THE STATE OF THE NATION

The UK Family Business Sector 2021–22

OXFORD ECONOMICS

IFB Research Foundation

An IFB Research Foundation Report prepared by Oxford Economics

ABOUT THE IFB RESEARCH FOUNDATION

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

The Foundation's vision is to be the UK's centre of excellence for family business research, and to this end its publications are designed to create a better understanding of family business for the benefit of all stakeholders. Alongside Family Business Research and White Papers, providing thought leadership on key family business characteristics and issues, its work covers a broad range of publications, including:

- **Family Business Sector Report** – benchmarking the size and importance of the sector.
- **Family Business Challenges** – offering practical guidance for family business owners on a broad range of topics, including family business dynamics, governance, performance, succession and wealth management.
- **Family Business Case Studies** – showcasing family business exemplars.

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ABOUT THE IFB

The IFB represents a growing body of family businesses who want to create a more prosperous and sustainable future for generations to come. The IFB advocates for family businesses, influencing the direction of policy and shaping markets; provides thought leadership and support in capacity building, leadership development, family business management; and champions and celebrates the sector through campaigns and events that increase recognition of the contribution family businesses make to their communities, and the wider economy.

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FOREWORD

A MESSAGE FROM THE CHAIR OF THE IFB RESEARCH FOUNDATION

As the UK is buffeted by fresh economic headwinds, family businesses remain the bedrock of the UK economy. This latest report from Oxford Economics and the IFB Research Foundation sheds further light on the economic impact of the UK's family business sector and how family firms fared during the COVID 19 pandemic.

During 2020-21, family businesses continued to be prominent in all sectors and all regions of the UK economy. However, the combination of the COVID-19 pandemic and Brexit presented new economic challenges for the UK's family business sector - many saw their turnover fall and had to make changes to adapt to the harsh economic conditions to survive - furloughing staff, drawing on their cash reserves, and many were forced to reduce or cease their operations altogether. It is interesting to see that debt increased by more in family firms compared with non family firms, however, my experience suggests that this may be due to taking on cheap, available government funding as opposed to just need. Perhaps not surprisingly, given their longer term outlook, family businesses retained employees at a higher level than their non-family counterparts despite their trading reducing by more. Family firms may therefore be better positioned to weather the storm than others and this Report looks at some of the strategies they used to stay afloat.

While most family firms were optimistic about future growth coming out of the pandemic, there are new challenges facing them since this research was carried out, including high inflation and soaring energy costs. What this report shows us though is how many family businesses remained resilient during the COVID-19 crisis and how they were preparing for future challenges.

The Report highlights the vital contribution that large that family firms make to the UK Exchequer and employment, at a time when public sector finance has been under severe pressure. The Research Foundation is collaborating with PwC on a major tax study of UK family firms—our upcoming report on Total Tax Collected by UK family firms will provide new insight about the contribution the sector makes to the UK economy. If you have not already done so, please do sign up to participate in this important study.

I hope you enjoy reading the report.

Sir Michael Bibby
Chairman, IFB Research Foundation

CONTENTS

EXECUTIVE SUMMARY 1

1. INTRODUCTION 4

1.1 What is a family business? 4
1.2 Key terms used in this report 6
1.3 Report structure 6

2. PROFILE OF UK FAMILY BUSINESSES 7

2.1 How many family businesses are there? 7
2.2 How are family businesses organised? 8
2.3 In which sectors did family businesses operate? 10
2.4 Where were family businesses located across the UK? 11
2.5 In what type of family businesses was employment concentrated? 13
2.6 What was family business turnover and GVA? 14

3. THE IMPACT OF THE COVID-19 PANDEMIC ON THE UK FAMILY BUSINESS SECTOR 17

3.1 What was the impact of the COVID-19 pandemic on SMEs' operations, and what was their response? 17
3.2 How firms and their staff responded to the COVID-19 pandemic and the associated restrictions 20

4. FAMILY FIRM PERFORMANCE DURING THE COVID-19 PANDEMIC 28

4.1 How has the profile of family businesses changed over the past year? 28
4.2 What was the national impact on family business employment? 30
4.3 What was the national impact on family business turnover? 32
4.4 What was the turnover impact of the past 12 months on family SMEs? 34
4.5 What was the employment impact of the past 12 months on family SMEs? 36
4.6 How have family firms changed the goods and services they offer? 37

5. THE EXPECTATIONS OF FAMILY FIRMS 39

5.1 What were SME family firms' expectations when surveyed? 39
5.2 What are family firms' plans for growth in the future? 40
5.3 What major obstacles did SMEs say they faced in 2020? 42
5.4 Family firms' access to external finance 44

6. PREPARING FOR FUTURE CHALLENGES 46

6.1 Diversity in Family SMEs 46
6.2 The impact of Brexit on the family business sector 48
6.3 How are family businesses considering energy usage? 50
6.4 Technology adoption in family SMEs 51

7. CONCLUSION 54

Endnotes 55
Bibliography 56

EXECUTIVE SUMMARY

UK FAMILY BUSINESSES REMAINED THE BEDROCK OF THE UK ECONOMY IN A DIFFICULT YEAR

Whilst 2020 was a challenging year—with businesses buffeted by the dual headwinds of the COVID-19 pandemic and the UK leaving the European Union—family businesses remained the bedrock of the UK economy. In 2020, family businesses comprised 4.8 million firms, generated £575 billion in gross value added (GVA) contribution to UK GDP (gross domestic product), and employed 13.9 million people. This means that family firms comprised 85.9% of all UK firms, directly generated 44.4% of GDP, and were responsible for 51% of all private sector employment in the UK economy in 2020.

FAMILY BUSINESSES FARED SLIGHTLY WORSE THAN THE PRIVATE SECTOR AS A WHOLE

The combination of the COVID-19 pandemic and Brexit presented new difficulties and opportunities for the UK economy. During this period, many businesses were shuttered, economy-wide GDP declined by 9.3% in real terms, and 26% of employees were furloughed (ONS, 2022a).

Family businesses as a group performed slightly worse than the private sector as a whole. The number of firms in the whole economy declined by 6.5% between 2019 and 2020, whilst the number of family firms declined by 6.8%, largely driven by the large number of micro businesses without employees that had an especially challenging year. Family business turnover and GVA declined by an estimated 9.6% between 2019 and 2020, 0.3 percentage points less than the UK economy overall.

THE COVID-19 PANDEMIC AND BREXIT HAD SEVERE CONSEQUENCES FOR SOME FAMILY BUSINESSES

Family businesses, like their non-family counterparts, were sometimes forced to take severe measures in response to the challenges posed by the COVID-19 pandemic and Brexit. The latest Longitudinal Small Business Survey (SBS), published by the Department for Business, Energy and Industrial Strategy (BEIS), indicates that nearly one-third of family businesses closed down completely at some point during 2020. During the same period, almost half (46.5%) of family SMEs with employees reduced their operations.

FAMILY FIRMS ALSO ADAPTED TO THE CHALLENGES OF 2020

Some family firms were better positioned than others to adapt to the unique problems posed by the challenges of 2020. For example, data from the SBS indicated that 57.4% of family SMEs with employees said they had changed their ways of working in response to the pandemic. This took many forms depending on the type of business and sector, spanning a spectrum from new cleaning and ventilation initiatives to staff working from home, holding meetings online, and juggling childcare duties when schools were shut.

As is common in recessions, cashflow was an important concern for family businesses. Nearly one-half (45.3%) of family SMEs with employees said they drew on their cash reserves to stay afloat during this difficult period, according to data from the SBS. Meanwhile, 39.2% of family SMEs with employees increased borrowing in response to the pandemic, which was notably higher than for non-family firms (23%). Some 31.8% of family SMEs with employees in the UK postponed investment, a decision which may unfortunately reverberate in the future in the form of reduced productive potential. Family SMEs with employees were more likely than their non-family counterparts to undertake financial trading responses in response to the restrictions, whilst non-family SMEs with employees were more likely to change their ways of working.

FAMILY FIRMS SHOWED RESILIENCE IN MAINTAINING STAFF NUMBERS DURING 2020

Whilst family businesses were more likely than non-family businesses to report decreases in turnover in 2020 compared with the year prior, family firms were less likely to report reductions in staff. Overall, 57.5% of family SMEs with employees reported decreases in turnover (compared with 54.5% of their non-family counterparts). However, just 32% of family SMEs with employees reduced their paid staff headcounts in 2020, compared with the higher figure of 38.8% of non-family firms. Across all employers, family SMEs with employees used the furlough scheme at about the same rate as non-family SMEs with employees; however, the rate of firms that furloughed employees was higher in small- and medium-sized family firms compared with their non-family counterparts.

FAMILY FIRMS ARE OPTIMISTIC ABOUT THE FUTURE BUT CHALLENGES LIE AHEAD

As the UK economy begins to emerge from the COVID-19 pandemic, family businesses are taking stock of the new business conditions in the UK. They are considering how to recover from the pandemic-induced recession and learning to work under a changed trade relationship with Europe.

For many SME family businesses, the outlook is bright. Overall, just over three-quarters (77.1%) of family SMEs with employees aim to grow their sales over the next few years, according to survey data. They plan to do so by increasing the skills of those they employ (stated by 61.2% of family business respondents), recruiting new staff (51%), adopting new workplace practices (37.8%), and developing new products and services (35%).

As the UK has left the European Union, the most common complaint cited by family firms is increased trade frictions with what remains, as a block, the UK's largest trading partner. In 2020, around one-third (34.2%) of family businesses with employees said the increased cost of imports from the EU was an issue for them, whilst 13.6% said the same about increased costs of exports to the EU. That difference reflects that for many family firms, the EU is an especially important source of inputs.

FAMILY FIRMS ARE ADDRESSING KEY ISSUES BUT MORE WORK REMAINS TO BE DONE

Looking beyond the pandemic, family firms will need to adapt to a changing workforce, policies, and regulations to tackle climate change and other environmental challenges, and a rapidly evolving technological landscape.

There is evidence the workforce of family businesses is already more diverse than non-family businesses in some areas; for example, 17.7% of family SMEs with employees were women led in 2020, compared with 13% for non-family SMEs with employees. The proportion of family SMEs with employees led by women has increased since 2017, when it was about 13.5%. In addition, they were also more often led by someone from a minority-ethnic group compared with non-family SMEs with employees; in 2020, 6.5% of family SMEs with employees were minority-ethnic led, compared with 5.3% of non-family SMEs with employees.

With energy prices rising sharply in the UK in 2022, the way family businesses use energy may be an important determinant of their ongoing success. Evidence from the 2020 SBS indicated that family businesses had been adopting energy-saving measures over the 12 months preceding the survey, mostly due to their desire to realise cost savings. Some 49.9% of family SMEs with employees that introduced energy-efficiency measures did so to save costs, compared with only 16.5% who stated it was to do with concerns about climate change, the environment, or their reputation.

The picture when it comes to the use of technology by family firms is mixed. Family SMEs with employees are taking up accountancy software about as frequently as non-family SMEs with employees, but there is considerably more scope for them to adopt human resources management software. Whilst 27.3% of non-family SMEs with employees used human resources management software, only 17.1% of family SMEs with employees did so. Taking advantage of automated scheduling and payroll features could provide substantial productivity gains, especially for mid-sized and larger family firms.

OVERALL PICTURE IS OF A CHALLENGING YEAR, BUT WITH OPTIMISM ABOUT THE FUTURE

This report demonstrates that family businesses—like the UK economy overall—experienced a challenging year in 2020. At the time when they were surveyed, family businesses understood there would be upcoming changing business conditions due to Brexit, technological disruption, climate change concerns, and a competitive recruitment environment where diversity was likely to become an increasingly important priority. Yet people who run family SMEs were optimistic. Many anticipated growth in products, services, and revenues over the short-term future. Whilst additional pressures from rising energy prices, inflation and supply chain constraints have emerged since the firms were surveyed, what was clear was that family firms' performance in the face of the hard times of the pandemic and Brexit showed resilience and promise.

1. INTRODUCTION

Family businesses in the UK— like all firms in the UK— have undergone substantial changes and experienced extraordinary challenges during the combination of the COVID-19 pandemic and Brexit. The pandemic has buffeted the world since March 2020, and the headwinds of Brexit began when the UK formally withdrew from the European Union in January 2020, with the transition period ending in December 2020.

During this period, family businesses in the UK's manufacturing and construction sectors needed to adapt to shifting supply chains and patterns of trade, especially with other European countries. People who worked for family businesses in the professional and information services sectors learned to work from home, conducting meetings online whilst juggling domestic and family responsibilities. Family businesses that provided essential services—such as agriculture, transport, healthcare, wholesaling, and retailing—continued to operate, but under a cloud of uncertainty about the nature of the pandemic threat that required nimbleness in adopting the most up-to-date safety precautions to protect staff and customers.

At the time of writing, some of those challenges are easing: currently, all restrictions have been lifted in the four UK nations (Cabinet Office, 2022; Department of Health, 2022; Scottish Government, no date; Welsh Government, 2022). Other challenges, like those arising from Brexit, are likely to be longer lasting.

This report, commissioned by the IFB Research Foundation, analyses the state of the UK family business sector in 2020, how the sector fared during the pandemic and Brexit, and the outlook for the family business sector going forward. In doing so, we continue a decade-long collaboration between Oxford Economics and the IFB Research Foundation.

The core of our analysis uses data from BEIS' Longitudinal Small Business Survey (SBS, 2020), which are supplemented with research from a variety of sources. This SBS survey is the first since the pandemic began, and provides fresh evidence on the impact of the pandemic and Brexit on the family business sector.

1.1 WHAT IS A FAMILY BUSINESS?

We use three main data sources in our analysis which allow us to define, characterise, and analyse family businesses.

The first is the BEIS' Longitudinal Small Business Survey (SBS) 2020 (BEIS, 2021b).[1] This is an annual telephone survey of private sector businesses that have fewer than 250 employees. The survey is longitudinal and, in this type of study, researchers attempt to interview the same firms each year to detect any changes that may occur.[2]

The SBS includes a way of identifying family businesses. Businesses without owners (such as not-for-profit or public limited companies) were not assumed to be family businesses. Businesses with one owner were assumed to be family businesses. For firms with two or more owners, a question was asked ("Is your establishment part of a business that is majority owned by the person or family who set it up?") (BEIS, 2021c).[3] We used the proportion of firms in each employment size category that responded "yes" to this question to estimate the proportion of family firms among SMEs. This applied to micro without employees (zero employees), micro with employees (1 to 9 employees), small (10 to 49 employees) and medium- (50 to 249 employees) sized firms.

The second data source we used is a study by the IFB Research Foundation that sought to identify family business ownership among large UK-registered firms (with turnover of over £500 million) (RepGraph, 2020). The study estimated the prevalence of family ownership to be 19.8%. This is used as an estimate for the prevalence of family ownership among firms with 250 or more employees. This study defined a family business as a company where a family owns over 25% of its equity. However, it should be noted that the size band of 250 or more employees does not exactly map to the over £500 million turnover category. However, this is the best recent source for estimates of the proportion of family firms among large UK-registered firms that we are aware of. The family ownership definition we use in our analyses does not consider the nationality of the family (or families) who own the firm.

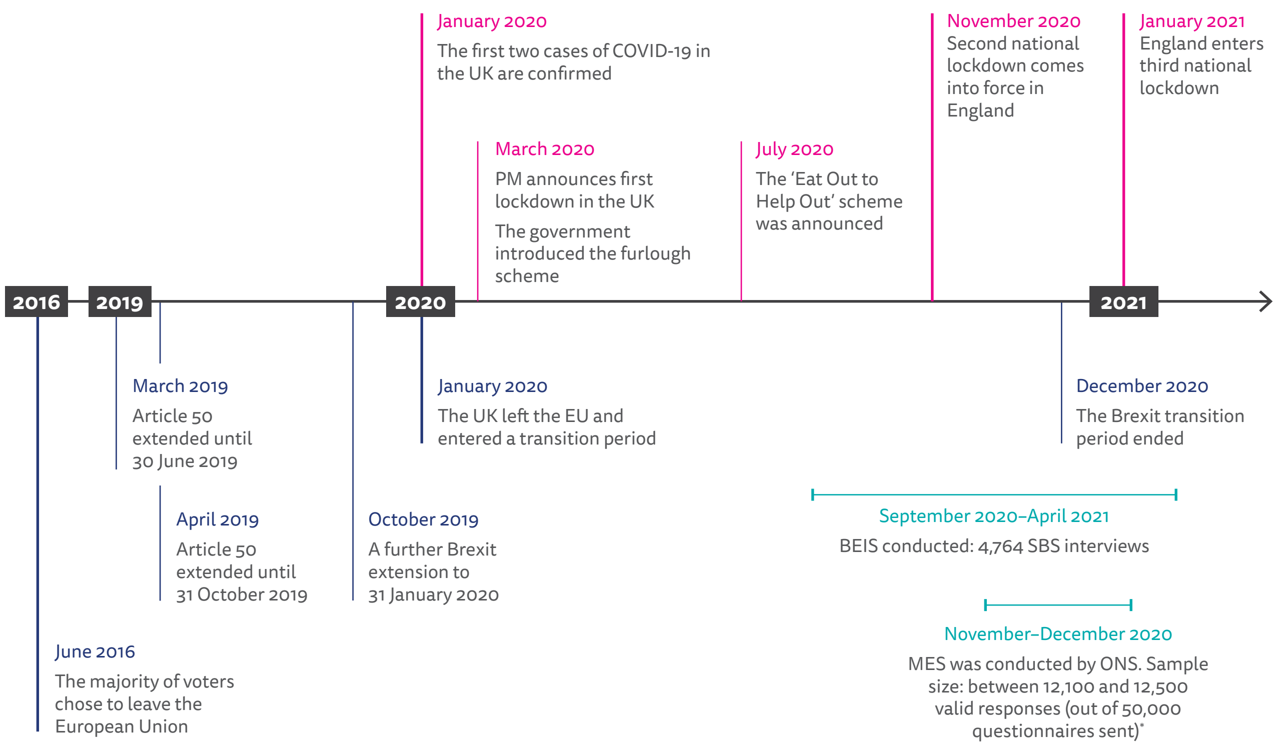
Thirdly, we used the Office for National Statistics' (ONS) Management and Expectations Survey 2020 (MES) (ONS, 2020b).[4] This was a national survey of businesses of all sizes (except micros without employees) that was created to help investigate "how management practices and uncertainty relate to productivity, as well as gauge businesses' expectations of Great Britain's economic climate in the near future". The survey collected information on firms' management practices and expectations for future growth, and some of the data were collected at two time points (2020 and 2019) in order to investigate change over time; for example, remote working and management scores. Around 50,000 British businesses in service and production industries were surveyed across all sizes. Of these there were between 12,100 and 12,500 valid respondents, giving a response rate of around 24.2%–25%.[5]

The survey included a question to identify family-owned businesses ("In 2019, which of the following applied to your business' ownership structure?)". Survey respondents were able to respond in one of the following ways: "The owner founded it"; "A relative of the founder owned it"; "A family not related to the founder owned it"; or "Not a family-owned business". In addition, firms were asked about their management structure (i.e., whether they were "Family managed" or "Not family managed"). This allowed another variable to be created concerning both family structure (i.e., both ownership and management), with firms classified as "Family owned and family managed"; "Family owned but not family managed"; or "Not family owned".

The survey also collected data on firm size, defined by number of employees (10–19, 20–49,50–99,100–249, and 250 and over). Hence, we could combine categories to make comparable size bands to the SBS—10–49 for small and 50–249 for medium-sized firms. In addition, the MES included large firms (250+) that are not covered by the SBS.

To assist the reader in making sense of the evidence presented here, the timeline in Figure 1 provides information about the surveys, as well as the key events associated with Brexit and the COVID-19 pandemic in the UK and contextualises the data collection for the SBS in relation to these events; for example, 4,764 SBS interviews were conducted by BEIS in the period between September 2020 and April 2021. In November/December 2020, the MES collected information from a sample of around 12,100 and 12,500 businesses (out of 50,000 businesses to which questionnaires were sent).

Figure 1. Timeline showing when data collection took place in the surveys used in this report in relation to Brexit and the COVID-19 pandemic



Sources: House of Commons Library (2021), Institute for Government (2021), Longitudinal Small Business Survey: SME Employers (businesses with 1–249 employees)—UK (2020) and MES (2020). *Exact number depends on variable analysed.

1.2 KEY TERMS USED IN THIS REPORT

Key economic terms used in this report include:

- **Turnover:** the value of the annual sales volume of a business, net of all discounts and sales taxes.
- **Gross value added (GVA):** the contribution a company, institution, or sector makes to GDP. It is most easily thought of as the value a firm's output is sold at minus the cost of bought-in goods and services used up in that output's production.
- **Employment:** measured on a headcount rather than a full-time equivalent basis to facilitate comparison with ONS data on employment, and it includes both employees and the self-employed.
- **Tax:** compulsory payments to the Exchequer, including corporation tax, business rates, personal income tax, and employee and employer national insurance contributions.
- **Coronavirus job retention scheme:** This government programme, announced on 20 March 2020, committed to covering "80% of the salary of retained workers up to a total of £2,500 a month" (HM Treasury and Sunak, 2020) with employers also being able to contribute to workers' salaries in addition. It was also known as the furlough scheme.

Please note that totals may not sum due to rounding.

1.3 REPORT STRUCTURE

The report proceeds as follows. Chapter 2 provides an overview of the structure of the UK family business sector, including its legal, sectoral, and geographical makeup. Chapter 3 explores the impact of the COVID-19 pandemic on how firms operated, and how they adapted to the pandemic. Chapter 4 outlines the economic consequences of the pandemic on employment and turnover, and on firms' innovation. Chapter 5 looks at firms' expectations for the future, as well as obstacles they perceive they face. Chapter 6 looks at other key wider factors that impact on family businesses now and in the future—like Brexit, climate change, and adoption of technology. Chapter 7 concludes.

2. PROFILE OF UK FAMILY BUSINESSES

As previous reports by the IFB Research Foundation have shown, family firms are the backbone of the UK economy.[6] In 2020, we estimate that there were 4.8 million family businesses in the UK, around 89.9% of all UK private sector businesses. These businesses were directly responsible for 13.9 million jobs, and contributed an estimated £575 billion to GVA. This was equivalent to 51% of all private sector employment in the UK in 2020 and 44.4% of private sector GVA that year.

In this section of the report, we discuss the number of family businesses in the UK, the sectors in which they operated, where they were located, the types of firms where family business employment was concentrated, and the size and characteristics of the contribution to economic activity that family businesses made to the UK. Where possible, we compare family businesses with non-family firms.

2.1 HOW MANY FAMILY BUSINESSES ARE THERE?

The majority of businesses in the UK are family businesses. This is highlighted in Table 1, where we estimate that in 2020 there were 4.8 million family firms; this was 85.9% of the 5.6 million firms that comprised the private sector. Most of these family firms were micro firms that had no employees (that is, they are sole individuals); in 2020 there were 3.8 million such businesses. About 89.9% of these businesses categorised themselves as family businesses.

Size of firms	Number of family firms	Share of all family firms (%)	Number of private sector firms	Family firms as a share of all private sector firms (%)
Micro (no employees)	3,752,157	74.7	4,174,920	89.9
Micro (1–9 employees)	900,856	20.8	1,162,155	77.5
Small (10–49 employees)	130,039	3.8	210,550	61.8
Medium (50–249 employees)	18,303	0.6	35,620	51.4
Large (250+ employees)	1,516	0.1	7,655	19.8
All family firms	**4,802,871**	**100.0**	**5,590,900**	**85.9**

Table 1. Number of family business sector and private sector firms in 2020, by firm size

Source: Oxford Economics

HOW THESE ESTIMATES ARE CALCULATED

Number of businesses

The total number of businesses was taken from the BEIS Business Population Estimates (BEIS, 2021a) relating to the beginning of 2021, split between zero employee, micro, small, medium, and large firms. For each size band separately, the proportion of firms that were family businesses was assumed to be the same in 2020 as in 2019. The assumed overall share of family businesses in total businesses nevertheless edged down between the two years, due to the way in which the recession hit smallest businesses especially hard.

Turnover, GVA and employment

Data from the SBS suggested that turnover fell marginally more for family businesses between 2019 and 2020 than for the business sector as a whole. Turnover and GVA for the sector were therefore assumed to fall by slightly more than the decline seen for the UK economy as a whole, in line with the SBS finding. The same was assumed for employment, for businesses in each size band. Variation by region and industry was then introduced into the picture, reflecting relative changes in UK-wide GVA and employment by industry and region, based on actual data published by the ONS, and estimates taken from the SBS, and Oxford Economics' UK Regional and Global Industry databanks (2022).[7]

As firm size increases, the less numerous they become in the UK economy. There were around 900,000 micro businesses with (1–9) employees; 130,000 small businesses; 18,000 medium-sized businesses; and 1,500 large-sized businesses. As such, micro firms without employees were the most common type of family business at 74.7% of all family firms in the UK. In contrast, small, medium, and large firms made up less than 5% of all family firms combined.

Conversely, the larger the firm size, the less likely firms are to be family businesses. This is shown in Figure 2. About 89.9% of micro-sized firms without employees were family businesses, compared with just 19.8% for large firms. The decrease in the proportion of family firms (as a proportion of all private sector firms) may be due to increased need to cede family control and bring in outside members (such as investors) to expand firms' operations.

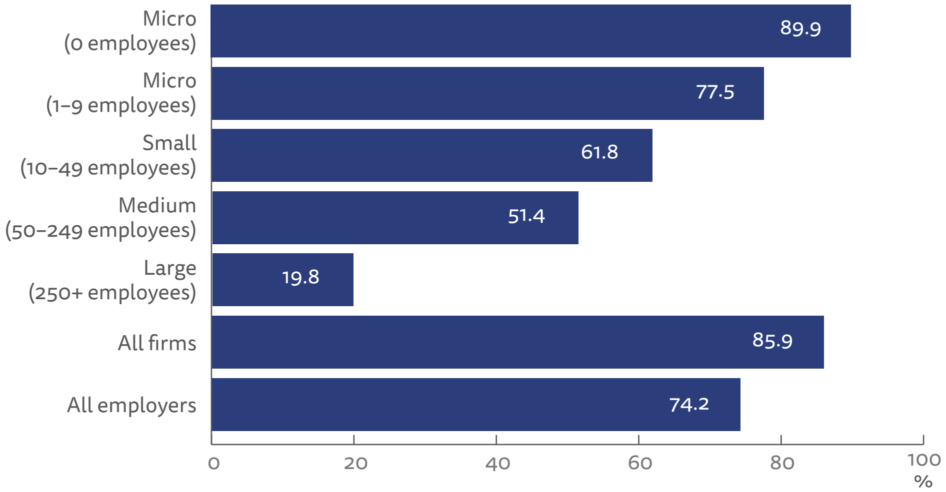


Figure 2. Proportion of all private sector firms in the UK that were family firms in 2020, by firm size

Sources: BEIS (SBS 2020; BPE 2021) and IFB Research Foundation and RepGraph (2020)

2.2 HOW ARE FAMILY BUSINESSES ORGANISED?

Family businesses were likely to place their priorities within the family. When asked about long-term goals in the PwC 10th Global Family Business Survey 2021 (PwC, 2021a), continuity for future generations appeared to be particularly important. Of the family firms that took part in the survey, 82% of family firms said protecting the business as the most important family asset was a key aim. In addition, 65% reported that they wanted businesses to remain in the family, and 64% wanted to ensure a legacy was created.[8]

Of all family firms, the majority were legally structured as sole proprietorships. This is unsurprising since sole proprietorships are the easiest form of legal structure to set up and involve little-to-no filing of documents. Micro firms without employees made up 72.4% of such firms, and when micro firms with employees are included, this rises to 93% (see Table 2). Some 33.3% of family firms were registered as incorporated companies. However, again, there was significant variation by firm size. Some 89.3% of small firms were registered as incorporated companies; this jumped up to 98% for

Table 2. Family businesses by legal structure in 2020, by firm size

Source: BEIS (BPE 2020) and Oxford Economics

Firm type	Number of firms			% Share of firms by size		
	Sole proprietorships	Partnerships	Incorporated companies	% Sole proprietorships	% Partnerships	% Incorporated companies
Micro (no employees)	2,718,342	230,938	802,876	72.4	6.2	21.4
Micro (1–9 employees)	189,008	63,172	648,675	21.0	7.0	72.0
Small (10–49 employees)	6,447	7,512	116,080	5.0	5.8	89.3
Medium (50–249 employees)	119	252	17,932	0.7	1.4	98.0
Large (250+ employees)	1	8	1,507	0.1	0.5	99.4
All family firms	**2,913,918**	**301,882**	**1,587,070**	**60.7**	**6.3**	**33.0**

medium firms and 99.4% for large firms. For firms of a bigger size, other forms of legal structure are undesirable due to tax incentives and access to finance. A nominal number of firms (6.3%), across all size bands, were listed as partnerships for family firms as a whole.

