



## **Family Business**

**Is the number of generation in family  
businesses dependent upon  
location/country?**

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# Blueprint

## 1. Research about Germany

### 1.1 - Percentage of Family in Germany

- cultural facts
  - serious vs. emotional
  - Gender Gap and Power
- Discussion (theory vs. practice)
- legal work requirements
  - initial funds
  - permissions

## 2. Research about Mexico

### 1.2 - Percentage of Family in Germany

- cultural facts
  - serious vs. emotional
  - Gender Gap and Power
- Discussion (theory vs. practice)
- legal work requirements
  - initial funds
  - permissions

## 3. Historic & economic situation around the common founding years

State of the art (theoretical framework, advances in the field)

## 4. Reasons for different members of generations

### 4.1 - Problems in Family Businesses in General

- secrets of success

## 5. Introduction

## 6. Conclusion + Main findings

Introduction (including objectives, justification and methodology description)

→ Sebastian + Stefan

State of the art (theoretical framework, advances in the field)

→

General Content (including information from the selected individual presentations)

→

Discussion (theory vs. practice)

→

Main findings

→

Conclusion

→

Terms and definitions

→

# **1. Introduction**

This assignment will be talking about the connection between generations and locations and whether the location/country is a reason for more or fewer generations. There will be taken a closer look especially at Mexico and Germany. The facts in terms of culture and legal requirements will be shown and compared. After that, a comparison of the economic and historic situation in each country at the time of foundation will be presented. The reasons for different members in the generations in both countries will be outlined. To sum this assignment up, there will be given a conclusion at the end.

## **2. State of the Art**

With a population of 125,385,800 people, Mexico has a lot more inhabitants than Germany (80,889,500) and with that, also more businesses (Investopedia, 2016). Most of the 4,926,061 businesses in Mexico are family controlled and the biggest industry is Food & Beverages. Most of the companies in Germany are family influenced as well and the biggest sector is the automobile industry. These statistics show, that both countries, although they are different in size, population and leading industries, are run by family controlled businesses (Merca 2.0, 2015; Statista , 2016).

German family businesses are famous for being global, and they have a very big influence on the Balance of Payment of the country. With a Balance of 283,3 Billion USD, Germany is an exporting country and the family businesses are exporting a lot as well. That shows that German family businesses are not afraid of taking risks and this is an indicator for the success of family businesses in Germany. (Index Mundi, 2016)

Family businesses in both countries have several advantages over normal, private businesses. Invested money for example is patient, that means, when they invest they think in years and decades. This is an advantage when it comes to product development.

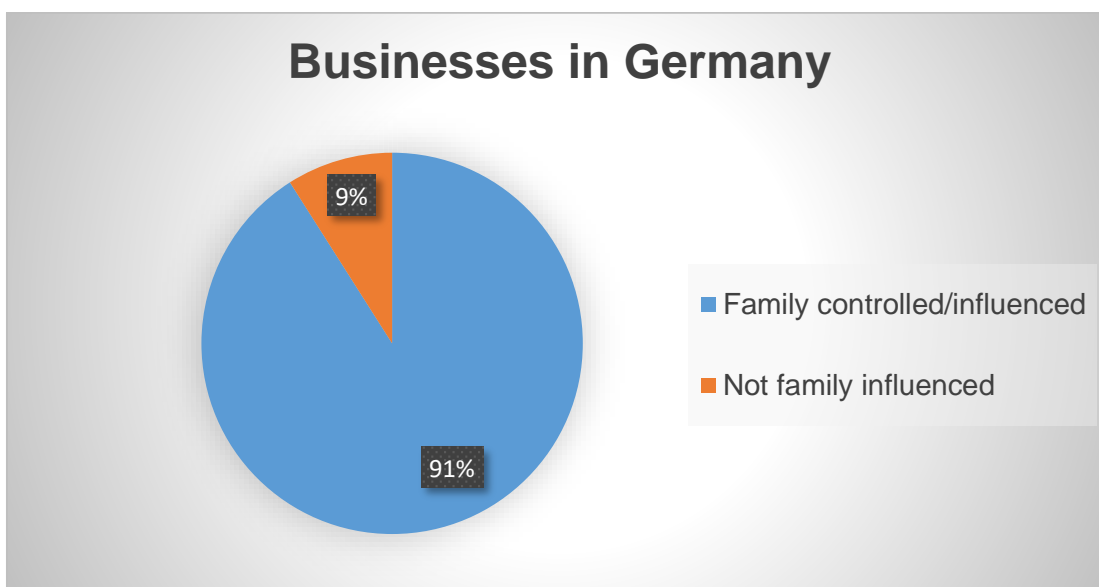
Experience is another advantage, because older generations can help the younger ones, not high experienced generations in the decision-making process or while searching suppliers. With a long tradition in the family, these experiences are passed down through all generations of the business.

