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# **STRATEGIC ANALYSIS OF THE SUCCESSION OF A COMPANY**

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# STRATEGIC ANALYSIS OF THE SUCCESSION OF A COMPANY

## INDEX

|         |  |    |
|---------|--|----|
| 1       | PRESENTATION .....                           | 7  |
| 2       | INTRODUCTION.....                            | 8  |
| 3       | DESCRIPTION OF THE COMPANY.....              | 9  |
| 3.1     | CONSTITUTION AND HISTORICAL BACKGROUND ..... | 9  |
| 3.2     | MISSION, VISION AND VALUES .....             | 10 |
| 3.3     | CORPORATE TARGETS .....                      | 11 |
| 3.4     | BUSINESS CLASSIFICATION .....                | 13 |
| 3.4.1   | CAPITAL ORIGIN AND LEGAL FORM.....           | 14 |
| 3.4.2   | SIZE .....                                   | 14 |
| 3.4.2.1 | NUMBER OF EMPLOYEES .....                    | 15 |
| 3.4.2.2 | ANNUAL TURNOVER .....                        | 16 |
| 3.4.2.3 | ANNUAL BALANCE SHEET.....                    | 17 |
| 3.4.3   | INDUSTRY .....                               | 17 |
| 3.4.3.1 | MARKET SECTORS .....                         | 17 |
| 3.4.3.2 | SERVICES OFFERED .....                       | 18 |
| 3.4.4   | GEOGRAPHICAL AREA .....                      | 19 |
| 3.4.4.1 | NATIONAL LEVEL .....                         | 19 |
| 3.4.4.2 | INTERNATIONAL LEVEL.....                     | 20 |
| 3.5     | ANALYSIS OF THE CURRENT SITUATION.....       | 22 |
| 3.5.1   | SECTOR ANALYSIS .....                        | 22 |
| 3.5.2   | SWOT ANALYSIS .....                          | 26 |
| 3.5.3   | FINANCIAL ANALYSIS .....                     | 27 |
| 3.5.3.1 | ANALYSIS OF THE EBITDA .....                 | 27 |
| 3.5.3.2 | ANALYSIS OF THE ANNUAL BALANCE SHEET .....   | 28 |
| 4       | COMPANY SUCCESSION ALTERNATIVES.....         | 32 |
| 4.1     | OPTION 1: CLOSURE OF THE COMPANY .....       | 32 |
| 4.1.1   | DISSOLUTION .....                            | 32 |

## STRATEGIC ANALYSIS OF THE SUCCESSION OF A COMPANY

|       |   |    |
|-------|---|----|
| 4.1.2 | LIQUIDATION.....  | 33 |
| 4.1.3 | EXTINCTION.....   | 34 |
| 4.2   | OPTION 2: SALE OF THE COMPANY .....                           | 36 |
| 4.3   | OPTION 3: DONATION “ <i>INTER VIVOS</i> ” OF THE COMPANY..... | 38 |
| 5     | CONCLUSIONS.....  | 40 |
| 6     | REFERENCES .....  | 41 |

**INDEX OF ILLUSTRATIONS**

Illustration 1: Organisation chart. .... 16

**INDEX OF TABLES**

Table 1: Revenue from 2018 to 2022..... 16

Table 2: Total annual balance sheet from 2018 to 2022..... 17

Table 3: EBITDA from 2018 to 2022. .... 27

Table 4: Annual balance sheet from 2018 to 2022. .... 29

Table 5: Assets' valuation. .... 33

Table 6: Dismissal cost of employees' liquidation. .... 35

Table 7: Estimation of shares' value..... 36

**INDEX OF GRAPHS**

Graph 1: Annual growth rate (%) of value added activity in Spain from 2005 to 2022. 22

**ABSTRACT**

*English:*

This Final Degree Project consists of carrying out a strategic analysis of the succession of a company.

The justification for the elaboration of this strategic analysis is the approaching retirement age of the company's owner, a situation from which arises the need to study the range of alternatives that the company could face in the future.

It is an engineering technical services company, which belongs to the sector of engineering and industrial architecture, and is located in the city of Valls.

By studying the company's historical background, classifying it according to the origin of its capital, its size, the industry to which it belongs, the services it offers to its target public and, finally, the level at which it operates geographically, it will be possible to situate the company within the conceptual framework in which companies develop and carry out their professional activity.

Subsequently, it will be essential to study the current situation of the company in relation to the sector to which it belongs, to the external and internal factors that affect the company and, finally, to the financial situation of the company's most recent years.

The compilation of all the before-mentioned information will allow the owner to have a useful contribution, at the moment of taking any decision regarding the future of the company.

**Key words: engineering, alternatives, future.**

## STRATEGIC ANALYSIS OF THE SUCCESSION OF A COMPANY

### *Spanish:*

Este Trabajo de Fin de Grado consistirá en la ejecución de un análisis estratégico sobre la sucesión de una empresa.

La justificación para la elaboración de este análisis estratégico es la aproximación de edad de jubilación del gerente de la empresa, situación de la cual surge la necesidad de estudiar el abanico de alternativas con las cuales la empresa se puede encontrar en un futuro.

Se iniciará con una contextualización de la empresa y una descripción de esta. Se trata de una ingeniería de servicios técnicos, la cual pertenece al sector de la ingeniería y la arquitectura industrial, y está situada en la ciudad de Valls.

A través del estudio de su trayectoria empresarial, la clasificación de esta según el origen del capital, la dimensión, la industria a la cual pertenece, mencionando los servicios que ofrece a su público objetivo y, finalmente, el nivel al cual opera geográficamente, se podrá situar la empresa dentro del marco conceptual en el cual las empresas se desarrollan y llevan a cabo su actividad profesional.

A continuación, será esencial el estudio de la situación actual de la empresa, en relación con el sector al cual forma parte, con el análisis de los factores externos e internos que afectan a la empresa y, para concluir, con la situación financiera de los últimos ejercicios económicos de esta.

La compilación de toda la información mencionada anteriormente servirá como una aportación real al gerente, en el momento preciso de tomar cualquier decisión respecto al futuro de la empresa.

**Palabras clave: ingeniería, alternativas, futuro.**

*Catalan:*

Aquest Treball de Fi de Grau consistirà en l'execució d'una anàlisi estratègica sobre la successió d'una empresa.

La justificació per a l'elaboració d'aquesta anàlisi estratègica és l'aproximació d'edat de jubilació del gerent de l'empresa, situació de la qual sorgeix la necessitat d'estudiar el ventall d'alternatives amb les quals l'empresa es pot trobar en un futur.

S'iniciarà amb una contextualització de l'empresa i una descripció d'aquesta. Es tracta d'una enginyeria de serveis tècnics, la qual pertany al sector de l'enginyeria i l'arquitectura industrial, i està situada a la ciutat de Valls.

A través de l'estudi de la seva trajectòria empresarial, la classificació d'aquesta segons l'origen del capital, la dimensió, la indústria a la qual pertany, esmentant els serveis que ofereix al seu públic objectiu i, finalment, el nivell al qual opera geogràficament, es podrà situar l'empresa dins del marc conceptual en el qual les empreses es desenvolupen i duen a terme la seva activitat professional.

A continuació, serà essencial l'estudi de la situació actual de l'empresa, en relació amb el sector al qual en forma part, amb l'anàlisi dels factors externs i interns que afecten l'empresa i, per concloure, amb la situació financera dels últims exercicis econòmics d'aquesta.

La compilació de tota la informació esmentada anteriorment servirà com una aportació real al gerent, en el moment precís de prendre qualsevol decisió respecte al futur de l'empresa.

**Paraules clau: enginyeria, alternatives, futur.**

## 1 PRESENTATION

This project will be based on the situation that the owner of the company XXXXXX S.L. has to face. This is a Limited Liability Company that belongs to the technical engineering services sector.

Initially, the original idea of this project was the elaboration of a business plan updated to the new strategies of the organisation with a vision focused on its future. After analysing the situation of the chosen company, which was the approaching of the retirement age of the owner and, therefore, the disappearance of his presence in the company, it was concluded that the initial idea was not the most appropriate one.

This led to the final idea of analysing the possible alternatives that the company could face in the event of the owner's retirement. This was considered the best option, as it was an innovative idea and generated a much more useful contribution to the company. Additionally, it has been considered that this approach can be extrapolated to other companies, as they may find themselves in a similar situation in real life.

In relation to the subjects linked to the study, it can be considered that a great part of the subjects covered throughout the degree in Business Administration and Management are put into practice.

