

Working with Manchester Business School, our survey into **the financial affairs of UK family companies** highlights factors that influence key financial and succession planning decisions...

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...and draws evidence from 320 owner-managers of private companies, of which 73 percent are family controlled firms.

Family businesses are the backbone of the UK economy and the bedrock for our entrepreneurial development, accounting for over two thirds of all enterprise and about half of the GDP.

Family businesses need to address the financial agenda, encapsulating issues such as ownership and control.

The mastering of financial planning – often an integral part of the business transfer and succession process, is paramount to the long-term development of privately held family firms and the prosperity of their owners and/or managing directors.

In a nutshell, this research addresses the following matters:

- how do owner-managers of family companies view their strategic financial development options?
- to what extent does their financial philosophy – often characterised as traditional and introvert – shift in the context of the succession planning process or business transfer?
- what appetite do family firms have for raising private equity?

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Foreword

The latest MBS survey into the financial affairs of UK family companies highlights some interesting findings, particularly in terms of financing family business continuity and succession planning.

The report presents some important considerations for owner-managers of family businesses, their advisers and enterprise policy makers. The findings also highlight the need to approach financing of these businesses differently.

As a specialist investor in family businesses, these views confirm anecdotal evidence from our own experience.

For a select group of family businesses, private equity can be a useful resource in financing succession issues, growth challenges and acquisition opportunities. To make this work, investors need to take a long-haul view, offer more flexible investment structures and to have respect for the family tradition.

John Hudson

Sand Aire Private Equity

It emerged that owner-managers would welcome the venture capital option, if venture capital providers offer more flexibility and sensitivity in their approach.

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Summary of key findings

- On the financing side, family companies, like their non-family private counterparts, adhere to the pecking order principles: **funding behaviour is governed by a preference for internally generated funds** (mainly retained profits); followed primarily by external short-term debt (supplemented by long-term debt); whilst external equity capital is considered as a last resort.
- As predicted by such a philosophy, venture capital and capital from business angels are the least important sources of finance for the majority of family companies.
- However, for the minority of family companies that have considered venture capital, it emerged that they are prepared to relinquish up to 25% of the shares in the business to external partners.
- It is also interesting to note that Owner-Manager Directors (OMDs) of family companies do not shift from their strong adherence to the pecking order when considering the funding of business transfers to the next generation.



- The most important factor that deters privately held family companies from raising external equity capital is the **dilution/loss of ownership and management control**.
- In terms of the succession planning process, the great majority of family companies appear to pursue a less formal, ad hoc approach. They do not use family constitution protocols that deal with key strategic issues pertaining to succession planning and family business perpetuation to assist them with their succession plans.
- The main barriers to perpetuation of the business in the family are not related to financing, but relate to the lack of enthusiastic siblings to take the reins of the family business; the mismatch of family and business financial priorities; and pressing needs in terms of renewed human capital talent, as **too often with growth the business outgrows the family's ability to provide the necessary management skills**.
- A number of enterprise policy implications result from this empirical study: OMDs and their advisors must address strategically the succession process from the perspective of ownership, management and financing. Moreover, there is a need for more attention to be paid to the success stories featuring the maximisation of family wealth via the skilful balancing of growth and control issues.
- Venture capital is not for all firms; however **dynamic family companies –with relatively high levels of capital intensity and growth potential – have to tap into development capital** when they confront increased financial needs. Venture capitalists have the pool of funds, expertise and network that may enable OMDs of dynamic ventures to strategically manage the challenging transitions caused by the progress of the product, industry, business growth, capital and family life cycles.

It emerged that family companies considering venture capital are prepared to relinquish up to 25% of the shares in the business

The research brief

The family business, defined for the purpose of this report as a venture with the majority of controlling shares in the hands of the family is often described as **the seedbed for sustainable entrepreneurship** because it nurtures a business culture characterised with a sense of loyalty, long-term commitment and pride in the “family” tradition. Moreover, owner-managers of family firms are credited for their financial prudence and business acumen that often enable clusters of family ventures to outperform (in terms of certain financial variables) and outlive their commercial counterparts.

On the negative side, family firms may suffer from disadvantages such as lack of professionalism, nepotism rather than meritocracy in human resource management, rigidity, informal channels of communication and often family feuding. **Conflicting family and business politics can “derail” the development of family firms**, as the process of business growth may not be fully compatible with the objective of “keeping it in the family”. The less proactive and rather sporadic attention to strategic succession planning remains one of the main factors that jeopardises family business continuity.

Moreover, stakeholders with an interest in the survival, long-term growth and sustainable corporate prosperity of privately held enterprises, including family firms, have been concerned about their financial affairs. Strong financial health and a wider equity capital base are paramount, not only for survival across the macro-economic business cycle, but also to finance growth strategies. In the new competitive order, investment in research development-led technological innovations, central for market and/or product diversification and other organic (or acquisitive) growth strategies, reduces the usefulness of traditional sources of funding. This is because many OMDs do not have a long-term financial planning horizon.

Moreover, financial planning forms an integral part of the strategic succession plan when founders and/or owner-managers transfer management and ownership to the next generation of the family, loyal (long-serving) non-family managers or outsiders. **Sourcing supplementary external long-term capital** – such as private equity/venture capital – to finance liquidity and other capital investment requirements resulting from generational management renewal or ownership transitions, **will increasingly be central to sustainable business growth and to family prosperity and harmony.**

Poutziouris et al (1998, 2001, 2002), in a series of investigations into the financial affairs of private companies found that the under-capitalisation that hampers the development of SMEs is due to market-imposed difficulties and inefficiencies (supply-side issues) but also because of the short-termist attitude of OMDs towards strategic financial development planning (behavioural and demand side factors). Owner-managers of private companies adhere to the pecking order philosophy ie a sequential preference of internally generated funds (retention of profits, social capital); followed by short-term bank finance (overdraft being the main source of external funding) and then external equity finance. Not surprisingly, many SMEs are characterised by an antipathy towards institutional equity finance (venture capital, flotation etc).

Interestingly, family companies, given their unwillingness to dilute ownership control, oppose financial options that undermine the “keep it in the family” culture and their financial autonomy. Moreover, a comparative analysis of the financial structure of family versus non family companies revealed that, despite the fact that family ventures are more under-capitalised in terms of equity capital (issued share capital), they tend to retain much more of the profits they earn (over their longer business life span). As a result, their profit retention policy is strong enough to compensate for their initial under-capitalisation and subsequently results in relatively higher levels of equity and reserves in their balance sheet. **Overall, family companies have lower gearing, and may therefore be attractive to outside investors, provided they have growth potential and are open to outside human and financial capital infusions.**

In order to improve our understanding of the external and internal factors that shape the financial development of private and family companies, a further investigation was launched into the relationship of family business owner-manager entrepreneurs with private equity financiers. It is evident that the financial development of the family business is often overshadowed by intermingled ownership, management and family issues which need to be delineated.

