Extrinsic and Intrinsic Factors That Limit Family Business
OS Fatores Extrínsecos E Intrínsecos Que Limitam Empresa Familiar

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Abstract
This work has as intention analyzed which are the principal intrinsic as extrinsic factors that according to the theory they affect the longevity of the family enterprises in the world. The research links these factors with the historical nature of the company in an attempt for understanding the origin of the same ones and their exclusivity. Besides, relating these factors to the Mexican companies in zeal to be able to provide a frame of reference that explains the low indicators in the country. The method used to obtain this information is based on the theoretical and bibliographical review of the realized national and international studies. The results show that the intrinsic factors of the companies have major impact in the time of life than the extrinsic ones.

Key words: family enterprise, extrinsic and intrinsic factors.

JEL: D13 D14, D21, D22

Resumo
Este trabalho tem por objetivo analisar quais são os principais fatores intrínsecos e extrínsecos à teoria afetar a longevidade das empresas familiares no mundo são. Ligando esses fatores com a natureza histórica da empresa, em uma tentativa de compreender a origem da mesma e exclusividade. Além desses fatores se relacionam com empresas mexicanas, em um esforço para fornecer um quadro para explicar os baixos indicadores no país. O método utilizado para recolher essa informação é baseado em revisão teórica e da literatura de estudos realizados a nível nacional e internacional. Os resultados mostram que os fatores intrínsecos de empresas que têm maior impacto em sua vida que extrínseca.

Palavras-chave: Empresa familiar, fatores extrínsecos e intrínsecos

Resumen
Este trabajo tiene como propósito analizar cuáles son los principales factores intrínsecos como extrínsecos que según la teoría afectan a la longevidad de las empresas familiares en el mundo. Vinculando estos factores con la naturaleza histórica de la empresa, en un intento por comprender el origen de los mismos y su exclusividad. Además de relacionar estos factores con las empresas mexicanas en un afán de poder proporcionar un marco de referencia que explique los bajos indicadores en el país. El método utilizado para recabar esta información se basa en la revisión teórica y bibliográfica de los estudios realizados a nivel nacional e internacional. Los resultados muestran que los factores intrínsecos de las empresas tienen mayor impacto en su tiempo de vida que los extrínsecos.
Introduction

Companies are an essential part of the economy of all countries for their contributions ranging from providing employment, benefits, creating products that meet needs, etc., whereby a constant exchange that benefits society is generated. But there are few times when it is necessary to make a stop to consider how firms took relevance in our daily life and that was what caused the conditions to be created. Historically, the family business is considered the forerunner of all nonprofit organizations that exist. It is because of this kind of social organization that promotes commercial activity, being aware of the benefits that can be obtained by exchanging its surplus on the market. However, the evolution of the means of production and the resulting social changes of these same advances generated a change in the structure of companies, from company household to corporate enterprise.

So what now they must converge in the same market and equal conditions of companies with different capacities and different scopes. This represents a challenge for all companies under investigation. However, it is contrasting the one hand the family business is generally micro or small, is generating most of the jobs in the country, while having the smaller markets and limited production to be scale. That is, they are at a competitive disadvantage compared to other companies. This implies that constantly have to develop strategies suited to their needs, yet tailored to their resources and capabilities. Being one of the main limitations of these companies the challenge of staying on the market reconciling family and work relationships in one place, in addition to identifying the differences between authority within the company and family solidarity. Similarly, it faced with the need to strike a balance between nepotism and suitability of persons in their posts, to ensure efficiency.

Given this situation, it is necessary to identify the most important factors limiting the life of family businesses for from them can generate relevant strategies to improve their own conditions and increase the profits of these companies, considering the relevance they have in the country's economy.

Background

When the human beings began to organize themselves socially in different settlements, and started the exchange of goods as a form of collective subsistence, it was necessary to establish a currency to regulate trade, making them fairer. Thus, in the old age were created various currencies together with bartering resulted in a commercial systems where heads of family were entitled to exchange the surplus property of good by another which it lacked. So that, each family began to specialize in the production of certain types of articles, while integrating more members to that little productive organization. At this stage the production model is based on the workshops of artisans, with a simple organization, and work in the field, being of local scope.

