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Intergenerational Differences in Family Business Management and Their Influence on Business Profitability

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Abstract: The generational change in the family business opens up expectations of strategies such as sustainability, professionalisation and internationalisation. Yet, there are gaps in current literature which fail to explain whether there are benefits in such strategies according to their management, their generational status, and their effects on performance. This paper compared first with second and later generation companies through the relevant characteristics. A regression analysis was applied to a sample that was identified by the Spanish Family Business Institute with information on growth strategy, corporate governance, professionalisation, and ownership, that is supported by financial data for the period of 2016–2020. The results showed that, although the differences in terms of profitability were small between generations, there were significant differences in management that affected performance. Growth tended to be lower in the second and subsequent generations, which also h a greater tendency to internationalise, being motivated by the professionalisation of management. Previous works in the literature have analysed differences in profitability between generations, however the analysis in this present work investigated the origin of these differences. The results showed disparities in management that allowed for the obtaining of different profitability indices, and therefore are of practical importance in the management of the internationalisation, growth, and sustainability of the family business in the face of intergenerational succession.

Keywords: succession; empirical–quantitative analysis; CEO attributes; ownership structure; profitability; sustainability

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1. Introduction

Around 70% of the majority of family businesses last for only one generation. It is estimated that 80% of companies worldwide are family-owned, hence why the low survival rate has alarming consequences on the sustainability of the productive sector [1]. This paper focused on one of the characteristics of family businesses: their long-term orientation (LTO) to maintain control and transfer it to the following generations [2]. In this way, family businesses intend to achieve their economic sustainability over time [3]. LTO in family businesses includes the development of three dimensions: futures, continuity, and perseverance. Lumpkin et al. [2] presupposed LTO as a higher-order heuristic that, in matters of intertemporal choice, provides a dominant logic for decisions and actions. Intertemporal choice refers to decisions with rewards or results that develop over time.

The generational change in family businesses is a critical turning point in the life of a business because many businesses fail in terms of growth and continuity [4,5]. In the succession process, strategic decisions are made to face the challenges of the industry, and an attempt is made to preserve the entrepreneurial spirit of the businessperson while planning an update of the organisation's technologies and products [6].

Generational change in family businesses generates unavoidable challenges that other types of organisations do not have, and which are handled differently depending on the profile of each incoming generation [7]. The incoming generations can make decisions in a proactive way to modernise the company in the face of competition with their rivals in the market, or they can take an inactive role without intervening in an intergenerational strategy [8]. With either a more active role or a less active role, each generation contributes to the stock of knowledge in a different way, thus affecting the innovation capacity of the family business [9].

Previous works in the literature have analysed the relationships between intergenerational succession, performance and innovation, highlighting the difficulties of innovating in a conservative environment, such as that of family businesses [10,11]. It is important to understand the direct influence of succession on business decisions [12,13]. The new generations that assume management have the opportunity to adopt innovative strategies and risk situations that would drive the growth and internationalisation of the family business [14].

The purpose of this study was to examine the intergenerational management differences that arise in the succession of family businesses and that affect profitability. For this, the article compared first-generation family businesses with second and subsequent generations through certain relevant characteristics, with the aim of gaining a better understanding of the influence of a generational transition on the family business. To do this, we not only analysed the differences in terms of economic profitability, but we also investigated the origins of those differences in order to better understand the different management styles that each generation will have and their influence on profitability.

Using a wide sample of Spanish family businesses for the period of 2016–2020 that was gathered by the Family Business Institute (IEF, Spain), we analysed the link between family generation, economic profitability, and business growth. In the results, it is observed that there were no statistically significant differences in terms of profitability between first and later generation companies, but there were significant differences in relation to other dimensions of management, such as business growth, the internationalisation of company activities, or the borrowing decisions. Research results are of practical importance in managing internationalisation and growth, and for promoting performance in the intergenerational succession stage.

Previous literature has already analysed the differences in terms of profitability between family firms that are run by the first generations and those that are run by second and subsequent generations. However, only a few papers have delved into the origin of these differences. In a similar way, previous papers have shown the existence of differences between these two groups of family businesses in different dimensions of management, however, they have not analysed how these differences affect their profitability. To the best of our knowledge, very few papers have analysed the connection between these differences in management styles and the differences in profitability, which constitutes a gap in the literature that we aimed to partially fill with this paper. In addition, the large and very representative sample of Spanish family businesses, and the use of data which are only available through questionnaires, are rare in the body of literature, and allow us to provide more robust results.

In the next section, we establish the theory and the working hypothesis, followed by a description of the sample of companies and variables that were used in the study. The methodology that was used is described below and the results are also presented. Finally, we provided proposals and conclusions, with a discussion of the findings and implications of the study.