### 3. Research about Germany

With a GDP per capita of 41,219 US Dollar in 2015 (The World Bank, 2015), Germany is one of the leading economic countries in the world. But Germany had to go through hard times in the past. During World War II, many big family businesses in Germany had to produce weapons for the army (Kuhn & Thiel, 2009). After the Second World War, the whole country was destroyed and the economy and the infrastructure was completely shattered but with the help of other countries, Germany was able to rebuild itself. The result of this investment was the so called "Wirtschaftswunder" and the economy started growing above-average and due to this fact also the family businesses expanded enormously.

#### 3.1. The importance of Family Businesses in Germany

Table 1



"Ein Deutschland ohne Familienunternehmen ist nicht mein Deutschland" (Dr. Merkel, 2008).

This quote of the German Chancellor describes how important family businesses are in Germany and it says, that a Germany without family businesses would no longer be her Germany. 91% of all private companies are family controlled. These businesses employ 56 % of the employees in Germany and achieve 48% of total turnovers in the country (Stiftung Familienunternehmen, 2016).

This statistic shows, that family businesses are the most important form of companies in the country and furthermore, 45% of the family controlled businesses in Germany are quoted on the stock exchange market.

Germans in general are regarded as very serious people and this attitude influences the businesses (Barthels, 2007). Decision making is mostly based on facts and numbers. It is not usual in Germany to decide business matters focused on personal affection. Emotional closeness is not the reason for passing on of the business. Power is distributed among knowledge, experience and seriousness and the gender does not matter in this decision. Caroline Marland, an Irish managing director of the Guardian newspapers said: "Always be smart enough to hire people brighter than yourself." (Marland, 1999) That's the common way of passing on the company to the next generation and it is a main aspect why German family businesses are so successful for a long time. In Germany, men and women have, also in companies, equal rights what leads to a shrinking gender gap (Stiftung Familienunternehmen, 2016; Make it in Germany, 2016).

Establishing a business in Germany is obliged to a lot of bureaucracy. You should have a business plan, to register the name and the main idea in the Register of Companies, to bring a police clearance certificate and other very time-consuming trips to the authorities. In Germany, there is not really a difference between theory and practice, because the German government insists on bringing these legal papers. Besides these legal obstacles, you have to fund your company (Kobjakowa & Kobjakow, 2000). In Germany, there are a lot of opportunities to get help from the government to receive advisory funds but these governmental funds are also obliged to bureaucracy expenditures. A common way of raising funds is the KFW (Kreditanstalt für Wiederaufbau) because the interest expenditures for the founder are comparatively low and due to the fact that the KFW is an institution established under public law, they are focused on helping new founders instead of creating profit (Andreae, 2015; Für Gründer, 2016; Kreditanstalt für Wiederaufbau, 2016).

In conclusion, it takes a lot of time to establish a company in Germany and to raise funds, but the amount of family businesses in this country shows that Germans like to create their own companies under the conditions of knowledge and respectability.

## 4. Research about Mexico

### 4.1. Brief Introduction to Business in Mexico

At the end of the second world war it seemed that some Latin American countries were in a position to complete the process of forming its industrial sector and to additionally initiate economic transformations that can achieve a self-sustainable development. It cannot be denied that at the beginning of the 1950s some assumptions in the matter of Latin American economy were made in countries such as Argentina, Mexico, Chile, Colombia and Brazil (Faletto, 1970).

Data of Mexico:

GDP/PPP (2015 est.)

US\$1,144,331.34; per capita income US\$17,276 (World Bank Group, 2016)

Main Industries:

Food and beverages; tobacco; chemicals; iron and steel; petroleum; mining; textiles; clothing; motor vehicles; consumer durables; tourism (Thornton, 2014).

Since mortality plays a role in every business, most family businesses (85%) are stuck in the first and second generation, while mature and older organizations are reduced. Around 70% of the new businesses in Mexico fail in the third year of existence.

In Mexico, more than 90% of the firms that are listed in the Mexican stock exchange (BMV) have a clear structure of family representation in terms of capital and control. That's why it's important to speak of the family members of a company, their contribution to the development of the country, as well as their efforts to support them and strengthen its sustainability.