Taking the current definition of business by the Royal Spanish Academy (Gonzalez, 1822 page 555 p.), it is the "Unit organization dedicated to industrial, commercial or service provision for profit". Moreover, Garza (2008 p 139) defines the family business as the company where family systems and business are intertwined and in which the participation of its members in leadership, decision-making and capital is fully established, and there is a desire for continuity within the family. From this, it can be inferred that this commercial practice corresponds to the first companies that emerged in the old age from the family.

Later, it began to strengthen trade which meant that more people were devoted to this activity, and society began to create the right structure to encourage the practice. Barbosa (1984) mentions that according to historical evidences, business began to develop in the Mediterranean and in the valley of the Nile, the Jordan and the Euphrates rivers, in addition to the shores of the Red Sea, the Dead Sea and the Persian Gulf, standing out at this time Egypt with their caravans to Asia, Phoenicia and Syria, mainly selling wood, ivory, gold, wine, grain and manufactured goods.

Emerging in the middle Ages the main land and sea routes, among which are: Tin Road between England and Greece; the Silk Road and Spice from southern and eastern Europe through Egypt, Somalia, the Iberian Peninsula, Iran, Central Asia, Pakistan, Java, Indonesia, Vietnam up to China, among others. The conditions were propitiated with the emergence of a new social class, the bourgeois, i.e., merchants and artisans who began to double their fortunes and improve the economic situation of their families: And the conditions for the emergence of a new social class were promoted.
According to Montero (2011) in the modern age, with the rise charged by commercial activities, and seeking to increase production capacity and meet growing demand, mechanization workshop develops, spinning machine arises (1767), the hydraulic loom (1769) and mechanical (1785), in addition to the cotton gin (1792) that favors agriculture. Subsequently, product advances and inventions of the existence of the steam mechanized workshops are gradually transformed into small factories where human muscle power is no longer paramount. Also, evolve transport and the media, highlighting the traditional navigation turns into steam-driven navigation, arise the locomotive and the first railways at great extent. As communications have a breakthrough after the invention of the electric telegraph.

Companies maintain a constant rate of growth necessitating the existence of means to finance the growth of some and that simultaneously serve as a guarantee for the protection of the capital of others, leading to the development of the banking and financial system. Along with the expansion of world trade and industrialization, triggering a crisis in classical organizational structure and decentralized organization emerges, which impacts the business structure, the concept of business alliance is introduced giving way the family workshop, and industrial organization.

In the contemporary age, research and technological advances are surprising and quick to apply commercial purposes through more sophisticated products and processes. Automation and computing allow specialization of some companies resulting in the creation of large multinationals and national companies, leaving aside the existence of small and medium enterprises. Within this classification can be appreciated even some family businesses.

However, the current economic, political and social context represents a challenge for contemporary companies. There is inflation, high interest rates, uncertainty and unpredictability, following the complex and variable flow of information in a world that has become too small to go in terms of time and distance. Consequently, the future of business is uncertain, being necessary flexibility in their strategies to survive. Something that is not possible for all, then do not have the capacity, sufficient resources to do, being small and medium companies more susceptible to failure.

3. Delimitation of the problem

With the advent of the capitalist system, being a family company or not, it stopped being relevant to move to focus on numbers these same could maintain or generate. So, all literature began focusing on analyzing the strategies to achieve the latter. The National Institute of Statistics and Geography (INEGI, 2014) has developed a research process from historical indicators which time average life of SMEs was screened at birth, hurling result in the manufacturing, trade and private non-financial services, life expectancy is 7.7 years on average. This life expectancy is reduced in as the company is smaller.

Based on the survey of existing information raises the following research question:

What are the extrinsic and intrinsic factors that limit a family business?

4. Justification

The events that arise around the issue of SMEs are very controversial, on the one hand, it is known that these businesses generate on average 72% of formal jobs in the Mexican economy, and are a good basis for the emergence of innovation in all branches. However, it is also true that these companies have the highest failure index compared with countries such as Bolivia, Chile, El Salvador, among others (Flores, 2013).