The first example would be Business Organisation, which has allowed the structuring of the classification of the company. Also, Quality Management has enabled the study of the methods that the company carries out on a daily basis to achieve its objectives related to continuous improvement and added value to its services. In addition, the subject of Commercial Law has been relevant to address the different legal aspects involved in the alternatives for the future of the company.

Since both students have studied the International Trade Mention in English, and due to the fact that the chosen company operates at national and international level, it has been possible to analyse efficiently the different consequences of the various internationalisations or attempts of these carried out by the company throughout its entrepreneurial trajectory.

Furthermore, the knowledge of the English language by both students has made it possible to carry out the project in this international language.



## 2 INTRODUCTION

The Strategic Analysis of the Succession of a Company has been developed because of its relevance in the business field and the fact that most enterprises have to face the situation of the retirement age of the companies' owner. In some cases, this could involve the closure of the company, the sale of this one to a third party or an employee or, in some more specific cases, as long as the owner has descendants, the donation of the company to them.

Regarding the structure of the project, firstly, the company involved has been described in detail, by presenting its trajectory throughout the years that it has been operating in the market. The company's mission, vision and values have been presented along with the respective corporate targets, followed by the company's business classification.

In addition, a study of the current situation of the company has been carried out, through an evaluation of the sector in which it is present, its respective SWOT analysis and a financial analysis of the last four years.

The objectives to be achieved with the elaboration of this project are, firstly, the determination of the characteristics of the company and the position it occupies in its respective market and sector. Secondly, the identification of the different steps to be followed in order to carry out each of the alternatives presented to the company. Thirdly and lastly, the knowledge of the effects that each of the alternatives would have on the company, either positively or negatively.

In order to undertake this project, it has been used the case study methodology, consisting in the analysis of a specific situation in which a real company is involved. In this case, the company analysed has been XXXXXX S.L., which has provided all the information used to carry out this project through interviews with its owner. This has been the main source of information consulted, due to the fact that most of the project has consisted in the contextualisation of the company.

Moreover, the subjects coursed during the degree of Business Administration and Management which have been mentioned in *Section 1. Presentation* have represented another source of information used.

### **3 DESCRIPTION OF THE COMPANY**

#### **3.1 CONSTITUTION AND HISTORICAL BACKGROUND**

XXXXXX S.L. is a company dedicated to the engineering and industrial architecture sector with more than 25 years of experience and customer satisfaction. Firstly, the owner worked as a freelancer with the commercial name of XXXXXX from 1991 to 2000 and all his work was developed in a small office in the city of Valls.

In 2001, he decided to create a Limited Liability Company called XXXXXX S.L., of which he would be the owner. As the years went by, the company increased the number of workers and he decided to move the company to a bigger place, which was an industrial building, also in Valls, where he could offer an extended service to the current and future clients of the company.

After several years of experience and specialisation in the sector, in 2003, the owner decided to make a preliminary market analysis in Chile and Peru after perceiving that the growth rate of the construction sector in Spain was quite accelerated. He intuited that this, eventually, would lead to a situation of economic risk in the sector. Also, he decided to ensure his position in Latin American countries in order to keep his company running.

In 2004, after obtaining a positive result from the first preliminary market analysis, he decided to establish an office in Chile and Peru, with a local partner in each of them, where XXXXXX Chile and XXXXXX Peru were created.

Because of the positive results during this year, the owner tried to establish the company in Mexico, Dominican Republic and Honduras, in 2005 in Bolivia, Brazil, Argentina and in 2007 in Morocco, Algeria and Turkey. These preliminary market analyses did not work out due to the fact that the company did not have local partners that could help it to have access to new markets.

In 2008, XXXXXX S.L. carried out several trade missions organised by the Barcelona Chamber of Commerce. These were international trips planned by the Administration, with the purpose of exploring new international business opportunities. These were carried out in China, Thailand and Singapore.

XXXXXX S.L. realised that the Chinese market was very wide and, therefore, the projects requested were on a large scale, which restrained the company from carrying them out. In Thailand, the company had no business opportunity and in Singapore, the level of demand for construction projects was too high. Additionally, a trade mission was carried out in Erbil (Iraq), organised by the Madrid Chamber of Commerce, which had a negative result because the country was in a post-war situation.

## STRATEGIC ANALYSIS OF THE SUCCESSION OF A COMPANY

In 2010, after encountering the consequences of the economic crisis of 2007 in Spain, the company decided to carry out a final market analysis in Ecuador, which was later selected to establish another office, named XXXXXX Ecuador.

However, the situation in Spain was worse and the company had to fire most of its employees as it could not afford this high personnel costs. This represented a drastic change in its payroll, as the company went from having twenty-three workers to only three. Because of Ecuador's internationalisation, the company remained afloat, as its primary source of income was this one for many years.

In 2020, the worldwide pandemic due to COVID-19, did not affect that much XXXXXX S.L. as its employees could remain working at their own homes using Microsoft Teams for the relevant meetings, which was a tool that the company previously used to communicate with XXXXXX Ecuador.

In 2023, the company is collaborating in a hotel development project in Puerto Rico of 14,000 apartments and 8 hotels, in residue projects in Costa Rica destined for several Latin American countries, and additionally, it also advises a construction company in Ecuador that wants to carry out hospital projects in Venezuela through a subsidy from the World Bank.

### **3.2 MISSION, VISION AND VALUES**

In this section, the mission, vision and values of the company XXXXXX S.L. are mentioned; these concepts have been established and defined by the company and they are focused on offering customer-oriented services and actions.

The company's mission is to be committed to meeting the needs of its clients by offering them solutions in specialised engineering, environmental engineering and consultancy and project management, providing a remarkable added value to their projects and services of high professional quality.

The XXXXXX S.L.'s vision is to be a reference in the field of engineering. Its aim is to be internationally recognised for its work, to achieve maximum customer satisfaction and to obtain leadership in the sector by differentiating its service through quality, efficiency, effectiveness, innovation and excellence in management.

The values of the company are the following ones:

- Team work
- Customer orientation
- Continuous improvement
- Quality service
- Prices adjusted to each project

### **3.3 CORPORATE TARGETS**

For XXXXXX S.L. is essential setting objectives because it provides a clear direction for the decisions and actions taken in the organisation. Objectives set concrete and specific goals to be achieved in a given period of time, allowing the company to focus on what is important and to measure progress. Moreover, well-defined and clearly communicated objectives help the company's employees to be motivated and have a sense of purpose in their work.

The company's business goal is to carry out projects and studies applying the greatest technical accuracy and the greatest possible assistance in all phases of the project, from the phase prior to the design of the project to its execution. Additionally, the company's main targets are the ones related to Quality Management, that is why it aspires to provide a remarkable added value to all its projects and services of high professional quality.

Furthermore, the company sets quality objectives that are consistent with its principles, with the intention of pursuing continuous improvement. These objectives will be measurable and achievable, and they will be accomplished according to their relevance.

As it is a small company, it facilitates the involvement of all employees when setting the objectives, which are classified as qualitative and quantitative and are focused on the quality of the services offered by the company.

- Qualitative objectives:
  - To reduce the number of clients' complaints.
  - To guarantee the best quality of the services provided during the project.
  - To improve the level of customer satisfaction.
  - To guarantee compliance with the delivery times established for the projects.

## STRATEGIC ANALYSIS OF THE SUCCESSION OF A COMPANY

- Quantitative objectives:
  - To increase the company's profitability gradually every year.
  - To implement an annual training plan of 300 hours of specialisation in computer programmes to improve the quality of the projects.

Once the qualitative and quantitative objectives have been established, the company follows a hierarchy of them, organising them according to its priorities at that moment, in order to be able to propose the appropriate measures and plans.

To accomplish this, the owner starts from the known information, which allows him to plan, manage and control the situation. The measures and plans that XXXXXX S.L. implements to achieve its objectives are linked to the principles of innovation and change that the company considers for the future.

The company follows a working method known as Management By Objectives (MBO), which consists of the owner arranging a meeting with the whole team and presenting the objectives to be achieved, which have been agreed among all of them.

Then, the owner delegates to each employee the responsibility for accomplishing the objectives. Both parties, the owner and the employees, undertake to achieve these objectives jointly. Lastly, the owner presents the plans or measures that have to be carried out to achieve the objectives.

