Competitiveness and financial analysis factors in Family Businesses

Family businesses constitute the backbone of the Spanish economy, both for its quantitative relevance, representing 90% of the productive fabric, 60% of gross added value and 70% of private employment, and for its qualitative importance, which has remained patent, for example, during the crisis, demonstrating a greater commitment to the environment and in particular to employment, even at the cost of lower profitability.

There are many factors that contribute to the smooth running or dynamism of family businesses, such as market demand, the country´s economic situation, the competition of the sector, the institutional framework or the cost of financing. In this study, we have sought to pay more attention to those that we believe play a decisive role in their competitiveness, especially in an increasingly globalized environment in which the digital revolution and industry 4.0 are already a reality.

De In this way, we have considered it relevant to analyze dimension, training and innovation as key factors, also dwelling on the impact that the various aspects of corporate governance can have on their development.

The report concludes with a review of the evolution of the economic-financial situation of these companies up to 2015, including the first years of the economic recovery, for which purpose use has been made of the SABI database, which draws its information from the Commercial Registers.

Key factors for competitiveness

First of all, in order to analyse key factors for the competitiveness of family businesses in Spain, a survey was made among 1,005 Spanish family businesses. One of the first conclusions obtained is the high level of awareness of the growing competition and the need to set one's sights on internationalization, innovation and training as growth levers. Thus, around 35% of the companies surveyed have accessed new businesses or markets, while practically half of the family businesses in our sample declare that they have carried out some kind of innovation, most frequently in relation to product / service (62.7%) and organization (62.1%). On the other hand, the percentage of family businesses that cooperate with universities or research centres is above the Spanish average. However, little more than a third has a formal strategic planning document, which is an indicator of the professionalization of management.

Table 1. Percentage of companies that have undertaken innovations in the last three years

	Yes	No
Have entered new businesses / sectors	34.0%	66.0%
Have entered new markets (geographic)	35.0%	65.0%
Have introduced new or significantly goods or services	62.7%	37.3%
Have introduced new or significantly improved	48.9%	51.1%

manufacturing methods, logistical systems or support activities (computer technology, purchases...)		
Have implanted new organisational methods (procedures, work organisation, external relations)	62.1%	37.9%
Have implanted new commercial concepts (containers, promotion, channels, and prices).	55.5%	44.5%
Have research relationships with a university or research centre.	17.2%	82.8%
Have a written document containing the mid-term and long-term Strategic Company Plan	34.1%	66.9%

Source: Internal elaboration

Corporate governance

Decisions on expansion, growth, internationalization, training or innovation are largely linked to two realities (family and business) that coexist and are coordinated through the different rules, principles, bodies and procedures that constitute corporate and family governance. If we analyze the characteristics related to family participation in governing bodies and in the management of family businesses, we observe that, in general, the companies in the sample are mostly managed by a male CEO, with an average age of 17.9 years in office. In 90% of cases, the CEO belongs to the owner family, and has not had university studies in 48% of the cases.

In relation to proprietary and managerial generation, the data reveal that, in family businesses, several generations often coexist with different roles, this being one of the characteristic features of family businesses. Regarding the percentage of ownership, in the companies in the sample, on average, 95% of the property is in the hands of the family.

Table 2. Owning and managing generation

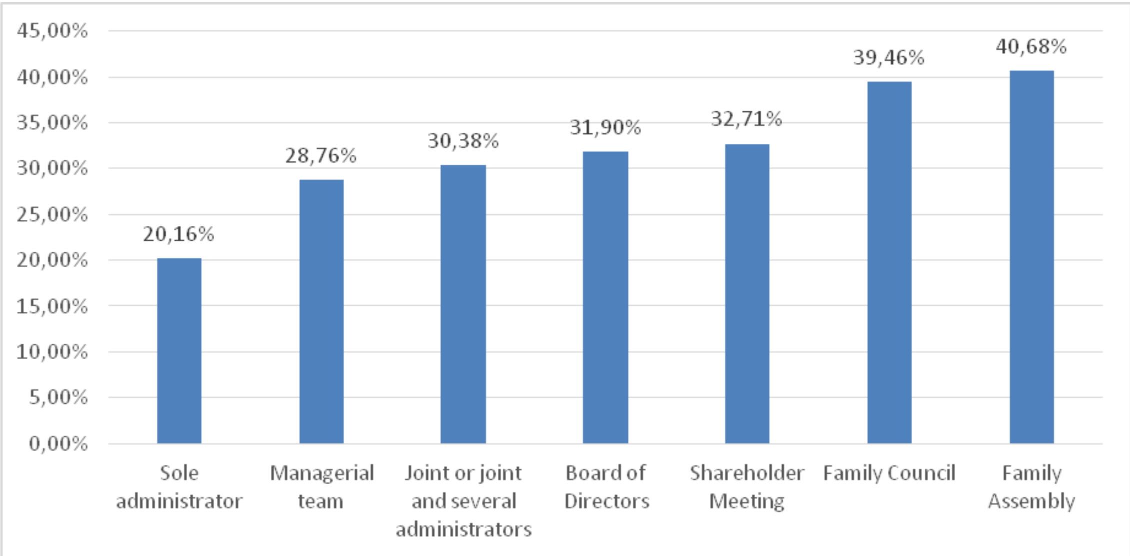
		Management		
		First	**Second**	**Third or subsequent**
Property	**First**	83.1%	16.5%	0.2%
	Second	6.5%	88.7%	4.6%
	Third or subsequent	0.7%	11.9%	65.2%

