

Abstract.

This article explores the strategies carried out by the Spanish cotton industry, drawing the distinction between dynastic and non-dynastic companies, and the business strategies to preserve the family firm, to keep the control of management in the hands of the founder's family, and to maintain long-term living standards. To achieve this, companies showed a remarkable capacity to adapt to the changing institutional, political and economic context in Spain during the second half of the twentieth century. Finally, we measure the degree of success by looking at profits, profitability and ability of dynastic and non-dynastic companies to survive.

KEYWORDS

Cotton industry, business strategies, Spain, family firm, economic autarchy, Franco

I. Introduction

The family firm has a better reputation among 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.² 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.³ 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). 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 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.⁴ 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.⁵

In the literature, there is a wide debate on the definition of family firm and no one is broadly accepted.⁶ In addition, family business is subject to international variations and times evolution changes since family ownership form may display different capabilities in specific societies. Trying to synthesize a definition about family firm from management, some scholars have focused on the share of ownership and/or management by family members; others scholars have defined family business in terms of the degree of family involvement or potential for generational transfer; and finally, others have included the percentage of equity are under family control.⁷

Astrachan and Shanker provide three rings of definitions from the very broad to more narrow; first, criteria of family's retention of voting control over the strategic direction; second, the retention of the control by the family; and, third, the narrowest definition, the retention of voting control of the business and the involvement of multiple generations of family members in the day-to-day operations of the firm.⁸

The definition chosen will determine what is considered and what not a family business is.⁹ Business History scholars normally choose definitions containing threes aspects: percentage of equity by family control, control of management by family and intergenerational transmission.¹⁰ The definitions given in the literature have been exposed a growing complexity. Here, I define 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.¹¹ Therefore, we exclude those firms belonging to single family, but which are managed by professional executives.¹²

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.¹³ 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 savings¹⁴.

Family firms can be divided into dynastic and non-dynastic. The former are owned by the family plus the principal places in the hierarchy are held by the same family, 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, and consequently family members are found in many fewer of the management posts. These firms are frequently to be found in the science-based sectors where scale economies are greater. Dynastic family firms 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.

This article looks at the performance of companies within the Spanish cotton textile industry, using the distinction between dynastic and non-dynastic companies, 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 second half of the twentieth century, and developing appropriate strategies to operate within Spain's complicated institutional, political and economic framework. 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. The first section examines institutional and economic changes during the Franco regime, and its impact for business strategy. Section 2 considers two hypotheses: whether the cotton textile firms followed conservative strategies, and whether the dynastic firms were more conservative than non-dynastic ones. 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. Finally, I check the economic results of these strategies by comparing the profits obtained for both types of firms, and consider these within the general context of Spanish firms.

II. Institutional framework of Spanish cotton industry.

The economic policies followed by the Franco's governments had a major impact on the environment in which the country's business community had to operate within.¹⁵ Franco's autarky policy was accompanied by an economic boycott and international isolation of the regime on account of its support for other fascist countries during World War II.¹⁶ Autarky also implied a high level of interventionism by the State, and its leading role in the industrialization of the country. Government intervention entailed an endless list of legal regulations that stilted the economy and made it very rigid. The State tightly regulated the distribution of raw materials, together with the permits required for the creation of new firms or for factory extensions, and foreign trade. In the particular case of cotton, the State regulated agricultural production, the first transformations (ginning and carding), the exploitation of sub-products (stripping, seeds and oil), and the trade of

the cotton fibres and their sub-products.¹⁷ The Ministry of Agriculture fixed the price of raw cotton and cotton fibre, and established the distribution of the fibre between the government's representatives (*Sindicatos Verticales*), the cotton-ginners and the farmers.¹⁸ To encourage the domestic production of raw cotton, the State also severely restricted the imports of cotton fibre between 1940 and 1962

Textile entrepreneurs therefore enjoyed protection not just from imports, but also from potential competitors in the domestic market, who faced considerable difficulties in establishing new factories. Therefore, instead of having to compete for market share, they dedicated their energies instead to obtaining raw materials and energy, distributed by the State by means of a quota system. This replacement of the market by the State distorted the allocation of resources and the structure of incentives, as not only was the distribution of raw material and energy inefficient and often arbitrary, but productivity declined as business found it difficult to modernise and replace machinery. In this context, firms could be considered efficient if they were successful in obtaining a sufficient and regular supply of the indispensable inputs from the government, and thereby avoided having to pay the high prices for alternative supplies on the black market. This was difficult, however, as industrial demand for raw materials and energy was greater than what the government could supply. As a result, firms switched from a policy of maximising economic efficiency to one of rent seeking.¹⁹ Entrepreneurs dedicated significant resources to unproductive activities, such as speculating, influence peddling and corruption, in order to secure the necessary papers in Madrid to allow their business access to the necessary raw materials, energy and machinery.²⁰

Company expectations are an important indicator to understand the working of an economy or sector.²¹ In the autarchic years, the prospects for textile entrepreneurs were very uncertain. First, after the Second World War, the political future of Franco's regime was uncertain, and there existed

the possibility that the democratic countries could try and overthrow the fascist regime. Second, the discretionary policies adopted by the State, such as the necessary permits for extensions or modifications of a plant, the acquisition of raw materials, the obstacles to importing modern machinery and, finally, there was an important fall in the consumption of cotton textiles.²² As a result, entrepreneurs minimized new investment and tried to keep their factories working, even though this involved declaring obsolete machinery as being operative, in order to increase their share of raw materials through the quota system. An adequate supply guaranteed either that the firm's factory could be maintain fully active, or it would allow its owner to speculate on the black market. In either event, nationally production fell, and productivity declined.²³

