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Family Business in East Lothian

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Entrepreneurship
Title: Family Business in East Lothian

Summary
The proposed paper will present the results of a pilot study within East Lothian, Scotland which focuses upon patterns of family business ownership, including business size and ownership and their reasons for and commitment to the geographic area in which they are currently based. Perceptions of the role of the family within the business will be considered, alongside some exploration of the roles of business families and the business community locally. Previous interaction with formalised business support networks and the perceptions of business owners with respect to the appropriateness of the business support available will be explored and considered in the context of further research planned in this area.

Word Count: 117

Paper Outline
Family businesses provide a critical structure for economic activity and wealth-creation Worldwide, existing and flourishing across geo-political frontiers, markets, areas and legal forms of business [Poutziolis et al, 2004]. Worldwide, family businesses are the most common type of business and despite much academic debate about the precise definition of a family business, estimates of the proportion of family businesses within the economies of developed countries remain remarkably constant at around two thirds of business operations [Poutziolis et al, 2004] and around half of GDP economic activity and private employment [Shanker and Astrachan, 1996].

In terms of economic growth and development Worldwide, there is currently considerable debate, the general consensus being that whilst family businesses provide an important contribution to economic and social development defining and quantifying that contribution poses substantial challenges [Allio, 2004]. Whilst a number of different methodologies have been proposed, the variety of different business models and the different manner in which business information is collected Worldwide make direct assessment of growth potential and comparison between different countries and cultures difficult [Astrachan and Shanker, 2006]. Part of this difficulty lies in the distinction between the assessment of potential growth within an individual business and the potential for the start-up and initial development of successful new family businesses. Predicting business start-up rates depends largely on past trends, whilst within the individual business, family businesses may or may not see growth as a key goal.

Despite increasing recognition of the importance of family firms within business, political and academic circles, scholarly developments within the family business research field have been limited by a failure amongst interested parties to achieve a consensus across the socio-economic-scientific perspectives as to what constitutes a family business and a lack of robust theoretical research, including longitudinal research to create substantial comparisons between family and non-family firms [Poutziolis et al, 2004].

Whilst research into family enterprises continues to evolve and gather momentum, an underlying conclusion that has been reached is that ‘family firms are more complicated in many respects compared with their non-family counterparts’, a factor which may account for them having been ignored by mainstream researchers [Zahra et al 2006]. One result of the distinguishing features and characteristics which set these forms of businesses apart from others, is the proposition that, irrespective of their size, the ‘family business should be regarded as a special case’ [Reid and Adams 2001].

One constant theme throughout the literature is the relatively private nature of family businesses, which in turn tends to mean that accurate information about them is not readily available [Astrachan and Shanker, 2006]. A second constant theme is the importance of the contribution that family businesses make to economic, social, cultural and community development, whether the be in the UK [Reid and Harris, 2004], the USA [Astrachan and Shanker 2006], in the Chinese economy [Chung and Yuen, 2003; Poutziolis et al, 2002] or amongst distinct and relatively discrete minority communities [Dhaliwal and Kangis, 2008]. The combination of a sector of clear and, to some extent, measurable importance where robust data are nonetheless difficult to establish, illustrates both the dilemma of family business research and its importance.
Evidence offering insight into the role and relative importance of family businesses within Scotland is somewhat sparse. The Scottish Executive Annual Survey of Small Businesses in Scotland contains some information on family businesses and indicates one or two key trends which appear to be emerging.

Two sets of survey results are currently available, published in 2003 and 2005. Within the results there is some consensus:

1. More than half the small businesses surveyed were family owned and run; these figures are estimated at 61% in 2003 and 68% in 2005.

2. The Scottish Executive collected substantially more information about family businesses in the 2005 survey, perhaps reflecting an increasing awareness of the importance of this form of business ownership.

3. Similar proportions of businesses were family owned in Highlands and Islands compared to other geographic areas – this has very important implications for regional economic development, but there is very little detail in the figures available.

4. Most family businesses were controlled by the first generation – 72% in 2003; 71% in 2005. The trends in terms of generational control and the factors that affect this seem very stable of the time period. Generally, the bigger and/or older the business, the less likely the first generation was to still be in direct control. Younger businesses, micro-businesses and businesses without formal employees are more likely to be in first generation control. Businesses controlled by the first generation were also slightly more likely to be proposing growth but the difference is small.

5. In general terms, family businesses within minority ethnic groups were not substantially different from the general business population except in terms of generational control of the business. Amongst minority ethnic groups, 97% of businesses were under the control of the first generation, compared to 72% of the general population. There is no information here, however, on the reasons for this finding – it may be the result of family attitudes to succession planning or it may be related to family educational aspiration for the second and subsequent generations.

Available data indicate that this picture is similar across the UK; surveys conducted amongst small businesses across the UK are conducted by the DTi Small Business Service [2006], indicating that in 2006 around 67% of small businesses self-defined as a family business. Amongst these, 57% were controlled by the first generation whilst 20% were controlled by the second generation. Data remain sparse, however, and there remains little focus on family businesses which do not fall within the SME category.