Source: Internal elaboration

With regard to the governing bodies of the company, 61.2% of the companies have a sole administrator and 35% of the companies have a board of directors. The family council is present in 11.3% of the sample and the family assembly in 7.5%, while only 11.3% of the respondents have a family protocol in writing. This data is especially striking, since the family protocol stands as a priority tool for regulating the operation of the company and family involvement in the business in the long term. However, 74.3% state that they do not consider it necessary to have this document.

With regard to the presence of women in the bodies associated with the management and governance of the company, it can be seen that, when it comes to family businesses, 28.8% of managers are women. On average, 31.9% of the boards of directors of family businesses include a woman.

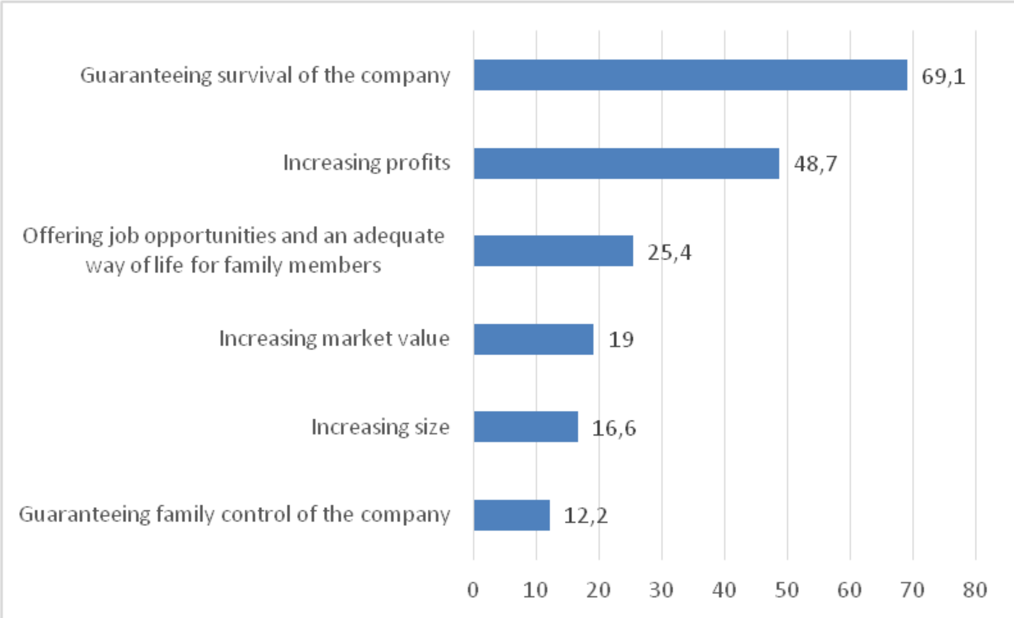
Graph 1. Women's participation in the governance bodies of the family company



Source: Internal elaboration

In the case of family businesses, the feeling of guaranteeing the continuity of the company (69.1%) outweighs the economic objectives (48.7%) that usually characterize non-family companies.

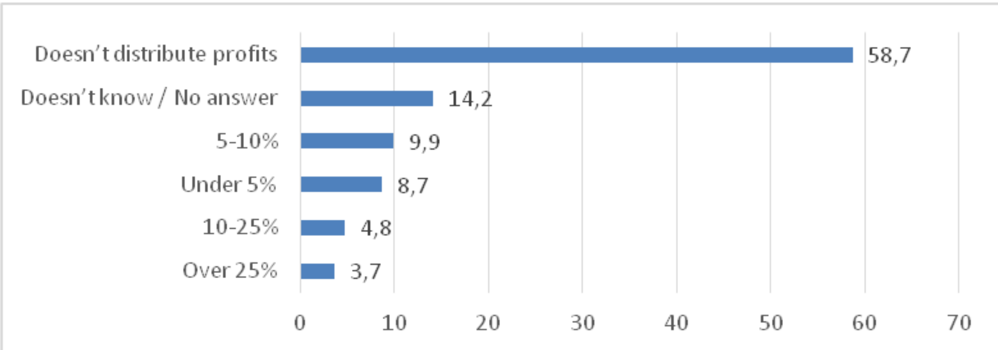
Graph 2. Main strategic objectives of family businesses (%)



Source: Internal elaboration

As for the distribution of benefits, it can be seen that family businesses opt decisively for self-financing, since 58.7% do not share profits, and opt for their direct reinvestment in the company itself.