The majority of SMEs in the UK that were family owned were also family managed. We characterise a family firm as not family managed if there is a non-family director involved in the day-to-day control of the firm. Across all firms with employees, only 13.4% fitted this description (see Figure 3); 41% were non-family and 45.6% were both family owned and family managed. However, we saw variation by firm size. Half of micro firms with employees were family firms that were family managed. This dropped to 13.8% for medium-sized firms. For small- and medium-sized firms, most were not family firms, and of those that were, a high proportion said they had outside help in running the business.

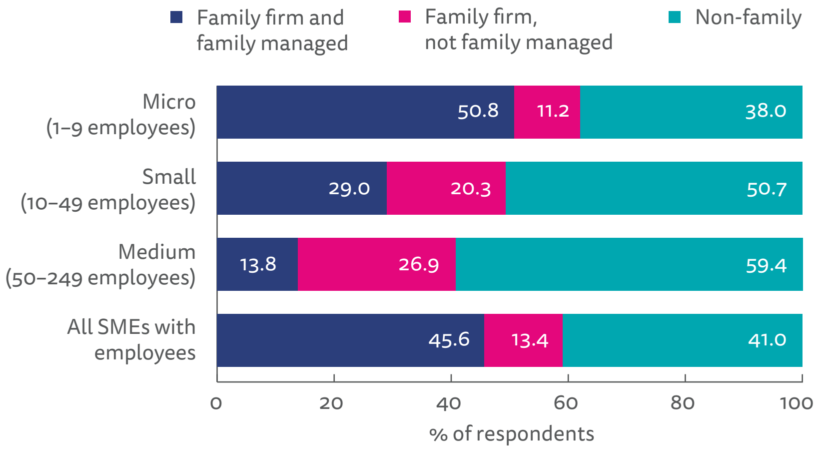


Figure 3. The ownership and management structure of SMEs with employees in 2020, by firm size
Source: BEIS (SBS 2020)

A key purpose of the MES is to learn more about firms' management practices and to measure any differences (ONS, 2021c). The survey includes sets of questions relating to four categories of firms' management practices:

- Continuous improvement and response to problems
- Whether key performance indicators were used
- Whether targets were used
- Practices regarding promotion, training, and underperformance by employees.

The responses to the questions in each of these categories are combined to produce a composite score on a scale between 0 and 1 (ONS, 2021), where 0 was the worst score and 1 the best.

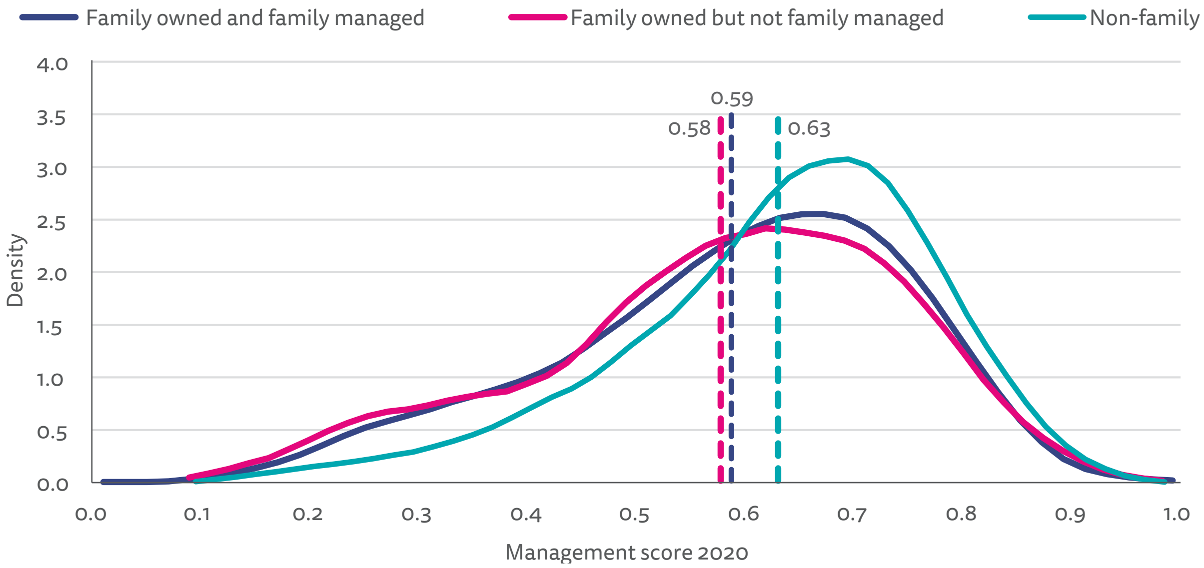
Generally, non-family firms had higher management scores than family firms. Figure 4 plots the densities of the management scores for the different subgroups of family ownership/management. Hence, the line is higher where there is a higher concentration of firms with that score. We can see that the line for non-family firms is skewed slightly more to the right than family firms (both family managed, and non-family managed), implying that, generally, non-family firms had a higher proportion of firms with higher scores. The dashed lines show the mean scores, with non-family firms having a mean score of 0.63, compared with 0.58 for family-owned and family-managed firms, and 0.59 for family-owned but not family-managed firms. Family-owned and managed and family-owned (but not family-managed) firms were more similar in their distribution, with family-managed firms having a slightly higher concentration of firms in the higher scores.

Generally, there was a slight increase in scores between 2019 and 2020, with the means for all subgroups rising by around 0.2–0.3.

Figure 4. Management scores in 2020, by ownership and management

Source: ONS (MES, 2020).

Note: Dashed lines are mean values



2.3 IN WHICH SECTORS DID FAMILY BUSINESSES OPERATE?

A key factor in understanding UK family businesses is to note the industries in which they operate. Table 3 shows the sectoral breakdown of family businesses. Just under half (43.9%) of all family businesses operated in three sectors: construction (867,000 firms, or 18%), professional, scientific, and technical services (758,000 firms or 15.8%), and wholesale and retail trade (484,000 firms, or 10.1%). The least numerous firms were in the accommodation and food services sector (166,000 firms, or 3.4%), the primary sector (170,000 firms or 3.5%), and the financial services and real estate sector (176,000 firms, or 3.7%).[9]

Table 3 shows that family firms are important to all sectors—the lowest value for family firms as a proportion of all private firms was 71.5% (in the human health and social work sector). Family firms were most prevalent in the construction, primary, and transport and storage sectors in which more than nine in ten firms were family businesses.

Table 3. Sectoral distribution of family businesses in the UK in 2020[10]

Sources: Oxford Economics

Sector	Number of family firms	Share of all family firms (%)	Number of private sector firms	Family firms as share of private sector firms (%)
Construction	866,724	18.0	912,634	95.0
Professional, scientific and technical services	757,965	15.8	848,516	89.3
Wholesale and retail trade	483,700	10.1	557,319	86.8
Administrative and support services	408,523	8.5	466,231	87.6
Information and communications	292,551	6.1	352,759	82.9
Transport and storage	286,223	6.0	310,457	92.2
Education	253,686	5.3	297,863	85.2
Other service activities	244,811	5.1	341,341	71.7
Human health and social work	242,517	5.0	339,292	71.5
Manufacturing	239,718	5.0	270,998	88.5
Arts, entertainment and recreation	214,631	4.5	278,087	77.2
Financial services and real estate	176,625	3.7	232,580	75.9
Primary	169,583	3.5	181,837	93.3
Accommodation and food services	165,614	3.4	200,986	82.4
All family firms	**4,802,871**	**100.0**	**5,590,900**	**85.9**

2.4 WHERE WERE FAMILY BUSINESSES LOCATED ACROSS THE UK?

The family business sector was not distributed evenly across the UK's regions and nations, which has important implications for how it was affected by government policy and funding, and changes affecting the UK economy as a whole (such as the COVID-19 pandemic, Brexit, and climate change). Within England, most family businesses were located in London, with around 854,000 firms (as shown in Table 4). This was over 100,000 more than the region with the next largest population of family firms (the South East at 747,000 family firms) and over 200,000 more than the region with the third largest number (the East of England with 501,000 family firms). These three regions accounted for 17.8%, 15.5%, and 10.4% of family firms, respectively.

The region with the lowest number of firms, by some margin, was the North East—123,000 firms, equivalent to 2.6% of family firms. The next highest two regions had over 200,000 more firms—the East Midlands with 333,000 firms (6.9%), and Yorkshire and the Humber at 365,000 firms (7.6%).

Family firms were overwhelmingly concentrated in England—4.2 million firms were situated in England, which is 88% of the total. The next UK nation in terms of family firm population was Scotland (287,000 or 6.0%), followed by Wales (185,000 or 3.8%) and Northern Ireland (104,000 or 2.2%).

Looking at the proportion of family firms as a share of private sector firms, family firms made up most firms within all regions, with a proportion usually well over 80%. However, there was some variation between regions. Family firms were especially prominent in the East Midlands, where they comprised around 90.6% of firms. There were also proportions of higher than 88% in the East of England and Yorkshire and the Humber. In contrast, London and the North East had a family firm proportion of 81.8% and 79.8% respectively.

Nation/region	Number of family firms	Share of all family firms (%)	Number of private sector firms	Family firms as share of private sector firms (%)
London	854,270	17.8	1,044,492	81.8
South East	746,768	15.5	875,177	85.3
East of England	501,371	10.4	567,622	88.3
South West	454,534	9.5	522,234	87.0
North West	462,631	9.6	527,671	87.7
West Midlands	386,839	8.1	445,721	86.8
Yorkshire & the Humber	365,311	7.6	413,480	88.4
East Midlands	332,688	6.9	367,382	90.6
North East	122,936	2.6	154,138	79.8
England	4,227,349	88.0	4,917,917	86.0
Scotland	286,805	6.0	342,028	83.9
Wales	184,818	3.8	207,380	89.1
Northern Ireland	103,899	2.2	123,575	84.1
UK	**4,802,871**	**100.0**	**5,590,900**	**85.9**

Table 4. Regional and national distribution of family businesses across the UK in 2020

Sources: Oxford Economics

The geographical distribution was mirrored when the analysis is broken down further into different firm sizes. Table 5 shows how firms of different sizes were distributed across the UK's nations and English regions. Once again, we saw a concentration in England in London, the South East, and the East of England, across firms of all sizes. For firms in the micro (no employees), micro (1–9 employees), small-, and medium-sized bands, the most common region where firms were located was London; for large firms it was the South East.

We also explored the geographical composition of family firms within each of the regions and nations. As expected, micro firms with no employees comprised the majority of firms within each region and nation. There was a small degree of variation in the proportions of micro firms without employees in each region/nation; the highest proportion was in London at 80.7% (Table 6), whilst Northern Ireland was the lowest at 70.8%, over 4% lower than the next lowest region or nation (West Midlands at 74.9%). Among the other size bands, there was even less variation. Most of the remaining firms were micro firms with employees, whilst large firms made up less than 0.1% in every region and nation.

Table 5. Distribution of family firms across the UK nations and English regions in 2020, by firm size
Source: Oxford Economics

Nation/region	Firm size (%)					Share of all family firms (%)
	Micro (no employees)	Micro (1–9 employees)	Small (10–49 employees)	Medium (50–249 employees)	Large (250+ employees)	
North East	2.6	2.5	2.4	3.6	3.6	2.6
North West	9.4	10.4	10.7	12.8	10.4	9.6
Yorkshire & the Humber	7.6	7.7	6.7	8.0	6.1	7.6
East Midlands	6.7	7.5	8.5	8.2	7.0	6.9
West Midlands	7.8	9.1	9.3	8.1	8.7	8.1
East of England	10.5	10.2	10.4	10.2	10.8	10.4
London	18.5	15.5	14.6	14.0	15.9	17.8
South East	15.8	14.8	13.7	12.6	17.7	15.5
South West	9.6	9.1	9.1	7.4	8.5	9.5
England	88.4	86.8	85.4	84.9	88.8	88.0
Scotland	5.8	6.6	7.2	6.8	4.8	6.0
Wales	3.8	3.8	4.1	4.0	4.2	3.8
Northern Ireland	2.0	2.7	3.2	4.3	2.3	2.2
UK	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Table 6. Distribution of family firms within the UK nations and English regions in 2020, by firm size
Source: Oxford Economics

Nation/region	Firm size (%)					Total share of family firms
	Micro (no employees)	Micro (1–9 employees)	Small (10–49 employees)	Medium (50–249 employees)	Large (250+ employees)	
North East	78.1	18.6	2.7	0.6	0.04	100.0
North West	75.8	20.4	3.2	0.6	0.03	100.0
Yorkshire & the Humber	77.8	19.2	2.5	0.4	0.03	100.0
East Midlands	75.5	20.5	3.5	0.5	0.03	100.0
West Midlands	74.9	21.4	3.3	0.4	0.03	100.0
East of England	78.2	18.5	2.8	0.4	0.03	100.0
London	80.7	16.6	2.3	0.3	0.03	100.0
South East	79.0	18.1	2.5	0.3	0.04	100.0
South West	78.7	18.2	2.7	0.3	0.03	100.0
England	78.1	18.7	2.8	0.4	0.03	100.0
Scotland	75.2	20.9	3.4	0.5	0.03	100.0
Wales	77.6	18.9	3.1	0.4	0.03	100.0
Northern Ireland	70.8	24.0	4.3	0.8	0.03	100.0
UK	**77.8**	**18.9**	**2.8**	**0.4**	**0.03**	**100.0**

2.5 IN WHAT TYPE OF FAMILY BUSINESSES WAS EMPLOYMENT CONCENTRATED?

Employment was spread uniformly across firms of different sizes. In total, family firms employed 14 million people—this was around 51% of the 27.2 million employees found across all private sector firms.[11] Most employment in the family business sector was in micro firms (without employees), consisting of around 4.1 million workers (Table 7), equivalent to around 29.6% of all family firm employment.[12] This was closely followed by micro firms with employees, with 3.3 million employees or 23.7% of all employment in family firms. The fewest number of employees was in the medium-sized family firms (1.8 million or 13%).

As with the number of family businesses, the majority of family business employment was concentrated in three sectors (Table 8). Wholesale and retail trade was the sector with the most employees (2.4 million), about 17.5% of all family business employment. This was followed by professional, scientific, and technical services (1.7 million employees or 12.1%); and then the third largest number of employees was in construction (1.5 million employees, worth 10.8%). Arts, entertainment and recreation, education, and other service activities had the fewest employees in terms of family firm employment.

Compared with the business distribution across sectors, where family firms usually made up more than 80% of private firms within each sector, there was much more variability with respect to family firm employment. Family firms were especially prominent in the construction sector, where they made up 72.3%. At the other end of the scale, family firms only made up 34.7% of employment in financial services and real estate firms; the next lowest was the administrative and support services sector, where family firm employment were 42.9% of all firms' employment.

Table 7. Employment in family business and private sector firms in 2020, by firm size

Source: Oxford Economics

Size of firm	Family firm employment (000s)	Share of all family firm employment (%)	Private sector employment (000s)	Family firm employment as a share of all private sector (%)
Micro (no employees)	4,110	29.6	4,577	89.8
Micro (1–9 employees)	3,292	23.7	4,250	77.5
Small (10–49 employees)	2,561	18.4	4,149	61.7
Medium (50–249 employees)	1,804	13.0	3,513	51.4
Large 250+	2,124	15.3	10,734	19.8
All family firms	**13,892**	**100.0**	**27,223**	**51.0**

Table 8. Sectoral distribution of family business employment in 2020

Source: Oxford Economics

Sector	Family firm employment (000s)	Share of all family firm employment (%)	Private sector employment (000s)	Family firm employment as a share of all private sector (%)
Wholesale and retail trade	2,427	17.5	4,978	48.8
Professional, scientific and technical services	1,686	12.1	2,753	61.2
Construction	1,500	10.8	2,075	72.3
Administrative and support services	1,290	9.3	3,005	42.9
Manufacturing	1,174	8.4	2,596	45.2
Accommodation and food services	1,130	8.1	2,323	48.6
Human health and social work	859	6.2	1,874	45.8
Transport and storage	802	5.8	1,581	50.7
Information and communications	745	5.4	1,444	51.6
Financial services and real estate	578	4.2	1,663	34.7
Primary	528	3.8	878	60.1
Other service activities	406	2.9	692	58.6
Education	398	2.9	606	65.7
Arts, entertainment and recreation	372	2.7	754	49.3
All family firms	**13,892**	**100.0**	**27,223**	**51.0**

Turning to the geographical distribution of family business employment, London contributed the greatest share of employment in the sector (17.6% of all family business employment in the UK or 2.4 million employees). London was followed by the South East (14.8% or 2.1 million), and the East of England (10.6% or 1.5 million) (Table 9). The region with the least number of family firms was the North East (2.8% or 392,000 employees). Family firms in England employed 12.2 million (87.7%) workers, whilst there were fewer than a million employees in family firms in each of Scotland, Wales, and Northern Ireland, which had 874,000 (6.3%), 520,000 (3.7%), and 318,000 (2.3%) employees respectively.

Generally, employment within family firms made up around 50% to 60% of all private sector employment within a UK nation or English region. For the UK as a whole, it was 51%. The lowest was in London at 43.1%—in part because the family firms in London were more likely to be micro firms without employees. The highest was in Wales at 62.4%.

Table 9. Regional and national distribution of family business employment across the UK in 2020
Source: Oxford Economics

Nation/region	Family firm employment (000s)	Share of all family firm employment (%)	Private sector employment (000s)	Share of all private sector employment (%)	Family firm employment as a share of all private sector (%)
London	2,448	17.6	5,677	20.9	43.1
South East	2,050	14.8	3,867	14.2	53.0
East of England	1,478	10.6	2,901	10.7	51.0
South West	1,393	10.0	2,556	9.4	54.5
North West	1,193	8.6	2,014	7.4	59.2
West Midlands	1,170	8.4	2,333	8.6	50.2
Yorkshire & the Humber	1,033	7.4	2,004	7.4	51.5
East Midlands	1,025	7.4	2,012	7.4	50.9
North East	392	2.8	762	2.8	51.5
England	12,181	87.7	24,126	88.6	50.5
Scotland	874	6.3	1,705	6.3	51.2
Wales	520	3.7	833	3.1	62.4
Northern Ireland	318	2.3	559	2.1	56.8
UK	**13,892**	**100.0**	**27,223**	**100.0**	**51.0**

2.6 WHAT WAS FAMILY BUSINESS TURNOVER AND GVA?

Family firms generated a large amount of turnover in 2020, around £1.7 trillion. Of this, the wholesale and retail trade sector was the highest source of turnover for family firms in 2020, generating £684 billion (or 39.3% of all family firms) (Table 10). This was followed by the construction sector, which contributed around £199 billion (11.4%), and the professional, scientific, and technical services sector at £177 billion (10.1%). Both other service activities and education generated less than 1% of the turnover of the family business sector.

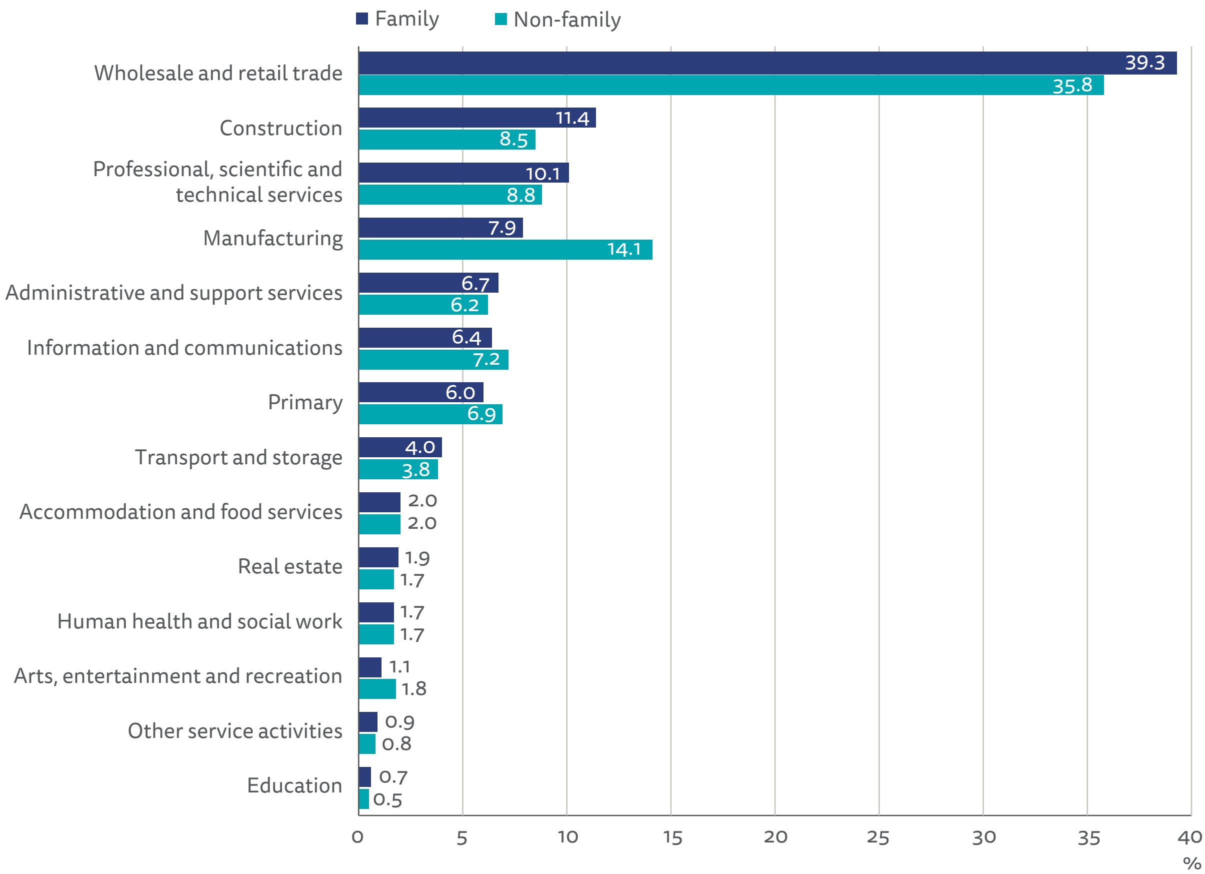
However, GVA was much more evenly distributed than turnover. In total, £575 billion in GVA was generated by the family business sector in 2020. Of this, 17.6% was generated in the professional, scientific, and technical services sector (£101 billion), followed by £92 billion in the wholesale and retail trade sector (16%). This is likely due to the small profit margins available in this sector, reducing the GVA. The construction sector was the next highest contributor to GVA at £75 billion (13.1%).

Overall, turnover was distributed across family and non-family firms in a similar manner. For both sets of firms, wholesale and retail trade generated the most turnover—39.3% for family firms and 35.8% for non-family firms (Figure 5)—whilst education generated the least. A noteworthy difference between family and non-family firms was the manufacturing sector, which accounted for 14.1% of non-family business turnover (the second highest for non-family-owned firms) compared with only 7.9% for family-owned firms.

Table 10. Turnover and GVA of the family business sector in 2020, by sector [13]
Source: Oxford Economics

Sector	Turnover (£ m)	Share of family business turnover (%)	GVA (£ m)	Share of family business sector GVA (%)
Wholesale and retail trade	683,770	39.3	91,859	16.0
Construction	198,513	11.4	75,132	13.1
Professional, scientific and technical services	176,742	10.1	101,340	17.6
Manufacturing	136,901	7.9	41,250	7.2
Administrative and support services	117,357	6.7	62,531	10.9
Information and communications	112,326	6.4	55,929	9.7
Primary	104,941	6.0	39,053	6.8
Transport and storage	69,289	4.0	30,825	5.4
Accommodation and food services	34,515	2.0	18,182	3.2
Real estate	32,470	1.9	22,521	3.9
Human health and social work	29,105	1.7	18,390	3.2
Arts, entertainment and recreation	19,840	1.1	4,482	0.8
Other service activities	15,116	0.9	8,005	1.4
Education	10,964	0.6	5,873	1.0
All family firms	**1,741,850**	**100.0**	**575,371**	**100.0**

Figure 5. Proportion of total UK turnover by sector and ownership
Source: Oxford Economics



FAMILY FIRMS AND TAXATION

The importance of public funding was amplified during the COVID-19 pandemic, with nurses' salaries, Test and Trace, and the furlough scheme all funded, in part, by tax payments. The family business sector was a critical source of government revenue in 2020. In this box, we estimate the contribution that large family firms made to UK taxation.

For large firms, total tax was calculated by using data from the 2021 Total Tax Contribution survey for The 100 Group, carried out by PwC (PwC and The 100 group, 2021).[14] Total tax borne is estimated by taking the tax borne from the PwC report and dividing this figure by their revenue (estimated from previous reports and scaled based on Oxford Economics' macroeconomic database) to calculate ratio of taxes borne as a percentage of revenue by these companies. We then apply this ratio to estimates of the revenue of large family firms to estimate total taxes borne by large family businesses; a similar method is used for taxes collected. Total taxes are the sum of taxes borne and collected.

We estimate that large family firms in the UK collectively paid around £38 billion in tax (Table 11), equivalent to about 5.1% of total UK government revenue. This was split between £12 million in taxes borne (32% of the total) and £26 million in taxes collected (68%). To put this into perspective, this was worth 26% of the NHS England budget of £149 billion for 2020–21 (Department of Health & Social Care, 2021). On a per-firm basis, large companies paid about £25 million each.

Table 11. Large family firms' contribution to the Exchequer in 2020

Sources: ONS (2022b; 2022c), PwC (2021), BEIS (SBS 2020) and Oxford Economics

	Large companies
Taxes borne (£ m)	12,242
Taxes collected (£ m)	26,002
Total tax revenues (£ m)	**38,244**
Share of government revenue (%)	5.1
Average tax revenue per firm	25,232

3. THE IMPACT OF THE COVID-19 PANDEMIC ON THE UK FAMILY BUSINESS SECTOR

The COVID-19 pandemic had a devastating impact on the UK economy in 2020 and the social and economic impact of the pandemic is still being felt. A report by Simply Business (2021) put the estimated costs of the pandemic for SMEs at £126.6 billion, with losses per firm expected to be £22,461. In this section, we use the SBS and MES to analyse the impact of the pandemic on the family business sector; as such this analysis is restricted to family SMEs only.