2. Intergenerational Differences in the Family Business and Hypothesis

As aforementioned, succession in the family business involves the transfer of leadership and control from one generation to the next. It is one of the most researched topics in the field of family business studies because it represents one of the most important challenges that family businesses face [9,15–18]. The founder, or the family member at the helm of the company, foresees the transfer of responsibilities to a family member who is willing to assume a control that offers them some hope of satisfaction in the growth and management of the business [19]. Generational renewal has been proven to be a driver of new opportunities [20]. The arrival of young CEOs triggers innovation in family businesses and the possibilities of obtaining competitive advantages through the opening up of the business abroad [11,14].

Why do we assume that there are intergenerational differences?

The theory of intergenerational differences was proposed by the German sociologist Karl Mannheim [21], who noted that groups from different eras would have differences in ideas, attitudes, and behaviours due to their different years of birth and different periods of growing environments. Certain authors believe that historical events and their consequences have an influence on the formation of intergenerational differences, including significant political events, new technologies for the advancement, transformation and improvement of the social economy, and the succession and renewal of social cultures [22]. When new family members take on the managing of the company, a change in strategy is likely to occur [14] and, in turn, differences in values between the founders of family businesses and their successors would affect innovations and transformations of companies [23].

Some authors have observed the way in which different patterns of succession influence important aspects of the life of the company, such as strategy and performance [24]. Thus, there are differences in patterns that either (1) reject the previous ways of directing, with more probability of taking new and radical strategic initiatives, or (2) are closely linked to the ways of directing the business of the incumbent, with more probability of taking strategic initiatives of low risk. Each of these patterns is characterised by distinctive trends in strategy, organisation and governance, and the patterns that are identified by Miller et al. [24] reveal the underlying nature of international dynamics and the performance implications of family businesses.

Family businesses, as with any business, face a dynamic, global and highly competitive market, which increasingly demands the incorporation of new products, new technologies, new organisational methods, and new competitive methods in order to compete in the open market [16]. This means that family businesses require a certain level of investment/growth if their objective is to remain competitive and to ensure their long-term survival, while maintaining ownership and control of the business within the family [25]. Furthermore, growth strategies, in terms of internationalisation, commercialisation and innovation, are likely to be driven by second or later generation owners because they bring new perspectives to the company [26]. It is understood that it is necessary to remain competitive when the company adapts to the needs of the family as other members join the company [27].

The growth and internationalisation of the company is supported by the level of debt. Research has suggested that companies which have successfully transferred ownership to the next generation can obtain better financial conditions from banks, which could explain the increase in debt levels in subsequent generations [28]. It has also been proven that in the transition from the first to the second generation, the debt rate of the company increases, while in successions between subsequent generations this effect is reversed [29].

In terms of profitability, Molly et al. [29] found no evidence that the profitability of a family business is affected by succession, which suggests that a succession should not necessarily be seen as a negative event in the life cycle of a family business. However, other authors concluded that succession can negatively influence business performance and decrease the value of the company in the first five years [17].

Furthermore, it is probable that growth strategies, in terms of internationalisation, commercialisation and innovation, are driven by second or later generation owners, since they bring new perspectives to the company [16]. Proof thereof is the fact that succession, as a unique characteristic of family organisations, can influence the internationalisation of companies and their growth [30]. Previous research has suggested that the access to the management of the company by the leaders of the next generation affects its internationalisation, in that new leaders influence the global orientation of the business and the company's commitment to going abroad [31]. Regarding the growth of companies, previous studies indicated that, in the first generation, the growth rate decreases after the transition, while in later generations no effect on the level of growth can be identified [29].

The choice between professionalisation of management or continuity with family members is a crucial decision to make in generational change. Morck et al. [32] argue that external management brings greater benefits than internal management, because descendants may not inherit all of the leadership qualities of the company founders. Furthermore, the selection of family members is more complicated than the hiring of external professionals, as a result of the institutional overlap between the family and the company [33]. Other studies have concluded that there is a preference for family members to assume management positions, regardless of whether or not they have the necessary skills to do so [34]. Occasionally, the family chooses family members who are willing to work to enter the company, while adopting more formal managerial controls, as well as controls of a more participatory nature [35] but without guaranteed promotion. In other cases, the family is more demanding and follows a selective policy, recruiting only relatives with potential for advancement. This latter behaviour is more likely to occur in second-generation companies, that are larger, more mature, and generate greater profitability [36]. Its internationalisation is no longer achieved, according to the well-known gradualist pattern or model of the Uppsala internationalisation process, by which a company gradually establishes itself in international markets [37]. In recent years, this model has been called into question by the growing appearance of companies with the ability to compete abroad since their inception, and they are called international new ventures (INVs). The forces that energise these companies are: the new international market conditions, recent technological developments, the demands for greater capacities, skills and entrepreneurial orientation of managers in production, transport, and communications [38]. Normally, the second and subsequent generations are the most likely to internationalise the company with innovative, proactive and risk-prone behaviour [39].

