Managerial strategies in a context of uncertainty: loss of markets and political insecurity.

The textile cotton Spanish companies in the first third of the 20th century.

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First preliminary version

Introducción.

The Spanish cotton industry of the nineteenth century and the first third of the twentieth century is well known in their conjunctures and structural issues.[1] Instead, the Business History has given less attention to the cotton companies, for what there is no a bibliographical digest similar in Economic History. The Business History bibliography concerning to the cotton Spanish sector began with the seminal article of Nadal and Ribas (1970), subsequently revised and extended for Soler (1997), which did not have all the necessary impact in subsequent years because it was necessary to wait to the decade of the nineties of the 20th century in order that they were emerging works about cotton companies. Without wishing to be exhaustive, there are available Dorel-Ferre (1992), Ribas (1999), Parejo (1999) or Prat (2003), for companies prior to the Civil War

[1] Concerning the cotton industry can be found multiple publications. There is a good summary very broad in NADAL, J. (1998): "La indústria cotonera" en *Història Econòmica de la Catalunya contemporània*, vol. 5, Enciclopedia Catalana, Barcelona, p. 13-85, plus CALVO, A. (2002): "La indústria cotonera catalana a conmençaments del segle XX", *Recerques*, nº 44, pp. 91-110 and DEU I BAIGUAL, E. (1998): "L'esgotament del model del segle XIX. 1914-1939" en *Història Econòmica de la Catalunya contemporània*, vol. 6, Enciclopedia Catalana, Barcelona, p. 13-41.
Catalonia economy: SUDRIA, C. (1998): "Una societat plenament industrial" en *Història Econòmica de la Catalunya contemporània*, vol. 4, Enciclopedia Catalana, Barcelona.
Wool sector: BENAUL (1998). "La llana" en *Història Econòmica de la Catalunya contemporània*, vol. 5, Enciclopedia Catalana, Barcelona, pp. 87-158.

and Fernandez-Roca (1998, 2007) for the period of the Franco's regime.[2] There are also studies on entrepreneurs, almost always more from a point of view biographical than managerial, which often include erratically some corporate data.[3] From a different angle, but tremendously useful, we have the Tafunell's analysis (1996, 1998, 2000) on corporate profits in Spain which include estimates for sectorial aggregations (for example, on consumer goods industries).[4]

Nevertheless, most of business history works suffers from having been raised from the Economic History. Few of them have dared to include, implicitly or explicitly, approaches from theories, ideas or approximations to discipline themselves. In the article, I centre on the idea of the family enterprise and use some of the theories

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[2] NADAL, J.; RIBAS, (1970): "Una empresa cotonera catalana: la fábrica «de la Rambla», de Vilanova, 1841-1861", *Annales Cisalpines d'Historie Sociale*, nº 1
DOREL-FERRÉ, G. (1992): *Les colònies industrials a Catalunya: el cas de la Colònia Sedó*, Abadía de Montserrat, Montserrat.
SOLER, R. (1997): "Réditos algodoneros. Las cuentas de la fábrica de «la Rambla» (1840-1914), revisión y ampliación", *Revista de Historia Industrial*, 12, pp. 205-229.
RIBAS MIRANGELS, E. (1999): "La España Industrial (1851-1936). Análisis económico-financiero de la Compañía" en *Doctor J. Nadal: la industrialización y el desarrollo económico de España*, Barcelona, pp. 1125-1163.
PAREJO, A. (1999): "Sobre la segunda mayor empresa textil algodonera española: Industria Malagueña, S.A. (1882-1934) en *Doctor J. Nadal: la industrialización y el desarrollo económico de España*, Barcelona, pp. 1188-1205.
PRAT, M. (2003): "Fabricar i comerciar a mitjan segle XIX. Dis casos dels Muntadas I els Batllori", *Recerques*, nº 47-48, pp. 5-28.
FERNANDEZ-ROCA, J. (1998): *Hytasa, 1937-1980*, Diputación de Sevilla, Sevilla.
FERNANDEZ-ROCA, J. (2007): The adaptative strategies of Spanish cotton industry companies, 1939-1970, *Business History*, nº 1, vol. 49, pp. 75-97.

[3] NADAL, J. (1983): "Los Bonaplata, tres generaciones de industriales catalanes en la España del siglo XIX", Revista de Historia Económica, nº 1, pp. 79-95.
CABANA, F. (1996): *La burguesía catalana. Una aproximación histórica*, Edicions Proa, Barcelona.
DOREL-FERRÉ, G. (1995): "Los orígenes del capital industrial catalán: el ejemplo de la familia Puig de Vilanova i la Geltrú", *Revista de Historia Industrial*, 8, pp. 173-192.
CABANA, F. (1993): *Fàbriques i empresaris: els protagonistes de la revolució industrial a Catalunya, Cotoners*. Diputació de Barcelona, Barcelona.
CABANA, F. (2006): *Cien empresarios catalanes*, LID Editorial Empresarial, S.L., Madrid.
TORRES VILLANUEVA, E. (2000): *Los100 empresarios españoles del siglo XX*, LID Editorial Empresarial, Madrid.
Wool: BENAUL, J.Mª. (1999): "Éxito y fracaso de una empresa pañera: la casa Buxeda, 1846-1896" en *Doctor J. Nadal: la industrialización y el desarrollo económico de España*, Barcelona, pp. 1025-1037.

[4] TAFUNELL, X. (1996): "Los beneficios empresariales en España, 1880-1981: Elaboración de una serie anual", *Fundación Empresa Pública*, Programa de Historia Económica, nº 9601, Madrid.
TAFUNELL, X. (1998): "Los beneficios empresariales en España, 1880-1981", *Revista de Historia Económica*, (1998, nº 3), pp. 707-746.
TAFUNELL, X. (2000): "La rentabilidad financiera de la empresa española, 1880-1981: una estimación en perspectiva sectorial", *Revista de Historia Industrial*, nº 18, pp. 71-111.

established around it. I resort to Casson's theories on the family enterprises in which he distinguishes between those that have dynastic motive and those that do not have it.[5]

The family firm has a better reputation among business historians today than a few years ago when the Chandlerian interpretation of it as being old fashioned, uncompetitive in world markets and lacking the necessary inversion in plant, marketing and organisation was common.[6] The association of managerial hierarchies with successful modern economic growth, especially which found in the United States, contrasted with the British climacteric, and the survival of family businesses where the small scale of market structure acted as a supposed institutional barrier to growth.[7] Neither has the neoclassical perspective provided a much more favourable vision of family firm. Here it was then considered frequently as being too small and inefficient because managers were selected from the owner's family rather than on grounds of merit, and growth was achieved 'organically' using reinvested profits, with the use of capital markets limited to short-term finance. As a result, family firms suffered low profitability and had long-run survival problems, as even the most prosperous frequently end up having trouble with the descendants of the firm's founder (Buddenbrook syndrome). However, this idea is tinted in the article on having presented to companies of long duration in the time, if we obviate the changes of denomination and its juridical figure in which they take refuge (Annexe 1).

To these neoclassical factors, Casson adds the following: i) the longevity of the firm; ii) the autocratic nature of management based on age and experience; iii) personal

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[5] CASSON, M. (1999): "The Economics of the Family Firm", *Scandinavian Economic History Review*, vol. XLVII, nº 1, pp.10-23

[6] CHANDLER, A. (1987): *La mano visible. La revolución en la dirección de la empresa norteamericana*, Madrid, y (1996): *Escala y diversificación. La dinámica del capitalismo industrial*, Zaragoza.

