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**TRANSFORM FAMILY
BUSINESSES INTO
FAMILY BUSINESSES**

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Abstract: The purpose of the research was to analyze the benefit of transforming family businesses into legally constituted family businesses that allow the economic growth of families, the generation of sources of employment and access to external financing, with the aim of maintaining them over time. This article has been developed from a descriptive vision, it has been supported by statistical sources of studies carried out between 2018 and 2020, from official pages of both Ecuador and America, it presents basic concepts of different authors on entrepreneurship that allows determining its importance in the countries' economies and their transition in the formation of legally constituted family businesses. These, together with the Organic Law on Entrepreneurship and Innovation, reinforce the theories that promoting family businesses will allow states to boost their economies. Finally, the financing options in both the public and private sectors that entrepreneurs can have access to finance their working capital and improve their productive assets that allow them to optimize their processes and provide goods and services in the market were mentioned. of better quality and with a competitive price, remembering that the formation of family businesses must always go hand in hand with innovation and the permanent training of their personnel in order to consolidate themselves among consumers.

Keywords: entrepreneurship, family business, promote, state economies, transform.

INTRODUCTION

The research that this paper wants to address is the transformation of family enterprises into family businesses, so that they can last over time, through the creation of legally constituted companies.

This type of business enjoys great versatility; allowing, through a good management of

the processes, a growth that allows them to become legally constituted companies.

During the year 2020, the National Assembly approved the Organic Law of Entrepreneurship and Innovation; which aims to maintain the statistics collected by the Law itself, which mentions Ecuador as one of the countries with the highest intention to undertake, but at the same time being one of the countries with the most difficulties to achieve it.

With this Law, the creation of financing alternatives is intended, given that the biggest problem at the time of undertaking is the lack of capital and little or no access to financing by the country's financial sector.

The purpose of this work is to highlight the figure of family enterprises that serve as a sustainable development strategy for the peoples, and their continuity over time from generation to generation within the joint framework of the joint effort of its members on the prospective vision of going on a par with global development (Santamaría and Pico, 2014).

A clear idea is presented about the family business, its evolution over time, its benefits and the disadvantages that do not allow it to evolve over time and reach the third family generation, leading to its disappearance.

The research assumes a qualitative conception of a descriptive and documentary-comparative nature, it was developed with secondary information collected from various bibliographic sources, texts, economic information magazines, developing a theoretical reference that allowed to conceptualize the theory and make a contrast and causal comparison with the data.

ENTREPRENEUR: DEFINITION AND CHARACTERISTICS

As expressed by Kunkel (1991) "Entrepreneurial activity is the management

of radical and discontinuous change, or strategic renewal, regardless of whether this strategic renewal occurs inside or outside existing organizations, and regardless of whether or not this renewal gives rise to the creation of a new business entity”.

For Mill (1965), the so-called “nascent industry” is important for the economic development of countries; but at the same time it presents weaknesses due to the lack of experience and skills of those in command.

For Mises (1949), the entrepreneur is the one who sees the opportunities that others do not see, is the one who directs his efforts to satisfy the needs of the consumer.

For Schumpeter (1928), “The function of entrepreneurs is to reform or revolutionize the pattern of production by exploiting an invention, or more commonly, an unproven technical possibility, to produce a new product or an old one in a new way; or provide a new source of inputs or a new material; or reorganize an industry, etc.”

Stevenson (1989), “Entrepreneurship is pursuing the opportunity beyond the resources that are currently controlled.” For this author it is important that the entrepreneur innovate, be it a product, a type of business or a process within a production chain.

Family businesses appear with a longer history in Japan, where they are known by the name of *Shinise*, these have advanced over time becoming solid companies. An example of a Japanese family business is Kongo Gumi Co. Ltd., which has continued for 40 generations since its founding, operating for more than 1,420 years.

Unlike Asian countries such as Japan or Korea, in Latin America, although family businesses are of vital importance for the development of countries and constitute 50% of the GDP of their economies (NEUBAUER AND LANK, 1998), their permanence in time is ephemeral, many of them do not manage to

survive to the third family generation.

GENERAL CONSIDERATIONS ON FAMILY BUSINESSES

PwC Global Family Business Survey 2018, a survey applied to more than 2,950 family businesses from 53 countries around the world, shows that 90% of Ecuadorian companies are of family origin.

