

**UNIDAD EDUCATIVA PARTICULAR JAVIER  
BACHILLERATO GENERAL UNIFICADO**

**MONOGRAPH**

**“Analysis of family businesses in Ecuador focused on new generations and successions**

**STUDENT:  
Sebastian Del Monaco**

**ADVISER: LCDO. Natalia Patino**

**THIRD OF BACCALAUREATE – COURSE A**

**2018 – 2019**

### **Gratitud**

First of all, I want to thank God, since he is the primary source of things and of my being. In the background, to my family, for supporting me during this journey; but, above all, my little brother, who often unfolded next to me. Finally, to the institution and its teachers who guided me.

## **Index**

Acknowledgment	2
Summary	4
Introduction	5
CHAPTER I:	7
Characterization of family businesses	7
1.1 The non-family business and the family business	7
1.1.1 Primary objectives.	7
1.1.2 Hierarchy and decision making.	8
1.2 Challenges of family businesses in Latin America	9
1.2.1. Entrepreneurial succession	9
1.2.2. Property responsible.	10
1.2.3. Transmit family values	10
1.2.4. Cohesion	10
CHAPTER II:	11
Family businesses in Latin America	11
1.1 Global context and its relationship with the continent	11
1.2 The continent and its relationship with Ecuador	12
1.2.1. Differences and similarities in the different Latin American countries.	12
1.2.2 The family business in Ecuador	14
CHAPTER III	15
3.1 The new generations in family businesses	15
3.1.1 Knowledge of the new generations	17

3.2 Youth entrepreneurship	17
Conclusions	19
Recommendation	21
References	22

## Summary

This research work, entitled "Analysis of family businesses in Ecuador focused on new generations and successions", is of a business nature. But, within the different chosen approaches, in order to have a complete map of the research, sociological, cultural and psychological contributions were taken into account. This, because they are intrinsic sciences within the commercial and economic world, but which have been resisted.

In the document, the different types of companies are explained, in relation to the blood relationship within them: family businesses and non-family companies. There, it can be understood, from its essence, that it really means each of these modalities of commercial configuration. What is each one looking for, its characteristics, its advantages and disadvantages. And, without a doubt, the projections of these companies in the future. medium and long term.

In order to land the issue, a specific analysis was made in Latin America, in a general way, and in Ecuador, in a more specific way. This, due to the fact that, within the social limits - within them the economic activities - needs to be evaluated in a socio-political and cultural context. Otherwise, the meaning of the investigation is lost. For that, certain characteristics and peculiarities of the region in relation to family businesses are materialized.

It will also talk, in an important way, about the new generations that assure the big companies in the region, and also about the companies that are to come. This, evaluated from the sociological peculiarities of the Millennials and Generation Z.

## **Introduction**

In this monographic work we will discuss everything that involves the nature of family businesses, their difference from non-family businesses and their relationship with the new generations in Ecuador.

The reason for my choice is, mainly, because it relates to my future profession and what I want to devote my whole life. I want to interfere in the business world, both national and international. In this same way, I am interested in the company that my father forges. That's because the specific issue of family businesses. And I want to do it correctly, since 6 out of 10 family businesses, in their succession, fail.

Many authors treat the subject. But there is a question. They treat the subject from the only vision, that of the old generations. And the problem with new successions is that there are two different sides to seeing business. It is not about discarding one and pondering another, no, impossible. So my intention is to conjure the two visions, the old and the new, to direct successions in family businesses.

My monographic work is structured as follows. In the first chapter, the unknown terminologies will be specified: What is a family business? What is a non-family business? What are the characteristics of each one? Among other doubts that may have those who are unaware of the subject. It will also try to highlight the values of a social nature that are linked

to the family business, the same that make it so particular and challenging in the business world.

In the second chapter will take the general to the particular . The global context will be related, in all its social, cultural, political and economic spheres. How that influences in certain geographies more than others the success of a family business. They are also exemplified, with updated data, about family businesses in Ecuador.

Finally, in the third chapter, the subject will be addressed with more alive data. With live data we refer to qualitative and quantitative information collected by myself and with a close environment. As previously stated, that perspective of the new generations ( Millennials and Generation Z) on family businesses and future successions will be sought . It will also delve into the depth and quality of knowledge that family businesses have on behalf of the respondents; and its deeper motivations, which are related to more sociological aspects.