Family business ownership control

The ability of family business owner-managers to exert influence over the objectives, behaviours and decision-making of their firms without involving outsiders is often derived from their multi-dimensional role: family despots, business founders/leaders and owner-managers in command of concentrated shareholding. Previous studies have indicated that **a fragmented shareholding tends to exacerbate conflicts between managers and shareholders and thus the conflict could be detrimental to the value of the company.** However, in a privately held, family-owned business, the dilution of shareholding occurs when ownership is transferred to successive generations of family members including active owner-managers and passive shareholders. In family businesses that have experienced successive transfers of ownership, the expected fragmentation of ownership and the **reduced congruence between family and business goals, can gradually increase the openness of OMDs towards external financing.** According to Romano, Tanewski, and Smyrnios (2000), the openness of family companies to externally generated sources of capital is interrelated to personal, family, and business objectives and aspirations, as well as certain market-imposed capital requirements (ie as in the case of fast-growing, capital-intensive, high-technology ventures and so on).

Family business growth orientation

The family business economy is heterogeneous, and it is misleading to label all family firms as less ambitious for growth. Poutziouris (2001) has identified that the UK SME incorporated family business sector has a cluster of growth-stars (this group comprised 21.4% of sample family companies) whose OMDs were seeking to increase the size/scale of business operations, either organically or via acquisitions and joint ventures. Moreover, they were enthusiastic to broaden their human capital by recruiting non-family management and widen their financial base by raising external equity capital via private and public routes. Based on the above, we can tentatively hypothesise that **growth oriented family business entrepreneurs have a more open financial agenda and more quickly progress down the pecking-order principles.**

Family business finance principles

According to the pecking-order hypothesis (Myers, 1984), privately held, smaller companies finance their capital needs in a hierarchical fashion, first using internally available funds, followed by debt and then, finally, external equity. This preference reflects the relative costs of various sources of finance, owing to the existence of information asymmetries. It could be argued that the pecking-order hypothesis is particularly relevant to family firms, as they are widely characterised by an aversion to outside capital infusions (Dunn & Hughes, 1995; Gallo & Vilaseca 1996; Poutziouris et al., 1998; Romano et al., 2000; Poutziouris, 2000; Upton and Petty, 2000; Poutziouris, 2001), as they experience relatively more restrictive transactional and behavioural costs in raising external equity (Pettit & Singer, 1985). Furthermore, a stock market flotation would widen the share ownership of the firm, leading to loss of control by the original owner-managers or even a hostile takeover. As such, the

rational response of owners-managers of smaller private companies is to avoid the use of external equity finance and to rely more heavily on retained profits and short-term bank loans. **This antipathy to external, long-term finance (both debt and equity capital) is particularly strong in smaller family and other private companies.** According to Michaelas (1998) this is symptomatic of the behavioural side of the strategic financial development agenda of privately held companies.

In the light of the above brief literature review about the financial affairs of privately held family firms, the generic tentative research hypothesis to be examined is as follows:

Ha = dynamic family companies will tend to progress down the pecking order of capital funding in order to finance the process of business transfer and succession.

From a financier's/practitioner's perspective, **the main objective of this research is to examine the financial behaviour of established family companies and assess their appetite to raise private equity capital in order to finance strategic succession.**

For this purpose we administered a postal survey of established UK private companies in order to register the views and experiences of owner-managers of family business on key issues such as: corporate structures (ownership and management), strategic planning, financial policies, all in the context of the (historical or future) family business succession process.

Survey, database and research methodology

The research instrument was sent out to about 4,000 private, independent limited companies in June/July 2001. Targeted firms were sourced from the FAME database (featuring companies that submit their financial data to the UK Companies House) and the following selection criteria were applied:

- incorporated companies in excess of £1M sales turnover
- privately held independent organisations, free from outside control
- trading at least 10 years (that is since their incorporation date).

After the initial postal survey, a second mailing took place using a fax-back questionnaire. The second phase (October 2001) enabled a non-respondent analysis to be conducted and thus confirmed that there were no statistically significant variations in the views of early and later-respondents.

Moreover, the database that resulted from this multi-faceted research includes 234 family ventures and 86 privately held limited non family companies and is more or less representative of the UK private enterprising economy.

In summary, the profile of the database and key features of the sample of privately held family companies is as follows (see also Appendix A):

- about 44% have been through an ownership transfer, from founders to the current generation of owner-managers
- about two thirds of the businesses are more than 25 years old (since incorporation) (median: 33 years)
- 61.5% are “totalitarian regimes” with the family controlling 100% of the shares
- 82% have more than three family members on the board of directors

- the majority (57%) are medium to large-scale businesses with turnover in excess of £5M sales (median sales turnover: £6.7M)
- about half are in the production based sectors such as manufacturing and construction
- in terms of ability to raise external finance, 73% of sample family companies reported no problem, and this was more positive than the response of their non-family private counterparts.

In the light of the above brief overview of the profile of the database under examination, it appears that the respondents are representative of the family controlled private owner-managed business – as part of the UK mid-corporate economy.



Empirical findings

There is an ongoing discussion in academic circles as to what constitutes a family business. In this survey we adopted a self-classification approach where respondents were invited to categorise their company as a family business or not. This approach has been repeatedly used by research teams and has been found to be very effective. In line with the results of other empirical studies (Birley 2000, Westhead and Cowling, 1997) this survey established that **73% of respondents described their business as a family-controlled company**. This proliferation of family business activities confirms that the family business organisation is **the predominant force in the UK private enterprise economy**.

Participating family business owner-managers were asked a number of questions relating to control issues. In terms of control by generation, Table 2 shows that 56% of sample family companies are founder-centred (ie they are in the hands of founders or are a partnership involving the founders and second generation owner-managers); similarly, 23% are in the hands of the second generation and 21% in the hand of the third generation and beyond.

This database is over-representative of family business which have reached their second (and subsequent) generation of owner-managers. However, this is in line with our research objective seeking to involve more generational family firms that have experienced, or are due to experience the financial implications of a business transfer or family succession.

Table 1 – The prevalence of family companies

Are you a family business?	
No (N=86)	27%
Yes (Y=234)	73%

Table 2 – The generational distribution of family companies

Family business only	% of respondents
1st generation	39%
Joint 1st and 2nd generation	17%
2nd generation	16%
Joint 2nd and 3rd generation	7%
3rd generation	7%
Joint 3rd and 4th generation	6%
4th generation and beyond	8%

Table 3 – Family shareholding and board of directors membership

	25%	26-50%	>50%	100%	Total
Family ownership	1.3	8.1	91.6	61.2	100
	None	1 person	2 persons	≥3 persons	Total
Family member on the board (%)	2.1	17.4	44.1	36.4	100
Non-family board member (%)	68.4	17.1	12.0	2.5	100

As Table 2 demonstrates, about 30% of sample family companies are multi-generational partnerships where the shareholding is in the hands of both older and younger generation of owner-managers. Arguably, they are in a good position to inform us about the financing of family business transfers.