This tells us that consequently the jobs created from SMEs are not stable, that is, that most of the jobs in the country to rely on these businesses are not durable. Thus, the purchasing power of a large part of the population is unstable. In addition, these businesses to exist not only employ, but also cover small market shares to meet their demands, which results in a reduction in available supply, this certainly have a negative impact on the stability of the national economy.

The National Institute of Entrepreneurs started in 2013 a mapping for the creation of a national policy of support for entrepreneurs and small and medium enterprises, from which, the Support Fund for Micro was established, Small and Medium Enterprises (Fondo de Apoyo para la Micro, Pequeña y Mediana Empresa, 2016), in order to promote the creation, productivity, competitiveness and development of SMEs. Also, the current President of the Republic has joined this initiative to determine that in the list of government suppliers must appear micro, small and medium enterprises.
To achieve the above five measures were established to be considered by the procurement units and works of the Federal Public Administration, which include the training of these companies to be suppliers of goods and services to the government, reviewing the regulatory framework to reduce the necessary procedures for public procurement and encouraging innovation in the business sector through government procurement.

Analyzing some of the actions taken to counter such high failure rates of SMEs in Mexico, it is easy to see that most of these actions are developed by the government and focused largely aspects of liquidity, solvency and processes initiation, leaving aside intrinsic aspects of the company such as inadequate cost management, or lack of appropriate management strategies, etc. According to the National Commission for the Defense of Users of Financial Services (Comisión Nacional para la Defensa de los Usuarios de Servicios Financiero, 2016) this causes represent the most frequent causes of failure.

On the other hand, there is the idea that in the case of Mexico, it is not necessary to have as many SMEs, what the country needs is that there could be more medium or large companies (Flores, 2013). The reason is that the latter companies have greater stability and productivity than SMEs. This statement is not part of the need to eliminate initiatives of small and medium enterprises. Suggesting, it is that it should be emphasized to meet the shortcomings to create conditions that allow the growth of the same. Therefore, it is of particular interest to know the factors that lead to family businesses (mostly SMEs) to failure, while the theories that revolve around these events are analyzed, in an effort to have adequate knowledge to overcome difficulties and power, in turn, guide the actions of these companies.

5. **Theoretical assumption**

Intrinsic limiting factors are those that have the greatest impact on the lifetime of family businesses.

6. **Conceptual framework**

A. **Family business**

Some current conceptions of what is a family business are as follows:

As Nelson (2014, pp. 72) states "for a Family Business to exist there is need that not only the components announced remain in time, but also the family group responsible for managing what will later become the family heritage." Donnelly (1964, pp. 149) "A company in which they have identified at least two generations of a family and that link has influenced the policies of the company and the interests and objectives of the family."

Analyzing both definitions, it can be highlighted that there are two determinants; the family and the company. That is, in these two types of organizations converges social entities, the first one based on kinship and cordiality; and the second where formal and efficient relationships predominate. This poses a complication in the company organizational fruit of its own nature.

However, Gersick, Davis, Hampton & Landsberg (1997) analyzes this interaction and adheres to another element property. Same refers to the possession of the shares of the company. So that supports a number of possibilities: a member of the family, working in the company but not owning shares. On the other hand, working in the company, have shares and not be a member of the family, among others. The following figure shows the variety of possible relationships.

![Figure 1. The model of the three circles](Source: Own creation from Lopez-Cozar data (2009).)
In addition to this, a quantitative parameter to classify these economic entities is based on the number of workers they have, which vary depending on the sector in which it is found, as shown in the following table:

Table 1. Stratification of the company in Mexico

<table>
<thead>
<tr>
<th>Sector</th>
<th>Industry</th>
<th>Trade</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>0-30</td>
<td>0-5</td>
<td>0-20</td>
</tr>
<tr>
<td>Small</td>
<td>31-100</td>
<td>6-20</td>
<td>21-50</td>
</tr>
<tr>
<td>Medium</td>
<td>101-500</td>
<td>21-100</td>
<td>51-100</td>
</tr>
<tr>
<td>Large</td>
<td>501 hereinafter</td>
<td>101 hereinafter</td>
<td>101 hereafter</td>
</tr>
</tbody>
</table>

Source: Prepared by Urzua (Family businesses: the first is the business, 2012)

As it can be seen, the latter classification is leaving aside the fact that the company may or may not be of familiar nature. This is because there is no limitation for that family businesses grow or not, therefore, to work on more objective classifications, has been established the one above.

