

## Financial and Economic Factors Affecting the Entrepreneurial Characteristics of Small and Medium Family Enterprises

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**Abstract:** The small and medium enterprises (SMEs) constitute the most important maintenance inside the economy of the municipalities in Mexico, thus his high impact affecting the generation of both, employment and production. According with statistical information, in Mexico there are approximately 4 million 15 thousand enterprises, which 99.8% is MSMEs that generate 52% of the Gross Domestic Product (GDP) and 72% of the employment in the country. For the importance of the SMES it is important to do actions to improve the economic environment and to support directly to the companies, with the intention of creating the conditions that can contribute to their establishment, development and consolidation. Nowadays it is possible to observe that one does not see the opening of new companies due to a series of obstacles which the businessmen meet for the lack of knowledge of how to perform the necessary procedures for their entrance into the entrepreneurship and local economic market.

**Key words:** economics; finance; entrepreneurship; SME

**JEL code:** M2

### 1. Introduction

Today small and medium family businesses are struggling to stay in the commercial and industrial market. For this, they must be further strengthened in the commercial sector as competition is one of the major factors affecting the way that companies are located and to increase or decrease their growth within the market. In Mexico the lack of funding is regretted but still they continue to survive. In the present research an analysis of the Small and Medium Enterprises (SMEs) of a Mexican city was made in 2013, using questionnaires to experts in the area to know which is the cause that stops the growth of SMEs in the city.

The concept of the company according to the elements that compose it and the unit given to them is as follows, is the economic and social unit where capital and manpower are coordinated to achieve production of goods and services that satisfy a market. Jay (1967), defined as institutions for the effective use of resources by a government (board) to maintain and increase shareholder wealth and provide security and prosperity for

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employees. Classification published in the Official Gazette of June 30, 2009, according to Table 1, establishes that firm size is determined from the obtained number of workers multiplied by 10%; plus the amount of annual sales by 90%. This figure should be at or below the Maximum Combined Top of each category, ranging from 4.6 in the case of micro, to 250 for medium.

**Table 1 Stratification Sized Enterprises in Mexico**

Stratification				
Size	Sector	Range of number of workers	Range of annual sales amount (mp)	*Maximum limit combined
Micro	All	Until 10	Until \$4	4.6
Small	trading	From 11 to 30	From \$4.01 to \$100	93
	Industry and services	From 11 to 50	From \$4.01 to \$100	95
Medium	Trading	From 31 to 100	From \$100.01 to \$250	235
	Services	From 51 to 100	From \$100.01 to \$250	235
	Industry	from 51 to 250	From \$100.01 to \$250	250

Note: \*Maximum Combined Top = (Employees) × 10% + (Annual Sales) × 90%

The firm size is determined from the score obtained according to the following formula: Score company (number of employees) × 10% + (Annual Sales Amount) × 90%, which must be equal to or less than the Top Maximum Combined category.

It was considered as the initial hypothesis that employers would point as the main cause for good growth the opportunity of financing to entrepreneurs and not knowing the requirements that need to be met to carry out the start of operations. The study was applied to employers who have 11-30 workers and from 30-100 workers into their hands respectively, according to the stratification published in the Official Journal of the Federation (2009).

Problem statement: This research aims to identify the problems that entrepreneurs face when they wish to establish a business and how to solve them. All these problems arise from lack of information on what procedures to follow for the registration with the corresponding authorities. Problems related to the lack of vision for what they want to implement, lack of planning on the business to be undertaken will also rise.

Hypothesis: According to the foregoing, the following hypotheses are proposed:

H1: Lack of funding is one of the main causes that stops the growth of SMEs.

H2: entrepreneurs are not aware of the procedures to be carried out to register their company with the appropriate authorities for funding.

According to all these problems the research question arises:

What is the problem with the entrepreneurs of small and medium businesses interested in establishing their business face?

Objectives: The overall objective is to identify problems that entrepreneurs of small and medium enterprises who wish to settle in the municipal market are facing. And as specific objectives are: Display problem before which call forth Hakkar entrepreneurs face when wanting to start a business and promote economic growth of SMEs.

As specific objectives are: Display problem with which these entrepreneurs face when wanting to start a business and promote economic growth of SMEs.