3.1 WHAT WAS THE IMPACT OF THE COVID-19 PANDEMIC ON SMES' OPERATIONS, AND WHAT WAS THEIR RESPONSE?

The COVID-19 pandemic had an adverse effect on both family and non-family SMEs in 2020, with a large proportion of firms surveyed in the SBS saying they had to change how they operated. Firms surveyed in late 2020/early 2021 were asked how their business adapted to the lockdown restrictions in the period from the end of March to the middle of June in 2020 (BEIS 2021c). Around 46.5% of family and 49.5% of non-family firms surveyed reported that their operations had reduced. As Figure 6 shows, around three in ten businesses fared even worse, having to close temporarily (32.6% and 27.8% for family and non-family firms respectively). These impacts were undoubtedly due to restrictions imposed by the government to control the pandemic. Only a small minority of SMEs (6.5% of family firms and 6.1% of non-family firms) saw an increase in their operations. Overall, there was no discernible difference between family and non-family firms in terms of their operations and how they were affected by the pandemic.

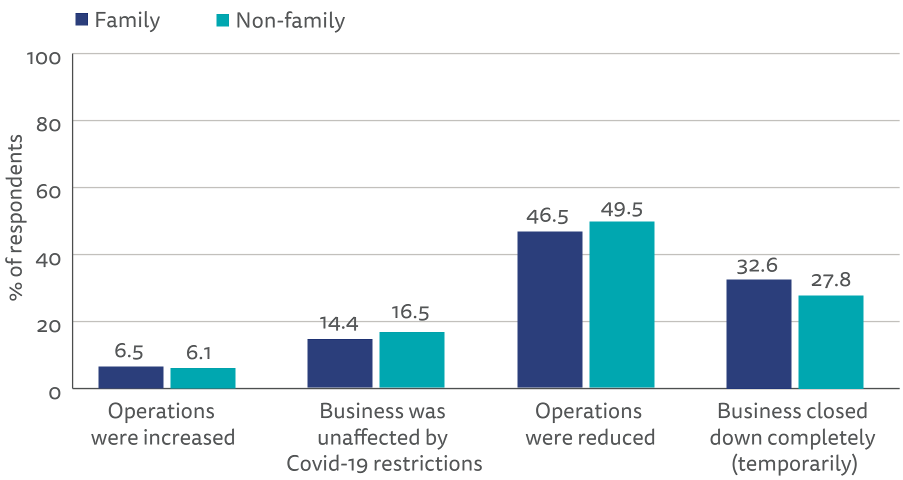


Figure 6. The impact of the COVID-19 pandemic on the operations of SMEs with employees in 2020, by ownership
Source: BEIS (SBS 2020)

Firms of different sizes responded in roughly the same manner, with most seeing reductions in operations, followed by businesses having to suspend their operations temporarily (as shown in Figure 7). The most noteworthy point is that medium-sized businesses were most likely to reduce the scale of their operations (at 56% compared with 46.5% for all SMEs), but this seemed to allow them to avoid temporarily closing (which they did at a rate of only 22.4% compared with 32.6% for all SMEs); this was also seen with non-family firms. Their increased scale of business likely meant they could resume some of their operations in cases where smaller businesses would have had to close.

The impact varied across different sectors. As shown in Figure 8, in nearly all sectors most firms either saw their operations decrease or their businesses close. The exception was the primary sector, where over 50% of firms either saw their operations increase (9.2%) or remain unaffected (45.9%). The accommodation and food sector was by far the worst affected, with close to 99% of firms reporting they were negatively affected—some 24.6% saw their operations reduce and 74.1% had to close.

Figure 7. The impact of the COVID-19 pandemic on the operations of family SMEs with employees in 2020, by firm size
Source: BEIS (SBS 2020)

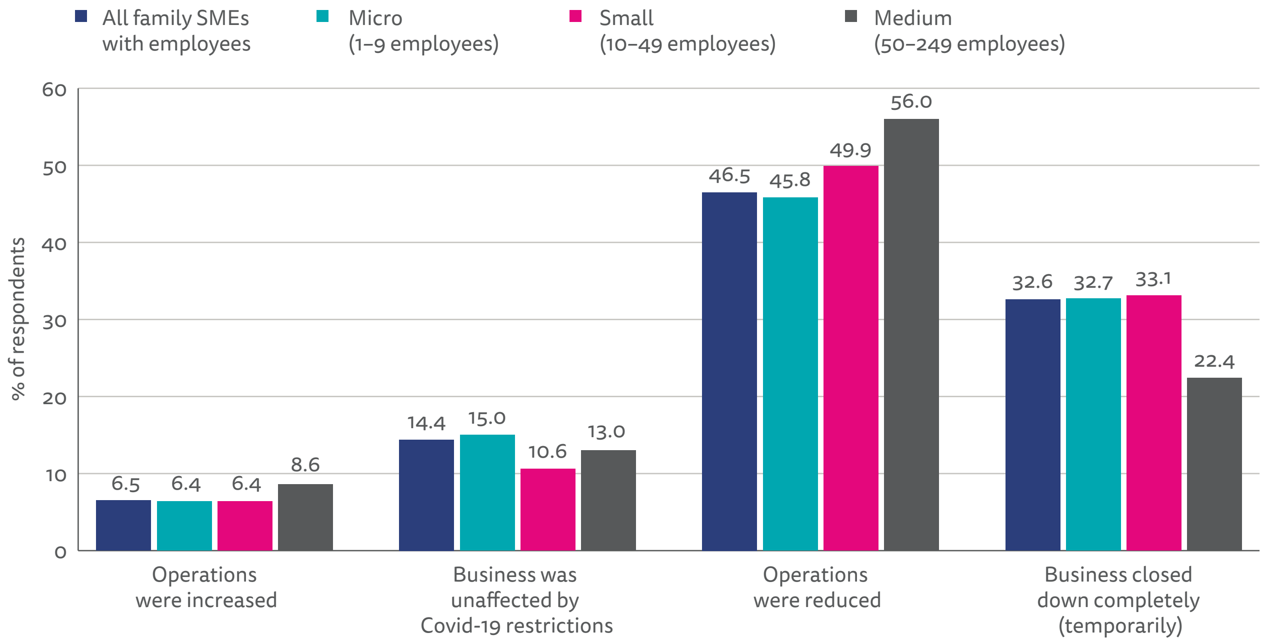
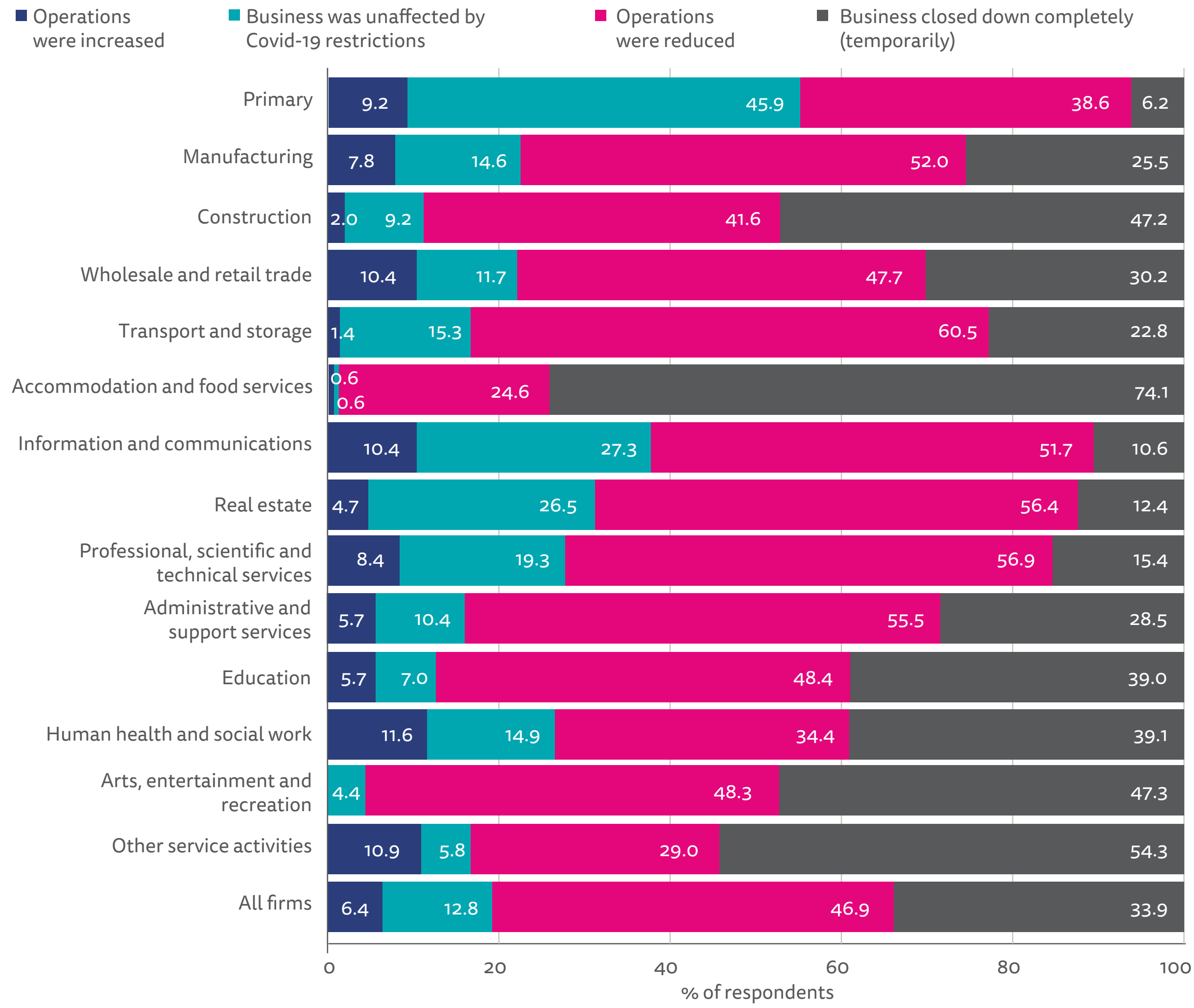
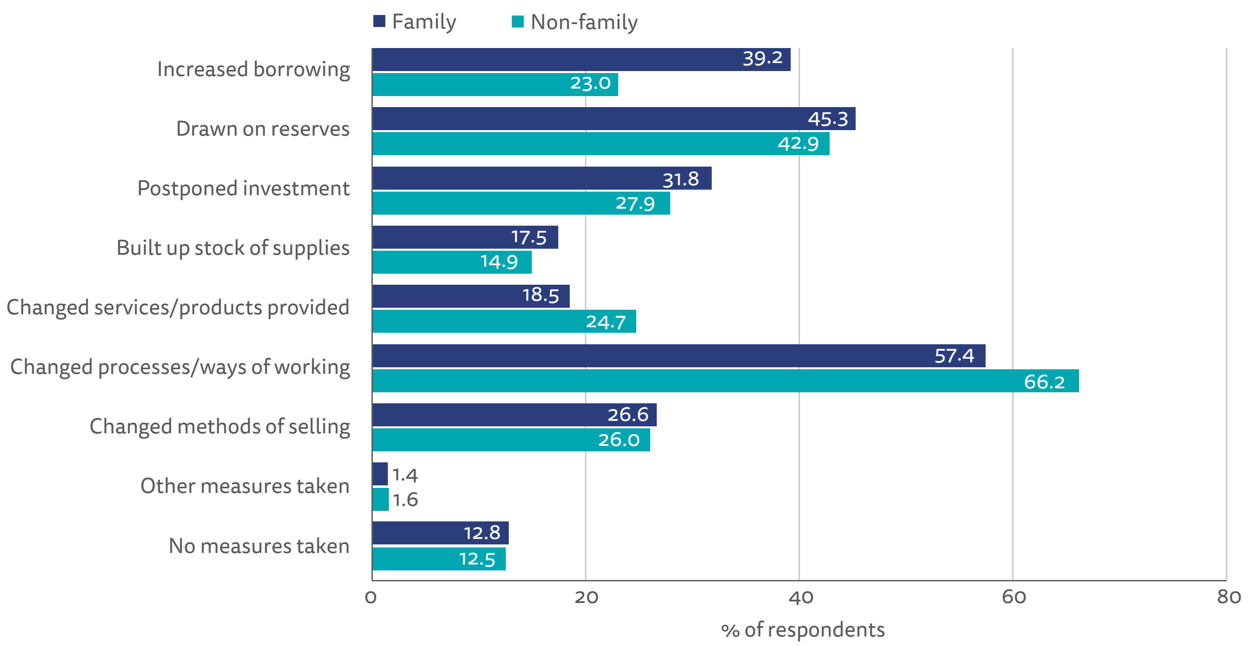


Figure 8. The impact of the COVID-19 pandemic on the operations of family SMEs with employees in 2020, by sector
Source: Oxford Economics



Firms responded in a variety of ways to the pandemic and its impact on their operations.[15] Figure 9 examines SMEs' trading responses (i.e., how they adjusted their business management in response to the pandemic). SMEs were asked to respond "yes" if they had made such an adjustment at any point during the pandemic. Most firms made some adjustments; only around 12% stated they took no measures. The most commonly reported adjustment was to change ways of working. Some 57.4% of family businesses did this, compared with 66.2% of non-family businesses. This difference may be due to the ease with which changes were possible and also the sectors in which businesses operated. The next most common response was to draw on reserves; just upwards of 40% of SMEs reported doing this—45.3% for family firms, slightly more than the 42.9% for non-family firms. The biggest difference between family and non-family firms in how they responded was in increased borrowing, which family firms did at nearly twice the rate of non-family firms (39.2% compared with 23%).

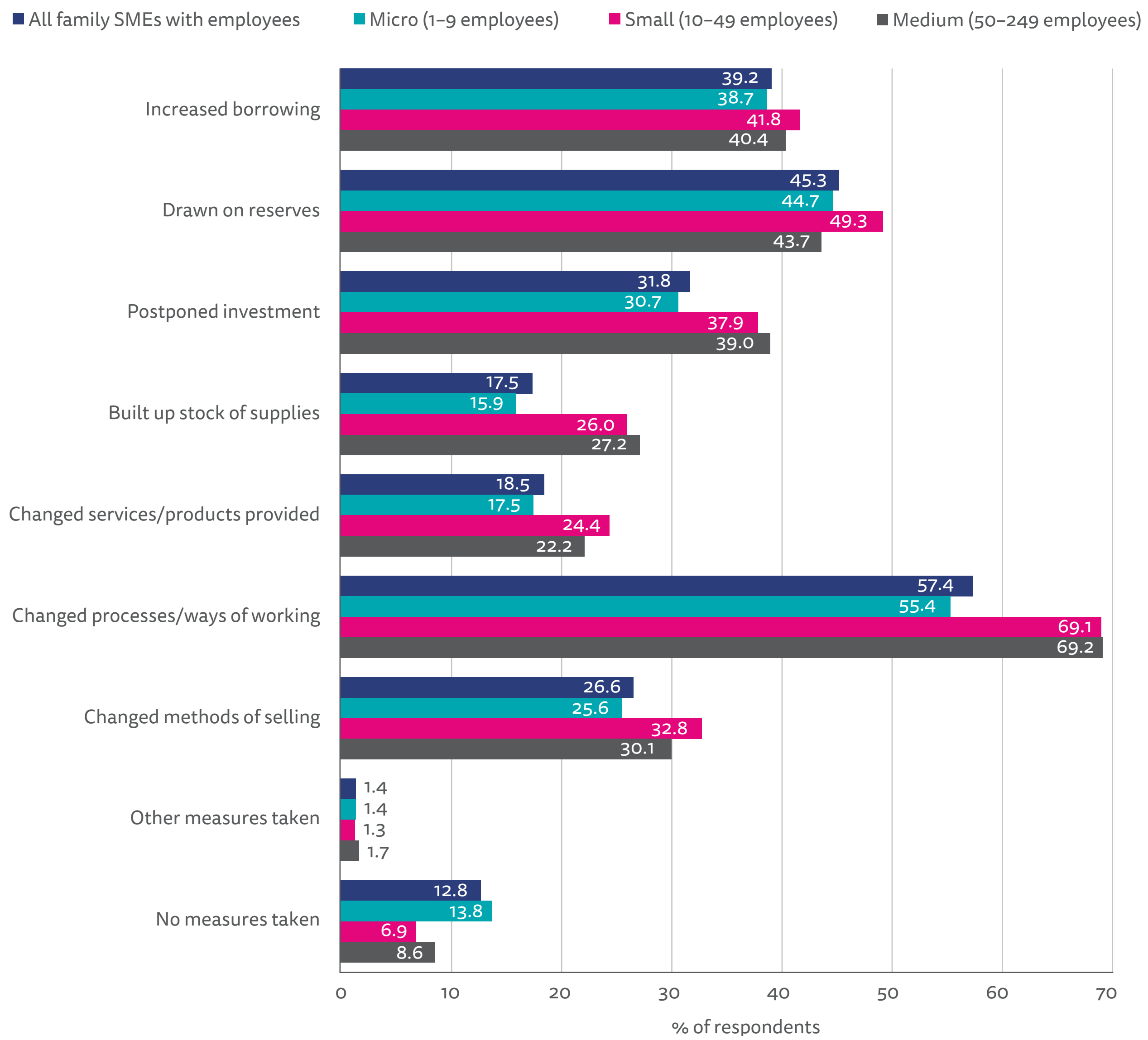
Figure 9. Trading responses to the COVID-19 pandemic among family SMEs with employees in 2020, by firm size
Source: BEIS (SBS 2020)



An analysis of trading responses among family firms by size shows that larger firms took a wider range of responses compared with smaller firms. Larger firms were more likely to change their ways of working, more likely to build up their stock, and more likely to postpone investment (Figure 10). By contrast, micro firms with employees were slightly more likely to report taking no measures; this may have been because they were unable to, or doing so would have been too costly for them.

Comparing family firms to non-family firms across all size bands, family firms were more likely to employ financial trading responses (increased borrowing, drawn on reserves, postponed investments, and building up a stock of supplies). Meanwhile, non-family firms were more likely to change ways of working, and (apart from medium firms) the services or products that they provided.

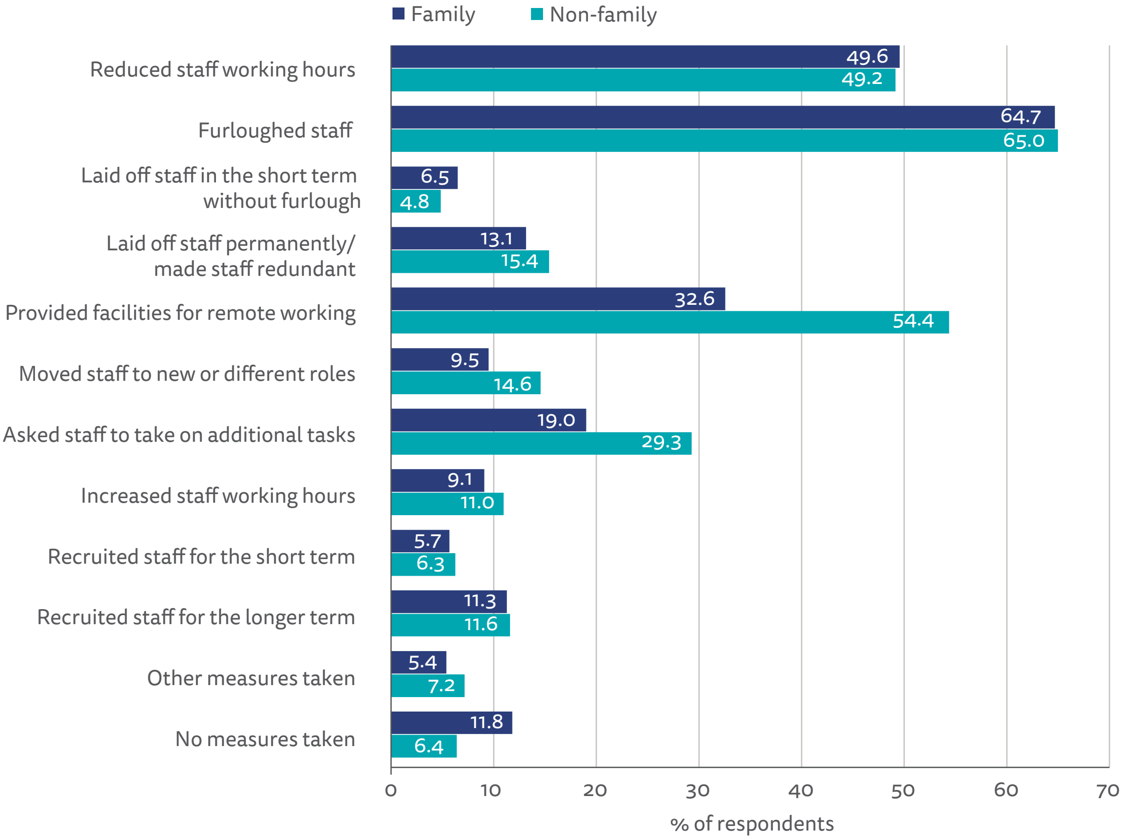
Figure 10. Trading responses to the COVID-19 pandemic among family SMEs with employees in 2020, by firm size
Source: BEIS (SBS 2020)



3.2 HOW FIRMS AND THEIR STAFF RESPONDED TO THE COVID-19 PANDEMIC AND THE ASSOCIATED RESTRICTIONS

Alongside the operational impact, many firms made staff changes to cope with the pandemic and the associated restrictions. Firms surveyed in the SBS were asked whether they had to make any staffing changes at any point during the pandemic to cope with its impact. Most of the responses indicated firms did need to make negative staffing changes, in line with the negative impact on businesses.[16] Nearly two-thirds of family and non-family firms reported that they had furloughed staff, whilst around a half said that they had reduced staff working hours (Figure 11). In addition, 13.1% of family firms and 15.4% of non-family firms reported making some of their staff redundant. Non-family firms were much more likely than family firms to give staff remote working facilities (54.4% compared with 32.6%) and to ask staff to take on additional tasks (29.3% compared with 19%).

Figure 11. Workforce responses to the COVID-19 pandemic in 2020 among SMEs with employees, by ownership
Source: BEIS (SBS 2020)



Again, larger SMEs responded in a wider variety of ways when it came to staff adjustments. For example (as seen in Figure 12), medium-sized firms were more likely to furlough some staff than small firms and were also more likely to make some staff redundant. This was probably due to medium-sized firms having higher numbers of staff, and therefore being able to furlough some staff or make other staff redundant as a way of adapting to the challenging economic conditions. They were also more than twice as likely to provide more remote working facilities; this may be due to having more staff to whom they could provide facilities, having more financial means to do so, and working in sectors where this was a viable option.

The picture was similar for non-family firms when they are compared by size. One key difference between family and non-family businesses was that non-family firms were much more likely to offer remote working, with the difference being about 20 percentage points for firms of all size bands. In addition, family firms were more likely within each size band to furlough staff.

A firm's sector is likely to have influenced how its employees adapted to the pandemic. Figure 13 shows evidence from the Business Impact of COVID-19 Survey (BICS) carried out by the ONS (2022a) around two months after the first lockdown began. There is a large degree of variation between sectors, with firms in accommodation and food services, and the arts, entertainment and recreation sector experiencing particularly high rates of staff on furlough, likely because of COVID-19 restrictions making it difficult for firms in these sectors to operate. In contrast, employees in the manufacturing, and transport and storage sectors were able to work in their normal workplaces, with rates close to or above 50%. This was likely due to the fact that these sectors were required to be more operational during the pandemic. Meanwhile, education staff and information and communication employees were able to work from home at a high rate (68.5% and 60.8% respectively).

Figure 12. Family SMEs with employees' workforce responses to the COVID-19 pandemic in 2020, by firm size
Source: BEIS (SBS 2020)

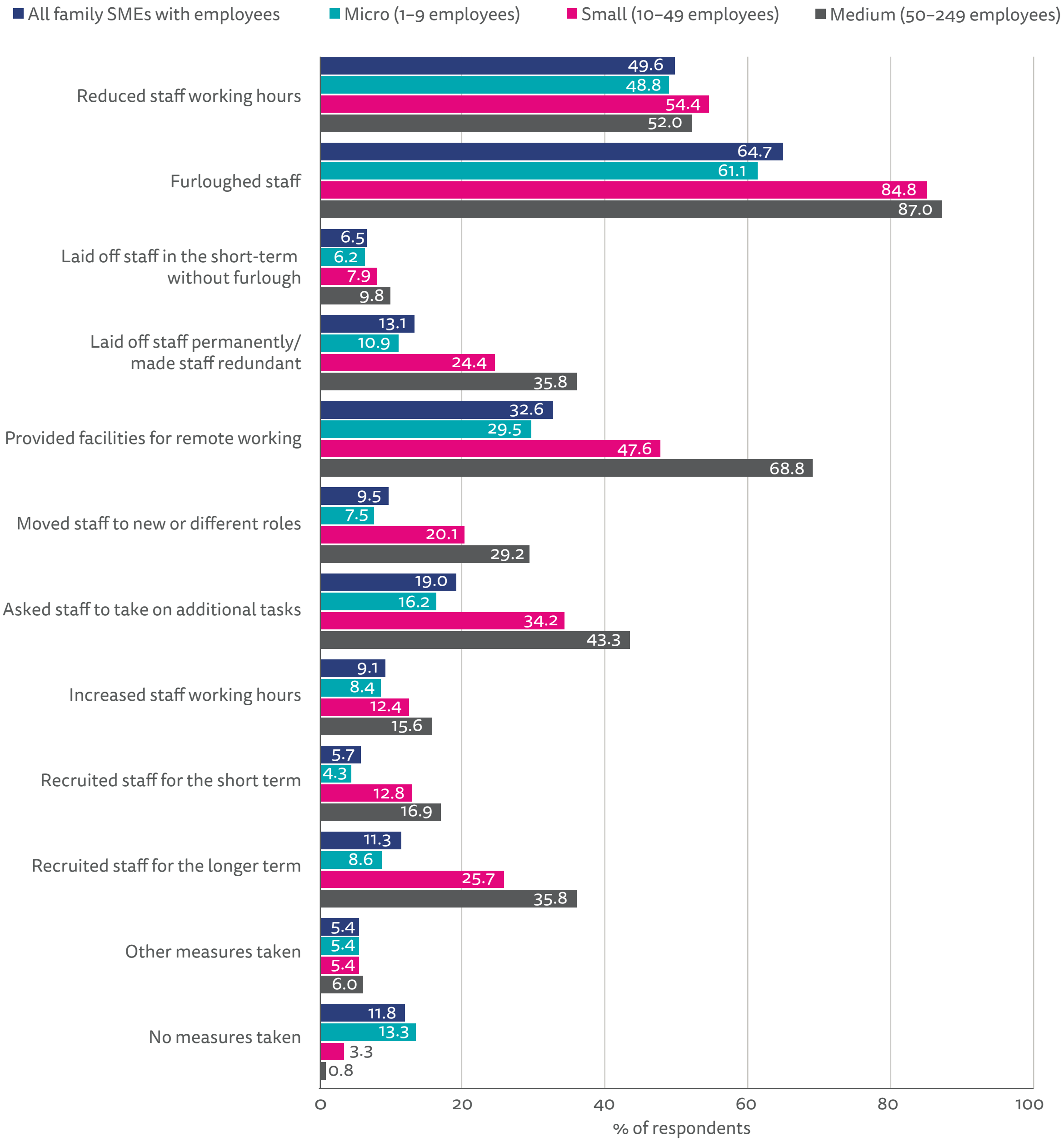
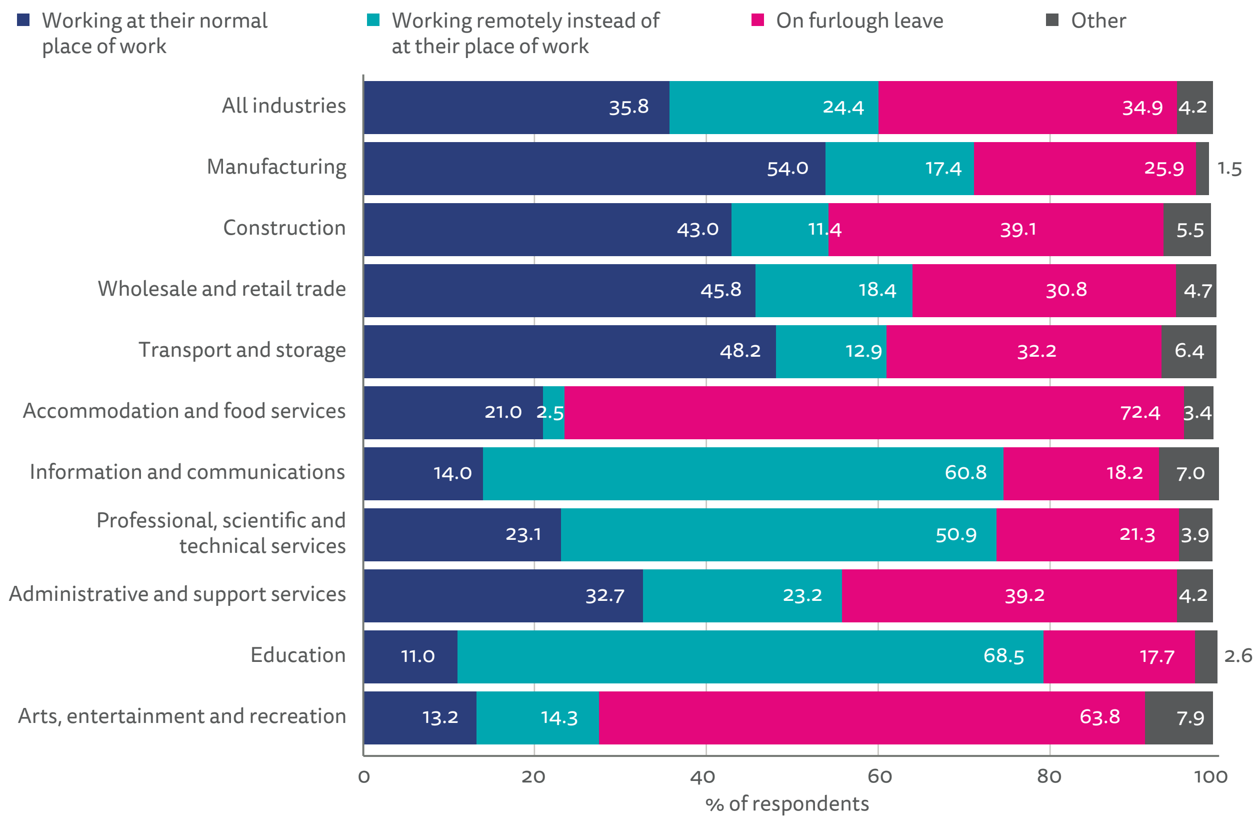


Figure 13. Distribution of employees' working status between 1st to 14th June 2020, by sector

Source: Business Impact of COVID-19 Survey (BICS) (ONS, 2022a), Wave 7, 1st to 14th June 2020.

