ERASMUS+ KA2 Strategic Partnership
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INtergenerational Succession in SMEs' Transition –
INSIST

The characteristics of family businesses and some implications for business policy

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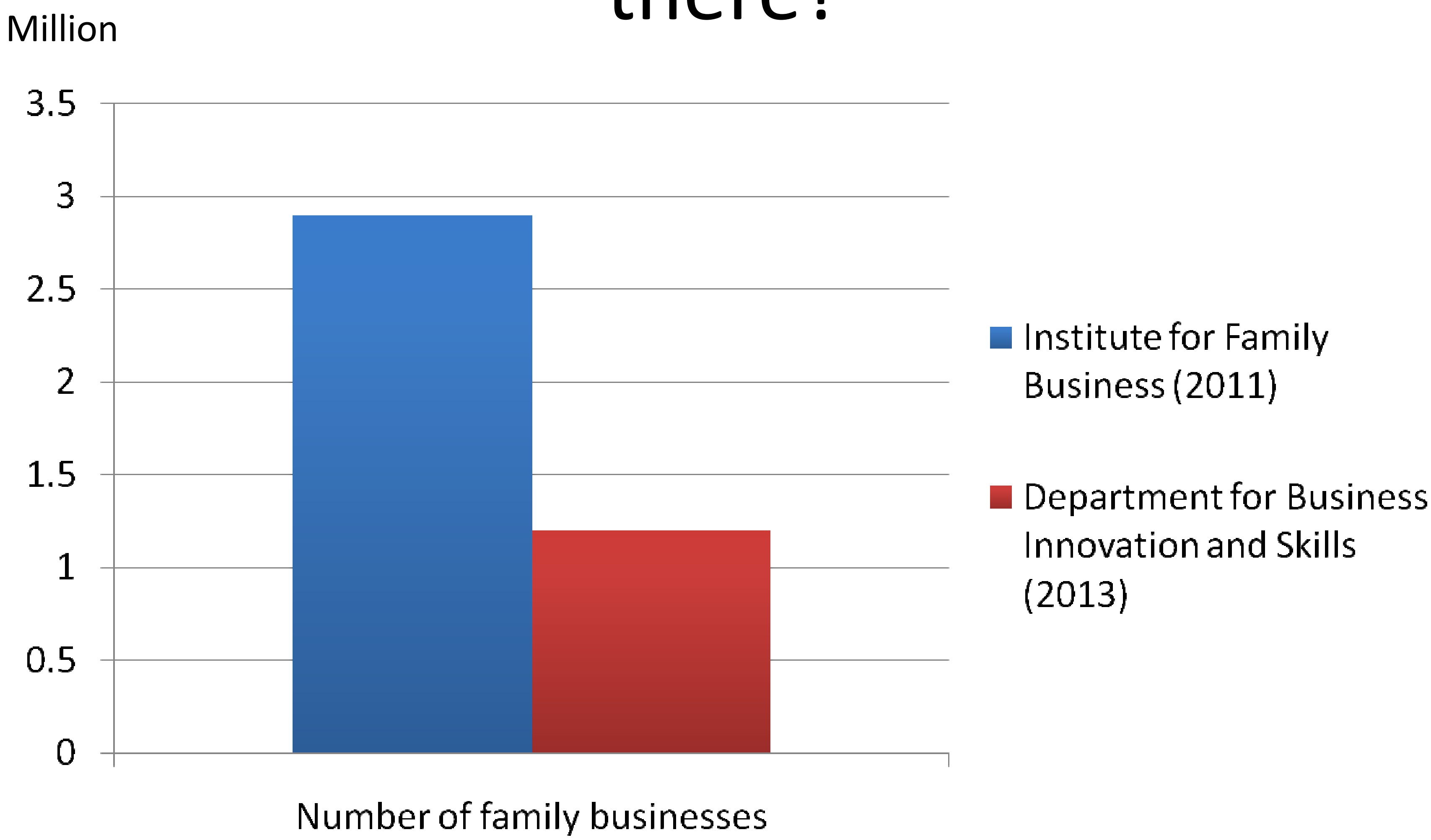
Today we will:

