Lack of governance 'stunts growth' of uk family businesses, according to research

55 per cent of family businesses say succession is a barrier to future success; 62 per cent would consider selling up owing to difficulties handing on the business to children or relatives; 90 per cent of UK family businesses operate with no formal family governance structures in place, stunting their potential productivity and growth, according to new research published today by Family Business Place and law firm, Charles Russell Speechlys.

Sally Ashford, Legal Director at Charles Russell Speechlys

While two thirds of family-owned businesses have a board of directors, only 25 per cent have non-family board members and only 20 per cent operate with non-executive directors to provide independent insight and advice according to the research, launched today at Family Business Place's National Conference in London.

Despite an aversion to giving non family members senior leadership or strategy-setting roles, and a strong desire to keep business ownership within the family, more than half (55 per cent) say succession is a barrier to future success, with almost two thirds (62 per cent) admitting they would be prepared to sell up owing to difficulties handing on the business to children or relatives.

The two trends are linked, according to family business experts at law firm Charles Russell Speechlys, with a lack of formal governance leading to struggles with succession, complacency within the business, family disputes, and even damage to growth.

Sally Ashford, legal director at Charles Russell Speechlys, commented: "It's no coincidence that family businesses are revealing both a lack of formal governance and concerns or problems with succession – the two often conspire to stunt business growth. As they develop and mature – often across several generations - it's essential that family businesses put the right professional, management and governance structures in place to ensure they stay on the right track. Without them, complacency, stagnation, and even major family disputes can result.

"Family charters, manifestos, or councils can help get family members behind a shared vision or set of objectives, smooth negotiation and avoid arguments, and keep younger family members engaged by allowing them a voice in the future of the business. In today's economy, where a job for life has all but vanished, younger generations entering the business will expect to have more variety and say in the development of their careers.

Working in the family business can offer all that and more, but career progression needs to be structured carefully and ambitions must be listened to.

"There is a misconception that non-executive directors will be prohibitively expensive, and are only relevant to major corporates or public companies. But they're a natural fit for family firms, given many don't want to appoint non-family members to the board. A good non executive director can be incredibly valuable – from stopping a company from getting complacent, to helping to identify and head off potential problems or disputes before they start."

Anita Brightley-Hodges, managing dDirector of Family Business Place, said:'Families who run businesses are inherently shy about blowing their own trumpet and recognising they have a brilliant and successful company.

The great thing about bringing in the next generation is they are marketing-savvy; they know how to use new technologies, social media and digital marketing platforms to showcase their 'family factor' and reach customers in a different way.

However, in order to excite them about their potential career path in the family firm, there needs to be a defined role set out for them, one which they can take hold of and know they can have a real and meaningful impact on the business.

This also means a commitment to setting out a professional leadership plan - perhaps some work shadowing or a board swap in another family business and networking with other next generation entrepreneurs.

Charles Russell Speechlys will be holding a workshop for family businesses at their offices in Guildford on March 18th with talks from family businesses, NEDs and their legal experts looking at what options are available for family businesses to strengthen their governance and strategic direction. Further information from Virginia Cook on Virginia.cook@crsblaw.com

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Family business reveal their biggest challenges

Other findings in the Family Business Place and Charles Russell Speechlys report include:

- Family businesses reported a variety of issues when it comes to planning for the future, with concerns centring on intergenerational conflict (24 per cent), succession problems and/or younger family members not wanting to join the business (29 per cent), dividend policies and remuneration of family members (10 per cent) and sibling rivalry (7 per cent)
- Twenty-seven per cent of respondents cited 'other' issues, including long hours, recruitment, and disputes around the overall direction or purpose of the family business (ie growth and innovation versus using the business to support an comfortable lifestyle) as barriers to future success
- There is widespread reluctance to broaden share ownership and responsibilities - family members own more than 75 per cent of shares in nearly all family businesses surveyed (87 per cent)
- Family businesses are largely domestically oriented, with only eight per cent having offices or subsidiaries outside the UK
- 64 per cent of family businesses are involved with philanthropy or charitable giving
- There is a widespread aversion to relying on banks and debt, with many businesses preferring to self-fund expansion
- 90 per cent of those surveyed have spent time working outside the family business, seen as critically important to develop a rounded perspective
- Major success factors identified by family business owners include good communication between family members, and between family members and employees; sustaining some work life balance; and not being afraid to promote talented and loyal non-family members within the business
- Of the family businesses surveyed, 19 per cent were in the professional services sector, followed by 16 per cent in retail and 14 per cent in manufacturing. Other sectors represented included construction (10 per cent), food and drink (8 per cent, and health and beauty (5 per cent)

The challenges of keeping it in the family

Family firms are unique, held together by strong bonds which make them immensely powerful but which can also present some major challenges, particularly as they plan their futures.

