Handbook of Family Business and Family Business Consultation

A Global Perspective

Florence W. Kaslow, PhD • Editor

Chapter 8

Chile

Jorge J. Yunis

Considering Latin America does not have family-business[1] consultation companies,[2] and that I am the sole leader in this market for the region, the purpose of this chapter is to provide a critical viewpoint for establishing the differences between family-owned businesses and nonfamily businesses. The media in Latin America are extremely critical of family-owned business operations. In addition, few strategic developments have taken place in most family-owned businesses, where they concentrate their business mostly in traditional areas. Notwithstanding these factors, I am able to demonstrate that with robust individual entrepreneurship, the financial and economical standing of family business is above and beyond that of nonfamily businesses. Subsequently, from my perspective as a consultant, the business industry has shown good receptivity to generate the required essential adjustment both from the family management viewpoint as well as the role they occupy in developing their businesses (Medel, 2002). Koljatic (1999) goes so far as to call Chile a "Promised Paradise."

RESEARCH DATA: THE CONSULTANT'S SOURCE

During eighteen years as a family-business consultant company leader in Latin America, I have serviced 75 families and their over 300 companies. The data provided should illustrate the aspects I consider relevant for this chapter: 93 percent of the market in Chile is made up of family businesses, a figure that represents one of the highest concentrations worldwide. In Latin America, most families are conventional conservative families. Family and traditions are at the forefront of their businesses. Consequently, legacies are thought of as a natural development, as coming from the cradle, implicit in family culture.

Handbook of Family Business and Family Business Consultation
Published by The Haworth Press, Inc., 2006.
doi:10.1300/5491_08

Our families are sustained in a heartwarming relational environment, such that respect toward the figure of the founder is understood; our children remain at home until they complete their university degrees; it is common to share weekly activities and holidays together, etc. In summary, our society is structured around family values, while we halfheartedly observe the generational evolution in other countries and their consequences on the nuclear family.

In fact, family-owned Latin American companies are less competitive than their counterparts in developed countries. Similarly to China and India, Chile is in an accelerated process of transforming their enterprises into world-class competitors. From my personal experience, four countries are leading this change: Chile, since 1984, Brazil, Colombia, and El Salvador. Although 90 percent of all family-owned businesses expect to maintain their enterprises as such, throughout time incubator trends will tend to reduce the percentage of family companies.

Finally, common sense states that we have *"Sabor Latino"* (a Spanish expression suggesting cheerfulness as part of everything done, and how relationships between people are warm and friendly), and this is a robust and extremely unique factor as well as an added value to our professional background. To complement these ideas, and to introduce this chapter, Figure 8.1 illustrates the consultations requested by family-owned businesses between 1998 and 2004.

PUBLIC FAMILY (FBs) AND NONFAMILY BUSINESSES (NON-FBs): A COMPARATIVE ANALYSIS

I would highlight that no prior assumption was involved for this study (Schwager, 1999); this research was undertaken without any previous hypothesis, with a broad vision in mind. My objective mainly consisted of determining behavioral similarities and differences in both analyzed groups. The reference year is 1999, and this research covers market progression to the current date.

The Chilean stock market is represented by similar quantities of family-owned businesses and nonfamily ventures. Following world trends, this figure is expected to rise, as is the case in developed countries worldwide where between 63 and 70 percent of all stocks belong to family businesses (Yunis, 1998).