- Explore the characteristics of family businesses
- Use the evidence to discuss the 'problem' of succession planning
- Highlight some implications for small business policy in the UK and Europe

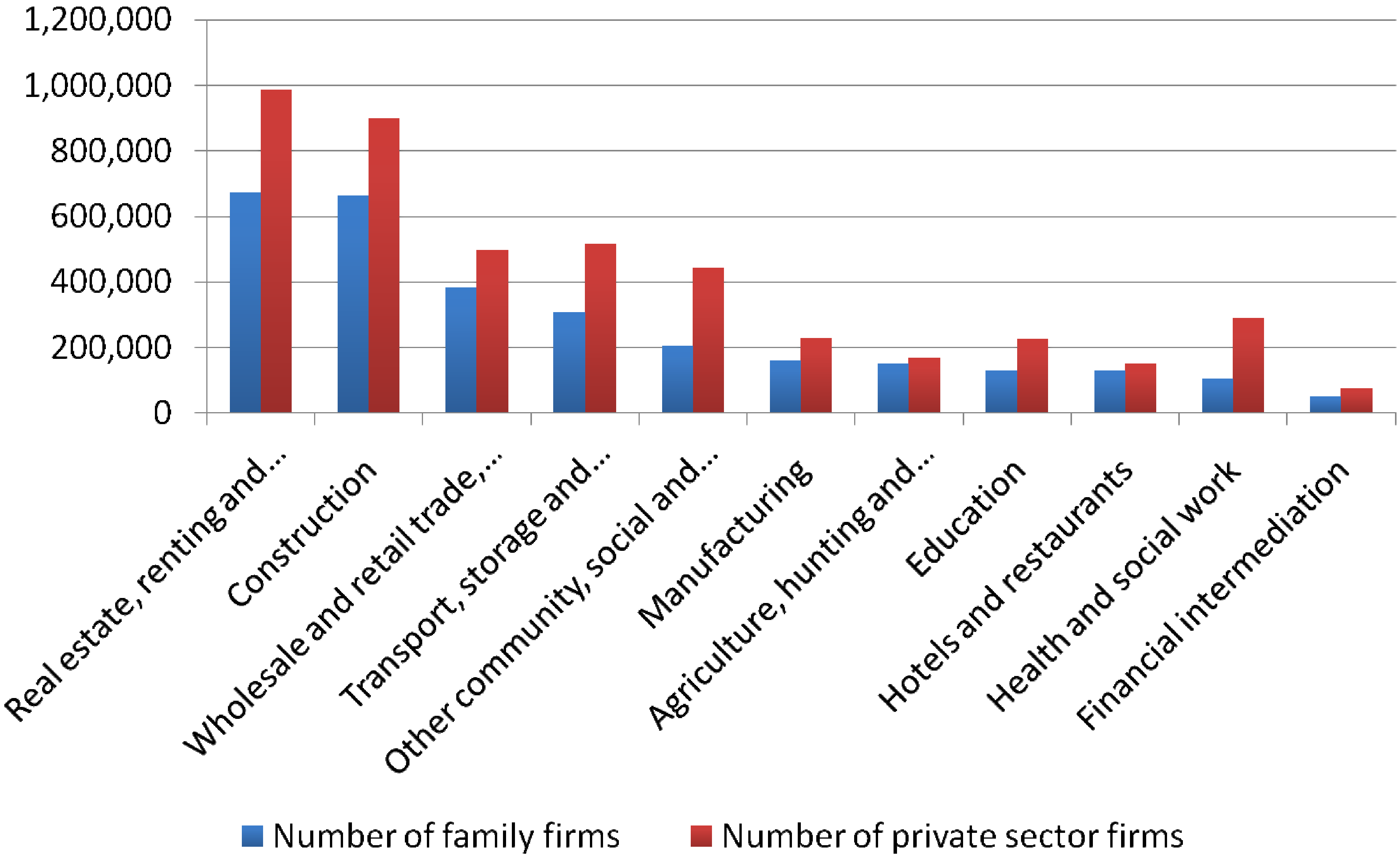
How many family businesses are there?



