State of the Art Review

What is the social-economic contribution of family firms in the UK? A review of the evidence

Dr Jane Glover
Research Associate, Centre for Enterprise, Diversity and Leadership
Management School, University of York

Professor Kiran Trehan
Professor of Entrepreneurship and Director, Centre for Enterprise, Diversity and Leadership
Management School, University of York
kiran.trehan@york.ac.uk

SOTA Review No 45: September 2020

In this review, we present a summary of the evidence on the social-economic contributions that family businesses make to the United Kingdom (UK). First, we explore the research on the economic contributions that family firms make, before exploring the ways in which family businesses contribute to the social fabric of the areas in which they operate. Finally, we argue that there is a gap in the evidence in relation to the interlinked nature of the social-economic contributions made and the need for a wider, holistic view of the way family businesses contribute to society.

Background

A family business is, essentially, one that is: "owned or controlled by one family" (Burns, 2016: 358). Family businesses operate in all sectors and all regions of the UK and are diverse in their size and structure, ranging from single entities to large groups of different ventures operated by the same family. Many family businesses have been in existence for hundreds of years, passing from generation to generation, with their longevity the result of good governance, innovative family ownership and a focus on the long-term that has resulted in them becoming the bedrock of communities across the UK.[1]

[1] The long-term orientation of family businesses has been extensively researched and is summarised in the IFB Research Foundation working paper available at: https://www.ifb.org.uk/media/3718/ifbrf-working-paper-long-term-thinking-in-family-business.pdf

Whilst it has been argued that family businesses are associated with lower productivity within policy circles, they ***do*** demonstrate long-term sustainable growth and investment, providing stable employment and consistent revenues (e.g. Clinton et al., 2018; de Vries, 1993; Miller and Le Breton-Miller, 2005). The significance of family businesses lies in their resilience capacity providing stable economic returns and a social contribution yet, we do not have a clear and complete understanding of the role and social-economic contribution of family businesses to the UK economy and more importantly, how this might be strengthened to build more sustainable and prosperous places.

What is the economic contribution family businesses make to the UK?

It is well established, through research commissioned by the IFB Research Foundation[2], that the family business sector is vital to the UK economy. According to the latest data from the IFB Research Foundation and Oxford Economics (2020), there were over 5.1 million family-owned businesses in the UK in 2018. At 88 per cent of all the private sector firms, they constitute the majority of firms in the UK. They generate more than 30 per cent of the UK's annual GDP (£657 billion), employ 14.2 million people (52 per cent of private sector employment, and 40 per cent of all employment), and contribute over 25 per cent of the Government's annual tax revenues each year.

One of the issues with the current research debates around the economic contributions of family firms is the lack of understanding about the differences across regions. For example, a family business employing local people in an area where there is little employment opportunity arguably has a greater economic contribution to that place compared to an area which has relatively low unemployment and is more affluent. This also raises the question about how the economic contributions of these firms interlink with social contributions if we look beyond the economic figures.

What are the social contributions family businesses make to the UK?

Family firms socially support and financially invest in their local communities, many of whom have been involved in their local area and local community for generations (Danes et al., 2009; FBU, 2019). Nearly three in five UK family businesses say their long-term goal is to contribute to the community and leave a positive legacy, according to the PwC Family Business Survey. As a result of many family firms seeking to leave a legacy for future generations through the firm's success, improving stakeholder and community relationships are more likely to influence business strategies (Canavati, 2018). Consequently, family firms avoid short-term strategies that have a detrimental effect on the firm's stakeholders (Berrone et al., 2010, 2012; Cruz et al., 2014), make investments in reputational capital (Fombrun, 1996), and build positive relationships with outside stakeholders (Arregle et al., 2007). In building these positive relationships, family business owners often develop social engagement programs which tend to mirror the needs of the local community where their business operates (Smith and Oakley, 1994) and do this with the primary aim of making real, positive differences (Fitzgerald et al., 2010).

There are debates in the literature on the social conduct of family business (see: Campopiano and De Massis, 2016). Niehm et al. (2008) examined the possible variables

[2] The IFB Research Foundation website: www.ifb.org.uk/ifb-research-foundation/ifb-research-foundation/

that lead to community social responsibility among family businesses, the dimensions comprising community social responsibility, and the consequence of community social responsibility on the success of family businesses located in small and rural communities. Fitzgerald et al. (2010) focused on three contexts – the family, the business, and the community – that intertwine in the case of community social responsibility of family businesses. They included social-economic community vulnerability, attitude of the business owner toward the community, business success, and family success to gauge how these concepts influence levels of family business community social responsibility. But whilst these studies note the different variables and contexts, there is little attention given to evaluating the 'actual' contribution.