Justification: The justification of this research is to find the cause of the decrease that SMEs have recently had in the town, this way one can find that companies do not have adequate procedures to the tax authorities. That is the reason why they have great conflicts within them, which means that the company does not have a good end.

Conflicts cannot be listed because they are too many to be enlist, but this research tries to present the most important or those who are.

## **2. Literature Review**

Family businesses are formed by members of the same family, being these who also have enough capacity to guide them to success, values that predominate in these businesses are just the product of beliefs, expressions, culture and social relations between its members. Values are also a very important point for the family business to continue in the market, since most of them are similar to the life of a human being are born, grow, mature and die (Gallo, 2008).

It is therefore important to analyze the study of family businesses, because they are very vulnerable to failure over time as reflected in the survival rates of these companies. Gallo (2008) mentions that there are records which indicate that only the first and second generation have a 30% survival and that only 10% to 15% of family businesses reach a third generation. The changes that take place over time and generations are vulnerable points in the life cycle of these companies, as they tend to be the main reasons why family businesses tend to fail in the growth and continuity.

Family businesses have certain advantages as already been mentioned as having a greater vision of the company in the long term, greater commitment, dedication, greater participation in decisions and faster solution and staff turnover is reduced staff and therefore agency costs are reduced. Also this type of organization have certain characteristics that distinguishes them from non-family businesses such as (1) these companies have greater economic participation in most countries. (2) but also they are more likely to disappear (Barugel, 2005).

For Mexico, family businesses represent an opportunity to create new jobs, and there by supports the economy of the community, and are also involved in increasing the economic structure of the nation (Neubauer & Lank, 1999). This is why we must support; promote these businesses, and its continuity, since they are the future of many young people and there is a possibility that they can continue with the family business. In other words, the closeness that young people have with family organizations and their efforts to contribute to the strengthening are very important factors for the survival of this kind of business.

The concept of enterprise in general, according to the elements that compose it and the unity to be given to it is this. It is the economic and social unit where capital and manpower are coordinated to achieve the production of goods or services that satisfy a market. Jay (1967) defines it as Jay (1967) defines it as “Institutions for the effective use of resources by a government (the board) to maintain and increase shareholder wealth and provide security and prosperity to the employees”. According to the Dictionary of the Royal Spanish Academy is defined as “An entity composed of capital and labor, as factors of production and devoted to industrial, commercial or services, for profit and the consequent responsibility”.

Valdivia (1963), defined it as the economic and social unit in which capital, labor and management are coordinated to achieve a production that meets the requirements of the human environment in which the company operates. Fernández Arena (1977), mentions that it is the productive unit or service, constituted as practical or legal issues, by integrating resources and uses management to achieve its objectives. In its commercial or economic meaning the company is composed of capital and labor as factors of production devoted to industrial, commercial or services for profit and with responsibility (Rodriguez, 1996).

In economics, is defined as the economic operator or autonomous unit of control and decision, using inputs

or factors of production transforms them into goods and services or other inputs. This is not a legal entity but an organization that has defined objectives, such as profit, the common good or charitable purposes, and to which it uses factors of production, producing goods and services (Sepúlveda, 1996).

From a fiscal point of view in his article 16° last paragraph of the Tax Code of the Mexican Federation defines the company as “the natural or legal person performing the activities referred to in this Article, either directly through financial trust or through third parties; per establishment means any place of business that, partially or totally, the above business activities are developed”.

“The industrial organization, commercial, service, professional, agricultural or any other measures, generated for the regular exercise of an economic activity based on the production, extraction exchange of goods or service delivery, used as fundamental to the fulfillment of that purpose element of capital investment and/or the amount of labor, assuming the benefit in obtaining the own risk of the activity carried out” (Tax Theory and Technique, 2012).

Small and medium sized enterprises better known as SMEs are the largest generators of employment worldwide, as well as increase the economy of all the continents of the world, which is why SMEs are one of the most important variations in the growth of a state or country. According to the Economic Commission for Latin America and the Caribbean (ECLAC), the presence of SMEs in the economic structure of the region is significant, representing a significant percentage of variables such as production, employment and amount of enterprises (Martinez, 2012).