What is a family firm?

- No single universally accepted definition. IFB is
  - At least one representative of the family is involved in the management or administration of the firm
  - The majority of the votes are held by the person who established or acquired the firm, or their spouse, parents, child or child's direct heirs
  - For micro (typically sole traders) businesses, subjective criteria are also needed (i.e. majority owned by members of the same family) .

Which sectors do they operate in?



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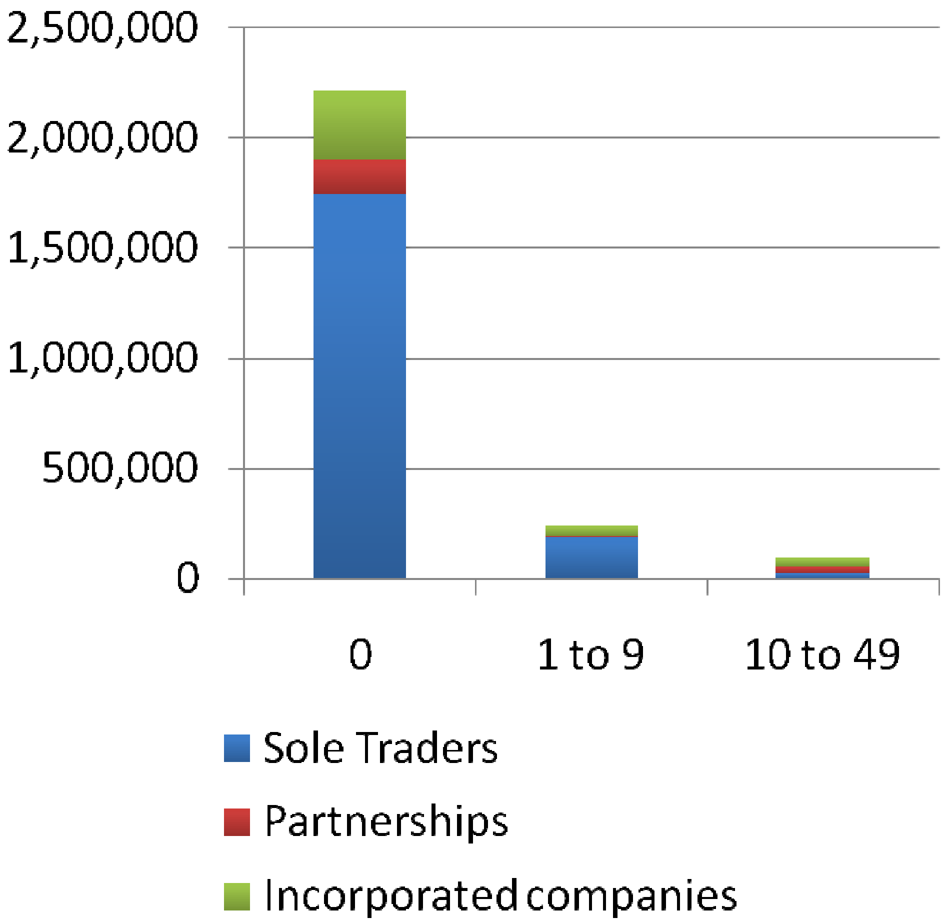
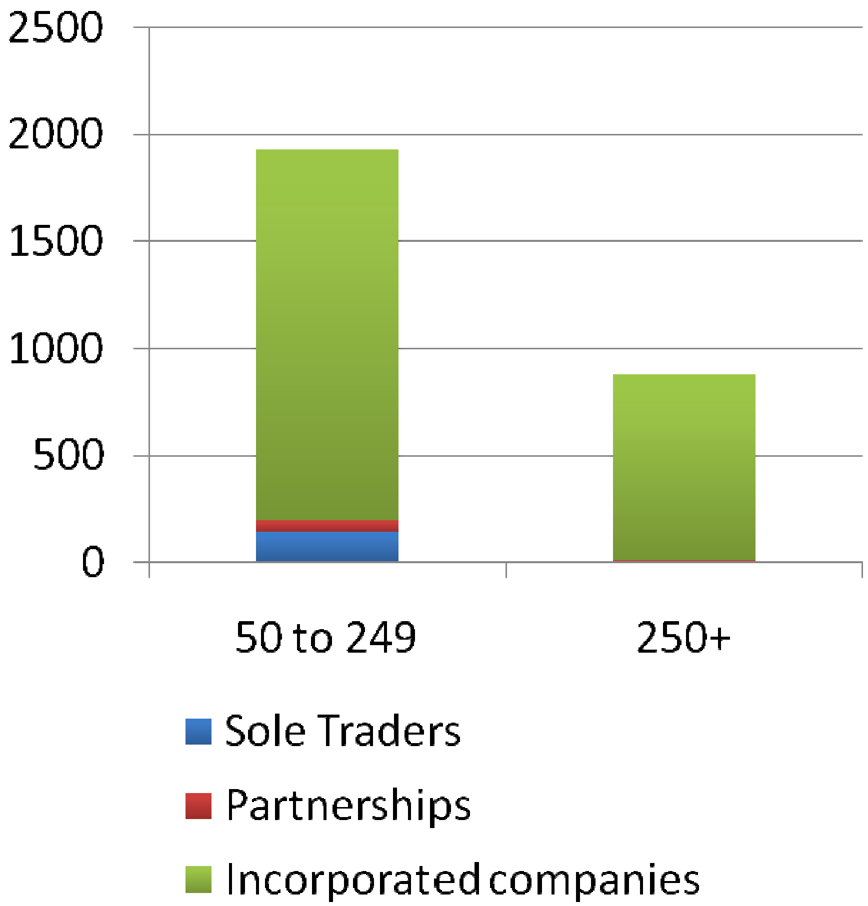