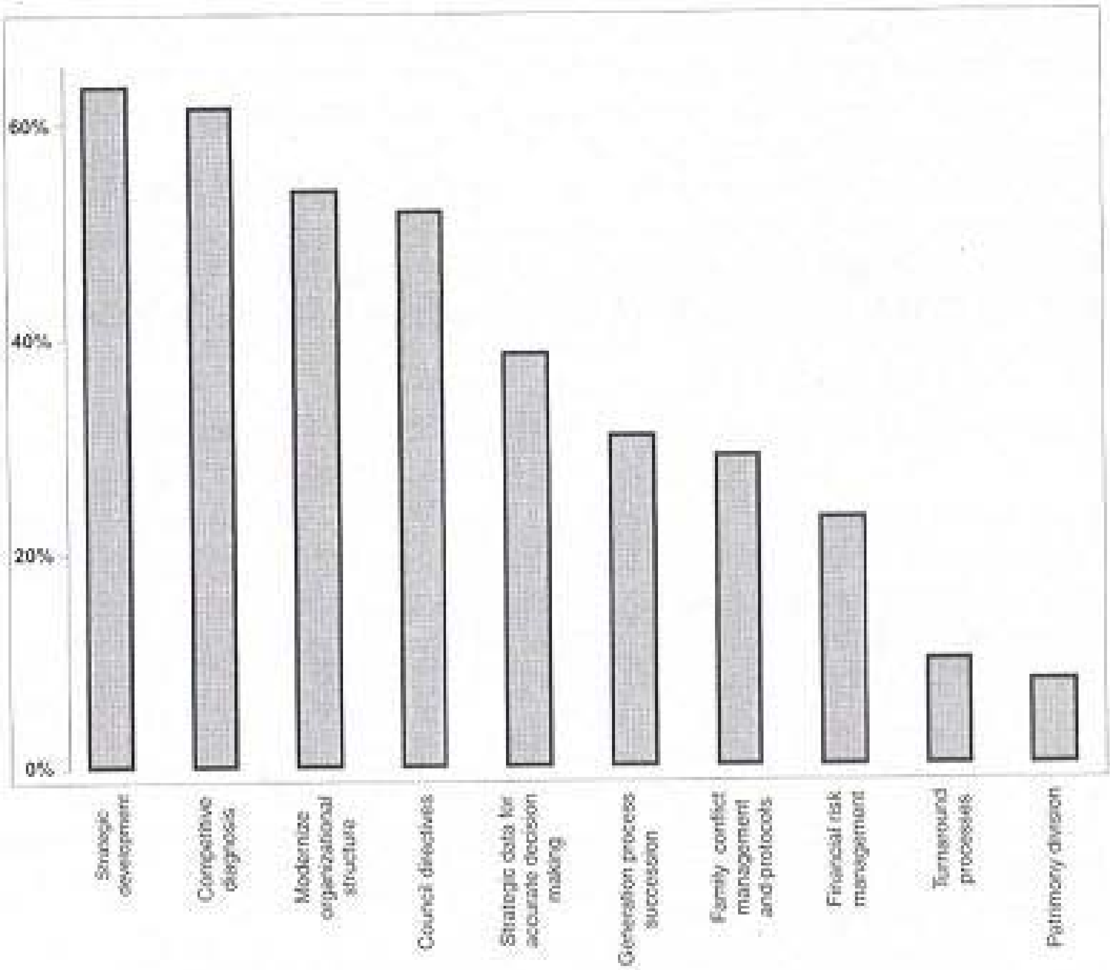

FIGURE 8.1. Family-owned business consultations from 1998 to 2004 (52 companies). *Source:* Equity Strategic Business Consultants, survey 2002-2003.

Family-Owned Business Figures in the Chilean Stock Market

In Chile, a total of forty families are listed on the stock market; in total they hold seventy-seven different companies, but ten families (or 25 percent) have a concentration of forty-seven (or 61 percent) of those businesses. From the forty families, only three have more participation of third parties among their shareholders by retaining less property control, sustaining the management baton, family culture influence, and legacy management. In addition, another twenty-six families act as investors in nonfamily schemes; these act as holding investors and should thus be considered as FBs.

For the period analyzed, non-FBs have executed more transactions than FBs; nevertheless, their reduction is significant, showing a decrease from 47.7 to 41.8 percent. FBs, however, show a constant stock market transaction performance between 33.6 and 35.9 percent.

The IPSA (the Chilean equivalent to Dow Jones 30 average) and its principal stock index is another relevant figure in favor of FBs. To date, the number of FBs included in this index since 1999 increased from eight to fifteen. Noticeably, however, non-FBs experienced a decline from twenty-four to nine.

Monetary Volumes Transacted

Historically, non-FBs have always surpassed FBs in monetary volumes transacted. In 1999 the rate was 9 times higher, while today this figure is only 2.7. To underline the latter, FB volumes grew 100 percent while non-FBs experienced a dramatic decrease of 38 percent. This represents a fabulous result for our target market.

Stock Market Capitalization

The proportion of stock market capitalization has been constant during the past several years, where 44 percent corresponds to FBs and 56 percent to non-FBs.

FBs

Four are valued over US$300 million.
Eighteen are valued over US$150 million.
Nine are valued at US$100 million.
Seventeen are worth between US$50 million and US$100 million.