Based on the above assumptions we established four hypotheses. These hypotheses presupposed that in second and subsequent generations, family management is more likely to be more professionalised, with a greater number of non-family CEOs whose management could influence profitability improvements. We also assumed that second and subsequent generation family businesses could reach a higher level of debt than first-generation family businesses, which could negatively influence profitability. Finally, we assumed that family businesses in the second generational level, and those that follow, will invest more in the growth and internationalisation strategies of the company, which would lead to growth in the balance sheet the fixed structure of production, and sales, thus achieving improvements in profitability from that growth. Hence, our hypotheses were as follows:

Hypothesis (H1): *Second and subsequent generation family businesses will be more professionalised, with a greater number of non-family CEOs, than first-generation family businesses.*

Hypothesis (H2): *Second and subsequent generation family businesses will invest more in business growth strategies that will lead to the growth of their balance sheets, fixed production structures, and sales.*

Hypothesis (H3): *Second and subsequent generation family businesses will have higher levels of debt than first-generation family businesses.*

Hypothesis (H4): *Second and subsequent generation family businesses will be more prone to adopt internationalisation strategies.*

3. Materials and Methods

The data that were analysed in this study correspond to a sample of 1005 Spanish family businesses for the period of 2016–2020, which in turn correspond to the sample of companies that were used in the work that was published by the Family Business Institute [40]. This sample was obtained from a larger initial sample of 94,565 Spanish companies that met the definition of a family business, as proposed by the Family Business Institute [41]. This definition was based on the percentages of capital in the hands of the owner family, however, it takes into account that it is not appropriate to apply the same percentages for all companies, because in companies with more dispersed ownership, it is not necessary to have such a high percentage of ownership to exercise control over the company. Based on this consideration, a company acquires the status of a family business in the following cases:

- Dispersed ownership structure (i.e., no shareholder owns more than 50% of the capital). The company will be a family company if a person or family owns more than 5% individually or 20% as a whole, and also if the natural person shareholder is a member of the Board of Directors or they are a shareholder with more than 20% of the capital and they hold executorship. Otherwise the company will be classified as non-family.
- Concentrated ownership structure (i.e., a shareholder owns more than 50% of the capital). The company will be a family company when the family shareholder controls the ownership with a high percentage (50.01%), or in which there are shareholders-directors with a stake greater than 50.01%. The companies that do not meet this criterion are not family businesses.

As detailed by the Family Business Institute [40], the final sample of 1005 companies was obtained via a random selection following a systematic random procedure that was effected using the existing telephone databases. Regarding the distribution of the sample, a stratification of the sample was proposed according to the particular autonomous community, size of the company, and activity, thus achieving a highly representative sample of the family business fabric in Spain.

The economic and financial data of the companies were obtained from the Iberian balance sheets analysis system (SABI) database. The information regarding the characteristics of the management and the leadership of the companies were obtained through telephone interviews that were carried out with the CEO or head of the company through a structured questionnaire.

In Table 1, it can be seen how the companies in the sample are distributed by size (according to number of workers) and activity (NACE-REV. 2; i.e., statistical classification of economic activities in the European Community).

As can be observed, the sample is mostly made up of small-sized companies (between 10 and 49 workers) that represent 60.30% of the total number of companies in the sample. This is followed by micro-sized companies (less than 10 workers) that contribute 30.05% of the companies. With a lower representation, there are medium-sized companies (between 50 and 249 workers) and large-sized companies (more than 250 workers), contributing 8.76% and 0.90% of the total number of companies, respectively. In terms of activities, those companies with the greatest representation are in the category of "Wholesale trade and Retail trade; repair of motor vehicles and motorcycles", which contributes 31.04% of the companies, and the category of "Manufacturing industry", which contributes 21.29%. The outermost with respect to weight would be the category of "Construction", which contributes 12.84%.

Table 1. Distribution of companies according to activity and size.

Activity	Micro	Small	Medium	Large	Total
Agriculture, forestry and fisheries	9	18	2	0	29
Extractive industries	1	3	0	0	4
Manufacturing industry	39	147	25	3	214
Supply of electricity, gas, steam and air conditioning	1	1	0	0	2
Water supply, sanitation activities, waste management and decontamination	1	3	1	0	5
Construction	56	67	6	0	129
Wholesale trade and Retail trade; motor vehicle and motorcycle repair	118	174	20	0	312
Transportation and storage	15	38	5	1	59
Hospitality industry	12	47	7	1	67
Information and communications	5	13	4	1	23
Financial and insurance activities	3	3	0	0	6
Real estate activities	9	5	0	0	14
Professional, scientific and technical activities	13	29	4	0	46
Administrative activities and auxiliary services	9	23	7	2	41
Education	2	7	2	0	11
Health and social services activities	3	12	3	1	19
Artistic, recreational and entertainment activities	3	8	1	0	12
Other services	3	8	1	0	12
TOTAL	302	606	88	9	1.005

Regarding the variables under analysis in the present study, in addition to the existence of significant differences between first or later generation family businesses in terms of profitability, we focused on the differences in four specific dimensions: CEO Characteristics, Business Growth, Financial Structure and Internationalisation. Specifically, in each of these dimensions, different variables were analysed, thus allowing a better visualisation of the differences in terms of the management of the different generations.