## CHAPTER I:

### Characterization of family businesses

#### 1.1 The non-family business and the family business

##### 1.1.1 Primary objectives.

From the birth of a company, we can differentiate, depending on the reason for its birth, whether it is a non-family company or a family business (Rendón, 2016).

The non-family business arises clearly from a need to generate economic benefits. These benefits, most of the time, are designed and planned by one or three people, maximum. That is to say, in a certain way, it is only they, the bosses or the heads, who really care about the generated business; the rest, the employees, the most probable thing is that they only see it as a job done to "pay the monthly bills". Therefore, these companies do not have in their branches, the sub-positions, leaders organically committed. This does not mean that these companies can not create a prosperous future. Here, the essential thing is that the owner can fill his business with trained people. Although these will only do so for lucrative purposes; so, when the money comes out of the equation, they will stop doing the same, they will only perform as what the company or the owner can offer.

As for family businesses, they also look for a lucrative purpose. But there is something more that drives his birth: creation of jobs and succession. Marcela Rendón (2007), in *organizational dynamics and institutional references*, explains :

"The family business is born with a *founding father*, so called so that historically in the world man has had the post in the business world and because in Latin American culture machismo is still deeply rooted. So he decides to invest patrimonial money



and, above all, time to create a business, where the first and main employees will be family members (mainly due to lack of capital to hire labor) "(p.4).

Here, if the appropriate measures are not taken, characteristic conflicts of family businesses could be created; Well, most of the time, these family-employees are not trained people, but they tend to have a much more intrinsic and personal interest and passion for the business.

### **1.1.2 Hierarchy and decision making.**

We can start by saying that non-family companies are companies with more "legitimate" personnel selection and decision-making processes, if it can be defined as such.

In non-family companies, personnel selection processes have a much more pre-established format. To be able to acquire a position they must go through an interview with pre-established questions; and, later, a detailed report would be made that passes to superiors. And they usually prioritize formalities; for example, titles, letters of recommendation from other large companies, among other things. Likewise, to move up or ask for a salary increase you need to have requirements and formalities marked from the beginning. On making important decisions, the company is very well defined who has a voice or vote on certain areas. Here, for example, we cut off the possibility that, someone who is not "expert" in a certain area, contribute with some idea.

On the other hand, family businesses are more flexible in terms of these issues. And, more than flexible, these companies value other things. In the case of hiring, these once or again obviate formalities; They are routed much more by references of nearby, this in terms

of hiring non-relatives. On making important decisions, here the relatives obviously have a greater weight; but, the employee-boss closeness is greater, so the different areas, from top to bottom and sideways, have a greater possibility of communication, above all an organic communication.

## **1.2 Challenges of family businesses in Latin America**

The biggest problems for the subsistence and evolution of family businesses is to execute a transition process, to transfer the rudder of the business from parents to children, to exemplify success. According to Forbes magazine (2016), one of the most important magazines in the world of business, ensures that only 30% of family businesses have a planned succession and only 13% have completed a successful generational succession process. The data shown is the result of a survey carried out on more than 200 members of future generations (Next Gen) of business families around the world, 70% belong to Latin America.

Cristina Cruz (2016), professor of entrepreneurial management and family business at the EI Business School, highlights the core of the problem: "The skills necessary to manage a business are different to manage a heritage. What happens is that an entrepreneur, the first generation, creates a business and the next generation faces the challenge of managing a heritage that goes much further than the business "(p.4).

### **1.2.1. Entrepreneurial succession**

It is essential to foster a new generation of entrepreneurs. Who initiates the company, without a doubt, has a great notion of entrepreneurship. But what happens with subsequent generations is that this notion is lost; This is mainly due to the fact that they know a company

that has already been consolidated, unlike those who have seen it since its beginnings with ups and downs. It is essential to create a transgenerational vision among the members of the next generation, where the definition of the success of the business family is not only to preserve wealth, but to create value throughout the generations.

### **1.2.2. Property responsible.**

A family business must take a leap, an evolution: Moving from an operational mentality, focused on family businesses, to an investment mentality, focused on the global management of family assets.

### **1.2.3. Transmit family values**

Without a doubt, one of the greatest benefits of a family business is that it is endowed with a number of social-emotional aspects that give the company an identity and a certain humanity when it comes to perceiving the market and making decisions based on that. But, apparently, while the generations advance, this is lost little by little; so many of them lose their family identity and adopt characteristics of non-family businesses, which are not in their commercial nature.

