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Executive Summary

The aim of the research was to add to the evidence base on family businesses; in particular in terms of identifying how they differ from other Small and Medium Enterprises (SMEs) and whether there is evidence that specifically targeted policy measures would be justified to help overcome any barriers or challenges they face, over and above the support or other measures available for SMEs more generally.

Forty family businesses, employing between 10 and 250 staff, were interviewed during February 2014. All were family-owned. A minority was not family-run, although all of the businesses studied had at least one family manager.

A high proportion of micro businesses are family businesses. As such, support policy aimed at micros is, in effect, family business support policy by default. Over half of small businesses (those with 10-49 employees) are also family businesses. There is an important point of differentiation at 50 employees, where the proportion of non-family businesses begins to be larger than that of family businesses, and the effect of a range of issues is felt more deeply.

Research findings

General perceptions and outlook

- The majority of interviewees agreed that they owned a 'family business'. A small number identified pejorative connotations, but most considered the terminology beneficial: it projected a positive image, implying trustworthiness, longevity, tradition and/or an ethical outlook. Several spontaneously noted that it meant the opposite of being 'a large corporate'.
- A very small minority considered that they were only a family business by default as a result of the definition being utilised (based purely on ownership), and were not a 'family business' in any other meaningful way.
- Challenges generally arose through simply being a small business, rather than a family business, as did some strengths, such as autonomy. However, these challenges and strengths may be exacerbated or ameliorated by aspects of 'familiness' (e.g. that this engenders trust, loyalty and shared objectives), which in turn may also encourage the greater likelihood of a more idiosyncratic management style being adopted.

Objectives of family business

- The most common objectives identified were: the creation of a sustainable long term income stream; the growth and preservation of family financial and emotional wealth; and the creation of opportunities for the next generation. Achieving these objectives, the latter in particular, were seen as more important than passing on the business as a physical entity.
- Most interviewees were opposed to the involvement of external investors unless absolutely necessary. Not seeking external investment was believed to minimise any possible loss of control, and reduce the need for short-termist

behaviour to generate dividends. Incentivising employees through (token) equity was seen positively by some, but a significant minority of the businesses interviewed were opposed even to this. Investment was usually funded from retained earnings.

- The majority of smaller businesses expressed little desire to grow rapidly, citing risk aversion, resistance to change, and a desire for longer term stability and sustainability, over short term growth in profits. Like many SMEs, most had a 'comfort zone' in which they wished to remain.
- Second generation business owners were more open to changing management, governance or strategy to stimulate growth or profitability, including greater openness to using consultants as sounding boards. Younger family members could feel constricted in their attempts to develop the business by the continued involvement of the older generation.

Governance

- Boards were typically small and focused on the immediate family, with little representation of the wider family or non-executive directors. A slight majority of interviewees had no non-family executives on the board.
- Older, larger and growth-oriented businesses were more likely to have (i) holding companies and/or agreements which define and limit who counts as a family member and their rights and responsibilities; (ii) an executive-oriented board; (iii) formal financial arrangements to involve younger generations; (iv) a separate company to handle pensions and/or outside investments, to generate and preserve family wealth; (v) an emphasis on engaging both with outside influences and internally, between family owners, senior managers and the workforce.
- Only two (the largest businesses interviewed) had formal, legal arrangements in place to define family rights and responsibilities, such as a family constitution or family council.
- Although the majority saw generational succession as an ideal, most thought it unlikely in practice, or contingent on circumstance. In particular, it was commonly the case with those interviewed that their children were too young to make judgments about whether they would like or have the capacity and ability to take over the business in time. In some cases, a business had only become a 'family business' when the next generation expressed interest in taking over.
- Exposure of the next generation to outside influences was generally encouraged. This was not intended just to prepare them for running the family business, but to allow them to pursue their own career if they did not want to take over. Most parents were satisfied with either choice, prioritising the desires of their children and their ability to support that over the continuity of the business. A small minority were adamant that they wanted better for their children than running the family business.
- As with SMEs in general, few interviewees had undertaken succession planning. This was the case regardless of the desired outcome, with a number belatedly trying to build up value in the business in the run-up to retirement. The key difference between family businesses and other SMEs is the need to include family members in the decisions, and many interviewees found initiating such discussions emotive and awkward (both within and between

generations). Several older and younger generation interviewees said they knew they had been putting off talking about the issue for that reason.

Management

- Most owners had little experience outside the family business, and/or little management training. Those businesses which were more ambitious for growth often had family owners with greater exposure to such experiences, either in other businesses or academia.
- There was relatively little resentment reported among staff to bringing in senior managers from the family, especially if they 'paid their dues' by working in more junior positions first.
- Resistance to external managers mainly derived from a lack of growth ambition, rather than hostility per se. Most owners preferred internal promotion to recruitment. Some interviewees reported difficulties in recruiting senior, experienced managers because of a perceived lack of career progression within the business (either because it would remain small, or they would never be able to progress to taking an equity stake) or their 'corporate' style not fitting well with the more idiosyncratic management style of the business.
- Most interviewees perceived that they had a good relationship with staff: they believed that they paid relatively high wages and were committed to training, with this relationship evidenced by high retention rates. Many noted that this was more likely to derive from being a small, close-knit team than family ownership per se, but a small number reported that they tried to treat their employees as an extension of the family. There was little use of dedicated Human Resources managers or HR best practices.
- Family owners often reported that they worked longer hours than their staff, but generally resisted a large salary, taking higher dividends in more profitable years.
- The most commonly cited disadvantage of owning and managing a family business was a poor work-life balance. Family owners noted some advantage to being able to resolve disagreements in a social or domestic setting, but also that they were not able to leave work behind, and that this may also lead to the exclusion of other employees and directors from input into decisions.
- Many interviewees noted the advantages of trust, loyalty and similar ways of thinking among family members. This was thought to enhance their autonomy and flexibility, and the ability to rapidly respond to challenges. While this is commonly asserted as a small business advantage in general, it may be stronger if family ties are also involved. On the downside, family ties, coupled with stronger rejection of external debt or other sources of finance, may also reinforce tendencies fostering an idiosyncratic and possibly inefficient management style.
- Use of networking and support was more tied to strategic direction and growth ambition than family status. Since the dominant objectives were sustainability and cautious growth, external engagement was relatively rare; most had not used government support recently, nor would they know where to find it. Most noted that they would not look for a specialist family business consultant if support was considered necessary in the future, but acknowledged that some

awareness of specific family issues, and their potential emotiveness, would be desirable.

Mittelstand comparisons

- Interviewees, particularly from larger businesses, provided evidence of some practices characteristic of the German Mittelstand, including an emphasis on longer-term stability and sustainability; prudent financing relying heavily on retained earnings; and a good relationship with employees.
- Other Mittelstand traits were evident to a lesser extent: an emphasis on quality and good practice and an openness to exploring foreign markets; family succession regarded as ideal (though often unlikely to happen in practice); and limited openness to recruiting professional managers (but not at an MD level).
- However, there was relatively little evidence of (i) strategies based on innovation (as opposed to incremental change to products); (ii) use of government-funded support; or (iii) good banking relationships (with many noting difficulties in obtaining finance and a lack of a relationship with a local bank manager).
- The UK is a different economic context, and businesses were performing well on their own terms, as are midcaps in general.

Suggestions for intervention

- Among family business owners' suggestions for intervention it was proposed that business support should reflect a greater awareness of potential family issues in its delivery.
- In most cases the content of support would be little different than for other SMEs; however, it is clear that potentially there could be a greater emphasis on issues of governance and succession than for non-family businesses, particularly amongst the larger and more ambitious businesses.
- Support could encourage greater consideration of process and strategy, supporting structural shifts and facilitating good management, thereby enhancing long term family security and growth.
- Few interviewees spontaneously mentioned that they had good banking relationships; the majority avoided debt finance in favour of using retained earnings. There may be a gap for longer term patient capital, which could stimulate greater openness to the use of external investment.

1 Introduction

In the 2012 Small Business Survey (SBS) ¹, businesses self-classified themselves as family businesses, but there is no single agreed definition of a family business. For example, the Institute for Family Business makes use of a more expansive and multidimensional definition, similar to that of the European Commission²: the majority shareholding is held by the person who established or acquired the firm, or their spouse, parents, child or child's direct heirs; the majority of decision-making rights are indirect or direct; and at least one representative of the family is involved in the management or administration of the firm.

According to figures derived from the 2012 SBS, in combination with the Business Population Estimates, of the 4.8m businesses in the UK, 3.6m have no employees. Among SME employers, 71 per cent class the business as a family business, with the proportion highest among micro businesses (75 per cent) and lowest among mediums (43 per cent). The SBS does not cover large firms, but an estimate using 2007 data indicates that the proportion of family businesses in this sizeband is substantially lower, at approximately 19 per cent³.

Table 1 **Size distribution of family businesses**

Sizeband - number of employees	Number of businesses (BPE)	Percentage which are family businesses	Estimated number of family businesses
1-9	986,900	75	739,200
10-49	186,700	57	106,500
50-249	30,700	43	13,200
All SMEs	1,204,300	71	858,900

Source: Business Population Estimates 2012; Small Business Survey 2012 – all sole proprietors and others that state they are a family business

The SBS statistics quoted above imply that at the micro level a high proportion of employers can be classed as family businesses. As such, support policy aimed at micros is, in effect, family business support policy by default. As businesses grow larger, there is more differentiation, with an important point of differentiation at 50 employees, where the proportion of non-family businesses begins to be larger than that of family businesses, and the effect of a range of issues is felt more deeply. For example, issues such as governance and succession become of greater importance as family businesses grow larger and more complex.

¹ BIS (2013) Small Business Survey 2012: SME Employers: Focus on family businesses

² European Commission (2009) *Final report of the Expert Group: Overview of Family–Business–Relevant Issues: Research, Networks, Policy Measures and Existing Studies*

³ Institute for Family Business (2008) *The UK Family Business Sector: An Institute for Family Business report by Capital Economics*

Therefore, key questions for this research included:

1. Are there important differences between family and non-family businesses?
2. If so, how do these differ between differently-sized SMEs?
3. How does this impact on the challenges faced by family business SMEs, particularly in relation to business growth?
4. Is there a case for targeted support, from the Government or other organisations, which may help in overcoming these challenges?

2 Literature review

There is a substantial body of academic and grey literature on how family businesses may differ from other SMEs. There are a number of consistent themes running through this, although it is worth noting that much of the research is at the level of larger businesses, where family ownership is rarer than at SME level, and it is easier to see differences in management styles etc. There is also substantial heterogeneity in family businesses, at all sizes (Bammens et al., 2011) which needs to be borne in mind. Nonetheless, the literature provides helpful suggestions for avenues to pursue in this research.

2.1 The objectives of family businesses

The objectives of family businesses may be oriented more towards longer-term survival of the business, and retention in the hands of the family, when compared with shorter-term, more profit-oriented objectives of non-family businesses (Harris et al., 1994). This may lead to turnover growth and profitability being smaller, and the business being less likely to take risks, to diversify its offering etc. The family owners can be seen as the stewards or custodians of the business, which also implies a different set of success criteria, rather than straightforward profitability. These criteria can include providing opportunities for family members, both currently (for example, in the form of employment (Kellermanns et al., 2008)) and in the future (e.g. passing the business on (Miller and Le Breton-Miller, 2003)); running the business in such a manner as to reflect well on the family owners; and social accomplishments (Miller and Le Breton-Miller, 2005; Berrone et al., 2012) and preserving family cohesion wealth (Chrisman et al., 2003; Gomez-Mejia et al., 2007), with profits the result of pursuing these objectives.

In general, '*socioemotional wealth*' (SEW) is seen as highly important to family businesses, defined 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' (Gómez-Mejía et al., 2007, p106). Family businesses will pursue goals which may be non-economic, in order to increase or preserve socioemotional wealth (Gómez-Mejía et al., 2010), in regard to which family owners are highly loss averse, leading them to reject opportunities which may threaten it. A further implication of this is that if a business comes to be seen more as a family business over time (e.g. when children show more interest in succession), rather than being a family business by virtue of the ownership structure, the objectives and strategies pursued by the founder may change. As Westhead and Howorth (2006) report, businesses with tight family ownership and management structures were more likely to report family-objectives as a high priority, while first generation businesses or those with a lower proportion of family managers were less likely to report the same.

The preferences that come about from the desire to preserve SEW often result in risk aversion and the pursuit of lower risk strategies – for example, lower ratios of debt to equity (Kleiman et al., 1996; Gonzalez et al., 2013) and to assets (Anderson and Reeb, 2003) and higher levels of liquidity (Allouche and Amman, 1997; Bigelli and Sánchez-Vidal, 2012), plus a tendency to scrutinise opportunities very carefully and eschew diversification into new market areas, unless closely

related to the existing line of business (Anderson and Reeb, 2004). This strategy permits for a longer time horizon for planning purposes, and for growth plans to come to fruition, facilitating longer term investment in the business, rather than pursuit of short-term profits for dividends. For this reason, while family businesses may appear to be growing more slowly than non-family ones, longer term that gap may close, as the family business continues its slow, patient growth route. The security of senior management positions which derive from their family status also facilitates longer term planning and the build up of in depth knowledge and memory, as the Managing Director (MD) is less likely to face redundancy for any short term failure to grow or generate profits (Miller and Le Breton-Miller, 2005).

Patel and Chrisman (2014) examine the idea of thresholds and aspirations, and how they relate to the riskiness of strategies pursued. They argue that family business performance below expectations risks the continuation of the business, prompting them to consider more risky explorative Research & Development (R&D). By contrast, when performance is above expectations, they rely more on R&D which is exploitative of their current products and processes; this may increase the reliability of sales but also the risk to socioemotional wealth.

These more cautious attitudes lead to reluctance to seek outside funding – for example, from external equity investors or even from debt finance, especially debt with a short term of repayment – compared with non-family businesses. Family businesses are more likely to use retained earnings, because of caution and a strong desire not to dilute family control via outside investment; as a result there tends to be a high level of savings. However, the level of leverage tends to increase as the business grows larger; the motivations of newly established businesses and those that remain small are dominated by risk-aversion, but larger businesses require a higher level of debt due to their motivation to retain control and finance larger growth opportunities (Gonzalez et al., 2013). There is an ‘empathy gap’ between family objectives and the institutional conditions attached to equity funding, meaning that the latter cannot understand the former, nor adapt their funding offering to take greater account of family business finance (Poutziouris, 2001).

The corollary of the tendencies identified above are that family owners will try to ensure the survivability of the business for the next generation, and in particular to build up the social capital of the business (Gedajlovic and Carney, 2010), which leads to stronger relationships with trading partners (Arregle et al., 2007), advisers (Gersick and Feliu, 2013) and employees and, indeed, within the family itself. As Wilson et al. (2013) note, this ‘survivability capital’ can be seen as a combination of human, social and financial capital, working in a way which distinguishes them from non-family businesses.

On the other hand, Wilson et al. (2013) also note that there are certain characteristics of family businesses which may militate against survivability: (i) family conflicts; (ii) altruism towards the wider family: e.g. nepotism in appointments leading to poor managerial choices (Schulze et al., 2003a), linked to (iii) an unwillingness to deal appropriately with poor performers (Gedajlovic et al., 2012) and employees; (iv) a smaller chance of taking risks and seizing high value opportunities; (v) strong social capital leading to a reluctance or difficulty in changing strategies, operations or trading partners (Zahra, 2010); and lower R&D expenditure (Villalonga and Amit, 2006).

Overall, Wilson et al. (2013) conclude that the literature on survivability of family business versus non-family businesses is ambivalent, although their analysis of Companies House and Insolvency Service data does point to a significantly lower failure rate. They also point to endogeneity in the processes of family business survival i.e. the family may well sell the business if it appears to be failing or underperforming in some way against their objectives – i.e. the sample may be biased, as those family businesses most at risk of failure have been sold off.