Family shareholding regimes

About 90% of family businesses indicate that the family collectively owns more than 50% of the share capital. In fact, for 61.2% of sample family companies the family has a totalitarian ownership regime, controlling 100% of the shares. In terms of family involvement 80.5% have more than two family members on the board.

Moreover, as Table 3 shows, few family companies have non-executive directors from outside the family ranks on their boards. This confirms that **the majority of family companies remain closely-held ventures with limited intervention from outsiders**.

Demographic profile of family companies: age, sector and size

In terms of the age distribution of sample firms, family companies tend to be under-represented in the younger group and over-represented in the older band companies (>25 years since incorporation). As Table 4 demonstrates, family companies are characterised by longevity, 13% of the sample firms are centenarians. Moreover, the median age for family companies stands at 33 years which is almost double that of their non-family counterparts. The difference in the age distribution of the two sub-groups is statistically significant.

In terms of the sectoral distribution of sample firms, family companies tend to be more prolific in traditional production based sectors (eg manufacturing, agro-mining, construction) and distribution activities. This may be symptomatic of the familial labour cost advantages. On the other hand, family companies are relatively less active in the knowledge based activities eg financial & professional services. As Table 5 demonstrates, this variation in sectoral distribution is statistically significant.

In terms of the size distribution of sample firms, Table 6 shows that family companies tend to be more sizeable than their non-family controlled counterparts. The median size for family companies is £6.7M compared to £5M for non-family companies. Again, the variation in the size distribution is statistically significant.

Table 4 – Company age (since incorporation)

Company age (years)	Up to 25	26-50	51-100	>100	Median
Non-family company (N=84)	76%	16%	7%	1%	17
Family company (N=227)	36%	27%	24%	13%	33

(t-stat. = -6.60; sig. = .00)

Table 5 – Business sectoral distribution

Business sectors	Non-family companies N=67	Family companies N=179
Production	31%	27%
Construction	12%	21%
Distribution and trade (retail and wholesale)	8%	27%
Services	15%	11%
Financial professional services	9%	8%

(t-stat = 11.9; level of significance = .00)

Table 6 – Size distribution (sales turnover)

Sales size	<5M	5M to 10M	10M-25M	>25M	Median
Non family company (N=82)	55%	23%	16%	6%	£5M
Family company (N=221)	43%	21%	18%	16%	£6.7M

(t-stat. = -2.6; sig. at 5%)

Company-specific characteristics: risk, growth phase, management style

Participants were asked to rate the profile of their businesses in terms of a number of characteristics, namely: risk propensity, technology intensity, stage of business development and ability to raise finance. The Likert style classification was employed, where 1=very low and 5=very high. In general, no statistically significant variations were registered amongst the perceptions of the two sub-groups of OMDs. More specifically, the profile of family and non-family companies are evident from the following business characteristics:

- **Perceptions on risk propensity:** only 14.1% of OMDs classified their family business activities as risk seeking ventures. This is not very different from the perceived risk propensity for OMDs in non-family companies. As Table 7 shows, the majority of sample companies representing the two sub-groups exhibit a low-to-average risk culture.
- **Perceptions on technology intensity:** 28.1% of OMDs classified their family business activities as high-tech. This is not very different for the perceived technology intensity for non-family companies. As Table 8 shows, the majority of sample companies have been self-categorised as average on the technological front.

Table 7 – Risk propensity

Risk – scale:	Non-family companies N= 78	Family companies N=212
Very conservative	5.1%	6.6%
Risk averse	17.9%	22.2%
Average risk propensity	66.7%	57.1%
Risk seeking	10.3%	12.7%
Very risk seeking	–	1.4%

Table 8 – Technology intensity

	Non-family companies N= 77	Family companies N=213
Very low tech	1.3%	3.8%
Low tech	15.6%	19.7%
Average tech	51.9%	48.4%
High tech	28.6%	23.5%
Very high tech	2.6%	4.7%

Table 9 – Style of management

	Non-family companies N= 78	Family companies N=216
Autocratic	5.1%	9.3%
Participative	52.6%	53.2%
Delegative	19.2%	18.1%
Functional	12.8%	10.6%
Professional	10.3%	8.8%

- **Perceptions on management style:** although relatively more OMDs of family companies classify their management style as autocratic, there is little difference in their self perceptions on management style overall. However, Table 9 shows the majority of sample companies self-classify their management culture as “participative”.

- **Phase of business growth:**

the stage of business development, and subsequently growth intensity, is an important determinant of capital requirements as growing companies tend to be more thirsty for capital and subsequently become more extrovert in their financial strategies. As Table 10 demonstrates, a higher proportion of family companies have been self-categorised as operating at the maturity and decline/struggling phase of their growth cycle.

Conversely, more non-family companies are perceived as fast-growth ventures and so will have increasing capital requirements and an appetite for external equity capital to fund their growth strategies. The position of sample firms across their growth cycle has been confirmed by an analysis of their recorded sales growth during the last three years.

As Table 11 demonstrates, family companies appear to be out-performed by their non-family counterparts in terms of sales growth. This suggests that the **majority of family companies are not tuned to growth agendas and thus are not likely to be in need of external development finance. However, they may need capital to finance the transfer of the struggling business to the next generation (releasing liquidity to the owner-managers/founders) or to finance a turnaround strategy.**

Table 10 – Stage of business growth

	Non-family companies N= 77	Family companies N=215
Stable	13%	12.1%
Modest growth	42.9%	47.0%
Fast growth	31.2%	19.1%
Maturity	13.0%	18.6%
Decline-struggling	–	3.3%

Table 11 – Actual sales growth (three year period)

Average per annum	Non-family companies N= 57	Family companies N=160
Decline	10.5%	20.0%
1%-10%	22.8%	37.5%
10%-20%	38.6%	23.8%
Over 20% of growth	28.6%	18.8%

Table 12 – Ability to raise external finance

	Non-family companies N= 77	Family companies N=215
Very poor	1.3%	2.4%
Poor	7.8%	3.8%
Fair	19.5%	19.3%
Good	45.5%	39.6%
Very good	26.0%	34.9%

- **Ability to raise external finance:**

the final parameter in terms of profiling sample companies relates to their ability to raise capital. As Table 12 demonstrates, the majority of OMDs of both family and non-family businesses, indicate that they are not experiencing problems in terms of raising external finance. This contradicts the widespread view that private companies – especially smaller companies – are often constrained by problematic flow of development finance.