Paul Baker, Natalie Pawley and Scott Pawley

Key among the issues they face is the handover of control from the older generation to the younger ones, according to a recently-published report which said that 55 per cent of family businesses cite succession as a barrier to future success and 62 per cent would consider selling up owing to difficulties handing on the business to children or relatives.

Despite an aversion For their part, businesses in Surrey, while acknowledging the challenges, argue that the benefits of being a family company far outweigh the drawbacks.

The recent research was published by Family Business Place and law firm Charles Russell Speechlys and said that 90 per cent of UK family businesses operate with no formal family governance structures.

The report said that, while two thirds of family-owned businesses have a Board of Directors, only 25 per cent have non-family board members and only 20 per cent operate with Non-Executive Directors, underlining an aversion to giving non family members senior leadership or strategy-setting roles.

According to family business experts at Charles Russell Speechlys, the lack of formal governance leads to struggles with succession, complacency within the business, family disputes and even damage growth.

Surrey family firms recognise the challenges. Mark Kendall, aged 35, Managing Director of Kendall Cars for the past five years, certainly recognises the difficulty of maintaining family relationships during times of change.

Mark Kendall. Kendall Cars

The company, a car, van, MPV and truck rental company operating throughout the South East offering daily and long term hire, was started by his grandfather in 1968.

Shortly afterwards, his father took over but today Roger has less of a prominent role, having stepped aside to allow his son to become managing director.

Roger remains one of six family members still involved, including Mark's uncle, mother, sister and wife.

Mark said: "The report did mention things that were familiar to me. One of the things that we did three years ago was bring in a non-executive director from outside the family.

"He was able to stand back from things and has been able to help us tackle the challenges presented when I took over from my father when he took a step side-wards.

"The family and the business was affected by the process of my taking over. There were some cases of miscommunication and we have worked to put that right.

"However, we are a tight knit family, and remain so, and that is one of the strengths of being a family firm. We can make decisions quickly without having to go to a board of directors. I do think being a family business is the right approach for us.

"There are many reasons to remain a family business but certainly there can be challenges as well. Having someone from outside the family has helped us deal with that.

"One issue when I took over was changing things, being told 'there is the company and here

Natalie, Scott and family on holiday

is the way we have always done things'. For instance, we have just gone computerised. Thirteen hundred vehicles and ten branches and until recently we were using pen and paper. It worked but we needed to computerise.

"Our customers certainly enjoy the 'family run' feel that we give to our clients that makes them choose us over the large corporate hire companies."

Another managing director juggling the demands of family and business life is Scott Pawley, managing director of Surrey company Global Travel Management, which helps clients with their corporate travel plans, particularly airline tickets, and trades in the UK and abroad.

He and wife Natalie, the company secretary, set up the business seventeen years ago with support from Scott's father. Today, the couple run it together and employ 32 people with a £26 million turnover.

Scott said: "I have found running a family business mostly enjoyment. One of the things we have always done is draw a dividing line between our business life and our home life. I may be managing director and sometimes someone has to take the decisions but you cannot take that home with you.

"Another thing we did was bring in a non-family member onto the board, someone who can take a view of the company from outside.

"Non-family members on the board and on the staff management means that they can take a view which will benefit the business as a whole.

"There are benefits in being a family-run business, one of which is that as a company we have always followed family values. We always say 'imagine if it was your mother or grandmother getting onto the plane, are we treating our customers the way you would like to see them treated?'

"One of the thoughts that came to mind when I read the report is the phrase 'family business'. I would not go to a client about a £10 million contract and say we are a family business. It makes us sound, and I do not mean offence here, like we are a corner shop so I prefer to promote our business as an SME. However, within the company we do take a family approach to how we run the business."

Succession has not yet raised its head for Scott and Natalie. Scott said: "We have not really thought about succession. We are young enough not to need to worry about it at this stage.

"Our children are eleven and fourteen and I did not know what I wanted to do when I left school so we will have to see how their ideas develop. Going into the family business is certainly not something I would force onto them."

For Clare Cross, of Raycross Interiors, a family business that has designed, supplied and installed kitchens, bathrooms and bedrooms for more than 35 years, ensuring that all opinions within the company are heard is crucial.

She said: "Working in a family business can often mean that you can live and breathe work 24/7 and it can sometimes be difficult to switch off and enjoy quality family time.

"With four members of the family working at our Byfleet showroom, we've managed to each take on a role that enables us to bring our expertise to the table and deliver an outstanding customer service.

"When it's family, it's personal and a high level of customer service is of paramount importance to us.

"Business meetings can sometimes require the need for broad shoulders as differences of opinion kicks-in but a good sense of humour normally prevails and onward and upward we go."

"Families who run businesses are inherently shy about blowing their own trumpet and recognising they have a brilliant and successful company. The great thing about bringing in the next generation is they are marketing-savvy; they know how to use new technologies to showcase their 'family factor' and reach customers in a different way.