

# **FAMILY-OWNED BUSINESS PROBLEMS: A PRE AND POST PANDEMIC COMPARATIVE ANALYSIS**

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## **ABSTRACT**

*The objective of this research is to prepare a comparative analysis of the pre and post pandemic problems caused by Covid-19. The pandemic resulted in suffering by family businesses in the service sector in the central region of the state of Coahuila. The research is relevant since 84% of the companies in Mexico are family-owned. Moreover, after the pandemic from May 2019 to July 2021, 1.6 million family-owned businesses closed their doors permanently. To obtain information, a detailed bibliographic review on the background of the pandemic and problems in family businesses is provided. An instrument was applied to 108 companies located in the central region of the state of Coahuila between the months of November and December 2022. Results of pre and post pandemic problems in the administrative area are provided.*

**JEL:** M1, M10, M20

**KEYWORDS:** Problems, Covid-19 Pandemic, Family Business

## **INTRODUCTION**

Starting in 2019, when the Covid-19 pandemic began, professionals in Mexico modified their ways of life and work. The economy in each sector is recovering at different rates, prompting entrepreneurs to reformulate their business model to strengthen their start-ups (Garduno, 2021). After the pandemic, factors that restrict the growth and development of companies are uncertainty of the economic environment, lack of confidence in economic policy, corruption, competition, non-paying customers, shortage of materials, inadequate equipment, lack of labor and poorly qualified labor (Business Pulse, 2019). The INEGI (2021) provides statistical information regarding consequences of the COVID-19 pandemic on micro, small and medium-sized companies (MSMEs). In 2021, a Study on Business Demography was carried out (EDN for Spanish Acronyms). The study showed that from May 2019 to July 2021, 1.2 million MiPymes emerged, but 1.6 million MSMEs disappeared from the market. Therefore, it is important to identify problems that family service companies face in the following areas: administrative, human capital, finance, and processes, before and after the pandemic and develop a pre- and post-pandemic comparison for family businesses in the service sector in the central region of the state of Coahuila. The work is organized as follows: review of the literature, methodology, results, conclusions and references.

## **LITERATURE REVIEW**

### Family Businesses

Mexican family businesses are economically important for the country because they generate jobs. In addition, according to the National Institute of Statistics and Geography (INEGI), there are around 4.5 million family businesses throughout Mexico, of which 99.8% are small and medium-sized enterprises

(SMEs) that are responsible for 52.0% of the national gross domestic product (GDP) (Medina & et.al, 2014). Dubois (2011) considers that family business must meet three dimensions: *Property*: A family owns the totality or large portion of the company. *Power*: One or several of its owners work exclusively or most of their time in the family business, as managers or part of the administrative council. *Ongoing Concern*: The family business has been ongoing for at least a second generation. There exists a successful transfer to the next generation and a continuity of the values in the organization of the founding family.

If it is possible to identify these three dimensions, we are in the presence of a family business. Therefore, a family business can be defined as one where the property and management are in the hands of a group of people whose members have a family relationship. Martín and Martínez (2013) argues that "family businesses are organizations with an emotional charge, the intermingling family and business creates a source of conflict". It is necessary to reduce the potential for conflict for family organizations to endure.

### Context of the COVID-19 Pandemic in Companies

The National Institute of Statistics and Geography (INEGI, 2021 ), as part of its Study on Business Demography (EDN), provides statistical data on micro, small and medium-sized companies and consequences of the COVID-19 pandemic. This type of company represents 99.8% of the total business in Mexico. In 2021, a Study on Business Demography was carried out (EDN for Spanish Acronyms) showed that from May 2019 to July 2021, 1.2 million MSMEs emerged, but 1.6 million MSMEs disappeared from the market. For informal service activities 12.3% of MSMEs failed while 6.4% formal MSMEs failed. (INEGI, 2021) .