Firstly, the origin of the CEO was taken into account with respect to the characteristics of the CEO in the family business. In order to do this, a dichotomous variable was included that was assigned the value of 1 when the CEO is a professional from outside of the family and the value of 0 when the person who runs the company belongs to the owner family. The nature of the CEO may imply different management skills [42,43], which will undoubtedly affect the performance of the company. Studies on Stewardship theory in family businesses implicitly suggested that shared leadership, collective responsibility, and intrinsic rewards will enable pro-organisational individuals to navigate and overcome problems of limited rationality and information asymmetry, and naturally align their interests with the organisation at the time they become a part of it [44]. Other recent works have already shown that in listed family companies, the presence of an external CEO at the head of the company has both negative and positive repercussions on the economic profitability of those companies [45]. To delve into the study of the differences, in terms of the CEO of the family business according to the generation that runs the company, the educational profile of the CEO was also analysed, observing whether the CEO of the company engaged in studies in the field of business economics (value 1) or, on the contrary, whether the CEO did not engage in such studies (value 0). Previous studies suggested that education provides an individual with a greater ability to absorb new ideas and increase their ability to process information [46–48]. In addition, in terms of modern companies associated with technological progress, an adequate technical education, without undermining economic education, allows a better adaptation to the client, to the production, and to their specific niche in the global market [38]. In the family business, a greater preference has been observed for family members to assume management positions regardless of whether or not they have the necessary educational skills to do so [34], hence the analysis of this feature was especially interesting in this context.

To measure the business growth of companies and detect differences between generations, we have taken three variables into account: Asset Growth, Fixed Asset Growth and Sales Growth. Previous studies suggested that subsequent generations in the family business grow more slowly because they tend to give up part of their growth so as not to risk losing family control due to the increased use of debt [49]. Similarly, other studies suggested that first-generation family businesses are more business-oriented compared to subsequent generations with greater family orientation, and that this greater business orientation provides them with a greater capacity for growth [50–52]. In the same manner, McConaughy and Phillips [53] affirmed that the following family generations invest less in capital and equipment for R&D. On the contrary, other works found that as new generations become actively involved in the company, wealth increases, suggesting that new family members bring new knowledge and perspectives to the company, which positively affect the incentives to innovate and grow [26,54].

In order to analyse the differences in terms of financial structure, three variables have been taken into account: Indebtedness Ratio, Liquidity Ratio and Variation in Indebtedness. Traditionally, the body of literature has reflected lower levels of indebtedness in family businesses, both in the long term [55] and in the short term [56], and this is a behaviour that is justified by the fear of losing control of the company in the case of not being able to repay any outstanding debt [57]. However, previous studies suggested that there may be differences between a family business which is depending on the generation in charge of it [49]. For example, Gersick et al. [28] suggested that companies which have successfully transferred ownership to the next generation can obtain better financial conditions from banks, and that higher increases in debt could be expected with the incorporation of new generations. However, other authors also suggested that lenders may see generational change as dangerous for the wealth of a company due to procrastination, as well as the agency problems that may emerge as a consequence of asymmetric information between shareholders and lenders [58].

Regarding the internationalisation of the family business, two dichotomous variables have been included in the present study that sought to capture the company propensity to carry out foreign activity. The first variable, Export, was assigned the value of 1 if the CEO stated that the company had adopted an exportation strategy, and the value of 0 otherwise. The second variable, Import, was assigned the value of 1 if the company made purchases abroad, and the value of 0 otherwise. To the best of our knowledge, the literature is not clear regarding the influence that the generation running the company can exert on the internationalisation of the family business. In this sense, some studies suggested that the new generations will be less likely to export and would rather focus on domestic markets [59], while other studies suggested a positive effect with respect to generational change [26,60], suggesting that further research is needed.

4. Results

4.1. Comparison between Generations

Table 2 shows the mean values for the sample as a whole in the different variables under analysis, as well as what those values are in the case of family businesses, depending on whether they were run by the first generation or by subsequent generations. The table also shows, at the statistical level, whether or not these differences are significant or not.