The political thaw started slowly in the early 1950s, involving various agreements with the USA, the return of foreign ambassadors to Madrid, and a concordat with the Vatican. This produced an increased supply of foreign currency thanks to American loans, and the permanency of the Franco regime was perceived as being more assured. These exogenous factors, together with the endogenous ones (maintenance of protectionism in the long term and control of salaries), led to greater optimism among entrepreneurs. The economic autarchy continued to isolate the Spanish textile industry from international competition, allowing the sector to survive in spite of productivity levels half those of the European average, a difference that the far lower salaries failed to compensate.²⁴ In this context, in 1952-5 the cotton firms began to slowly increase investment, but the difficulties associated with obtaining raw cotton restricted investment to plant maintenance or the purchase of second hand machinery, rather than the latest technology.²⁵ The effects of minimal investment over 20 years, 30 years if we include the period prior to the Civil War (early 1930s), were obvious: old machinery, falling productivity and rising production costs making producers uncompetitive. These problems could only be overcome by protecting the home market, which explains why the Spanish cotton industry peaked in 1960 at the time that most other Western

Europe industries were in rapid decline in the face of traditional competitors such as Japan and India, or new ones such as Hong-Kong or Pakistan (Table 1).²⁶

In many European countries, including Spain, the cotton textile industry in the 1960s underwent major changes brought about by shifting comparative advantages to Less Developed Countries with their lower labour costs, and the maturing product cycles for cotton goods. Europe's cotton textile industries failed to solve the inherited problems caused by the lack of sufficient investment for updating technology and improving productivity and growing competition implied that domestic industries progressively lost market share.²⁷ For example, the reasons suggested to explain the English cotton industry's failure include the absence of an adequate survival strategy to compete with the new technologies, such as the setting-up of factories in less developed economies, the search for new niche markets or products, product diversification, or restricting competition through collusion and pressuring the government for subsidies.²⁸ In addition, business attitudes were pessimistic concerning the possibility of competing with cotton textile produced in countries with significantly lower labour costs once international markets were opened, especially as producers were losing markets to synthetic fibres. The persistence of the difficulties led the British cotton industry to carry out a process of rationalization and modernization. Large producers of synthetic fibres, Courtaulds and ICI, who integrated vertically their productions, directed the wave of business mergers and ended the myriad of small and medium-sized cotton-textile firms. A few, namely J. & P. Coats, Rossendale, David Whitehead and Sons, established themselves in countries with low labour costs, and Bleachers' Association attempted to diversify their production to new niches in the markets. In spite of technological change and vertical integration, by the 1970s the new British textile industry had lost the battle.

In Spain, the 1960s started with the progressive dismantling of the autarchic philosophy and, to a lesser extent, a decline in state intervention with the 1959-60 Stabilization Plan. The slow but

progressive opening of the economy allowed for accelerated growth, an increase in investment and, in the cotton industry, an increase in factory size and output until 1967. Further liberalization in 1962 permitted any agent to establish a business at any point in the cotton commodity chain, whether as a farmer, industrialist, or a merchant. In addition, the industry's supply problems were finally ended due to an increased flexibility in fibre imports.²⁹

On the other hand, the opening of the domestic market provoked, with a delay of a decade with respect to the rest of Europe, a reduction in profits caused by a lack of competitiveness in the face of growing foreign competition. This lack of competitiveness was caused by the widespread use of old machinery (average of 37.5 years), small scale businesses, and rapidly rising wages which were all contributing to deteriorated margins, at a time when the consumption of cotton fabrics was declining in the face of artificial fibres. These circumstances required a complete reappraisal of the sector. The restructuring plan, almost identical to the 1952 English plan, called for a modernization of the industry by means of new investment in machinery, the physical destruction of the old equipment (500,000 spindles and 20,000 looms), and the public assistance to finance their reconversion because the highly fragmented sector found it difficult to access formal capital markets. However, in reality the offer of special lines of credit for new machinery did not require that the old ones be scrapped, and these were sold to other businesses, with the consequent increase in the industry's production capacity.³⁰ One aspect of the plan, which was especially welcome by the larger companies, was the help to increase plant size through the absorption of smaller firms through mergers. Investment, which grew at an annual rate of 7.5 per cent in 1962-7 (but below the national average), increased to 10.8 per cent in 1967-73 (above the national average), helping transform the sector from being labour to capital intensive, and improve productivity and competitiveness.³¹

III. The family business and strategy in the Spanish cotton textile industry.

Although Spanish cotton firms were legally limited liability companies, ownership and management were in the hands of just one or two families, with none of the key management positions being in the hands of salaried executives. Differences were found, however, in that some firms, the “dynastic” firms, only employed family members in management hierarchy (Sedó SA., Manufacturas Valls, Manufacturas Viladomiu, Hilaturas Forcada, Colonia Guell).³² By contrast, the “non-dynastic firms” hired both family members and salaried executives (Hytasa, La Espanya Industrial, Fabra y Coats)³³. Furthermore, we do not verify that any firm change from dynastic to non dynastic Business strategies were designed to achieve the firms main objectives, namely their longevity and the transfer of control to the next generation in the family. Profitability and growth were secondary objectives. I argue here that the strategy of these firms was conservative, and especially the dynastic firms which were reluctant to consider financing with outside funds.³⁴