In Mexico SMEs are major generators of jobs and contribute to improving the distribution of income. Small and medium enterprises (SMEs) number about 350,000, accounting for about 95 percent of all domestic enterprises, generate 70 percent of national employment (Negrete, 2012). Given the importance of SMEs, it is necessary to implement measures to improve the economic environment and directly supporting companies with the aim of creating the conditions that contribute to the establishment, development and consolidation (SME Observatory, 2012).

The family is considered in our country, as the core on which the life of the person is rotated, but in fact this term is longer, because not only parents and children living in the same environment is limited, but it also includes more generations, as grandparents and grandchildren, these at the second and third generation. According to the term family, this comes also apply in family firms where participation is achieved second and third generations. Family businesses are considered and, when administered by a family, as what mentioned Gallo (2008), cited by De la Garza et al. (2011) defined family businesses as enterprises in which:

The family has the power of decision and also one family owned the majority of the ownership of the business. The duties and responsibilities of government and management bodies exercising power rests only in some family members. Not all members of the second generation are involved in the family business.

Neubauer and Lank (1999) argue that family businesses have important features such as the sharing with family members a vision. The qualities that characterize these businesses are the power, experience and culture. This conceptualization of family businesses has not had an integrated and comprehensive definition, as for the author these distinctive features that make these businesses are the factors that affect the objectives, strategy, business structure, and these factors are management, human resources, ownership pattern and succession.

Family businesses are characterized by cultural and traditional narrow that occur within families who run them. In family business the most energy, money and people come into the group, the main feature is the actual relationship that exist within it, on the other hand, not family businesses, are created for a business plan that is represented by shareholders, financial matters, which are in charge of providing the capital for the establishment of the business.

Planning and succession must be grounded in ideas transcending new generations. According to Gallo (2008),

states that the succession is the transfer of leadership to the next generation, the reason is that it must worked as a process and not as an event. In family businesses own members are allowed to keep control over the activities that are present within it. Most companies are similar to the existing, the sense that arises is that the firstborn is setting the rules, and the rest of the family is the one that assumes the business work (Basco, 2005).

### 3. Methodology

This research was conducted in a municipality in Mexico during the months of January to June 2013 by means of a questionnaire applied to small and medium entrepreneurs who had a maximum of 100 workers. Measuring instruments were questionnaires to business owners. To carry out this work only a multiple-choice questionnaire was applied for business owners.

Once the instrument was formulated, analyzed its structure and content, as well as how to grade the answers, a pilot test was applied to small and medium businesses in the city to analyze its reliability. It was applied to owners of SMEs in order to gather the required information.

The population size is the number of elements to be considered for the study, in this case being 789 SMEs Affiliated to the National Chamber of Commerce (CANACO) belonging to a city of Mexico on 2013. Were applied 278 to SMEs entrepreneurs in the city, previously selected according to the formula applied:

$$n = \frac{\lambda^2 PQN}{\epsilon^2(N - 1) + PQ\lambda^2}$$

Where: N: Is the size of the population.

N: Es el tamaño de la población, siendo un total de 11590 estudiantes matriculados.

n: Sample size studied.

P and Q = 1-P are unknown. For maximum uncertainty is considered: P = Q = 0.5.

$\lambda$  are unknown. For maximum uncertainty is considered: ( $\alpha$ ) prefijado: for a  $\alpha = 0.05$  representing a confidence level of 95%  $\lambda = 1.96$

Para un  $\alpha = 0.1$  representing a confidence level of 90%  $\lambda = 1.64$

$\epsilon$  is the permissible error, usually handled values of 2% o 3%

Confidence level 90% n = 278

### 4. Results

Below are graphically presented the results related to entrepreneurial activities of family businesses, according to the questionnaire applied to the own owners and relating to economic and financial factors.