However, capital requirements vary depending on growth propensity and strategic orientation of their OMDs. For this purpose, before we proceed with the review of financial affairs, we directed the research inquiry into the strategic agenda of the family business.

Family business strategies and objectives

In contrast to the evangelism of industrial economists, profit maximisation is not the most important objective of owner-managers. In fact, owner-managers of privately held companies are in business for a multi-dimensional set of objectives, governed by financial, social, ego-political and familial issues. Responding OMDs were asked to rate on the Likert scale (where 1=not important at all and 5=very important) the importance of a number of strategic objectives and issues classified as business, financial, management development, and performance related. Furthermore, they were also asked to rate the importance of certain exit and family strategies (where applicable).

Table 13 shows that the strategic business agenda of family companies is similar to those of their mainstream counterparts. With the exception of growth via joint ventures and acquisitions, other business strategies were rated as important by more than 50% of the respondents irrespective of family business control. **However, family companies tend to view the pursuit of growth with less enthusiasm as this often involves relinquishing control. The growth versus control dilemma is symptomatic of the antithesis of family firms towards adventurous financial strategies.**

Table 13 – Business strategies of family businesses

Business strategies	Family companies		Non-family companies	
	Important 4-5	Average score	Important 4-5	Average score
To grow without the owner(s) losing financial control*	70%	4.01	54%	3.47
To grow by extending current products/ services to current customers	68%	3.86	73%	3.98
To grow by extending current products/ services to new customers	84%	4.22	84%	4.32
To grow by introducing new products/ services to current customers	65%	3.67	59%	3.52
To grow by introducing new products/ services to new customers	61%	3.53	55%	3.41
To grow by organic/internal development	61%	3.62	57%	3.77
To grow by acquisition	24%	2.62	17%	2.42
To grow by joint ventures	17%	2.30	23%	2.45
To protect a stable product/service line in clearly defined markets	65%	3.67	58%	3.64

* statistically significant, at 5%



Table 14 reveals that accessing external capital, with the exception of traditional debt financing (which does respect autonomy) did not receive high ratings from either group of respondents. Interestingly, family companies tend to exhibit a stronger antipathy to private equity options involving business angels and venture capital. Moreover family business owner managers exhibit relatively more financial prudence as they indicate more willingness to avoid the extraction of profits in the form of salaries and dividends.

Nowadays, in the context of the promotion of share options schemes such as Enterprise Management Incentives, top management team development and financing issues are becoming interwoven, at least for high technology dynamic ventures. In terms of management development strategies the most popular tactics relate to the retention of management control, expansion of the management team with commercial expertise and providing the opportunity of top level management roles to loyal managers.

As Table 15 demonstrates, family business directors are more sensitive to the “keep it in the family” philosophy and the fact that family business control often implies autonomy in terms of management, ownership and financial affairs.

Table 14 – Financial strategies of family businesses

Financial strategies	Family companies		Non-family companies	
	Important 4-5	Average score	Important 4-5	Average score
To broaden equity base through retained profits	71%	3.95	59%	3.65
To raise more bank loans	12%	2.10	7%	1.63
To raise other borrowings through leasing and hire purchase	6%	2.01	7%	1.79
To raise external equity through business angels & venture capital**	3%	1.44	6%	1.58
To repay borrowing and be financially independent	38%	2.88	28%	2.52
To cut salary and dividends*	1%	1.54	6%	1.47
To sell some shares and start another company	2%	1.19	3%	1.23

* ($\chi^2=.08$) ** ($\chi^2=.04$)

Table 15 – Management development strategies

Business strategies	Family companies		Non-family companies	
	Important 4-5	Average score	Important 4-5	Average score
To retain control of the business*	75%	4.2	65%	3.62
To expand the management team with commercial expertise	65%	3.71	64%	3.72
To provide loyal employees with top management positions	63%	3.71	58%	3.58
To increase directors remuneration	38%	3.17	41%	3.21
To offer an attractive package to the management	38%	2.89	43%	3.21
To appoint non-executives, expanding the management team	16%	2.21	12%	2.13
To invite external investors to sit on the board	13%	1.47	10%	1.41
To buy-out minority shareholders, reconcentrating power	13%	1.74	8%	1.61

* ($\chi^2=.00$)

In terms of business performance related strategies Table 16 demonstrates that family and non-family companies are pursuing more or less the same agenda. The aim of owner-managers is to improve profitability, strengthen control of administrative and operating cost structures, maximise capital growth (and thus increase shareholders' wealth) and restructure operations to improve financial performance. Interestingly again, it emerges that OMDs of family companies are more internally oriented, placing more emphasis on issues relating to cost structures.

In terms of exit strategies it has emerged that the issue is not very high on the strategic agenda. More specifically as Table 17 demonstrates, OMDs of family companies are naturally more likely to transfer their ventures to the next generation of family owner-managers and are less inclined to exit (mainly via a trade sale, management buy-out/buy-in, flotation or liquidation) or retire (including partial exiting). In contrast to the traditional family business perpetuation route, non-family companies tend to favour more the trade sale exit option.

Table 16 – Business performance of family business

Business performance strategies	Family companies		Non-family companies	
	Important 4-5	Average score	Important 4-5	Average score
To restructure operations to improve financial performance	56%	3.51	54%	3.39
To better control administrative and operating cost structures **	65%	3.67	54%	3.67
To carry on as normal, pursuing a steady business/financial policy	49%	3.39	44%	3.23
To groom the balance sheet & profit/loss to improve valuation	34%	2.89	37%	3.08
To improve profitability	92%	4.49	83%	4.59
To maximise capital growth and so increase shareholders' wealth	54%	3.62	65%	3.93

** ($\chi^2=.06$)

Table 17 – Exit strategies of family business

Family business – exit strategies	Family companies		Non-family companies	
	Important 4-5 (N/A)	Median^ score	Important 4-5 (N/A)	Median^ score
To sell the business (trade sale)*	15% (40%)	3.0	41% (15%)	1.0
To invite management buy-out/buy-in (MBO/MBI)*	11% (43%)	1.0	24% (20%)	2.0
To float the business and realise wealth*	4% (44%)	1.0	8% (20%)	1.0
To sell shareholding and retire*	15% (39%)	1.0	17% (16%)	2.0
To partially exit, realise wealth and become less active*	21% (32%)	2.0	36% (11%)	3.0
To pass on to the next generation of owner managers*	41% (19%)	3.0	20% (23%)	1.0
To liquidate the business*	1% (53%)	0	4% (37%)	1.0

Notes: N/A = not applicable; * ($\chi^2=.05$); ^ median scores are more valid

The last section of the questionnaire dealing with strategies invited respondents to answer questions and rate their family strategies (of course, non-family company OMDs were granted the option of non applicability). Naturally there are profound differences in terms of the views of the two sub-groups.