In general, business strategies were determined by an “organic growth” based on self-financing and a low level of indebtedness. The firm’s conservative nature did not impede, although it made it harder to adapt to the economic, political and institutional changes of the Franco regime. Not surprisingly, some firms adjusted with greater flexibility than others, a difference reflected in the dynastic and non-dynastic business structures. In the companies considered here, especially the dynastic ones, the firm’s business culture consisted of a set of values passed between generations, and 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.³⁵ As a result dynastic firms followed more conservative strategies and had greater difficulties in adapting than the somewhat less conservative, and more flexible non-dynastic firms.³⁶

Although fraud was widespread during this period of Spanish economic history, historians believe it was unlikely that limited liability companies falsified company balance-sheets and other information for their shareholders.³⁷ A number of points need however to be taken into consideration when using them, especially given the particular characteristics of the period, and the nature of the companies being studied.³⁸ In the first place, these firms had to survive a highly discretionary institutional framework which could have encouraged a masking of company accounts in order to facilitate their attempts at getting assistance or «favours» from the state.³⁹ Likewise 80-90 per cent of shareholding in the majority of these limited liability companies was controlled by one or two families, which made the falsification of the accounts easier. Fraud of this nature was further facilitated by the fact that the real financial situation of the company could be given to those present at the general shareholders meetings which, at times, involved fewer than ten people, of whom eight shared the same surname as the company's founder, and discussion could take place which were not reflected in the minutes of the meeting. The financial aggregates included here have been standardised to be included in the balance-sheets for all the firms, including depreciation of fixed assets as negatives, and using simple addition, following the methodology of Catalán and Tafunell, due to the problems that arise through the use of weighted number indexes. 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. Lastly, the possibility of using long run series is limited by the lack of sources from the late 1960s (Fabra and Coats -1939 to 1970-, Colonia Guell -1939 to 1969-, La Espanya Industrial -1939 to 1961-, Manufacturas Valls -1939 to 1967-, Manufacturas Sedó -1939 to 1956, Hytasa -1941 to 1980-, Manufacturas Viladomiu -1939 to 1974-, Hilaturas Forcada -1939 to 1981-), making it impossible to comment on the neoclassical hypothesis that, during times of crisis and in competitive markets, family businesses find it difficult to survive.

Figure 1. Financial Equilibrium of the cotton companies, 1939-1971.

Source: Company balance-sheets. Own elaboration

The conservative nature of the business strategies is tested in the balance sheets (Figure 1) and in the analysis of liabilities (Figure 2). The balance sheets were positive, especially in the 1940s, with respect to the question of whether the company had a positive net worth. Over the thirty years the classic situation of financial balance was maintained, that is to say, the value of assets were superior to liabilities and, in addition, the value of circulating assets was higher than the circulating liabilities, guaranteeing business solvency for payments in both the short and long run.

The only years unbalanced appear after 1962, and only in the short term, due to a lack of liquidity produced by an equalization of circulating liabilities with circulating assets although, at all times, solvency was safeguarded by counting on a positive net worth. The structure of liabilities reinforces the conservative vision of business strategy, given the preponderance of the use of own capital until 1959-1961. In particular, between 1939 and 1949, firms followed the policy of maximising financial stability, shielding themselves from any adverse circumstance that could arise, by holding liabilities which were dominated by commons stock—around 50 per cent-- and equity (commons stock plus reserves) approaching 75 per cent. Therefore, only 25 per cent of the liabilities were borrowed commons stock, largely short-term, which partly financed working capital, with the result that reinvested profits were used both for fixed investment as well as a high share of working capital. Only with the government encouraged for restructuring the sector in the 1960s was outside capital used for fixed investment in the modernization and expansion of plant.

I also anticipated the more conservative behaviour of dynastic firms respect to non-dynastic ones. The structure of the liabilities (Figure 2) reveal the level of preference for self finance rather than outside capital, and the predilection for raising capital levels to increase the firm's resources,

so long as control stayed within the family. Dynastic firms accumulated around 80 per cent of liabilities in equity, of which capital accounted for between 60 and 80 per cent in the period 1939-1948, with little use of reserves. The level of self-finance was lower in non-dynastic firms, which maintained share capital at around 60-50 per cent of liabilities. During the 1950s, with certain minor differences, the firms developed a similar response to deal with the gradual reduction in self-finance and the parallel increase in the use of outside capital. Dynastic firms maintained a greater use of share capital in contrast to a preference for balancing capital and reserves in the non-dynastic firms. The firms became financially less conservative after the Stabilization of 1959. Financial modernization led to a decline in self financing and a move towards borrowed capital, in the long and short term, with the consequent risk of becoming insolvent and having to suspend payments in the event of economic difficulties. During the economic crisis of the 1970s, the firms were forced to turn to their own reserves to absorb losses, whether on account of their diminished earnings or to repay amortization (Figure 2). On this occasion the conservative policies of dynastic firms was more effective in containing the first blow, thanks to their accumulated reserves, while the reserves of the non-dynastic firms practically disappeared because of the crisis. The assertion that dynastic firms adopted more conservative strategies than non-dynastic ones is supported by the ratios of debt-equity (Figure 3) and the acid test (Figure 4)⁴⁰. In all cases the dynastic firms aimed for a lower level of indebtedness and the use of their own capital, in contrast to the non-dynastic firms which were somewhat more inclined to outside financing.