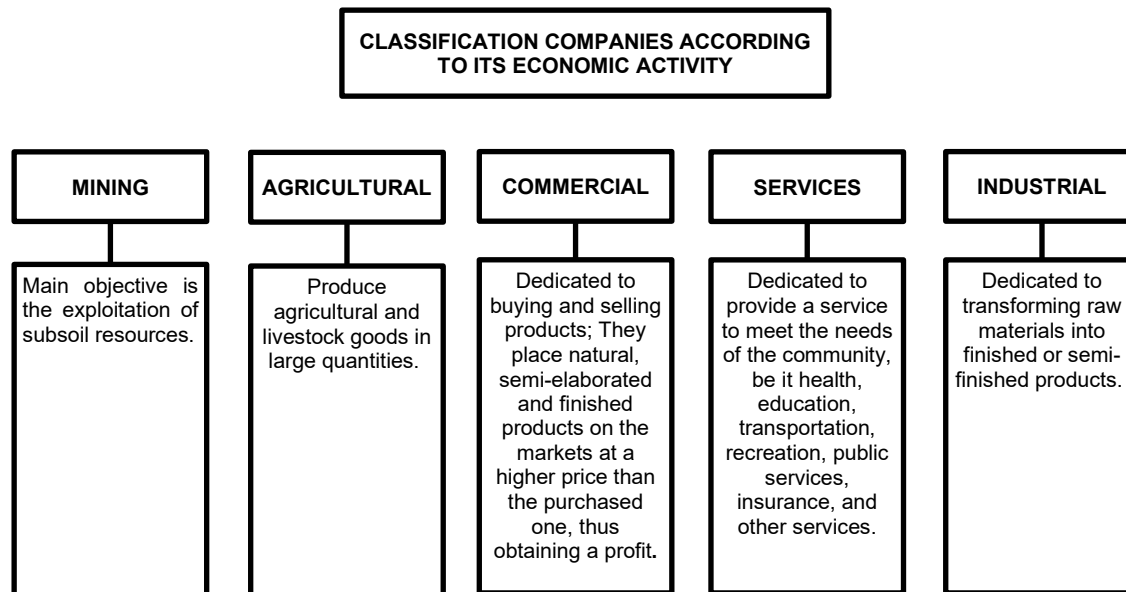
### Company Classification

According to the Hidalgo State University (2015 ), companies can be classified as shown in Figure 1 according to their activity or business as follows:

*Industrial*: They are dedicated to the production of goods through a productive process or transformation of materials to finished products.

*Commercial Companies* are firms that buy and sell. They act as an intermediary between the producing companies and the final consumer. *Service Companies* provide services and can be for-profit or non-profit. *Mining Companies* are dedicated to exploiting resources of the subsoil. *Agricultural Companies* produce agricultural goods on a large scale.

Figure 1: Classification of the Company According to Economic Activity



*This figure shows the classification of companies according to their economic activity, which can be in mining, agricultural, commercial, service and industrial activities. Source (grupo9gbi.wordpress.com/definicion-y-clasificacion-de-empresas/,2020)*

### Pre and Post Pandemic Problems of Family Businesses

Another factor holding companies back is the lack of certainty in the country. One in five entrepreneurs sees the economic situation as a factor limiting growth of their business. The percentage of entrepreneurs with sales greater than three million pesos went from 23% in 2017 to only 17% the following year. (Konfio,E., 2019). Growth strategy refers to methods or ways to achieve the objective of transforming the company structure. This is to increase its size, sales, profitability, quality or quantity of products, or improve positioning. The importance of growth strategies lies in the fact that they offer different possibilities to achieve the objective of introducing changes that make company progress possible (Ortiz, 2015). Administration is a universal phenomenon in the modern world, each organization, each company requires decision-making, coordination of multiple activities, people management, performance evaluation based on previously determined objectives, achievement, and location of several resources. The task of building an economically better society, as well as fostering expanding businesses, improved social norms, and more effective government, is the challenge of modern administrative management. (Velázquez Barron, 2018).

### **METHODOLOGY**

To achieve the objective outlined in the present investigation, a quantitative method was used. This approach compiles data based on numerical measurement and statistical analysis to identify and establish behavior patterns in the phenomenon under study. According to Hernández-Sampieri, R., Fernández-Collado, C., and Baptista-Lucio, P., (2010), the statistical-analogical method is used to quantitatively state relationships and draw conclusions based on the results. This allows us to determine and to analyze the problems faced by family service companies in the central area of State of Coahuila during pre and post pandemic. An instrument was applied to 108 companies located in the central region of the state of Coahuila between the months of November and December 2022. The number of companies surveyed is presented in Table 1, classified according to their economic activity.