### **1.2.4. Cohesion**

Here we refer to a cohesion in terms of guiding the family to a common business project. That is, to mentalize the family-owners, paradoxically, to see themselves less as "owners" and more as business managers.

## **CHAPTER II:**

### **Family businesses in Latin America**

#### **1.1 Global context and its relationship with the continent**

Family businesses dominate the world, and they are the ones that contribute the most in the world economy and in the country where they carry out their commercial activities, specifically. Poza (2010) assures that: "in the developed country these companies represent up to 80% of the commercial movement of the territory; in contrast, in developing countries this figure reaches 98% "(p 39). And, within those developing countries is Latin America.

Even in the same continent, America as a whole, interesting contrasts can be made. In the United States, family businesses comprise more than 90% of businesses and generate more than 40% of GDP, around 50% of jobs and 78% of new jobs (Carey and Astrachan, 1996, Lee, 2004; Sharma and Nordqvist, 2007; Miller and Le Breton Miller, 2005). In addition, family businesses enjoy a 6.65% higher return on assets with an annual basis between 1992 and 2001, at the same time they do a greater reinvestment than non-family companies (Anderson and Reeb, 2003, Webber, 2003). With respect to Latin America, depending on the country, the number of family businesses may be similar, since at least nine out of ten companies belong or can associate with family groups (Belausteguigoitia, 2004, Johnston, 2004, Instituto de la Empresa Familiar, 2005 ). According to Poza (2010), EFs in Latin America are responsible for 64% to 75% of GDP depending on the country, enjoying a return of up to 16% higher on assets and assets, on an annual basis, compared to other type of companies.

With these values and many others contributed by Enrique Claver, Laura Rienda and Diego Quer (2006) in their research on the behavior of family businesses in foreign markets, several interesting aspects can be analyzed.

It is common to find that family businesses are located, above all, in micro and small businesses. Small businesses, unlike micro companies, have one or another business with exporting power. But, despite this, no significant differences can be found in terms of the experiential value of those who constitute it. Another aspect to highlight is that family businesses move much more in the manufacturing sector than in the commercial sector per se; while, non-family companies, has a greater presence in the commercial sector.

## **1.2 The continent and its relationship with Ecuador**

### **1.2.1. Differences and similarities in the different Latin American countries.**

In Latin America, the birth of family businesses would seem almost a natural commercial act, much more than non-family businesses. This is due, perhaps, to several sociological and anthropological aspects. For example, in our societies we have a concept of family different from that of the Anglo-Saxons; this assertion can be corroborated by the comparison of an Ecuadorian and an American family: the Ecuadorian, Latin American family ultimately create much more lasting and intrinsic ties.

Hanono (2010) states that "the company based on the model of lineages, community relations and family culture that exists in Mexico is a useful way for the economic development of the country" (p.13). In the same study, Vera (2010), makes a real example, comparing two companies of different natures and their results before the commercial world:

the importance of organizational culture in the management of two textile companies founded in the fifties. The first, of Lebanese origin, integrated over the years the

professional children of the founders, who restructured the organizational model of the company and made it successful. In the second, of Spanish origin, there were no relatives who took charge, so it was sold. Vera highlights that the origin and family values meant that, while one company excelled, the other did not manage to stay in its environment. (p 39)

Another example, based in Mexico, also puts on the table the wealth that brings family values when managing a business. One of the many companies analyzed by Gotari and Santos (2010) in Jalisco demonstrates what has been said. This small company, which started as a micro, is called Cajetas Lugo; and as its name says, it elaborates cajetas, which the owner is expert in the production of the same. This gentleman used all the family savings to be able to raise his company. Little by little, with the money that the business earned, he decided to invest it by improving his production machinery. So far, we can see how everything starts as a craft enterprise, without many technical and academic notions. But, with the passage of time, the owner's daughter decided to insert herself in the company and give it an added value. She contributed her knowledge of administration and accounting and implemented a formal control and accounting system. This allowed the business to start growing.