[7] LAZONICK, W. (1981): "Competition, Specialization and Industrial Decline", *Journal of Economic History*, Vol. XLI, nº 1, pp. 31-39, (1983): "Industrial Organization and Technological Change: The Decline of the British cotton Industry", *Business History Review*, 57, pp. 195-236. MASS, W., LAZONICK, W. (1990): "The British Cotton Industry and International Competitive advantage: The State of the debates", *Business History*, 32, 4, pp. 9-65.

managing styles that reward loyalty rather than other attributes; iv) conservatism that reflects the traditional methods employed by the founder; v) the close relationship with the community, and the tendency to establish life-long commercial relations with other families. By contrast the New Institutional approach to the nature of the firm allows us the possibility to consider not just its limits, but also the most appropriate managing system. It also provides historians with the necessary tools to interpret better the performance of the family firm in its historical socio-economic environment.[8]

In line with these theories, I define here family firms as those whose control and ownership belongs to a single family. This control is held by an executive manager who is a member of the family, and two generations of the family participate in the company management. Ownership is defined here when at least 5 per cent of the shareholders voting rights belong to the family, or to an associated trust.[9] Therefore, we exclude those firms belonging to single family, but which are managed by professional executives.[10]

Family firms can be divided into dynastic and non-dynastic. The former are owned by the family (80 per cent) and considered to have a comparative advantage in the craft-based sector where scale economies are limited. By contrast non-dynastic family farms are considered to enjoy less control (15 per cent), and consequently family members are found in many fewer of the management posts. Dynastic family firms

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[8] S.R.H. JONES "Transaction Costs and the Theory of the Firm: The Scope and Limitations of the New Institutional Approach" in M. CASSON Y M.B. ROSE (ed.) Institutions and the Evolution of Modern Business, *Business History*, (1997) vol. 39, nº 4, p. 10. A. COLLI *The History of family Business, 1850-2000* (Cambridge, 2003). M.B. ROSE (ed.) *Family business* (Aldershot, 1995). FERNANDEZ, P. (2003): "Reinstalando la empresa familiar en la Economía y la Historia económica. Una aproximación a debates teóricos recientes", *Cuadernos de Economía y Dirección deEempresas*, nº 17, pp. 45-66.

[9] D.F. CHANNON *The Strategy and structure of British Enterprise* (1971: 161), Macmillan, London, quoted by P. Fernández Pérez "La empresa familiar y el «síndrome de Buddenbrook» en la España contemporánea: el caso Rivère (1860-1979)", (1999), pp. 1398-1416, in *Doctor J Nadal: la industrialización y el desarrollo económico de España*, Barcelona. A. COLLI, M.B. ROSE "Families and firms: The Culture and Evolution of Family firms in Britain and Italy in the Nineteenth and Twentieth Centuries", *Scandinavian Economic History Review*, (1999), vol. XLVII, nº 1, pp.24-47

[10] M.B. ROSE "Investment in human capital and British manufacturing industry to 1990" en W. KIRBY, M.B. ROSE *Business enterprise in modern Britain*, (1994), pp. 337-37. M. CASSON "The Economics…"

suffer from a greater range of problems than ordinary family firms on account of the difficulties in finding enough suitable family members to fill all the managing posts.

The dynastic element implies that the firm's founder devises a strategy to preserve the firm so that it can be transmitted to the following generation, who in turn will be expected to safeguard it.[11] Despite an implicit belief in the loyalty of the next generation, founders often exhibit a highly personal, autocratic style of leadership, which indicate a lack of trust in the future, despite the fact that their offspring, who have enjoyed extensive training, will inherit the company rather than outside professional managers. This fear concerning the reliability of the next generation frequently results in the founder retaining management control for longer than necessary, resulting in their successors assuming control only when they are well advanced in their professional life, and when they are thought to be able to manage the company according to the traditional values and working methods of the family. The importance of the survival of the firm at any cost implies that successive generations are expected to continue even if it becomes loss making, with the firm's closure only being considered when its financial reserves are exhausted, and perhaps even their own personal savings.

Family businesses were criticized by the difficulty of making them vary in their behaviours. Normally there is imputed to the founders -they usually give their surnames to her daughter, the company- who left the force at the core of an enterprise culture that survives for several generations, because the inheritors are educated and compromised by the culture of the company and have big difficulties to modify that one that the founder established as the correct thing left. In the companies considered here, the firm's business culture consisted of a set of values passed between generations, and

[11] Casson introduces the dynastic element after adjusting the peripheral neoclassical assumptions. There are always transaction costs when we must appeal the legal system; information is difficult to acquire, communicate and memorize and the employer is an agent whose mission is collecting and synthesizing the information in order to make decisions, and therefore, both emotional and material rewards reinforce trust and trust reduces transaction costs.

internalised by the family owners, which made far reaching change difficult. Business culture was therefore less elastic than the wider changes taking place in society, and placed restrictions on the areas of potential activities which could be considered as solutions to the growing foreign competition.[12]

The cotton Spanish sector is formed by family enterprises, almost all with the incorporation of the dynastic shade, which adapt theirs juridical figures to the Spanish institutional environment -politically and legal- in the most convenient for their interests. Until the twenties of the 20th century, the cotton Spanish companies were founded with two juridical figures: the majority figure was the general partnership (characterized by a small number of partners who commit their entire heritage as they operated under the principle of unlimited liability; for damage control contracts were short-term extension if progress of business was the right one) and the minority figure was the limited partnership (the partner groups which operate under the principle of unlimited liability and the limited partners who only respond with what we have been forced to pool) which was reserved for occasions when he had to mobilize high capital.[13] And even fewer examples of join-stock companies, except in the period 1847-1855 when it was founded six (La Espanya Industrial -1847-, La Fabril Cotonera -1852-, La Cotonera -1853-, La Industrial Cotonera -1853-, La Igualadina Cotonera -1853-, La Manufacturera de Cotó -1855-), to give way to a standstill that lasted until

[12] R. Lloyd-Jones; M.J Lewis; M. Eason, "Culture as metaphor: Company Culture and Business Strategy at Raleigh Industries, c. 1945-60", *Business History*, Vol. 41, (1999), pp. 93-133. A. Colli, P. Fernandez, M.B. Rose, "National Determinants…"
The generational change difficulties and its potential conflicts are well treated in the literature. See M. Daunton, "Inheritance and succession in the City of London in the Nineteenth Century", *Business History* (1988), 30, pp. 269-286; M.B. Rose. "Beyond Buddenbrooks: The Family Firm and the Management of Succession in Nineteenth Century Britain", in J. Browm, M.B. Rose Entrepreneurship, Networks and Modern Business (Manchester, N.Y., 1993), pp. 127-143; P. Scranton "Build a Firm, Start Another: The Bromleys and Family Firm Entrepreneurship in the Philadelphia Region", *Business History* (1993), 35, pp. 114-141; A. Colli, P. Fernandez, M.B. Rose, "National Determinants…"
[13] NADAL, J. (1998: 43).

1884, date of establishment of a Sucesora de Fabra i Portabella S.A. and it was not until the second decade of the twentieth century when the final wave of corporations.[14]

This article looks at the performance of companies within the Spanish cotton textile industry and exploring the strategies employed by the former to fulfil their objectives in keeping the management of the company within the family, and its long term survival. To achieve these goals, these companies showed a remarkable capacity in adapting to economic change during the period, and developing appropriate strategies to operate within Spain's complicated institutional, political and economic framework. The article begins in 1884, to combine the availability of data for companies and Nadal (1998) chose it as the beginning of the last chronological stage of the cotton Catalan industry before the World War I; the year of closing is 1936 coinciding with the start of the Spanish Civil War. The first section examines the sources that I use in the research. In the section 2, I consider the hypothesis whether the cotton textile firms followed conservative strategies. The strategies that are considered are a firm's small size, its aversion to indebtedness, and a preference for organic growth. These strategies in turn would help preserve the family's control of the firm over several generations. I want to measure the intensity of the strategies and appeal to two indicators: the percentage of equity (commons stock plus reserves) and debt-equity ratio. Finally, I estimate the degree of success of these strategies, using as indicators the level of profits, and the capacity to maintain the company active. I check the economic results of these strategies by comparing the profits obtained for the firms, and consider these within the general context of Spanish firms.