Table 1: Surveyed Companies According to Their Economic Activity

| Economic Activity | Answers |
|-------------------|---------|
| Services          | 55      |
| Commercial        | 32      |
| Industrial        | 21      |
| Total             | 108     |

*This table shows the number of companies that were surveyed. The sample totals 108 and is divided by economic activity, such as services, commercial and industrial. Source: self-made.*

Data were obtained through surveys that were applied electronically with the survey management software called Google Forms®. Some 55 companies were in service activity, 32 in commercial activity and 21 in industrial activity (see Table 1). This investigation is limited only to family businesses in the service activity in the central region of the state of Coahuila. Therefore, we only present the results for this segment. The questionnaire used included questions to identify the type of problems that family businesses had before and after the pandemic. Table 2 shows the variables and indicators that guided the questionnaire design.

Table 2: Instrument Variables and Indicators

| Variable                   | Indicator   |
|----------------------------|---|
| Company sector             | Primary (Agriculture, livestock, mining and fishing).<br>Secondary (Construction, industry and manufacturing).<br>Tertiary (Trade services and transport).<br>Quaternary (ICT and Apps) |
| turn of the company        | Services<br>Commercial<br>Industrial  |
| Pre-pandemic problem area  | Administration<br>Human capital<br>Finance  |
| Post-pandemic problem area | processes<br>Administration<br>Human capital<br>Finance<br>processes  |

*This table shows the four variables that were used in the instrument, as well as the indicators to be measured in each of the variables. Source of own elaboration.*

## RESULTS

After application of the instrument, the Google Forms® database was downloaded to obtain the results and carry out the analysis and interpretation of the family service companies. The following text and tables report the results.

### Administrative Area

In the administrative area of family service companies, Table 3 presents pre-pandemic problems and Table 4 shows post-pandemic problems. Results show the main problem before the pandemic was the manager's fatal capacity to be efficient. After the pandemic the most outstanding problem is the failure to manage remote work by the administrator.

Table 3: Pre-Pandemic Problems of the Administrative Area

| Pre-Pandemic Companies Services Administrative Area |         |
|---|---------|
| Issues  | Answers |
| inefficient manager                                 | 16      |
| Manager incapable of being effective                | 17      |
| robbery ant   | 4       |
| Lack of leadership                                  | 12      |
| Documentation not delivered in time and form        | 6       |
| Total   | 55      |

In the table of family service companies in the administrative area, we find the most repetitive problem before the pandemic was: Manager incapable of being effective, with a total of 17 responses, closely followed by Inefficient manager with 16 responses of 55 companies. Source of search data analysis.

Table 4: Post- Pandemic Problems Administrative Area

| Post Pandemic Service Companies Administrative Area     |         |
|---|---------|
| Issues  | Answers |
| Small theft “Ant robbery”.                              | 6       |
| Management failure in remote work by the administrator. | 15      |
| Closing of bankruptcy operations.                       | 10      |
| No raw material suppliers were found.                   | 14      |
| Untrained staff.  | 10      |
| Total   | 55      |

In the Administrative area, table 1 shows that family service companies’ problems post pandemic are: failure to manage remote work (15 of response), No raw material suppliers (14 responses). Source data results.

Figure 2 presents problems detected pre-pandemic and post-pandemic of the 55 family businesses in the service activity surveyed. We found that business theft is the only common problem pre and post pandemic. Our results show the service sector business faced mostly different problems before and after the pandemic.