Firstly, we compared the economic profitability of the companies in the sample measured by the relation between profit and total assets (ROA). It can be observed that family businesses which were run by the first generation tend to obtain higher levels of economic profitability (4.52%) compared to companies that were run by later generations (4.06%). The lower profitability levels that are associated with later generations has been a common study result in the body of literature [53,61,62], which is justified by the lower quality of relationships between family-member business administrators in later generational stages, that is due to higher levels of conflict [63,64]. However, our data reflected that these differences become statistically significant.

Table 2. Differences between the first generation and subsequent generations.

Variable	All Sample	First Generation	Later Generations	t
Economic profitability	4.28	4.52	4.06	1.27
		CEO Characteristics		
External CEO	0.0975	0.0767	0.1166	−4.27 *
CEO Business Studies	0.3134	0.2324	0.3881	−10.79 *
		Business Growth		
Asset growth	3.57	4.29	2.92	1.86 *
Sales growth	5.12	5.77	4.54	0.91
Fixed asset growth	9.09	9.14	9.05	0.04
		Financial structure		
Indebtedness	53.65	55.70	51.78	2.93 *
Liquidity Ratio	3.35	2.79	3.88	−1.56
Variation in Indebtedness	1.51	1.31	1.70	−1.79 *
		Internationalisation		
Export	0.2437	0.2200	0.2658	−3.39 *
Import	0.2547	0.2261	0.2811	−4.00 *

* Statistically significant differences.

Furthermore, we can observe significant differences between one type of company and another in the different categories under analysis: Characteristics of the CEO, Growth, Financial Structure, and Internationalisation.

Regarding the characteristics of the CEO who runs the company, it can be observed that, in both cases, there was a clear preference for a family member to occupy that position. However, in first-generation companies only 7.67% have an external CEO, this percentage increased to 11.66% in second or later generation companies, and this difference is statistically significant. This result shows the greater willingness of subsequent generations to place the company in the hands of professionals who are outside of the family. Notwithstanding, it may also be due to the difficulty in finding a replacement with the necessary skills within the family. In a similar way, which is indeed linked to the previous result, it was also observed that in later generations, the CEO of the company tended to have undertaken a higher proportion of studies in business economics. This result could be explained by the greater academic preparation that the new generations usually possess, as well as the fact that there is a greater propensity to hire a professional CEO from outside of the family. It is noteworthy, however, that for the sample as a whole, it is observed that only 31.34% of CEOs have undertaken university studies in the field of business economics, while two-thirds of the sample lack this particular specialised training.

Some statistically significant differences were also observed between both groups of companies in terms of their investment and growth policies. We observed that family businesses which were run by the first generation tended to grow at a faster rate than companies which were run by later generations, at least in terms of asset volume (4.29% per year and 2.92% per year, respectively). In medium and large companies, this result could be understood by the fact that, when the companies are young, they have a greater growth potential, however, when the new generations take control, they already encounter consolidated companies that find it harder to grow, something that would undoubtedly be linked to the life cycle of the company. Considering that 90% of our sample were micro and small companies which still have high growth potential, the results suggest that the previous explanation is not enough to justify this smaller growth in later generations. Hence, the explanation should be found in the management behaviour of managers in second and subsequent generations. In the same way, when analysing the growth of the sales and the investments in fixed assets, we also observed a higher growth while the first generation is at the helm of the company, however, the differences in this case were not statistically significant between both groups.

Regarding the financial structure of the company, it was observed that the following generations tended to present, and in a statistically significant way, levels of indebtedness that were significantly lower (51.78%) than those of the first generation (55.70%), which would point to a greater aversion to risk on the part of these leaders. However, it must be taken into account that this type of company shows a clear preference for self-financing through the retention of profits, so that over the years the accumulation of profits could explain these lower levels of indebtedness. Precisely, a lower aversion to risk on the part of the new generations would be ruled out if we take into account the fact that the results showed that they tended to experience greater annual increases in debt, although in this case the differences were not statistically significant. The truth is that studies in the body of literature are not unanimous in this regard, with authors who justify lower levels of debt in the following generations [52,65,66] while other authors argue a higher indebtedness for these [67].

Finally, in terms of internationalisation policies, significant differences were observed both in relation to the propensity to export and the propensity to import, with this trend towards internationalisation being greater in family businesses that were run by second or later generations. Some studies have suggested that the new generations have the capabilities of the founder and, consequently, are open to new ideas and strategies, which can be triggers in the search for international business opportunities [68]. This result, therefore, is in line with different previous works that found a positive relationship between the incorporation of new generations and the internationalisation of the family business [26,60,69].

4.2. Regression Model

Once those variables were identified, in terms of there being statistically significant differences between the companies that were headed by the first generation or by subsequent generations, we analysed their influence on the profitability of family businesses in order to observe the extent to which these management differences between generations of family members may have an effect on their economic performance.