The long-term vision of the evolution of the companies that presented here is completed by a previous article in which I centred the attention on the strategies of the

[14] S.A. = join-stock company. CABANA, F. (2001: 81).

cotton Spanish companies during the Franco's regime and demonstrated how the cotton companies remained strategies that I described as conservative, by traditional, over almost the entire second half of the twentieth century and how their decisions only changed from the mid-sixties and, always, in a very cautious way

Sources

The sources of my research have been the annual balance-sheets of family businesses: Forcada, Sedó, Burés, Fabra, Valls, Viladomiu, Guell, Mata and also *La Espanya Industrial* founded by the family Muntadas. [15] The origin of the data is varied. So, *La Espanya Industrial* has been obtained from Cabana (2001) and Ribas (1999); Fabra in the Cabana (2001). The balance-sheets of Forcada, Sedó, Burés, Valls and Viladomiu are in the Arxiu Nacional de Catalunya. Finally, Colonia Güell is custodian in the Arxiu Historic Comarcal de Manresa.

The financial aggregates have been standardised to be included in the balance-sheets for all the firms, including deprecation of fixed assets as negatives following the methodology of Banco de España. So, in every company, I have uniformed states of condensed balance sheet at the major items of assets (fixed and circulating) and liabilities (equity, long-term debt, short-term debt with financial cost and short-term debt without financial cost). I use two financial ratios: the percentage of own resources and debt ratio, to check the status of conservatism of companies, and profit-to-equity ratio to check the success of the strategies. As own resources I have assessed the capital, the reserves and cover more the remnant of every year, and I have deduced the remnants accumulated by losses. For the debt ratio, according to the Banco de España, I have calculated the net assets (total assets less debts in the short term without cost) divided

[15] PAREJO, A. (1999) did not publish the key data for the calculation of the financial ratios of the Industria Malagueña, S.A. and only he shows the graphs of different ratios. The Andalusian firm was disconnected of the Catalan nucleus it had been very interesting to arrange some and others to verify if there are kept the characteristics of the cotton family enterprises between those that are isolated of the industrial principal nucleus.

by the sum of short-term debt with cost plus long-term liabilities. The aggregate profits of the industry are based on the net earnings distributed after tax, as we do not have all the figures for depreciation, and to allow us to make a comparison of the economic cycles, and with the Tafunell series (1996, 1998, 2000).[16]

I need to clarify the fact that the series presented under the surname of a family are the product of the addition of chronological results of different societies -under juridical changeable figures- that families constituted over time. At that time, although the companies were remaining the juridical societies who were sustaining them were appearing and disappearing according to the vicissitudes of the family, especially, as the founders were dying of each one of them. The companies were shifting from partnerships to limited partnerships end up becoming joint-stock companies.[17] There are some gaps in the series to be that different societies accounting connect what it has led us to link end balance sheets of companies with inventories beginning of the following, often under a separate legal figure (the main case is the family Valls)

The start of the tradition: aversion to risk and low indebtedness.

The main characteristic of the family firm is its aversion to risk, which paralyses the assumption of any activity that leaves the path of survival traditional business marked by the founder. An aversion caused by the combination of three reasons. First, the managers and partners in the legal figures of general partnership or limited partnership respond to the progress of the company with their personal wealth. The second comes from the company is the mechanism that guarantees the welfare of the family, if you risk being playing with the future of their heirs. A third reason is the fear of losing what has cost so much effort to lift.

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[16] The kindness of calculation is certified by comparing the rate of return on Sedó with which Nadal calculated on the gross profits and deals that both curves describe the same route.
[17] See anexo 1.

To guarantee the survival of the company owning families established very high standards for own resources, they finance the fixed assets and almost all circulating. In general, family firms, and the Spanish firms were not an exception, are reluctant to external finance both long-term and short-term. A percentage of short-term financing that Spanish cotton companies came from families that own through sight accounts paid. The defensive decision to resort in a low percentage of outside resources and concentrate on own resources was feedback by the backwardness of the Spanish economy. Entrepreneurs assumed the costs of financing the merchants of tissues, to become producers, traders and bankers.[18]

To follow the development of own resources have two continuous series with data from the family Sedó and *La Espanya Industrial*, fragmented information from Viladomiu and from the early twentieth century those of other families. I show in Figure 1, companies between 1884 and 1936 are kept almost permanently between 60% and 80% of own resources. The turning point are the years spanning World War I and post-war carried until 1922, when own resources fluctuated between 40% and 60% and finish the stage pointing minimum percentage in all cases.[19] The investment boom in buildings and machinery (fixed assets) of the twenties was financed supporting the orthodoxy of the family enterprise: increasing own resources, almost always based on subscribed capital increases by the families that own them.[20] The strong oscillations of the series of

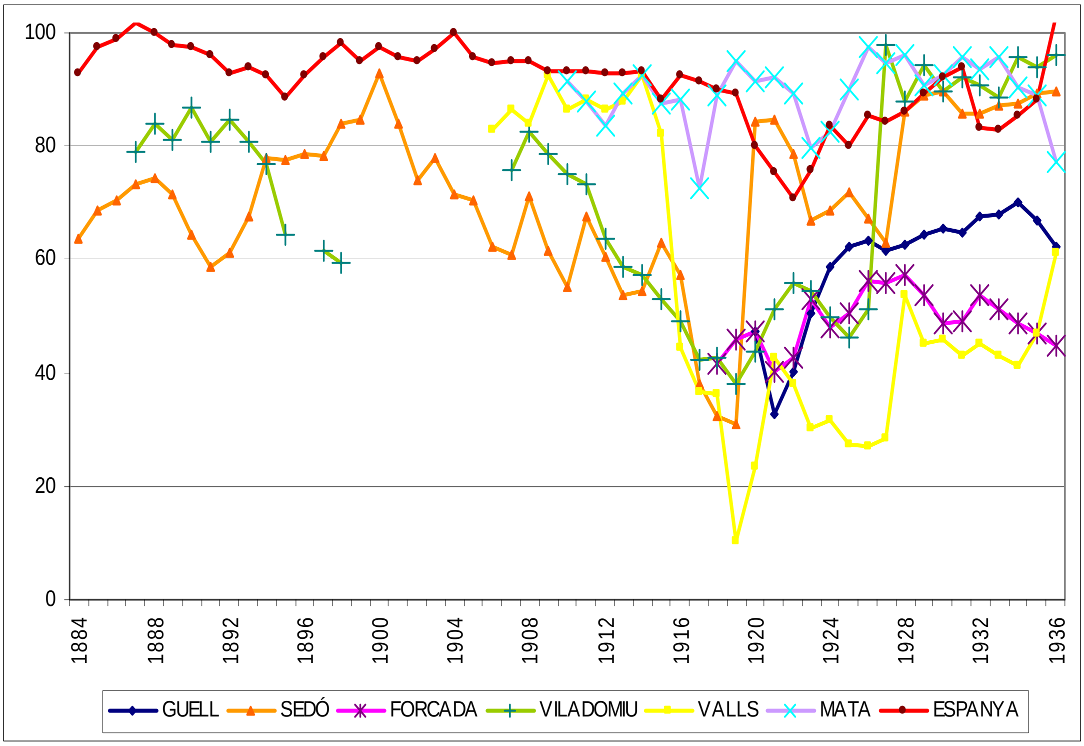
[18] A double reason provoked this multiplicity of cotton businessman, on the one hand the general backwardness of the country -agriculture, poor and low consumption levels- and, secondly, the lack of adequate financial and commercial institutions. NADAL (1998: 69-72). An example in PRAT (2003). Wool sector: BENAUL, J.Mª (1993): "La comercialització dels teixits de llana en la cruïlla dels segles XVIII i XIX. L'exemple de la fàbrica de Terrassa Anton i Joaquim Sagrera", *Arraona*, nº 13, pp. 35-47. DEU I BAIGUAL, E. (1999a): "Distribución de tejidos de lana catalanes en el mercado español, 1870-1935" en *Doctor J Nadal: la industrialización y el desarrollo económico de España*, Vol. 2, Barcelona, pp. 1175-1187. DEU I BAIGUAL, E. (1999b): "La comercialización de tejidos catalanes en Castilla-León y Cantabria, 1870-1914" in YUN CASALILLA, B., TORRAS, J: *Consumo, condiciones de vida y comercialización: Cataluña, Castilla, siglos XVII-XIX*, pp. 377-394.