Figure 2. Nature of dynastic and non-dynastic cotton textile firms' liabilities

Source: Company balance-sheets. Own elaboration.

In addition, dynastic firms to a greater extent than the non-dynastic ones, made other decisions of a particularly prudent nature that can be interpreted as an incorrect use of resources, keeping capital as cash or in deposit accounts, rather than investing it in the business, or in a portfolio of remunerative value. The increase in firms' liquidity coincided with those moments of greatest tension, such as at the end of the Second World War when many feared an invasion, or the economic uncertainty following the opening up of the regime at the beginning of the 1950s, or the Stabilization Plan. The uncertainties at each moment are reflected in the disappearance of long-term investment strategies and an overall mistrust of about the future. The businessmen preferred cash payments and avoid advancing credit, which was almost totally absent in the balance-sheets of the 1940s, because of the inevitable difficulties that many clients had in paying off their debts. In this decade firms insisted on having instant liquidity at their disposal (close to 10 per cent of liabilities), whether as cash or in their current accounts. An extreme case was that of Sedó S.A., whose principal current account was in the Banco de España, the safest possible solution.

Labelling as conservative Spanish cotton firms' strategies must be clarified, since these were gradually modified to adapt to the changes that took place in the economic and industrial framework of the Franco regime. The capacity of the firms to adapt can be verified in the switch from their conservative approach in the 1940s, displayed by their aversion to risk and shown by the increase in their capital reserves, to the somewhat more ambitious policies beginning in 1952, when firms increased investment and commercial activities, in a protected environment and assisted by American loans. However it is necessary to wait until the years after the Stabilization Plan for the business strategies of the firms to take a definitive change, when they became willing to assume higher levels of commercial and financial risk, to introduce more professional management, and modernised their industrial plant with the investment coming as much from long-term borrowed capital, as being self-financed.

The approach is endorsed by the main ratios measuring business solvency, which show a financial situation of maximum solvency until 1952, with dynastic firms even self-financing a relatively high share of their working capital. The 1952 change allowed non-dynastic firms to adapt and show a greater predisposition to using borrowed capital, which enabled them to take advantage of a favourable moment for growth, while the dynastic firms preferred to maintain a more ultra-conservative performance. Therefore, while dynastic firms persevered at a low level of indebtedness and high levels of cash reserves in spite of an increase in economic activity, the non-dynastic firms preferred to turn to a greater extent to outside finance, especially in the short term, to support the increase in business activity. As a result it is during the 1950s that a greater divergence between the two types of firms that become apparent.

Figure 3. Debt-equity ratio in dynastic and non-dynastic cotton firms

Source: Company balance-sheets. Own elaboration.

It would only be after 1959-1960 when the firms, pushed by the economic boom and the growth in consumption, joined the sector's restructuring plan launched by the government in 1962, which encouraged them to use borrowed capital to invest in new technology, buildings and manufacturing organization. In this respect, Spanish business strategy of the 1970s was somewhat similar to that implemented in the United Kingdom in the 1960s, with the idea that larger firms would produce economies of scale, and permit the industry to compete with foreign competitors. The difference resided in that Spanish businesses invested their capital to achieve organic growth in a growing market, while in the United Kingdom investment was directed to the merging of different firms. In Spain, the firms put into effect new strategies to modernize their factories, making a process of long-term investment essential that required in turn the use of more modern financing

methods, such as the use of short-term commercial bank loans to provide working capital and long-term debts to complement the self-financing of fixed capital assets. The result was the evolution of financial ratios towards levels which are considered more normal in financial accounting theory. To a lesser extent, non-dynastic firms relied less on the reinvestment of earnings, endogenous growth, and chose a path of greater indebtedness. For their part, and even with the new opportunities, dynastic firms maintained the old business culture of growth using their own capital and in the reinvestment of earnings, remaining reluctant to turn to outside financing as their long-term longevity remained a major management goal.

Figure 4. Acid test of dynastic and non-dynastic cotton firms

Source: Company balance-sheets. Own elaboration.

The goals of longevity and family inheritance were comfortably achieved between 1939 and 1970 (Table 2).⁴¹ A review of the history of the different firms demonstrates the longevity and transfer of internal power over three and four generations starting from the mid nineteenth century when the majority were founded, until the last third of the twentieth century.⁴² This was achieved by autocratic management maintained until death of the manager. Family control allowed the survival of the founder's surname, independent of the legal organisation of the company at any particular moment.⁴³ The construction of a network of connections of the "extended family" type, as advanced in the Casson model, can be seen in the overlapping interests of cotton families and other industrial and financial families.⁴⁴ The Bertrand Serra business group had ties with the Sedó business group and both had advisors at the Garriga Nogués, Mas Sardá and Hispanoamericano banks. The vice-president of the Garriga Nogués bank was also advisor for Hilaturas Fabra i Coats. A branch of the

Valls family was on the board of administration for the banks Español de Crédito and Exterior de España, and the Valls Taberner family for the Banco Popular.⁴⁵

IV. Economic results of business strategies: profits and profitability.

In the section I measure the outcomes of the business strategies by their profits to discover different behaviour for dynastic and non-dynastic firms. If the main goal was survival, the second most important was profitability, being itself a guarantee for longevity and maintenance of the family's living standards. The earnings of the cotton firms compared with the average earnings for the whole economy, shows a sector that achieved better than average results during the first five years of the 1940s, resulting from the delayed consumption caused by the Civil War, followed by five years of stagnancy, and then another of recession (Figure 5). From then the positive evolution of cotton firm earnings remained below the national average, and clearly declined from the end of the 1960s.