Graph 3. Percentage of family companies that distribute profits



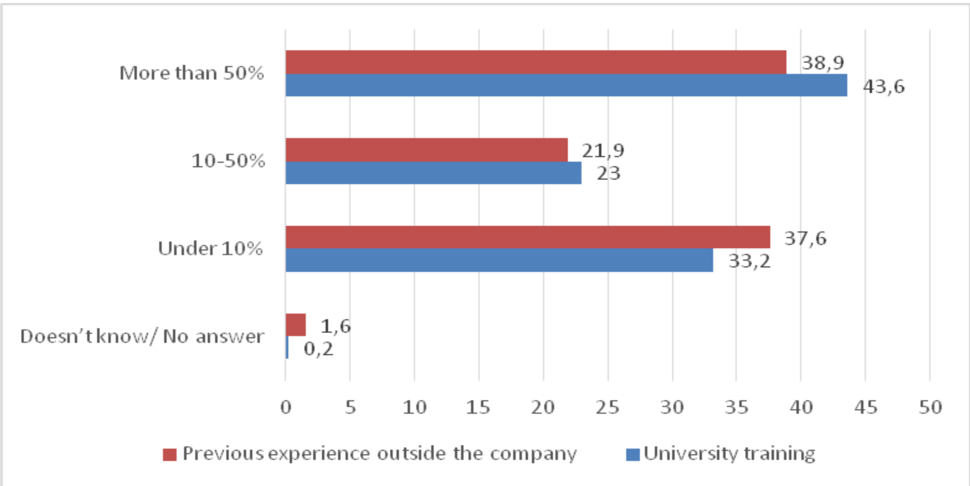
Source: Internal elaboration

With regard to the form of transmission of the shares to descendants, family companies, in 49.3% of the cases, state that they have no plans, while in 27.9% of the companies, this is done via inheritance. In 59.8% of the cases, the companies state that they do not have agreements that limit the free transfer of shares or company shares, and with respect to the incorporation of family members, only one third of the family businesses surveyed have any criteria about this (33.2%).

Regarding the succession process of the CEO or chief executive, only 32.5% of the family businesses surveyed are in agreement. 63.3% of the companies have stated that they have objective criteria to choose the successor. The incorporation of family members into management positions seems to be carried out without the application of an objective criterion in 54.2% of the cases.

In most cases (56.2%), the percentage of family members occupying managerial positions with university education is less than 50%. On the other hand, only 38.9% of the companies in the sample claim that more than 50% of their family managers have experience outside the scope of the family business, which highlights the need to continue fostering and working in the professionalization of Spanish family businesses.

Graph 4. Percentages of manager family members with university training or previous experience



Source: Internal elaboration

The survey includes questions about the perception that companies have about the meaning of their status as family businesses and the advantages this entails, both in economic and socio-emotional terms. In this sense, only 11.5% of the companies surveyed said that their family-based nature harms them as a company, compared to 42.9% who consider that it favours them or the 40.7% who regard it as indifferent. In addition, according to the results of the survey, 7.1% of family businesses belong to a territorial association and, out of these, 68% believe that this favours them decisively in their development.

Size and growth in family businesses

The dimension of companies has a direct impact on the competitiveness of the business fabric itself and the economy as a whole. Larger companies are in a better position to influence elements that determine their productivity, such as the conditions to access financial markets, the ability to attract talent and train their workers, the resources to deal with a complex tax and regulatory environment, investment in research, development and innovation or the ability to internationalize and participate actively in global markets, all of which are fundamental tools to boost growth, employment generation and greater well-being. For this reason, part of the study is devoted to analyzing the features that significantly characterize family businesses according to their size and the effect that each of these variables has on growth (measured in terms of increase in income, employment and assets) and the performance (measured in terms of economic and financial profitability) of family business. More specifically, the statistically significant differences in those aspects indispensable for guaranteeing the continuity of one's business project are given in detail: the company's status as a family business, the priority strategic objectives, the main perceived challenges or barriers, the existence of a formal strategic plan, its scope of activity, the form of management, the training plans and the governing bodies.