[19] These behaviours are not novel in cotton companies is found in the case of the factory "la Rambla" (1841-1861) see en NADAL y RIBAS (1970), SOLER (1997) y NADAL (1998).

[20] NADAL (1998: 77) shows the family Sedó example.

own resources of the family Valls are determined by the juridical transformations of the different Valls' companies. The hypothesis is yet to prove: with every society change it was built to make a dividend distribution among the partners which affects own resources to be transferred between successive societies.[21]

Figure 1. Percentage of own resources (total assets)



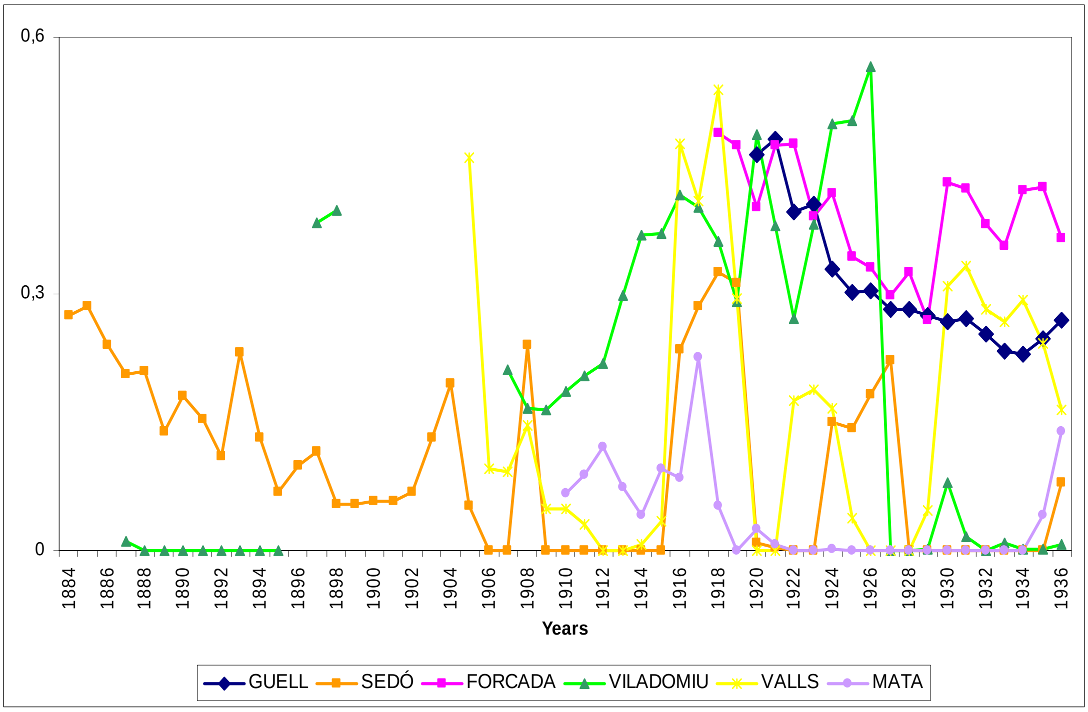
Source: Balance sheets. *La Espanya Industrial*: RIBAS (1999). Own elaboration.

The exceptional conditions accumulated during the years of war were used by companies to increase their levels of production and marketing. The commercial expansion of the cotton industry was sustained by exports, which grew from 6 thousand tons on average in 1910-1914 to reach 16 thousand tons on average in 1915-1919, namely cotton exports grew to 2.5% on average annually, targeting Europe for 70% of them.[22] The productive and commercial intensification of the companies' activities provoked the modification in the financial traditional management. In those years was necessary to hold an increase of the net assets provoked by the increased production and

[21] It is hanging of becoming more refined a better union of the balances of the societies of the family Valls and the checking, and extension to all the firms, of the hypothesis that SOLER (1997) has demonstrated for "La Rambla".
[22] DEU i BAIGUAL (1998: 18).

marketing, finance requiring an increasing number of trade and an increase in stockpiles of raw materials, intermediate products and finished.[23] The managers understood this phase as exceptional and timely responded by applying strategies that served to settle the needs of the expansion, which focused on the resources to go outside, tinges of others, because almost all accounts opened creditor paid their own fees. In other words, the owners families were who funded the needs of circulating their businesses, avoiding go as far as possible the financial system. Banks were reduced to provide the necessary mechanisms in international operations; opening all businesses, some for the first time, sight accounts in foreign currencies, including some located in foreign banks.[24]

Figure 2. Debt ratio.



Source: Balance sheet. Own elaboration

The decisions thought by the businessmen impacted in a percentage decrease of the own resources that was accompanied by the parallel increase in the indebtedness ratio. As shown in Figure 2, the companies expanded their ratios of indebtedness meet

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[23] NADAL, J.; FONTANA J. (1980): "España 1914-1970" en CIPOLLA, C.M. (coord.) *Historia económica de Europa*, Vol. 6, Tomo 2, pp. 95-163. DEU i BAIGUAL (1998)

[24] "…que una bona part dels dipòsit acreditats durant aquests anys per tota mena de bancs ho eren en moneda estrangera" SUDRIA (1998: 61).

the growing needs of circulating, but in any case it would endanger financial stability as the ratio reached a maximum value of 0.6 very removed from the 1 that indicates the countable theory as the red line of the indebtedness. The culminating point of the external financing is 1904 ensued from the turn-of-the-century difficulties and that one sees in Sedó, Valls or "*La Rambla*".[25] The case is revealed as unique is the Forcada, a company always maintained a lower percentage of capital and higher rates of indebtedness and presents the lower financial returns. This specificity is keep after the civil war, years in which *Forcada S.A.* also separates the usual behaviour of Spanish cotton family firms.[26]

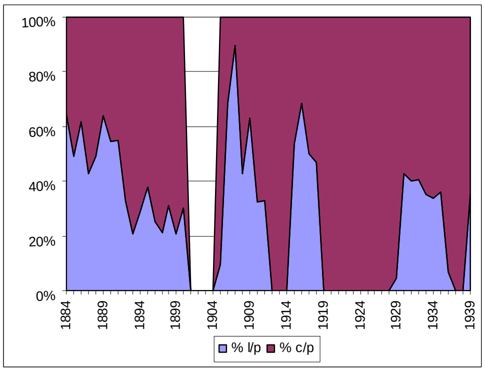
But knowing the debt ratio is not enough, I include in the analysis the structure of corporate liabilities. There were fiscal years in which the foreign resources, some of them, are zero; in almost all the companies, when the liabilities appear in the structure of the leviable there is an absolute predominance of the short-term debts and an almost total absence of the long-term indebtedness. This way, Forcada and Viladomiu do not resort ever to the long-term indebtedness and the families Mata and Sedó only they do it during the first years of the regular societies. Inside the short-term liabilities two accounts stand out: supplying count and the remunerated accounts that members of the proprietary family open in their firms as tool to finance the current assets and of remuneration of their personal capitals.