Figure 5. Level of profits in the Spanish economy and cotton textile industry (current pesetas, 1940 =100)

Source: Tafunell (1996, 1998) and own elaboration.

Even more interesting is the evolution of financial profitability that shows a different behaviour between dynastic and non-dynastic firms (Figure 6). In all, financial profitability reached significant levels until 1967, with results of over 10 per cent and never falling to less than 5 per cent until the opening of the domestic market allowed for competition and the beginnings of difficulties, anticipating the shock of the 1970s. The supposed cotton industry crisis of the 1940s, as suggested in the literature, needs therefore to be reconsidered with these figures for profitability.⁴⁶ Generally,

this period is presented as difficult years on account of the lack of raw materials, intermediate input energy, etc. This vision was contested by the data by Morellá that stressed the cotton sector's recovery between 1940 and 1945), these years coincided with our figures which show an average profitability of around 20 per cent for dynastic firms and over 15 per cent for non-dynastic firms.⁴⁷ During the second quinquennial of the 1940s, the general decline in consumer consumption, contributed to a fall in profits, but these still maintained an average of more than 10 per cent. A sector with such a level profitability is not a sector that can be described as in crisis, although it is true that this information corresponds to the larger firms, and it is possible that small ones had greater difficulties, especially if they lacked the political contacts in Madrid for the necessary papas for raw materials and spares.

Figure 6. Financial profitability of cotton firms, 1939-1971.

Source: Company balance-sheets. Own elaboration.

The differences in the trends in profitability in dynastic and non-dynastic firms are of special interest. In the first quinquennial of the 1940s the more traditional and conservative managed dynastic firms produced better results than the more risky management of non-dynastic firms. However, from the end of the 1940s, behaviour and results changed fairly significantly. The profits of dynastic firms declined from 20 per cent in 1945 to less than 5 per cent in 1962, without any tendency of a reversal. By contrast non-dynastic firms were more successful and, after suffering a setback in the late 1940s, they recovered in the 1950s and maintained acceptable levels of profits until the end of the 1970s, when the opening of the Spanish economy led to foreign competition, reproducing what had happened in Lancashire at an earlier date.

CONCLUSIONS

The history of the Spanish cotton-textile industry did not differ significantly from that of other European textile industries, but rather experienced a delay of approximately ten years in the appearance of major problems caused by foreign competition. The solutions proposed to reorganise the sector were almost identical to the earlier attempts in Britain.

This article has outlined the evolution of strategies of Spanish cotton firms during the Franco period. It has shown how strategies of extreme caution were implemented to achieve the longevity of the company, to maintain the family control, and these were reinforced by profitability and organic growth. I argue that policies changed over the thirty years, as firms tried to adapt to changes in the institutional and economic framework of the dictatorship. Neither were firms homogeneous, but rather the dynastic family firms were more conservative than the non-dynastic ones.

The economic autarchy of the early Franco period reserved the domestic market exclusively for Spanish firms, but at the considerable cost of restricting supplies of sufficient raw materials and spare parts, and the substitution of the market by the bureaucracy of the State. Government economic politics and the uncertain future caused by a hostile international environment caused cotton firms to be especially prudent. During the 1940s, firms failed to implement growth strategies or pursue plant modernization despite good economic results, especially by the dynastic firms. The slow improvement in international relations in the early 1950s, combined with consolidation of the regime, provided a more attractive climate for business, leading to limited investment and a strategy of organic growth and low ratios of indebtedness. The 1960s inaugurated a decade of rapid economic development, even faster than the European average. With the Stabilization Plan, the growth restriction of previous years disappeared and business expectations in the sector were especially optimistic until the end of the 1960s, as domestic markets continued to be protected.

Non-dynastic firms undertook ambitious investment plans, seeking to increase size and capture economies of scale, assume a more modern strategy of indebtedness, and reduce the relative importance of their own capital. Dynastic firms, by contrast, failed to change their growth model or strategies. Therefore, while the dynastic firms, following traditional policies, saw their earnings and profitability steadily diminished from the mid 1940s, non-dynastic firms enjoyed a golden decade of high profitability between 1952 and 1967. The crisis of 1967, with its steep fall in the leading financial indicators, was a foretaste of the major difficulties that the entire sector would face from the early 1970s.

The liabilities structure and the evolution of the most significant financial ratios show conclusively that the dynastic cotton-textile firms were excessively financed with their own capital, and significant amounts of assets were kept as cash or left in deposit accounts, rather than invested in the firm or in other, higher yielding portfolios. I have shown the especially conservative strategy adopted by dynastic firms, decisions linked to the “culture” of each one of them and related to the characteristics of a family business.⁴⁸ Dynastic firms continued behaving as they had since their founding and, because this had provided good financial results, they were unwilling to change management structures, even though these were probably more suited to the nineteenth century than the second half of the twentieth century. The financial results could not have been more disastrous, and cannot be attributed to the lack of alternatives or to especially difficult trading conditions, as in the 60s the non-dynastic firms enjoyed profits of closer to 15 per cent than to 10 per cent.