Examining the validity of these arguments in a more specific scenario, some researchers have suggested that this outlook and type of strategy lends family businesses greater resilience, in particular during a downturn, not only because of the relatively high level of financial security, but also because autonomy facilitates rapid and flexible decision-taking (Braun and Latham (2009); DeDee and Vorhies (1998)) and the long tenure of senior family managers provides a high level of accumulated knowledge (Westhead and Howorth, 2006). Chaston (2012) though, disagrees with this view, with evidence from a study of small family-owned hotels, arguing that businesses succeeded during the recession because of their flexibility, and there was little difference between family and non-family businesses in this regard. He also argues that the wider contexts in which the family business is located (country, size of business, sector etc.) are important mediating factors in how familiness manifests in the business and its performance.

It is also important to bear in mind the generation of the business, with some evidence that strategic changes may well occur when the second generation confronts existing business objectives and strategies, and where a lack of change and generational tensions may have led to underperformance when the older generation remained in charge (Brunninge et al., 2007).

2.2 Management and governance

The negative side of the family business characteristics described so far is that risk aversion may lead to lower levels of innovation, and stagnation within the business, as it simply chooses to 'tick over' rather than use their relative freedom to pursue a more growth-oriented strategy (Gomez-Mejia et al., 2007; Hiebl, 2012). A more nuanced view is put by Zellweger (2007) and Hiebl (2013), who argue that family businesses are better-placed than non-family businesses to take riskier strategies that will only pay off in the longer term, as they do not need to pursue short-term results – which means that non-family businesses are more likely to make short-term risky investments.

Le Breton-Miller and Miller (2009) suggest that the more embedded family owners are in the family, rather than the business, the more family-oriented their motivations will be, and vice versa. This is likely to occur in situations where different branches of the family are involved (and/or multiple generations) and where there is a lack of external perspectives (e.g. few externally recruited managers, lack of experience of family members outside the business). Family businesses may thus be slower and more reluctant to professionalise than non-family businesses, particularly in terms of hiring external managers or seeking external advice and support (from both business support organisations and non-executive directors), while the relative lack of external shareholders results in less external pressure to challenge how the family runs the business.

The degree of owner-management is indeed found to be much greater in UK family-owned businesses than businesses not owned by families (Scholes et al., 2010). This may therefore lead to family businesses being more poorly managed and less open to new ideas than non-family businesses, risking slower growth and profitability. This may be exacerbated by in-family succession, inevitably narrowing the pool from which management talent is drawn, and possibly causing resentment and poorer performance (or departure) from other managers, who recognise a limit to how far they can be promoted.

In recent years, this view has been strongly associated with analysis of the London School of Economics World Management Survey (see e.g. Bloom et al., 2012), arguing that – across many countries, on average, – family businesses are the worst managed type of business. This suggests that it would be worth distinguishing between family owned and managed businesses, and those with family ownership but a non-family manager or management team. However, there are also high levels of multiple directorships, with other businesses among directors of family businesses (Scholes et al., 2010), suggesting that this may be an alternative route to external engagement, worthy of investigation.

Two specific elements of management capacity are also worth noting. First, the most likely first appointment of a non-family senior manager/director is to a post related to financial management, such as Finance Director (FD) (Jeuschede, 1998), reiterating the importance of prudent financial management to family businesses. Second, there is evidence of a lack of skills in Human Resources (HR), especially use of best practice HR, when family businesses are compared with non-family businesses (Bacon et al., 2013).

In terms of governance, the interactions between family and business objectives, and the family and the management team, become more complex as the business grows - partly because there is only a finite number of family owners to act as managers, and not all will be sufficiently skilled or motivated to perform effectively (Breton-Miller et al., 2004) (as well as the possible interplay of family dynamics affecting performance). (Schulze et al., 2003b)

Wilson et al. (2013) investigate specific aspects of governance which may aid the longer term survival of family businesses. In terms of board characteristics which contribute to survival, family businesses are more likely than non-family businesses to (a) maintain longer term board stability; (b) have close communication and collocation of directors; (c) have fewer outside directors (i.e. non-executive or non-family) – possibly because of the importance of hands-on involvement during a time of crisis, or because Non-Executive Directors (NEDs) are more likely to encourage riskier strategies but unwilling to intervene in family disputes; (d) have higher levels of gender diversity; (e) have older and more experienced directors. As such, family businesses tend to have boards with higher levels of social and human capital than non-family businesses.

2.3 Relationship with staff

Despite the lack of HR training, family businesses may have better relationships between upper management and employees, particularly in terms of job satisfaction, employee loyalty, staff turnover etc. The Institute for Family Businesses identifies this as 'people capital' and their analysis of the Workplace

Employment Relations Survey indicates that such measures do indeed appear to be higher in family businesses than non-family (Bacon et al., 2013).

This employee relationship is argued to derive from the same attitudes which govern objectives more widely. Long term sustainability requires retaining well-trained staff who buy in to the business, and feel a sense of engagement or 'ownership', sharing the objectives (and successes) of the family – indeed, almost as an extension of the family itself. This requires the family owners to recruit carefully, so the employees fit in with the team and the ethos of the business, and treat the staff well to reinforce these values (Miller and Le Breton-Miller, 2005). This may include, for example, and when compared with non-family businesses, a greater commitment to training, a stronger tendency to retain employees during a downturn, higher wages or long-term non-pecuniary benefits such as health insurance, and a smaller salary gap between employees and owner-managers (Miller and Le Breton-Miller, 2005).

2.4 Succession planning

A key issue affecting family businesses is the transfer of the business between generations of the family and the implications of this for the business. There have been reasonably consistent findings that only about one-third of family businesses successfully make the transition from first generation (i.e. the founder(s)) to second, and only a third subsequently make the transition to the next generation (see for example, Poutziouris, 2001; Wang et al., 2000; Ibrahim et al., 2001). The process of succession can be thought to encompass three distinct stages (Stavrou and Swiercz, 1998): (i) pre-entry, where the designated or potential successor(s) are prepared or 'groomed' to take over; (ii) entry, involving the integration of the successor(s) into business operations; and, (iii) finally, promotion to a management position.

A well-developed succession plan is crucial (Sharma et al. (2001) and Morris et al. (1997)), but this is a relatively rare occurrence (Sharma et al., 2000, 1996), and there are psychological and emotional barriers which hinder inter-family discussion, and inter-generational discussions in particular (Lansberg, 1988). Incumbents for instance, may often be reluctant to step aside, creating a common barrier to succession (Sharma et al., 2000). To achieve effective inter-generational succession, there must be a balance between 'parenting' (i.e. a personal approach) and 'mentoring' (i.e. a more detached, business-focused approach (Lansberg (1997))), including both working within the business and formal management training from outside providers.

It is also worth noting that the larger the business is, the more likely they are to have developed a succession plan, mainly because of the increased complexity, hierarchy and formality which inevitably accompanies growth, while small businesses tend not to plan in such detail, or indeed to plan at all (Sharma et al., 2003, 2000; Ward, 1988; Wang et al., 2004). This applies in general to all businesses, not just family businesses, but in the latter the greater complexity of succession planning and the intertwined motivations of the family may make it more complex and urgent to plan in advance, if it is to increase the likelihood of a positive outcome. As Morris (1997, p386) noted, 'family business transitions do occur more smoothly when successors are better prepared, when relationships

among family members are more affable, and when family businesses engage in more planning for wealth-transfer purposes’.

Distinction can also be drawn between ownership transition (i.e. the next generation receives – or buys – equity in the business) and management transition (i.e. the next generation takes over running the business), which often occur together, although research tends to focus more on the latter (Nordqvist et al., 2013).

More recent work (e.g. DeTienne and Chirico, 2013) has emphasised more diverse pathways of succession, looking through the prism of what exactly SEW means. For example, while transferring the business itself might be seen as ideal, not doing so should not necessarily be seen as a failure. For example, transferring the physical entity of the business itself may be less crucial than the transfer of its core values (Salvato et al., 2010), such as entrepreneurial spirit, or of creating opportunities in general for the next generation, which can be facilitated by the building up of family (socio-economic) wealth through the business. As DeTienne and Chirico (2013) put it: ‘Our arguments lead us to conclude that family firms may simply redeploy resources into other business activities after exit. A broader view of family firms is thus needed’.

Another way of framing succession is through the lens of entrepreneurship, i.e. succession as a process of entrepreneurial exit and entry, investigating in particular how the next generation rethinks the direction of the business, and how their different motivations and backgrounds to the previous generations impact on the business (see Nordqvist et al. (2013) for a review of this strand of literature).

3 Methodology

Forty family-owned businesses, employing between 10 and 250 staff were interviewed, using a semi-structured template, during February 2014. The initial sample was identified through Companies House records (searching for businesses where two or more shareholders shared the same surname), and from suggestions from umbrella organisations and consultants. There was some oversampling of slightly larger businesses, compared to the SME population as a whole: 12 interviewed businesses employed 50 or more people (of which three had 200+ and five had 100+), 11 employed between 20 and 49 and 17 employed between 10 and 19. All businesses had to be family-owned, but not necessarily family-run, although all interviewed businesses did have at least one family manager. There was broad representation by region and sector, as shown in Table 2.

Table 2 Interviewed businesses by region and broad sector

	Manufacturing	Construction	Wholesale & retail	Accommodation & catering	Business/ financial services	Other svces	Total
East		1	1		1	2	5
East Midlands	2	1	2				5
London			2		1		3
North East	4	1				1	6
North West	1		2			1	4
South East		2		1	1	2	6
South West			1	1	1		3
West Midlands			2				2
Yorkshire and the Humber	3		1	1		1	6
Total	10	5	11	3	4	7	40

The aim of the research was to add to the evidence base on family businesses, in particular in terms of identifying how they differ from other SMEs and whether there is evidence that specifically targeted policy measures are justified in order to help overcome any barriers or challenges they face, over and above support or other measures available for SMEs generally.

4 Perceptions of family business

4.1 Internal perceptions

Asked directly if theirs was a 'family business' (without a definition supplied to prompt responses) around three-quarters of the forty businesses interviewed responded positively – they regarded their business as a family business. There was, however, no common understanding amongst interviewees of what being a family business actually meant. Several thought that it was only about family ownership, or that they only fit the family business category by default (e.g. a spouse holding shares purely for tax reasons):

I think of it as a family business. That means it's family owned and controlled. Nothing else.

(Catering and accommodation, Yorkshire and The Humber)

Around ten interviewed businesses fitted the 'family-owned' definition but were unequivocal that theirs was *not* a family business. Four stated this firmly, and in a very similar way: 'it's not a family business, it's *my* business'. Several had only given family members a shareholding for tax reasons; in others the children were too young or not interested in the business – though these aspects were also found in those businesses which did see themselves as 'family businesses', and so cannot be considered deterministic. Summing up the former attitude, one respondent said:

I don't think of this as a family business – a bit arrogant but I think of it as mine. Even when my wife worked here I thought of it as mine. I can't imagine any scenario where I would pass it on to my children.

They wouldn't be interested... no definite plans – my aim is to get it to a point where we could sell it in 5-10 yrs – to the staff perhaps. I don't care who we sell it to.

(Manufacturing, East)

A consistent theme however, was the belief that it was almost irrelevant what the business actually did; simply working together as a family unit was the over-riding concern.

We definitely see ourselves as a family business. The main motivation is running a business together – not the products per se.

The true privilege is that as long as you can keep the show on the road you can do what you like – we pick things we enjoy. It's all about happiness and working with family members.

(Manufacturing, North East)

There was an awareness among some of how being a family business might affect how you operate. Some expressed a sense of 'stewardship'; the interplay of taking over (or being handed) a business by previous generations, the responsibility of ensuring it continues and how this affects attitude towards risk.

The longer term attitude of a family business is both a blessing and a curse; we don't want to be disadvantaged commercially because of a longer term approach.

(Catering and accommodation, South West)

In a slightly different way (but possibly intensified by a sense of duty towards previous and future generations) a financial services business believed that the feeling of responsibility may act as a spur to performance.

*It's **your** name above the door. If it's your [family] name you don't want people bad-mouthing you... The name adds to the pressure to perform, as well as adding to the brand. So [a potential buyer] approached us because we have a good name and [my name] is the business, not just the name of the business.* (East of England)

Many interviewees gave more in-depth answers about what a family business meant to them personally, or in general. They suggested a variety of attributes more applicable to family than to non-family businesses: pride, tradition, autonomy, longer term security and ethical considerations, among others. Several asserted that being a family business meant they could follow their own visions, whether that is aiming for growth or – more commonly – to remain small. As interviewees expressed it, for those with smaller businesses, ideas of familiness and smallness seemed intertwined or – more precisely – many owners of smaller family businesses interviewed express a desire to reach then remain at a size which the owner (usually the founder, in these cases) is comfortable and feels is personally manageable.

Some defined a family business explicitly by what it was not: they were 'not a large corporate', and that smallness, along with familiness, meant the business was flexible and able to respond rapidly without 'everything involving dozens of meetings', i.e. unlike larger, 'non-family' businesses.

We don't want or need more staff; we can make decisions very quickly. We don't want to get too big. Everyone is fairly interchangeable in their roles, which gives us flexibility. We can make decisions on the spot – in a bigger company there'd be a policy or procedures to follow – this way makes life easier. (Manufacturing, North East)

Big organisations are more likely to do things in a certain way, following lots of procedures. As a family, we'll talk about it – we always talk and include all the lads and decide which way to do it. When Dad was on the shopfloor [when he used to work in a large business] the management would move things around without telling them or talking to them – we'd never do that to the lads. (Wholesale/retail, North West)

A number implied that, compared with a large or corporate culture, the family business culture meant being small and taking decisions on an ad hoc but personal basis, rather than a systematic one. This may suggest a somewhat constrained and risk-averse attitude - reasonably common among smaller businesses.

Yes, we're a family business. And that means we will always be quite small, we have no intentions to grow massive, we will always have ethics. (Personal services, South East)

However, often the larger family businesses we interviewed also said they tried to preserve an ethical outlook and a personal approach, features they believe are intrinsic to what they do and how they do it – and which distinguish them from competitors (larger, non-family businesses) who may adopt similar practices but for more cynical reasons, rather than as fundamental.

With your name above the door you're much more emotionally involved in outcomes and decisions. There's a direct link between the company and [staff] wellbeing, but it goes further; there's also moral obligation and integrity: how we present ourselves, our purpose, our views. We feel that if things go wrong, it's our responsibility. And that obligation extends to employees.

(Wholesale/retail, East Midlands)

Several interviewees echoed these comments, reporting values reflecting an overall ethos that all stakeholders (employees, customers, suppliers etc) should be treated on a fair and ethical basis.

There's a tradition of dealing on a consistent basis with employees, customers, suppliers – values which can be idiosyncratic depending on who's chair at the time. Family first, business second.

(Wholesale/retail, Yorkshire and The Humber)

4.2 External perceptions

Views on external perceptions of the term 'family business' varied widely: some believed it conveyed positive advantages, others saw it as unhelpful. A small number thought the term could be seen as pejorative, and preferred not to use it. This seemed to depend on the sector or, more accurately, the strategic direction of the business and the image it is trying to promote. For example, an ICT-based business with several large clients noted

We prefer not to [call it a family business] – I think it smacks of something small and domestic. We've been thinking my wife should start using her own name again as it looks and sounds more professional – puts us in a better position with big clients. Then if we say we both agree to something it has more credibility – rather than, 'well she would say that wouldn't she?'

(Information, North East)

Other interviewees expressed similar views, about the mixed impressions they believe the term family business conveys and the importance of context.

[We see it as a family business] but only when it suits – we have family values but whether we are perceived externally as a family business could be contentious. There is possibly no advantage to be gained from outsiders' perspectives of a 'family business' – they can be seen as more of a cottage industry, rather than as a straightforward SME.

