# CONTRIBUTION FROM THE FIELD OF FAMILY BUSINESS TO BUSINESS INCUBATORS, MICRO AND SMALL ENTERPRISES

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**Abstract:** Most micro and small businesses start as family businesses, as they start from family savings as their main source of financing. However, the methodology used to incubate businesses in Mexico does not include tools to effectively manage family influence. This paper outlines the reasons why government agencies that allocate federal resources for business incubation should incorporate such tools into their methodologies. A documentary and a field investigation were carried out. The results show the tendency to start a business with family savings and therefore, with family interference. Likewise, it was found that newly created businesses show a high failure rate. It concludes the need to include in the methodologies used by business incubators in Mexico tools and knowledge in the field of family business. This, with the purpose of contributing towards the increase in the length of time that new companies last and the consolidation of existing micro and small enterprises in Mexico.

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## Introduction

At global level, companies are classified as micro, small and medium-sized enterprises (Valdez & Sánchez, 2012). The National Institute of Statistics Geography and Informatics (INEGI) in its press bulletin 285/16 reported that the business sector in Mexico is constituted as follows: microenterprise - 97.6% - small business -2.0% - and medium-sized enterprise -0.4% - (INEGI, 2016) This classification is also used by government programs that allocate federal economic resources to boost them. However, classifying firms in micro, small or medium enterprises is the easiest, but not the most useful method, because the type of ownership conditions affects more the continuity of firms than the size of these firms (Tàpies, 2014).

Cabello et al. (2004), Mendoza et al. (2010), Simón (2013), La Salle (2013), Tàpies (2014) and Arthursen (2016) agree that most micro and small enterprises are family owned, since they start with their own from family savings. As a result, they are affected by the conflicts inherent in any non-professionalized family enterprise (Tàpies, 2014). Therefore, the objective of this work is to support the proposal that Mexican government agencies that allocate federal economic resources to promote the creation of new businesses, incorporate in their methodologies knowledge and tools in the field of family business. This in order to assist in reducing the failure rate of micro and small enterprises in our country.

## Literature review

The National Institute of Entrepreneurs (INADEM), Mexico's main government agency for business incubation, does not include in its methodology, knowledge and tools in the field of family business.

INADEM implements and coordinates the national policy to support micro, small and medium-sized enterprises (Romo, 2013). As a public body, it fosters and promotes entrepreneurial culture; Supports the creation and consolidation of businesses, and promotes access to financing and capital for micro, small and medium enterprises (INADEM, 2016). To participate in the calls for funding, the entrepreneur must take the Online Incubation Program (PIL). This course gives entrepreneurs who have a business idea the basic knowledge to "create and operate their company with greater opportunities to keep growing and to be competitive." Currently, the course consists of four modules: Create your Company; How to make a business plan; Resources to operate your Business and finally, Evaluation and Development of the Business Idea (INADEM, 2016).

In addition, INADEM uses the Canvas Model designed by Osterwalder & Pigneur (2014). This model describes through nine blocks the logic of how a company seeks to make money and covers the four

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main areas of a business: customers, supply, infrastructure and financial viability (Osterwalder & Pigneur, 2014). These nine blocks allow us to determine ways to make the company profitable; Distribution channels; Benefits and income; Essential resources and activities; The most important costs and alliances necessary to operate (Andrade, 2012). Table 1 summarizes the nine blocks of the Canvas Business Generation Model.

| Table 1: Blocks that make up the Canvas Model | |
|---|---|
| Market segment | Groups or organizations that a company aims to reach |
| Value proposal | Products or services that create value for a specific customer segment. |
| Channels | Channels used to reach its market |
| Relationship with customers. | Type of relationship established with the market segment. |
| Source of income. | Represents the value for which customers are willing to pay. |
| Key Resources | They are the assets required to manage the business model. |
| Key activities | Key actions to produce value proposition. |
| Network of alliances. | It is the network of suppliers of resources and inputs. |
| Cost structure | Describe all costs incurred to operate. |
| Source: Osterwalder & Pigneur (2014), INADEM (2016). | |

Similarly, methodologies for business incubation of other organizations such as New Ventures (2007); CORPODET (2016); CETYS, (2016) and others that operate in Mexico do not include tools and knowledge on how to run a family business. Despite the fact that most businesses tend to start with family interference (Tàpies, 2014).