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Table 1. Cotton spindles installed in countries of Western Europe (thousands)

	Belgium	France	Germany	Italy	Portugal	Spain	UK
1930	2.172	10.250	11.070	5.342	503	1.875	55.207
1935	2.091	10.157		5.477	452	2.070	43.756
1939	1.984	9.794	12.225	5.324	444	2.000	36.322
1950	1.802	8.148	5.785	5.566	536	2.210	29.580
1955	1.752	7.618	6.005	5.698	896	2.335	25.183
1960	1.493	5.802	5.909	4.611	1.101	2.589	9.710
1965	1.337	4.299	5.091	4.424	1.198	2.580	5.345
1970	985	3.588	4.262	4.121	1.357	2.210	3.486

Source: B.R. Mitchell *International historical statistics: Europe 1750-1988*, New York (1992).

Table 2. The firms and their managers.

	Founda tion	Conver sion to S.A.	Liquidati on	Founder	Second generation	Third generation	Fourth generation
Colonia Güell(a)	1845	1920	1973	Joan Güell Ferrer (1845-1872†)	Eusebi Güell I Bacigalupi (1872-1918†)	Eusebi Güell (1918-1943)	Familia Bertrand Serra (1943-1973)
Hytasa	1937	1937	1980	Prudencio Pumar Cuartero (1937-)(j)			
Compañía Anónima de Hilaturas de Fabra y Coats	1903 ©	1903		Ferran(1903-1944†) y Romá Frabra (1903-1948†)	Camilo Fabra de Monteys (1947-		
La Espanya Industrial	1847	1847	1981	Isidre y J. Antoni Muntadas i Campeny (1847-1880†)	Macia Muntadas i Rovira (1881-1927†)	Josep. M D'Albert i de Despujol (1927-1952†)(b)	José A. D'Albert Muntadas (1952-)
Manufacturas Valls, S.A.	1862	1920 aprox.	1991	Esteve Valls i Pascual (1862-†)	Isidro Valls I Pallerola (¿1900-1933†)	Hermanos Valls i Taberner (1939-)	
Manufacturas Sedó, S.A.(d)	1880	1936	1979	Antoni Sedó (1880-1902†)	Lluis A. Sedó (1902-1936†)	Artur Sedó i Guichard (1936-1965†) (e)	Alfredo Sedó Peris-Mencheta (1965-
Manufacturas Viladomiu, S.A.	1850	1934	1982	Tomás Viladomiu i Bertrán (1850-1866) (1869-1887†)	Josep Vialdomiu y Montaña (1887-1906†)(f)	Josep Viladomiu Senmartí (1906-1954†)	Ricardo Viladomiu Armengol (1954-1965†) Antonio Viladomiu Armengol (1954-)
Industrias S.A(g)	Burés, 1875 (h)	1940	1992	Esteve Burés (1875-1893†)	Francesc Burés y Borrás (1893-1907†)	Francesc Burés i Regodorsa (1907-1952†)	Josep M. Juncadella Burés (1952-) (i)

† Date of death. The first date is when the individual joined the management of the firm.

(a) Previously Vapor Vell

(b) He had been married to Carme Muntadas i Estruch, daughter of Macia Muntadas i Rovira

(c) The result of the merger started by Puig and Fabra in 1838 with Ferran Puig, Portabella y Compañía-, with Camil Fabra i Compañía Successors de Ferran Puig, -which dates from 1860 with Camil Fabra i Compañía-. In 1903 merged with J.P. Coats.

(d). Previously Puig y Compañía, founded in 1841.

(e) Management shared with his brothers Martí (†1936) and Luis (†1952)

(f) Management shared with his with brothers Marc (†1890) and Jacint, who leaves in 1890.

(g) Previously Manufacturers of Ter and Lobregat S.A. which had been seized, and in 1939 had capital of 4,000,000 pesetas. Possible merger with the business of Francisco Burés Regodorsa ,whose last balance sheet of 1940 had a capital of about 6,895,000 pesetas.

(h) Born as Burés Germans

(i) Son of Angels Burés i Regodorsa

(j) José M. Pumar Mariño joined as *consejero-delegado* in 1971

¹ I would like to thank the staff of the *Arxiu Historic de Catalunya* and the *Arxiu Comarcal del Bages* (Manresa) for letting me consult their archives. Jordi Torner in particular helped locate documentation that had not be classified. I am grateful for comments given to previous versions of this paper those by James Simpson, Lina Galvez and Juan Luis Sánchez Casado were particularly useful. I am especially in debt with the constructive and detailed comments by the two anonymous referees. The usual disclaimer applies. Funding was provided by Spanish government (BEC2003-06481) and the *Fundación Empresa Pública*.

² See Chandler, *The visible hand* and *Scale and scope*.

³ Lazonick, “Competition, Specialization and Industrial Decline”, 31-39, and “Industrial Organization and Technological Change”, 195-236. Mass and Lazonick, “The British Cotton Industry and International Competitive advantage”, 9-65.

⁴ Casson, “The Economics of the Family Firm”, 10-23.

⁵ Jones, “Transaction Costs and the Theory of the Firm”, 10. Colli, *The History of family Business*. Rose (ed), *Family business and Firms, Networks and Business Values*.