Figure 2: Pre and Post Pandemic Problems Administrative Area

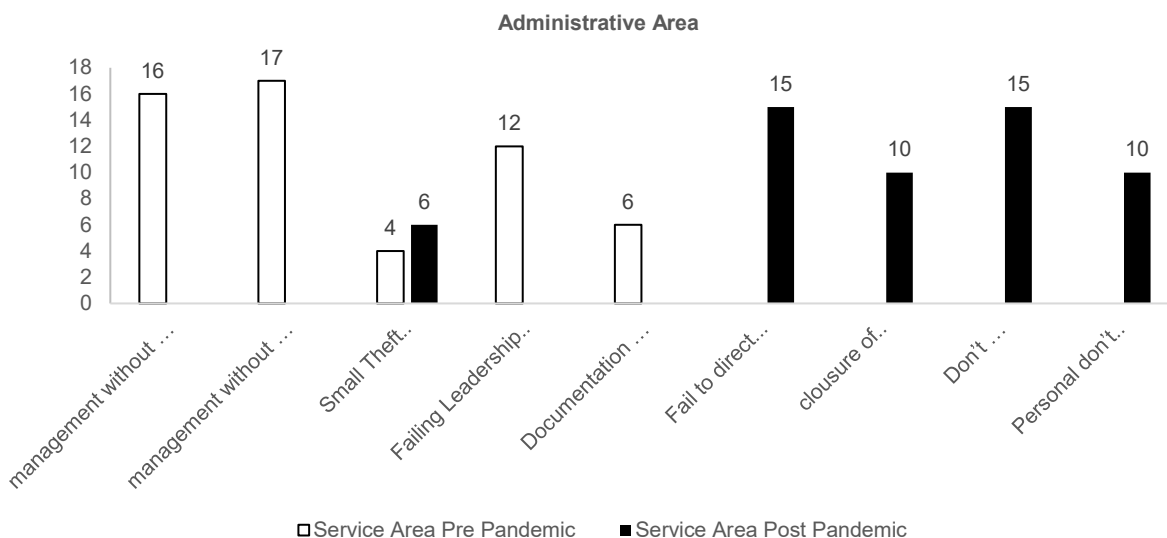


Figure 2 shows the pre- and post-pandemic problems of the 55 family service businesses that were surveyed for this study.

### Human Capital Area

In the human capital area of family service companies, Table 5 presents the pre-pandemic problems and Table 6 the post-pandemic problems. We find the main problem before the pandemic was untrained

personnel followed by employee turnover and staff. On the other hand, we find that after the pandemic staff turnover is the most notable problem.

Table 5: Pre-Pandemic Problems in the Human Capital Area

| <b>Pre Pandemic Companies Service Area Human Capital</b> |           |
|--|-----------|
| staff turnover   | 17        |
| untrained staff  | 23        |
| bad work environment                                     | 5         |
| poorly designed organizational chart                     | 5         |
| Lack of communication with the administrative area       | 5         |
| Worker disabilities                                      | 1         |
| <b>TOTAL</b>   | <b>55</b> |

*In the table of family service companies in the human capital area, the most repetitive problem before the pandemic was: untrained personnel, with a total of 23 responses, followed closely by staff turnover with 17 responses from 55 companies. Source of own elaboration.*

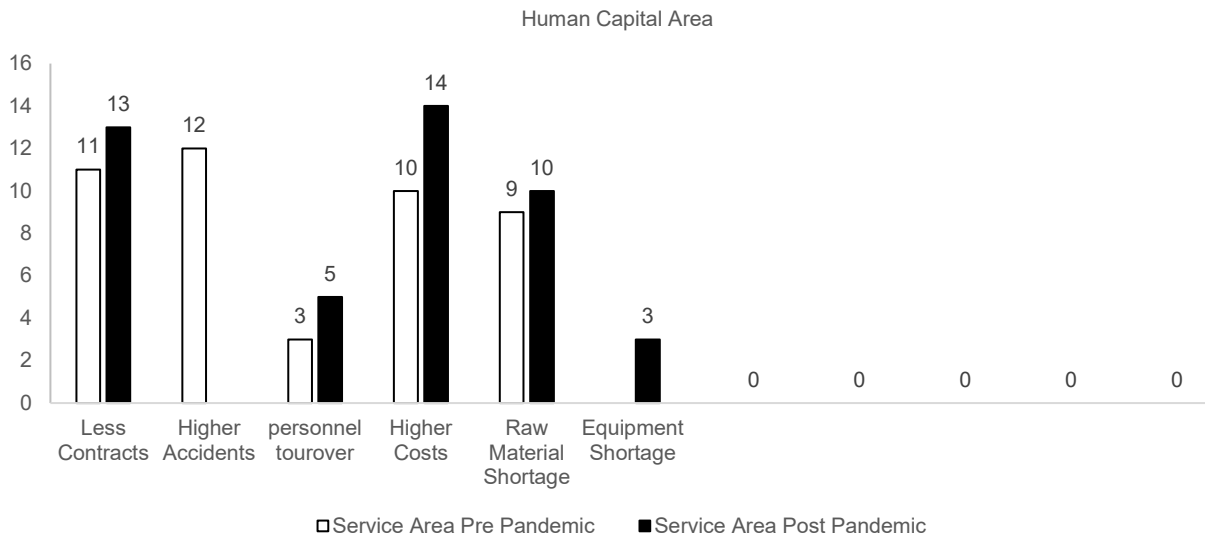
Table 6: Post- Pandemic Problems in the Human Capital Area