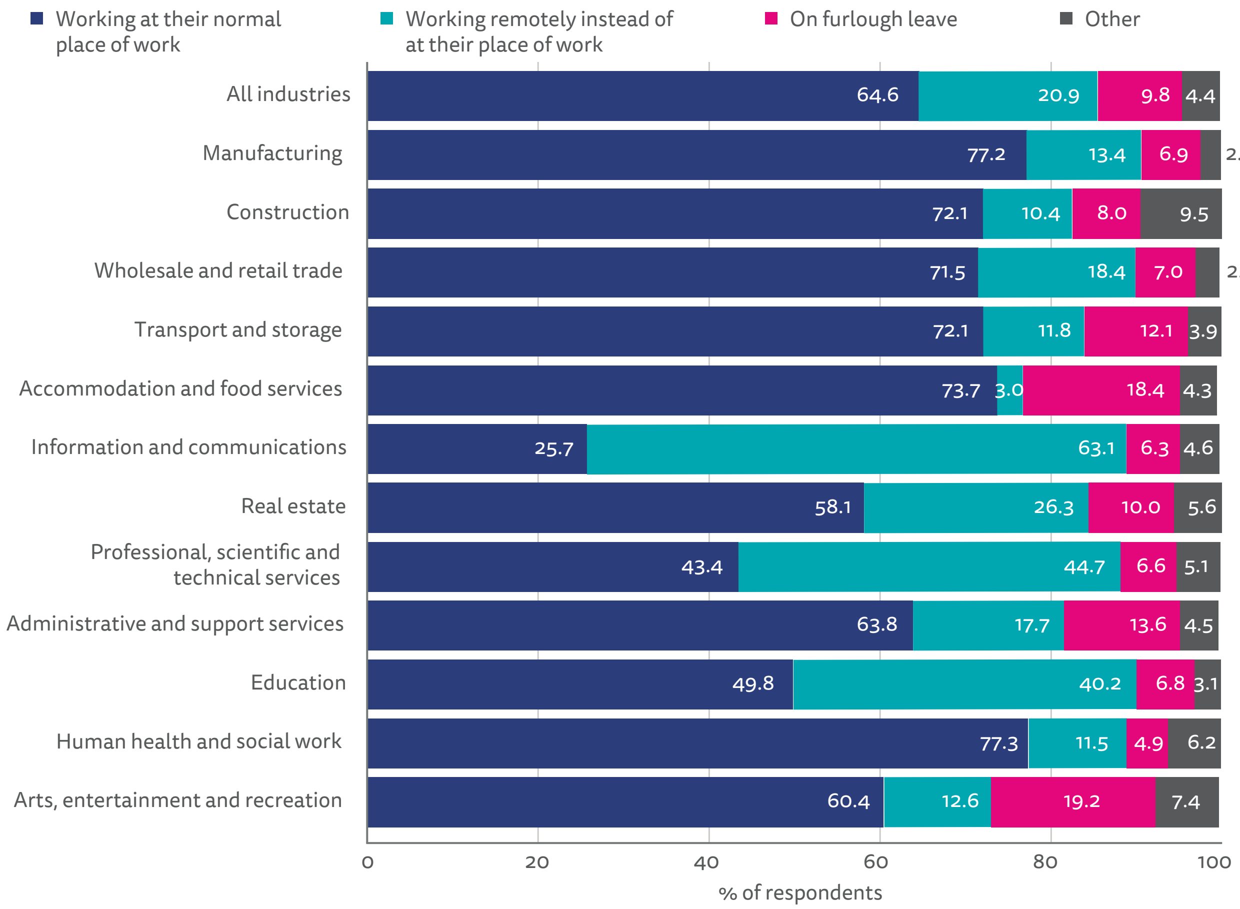


Note: Mining and Quarrying are not included for disclosure purposes, but their totals are included in 'All Industries'. No data was available for Water supply, sewerage, waste management and remediation activities; Real estate activities; and Human health and social work activities for disclosure purposes. Some results in the other categories were omitted for disclosure purposes; as such, results do not total 100%. Respondents refer to firms that have not permanently ceased trading.

Comparing these results to 2021, we can see that the situation was much worse in 2020. As shown in Figure 14, in the majority of sectors, employees were overwhelmingly working at their normal place of work in 2021. The information and communications sector and professional, scientific and technical services sector were the only two sectors where working from home was more prevalent. In addition, the use of furlough dropped by a significant amount in 2021, although 18.4% of respondents in the accommodation and food services sector were still furloughed in that period.

Figure 14. Distribution of employees' working status between 31st May to 13th June 2021, by sector

Source: Business Impact of COVID-19 Survey (BICS) (ONS, 2021a), Wave 33, 31st May to 13th June 2021.



Note: Mining and Quarrying are not included for disclosure purposes, but their totals are included in 'All Industries'. No data was available for Water supply, sewerage, waste management and remediation activities for disclosure purposes. Some results in the other categories were omitted for disclosure purposes; as such, results do not total 100%. Respondents refer to firms that have not permanently ceased trading.

Evidence from the SBS suggests that non-family SMEs were more adaptive to remote working during the pandemic. Over a half (57.7%) of family firms stated they had no staff working from home in 2020 (Figure 15); this was higher than the 41.8% of non-family firms who said that none of their staff worked from home. In all other categories for the percentage of staff working from home, non-family firms showed a higher percentage than family firms; 19.5% of family firms reported that all their staff worked from home compared with 24.6% of non-family firms.

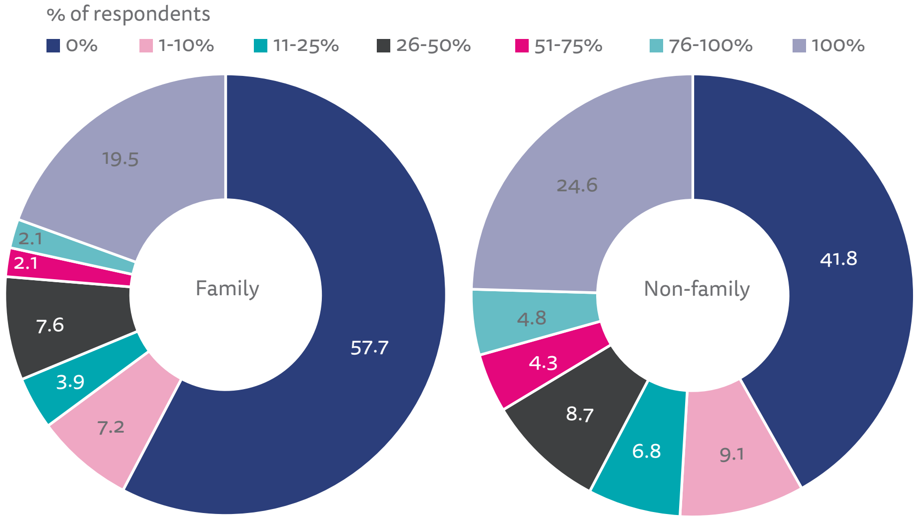


Figure 15. Distribution of percentage of staff of SMEs with employees working from home in 2020, by ownership

Source: BEIS (SBS, 2020).

Note: Figures may not total 100% due to rounding

Looking at the breakdown of remote working by size, across all size categories, non-family SMEs were more likely than family firms to report that their staff were working from home (33.7% compared with 24.1%) (Figure 16). For non-family firms, it was fairly consistent at around 30%–35%, but for family firms, there was a stark difference with the proportion being around twice as much for micro firms compared with small- and medium-sized businesses.

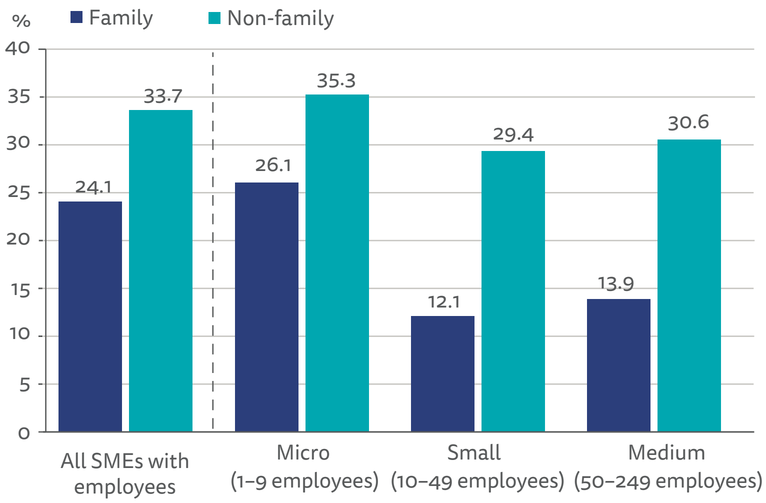
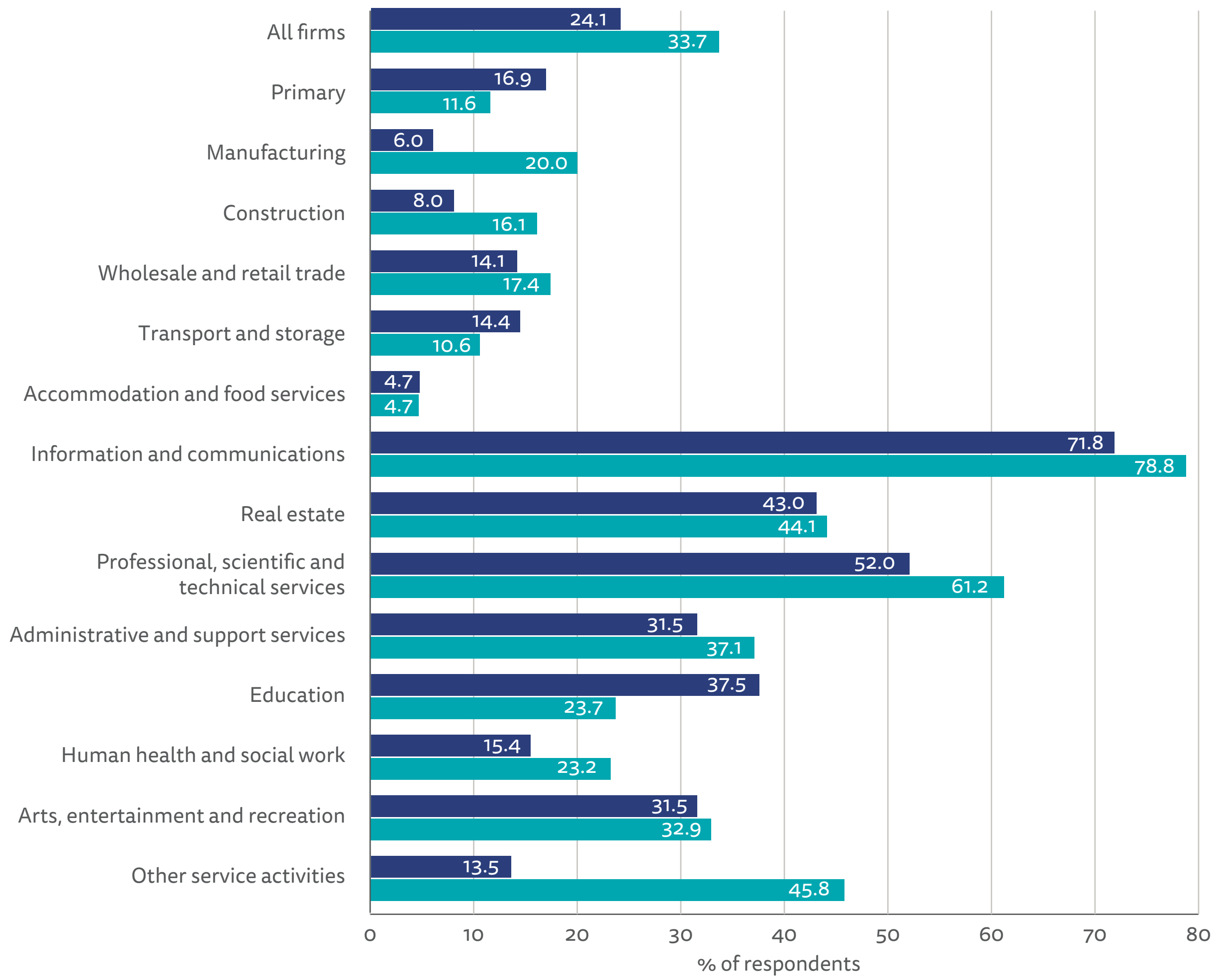


Figure 16. Proportion of SMEs with employees that had more than half of their staff working from home, by firm size and ownership

Source: BEIS (SBS, 2020)

Looking at the sectoral breakdown (Figure 17), there was a high proportion of firms with more than half of staff working from home in the information and communications sector, and the professional, scientific and technical services sector, where this would have been easier. In contrast, firms in customer-facing sectors such as the accommodation and food services sector were much less likely to report that their staff were working from home. Generally, non-family firms saw a higher proportion of firms (compared with family firms) with more than half their staff working from home—the primary, transport and storage, and education sectors were the only three sectors where the proportion was higher for family firms compared with non-family firms.

Figure 17. Proportion of SMEs with employees that had more than half of their staff working from home, by sector and ownership
Source: BEIS (SBS, 2020)



The MES data also provide some information on remote working in 2019. As shown in Table 12, the mean proportion of staff working remotely was quite low. For managers and non-managers of all firm types, the proportion was between 5% and 7%.

Working patterns were significantly disrupted by the COVID-19 pandemic. As shown in Table 12, the mean proportion of staff working from home increased significantly between 2019 and 2020. The results also show that, on average, managers worked from home at a higher rate than non-managers, across all firm types. For family-owned and family-managed firms, the mean proportion of managers who worked remotely was 19.6% compared with 15.7% for non-managers; for family-owned but not family-managed firms the rate was 25.1% compared with 20.6%, whilst for non-family firms it was 36.1% compared with 32.1%. In addition, the mean proportion of managers and non-managers working remotely was higher in non-family managed firms (both family-owned and non-family owned) compared with family-owned and managed firms.

	Mean proportion of staff working remotely			
	2019		2020	
Ownership and management structure	Managers	Non-managers	Managers	Non-managers
Family owned and family managed	6.7	6.2	19.6	15.7
Family owned but not family managed	5.5	5.2	25.1	20.6
Non-family	6.2	6.7	36.1	32.1

Table 12. Mean proportion of managers and non-managers working remotely in 2019 and 2020, by ownership and management
Source: ONS (MES, 2020)

During the pandemic, firms in the UK could opt to place some of their staff on furlough—for example, if the firm was not able to cover the staff's salaries due to lack of work, the government paid a portion (80%) of the wages of the employees (HM Treasury and Sunak, 2020). A large number of SMEs, around two-thirds of the SBS sample, took up this option. SMEs used the scheme at a far higher rate than micro firms however—around 80% compared with 60% (Figure 18). This was likely due to the fact that these firms had more staff to begin with, and so had staff without work who could be placed on furlough. Overall, family SMEs used the scheme at roughly the same rate as non-family SMEs, at 66.3% for family SMEs compared with 65.3% for non-family SMEs. However, this masked differences that were seen across all firm sizes—small- and medium-sized family firms were more likely to use the scheme than their non-family counterparts, with the largest difference being among medium-sized firms (87% for family firms, compared with 78.9% for non-family firms).

Firms were unlikely to be rejected for the furlough scheme, as shown in Figure 19. Across all firm sizes and ownership types, the rate of application acceptance for the scheme was above 95%.

Evidence from other sources highlights the importance of government interventions for firms to help them cope with the pandemic, as well as planning and staff management. A survey by the DCU National Centre for Family Business (2021), for example, found that 81% of Irish family firms used government support to counteract the effect of the pandemic. Research from the Enterprise Research Centre (Jibril et al., 2021, p.3) noted that "firms that received a combination of furlough and loans were 17.2% more likely to plan investments in capital equipment than firms with no pandemic support" and were "9.2% less likely to report mental health absences and 9.9% less likely to report sickness absences".

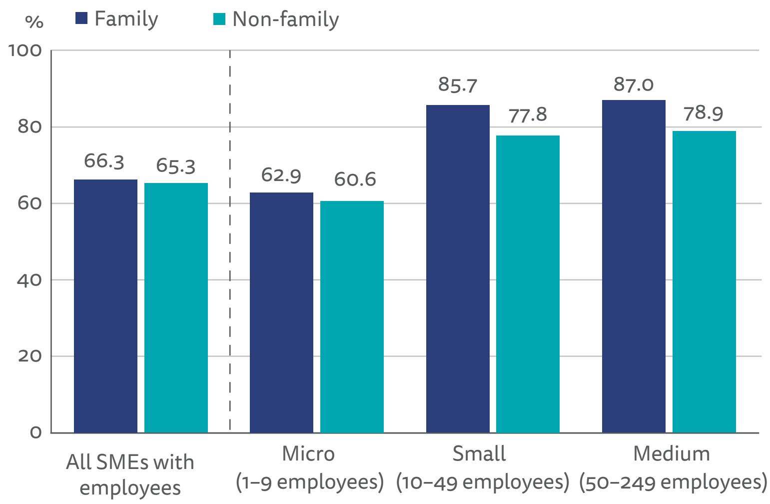


Figure 18. Proportion of SMEs with employees that applied for funds with the Coronavirus Job Retention Scheme in 2020, by firm size and ownership
Source: BEIS (SBS, 2020)

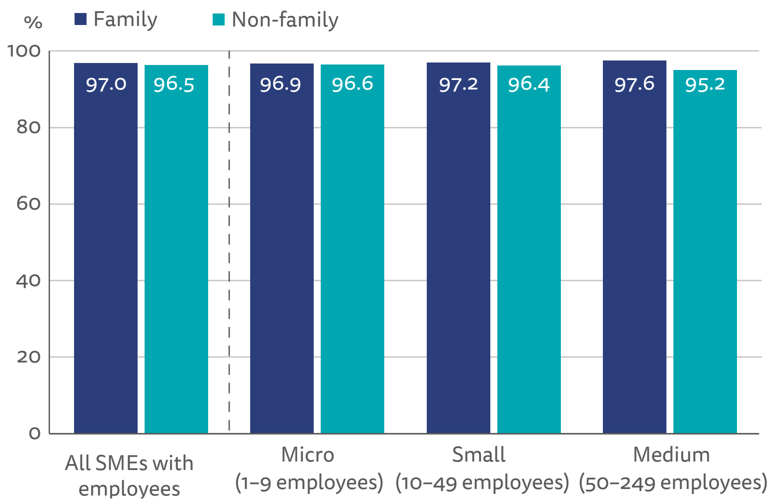


Figure 19. Proportion of SMEs with employees that applied for, and received funds from, the Coronavirus Job Retention Scheme in 2020, by firm size and ownership
Source: BEIS (SBS, 2020)

4. FAMILY FIRM PERFORMANCE DURING THE COVID-19 PANDEMIC

The UK economy was hit hard by the COVID-19 pandemic in 2020. We estimate that for the private sector as a whole, the number of businesses declined by around 7%, and employment declined by 2%. Turnover, and GVA generated by the private sector all declined by 9.3%.

This report provides a first look at how the pandemic has impacted the UK family business sector. To do this, we draw on evidence from the IFB Research Foundation's sector report for the previous year (IFB Research Foundation and Oxford Economics, 2021) to examine how the family business sector has grown and changed over this period. In this section, we look at the percentage growth in the number of businesses, employment, turnover, and GVA, and how this growth varied across sectors and the UK's nations and regions.[17]

4.1 HOW HAS THE PROFILE OF FAMILY BUSINESSES CHANGED OVER THE PAST YEAR?

Family businesses did not perform as well as their non-family counterparts between 2020 and 2021. The growth rates for family and non-family SMEs, both with and without employees, are shown in Figure 20. Across all firms (including micros without employees), the number of family businesses shrank by 6.8%, about two percentage points more than the number of non-family businesses, which shrank by 4.8%. This result is driven by the impact of the pandemic on micro firms with no employees, which had a particularly difficult time during the pandemic and make up a larger share of family businesses than non-family businesses.

However, these differences in the fortunes of family firms and their non-family counterparts are due (at least, in part) to the size composition of family firms compared with non-family firms—the family business sector is made up of a high percentage of micro firms without employees, who fared badly in the pandemic year. For example, once micros without employees are removed, the number of family firms with employees actually grew by 0.3%. This was driven by slight growth in micro firms with employees.

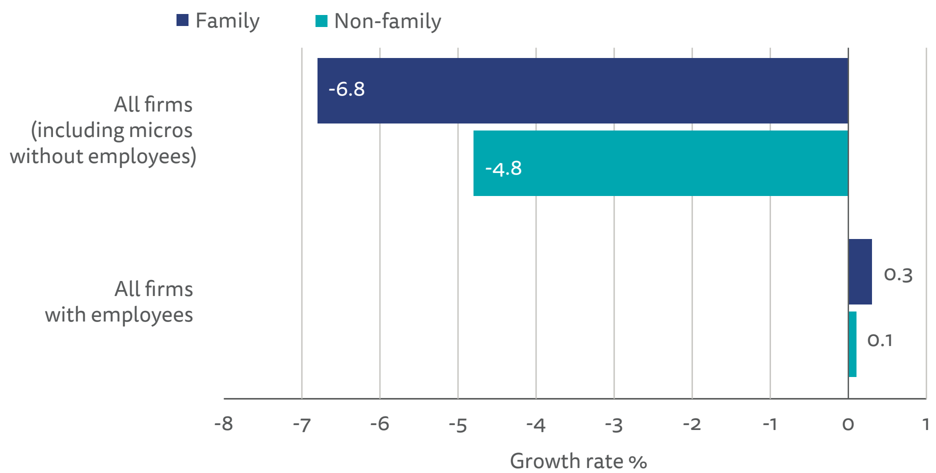
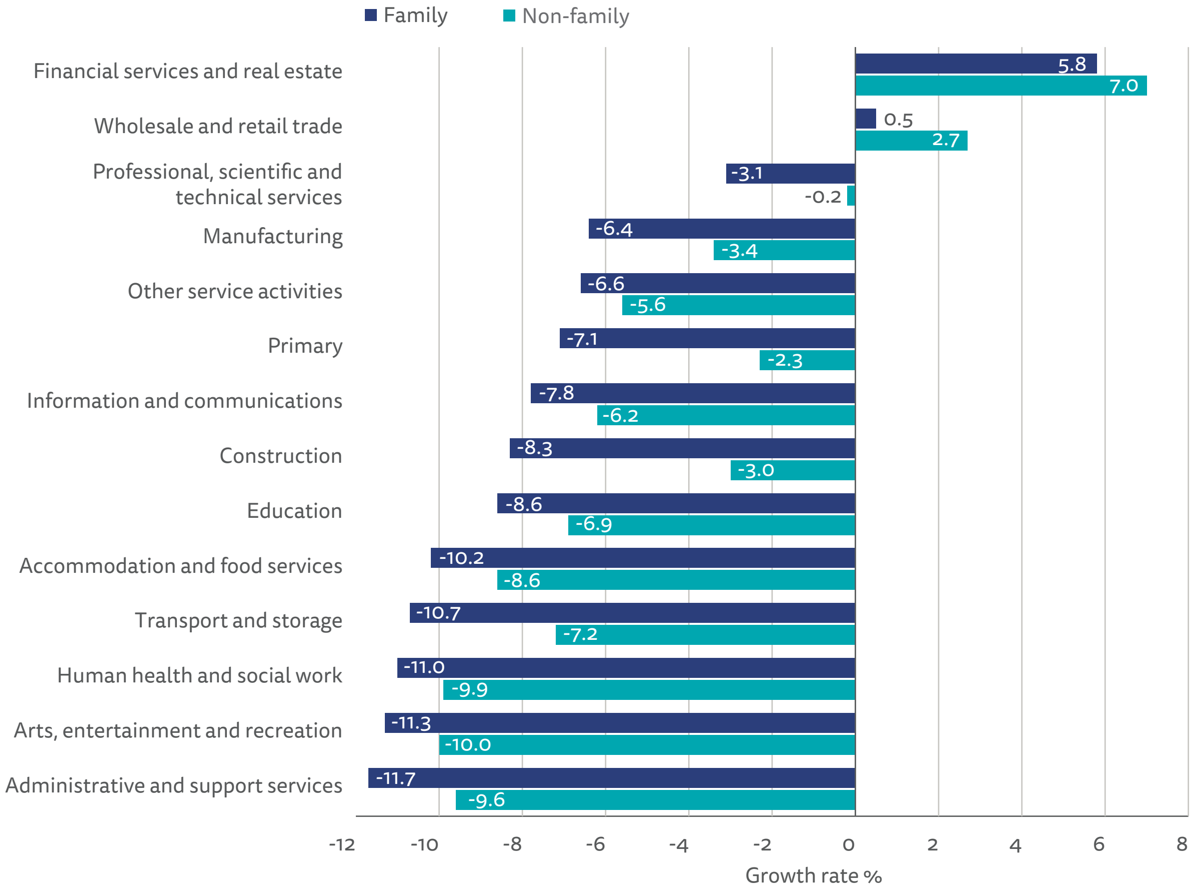


Figure 20. Growth in the number of family and non-family businesses between 2019 and 2020, by size
Source: Oxford Economics

There were stark differences in growth rates across sectors, with family firms more likely to experience decline within a sector compared with non-family firms. For both family and non-family firms, most sectors saw a decline in the number of firms between 2019 and 2020 (Figure 21).