The exceptions were Valls and Güell (Figure 3) and these families accumulated the largest percentages of long-term liabilities. Valls had long-term financing chronologically closer to changing the name of successive societies of the family. Every Valls' society begins with a strong funding of loan capital to go diminishing it at par of the increase of the own resources. *Colonia Guell S.A.* is the most peculiar firm. It born

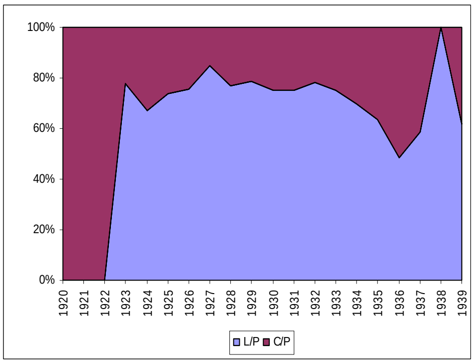
[25] SOLER (1997: 213).
[26] See FERNANDEZ-ROCA (2007).

in 1920 with a capital of 3.5 millions pesetas and the same as shares in portfolio (realizable), in 1924 the capital has risen to 12 million pesetas which is complemented by an emission of ballots long-term mortgage valued 6,500,000 pesetas, and in 1935 complete with a bank loan mortgage half a million pesetas. As high capital requirements were intended to cover investment in machinery and buildings that the company faced the mid twenties, just at the end of the cycle caused by expansive the First World War. Curiously the company with greater long-term debt, *Colonia Guell SA*, was the only one of those included here that ended up being sold, in this case to the Bertrand family.

Figure 3. Structure of liabilities in Valls and Guell.



Valls

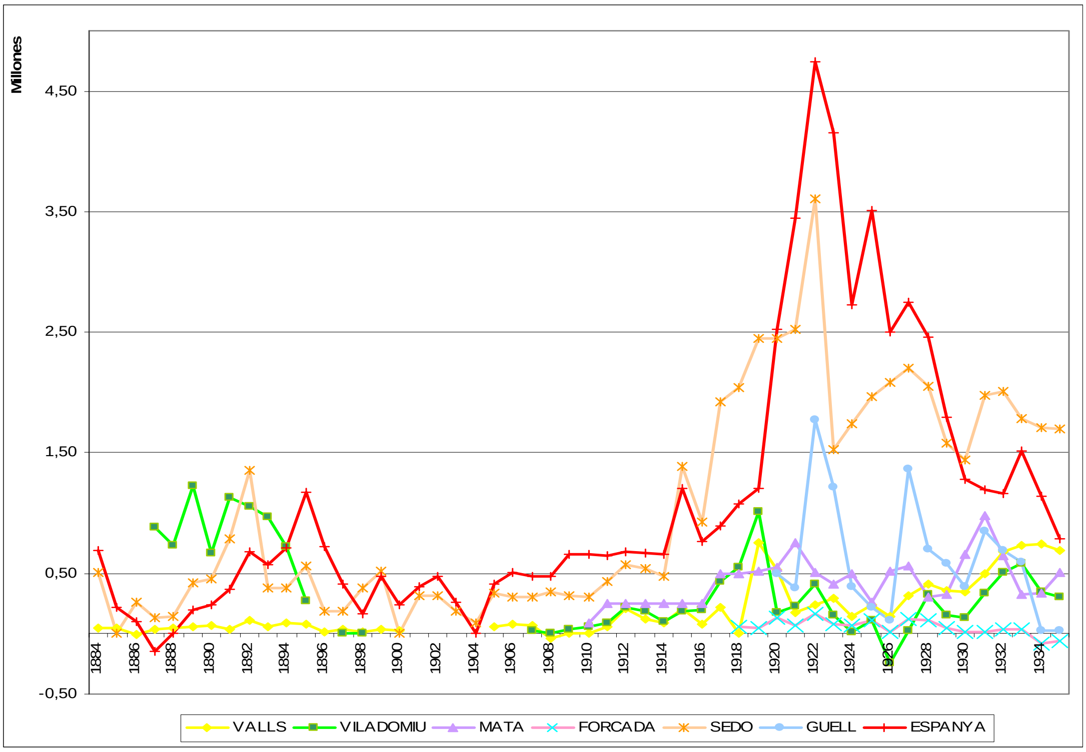


Guell

The remuneration of the strategy: profits and financial return.

In the third section, to avoid ambiguous conclusions regarding the progress of the companies I include the profitability and, also, the volume of profits. The prism taken part of a basic premise: the main objective of managers was to guarantee the longevity of companies rather than maximizing profits. The premise is essential to understand the behaviour of a profitability weighed down by a sustained strategy in a large volume of own resources, linked to low levels of indebtedness with liabilities. The denominator of the profit-to-equity ratio are own resources, so the growth of own resources influences the outcome of the ratio, except that the profits were able to follow a similar upslope. I have represented the profits made in current pesetas each year (figure 4) and profitability (figure 5) of enterprises.

Figure 4. Cotton firms' profits (current ptas.)



Source: Balance sheets. La Espanya Industrial: RIBAS (1999). Own elaboration.

Figure 4 presents the total volume of corporate profits in current pesetas of every year. At first glance there are four phases. In the first, between 1884 and 1892-1894, the profits have an upward behaviour, from soil which was zero or negative, supported by technological innovation and economic policy that closed the colonial's market, especially Cuba, to Spanish products.[27] The second phase started in previous biennium to the war with the United States (Spain lost its colonies), coincides with the agrarian turn-of-the-century crisis and the saturation of the Catalan exportation market.[28] The sector defended in an internal market characterized by inelastic demand but that was the main output of cotton production thanks to the Spanish government protectionism. The

[27] NADAL (1998: 61 y ss) analyzes the economic conjuncture of the sector between 1884 and 1912. The factory "la Rambla" finishes the period with the same behaviour. SOLER (1997. 215).

[28] Crisis qualifies DEU i BAIGUAL (1998: 13-14) to the period in which there are accumulated the loss of the colonial markets, the increase of the deficit of the commercial scale of textile elaborated products, the markup of the costs of production, raw materials and power, the general increase of the prices of the manufactured products and the contraction of the domestic demand.

cotton growers enjoyed the cotton trade protectionism; it does not mean they did high sales prices that would enable them to obtain high profits since it was a sector composed of multitude small and medium enterprises operating in competition regime.[29] The combination of all factors turned the years 1898 to 1914 in a phase of decline in profits. The third covers from the boom in World War I until the end of the post-war period, from 1914 to 1922, when profits are brought about recent relevant and that signals the end of the expansion phase. During these years reappeared protectionism, whose zenith was the Tariff Cambó 1922, to safeguard the industrial interests.[30] The situation is lodged in all its crudeness the *Comité Regulador de la Industria Algodonera* in 1930:

> *"El malestar de nuestra industria algodonera obedece en parte al natural reflejo de la crisis general que afecta a dicha industria. Descienden los precio de las manufacturas y se estrechan los márgenes con respecto a las materias primas además del exceso de producción"*[31]

The fourth reaches the Spanish Civil War of 1936 and presents a trend in the fall of profits (with mounting losses from 1935), although not without teeth saw characteristic of a sector as voluble as the textiles.[32] The agricultural conjuncture in 1932 and 1934 is behind the punctual improvement of profits and profitability of both fiscal years and shows the degree of backwardness of the Spanish economy that remained linked to the seasonal variation in its behaviour. While profits improved in the above mentioned annuities they did not break the downward trend marked from 1922, but were an improvement on the ground that meant 1930 and a marked optimism in the sector. That optimism will cut quickly, because since 1935 the country's institutional situation will

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[29] SUDRIA, C. (1998: 57).

[30] The bibliography does not stop decanting on the effect any more, or less, positive of the *Arancel Cambó* for Catalans textile. This way, SUDRIÁ (1998) tints that the textiles did not see excessively favoured in view of the protection level reached previously. On the other hand, DEU (1998) indicates that the protectionism was the only way that it still had to the Catalan textile to settle the crisis in the one that entered after the period of prosperity lived during the war and that how the Catalan businessmen were especially active in favour of a hardening of the commercial protectionism.

[31] DEU i BAIGUAL (1998: 37).