Before continuing, it should be noted that the fact that family businesses do not indicate that have to be necessarily of small or short longevity. Since there are cases of companies being family owned are considered among the largest in the world or the oldest. Such is the case of the Tequila Jose Cuervo, which was founded in 1758 and is the oldest of Mexico family owned business today, and America Movil of Carlos Slim, who is in the ranking of the largest companies in the world according to Forbes 2015. However, subject to the problems posed for this work, it is assumed that most family businesses are micro and small size, limiting the study to the same.

These contradictory scenarios have caught the attention of some scholars. Therefore, it has been studied the possible causes that lead to these companies to fail. It is necessary from the first that some factors are present in the context in which it develops and others are born in the nature of the company. For this work both views are mentioned, with reference to the factors identified by Nelson (2014), Lopez Contreras and Molina (2013) and Garcia and Davila (2012). On the one hand, internal aspects are analyzed as: lack of planning, inheritance, nepotism, handling and organization. And in relation to the economic aspects those linked to the administrative aspect, such as liquidity, solvency, profitability and efficiency.

B. Intrinsic problems of the family business

1) Lack of planning - behavioral theory of the firm

A large number of family businesses are born by a circumstantial initiative. So at first, to determine what to do and how, are questions that capture the attention of their creators, to which are giving them response as they become essential. Forgetting one of the four administrative pillars of the company, which is planning, this can be operated from the enthusiasm and motivation product of wishful thinking that accompanies the birth of a business. However, the absence of a growth plan established as a path to follow, the long-term goals are ambiguous, which can be translated into disarray, it must be dissipated by the executive, as tells the behavioral theory of the firm.

Another type of problem caused by the lack of organization is the failure of cooperation by disintegration that can lead to its own company destruction. This can be solved by transmitting to all members the idea of their creators, to which are.

2) Succession - Agency theory

One of the most delicate and controversial within the life of family businesses issues is the transition of authority from the founder to the successor, or from the successor or his successor. The difficulties surrounding this transition are varied. Based on the role to be played by this person, it falls into the first difficulty; not all companies have a well-established policy of succession. This causes many discrepancies that exist when selecting a candidate, since there are no parameters to justify the act responsible in turn. As mentioned Press (2011) some of the issues discussed by founders at the time of the transition are related to the distrust of the new generation, fear of conflicts between heirs, fear of life without their main occupation and fear to depend financially from someone.
Factors that will inevitably provoke disagreements in the family are bringing all kinds of problems. That is because the recommendation is precisely to establish mechanisms to continue to give the company the right candidate. For Nelson (2014) the purpose of succession is fundamentally to get the company to grow. Therefore, it is necessary to identify a person who has the vision and capabilities to achieve the possible development and growth. After analyzing the person has qualities like born leadership, reflected in the ability to inspire confidence, to end despair, fight fear, and define objectives and thus the future of everyone involved. Later he continues his preparation.

One of the strategies used to ensure that the choice is adequate, is that the head of the company find one or in the event two people who start preparing as to the activities to be developed for the correct address of the firm. Through a course of training, development and familiarization activities and decisions that are vital to the family business. It is important to note that this or these people to whom they are passed confidence and hope of good management, must meet a number of requirements, among which highlights the fact to accept willingly this responsibility.

Contrary to popular belief, it is not necessary that the successor is the firstborn son. There are cases of companies considering that the successor - attached to this tradition-is not adequate, seeking a third individual. This is where the theory of the agent becomes relevant. This theory states that at the inability of the family to project a proper planning or management, to opt for hiring an external person with the required expertise to implement relevant actions that generate an increase in profits of the firm. This person is called agent.