For both family and non-family firms, the financial services and real estate sector grew between 2019 and 2020. This is likely explained by a boom in house prices—between April 2020 and April 2021 house prices grew by around 8.2%, compared with 0.5% between April 2019 and April 2020 (HM Land Registry et al., 2022); the growth rate was 5.8% for family firms and 7% for non-family firms. The other sector that grew was the wholesale and retail trade sector which saw marginal growth of 0.5% for family firms, and 2.7% for non-family firms. By contrast, there were declines in the

Figure 21. Change in number of family businesses between 2019 and 2020, by sector and ownership
Sources: BEIS (SBS 2020; BPE 2021), IFB Research Foundation and Oxford Economics

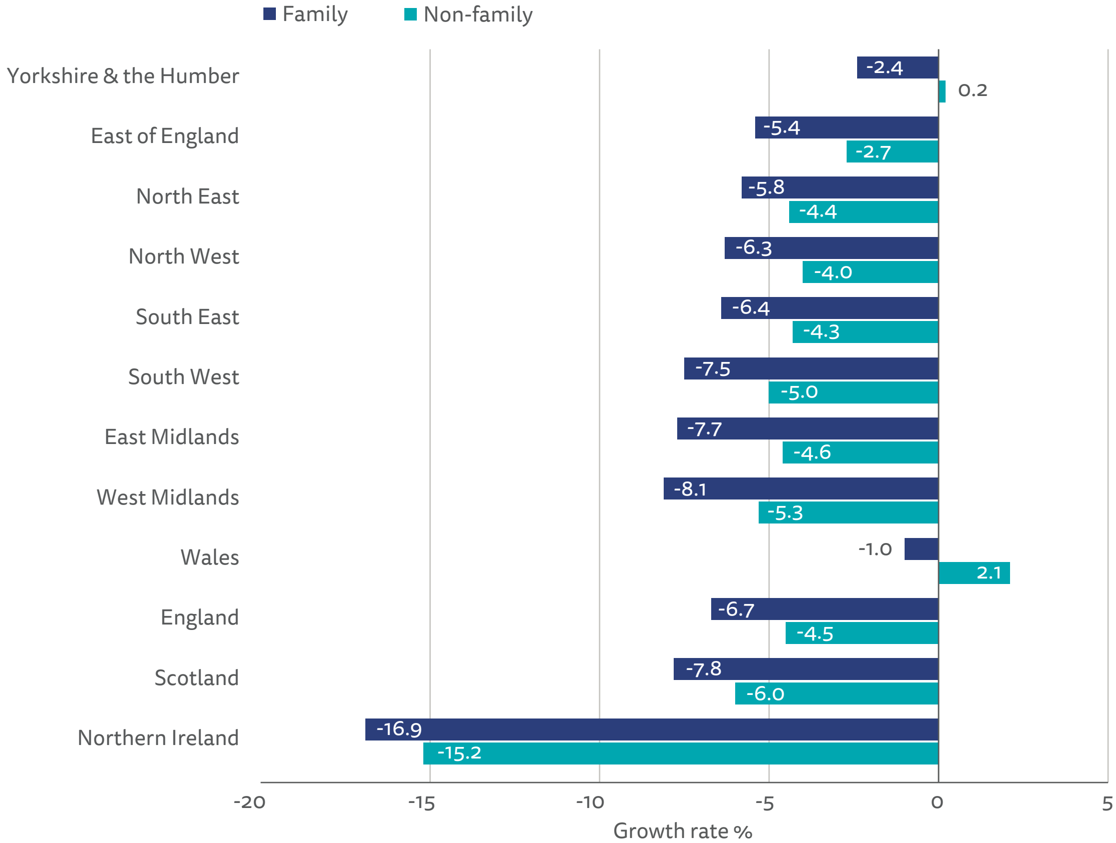


administrative and support services sector (11.7% for family firms and 9.6% for non-family firms), the arts, entertainment and recreation sector (11.3% for family firms and 10% for non-family firms), and the human health and social work sector (11% for family firms and 9.9% for non-family firms).

When looking at the regional growth rate, the picture shows that most regions and nations experienced a decline in the number of firms between 2019 and 2020. However, the magnitude of the decline for family firms was higher than for non-family firms (Figure 22). Yorkshire and the Humber experienced a 0.2% rise in businesses during the pandemic; in contrast, in the same region the number of family firms fell by 2.4%. The next best performing region was East of England for both family firms and non-family firms; and in third place, it was the North East for family firms and the North West for non-family firms.

When we compare UK nations, Wales fared much better than the other three UK nations. It saw a rise in non-family businesses of 2.1%, and a 1% rise for family firms. In contrast, Northern Ireland saw very high falls in its number of SMEs—a 16.9% reduction in the number of its family SMEs compared with a 15.2% drop for non-family SMEs.

Figure 22. Change in number of family businesses between 2019 and 2020, by UK region and nation, and ownership
Sources: BEIS (SBS 2020; BPE 2021), IFB Research Foundation and Oxford Economics



4.2 WHAT WAS THE NATIONAL IMPACT ON FAMILY BUSINESS EMPLOYMENT?

The whole family business sector shrank by about 2.5% in employment terms (Figure 23) which compares with a shrinkage of 1.2% for non-family businesses. For SME employers only, family employment shrank by a negligible amount compared with a 0.9% decline for non-family firms. Again, these results were driven by the size composition of the sectors, with micro firms declining by over 7%. Both family and non-family micros with employees and small-sized firms grew between 2019 and 2020.

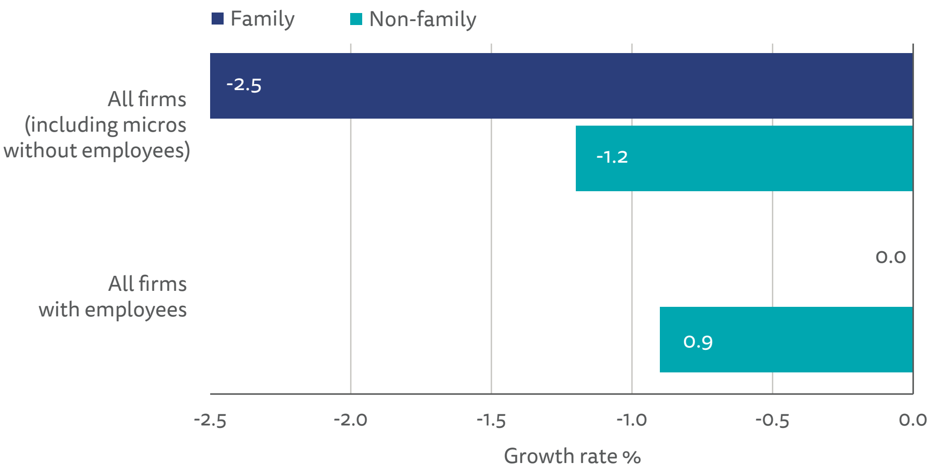
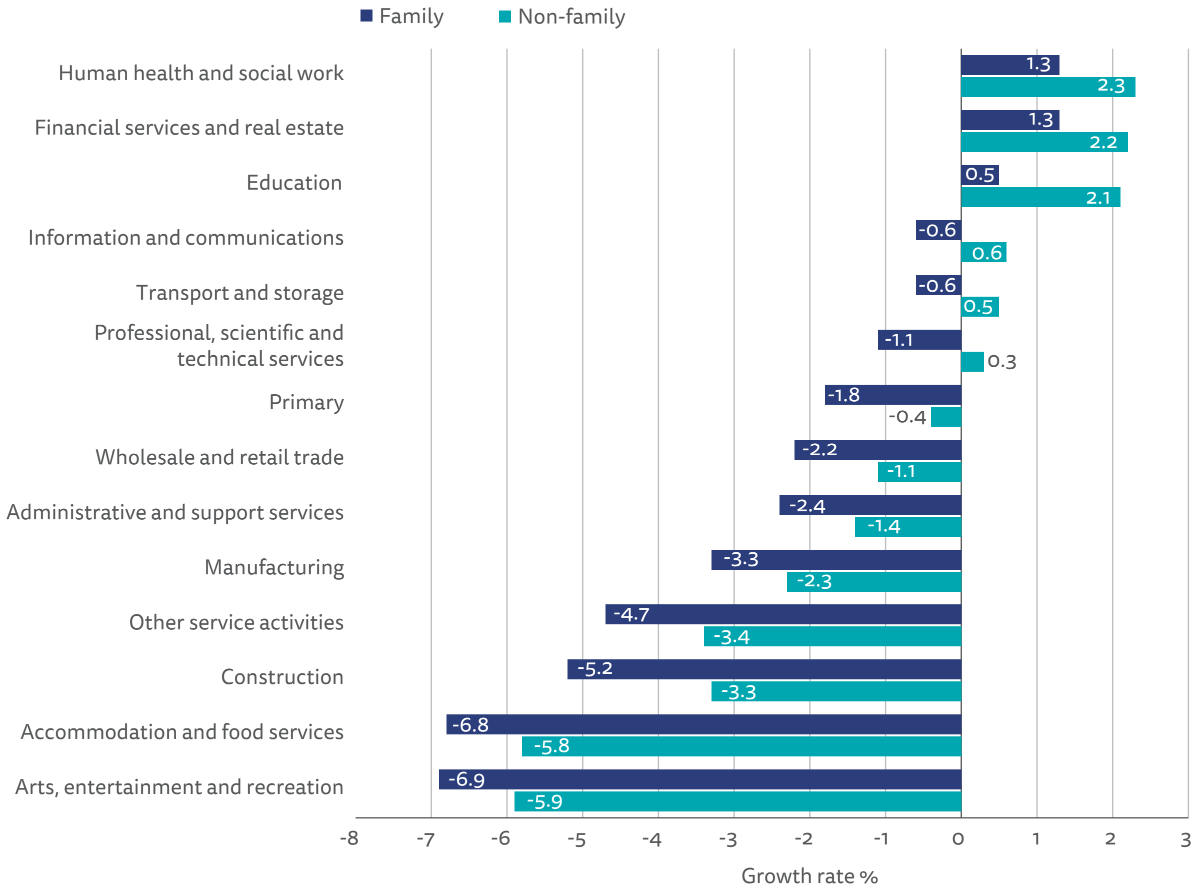


Figure 23. Growth in family and non-family employment between 2019 and 2020, by size
Source: Oxford Economics

The relatively better performance of non-family SMEs is further highlighted when analysing the sectoral changes. Family businesses saw employment growth in six sectors, whilst non-family firms saw growth in three (Figure 24). The highest rate of employment growth between the two years of the SBS was in the human health and social work sector, where employment in family firms grew by 1.3% and non-family firms by 2.3%. This was marginally better than the next best performing sectors, financial services and real estate. Education was the only other sector to see both family and non-family growth. By comparison, some of the sectoral declines were particularly large, such as in the accommodation and food services sector and the arts, entertainment and recreation sectors, which were particularly badly affected by lockdowns and social distancing requirements. In those sectors, family business employment declined by nearly 7%.

Figure 24. Employment growth in firms between 2019 and 2020, by sector and ownership

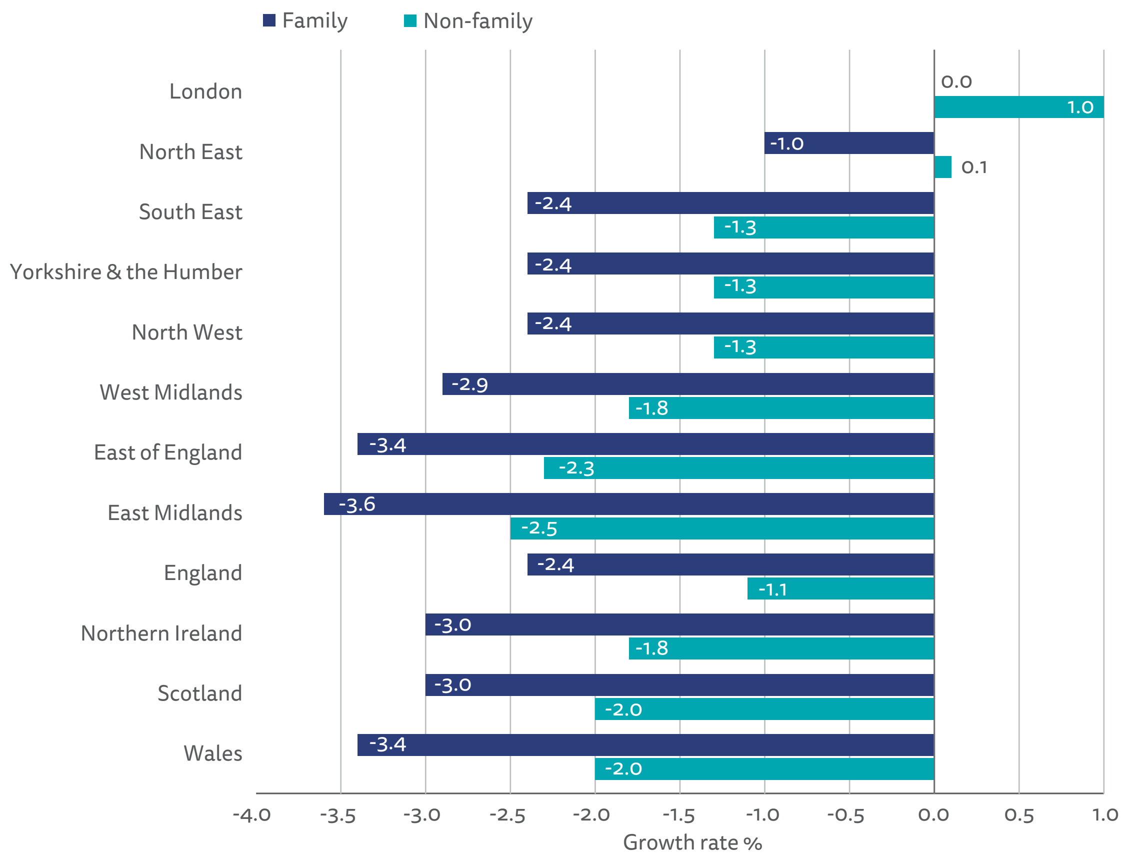
Sources: BEIS (SBS 2020; BPE 2021), IFB Research Foundation and Oxford Economics



This emerging picture of family firms not performing as well as non-family firms was mirrored in the employment changes across regions. London was the only location to see growth (Figure 25); the capital experienced a 1% rise in employment among its non-family sector and virtually no change for family firms. The East Midlands saw the largest decline in employment for both family firms and non-family firms.

Across all the UK's nations, family firms experienced a greater drop in employment compared with non-family firms. Wales saw the greatest decline in employment, at 3.4% for family firms and 2% for non-family firms; England had the least sharp decline.

Figure 25. Growth in employment between 2019 and 2020, by region/nation and ownership
Source: Oxford Economics



4.3 WHAT WAS THE NATIONAL IMPACT ON FAMILY BUSINESS TURNOVER?

Looking at the pandemic's impact on turnover, there was considerable variation between sectors. The primary sector was the only sector to see a rise in its turnover. Family firms in the primary sector experienced turnover growth of 3% (Figure 26) and non-family firms in that sector saw turnover grow by 3.5%. The next best performing sectors were the information and communications sector and the real estate sector, which saw modest declines. These two sectors likely benefited from an increased ability for their staff to work from home. In contrast, the accommodation and food services sector, which was hampered by social-distancing restrictions, saw declines of 31.3% for family businesses and 30.4% for non-family businesses. Transport and storage, education, and the arts, entertainment and recreation sectors also saw big falls in turnover.

Changes in GVA followed similar trends to changes in turnover. Between 2019 and 2020, there were rises in GVA for the primary sector (of over 4%) (Figure 27), in the information and communications sector (for family firms only; in contrast, the non-family firms' turnover declined by 1.9%) and the real estate sector. Accommodation and food services was the worst performing sector, seeing a decline in GVA of around 30%.

Figure 26. Real growth rate of turnover between 2019 and 2020, by ownership and sector[18]

Sources: BEIS (SBS 2020; BPE 2021), IFB Research Foundation and Oxford Economics

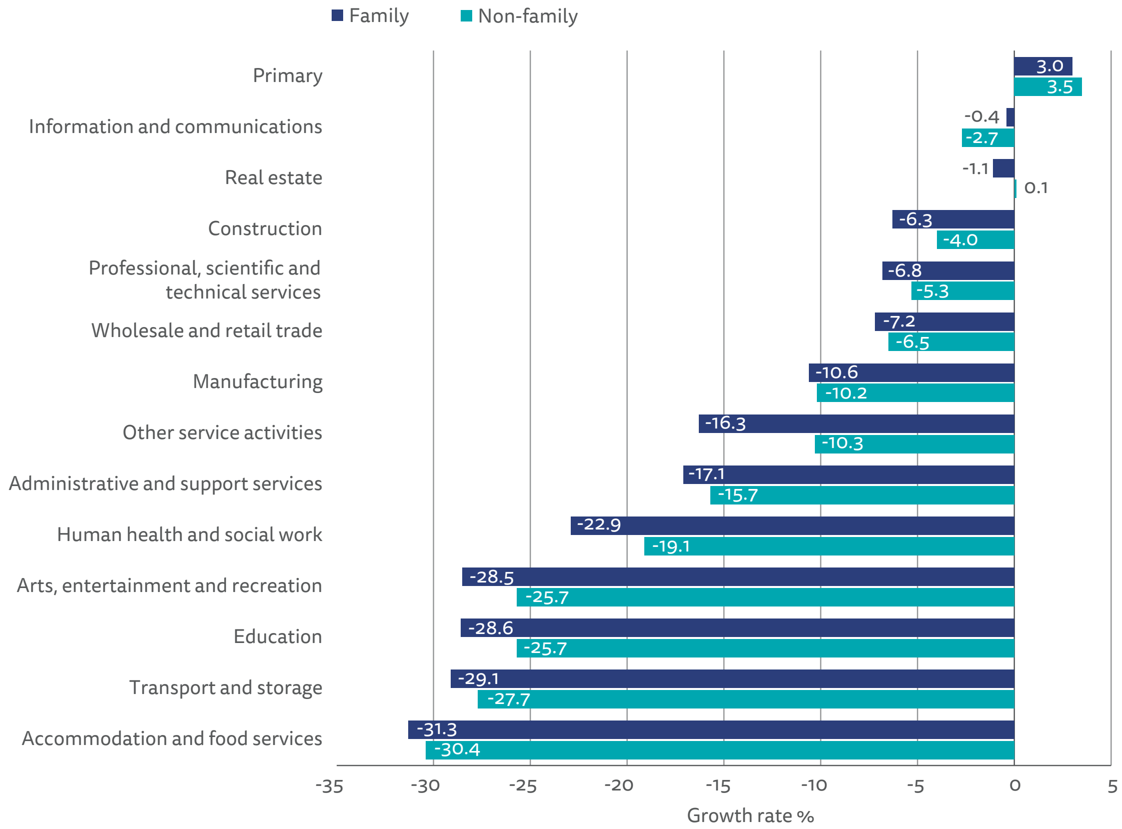
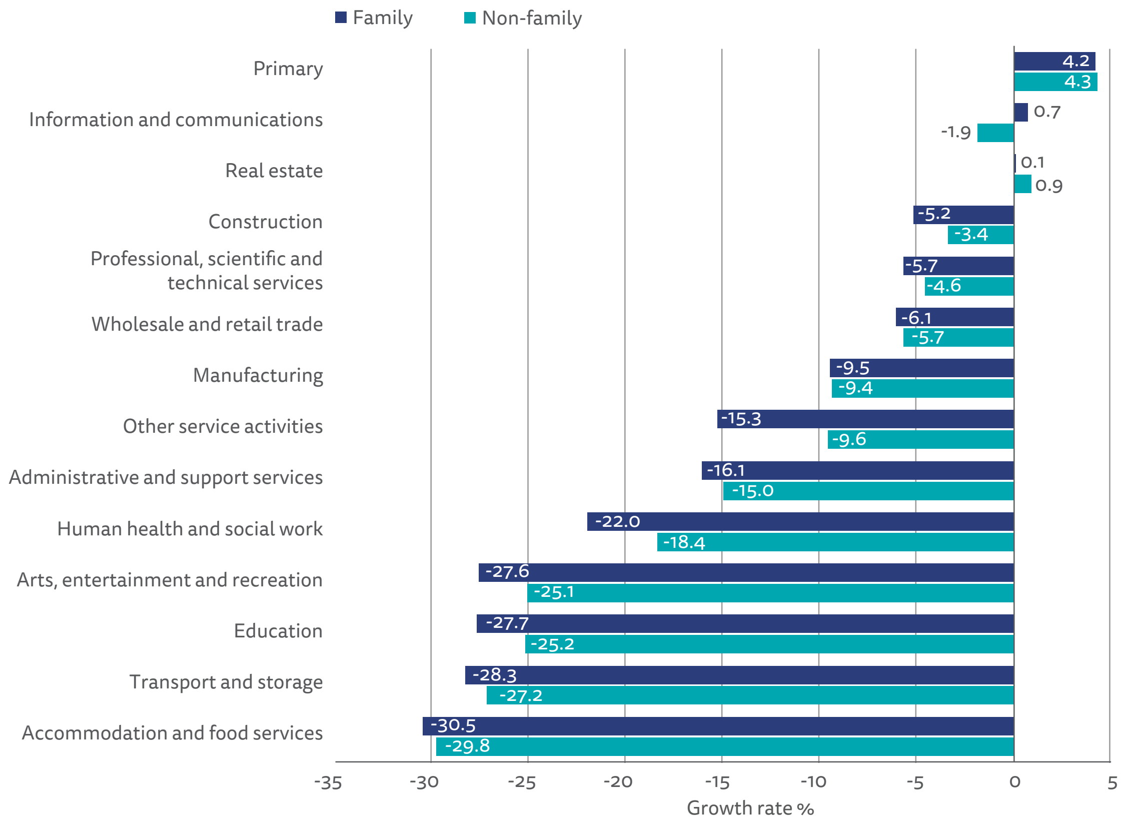


Figure 27. Real growth rate of GVA between 2019 and 2020, by ownership and sector

Sources: BEIS (SBS 2020; BPE 2021), IFB Research Foundation and Oxford Economics



4.4 WHAT WAS THE TURNOVER IMPACT OF THE PAST 12 MONTHS ON FAMILY SMES?

Data from the SBS provide some insight into the devastating impact of the pandemic on the performance of UK SMEs. Firms were asked how their turnover compared year on year. Thus, for example, a business surveyed in December 2020 would compare their turnover in the period January to December 2020, with turnover from January to December 2019.

As highlighted in Figure 28, more than half of SMEs (both family and non-family) reported experiencing a decrease in turnover. Family SMEs seemed to have fared slightly worse than their non-family counterparts, especially within the small- and medium-sized category, where there was a 9.1 and 5.6 percentage point gap respectively.

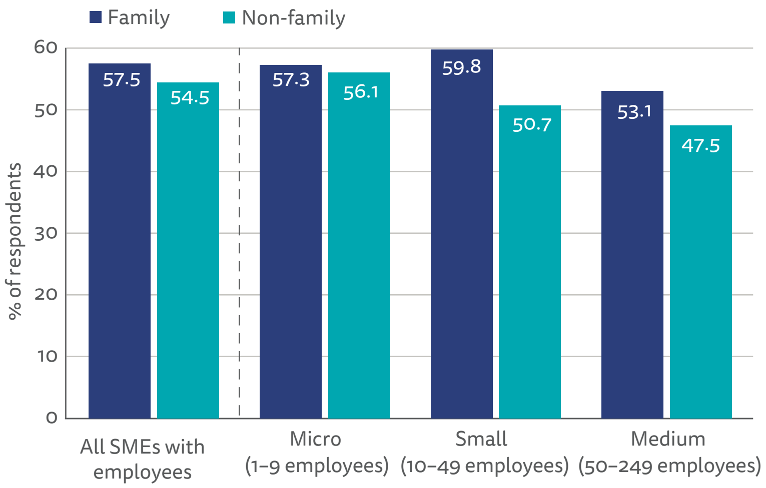


Figure 28. Proportion of SMEs with employees who reported that their turnover decreased year on year, by ownership and size
Source: BEIS (SBS 2020)

The difficulty of growing turnover during the pandemic is further highlighted when exploring how family SME turnover changed year on year. Alongside the roughly half of family firms who saw their turnover fall (Figure 29), around a quarter of firms reported that their turnover was constant in the 12 months prior to the survey. In comparison, less than a fifth of family SMEs (17.7%) saw a rise in turnover. The picture for micro and small firms was fairly similar. However, medium-sized firms performed slightly better, with more firms seeing a rise in turnover than those whose turnover was constant.

These results are supported by other findings; for example, research by the Bank of England (Hurley et al., 2021) found that the average SME in the UK saw their turnover growth fall by 30 percentage points between April and December 2020, compared with the period before the pandemic. They reported that, by December 2020, turnover growth was substantially lower than that compared with January 2020.