In addition to these variables, we also included three control variables that are traditionally used in the literature, which allowed us to better capture the influence that the variables under study exerted on profitability: Company Size, Company Age and Sector Profitability.

- Total assets (Ln Assets): Calculated as the natural logarithm of the total assets of the company in order to minimise the asymmetry of the variable regarding its high variability. Size can be related to the numerous characteristics of companies, and for this reason its inclusion as a control variable is common [58,70–73]. Previous work has identified a negative relationship between size and performance [74].
- Age: Measured as the number of years since the incorporation of the company. The inclusion of age as a control variable is common in the literature [70,73,75], and is seen as the ability of the company to compete in a highly competitive environment such as the business world. Previously, Evans [76] already observed a positive relationship between age and profitability, although Cooley and Quadrini [77] also affirmed that the growth of the company decreases as age increases. Similarly, Shleifer and Vishny [78] suggested that in family businesses, family entrenchment can also

cause the founders to remain active in the company, even though they are no longer sufficiently competent, which is a common cost in concentrated ownership among companies.

- Sector Profitability: Previous studies have shown the influence which the activity sector can exert on the economic profitability of the companies that operate in it [79]. It is to be expected that, in highly profitable sectors, the companies which operate in this environment tend to obtain higher levels of profitability, and vice versa. For this reason, we have collected this effect by including a variable which collects, each year, the Average Profitability of the group of companies in the sample that operate in the same sector of activity (distinguishing a total of 21 activities according to the NACE-REV. 2 classification).

So, using the variables described, the model takes the following form:

$$\text{Profitability}_{i,t} = \alpha + \beta_1\text{External CEO}_{i,t} + \beta_2\text{CEO Studies}_{i,t} + \beta_3\text{Asset Growth}_{i,t} + \beta_4\text{Indebtedness}_{i,t} + \beta_5\text{Indebtedness variation}_{i,t} + \beta_6\text{Export}_{i,t} + \beta_7\text{Import}_{i,t} + \beta_8\text{LnAssets}_{i,t} + \beta_9\text{Age}_{i,t} + \beta_{10}\text{Sector profitability}_{i,t} + \varepsilon_{i,t} \quad (1)$$

Table 3 shows the Pearson correlation matrix that is used to test the multicollinearity of the model. As can be seen, the correlation between the variables is low and not very significant, since no correlation coefficient exceeds 0.60. In addition, to complement this analysis, the variance inflation factor (VIF) is provided. In this sense, it can be observed that all of the VIFs are strictly less than 2, hence the results were not biased due to multicollinearity.

Table 3. Pairwise correlations and variance inflation factor (VIF).

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	VIF
(1) Profitability	1											
(2) External CEO	0.009	1										1.05
(3) CEO studies	0.004	0.205 *	1									1.06
(4) Asset Growth	0.225 *	−0.033 *	−0.046 *	1								1.05
(5) Indebt.	−0.215 *	−0.034 *	−0.062 *	0.015	1							1.08
(6) Indebt. Var.	−0.188 *	0.009	−0.019	0.107 *	0.066 *	1						1.03
(7) Export	0.064 *	−0.030	0.021	0.041 *	−0.025	−0.026	1					1.52
(8) Import	0.035 *	−0.007	−0.001	0.038 *	−0.044 *	−0.005	0.551 *	1				1.47
(9) Ln Assets	0.078 *	0.035 *	0.069 *	0.154 *	−0.227 *	0.020	0.290 *	0.239 *	1			1.20
(10) Age	0.009	−0.021	−0.021	0.055 *	−0.010	−0.000	0.010 *	0.096 *	0.074 *	1		1.02
(11) Sector Profit.	0.102	0.067	0.067	0.015	−0.083	0.028	−0.040	−0.064 *	−0.032	0.009	1	1.02

* $p < 0.05$.

The relationship between the independent variables and economic profitability has been studied using a panel data methodology. In order to select the most appropriate regression technique, the Breusch–Pagan test has been carried out, which led us to reject the null hypothesis (X = 2080.26 p-value = 0.0000), indicating that the random effects model is more appropriate than the estimation using ordinary least squares. Hence, the results that are presented below correspond to this model with the best fit. The estimation of the model was carried out using the statistical package Stata 12.

Table 4 shows the type of influence that the independent variables under analysis (those that showed significant differences between companies of different generations) and the control variables exert on the economic profitability of the family companies in the sample.

Table 4. Results of the random effects model.