(Wholesale/retail, West Midlands)

We're described as a second generation family business on our website. I don't see us that way but for us it's seen as a positive commercially, it suggests stability and reliability. (Construction, North East)

Thus a 'family business' label was regarded by some as a potential weakness, in relation to professionalism and a systematic approach, but (sometimes simultaneously) positive in terms of trustworthiness, longevity and durability, though even these latter aspects may have a downside:

People trust family-owned businesses but it has its disadvantages - you can have clients who only want to deal with family members because you seem more inherently bound up with the business. It does give credibility though – that you're there for the long term, rather than just two years or so... (Manufacturing, East Midlands)

In some cases respondents thought external perceptions may be affected by business sector. A wholesaler in the South West found that their large (global) supplier, when seeking a new franchisee '*particularly liked the fact that we are a family business with a long, stable history*'. The supplier was originally a family business itself, established by four brothers; and many of the interviewed business's clients are also family businesses. Although they emphasise the 'family' aspect on the website, the interviewee stressed that this does not affect how they run the business, implying he thought the term might convey an impression that their way of operating is somehow not fully professional. Others expressed similar views about the value of familiness:

The firm stands on its own reputation, it's not really perceived as a family business. The family aspect is valued on the purchasing side by customers, especially the Indian customers. I think it may be cultural, they place greater value on family businesses – but it's not such a massive benefit as we're also dealing with big Fortune 500 companies.

(Manufacturing, Yorkshire and The Humber)

A large manufacturer in the North East also reported that one of their biggest customers, based in Europe, valued the family dimension:

We had a visit recently from their top brass – they commented how much they valued the family aspect and see it as important. It helps to be made more aware of these perceptions, including those of staff – to have it pointed out - what we need to reinforce. We tend to take it for granted.

This may suggest a growing or changing awareness of how family businesses are perceived:

I've been working here on and off all my life, full-time since the mid-90s. There was a time when you would explain what you did and your role, but when you mentioned it was a family business nothing else registered. Now the wind is changing, there's more respect from big business for family business, they value what you do – that we see things differently, do different things.

(Wholesale/retail, East Midlands)

5 Relationship with employees

In general, interviewees believed that they had a good relationship with the workforce; in terms of engagement, paying good wages and providing training and flexible management styles. Virtually all reported low levels of absenteeism and/or disputes and – the key metric in this context – high rates of staff retention.

This had mainly positive implications – the staff knew the business well, operated effectively as a team and created a good working atmosphere. A minority reported there were also possible negative consequences: the longevity of staff had led to a preference for the status quo, and some noted a resistance amongst staff to change existing practices.

A small number of interviewees went so far as to extend the meaning of ‘family’ to include employees. Most qualified this to an extent, including several who noted that any good business should be run along these lines, or that such a small team meant there had to be a sort of family atmosphere. A minority stated that they tried to nurture a family atmosphere deliberately – within limits - with a tacit acknowledgment that the loyalty is reciprocal and therefore a family atmosphere can be a motivational tool.

Where businesses were now being run by the younger generation there was some evidence of wishing to change the culture and to ‘do things differently’; a reaction against a stricter regime under previous generations (present across other areas, as well as employee relations).

We see it as a family business and run it as such, but we don't abuse it. We think carefully about our people, we feel great responsibility for them – a lot of them feel like part of the family – there's certainly great teamwork and [because of the high pressure retail environment we work in] an emotional knitting together.

(Wholesale/retail, East)

*I'd like to make the foreman a shareholder to reward his commitment, but that's probably contrary to financial advice - **and** my dad. The staff all stay a reasonably long time - some twenty years plus, and most five years plus. Two fitters left to set up on their own but came back. My dad wouldn't have taken them back, but I'm into the team-building and staff rewards; it's very different to my dad.*

(Construction, North East)

There are no strict rules - compared to our father who ran the place very strictly. Now we have pool and snooker tables, a way of letting off steam. There are lots of knockbacks in this business. We have a very generous sickness policy and very flexible working – but the staff give back when it's needed. I do think the staff have a sense of ownership of the business.

(Business services, South West)

A very small number go so far as to actively recruit from the families of existing employees, developing on the rationale noted above – that it would give greater buy-in to the business and create a more coherent, loyal workforce. This is easier

in some sectors than in others, with those in the leisure and accommodation sectors in particular, reporting that the variety of jobs and seasonal work available made it easier to offer lower paid jobs to people (family members) from a wider range of ages and skill levels.

We encourage family members of staff to join also as employees. We had three members of the same family at one point! And the FD's son works for us now. Yes, there definitely is a family atmosphere.

(Financial services, East)

We have other families who have worked here for many years – husbands, wives and kids - and we try to have a family atmosphere. It's easier when there are lots of jobs open for different ages, and plenty of casual and part time opportunities.

(Leisure, East)

In some cases, the longevity and history associated with being a family business explicitly influenced a positive attitude towards staff, and a reluctance to make them redundant –once more with a clear sense of *quid pro quo*. For example:

We don't make staff redundant easily. Staff relations are good. I just feel like the custodian [of an older business which will carry on after me]. We have a big, post-Christmas Staff Party – we make it clear what's expected, give a sense of the coming year, make sure everyone knows about the Business Plan.

(Catering and accommodation, South West)

We look after the staff, we give salary advances, we expect a lot and we give a lot. We have Christmas parties, for staff and their partners – all paid for. We also do a lot of socialising with staff, especially if we've had a good month.

(Business services, South West)

Several pointed out that the key to the right atmosphere is preserving this balance as the business grows; they see the staff relationship as a key competitive advantage but this can prove difficult as the business becomes more complex and professionalised.

We've tried to foster and retain the family atmosphere in the business, but the risk is that we lose that as we grow. It helped us during the recession – the attitude that we're all in it together. But there's a balance between getting the culture right and not being paternalistic.

(Wholesale/retail, South West)

Thus, there was a common perception that family owners tended to treat employees well, and felt an obligation towards them. This sense of responsibility towards staff often verged on patriarchal, but most gave a more nuanced view, which stressed that staff had a sense of ownership, and engagement, which produced and reinforced mutual loyalty. The management structure allowed them the flexibility to treat employees as individuals, rather than as a homogeneous workforce, subject to rigid policies and procedures:

[The employees] have no shares, they work 9 to 5, and it's unfair of me to ask them to take the business home with them, even if it's just mentally. They want them to go home and not have to worry – that's my job. Our PA used to help us work it out – she was like family. We try to make employees feel part of the team but there's always going to be a bit of them and us. (Wholesale/retail, North West)

Once you get to a certain size, talent management becomes important – people want a degree of input and career development. Maybe that can't happen in this business – so a good business should always help their employees, even if they're exiting. You need to look after them. (Manufacturing, Yorkshire and The Humber)

A minority pointed to the inherent problem with this, namely that it can be difficult to fire people, despite business concerns.

Three to four years ago it was horrendous; we had to let people go. Being a family business has not helped. We do things PLCs wouldn't do. We're having a discussion about whether we should lose three people, but one of has just moved house down to Leeds, there's no way I'm going to fire him. (Manufacturing, Yorkshire and The Humber)

Nevertheless, several businesses reported that this attitude and the sense of obligation produced benefits, in terms of the quality of work and commitment. Several reported that employees appreciated the working environment to such an extent that some even resisted being headhunted, turning down opportunities for jobs with higher wages.

It is a family business – and that extends to lads on the shop floor. They produce better quality work, they listen to you more, and you treat them like you treat yourselves. They're not a number. None of our lads leave – that speaks volumes about our reputation locally as an employer. Some have turned down offers with better money because they enjoy it – and they bring in their families and friends to get jobs. (Wholesale/retail, North West)

However, overall, whether the relationship with employees is influenced by the fact these are family businesses was not clear. Opinions were divided on whether the family aspect in particular promoted a good relationship; or whether it was due to the nature of individual managers, who said that they would have promoted such relationships wherever they worked. A large number of interviewees in smaller businesses suggested that the over-riding principles guiding recruitment were that new members of staff would fit into a small, close-knit team overseen by a family member working closely with employees, which led to the 'family atmosphere'.

Yes there is a family atmosphere, but not because it's a family business – it's more because of personalities, hiring people that will fit in. Maybe subconsciously reflecting we're a family, I don't know. There is an element of familiarity but that's because they all get on well, they've been here a long time, but we don't consciously foster that.

(Manufacturing, East)

There is a family atmosphere – not because of us, though. But I do like to think I'd have that wherever I was. You just get on with the people who you work with. It's best to treat people how you would want to be treated.
(Construction, South East)

On the whole, therefore, many were ambivalent or had never thought about the family aspect of employee relations. As with a number of aspects of management and governance, it was not uncommon for businesses to note that it was the fact of being a small business, rather than a family business, that most influenced their approach. The family influence may be felt indirectly, though, through the emphasis given to longer term, more risk-averse sustainability. In this type of environment building up the workforce and its longer term retention work well together and loyalty towards the owners is crucial. However, this paradigm was not explicitly stated by any interviewees.

6 Succession

In spite of the large number of interviewees agreeing that they owned a ‘family business’, a high number expressed considerable uncertainty about family ownership continuing. Most noted that generational succession was contingent on a number of factors, such that it was too early to confirm or deny any specific course of events. For older owners, the issue had mainly been resolved with a negative result - a relatively high number (13) reported that, as far as they knew at present, the business would almost certainly not be passed on to a family member. A further five reported that it was possible but unlikely (in most cases, the next generation was not interested); others stressed the uncertainties of the current situation (many current owners had children who were too young to express any interest). In many of these cases, the owners would like to pass the business on, or saw this as an ideal situation, but were more than accepting of the idea that this may not happen, since they were more concerned about ensuring that their children forged their own path in life.

For the most part, therefore, it was not automatically assumed – either for first generation businesses or those which had been passed on – that their own children would take on the business, as may have been the case for earlier generations. For the majority it was more important to pass on to the next generation an entrepreneurial spirit, a better position in life, or improved access to opportunities, than the ownership and/or management of a business *per se*. Indeed, the majority were relatively unconcerned about this situation, confirming findings in the most recent literature, that a wider conception of ‘family business’ would be useful. Typical comments included:

It is very much a family business and we hope to pass it on through the generations, but we're aware that the children may not want that.
(Leisure, East)

It's partly our pension pots – but it's more than that. My son MAY be interested, but he's 15, and my brother's two sons are not interested... the ideal was that the kids would take it, but we can't force it on them.
(Construction, South East)

Without doubt it's a family business – we'd never sell it. I don't know if the girls [who have recently graduated from university] will take it over – we've talked about it in broad terms, but they don't really know yet. If they didn't want to take it over, we'd wind it up, no big deal – we can't really sell [the business] as it's also our house!
(Catering and Accommodation, South East)

I'm just waiting to see what happens – if they get married, what their choices are, do they want to stay, is there enough money in it to give them the lifestyle they want?
(Manufacturing, Yorkshire and The Humber)

Do I intend to pass it on? That wouldn't be up to ME. My son has to be involved – if he wanted to take it on; I'd support him just as if it

was other employees taking it on. But that's his choice, and it's too early to ask. (Wholesale/retail, East Midlands)

Several went further than this, and reported that they wanted 'better' or less stressful careers for their children, and that they actively resisted the next generation taking over the business, and would prefer to sell.

We don't want this for our children. We'd like them to do something different. We're the leading [business in our sector] so we could be bought out. In the meantime it's easy for us to adapt because we're flexible. If someone came along with an offer, even now... (Business services, South West)

A minority had thought more clearly about the possibilities open to their children and how they may benefit best from the business, plus different forms of succession and meanings of 'family business'. They distinguished between the next generation (i) taking over the business and running it; (ii) assuming ownership of the business but not managing it; and (iii) using family wealth gained from the business to start their own businesses or for some other purpose - often the preferred option among those making such distinctions.

A lot of thinking is about passing over the physical entity of the family business, but the problem is businesses have to change and be dynamic. Unless the management team can make that happen, the business will go. The next generation may not have the entrepreneurial skills, knowledge and experience that the founder has... So, succession should not be about the transfer of physical entity, but the transfer of knowledge and skills. Is it important for [the business] to pass between generations? No - in twenty years time, even if our kids want to come in, the company will need to be very different, but we would still like them to have the opportunity to have their own business and be entrepreneurial. The ambition is to let them have the training and development to do that...we want to create wealth to look after future generations of the family. (Wholesale/retail, South West)

I'm starting to think about the future but the boys are only four and six. Overall it's for their benefit and the business hasn't been built to sell; we would like to pass it on, we're trying to create an effective machine that could be passed on or externally managed. We have vague aspirations of at least having the wealth to pass on, and letting the boys manage but not work in the business. (Information, North East)

We'll take a view and look at the situation at the time – [the children] may not want to, or they may not be capable – but if that's the case I'd like to keep the business as owned but not run by the family. (Wholesale/retail, East Midlands)

I'm working on the basis of getting the kids through a strong enough education that they'll become independent professionals. We're already a very professional organisation. Ideally I'd like to grow it so that it can become a large organisation in its own right or part of a larger one. And we're actually looking at succession now as part of

using GrowthAccelerator – trying to develop our strategy.

(Manufacturing, Yorkshire and The Humber)

6.1 First generation businesses

First generation owners often wanted to retain long term control of the business, and for it to form the basis of the family's future wealth, but were sufficiently realistic to know this may not be possible:

The plan is for our son to become MD – we want the business to be strong and ongoing to provide security and income for the family, but that plan is implicit rather than explicit. We're very keen to retain family control. We want it to continue to provide a good standard of living for our own generation and those which follow. We definitely want to pass the business on but don't know when succession is likely to be.

(Business services, East Midlands)

A small number noted that, as well as a lack of interest, they had doubts that their children would be capable of running a business, perhaps lacking the specialist skills, the entrepreneurial attitude or the temperament to run a business.

You have to be a driven individual – often the next generation isn't the same. I'd think very carefully about whether I'd want a child of mine in this business, I'd want to be supportive – I'd encourage them to go into business and would mentor them. But I think I'd prefer to sell.

(Wholesale/retail, East)

In some cases, this was influenced by attitudes towards gender. An alternative therapies salon owner, for example, expressed scepticism about whether her sons would be interested in running such a business, while another interviewee when asked about family succession, expressed doubts about gender and capability:

Family? I wouldn't pass it on, they've got a different lifestyle – more privileged, not as hungry for success as me – I need to kick their backsides! At one time, I thought maybe I would pass it on – but it was more the fact that it would have been father to son and my kids are daughters. And they're young – only 25 and 26 – they need more non-family business experience.

(Construction, East Midlands)

Some had thought about possible impacts on other staff members of the business just being passed on, irrespective of merit.

I intend to sell it. There are lots of families where kids take over the business but then where is the will to go your own way? My kids have no desire to take it on and they may not even have right qualities. And what does it say to staff if you automatically give jobs to family? "You're never going to be directors and it will always go this person?" Where's the incentive and aspiration for your own staff?

(Business services, East)

In several instances, however, the opposing attitude was evident. The founder(s) said that the business had not originally been seen as a family business. It had

become clear only some time after establishment that their children (or the children of other family members) were interested in taking over, leading the founder to rethink how he or she regarded the business's longer term objectives.

It's only in the past ten years it's become [a family business] – since I realised I had another generation to pass it on to, when my daughter and her husband showed an interest in taking it over. Before that, it was just a business and not really run for family objectives. When you start your own journey you don't think that far ahead. As you approach your retirement all sorts of thoughts start to come in – since my son-in-law joined me I decided to create the company in such a way that it runs itself – even if I'm away, it's on autopilot.
(Wholesale/retail, London, founded 25 years ago)

This emphasises the contingency of the succession situation, and how events outside the founder's control may dictate the future of the business and, indeed, whether it becomes a family business at all.