[32] DEU i BAIGUAL (1998: 35 y ss.) revises the unfavourable factors lived in the decade 1923-1933, among them, he indicates to the drop of prices of the cotton, the increase of the world production, the increasing competition of the artificial fibres.

degenerate rapidly dwindling as companies see their profits, some already come into losses, which are widespread in 1936.[33]

Companies are divided into two groups: those that accumulate high profits, such as *La Espanya Industrial* or *Sedó* and those the results were lower, falling *Güell* between both. But, obviously, a total profit generated does not say much more. The biggest firms close their accounts with a greater volume of profits, so they must resort to profitability to determine the remuneration of capital invested. From figure 5 gives similar phases to the already mentioned. [34] First, there is a phase with a soft upslope of profitability until 1898. A period of slack until World War I, with yields even lower the average Spanish sector of consumer goods industries.[35] The strong upslope to profitability in the warlike period extended until 1922.[36] In these years it is remarkable the advantage that some of the cotton firms gained on the group of consumer goods industries. Finally, I see more clearly that in total profits, the downward slope of business performance starts at the apex of 1922 and continues until the civil war.[37]

Today, the profit-to-equity ratio is one of the most important ratios in the valuation of the companies. Nevertheless, the cotton Spanish manufacturers of the time, directing their family firms, had a very different point of view. The managers preferred the stability of their companies and they were not obsessed with obtaining a very high profit-to-equity ratio; their income was coming from their salaries as executives and

[33] NADAL, J.; FONTANA J. (1980); PALAFOX, J. (1991): *Atraso económico y democracia: la Segunda República y la economía española, 1892-1936, B*arcelona, Crítica. DEU i BAIGUAL (1998).
[34] Al end, there is a figure with profitability
[35] Es interesante el comportamiento anómalo de las empresas algodoneras respecto del agregado nacional. Para éste, TAFUNELL (2000), el primer período es de crisis y el segundo lo fue de auge "finisecular". There is interesting the anomalous behaviour of the cotton companies respect of the national data. TAFUNELL (2000) defends that the first period is of crisis and the second one it was of summit
[36] The wool profits show a curve and behaviours in the I World war practically equivalent to the cotton growers. DEU i BAIGUAL, E. (1988): "Els beneficis industrials durant la Primera Guerra Mundial: el cas de la indústria llanera de Sabadell", *Recerques*, nº 20, pp. 45-60
[37] Once finished the world war the favouring factors for the cotton industry had disappeared and the problems dragged by the sector reappeared with great more force: excess of productive capacity and difficulties to place on the international market. DEU i BAIGUAL (1998: 17).

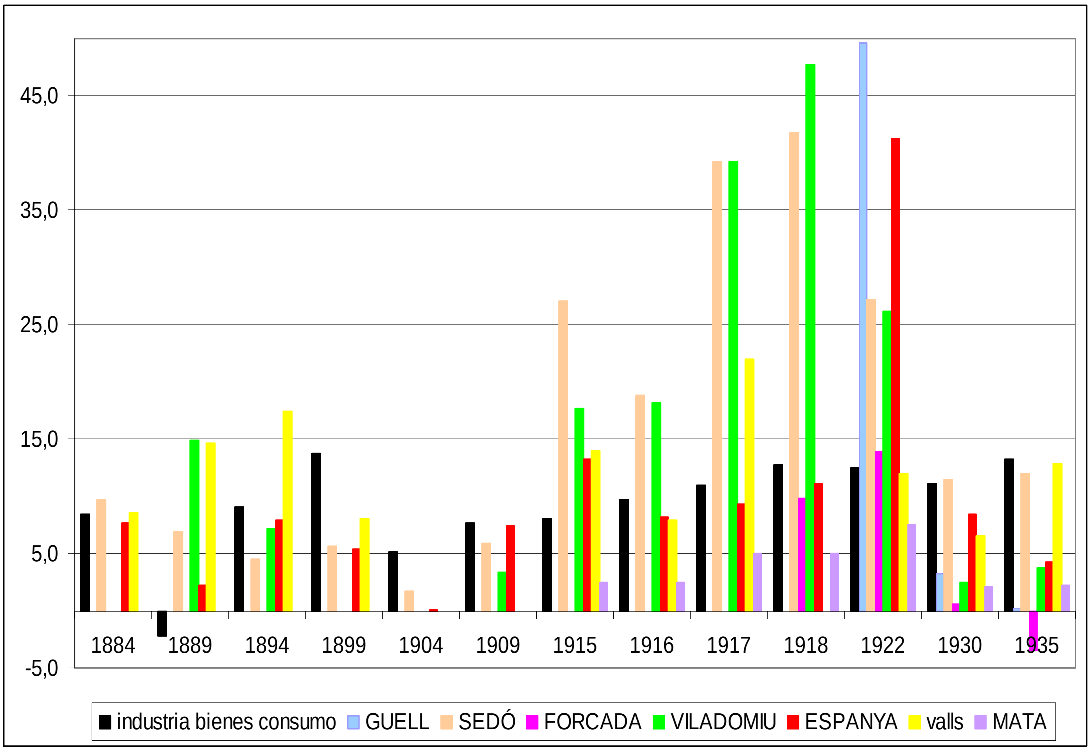
from the percentage of the profits generated by statute to them in their role as managers and members of board of directors; apart from income from the bearing accounts maintained in the company itself. Therefore, the director of the company -who was coinciding with the majority associate- was more interested in preserve the firm that in maximizing the profitability to transfer it across the distribution of dividends; in addition, they had to answer before few shareholders -or partners if yet it was not an joint-stock company- and the great majority of they belonged to the family and, therefore, not exerted great pressure in order to maximize the remuneration of capital. Serve as an example J.A. Muntadas' thought, president of boards of directors (*La Espanya Industrial*), which was the least familiar of all cotton companies since it was joint-stock company quoted on the stock exchange, hence, was more pressure than the others to deliver returns to maintain the value of the share:

> "*séame lícito añadiros, que el verdadero industrial, trabaja y se afana por algo más que por la remuneración de su capitales. Ama el industrial su industria, con el propio entusiasmo que el artista su arte, que el literato la literatura*".[38]

The summary of the profitability of the figure 5 offers the interesting comparison between the cotton companies and the profitability of the national sector of industries of consumption.[39] Traditionally there has been talk in Spanish economic history literature of the low profitability of the cotton sector nevertheless a simple glimpse to the previous figure shows us that the majority of the cotton societies are over the average of the companies of consumer goods and, if I was risking, the average of the cotton sector also it would be above. In other words, the profitability of the cotton Spanish sector is superior, in general, to the consumer sector industries, except in the later phase ranging from the War of Cuba until World War I in which results poorest cotton companies.

[38] See Cabana (1993: 97).
[39] See anexo 2.

Figure 5. Profit-to-equity ratio of cotton Spanish firms and Spanish consumer goods industries.