Non-FBs

Six are valued over US$400 million.
Twenty-six are valued over US$150 million.
Five are worth US$100 million.
Twelve are worth between US$50 and US$100 million.

Market Price/Book Value Rate

A total of 100 companies have a market price below their book value rate, out of which 50 are FBs and 50 are non-FBs. Price volatility was analyzed by relating the standard deviation and the price average, and weighted with three independent elements: stock market capitalization, transactions conducted, and monetary volume. FBs show a slightly lower percentage variation equal to 8 to 9 percent, and non-FBs fluctuate between 9 and 14 percent.

Conclusively, FBs have a higher correlation between price and net return, whereas non-FBs are volatile, relate to investor behavior, and are involved in a higher speculation market.

Market Price/Book Net Return Index

In 1999, a huge gap between market price and book net return index existed between non-FBs and FBs; non-FBs were 26.8 times higher than FBs. However, today this situation has been corrected, and FBs show an index of 12.6, and non-FBs, 13.6. Once again, these figures are very positive for FB consultants such as my company. This stronger position reaffirms the conclusion stated in the previous price volatility discussion.

Concentration of Chilean FBs in Macro Sectors

As illustrated on Figures 8.2 and 8.3, eleven FBs concentrate their business mainly in foods and beverages, nine in animal husbandry and forestry, and six in port and maritime services. On the other hand, non-FBs concen-

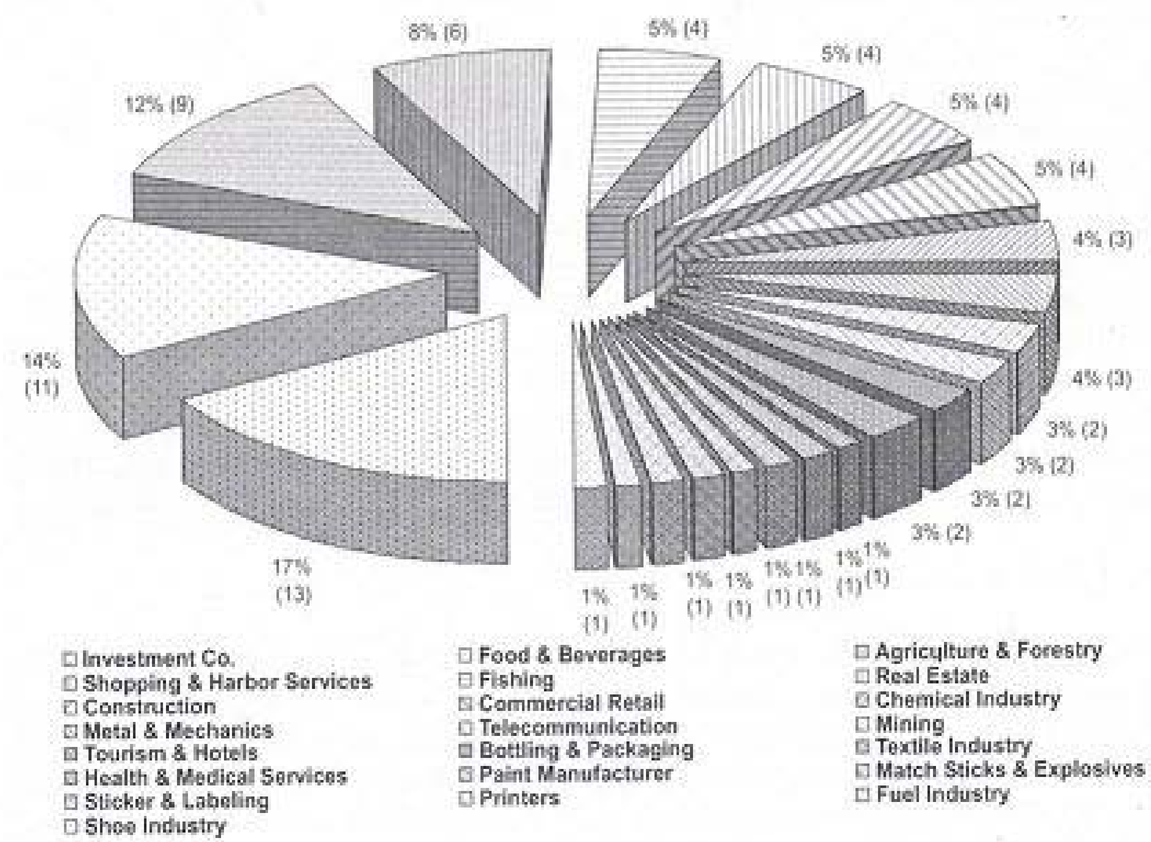

FIGURE 8.2. Public family-owned businesses by economic sector (percent). *Source:* Equity Strategic Business Consultants, survey 2002-2003.