| <b>Post Pandemic Companies Services Human Capital Area</b> |                |
|--|----------------|
| <b>Issues</b>  | <b>Answers</b> |
| Staff turnover.  | 21             |
| There is no staff control.                                 | 12             |
| Changes in working hours due to low demand.                | 4              |
| Poor distribution of salaries according to job position.   | 3              |
| Lack of communication with the administrative area.        | 7              |
| Worker disabilities.                                       | 10             |
| <b>TOTAL</b>   | <b>55</b>      |

*In the table of family service companies in the human capital area, the most repetitive problem after the pandemic was staff turnover, with a total of 21 responses, followed by no staff control with 12 responses out of 55. companies. Source of own elaboration.*

Figure 3 presents the problems in the human capital area detected pre-pandemic and post-pandemic in the 55 family businesses with service activity that were surveyed. Three of the six problems detected remained, specifically staff turnover, the lack of communication in the administrative area and the inability of workers. We emphasize that after the pandemic the biggest problem is staff turnover with a considerable increase in staff incapacity.

Figure 3: Pre and Post Pandemic Problems Human Capital Area



This figure of the human capital area presents pre- and post-pandemic problems of the 55 family service companies that were surveyed for this study. Results show that after the pandemic the biggest problem is staff turnover and with a considerable increase in staff incapacity, while before the pandemic it was untrained staff. Source of own elaboration.

**Finance Area**

In the Finance area of family service companies, Table 7 presents the pre-pandemic problems and Table 8 the post-pandemic problems. We identify that the most repetitive problem both before the pandemic and after the pandemic in the Finance are: Low profits (24 responses) before the pandemic and 26 after the pandemic. Of the 55 companies surveyed, only 53 responded that they had a problem in this area.

Table 7: Pre-Pandemic Problems in the Finance Area

| Pre Pandemic Companies Services Finance Area |         |
|--|---------|
| Issues                                       | Answers |
| Services pay                                 | 6       |
| fewer customers                              | 13      |
| little profit                                | 24      |
| Mishandling of accounts                      | 6       |
| staff turnover                               | 4       |
| Total  | 53      |

In the table of family service companies in the finance area, it is identified that the most repetitive problem before the pandemic was: Few profits, with a total of 24 responses from the 55 companies surveyed. Source of own elaboration.

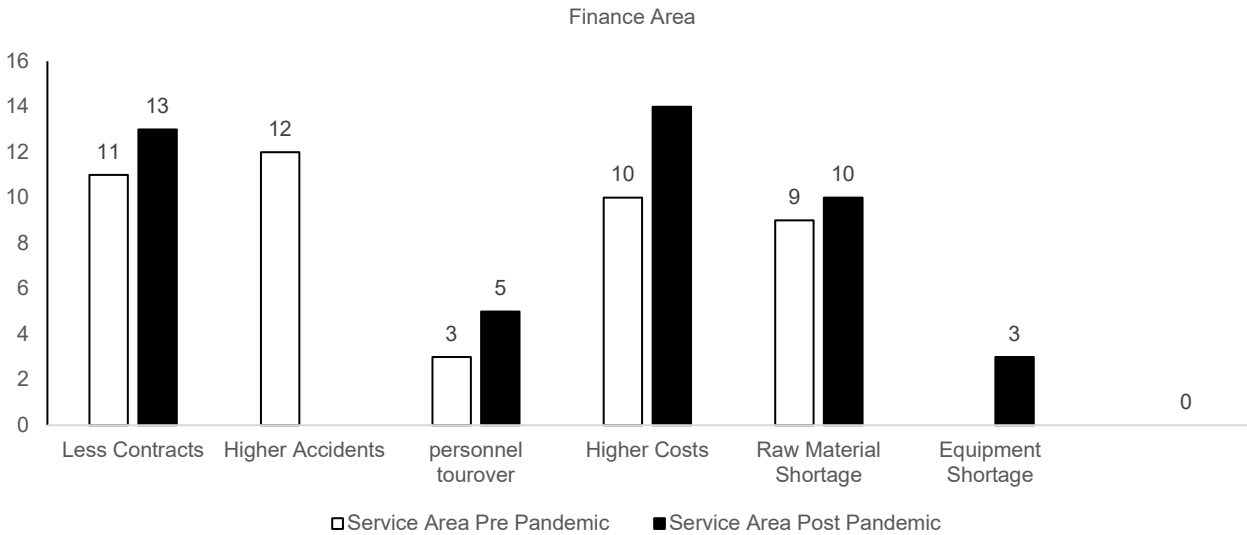
Table 8: Post- Pandemic Problems in the Finance Area