The presence of family members occupying the position of CEO decreases as the size of the company increases. However, no significant differences were observed between both groups of companies (with family CEO or non-family CEO) in the growth of other variables, except slightly in the volume of income that experienced greater growth with a CEO belonging to the owner family.

Table 3. Percentage of family member CEOs by company size

	Family member CEO	**Non-family member CEO**
Micro	93.0%	7.0%
Small	90.3%	9.7%
Medium	84.1%	15.9%
Large	55.6%	44.4%

Source: Internal elaboration

It is statistically more frequent for the level of training to increase with the company size, probably as a result of the fact that growth makes intuitive management methods ineffective after a certain critical size. Given this situation, there is a need to give way to a more professionalized management in order to look for the talents and necessary skills that may or may not be found in the family nucleus.

Likewise, the existence of a formal strategic plan is directly related to the size of the company since it is more frequent as its size increases. The existence of a strategic plan is also related to the company's own growth, mainly in employees and volume of assets. Given that strategic plans are designed with a long-term planning horizon, it is reasonable that this should be reflected in variables such as those mentioned above. It is likewise to be expected that, as the company undertakes new investment projects, these will contribute to the creation of employment, although it is true that the effect of the existence of a strategic plan on the number of workers in the family business will also depend on the type of investments made. In any case, in view of the results, it is advisable for family businesses to have a strategic plan in order to enjoy sustained growth over time.

Table 4. Formal strategic plan and company size

	Has strategic plan	**Has no strategic plan**	**Doesn't know/ No answer**
Micro	25.2%	71.9%	3.3%
Small	34.5%	62.9%	3%
Medium	59.1%	34.1%	6.8%
Large	66.7%	33.3%	0%

Source: Internal elaboration

Likewise, the preparation of a strategic plan is beneficial in terms of profitability. The design of the strategy within the company translates itself into a more efficient use of the company's resources, which in turn makes it possible to achieve a higher economic and financial profitability.

Regarding the perception of priority strategic objectives and main barriers to growth, it is observed that the only objective that is statistically different according to size is that of "Increasing the dimension". It becomes more relevant as the company increases its size. The rest of the objectives are distributed in a similar way among all the company categories.

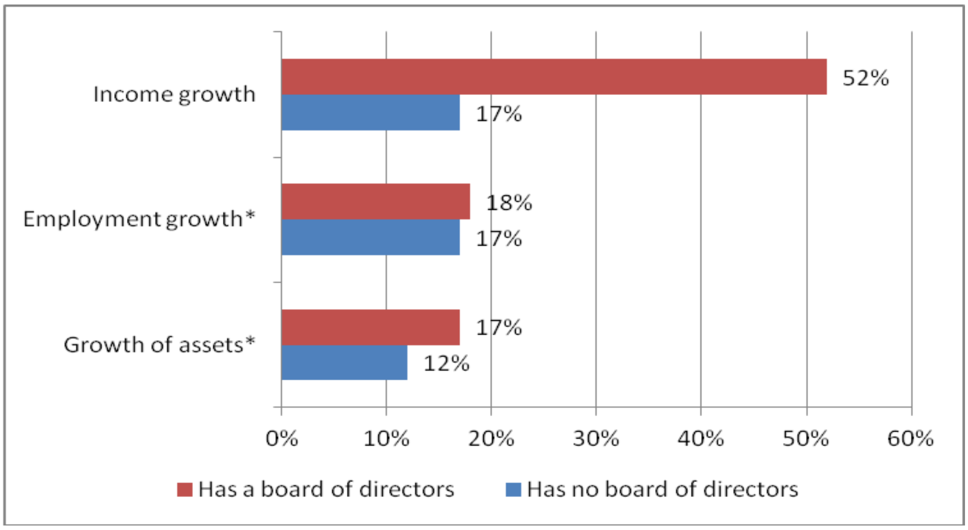
The relevance given to the main barriers to growth faced by family businesses, however, seems to vary according to their size. In this sense, small and medium-sized companies perceive the institutional framework and regional / national legislation, along with scarce or expensive external financing, as barriers that limit their growth. However, larger companies perceive the economic situation and the lack of qualified personnel as the main challenge to growth. The existence of a family protocol also increases as business size increases, in the same way as the existence of criteria for choosing the successor and the requirement to have university training. In contrast, as the size of the company increases, it is less frequent for the criterion applied to be that of being part of the business family.

With regard to training plans, it is observed that their presence in family businesses is more frequent as business size increases. On the other hand, in relation to the percentage of relatives who occupy management positions and have university training, we find that it grows as the size of the business increases.