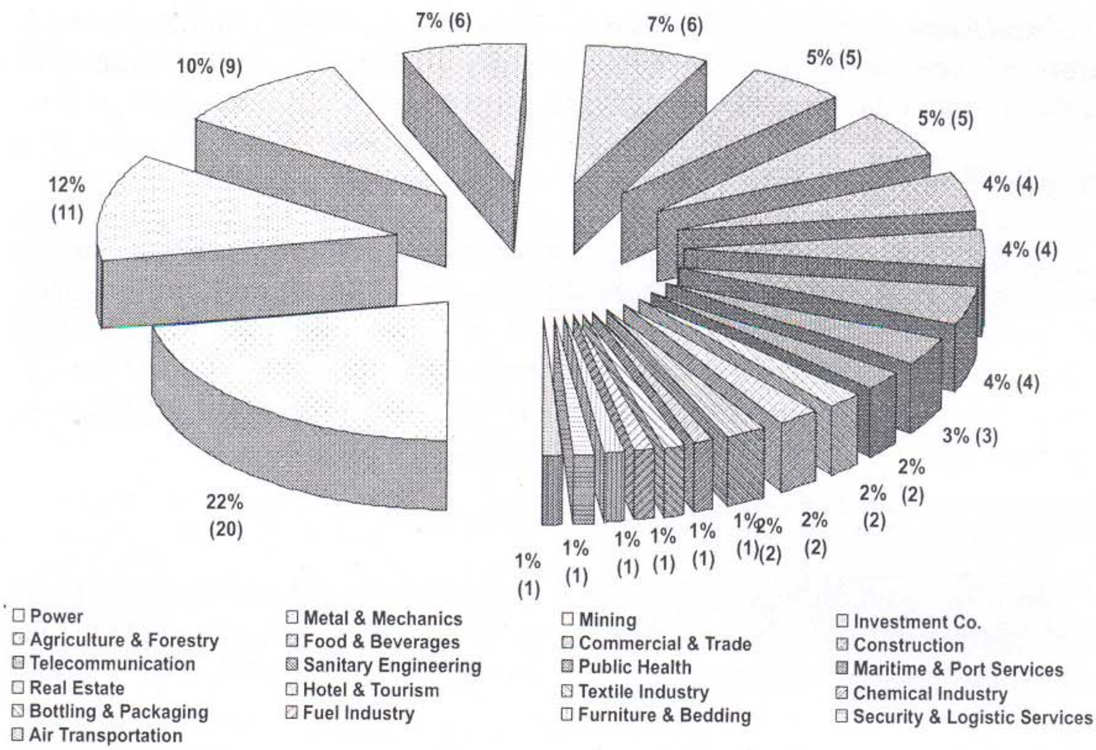

FIGURE 8.3. Nonfamily business distribution by industry (percent). *Source:* Equity Strategic Business Consultants, survey 2002-2003.

trate their business in power distribution, owning twenty companies, and twenty metal mechanical endeavors, as well as nine mining companies. Thirty percent of both FBs and non-FBs analyzed participate in only four macro sectors, an extremely robust and restricted concentration. The remainder are extremely dispersed; more precisely, we found one company per macro sector. To further examine this issue, FBs prefer developing products of natural origin, while non-FBs are attracted to complex industries.

Investments by Pension Funds

Relevancy must be given to the fact that pension funds hold stocks in thirty-one FBs and thirty-eight non-FBs. A simple average specifies that pension funds maintain a 7 percent FB patrimony and 10 percent in non-FBs. Consequently, the trend to invest is not radically different considering the pertinent sizes. Pension funds concentrate their investments on non-FBs, mainly in the electrical, public health, and communication industries; however, the same tend to diversify is seen in a wider range of FB-related industries.

Mutual Funds

The first empirical observation shows that throughout time, mutual funds have invested in almost the same manner in both categories. However to carry out this analysis from a monetary viewpoint, the comparison represents a volume of investment for non-FBs that is 1.8 times higher than the amount invested in FB-related industries, the former being $107 million and the latter $54 million.