6.2 Second generation businesses

As noted above, in earlier generations, it was often assumed that children would take over the family business. This was perceived in some cases as a pressure (rather than an easy option); several second generation owners noted that the way the business had been passed on to them was not ideal. They either wanted a different, 'better' life for their children, or were ambivalent about passing it on to subsequent generations. For example, an interviewee's father had initially established his construction business because of 'pressure from the family' but had continued to exert pressure on his own children to take over from him. This experience had coloured her attitudes towards the future of the business:

I'm wary – I want to keep it going, but I wouldn't want to put pressure on my children. My oldest has shown interest on an intellectual level, but he would probably do better elsewhere and my sister's kids show no interest. I don't want them to have that pressure. It's what happened to my father - we've lost homes in the past because of the business. So if it doesn't get passed on it doesn't get passed on. I'm practical; I would see it as it is at that time, and my sister is the same – we'll just keep it going and see what happens when we retire.
(Construction, East)

Another interviewee noted a similar situation, albeit with less rancour towards the older generation:

We've always grown up with it and we [two brothers, taking over from their father] joined straight from school. No ifs or buts about it, we were always going to do it. No other way – that was the plan from the start when we took over, it must stay in family unless it went under. We'll keep it until retirement then make decisions how to pass it on – too early for that yet.
(Personal services, North West)

These responses highlight the need for succession planning and, more specifically, for taking account of (i) the emotions of family members; (ii) the importance of ‘grooming’ a successor – in the trade itself, and of the individual, in terms of being ready and willing to take over the business; and (iii) how critical it is to take account of everyone’s longer term desires and aspirations. Findings in this area indicate both the longevity of family businesses, and how the socioemotional aspects of running such a business are highly important.

On the other hand, a family business can be a useful ‘fallback’ position if children attempt to follow their own careers, which then do not work out as well as hoped. At least three second generation interviewees had originally intended to follow entirely different careers. Subsequently, when these didn’t work out, the business started by a parent (and where the parent was still the owner-manager) provided an alternative, thereby becoming a family business, almost by default. Importantly, the current generation had worked in the businesses as teenagers and were familiar with operations and had a clear understanding of the tasks involved.

All three of us were advised against working in the family business. We’ve all done something different. I tried sports and media – but when it didn’t work out the [family] business gave me an option to come back to.
(Construction, North East)

My plan was to become a [professional sportsperson] – but I tore my ligaments, I’d worked in the business as a kid so I knew what I was taking on.
(Business services, East)

6.3 Succession planning

Given the findings above, it is unsurprising that only five interviewees reported that the business would (almost) definitely be passed on; these were mostly managed by older owners, with family successors already involved, helping to create a situation where a smooth, managed transition was both likely and reasonably imminent. The remainder, other than the thirteen where family succession was highly unlikely, expressed varying degrees of uncertainty but generally leant towards an aspiration for family succession. Most of this latter group had at least thought about non-family exits, and said they would not be excessively disappointed if the business was not passed on.

Seven businesses had made detailed plans for family succession (including two where this was still uncertain), while two had made detailed plans to sell. A small number had also planned for retirement by investing in property, realising they were unlikely to be able to pass the business on to family, and/or its saleable value was minimal (e.g. mostly goodwill and the customer list).

Therefore, unless succession was considered imminent, or where the business had grown so large and complex that it was deemed necessary to impose a structure with an explicit succession plan⁴ (dealt with in the following section on

⁴ In one case it was an externally imposed requirement: a franchisor who approached the family business (to act as a franchisee) insisted that a succession plan be put in place before they would enter into a contract.

governance), there was unlikely to be a plan for passing the business on or selling it and using the wealth for family purposes. The majority of the businesses interviewed (31) had made no succession plans, beyond a general vague idea of an exit strategy, or by being aware that they needed to build up the value of the business, as they got closer to retirement. Several had simply opted to try to maintain long term stability, hoping this would be sufficient to enable the business to provide an income until retirement, and a nest egg when it was sold.

There was no obvious pattern to the type of business in terms of the generations involved or age of family members which correlated with having a plan in place or not. Previous family succession in multi-generational businesses did not act as a good predictor of the existence of current succession plans. Interviewees were influenced more by highly specific factors – the interest and ability of the next generation, their own age/length of time to retirement, the age gap with likely successors, their desire to go on working past retirement age (either for continued income or to prevent boredom), the profitability of the business and likelihood of sale to an outside investor (i.e. how reliant the business was on tacit knowledge and/or the transferability of assets, such as business equipment or premises), their own attitude to whether they would hand the business over or expected their children to buy them out etc.

Thus, only a minority had a clear roadmap for the future, and this was largely unconnected to the size of the business, although size had clear implications for some businesses. The statement below comes from a larger and more complex business, demonstrating the positive implications of planning, but also the difference in scale and thought required, and the importance of external advice:

If you have a succession plan it helps maintain the value of the business - otherwise you could end up with a forced sale. It means at least the business could be family-owned if not family run. Our aim is to maintain family control into the next generation, with a family council instructing a professional board.

That process began with the appointment of a Chief Operating Officer. The aim was to help us professionalise but it wasn't successful. Now we're trying again – otherwise we won't be in a position to have a professional team run the company. We've appointed [senior staff] via a headhunter – someone familiar with family businesses as well as the operational side. We're also talking to someone from a major supermarket chain - we want someone to head up retail and we're looking for a new Finance Director. I'm keen to develop external influences to help my daughter [employed in the business] develop. (Manufacturing, North East)

6.3.1 Challenges for succession planning in family businesses

Significant reasons for delaying succession planning included the number and complexity of possible scenarios to take account of along with, critically, family considerations and family politics. Therefore, the likely course of a succession depended on a complicated and unique interplay of economic and emotional factors, seen through the lens of how imminent retirement was thought to be, and which generations were currently involved in the business.

As such, trying to generalise about succession planning is complex. As a family business consultant noted, ‘an accountant can devise the best succession plan in the world, but if they don’t take account of the emotional angle, it won’t be implemented’. However, it is worth noting that when such questions were asked, a minority of respondents noted that they knew they needed to make plans eventually but that there had been no time or urgency as yet. This was especially the case in the smallest businesses interviewed; these fell into a number of different (and often overlapping) categories:

- i. ‘straightforward’ businesses, undertaking relatively simple tasks in personal services, repair or construction;
- ii. established by skilled tradespeople (who were still heavily involved in a ‘hands-on’ manner);
- iii. established as a source of income on retirement or if the founder had received a windfall (e.g. redundancy); in many cases, these businesses had low entry barriers in terms of required skillsets or investment, and often little relationship to the founders’ previous career, such that one categorised their hotel as ‘almost a play business’, and there was little ambition to grow, beyond the provision of a comfortable income and longer term security for the family.

Several also noted that simply raising the issues in the course of the interviews had made them realise that the issue may be more important and urgent than they had previously thought. For example,

Dad might think about retiring in ten years but likes to be doing stuff – he’d be too bored if he retired – he likes the stress. We never discuss things like pensions, succession – suppose we will someday. It’s worth anyone coming and talking to us – you get that busy you don’t think about those things.

(Wholesale/retail, North West)

In particular, there were challenges for different family generations in discussing succession planning, where more than one generation were currently involved in the business. Responses depended to some extent on which generation was interviewed. For example, a number of interviewees from younger generations noted issues with the age of the parents and whether or not they would withdraw from the company or wished to continue working past retirement age. One second generation co-owner of a business where the parents were still heavily involved gave what he characterised as a ‘diplomatic’ answer:

There are no plans for parent retirement yet. There are potentially problems with our parents letting go, and areas where that will increasingly become an issue, but there are still a few years to wait. I can see a time coming when there might be some mediation needed – it would be helpful – but it might not be agreed between us all, but it would very useful to sort out future and moving forward.

(Wholesale/retail, East Midlands)

The clear implication was of an emerging need to resolve potential tensions about topics which had not yet been discussed, but were increasingly apparent to younger family members, about the (apparent) reluctance of older members to retire or to agree to changes in strategy. The older family members were either

unaware of this, or deliberately ignoring the issues. A small number of other businesses reported similar concerns, and the need to tread carefully and work around the issues:

We have the situation where dad has ultimate control; he has an extra quarter percent, though not by original design. Not that it ever comes into play – but if dad says he wants to stay until he dies, that's his decision, it wouldn't be fair to kick him out. If you're going to pass something on you need an exit for yourself. I've worked here 20 years - me and my brother have built up the majority of the value. But the point is that if dad wants to stay, our exit plan has to incorporate that; it's something we can't change.

Having established that can we formulate a plan around it? Will dad really want to work here in ten years time? Probably not, but we don't know. But we do know that for the next ten years, we can have a plan that works on that assumption and, as we get closer, we can change it. Roughly we build value because we can't exit for the next ten years – it would make a real mess of things – so we concentrate on building value, with a view to selling to the right person, business or group who comes along and who can take it forward.

(Manufacturer, Yorkshire and The Humber)

In a small number of similar cases, parents had continued working and the children found it difficult to tell them that it would be better for the business if they retired. In the majority of cases, however, the parents had opted for retirement from day-to-day work, either because they were tired of working, or recognised that they could no longer deliver a sufficiently high standard of work. They may still be involved as owners, or by providing advice, an experienced overview and/or mediation in family disputes for their children who now managed the business, and generally this was not resented.

Similarly, there are socioemotional generational issues surrounding cases where some siblings have participated in the business but others have not. These also raise complex and emotional issues, combining familial and monetary concerns and possibly long-held resentments, making them difficult to discuss, although siblings in the business are often aware of the need to do so (though not necessarily those who are not actively involved):

There is no conflict in running the business or about succession really, but where the line between succession and inheritance gets blurred, it may happen. I bought my dad out of the operational end but I also took on the company's debts. The business premises will come out of my share of the inheritance, but will my siblings [not involved in the business] take on their share of the debt? I doubt it. We still have to deal with it but it needs talking about.

(Construction, North East)

I have concerns that when the time does come my dad [currently the chair] wants to pass on his and mum's shares he might do it equally, between me and my siblings. I've worked in the business all my life and they haven't - but they have kids [i.e. grandchildren] and I don't. My siblings may want to sell, realise the value. None of us have

actually talked about it. But it's made me think - I need a back-up plan: I've been doing all the hours for years now, 24/7, now I've reduced my hours and I'm trying to develop other business interests. I actually think it's helping to break down the family dynamic and make the business more saleable – less a function of us as individuals. So who knows? It might turn out to be a positive.

(Manufacturing, North East)

Other situations had the potential to be even more complex and emotional. For example, a financial services business had originally employed the founder's eldest son, with the intention that he should be the successor. However, the son *'did not work out and was fired – quite tough but we have to be a meritocracy; you can't have jobs for the boys, that's a recipe for disaster'*. He was replaced with the founder's younger son, who was proving more suitable. However, if either the younger son or the senior manager (who would be the co-successor) left the business, the founder *'would sell, as I don't want to pass it on to anyone else. At my age I'm not going through the whole rigmarole of developing people and those are the only two I want to pass it on to. I would be so disappointed I would lose passion'*.

This re-emphasises the fragility and contingency of succession issues. Even though there is a clear plan, there remains a possibility that succession will fail, and the family will lose out in terms of socioemotional wealth – clearly the overriding concern for the succession plan in place – while still retaining the purely financial wealth.

The findings above suggest that it may be worth encouraging family businesses to at least think more about the eventual need for a succession plan. While this conclusion applies equally to non-family businesses, it may be that addressing the issue and actually initiating a discussion, is rendered more difficult by family politics. Succession for family businesses is likely to be more complicated, and include a greater variety of decisions and potential participants, thus emphasising socioemotional aspects, as much as purely financial motivations. However, it is also worth bearing in mind that a non-family business may become a family business through the process of succession, even if that was not originally intended.

7 Ownership, governance and management

The majority of businesses in the sample (31) were wholly family-owned. In five businesses, employees had been given shareholdings to reward long service and incentivise greater involvement. These were mostly token holdings (less than 10 per cent), although one (a new-ish business, still learning and trying to attract higher skilled staff) had given a director they were keen to secure one-third of the shares. At the time it was considered imperative to recruit this individual and there was no revenue option of offering a higher salary. As the value of the business has increased that decision has been re-evaluated.

In retrospect we gave away too big a share, we didn't think about it enough. Looking back it was far too much control to give away and doesn't line up with the contribution we get back. X still behaves like an employee, here for the skillset, not running the business. We're still the ones having sleepless nights. (Information, North East)

The other four cases serve to demonstrate the heterogeneity of family businesses, and the difficulty of finding an appropriate definition based on simple metrics of ownership. For example, one was a 50:50 partnership. Half would be passed on to one partner's daughter and her husband, both of whom currently work in the business as managers, and who would likely buy the other half share, thereby converting it into a family business and meeting standard definitions. This shows how the lines between family and non-family business are blurred. These factors and the fluidity of ownership statuses exacerbate the difficulties of targeting specific support on family businesses, as opposed to encouraging support providers to take greater account of familiness, and tailor support appropriately. The partners in this business have worked together for so long, that the partner without family in the business (whose children are not interested in joining) is regarded as an 'uncle' by the other partner's child (who works in the business):

Sometimes she can talk to [my partner] and then to me. I think it's important; we have built more trust and loyalty. (Leisure, South East)

7.1 External investment

Only one business, set up in 2010, had external investors in addition to the three family investors (the founder, his wife and mother-in-law):

That wasn't part of the plan but the banks refused to lend us enough, it was seen as too risky after the crash. That left a hole I was not prepared to fill by investing everything I had. We need to spread the risk – as a family, we'd rather have 60% of something successful than 100% of something we're struggling with. I'm not against loans but I hit a wall... But I have a mind to buy them out in the medium term – at least 3-5 yrs. (Manufacturer, Yorkshire and the Humber)

This chimed with the experience of virtually all the businesses interviewed: there was a typically high level of resistance to external investors, unless it was thought that they may be needed for a specific purpose. The over-riding aim was to not dilute shareholding and control, ensuring that these remained in family hands.

We looked at external investors – they want too much of the business. There's no way I'm giving away 30 years of my life to someone. We've put family money into the business – we want to keep that for the family. We do want longer term stability; it's hard to get finance so you have to think long term. It is connected with being family but also the nature of the firm. You take less of a gamble with it being a family business.

(Manufacturing, Yorkshire and The Humber)

Several drew a distinction that they would never use external investors (if at all possible) while they remained in the business, but had no such problem selling the business to an external buyer on retirement. A minority had considered external investors in the past as a way to facilitate growth, but had rejected the idea, while a very small number were currently thinking along those lines although they had not committed yet. This serves to highlight the magnitude of such a decision in the eyes of the owners, the care with which it needs to be considered, and the importance of the rationale underlying the decision, as per the arguments about socioemotional wealth outlined above. As one larger, ambitious business with owners nearing retirement noted, the desirability of attracting external investment in order to build up the value of the business as a preparation for exit had required a substantial restructuring of the business:

That's one of the reasons why we chose that structure: it was with a view to getting external funding. We're looking at how to 'groom' the business for our eventual exit.

(Wholesale/retail, South West)

Similarly, another ambitious business felt that external investment was inevitable, but that they needed to reach a certain size and complexity, and carry out external senior recruitment, before the decision was committed to:

External investment will come in time with the size of the business – but the roles now are a pretty flat management structure. The four [family owner/managers] are taking roles you would give to somebody senior who wasn't a family member. (Wholesale/retail, East Midlands)

However, the overwhelming majority of businesses had no direct experience with external investors, and spoke out of preference rather than experience. The single business with externals currently part-owning the business was initially somewhat unwilling, and was forced to choose this option through necessity; the manager has - in practice - found the relationship occasionally tense, but ultimately of benefit:

I looked for two things from investors – people who could add value by expanding our customer base and a FD. The investors clubbed together to provide an FD which has been really well received. There have been some tensions. I have over ruled on minority decisions but not where there has been a majority consensus view on an issue. If it's a major decision and you can't agree, you defer it

until somebody changes their view. Or possibly I change my view to go with them. Negotiation and compromise are crucial.

(Manufacturing, Yorkshire and the Humber)

This indicates the value of taking account of another point of view, especially during important phases, such as the establishment of a business or the relieving of pressure as the business grows. During these phases, recognition that owner/managers do not possess all the skills or capacity required, and possibly not even the skills needed for effective oversight of employees in a particular area of the business, is important for growth to succeed.