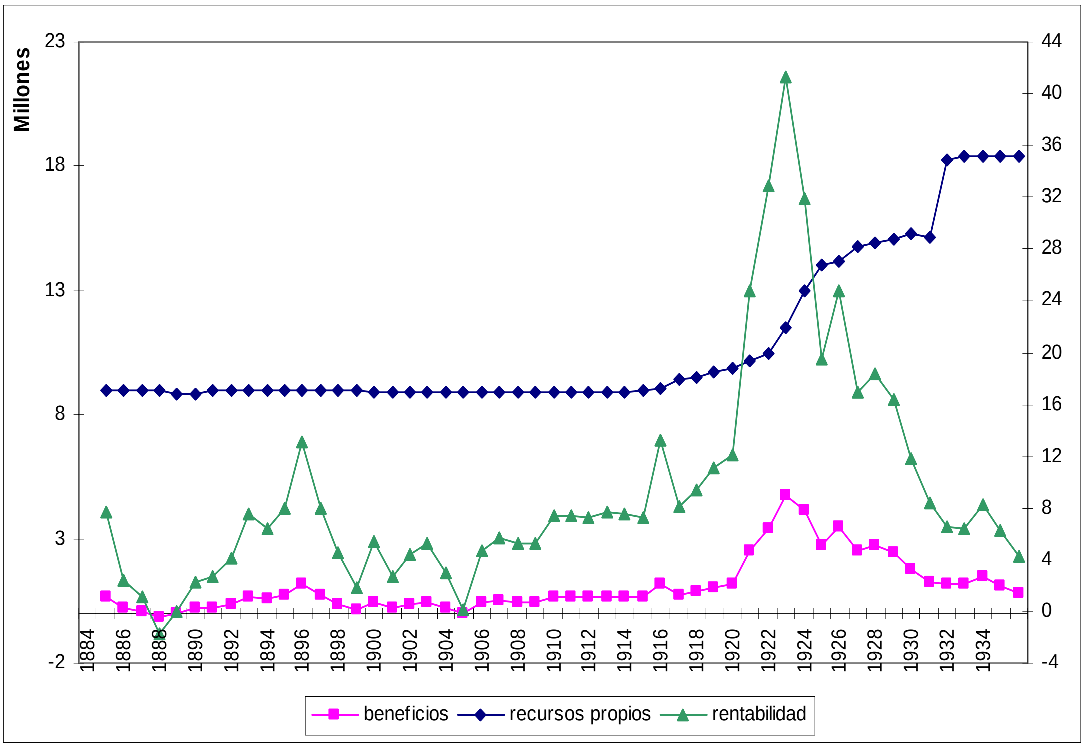


Source: Balance sheets. La Espanya Industrial: RIBAS (1999). Own elaboration.

Finally, in analyzing the profitability can not remain only with the value provided by the aseptic ratio. The profitability is conditioned by the amount of profits which, in turn, are influenced by economic conditions, but also plays an important role policy that the company has implemented its own resources. A greater supply of them in capital, reserves or provisions, affects obtaining a lower return than if the company funded a larger share foreign resource. A very high percentage of this performance rests on an exclusive basis in the decisions of managers of the companies, not just the environment was the inducer in this behaviour. In other words, we must qualify the traditional view that outsourcers the reasons for the low cotton yields, family businesses consciously accepted lower yields in return for ensuring the longevity and entered into a feedback process in their strategies and the conservative economic and institutional environment which is unwrapped. In addition, as set out in Annex 2 graph reaffirms that the strategy was not very misguided, the company with more debt ratio and lower proportion of own resources, *Forcada*, is that achieves the lowest profit-to-equity ratio.

In the following examples there is verified how different financial strategies obtain a different behaviour from the profitability. In the figures 6, 7 and 8 are reproduced developments of own resources, profits and profit-to-equity ratio of three Spanish cotton firms.

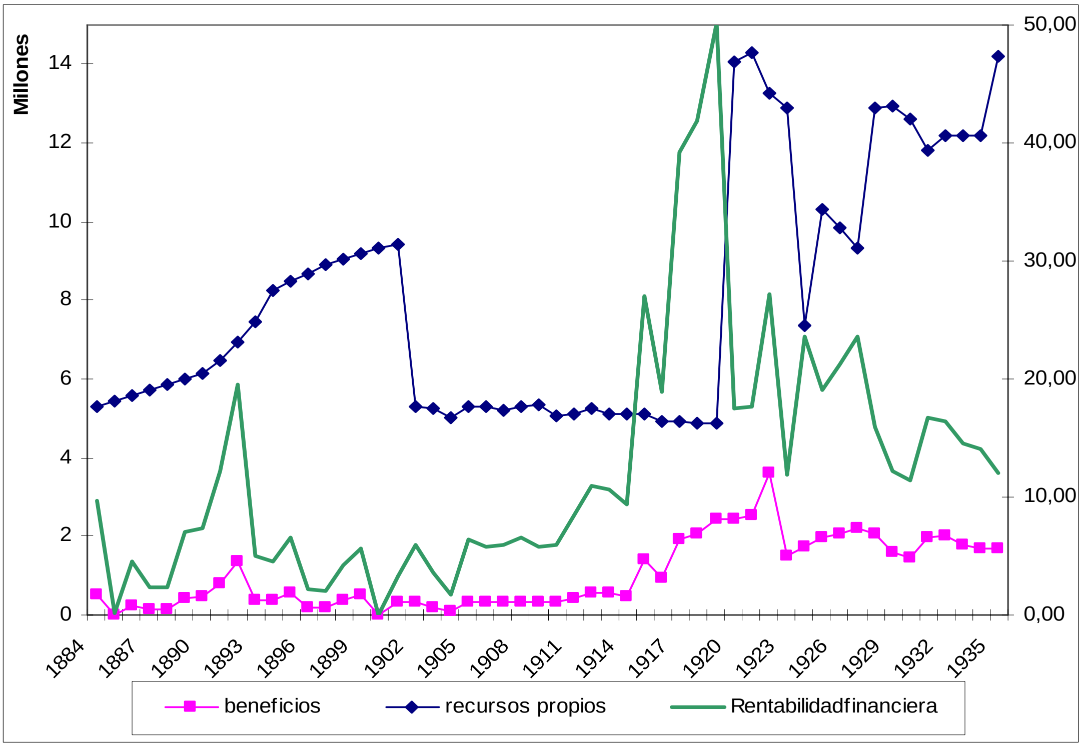
Figure 6. La Espanya Industrial.



Source: La Espanya Industrial: RIBAS (1999). Own elaboration

The information of *La Espanya Industrial* is enlightening of the strategy developed by the management, traditionally in hands of the family Muntadas. The profits of the firm, in absolute numbers, have remained stable between 1884 and 1914, with the exception of peak of pre-war of Cuba. A stability in the profits that joined to that the company did not expand the own resources resulting in stable yields between 3% and 7%. The company makes a supply in capital and reserves transforming part of the profits made by the effects of World War I with the immediate effect of declining profitability.[40] The slope of decline of this was more pronounced than the profits, except for the extraordinary year of 1922 when the company obtained the highest profits in its history.

Figure 7: Sedó family



Source: Balance sheets. Own elaboration.

From the data of the Sedó family I advance that they implemented a more conservative strategy that applied in *La Espanya Industrial*. During the period from 1884 to 1901, coinciding with general partnership *A. Sedó y Cia* (general partnership), is seen as a phase of profit growth translates into an upward movement of own resources almost immediately, provoking deterioration in profitability. Between 1902 and 1936 data correspond to *L. A. Sedó en comandita* (commandite) changing society and legal figure explains the jump that the series have between 1901 and 1902. The new society of the family Sedó supported the strategy of its predecessor -and the future *Sedó*

