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FAMILY FIRMS' PERFORMANCE ON THE EXAMPLE OF LARGE ENTITIES IN POLAND[1]

Abstract

The article presents the financial situation of large family firms in Poland. In general, family businesses are identified with the small and medium enterprises, however, many researchers have confirmed that a significant number of large companies have one or several shareholders, who are mostly family members (La Porta, 1999). In Poland, the importance of family businesses is growing but researchers mainly focus on the analysis of those from the SME sector. Therefore, this article attempts to assess the financial situation of family companies which operate on a big scale.

Keywords: family business, the company, holding company, family business profitability.

Introduction

A family business has become a substantial field of research over the last two decades. Empirical studies indicate that the concentration of ownership within a family is common among listed firms and pre-dominant among unlisted firms. Furthermore it is stated that family firms substantially contribute to the aggregation of em-

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ployment and income (La Porta et al. 1999; Faccio, Lang, 2002; Astrachan, Shanker, 2003). A family business has received an increased political attention as it has been considered to be the backbone of private industry and a key target for policies aimed at increased employment and economic growth. However, there is still a significant body of research arguing that a family business is an inefficient way of organizing business activities as they put social goals, like control and nepotism, before economic goals, like profit and growth. The debate on the efficiency of family ownership is longstanding and still unsettled (Andersson et al., 2016).

The aim of the article is to assess the ownership structure and the financial situation of large family companies. The basis for the analysis was the national survey conducted on 1452 companies in 2010–2016. The data of 49 was analyzed in order to determine profitability of large family business, using the following ratios: Return on Equity, Return on Capital and Return of Sale.

1. The Literature Review on a Large Family Business

Despite the important role of family entrepreneurship in the global economy, there are still serious problems with defining family firms. Although in 1989 W. Handler stated that 'defining family businesses is the first and most obvious challenge that family business researchers have to face' and after nearly 30 years this challenge still remains valid (Handler, 1989).

Family companies constitute a very diversified research group, which contains entities that are different in terms of size, type of activity, length of functioning on the market or development stage, and thus there is the lack of a precise definition. In the literature, there are several dozen definitions resulting from many approaches to the problem of identifying family businesses and even in the same country there are various interpretations that make it difficult to compare and analyze the obtained results, often making international comparisons impossible. Due to the fact that the term "family business" is so subjective, research is also subjective because it pertains to a specific research group or case studies of chosen companies.

Most researchers tend to consider a family business a unit in which two or more family members share work and property. The domination of the family in the ownership can take different forms depending on the share in assets: over 50% of shares in the small and medium-sized entities, but only 20% or even 10% in the case of large enterprises. The European Commission specifies that a listed company is family-owned if the person who created it or acquired its shares owns at least 25% of the voting rights granted on the basis of the shares held. Thus, the very method of determining the level of family ownership in a company causes definitional discrepancies (Surdej, Wach, 2010).

In the light of the above literature analyses, the Author has adopted the following definition of large family businesses: The family enterprise is an entity in which at least one of the family members is involved in the management and/or supervision over the company and the whole or decisive capital is in the possession of the family (at least 25%).

As previously mentioned, family enterprises can be both large international corporations and very small business entities. However, many international surveys confirm that a significant part of the large companies in the world have one or more shareholders who are family members. It indicates that family ownership is more widespread than it was expected. For example, the surveys on the US companies show that over 35% of companies in the S&P 500 Industrials Index are family companies and that families control almost 18% of their assets. Research by S. Klein and R. La Porta confirms the intuitive assumption that the share of family enterprises in all entities decreases with the increase of their sizes (Klein, 2000; La Porta, 1999).

Family firms are often thought of as characteristically different from non-family firms, and the economic implications of these differences have sparked off an intense academic debate. In the subject literature, there are many analyses indicating the differences between family and non-family enterprises, especially in such areas as ownership, management and their profitability.

A prominent stream of research shows that family firms may outperform non-family firms around the world (e.g., Anderson, Reeb, 2003). While investigating the performance differences between not only family and non-family firms, but also among family firms, studies also draw attention to different family involvement configurations (e.g., founding family control vs. descendant family control, family vs. non-family CEO, the degree of board independence, and family firm types), which may lead to performance differences not only between family and non-family firms, but also among family firms as well (Anderson, Reeb, 2003; Villalonga, Amit, 2006). Research to date shows that these different configurations of family ownership and management can be associated with firm value positively or negatively or exhibit no relationship (Memili, 2015).