Research also provides good examples of ways in which family business can engage socially with their local area: for example, the local community, interest groups, charitable organisations, political groups, and governments, as well as memberships in civic groups, churches, schools, and other non-profit organisations (e.g. Litz and Stewart, 2000; Fitzgerald et al., 2010). But there is little evidence which moves beyond identifying these different forms of social engagement to exploring and evaluating the social contributions to wider society.

The location of the family business has the potential to influence the ways in which family, business and family business engage with communities, for instance 'business operators who live in the communities where they conduct business will have more commitment to, and involvement in, the community than absentee business owner /managers' (Besser, 2012: 131). The business location is also important in relation to the effects of any social-economic contribution made by family businesses where their long-term presence becomes critical in areas where other forms of business have left, perhaps as a result of economic decline, a particular industry declining e.g. manufacturing and so on.

The prosperity of an area depends on the level of business activity, therefore, having a number of economically sustainable family businesses in a city, town or village can contribute both directly and indirectly to the sustainability of the community either through employing local people, using other businesses in the area and contributing in other ways to the community. For example, partnerships between family firms and community enterprises can build a more sustainable form of intervention involving long-term commitments to communities (Tracey et al., 2005: 327).

Fitzgerald et al. (2010) state that past research on the social responsibility of family businesses has focused almost entirely on the business system; this has ignored some important dimensions of social responsibility, such as orientation of the owning family to the community, and the interrelated social-economic connectedness of communities and their businesses.

A concept to emerge from the evidence which provides a useful lens to explore the relationship between family business and place is social embeddedness. Social embeddedness refers to the social ties of an actor that may shape perceptions, motivations and hence action (Granovetter, 1985). Granovetter (1985: 496) made an explicit connection between social relations and modern business outcomes. This led Granovetter (1992: 33) to propose that all economic behaviour is embedded in networks and communities of interpersonal relationships; and that "economic action is affected by actor's dyadic relationships and by the structure of the overall network of relations".

Following Granovetter's proposition requires academics to explore how economic contributions are part and parcel of any social contribution family businesses make and more importantly how they then become self-sustaining through a cyclical process of supporting one another. If we are to progress in our understanding of the social-economic ways in which family businesses contribute to the UK, then we need to unpack the complexities of the interconnectedness of economic and social factors.

By bridging the gap between economic and social research on the contributions of family businesses, it will help us to understand the different ways in which both the economic and social contributions are interrelated; how, for example, the employment of local people can be economically beneficial to both the family business by building a positive reputation as a fair employer, and local people through the provision of jobs. Furthermore, the social contributions can extend to creating a better local environment through work with charities, supporting education of local people, and providing a bedrock for the local community. A deeper more nuanced understanding of how employing local people could lead to wider social contributions, such as family businesses supporting local schools and local charities demonstrates that in order to fully understand the social-economic contributions family businesses make, we first need to understand the relationship between the economic and the social. The importance of this interconnected perspective is of critical importance to researchers and policy-makers seeking solutions to the problem of regenerating deprived areas and the role family businesses could play in policy intended to address the 'levelling up' agenda.

Summary and evidence gaps

Achieving sustainable, equitable prosperity is crucial to developing the UK as a fair and equal society. KPMG (2017) highlight that family businesses offer an alternative form of capitalism based on trust, reputation and long-termism. Family businesses are diverse in their size and structure and constitute the majority of firms in the global economy, so are major contributors to tax revenues and employment. However, there is little concrete evidence on their social contributions. Understanding how family businesses contribute to the social fabric of communities and places, as well as the complexities of the interlinked nature of economic and social contributions could enlighten us to understand how we can build sustainable and prosperous communities. This is particularly pertinent in deprived areas and in relation to policy discussions about the North / South divide and the need to "level-up" the economic fortunes of the country.

Sources

Arregle, J. L., Hitt, M. A., Sirmon, D. G., & Very, P. (2007). The Development of Organizational Social Capital: Attributes of Family Firms. *Journal of Management Studies*, 44 (1), 73–95.

Berrone, P., Cruz, C., Gomez-Mejia, L. & Larraza-Kintana, M. (2010). Socioemotional wealth and corporate responses to institutional pressures: Do family-controlled firms pollute less?. *Administrative Science Quarterly*, 55, 82–113.

Berrone, P., Cruz, C. & Gomez Mejia, L.R. (2012). Socioemotional wealth in family firms: Theoretical dimensions, assessment approaches and agenda for future research. *Family Business Review*, 25 (3), 258–279.