ADRs: An International Recognition of Strength

ADR issues in the American stock market were celebrated for eight Chilean FBs and eleven non-FBs, an outstanding performance of our country. This occurrence demonstrates the impressive progress our economy has made and how it has improved on quality management. Chile is achieving worldwide recognition. Both ADR issues represent 8.5 percent FB patrimony and 7 percent non-FB. Consequently, the international market equally values both company groups.

Longevity: The Business Life Cycle

An average of fifty-two years of company longevity was the result of the FBs analyzed, surpassing non-FBs that reached forty-five years (see Table 8.1 and Figure 8.4). Only twelve FBs and eight non-FBs exceeded 100 years of business longevity. This analysis indicates that most FBs are already in their fifth family business generation. In addition, in this specific study, we discovered that in Latin America, over 300 hundred FBs have been in existence from 100 and 150 years. I am a board member of the oldest industrial bakery in Chile, operational now for 121 years, and of the oldest reprographic copier company, operational for 82 years.

FINANCIAL ANALYSIS

Gross Income

FB gross income improvement is noticeable (Damodaran, 2001; Medel, 1999). In 1999, FBs began with a gross income 82 percent below non-FBs; however, their evolution has since surpassed this by 106 percent, a persistent rate to date. In addition, upon comparing twelve of the highest accumulative rate growth FBs and non-FBs, the former obtained 64 percent versus 18 percent for the latter.

TABLE 8.1. Public family business longevity.

Company	Year founded
Vapores [Compañia Sud Americana De Vapores S.A.] Trasportation	1872
Carolina [Empresas Santa Carolina S.A.] Vineyard	1875
Santa Rita [Sociedad Anonima Viña Santa Rita] Vineyard	1880
Conchatoro [Viña Concha Y Toro S.A.] Vineyard	1883
Undurraga [Viña Undurraga S.A.] Vineyard	1885
Falabella [S.A.C.I. Falabella] Departament Store	1889
D&S [Distribucion Y Servicio D&S S.A.] Merchandise Distribution	1893
Telsur [Cnt Telefonica Del Sur S.A.] Telephone Company	1894
Bata [Bata Chile S. A.] Shoes	1894
Victoria [Fabrica Victoria Puente Alto S.A.] Textile	1894
Carozzi [Industrias Alimenticias Carozzi S.A.] Food	1898
Paris [Empresas Almacenes Paris S.A.] Departament Store	1900
Cristales [Cristalerias De Chile S.A.] Crystal & Glass Products	1904
Minera [Minera Valparaiso S.A.] Mining	1906
Fosforos [Compañia Chilena De Fosforos S.A.] Match Sticks	1913
Tattersall [Sociedad El Tattersall S.A.] Misc. Agricultural Industry	1913
Volcan [Compañia Industrial El Volcan S.A.] Cement	1916
Elecmetal [Compañia Electro Metalurgica S.A.] Metallurgy	1917
CMPC [Empresas CMPC S.A.] Pulp & Paper	1920

Source: Chilean Stock Exchange; Equity Strategic Business Consultants, survey 2002-2003.

Efficiency and Costs

Operations overhead for FBs increased almost equal to the income, which allows us to conclude that FBs tend to be slightly inefficient. However, our analysis shows their gross revenue grew by 45 percent, while their

Net Earnings/Assets Ratio

On both cases the ratio curve remained at low performances; FBs advanced to 3.7 percent compared to non-FBs reaching 1.3 percent. A possible explanation for the poor performance is the result of investment policies on fixed assets, which determine important charges on result depreciation, particularly for non-FBs, which overcame FBs' fixed assets by 76 percent.

Dividend Policies

Curiously, thirty-two companies (six FBs and twenty-six non-FBs) distributed their dividends in sums over 100 percent of the yearly net earnings. This suggests that non-FBs tend to benefit stockholders in the short term as they manage market value, which is not the case for FBs, which are founded with a long-term vision in mind. Thus, the challenge for non-FBs remains in finding ways to build wealth. Other research I performed (Yunis, 1999, 2000, 2001), in which 280 FBs were analyzed between 1992-1995 and 1996-2000, concludes that FBs place the sustenance value first on creating wealth with a clear view of persisting into future generations. It will be hard for FBs to comprehend the crucial need to build wealth; nonetheless, these figures illustrate why FBs persist longer than non-FBs. In summary, FBs capitalized dividends on a constant ratio 2:1 compared to non-FBs.