Reasons for including in the methodology for incubating companies, topics on family business:

1. Most of micro and small businesses start as family businesses.

Micro and small businesses are not synonymous with family businesses. However, most of these businesses in the initial phase are family businesses, as they find it difficult to access external sources of financing and depend on their own and family savings to start their business (Tàpies, 2014).

In order to verify what was expressed by Tàpies (2014), in October 2016 a census was carried out in the Faculty of Accounting and Administration of the Autonomous University of Coahuila. The objective was to identify how many of the 1st students who currently own a business had recourse to family savings; And how many of those who have the plan to create a business within no more than 12 months, will have funding from the family. 99 students said they have a business. But of these, only 57 agreed to respond to the administered census. This corroborates the tendency of the Mexican population to prevail in the informal economy (Vidales, 2013).

The results showed that 80.7% of the 57 who currently have a business resorted to financing from family savings. While of the 71 students who plan to open a business, 80.3% said that the financing will come from their own and family savings. These data corroborate the findings of Cabello et al. (2004), Mendoza et al. (2010), Simón (2013), La Salle (2013), Tàpies (2014) and Arthursen (2016).

2. The interference of the family in the new business puts the survival of the business at risk.

A business with a family influence is a complex issue, since the family, its internal dynamics and the management of the company are involved, which must be adequately addressed with rational policies and decisions. Since within the family business two very different systems interact: family and company, each with its very particular characteristics and attributes. It is therefore not uncommon for conflicts to arise in the business and in the family arising from the coexistence of these two systems; And conflicts in the family affect the company and vice versa (Saldaña et al., 2012).

Family businesses suffer from problems that are different from unfamiliar ones. For example, in a family-run business, there is no clear distinction between the company's economic flows and those of the family; A confusion prevails between the bonds of affection of the family and the contractual relations in the company; The assignment of posts is based on family relationships and interests, and there is an inadequate organizational structure that responds more to the needs of the family than to the needs of the company (Vásquez, 2010). In addition, there is evidence to affirm that family and organizational norms conflict in a family business (Rodríguez-Fornos 2008; Belausteguigoitia, 2010; Grabinsky, 2010; Álvarez-Martínez, 2011). This conflict is reflected in the processes of staff recruitment, compensation and staff assessment. For the impartiality has a different connotation if it is the family or the company. In the company, impartiality is based on the concept of merit, while in the

family it is based on equity and necessity (Lansberg, 1983). If the new business owner does not know how to strike a balance between the demands of the family and the profitability of the business, it jeopardizes the survival and consolidation of the business. This is one of the reasons why family firms show a high failure rate (Gallo, 1998).

3. Newly created businesses in Mexico have a high failure rate.

According to INEGI figures for every 100 businesses created in Mexico, 70% close during the first five years and only 11% survive at 20 years (INEGI, 2015). On the other hand, the National Commission for the Protection and Defense of Financial Services Users (CONDUSEF, 2014) indicated that only half of the small companies in Mexico survive to 18 months and state as one of the causes: Family. López (2016) notes that while in Colombia 59% of new companies subsist for more than two years, 75% of newly created businesses in Mexico close operations before two years of existence and only 25% are kept in operation. Among the causes, they point out are weak finances, lack of goals and poor planning. These figures are perplexing since incubator methodologies include and emphasize precisely these issues.

## Conclusion

Most businesses in México begin with family interference. However, these businesses do not have the tools to manage the influence of the family effectively. This contributes negatively, among other causes, to the high failure rate among micro and small enterprises in Mexico.

Therefore, it is proposed to include in the methodology used by the various business incubators in Mexico and especially in the one employed by INADEM, tools such as: family protocol, code of ethics, guidelines for hiring and firing relatives, etc. As well as knowledge about the differences between the family and the business system; The concept of family in the Mexican culture and its impact on the family business; The human resources within this type of company; The conflict of rules between the family and the organization; The professionalization of this, and how to move from family business to families of entrepreneurs, among others. This will allow the new entrepreneur to have the knowledge and tools necessary to effectively manage the influence of the family and establish a balance between the demands of the family and the profitability of the company. The implementation of this proposal can contribute to increasing the survival of new companies and the consolidation of existing micro and small enterprises in México.

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