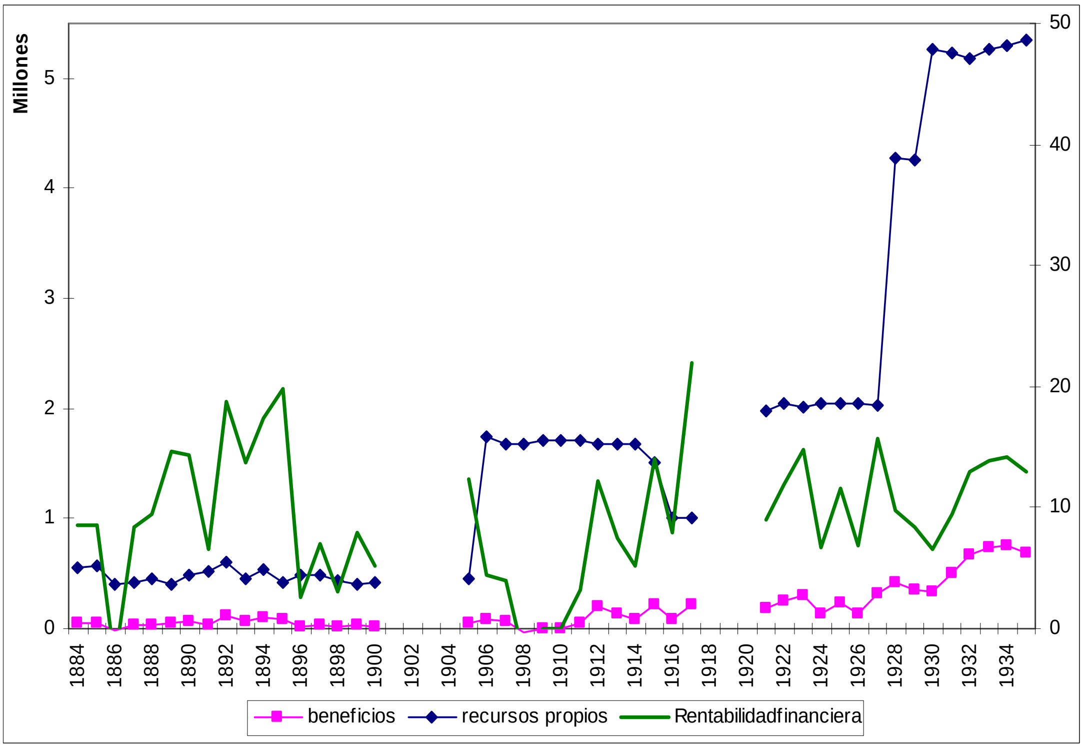
[40] Muntadas established which was the correct way to grow: "«l'ampliació de capital era imposible, ja que les accions cotitzaven molt per sota a la par. Les úniques alternatives eren l'emissió d'obligacions o fer un pla d'estalvi i reducció del personal fins a l'aplicació a reserves dels beneficis que es poguessin generar, en detriment dels accionistes». Para conseguirlo hubo de forzar la dimisó del viejo consejo y recurrris a gente nueva con ideas nuevas." CABANA (1993: 104)

S.A. (join-stock company) will act of equal way-, this way they increased the endowments of the own resources to the fiscal year following the increase of the profits. The company, passed the euphoria provoked by the World War I adjusted the balance in 1924, reducing it in 50%, which provoked the valuable setback of the own resources that, on the other hand, contemplated proportionally continued representing 70% of the liabilities. Once consolidated the profits from 1925, company broad capital by 50% to finance the investments in machinery and new buildings plus the increase requirements for industrial and commercial circulating that the enlargement leads to productive, even at the expense of sacrifice profitability.

The following figure shows the series of the different societies founded by the family Valls: *Esteban Valls y Cia*. (general partnership, 1878-1900); *I. Valls i Pallerda* (general partnership, 1900-1918), *Valls i Mir en comandita* (commandite, 1919-1920) and, finally, *Manufacturas Valls S.A.* (join-stock company) founded in 1920. The Esteban Valls' firm is one of that achieves higher yields - between 10 % and 20%-and, as in the previous examples, it has their biggest boom just before the independence of the colonies. The next company, *Valls i Pallerda*, develops the strongest expansion of its own resources in 1907 which joined a phase of profits contained provokes in a reduction in profitability, which is recovered only after reducing the weight of own resources in the onslaught World War.

I have extracted from the figure 8 data *Valls i Mir en comandita* by its uniqueness, because it is a society bridge between the general partnership of the family Valls and *Manufacturas Valls S.A.* In the biennium 1919-1920 profitability *Valls i Mir en comandita* soared up to 200% and 133% respectively, causing significant disfigurement of the graph, and profits reaching 750,000 and 532,000 pesetas respectively. In 1920 the family founded *Manufacturas Valls S.A.*, which is still headed as companies since its previous regular societies of family enterprise. Thus, the joint-stock company on its own resources incorporates own resources from *Valls i Pallerda* joined with the profits from *Valls i Mir*. *Manufacturas Valls S.A.* begins in 1928 to an ambitious extension of the capital (1,800,000 pesetas to 5 million in 1930) to sustain growth of fixed assets and part of circulating needed to hold that the increase in productive activity and trade.

Gráfico 8. Familia Valls.



Source: Balance sheets. Own elaboration.

Conclusions.

In view of the explained previously, of the annexe I and of the research on the same firms already published[41], the conclusion is incisive: all the families reach with roominess their first aim: they are long-lived. They change, as the years pass, their firms names but the company of the family survives from middle of the 19th century, when the first societies were founded, until ends of the 20th century, when the crisis provokes

[41] FERNANDEZ-ROCA (2007).

the closing. A period of 150 years means that most companies here inserted covering four and five generations away from the "syndrome Buddenbrooks."

In general, in the period of 1884-1936 there were no major developments in the design of the economic and financial strategies of the textile cotton firms, being the most relevant fact the transformation of the general partnership in joint-stock companies. The successive juridical transformations did not suppose any modification in the traditional long-term strategies that they were guiding to the companies, which not ceased to be family businesses. Decisions to be synthesized in: low debt, use of family patrimony to finance the current assets and high proportion of own resources in the structure of the balance sheet.[42] The decisions do not seem fanciful, contrasting the evolution of every firm is perceived as the most indebted firms are those that in the long term, have a worse performance; so, *Colonia Guell* –the only in a strong long-term debt- ends up being sold to another family and one with the lowest proportion of own resources and higher debt ratio, *Forcada*, is what gets consistently lower profit-to-equity ratio.

To end, in the examples I demonstrate how after every stage of strong growth of the firms profits undertaken processes of increase of the own resources.[43] This defensive decision inherit from the founding companies, has a negative effect on the evolution of corporate profitability. Each increase in the percentage of own resources means that if profits do not grow in equal proportion and during these periods are quite stable, profitability suffers a significant decline.

[42] The long term of these strategies is reinforced in SOLER (1997) who for the case of the factory of La Rambla already was advancing that from 1840 the axles of the company were the self-financing and the sacrifice of the financial short-term profitability.
[43] TAFUNELL (2000) indicates the similar behaviour in the industrial Spanish companies that after the big profits obtained during the Great War these were "accompanied of one not less intense and supported capitalization".

		Ferran Puig, Portabella i cia. (1838-1843)		Fèlix Macià i cia. (1840-1844)			
		Ferran Puig i cia. (1844-1859)		Guell, Ramis i cia. (1844-1855) Cta.			
		Ferran Puig i fill i cia. (1860-1865)		Guell i cia. (1855-1860)			
		Puig i Fabra (1866-1884)		Jové, Ascacíbar i cia. (1861-1867)			
Burés y Salvadó (1894)	Viladomiu e Hijos (1869-1896)			Ascacíbar i cia. (1868-1873)			
				Pascual, Flaquer i cia. (1874-1875)			
				Parellada, flaquer i cia. (1876-1888)		A. Sedó y Compañía (1880)	Esteban Valls y Cia (1877)
				Parellada i cia. (1889-1894)			
		Camil Fabra i cia. (1860-1882)					
Regordosa Hnos, (1900)	José Viladomiu (1897-1906)	Camil Fabra i cia. sucessors de Ferran Puig (1882-1884)					
				Guell, Parellada i cia. 1895-1920) cta.			
	José y Jacinto Viladomiu soc. reg. Col.(1907-1927)	SA Sucesora de Fabra i Portabella (1885-1902)				L.A. Sedó en Cta (1902-1936)	Valls y Mir soc.cta (1919)
Regordosa Hnas (1921)	José Viladomiu Senmartí (1928-134)	Fabra y Coats SA (1903)					I. Valls y Pallerda (1905)
	Viladomiu SA (1934)		Hilaturas Forcada SA (1918)	Colonial Güell SA (1920)	Compañía Anónima Fábricas de L. Mata y Pons, 1910		Manufacturas Valls S.A. 1918
Burés SA (1939)						Sedó S.A.1936	

Anexo 2. Profit-to equito ratio