Family Business in Portugal

2008

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1 Introduction

Family businesses as such is hardly a popular topic in the Portuguese media. From time to time there are references to this theme, particularly when some event grasps the attention of reporters, as has happened last year when the 10th anniversary conference of GEEF[1] was held in Lisbon, in October 28th and 29th.

Except for a restricted group of family businesses activists, specialised consultants and university scholars, the family businesses concept and related topics is currently a disregarded topic in Portugal.

When talked about in some technocratic areas, the idea of family businesses is frequently taken as synonymous of “outdated, small, unprofessionally managed firm”[2], and, except for the small community mentioned in the preceding paragraph, there is no differentiation between the family owned and other types of businesses[3].

A couple of decades ago family businesses were frequently addressed by the Portuguese media under a rather different standpoint. After the 1974 “carnation revolution”, the largest Portuguese groups (banking, insurance, industrial conglomerates) were nationalised in the summer of 1975. All these groups were owned by traditional Portuguese families with long standing business interests[4]. Most of the references made in the media to these family businesses had, at the time, pejorative connotations, linked to the accumulation of wealth those families were symbols.

During the eighties most of the nationalised assets were re-privatised and many of those traditional families regained their business activities. “Family business” was again touted in the press, this time with a more favourable tone.

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1 European Group of Owner Managed and Family Enterprises.

2 Equivalent to the US image of the "mom and pop’s joint".

3 Though the concept of family owned business may stay subjacent to the idea of large, privately owned Portuguese firm, as discussed later in the report.

4 The families „Mello“ (owners of CUF group, the largest Iberian conglomerate at the time), „Espírito Santo“ (banking), „Champalimaud“ (steelworks and cement) are examples of these old family businesses, some of which dated back to the 19 and 18 centuries. See Lima, A. P. de (1999)

2 “Family businesses” in the national context

In Portugal there is no official definition of family businesses and no legislative or regulatory disposition specifically addressing any type of “family business”. The most close substitute for that official definition it is the one adopted by APEF, the Portuguese Family Business Association[5]:

“A company is a family business if its ownership is wholly or substantially in the hand of one or more families, and the family has control over the management of the company”

This broad definition takes in most of the companies existing currently in the country, including all companies owned and operated by a single person (one-person enterprises) and companies owned by a single person but employing and/or being managed by other persons (sole proprietorship enterprises), practically all SMEs and a substantial proportion of larger firms. There are some estimates that such definition covers about 70-80% of the Portuguese firms and maybe more than 60% of the GDP and of 50% of the workforce.

APEF is well aware that the definition covers an extremely vast number of enterprises and does not really capture the essence of the “family business” concept[6], as it is being discussed recently. Thus, APEF is proposing a new and narrower definition, adopting, among the “process definitions”[7], the one posit by Ward[8], but including an additional requisite: the firm, or the firm’s governing bodies should want the company to be considered a family business.

Thus, APEF recommends the definition to be based on the “Finnish” one with 2 adaptations: the willingness condition and the intergenerational condition.

It reads as follows[9]:

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5 APEF (*Associação Potuguesa de Empresas Familiares*). Created a decade ago, APEF is the sole association of the Portuguese family businesses and the Portuguese member of GEEF. It has a membership of about 170 and is very active in providing a range of services to its members including information dissemination, training and advocacy. The association has brought up a number of collaborative initiatives with universities (graduate courses and full post-graduation programmes in family business subjects) and public agencies (e.g.: the “from gender to gender” programme was carried out in collaboration with IAPMEI, the small business institute, aiming at providing information and support in the resolution of typical family business issues). See APEF Website at: http://www.empresasfamiliares.pt/

6 Concept which is frequently associated with the propensity toward long term strategies than for quarterly results, the aversion to debt and the inclination to reinvest dividends, as many research studies have suggested.

7 As opposed to the “structural definitions”. Davis, J. R. (2001)

8 Which includes the condition that a company can only be considered a family business after an intergenerational transfer has taken place. It is widely accepted that this intergenerational transition poses the first critical problems that family businesses face: succession, possible family conflicts, possibly money difficulties arising from inheritance or property transfer taxation. It is at this stage that many family enterprises are dissolved or sold to third parties not related to the founder’s family. See Ward, J. L. (1987)

9 The additions/changes to the Finnish definition are underlined. See Villax, Peter (2008)

"A firm is a family enterprise if it so wishes to be considered[10] and if:

1. The majority of votes is in possession of the natural person(s) who established the firm, in possession of the natural person(s) who has/have acquired the share capital of the firm, or in possession of their spouses, parents, child or child's direct heirs.

2. The majority of the votes may be indirect or direct.

3. At one point in the firm's existence, at least two representatives of the family or kin of different generations[11] have been involved in the management or administration of the firm, either simultaneously or in succession[11].

4. Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families possess 25 percent of the right to vote mandated by their share capital."