Some researchers appeal to family businesses to operate in a non-family business, which would increase their efficiency. Their arguments concern the scope of "professionalization". For instance, J.I. Martínez et al. stated that "when family-controlled companies professionalize their governance and corporate governance and face minority shareholders, they can overcome most of the traditional weaknesses and use their strengths to succeed" (2007, s. 90). They compared 100 Chilean family companies and 75 non-family enterprises listed on the capital market in 1995–2004, using ROA, ROE and Tobin q indicators (Martinez, Stoer, 2007). In their research, however, they confirmed that public family companies operate better and more efficiently than public non-family companies. Chilean public family companies achieve significantly better results than non-public public companies and have greater potential to create value.

Research conducted in 2005 on German and Spanish enterprises by P. Jaskiewicz's team showed that greater family involvement is associated with higher long-term effectiveness of companies (Jaskiewicz, 2005).

Di Pofi (2003) analyzed, using data from the American Family Business Survey, the relationship between family and managerial satisfaction with the financial results of the surveyed entities and observed a positive correlation of these factors, whilst Dudaroglu (2008) examined the Turkish family-owned automotive industry and observed a positive correlation between family participation and business performance.

Professionalization of a family business can take place, according to Chua et al., through the development of the area related to human resources management, regardless of whether the employee is a family member or not (Chua, 2009). Tsao et al. said that if family businesses use 'extensive recruitment and selection, performance-based rewards, training and development within the organization, enriching work and strengthening the position of employees' (high-performance work systems), they can outperform non-family enterprises and achieve better financial results (Tsao, 2009).

Stewart and Hitt analyzed 59 studies comparing family enterprises with non-family ones and created a list of differentiating features as a dichotomous approach to each criterion. The researchers indicate where, in terms of which features, family businesses can become similar to non-family enterprises, and thus professionalize their functioning (Stewart, Hitt, 2012). Nevertheless, the authors emphasize that the use of any of the characteristics indicated by the company does not automatically entail the application of others.

2. Methodology

The national survey was conducted on 1452 companies in 2010–2016. In effect, the researcher profiled family business operators' (n = 203) and received answers from one in four of them. The data of 49 was analyzed in order to determine supervisory and control mechanisms of family business. However, first step of the study was to determine the financial situation of the examined group.

The next stage of the financial assessment of the large family companies was the evaluation of their effectiveness. For this purpose, the most popular indicators were applied: return on equity, return on capital and return of sale. Profitability ratios are among the most commonly used measures in comparative studies concerning the results of family enterprises.

Return on equity (ROE) is a measure of the company's performance useful for shareholders as it illustrates the company's ability to generate profit from every single zloty of equity. The formula of this ratio is as follows (Waśniewski, Skoczylas, 2004):

$$\mathrm{ROE} = \frac{ZN}{KW} \times 100$$

Where:
ZN – is net profit,
KW – is equity.

The return on capital (ROC) is the most synthetic measure of management effectiveness assessment, because it is a measure of the effectiveness of the entire capital invested, independent of the capital structure. The formula of the ROC indicator is as follows (Waśniewski, Skoczylas, 2004):

$$\mathrm{ROC} = \frac{ZN + Ods}{AO} \times 100$$

Where:
ZN – is net profit,
Ods – is interest,
AO – is capital invested (assets).

The return of sale (ROS) ratio is calculated as the quotient of the net profit generated by the company and the value of the income from sales. The obtained result informs about the extent to which a given sale is profitable, i.e. whether the company gained on one zloty achieved sales revenue (net profit margin). The ROS indicator formula is as follows (Waśniewski, Skoczylas, 2004):

$$\mathrm{ROS} = \frac{\mathrm{ZN}}{\mathrm{PS}} \times 100$$

Where:
ZN – is net profit,
Ods – is interest,
PS – is sales revenues.

In the effectiveness assessment the most problematic is to measure profitability in enterprises that generate loss. In enterprises with a net loss, and at the same time with negative equity, we get a positive value when calculating the ROE, which does not mean a positive financial situation of the company.

3. The Profitability Analysis of the Large Family Companies

Most of the surveyed enterprises conducted business activities in the form of a capital company (35% limited company and 39% stock company) and operated in industry (55%). A major part of surveyed entities had operated on the market for over 10 years (86%), and 9 of all companies for over 30 years (18%). Over 80% of the surveyed family enterprises employed from 250 to 1000 employees and less than 20% more than 1000 employees (41; 9 entities).