Aside from a reduction in equity and control, in a minority of businesses the resistance to external investment focused on the need to accommodate other points of view, rather than being able to manage the business as they liked, and the difficulty in achieving consensus amongst a more disparate group of investors.

External money would cause conflicts of interest – it's bad enough with my sister! If we disagree, it can be hard – because if we don't agree on something we don't do it unless or until we both agree.

(Wholesale/retail, North West)

7.2 Staff shares

Apart from the five businesses noted above, only a handful had even considered incentivisation of staff through shares or share options. In these cases, although they had eventually not gone through with the plan, the rationale was generally that the business had grown large enough that existing staff needed to be promoted (or recruited) into more senior positions and giving them an appropriate stake in the business would provide motivation. Most other businesses indicated that they were either resistant to incentivising staff in this way, even through a very small shareholding or share options, or they had never thought about the issue.

7.3 Ownership, governance and management structures

In most small family businesses, the ownership and governance structures were simple, with all or some of the family owners also serving as directors and senior managers, and few, if any, executives or outsiders. Some implied that this gave them an advantage, as it was easier to achieve consensus amongst only family owners, as they were all 'on the same page', with the same objectives, and ultimately in business to support each other and create a better life for the family.

The management structure has helped during the recession because of our high level of understanding. We're transparent with all of documents – my wife and mother-in-law understood what we were trying to achieve, so I can be more open and honest than if I was just [their] employer. I would probably be very frustrated if I didn't know it was for the long term and for the family. It won't always be [long work hours, stress etc]. There's improvement even now in terms of work-life balance, stress – it should keep getting better.

(Manufacturing, Yorkshire and The Humber)

[My son-in-law] is currently employed as a manager, he joined ten years ago and is currently running the company, and taking it to a new level... [I trust him] because family have more loyalty - they can't jump ship.

(Wholesale/retail, London)

There's not really a [formal] family council. We're all quite laidback and all buy into the ethos, so if there are any problems, we call family meetings and it usually works out OK. There are always some small issues, but we always work to a consensus agreement and everyone's views are listened to.

(Leisure, London; multiple family employees, half of whom are owners)

This 'family ethos' can act as a substitute for formal family arrangements, such as a council or constitution, especially at the smaller end of the scale. However, the latter business quoted above was fairly large (100+ employees across several sites) and had begun to find decisions more onerous. There were a greater number of meetings and (fairly minor) clashes of objectives, as pressure increased from business competition along with declining spend in the sector. These were coupled with impending questions about the retirement of older family members from day-to-day operations. The system which has operated to date has served them well, but there are more tensions and strain now than in the past, although possibly more flexibility than might have been possible had a legal agreement been in place. This flexibility has served the over-riding concern of the business well (in this instance nature conservation, rather than the preservation/growth of family wealth or high profitability).

This particular business provides an example of a bespoke template of governance; one which integrates multiple objectives in line with the desires and aspirations of an extended family. It does so via a relatively informal system, which has evolved to take account of the differing objectives, albeit subordinate to the main purpose of the business (conservation).

Others have also demonstrated flexibility to ensure the long term preservation of the business or to weather tough times, explicitly recognising that as family members they share similar overriding goals:

We leave more in than we take out – we take a long term approach – though we do have very strong reserves. It has allowed us to weather the storm in these lean years.

(Manufacturer, North East)

7.4 Advantages and disadvantages of family ownership and management

7.4.1 Autonomy

Family ownership may be a benefit or disadvantage in some ways; it may exacerbate or ameliorate certain difficulties; or it may have no bearing at all in many business areas. The most common advantage reported by small family-owned businesses was autonomy from external and internal pressures. This allowed them to pursue the strategic and operational management of the business as they wished. The strength of family ties, the lack of necessity to pay dividends

to external shareholders, and the avoidance of debt finance, gives the business the freedom to pursue a low-risk, longer term strategy, aimed at sustainability. This generally means staying at approximately the same size or pursuing a steady, long-run growth strategy, financed (for the most part) through retained earnings. Debt finance is seen as of secondary importance, to be used if necessary, and external investment as an even less attractive option.

The fact of [family] ownership means that we are responsible for our own destiny. We have different demands, we can grow in a way we want to as there are no external stakeholders. We can run with our vision without having to do x, y and z – so we have more flexibility, varied roles, a high degree of autonomy, responsibility for our own areas [within the business]. (Wholesale/retail, East Midlands)

[The advantage of family ownership is] self determination – you can decide what you want to do, when you want it, take a day off. You don't need to ask anyone else. If we were part of a corporate, we would have to answer to head office – but if [my husband, the co-owner] goes to a conference and wants to buy some kit, he can. (Health, West Midlands)

Others agree that this autonomous decision-making is a definite advantage but put this down to being owner-driven, rather than being a family business. Being family-owned may give greater freedom to manoeuvre, but a strong owner-manager in a strong, cash-rich position would have similar advantages:

In the 80s, a small conglomerate made us a good offer [for our subsidiary] but it was contingent on me joining them to run it. I've never worked for anyone else before – decision-making took longer and it was public, so it was as much to do with how the decision would be perceived by the City and shareholders, as the decision on its own merits. So the big difference is the faster decision-making – but not because it's a family owned business, but because it's owner-driven. If someone wants to spend £750k on 3D printing, I can just say 'give me the facts' and take the decision. And, thinking in the long term, I don't need to draw pretty pictures to prove this is a good business – I can make that decision. Having money in the bank to do whatever we want to do is crucial. (Wholesale/retail, Yorkshire and The Humber)

Autonomy can bring disadvantages as well as advantages. Some businesses recognise their own management limitations but are reluctant to change: they feel the current structure operates effectively, and professionalising management or adopting a different structure would risk losing that advantage. A number mentioned that things may appear chaotic but work well in the context in which the business operates. Comparisons were generally made to how large corporates operate, rather than other SMEs, suggesting that – in many cases – the advantages and barriers described were those common to SMEs, but may be exaggerated (or ameliorated) by factors relating to family ownership.

[In the recession] we've been able to make decisions between us [husband and wife owners] that have happened very quickly - on how we work products and use different factories. No one has

needed to discuss this as a team; we've made the decision and implemented it. But the management style – the way we run the business and the high risk, fast-moving market [we operate in] – an outsider would say it's chaotic. That's putting a ceiling on [our size] – I've never got my own head around how to get round that without taking the risk of putting a management structure in, but that might slow us down [our response times to demanding customers]. Our strength is the 'chaotic' way we run it – it gives us flexibility.

(Wholesale/retail, East)

[The advantages of family ownership are] loyalty and honesty and trustworthiness – I can take decisions instantly without necessarily consulting – but that can be good or bad. I've made some rash decisions in the past.

(Manufacturing, Yorkshire and The Humber)

It's completely different working for a big corporate to working for us. We are far more chaotic – we have a million hats to wear not just one, you have to be part of the team. But it's more because we're small than because we're family. Some people leave, but not just because they can't hack it here, it's to further their careers. If we grew larger, we would need more structure but we're quite happy where we are – and it's difficult to grow at the moment.

(Construction, South East)

Several others made this same distinction – that there is nothing inherent in their structure or ownership that distinguishes the business from a non-family SME, and the challenges and advantages are all related to this, rather than their ownership status. This further indicates the heterogeneous nature of family businesses, and how these are tied not only to the precise nature of ownership and management and how these inter-relate, but the circumstances of their establishment and development, the nature of the market(s) they operate in etc.

It is possible that prevailing attitudes, derived from family ownership status, exert a more subtle influence, in terms of small business owners being satisfied with longer term stability and sustainability – 'ticking over', as many put it – perhaps making stimulating growth more difficult later in the business's development, without internal changes and support. The following statement illustrates this point well:

We are struggling to move from 'ma and pa' to a bigger business. We don't have the structure or experience and knowledge to grow – the biggest challenge is precisely that we've been ma and pa - with me and one other person as owners and directors - for a very long time. It's a challenge to expand: our market gives us a very finite amount of growth, and there's an inability to know how to delegate, rather than a reluctance. These are quite complex tasks, with significant financial ramifications to staff [if something goes wrong]. I'm trying to construct it so the business can keep running without me.

(Transport, East)

This implies that support would need to be of a similar content to that which is delivered to SMEs in general – but may need to take more account of underlying attitudes and rationale in family businesses. However, many could not see how business support for family businesses could be any different to support from others. As one owner (who did not regard it as a family business) told us, when asked how the government might be able to support the business more:

Well, we own no property so tax breaks might help. But why should the government discriminate between family business and others?

(Business services, East)

7.4.2 Tensions and conflicts

Family ownership may provide effective pathways to resolve minor disputes in a forum outside the business. This may contribute towards a harmonious work atmosphere, although possibly at the expense of work-life balance – a substantial number of interviewees noted that they found it hard to ‘leave the business behind’. While this is not only a family business problem – surveys consistently show that SME owner-managers in general work long hours – this may be exacerbated by having business partners who are also close family. In family businesses it may be more difficult to separate work and social life, and you ‘can’t get away’ from your family, especially if there is a lack of structure and formality in the management of the business.

We do try and leave work behind when we go out – but inevitably you do at times, it’s part of life. But it’s better to get things off your chest over a beer sometimes.

(Wholesale/retail, North West)

[Where founder’s daughter and her husband were both employed in the business] It’s a business relationship, but it’s different to a normal company. The relationship between my daughter and her husband at work – it would be different if it was just a management relationship. Meetings are sometimes family meetings – maybe out of hours –and my [business] partner is like her uncle.

(Leisure, South East)

The big plus is that as husband and wife we share the same goals and are working towards the same ends – we both appreciate what the other has on. It’s also the biggest problem – we’re always talking about work, you can’t get away from it as a couple. We went for a night out, promised ourselves we wouldn’t talk about it and within 5 minutes we were – still arguing about the best way to solve something.

(Information, North East)

You don’t always agree when there are only two of you [a husband and wife]. We talk about work things at home – a lot of evening and weekends are spent planning and talking.

(Health, Yorkshire and The Humber)

Similarly, family dynamics can spill over into work situations, overriding management structures, and this can cause difficulties:

With us there’s a father/daughter dynamic. Sometimes in meetings my dad goes round the table asking for input and passes over me. He thinks he knows what I think and that I’ll be the same as him. I

have to remind him I'm there and to ask for my opinion.

(Manufacturer, North East)

This type of intense involvement can have more subtle effects on how the business operates. In particular, it may deliberately or inadvertently lead to the exclusion of other points of view from employees and non-family managers, who may feel marginalised, or find difficulty in reporting problems:

There are no formal board meetings - the management of the business often takes place at home rather than at work, it means we can get on with executive roles when we are at the office. It can mean we've discussed things at home and agreed what we're going to do. We come in ready to get started but others aren't in the same place because they haven't heard all the discussions. But we would like a sounding board, for bouncing ideas, someone to take the emotion out of it... And if staff aren't happy with something the other one of us has done it's really hard for them to complain to the other one.

(Information, North East)

This type of intense involvement can also contribute to a reluctance to change the business, and/or inhibit frank business discussions. This may happen in the interests of preserving family harmony and socioemotional wealth, acting in a conservative and restrictive way on the business.

I do talk to my brother outside of work about work. We have a work relationship and a brother relationship so it can sometimes be a bit difficult. We have arguments over business – but never too serious, our mum always gets involved before that. If anything is going wrong our mum cracks the whip and mentions our dad... [who passed the business on to them]

(Personal services, North West)

We can trust each other 100% - we don't fall out about money. There are lots of family arguments – but we sit down with a cup of tea after work and chat it through, find a happy medium. But if it was an equal partner, you can tell them exactly what you think but you can't just tell your dad to clear off. I have to do it in a roundabout way... I have massive respect for him, I wouldn't overstep the mark. Before we were forced to go as far as mediation – he'd just sit me down and treat me like a five year old! I never stop thinking about work, and I see dad 2-3 times a week outside work and one of us usually brings up something.

(Wholesale/retail, North West)

On the other hand, a minority reported that rows were inevitable; and that whether the owners were family had little bearing on disagreements:

Once or twice, it would have been nice to have an external sort of mediation, to arbitrate, but we never used it. But that's not necessarily because it's two families [three owners from one family, two from the other], it's just five individuals with their own opinions. It would have been nice to have someone say 'just get on with it', but it's not necessarily for family reasons!

(Construction, South East)

I would row with a non-family member as well – so it's not just because it's my brother. I just want what I want in my way. [The family relationship] may make it worse – but my background is from doing the work, he's from art and design and he looks after financial stuff as well – so we have very different approaches.

(Construction, East Midlands)

In a very small number of cases, family disagreements caused more serious difficulties, both within and outside work – although these may be partly compensated for by the advantages of trust and loyalty. Nevertheless different allegiances within the family may affect who talks to whom, who sets the agenda and what gets discussed:

We have disagreements – not bad ones and not many, but it's difficult if you do fall out – you can't leave your family behind. It's usually my sister and father against me as they're very close. I don't agree with a lot of what they say but I get over it. I just get on with the job and earning. I don't really speak to my sister and father outside work, they talk to each other – I'm closer to my mother who never gets involved in the business. The disadvantage is being with them all time.

(Construction, South East)

If you have a fall out in a non-family business when you go home you can switch off. Not in this – there's a very thin line between home and business. We talk about business issues at the weekend and it can be frustrating. On the other hand, we trust and know each other, we're not going to leave each other. We have the same focal point, the same goals – it helps making decisions.

(Catering and accommodation, Yorkshire and The Humber)

A large number of the businesses interviewed emphasised the importance of setting in place processes and procedures (either formal or informal) in order to pre-empt family divisions about strategy and management, and to maintain a good work-life balance, in order that family disagreements over business are not carried over into family life:

The main disadvantage [of being a family business] is the discipline aspect – if there are internal issues, sometimes it's a little problematic, simply because you're dealing with a family. As long as everyone is aware of what the guidelines are and where boundaries are, it's OK. But it's important to have that structure and understanding in place. I don't think there are many advantages, other than as family you tend to discuss things in more detail, and that sometimes impacts on life socially – if you go out socially, you've still got work considerations to think of and talk about.

(Wholesale/retail, East Midlands)

Despite the reported advantages of autonomy, faster decision-making and 'chaotic' ways of in the day-to-day working of family businesses, the evidence indicates the importance of establishing more formal ways of working in certain circumstances and/or in dealing with particular issues, and to separate the worlds of family and work. The next section deals with ways in which family businesses

may be able to implement such processes, especially as they grow larger and more complex.

7.5 Models for preserving financial and socioemotional wealth

Amongst the interviewed businesses the maximum number of family members with direct shareholdings was four, indicating a relatively small circle of control. Even older businesses in the sample had few direct family shareholders, many stating a preference not to involve the extended family – a concern that applied generally across all businesses, with one specifically stating that ‘too many cooks spoil the broth’ and another that they strictly observed an ‘inner and outer circle – in-laws can never join the inner circle’ (explored in greater detail below). However, the older and/or larger the business was, the more likely they were to have some form of arrangement for younger generations or the family as a whole, to preserve aspects of financial and/or socioemotional wealth, for example:

- trusts or preference shares (providing an ownership stake but no control);
- ownership by a holding company with no other activities, in turn owned by and with a board drawn solely from the family, with the trading company having a majority or wholly executive-led board;
- wholly or partly owned by a separate company, in turn owned by the family and which makes outside investments (e.g. in property, and/or to build up a pension fund for older family members), usually in order to protect and develop family wealth, and to spread risk in a more diverse way than simply relying on the trading company.