Financing Structure

A noticeable difference may be observed in FBs' and non-FBs' financing structures. FBs mainly fund themselves through operative resources, and as this study shall conclude, FBs have increased their operational liabilities by tenfold.

In contrast, the non-FBs have greater access to financing through banks, showing an operational liability improvement of only 88 percent.

Bond Issues

Bond issues may be another perspective from which to observe financial attitudes on both industries. Thirteen public FBs issued bonds totaling US$1.4 billion and fifteen non-FBs for US$2.5 billion, with no interest rate differences. On the other hand, this study secured information on privately held companies which placed bonds for six FBs and thirteen non-FBs for amounts totaling US$825 million and US$1.9 billion, respectively.

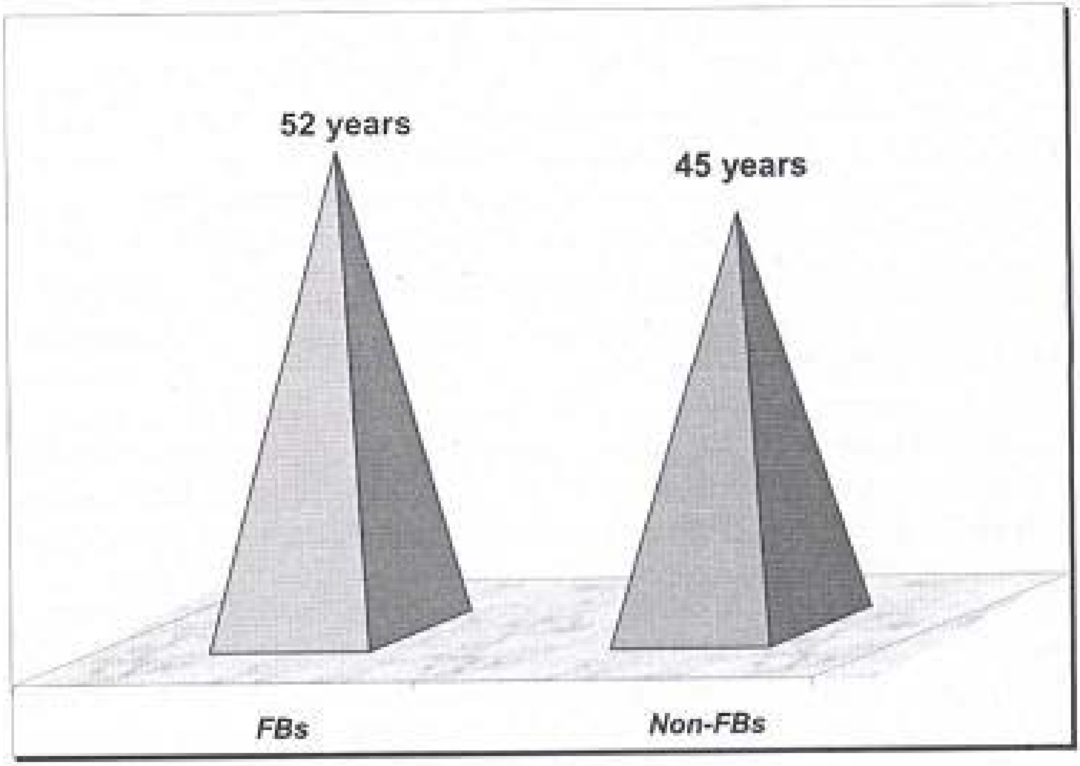

FIGURE 8.4. Average age of FBs and non-FBs. *Source:* Chilean Stock Exchange; Equity Strategic Business Consultants, survey 2002-2003.

operations overhead increased by 46 percent. However, non-FBs had an 18 percent income increase while costs represented 14 percent.

The Bottom Line

The gradient reference curve for both groups is always positive, and although non-FBs hold a more marked gradient, when performing a year-to-year comparison, FBs largely overcome non-FBs. A comparison of the twelve main collective net earnings in the period analyzed, which shows that FBs surpass non-FBs by 45.5 percent, may help substantiate this conclusion.

Liquidity Ratio

FBs unquestionably surpass non-FBs in liquidity ratios. For 1999, their liquidity was 1.7, showing an increase to 2.0 to date, while non-FBs dropped from 1.3 in 1999 to .99 in the same period.