There is also a clear difference in the governing bodies present in the companies according to their size. More specifically, the existence of a board of directors and management team as business size increases is statistically more common. Likewise, the larger-sized companies are those that usually have agreements both for the free transfer of stocks / shares and for their annual valuation.

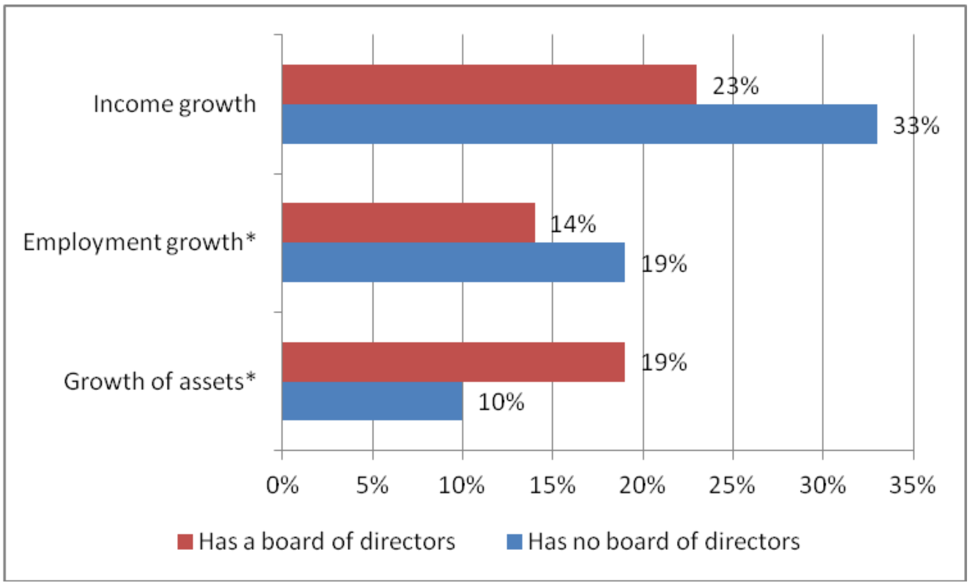
The existence of more professionalized structures can also be related to the growth of family businesses. It is for this reason that we analyze the extent to which having government bodies can encourage family businesses to increase their size. The results obtained are interesting and support the idea that family businesses with a board of directors and a management team experience the highest growth rates, at least in terms of income and assets.

Graph 5. Variables of growth and existence of a board of directors



NB: * indicates a statistically significant difference at a level of at least 10%.
Source: Internal elaboration

Graph 6. Variables of growth and existence of managerial teams



NB: * indicates a statistically significant difference at a level of at least 10%
Source: Internal elaboration

One of the conclusions that emerge from these results is that family businesses must implement collective bodies that give the company a more professional structure. In this way, they can achieve higher growth rates, which in turn will result in greater efficiency and competitiveness.

Training in family businesses

In addition to the business size factor described above, training in family businesses has been one of the great challenges traditionally faced by this type of company. Having a CEO who has finished university studies with an economic profile is associated with a greater company growth, especially in terms of volume of income and job creation. Companies whose CEOs do not have a university degree do not achieve the same growth rates. This result reinforces the importance of an adequate professionalization of family businesses.

Moreover, in view of our results, not only is it necessary for the company CEO to have adequate training, but it is advisable for the company managers to have been educated in economic-business issues.

The fact that the CEO has university studies with an economic profile also bears on the profitability of the company. Therefore, adequate training of the CEO is essential for the family business to improve its levels of profitability, both financially and economically.

On the other hand, previous professional experience on the part of the family members who run the company results in greater company growth (in income, employment and assets) and better returns (economic and financial).

In this sense, other factors that positively influence the profitability of assets and the growth of employment are the percentage of family members with training among the managerial positions of the company and the existence of training plans in the company.

Table 5. Relations between variables of growth and training, experience and generation

		ΔIncome	**ΔEmployment**	**ΔAssets**	**ROA**	**ROE**
CEO with university training of an economic nature		+	+		+	
Training plans in the company					+	
Relatives in managerial posts that have university training			+		+	
Relatives in managerial posts that have experience of their own		+	+	+	+	+
Owner generation	1st vs. 2nd generation		+	+		+
	2nd vs. 3rd generation				+	+
Manager generation	1st vs. 2nd generation	+	+	+	+	+
	2nd vs. 3rd generation				+	+

Source: Internal elaboration

Innovation in family businesses

The third element on which the study especially focuses, and which influences the ability of companies to grow, is undoubtedly their innovative behaviour. In a globalized world, business innovation is a key competitiveness tool that companies that seek to increase their size should favour. In turn, this greater propensity for investing in innovation grows in direct proportion with the company's growth, favouring a virtuous circle of growth and investment.