Once the objectives are established, XXXXXX S.L. follows the subsequent plans to fulfil them:

- Project planning: Once the company receives the assignment of the project from the client, it starts planning based on the hours, employees and materials necessary for the elaboration of the project.
- Periodic reviews: Every week, the owner has a follow-up of the projects that are being carried out at that moment to check that everything is working as expected.
- Control meeting: Once the project is finished, a final control meeting is held between the project managers in order to verify that the delivery is feasible and, therefore, that the project has complied with all the established requirements.

According to Egeland (2011), the concept of Lessons Learned is fundamental in project management and it consists of an objective quality tool, which is used once the project has finished and consists of self-assessing the following questions:

- What worked correctly/incorrectly in the project?
- What was the cause that triggered the positive/negative result in the project?

## STRATEGIC ANALYSIS OF THE SUCCESSION OF A COMPANY

- Which objectives were/were not achieved in the project?
- What unforeseen events occurred in the project?

These questions help the company to evaluate itself after the project has been carried out. In this way, the company can detect whether the execution of the project has been correct and, if not, find the aspects that need to be improved for future projects. This objective quality tool helps the company to partially anticipate the level of satisfaction that the client will have.

In order to achieve the customer satisfaction that the company desires, XXXXXX S.L. applies the Total Quality Management. The main objective of this Quality Management method is to make the company's employees aware of the importance of quality in each sector of the organisation.

The company does not have a satisfaction survey that evaluates the client's opinion of the project; this is only reflected in informal interviews where, at the end of the project, the owner asks questions to find out whether the client is satisfied or not.

The questions asked focus on the level of satisfaction with the engineering service provided, the assessment of the quality of the graphic documentation delivered, the assessment of the project execution budget and the assessment of the project management carried out during the project.

Additionally, XXXXXX S.L. uses a standardised model of Quality Management application called ISO 9001, which is a certification model. This standard is based on the principles of continuous improvement, customer satisfaction and the participation of all staff. The company uses this model, as it is the most common in the relationship between customers and suppliers. It also allows the engineering company to demonstrate its ability to meet the needs of its clients.

All of the above methods are applied to each of the company's departments: management, administration, civil work, fluids, maintenance, electricity and environmental.

### **3.4 BUSINESS CLASSIFICATION**

In this section, it has been considered appropriate to classify XXXXXX S.L. into specific criteria according to its characteristics.

From the point of view of the entrepreneurs, the business classification allows them to situate their companies within the industry, to know concretely the criteria for participating in different commercial areas, and also their specific demands and requirements.

This classification is made up of the capital origin and the level form of the organisation, the size of the company, the industry to which the company belongs and the geographical area where it operates.

### **3.4.1 CAPITAL ORIGIN AND LEGAL FORM**

XXXXXX S.L. is a private company, which means that the origin of the capital comes from individuals. Its initial contribution was done by Shareholder 1 (owner) and Shareholder 2 in 1991 and it was €3,000.

As it is cited in BOE. (2010). *Real Decreto Legislativo 1/2010, de 2 de julio, por el que se aprueba el texto refundido de la Ley de Sociedades de Capital, art. 4.*, "The capital of the limited liability company may not be less than three thousand euros and shall be expressed precisely in that currency."

Based on the above information, it can be stated that the company is a Limited Liability Company, which is a type of mercantile company with limited responsibility to the capital contributed. This type of company is also recognized by the minimum number of partners (one) and the minimum capital (€3,000) to create it. In this case, XXXXXX S.L. has two shareholders, representing XX% and XX% respectively, who form the Board of Directors.

### **3.4.2 SIZE**

As it is cited in BOE. (2003). *Recomendación de la Comisión, de 6 de mayo de 2003, sobre la definición de microempresas, pequeñas y medianas empresas. Anexo, Título 1 (Definición de microempresas, pequeñas y medianas empresas adoptada por la comisión), art. 2.3.*, "In the SME category, a micro enterprise is defined as an enterprise which employs fewer than 10 people and which annual turnover or annual balance sheet does not exceed 2 million euros."

These concepts will be analysed in the following sections: *Section 3.4.2.1. Number of employees, Section 3.4.2.2. Annual turnover and Section 3.4.2.3. Annual balance sheet*, to verify that XXXXXX S.L. fulfils two of the three criteria to be considered a micro-sized enterprise.

### 3.4.2.1 NUMBER OF EMPLOYEES

Regarding the first criterion, XXXXXX S.L.'s has nine employees on its payroll. The company has a manager, an industrial engineer, an administrative, an administrative assistant, a technical architect, a chemical engineer, an architect, an electrical engineer and an environmental engineer.

This classifies the company as a micro-sized enterprise because the number of workers does not exceed ten employees, which is the maximum limit to be categorised as this type of organisation.

The company has several departments which are formed by the workers mentioned above, according to their qualifications and responsibilities. These departments are the following ones:

- Management: This is the highest position in the company, which is held by the owner. He is in charge of institutional relations with clients and is responsible for the strategic coordination of the company.
- Technical manager: The industrial engineer manages the operations and carries out the monitoring of the projects. She is responsible for the coordination of the technical departments.
- Administration department: It is made up of two employees. The first one is the head of the department, who manages the operations and carries out the economic monitoring of the financial projections. She is also responsible for the coordination with the management of profits and financial results.

The other employee is the administrative assistant who is responsible for processing and preparing documents that the company needs on a daily basis, managing administrative processes and dealing with the clients; she is supervised by the head of this department.

- Civil work department: The technical architect directs and executes construction activities in a safe and productive manner. He is responsible for supervising that the work is in accordance with the highest standards.
- Fluids department: The chemical engineer focuses on the behaviour of fluids and how they interact with various systems. He is responsible for projects related to non-electrical installations.
- Maintenance department: The architect is responsible for the continuous improvement of the methods and procedures of her department. She must ensure the preventive maintenance plan of all the company's installations, guaranteeing their correct functioning.



## STRATEGIC ANALYSIS OF THE SUCCESSION OF A COMPANY

- Electricity department: The electrical engineer coordinates all stages of electrical systems and controls energy generation and the use of the equipment.
- Environmental department: The environmental engineer is responsible for carrying out environmental licences and consultancy work.

In *Illustration 1. Organisation chart*, the departments of XXXXXX S.L. previously stated can be seen.



*Illustration 1: Organisation chart.*

The company tries to encourage its employees to work as a team in a coordinated and organised way and to have the capacity to react efficiently to emergencies. It also aspires to have good communication between departments with constant feedback and suggestions for the improvement of the company. This is relevant for it, as it would be reflected in the quality of services, efficiency in the projects and good image in front of the clients.

### 3.4.2.2 ANNUAL TURNOVER

Proceeding with the second criterion to be considered a micro-sized enterprise, which is having an annual turnover lower than two million euros, XXXXXX S.L. fulfils it. This can be verified in *Table 1. Revenue from 2018 to 2022* representing the revenue from 2018 to 2022 in euros.

|             | Year 2018 | Year 2019 | Year 2020 | Year 2021 | Year 2022 |
|-------------|-----------|-----------|-----------|-----------|-----------|
| Revenue (€) | €XXXXXX   | €XXXXXX   | €XXXXXX   | €XXXXXX   | €XXXXXX   |

*Table 1: Revenue from 2018 to 2022.*

## STRATEGIC ANALYSIS OF THE SUCCESSION OF A COMPANY

As it can be seen, in 2018 the revenue was €XXXXXX, while in 2019 it was €XXXXXX, which means that the company experienced a considerable rise in this value. However, in 2020 and 2021, the company's revenue remained constant with approximately the same value. Lastly, in 2022, XXXXXX S.L. reached the highest value in its revenue compared with the previous analysed years, which was €XXXXXX.

### 3.4.2.3 ANNUAL BALANCE SHEET

XXXXXX S.L. is also considered as a micro-sized enterprise due to its annual balance sheet, which is lower than two million euros. This affirmation can be proved in *Table 2. Total annual balance sheet from 2018 to 2022* representing the annual balance sheet from 2018 to 2022 in euros.

|                          | Year 2018 | Year 2019 | Year 2020 | Year 2021 | Year 2022 |
|--------------------------|-----------|-----------|-----------|-----------|-----------|
| Annual balance sheet (€) | €XXXXXX   | €XXXXXX   | €XXXXXX   | €XXXXXX   | €XXXXXX   |

*Table 2: Total annual balance sheet from 2018 to 2022.*

As it can be observed, in 2018 the annual balance sheet was €XXXXXX, while in 2019 it was €XXXXXX. In 2020, the company achieved a value of €XXXXXX, whereas in 2021, the value was €XXXXXX. Lastly, in 2022, XXXXXX S.L.'s annual balance sheet reached the value of €XXXXXX, the highest result compared with the previous analysed years. With the information above-mentioned, it can be seen that the company's annual balance sheet rose as the years went by.