Concentrating on the perceptions of family business owner-managers, the most popular move was to make provision for transfer taxes followed by the rational view of putting business success before family plans, family perpetuation and the development of a better lifestyle.

The above comparative analysis of the strategic agenda of family and non-family companies established that **the family business philosophy is characterised as more inward-looking, and often struggling to master the growth versus control dilemma** and manifests a tendency not to think of market-based exit options. As we shall see in the next section, this strategic orientation impacts on the financial structure, conduct and performance of family businesses.

Table 18 – Family strategies of family business

Family business – family strategies	Family companies		Non-family companies	
	Important 4-5 (N/A)	Median^ score	Important 4-5 (N/A)	Median^ score
To put business success before family plans*	41% (12%)	3.0	30% (35%)	2.0
To put family plans before business issues*	18% (15%)	2.0	1% (39%)	1.0
To keep it in the family, but reduce family involvement*	12% (19%)	2.0	2% (56%)	0
To keep it in the family, but expand family involvement*	17% (16%)	2.0	0% (57%)	0
To make provision for inheritance/ capital gain taxes*	63% (4%)	4.0	19% (43%)	1.0
To re-concentrate power in family owners (buy-out outsiders)**	10% (45%)	1.0	0% (57%)	0
To transfer the business to the next generation*	33% (16%)	3.0	4% (56%)	0
To develop better family lifestyle*	37% (14%)	3.0	22% (41%)	1.0

Notes: N/A = not applicable; *($\chi^2=.00$); ** ($\chi^2=.10$); ^ median scores are more valid

The funding structure of family companies

As Table 19 demonstrates, the funding structures of all privately held companies – irrespective of family business control – are governed by the pecking order principles. According to respondents **the main source of capital employed to finance the development of their companies is internally generated funds – ie retention of profits**. This is followed by short-term bank finance in the form of traditional overdraft. It appears that both family and non-family companies source their financing in a similarly hierarchical way, starting from the less risky to the most adventurous forms of equity capital. Interestingly, family equity capital does not rank top of the list, which suggests that these established family companies have progressed through their early stages of business development and thus are harvesting the fruits of the early capital investment. Moreover, the build up of retained profits over time makes them more attractive to the banks, and so they enjoy good access to loans and other asset based financing.

Arguably, the fact that the majority of firms have prospered beyond the troubled waters of the early survival phase of their development will have a

Table 19 – Funding structure of family companies

	Family companies		Non-family companies		x ² Sign levels
	Important 4-5	Average score	Important 4-5	Average score	
Business profits	87.9%	4.4	93.4%	4.5	.18
Bank overdraft	46.8%	3.1	37.7%	2.8	.16
Short- and long-term bank loans	35.0%	2.7	22.9%	2.4	.54
Capital from owner-manager/ directors	25.1%	2.2	19.7%	2.1	.55
Hire purchase/leasing	17.4%	2.2	18.1%	2.2	.57
Family equity capital	21.4%	2.1	13.6%	1.7	.13
Family loans	8.4%	1.6	7.1%	1.4	.14
Proceeds from sale of business assets	6.5%	1.5	3.4%	1.4	.42
Factoring	4.6%	1.3	8.2%	1.5	.15
Business angels not related to the family	3.0%	1.3	5.0%	1.4	.97
Venture capital*	1.8%	1.3	8.4%	1.6	.03*
Private placement of shares	5.2%	1.3	9.8%	1.7	.27

Notes: Likert scale 1: not very important, 5: very important; *(x²=.00)

negative impact on the risk propensity of the OMDs, who are enjoying the relative financial stability and independence of the profitable status quo and thus do not wish to embark upon growth strategies that have to be fuelled with risk capital.

The only statistically significant difference characterising the funding of

family and non-family companies relates to their attitude towards venture capital.

Family firms are more antithetical to parting with private equity.

Family business transfers in retrospect

OMDs of family companies were asked to indicate whether their business experienced a transfer of ownership in recent years. As Table 20 shows, 44.4% of respondents have not experienced a generational/ownership transfer and remain in the hands of the founders.

The survey identifies that the most popular approach to the transfer of family business ownership (in recent years – 10 years) has been the gifting of shares and business assets (where often the transaction involves no cash), followed by other inheritance arrangements. Interestingly, from the financier's perspective, about one in five of family business transfers involved a market based route, often taking the form of management buy-out/in, family acquisition and other share dealings.

In order to evaluate the financial implications of (retrospective) family business transfers which often involved a transaction (eg acquisitions, buy-outs and inheritance), OMDs were asked to indicate the importance of certain sources of capital for financing the ownership transition. A list of internal and external sources of funding was on offer and the aim was to establish the means of financing – and thus enable the re-examination of the pecking order in the context of family business transfers.

As Table 21 demonstrates, **the main source of capital to finance business transfers has been accumulated profits, followed by family equity capital and then bank loans**. Although the views relate to the financing of historical family business transfers and the responses appear rather thin, they do demonstrate

Table 20 – Family business transfers

Methods of business ownership transfer	Sample = 225
Gift (during 1980-2000 period)	26.2%
Family inheritance ((during 1959-2000 period)	14.5%
Family acquisition (during 1976-2000 period)	9.3%
Family MBO/MBI (during 1990-2000 period)	5.2%
MBO/MBI involving outsiders (during 1990-2000 period)	1.7%
Others (not in the last decade 7.5%; share deals e.g. buy-backs, special issues to directors)	12.3 %
Public to private route - No transfer: Still Founder-controlled/ 1st Generation OMD	44.4%
	Total =100%

Table 21 – Financing family business transfers – retrospect [n=55]

Options	Average score	Median score	Important 4-5
Business profits	3.5	4	70.5%
Family equity capital	3.0	3	49.0%
Bank loans	2.8	3	42.2%
Family loans	2.0	1	23.8%
Other sources (e.g. trust mechanisms etc.)	1.6	1	5%
Sale of shareholding in other companies	1.3	1	6%
Private placement of shares	1.3	1	2%
Sale of subsidiary	1.2	1	–
Life insurance premium fund	1.2	1	3.8%
Non-family directors' capital	1.2	1	3.6%
Employee Share Ownership Programme	1.2	1	1%
Sale of business assets	1.1	1	–
Business angels not related to the family	1.1	1	1%
Venture capital	1.0	1	0%

Note: Likert scale: 1 = not so important, 3= average and 5=very important.

that OMDs of family companies follow the principles of pecking order – **there is preference to finance the transfer of ownership with retained profits (and other internally generated funds) and then by bank finance; non-paradoxically external equity capital options remain at the very bottom of the agenda**.