For this reason, a section of the study has been devoted to analyzing the main variables that significantly affect the innovative capacity of family businesses, with special attention paid to the differences in the degree of diversification and innovation achieved. It should be noted that, despite the risks involved in these activities, in the long term they are beneficial. Specifically, we observe that companies that have introduced new goods or services, that have adopted new production processes or that have implemented new organizational methods enjoy higher returns.

Table 6. Level of innovation and growth variables

		ΔIncome	**ΔEmployment**	**ΔAssets**	**ROA**	**ROE**
Level of innovation	Product innovation		+	+	+	+
	Process innovation	+		+	+	+
	Organisational innovation		+	+	+	+
	Commercial innovation	+	+	+	–	

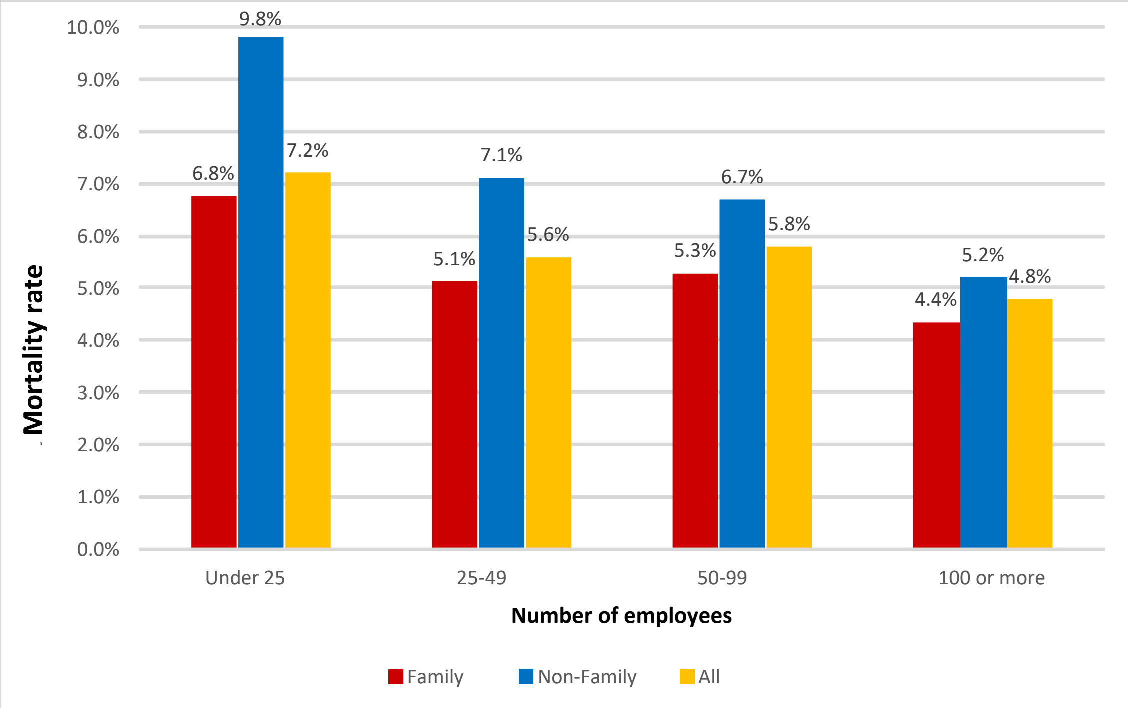
Source: Internal elaboration

ECONOMIC AND FINANCIAL ANALYSIS OF FAMILY BUSINESSES IN SPAIN (2013-2015)

As a consequence of corporate decisions, there is an economic-financial behaviour on the part of family businesses that can be compared with that of non-family businesses, which includes aspects such as mortality, turnover, productivity, profitability or indebtedness, among others.

Thus, between 2013 and 2015, the mortality rate of family businesses rose to 8.5%, 1.6 percentage points less than that of non-family businesses (10.1%). These values show that, during the first years of economic recovery, family businesses have had higher survival rates than non-family businesses. In general, in both family and non-family businesses, one can observe a decreasing relationship between business size and mortality rate. Regardless of business dimension, the mortality rate of family businesses is lower than that of non-family businesses. It is particularly noteworthy that the smaller the societies, the greater the difference between the proportion of family members and non-relatives who survive.

Graph 7. Mortality rate by size segments (2013-2015)



Source: Internal elaboration

Regarding turnover, while non-family companies have practically kept their turnover figures constant during the first years of economic recovery, family members have managed to increase their sales by more than 10%.