Depending on the country, the number of family businesses may be similar, since at least nine out of ten companies belong or can be associated with family groups (Belausteguigoitia, 2004, Johnston, 2004, Instituto de la Empresa Familiar, 2005). According to Poza (2010) family businesses in Latin America are responsible for 64% to 75% of GDP depending on the country, enjoying a return up to 16% higher on assets and assets, based on an annual basis, compared to other types of companies. In the specific case of Chile, the authors Martínez and Stohr (2010) conducted a study of 175 companies listed on the Chilean

Stock Exchange and found that in ten years of performance (1994 - 2003) 100 companies relatives presented a greater ROA and ROE. As for Colombia, 68% of the companies are family-owned and generate a large contribution to the country's GDP (Gaitán and Castro, 2001).

### **1.2.2 The family business in Ecuador**

In Ecuador, 90.5% of companies are family businesses. This is corroborated by El Telégrafo (2017) in one of its articles in its *Economy* section. Likewise, in order to verify and verify this information, it was consulted in another newspaper of equal national relevance. El Comercio (2017), in its *Business* section, titles "9 out of 10 companies in Ecuador are family members". Both newspapers, in their digital version, allude to the first study carried out in Ecuador on family businesses, done by the University of Specialties Espíritu Santo de Guayaquil. Therefore, Ecuador is not alien to the common Latin American denominator.

Family businesses have a greater presence in the Amazon and Galápagos, with 97% and 95% respectively; the Coast follows with 90.7%; and finally, the Sierra with 89%. Juan Carlos Corona (2017), general director of the Family Business Institute of Spain, explains that this type of company is positive for the economy, since family businesses have much longer life expectancy than others.

El Universo (2017), reports that of these family businesses, 81% is dedicated to the following activities: trade, professional, scientific and technical activities, real estate, construction, transport and storage, industry, administrative services and in agriculture, livestock, fisheries and forestry.

## CHAPTER III

### 3.1 The new generations in family businesses

The truth is that those who are in charge in the current companies, will soon have to leave. And, with it, their descendants, children and grandchildren, the positions of high level and leadership will happen. But one must understand something: the new generations come from a socio-cultural context equal to that of the old generations. Currently, the so-called Millennials are those who are, just recently, understanding and modifying high-level positions; and already with them we see a transformation of national and international economic life. But now comes Generation Z or post- millennial (born between 1994 to 2010). That is, we must understand and be prepared for a revolution in the commercial world as we know and understand it.

With the intention of gathering the perception of young people (Generation Z) about what they understand and think about family businesses, a focused survey was conducted on the fifth and sixth year students of the Javier Educational Unit. The medium was digital, since it is the environment through which this generation moves and interacts.

In the question "Do you come from a family business lineage?", 52.5% answered YES. That is, a very high percentage, compared to national statistics. Why does this happen? It is very likely that this is because the respondents come from a socio-economic class of medium-high, high-low and high-high. So, we have a 52.5% who in the future will have to make the decision to take the position of their parents and grandparents or not do it; and other



very important things, how to do it. Of that 52.5%, only 35.9% intend to follow the business lineage. While 25.6% definitely do not want to do it, and 38.5% doubt it.

There is a high number of cases in which in the successions of family businesses, the new generations fail. "When a family business fails, various sources agree that 60% of the cases the problem is in succession, while only 15% the reason is born in business as such" (Curlleto & Soler, p. , 2016). This means that there is no good communication between how business was done and how new generations want to do it now.

Another question says "Do you agree with how your parents / grandparents run businesses?" One third of the respondents disagreed. Here we already see how there is a percentage of the new generation looking for new ways of doing things. It is common for the founder to resist delegating authority and even more, to retire in time despite his repeated promises. On the part of the older generations, according to Curlleto and Soler (2016), "many emotions come into play: fear of losing control, accepting new forms of exercising power, withdrawing and entering a vacuum equivalent to dying" ( p.7).

According to Burke , cited by Golik (2013) in organizations with 500 or more employees, 58% of HR professionals reported conflict between younger and older workers, basically due to the divergence of perceptions about ethics. of work and the requirements related to the balance between work and private life. So we see that this generational leap entails new work ethic and visions.

### **3.1.1 Knowledge of the new generations**

Within the interviews and surveys, it was tried to see at what level of knowledge came the new generations in family businesses. That is, see how much they know about remains, advantages and disadvantages.