PwC Global Family Business Survey 2021, mentions that family businesses are complex, although 68% of family members who are not part of the board of directors trust the members who are, only 58% share the same point of view, this is one of the reasons why at a certain moment the family business stops growing and suffers a closure.

As can be seen in figure 1, in Ecuador the level of trust in family members a large percentage allows the family to make decisions in the business, maintaining control of the decisions.

It can be seen in Figure 2, according to data obtained from the survey carried out by the Universidad de Especialidades Espiritu Santo (UEES, 2017), that more than 90% of the companies registered with the Superintendence of Companies are considered small and micro. companies, and are of a family nature, belonging to the sectors of commerce, professional activities and real estate mainly.

Although these numbers show legally constituted family businesses, we must not leave out family businesses, those that, according to Mises’s (1949) concept of the entrepreneur, the entrepreneur is the one who sees the opportunities that others do not see, is the one who directs their efforts to satisfy the needs of the consumer, according to records of the Internal Revenue Service (2021), in the country there are more than 614 thousand people registered in the Simplified Regime (RISE), which daily carry out entrepreneurial

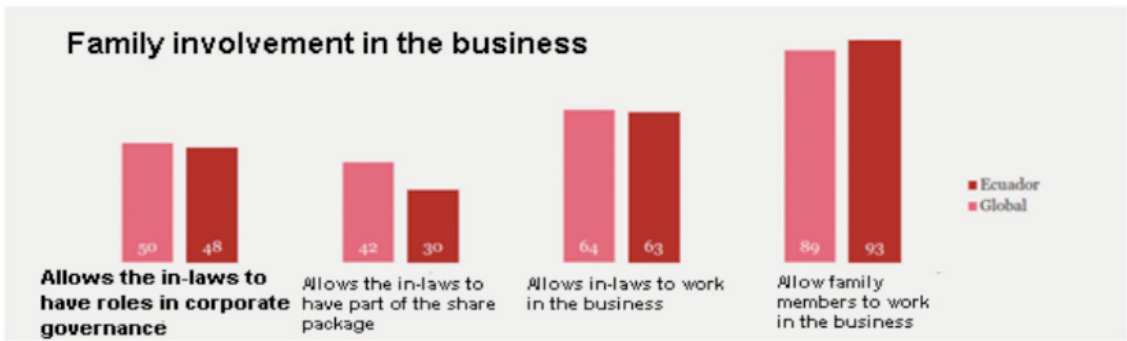


Figure 1. Family involvement in the business.

Source: Family Business Survey (2018)