Mexico has different types of corporations that allow the structuring of investments and starting a business in Mexico. These options can vary from legal entities to representation offices that generate no revenues. The gap between these two extremes is covered by joint venture agreements and commercial trusts.

The main legal entities (corporations) that foreign potential investors can use are established and governed by the Mexican Corporations Act (LGSM, Spanish acronym), which mentions the following types of companies:

- Business Corporation (S.A.)
- Limited Liability Corporation (S. de R.L.)



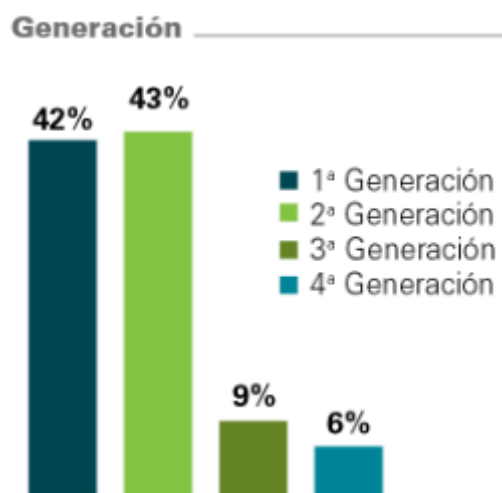
- General Partnership
- Limited Partnership

Family businesses are established almost always as a proposal of its founder's effort and desire to build a heritage and to ensure the future of their children. Sometimes, they work their way out of unemployment by taking advantage of some available assets or knowledge such as a printing press, a joiner's workshop or an inherited craftsmanship.

The fact is that when they are born in anyway planned, mortality is very high. They often lack capital or knowledge and after the first owners feel overwhelmed they let go of the idea.

KPMG specialists who have studied the issue thoroughly, explain that a family business is different to any other business by many reasons. Starting with the fact of facing the challenge of aligning the interests of the family, the property and business objectives. Afternoon or early, they must face decisions to balance these issues, including the delicate challenge design, the chain of control and a plan of promotions. Who will be the next Director: the son of the owner or a professional graduate with experience?

Further details of the NISGI indicate that the MIPYMES produced more than half of Mexico's GDP, which allows them to infer their economic importance and their contribution to the development of the country. An indicative figure is that 98.9% of all registered companies have a single establishment, in other words, lacking branches or subsidiaries.



(González, 2016)

#### 4.2. Succession: looking to the future

The last will is the best way to nominate the heirs in case of the death of the holder. While 32% of the respondents admit to have taken partial measures more than half of them (55%) are not aware or prepared for this case with a succession plan. The paradox is that these matters could be solved in a very simple way in the companies' constitution, if the partners and managers are included in the necessary documents and clauses.

### 5. Historic and Economic Situation around the founding years

In this paragraph, the German and Mexican companies that were presented in class will be compared and analyzed regarding the situation in the most common founding years economically and historically.