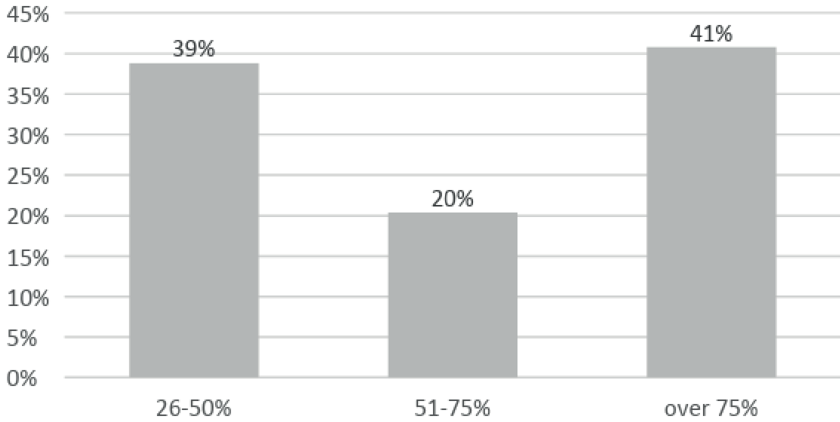
The family ownership in large family businesses was later analyzed with the following results:

– nearly 40% of companies are those where the family has over 25% of shares and not more than 50%,

– over 20% of family firms have family ownership up to 75%,
– and over 40% of research entities have shares in excess of 75%.

Family property was in the hands of 1-3 people and in almost 60% of cases the share accounted for more than 50% of the company's property (figure 1).

Figure 1. Family participation in ownership of the research companies



Source: own calculation.

Table 1 presents the average net profit or loss achieved by the analyzed large family businesses in 2010–2016 (in PLN thousand). It can be observed that after deterioration of the average results of the group in 2011, the profits achieved up until 2015, after which the results increased again.

Table 1. Net profit in the surveyed group of enterprises (in 2010–2016 in PLN thousand)

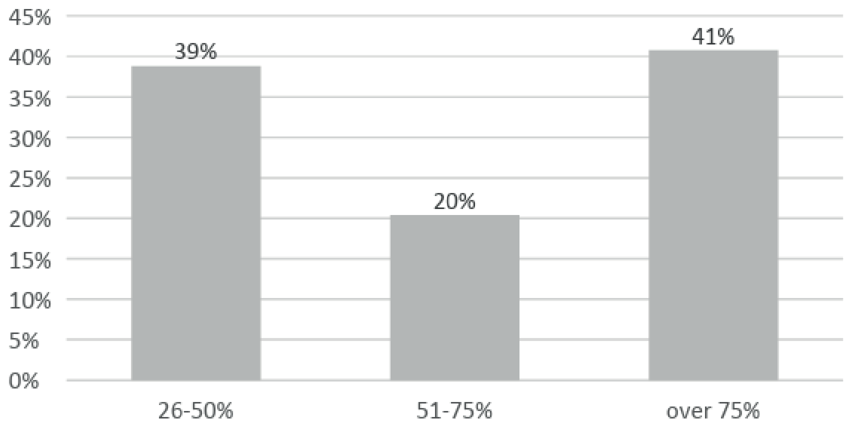
Year	Arithmetic average (M)	Minimum	Maximum	Standard deviation (SD)
2010	6435,00	–5555,00	67 203,19	12 241,60
2011	2699,46	–42 684,00	32 349,85	9681,05
2012	4484,270	–29 255,4	10 2246,6	17 878,96
2013	5792,72	–26 685,90	139 519,00	22 302,89
2014	6224,54	–9521,00	48 183,72	10 890,26
2015	2431,49	–98 370,00	25 577,90	17 992,25
2016	443,18	–197 818,00	59 440,29	37 439,84
2016 (kor)	6638,85	–11 221,00	59 440,29	11 804,69

Source: own calculation.

The average results of the surveyed group of enterprises revealed the cases of companies that incurred a loss. This change is particularly visible in 2016, when one of the companies recorded a loss of nearly PLN 200 million. Therefore, the average net profit results were adjusted by rejecting the extreme results.