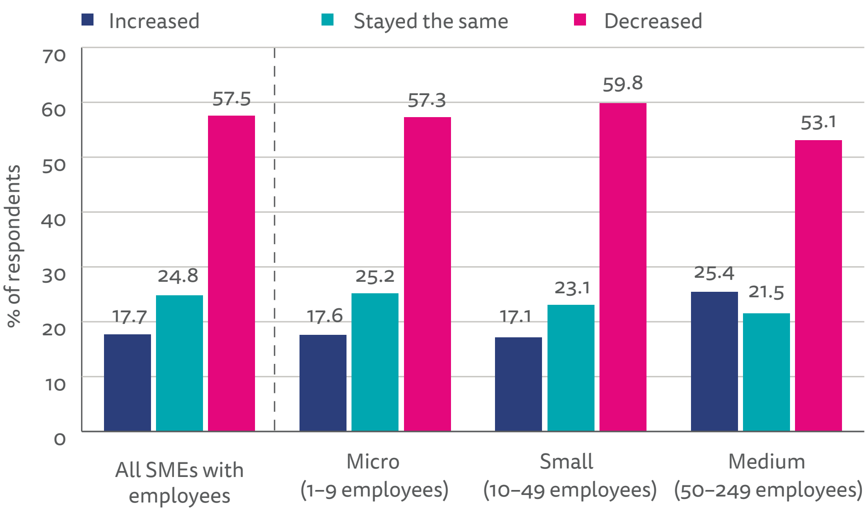


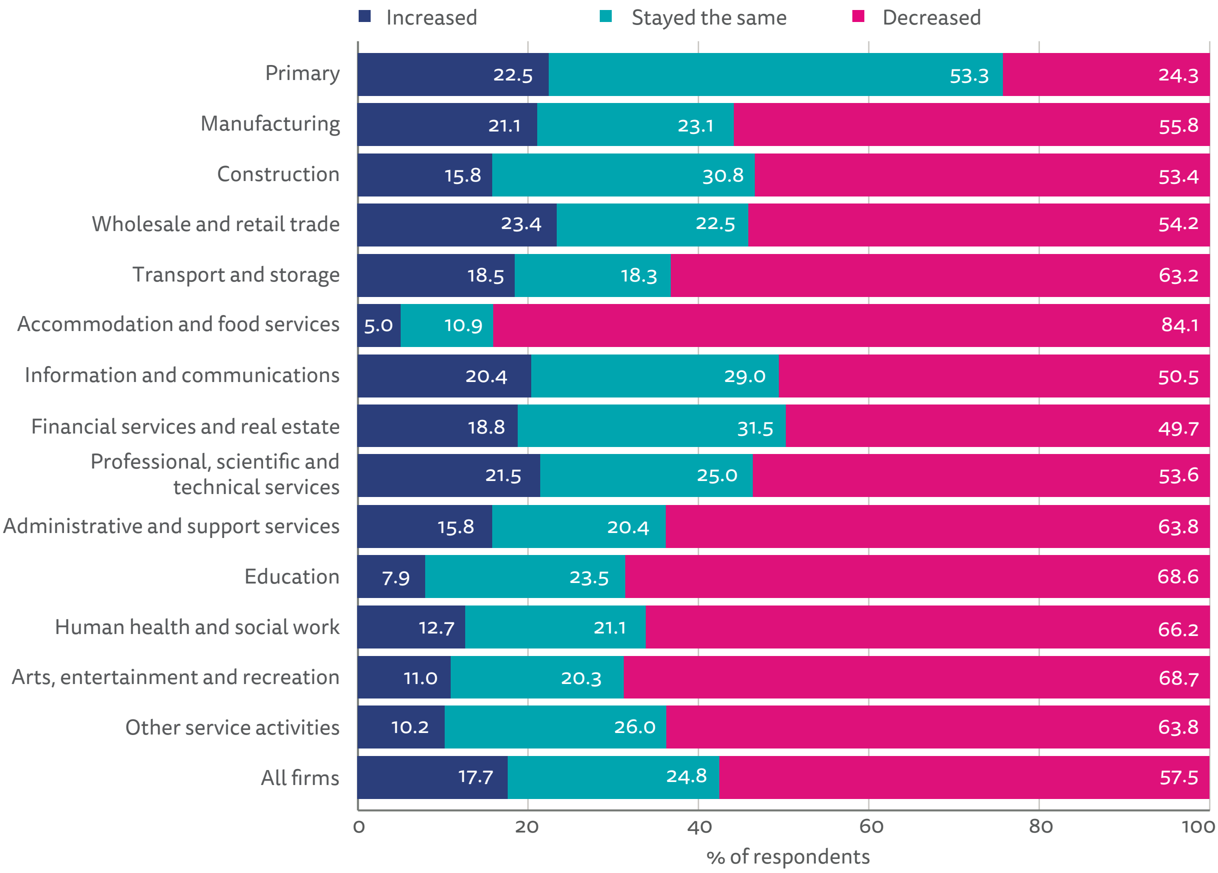
Figure 29. How family-owned SMEs with employees reported their turnover changed in the 12 months in 2020 prior to being surveyed compared with the previous 12 months, by firm size
Source: BEIS (SBS 2020)

The turnover impact was not identical across all sectors. When we assess the change in turnover by sector, it is clear that there is considerable variability in the impact (Figure 30). Sectors that were likely to be particularly affected by falls in turnover were those that were severely hampered by the social restrictions introduced by government to control the pandemic. For example, a large proportion of firms reported falls in the accommodation and food services sector: 84.1% of firms experienced decreases in turnover. The introduction of lockdowns in 2020, and the requirement for social distancing likely affected how businesses in this sector could operate. The ONS (2020a) found that fewer than 50% of businesses in the accommodation and food services sector were trading between 16 and 29 November 2020, during which England was under a second national lockdown. In addition, as these services are closer to luxuries than to necessities, economic uncertainty likely reduced consumers' willingness to spend on these sectors.

The primary sector performed especially well, however—nearly a quarter of firms reported seeing a rise in their turnover year on year (prior to being surveyed), and around a half were able to keep their turnover constant in that period. The work in this sector is largely able to be performed outdoors or is automated, and the sector's focus on providing essential goods and services may have made firms in this sector better placed to weather the pandemic. The wholesale and retail trade sector saw the highest share of firms experiencing a turnover increase, at almost a quarter, or 23.4%. Many businesses changed the way they operated and interacted differently with customers as a result of the restrictions introduced to control the pandemic, with evidence from the ONS (2021b) showing online sales rising to a record high in 2020.

The Bank of England (Hurley et al., 2021) also looked at how turnover was impacted across firms with different characteristics. For example, they pointed to a substantial fall in turnover growth among younger firms, those in the arts, entertainment and recreation and accommodation and food services sectors, and those based in Scotland and in London.

Figure 30. How family-owned SMEs with employees reported their turnover changed in the 12 months in 2020 prior to being surveyed compared with the previous 12 months, by sector
Source: BEIS (SBS 2020)



4.5 WHAT WAS THE EMPLOYMENT IMPACT OF THE PAST 12 MONTHS ON FAMILY SMES?

The employment impact was far less severe than the turnover impact. One reason for this was the introduction of various government support schemes for businesses across the four nations, including the furlough scheme in which the UK government committed to pay a significant portion of the wages of staff who were unable to work due to the pandemic. This allowed firms to keep staff on the payroll without the financial cost of wages during times of reduced revenue.

One consequence of this was that far fewer firms experienced a decrease in staff as opposed to a decrease in turnover. Cribb and Salisbury (2021) have pointed out that the furlough scheme meant that the rise in unemployment was substantially lower than during the 2008–2011 financial crisis. In the SBS, firms were asked to compare the number of employees they had on their payroll to the number for the 12-month period beforehand. Looking at the proportion of firms which stated in late 2020/early 2021 that their number of paid staff had decreased year on year, 32% of family firms and 38.8% of non-family firms reported seeing a decrease in staff numbers (Figure 31). There was some variation in results between firms of different sizes, however, with small- and medium-sized firms less hesitant to let staff go. This was likely a direct function of size, because the greater number of staff in small and medium firms meant they were able to make some redundancies whilst largely continuing their operations. As Figure 31 shows, family firms were less likely to report experiencing staffing reductions than non-family firms, especially among micro-sized employers.

There was a discrepancy between firms of different sizes when analysing how paid staff changed between firms. As noted above, a large proportion of small- and medium-sized firms saw their paid staff decrease in number. However, nearly half of micro firms reported that their workforce stayed the same (Figure 32). Another notable difference between the impact of the pandemic on turnover and staff was the proportion of firms who saw a rise in their staff numbers; across all SMEs, 27.3% of firms reported a rise in their staff numbers. This figure was 31.4% for medium-sized firms.

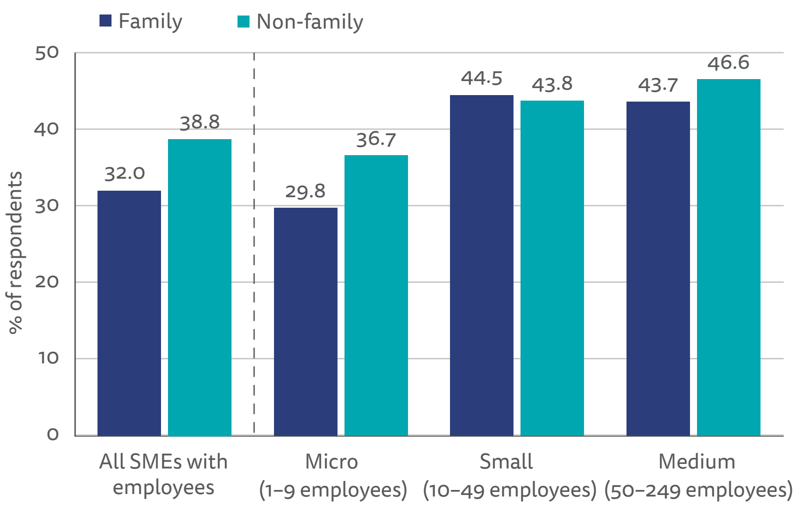


Figure 31. Proportion of SMEs, with employees, that reported their number of paid staff decreased 2019–2020, by ownership and size
Source: BEIS (SBS 2020)

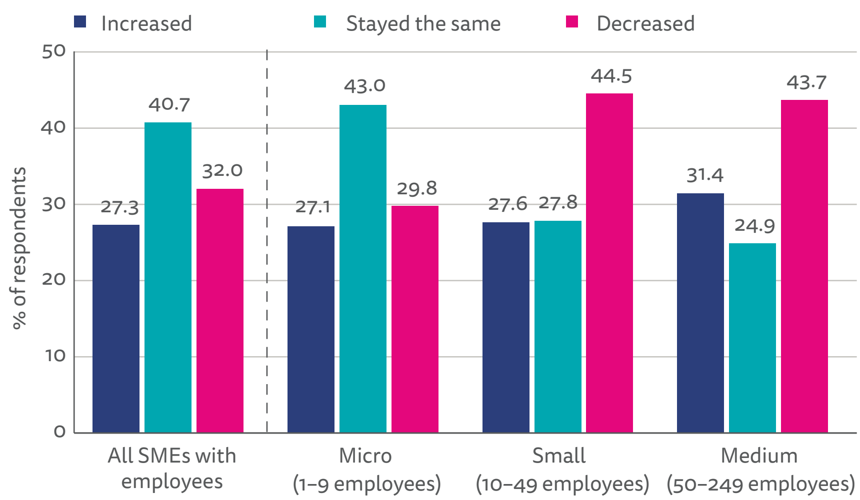
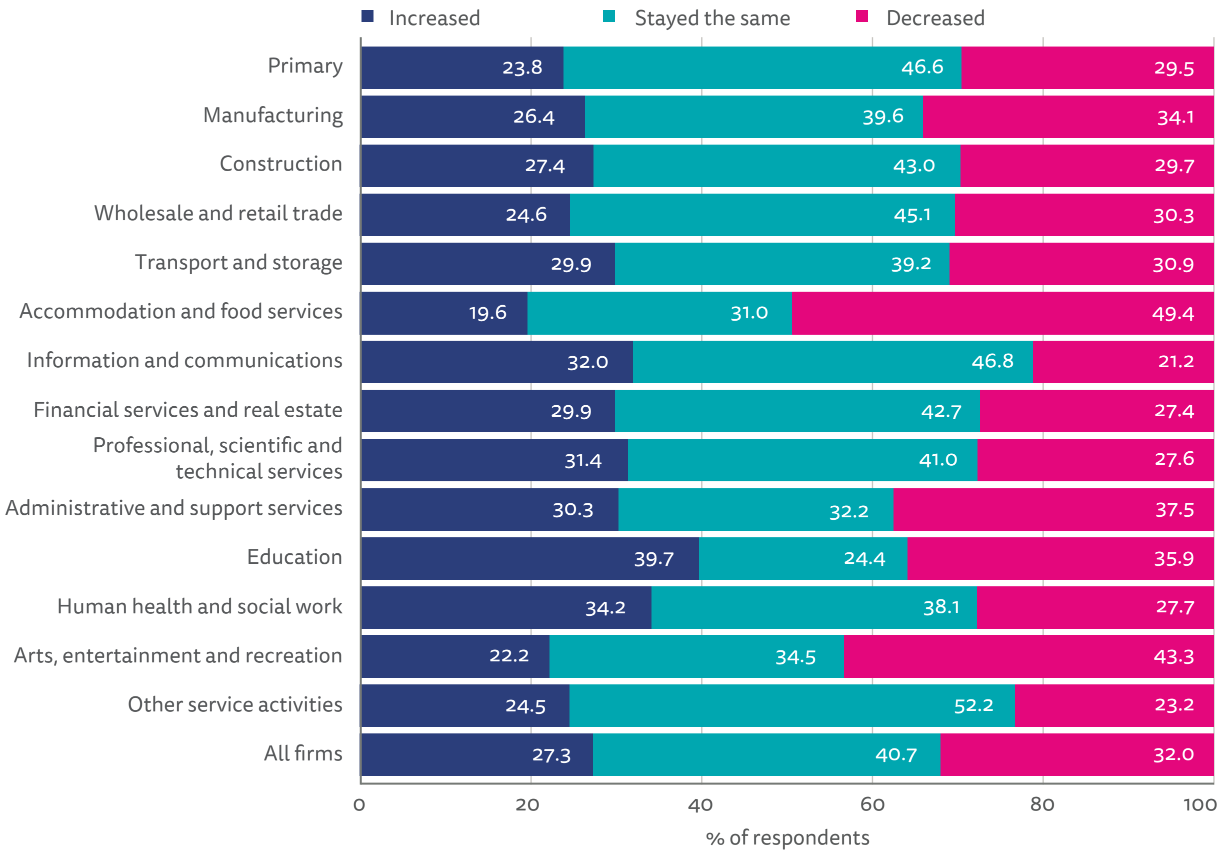


Figure 32. How family-owned SMEs with employees reported their number of paid staff changed in the past 12 months in 2020, by firm size
Source: BEIS (SBS 2020)

Looking at the breakdown by sector among family SMEs, the most common response was that their staff levels stayed the same. The education sector was one of the worst affected when it came to turnover, but 39.7% of survey respondents in that sector reported a rise in staff numbers (Figure 33). Accommodation and food services was by far the worst affected, with 49.9% of firms letting staff go—the government-mandated pandemic restrictions that reduced footfall are likely responsible. The next worst affected sector was the arts, entertainment and recreation sector, with 43.3% of firms seeing staff decrease in number.

Figure 33. How family-owned SMEs with paid employees reported their staff changed in the past 12 months in 2020, by sector
Source: BEIS (SBS 2020)



4.6 HOW HAVE FAMILY FIRMS CHANGED THE GOODS AND SERVICES THEY OFFER?

Overall, 34.8% of non-family firms, slightly higher than the 28.3% of family firms said they had introduced new, or significantly improved, goods or services in the three years to 2020 (Figure 34). This, however, masks some heterogeneity in behaviour among SMEs of different sizes: larger SMEs introduced new goods and services at a higher rate than smaller firms. This was likely to do with the increased resources that larger firms can devote to innovation. The difference between family firms and non-family firms was highest among micro firms (with employees); for medium-sized firms there was no difference.

Firms that reported introducing these goods or services were then specifically asked if the pandemic played a role in their decision.[19] Table 13 explores whether the pandemic played a role in the introduction of new, or significantly improved, goods or services in the three years prior to being surveyed in late 2020/early 2021; firms could specify whether the role was “small” or “significant”. Overall, almost half (45.6%) of family SMEs said they decided to introduce new or improved goods or services because of the pandemic. More family SMEs with employees responded that the pandemic played a significant role in their decision to do so (at 28.1%), compared with a small role (at 17.5%).

Non-family firms were more likely than family firms to have reacted to the pandemic by introducing new or significantly improved goods or services. Some 58.6% of non-family SMEs with employees stated they did so, compared with 45.6% of family SMEs with employees. The difference was greatest among micro firms with employees, and lower for small- and medium-sized firms.

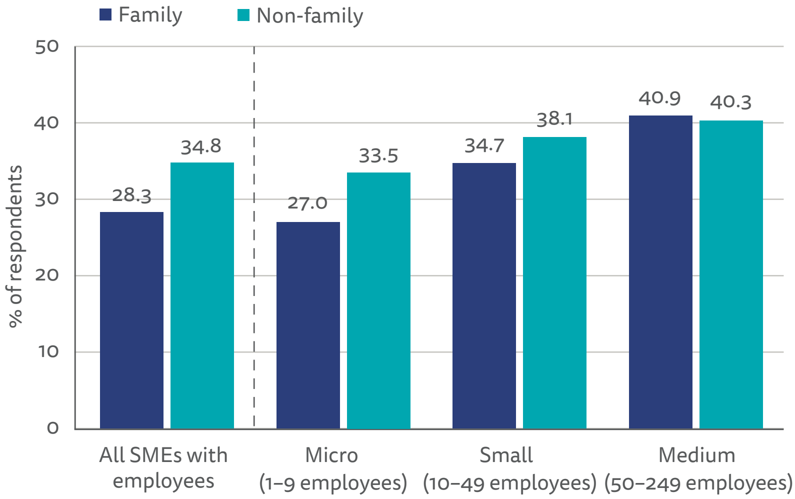


Figure 34. SMEs with employees that reported introducing new, or significantly improved, goods or services in the three years to 2020, by firm size and ownership

Source: BEIS (SBS 2020)

Table 13. Role of the pandemic in introducing new, or significantly improved, goods or services among SMEs with employees in the last three years in 2020, by firm size and ownership

Source: BEIS (SBS 2020)

% of respondents	Family					Non-family				
Firm size	Small	Significant	Played a role	No role	Total	Small	Significant	Played a role	No role	Total
Micro (1–9 employees)	17.5	27.0	44.6	55.4	100.0	22.0	38.7	60.7	39.3	100.0
Small (10–49 employees)	17.6	33.3	50.9	49.1	100.0	16.1	38.6	54.7	45.3	100.0
Medium (50–249 employees)	16.0	29.6	45.6	54.4	100.0	21.9	27.7	49.7	50.3	100.0
All SMEs with employees	**17.5**	**28.1**	**45.6**	**54.4**	**100.0**	**20.6**	**38.1**	**58.6**	**41.4**	**100.0**

5. THE EXPECTATIONS OF FAMILY FIRMS

Coming out of an especially tough year, many businesses looked to the future and reassessed their strategies. In this section, we explore the future expectations of, specifically, family SMEs with employees in the year following the survey (which took place between September 2020 and April 2021). It compares family SMEs with non-family SMEs' plans for growth, the main obstacles they expected to face, and their access to finance, taking into account the presence of the COVID-19 pandemic. This analysis gives a broader outlook of how family SMEs with employees saw their future at the time of the survey, and explores their concerns.

5.1 WHAT WERE SME FAMILY FIRMS' EXPECTATIONS WHEN SURVEYED?

Firms were questioned about how they expected their turnover to change in the 12 months following the survey in the SBS (i.e., did they expect it to "increase", "decrease", or "stay the same"?). To gauge the general sentiment among SMEs, we have constructed a measure of the "optimism gap": that is, the percentage of SMEs' expecting an increase in turnover in the 12 months following the survey minus the percentage of those expecting a decrease, to give the overall net sentiment. A positive number means more firms expected a rise in turnover; a negative number indicates more firms expected a decrease.

Overall, both family firms and non-family firms expected an increase in turnover in the 12 months following the survey at a similar rate, with both having an optimism gap of just over 26% in 2020 (Figure 35). Family firms saw their optimism gap numbers stay exactly the same in 2020 compared with 2019. For non-family firms, in contrast, the optimism gap was just over six percentage points lower than the (pre-pandemic) 2019 numbers.

The recently conducted global PwC Family Business Survey (PwC, 2021), which surveyed 2,801 owners and executives of family businesses in 87 territories, also found that family firms were optimistic. In that study, around two-thirds (64%) of family businesses said they expected to grow in 2021 and 86% expected to grow in 2022.

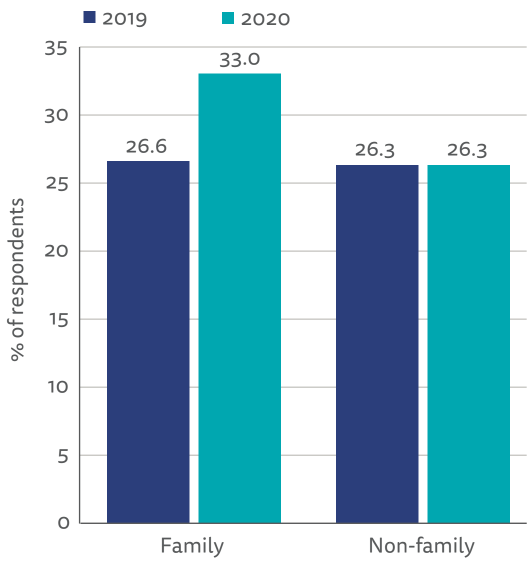


Figure 35. Percentage of SMEs with employees expecting an increase in turnover in the 12 months following the survey, minus the percentage of those expecting a decrease, by ownership and survey year

Source: BEIS (SBS 2020)

5.2 WHAT ARE FAMILY FIRMS' PLANS FOR GROWTH IN THE FUTURE?

Most SMEs said they intended to grow their sales over the next three years—some 77.1% and 78.6% of family firms and non-family firms respectively. There was little difference between family firms and non-family firms, even after adjusting for size (Figure 36). Small- and medium-sized SMEs with employees were about 10% more likely to state that they aimed to grow their sales in this period.

Firms were asked to identify how they planned to achieve this. At the time of the survey (between September 2020 and April 2021), the most common response concerned firms' workforces: over 60% of firms said that they planned to increase their workforce's skills (61.2% of family firms and 67.4% of non-family firms, Figure 37). This compared with 51% of family firms and 58% of non-family firms that intended to recruit more staff in the UK in the years ahead. Very few firms were focused abroad, perhaps understandably given firms were answering during a global pandemic and downturn. For example, overseas ventures in capital investment, recruiting staff, new overseas markets, and moving staff away from the UK were all low priorities for SMEs.

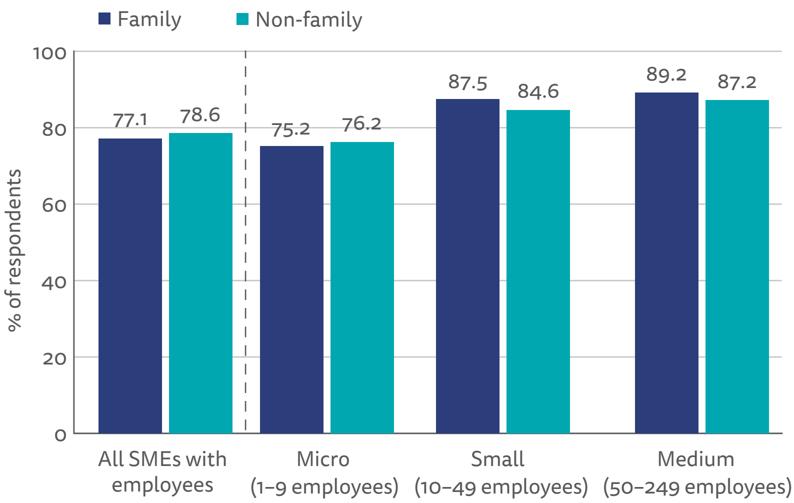


Figure 36. The percentage of SMEs with employees that aimed to grow their sales by 2023, by firm size and ownership
Source: BEIS (SBS 2020)

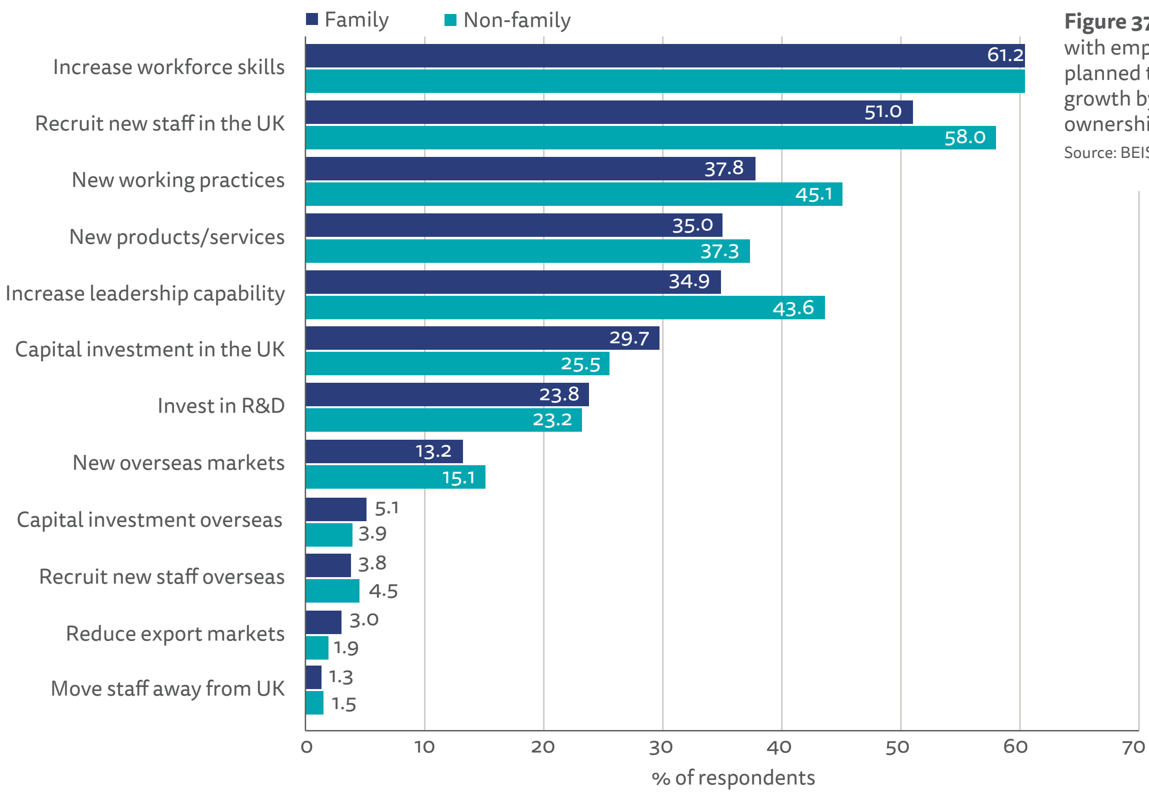


Figure 37. How SMEs with employees planned to achieve growth by 2023, by ownership
Source: BEIS (SBS 2020)

There are, however, some notable differences between family firms and non-family firms; for example, around 9 percentage points more non-family firms stated they focus on leadership capability. In addition, a higher proportion of non-family firms stated they wanted to recruit new staff (58% for non-family firms and 51% for family firms) and adopt new working practices (45.1% for non-family firms compared with 37.8% for family firms). Generally, a higher proportion of non-family SMEs with employees were planning to be more active than family SMEs with employees in each of the categories, except for the investment categories (namely investing in R&D, in capital markets in the UK, and in capital markets overseas) and in reducing their export markets. A large proportion of firms responded that they planned to grow their firms using methods not identified in the survey.

Looking at the breakdown by firm size (for family firms), we see that for micro- and small-sized family firms, the most common way they said they intended to achieve growth by 2023 was by increasing the skills of their workforce (at 58.7% and 75.7% respectively) (Figure 38); medium-sized family firms said they would most likely achieve growth by increasing their UK staff numbers (at 83.3%). Leadership capability was seen as a higher priority in larger firms, where the response rate was around twice that for small- and medium-sized firms compared with micro firms. The one strategy category where micro firms responded positively at a higher rate than small- and medium-sized firms was in reducing the number of export markets. Micro firms also responded at a higher rate (compared to small and medium firms) "None of these", indicating that they did not have plans or that the plans listed did not apply to them.

