family businesses that allows these firms to overcome the formal constraints that are normally associated with running a business.

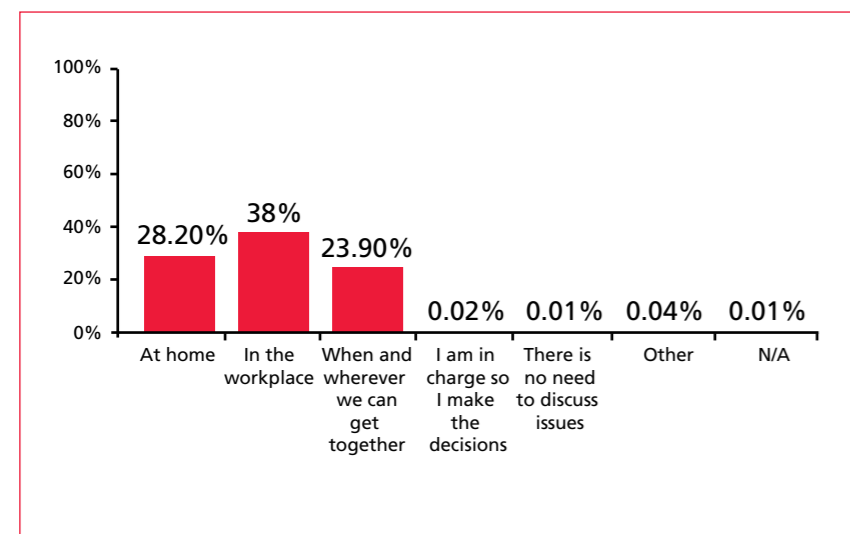


Figure 11

Where do you and other family members discuss issues concerning the business?

### Primary Aims:

The effects of family dynamics on the management of family businesses are manifested in the aims and objectives of the family members responsible for managing a particular business, as well as in the long-term strategies that a family business develops in order to attain these objectives. The vast majority of the respondents in our survey, approximately 58%, reported that providing a regular source of income was the primary aim of their business.

An additional 16% reported that their business is managed with the primary objective of building a legacy for future generations (Figure 12). None of the businesses in this survey identified the short-term maximisation of shareholder returns as a primary aim of their business, which not only differentiates family businesses from other forms of business organisation, but also highlights the long-term focus of family businesses and the increased dependence of family members on their business.

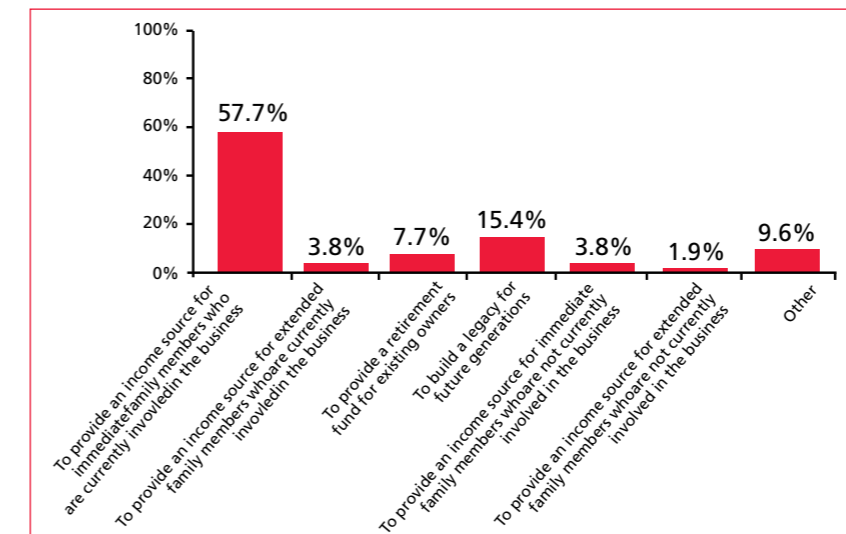


Figure 12

What is the primary aim of the family business?



### 3. Governance of the Family Business

#### Succession Changes:

Long-term commitment and personal involvement of family business owners is also reflected in the ownership/succession plans of the surveyed firms.

The majority of family businesses plan to have a succession in more than two years from now (Figure 13). This clearly shows that ownership and management transitions in family businesses are primarily associated with the tenure of the existing owner/managers and not with other business objectives (eg efficiency considerations).