Table 2

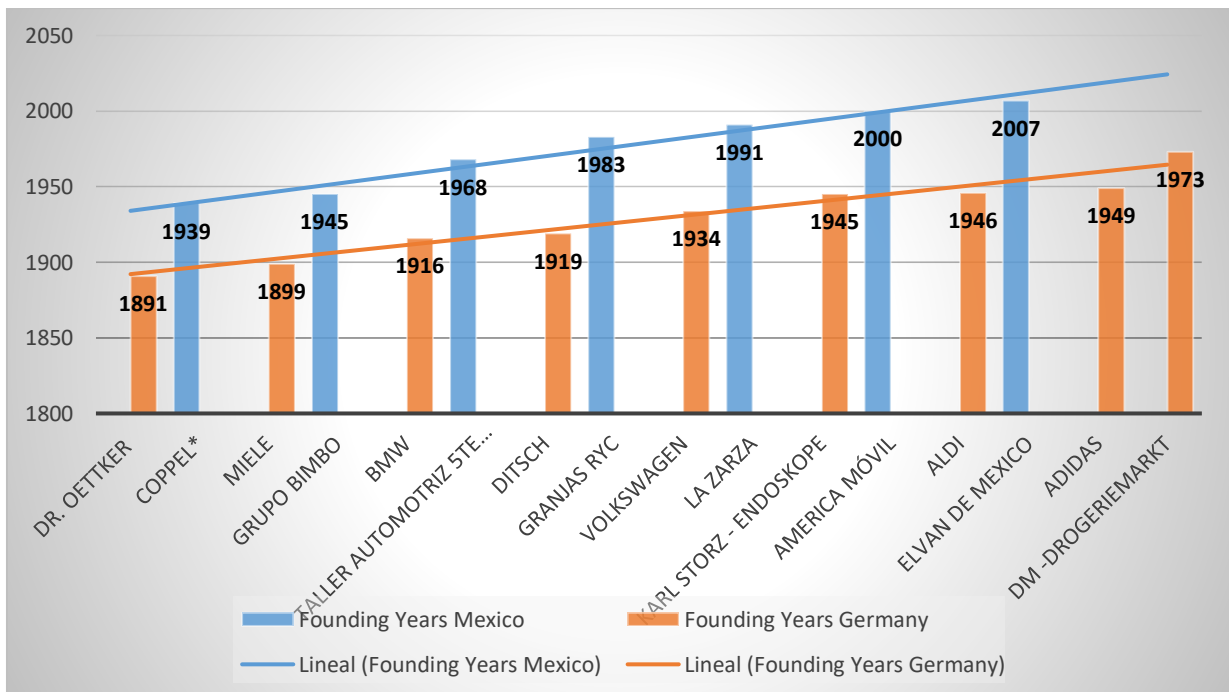


Table 3

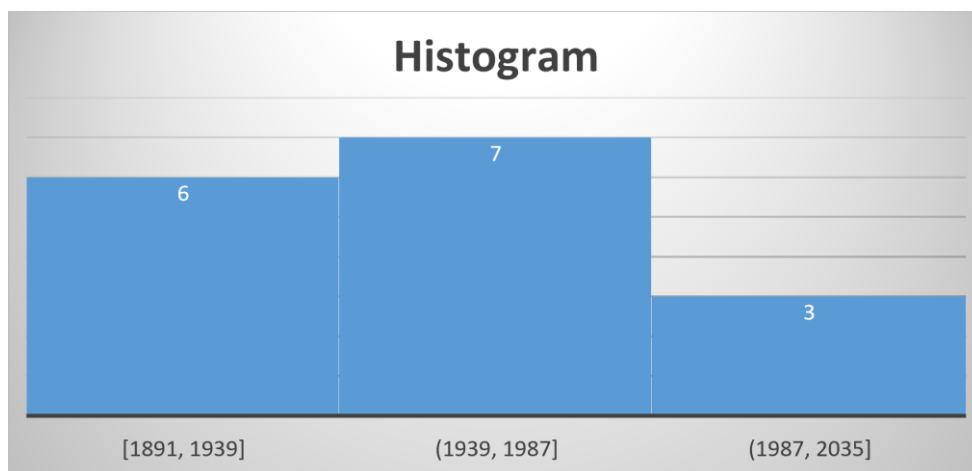


Table 3 is a result from Table 2 and it shows the distribution of the founding years. It can be seen that, most of the family businesses were founded between 1937 and 1987. Five out of the six family businesses founded between 1891 and 1937 are German. Therefore, the historic situation that will be described will be from 1939 through 1987.

As already seen in point 2. of this assignment, Germany went through World War II in which a lot of businesses in general had to participate and shift their production towards the war effort. Mexico on the other hand, had just expropriated the oil companies that were stationed there in 1938 and were selling oil to Germany and Italy. In 1941 it joined WWII and didn't suffer from as many losses in economic damage, manpower and population as Germany. In the following years, Mexico experienced the so called 'Mexican Miracle' which was an economic growth, but compared to the 'Wirtschaftswunder' in Germany, Mexico remained a poor country. In 1949, Germany was divided and officially became the Federal Republic of Germany (West-Germany) and the German Democratic Republic (East-Germany). All the presented family businesses that were founded in that time were and still are located in the western part of Germany.

The western part enjoyed great help from the allied forces after WWII. The East on the other hand became part of the communist Soviet Union, in which private property and development was hard and almost impossible to achieve. This gave the West a big advantage in developing and evolving economically as well as demographically.

To sum up this paragraph, it can be said that even though Germany suffered a lot from WWII it realized that it is important to get the economy back on track which

resulted in rebuilding itself quickly and efficient which also was a good foundation to build a business. In Mexico, however, the economic growth gave enough reason to do so as well.

## **6. Reasons for different numbers of generations**

In the following part, there will be taken a closer look at the reasons why there are different numbers of members in the same generation in Germany and Mexico. Some reasons will be found in the internal and external conflicts as well as it will be seen in the secrets of success and mission and vision.