Two cases deserve attention here, demonstrating elements of good practice. They were the largest businesses interviewed and among the (very) small minority which had formal arrangements in place for family involvement – in one case, a family council and constitution (drawn up by an external business consultant/corporate lawyer), in the other a family agreement drawn up by the manager and ratified by a lawyer. The rationales in both businesses for these strategies were similar; they were seen as a measure designed to better guarantee that processes of wealth transfer were effective. Both were ambitious for continued growth and open to diversification, within the core business line and in related and unrelated areas, prioritising cost and quality, and in particular the improvement of internal processes and promoting the brand in order to position the company as a niche leader.

In the first case, this was driven by advice from an external consultant, combined with applying the lessons learned from direct experience of a poorly managed succession:

We hadn't thought about succession or even familiness, but a conversation with a corporate lawyer prompted thoughts. We always had the assumption things would just continue. We watched my wife's family struggle with their business when her parents died – it was poisonous and destructive. So we've specifically designed our constitution to exclude in-laws' interference. Our aim is to maintain family control over the business into the next generation. (Manufacturer, North East)

The other case was similar in that, although there had never been difficulties with family rows, the owners recognised that there might be arguments as the business grew in size and complexity, and the owners neared retirement age. They were also influenced by the experience of the last of the siblings to join the management team; he had completed a management qualification and worked externally before returning to the family business in his 40's. It is worth quoting his strategic rationale (quoted here at length) that indicates the level of thought which may be necessary to accommodate all potential stakeholders in a large, complex family business, and how best to reconcile disparate objectives:

We've never actually needed help to overcome family rows - probably because we took pre-emptive action. I did lots of other things before I joined the business – held senior board positions in large corporates, so I had experience and knew how to set up systems and processes... and I got lots of ideas from [my management qualification], developed a family constitution, which talked about policies on salaries, dividends, partners joining - whether they got automatic rights or not... If the family was more extended, we would have mechanisms which would balance family interests to owner interest to management interest – a three circles model, with spouses not involved in one circle – trying to limit conflicts of interest. [Instead] we have a legal board [the main family owners and a non-exec chair] and an executive board. We chose that structure with a view to getting external funding eventually, looking at how to groom the business for eventual exit.

(Wholesale/retail, South West)

Equally as importantly as the outcome, he noted, is 'the *process* you go through to get to the end result, which can be part of wider process, but the processes of communication [with owners, family members and staff] are very important'.

The arrangements adopted by the two businesses examined above had the same ultimate purpose – to preserve the family wealth and facilitate growth, with a view to enabling succession or possible exit, if necessary. They varied in their details and emphasis – for example, in how family members were defined and the extent to which the family could alter the terms; one was concerned with passing on the business, the other was more concerned with how the wealth generated by the business could best be harnessed, whether that was through direct succession to the next generation or otherwise, leaving more leeway in the actions the family could take (e.g. selling it would not be ruled out). However, both were seen as highly beneficial, as a mechanism for the business to become more professional and demarcate rights and responsibilities more clearly as the business moved forward. In particular, they were seen as a way to clarify succession issues in a more holistic way than a simple succession plan, generating added value for the business, and clarifying the relationship between the family members and the board, in terms of objectives and responsibility for strategy and operations.

In both examples outlined in the previous section, one impact was to increase the representation of executives in a formal decision-making structure, using variants of a 'circles' model. An example would be that, within an outer circle of the wider/extended family, sits a smaller family board (possibly with a non-executive chair) responsible for strategy; within that board sits the board responsible for operational issues, with strong communication links and feedback between the

boards, the family and the workforce, to ensure objectives are aligned and employees feel a sense of ownership and engagement.

Furthermore, in both examples, the arrangements had increased the level of engagement with external influences, with more openness to non-executive directors or externally-recruited/headhunted senior managers. The businesses did not explicitly say if there was a causal link, but it seems likely that two inter-related mechanisms are at work: (i) the formal declaration of rights and responsibilities secures the position of the family, leading to less concern about external influences impinging on the culture of the business; and (ii) the type of business which is open to these arrangements is already less insular, and willing to learn and absorb other points of view to strengthen the business. Both perspectives were evident in these businesses: both family owners strongly believed that if the next generation were to assume management control, they would benefit from outside experience (in academia and/or the commercial world). This would also be of benefit to the younger generation more generally, if they chose not to join the business, and subsequently help them to make good use of family business wealth for their own purposes.

One other larger business had achieved a similar family circles structure through separating the trading company from the holding company, with the former's board being virtually all executives, and the latter all family members. Divisions in responsibility were clear, with the family largely marginalised in terms of setting strategy – that was seen as the preserve of the trading company, headed by the MD, who was a family member. Holding company board meetings were more about informing the family of progress, rather than establishing strategic directions, on the basis that:

*Decisions are not really made on the basis of what's right for shareholders – despite that being a statutory obligation. We always make decisions on what's right for the **business** – on the basis that in the fullness of time that will also be right for shareholders.*

(Wholesale/retail, Yorkshire and the Humber)

A small number of other businesses which were larger, ambitious for growth or with a strong belief in employee engagement, may not have had the same level of legal arrangements but arguably had accomplished a similar outcome in practice: for example, adopting a split between family and executives, but with overlaps and a strong ethos of communication between levels:

Strategy is a group discussion about what we do – not us [the family] telling them [the executive] what it is. So the Quality Assurance manager brings his quality plans to the board of directors, we all agree it and he delivers his part of it. It's a collective strategy: the [family] shareholders sit at top – the only decision they make is whether or not they want to increase investment in the business. Underneath that is the board of directors –some of the family are on that but it's a meritocracy to a degree – [my brother is] Sales Manager, I'm General Manager and MD, Dad is on finance and, with the Production manager as the fourth director, we set the strategy, aimed at delivering value for shareholders but also incorporating other voices from stakeholders: customers, employees, whatever. So we as the board address all the relevant

issues, once we have set main goals of business (around growth, profitability...), and underneath that the senior management team will deliver [operationalise] their part of the strategy - they all own part of it.

(Manufacturing, Yorkshire and The Humber)

This suggests that, while formal arrangements such as those outlined above may be mooted as an ideal model, though useful for all are possibly more *essential* for larger SMEs. The question remains about how willing smaller family businesses would be to use such a model, and what types of business it might benefit the most, and how could it be 'sold' to them as advantageous. Smaller businesses would need to be convinced of the worth of having fairly complex procedures in place, in particular that they could lead to increased growth (or profitability) without increasing management burdens or risk. Ultimately, it may be a function of persuading the owner-managers that the business is underperforming, and that working *on* the business can pre-empt potential challenges and better align the objectives of all stakeholders, *before* growth occurs.

In a small, less ambitious business, these challenges may not arise, but if they are not considered in some way, the business is also unlikely to grow to a size where they may become challenges. Smaller businesses which were seriously aiming for growth showed evidence that they approached these issues with a risk-averse attitude: they devoted care and consideration to develop a holistic view of the business, and did not want to embark on an expansion plan which would later create difficulties:

There were eight people on the shareholder/management team but it wasn't adding value. Now we have a separate Senior Management Team – a finance expert, sales director, aftersales and the MD - and they would like to bring our brother in – our parents are not really interested any more. We have a three-year really massive review trying to align family and business objectives.

(Wholesale/retail, South West)

The main issue is that the business is growing, but slowly: how do we move forward, how do we develop the business? We're at a stage where we probably need external skills – (i) to take some of pressure off us as [family] directors (we're about to do that anyway, in terms of getting more people with technical skills) and (ii) do we bring someone [non-family] in at higher level to help grow the business and move forward with us? We're actively discussing this and hope we'll come up with something... the main thing is we're very profitable but margins are being squeezed, so how do we keep on growing? So, we need to look hard at what we have, and what we need - and if the two don't match, we need external help – I want people who can actually do jobs well, not just people who happen to be there [i.e. family, to a certain extent] and can fill jobs.

(Wholesale/retail, East Midlands)

The majority of businesses interviewed considered that they did not need a formal arrangement, for a number of inter-related reasons:

- i. the business, and/or the number of family shareholders was too small – or more precisely, the number who took an active interest in the business was small or – other than the manager – nil;
- ii. all family members involved had a clear view of the family objectives associated with the business;
- iii. there were unlikely to be disagreements about the direction of the business, or about the involvement of other family members, due to the level of trust and loyalty among the family; and
- iv. the stake held by external shareholders was small or nil, and there were few if any non-family directors.

However, for the most part, businesses which had found it difficult to progress beyond a certain size exhibited signs typical of a small business outlook. Family issues came into this and exacerbated the situation when there was a desire to keep doing things in a similar way; past bad family experiences restricted ambition; or simple risk aversion led to a desire to preserve the current level of family wealth and security and remain small. The initial step towards growth would thus be to encourage more businesses to pursue a growth vision (i.e. that they have the potential capacity to pursue growth), but the family situation would have to be taken into account in the details and operationalisation of that strategy.

Given the experiences of larger and more ambitious businesses of how to balance and manage family and business pressures in a pre-emptive way, there may be a case for those businesses with a growth outlook or at risk of becoming too large to be managed effectively by family owners, to consider adopting a similar template.

7.6 Developing the business

The majority of family owners had little or no specific management training themselves. This was particularly the case for the founding generation, who had often (a) set up in the same trade in which they were formerly employed, or (b) entered a line of business in which they had no previous experience but perceived as straightforward to run, enjoyable, or for which they already had the necessary assets (e.g. a large house, which could be part-converted into a hotel).

These circumstances – lack of experience, management training or the desire to take control rather than work for an employer – are not unique to family businesses. However, resistance to change and a failure to engage with external influences may be intensified by family dynamics reinforcing the desire for autonomy and underpinned by shared objectives, life experiences and values, plus strong emotional ties. This may result in a tendency to reinforce, rather than challenge views and perceptions held within the family ownership group, leading to a preference for the status quo.

Some interviewees did acknowledge the need for an objective, external perspective to act as ‘a sounding board’ (usually larger businesses and those with plans for growth). Most were likely to be more reliant on their own resources, judging themselves capable of managing without external support or input, whether that be in the form of training or the recruitment of external professionals. However, despite this, some seemed to lack the confidence to be at ease making new investments and developing the business in a changing marketplace. They have direct evidence to draw on of the business operating successfully in the past

and that existing, proven business practices have provided the family with a good living over time; several observed their approach was one of 'if it ain't broke, don't fix it'.

A business providing health-related services, for example, had been performing respectably for 25 years, but recognised that the market had changed substantially, causing their outlook to shift:

We need to be more business-oriented now. It's OK to rest on your laurels – but in this day and age, people want [extra services in one place] and we can't offer that. We need to catch up with the competition and be more businesslike. We got business advice for the first time. We didn't have a business plan – but we didn't have many debts and were cash rich and profitable so we never needed to borrow, and we never needed to make a business case or use overdrafts or act in a businesslike way. If you're in debt you need to look after your figures more. If you're not in trouble, if you're earning what you expect and pay everyone and it's all going smoothly... you tend not to think about it – but that's so last century now. We got two consultants in, to go through all the things we should have been doing. They said it's all working fine, confirming our gut instincts – did we need someone to come in and tell us that? No. But it's nice to be told it's all OK. Now I've just started management training... I'm hearing nothing new – but it's still confidence boosting.

(Health, Yorkshire and The Humber)

As this suggests, there may be a split in attitudes towards external support and input, between those with ambitions to grow or try new business strategies and those which are comfortable 'ticking over'. This can lead to a long term lack of business development, unless family owners are 'shocked' into change by a threat to their livelihood – for instance if the business is under-performing, or the owners realise they need to add value in order to prepare for an exit. The demarcating line may be fluid, depending on circumstances. A perceived serious threat (e.g. increased competition, perceived low sale value when nearing retirement) may push family businesses to try a different, more involved or delegated management strategy for the first time, or to deepen and broaden their current strategy. This was illustrated by a larger business (with over 200 employees):

There is a plan in place to sell it. It may well involve a management buy-out we have spent a lot of time building up the senior management team in the last few years to do just that. We've got people who have grown with the company and developed a deep understanding of our brand DNA, as well as senior recruits, professional managers from large companies - having that mix helps us. So we have a new board, created over last year, made up mostly of external incomers.

(Wholesale/retail, South West)

Similarly, a North East manufacturer accessed external support for the first time in the face of a crisis; they continued to use it once they had realised the potential value and the new vision the consultant opened up in terms of exploiting the business to increase family wealth:

We'd never thought about it, didn't think we needed anyone or anything from outside but it was game-changing. Made us rethink things entirely. The consultant asked us about our objectives and suggested that instead of just buying new premises we should rent and release our capital, freeing us up to do things differently. It's really changed how we look at things and how we feel about external support.

In other cases, resistance to change, and the concomitant desire to preserve socioemotional wealth from risk, is so ingrained that owners – especially those from the second or subsequent generations seeking to ‘do things differently’ and make their own mark - may seek a different outlet to make use of the family business wealth. This broadens the scope of what the ‘family business’ means in practice, rather than changing the scope of the original trading entity. For example, a South West wholesaler had decided to be a ‘*good enough*’ manager, and not tinker with the original family business, which is ‘*mature and stable with established territory; but offers little scope for growth*’. Instead, he has started a separate ‘technology innovation’ business to try out new ideas and test his business skills: ‘*I use an external business consultant who challenges my decision-making – I want to be challenged.*’ In this case, the inciting incident leading to change is not a crisis but rather a change in generational owner, who brings a change in objectives and strategies, but still desires to preserve multidimensional family wealth. Others had followed a similar path, after being frustrated by ingrained family resistance to change:

It's always a challenge – working with a family member who had no growth ambition. (Manufacturing, North East)

I just feel like the custodian – my aim is to protect the centre. (Catering and accommodation, South West)

7.7 Management recruitment

One of the key messages emerging from the evidence above is the critical importance of embracing external influences in facilitating growth or development. In particular, the research explored the need for management training, or to delegate responsibility to senior managers at an appropriate time during the growth of the business: managers who have either been brought up through the business or professionals, recruited externally.

Many of the smaller businesses interviewed were not resistant *per se* to management training or recruiting external managers, but could not envisage it happening in the foreseeable future, believing they were unlikely to reach a size where it would become necessary and that the family's own management capacity would be sufficient to cope with growth within their existing ‘comfort zone’. This may well be a pragmatic response, but there could be potential benefits they fail to perceive, because of the prevailing mindset of family members. However, for this group, any non-family ‘management’ at these smaller sizes was more likely to be envisaged as administrative support, trusted to delegate operational functions, rather than higher level management functions, for example:

Getting in external investors or a professional manager? The thought has crossed my mind – I used to have a wonderful PA, worked with us for 10 yrs till she was 66 – we headhunted her from a business my sister had previously worked in because she was so good. It gave me a lot more freedom – once I trust the current one the same way, I can chill a bit more. (Wholesale/retail, North West)

This trust may be extended:

We've got an office manager at both sites. At [site 1], he's more hands-on and been there longer, he runs the office. He was there from day one so grew into it – and we actually had discussions to see if he wanted more, wanted to buy in, but he didn't want that. He was happy having higher salary not equity. It may have turned into a problem if he did... At [site 2], he's more junior, perhaps because he's still learning the trade. (Construction, South East)

The same business, however, also noted that they were relatively unstructured, and this environment was not suited to *'high fliers - we wouldn't get corporate people – we got a few who wanted a job for a while [in the recession], one stayed for 18 months, which was fine, but we knew he wouldn't stay for very long'*. Two of the family owners have accountancy or a financial services background, allowing them to devise a structure they deem fit for purpose, with an overarching concern that it involves relatively little risk. If they were to grow, it would be by duplicating the functions of the two existing sites at new locations, with an office manager overseeing day-to-day operations, but only after a great deal of research into the market and likely returns. This structure is well-tested, allowing for controlled expansion within fairly tightly specified limits.

In general, therefore, unless businesses have a well-defined growth strategy or growth ambitions or are facing succession/retirement issues, they are unlikely to question whether they have sufficient management capacity and capability within the family, and unlikely to formalise the business further or try to recruit external managers. They are in practice, more likely to promote lower level workers to an intermediate management level, with limited oversight responsibilities, in order to cope with any immediate expansion plans or market competition.