Future family business ownership transfers

It is a fact of corporate life, that despite the relative longevity of family firms, a minority reach their third generation.

One of the most celebrated challenges to family business entrepreneurs is strategically to plan succession, addressing systematically the financial implications for both the family business and the business family.

In order to identify the key financial issues pertaining to family business transfers and succession planning, participating OMDs were questioned on their views about the future ownership transfer methods, financial strategies and control issues, succession planning practices and key obstacles to family business continuity.

In terms of the preferred methods of ownership transfer in the foreseeable future, it appears that family traditions overshadow the agenda. A closer analysis of the responses reveals that about half of sample family firms adhere to the “keep it in the family” ethos; a third are tuned to exit via trade sale, whilst one in 10 envisage to transfer ownership via the management buy-out/in route.

Table 22 – Future business ownership transfers

Methods	Sample	More likely 4-5	Average score
Periodic lifetime transfers to family members, Gifts etc.	193	44.6%	3.2
Sale to a third party	199	32.1%	2.7
Sale to family	190	15.8%	2.1
Transfer via a MBO/MBI	192	12.0%	2.0
Sale to key managers via an ESOP scheme	194	10.3%	1.9
Transfer Shares to a Trust	192	27.1%	2.5
Flotation on a secondary market	189	5.8%	1.5
Flotation on main market (>25% of shares)	190	5.8%	1.5
Certain family members selling-out	160	14.7%	1.5
Others	43	2.3%	1.9

Note: Likert scale: 1=not very likely, 3=average and 5=most likely

More specifically, as Table 22 demonstrates, **the most popular method to perpetuate ownership in the family is through the periodical lifetime transfer of shares and business assets to family members**, followed by the use of a trust which may enable mitigation of potential transfer tax liabilities.

Respondents were also asked to indicate the likelihood of using certain sources of capital to fund future ownership transfers. As Table 23 demonstrates, the picture does not change very much and the rules of the pecking order will most likely continue to prevail.

The main capital option that OMDs of family companies plan to tap into in order to ensure the financial development of the business and liquidity for the retiring generation is profit (which is often drawn out of the business in a number of schemes) followed by bank finance and family equity capital. Yet again, external private equity does not appear high on the strategic succession and financial planning agenda. Not a single sample firm has indicated the venture capital / business angel funding option as the most likely source of capital.

This is symptomatic of the general short-termist approach to financing privately held companies, which is rooted in the antipathy to external equity ie venture capital and flotation.

However, as many success stories – featuring the financial development of family business growth stars – often demonstrate the venture capital option can play a catalytic role in enhancing shareholders' wealth. It is surprising that so few dynamic family companies draw lessons from such experiences.

Table 23 – Financing future business ownership transfers

Options	Average score	Median score	More likely 4-5
Business profits	3.3	4	51.8%
Bank loans	2.5	3	27.8%
Family equity capital	2.1	1	21.4%
Family loans	1.8	1	9.7%
ESOP-backed company buyout	1.5	1	8.4%
Sale of other assets	1.4	1	4.1%
Sale of business assets	1.4	1	4.7%
Sale of subsidiary	1.4	1	3.9%
Life insurance premium	1.4	1	7.8%
Non-family directors' capital	1.4	1	4.8%
Private placement	1.4	1	3.9%
Flotation	1.4	1	6.2%
Venture capital	1.3	1	3.1%
Other	1.3	1	8.0%
Business angels not related to the family	1.2	1	2.3%

Note: Likert scale: 1=not very likely, 3=average and 5=most likely



The venture capital option

In a set of explicit questions dealing with venture capital (VC), OMDs of family companies provided empirical evidence about key issues that govern their willingness to consider dealing with venture capitalists, both the business angel and institutional VC house.

More specifically, 23% of family business owner-managers have considered venture capital as a source of finance for their long-term business development. As Table 24 reveals, **about two thirds of family owner-managers indicated that they were willing to relinquish up to 25% of voting shares during a possible VC deal.** Moreover, the size distribution of possible deal values suggests that 82% of responding family business OMDs indicated that they would need to raise up to £5M.

Previous research provides concrete evidence as to the factors influencing the rationale of OMDs of privately held companies to seek/avoid venture capital (Poutziouris, 2001). **The positive side is governed by the increased capital requirements necessary to fuel rapid growth (organic and acquisitive) whilst the negative side is dominated by fear of diluting ownership/management control** – and having to share command over future business strategies including the choice of exit options. This survey invited respondents to indicate their agreement or disagreement (on a Likert scale) to a set of factors that could stimulate their appetite to engage with venture capitalists.

Table 25 reveals that at the apex of the wish-list are primarily real financial and corporate growth issues, whilst family business issues are secondary. More specifically, the stimuli factors identified

Table 24 – Money for shares: the venture capital option for family firms

N=161	< 10%	10%-25%	26-50%	51-75%	76-100%	Up to 25%
Control willing to relinquish?	30%	38%	25%	2%	5%	68%
N=150	< £1M	£1M-5M	£5M-10M	£10-50M	£50M+	Up to £5M
Money one is willing to raise ?	35%	47%	13%	6%	–	82%

Table 25 – Factors promoting the VC option

Factors	Average	Agreement 4-5
VC to provide capital to finance growth strategies	2.6	28.5%
VC to enhance corporate governance and professionalism	2.5	28.5%
VC to improve shareholders' value	2.4	25.9%
VC not to insist on traditional exit option	2.3	21.5%
VC to offer additional investment during economic downturns	2.2	18.1%
VC to provide capital to facilitate business transfer	2.1	18.0%
VC to take a minority stake without reshaping the family management team	2.2	17.3%
VC to be family business friendly, understands, and respects family agenda	2.2	16.2%
VC to provide equity capital in addition to long-term debt	2.1	13.7%
VC to provide capital to improve gearing (debt: equity ratio) and bank-ability	1.8	7.1%

Likert scale: 1=not at all; 3=somewhat; 5=great extent

relate to the provision of capital to finance growth strategies, the improvement of corporate governance (professionalisation) and the enhancement of shareholders' value.

There is some evidence that family business **owner-managers would welcome the venture capital option provided VCs offer more flexibility in terms of exit options** as the traditional trade sale and/or flotation are antithetical to family control; offer sustainable capital flows during economic downturn, and of course, demonstrate respect for the family

tradition. Family tuned business goals – perpetuation of ownership and management control – often dominate the strategic and succession planning agenda even for dynamic and large established family business corporates.

Succession planning

In order to establish the main aspects of succession planning – and thus enable the consideration of possible financial implications of family business transitions – respondents were questioned on a number of key issues relating to retirement and succession planning.

As Table 26 reveals, about half of family business owner-managers plan to activate the succession planning process five years before their planned retirement, whilst 75% of them plan to retire at the age of 65 or less.