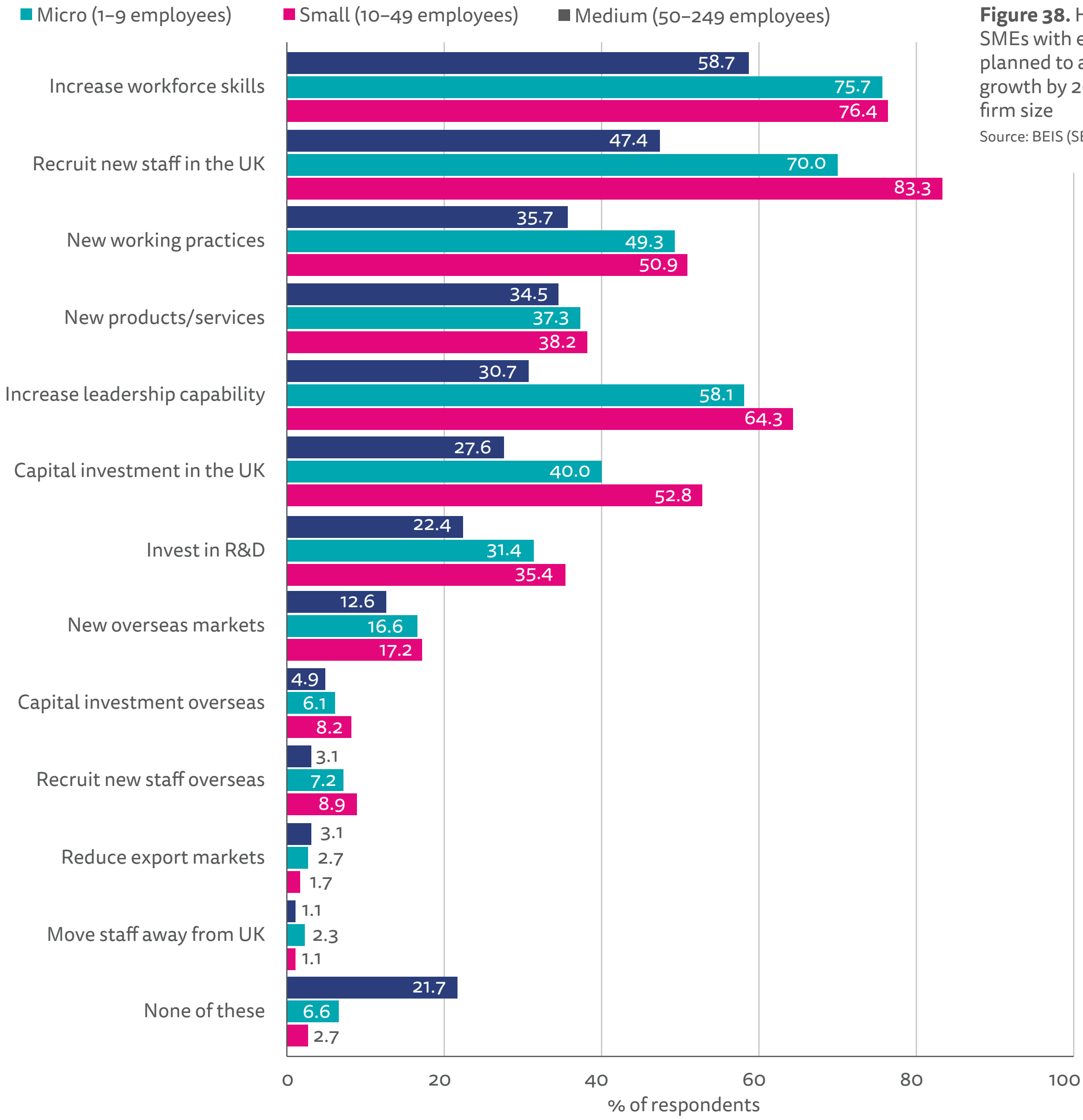


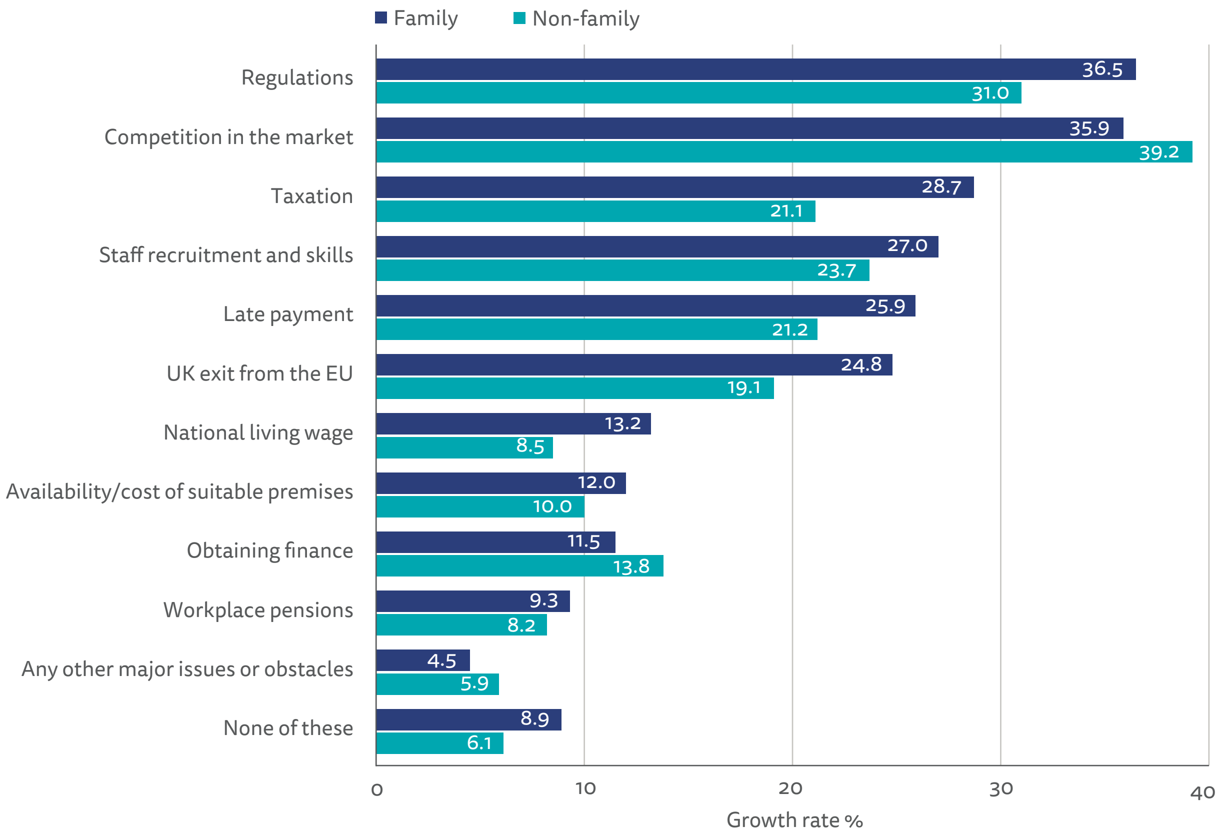
Figure 38. How family SMEs with employees planned to achieve growth by 2023, by firm size

Source: BEIS (SBS 2020)

5.3 WHAT MAJOR OBSTACLES DID SMES SAY THEY FACED IN 2020?

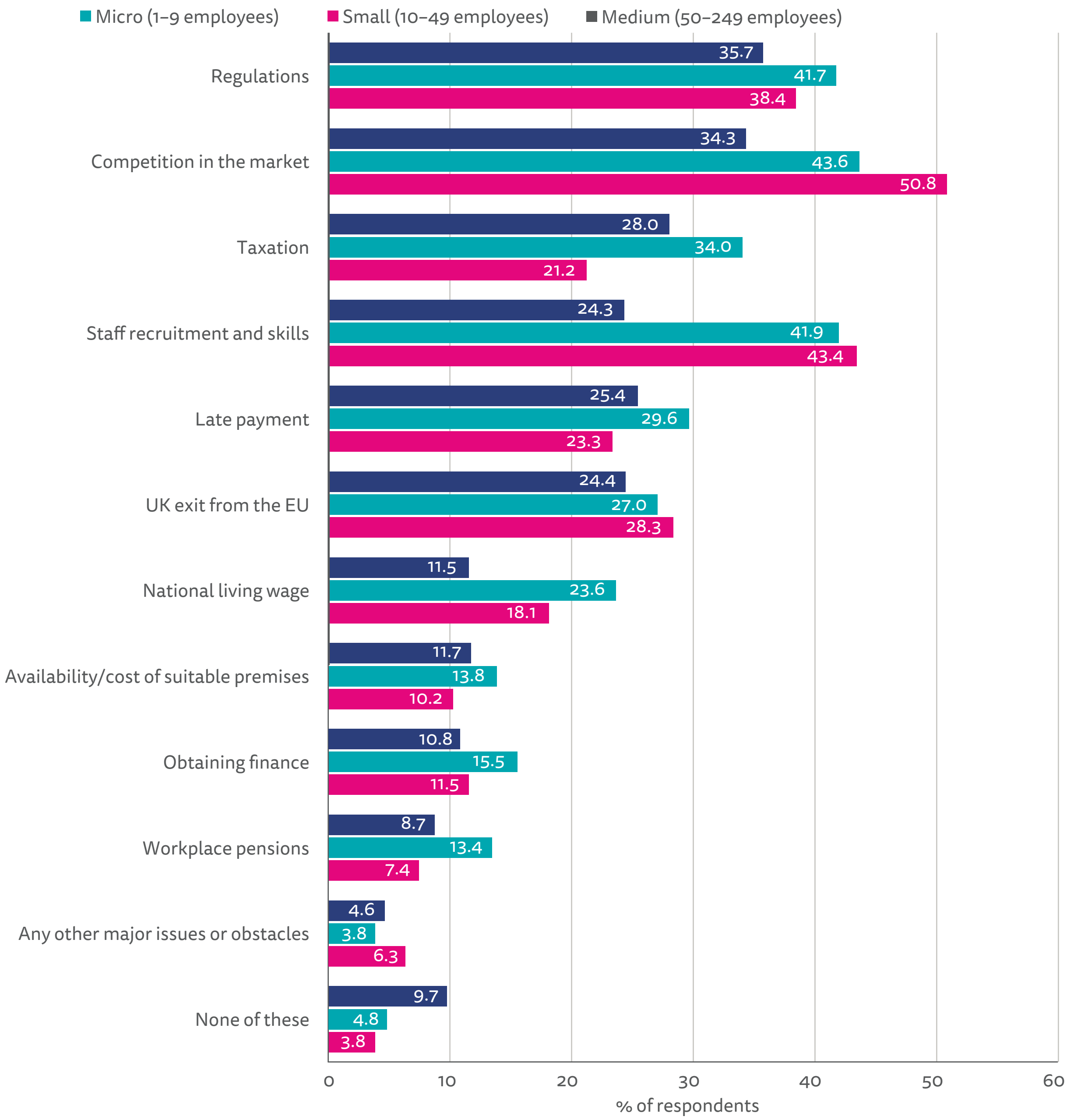
In addition to the COVID-19 pandemic, SMEs with employees said they faced a variety of obstacles to business success; the SBS enquired as to what these were. The responses to this multi-response question are shown in Figure 39. Family firms identified "Regulations" as the most common obstacle they face (36.5% of respondents), followed closely by "Competition in the market" at 35.9%. Non-family firms identified "Competition in the market" as the most common obstacle at 39.2%, followed by "Regulations" at 31%. "Taxation", "Staff recruitment and skills", "Late payment", and "UK exit from the EU" were also identified as common obstacles (about 20% of non-family SMEs with employees). For the ten obstacles explicitly listed, family firms answered at a higher rate than non-family firms in eight of them.

Figure 39. The major obstacles to business success cited by SMEs with employees in 2020, by ownership
Source: BEIS (SBS 2020)



"Regulations" and "Competition in the market" again proved to be the most common issues identified when analysing obstacles by firm size. For micro family firms with employees, "Regulations" appears to be the most commonly cited obstacle (with 35.7% of respondents choosing this option), whilst for small- and medium-sized firms, it was "Competition in the market" (at 43.6% and 50.8% respectively, Figure 40). Larger family SMEs were more likely to identify "Staff recruitment and skills" and the "National living wage" as obstacles than micro family firms—this is expected, because larger firms are more likely to be affected by these challenges because they have more staff.

Figure 40. Major obstacles identified by family-owned SMEs with employees in 2020, by firm size
Source: BEIS (SBS 2020)



5.4 FAMILY FIRMS' ACCESS TO EXTERNAL FINANCE

Very few SMEs reported trying to access external finance in the 12 months prior to being surveyed. Only around one in ten SMEs attempted to do so, as shown in Figure 41. In general, there was slightly more appetite for accessing external finance among the larger SMEs, but the difference is minimal. Among micro firms with employees, a higher proportion of non-family firms attempted to acquire finance at least once, whilst a lower proportion of non-family firms attempted to acquire finance at least once for small- and medium-sized firms.

It did not appear to be the case that firms needed finance but rather, that they were unwilling to apply. The rate of non-application was very low, only around 9% of all SMEs with employees (Figure 42). This was the case across all firm sizes and for both family firms and non-family firms. However, as the figure shows, across all size bands, family firms with employees were more likely to say that they needed finance but did not apply compared with their non-family counterparts; the biggest difference was for medium-sized firms (5.8% compared with 9.6%).

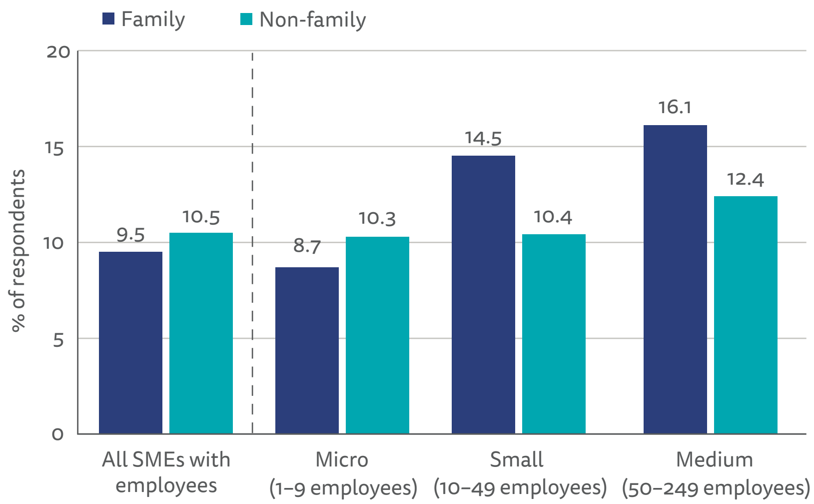


Figure 41. The proportion of SMEs with employees that reported applying for external finance at least once in the 12 months prior to being surveyed in 2020, by firm size and ownership

Source: BEIS (SBS 2020)

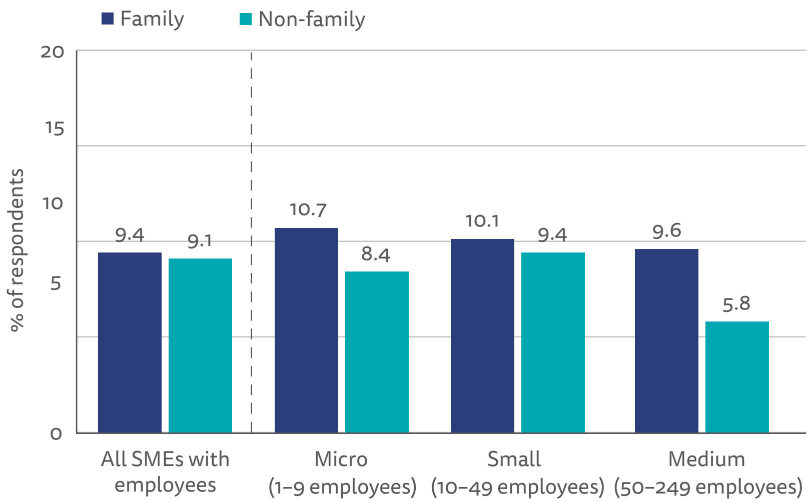


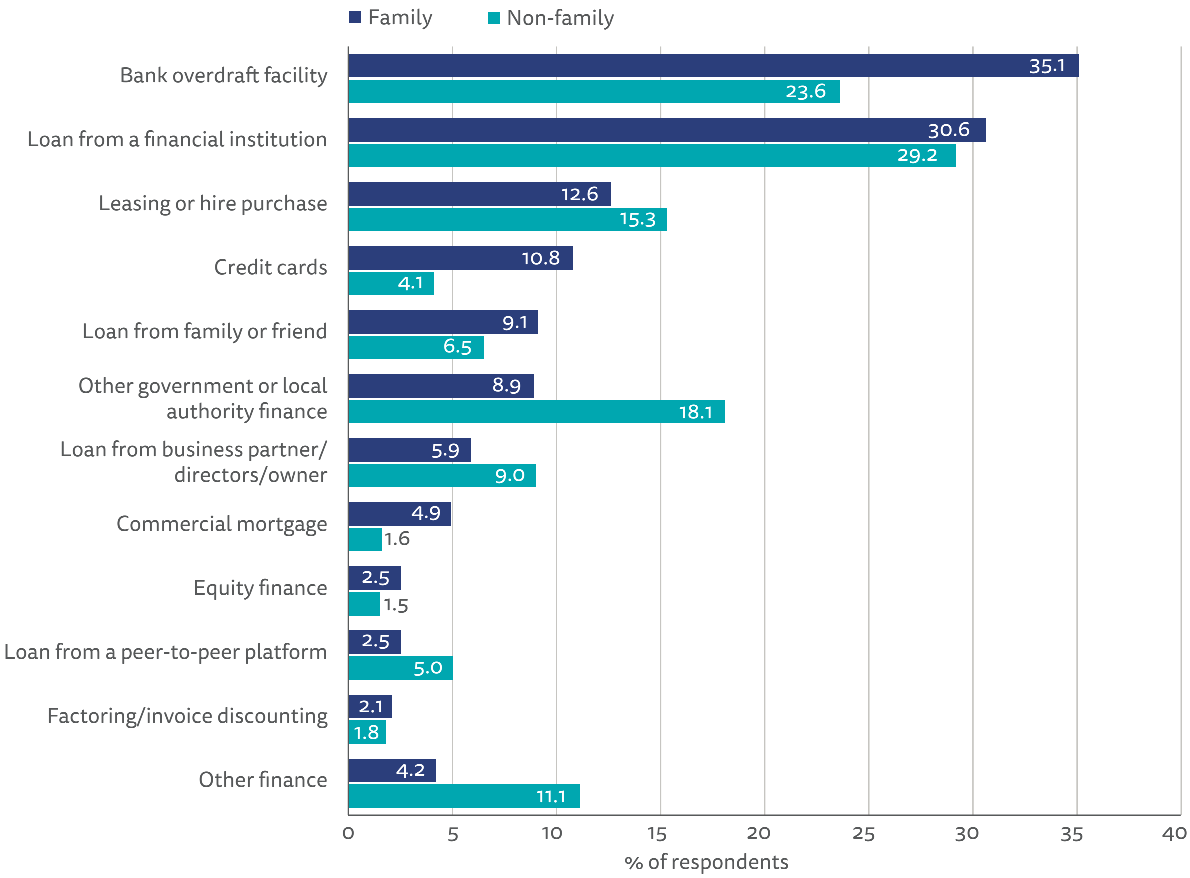
Figure 42.SMEs with employees that said they needed finance, but did not apply in the 12 months prior to being surveyed in 2020, by firm size and ownership

Source: BEIS (SBS 2020)

Those who did apply for external finance did so from a range of sources. The most popular form of external finance for family firms was the "Bank overdraft facility" (used by 35.1% of firms) (Figure 43); this was used by 23.6% of non-family firms, making it their second most popular option. The most popular form of finance for non-family SMEs with employees was a "Loan from a financial institution", such as a bank or building society, at 29.2%. This option was the second most popular among family SMEs with employees, with 30.6% of family SMEs with employees saying they used this option.

Generally, the rate of application across forms of external finance was broadly similar between family firms and non-family firms. Some notable differences, however, were for "Other government or local authority finance", which was used by 18.1% of non-family firms—over twice the proportion of family firms. Likewise, there was nearly three times the proportion of non-family firms that stated they used "Other finance" compared with non-family firms.

Figure 43. The proportion of SMEs with employees applying for different types of external finance in 2020, by ownership
Source: BEIS (SBS 2020)



6. PREPARING FOR FUTURE CHALLENGES

In this section, we look beyond the COVID-19 pandemic, and explore how family businesses are set for some of the most pressing challenges facing business. In particular, drawing on survey evidence, we look at several topics we believe will play a vital role in the economy and wider society over the next few years and decades—namely workforce diversity, Brexit, energy use, and technology usage. Since we are using SBS data, our analysis focuses on SMEs.

6.1 DIVERSITY IN FAMILY SMES

Family SMEs typically have a higher proportion of women leading them than non-family SMEs, across all size bands. Women-led firms are defined as those with more than 50% of owners, partners, or directors who are female. Just over one sixth (17.7%) of all family SMEs were women led in 2020, higher than the 13% of non-family SMEs (Figure 44). For both family SMEs and non-family SMEs with employees, the small-sized firms were the most likely to be women led.

The proportion of women-led SMEs has not changed much over the years. Looking at the proportions between 2017 and 2020, family firms have consistently reported a higher proportion than non-family firms; the proportion has been between 13.5% and 17.7% for family firms (Figure 45), and between 11.1% and 14.6% for non-family firms.

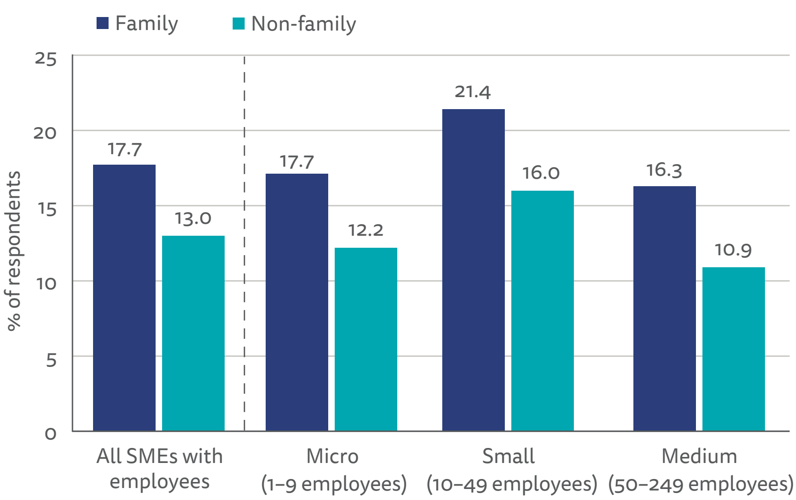


Figure 44. Proportion of SMEs with employees that were women led in 2020, by firm size and ownership
Source: BEIS (SBS 2020)

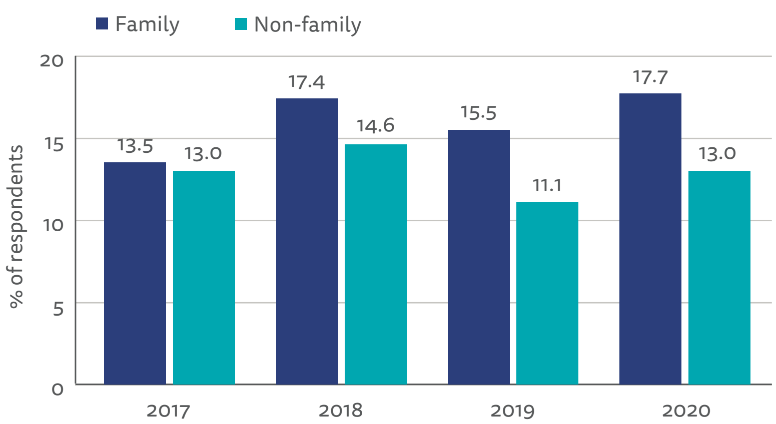


Figure 45. Proportion of SMEs that were women led between 2017 and 2020, by ownership and survey year
Source: BEIS (SBS 2020)

A firm is defined as minority-ethnic group led if more than 50% of owners, partners, or directors are from a minority-ethnic group. Typically, the proportion of businesses that are minority-ethnic group led are quite small. This was the case in 2020 when an estimated 6.5% of family SMEs and 5.3% of non-family SMEs with employees were minority-ethnic group led, as shown in Figure 46; there was slightly more variance in the proportions between size bands for non-family firms compared with those for family firms.

The small proportion of firms that are minority-ethnic group led is something that has been seen since 2017. The proportions, for both family SMEs and non-family SMEs with employees, have consistently been below 7% (Figure 47). However, it should be noted that for both family firms and non-family firms there was a relatively large rise in the proportions between 2019 and 2020. For family SMEs with employees the value rose from 4.1% to 6.5%, whilst for their non-family counterparts there was a jump from 2.8% to 5.3%. Between 2017 and 2020, the proportion for family firms is consistently higher than for non-family firms, according to the SBS.

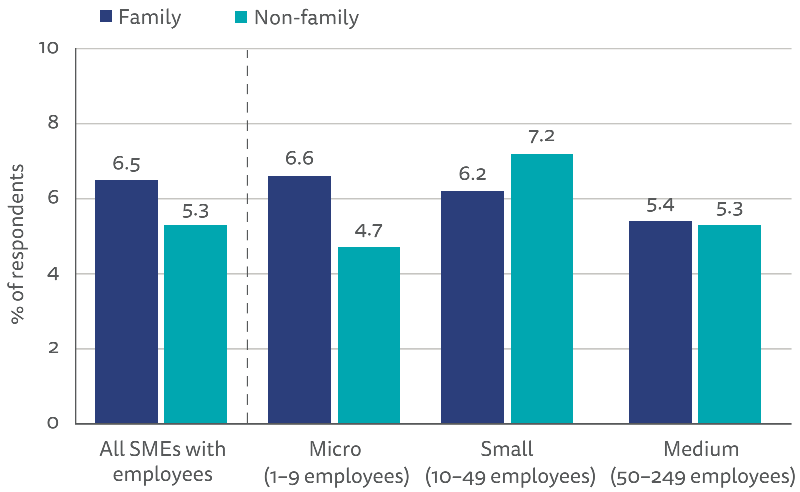


Figure 46. Proportion of SMEs with employees that were minority-ethnic group led in 2020, by firm size and ownership
Source: BEIS (SBS 2020)

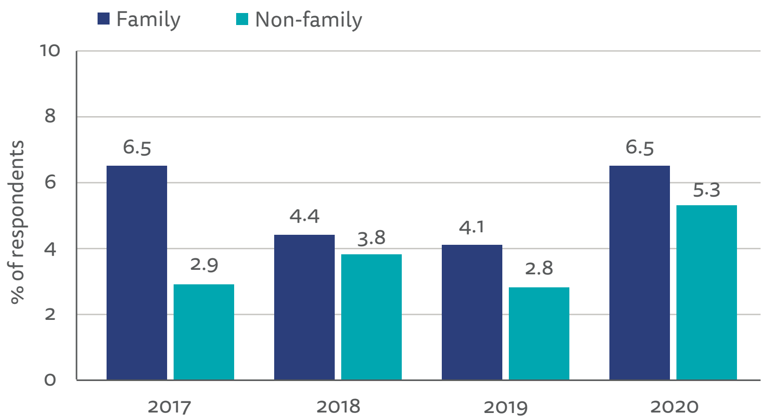


Figure 47. Proportion of SMEs with employees that were minority-ethnic group led between 2017 and 2020, by ownership and survey year
Source: BEIS (SBS 2020)

6.2 THE IMPACT OF BREXIT ON THE FAMILY BUSINESS SECTOR

The UK left the EU in January 2020 at which point a transition period began which ended in December 2020 (as shown in Figure 1 in the Introduction). This separation affects trade in goods and services, as well as the movement of labour. It is not yet fully clear whether and how Brexit will be an obstacle for many firms or whether it will affect how firms operate in the years ahead, especially given firms were surveyed either before or just after the UK formally exited the EU—the SBS was conducted between September 2020 and April 2021. However, the SBS data can provide some preliminary evidence as to the impact, namely how firms were affected just before and during the formal exit, and their concerns about the future impact at the time of the survey.

To help provide some more context as to the potential impact before discussing the SBS results, we can use data from the MES where firms were asked to approximate the proportion of their suppliers in 2019 (i.e., prior to Brexit) that were based internationally. In 2019, the majority of firms primarily used domestic suppliers; 59.8% of firms stated that none of their suppliers were internationally based. Generally, non-family firms tended to be more inclined to use international suppliers; some 45.3% responded that they did. The proportion was lower for family-owned but not family-managed firms at 40.1%, whilst it was lowest for family-owned and family-managed firms at 34.8%.

However, the above suggests some firms rely on international suppliers. Whilst it is difficult to disentangle the impact that Brexit will have on the UK economy from the lasting effects of the pandemic, the SBS data do offer some insight into how firms are feeling about the impact of Brexit.

The 2020 SBS asked firms whether they felt the UK's exit from the EU would be an obstacle for them.[20] There was a slight tendency for larger SMEs to report being more concerned than smaller firms. This is in line with the exporting behaviour of larger firms which tend to have more supply chain exposure to the EU.