| Post Pandemic Companies Services Finance Area |         |
|---|---------|
| Issues  | Answers |
| Services pay.                                 | 9       |
| Increase in raw material costs.               | 9       |
| Little profit.                                | 26      |
| Increase in expenses for sanitation items.    | 3       |
| Staff turnover.                               | 6       |
| Total   | 53      |

This table of family service companies in the finance area, shows the most repetitive problem after the pandemic was: Few profits, with a total of 26 responses from the 55 companies surveyed, only. Source of own elaboration.

Figure 4 presents problems in the Finance area detected pre-pandemic and post-pandemic of the 55 family businesses with service activity that were surveyed, only 53 answered in this area. The figure shows the problem both before the pandemic as after the pandemic is low profits due to decreased sales triggered by staff turnover, late payments for services and confusion when managing accounts.

Figure 4: Pre and Post Pandemic Problems Finance Area



This figure of the finance area shows pre- and post-pandemic problems of the 55 family service companies surveyed for this study. Results show that before and after the pandemic the biggest problem is low profits. Source of own elaboration.

Process Area

In the processes area of family service companies, Table 9 presents the pre-pandemic problems and Table 10 the post-pandemic problems. Results show the most repetitive problem before the pandemic is an increase in accidents followed by a decrease of contracts. After the pandemic in the processes area, an increase in costs is the main problem. Of the 55 companies surveyed, only 45 responded that they had a problem in this area, the rest did not respond in this area.

Table 9: Pre-Pandemic Problems in the Process Area

| Pre Pandemic Companies Services Process Area |         |
|--|---------|
| Issues                                       | Answers |
| decrease in contracts                        | 11      |
| Increase in accidents                        | 12      |
| employee turnover                            | 3       |
| Increase in costs                            | 10      |
| Lack of raw material                         | 9       |
| TOTAL  | 45      |

Table 9 shows that for the process area repetitive problems are: increase in accidents (12 responses) followed closely by a decrease in contracts with 11 responses of the 55 companies surveyed. Only 45 participants responded that they had a problem in this area. Source data analysis