After having analysed the three criteria mentioned before, it can be affirmed that, apart from fulfilling two of the three requested criteria to be considered a micro-sized enterprise, XXXXXX S.L. also fulfils the third of them.

### 3.4.3 INDUSTRY

XXXXXX S.L. is a services company and therefore, it belongs to the tertiary sector of the market. Its project services are mainly aimed at public and private organisations. One of the most specific activities carried out by this company are consulting services related to engineering projects, as well as the execution of technical installation projects in the hotel and industrial architecture sectors.

#### 3.4.3.1 MARKET SECTORS

As it has been mentioned before, XXXXXX S.L. works in the tertiary sector of the market, which is the services sector. The company is present in different sectors within engineering, which are:

## STRATEGIC ANALYSIS OF THE SUCCESSION OF A COMPANY

- Industrial engineering
- Residential building
- Hotels
- Public administration
- Environment

### 3.4.3.2 SERVICES OFFERED

The following are the most outstanding services executed by XXXXXX S.L.:

- Industrial architecture: The company designs industrial spaces, developing industrial building projects using Building Information Modelling (BIM) and Virtual Reality (VR) modelling techniques. Some of the services that the company offers to its clients are:
  - Topography services
  - Construction projects
  - Industrial infrastructure projects
  - 3D projects
- Building Information Modelling (BIM) Office: The company collaborates with teams of professionals to support as experts in the pre-construction of a 3D model of each architectural project.
- Consultancy and technical advice: The company helps with expert opinion, providing global consultancy solutions based on experience in the private and public sector that will add value to each investment. Depending on the client, the advice can differ from:
  - Consultancy for architects
  - Consultancy for industrials
  - Consultancy for city councils
- Project Management: The company assists its clients throughout the design, planning and execution of their project, following its objectives in terms of cost, time and quality. Some of the project management services that the company offers are:
  - Requirements, planning, cost, quality, change, risk and procurement management.
  - Constructor Management
  - Consultancy in design, execution and control phases.

## STRATEGIC ANALYSIS OF THE SUCCESSION OF A COMPANY

- Facilities engineering: The company works with the space, designing and calculating technical installations using BIM-MEP (Mechanical, Electrical and Plumbing). Depending on the facilities, the services can differ from:
  - Engineering of technical installations
  - Hotel engineering
  - Hospital engineering
  - Building engineering
- Sustainability: The company works for the environment with services aimed at improving the environmental management of companies and local administrations. Some of the sustainability services that the company offers are:
  - Environmental licences
  - Environmental reports of construction plans
  - Waste management optimisation
  - Wastewater discharge permits.

### **3.4.4 GEOGRAPHICAL AREA**

#### **3.4.4.1 NATIONAL LEVEL**

The company is located in the province of Tarragona, in the city of Valls (Alt Camp), where the competition is very small due to the use of BIM (Building Information Modeling) Office, which is not commonly used among engineering companies. Therefore, it is considered a competitive advantage for the organisation.

The competition becomes more intense once you leave the Tarragona area and get closer to the city of Barcelona, where there are many engineering technical service companies. Logically, in the rest of Spain, competition in the engineering services sector is even greater.

Although competition at national level is greater, the company has more demand for projects than in the region itself. That is due to being an innovative company with its project management model, the high quality of its projects and the technical level of its professionals.

Its engineering services are aimed at small and medium-sized enterprises (SMEs) and individuals. It operates in small markets and is successful in small projects. Nevertheless, the company is trying to reach larger companies, which means broadening its customer portfolio, by increasing its productivity.

Regarding public institutions, although they are not the main project that XXXXXX S.L. carries out, the company is training its employees to be competent to execute this type of projects. However, it represents a challenge due to a lack of technical resources, personnel and, in many cases, a constant and adequate training in the engineering sector.

Succeeding, in *Section 3.5.1. Sector Analysis*, a detailed analysis of the engineering sector will be developed. Thanks to the sector description and the 'Five Forces of Porter', the company's market position will be known.

#### **3.4.4.2 INTERNATIONAL LEVEL**

As it has been mentioned in *Section 3.1. Constitution and historical background*, XXXXXX S.L. decided to internationalise to Chile and Peru in 2004, and to Ecuador in 2010. The last one mentioned was mainly to compensate for the 2007 economic crisis in the domestic market where the company was trading, which was practically necessary in order to survive in an increasingly globalised and competitive economy.

The main needs for the internationalisation of the company were to expand the market, to attract new clients, to avoid the financial and economic crisis in Spain, to bet on countries that invest in construction projects and to search for new markets where the company could make more profit than in the Spanish market.

The decision to internationalise was a way of expanding the company, even though it involved a fairly high risk. Some of the reasons why the company chose this alternative were to continue growing in the sector in which the company specialised, to avoid the risk of trading in only one market, to gain prestige and recognition in the market in which the company was trading, to have access to a wider and more extensive market and to maintain contact with foreign customers that competitors do not know.

The company was seeking to obtain profits from the supply of its services. Thus, it tried to gradually improve its performance and increase its market share, looking for new market niches. The continuity and expansion of the business beyond the national market was also significant.

To summarise, besides Chile, Peru and Ecuador, where there have been positive outcomes, XXXXXX S.L. has also been present in Mexico, Dominican Republic, Honduras, Bolivia, Brazil, Argentina, Morocco, Algeria, Turkey, China, Thailand, Singapore, Iraq, Puerto Rico and Costa Rica.

### **Internationalisation consequences**

The internationalisation in the countries mentioned above, where the company has settled an office, has had some striking consequences, which will be classified into advantages and disadvantages:

- Advantages:
  - Entry to new markets: Internationalisation gave XXXXXX S.L. the opportunity to expand its client portfolio from exclusively Spanish customers to South American ones.
  - Risk diversification: By operating in several markets, the company could minimise its exposure to economic and political volatility, such as the 2007 crisis, as the situation in Spain was worse than the one in the countries where the company internationalised to.
  - Revenue diversification: Internationalisation helped the company to broaden its sources of income, which reduced its dependence on the Spanish market and on specific Spanish clients.
  - Lower labour costs: Wages in South American countries were often lower than in Spain, which significantly reduced production costs of XXXXXX S.L.
  - Less competition: There was more competition in Spain than in South American countries, which allowed the company to establish itself more easily and capture a larger customer portfolio.
  - Improved brand image: Internationalisation enhanced the company's corporate reputation by demonstrating its ability to operate globally and serve clients in different parts of the world.
- Disadvantages:
  - Internationalisation costs: Internationalisation involved additional costs to XXXXXX S.L. such as travel, accommodation, communications, insurance among other expenses. This increased the cost of services and reduced profitability, for example, when flights were more expensive or when a translator was required.
  - Rules and regulations: Each country had its own standards and laws regarding the engineering technical services sector, which created obstacles to the internationalisation of the company. Additional investment of time and resources were required. Also, a detailed knowledge of local laws and regulations was needed to operate in foreign countries.

## STRATEGIC ANALYSIS OF THE SUCCESSION OF A COMPANY

- Increased management complexity: Handling an internationalised company is more complex due to geographic distance, different time zones and the need to coordinate activities in multiple locations. The owner had to plan his national projects in advance and delegate certain functions to the employees in Spain, since, at the beginning of the internationalisation process, it was difficult for him to control both territories.
- Differences among countries: Internationalisation meant different currencies, interest types, levels of inflation, political factors, among other items, which affected the way to carry out projects in each country and made it more difficult for XXXXXX S.L. to adapt.

Although it was a decision that determined the future of the company in a critical way, and despite the fact that it was not an idea that the owner had in mind at that moment, it can be stated that it was a decision that saved the company from bankruptcy.

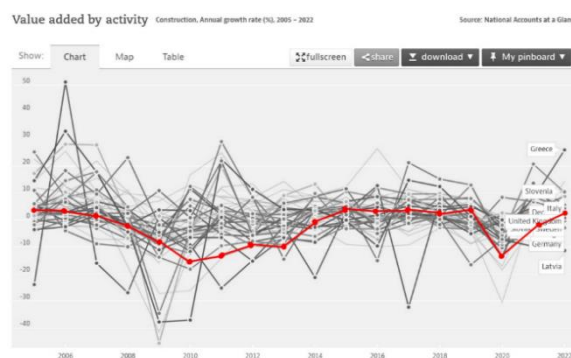
### 3.5 ANALYSIS OF THE CURRENT SITUATION

#### 3.5.1 SECTOR ANALYSIS

##### Sector Description

Spain has been severely affected by the financial and economic crisis of 2007 and its recovery has been slow compared to other European Union countries, as it can be seen in *Graph 1. Annual growth rate (%) of value added activity in Spain from 2005 to 2022 (National Accounts at a Glance)*, which belongs to the construction sector.