COMPARING CHILEAN AND LATIN AMERICAN FAMILY-OWNED BUSINESSES WITH PEER BUSINESSES IN DEVELOPED COUNTRIES

Quality Criteria Used for Comparison

FBs in developed countries as well as in Chile and Latin America may be compared in some areas; in others they simply cannot. In Latin American countries, FBs are in a more precarious standing. Europeans and Americans are eager and decisive when dealing with strategic progress in the business field but do not have the same attitude when dealing with family values.

FBs in developed countries, on the other hand, are stronger in terms of their business organization. Latin American FBs are lacking in modern technology and haven't conveniently adapted to the competitive adjustments imposed by globalized markets or the necessary management standards required. Notwithstanding these limitations, Latin American FBs are evolving at a slow pace today; some technological improvements have been implemented to improve efficiency at lower operational costs, and the need to be aware of international markets has been raised.

In fact, strengthening companies necessarily depends upon the emphasis the business environment sets on professionals in charge of managing the businesses, that is, their professional excellence. Today, one does not need to be a large company to compete in the global market; what is needed are top-notch professionals who are capable of competing and succeeding, an edge small family businesses are betting on. Large companies confuse huge financial resources with efficiency, and they neglect the basic values of management FBs concentrate their efforts on. In time non-FBs will realize this and may stumble because of their lack of vision.

Five years ago we surveyed representative businesses in six countries in South America (Chile, Peru, Bolivia, Uruguay, Paraguay, and Argentina), interviewing leaders of 974 FB s. Seventy-nine percent felt that companies they managed needed to urgently strengthen management, 74 percent indicated the decision-making process within their companies required improvement, and 56 percent indicated an urgent need to improve competitive advantages. They recognized that success is instigated; failure is accidental.

Another published survey conducted in September 1997, which included data collected on 250 FBs from ten Latin American countries,[3] showed unexplainable behavior. Only 5 percent of these businesses (twelve companies) had formally constituted a board of directors. Most of these companies resolved issues on a daily basis and make rash decisions on last-minute critical variables, without pondering or analyzing each critical success indicator professionally.

Another study carried out in 2003 by Santiago's Chamber of Commerce indicated that 2 percent of the Chilean market is involved in e-trade, which certainly increased their risk of failure. Most of these companies trade in the domestic commercial arena, a small and highly competitive environment, in a permanent tug-of-war for the same piece of the pie.

WATCHFULNESS OVER ORGANIZATIONAL LIFE IN FAMILY-OWNED BUSINESSES

A Consultant's Challenge to Implement Strategic Factors, Manage Competitive Risks versus Organizational Family Misalignments

The following was based on various consulting experiences (Yunis, 2000) and documents as well as the research conducted by the author: A strategic viewpoint is essential, but not enough for a family-owned corporation to achieve success (Rosin & Berger, 1991). A misalignment between business styles and market requirements is the difference between successes and reaching an untenable position. This occurs due to the lack of academic background of most family-led businesspeople.

In fact, most owner-executives often confirm that what keeps them up at night is not their lack of strategies, but rather their inability to implement them within their organizations. A few months ago, at a meeting with a dozen clients, most believed that approximately 70 percent of all failures experienced acting as executive chairmen were due to strategic implementation flaws.

Following from this idea, the more fundamental questions that Latin American businesspeople should ask themselves are as follows:

> *Should strategic business models be redefined?* Yes, I strongly recommend it.
>
> *Why does a good company made up of supposedly bright people, in touch with their products and customers, have problems implementing strategies successfully?* Because family members do not allow their executives to manage their organization.

When these questions are considered, the search for progress takes a completely different course. What distinguishes excellent performers is the manner in which they manage to realize their goals. That is, they should become organized to recognize the direction they need to take to participate in a specific market. Many of the struggles they face are symptomatic of dynamic and complex problems that are embedded in their organizational models. Corporate leaders of family-owned businesses tend to believe that their company personnel behave irrationally. These are tough problems to solve, as they are deeply rooted in their economic logic, hindering family-owned businesses from making effective and timely decisions. Likewise, when family members are capable of transforming strategic proposals into compatible organizational management, they achieve competitive advantages for their companies. In summary, families acting in this manner share certain features: they understand the nature of the challenges they face, they recognize them, and they plan designs and adapt them to their needs.