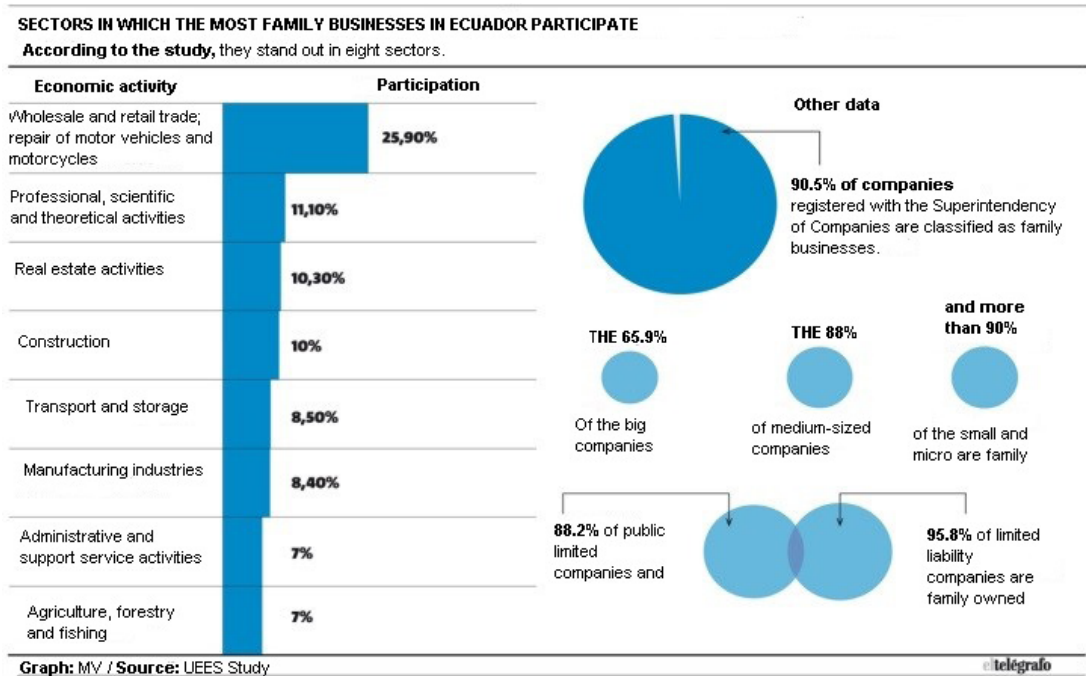


Figure 2. Sectors in which the majority of family businesses in Ecuador participate.

Source: Espiritu Santo Universidad de Especialidades (UEES, 2017)

activities, with their own capital and at your own risk, many times without having the financing of an authorized credit institution.

Of these last data, very few are family businesses that became family businesses, legally constituted and registered by the control entity, often due to ignorance of the procedure and the benefits that can be obtained with this process and in other cases fear failure.

FAMILY BUSINESSES: HOW TO BECOME LASTING FAMILY BUSINESSES

Ignorance of the process to be able to legally establish a company is one of the reasons why many entrepreneurs do not advance with their businesses, another cause is the empirical management of the ventures, they do not carry out an in-depth study of the activities they are going to carry out, the public to whom the goods or services are going to be destined and the capital that they require for their normal development.

In an investigation carried out by Beatriz Maldonado (2020), she highlights the strengths of family businesses, taking family commitment, continuity of knowledge, reliability and pride as the main ones.

There is no better venture than the one that commits the whole family, who encourages each of its members to actively participate in the process, in order to find economic sources for all and keep the project alive to be transmitted to future generations.

Family members who get involved in the venture develop skills and experience in the proposed economic activity, often involving more family members from a young age, this allows for in-depth knowledge of the processes.

When they develop ownership of an activity, each member of the family nucleus is proud to highlight the name of the venture, its

trajectory over time and the need to continue to improve and transform its processes to make it competitive, maintaining its essence.

In Ecuador, after an analysis carried out by the authorities, in the month of February 2020, the National Public Assembly through Official Registry 151, the Organic Law of Entrepreneurship and Innovation, whose purpose is to encourage and promote entrepreneurship, innovation and technological development.

The aforementioned Law in its article 3 defines the concepts of entrepreneurship, innovation, entrepreneur, among other terms. Entrepreneurship is considered to be those projects that seek to cover needs and that have the need to be organized and developed, conditional on the fact that they must provide new sources of employment and that they have been conceived less than five years ago.

In article 5 of the same legal body number 2: "Simplify procedures for the creation, operation and closure of companies, at all levels of government." In this sense, it issues reformatory provisions to the Companies Law, in which it allows the creation of a new type of company called by simplified shares; and regulates from these reforms the process of creation, control, responsibilities, prohibitions and liquidation of the same.

Something very important about this Law is that it gives instructions for the creation of the Technical Secretariat of the National Council for Entrepreneurship and Innovation, which during July 2021 had its first meeting in which the national entrepreneurship strategy was defined, which will allow boost the value chain of the productive sectors.

With all this, family entrepreneurs can take advantage of this new scheme and go giving a more formal turn to their activities.

FORMATION OF COMPANIES FOR SIMPLIFIED SHARES

This research is going to focus on one of

the weaknesses of family businesses, that is, their empirical operation, for which a way that can help family businesses to sustain themselves over time is to turn them into family businesses, as already was mentioned before.

According to the United Nations Organization and the Organization of American States, an easy way to undertake is to use Simplified Stock Companies; allowing entrepreneurs to obtain resources for external financing.

Since 1996, when France applied this model, many others have incorporated it, mentioning Chile in 2007; Colombia in 2008; Dominican Republic in 2011; Mexico in 2016; Peru and Guatemala in 2018; showing as support that the company model is functional and allows to achieve the objective, promote the ventures and allow them to finance their operations in a better way.