On the one hand, this option seems to promise peace of mind to business owners and owners of capital, in addition to being a guarantee for the entry of higher profits. But is this greed or unquenchable longing for more can generate major moral distrust, his agent not to be watching all his actions, and therefore give cavity to exercise opportunism. As a method to reduce this mistrust can establish monitoring mechanisms, which in turn represent an expense for the company and can be interpreted by the agent as an attack on his integrity, impacting negatively on their performance. In addition to this, another issue that may raise, is the difficulty in determining the sections control or define the authority, which is exceeded only when one party is superimposed on the other.

It also happens that because of this distrust, the information flow from principal to the agent, or vice versa, is not entirely accurate or timely, generating this information asymmetries and therefore uncoordinated actions or not approved. However, the company must analyze the professional in charge who accepts responsibility and deposit in his trust; it has a prestige and remuneration to lose in case of falling into these errors.

3) Nepotism

One of the common problems in the family business is nepotism. Nepotism is considered by the Dictionary of the Royal Spanish Academy (Gonzalez, 1822, pp. 1052.) as "undue preferences that some give to their relatives for concessions or public jobs." Considering the nature of these firms it can be considered a common practice the nepotism. However, it can fall into the extreme nepotism.

A common mistake is to admit to the families who have no preparation linked to the company, sometimes giving those positions that are relevant in terms of decision making. These decisions reflect a wobbly and very susceptible blackmail or family sentimentality authority. One consequence of this practice is the waste of scarce resources and inefficiency in performance. As a measure that can solve these practices is to require the family member who wants to be part of the firm, to acquire knowledge and also experience in companies in the industry, and acquired sufficient knowledge to perform properly his duties, then integrate him to the team.

In as far as possible, nepotism can be practiced responsibly, ensuring the suitability of the family to fill positions and perform activities efficiently, impacting the lifetime of the company.

4) Organization - behavioral theory of the firm

In economy is considered to have a good organization within the company to optimally combine individual efforts to achieve group goals. The easiest way to represent this is through a gear, where each piece has a field of action and within it well defined activities, but also to know the scope that has its work within the organization, which in turn generates in the person a sense of commitment and belonging. Nacional Financiera recommended periodic analysis in the company to assess whether all employees are well aware of what are their roles, responsibilities, which are their subordinates and immediate bosses, as well as the activities that should not be performed.
All this in order to detect any information gap and to cover it as soon as possible, because if these activities are not well defined, the business disorganization results.

In family businesses it is common that positions are created without specifying the entire field of action that will have, this in turn derived from a lack of strategic planning. If to this it is added a non-appropriate profile for the position, it is natural that the person feels unable to make decisions, and then it is inevitable the presence of problems such as the centralization of decisions (Lopez Contreras Molina, 2013) is inevitable. Failing to assess the implications and consequences of each action generates advice or approval of other people, who are usually managers of the company. With this the very nature of the organization is contradicted, i.e. delegation of authority. One effect of this problem is the loss of opportunities for a delay in decision-making, and the extension of failures for not giving timely solution.

Similarly, disorganization can be interpreted as a lack of control at all levels of the organization, which can create the conditions for the emergence of abuse of trust, or the labor parasitism, that if left untreated, can lead to the firm into bankruptcy.

Behavioral theory of the firm mentions this problem, noting the three basic elements that must be considered when designing an efficient organization, which are: control unit, specialization functions and decentralization. Having these distinct elements, objectivity is achieved in activities, reducing time and resources by information asymmetry.

**A. Extrisic problems of family business**

1) Liquidity and solvency

According to the study by Davila (2014) where were polled 409 SMEs, a large number of entrepreneurs commented that their biggest phobia are the finances of their companies, which preferred to give the necessary to the accountant for this make appropriate adjustments. The study also showed that most entrepreneurs do not have a fund to cover costs in the short term, since it is the rising expectation that the business will be profitable from the start, which is a mistake that has promoted the failure of these companies in the first 2 years of life.

At the time it was considered that one of the possible causes of this bad economic planning would be linked to the lack of studies of people. However, once we obtained the data from this study in particular, the reality is different, because 66% of business failures belonged to people who had at least one career. Therefore, it can be inferred that this deficit has more links with the prejudices of entrepreneurs with their level of preparation.