The question focused on this sub-topic is "What do you think are the advantages of having a family business?". The results were the following: 70% think it is because "You work with people you trust"; 22% because "I will not have to look for work" (here we see one of those features of ease with which they are associated with the new generations); and the remaining percentage because "You will earn more money". Tetaz (2016):

According to the latest global ranking of happiness made by United Nations Economists, Argentina is ranked 26; ahead of Spain, Italy and France. The United States, the richest country in the world, barely reaches the thirteenth place, while Japan has 51 countries ahead. In the language of Cervantes; Money does not allow you to buy happiness. The economist Richard Easterlin , discovered that an average American who earns approximately \$ 60,000 per month is happy or even less happy than an average Cuban who earns \$ 180 in a year. But what are the explanations for this Eastelin paradox ?(p.10)

### **3.2 Youth entrepreneurship**

A large percentage of those interviewed had the intention of creating their own business enterprises , beyond preserving what they will inherit or not. 64.5% want to create their own companies, 22.6% are still thinking about it and only 12.9% do not want to do it.

López & Álvarez (2017):

We are at the beginning of a revolution that is radically changing the way we live, work and relate to one another. Millennials have a different skills that can be exploited. It does not seem clear that they have different competencies from those of other generations. Rather, they seem different because they live in a different historical moment, with new technologies. In addition , they are within atransmedia , remixed and global culture derived from the products of the boomer era . Fashion, music, art or cinema denote that look towards the vintage. (p.29)

Even, the respondents proved to have a very early vision of the business. That is to say, before they believed that one could not undertake so young . There is a kind of cycle: one worked for another, learned for many years, and then started his own business. But this is changing. In the results, millennials thought that the most appropriate age to start their business is between 21 and 27, 45.2% think this;while another 12.9% think that between 18 and 20 years.

## Conclusions

- It was possible to elucidate the great advantages of family businesses. But, in the same way, we realized that these are not exploited or made visible as it should be. So it is necessary to highlight them in order to use it for the economic welfare of family businesses in our environment.
- It was also understood that the Latin American community has a greater advantage over other cultures. Why? This is because the values that characterize family businesses are certain very intrinsic values within Latin American interactions. These, so important, should be able to be transmitted to the new generations, which seem to configure new values and new ethics. And it is not about distorting this new business ethic, but understanding and strengthening it with the current one.
- Thanks to the researched data, coming from prestigious academic entities, we can understand the weight of family businesses in our country, Ecuador. Since, as corroborated, a large percentage of companies in the country are family. But, as can be seen by contrasting chapters I and II, there is a great problem: there is a gap in understanding how to reconcile new ways of thinking in business succession. So it is essential to understand where the problem is born, which is, in great, eidad , a lack of communications from the old commanders and the new commanders.

- Finally, through the data collected by oneself, the new vision of business was understood. Undoubtedly, the commercial life moves differently and speaks new languages. And these new languages are difficult to understand by the old generations, so the new, native of this world, which can make a great contribution. But there is another important aspect to understand and clarify: the old generations in companies are not obsolete, on the contrary; With your experience and new business ideas you can go very far and prop up commercial growth .

## **Recommendation**

- It is necessary, on the part of the old heads in charge of family businesses, to understand and take advantage of the characteristics of the successor heads. Since these are endowed, according to the research done, of great creativity and recursive capacity.
  
- The foregoing does not exempt a considerable aspect to successfully manage the family businesses of the future. While the new generations come loaded with new skills of great benefit, these are also cargada of their difficulties. First, we must understand that this happens with all: advantages and disadvantages, equally in all seasons. Now, if these shortcomings are identified, they must be cut from the ark. A business restructuring must be created, in order to vanish these defects and squeeze the advantages.
  
- Finally, it is recommended to have a chameleon vision. With this, there is reference to the need to be able to acquire new ways of seeing the economic market of each region. Each era represents a different commercial world. Therefore, it is impossible to want to solve current problems with solutions from the past.

## **References**

Álvarez Monzoncillo , J., & de HaroRodríguez, G. (2017). *Millennials: La generación*.

Madrid: Ariel.

Basco, R. (s.f.). *Fundamentos en la dirección de la empresa familiar*. Madrid: Thompson Editores.

CAÑON MULETT, A. (2017). *ECONOMIA DE LA FELICIDAD*. Bogota.

de la Rosa Alburquerque, A., Lozano Carrillo, O., & Ramírez Segura, J. C. (2009).

Organización, Empresa y Familia: de la Empresa. *Gestion y estrategia*, 17-36.

Moctezuma Pérez, S. (2012). Empresa y familia en México. Una visión desde la antropología. *Alteridades*.