Besser, T. L. (2012). The consequences of social responsibility for small business owners in small towns. *Business Ethics: A European Review*, 21(2), 129–139.

Burns, P. (2016). *Entrepreneurship and small business*. Palgrave Macmillan Limited.

Campopiano, G., & De Massis, A. (2016). Family involvement and corporate social responsibility in small-and medium-sized family firms. *The Routledge Companion to Family Business*.

Canavati, S. (2018). Corporate social performance in family firms: a meta-analysis. *Journal of Family Business Management*.

Clinton, E., Diaz, V., Brophy, M., and Gamble, J.R. (2018). *Long-term thinking in UK family business.* Institute for Family Business. Available at: https://www.ifb.org.uk/media/3718/ifbrf-working-paper-long-term-thinking-in-family-business.pdf

Cruz, C., Larraza-Kintana, M., Garcés-Galdeano, L. & Berone, P. (2014). Are family firms really more socially responsible? *Entrepreneurship Theory and Practice*, 38(6), 1295-1316.

Danes, S.M., Stafford, K., Haynes, G., & Amarapurkar, S.S. (2009). Family capital of family firms: Bridging human, social, and financial capital. *Family Business Review*, 22(3), 199–215.

de Vries, M. F. K. (1993). The dynamics of family controlled firms: The good and the bad news. *Organizational Dynamics*, *21*(3), 59-71.

FBU (2019). *The Family Business Survey 2018: Determining the UK Family Business Agenda*, Family Business United report available at: https://familybusinessunited.com/2019/01/13/the-uk-family-business-agenda/

Fitzgerald, M.A., Haynes, G.W., Schrank, H.L., & Danes, S.M. (2010). Socially responsible processes of small family business owners: Exploratory evidence from the national family business survey, *Journal of Small Business Management*, 48(4), 524–551.

Fombrun, C. (1996), *Reputation: Realizing Value from the Corporate Image*, Harvard Business School Press, Boston, MA.

Granovetter, M.S. (1985). Economic action and social structure: The problem of embeddedness, *American Journal of Sociology,* 91(3), 481-510.

Granovetter, M.S. (1992). *Problems and Explanation in Economic Sociology, Networks and Organisations*, Harvard Business School Press.

IFB Research Foundation and Oxford Economics (2020). *The UK Family Business Sector 2019-20*. IFB Research Foundation and Oxford Economics. 2018.

KPMG (2017). Family Businesses – *A Model For 'New' Capitalism?* On-line post By Ken Mccracken, Head Of Family Business Consulting at KPMG. Available at: https://www.ifb.org.uk/resources/for-owners/family-businesses-a-model-for-new-capitalism/

Litz, R.A., & Stewart, A.C. (2000). Charity begins at home: Family firms and patterns of community involvement. *Nonprofit and Voluntary Sector Quarterly*, *29*, 131-148.

Miller, D., & Le Breton-Miller, I. (2005). *Managing for the long run: Lessons in competitive advantage from great family businesses*. Harvard Business Press.

Niehm, L. S., Swinney, J., & Miller, N. J. (2008). Community social responsibility and its consequences for family business performance. *Journal of Small Business Management*, *46*, 331-350.

PwC (2018). *Family business survey*. Available at: https://www.pwc.co.uk/fambizsurvey

Smith, P.L., & Oakley, E.F. (1994). A Study of the Ethical Values of Metropolitan and Nonmetropolitan Small Business Owners. *Journal of Small Business Management,* 32, 17–27.

Tracey, P., N. Phillips & Haugh, H. (2005). Beyond Philanthropy: Community Enterprise as a Basis for Corporate Citizenship. *Journal of Business Ethics,* 58(4), 327–344.

About the Authors

Dr Jane Glover is a Visiting associate at the Centre for women's Enterprise, Leadership & Diversity [WE LEAD] at the University of York. Jane's research focuses on family firms and relationships between family firms and their wider economic and social environments and on the socio-emotional wealth of creating sustainable small family farms and how the wider supply chain affects small family farms ability to engage in sustainable and socially just business practices.

Kiran Trehan is Professor of Entrepreneurship, Director of the Centre for Women's Enterprise, Leadership, Economy & Diversity [WE LEAD] and Pro- Vice Chancellor at the University of York. She is a key contributor to debates on leadership, enterprise and diversity in small firms. She has led enterprise initiatives with policy-makers and community networks to pioneer and promote research, engagement and impact which has influenced policy and practise.

This review was part of a larger research project supported by the IFB Research Foundation.