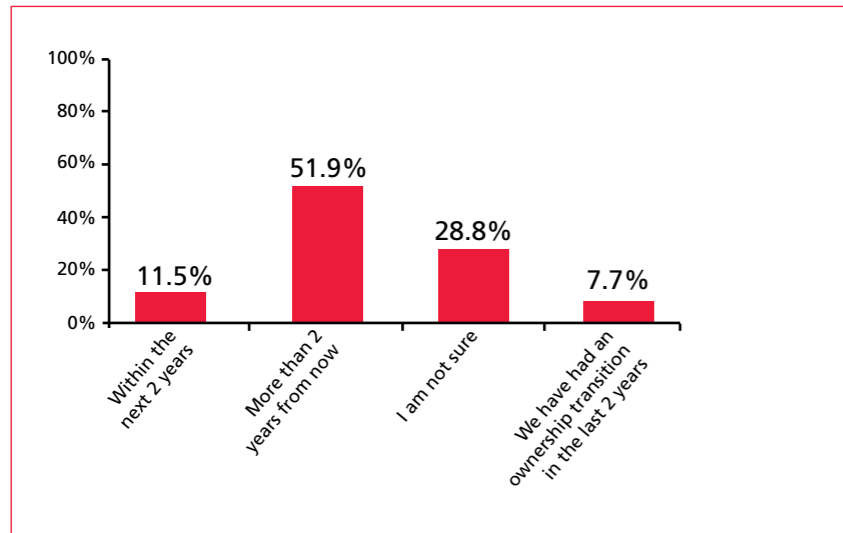


Figure 13

When do you next anticipate ownership/succession changes?



#### Governance Structures:

Corporate governance can be defined as a system of organizational structures and processes with the purpose of directing, controlling and providing accountability for corporations. Systems of corporate governance regulate relationships between shareholders and also serve the role of controlling organisations that are adopted characterised by the separation of ownership and management of a business, that is firms where the shareholders of a business are different from those responsible for managing a business. The overlap between the ownership and management of a business has in many cases led towards the incorrect assumption that the concept of corporate governance need not necessarily apply to small family businesses. Nevertheless, a number of second or third generation family businesses, are distinguished by shareholders who are not actively involved in the management of their business and therefore require systems of corporate governance to regulate the relationships between active and inactive shareholders. Also, firms that implement governance structures before reaching the stage of the separation of the ownership from the management of a business face fewer difficulties to progress to that stage of ownership.

Most importantly, however, problems between shareholders can also arise in family businesses where all of the shareholders are actively involved in managing their business. Such problems can include eliminating minority shareholders from directorates and excluding them from company employment in order to force their acquiescence, high compensation to majority shareholders, and siphoning off earnings by having other enterprises (owned by majority shareholders) perform services for it at high prices.

In sum, systems of corporate governance seek to mitigate such problems and coordinate the relationships between the key stakeholders of a business.

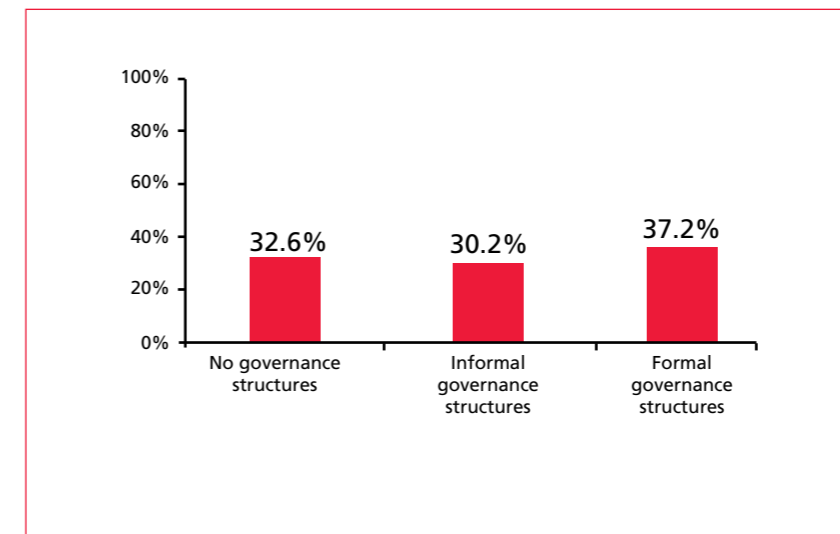


Figure 14

Governance structures adopted by family businesses

The board of directors is widely acknowledged to be the main intra-firm institution through which the monitoring and controlling of Top Management Teams takes place within corporate organisations. However, a number of firms (esp. small and medium-sized firms) are characterised by inactive boards. According to the academic literature on family businesses, a number of family institutions (eg family councils) can act as substitutes or as complements to the board of directors. In addition to that, the literature on the governance of family-owned and closely held firms has also identified a number of alternative mechanisms through which corporate control can be exercised. These mechanisms can refer to certain formal controls, such as shareholder agreements and the articles of association, as well as to a number of informal controls, such as a high degree of trust, a shared vision and commitment to the firm by its owners and the Top Management Team. In a similar vein, research has also shown that this high degree of owner commitment leads to a more responsible behaviour in the management of a business.