The key to improving on performance is not modifying the goals or exhorting the organization to work better. On the contrary, the solution is to change the organizational environment and attitude of the entire group, with the purpose of favoring a decision-making process in line with their main goals.

To conclude, most family organizations analyzed have evolved in time by intuition, by individual efforts, stress, circumstances, and internal power struggles (McKinsey & Coo, 2004). Today, consultations under way in Latin American companies are performed on a more in-depth personal basis, which has led me and my team to understand that we must increase our efforts through various public talks to motivate change as a requisite for family-led companies.

NOTES

1. Family office: At present, family offices are not common practice in Chilean firms. Perhaps there may be an extensive need for these within the next five years, although this is not yet on the horizon.
2. Although individual consultants exist in various countries in Latin America, EQUITY is the sole family-owned business consultant firm in the entire region.
3. The ten surveyed countries are Mexico, El Salvador, Guatemala, Honduras, Venezuela, Colombia, Ecuador, Peru, Chile, and Argentina.

REFERENCES

Adizes, I. (1998). *Corporate life cycles*. Upper Saddle River, NJ: Prentice Hall.

Damodaran, A. (2001). *The dark side of valuation*. Upper Saddle River, NJ: Prentice Hall.

McKinsey & Company (2004). ICARE Business Conference: Potenciar el gobierno corporativo de las empresas en Chile.

Medel, L. (1999, November). Dinastías de empresas familiares. *Revista Capital, 91*(106).

Medel, L. (2002, August). Empresas familiares vs. sociedades de capital: En la cancha macroeconómica, entrevista a Jorge Yunis. *Revista Capital, 90*(76).

Rosen, R. and Berger, L. (1991). *The healthy company: Eight strategies to develop popular productivity and profit.* Los Angeles: G.P. Putnam.

Schwager, J.D. (1999). *Technical analysis.* New York: John Wiley & Sons.

Yunis, J. (1998, September). Empresas familiares Chilenas cotizan en la bolsa desde 1993 [Press release].

Yunis, J. (1999, 2000, 2001). *Equity-Chile.* Santiago, Chile: Equity-Chile.

Business, Management, and Administration; International Business; Cultural Studies; Marriage and Family

Leading international experts in family business consultation share their expertise

Florence W. Kaslow, PhD, Editor, an internationally respected authority in both family psychology and family business consultation, presents a disciplined look at how family businesses are structured, their dynamics, and how they operate in thirteen diverse countries spanning four continents. The **Handbook of Family Business and Family Business Consultation** is a vital resource for family business owners, management, shareholders, and consultants.

"This is A MUST-READ BOOK FOR CONSULTANTS AND STUDENTS OF FAMILY BUSINESSES. It contains chapters by leading practitioners like David Bork and Francois de Visscher along with other top advisors from around the globe. The book offers ILLUMINATING CASE STUDIES and a particularly revealing chapter by Dirk Junge, Chairman of the Pitcairn Financial Group, one of the largest and most successful family offices in the United States. I DON'T KNOW HOW FLORENCE KASLOW PULLED IT ALL TOGETHER BUT SHE HAS AND READERS WILL BE THANKING HER FOR THIS ACCOMPLISHMENT."

—Sam Kirschner, PhD, Managing Director, Mayer & Hoffman Capital Advisors

"I can honestly say that Dr. Kaslow and her contributors have produced A BOOK THAT SHOULD BE READ BY ALL CONSULTANTS TO FAMILY BUSINESSES —BE THEY NEW TO THE FIELD OR EXPERIENCED INTERNATIONAL EXPERTS. … A novice to the field would certainly benefit from its history and the factors that contribute to the success or failure of consulting engagements in different countries. … Even consultants with years of experience will find these models of value. Moreover, these models while useful to those interested in consulting in other parts of the world are equally useful to those who do not plan to have engagements outside of their home city. The case studies provide opportunities for the reader to better understand the unique regional family business dynamics discussed by the regional contributors."

—Robert H. Brockhaus, PhD, Brockhaus Group—Global Consultants to Family Owned Businesses; recipient of FFI's 2005 International Award for global service to family businesses

Florence W. Kaslow

For information about the editor, see the biographical information page within the book.

ISBN-13: 978-0-7890-2777-1
ISBN 0-7890-2777-1
90000
9 780789 027771

International Business Press®
An Imprint of The Haworth Press, Inc.
10 Alice Street, Binghamton, NY 13904-1580
www.HaworthPress.com