The role of family firms and the relative importance of commercial and non-commercial objectives, set alongside the different and often less formal management strategies used within family businesses are two facets that tend to distinguish family owned from non-family owned businesses. Notably, however, and central to this research is the balance between the family business, the business family and the wider business community. By examining individual family businesses as a route to an exploration of business families and their role both in business development and support, the research within east Lothian aims to enhance understanding of the role of family businesses and business families in Regional Economic Development.
Aims
To enhance theoretical and practical understanding of the role of the family in business and interaction with formal and informal business support mechanisms, thereby contributing to further academic work and practical policy development.

Objectives
1. To review and classify the academic literatures on family business, both within Scotland and from a Worldwide perspective.
2. To explore the interaction between family and business in its broadest sense, allowing an exploration of the role of family within an individual business but also allowing a consideration of the role of business families in the development and growth of future businesses.
3. To identify and evaluate factors influencing the uptake of business support within family businesses in East Lothian

Methodology
Sampling
For the development of pilot work in East Lothian, it is envisaged that the family business project should attempt to develop a representative sample of family businesses currently operating in the East Lothian area, stratified by the sector in which the business operates.

In 2003, the employment patterns within East Lothian can be summarised:

<table>
<thead>
<tr>
<th>Sector</th>
<th>East Lothian n</th>
<th>East Lothian %</th>
<th>Scotland %</th>
<th>UK %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>280</td>
<td>9.1</td>
<td>10.6</td>
<td>12.6</td>
</tr>
<tr>
<td>Construction</td>
<td>1976</td>
<td>7.9</td>
<td>5.2</td>
<td>4.4</td>
</tr>
<tr>
<td>Services</td>
<td>19067</td>
<td>76.2</td>
<td>81.0</td>
<td>81.4</td>
</tr>
<tr>
<td>Distribution, hotels and restaurants</td>
<td>6269</td>
<td>25.0</td>
<td>23.5</td>
<td>24.7</td>
</tr>
<tr>
<td>Transport and Communications</td>
<td>741</td>
<td>3.0</td>
<td>5.3</td>
<td>6.0</td>
</tr>
<tr>
<td>Finance, IT and Business</td>
<td>3120</td>
<td>12.5</td>
<td>17.6</td>
<td>19.8</td>
</tr>
<tr>
<td>Public administration, education and health</td>
<td>7408</td>
<td>29.6</td>
<td>29.0</td>
<td>25.8</td>
</tr>
<tr>
<td>Other Services</td>
<td>1529</td>
<td>6.1</td>
<td>5.5</td>
<td>5.2</td>
</tr>
<tr>
<td>Tourism related</td>
<td>3168</td>
<td>12.7</td>
<td>8.7</td>
<td>8.1</td>
</tr>
</tbody>
</table>

Reference: Annual Business Enquiry Employee Analysis 2003

Considering patterns of employment within in East Lothian, two things become relatively clear. Based on the 2003 figures, employment patterns within East Lothian are not radically different to the broader picture across Scotland and, whilst the UK picture varies slightly, the concept of using employment patterns as the basis for sample stratification appears robust.

The focus on family business, however, remains an issue in that it is likely that family businesses are disproportionately represented in some employment categories but little information is available on this. Given the exploratory nature of this initial pilot, this is unlikely to cause major problems at this stage but remains a key area for consideration when the development of a sampling frame for quantitative research is required.

For the current, qualitative study, it is proposed that where a sector is responsible for up to 10% of total employment, the sample aims to include 1 family business operating in this area. Where a sector accounts for 11-50% of employment, a target of 2 family businesses operating in the area is set, with 3 family businesses being included within sectors responsible for more than 50% total employment. Using the 2003 figures, this would allow for a target sample size of 15 businesses stratified by business sector and contributing a robust overview of business within East Lothian.
**Key Themes**
Initially, seven key themes have been developed for the pilot interviews, linking the academic literature to the professional experience of those working in the area.

1. Background information on the business is essential to a developed understanding of the patterns of family business ownership and will be collected early in the interview process, including an estimate of business size, sector and ownership pattern.

2. The reasons behind initial business entry and for continued involvement in business will be explored.

3. Reasons for initial and continued location within East Lothian will also be explored.

4. Perceptions of the impact of geographical location on both the business operation *per se* and on the interaction between the business and family lifestyle will be explored.

5. Further consideration of the importance of the geographic location will focus upon the perceived likelihood of the individual business re-locating, both within and out with East Lothian.

6. The perceived likelihood of additional business start-ups, either within or out with East Lothian will be explored.

7. Previous interaction with formalised business support networks and the perceptions of business owners with respect to the appropriateness of the business support available will be explored, with reference to both formal and informal business support.

The paper presented to BAM will discuss the implications, progress and initial findings from the pilot phase of this work, providing insight into current developments within family businesses and business families in East Lothian. In addition, potential linkages with broader goals, including the development of a regional enterprise hub and its role within diverse enterprising communities facilitated by a University, will be explored.

**References**

Allio,M.K. 2004 Family Businesses; Their Virtues, Vices and Strategic Paths. Strategy and Leadership 32 4 24-33


Scottish Executive Annual Survey of Small Businesses 2003 Final Report Enterprise and Lifelong Learning

Scottish Executive Annual Survey of Small Businesses 2005 Final Report Enterprise and Lifelong Learning