### Adapting Structures:

It is interesting to examine how the information outlined above relates to the governance structures of the family businesses in our sample. The majority of the cases have adopted a company form, despite the fact that most of the firms are either micro-firms or small firms, when measuring size according to the number of employees. As a result, most firms are expected to have some institutionalised control organs in place. This is confirmed to a certain extent, as approximately 30% of the sampled firms reported having a formalized governance structure (examples can include an active board of directors, partnership agreements, minority shareholder protections and articles of association that formally delineate shareholder relationships). Most importantly, however, more than 50% of the cases reported that governance procedures are either informal or nonexistent (Figure 14). This shows that a significant proportion of family businesses are either unaware of the role and the effects of governance structures, or these firms are hesitant to implement governance structures for a number of reasons (family-related issues, economic reasons, etc.).

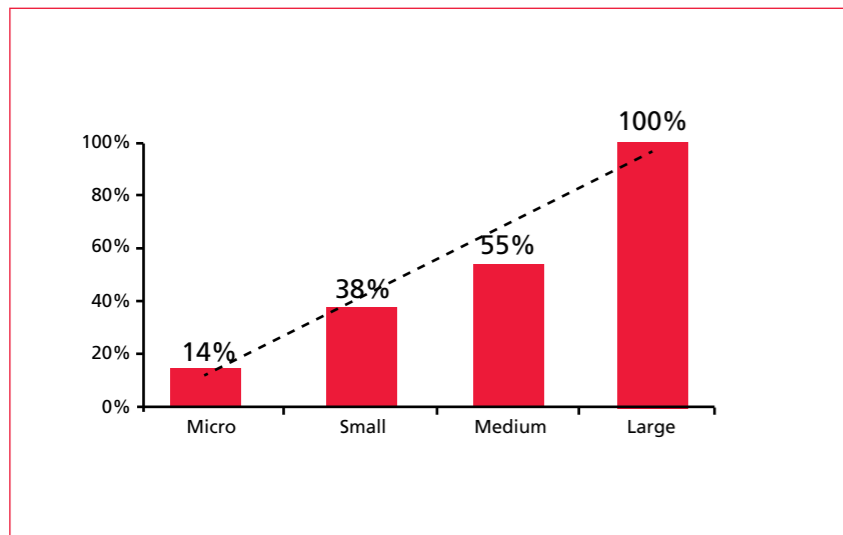


Figure 15

Probability of adopting formal governance structures with respect to size

The degree of formalisation of the governance structures adopted by a family business is largely associated with the size of that given firm. More specifically, our study identified a significant, positive relationship between the adoption of formal governance structures and a firm's size (Figure 15). Additionally, a firm's size was also found to correlate with the adoption of the company form. Taking these two results into consideration, we are led to assume that the adoption of certain formalised governance structures is associated with the capacity of family businesses to grow.

### Progression to third generation:

Our study also identified a significant relationship between the particular generation of owners in a family business and the size of that firm (Figure 16). We found that the propensity of a family business to grow is associated with the generation of owners in that business; family businesses that are passed on to further generations have a higher probability of growing. While this result might initially seem self-evident, given that family businesses passed on to further generations have a longer tenure and consequently a higher probability for growth, our findings go against the conventional knowledge that presents a significant proportion of family businesses as introverted and resistant to growth.

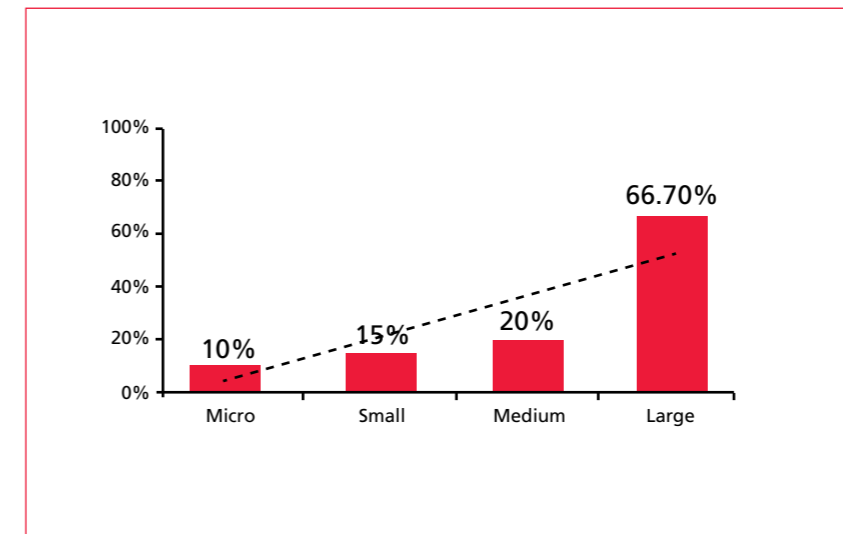


Figure 16

Probability of a family business progressing to the third generation of ownership