⁶ Colli, Fernandez and Rose, “National Determinants of Family Firm Development?”, 28-64.

⁷ See Sharma, “An Overview of the Field of Family Business Studies”, 3-5. Handler, “Methodological Issues and Considerations in Studying family Business”, 257-276. Westhead and Cowling, “Family Firm Research”, 31-56.

⁸ Astrachan and Shanker, “Family businesses’ contribution to the U.S. economy; A closer look”, *Family Business Review* (2003), 16 (3), pp. 211-219 quoted by Sharma, “An Overview of the Field of Family Business Studies”, 3-5.

⁹ Westhead and Cowling, “Family Firm Research”, 34.

¹⁰ Church, “The Family Firm in Industrial Capitalism”, 7-43 considers, the impact about the founders and their heirs recruited salaried managers but continued to be influential shareholders, held executive managerial positions, and exercise decisive influence on company policy but he does not mark any percentage of family’s equity.

¹¹ Channon, *The Strategy and structure of British Enterprise* (1971: 161), Macmillan, London, quoted by Fernández Pérez, “La empresa familiar y el «síndrome de Buddenbrooks» en la España contemporánea”, 1398-1416. Colli and Rose, “Families and firms”, 24-47. Colli, Fernandez and Rose, “National Determinants of Family Firm Development?”, The percentage of ordinary voting shares change among researchers, see Westhead and Cowling, “Family Firm Researc”, 40.

¹² Rose, “Investment in human capital and British manufacturing industry”, 337-37. Casson, “The Economics of the Family Firm”, 10-23.

¹³ Casson, “The Economics of the Family Firm”, 10-23, 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.

¹⁴ See application of the theory in Rose “Beyond Buddenbrooks”, 127-143.

¹⁵ Colli, Fernandez and Rose, “National Determinants of Family Firm Development?”, argue to attach to institutional framework since there was a strong relationship with the behaviour and capabilities of family business.

¹⁶ Catalán, *La economía española y la segunda guerra mundial*.

¹⁷ Maluquer Sostres, *La política algodonera del Estado, 1940-1970*. Fernández-Roca, *HYTASA 1937-1980. Orto y ocaso de la industria textil sevillana*; “Las cooperativas algodoneras durante el franquismo”, 173-202, and “El sector agroindustrial del algodón en España”, 89-122.

¹⁸ *Sindicatos Verticales* were state-controlled trade unions introduced during Franco’s dictatorship and characterized by the rigidity of the hierarchical structure, and by its authoritarian or paternalistic attitude- hence the term vertical.

¹⁹ Fernández Roca, *H.Y.T.A.S.A. Torres*, “Comportamientos empresariales en una economía intervenida”, 199-224.

²⁰ Baumol, “Funciones Empresariales: productivas, improductivas y destructivas”, 91-128. Alonso Hierro and Torres, “Funciones empresariales y desarrollo económico”, 122-129. Barciela, “Franquismo y corrupción económica”, 83-96, C. Barciela et al *La España de Franco*.

²¹ Singleton, *The world textile industry*. Porter, *Competitive Advantage of Nations*.

²² The behaviour of other Spanish entrepreneurs is similar to those in cotton sector, only with some slight variations. Torres, “La empresa en la autarquía, 1939-1959”.

²³ Gual Villalbí, P. (1945) quoted by Casals i Couturier “«Cupos», reconversió i pèrdua de protagonisme”, 43-80.

²⁴ Casals i Couturier “«Cupos», reconversió i pèrdua de protagonisme”, 43-80.

²⁵ Fernández-Roca, “El sector agroindustrial del algodón”

²⁶ Singleton, “Planning for cotton, 1945-1951”, 62-78, “Showing The White Flag”, 129-149, *Lancashire on the scrap heap*, “The Decline of the British Cotton Industry”, 296-324, *The world textile industry*. Lazonick, “Competition, Specialization, “Industrial Organization”. Mass and Lazonick, “The British Cotton”. Dupree, “Struggling with Destiny:

The Cotton Industry”, 106-128, “The cotton industry”, 137-161. Higgins, “Rings, Mules, and structural Constraints in the Lancashire Textile Industry”, 342-362, “Re-equipment as a Strategy for Survival in the Lancashire Spinning Industry”, 211-234. Rose, “International competition and strategic response in the textile industries since 1870”, pp. 1-8, *The Lancashire Cotton Industry and Firms, Networks and Business Values*. Vitkovitc, “The U.K. Cotton Industry”, 241-265.

²⁷ Kirby and Rose, *Business enterprise in modern Britain*. The Board of Trade encouraged business mergers in order to improve competitiveness. In particular, and as in the United States, this implied the disappearance of the most inefficient firms, identified with family businesses. A second measure was to restrict competition in colonial markets and to implement price controls in Great Britain to guarantee investment. The strategy of the main cotton-producers was to pressure the government to implement controls and subsidies. Singleton, *Lancashire on the scrapheap*, “The Decline of British Cotton Industry”, 296-324, *The world textile industry*. The pressure achieved the enactment of the *Cotton Industry Re-equipment Subsidy Act* (1952), a desperate attempt at reorganization of the cotton-producing sector by means of replacing out-dated machinery with more advanced and productive technology, which would increase productivity and stimulate business mergers in order to achieve economies of scale.