Looking at the presentations of family businesses in Mexico and Germany that were presented in class, in Mexico a family business nowadays has an average of 2.57 generations with an average of roundabout 4,29 members right now working in it. In German has an average of 3.33 generations in a family business with roundabout 2.33 members still practicing today. This shows that the family businesses in Mexico have more people participating in the firm than in Germany but less generations. This can be an indicator for one internal conflict, meaning that too many members may have the potential to trigger or even provoke conflicts within the family because everyone might have a different opinion on how to run the business and how the succession should be managed.

While in Mexico the average birthrate is at 2.2 children per woman, it is only 1.4 children per woman in Germany (Worldbank). This is a trend that brings a shift and with that a change in demography, meaning the number of older people in relation to younger people is growing more in Germany than in Mexico.

### **6.1. Problems in Family Businesses in General**

“Conflicts and misunderstandings always exist in families and are the family businesses’ greatest enemy.” (Nasser, 2014, p.2).

The successful continuation of a family business is mostly threatened by two factors: conflict and succession. Conflicts arise because the family owners feel that their needs are not met and situations are unclear or not properly understood. It is indispensable to manage these conflicts to have a surviving business, meaning communication and conflict solving. (Nasser, 2014, p. 3-4)

By not solving or managing conflicts, family businesses are condemned to failure. Family businesses don't have to do all of this by their own. Nowadays, there are foundations and institutions that can help with solving conflicts and problems (Family Business Institute, 2016).

The question of succession is a point that is very important as well. While Mexico has more family members in its family businesses as Germany, a family business in Mexico should be more concerned about a succession plan and how suitable the heirs are to keep up a successful business. In Germany, most of the family controlled and even influenced businesses have detailed plans of all fields that must be covered in terms of succession and who will be filling an eventually empty position, who will gain how much responsibility and who will earn how many shares. Additionally, it is mandatory to have family members that are educated in their field because you cannot let someone who is only able to do the dishes do the accounting for example. But this is much easier in family businesses as in others because the whole family is completely involved in the business, most of the family members since they are born. Business matters are being discussed already at breakfast for example as well as from Monday through Sunday. (Storz, 2016)

## **6.2. Secrets of Success**

In both countries, the families are building their success by keeping the tradition in mind but Mexico is even more conservative in this point of view. While German family businesses thrive by keeping the traditional quality standards but also establishing new and innovative ways to be successful, most Mexican businesses stick strictly to their traditional ways of doing business in terms of initiating new, innovational steps for example.

As seen in the presentations in class (Table 4), the secrets of success in the presented family businesses, show some similarities as well as differences. Here, the only similarity that can be seen is management. In other columns, the secrets differ.

*Table 4*

<b>Mexico</b>	<b>Germany</b>
Teamwork (Sanchez Vasquez,2016)	Innovation (Memering,2016 & Gross,2016)
Strategy (Sanchez Vasquez,2016)	Good/maximum quality (Harbecke,2016 & Gross,2016)

Research (Sanchez Vasquez,2016)	Own cash flow for expansion (Harbecke,2016)
Management (Sanchez Vasquez,2016)	Conservative but successful management (Linkenheil,2016)
	Outstanding/central locations (Tratz,2016 & Wilhelmi,2016)
	Tradition (Linkenheil,2016 & Memering,2016)
	Dexterity of customer needs (Harbecke,2016)

Now, to bring the secrets of success together with the question of this assignment, it is to say that both countries have mostly their own strategies to be successful and sustain in the market but due to the more innovative, probable better management and succession planning Germany can look back on more structured and longer lasting family businesses than Mexico. Nevertheless, Mexican family businesses are not to be seen as unsuccessful. All this can change now and in the years to come.

## 7. Conclusion

In conclusion, it is to say, that several factors in the countries Mexico and Germany are influencing the number of generations in family businesses. Due to the fact, that there are different ways of creating a business, leading a company and passing the ownership to the next generation, the life span of family businesses is limited. While in Germany the decisions within a company is based on knowledge and facts, the Mexican way of leadership is more traditional and based on preferences. Also in terms of passing on the ownership, Mexican family businesses follow the traditional hierarchy, while German companies are mostly looking for the best opportunities for the company. Also, the conflict management is a problem for family businesses in both countries, but the biggest distinction is the governmental help. In Germany, there is a lot of help for companies provided by the government in order to establish the business, or invest in the business. This is a way of helping companies through bad economic times and this financial assistance is not the same in Mexico.

To sum it up, the number of generations in family businesses depend upon location/country. The way of thinking and acting is different and that influence the life span of a family business.

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