The concept of value added is the “net output of a sector after adding up all outputs and subtracting intermediate inputs. It is calculated without making deductions for depreciation of fabricated assets or depletion and degradation of natural resources.” (The World Bank, n.d.)



Graph 1: Annual growth rate (%) of value added activity in Spain from 2005 to 2022.

## STRATEGIC ANALYSIS OF THE SUCCESSION OF A COMPANY

As it can be seen in the graph, highlighted in red, the construction's industry in Spain experienced a significant decrease from 2007 to 2010 because of the Real Estate Bubble. This phenomenon was triggered by an excessive increase in housing prices, the demand of which was growing uncontrollably. This caused prices to rise in order to meet that demand, which led to more housing being built at a higher price.

Since 2011 until 2015, the curve grew irregularly while the economy was recovering. From 2016 the curve stabilised until 2019, when Spain went through a worldwide pandemic due to COVID-19, therefore, in 2020 the curve dropped drastically. From 2022 until now, the country is experiencing an increase in the annual growth rate (%) of value added activity.

In the case of Catalonia, where the company mainly develops its activity and where it has its headquarter, it was not an exception with respect to the national economy as a whole. The crisis situation caused both public and private institutions to invest less in residential and non-residential construction projects, civil works projects (urban developments, railway infrastructures, etc.), building projects (hospitals, hotels and offices) and industrial engineering projects.

This directly affected the sector to which XXXXXX S.L. belongs, which is industrial engineering, as it is an influential sector for the construction industry. The main consequence was the reduction in the demand for industrial engineers to design and supervise construction projects.

In addition, the crisis also affected the company's ability to obtain funds for projects and investment in technology and new product development, which slowed the company's growth and innovation.

As a result of the crisis, the company faced economic challenges and had to reduce costs; the way of achieving this was the internationalisation to Ecuador in 2010.

### **Analysis of the Five Forces of Porter**

- Competition rivalry: Competition can be particularly intense in areas where there are numerous engineering technical services companies, such as large cities or in regions with a high level of industrial activity. In the specific case of XXXXXX S.L., this occurs in the city of Barcelona, where these companies can compete to a greater degree in terms of quality, price, experience and technical capacity.



## STRATEGIC ANALYSIS OF THE SUCCESSION OF A COMPANY

In addition, this rivalry between competitors can also be influenced by factors such as innovation, development of new technologies, customer responsiveness and company reputation. XXXXXX S.L. is able to differentiate itself from the competition by offering high quality technical services at competitive prices and by using innovative technologies, such as Building Information Modelling (BIM) Office.

- Supplier power: The bargaining power of engineering technical services suppliers depends on several factors, such as the strategic relevance, the number of suppliers available in the market, the number of products or services needed and their availability.

In the specific case of XXXXXX S.L., one of its main suppliers are engineering consultancy services suppliers. This type of supplier does not play a key role in the sourcing of specialised technology or specific know-how, which means that their strategic relevance in the performance of the company is not crucial and, therefore, its bargaining power is low.

Moreover, the number of suppliers available on the market for this service is high, making it difficult for them to impose more favourable conditions in terms of prices, delivery times and quality.

In addition, there is a wide range of companies offering this type of services, therefore, the analysed company will have more suppliers to choose from, due to the high competition. Additionally, these companies offer very similar services, which further decreases the bargaining power of the suppliers.

In conclusion, the low strategic relevance, the high number of both suppliers and services offered result in the supplier power being low.

- Buyer power: The bargaining power of engineering technical services customers depends on several factors, such as the number of suppliers available in the market, the competition in the sector, the specialisation of the services offered and the demand for technical services.

In Barcelona, where there is a large amount of engineering technical service companies and competition is high, customers have more bargaining power. They are able to compare prices and qualities from different engineering companies and choose the one that offers them the best conditions.

However, in Valls (Tarragona), where the competition is lower, customers have less bargaining power, as the engineering companies are seen as a singular source of knowledge and expertise in the area.

## STRATEGIC ANALYSIS OF THE SUCCESSION OF A COMPANY

In addition, as XXXXXX S.L. offers a wide variety of services, customers do not have many options to choose from and it is more difficult for them to pressure the company into offering lower prices.

Moreover, when there is a low demand for engineering technical services, such as the 2007 economic crisis, customers have a high bargaining power. The opposite happens when the demand is high, which is the current situation after the economic crisis and COVID-19.

In conclusion, with the information stated above, the customer bargaining power is undefined. Therefore, it depends on the number of competitors in the market; when talking about Barcelona, it is high, and when talking about Valls it is low.

- Threat of substitution: The threat of substitution of technical services refers to the possibility that customers seek alternatives to meet their technical needs. This can come from substitute services that are cheaper, more accessible or easier for customers to use.

Substitute engineering technical services are those offered by companies or professionals from other disciplines rather than engineering that achieve a similar result. These services include technical consulting, system design, installation, maintenance or repair, which are services provided by XXXXXX S.L., too.

For instance, an architectural firm can offer building design and construction services, including structural engineering. These services compete with industrial architecture and facilities engineering, which are also offered by the company.

To address this threat, the company focuses on the specialisation and quality of the services to meet the specific needs of its clients. Also, it seeks continuous improvement and innovation to offer high-quality services. Lastly, it proposes complementary technologies and services, such as consulting and maintenance.

- Threat of new entry: The threat of new entrants in the engineering technical services market depends on several factors, such as barriers to entry, required investment and required experience.

This market can be difficult to enter due to high barriers of entrance. To succeed in the engineering technical services market, it is required a considerable investment in resources and capital, including specialised equipment, highly trained employees and advanced technological equipment.

Therefore, if a new entrant can overcome these barriers and establish a solid reputation in the market, it can successfully compete in it.

In conclusion, there are significant barriers to entry in the market, which softens the threat of new companies.

### 3.5.2 SWOT ANALYSIS

Next, the company's SWOT analysis divided into internal and external factors is presented. Regarding the internal factors, the strengths and weaknesses of the organisation have been identified. In relation to the external factors, the opportunities and threats that XXXXXX S.L. have been detected analysing the environment in which the company is present.

#### **Strengths**

- Flexible organisational structure and great adaptability to changes
- Innovative technology: Building Information Modelling (BIM)
- Investment in innovation and continuous training of the employees
- Quality services monitored by quality management systems
- Prices adjusted to each project
- Multidisciplinary and technically well-prepared team
- Significant experience in the sector

#### **Weaknesses**

- Size of the company (micro-sized enterprise)
- Limited financial resources
- Scarce human and material resources
- Lack of time and planning for the overall development of the company
- Insufficient knowledge in certain projects carried out
- Need for experts in Communication and Marketing

#### **Opportunities**

- Diversified market in many sectors
- Awareness of society towards environment
- Small-to-Medium Enterprises subsidies
- Export and globalisation subsidies
- Supportive governmental policies
- Permissive regulation

#### **Threats**

- Labour rigidity and high costs in terms of salaries
- Strong competitive companies located near Barcelona
- Entry of new competitors with lower costs

## STRATEGIC ANALYSIS OF THE SUCCESSION OF A COMPANY

- Tendency towards the globalisation of services, leaving out small companies
- Long-term financial liabilities in terms of payment deadlines
- Time taken to implement planning, management and control of projects

### 3.5.3 FINANCIAL ANALYSIS

#### 3.5.3.1 ANALYSIS OF THE EBITDA

The analysis of the Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) will be executed with the information of *Table 3. EBITDA from 2018 to 2022* representing the revenue, expenses and EBITDA from 2018 to 2022 in euros.

|                   | Year 2018      | Year 2019      | Year 2020      | Year 2021      | Year 2022      |
|-------------------|----------------|----------------|----------------|----------------|----------------|
| Revenue (€)       | €XXXXXX        | €XXXXXX        | €XXXXXX        | €XXXXXX        | €XXXXXX        |
| Expenses (€)      | €XXXXXX        | €XXXXXX        | €XXXXXX        | €XXXXXX        | €XXXXXX        |
| <b>EBITDA (€)</b> | <b>€XXXXXX</b> | <b>€XXXXXX</b> | <b>€XXXXXX</b> | <b>€XXXXXX</b> | <b>€XXXXXX</b> |

*Table 3: EBITDA from 2018 to 2022.*

As it can be seen, in 2018 the revenue was €XXXXXX and the expenses were €XXXXXX, representing a value of the Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) of €XXXXXX. In comparison, in 2019 the revenue was €XXXXXX and the expenses were €XXXXXX, resulting in an EBITDA of €XXXXXX.