However, if the business continues to expand, the situation may develop to a point where the owner/managers are overwhelmed. This had occurred in several interviewed businesses, where fundamental work was relatively simple – for example, one business was based on routine construction work organised in gangs, but deploying a sophisticated, IT-based, administrative system to facilitate routine, day-to-day operational demands. This allowed the business to expand to approximately 70 workers: business operations largely consisted of the replication of a limited number of straightforward tasks, with strategy principally aimed at finding new customers or markets for existing skillsets and capabilities, and expanding the back office administrative team to cope with the extra workload.

The following account illustrates how this small family business has grown to a point where it is in danger of becoming unsustainable, illustrating a number of the issues highlighted above about the importance of outside influences, working on the business rather than just in the business, and being open to delegation. A key concern currently is building up the business value for sale, which is proving to be

more difficult than it otherwise may have been, due to a long-term lack of management and governance development, and an inward-looking manager with no management or leadership training:

I have no real management training. It's only ever been me and [one other family member], it's very heavy on us now, with [many] workers and a multimillion pound turnover, and we have quite an aggressive growth target.

I'm looking for a board right now, trying to distribute some of my workload. In a way, we have lots of managers – but ultimately everything seems to go uphill [i.e. to me] rather than downhill. We've tried to diversify into other areas – but when my time was spent doing that, I took my eye off the ball - what we were meant to be doing, and ended up losing money on the core [of our business]. We've stuck to what we know best. After 20 years, I know all the pitfalls; it takes a long time to teach people it all. So, most of the high level people have come through the company – very few have been recruited from outside. We've had problems with people fitting in from corporate backgrounds – we're fairly reactive so if there's a problem, we sort it there and then - no meeting after meeting – corporate people want meetings. So, it will be an internal board – no non-execs, we're just looking to formalise things.

We're aiming for more structure, now we're bigger – we're at a size where we need to do that. We're at the level now where we would need more management - I was getting to breaking point before – when you have 6 people, fine, a few meetings a week – at 15, it's too big a scale – they don't just need managing they need leading - guidance and direction. And I've got to be more open to opinions – at the moment, it's just [the two family owners]. We consult informally with management, but we need to be more formal. Our accountant has been with us a long time, he's taking the FD role, and a new staff member is potentially taking on the operations side – so we're trying to get four opinions rather than just two.

(Construction, East Midlands)

Clearly, therefore, there is a point where businesses may be 'forced' or have a definite need to recruit external managers – though they may well fail to anticipate the need before they reach this point. In addition, as already suggested, some businesses report difficulties when recruiting external managers with the appropriate high level management skills, who may be deterred by the structure and nature of a family SME. For example, one small financial services business in the East of England found a suitable external senior manager to take some of the workload from the family MD. However, the potential recruit nearly turned down the post, because '*she couldn't see how she could manage my son [a junior employee in the business] – she had to take my word that there would be no favouritism*'. In fact the recruited manager fitted into the business so well that she was 'adopted' as a co-successor, along with the owner's younger son, and brought her own son into the business. However, this exacerbated concerns about the difficulty of attracting external managers:

If people see [a business run by two] 'dynasties', they may think they are just the bit in the middle of the sandwich. We need good people if we're going to grow... and they need to fit the business at the same time. We need to find a middle way, between feeling threatened by getting new managers in and letting them in and allowing them to change everything. With family members who know why we're doing things it's much easier. Getting a corporate manager with corporate views can be a disaster: I don't see an MD coming in from the outside... I want [the co-successors] to grow into the job, then I would ease out as I lose energy and become the chair – [they] need to run business in their own image and they need each other.

(Financial services, East)

This example shows the inherent tensions between (i) preserving the culture of a business established by family managers (which they may see as fundamental to the business's success) and (ii) ensuring that subsequent generations of owner/managers – or external managers recruited under an existing owner – have sufficient leeway and discretion to innovate and diversify successfully.

A substantial minority noted similar difficulties:

We've recruited to add expertise, but then struggled to hold on to it. They're always poached – they're looking for what's next six months down the line. The problem is they can't see any career progression. They don't see me moving on – so they can't move up, it's only a small business so there's nowhere to go - only a couple of chiefs and lots of Indians. It's important to move them into middle management so they can use their autonomy – there'll be more roles for them as we grow.

(Manufacturing, Yorkshire and The Humber)

This is an example of the 'catch 22' situation, in which a small number of interviewees found themselves – given the structure and market context, it may be difficult for a family business to recruit high skilled managers without growing, but they may be unable to grow without first recruiting high skilled managers.

We're doing fine but we want to create scalability - we aim to grow business with existing clients and do work for more blue chips. We also need more structure – project management, an output controller, a Business Development Manager – and to recruit more high calibre technicians. We need to build capacity – we could do more but we're turning work away. We can't get the talent we need. We've tried graduate recruitment schemes, developed close relationships with Course Leaders with each of the local universities to try and identify talent, offered internships, placements etc. We've also registered with three recruitment agencies but still struggle to find the right sort of talent. The bright ones go to the big players or leave the region.

(Information, North East)

The solution in some cases may be to encourage businesses to break with established ways of thinking – for example, recruitment difficulties may be ameliorated by a greater openness towards share options, and/or by creating

another layer of lower management which could be filled through management training for existing employees. Again, therefore, support for ambitious businesses could focus on new visions for realising growth, while also taking account of the family situation which may prove a barrier. In particular, this needs to focus on the structure of the business, how management and family owners/managers work together, and HR practices used in recruitment: in small family businesses, fitting into the team is often prioritised over skillsets *per se*. As several interviewees pointed out, this applies to non-family small businesses as much as family-owned small businesses; however, some thought that the nature of family ownership exacerbated such tendencies:

The people who haven't stayed tend to be those who've worked for big companies where there's more structure – for us, the most important thing when recruiting is the right attributes rather than the right skills. That means the organisation meshes well – we get the slots to fit the people, rather than the people to fit the slots. We recruit mostly from the local areas – school leavers, bright people in dead end jobs. People we can develop... but we tend not to have management roles – from the outside it looks like a dictatorship, and a very flat structure, although there is some nurturing of staff to move up and oversee particular things. But you can't draw a management diagram as we're always evolving and changing.

(Wholesale/retail, East)

Similarly, a small minority have had negative experiences with external managers who did not fit in with the family culture:

We had an external MD (we'd used him as a consultant and felt we knew him and he knew us), but he left very abruptly and we felt betrayed. He left without giving us much in the way of notice. Now we're happier to keep it in the family; we're not dogmatic about it but when I look back over the years we've often had young family members in charge. What surprised us was how much the staff expressed their approval that the post had come back into the family. He just didn't manage in the same way - he had a reputation for bullying but [the staff] only told us after he left.

(Manufacturing, North East)

7.8 Influences on governance and management capability of family

Many interviewees reported on the advantages of the next generation gaining outside experience (business and/or qualifications) and working in the family business prior to succession. Together these appear to facilitate a smoother handover of responsibility and aid in a gradual shift in strategy and objectives, allowing buy-in from all parties. As one interviewee described, external experience, especially among the second or subsequent generations, grants the family ownership team greater breadth, and provides complementary skills to their business-specific knowledge (which is often the only experience the owner/manager team has). Indeed, one interviewee attributed their recent successful growth (from £4.5m to £22m turnover in the past six years) to this complementarity: that the outside experience of a family member acts as an

effective substitute for externally recruited management, certainly during the earlier stages of business growth.

I held senior management board positions in large corporates, so I had that experience and knew how to set up systems and processes. The other two [siblings, who co-inherited the business] have been on the entrepreneurial side of things. We have been very lucky in that respect – the reason for growth has been that mix of types. I'm joint MD with [one of my siblings] – the other one is on the creative side. I'm both entrepreneurial and have professional management experience. We may well have not grown so fast in the past ten years if we hadn't been this way and we'd have had to bring in external management earlier [to accomplish that].

(Wholesale/retail, South West)

This has some similarities to the situation faced by another business - bought out from the original (sole) owner by his son, who then brought in his wife, and an unrelated co-investor and his wife, giving joint equal ownership between two family groups. It is also another interesting example of how family businesses can evolve over time, as subsequent generations have different priorities and objectives, within a continuum of family and non-family business status. In the latter case the business was established by the father in 1988 as a wholesaler; the son joined in 1995, and learnt the business on the job, but came to the conclusion that they wanted to change strategic direction, which proved difficult with the older generation in leadership positions:

In 2000, we [the interviewee and his non-family business partner] took over daily ops, with my father and uncle as silent partners. In 2004, we bought them out; they were the major shareholders, taking big dividends but not adding value. We wanted to leverage the financing differently. We know our business inside out. The business has evolved, it was expanding, it was a simple, strategic move.

(Wholesale/retail, East)

A larger business had adopted a similar approach in planning for the owner/manager's retirement. His daughter has a degree related to its technical side, then worked for four years in a business in a similar line, and is now working in the family business, with her father trying to bring in a range of external newcomers to support her:

I'm keen to surround her with external influences to help her develop. We've appointed a non-exec chair to our board, a head of production via a headhunter...and we're talking to someone about heading up retail and looking for a new FD.

(Manufacturing, North East)

Others expressed similar enthusiasm for the next generation getting outside experience and working in the business, but also pursuing their own course, facilitating the handover and continued development of the business. This shows a more open and diverse appreciation of the socioemotional wealth inherent in the business, as opposed to the more restricted and conservative view which was found in other businesses:

When she first arrived I said 'be yourself, not my daughter, develop the company!' She's bright – she got a first in business management, some of the stuff makes my eyes go round; she worked for a blue chip on her placement – so it's all been very good. She has fresh ideas, she knows the business well... she has ambitious plans for expanding, as young people do.

(Leisure, South East)

8 Strategies and objectives

This section looks in more detail at the specific strategies and objectives used by family businesses, and how their status as a family business may affect them.

8.1 Reconciling family and business objectives

The overriding business objective for most interviewees was to attain long-term stability, following a preference for preservation of longer term socioemotional wealth; this in turn determined how more specific objectives were set. A preference for longer term, slow growth, a lack of debt or dividend repayments and financing of growth from retained earnings allows the business to build up family wealth, and (as several put it) a business which is cash-rich for its size or 'financially cushioned'.

We rely on retained earnings, it's definitely our preference. We're cautious to the point of paranoia; we'd rather not be saddled with debt. We rent our premises – that's a risk thing – if we need to switch the tap off, we want to be able to do it very quickly. We've always wanted that flexibility, for the business to increase or reduce its infrastructure as needed. How quickly can we claw things back if we need to?
(Wholesale/retail, East)

This approach increases the odds of survival in less profitable years and preserves the business, in order to continue to generate income and wealth. In terms of financial strategies, the majority reported that they did not use loans unless they seemed unavoidable, preferring to 'live within their means' for the small amounts of investment they need. The larger the business or where business was more variable or seasonal, the more open they were to loan finance or the use of overdrafts, although they would always seek terms which would minimise risk:

At the start, we said we would fund all improvements from retained earnings. We would only borrow money if there was an opportunity to buy more land. We have bought more and it is a good insurance policy to be able to sell if our backs are up against the wall. If we have a bad winter we'd sell the house we bought! I think the main 'family difference' is that they're not necessarily in it for the money. We plough back what we get... we look at it like a way of life. No loans unless absolutely necessary.
(Leisure, East)

The avoidance of the need to aim for regular loan repayments or dividends allows a longer term outlook, which an external observer may mistake for zero growth. In fact, most noted that growth was more than acceptable, albeit within limits. As several noted, they did not want to be a large business, with the consequent increase in management burden and complexity, but were amenable to slow, organic growth which their management structure and capabilities could cope with easily. This form of 'ticking over' – with easily-managed growth pursued when the opportunity arises – fits well with family objectives of income, wealth and longer term security for current and future generations:

We all have the same goal at the end of day – to keep the business together and make some money. (Personal services, South East)

We're trying to grow the business in a risk averse way. We aim to protect the centre – any progress has to be family-related. (Catering and accommodation, South West)

Our strategy is all long term and very positive – mostly it's about fine-tuning, very marginal, maintaining position. (Wholesale/retail, South West)

For the most part, therefore, there is no clash between family and business objectives. Interviewees in smaller family businesses could not see why there would be - many had not even thought about it. This was less the case where the business had undergone generational succession, or it was likely to be imminent. In the latter case, the tensions between generations in terms of personal and family objectives had become more apparent, with the younger generation often reacting against the older in some way when they took over the business (e.g. a change in management or strategy). However, this was not universal, one second generation owner-manager of a large business that he wished to pass on to his children commented:

I look at the business as another child. The business has a right to its own ambition. I try not to prejudice that by steering it too much towards serving the family.

(Manufacturing, North East)

8.2 Growth ambition and risk aversion

There were also businesses with more defined, aggressive growth strategies which fell into one of three categories: (i) they did not see themselves as 'family businesses', and were aiming for an exit by sale; (ii) the business had been established initially with an intention to grow, with sufficient investment available from the family (and banks); (iii) succession to a younger generation had been associated with a change in strategic direction, towards growth. Usually, owners of such businesses were more highly educated, with experience outside the business, and in particular, some management experience; where a second generation owner had changed strategy, they matched these characteristics, usually in contrast to the founder. This provides an interesting rationale for facilitating a smooth succession, and 'grooming' the successor appropriately, in order to increase the likelihood of growth.

More ambitious businesses tended to be more open to using debt for expansion purposes, but the long term survival of the business remained uppermost as an objective, with relatively cautious growth strategies. This meant, for example, pursuing new markets using established skillsets and capabilities; and incremental change to existing products and services, rather than entirely new products *per se*. For example, growth plans encountered among interviewees involved diversification into a closely related business; growing by acquisition of synergistic businesses; and the very careful assessment of risk levels, with a guarantee that they will not lose too heavily in the case of failure, and that they already had sufficient funds to cover such eventualities.

The following observation, from a third generation family business owner, encapsulates well how businesses attempt to pursue a middle path, between risky growth and ensuring financial stability:

The overriding concern is to keep the business alive in the longer term. So we have a mixture of risk levels. We made a significant acquisition three years ago – a bit of a risk as you never know what you're going to find. But we had worked closely with the [acquired business] so we knew more or less what we were buying, and it has worked very well. We look at others from time to time – we nearly went for one but decided against it because of bad vibes, and we don't need to take a punt on things. That's not to say that we don't take risks at all: our business [in Asia] is growing fast and will probably double this year. There is some inherent risk in that – but the resources are in place to cover growth. We are well financed – we're not atypical of older businesses, we have a good balance sheet and very little borrowing – so we're pretty secure. You could argue that's a downside: it's a family business, it's precious to us, a 'good earner' - so we tend not to take the risks that are on offer, we don't need to.

(Wholesale/retail, Yorkshire and the Humber)

In some cases, familiness may have a more specific impact on the restriction of growth ambition, with memories of previous failures reinforcing risk aversion, constraining business growth compared with a non-family business in a similar position:

I don't want the hassle of growing. I've had to hear mum talk about the boats we used to have and she's bitter now. I don't want to be like that. So I'm wary, but I do want to keep it going.

(Construction, South East)

In addition, while most medium and some smaller businesses considered that they were able to grow (especially now that the market was picking up), many, especially smaller ones, reported that they lacked the appropriate structure and experience, and/or that it would be difficult to find staff of sufficient calibre to support growth and understand the business (noted in the previous section). There is a resistance to formulating a strategy to raise growth targets in these businesses, meaning they are unlikely to make the formative changes necessary to even plan for growth in the first place. For others this attitude extends further, such that the current business position is so marginal that being a family business may be the only thing that makes it viable

We just want to run it as we like it – very low key. Expansion hasn't appealed, we're quite risk averse – it's almost like playing at running a business, we don't want to be the next Holiday Inn. We don't rely on it to live, but it's a nice added pension pot, and it's good fun, we meet some nice people.

