Policy Briefing

Actual and intended growth in family firms and non-family-owned firms: Are they different?

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Small and medium-sized companies comprise a large proportion of the UK economy. Among these firms most are family-owned (BIS, 2015). The performance implications of the 'family effect' in SMEs has been of considerable interest in the research literature, where the primary focus has been on the effect of family ownership, often disregarding the allocation of decision rights or firms' governance structure.

It is believed that growth of a small business is at least partially determined by the entrepreneur or manager's motivation, and intentions for growing the business. This has important implications for small family firms, as one distinguishing characteristic of such firms is that the owners and managers are often one and the same. The purpose of this study is to explore the combined effect of family ownership and involvement on growth.

Key findings

Based on an analysis of the first wave of the Longitudinal Small Business Survey, we find that family effects - measured by family ownership and/or involvement - have a significant effect on behaviour related to small business growth. In comparison with non-family-owned SMEs, family-owned firms appear to be more cautious in terms of pursuing business growth and expansion. This is particularly so for family firms run by owner-family member(s) only (see Figure 1). In particular:

1. When comparing the growth behaviours of family-owned SMEs and non-family-owned SMEs, the former are not only less likely to experience growth in employment size and turnover during the past 12 months, but also less likely to expect an increase in workforce size and turnover for the next 12 months.
2. Small family firms run by owner-managers alone are not only less likely than non-family-owned firms to experience growth in turnover and employment size during the previous 12 months, but also expect growth in turnover and firm size in the next year.
3. However, small family firms with externally sourced managers involved in daily control of the business are no different from non-family firms in terms of reporting actual and expected growth in turnover and workforce size.

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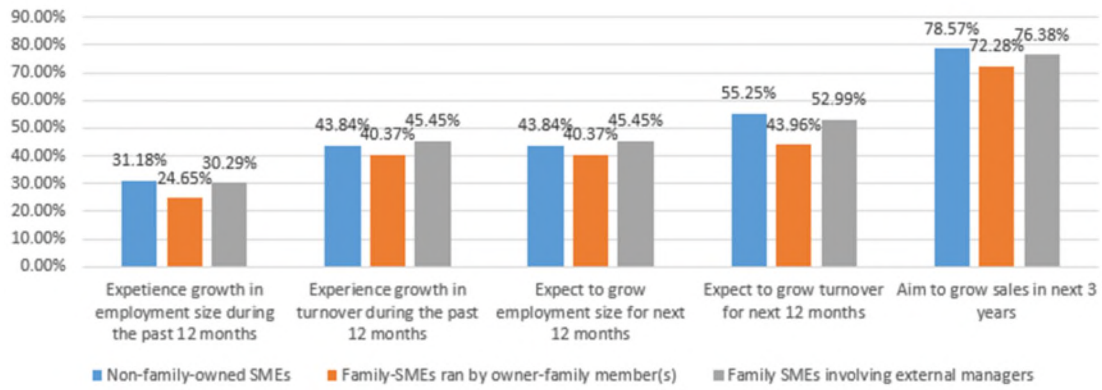
4. Small family-owned firms are significantly less likely than non-family-owned firms to aim for growth in sales in the three years following. However, this difference is not explained by management regime.
5. Small business owner-managers' beliefs and attitudes embrace family values including tradition, stability, loyalty, trust, and interdependency which have a significant effect on the growth propensity of family-owned SMEs.

Figure 1: Actural and expected growth in non-family SMEs, family SMEs with owner-family member(s) only and family SMEs with external managers



Policy implications

Current government policy towards the development and growth of SMEs is primarily directed towards enhancing the financial capability of small firms. In risk-averse, family businesses where conservative growth behaviour is more prevalent, easing the access to finance may not necessarily promote business expansion. Such overly conservative growth behaviour of small family firms, especially those ran by owner-family member(s), may be attributed to under-diversification of owner-family wealth. To this end, using venture capital or utilising specific insurance/buffer mechanisms may significantly reduce the exposure to systematic business risk and encourage owner-managers to pursue entrepreneurial activities sensibly, expand their business and thus contribute to employment and economic growth.

Full paper link:
http://www.enterpriseresearch.ac.uk/our-work/publications/?type=whitepaper-research