Regarding productivity (measured as the ratio between income and workers), it should be noted that, in the case of family businesses, this is lower than that of their non-family peers. However, if one observes the evolution of this indicator, one can see that, during the first years of the crisis, the family companies have managed to increase the productivity of their employees, whereas in their non-family counterpart this has been reduced. The behaviour of family businesses during the crisis showed stable employment even in an environment of reduced income. For this reason, the excellent evolution of the productivity of family businesses during the 2013-2015 biennium probably reflects the commitment and good work of their workers.

Table 7: Evolution of income, employment and productivity by size (average values)

INCOME	2013 Family	2013 Non-Family	2013 TOTAL	2015 Family	2015 Non-Family	2015 TOTAL
Under 25	2,526	7,454	9,980	2,657	7,299	9,956
25-49	6,049	11,183	17,232	6,184	16,455	22,639
50 -99	13,685	27,481	41,166	14,396	2,088	41,484
100 or more	95,605	154,536	250,141	97,222	142,005	239,227
TOTAL	7,429	36,037	43,466	8,214	3,303	44,517

EMPLOYMENT	2013 Family	2013 Non-Family	2013 TOTAL	2015 Family	2015 Non-Family	2015 TOTAL
Under 25	12	12	24	12	12	24
25-49	34	35	69	34	36	70
50-99	69	70	139	69	71	140
100 or more	484	497	981	476	498	974
TOTAL	38	109	147	40	113	153

PRODUCTIVITY	2013 Family	2013 Non-Family	2013 TOTAL	2015 Family	2015 Non-Family	2015 TOTAL
Under 25	211	621	416	221	608	415
25-49	178	320	250	182	457	323
50-99	198	393	296	209	382	296
100 or more	198	311	255	204	285	246
TOTAL	196	331	296	205	321	291

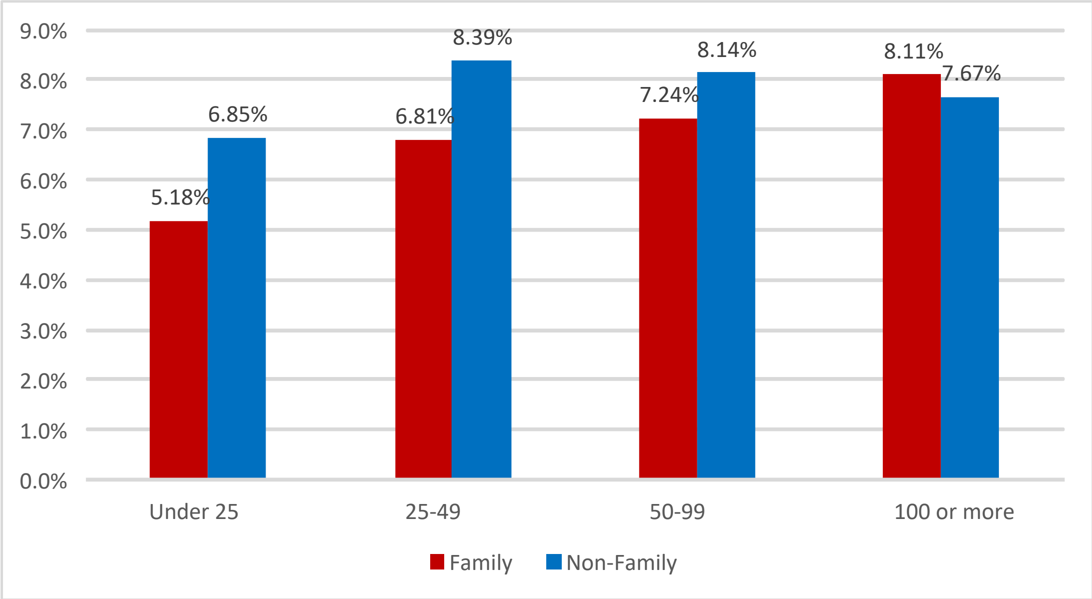
Source: internal elaboration

With regard to the comparison between the average productivity of family and non-family businesses, in all the size variants taken into account, the productivity of family members is lower than that of non-family members. However, as the size of the companies increases, the differences are reduced. In the comparison between family and non-family businesses, it seems that the threshold of productivity level for closing a non-family company is higher than in a family business (around 50% higher). This would indicate that family businesses are able to survive with lower productivity levels. All these results are consistent with the lower relative importance of economic objectives among family businesses and the fact that other types of values and results prevail.