Surely, there is scope for OMDs to embark on the succession planning process earlier, in order to fully capitalise on certain transfer tax exemptions. Moreover, early succession planning will allow key stakeholders to address optimally the multi-dimensional strategic and financial agenda that relates to the transfer of wealth, ownership/management control and the leadership mandate. In the event that succession creates liquidity requirements (ie to offer financial security for retiring founders-owner-managers or to groom the balance sheet for an alternative market-based exit) then multi-dimensional financial planning should constitute an integral part of the strategic succession planning process.

In terms of succession planning practises, family business owner-managers were asked to indicate to what degree they operationalise certain tools to facilitate and manage the transfer of the family business to the next generation.

Table 26 – Retirement and succession planning

Years before retirement	<2 years	3-5 years	6-10 years	Other	Within 5 years
	13%	38%	40%	9%	51%
Age to retire	<55	55-65	66-75	>75 years	Under 65
	14%	62%	20%	4%	76%

Table 27 – Succession planning practises

Priorities and tools	Average	Used to some extent (4-5)	Used to a great extent (5)
Define succession criteria (leadership)	3.7	49.0%	23.1%
Inheritance tax planning	2.7	31.2%	13.5%
Policy for family involvement	2.5	30.7%	14.9%
Maximisation of OMDs financial independence	2.7	30.7%	12.3%
Family constitution	2.2	21.4%	6.2%
Mentoring scheme for future successors	2.4	24.1%	5.6%

Likert scale: 1=not at all; 2=little extent; 3=somewhat; 4=some extent; 5=great extent

As Table 27 indicates, the most popular practice is the definition of general succession criteria that deal with leadership renewal and often **address the management expertise and competences of the candidates lined up for the top job**. The second most prolific practice relates to the outlining of clear guidelines that govern the involvement of family members. Next is inheritance tax planning (eg administering gifts and trusts) followed by the securing of liquidity and financial independence for the OMDs retiring.

It has emerged that more formal succession planning tools and policy-guidelines, such as the formulation of a family constitution and the use of a mentoring scheme to nurture and develop the new generation of family managers, are not widely used. The family constitution is a formal protocol that maps the vision of the family about the future of the business and provides clear guidelines on strategic issues in

order to avoid rivalry and conflict in terms of family involvement, compensation, ownership and management control and leadership succession across the owner-managed, sibling and cousin consortium regimes. Only 6.2% of sample firms use the family constitution to a great extent.

Unfortunately, dogmatic formality and corporate governance is in contrast to family business tradition, where key family shareholders/directors are the dominant force who may pursue their idiosyncratic personal agenda. Therefore, **the lack of effective succession planning constitutes the primary cause of the failure to realise the “family silver” or to keep the business thriving (and) in family hands**. On many occasions despite the existence of a succession plan, clashes between family and business priorities can derail the business from the course of long-term survival and prosperity.

Family business continuity

The last section of the questionnaire asked respondents to offer their views about key constraints that could be hindering family business continuity. As Tables 28-31 demonstrate, the majority of sample family companies – due to the fact that they are established activities that have survived at least one or two recessions – have indicated that their family business continuity is not being jeopardised extensively by the constraints examined.

In terms of financial-related constraints, as Table 28 reveals, the top three extensive constraints relate to the cost of financing, unfavourable gearing and the narrow equity capital base. The overall responses are more or less consistent with previous evidence on funding structures and experience of OMDs in raising external finance.

However, **family business owner-managers believe that the lack of openness or willingness to raise external equity is not a constraint per se, as this is in line with their inward-looking financial planning.**

Turning the attention to the tax regime, family business owner-managers were more in a protesting mode, despite recent improvements in the capital gains tax regime. **Overall, tax-related issues were extensively indicated as obstacles to family business continuity.**

Table 28 – Financial constraints – family business only

Financial constraints	Average score	Extensive constraints (4-5)
Lack of access to long-term bank loans	1.57	6.8%
Lack of access to external equity	1.58	7.7%
Lack of openness or willingness to raise external equity	1.64	5.5%
Unfavourable gearing (debt to equity ratio)	1.69	8.1%
High cost of financing	1.85	12.1%
Poor financial planning	1.61	7.7%
Poor relationship with banks and other financial institutions	1.39	3.7%
Stringent disclosure requirements from external investors	1.45	4.1%

Likert-scale: 1=not at all; 2=little extent; 3=somewhat; 4=much extent; 5=great extent

Table 29 – Tax-related constraints

Tax regime	Average score	Extensive constraints (4-5)
Tax compliance red tape	2.3	24%
Tax liability due from capital gain	2.1	17%
Tax liability due from inheritance	2.0	18%
Tax liability due from gift	1.8	14%
Restrictive rules of the Enterprise Investment Scheme	1.6	8%
Others	1.4	16%

Likert-scale: 1=not at all; 2=little extent; 3=somewhat; 4=much extent; 5=great extent

As Table 29 reveals, the most popular problematic tax issue relates to the indirect cost of compliance (red tape) followed by transfer taxes. However, care must be taken in interpreting the tax related message since a large proportion of family businesses are transferred via the tax exempted route of gifting.

The general feeling is that inheritance and capital gains taxes for most businesses constitute double taxation and thus penalise business success. This area requires further research in order to establish to what extent the transfer tax regime discourages family business entrepreneurs from investing in sustainable business growth.

Directing the research microscope to marketing related growth barriers and competition issues it emerges that the main sources of concern are intensified competition, followed by poor sectoral growth prospects.

As Table 30 demonstrates, other problematic areas relate to the lack of business scale to expand and to the inability to keep up with market and technological developments – as often this entails extra investment in new technologies which often may be more expensive for smaller companies.

The final set of obstacles to family business continuity relate to general corporate development. As Table 31 indicates, the main issue that poses a destabilising factor on family business perpetuation is the **lack of interest in the business among potential future successors**. Almost one in five of sample firms report extensive problems in lining up new heirs.

Other problems registered relate to a lack of strategic planning; lack of clear mechanisms to plan for the management and ownership succession and mismatching of family management skills and business needs. Moreover, about one in 10 of participating OMDs indicate that their family business continuity suffers from mismatch between family and business financial priorities. Based on this empirical evidence, it emerges that for a minority of family businesses, there is a **need to address more strategically their inter-related financial and succession planning processes**.