There were some differences between family SMEs and non-family SMEs in how likely they were to see Brexit as an obstacle—around a quarter and a fifth respectively (Figure 48). Among micro and small SMEs, family firms were more concerned about the impact of Brexit than non-family firms—among micro firms, the percentage was 24.4% for family firms compared with 17.5% for non-family firms, whilst for small firms it was 27% compared with 21.9%. For medium-sized firms, the reverse was true, with a slightly higher proportion of non-family firms viewing Brexit as an obstacle compared with family firms (33.7% compared with 28.3%).

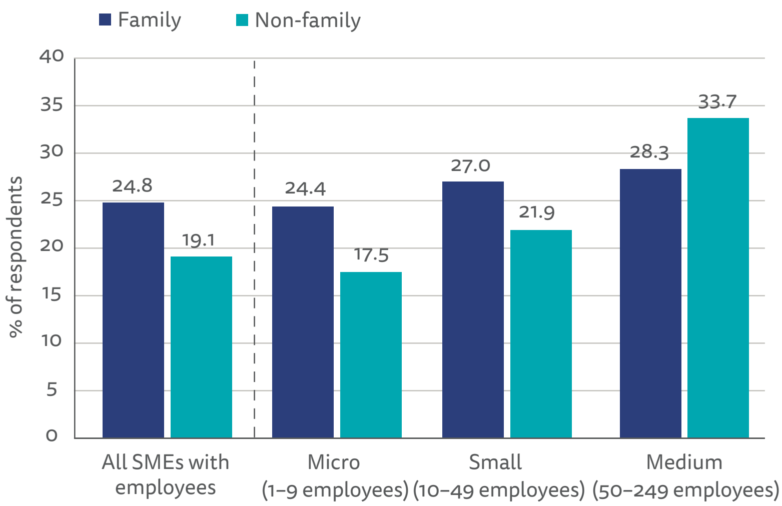


Figure 48. Proportion of SMEs with employees that identified Brexit a future obstacle for them in 2020, by ownership and firm size
Source: BEIS (SBS 2020)

Many firms have stated that they had already seen an impact due to Brexit by the time they were surveyed (late 2020/early 2021), through a variety of channels. The most common concern they had was the increase in the cost of exports, with 34.2% of family firms compared with 27.6% of non-family firms identifying this as an issue (Figure 49). The next most common difficulty seen by firms was something other than those listed in the SBS, at around 23% of firms.

Both family firms and non-family firms reported that they had experienced more difficulty recruiting and retaining skilled labour compared with recruiting and retaining unskilled labour. There was no clear pattern when it came to the concerns of family firms compared with non-family firms: non-family firms were almost twice as concerned about investments and raising capital compared with family firms, whilst family firms were slightly more concerned about import costs from the EU.

In general, a higher proportion of firms said they were more likely to anticipate difficulties in the future due to Brexit than they had already experienced. Overall, most SMEs were concerned about increasing import costs, in line with what they had already experienced (Figure 50). A noteworthy difference between family and non-family firms was in the proportion between those who anticipated difficulties regarding export costs: 38% of non-family firms listed this as a reason compared with only 23.6% of family firms. This may be due to differences in export behaviour between family firms and non-family firms.

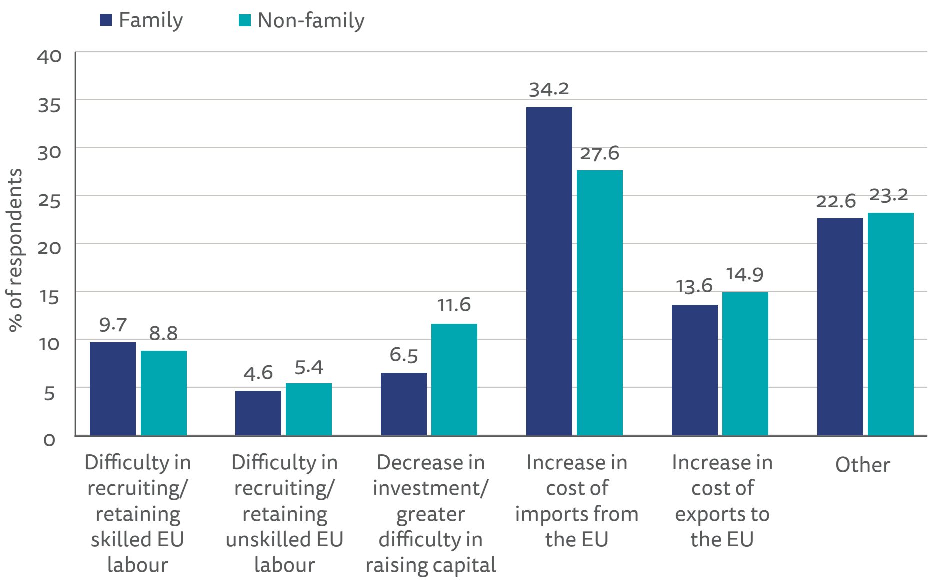


Figure 49. Proportion of SMEs with employees that reported having experienced difficulties attributed to Brexit in 2020, by ownership and firm size
Source: BEIS (SBS 2020)

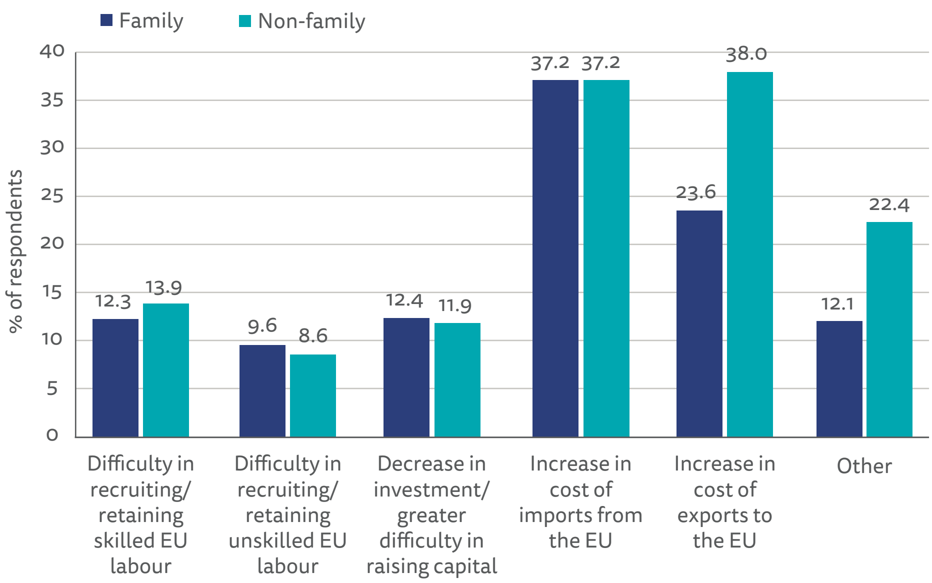


Figure 50. Proportion of SMEs with employees that expect to experience difficulties attributed to Brexit in 2020, by ownership and firm size
Source: BEIS (SBS 2020)

6.3 HOW ARE FAMILY BUSINESSES CONSIDERING ENERGY USAGE?

Whilst there is relatively limited coverage of environmental issues in the SBS, there was a small number of questions regarding energy usage. Across all SMEs surveyed in the 2020 SBS, around 13% said they had introduced energy-efficiency measures, as shown in Figure 51; medium-sized firms were most likely to say they had introduced such measures. In addition, small- and medium-sized family firms were more likely to say they had introduced energy-efficiency measures than their non-family counterparts.

There were a variety of reasons why firms would choose to implement such measures. Those who implemented energy-efficiency measures were asked to give their reasons for doing so. The most popular reason by far was,"To reduce my energy costs", with 49.9% of family firms and 45.2% of non-family firms stating this as a factor (Figure 52). Another reason selected by a large proportion of firms was that "Equipment needed replacing", selected by 24.7% of non-family firms, slightly more than the 21.6% for family firms.

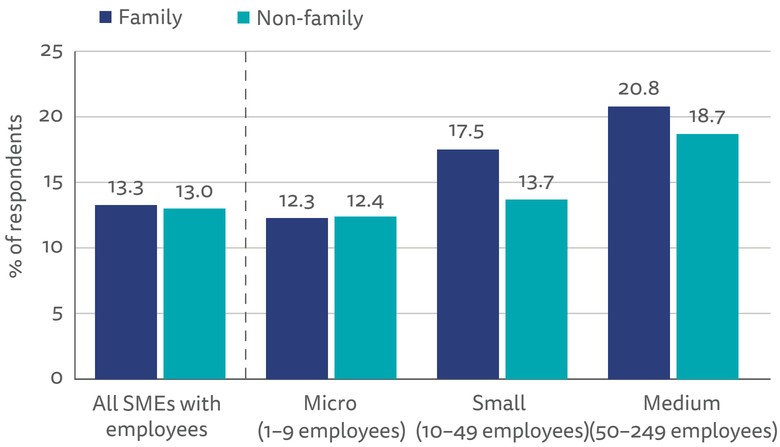
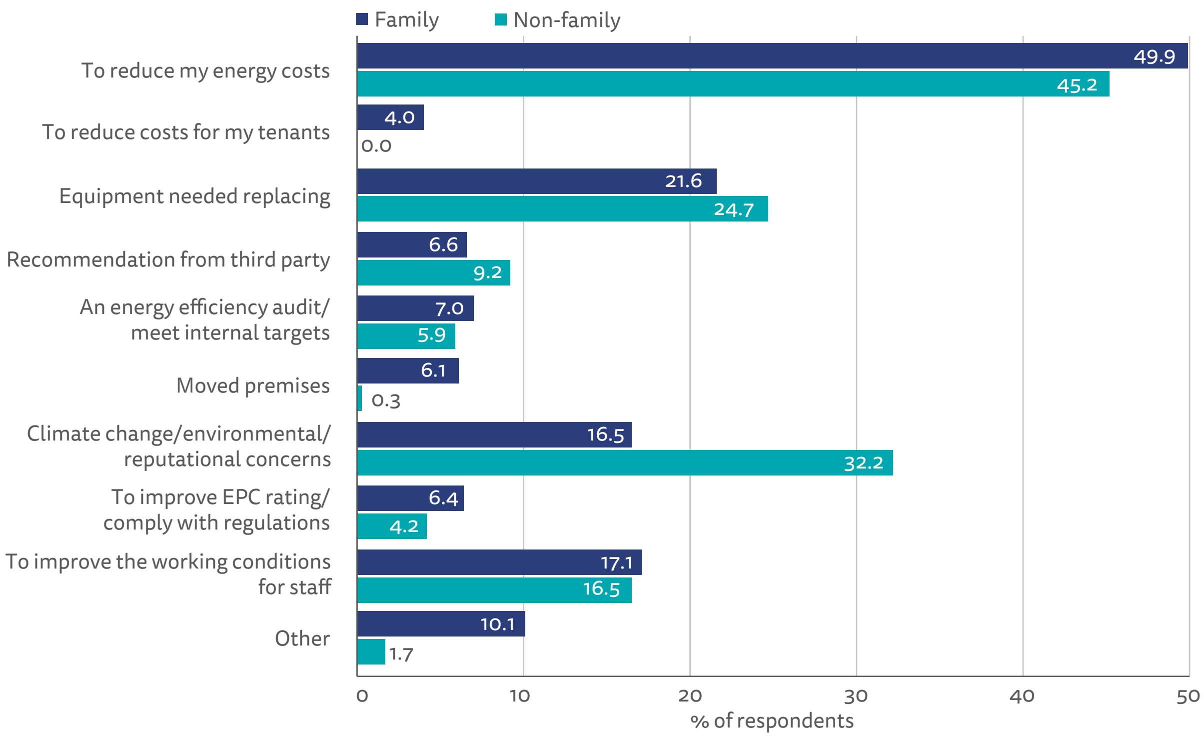


Figure 51. Proportion of SMEs with employees who have installed energy-efficiency measures in 2020, by size and ownership
Source: BEIS (SBS 2020)

Figure 52. Reasons why SMEs with employees who have installed energy-efficiency measures chose to do so, by ownership
Source: BEIS (SBS 2020)



Many firms indicated that climate change, the environment, or their reputational reasons was a factor in their decision to install energy-efficiency measures.[21] There was some variation between family firms and non-family firms about the importance of these specific concerns—nearly twice the proportion of non-family firms stated they implemented energy-efficiency measures for these reasons than family firms (32.2% compared with 16.5%) (Figure 53). Comparing firms of different sizes, there were large differences between family firms and non-family firms for micro-sized firms with employees and medium-sized firms, with non-family firms more likely to cite this reason. In contrast, small family firms were actually more likely to cite this as a reason compared with non-family firms. Larger firms were more likely to cite climate change, environmental, or reputational concerns as a reason.

This lower prioritisation of sustainability among family businesses in the UK (in particular, compared with other countries) is further highlighted by evidence from PwC (2021b). They found that only 39% of UK family firms “put sustainability at the heart of everything [they] do”, which ranked UK family firms fifth from bottom out of 37 countries. In comparison, 70% of respondents in China, Japan, and Taiwan said they “put sustainability at the heart of everything [they] do”.

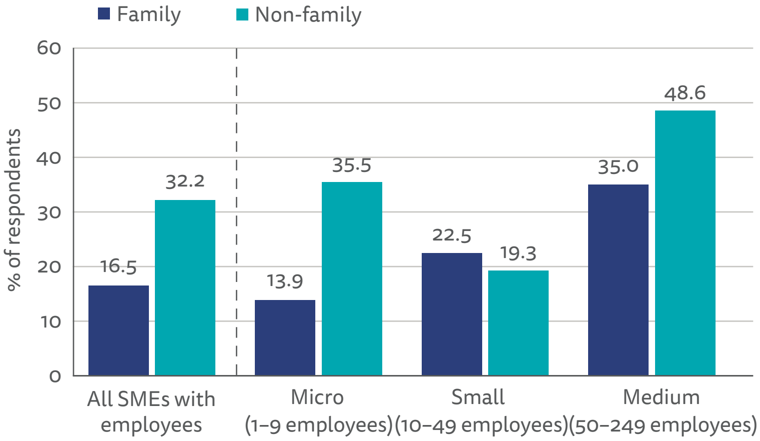


Figure 53. Proportion of SMEs with employees who have installed energy-efficiency measures because of climate change concerns in 2020, by size and ownership
Source: BEIS (SBS 2020)

6.4 TECHNOLOGY ADOPTION IN FAMILY SMES

The previous sector report (IFB Research Foundation and Oxford Economics, 2021) presented the results of an in-depth analysis of technology adoption among family SMEs and non-family SMEs, using 2019 SBS data. The results indicated that, once other factors such as size and sector had been accounted for, the relationship between family ownership and technology usage was statistically insignificant. This section updates the discussion around technology usage and how businesses within the family business sector manage their operations and/or sell online using more recent SBS data.

The majority of both family and non-family firms used technology in 2020 to manage the business, sell online, or both—around 70% of all SMEs did so (Figure 54). “Only use technology to manage the business” was the most reported way technology was used; 36.5% and 38% of family firms and non-family firms did so respectively. “Only use technology to sell to customers online” was the next most commonly cited reason (around 18%), followed by using technology for both purposes (12.9% of family firms and 14.2% of non-family firms).

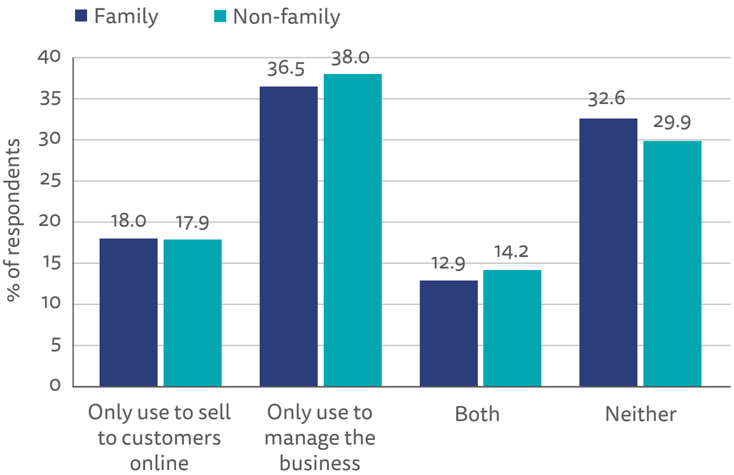


Figure 54. Proportion of SMEs which report using technology or web-based software in 2020, by ownership and usage
Source: BEIS (SBS 2020)

When we compare usage by size, the proportion of firms that only used technology to manage their business was similar across all firm sizes (Figure 55). However, medium-sized firms were more likely to say they used technology for both purposes compared with micro and small firms. Instead, medium firms were more likely to state they used technology to sell online (either exclusively, or alongside using it to manage their business). This may be because medium-sized firms have a wider customer base that would use a website, or the firms have more capital to set up and maintain a website.

The SBS also asked firms about the types of technology they used. Accountancy software was by far the most popular choice of software, with around half of SMEs with employees opting to use it (47.1% of family firms and 50.1% of non-family firms) (Figure 56). We can also compare the responses in 2020 with those from the previous survey in 2019. Accountancy software was the most popular response in the previous study as well; however, there was a rise in usage for both family firms (with a rate of 40.6% in 2019 compared with 47.1% in 2020) and non-family firms (46% in 2019 compared with 50.1% in 2020).

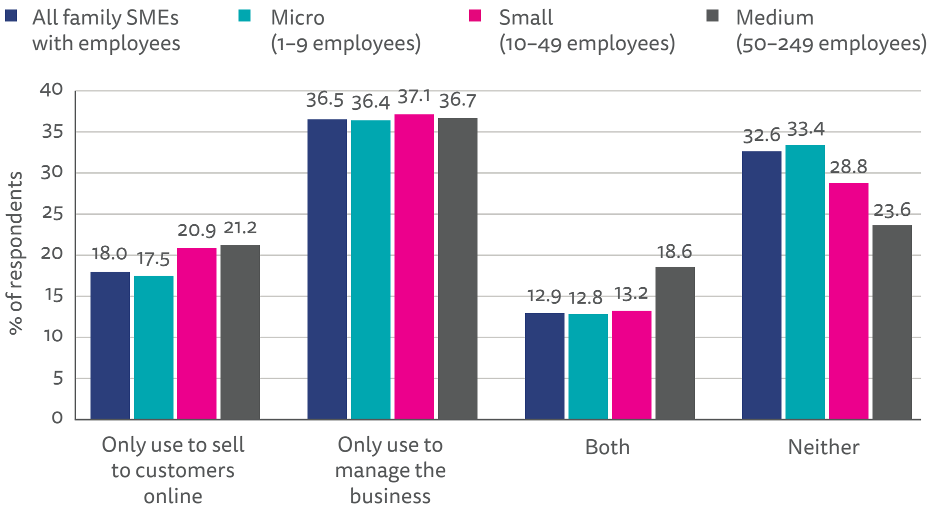
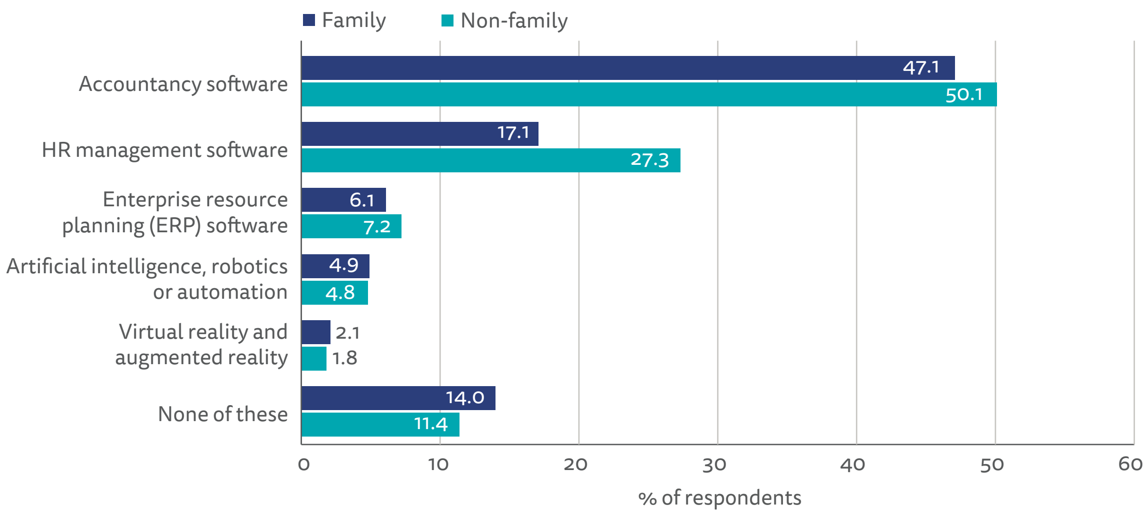


Figure 55. Proportion of family SMEs with employees which report using technology or web-based software in 2020, by firm size and usage
Source: BEIS (SBS 2020)

Figure 56. Type of software or technology used by SMEs with employees in 2020, by ownership
Source: BEIS (SBS 2020)



The next most popular software in 2019 was HR management software. Non-family SMEs with employees were over 10 percentage points more likely to state they used it than family SMEs with employees, at 27.3% compared with 17.1%. In addition, the figures of 17.1% and 27.3% of family SMEs and non-family SMEs with employees were considerably higher for both categories compared with 7.2% and 10.3% respectively in 2019. Other technologies were used in roughly the same proportion by family firms and non-family firms; all had low usage rates at less than 10% which applied to the 2019 results as well. Family firms were slightly more likely to use none of the given technologies (whilst still using other technologies) in 2020.

Government-enforced restrictions during the pandemic meant there was less face-to-face contact; as such, firms had to adjust how they sold their goods and services. Just under 14% of both family firms and non-family firms reported transitioning to selling online due to the pandemic (Figure 57). Small family firms said they were most likely to move to selling online because of the pandemic (18.2%); this is around six percentage points more than their non-family counterparts. Medium-sized firms were the group least likely to say they introduced selling online due to the pandemic; this may, in part, be because they already had an online presence before the pandemic.

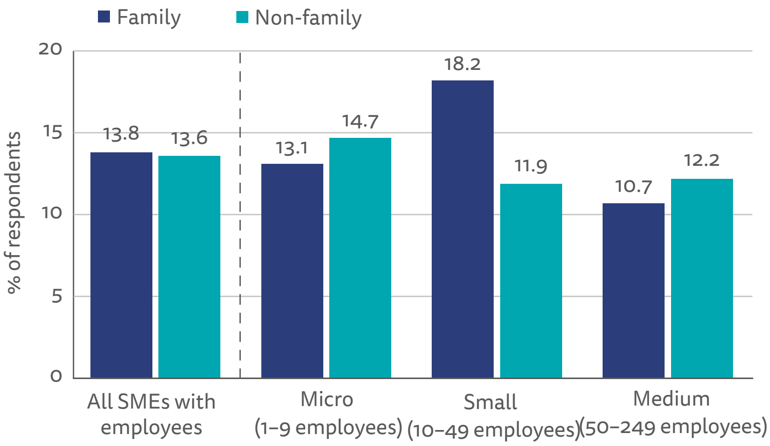


Figure 57. Proportion of SMEs with employees selling online due to the COVID-19 pandemic in 2020, by firm size and ownership
Source: BEIS (SBS 2020)

7. CONCLUSION

Oxford Economics undertook a detailed analysis of the state of the UK's family business sector in 2020, the most recent year for which comprehensive survey data are available. Based on evidence in the SBS, MES, and other ONS statistics, we drew several conclusions:

- **It is hard to overstate the importance of the family business sector to the UK economy.** Our research shows that family businesses comprised 4.8 million businesses and were directly responsible for 13.9 million jobs in 2020. That is about 85.9% of all UK private sector businesses and 51% of the total private sector workforce. Furthermore, the family business sector generated £1.7 trillion in turnover and £575 million in GVA. Large family businesses contributed around £38 billion in taxation.

- **Family businesses are prominent in all sectors and all regions of the UK economy.** From wholesale and retail trade to construction, and from primary to accommodation and food services, the pervasiveness of family businesses across sectors reinforces their importance in the UK economy: when the family business sector is doing well, the UK economy is typically also doing well.

- **The COVID-19 pandemic presented the UK's family businesses with new challenges.** A large proportion of family firms saw their turnover fall; many had to make far-reaching adjustments to how they operate and deliver services to ensure they could stay open and survive, including furloughing staff or redundancies. As this report shows, some family firms were unable to adapt operations as easily as their non-family counterparts, such as working from home.

- **Brexit, the UK's sharp energy price rises, and stiff competition pose obstacles for the family business sector going forward.** Family businesses indicated that Brexit will likely contribute to the rising cost of imported products. That will be compounded by rising energy costs, which have become particularly important in the second half of 2022. These are new obstacles recently added to the generally competitive landscape, since family businesses consistently indicate that competition is one of the biggest obstacles they face.

- **Despite headwinds, there are several reasons for optimism.** Three-quarters of family businesses said they plan to grow their turnover, many by increasing the skills of their workforce or recruiting new staff. Family firms continue to work as platforms of opportunity for women and minority-ethnic groups compared with non-family firms. Furthermore, as the cost of energy becomes more important to the success of all UK businesses, it is heartening to see that family businesses with ten or more employees—the size band where it arguably has the greatest impact—have adopted energy-saving measures at a faster rate than other SMEs of similar size.

Overall, we find that the UK's family business sector remained the bedrock of the UK economy in 2020. The sector faces both new and old challenges, yet also benefits from a unique set of strengths. As a large part of the UK economy overall—the largest as measured by employment—the family business sector continues to be an important sector to watch.

ENDNOTES

1. When a source refers to "SBS 2020", it means the 2020 data from the SBS published in 2021.
2. In 2020, there was a total sample size of 7,636 businesses. This was split between: 4,764 who had previously been interviewed in 2019; 617 who had been interviewed between 2015 and 2018, but not in 2019; and 2,255 businesses that had been included for the first time (referred to as "top-ups").
3. This question was specifically asked to survey top-ups, or previous panellists who stated their ownership status had changed.
4. This work was produced using statistical data from the ONS Secure Research Service. The use of the ONS statistical data in this work does not imply the endorsement of the ONS in relation to the interpretation or analysis of the statistical data. This work uses research datasets which may not exactly reproduce National Statistics aggregates.
5. The exact number of valid responses depends on which question is looked at.
6. Previous reports can be found on the IFB Research Foundation website: www.ifb.org.uk/ifb-research-foundation/publications
7. Data accessed in May 2022.
8. This survey covered 2,801 family businesses from 87 territories and was conducted between October and early December 2020.
9. The primary sector is comprised of four sectors: agriculture, forestry and fishing; mining and quarrying; electricity, gas, steam and air conditioning supply; and water supply, sewerage, waste management and remediation activities (ONS, 2008).
10. The other services sector covers memberships organisations, personal and household goods repair (including computers) and other services that are not assigned to another category (ONS, 2008).
11. Note this includes self-employed individuals or working proprietors.
12. Employment in micro firms without employees refers to the employment of the owners of the firm.
13. No turnover data was published for financial services, and so it is omitted in Table 10 and Figures 5 , 26, and 27.
14. Large firms were firms that had 250 or more employees.
15. Firms were asked to respond in the affirmative if they had undertaken the given response at any point during the COVID-19 pandemic.
16. Again, firms were asked to respond in the affirmative if they had undertaken the given response at any point during the COVID-19 pandemic.
17. The analysis in sections 4.1–4.4 relates to all firms, including large family firms. The analysis in sections 4.5–4.7 relates to SMEs only.
18. No turnover data was published for financial services, and so it is omitted in Figure 26 and Figure 27.
19. Whilst the question concerns decisions over the past three years, the pandemic began around six months before the survey commenced.
20. For more detail about the timeline regarding the COVID-19 pandemic, Brexit and the survey data, see Figure 1.
21. These reasons were all combined in one response in the survey: "Climate change/environmental/reputational concerns".

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Published by the IFB Research Foundation 2022

ISBN 978-1-7392001-0-7

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