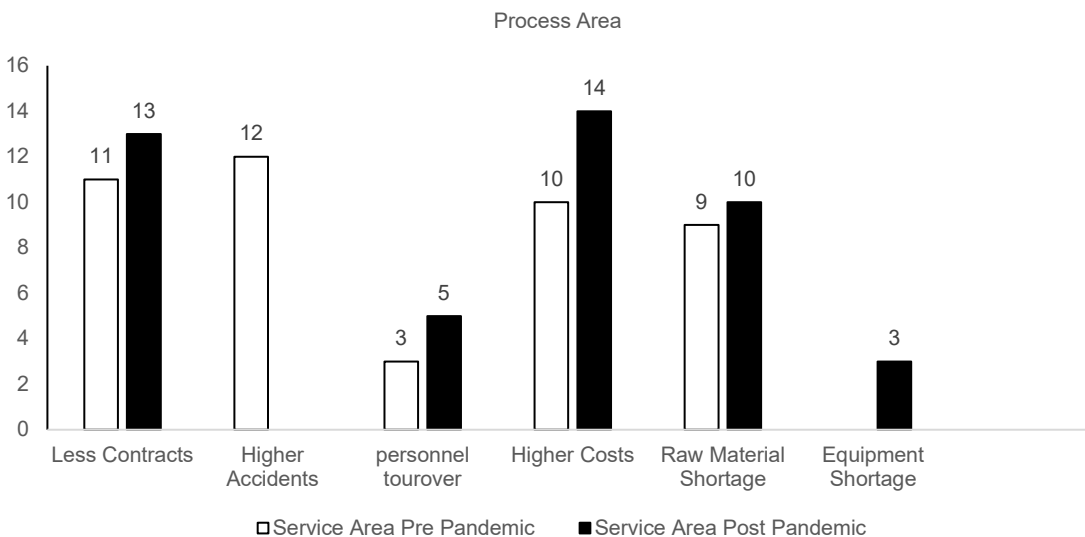
Table 10: Post- Pandemic Problems in the Process Area

| Post Pandemic Companies Services Process Area | Answers |
|---|---------|
| decrease in contracts                         | 13      |
| Failures with machinery and equipment.        | 3       |
| employee turnover                             | 5       |
| Increase in costs                             | 14      |
| Lack of raw material                          | 10      |
| TOTAL   | 45      |

*This table shows that increase in costs, with a total of 14 responses, closely followed by the decrease in contracts with 13 responses and the lack of raw material with 10 responses are the most relevant problems for companies in the service sector.*

Figure 5 presents problems in the area of processes detected pre-pandemic and post-pandemic of the 55 family businesses with service activity. We only received answers from 45 companies. We find that the increase in accidents, the decrease in contracts and the increase in costs are the most relevant problems after the pandemic. The increase in accidents disappeared after the pandemic, but the rest remained only in a different order of importance. Based on the results generated by this investigation, the way in which the government can support companies in times of crisis is by canceling or reducing the tax burden, issuing some regulatory norms for serious situations, such as the case of the pandemic. Also, funds can be created to support companies where they are provided with favorable payment conditions or symbolic interest rates, but with the commitment to pay the principal.

Figure 5: Pre and Post Pandemic Problems Process Area



*This figure shows results for the process area. The pre- and post-pandemic problems of the 55 family service companies surveyed are presented. Only 45 responded that they had a problem in this area, highlighting that before and after the pandemic the problems are the same. Only the increase in accidents disappeared after the pandemic, but the rest remained only in a different order of importance. Source of own elaboration*

## CONCLUSIONS

This paper analyzes results obtained in this investigation, which aims to prepare a comparative analysis of pre and post- pandemic problems by Covid-19 suffered by family businesses in the service sector in the central region of the state of Coahuila. We determined that problems before and after the pandemic are different in three of the four areas surveyed. Only in the financial area the problems are problems the same before and after the pandemic. This research is useful to encourage family businesses to carry out a strategic plan that allows them to get ahead after the pandemic. This study also serves as a reference for MSMEs

that did not face this type of problem. A limitation of this research is that it focuses on family businesses in the service sector. The problems faced by MSMEs in other economic activities may be different. Thus, future research in the sectors is needed.

We concluded that in the administrative area, before the pandemic, managers were not efficient or effective in their work. Post pandemic the problem became that administrators did not know how to handle remote work. This was a challenge that arose in most organizations since they were not used to working remotely. In the human capital area, we found the main problem before the pandemic was untrained personnel followed by staff turnover, while after the pandemic staff turnover, followed by lack of personnel control were the key problems. These problems increased exponentially due to the covid-19 pandemic. In the area of finance, the most remarkable problems before the pandemic and after the pandemic was low earnings. After the pandemic, there was a decrease in employment contracts, which resulted in lower sales. Increase in costs triggered a decrease in profits.

In the process area before the pandemic, the main problem was the increase in work accidents, but after the pandemic increased costs, decreased contracts and lack of raw materials were the most notable problems. Consequently, some companies experienced liquidity problems to cover their payment commitments. We recommend that companies prepare a strategic plan of action to help them overcome all the problems caused by the Covid-19 pandemic.

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