This remarkable shift was due to the fact that, at the beginning of that year, XXXXXX S.L. started a major project in Estepona (Málaga), which consisted in the remodelling and rehabilitation of a hotel, setting new facilities.

This project was factured over the course of that year, which is why the EBITDA at the end of that period was so high. In addition, due to the size of the project, the company had to hire more staff to supply all the work to be done, invest capital and time in training these new employees and it also had to buy new computers and software to be able to offer a higher quality of its services. This is the reason for which expenses rose considerably as years went by.

As it can be observed from 2019 to 2020 the company experienced a decrease in its revenue, which was caused by the execution of smaller projects with less value added. However, even if they were small projects, all of them required a large number of workers among whom the tasks could be efficiently distributed, which was reflected as an increase in the expenses of the company.

## STRATEGIC ANALYSIS OF THE SUCCESSION OF A COMPANY

Because of the previous values, the EBITDA suffered a significant decrease. In 2021, the company went through the same situation as in the previous year and therefore, its revenue and expenses remained within the same range of values.

After dealing with both huge projects with high value added and small ones with less value added, XXXXXX S.L. came to the conclusion that the first ones were more profitable and were the ones that really boosted the company's revenue noticeably.

This was implemented in 2022, when the company started another hotel remodelling in Estepona, and also created a logistics car park where trucks and shipping containers could be parked. It could also consist of a corporate office complex, and a vehicle repair shop and washer facility where the above-mentioned transports could be repaired and cleaned.

This project was started in August of the same year, and is still in progress at the moment. This represented a significant rise in its revenue and, at the same time, an increase in its expenses because of the recruitment of additional workers to fulfil the volume of work. Referring to the EBITDA, in 2022 it reached its highest value compared with the previous four years analysed.

As a result of verifying the importance of having trained employees and innovative software, XXXXXX S.L. reinvests approximately XX% of its annual turnover in these matters.

### 3.5.3.2 ANALYSIS OF THE ANNUAL BALANCE SHEET

The analysis of the annual balance sheet will be accomplished with the information of *Table 4. Annual balance sheet from 2018 to 2022* representing the annual balance sheet from 2018 to 2022 in euros.

|  | Year 2018 | Year 2019 | Year 2020 | Year 2021 | Year 2022 |
|--|-----------|-----------|-----------|-----------|-----------|
| <b>Total fixed assets</b>                                | €XXXXXX   | €XXXXXX   | €XXXXXX   | €XXXXXX   | €XXXXXX   |
| Property, plant and equipment                            | €XXXXXX   | €XXXXXX   | €XXXXXX   | €XXXXXX   | €XXXXXX   |
| Long-term investments                                    | €XXXXXX   | €XXXXXX   | €XXXXXX   | €XXXXXX   | €XXXXXX   |
| Deferred tax assets                                      | €XXXXXX   | €XXXXXX   | €XXXXXX   | €XXXXXX   | €XXXXXX   |
| <b>Total current assets</b>                              | €XXXXXX   | €XXXXXX   | €XXXXXX   | €XXXXXX   | €XXXXXX   |
| Accounts receivable                                      | €XXXXXX   | €XXXXXX   | €XXXXXX   | €XXXXXX   | €XXXXXX   |
| Short-term investments in group and associated companies | €XXXXXX   | €XXXXXX   | €XXXXXX   | €XXXXXX   | €XXXXXX   |

STRATEGIC ANALYSIS OF THE SUCCESSION OF A COMPANY

|   |                  |                  |                  |                  |                  |
|---|------------------|------------------|------------------|------------------|------------------|
| Short-term investments                      | €XXXXXX          | €XXXXXX          | €XXXXXX          | €XXXXXX          | €XXXXXX          |
| Cash  | €XXXXXX          | €XXXXXX          | €XXXXXX          | €XXXXXX          | €XXXXXX          |
| <b>TOTAL ASSETS</b>                         | <b>€XXXXXX</b>   | <b>€XXXXXX</b>   | <b>€XXXXXX</b>   | <b>€XXXXXX</b>   | <b>€XXXXXX</b>   |
|   |                  |                  |                  |                  |                  |
|   | <b>Year 2018</b> | <b>Year 2019</b> | <b>Year 2020</b> | <b>Year 2021</b> | <b>Year 2022</b> |
| <b>Total owners' equity</b>                 | <b>€XXXXXX</b>   | <b>€XXXXXX</b>   | <b>€XXXXXX</b>   | <b>€XXXXXX</b>   | <b>€XXXXXX</b>   |
| Shareholders' equity                        | €XXXXXX          | €XXXXXX          | €XXXXXX          | €XXXXXX          | €XXXXXX          |
| Reserves                                    | €XXXXXX          | €XXXXXX          | €XXXXXX          | €XXXXXX          | €XXXXXX          |
| Results from previous years                 | €XXXXXX          | €XXXXXX          | €XXXXXX          | €XXXXXX          | €XXXXXX          |
| Year-end result                             | €XXXXXX          | €XXXXXX          | €XXXXXX          | €XXXXXX          | €XXXXXX          |
|   |                  |                  |                  |                  |                  |
|   | <b>Year 2018</b> | <b>Year 2019</b> | <b>Year 2020</b> | <b>Year 2021</b> | <b>Year 2022</b> |
| <b>Total long-term liabilities</b>          | <b>€XXXXXX</b>   | <b>€XXXXXX</b>   | <b>€XXXXXX</b>   | <b>€XXXXXX</b>   | <b>€XXXXXX</b>   |
| <b>Long-term debt</b>                       | €XXXXXX          | €XXXXXX          | €XXXXXX          | €XXXXXX          | €XXXXXX          |
| Debts to credit institutions                | €XXXXXX          | €XXXXXX          | €XXXXXX          | €XXXXXX          | €XXXXXX          |
| Other long-term debt                        | €XXXXXX          | €XXXXXX          | €XXXXXX          | €XXXXXX          | €XXXXXX          |
| <b>Total current liabilities</b>            | <b>€XXXXXX</b>   | <b>€XXXXXX</b>   | <b>€XXXXXX</b>   | <b>€XXXXXX</b>   | <b>€XXXXXX</b>   |
| <b>Short-term debt</b>                      | €XXXXXX          | €XXXXXX          | €XXXXXX          | €XXXXXX          | €XXXXXX          |
| <b>Accounts payable</b>                     | €XXXXXX          | €XXXXXX          | €XXXXXX          | €XXXXXX          | €XXXXXX          |
| Short-term suppliers                        | €XXXXXX          | €XXXXXX          | €XXXXXX          | €XXXXXX          | €XXXXXX          |
| Other creditors                             | €XXXXXX          | €XXXXXX          | €XXXXXX          | €XXXXXX          | €XXXXXX          |
| <b>Total liabilities</b>                    | <b>€XXXXXX</b>   | <b>€XXXXXX</b>   | <b>€XXXXXX</b>   | <b>€XXXXXX</b>   | <b>€XXXXXX</b>   |
| <b>TOTAL LIABILITIES AND OWNER'S EQUITY</b> | <b>€XXXXXX</b>   | <b>€XXXXXX</b>   | <b>€XXXXXX</b>   | <b>€XXXXXX</b>   | <b>€XXXXXX</b>   |

Table 4: Annual balance sheet from 2018 to 2022.

As it can be observed, from 2018 to 2019, the result of the total fixed assets decreased because of the diminishing in property, plant and equipment. However, the long-term investments and the deferred tax assets maintained. According to the total current assets, the accounts receivable and cash values experienced a considerable increase. Another remarkable shift was the presence of new short-term investments.

Referring to the total fixed assets from 2019 to 2020, it endured a slight rise, which was caused by an increment in the property, plant and equipment, a huge decrease in the long-term investments and a maintenance in the deferred tax assets.

## STRATEGIC ANALYSIS OF THE SUCCESSION OF A COMPANY

Following with the total current assets, the result of the company strongly grew thanks to the increase on its accounts receivable and on cash. However, the company carried out less short-term investments.