This "distilled" definition of family business acknowledges the results of the empirical research and of the national and international discussions on the theme that have occurred in the last 20 years or so. It operationalises the intergenerational requirement and makes explicit the will of the company, or, better, of its owners, to be considered a family business. When doing this, the new, enhanced definition reduces substantially the number of included firms, thus focusing on the group of businesses possessing the most differentiating attributes that characterise the theoretical concept of family business.

The need to adopt a definition of family business at European level is an obvious priority that should pave the way to the resolution of other family business issues. Without a fairly common definition it is not possible to compare the family business reality across Europe, and ascertain its main attributes and the extent to which these bring beneficial effects to the society. The absence of such shared definition is precluding the formulation of well focused initiatives and policies, either at European or member state levels, that may foster the development of a form of enterprise generally considered to be a pretty good business model.

10 The "willingness" clause.

11 The "intergenerational" clause.

3 Importance of family businesses in the country

As mentioned before, the importance of family businesses in the Portuguese economy is sizable. Due to the absence of an official definition there are no hard data upon which sound economic estimates and evaluation studies can be based.

When considering the loosely defined family business concept (owned/controlled by one or more member of one or more families[12]), this segment may account for 70% to 80% of the Portuguese firms, employing about half of the country workforce and contributing with about 2/3 of GDP, as already noted.

Most of the information available in Portugal is provided by qualitative studies with some data imported from other countries (particularly the U. S.) and impressionistic considerations over the domestic business community, most of which are trivial:

- there are family business in all industries and branches, except for a few industries which are totally populated by large foreign firms, or by incumbent monopolistic operators recently privatised (e.g.: steel mills, fixed telecom, electricity and gas grid operators);

- there are family business of all sizes, some of them quite large for Portuguese standards (the largest pulp and paper mill operator, the 2nd largest cement operator, the 3rd financial institution);

- there are family businesses of all legal forms, though the "plc" model tends to be used by the older and larger, and the private liability firms[13] tend to be younger and smaller;

- most of the Portuguese SMEs correspond to the loose (structural) definition of family business.

[12] Along the "structural definitions" approach. Davis, J. R. (2001)

[13] Typically start ups are formed either under the sole proprietorship model or are partnerships incorporated under the private liability firm model. Also typically, when firms attain a significant size (or are so perceived by the owners) they tend to change to the "plc" model, irrespective of being or not listed at the stock exchange. Under the "plc" status, owners feel their firm as more "institutionalised" and important.

4 Characteristics of family businesses

As noted in various sources the family business sector is characterised by a considerable heterogeneity. To compound this heterogeneity, it is frequently that many writers in this field do not define the term at all and "also frequently confuse the family business and other kinds of business, for example small businesses"[14].

In general in Portugal, the public at large can differentiate **SME**s from **larger** firms. It is also fairly common to distinguish between **foreign** (including transnationals) and **national**, within the set of the larger firms.

As to national firms, a further distinction is very common: **public**[15] or quasi-public, on one side, and **private**, on the other. Public (originally formed by the central, regional and local governments, or nationalised during the 70's) and quasi-public (recently privatised companies through IPOs of previously state-owned enterprises) are banded together as the pervasive influence of the central government is still felt, either through special mechanisms (e.g.: golden share) or as matter of fact (particularly on heavily regulated industries, such as some utilities).

The remaining category of the larger firms, the **private nationals**, is usually equated with **family businesses**. Thus, the image on the Portuguese public of a private Portuguese owned medium-sized or large company has the subjacent idea of a family business. There is also a widespread idea that such private firms are family managed, as some top executives of the more visible ones are clearly kin related to the founding family.

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Most of the differentiating characteristics attributed to the Portuguese family businesses are similar to the internationally recognised ones. Others may be specific to the country, mostly due to historical circumstances that have had direct or indirect impact on them.

The major characteristic that differentiates the family businesses[16] from others and has many consequences on the manner firms are run, is the fairly common belief of the family members currently owning, or owning and managing the firm, that the business does not belong to them, but to the next generation of the family and their subsequent heirs; so, they see their fundamental role as being the guardians of the business on behalf of future inheritors.

This conviction induces special behaviour characteristics of the family businesses, such as:

- focusing on long term strategies rather than on quarterly or annual results;

[14] Davis, J. R. (2001)

[15] In Portugal, "public" is used to mean state-owned or regional/local government-owned companies (not publicly traded companies, as in some other countries).

[16] The attributes discussed in the remaining part of this section refer to the concept of family businesses that follows the new definition proposed by APEF.