2) Performance - Global strategy

For Fernandez (2011) profitability is the point from which the sale of a product unit generates more benefits to society. Meanwhile, microeconomics measures the profitability of a company based on the use of productive resources and the level of production generated, so that, an increasing profitability is equal to a percentage higher than the percentage of investment in production inputs.

Taking what is stated in defining the family business, it was mentioned that these businesses are also SMEs that generally have a local market to satisfy. This, according to Peng (2012a), is a recent strategy being implemented by companies that are global in scope. That is, previously these companies managed success when reduced production costs and achieved increasing returns. However, this was possible due to the specialization of production processes and global standardization of their products. This strategy initially showed no failures. But with the entry of more producers, and the development of more affordable technologies, mocking goods became a very simple activity, causing a glut in the market homogeneous goods, driving down prices for the same on offer.

In the abruptness of achieving to maintain supremacy between companies in the same sector, it is opted for the strategy of product differentiation adapting to the different needs of each local market to which entering, ensuring thus greater consumer satisfaction. Taking this theory of global strategy, it is possible to see that family businesses have this aspect in their favor, i.e. they focus on local needs, but they must devise strategies to maintain this differentiation, which must have as starting point tripod strategy Peng (2012b).

This strategy identifies three key elements that must be maintained over time and regions:

- **A.** Industry: linked with the position of the company within the range of companies in the same industrial field.
- **B.** Resources: the ability of the company to maintain its resources as unique, valuable and difficult to imitate.
- **C.** Institutions: capacity building and skills as the result of the analysis of formal and informal rules of foreign markets, which serve as a reference for locals.
The family business has the opportunity to position itself with these strategies at the local level and project growth to other markets by adapting its product as possible to the new market to be accepted. And thus generate better performance, but sticking to a plan of progressive growth, otherwise you can fall in Penrose (1959) effect.

7. Analysis of results

In performing this work, it was found that the reality of SMEs is delicate and there are factors caused by them as part of the challenge to overcome to achieve prolong their existence in the market. The fact that these limitations are born from the same company make them to become weaknesses being treated in a timely and appropriate manner which finally can become strengths.

The authors consulted to achieve unify these criteria make a distinction between the factors depending on the company (intrinsic) and those being held by the market where it develops (extrinsic). These two general classifications may vary from country to another, especially the last. However, references in this work of the two factors on which the authors agree is done.

It is intended the following breakdown of factors:

A. Intrinsic factors:
   1) Lack of planning
   2) Succession
   3) Nepotism
   4) Organization

B. Extrinsic factors:
   1) Solvency
   2) Yields

Being common in businesses defecting, and analyzed by organizations such as CONDUSEF (2016), allows inferring which the most powerful factors are helping to understand the problems and possible solutions.

8. Conclusions and recommendations

The Economic and small businesses are vital to the economic development of the country, being a source of employment for most Mexicans. However, the latent threat of a short life is of concern for all directly and indirectly involved, since the consequences of the failures of these companies have a negative impact on the economy, and therefore the welfare of all people.

However, to attack a problem effectively requires having a thorough understanding in the first instance, i.e., what are the variables of major and minor impact, what the scope of its consequences and most importantly, what are the possibilities of controlling or alternatively solving them.

Based on the analysis, it is proposed as the main factor of momentum to prepare existing entrepreneurs and those who want to be in order to prolong the lifetime of the companies. As proposed to achieve this, and taking into account that the solutions provided by the government to involve no cost. They lose much of their value by the consumer, and also supports the possible lack of seriousness and commitment.

Therefore, this service must be provided by the private sector, being the best candidates those have overcome the barriers which have been mentioned. In order to encourage their participation it is proposed an agreements mechanism through which the compensation is agreed both as a service provider, participation in equities, fixed payment, etc. Once it will overcome the average corporate life time, based on proper administration also promise survival indefinitely. This will generate that both parties are interested in contributing and achieve to prolong the longevity of family businesses and job security of a major proportion of the Mexican population. In any event, it is recommended to the entrepreneurs to acquire a culture of planning and risk assessment and opportunities for making important and timely decisions that make the difference between success and failure.
References