If economic profitability (profits before interest and taxes as compared to investments) is analyzed, both company types achieved percentages higher than 9% in 2007. After six years of crisis, family businesses saw their economic profitability diminish more than that of non-family companies, confirming the resilience of family businesses, surviving although their profitability was more sharply reduced. In the first two years of economic recovery, the return on investments has grown more in family businesses. However, given that they started from lower values, the economic return rate of family companies in 2015 (5.73%) was still 1.74 percentage points below that of their non-family equivalents (7.47%).

The analysis of economic profitability by size corresponding to 2015 reveals a positive relationship between the size and the profitability of family businesses. This is not the case with non-family companies, since, once they reach medium size (between 50 and 100 workers), they are noted for a progressive reduction in the return on their investments. It is noteworthy that, among larger companies, on average, family businesses obtain higher economic returns than non-family ones. This is highly significant as it explodes the idea that family businesses are always smaller and less profitable than non-family businesses.

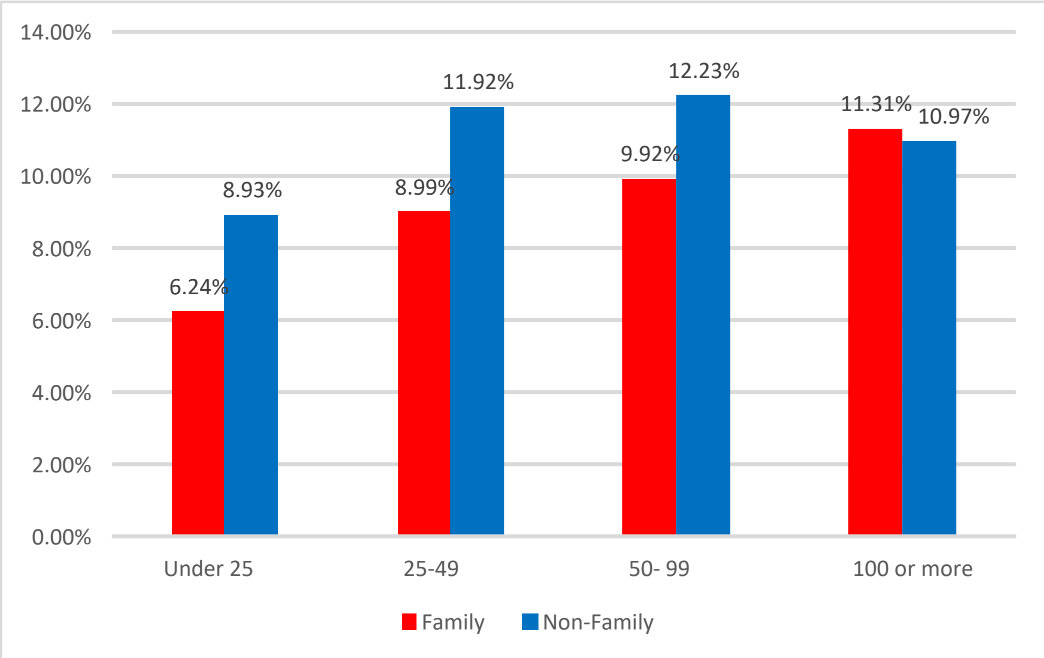
Graph 8. Economic profitability by size (2015)



If we focus on financial profitability, the return obtained by shareholders and owners, measured as the quotient between the results of the year and own funds, its evolution is similar. The results show that family businesses in 2007 were somewhat less profitable in financial terms than non-family businesses, although the values were very close. As a result of the economic crisis, the return on equity fell drastically, especially in family companies where it did not surpass the 5% threshold on average.

Once the economic recovery started, financial rates of return have also increased considerably. The recovery has been especially important in family businesses (with positive variation rates of 45% compared to 28% in non-family companies), achieving a yield for owners that surpasses 7% on average. However, these values are still much lower than those recorded just before the start of the economic crisis, so if we continue on the recovery path, we can expect the upward trend to continue in the coming years. Again by size, there is a positive relationship between the size of the company and financial profitability, especially in family companies. In addition, it is observed that when these surpass the barrier of 100 employees, they manage to obtain returns for the owners that are above those of the non-family businesses.

Graph 9. Financial profitability by size (2015)



During the period of economic recession, both types of companies noticeably reduced their dependence on foreign funds, the decrease experienced in family businesses being particularly significant in this regard. Since the economic recovery started, both types of companies have continued to reduce their levels of indebtedness. In the case of family companies, approximately half of the investments are being financed with non-enforceable resources, which show the owners' commitment to maintaining the financing of the companies with their own resources.

Therefore, as is characteristic of family businesses, one can observe more prudent financial behaviour, as is logical if one takes into account that family assets are put at risk, as well as a greater commitment to employment that translates itself into lower productivity. However, family businesses are benefiting from a greater recovery of their returns, both economic and financial, and continue to make a deleveraging effort.