(Catering and accommodation, South East)

At times, I think crikey, if this wasn't a family business, would it be viable? The amount of time and effort that goes into it!

(Personal services, South East)

8.3 Quality and innovation

Among growth-oriented manufacturers, the use of high technology equipment and best practices was common, facilitating access to export markets and higher value-added orders. A small number claimed to be market leaders in particular niches. One business supplied products based on a proprietary technology (although this had not changed significantly in thirty years, so their strategy was now based on diversification of markets, rather than innovation). Similarly, a wholesaler which sourced specifically branded manufactured products overseas, based on acquired entertainment licenses, claimed to be leader in their narrow market segment. Generally, however, interviewed businesses concentrate on supplying high quality rather than innovative products, whether they manufacture themselves, or outsourced manufacturing overseas (more common). A small business in the Information sector reflected this outlook:

Overall it's the level of service and quality that we offer – there are lots of similar companies but we're very personal and determined to get it right for the client. Our work is mainly bespoke rather than off the shelf. We want them to come back.

Few businesses could thus be said to base their strategies around innovation in terms of wholly new products and processes; diversification of offerings into similar areas was common (e.g. a new type of holiday package, printing on different materials, tweaking core product ranges to appeal to a different client base).

Only three businesses had a strategy that could be reasonably categorised as innovation-led – two manufacturers and one services business. This may reflect the longer term, more risk averse strategies which predominated: a small number of businesses explicitly said that they avoided too much innovation or diversification away from their core markets, so as to better control exposure to risk. The other possibility is that innovation and exploration of other business avenues may be channelled into discrete enterprises leaving the core business largely as it is. Such a strategy effectively preserves the main source of family wealth, while exploring more risky – and potentially more lucrative – areas in a smaller, more controlled manner without exposing the family wealth.

8.4 Exporting

Exporting was fairly common amongst interviewed businesses, with most of those with the potential to export reporting some international trade. Eight reported that at least half of their turnover was derived from exporting, including three with over 90%; a further five reported that a minimum of 10% of turnover came from exports. Most had pursued an explicit export-led strategy to reach these levels. Two of the thirteen businesses with high exports had based their initial business plan on selling in the European or global marketplace, as well as the UK (i.e. born-globals) – two of which were part of a small group of interviewees, unequivocal in its denial of being a family business. One third had changed their business plans in the early years to concentrate on exports, leading to rapid growth, with their niche being to exploit 'Britishness' as the USP of relatively low value products.

A further two (currently with smaller exports) were currently pursuing an export-led growth plan, both opening offices in the Far East, in an attempt to widen the

market for their core products. Both stressed however, that the strategy was relatively cautious, and that they were limiting their overseas investments until they could assess levels of returns.

9 Insularity

Responses to questions about engagement with other organisations (networking with other businesses, use of support etc) varied substantially, with no obvious link to the family situation of the business. As might be expected, those businesses more actively pursuing a strategy based on growth, use of high technology, quality assurance etc., and/or with a more developed management structure, were more open to engagement with a wide range support. The opposite was also true – some businesses which had sought support because of a crisis had altered their strategies to become more structured or more growth-oriented.

We were advised by the Regional Development Agency to use a business consultant when we moved premises. That was seven years ago. I still see him regularly. We retain him as an adviser and he helped us to develop a three year rolling plan which we revisit constantly. We never had a business plan before. He has helped provide clarity around our ambition. We were totally blinkered in the past.

(Manufacturing, North East)

Those businesses which were happy ‘ticking over’ and/or had a less structured management layer were less open to external influences.

In total 26 businesses had not used government-funded support in the last few years (most had not used it at all, bar perhaps use of Business Link at or near the time of establishment), although some of these had made use of private consultants or mentors. A significant minority has retained consultancy support on an ongoing basis, as a ‘safe’ outside source of support or sounding board, away from family politics.

I have a business coach. He approached me – it was a cold call but it was what I wanted. The staff always tended to agree with my dad. I wanted to do things differently and to have a sounding board. I pay him a monthly fee and see him every two weeks for a couple of hours. We discuss my ambitions for the business – my life. I also attend meetings with all other coaches and their clients – we’re all similarly minded about developing our businesses.

(Construction, North East)

I have an MBA and I use an external business consultant. The senior management team have come up from the floor and struggle with my approach. Employee ideas and contributions tend to be very low level.

(Wholesaler, South West)

We were firing in all directions. We wanted to review, focus our efforts. I paid for an external consultant, we put together a three year game plan and we’ve introduced a lot of new processes. We look at it regularly; it helps with our decision-making - acts as a filter for new ideas. We’d probably like more consultancy, we need more

process – systematisation.

(Information, North East)

Several interviewees, in particular the larger businesses, echoed similar views and used long term associates as sounding boards or unofficial auditors to look over their procedures. Two had recruited such associates as non-executive directors, and a small number of others had employed people in a similar situation in senior management posts – in particular, as finance directors. Indeed, the FD position was most frequently singled out as requiring specialist skills, acquired through outside experience or training and requiring the trust of family owners. A minority however, emphasised how difficult they believed it would be for an outsider to grasp the idiosyncratic management style of a small business, and how it is further complicated by being a family business:

I'm resistant to a consultant coming in as don't think anyone would really understand it. I have a friend who we pay a retainer – he does things that are important but not urgent, things we don't get around to addressing but probably should. He says why not do this or that. And I ignore him... It's the nature of business, I'd always run it like that. If it weren't family owned, a structure would be imposed – it's so complex, customers, suppliers, stock lines... you need an overview of everything.

(Wholesaler, East)

Those businesses which had not used support had usually not looked for it, either because of shortage of time, or because they perceived that they did not need it as they were satisfied with their current position. Only a small minority dismissed government support out of hand as not suitable or of poor quality.

Approximately half of the businesses interviewed engaged with sectoral networks, and the same proportion engaged with local business networks. There was considerable overlap – 13 had made use of both types of networking, while the same number (i.e. one third of the sample) had used neither. Where local networking was used, it was only seen as an important activity by a minority, with most engaging only at an insignificant level. For the majority, sectoral networking was seen as more important.

10 Comparison with Mittelstand

Comparisons are often made between the UK's medium-sized businesses and the German Mittelstand, with the latter held up as a model for UK businesses to emulate. In some ways, the evidence shows some similarities between the two sets of businesses. For example:

- i. An emphasis on longer term objectives, stability and sustainability.
- ii. Businesses are keen to maintain a financially prudent strategy, with a preference for using retained earnings and a reluctance to lose control through allowing outside equity investment.
- iii. A strong relationship with employees is considered crucial, involving competitive wages and high levels of training, leading to high levels of staff retention.

In a number of other ways, interviewees displayed Mittelstand-like traits to a certain extent:

- i. An emphasis on quality and best practice among manufacturers, and (linked to this) openness to export-led strategies. For manufacturers (and a minority of services businesses), a high proportion of turnover derived from overseas sales was not unusual, and a small number claimed to be market leaders in their field, through their use of high tech methods.
- ii. Family succession was seen by most as the ideal situation, but in practice, many have not made succession plans, and the majority are likely to be sold rather than passed on.
- iii. There is enthusiasm for grooming family members as successors, where they have shown interest, but also openness to externally recruited managers where necessary. However, there is a reluctance to hand full management control to a non-family member, particularly an external recruited MD or CEO.

In other ways, interviewed businesses did not fit the Mittelstand profile well:

- i. Low levels of product and process innovation, with only three interviewees having innovation-led strategies.
- ii. Little use of government-funded support (the study has not examined or compared the content of support in the UK and Germany, only businesses' knowledge and uptake). Only a minority of interviewees had used such services recently; a far greater proportion indicated that they might be interested and open to using it, but have little knowledge of where to search for it.
- iii. In particular, very few spontaneously mentioned a good relationship with their bank (a few mentioned poor relationships, particularly in recent years), while the majority avoided debt finance if possible. When banks were mentioned, it was often in the context of difficulties obtaining finance, despite some longstanding relationships and, in particular, the difficulty of obtaining longer term investment finance at suitable rates rather than comments about levels of service. A number however did note that they lacked a relationship with their local bank manager, which they considered would be preferable for developing a longer term, mutually beneficial banking relationship.

One business with a good working knowledge of Germany observed:

In Germany they have banks that really understand business and the different sectors – industrial banks and agricultural banks (e.g. Kramer, Lemken). They're not just sales people and they support lots of family-owned businesses.

(Wholesale/retail, South West)

It is worth noting, however, that Germany and the UK have a very different context, particularly in terms of financial institutions (e.g. regional Landesbanken), labour market institutions (e.g. the apprenticeship system) and networking organisations (e.g. the more powerful Chambers of Commerce, with obligatory membership). Equally, the Mittelstand layer encompasses somewhat larger businesses than studied in this research, going up to 500 employees, so a direct comparison is slightly misleading. The characteristics of the medium businesses included in the sample vary substantially, from well-managed forward-looking businesses, and those performing well in niche markets, to those requiring a higher level of management training, better and more professional processes and management in general. However, most had recorded good performance and growth (and/or high profitability) in the last few years.

Thus, while comparisons of UK SMEs and midcaps to the Mittelstand may be fairly common, it is doubtful whether a wholesale transplantation of such a system would be possible or desirable. However, given the general antipathy of interviewees towards the banking system, and the financial products available for debt finance, there may be a case for reforms in this area, offering services which take greater account of the long time horizons and desire to protect family wealth in all its forms which are more typical of family businesses.

Furthermore, recent reports have indicated that UK medium-sized business and larger midcaps have been performing relatively well. For example, the UK in 2013 had a higher proportion of businesses achieving revenue growth of ten per cent or more than France, Germany or Italy, as well as a greater degree of optimism about future revenues.⁵ Research by Grant Thornton⁶ revealed a similar picture, that mid-sized businesses (50-499 employees) have outperformed smaller and larger businesses in terms of turnover growth, R&D expenditure and productivity growth, with buoyant expectations for the future, including strong expansion in exports.

⁵ Groom B and O'Connor S (2013) 'UK industry closes on Mittelstand', *Financial Times* June 27

⁶ Grant Thornton (2014) *Agents of growth: The power of mid-sized businesses*, London: Grant Thornton

11 Key findings

The evidence gathered in this research suggests that, for the most part, the challenges faced by family businesses are similar to those for all SMEs, especially those at the smaller end of the size distribution. The distinctiveness of family business compared to non-family business is slight, and is associated with some specific characteristics and aspirations – in particular, the desire to increase and preserve the socioemotional wealth of the family.

While most family businesses share some common characteristics, they are as heterogeneous as non-family businesses in most regards. Thus, they generally require a similar breadth of support to address challenges, and face the same difficulties in accessing and using support.

However, there is also evidence that distinctions can be drawn in relation to the size or ambition of the family business. There is a more substantive rationale for providing targeted support for *larger* family businesses, where the nature of challenges faced diverges from those faced by non-family SMEs to a greater extent.

For smaller family businesses there is less need for targeted support. However, the evidence suggests that there is a rationale for taking greater account of the family nature of a business in the delivery of support. The motivations of family business owners may be somewhat different to those in non-family SMEs, depending on the extent to which the owner sees it as a 'family business', and thus support delivery may well need to emphasise these slightly different aspects. The main areas where family businesses may require more tailored support are related to (i) succession and (ii) inter-family relationships (which also have some bearing on succession issues). In general, support for family businesses may be more likely to require an 'emotional' dimension.

11.1 Consultants

The findings provide only limited evidence that specialist family consultants are required. However, it is worth reiterating that – inevitably – only more stable and successful businesses were likely to agree to be interviewed by the team. None of the interviewees had used – nor expressed a desire to use – such specialist consultants; where outside consultants *had* been used, they had been consulted about a specific business problem, or for general advice, in much the same way as they would be used by non-family businesses.

However, several specialist family business consultants were also interviewed as part of the study. They tended to work with a slightly different cohort to our sample and their clients were more likely to experience family-related problems. Their client businesses were often at an impasse, as the result of family disagreements, and required more dedicated support focused on family problems.

11.2 Succession planning

Family issues are likely to be most relevant in areas of support relating to succession. For example, an accountant may help with an exit strategy, but if the strategy does not take account of specific family issues, it may well not be implemented. Succession is one of the most critical phases for a business, and failure to plan can lead to undesired outcomes – for example, sale, closure, or suboptimal succession of an unprepared successor, if planning is not undertaken in a timely fashion.

This suggests that there may be unmet and unstated demand for professional support related to succession planning. This is the case for many SMEs, both family and non-family. However, family businesses require succession planning with specific emphases on (i) inter-family relationships and (ii) family objectives, in addition to business objectives. Thus, more timely and detailed succession planning may well be required in family businesses, in particular because it must take into account the differing objectives of different generations, the relative ages of involved family members, while also recognising that passing on the business as it currently exists may not be an optimal solution – i.e. a more diverse range of options to meet the needs of all stakeholders could be considered. In addition, any succession plan needs to be flexible enough that subsequent developments within the family (e.g. young or preciously unengaged children showing an increased interest in taking over) can be incorporated.

This implies a need for nuanced and emotionally literate support to encourage owners (and possible successors) to initiate and undertake difficult conversations about succession involving all relevant family members, possibly facilitated by the support professional. This could be met through family specialists, but – given the general reluctance to engage such specialists – an alternative would be Continuing Professional Development on family business issues modules for more generalist advisers. Rather than major differences in the support supplied, this would most likely emphasise the framing of support in family-specific terms and sensitivity to possible issues.

11.3 Generational tensions

In addition to the inter-generational tensions implicit in discussions about succession planning, the evidence suggests that second generation owners often opt to pursue a more aggressive growth strategy or develop the business in new ways, which they may have felt unable to do while the business remained under the leadership of their parent(s).

As such, consultants need to be aware of the potential tensions between generational objectives while supporting the business. Again, CPD training could be a method for disseminating such information, in order to frame support in relevant terms, and anticipating and defusing potential conflicts inherent in any recommended solutions. An example would be solutions where the instincts of the next generation to 'do things differently' could be achieved while the current generation still remains in charge. This has been achieved in some of the sample, through the younger generation using a small portion of family business wealth to explore other business avenues; this permits them to undertake more risky activity but in a controlled way, while also developing their business skills.

11.4 Governance

Family businesses –in particular larger and more complex or ambitious businesses - may also benefit from support to develop appropriate models of governance. For example, such businesses in the sample reported having benefited from undergoing the process of outlining rights and responsibilities of family members, and defining who ‘the family’ encompasses, and then how the family relates to the senior management team, in terms of strategy and operations. Better governance procedures could also address the tendency to ‘take work home’, and help facilitate improved communications with non-family employees. The process of discussing governance is likely to be beneficial in itself, and may act as a ‘neutral’ way to stimulate discussions among family members. This could create the scope for encouraging family businesses to adopt procedures and processes, in order to establish a middle way between formal and informal ways of doing business.

11.5 External influences

The issue of openness to external influences is relevant to SMEs generally. However, family objectives and motivations may complicate or intensify such challenges. Thus, while there is value in encouraging businesses in general to be open to the recruitment of professional managers or becoming more aware of and using government-funded and private sector support, promoting these concepts to family businesses may be more a question of emphasising particular details and phrasing any rationales for support use in ways which may appeal to this target market, rather than developing fundamentally new strategies.

11.6 Finance

Raising finance appropriate to the needs of the business is a common challenge for SMEs in general. There is some evidence from interviewees of a finance gap, in terms of the lack of availability of patient capital. This could include loans with a long repayment term and a stronger guarantee that they will not be called in unexpectedly; or equity investment which does not require high, short-term returns or excessive investor involvement in the business – and with the option for family businesses to buy back the equity at a later date. However, the demand for such a finance scheme from family businesses should not be exaggerated; most would not necessarily be interested in growth capital, regardless of any more attractive conditions attached to it, while such a scheme would also benefit non-family businesses. A more fundamental issue is increasing the number of businesses which have ambitions to grow, which in turn could lead to greater demands for finance, whether from family or non-family businesses.

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