### Structures in third generation:

The longevity of a Family Business is also associated with the implementation of governance changes and transitions. Most governance changes are made in firms that are in the second generation of ownership (Figure 17). These firms are the ones that struggle the most to implement governance structures, but once these are implemented, firms in subsequent generations of ownership do not go through significant governance changes. This result, combined with our previously outlined findings leads us towards the conclusion that family businesses that have successfully managed the transition stage between different generations of ownership by implementing effective governance structures have a higher probability of growth compared to their counterparts.

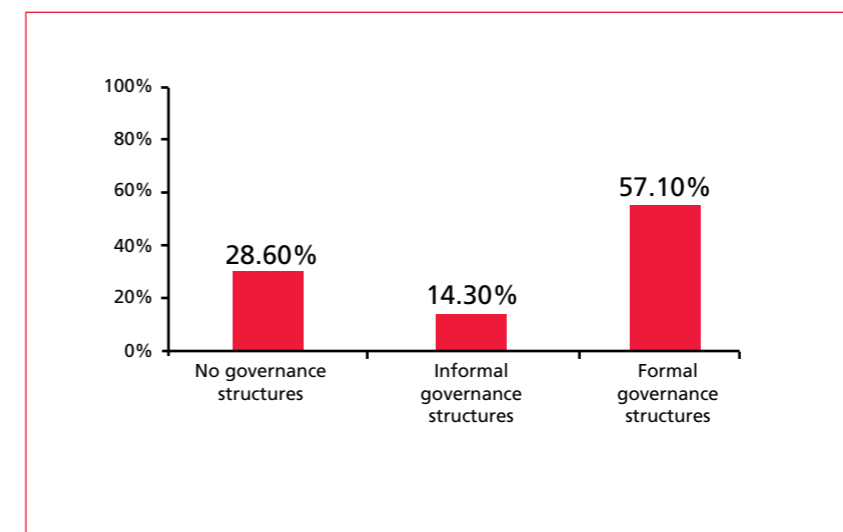


Figure 17

Probability of adopting governance structures in third generation family businesses

## Summary

The results of this survey confirm our initial views that family businesses share a number of distinctive features that differentiate these firms from other types of business organisation. Such differences are manifested both in the main aims and objectives of the family members that own and manage a business, as well as in the intra-firm institutions via which family businesses are managed and governed. Furthermore, our analysis showed that there are certain essential ingredients for the growth and longevity of the family business. Formalised governance structures are a notable example in this case.

Our findings were also able to dispel the myth that family businesses tend to be introverted and resistant to growth. In fact, we identified an explicit relationship between the propensity of family businesses to grow and to survive and be passed on to future generations. The vast majority of the large family businesses surveyed were in their third generation of ownership.

Finally we would argue that some of the more 'family business-related' features that are encountered in successful family businesses (eg marketing the family aspect of the business, appointing non-executive directors to the Board of Directors, implementing complex governance structures that are tailor-made to the specific characteristics of a particular family) are primarily encountered in family businesses that have at least passed to a second generation of ownership. While this seems reasonable we were struck by the identification of these varying levels of 'family business-ness'. Even though the academic literature has widely acknowledged some of the positive effects of family dynamics on organisational performance, the particular reasons why family firms exhibit certain properties and structures that are unique to family businesses at varying degrees remain under-researched. While we have some initial data that points toward a possible relationship between these different levels and organisational performance, we reserve the right to comment on this in more detail in a subsequent report.

**Dr Lazaros Goutas**  
**Dr Lorna Collins**





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Nicholas Smith  
Partner  
Veale Wasbrough Vizards  
Orchard Court  
Orchard Lane  
Bristol BS1 5WS  
0117 925 2020  
[nsmith@vwv.co.uk](mailto:nsmith@vwv.co.uk)



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Dr. Lorna Collins  
Bristol Business School  
University of the West of England  
Coldharbour Lane  
Bristol BS16 1QY  
0117 32 83182  
[lorna.collins@uwe.ac.uk](mailto:lorna.collins@uwe.ac.uk)