Do family businesses under or over-perform non-family businesses?

The jury is out

- They appear more durable during the recession
- Strength of the balance sheet
- They retain knowledge and social capital which is a source of competitive advantage
- Employees are more engaged

- A resistance to 'professionalisation' limits growth
- Family issues (e.g. conflicts, altruism) hold back business interests
- Lower level of risk taking and resistance to external finance limits potential for growth

Succession Planning

- 77% of family firms in the UK are owner-managed by first generation
- 10% second generation
- 6% by first and second generation

Source: DTI 2006

Prepared for succession

- Majority of family business owners (61%) have made no decision about what would happen if they stepped down from the helm – 16% had already decided on a successor (Barclays Bank 2002)
- Just 50% had made a will (Gaffney-Rhys and Jones 2013)

Succession planning

- ‘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’ (Morris 1997, p386)
- ‘Each owner-manager has his own way of looking at his firm and their view is of key importance in the succession process’ (Kraus et al 2011)

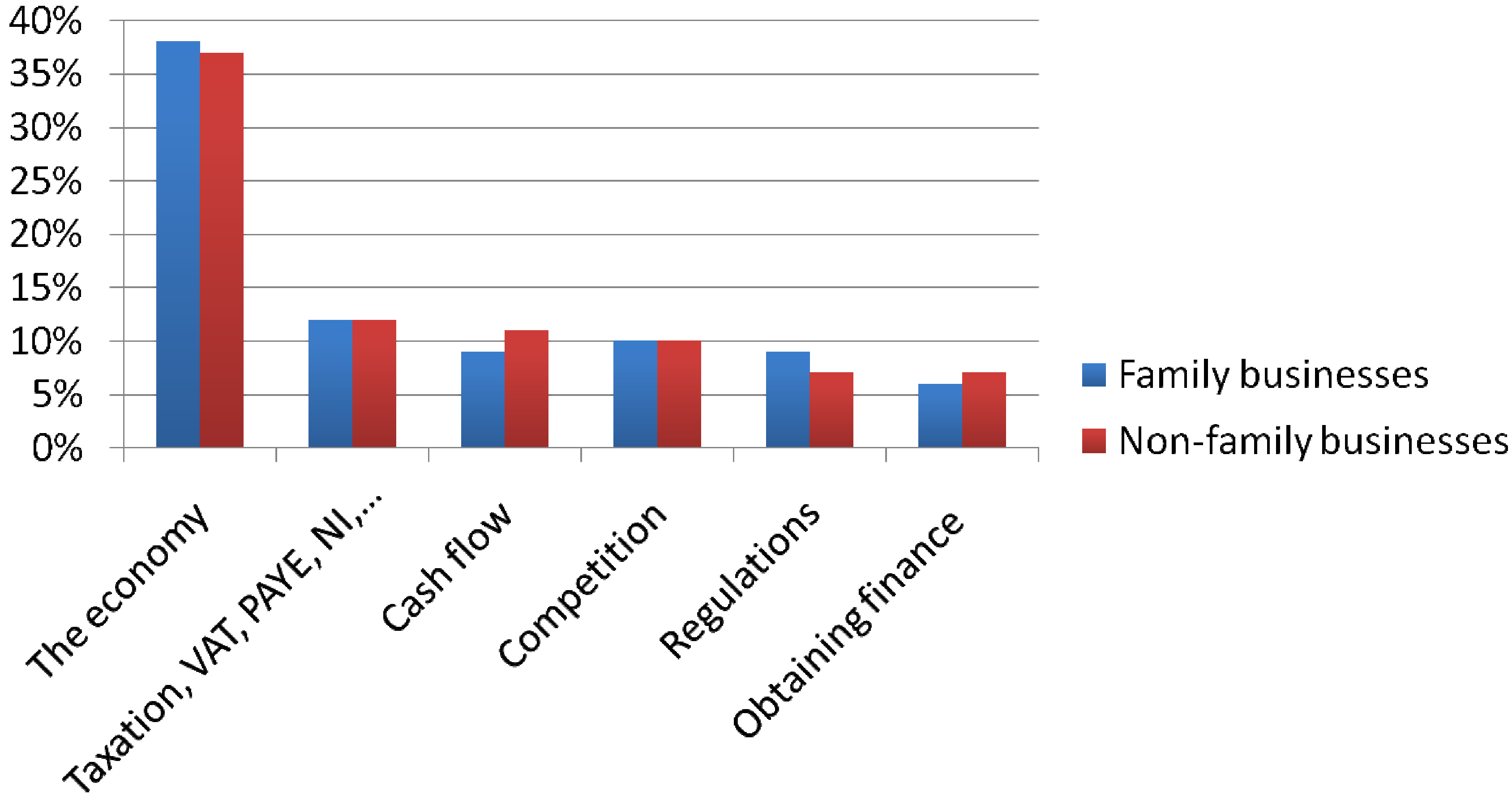
It can often be a lengthy and complex process – there are guidelines

Enabling factors

- A strategic approach – career/succession plan, transparent employment relationships/roles
- Successors need to be motivated, committed, possess suitable knowledge and skills and to be aware of their differing roles in the family business
- Use of external experts related to finance, law, inheritance, insurance and taxation
- Mentors - only 7% of family businesses use a mentor (BIS 2013)
- ‘Good’ governance
  - Formal arrangements for ownership and management; family council and constitution
  - Vision and shared values