- more aversion to risk than the average firm;
- more aversion in taking debt than the average firm;
- more inclination to reinvest (or "plough back") the profits;
- adoption of mechanisms to protect family assets (e.g.: agreements to resolve family disputes and to avoid that such disputes are passed from the family system to the business system and vice-versa; creation of shelters to avoid confiscatory taxation);
- proper development and training of the family members most suited to continue the business;
- planning of the critical transition periods, such as hiring family members into the business, delegating executive power and carrying out the succession of the business;
- it is frequent that 2 firms with similar family ownership characteristics and doing business in the same supply chain tend to cultivate long-lasting supplier/customer relationships based on inter-family trust[17].

Though some of the above characteristics may not be present on many of the loosely defined group, in the Portuguese family businesses that have already endure a generation transition it is more likely than not to find most of the above types of behaviour.

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Some European tax systems that have a confiscatory nature on the transmission of assets representing company ownership have been pointed out as one of the causes for the low survival rate of family businesses. These systems, usually designed to counteract wealth accumulation, exert a financial pressure on the family businesses undermining their capital base during that intergenerational transition period, which is already surrounded by other difficult circumstances. Fortunately in Portugal this problem has been substantially minimised in 2004 with the elimination of Tax on Successions and Donations and introduction of a moderate "Stamp Tax" of 10% of the book value of free of charge transmissions between persons, which is exonerated when transmissions occur between ascendants and descendents.

This taxation change was particularly opportune, as it arrived approximately 25 years after the re-privatisation of many Portuguese family businesses (nationalised in 1974/75), that are now approaching a succession for the next generation[18].

17 Sometimes this interfamily trust also translates into marriages between members of the families

18 Esteves, J. C. (2006)

5 Institutional actors

There is only one institution in Portugal relevant to the family business issues: APEF, the Portuguese Family Businesses Association.

	Explanation
institutional features	
1. name of the actor	APEF – Associação Portuguesa das Empresas Familiares [*Portuguese Family Business Association*]
2. nature of the actor	☑ employers' organisation ☑ network/family business specific organisation (including interest groups/representative organisations/lobbies) - It is a not-for-profit voluntary membership association of companies registered under Portuguese law.
3. address	Rua das Portas de Santo Antão nº 89 1169-022 Lisbon • Portugal
4. contact person	①Mr Peter Villax, Chairman ②Ms Marina de Sá Borges, Secretary General
5. telephone	Phone: +351-213 466 088 Fax: +351-213 465 192
6. web-page	http://empresasfamiliares.pt/
7. e-mail	①pvillax@hovione.com ②marina.sa.borges@empresasfamiliares.pt
content based features	
8. name of the strategy/initiative/ regulation	MBA in Management, Governance and Succession of Family Businesses (Run by APEF in co-operation with “Fernando Pessoa University”), a private university based in Porto, Portugal[19]
9. type	☑ awareness raising measures ☑ corporate governance codes, family governance, family protocols, family constitution, family council, family assembly or similar ☑ education/training measures
10. objective	To provide family businesses with the human resources needed to support their succession needs, ensuring the continuity of the businesses through qualified leaders, managers, negotiators and strategists.
11. initiation	1st edition: Starting date – March 2008, Ending date – January 2009
12. contents/description of the initiative/measure	A post-graduation programme organised along 3 terms: Introduction: 32 training hours 1st half-year: 124 training hours

[19] Though being a new initiative, this is probably the APEF continuing programme with potential to have the largest impact in the family businesses community. Other initiatives of APEF include: (a) training programmes in collaboration with the Lisbon Chamber of Commerce in various business management subjects, such as marketing, finance, human resources, international marketing (this programme co-funded by the EU ESF and the Portuguese government and offered free to the APEF membership); (b) post-graduation course (60 class hours) on family businesses, in co-operation with the Lusíada University (a private university with several locations in Portugal); (c) seminars, conferences and other events.

	2nd half-year: 140 training hours
user based features	
13. eligibility criteria/target group	Higher education graduation (1st cycle) is a prerequisite. Participants enrolled by APEF, BES Bank (a family owned bank) and Fernando Pessoa University Alumni enjoy special tuition rates.
14. Promotion tools/information strategy	Advertising and publicity at conventional media and internet
15. source of funding	☑ others, namely: tuition fees
16. costs for participants/members	Tuition fees ranging from Euro 7,325 to 8,825.
performance based features	
17. evolution	The 1st edition is now starting. Data is not available yet

6 Future issues

As explained, the top item in the agenda of APEF is to support the adoption of a pan-European definition of “family business”.

The second major aim is to develop the country awareness as regards the positive aspects of the family businesses, now that many years have passed over the short period when family businesses were politically attacked and suffered from a rather generalised social undesirability.

During many years the representative of these family businesses kept a low profile, following the popular assertion “once bitten twice shy”. Now that many political changes have occurred in the European area and the family business is progressively being rehabilitated as a good model for companies to stay in business and prosper, APEF esteems that it is the right moment to advance the acceptance of the family business paradigm, both as a rightful and valid model for company development and as an inspiration for encouraging new entrepreneurs.

7 Bibliography

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