Table 30 – Marketing/competition constraints

Constraint	Average score	Extensive constraints (4-5)
Intensified competition	3.0	37%
Poor growth prospects in your sector	2.3	23%
Lack of the business scale to expand	2.1	14%
Inability to keep up with the market and technological development	1.9	7%
Poor knowledge of market competition	1.6	3%

Likert-scale: 1=not at all; 2=little extent; 3=somewhat; 4=much extent; 5=great extent

Table 31 – Corporate development constraints

Corporate development issues	Average score	Extensive constraint
Mismatch between family and business in terms of financial priorities	1.9	9.3%
Mismatch between family management skills & business needs	2.0	11.5%
Lack of interest in the business among future generations	2.2	18.7%
Lack of business size to accommodate transfer among family members	1.7	6.5%
Lack of clear mechanisms for management succession	2.0	10.7%
Lack of clear mechanisms for ownership distribution	2.0	12.1%
Lack of management development leading to professionalism	2.0	9.7%
Lack of strategic planning	2.1	11.6%
Lack of mechanisms to resolve conflicts among family members	1.7	8.7%

Likert-scale: 1=not at all; 2=little extent; 3=somewhat; 4=much extent; 5=great extent

Conclusion and policy implications

This empirical study into the financial affairs of UK private and family companies confirms that, overall, **the strategic development of family companies in the context of succession is influenced, and influences the pecking order principles.** Based on evidence, the great majority of family companies, as in the case of closely held private companies, have an antipathy for private equity capital options. Thus, the behavioural side of financing business strategies and transfers is once more epitomised by the hierarchical structure of funding: family companies tend to finance their development with retained profits, supplemented by bank overdraft, loans, capital from OMDs and family-social equity capital; external private equity (ie through business angels and venture capital deals) remains a last resort.

In contrast to the general trend, a selective group of family business OMDs do recognise the need for external private capital options in exchange for a shareholding in the business. The need for additional finance including a series of synergistic resources (eg strategic advice and networking horizons broadened by VCs and non-executive directors) could be a catalyst to the improvement of competitiveness and to ensure that a thriving business remains in the ownership of an entrepreneurial business family.

In a nutshell, family businesses with an open culture in terms of financial strategies are prepared to relinquish about 25% of shareholding, typically for about £5M of capital injection.



Policy implications

The main policy implications that result from this empirical study relate to the lessons for owner-managers of family businesses, their service providers and advisers, financiers, and of course, enterprise policy makers. More specifically the following recommendations can contribute towards the amelioration of the equity gap that hampers the strategic and financial development of family-controlled companies (and private business concerns at large).

- OMDs in liaison with their advisers have to strategically plan, well in advance, the succession process and to direct more attention to emerging financial implications. In the light of the fact that for one in five family companies enthusiastic successors could prove scarce, the succession planning process also has to embrace outsiders (often loyal non-family managers) who of course can provide a bridging role between generations.
- The succession planning process has to be integrated into general strategic business planning as too often family and business issues have to be delineated in order to consider a more market based financing scheme that could be catalyst for sustainable family business development.
- For dynamic family businesses that are concurrently facing succession issues, growth challenges and mounting capital needs, the venture capital route could prove a very useful resource. The venture capital deal will have to creatively balance

the need for shareholder liquidity (often passive family minority stakeholders) while offering long-term risk capital for the enterprise that will promote business growth and foster opportunity for all of the management team to participate in the growth in shareholders value. This route, will facilitate the progressive move from one ownership regime to the other without causing conflict between family business stakeholders, and more importantly, without disrupting the growth potential of the business.

- Owner-managers of family firms are often over anxious about relinquishing too much control to outside parties, especially venture capitalists; they would rather face the risks inherent in managing an undercapitalised business than to seek an external equity investor. An interim solution to this problematic financial culture – in the context of restrained growth potential – could be to allow family equity investment as this is often based on familial trust and an ethos of solidarity. At the moment not all family investment is allowed by the Enterprise Investment Scheme, which is geared towards the promotion of tax efficient equity flow to smaller unquoted companies.

- The government must address the problematic issue of compliance to the transfer tax regime, which too often is subjected to cosmetic changes. Family business owners echo the view that successive governments have created a bureaucracy that is strangling smaller family-owned businesses in particular. There is scope for an in depth study of the economics of transfer taxes, as there is growing concern about the waste of valuable resources by entrepreneurs in how to avoid or simply postpone capital gains taxes and inheritance tax.

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Appendix A

- The majority of family companies are closely held organisations with a socio-commercial strategic agenda. They tend to be more prevalent in the traditional, labour intensive, mature industries.
- However, clusters of dynamic family controlled ventures operate across the industrial spectrum and are characterised with high-technology intensity, growth orientation and risk-propensity; their owner-manager directors (OMDs) exhibit corporate professionalism which is combined with respect for family tradition.

Table 1 – Profile of database of private family companies

	Family firms (n=234, 73%)	Non-family firms (n=86, 27%)
Number of responding companies		
Age distribution (median: years trading)	33 years	17 years
<25 years	36%	76%
25+ years	64%	24%
Size distribution (mean: sales turnover)	£6.7M	£5M
<5M	43%	55%
£5M-10M	21%	23%
£10M+	34%	25%
Size distribution (median: number of employees)	(45)	(50)
<10	9.6%	6.1%
10-50	43.3%	45.4%
50-100	25.0%	21.2%
100+ employees	22.1%	27.3%
Sectoral distribution		
Primary: agro and mining	1.2%	1.7%
Manufacturing	29.7%	28.3%
Construction	20.3%	11.7%
Transport/distribution	8.1%	3.3%
Trade (retail and wholesale)	18.6%	1.7%
Financial services	1.7%	15.0%
Professional services	1.2%	13.3%
Other activities/services	19.2%	25.0%
Technology intensity		
High-tech	28.2%	31.2%
Medium-tech	48.4%	51.9%
Low-tech	23.5%	16.9%
Growth intensity		
Fast growth	19.1%	31.2%
Maturity-declining	21.9%	13.3%
Stable-modest	59.1%	55.9%

About the sponsors

Manchester Business School

Dr Panikkos Poutziouris, is a Senior Lecturer in Entrepreneurship at the Manchester Science Enterprise Centre, and Visiting Fellow for Family Business Initiative at Manchester Business School.

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Manchester Business School is one of the leading international business schools, famous for its project-based approach to management education – the Manchester Method. MBS offers a complete range of MBA programmes, including full-time, executive, part-time and distance learning courses designed flexibly to suit the needs of professionals, executives and entrepreneurs.

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Sand Aire

Sand Aire Private Equity specialises in investment in family-owned and closely-held companies. We are dedicated to understanding the ownership dynamics, and the special potential for enhanced value that exists in strongly managed businesses in this important sector of the economy. We take a long-term view and prefer to commit between £2 million and £10 million of equity funding per deal.

Sand Aire Private Equity is part of Sand Aire asset management group whose purpose is strategic family wealth management. The business is built on the foundations of a substantial family-owned company that has invested successfully in the UK for five generations.

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Grant Thornton

Grant Thornton is one of the worlds leading organisations providing business and financial advice focused on the interests of fast growing entrepreneurial and mid-corporate businesses and their owners.

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