Variable	All Sample	First Generation	Later Generations
External CEO	−0.9898	−0.3866	0.3241
CEO studies	−0.4283	−0.8421	0.0983
Asset Growth	0.0929 ***	0.1137 ***	0.06522 ***
Indebtedness	−0.0658 ***	−0.0533 ***	−0.07661 ***
Indebtedness Var.	−0.0453 ***	−0.0633 ***	−0.0326 ***
Export	1.5150 **	1.0148	2.1676 **
Import	−0.3428	−0.5291	−0.1924
Ln Assets	−0.1006	0.3812	−0.5452
Age	−0.001	−0.0008	0.0004
Sector Profitability	0.3428 ***	0.4439 ***	0.2404 **
Constant	6.8882	2.7646	10.4381
Number of observations	3438	1641	1797
Wald chi^2	448.90 ***	272.98 ***	190.81 ***
R^2 (overall)	0.1462	0.1761	0.1295

** $p < 0.05$; *** $p < 0.01$.

The results revealed that the influence of the independent variables on the economic profitability was quite similar for both groups of companies, with only a few differences existing between them. Since the determinant factors were similar for both groups of companies, the differences found in the previous section are important because some of them lead to different levels of profitability.

The results obtained demonstrate that the characteristics of the CEO, both his origin (family or external) or his level of studies, do not exert a statistically significant influence on the economic profitability of any group of family business. Previous works, such as that of Sánchez et al. [45], already observed the absence of a significant influence that is derived from the origin of the CEO, indicating that the external CEO generates both positive and negative effects on profitability, which mutually counteract each other. If the absence of statistical significance on the part of the educational level is more pronounced, then this training is traditionally associated with (1) a greater capacity to process information and make quick decisions [80], (2) the ability to face scenarios of uncertainty [81], or (3) a greater adaptability to change [82]. However, although the results of some studies found this positive relationship between training and profitability [83,84], other studies, in the same way as the present study, have also not observed a significant relationship [85,86].

Annual Asset Growth is identified as a particularly influential variable for the whole sample and also for both groups of family business (at 1% significance), it was observed that higher Asset Growth is associated with higher profitability levels. Along these lines, Arosa et al. [73] noted that the companies which grew the most in the past had a greater probability of growth in the future, which is also corroborated in previous studies on family businesses, [73,87] and which leads to higher returns.

The financial structure of the company has also been revealed as a very influential factor for both groups of companies, both in relation to its levels of indebtedness and its annual variation. In both cases, the results showed that higher levels of debt, and higher increases in those levels, are associated with lower levels of profitability. This result would be in line with those results that were obtained in previous studies, wherein indebtedness was associated with lower levels of profitability [70,73].

Regarding the internationalisation of the company, it was observed that, while imports did not affect the profitability of family businesses, the adoption of an exportation strategy had a positive and statistically significant effect (at 5%) for the whole sample. However, when we compared the results for both groups of companies, we noticed that this positive influence was only significant for family businesses that were run by later generations. Hence, including a part of the sales in international markets contributed to the improvement of profitability but only for second or later generations of family businesses. This positive effect is consistent with most of the literature on international strategy, which tends to agree with the fact that the benefits of internationalisation exceed the costs associated with it, generating a positive impact on profitability [88–90].

Regarding the control variables, it was observed that neither the size of the company nor its age exerted a significant influence on profitability. This result should not be surprising, since contradictory results and theories have been observed in the literature regarding the influence that the company size can exert on profitability [74,91–93] and the age of the company [76,77]. On the other hand, the average profitability of the activity sector in which companies operate does have a positive and very significant influence (at 1%) on profitability for the whole sample and also for both groups of companies, although the influence is slightly weaker for those companies that were run by second or later generations (at 5%). These results confirmed that there are activities where it is easier for companies to obtain higher levels of profitability than in others. This result has also been reported in previous studies [45,79].

5. Discussion and Conclusions

The results showed that there were no statistically significant differences in terms of profitability between first and later generation companies, but there were significant differences in relation to other dimensions of family business management. The results revealed that some of these dimensions, especially business growth and financial structure, have significantly similar effects on profitability, both for first and later generations of family businesses. Therefore, in terms of management dimensions, these differences will influence profitability at some stage, hence they should be considered in the decision-making of family businesses to improve their results and guarantee their survival.

Differences have been observed in terms of the characteristics of the CEO who runs the company, with a predominance of family CEOs and an increase in external CEOs in second and later generations. Moreover, in subsequent generations it was observed that a greater number of CEOs had specific training in the field of business economics. Hence, we accept our first hypothesis (H1). Regarding CEO characteristics, these differences do not have a significant impact on the profitability of the company. This means that, but not in every case: (1) the replacement of family CEOs by non-family CEOs can be a means to mitigate the decline in profitability and (2), professionalising the company does not necessarily mean hiring managers who are not family members. Sciascia et al. [94] note there is no reason to assume that family businesses cannot be professionally managed by family members.