From 2020 to 2021, the company experienced an increment in its property, plant and equipment and a maintenance in its long-term investments and deferred tax assets values. These caused a rise in its total fixed assets results. Regarding the total current assets of the company, it had a reduction in its accounts receivable and, at the same time an increase in its cash. In addition, the company's short-term investments remained equal.

Lastly, comparing 2021 with 2022, the company suffered a drop in its total fixed assets result due to a decrease in its property, plant and equipment. However, its long-term investments and deferred tax assets maintained the same value as the previous years.

Following with the total current assets result, it significantly grew due to the fact that the company had more accounts receivable and more cash. Although its short-term investments remained equal since 2020, the company experienced a huge increase in its short-term investments in group and associated companies, which had been lower from 2018 to 2021.

Referring to the total owner's equity, from 2018 to 2022 the company had the same shareholder's equity and reserves. In addition, in 2018 it had a negative year-end result, which translated into a positive one as years went by, arising in a very favourable value for the company in 2022. However, all its results from previous years were represented in a negative value, which also caused a negative total owners' equity result from 2018 to 2022.

According to the total long-term liabilities, from 2018 to 2019 it slightly decreased, as the company had less long-term debts. On the contrary, from 2019 to 2020 it increased considerably, as the company had more debts to credit institutions and other long-term debts which enlarged the result of long-term liabilities.

However, from 2020 to 2022, the company suffered a drop in its outcomes, which means that, as the years went by, the organisation had progressively less long-term debts, respectively, debts with a term of more than one year.

From the point of view of current liabilities, from 2018 to 2019, the company experienced an increase in its short-term debt and, at the same time, a decrease in its accounts payable, which had been caused by having less short-term debts on suppliers and other creditors.

## STRATEGIC ANALYSIS OF THE SUCCESSION OF A COMPANY

Conversely, from 2019 to 2020, the short-term debt reduced but the accounts payable rose almost reaching the outcome of 2018.

Lastly, from 2020 to 2022, the company suffered a constant fall in its short-term debt but also a constant growth in its accounts payable, which was translated into an increase in its total current liabilities. This means that, as the years moved on, the company had sequentially more short-term debts, therefore, debts with a maximum term of one year.



## **4 COMPANY SUCCESSION ALTERNATIVES**

With all the information before-analysed, the main objective of the project has been accomplished, which is the determination of the characteristics of the company and the position it occupies in its respective market and sector.

Through this section, which provides the different alternatives that the company would face with its succession, the second and third objectives would be achieved, which consist of providing the different steps to be followed in order to carry out each of the alternatives presented to the company, and knowing the effects that each of them would have on the company.

The different alternatives from which XXXXXX S.L. could choose would be the closure of the company, the sale of its shares to a third party or to an employee, and the donation “*inter vivos*” of the company, all of them taking into account that this future decision would be determined by the owner due to the fact that he would desire to retire in 2030 approximately, and therefore, stop working.

### **4.1 OPTION 1: CLOSURE OF THE COMPANY**

One of the alternatives that XXXXXX S.L. could opt for in the above-mentioned situation would be the closure of the company. This would entail the termination of its activity and the dissolution of the company. In order to carry out the closure, the company would have to be extinguished, a process in which the owner would carry out the necessary formalities.

According to the Ministry of Industry, Trade and Tourism of the Spanish Government, the extinction process would consist of the following stages, as provided in the legislation.

#### **4.1.1 DISSOLUTION**

This phase would be necessary in order to start the liquidation process, agreed by the general meeting of the company. In addition, the dissolution would not imply the legal disappearance of the company; however, it would paralyse the company's activity.

The dissolution would consist of the general meeting with both shareholders, where this procedure would be agreed on. In addition, a notarial deed would be needed to evidence the dissolution agreement.

Once the process above-mentioned would be done, the company should pay the "Impuesto sobre Transmisiones Patrimoniales y Actos Jurídicos Documentados". To conclude with the dissolution process, the company should register the notarial deed of dissolution in the Commercial Register.

#### 4.1.2 LIQUIDATION

Once the dissolution period would be over, the designation of liquidators by the general meeting would be necessary. Liquidators would take over the functions of the administrators and they would have to be registered in the Commercial Register.

In addition, they would have to approve the final balance sheet and the procedure of how the assets would be divided among the shareholders. This last step could only be carried out if the company would raise sufficient capital after the sale of its assets.

To continue with the liquidation process, the following steps would have to be carried out, assuming that all the values have been considered by the date of December 31st, 2022:

Firstly, regarding with the collection of accounts receivable and cash, XXXXXX S.L. would have a value of €XXXXXX, which belongs to the total current assets of the company, as seen in *Table 4. Annual balance sheet from 2018 to 2022*.

Secondly, according to the payment of debts to credit institutions, suppliers and creditors, the company would have a value of €XXXXXX, which belongs to the total liabilities of the company, as seen in *Table 4. Annual balance sheet from 2018 to 2022*.

Thirdly, referring to the sale of assets, in *Table 5. Assets' valuation* it is shown the cost that the company would have regarding with real estate, computer equipment and vehicles.

| Assets              | Acquisition date | Value by 31/12/22 |
|---------------------|------------------|-------------------|
| Industrial building | XX/XX/XXXX       | €XXXXXX           |
| Vehicle 1           | XX/XX/XXXX       | €XXXXXX           |
| Vehicle 2           | XX/XX/XXXX       | €XXXXXX           |
| Computer equipment  | -                | €XXXXXX           |
| Furniture           | -                | €XXXXXX           |
| <b>TOTAL</b>        |                  | <b>€XXXXXX</b>    |

*Table 5: Assets' valuation.*

## STRATEGIC ANALYSIS OF THE SUCCESSION OF A COMPANY

In terms of the industrial building, the value has been calculated by the date of December 31st, 2022 and, considering that the square metre has an approximate value of €XXX/m<sup>2</sup> and the building is XXXm<sup>2</sup>, the result is €XXXXXX.

Continuing with both vehicles, their value has been assessed taking into account the car brand, model and mileage, resulting in €XXXXXX and €XXXXXX.

Following with the computer equipment, an estimate has been made of the number of different electronic devices, such as desktops, keyboards, mice, monitors, printers, among others, and multiplied by the approximate market value. The same procedure has been followed for the furniture.

Finally, the last step would be the closure of the accounting year, formulation of the annual accounts and report on the situation of the liquidation, which would be approved at the general meeting.

To proceed with the process of liquidation, the distribution of the company's assets would be done. According to the above information, first of all, XXXXXX S.L. should sell its assets for the value of €XXXXXX and collect its accounts receivable and cash for the value of €XXXXXX, which would equal a price of €XXXXXX. With this amount the company should satisfy its total liabilities by €XXXXXX.

As it can be observed, the latter result is higher than the sum of the sale of the assets and the accounts receivable and cash collected. Therefore, this step would represent an expense that the company could not afford and consequently, XXXXXX S.L. would not be able to distribute its assets among its shareholders.

The liquidators shall execute a notarial deed of the termination of the company, which should state that the suppliers and creditors would have been paid and that the short and long-term debts would have been deposited. In this case, the company would not be able to meet these payments.

In addition, it also should declare that the liquidation quota would have been paid to the shareholders or the amount would have been deposited. Again, the company would not be able to carry out this liquidation operation.

### **4.1.3 EXTINCTION**

Once the liquidation process would be completed, the extinction process would initiate. This would consist of the registration by the liquidators of the extinction of the company in the Commercial Register, where a notarial deed would be granted.

## STRATEGIC ANALYSIS OF THE SUCCESSION OF A COMPANY

This would involve the final balance sheet of the liquidation with its approval agreement and the declaration of the payments made to the suppliers and creditors.

To follow with the extinction process, as it is cited in BOE (2015). Real Decreto Legislativo 2/2015, de 23 de octubre, por el que se aprueba el texto refundido de la Ley del Estatuto de los Trabajadores, art. 51., it would be essential the termination of employment contracts.

As XXXXXX S.L. has more than five employees and the dismissal cost would be due to the total cessation of the business activity, the company would have to undertake a collective dismissal procedure, which would consist firstly, on the written communication to the employees of the effective termination of their contracts with a notice period of fifteen days.

Moreover, the company should notify the cancellation of the corresponding contribution regime and the termination of the social security contribution account of the hired employees. Lastly, the company should request the deregistration of the administrators in the Special Regime for Self-Employed Workers (RETA).