For the creation of a Simplified Stock Company in Ecuador, some considerations are required:

1. Number of Partners: It can be created with a single partner.
2. Capital contribution value: capital is the value that the company needs to finance its operations, this value can be contributed in money or goods; At the time of the constitution, it is not necessary to deliver the agreed amounts, you have 24 months to contribute to a bank account in the name of the incorporated company.
3. Class of shares: the partners who have agreed to create the company have the power to decide if the shares will be freely negotiable, or if they will need authorization from the entire general meeting to be transferred to a person other than the one family.
4. Finally, the creation is done online

through the technological tools of the superintendency of companies.

BENEFITS OF BECOMING A COMPANY FOR SIMPLIFIED SHARES.

As previously mentioned, all businesses mainly need financing to be able to function. In the case of family businesses, the risks of this financing are assumed by the main member of the business, with 77% of family businesses having resources. own, according to the PwC Global Family Business Survey (2018).

According to the PwC Global Family Business Survey 2018 study, “the first financing option, with 93% use, is bank credit. Additionally, 5% of family businesses are willing to use it soon, showing the high trust placed in private banking” (PriceWaterhouse Coopers, 2018).

In this sense, simplified stock companies can take advantage of the programs that public and private entities deliver, within public entities they can participate in projects in the National Financial Corporation, National Development Bank; in the case of appointment of the legal representative of the company; Minutes of the Board of partners of the company; detail guarantees of public entities. For which you must develop the project, collect the list of requirements and submit your application. Private sector entities that provide financing for entrepreneurs Banco del Pichincha has developed a product backed by credit from the International Finance Corporation (IFC), credit focused on SMEs owned by women; Banco de Guayaquil, Produbanco, Banco del Pacífico, Banco Solidario are some of the financial entities that have developed products for entrepreneurs.

General basic requirements to present are: Copy of the deed of incorporation; Copy of and authorize the legal representative to process it, Single Taxpayer Registry.

These credits can be used to acquire fixed assets and working capital.

RESULTS:

During the year 2019, a growth of 36.2% of the entrepreneurial activity is visualized, in reference to the year 2013, this increase followed a pattern of gestation and start-up of the ventures, but they had not yet been consolidated, during 2020 with the arrival of the 2019 Covid pandemic, many of these new entrepreneurs were forced to close their businesses like other companies.

In the year 2021, perceptions and attitudes of entrepreneurship are still maintained with favorable levels, this is where the consolidation stage is very necessary, to ensure that these ventures last over time and continue to pass through the family generations.

As mentioned before, there are financing alternatives, improvement of productive sectors, that allow enterprises to benefit from them with working capital at low interest rates.

In an analysis carried out in 2022, by the Superintendence of Companies; It shows that the legalization of enterprises has increased, passing to the creation of Simplified Stock Companies from an average of 800 to 1900 per month.

These results have triggered formal employment conditions, providing employees with Social Security affiliation and payment of Law Benefits.

This increase is maintained during the year 2023 where 89% of company constitutions represent Simplified Stock Companies.

CONCLUSIONS

The activities of family businesses are considered an important source of income worldwide, accounting for 51% of GDP in Ecuador, according to the Ecuadorian consulting company Fambu-siness (2016); These activities generate sources of

employment and contribute with their taxes to the development of the countries.

Family businesses, despite being an important contribution, fail to survive to the third generation, the main problems being the lack of strategic planning and technical personnel management, the latter does not always happen, since within the family many times the same relatives study and prepare to run the company. Another problem is the lack of agreements within families, which do not allow administrators to make decisions for their growth. Lastly, financing, which becomes difficult to access for those companies that are not legally constituted.

The Ecuadorian government, aware of the benefits that ventures bring both to the payment of taxes, job creation, as well as to boost the economy, has developed the Organic Law of Entrepreneurship and Innovation; that regulates the creation of entities and processes that support the entrepreneur, from the creation of a cadastre that allows identifying their financing needs and supporting them, to involving the private sector in the development of more financing programs.

Lastly, the creation of a company, which until 2 years ago was a very costly and difficult process, has been simplified, as an incentive for ventures to become companies and to be able to compete freely, for financing and to grow, boosting their sales even in the outside. I only know how to mention the company La Fabril as an example. It was created in 1968 and its main need was always capital, which little by little gained space in the market and overcame problems.

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