The results showed that family managers had a greater understanding of the business as a result of the transmission of experience between generations together with collective learning. Self-knowledge among family members creates dynamic capabilities that, in turn, generate business performance and value creation [95]. It has been determined that the level of training in family businesses tends to be lower than in other types of businesses. Nevertheless, family businesses prefer managerial positions to be assumed by family members, regardless of whether or not they received academic training, since this training deficit is compensated with other types of skills and knowledge [34], at least in micro and small enterprises and also in companies operating in traditional sectors with low dynamics of changes in which professional managerial competences are less crucial.

Regarding business growth, it has been observed that this tended to be higher in the first generations, in relation to both the growth of fixed assets and sales. However, the differences were only significant in relation to the growth of total assets. Hence, our second hypothesis (H2) is only partially accepted. Previous studies suggested that subsequent generations in the family business grow more slowly because they tend to give up part of their growth, in order to not risk losing family control due to increased use of debt [49]. However, other studies suggest that this higher growth in the first generation is due to its greater business orientation, as opposed to greater family orientation in the following generations [50–52]. This is an important issue because the results of the regression models reflected a positive and very significant relationship between this growth and the economic profitability for both types of family businesses. This effect can be taken into account when considering the growth restrictions that are traditionally suffered by family businesses, which would also limit their profitability.

For the financial structure of the family business, the results showed that the levels of indebtedness were higher in the first generation companies. Therefore, our third hypothesis (H3) is rejected. Undoubtedly, it is a question of debt, which is necessary for the creation and development of the company, that at the appropriate time is passed on to the following generations prior to any debt reduction operations. The second generations assume lower volume liabilities, however, the results showed that in the second and subsequent stages, the increase in the level of debt is higher. This is explained by the need for capital that arises in order to tackle growth and internationalisation projects, and second and subsequent generations are more prone to these events. The demands for foreign capital are supported by the best financial conditions that are enjoyed by the new generations, and that companies which have successfully transferred ownership to the next generation tend to obtain better financial conditions from banks [28].

In all cases, the results reflected the negative influences of both debt and debt growth on profitability for the sample as a whole, and also for both types of family businesses individually. Second and subsequent generations of family businesses generate increases in financial expenses that are not sufficiently covered by the profitability of new investments, and these data indicate the imprudence of undertaking business expansion investments in the family business when debt levels are already high. Typically, family owners will want to avoid further increases in debt for fear of losing control of the business 55]. Our results confirmed the importance of self-financing in profit distribution decisions in family businesses, since the act of saving will allow the necessary investments to be made without the need to resort to increases in debt that would, in turn, increase the financial burden and thus compromise family control of the company over the long-term.

Differences have also been obtained regarding the internationalisation of the family business, according to the generation that runs it. In the second and subsequent generations, a greater propensity to both import and export was observed, with statistically significant differences between both groups of companies. Therefore, our fourth hypothesis (H4) is accepted. In addition, the results revealed that while adopting an import strategy does not significantly influence profitability, in the adoption of an export strategy it actually does influence profitability for second and subsequent generations, but not for first generations. Over time, companies are forced to internationalise their activities due to the narrowness of local markets and the need to reduce costs by achieving economies of scale [96]. As a consequence of this, the influence of adopting internationalisation strategies was found to be more significant in second and subsequent generations. In family businesses, if the export is successful, it is considered to be an activity that increases the productive capacity and the turnover, which allows a better future for the company and, therefore, for the family patrimony [97]. Hence, the results corroborated the benefits of exporting and the need for family businesses to make this internationalisation effort, especially in the first generations, which are traditionally more focused on local markets and reluctant to internationalise due to the risks that this strategy carries.

In summary, although the results have not shown the existence of significant differences in terms of profitability between first-generation family businesses and later-generation family businesses, they have shown that both groups of companies present their own management characteristics which have an impact on profitability. Knowing the strengths and weaknesses that have been revealed by this study, for both types of companies according to their generational stage, would facilitate the task of identifying areas in which proper management could improve profitability. This study, therefore, has practical implications, as it indicates some of the options that family businesses have in order to improve their profitability, while distinguishing the specific aspects in which first-generation managed companies and later-generation managed companies can act.

To achieve this, as can be seen from the analysis that has been carried out, the family business does not constitute a homogeneous group of companies, but rather we identified subgroups with particular characteristics that must be analysed in a specific way.

Since we have specifically focused on Spanish family businesses, one of the main limitations of this study is that we had a unique cultural context. For future research, it should be interesting to verify if these results are the same in other countries with different cultural contexts. In addition, given the evident heterogeneity of the family business, future lines of research should undertake a more detailed analysis of the performance of the different types of family businesses, distinguishing not only the generation of the owner, but also the concentration of ownership, the type of CEO, or the sector in which the business operates, since all are elements that condition the operation of these types of companies, preventing them from being analysed as a homogeneous group of companies.

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