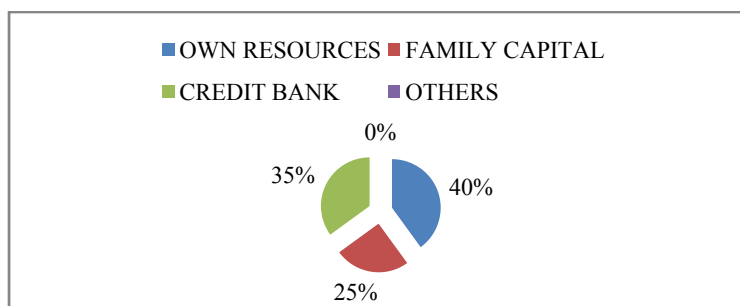
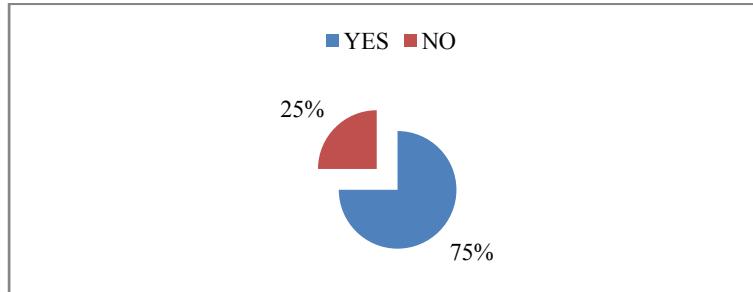


Figure 1 How Did You Start Your Business?

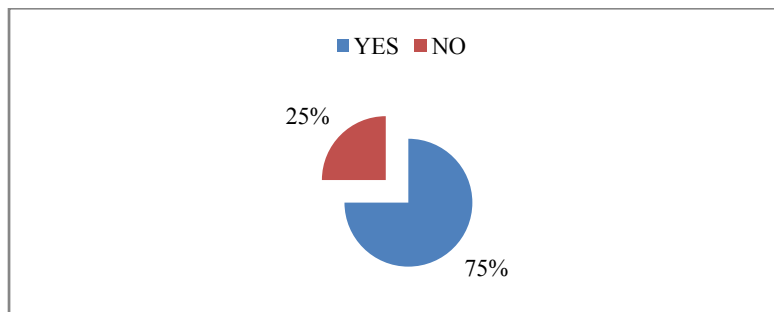
Source: The authors

The result is that most family businesses start operations with a good deal of own and family resources. This means they are the base of the opening leaving far behind the granting of a bank loan. Once the information on how to start their financial activities was obtained, they were asked whether the control activities of the business, are mainly familiar, as shown in Figure 2.



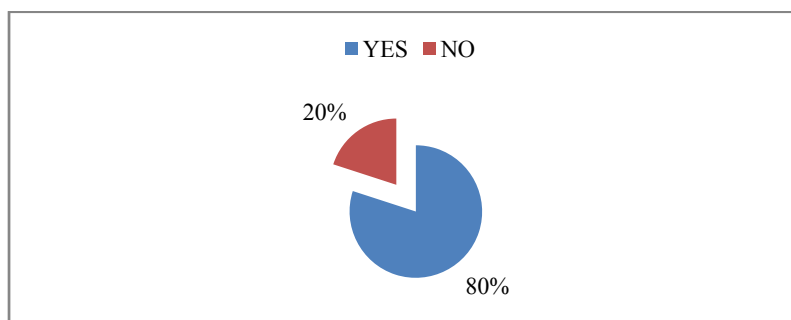
**Figure 2 Is the Main Control of the Business Familiar?**  
Source: The authors

The result shows that the main control is concentrates in the own family, which is concentrated in 75%, delegating a few other activities to the rest of the staff.



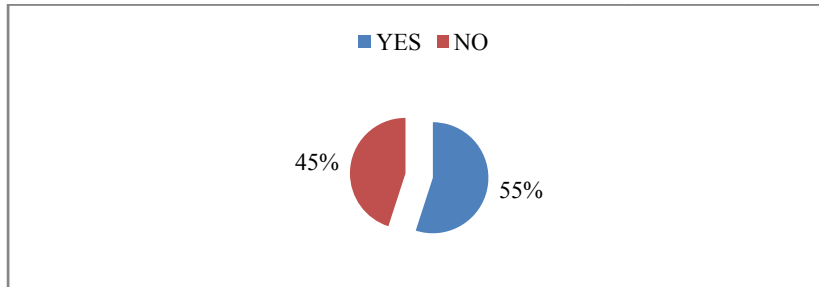
**Figure 3 Are the Main Positions Predominantly Occupied by Members?**  
Source: The authors

The result to that question shows, according to the figure above, coincides with the control activities taken in the family business, so this is consistent with the previous data. Regarding the form of budgeting the family business, they were questioned as follows.