The results of the adjusted net profit or loss recorded by the surveyed entities are presented in figure 2.

Figure 2. Adjusted net profits/losses in large family companies in 2010–2016



Source: own calculation.

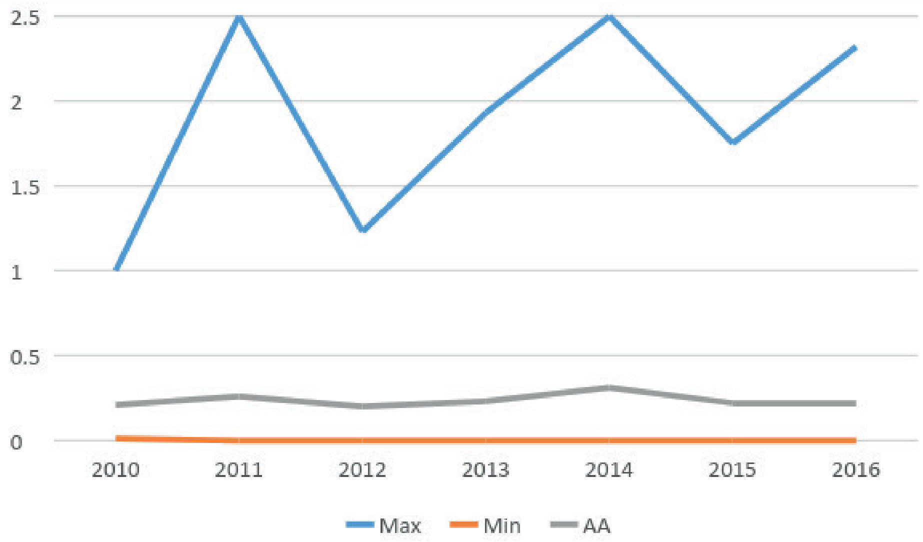
In the assessment of the financial situation of the surveyed group of large family enterprises, three profitability ratios were applied: ROE, ROC and ROS, which were analyzed in the period 2010–2016.

Due to the fact that it is difficult to apply profitability ratios to measure profitability in enterprises that generate losses, only positive values were adopted in the profitability analysis of the analyzed indicators. The average levels of indicators are presented in figures 3–5.

In the years 2010–2016, the analysis of ROE shows that of all the studied companies as many as 12 deficit companies were found, and 37 companies achieved profitability. The profitability of equity for the entire period was significant, only in 2014 the analyzed entities achieved a profitability above 30%, in other years

ROE was over 20%. Average profitability, after eliminating the deficit companies, amounted to 24%. In 2016, the financial situation, including the return on equity of the surveyed family companies, was the same as in 2015, which meant a significant decrease (9 percentage points, pp.) in the average level of profitability compared to the best 2014.

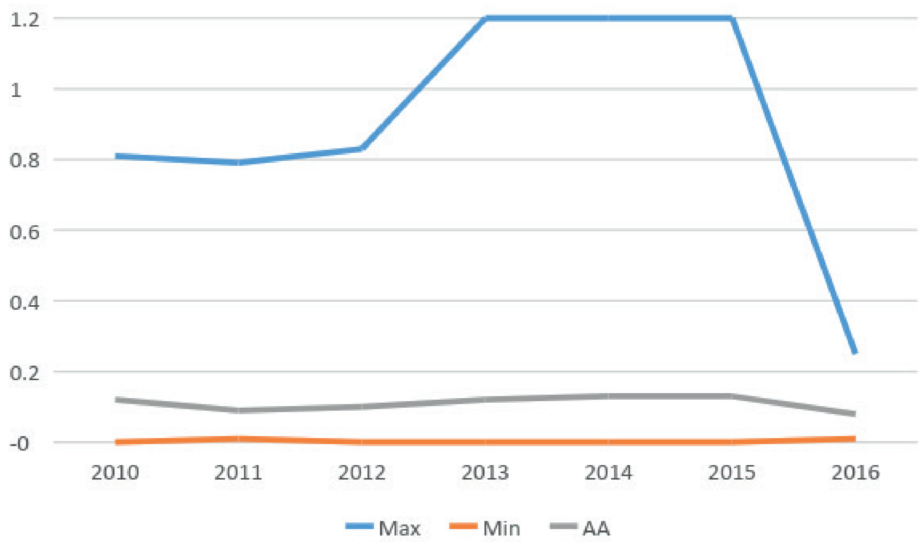
Figure 3. Average level of return on equity (ROE) in large family companies in 2010–2016



Source: own calculation.