Some policy implications

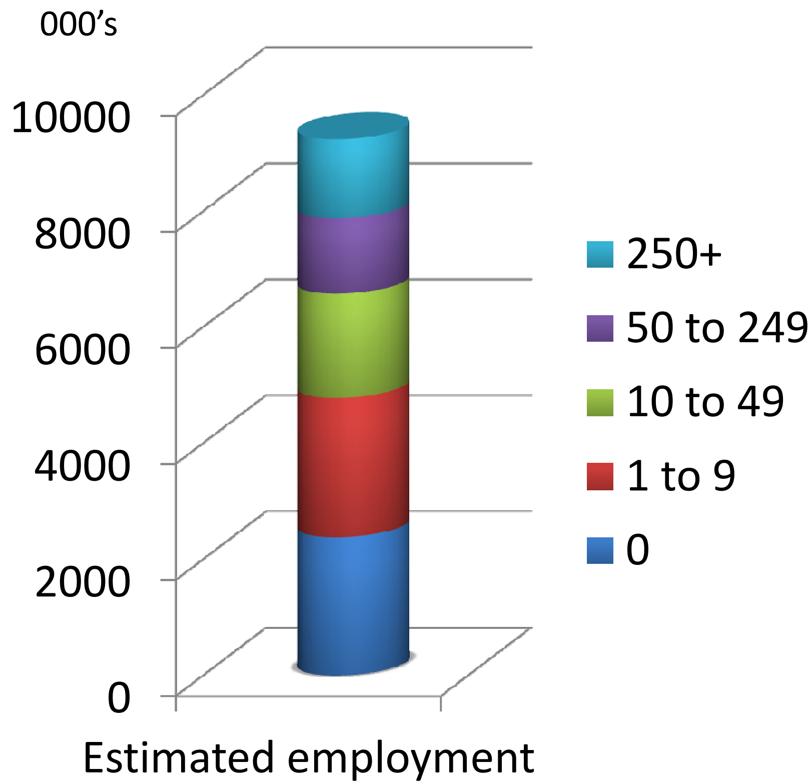
Look after the economy!



Source: BIS (2013) n=4768

Recognise the contribution that family firms make to the economy hey are a legitimate policy target

- £1.1 trillion in revenue
- £47 billion per annum to the Exchequer (almost 10% of the Governments total tax receipts)
- Employ about 9.2 million people (41% of total private sector employment)



Source: Institute for Family Business (2008 and 2011)

Recognise that family firms are different to non-family firms

- Whilst the external challenges faced by family business may be similar to many of the challenges faced by non-family firms they are different
- A major point of difference is often the desire to increase and preserve the socio-emotional wealth of the family

Source: IFB 2009

Respect their heterogeneity (Diversity)

- Family firms come in all shapes and sizes, operate in a range of sectors and have a variety of characteristics and aspirations that change over time from start ups to second and third generation enterprises
- They seldom 'speak as one' and often struggle to get their voice heard
- New ways of research and engagement are required to reflect this in policy

Recognise that whilst ‘fast growth’ of SMEs is important - so is sustainability

- The research evidence is equivocal but on balance suggests that over the longer-term family businesses are a relatively good bet to deliver growth

Targeted Intervention may be necessary - But Beware of instilling forms of dependency

- SME support structures which involve subsidised programmes of training, finance and counselling can reinforce an image of SMEs being in need of assistance from an industry of advisors and consultants
- Succession planning is one of the areas where targeted, tailored (nuanced and emotional) support is necessary to create the governance structures to secure optimal succession

Overcoming a ‘finance gap’ may be important to stimulate growth but the solution has to be in-tune with the interests of family businesses

- Need to recognise that it is very difficult to obtain views that are representative of such a broad and heterogeneous group
- Adopt methodologies that place the views of family business managers at the heart of policy design and development and which favour dialogue and co-production

Keep it simple

- There is plenty of evidence that suggests that family businesses find government provided business support difficult to navigate, confusing, hard to obtain (too much bureaucracy), intrusive, and long winded (not timely!)

‘Local’ solutions

- Intervention is going to be different in nations where governments want to achieve different policy objectives, and play different roles, the markets are in different stages of reform and economies are underpinned by different principles (e.g. Command, Market, Mixed)

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