**Figure 4 Do You Perform A Budget According to the Needs of Your Business?**  
Source: The authors

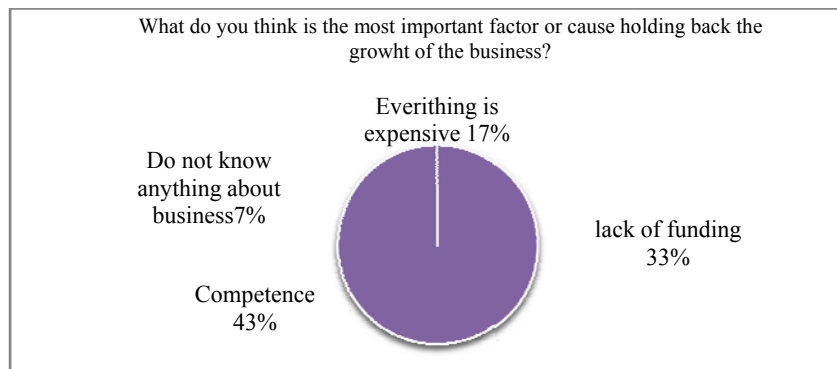
The result presented in the figure above shows that, budgeting is done according to the business basic needs required, which is consistent with the inherent requirements of family business.



**Figure 5 Do Family Members Participate in Designing the Budget?**

Source: The authors

It is important to involve the members of the family in the family business budgeting, that most of the family businesses takes them into account, as shown in the figure above.

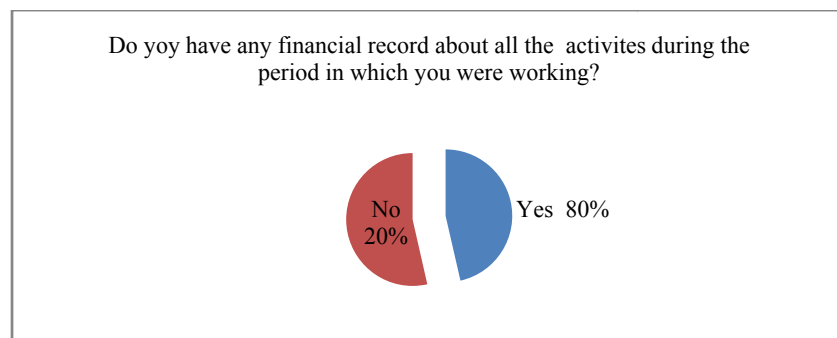


**Figure 6 Causes Holding Back the Growth of the Company**

Source: The authors

43% of businesses surveyed said that competition is very big today, 33% pointed to the lack of funding credit by financial institutions is another factor that holds back the growth of SMEs and entrepreneurship, and 20% remaining answers are varied.

Regarding the next question, they were asked if they have any financial record about all their activities during the period in which they were working, which is presented in the following figure.



**Figure 7 Financial Records**

Source: The authors

80% replied yes, what benefits them keep track of their financial activities, although only 20% said no to. This comes to give an advantage to those who perform them, because they will realize the cost that they spend for each of the activities carried out by the business, particularly in developing their budget projections.

The main result of the investigation it was found that one of the biggest problems of the owners of family SMEs is competition, one of the main causes holding back the growth of enterprises. Likewise, financing is one of the factors that affect the creation of new business as it is not easy for them to obtain a financial loan or credit, so many are turning to family capital.

## **5. Conclusions**

Applied research instruments provided extensive information. This work focuses on the most significant results slowing the growth of SMEs and entrepreneurship in SMEs in local families during the year 2013. Competition was identified as the main cause that slows the growth of SMEs in the city, said by the SME business owners. However, the economic situation is a major factor holding back growth.

As an initial hypothesis was considered that the lack of external financing was the main cause that held back the growth of the business for the lack of an adequate accounting system to allow them to develop reliable financial statements to get a loan in a financial institution. As an end-product of this research, part of the hypothesis was fulfilled as the lack of funding, is a cause that affects the growth of SMEs and entrepreneurship in new business in the city.

However, it was found that survey respondents considered competition as one of the main factors holding back the growth of SMEs and entrepreneurship, since there are now mostly Microenterprises which capture the attention and meet the needs of the general population.

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