The second indicator, the assessment of the profitability of invested capital (ROC), informs about the efficiency of invested capital, both own and foreign. In the analyzed period, the surveyed entities achieved ROC on average at the level of 11%, with the best average results of the company's profitability in 2014 and 2015. In 2016, the average values decreased by 5 pp.

Figure 4. Average level of return on capital (ROC) in large family companies in 2010–2016

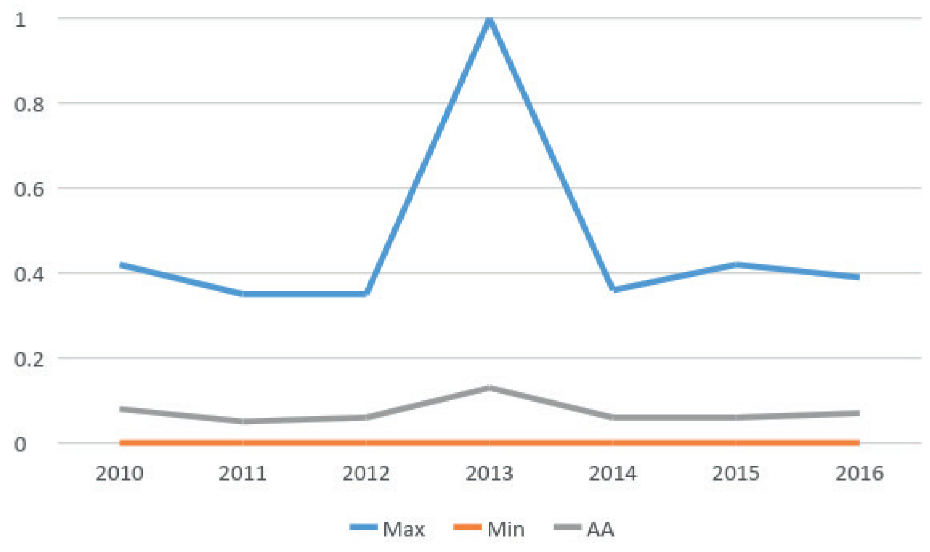


Source: own calculation.

Comparing the average values of profitability of the invested capital with the average values of return on equity, one can see lower values. This means that the surveyed companies used external sources of financing through the use of financial leverage. Thus, they generated additional units of profit by increasing the return on equity.

The average return of sales ratio in the analyzed group of entities showed that this level was quite low. Only in 2013, the average value was 13%, and in the subsequent years the average values decreased to 6%. Throughout the study period, the level of volatility in the average values of the profitability ratio was very large.

Figure 5. Average level of return of sale (ROS) in large family companies in 2010–2016



Source: own calculation.

4. Conclusions

The analysis of the financial situation of the group of large family enterprises in 2010-2016 showed that an average of 25% of them recorded a net loss in the analyzed period. The analysis of profitability levels for entities with profit revealed that on average the return on equity was the highest. ROE to ROC comparison indicates the occurrence of the effect of financial leverage, which was reflected in the increase of the return on equity of the company due to the use of foreign sources of capital.

Considering the size of the surveyed enterprises and their concentrated family ownership, it seems appropriate for their effectiveness and indicates a well-accepted model of functioning. The accepted interpretation is also confirmed by 13% average level of profitability of sales.

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WYNIKI FINANSOWE PRZEDSIĘBIORSTW RODZINNYCH NA PRZYKŁADZIE DUŻYCH PODMIOTÓW W POLSCE

Streszczenie

Firmy rodzinne zwykle są identyfikowane z małymi i średnimi przedsiębiorstwami. Jednak wielu badaczy potwierdziło, że znaczna część dużych firm ma jednego lub kilku udziałowców, którzy w większości są członkami rodziny (La Porta, 1999). W Polsce rośnie znaczenie firm rodzinnych, jednak badacze skupiają się głównie na analizie tych z sektora MSP. W artykule podjęto zatem próbę oceny sytuacji finansowej firm rodzinnych, które działają na dużą skalę.

Słowa kluczowe: firmy rodzinne, rodzinne grupy kapitałowe, analiza efektywności przedsiębiorstw

Kody JEL: G30, G31, G33