²⁸ Lazonick, “competition, spacialization”, 31-39, argues that the business strategy was mistaken, and that the industry should have moved much more rapidly to integrated, large firms at the expense of small, family businesses. However, the competition that destroyed the British textile industry was small and medium-sized Asian firms (Singleton, *Lancashire on the scrap head*, “The Decline of the British Cotton”). Dupree, “Struggling with destiny”, 106-128 maintains that there should have been price-regulation and trade managed through the Cotton Board—which in the medium term proved to be inefficient—and have pushed for a greater renovation of technological. Singleton, *Lancashire on the scrap head*, “The Decline of the British Cotton”, and *The world textile industry*) argues that, in the absence of rigid controls and «extravagant» subsidies, it was impossible to compete, given that the cotton textile industry was labour-intensive, and competitors could pay wages that were considerably inferior to those paid in the English labour market. Mass and Lazonick, “The British Cotton Industry”, 9-65, place emphasis on the importance of labour-saving technology, such as that installed by Toyota, which achieved savings of up to 80 per cent in labour, and increased production by 150 per cent, technology which was opposed by the Trade Unions in Great Britain.

²⁹ Maluquer Sostres, *La política algodonera*. Fernández-Roca, “Las cooperativas algodoneras” and “El sector agroindustrial”.

³⁰ Decrees for the reorganization of the textile industry were first past in April 1960, and subsequent ones covered the periods 1963-67, and 1969-72.

³¹ Casals i Couturier, “«Cupos», reconversió”.

³² It was transferred from the Guell family –founder- to the Bertrand Serra family in 1943.

³³ These eight firms represented 14.41% (1940) and the 5.15% (1969) of Spanish cotton capital. Additionally, our sample is represented by big firms, 18,600,000 ptas per capita of capital, while the sector had a 3,236,947.88 per capita, in 1940; and, in 1969 the lack was 211,440,000.00 In front of 12,475,194.70 for Spanish sector. Furthermore, Sedó, S.A. La Espanya Industrial, Manufacturas Viladomiu, Colonia Güell and Manufacturas Valls included the complete cycle of cotton production. Hytasa, moreover, produced the complete cycle of wool. Fabra y Coats and Hilaturas Forcada worked only cotton spinning.

³⁴ Conservative according to Casson, “The Economics of Family Firm”, 15, “as reflected in a commitment to traditional lines of business, and to the business methods favoured by the founder”. Church, “The Family Firm...”, 23 uses the term traditional when he argues it was a common practice among family firm, during Industrial Revolution, the appropriation of a substantial proportion of net profit to reserves, that means, to accumulate leaving declared dividends within the company in the form of loans, paying four or five percent interest to partners and later to shareholders.

³⁵ Lloyd-Jones, Lewis and Eason, “Culture as metaphor”, 93-133. Colli, Fernandez and Rose, “National Determinants of Family firm Development?”.

³⁶ The generational change difficulties and its potential conflicts are well treated in the literature. See Daunton, “Inheritance and succession in the City of London”, 269-286. Rose, “Beyond Buddenbrooks”, 127-143, Scranton, “Build a Firm, Start Another”, 114-141. Colli, Fernandez and Rose, “National Determinants of Family firm Development?” .

³⁷ Coll and Sudria, *El carbón en España, 1770-1961*. Tafunell, “Los beneficios empresariales en España”, 707-746. As the recent cases of Enron, WorldCom, Xerox or BBVA suggest, board of directors continue to be economical with the truth to their shareholders.

³⁸ The origin of the sources varies: that of La Espanya Industrial, Hilaturas Fabra and Coats and Hytasa were published in the Anuario Financiero (Bilbao) and Anuario Financiero and of S.A. (Madrid). The balance sheets of Hilaturas Forcada, Sedó S.A., Manufacturas Burés, Manufacturas Valls and Manufacturas Viladomiu are in the *Arxiu Historic de Catalunya*. Lastly, those from Colonia Guell are kept in the *Arxiu Comarcal del Bages* (Manresa).

³⁹ Catalán, *La economía española*. Tafunell, *Los Beneficios empresariales en España (1880-1891): elaboración de una serie anual*, working paper, and “Los beneficios empresariales”.

⁴⁰ Debt equito ratio: cash and banks plus realizable / leaviable. Acid test: liabilities / owners’ equity. Financial profitability: profit*100/equity

⁴¹ My conclusion is coincident with «The prolonged survival of powerful family was a feature of both Spanish and Italian business development, even in the recent past,» Colli, Fernandez and Rose, “National Determinants of Family firm Development?”, 52.

⁴² Cabana, *Fàbriques i empresaris*, and *La burguesía catalana. Una aproximació històrica*. Torres, *Los 100 empresarios españoles del siglo XX*.

⁴³ The exception was Hytasa, a business of late constitution (1937), founded as a public limited company and with control of only 15 per cent of capital by the business founder.

⁴⁴ These firms were embedded strongly in a social network. See examples in Rose, “The Family Firm in British business”, 61-87; Colli and Rose, “Familie and Firms”. Colli, Fernandez and Rose, “National Determinants of Family firm Development?”.

⁴⁵ Casals i Couturier, “«Cupos», reconversió”, 52.

⁴⁶ Casals i Couturier, “«Cupos», reconversió” and Catalán *La economía española*.

⁴⁷ See E. Morellá, ““El producto industrial de posguerra...”

⁴⁸ Lloyd-Jones, Lewis and Eason, “Culture as metaphor”.