Referring to the liquidation of employees, *Table 6. Dismissal cost of employees' liquidation* represents the cost that XXXXXX S.L. would have if it fired all its workers. This cost would depend on each worker's seniority by the date of December 31st, 2022.

| Worker       | Date of seniority | Dismissal cost |
|--------------|-------------------|----------------|
| Employee 1   | XX/XX/XXXX        | €XXXXXX        |
| Employee 2   | XX/XX/XXXX        | €XXXXXX        |
| Employee 3   | XX/XX/XXXX        | €XXXXXX        |
| Employee 4   | XX/XX/XXXX        | €XXXXXX        |
| Employee 5   | XX/XX/XXXX        | €XXXXXX        |
| Employee 6   | XX/XX/XXXX        | €XXXXXX        |
| Employee 7   | XX/XX/XXXX        | €XXXXXX        |
| Employee 8   | XX/XX/XXXX        | €XXXXXX        |
| <b>TOTAL</b> |                   | <b>€XXXXXX</b> |

*Table 6: Dismissal cost of employees' liquidation.*

As it can be observed, the employee with the oldest seniority date would be Employee 1, hired in XXXX, which would represent a cost of €XXXXXX, the highest redundancy value.

## STRATEGIC ANALYSIS OF THE SUCCESSION OF A COMPANY

Following with Employee 2 and Employee 3, they started working in XXXXXX S.L. in XXXX, but their dismissal cost would vary because of their functions in the company. Moreover, regarding with Employee 4 and Employee 5 the same situation as before would occur.

On the contrary, Employee 6 and Employee 7 would have a similar dismissal cost as they hold a similar role. Lastly, Employee 8 would have a lower dismissal cost as they have been recently hired. In conclusion, the total dismissal cost that the company would have if it fired all its employees would be €XXXXXX.

### 4.2 OPTION 2: SALE OF THE COMPANY

For XXXXXX S.L., selling its shares to a third party would consist on the following steps, taking into account the information provided by the bylaws:

- Agreement among shareholders: In this case, both shareholders would agree with the sale of each share, representing XX% from Shareholder 1 and XX% from Shareholder 2. Consequently, this would represent the sale of all the shares of the company.
- Valuation: The next stage would be determining the shares' worth, which would be accomplished by using the value resulting from the last approved annual balance sheet (€XXXXXX), corresponding with 2022. The valuation of each shareholders' shares can be seen in *Table 7. Estimation of shares' value*.

|                      | Shareholder 1 | Shareholder 2 | TOTAL   |
|----------------------|---------------|---------------|---------|
| Shareholders' equity | €XXXXXX       | €XXXXXX       | €XXXXXX |
| Percentage of shares | XX%           | XX%           | 100%    |

*Table 7: Estimation of shares' value.*

As it can be observed, as Shareholder 1 has the highest percentage of shares, his part of the shareholders' equity is considerably higher than the part of Shareholder 2, representing a value of €XXXXXX and €XXXXXX, respectively. These amounts are due to the value of one share being €XXXXXX.

Additionally, to determine the company's value, it would be essential to consider customers' loyalty. Taking into account that XXXXXX S.L. is an engineering technical services company, its customers do not demand projects in a continuous way.

## STRATEGIC ANALYSIS OF THE SUCCESSION OF A COMPANY

This is because of the type of projects that the company carries out, which have a duration of at least six months, and they consist of technical installations in hospitals, hotels and industrial buildings.

- Identifying feasible buyers: After determining the value of the company, potential buyers would have to be found. This would be achieved by contacting other companies in the same industry or finding prospective investors.

As it has been mentioned in *Section 3.3. Corporate targets*, the company's main targets are the ones related to Quality Management. Consequently, XXXXXX S.L. would be looking for a suitable buyer who would take these factors into account. Therefore, this purchaser would have to aspire to offer remarkable added value to all its projects and services, as much as the company has been doing throughout its history.

- Agreement for the sale and purchase of the shares: A legal contract would be established between the sellers and the buyer detailing the terms and conditions of the transaction, such as the payment method and warranties, including the sale price of the shares.
- Due diligence: The buyer would conduct a thorough investigation of the company it would like to acquire. This would involve reviewing financial statements, contracts, assets, liabilities, employees, customers and any other relevant aspects to assess the value and risks associated with the transaction. This would allow the buyer to evaluate and test whether the purchase transaction would be worthwhile.
- Communication with employees and customers: The company should inform employees and customers about the future share transaction and how it would affect them as it could involve changes in organisational structure, employment contracts, business relationships, among other aspects.
- Closing: If the evaluation was satisfactory, the sale would be closed. This would involve the transfer of the company's assets and liabilities to the buyer, as well as the transfer of the control of the company and payment of the agreed sale price.

The transfer of the assets would consist of the handover of the industrial building, vehicles, computer equipment and furniture. In addition, the buyer should assume the company's liabilities, such as accounts payable.

- Change of legal ownership: The necessary formalities would be carried out to formalise the change of ownership of the company before the corresponding authorities, such as commercial, tax and labour registries.

During the process of selling company's shares to a third party, XXXXXX S.L. should consider the option of having professional advice, such as lawyers and accountants, to ensure that the sale process is carried out legally and effectively.

To conclude, the buyer could be either a person external to the company or an employee. The latter option would be feasible if the worker was interested in owning the company and assuming that the owner would accept them as a candidate.

#### **4.3 OPTION 3: DONATION “*INTER VIVOS*” OF THE COMPANY**

In the case of XXXXXX S.L., as its owner has two descendants, a donation “*inter vivos*” could be considered. This option would consist of the transfer of shares, which would involve the cession of the ownership and control of the company to the heir who would be willing and able to run the business.

However, if both descendants would desire to own the company, the owner should identify a specific successor based on various criteria. On the one hand, these could be related to the skills and abilities of the successor and, on the other hand, the values and vision in relation to the company.

Referring to skills, knowledge and experience, these would be necessary to manage the company efficiently. In addition, professional studies, previous work experience and leadership skills could be factors that the owner should consider.

According to the values and vision, the successor should support them and be committed to the continuity of the company and its long-term success. Moreover, the successor should always keep in mind the strategic goals and the methods for achieving them.

Once the successor would be chosen, it should be determined how the continuity of the company would be carried out, such as how ownership and management would be transferred. Furthermore, the roles and responsibilities of the heir should also be designated.

The donation of the company's shares would allow XXXXXX S.L. to ensure the coexistence between incoming and outgoing generations, thus triggering a smooth and coordinated transition.

However, with this option the owner should take into account the concept of irreversibility, which means that if the successor would not turn out to be the right profile that the donor was looking for, this last one would not be able to reverse the effects of his decision.

## STRATEGIC ANALYSIS OF THE SUCCESSION OF A COMPANY

In relation to the taxes that the owner would have to comply with, it would be the "*Impuesto sobre la Renta de las Personas Físicas (IRPF)*". The owner would have to contribute to this tax if the donation had supposed a capital gain. This situation would arise if the transfer value would be higher than the acquisition value of the shares.

In the case of XXXXXX S.L., as it would be a donation, the transfer value would be zero, due to the fact that the shares of the company would be transferred free of charge, therefore, there would be no capital gain and no tax would be payable.



## 5 CONCLUSIONS

As a main conclusion, it can be stated that the established objectives have been satisfactorily achieved, adjusting them as much as possible to the reality of the company "XXXXXX S.L."

First of all, the positioning of the company has been possible after the analysis of its characteristics and strong and weak points, through several interviews with the owner.

Additionally, it has been possible to identify the different steps that each of the alternatives presented to the company would have to follow, as well as their respective effects on the organisation.

The first alternative, which consists of the closure of the company and which is divided into dissolution, liquidation and extinction, would entail a considerable expense. Consequently, the company could not afford this expense due to its high value according to the short and long-term debts and the payments to suppliers and creditors.

The second alternative, which consists of the sale of the company to a third party or an employee, would involve a process in which the owner would have to invest considerable time.

This alternative would consist of the agreement among shareholders, the rigorous estimation of the value of the shares, the identification of a feasible buyer, the sale and purchase of the shares, due diligence, communication with employees and customers, closing and change of legal ownership.

The third alternative would be the donation "*inter vivos*" of the company to a descendant, which would present difficulties on an emotional level, as the owner may be more influenced by his feelings towards his descendants than by reason when making the decision of which heir should be chosen.

To conclude, after having provided the owner with the appropriate and relevant information on each of the alternatives, he would have the right information to make the decision that best suits his needs and preferences.

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