ERC
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EXECUTIVE SUMMARY

A Study of Finance, Growth and Productivity in Family-Owned SMEs

November 2026

UKRI Economic and Social Research Council

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Acknowledgements

The authors wish to thank the ERC for funding the project outlined in this document entitled “A Study of Finance, Growth and Productivity in Family-Owned SMEs". In particular, they acknowledge the help and support from Steve Roper and Jiao Liu. They also wish to thank all the funders of the ERC including the Economic and Social Research Council, Department for Business, Innovation, Science and Trade, Innovate UK, the British Business Bank and the Intellectual Property Office. The usual disclaimer applies.

Suggested Citation

Suggested citation: Brown, R, Sun, H., & Cowling M. (2026). A Study of Finance, Growth and Productivity in Family-Owned SMEs. ERC Research Paper Enterprise Research Centre, Warwick Business School. Available at: www.enterpriseresearch.ac.uk [Accessed: DD Month YYYY].

Authors	Ross Brown, Haoran Sun & Marc Cowling
Published	10/11/2026
ERC Research Paper No	127

Executive Summary

Family-owned firms (henceforth FOFs) are technically regarded as businesses governed and/or managed with the intention to shape and pursue the vision of the business held by members of the same family across generations.

These firms comprise a substantial proportion of the business base in most modern-day economies and constitute the vast majority of small and medium-sized enterprises (SMEs) in such countries.

To date the volume of research on the financial affairs of these firms has been relatively modest. Owing to their central economic importance this project wishes to examine the "financial logic" characterising family firm funding and the associated growth constraints faced by FOF SMEs in the UK compared to their non-FOF counterparts.

A central concern this work sought to examine was to estimate the levels of borrower discouragement in FOFs and how these credit constraints ultimately affect their performance in terms of entrepreneurial growth outcomes.

Borrower discouragement is a situation whereby a 'good' credit worthy firm with a high chance of servicing a loan chooses not to apply despite having an underlying need for external finance for fear of rejection by a lender. Despite their numerical importance research on borrower discouragement in FOFs is largely absent in the academic literature**.**

The main dataset underpinning this empirical analysis is the UK's single largest longitudinal survey of small firms - the Longitudinal Small Business Survey (LSBS). In terms of the project's methods, we undertake econometric analysis which employs a multi-tier empirical strategy that exploits both the broad coverage and the longitudinal features of the LSBS.

A number of key findings emerged from this novel empirical analysis of the LSBS. We examine who is affected and what happens as a consequence of this decision-making behaviour.

FOFs are more likely than other firms to experience borrower discouragement and our findings show that FOFs have a greater propensity towards being discouraged and this applies particularly for limited liability partnerships (LLPs).

It appears that discouragement in these firms may be irrational decision-making behaviour as the counterfactual approval probability of discouraged firms accessing finance is high.

FOFs do not experience any greater credit rationing than non-FOFs.

In terms of the economic impact of borrower discouragement, FOFs encounter no greater discernible impact than non-FOFs.

Key Findings at a Glance

- Finding one: Our findings show that FOFs have a greater propensity towards being discouraged than non-FOFs
- Finding two: Limited liability partnerships (LLPs) are the FOFs most predisposed towards borrower discouragement
- Finding three: The counterfactual approval probability of discouraged firms accessing finance is high
- Finding four: FOFs do not experience any greater credit rationing than non-FOFs
- Finding five: Borrower discouragement becomes a permanent *state* rather than a transitory *phase* but, no change in the growth ambition is detected in firms suffering from discouragement.

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