

EXECUTIVE SUMMARY

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# BUSINESS GROUPS IN THE BASQUE COUNTRY

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## Executive summary

This report analyses the nature of the shareholding of Basque companies, and provides an X-ray of the business groups<sup>1</sup> with a presence in the Basque Country in 2022. Studying the shareholding structure of Basque companies is essential to be able to understand the distribution of power and decision-making processes involved, and to assess their level of integration, commitment and business roots in the Basque territory. In addition, business groups play a key role in strengthening the business fabric by fostering collaboration, driving innovation and promoting economic growth. These groups generate synergies and economies of scale that contribute to improving the efficiency, competitiveness and economic development of a region. Overall, the study of the nature of ownership and the analysis of business groups are fundamental to understanding and strengthening business roots in the Basque Country.

To meet this dual purpose, an analysis was conducted of a sample of 25,689 Basque companies, 42% of which formed part of a business group, while the remaining 58% were considered independent companies.

### Nature of ownership of companies in the Basque Country

The analysis of the shareholding structure of Basque companies shows the great importance of family businesses, particularly in Gipuzkoa, where individuals and families are the main shareholders of approximately 66% of the Basque companies studied. Non-financial companies are the second most relevant type of shareholder; they are the main shareholder in around 30% of Basque companies, with a slightly greater presence in Araba and Bizkaia. In contrast, financial companies, banks, insurance companies, venture capitalist companies and the public sector are minority shareholders of Basque companies, as they are majority shareholders in only 4% of the companies analysed. The presence of majority shareholding between companies therefore shapes the business groups located in the Basque Country.

It is worth highlighting that the main shareholder in 80% of Basque companies controls a majority stake, which shows the high degree of concentration of ownership in the Basque business environment. This pattern is even more accentuated in Basque companies which are part of business groups; furthermore, this degree of concentration has seen a significant increase over the past decade. This indicates that owners have considerable capacity to influence decision-making and exercise control over the companies in these groups.

### Geographical origin, activity and size of the groups with a presence in the Basque Country

Of the 4,136 business groups in the Basque Country, 68% are Basque groups that control 5,569 subsidiaries in the region; 17% is made up of Spanish groups (from outside the Basque Autonomous Region) which own 1,385 subsidiaries in the Basque Country; and the remaining 15% is composed of foreign groups, which control 1,142 subsidiaries in the region.

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<sup>1</sup> The definition of a business group used in this report is: a group of companies (subsidiaries) related to, and directly or indirectly controlled by, an ultimate parent company which holds more than 25% of its shares.

The parent companies of the Basque groups were mainly focused on the service sector, which accounted for 64% of the groups' business activities, and the industrial sector, with 12% of their business activities. The parent companies of the Spanish groups were also concentrated on services, which accounted for 69% of the groups, while only 7% of these companies engaged in industrial business activities. In contrast, foreign groups exhibited a greater proportion of parent companies associated with industrial activities, with 23% of the groups being engaged in this business sector.

There was a greater presence of Basque groups in other autonomous regions in Spain, with a total of 2,029 subsidiaries, compared to the presence of Spanish groups in the Basque Country, with 1,385 subsidiaries. Basque groups in Spain were mainly located in Madrid, Navarre and Catalonia. These three autonomous regions, together with Valencia, were also the main places of origin of the parent companies of Spanish groups with a presence in the Basque Country.

On the other hand, the three main foreign countries in which Basque groups were located were the United States, Mexico and Brazil, where they controlled a total of 2,623 subsidiaries. In just over a decade, these three countries have replaced the United Kingdom, France and Portugal as the most important international destinations for Basque groups of companies. The foreign groups with business operations in the Basque Country controlled 1,142 subsidiaries, with Germany, France and the United States having the highest number of subsidiaries. Over the last decade, there has been an increase of Luxembourg-based groups with a presence in the Basque Country, which has risen from the eighth to the fourth most important country of origin.<sup>2</sup> Mexico has also increased in importance, as it has shifted from having no subsidiaries in the Basque Country in 2009 to becoming the eighth most important country of origin. In contrast, Italian groups have reduced their presence, dropping from the fifth to the ninth place in the ranking of foreign groups in the Basque Country. These data show significant changes in the internationalisation patterns of the business groups operating in the Basque Country. For example, it is worth mentioning the growing interest of Basque groups in investing in the American continent compared to the European market.

When examining the size of the subsidiaries in relation to the origin of the business groups, it can be seen that the subsidiaries of foreign groups are the largest, followed by those belonging to Spanish and Basque groups. The median turnover and number of employees of the subsidiaries of the foreign groups established in the Basque Country was 5.22 million euros and 23 employees, respectively. For the Spanish groups, these figures stand at 1.66 million euros and 11 employees, while in the Basque groups they are 1 million euros and 9 employees. The larger size of foreign group subsidiaries can be attributed to their exposure to larger international markets and their access to additional sources of financing, which help to boost their business development. This context gives them a competitive advantage in terms of size and growth capacity compared to Spanish and Basque business groups, which may have a more national or regional focus.

#### Profitability and internationalisation of the groups with a presence in the Basque Country

The Basque companies that are part of foreign groups experienced significantly higher profitability compared to Basque and Spanish groups (7.8% vs. 6.2% and 6%, respectively, in 2021). Moreover,

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<sup>2</sup> Luxembourg has been chosen as the headquarters of the parent companies of business groups due to its favourable tax regime, stable legal framework and strategic location in Europe. This allows groups to optimise their tax structure, improve operational efficiency and access key markets in the region.

although the differences were less pronounced, foreign groups also exhibited higher financial returns. It is important to note that during the COVID-19 pandemic, a significant percentage of these companies belonging to foreign groups incurred losses (10% in 2019 vs. 19% in 2020). However, after the most severe phase of the crisis had passed, the proportion of loss-making companies was significantly reduced (10.3% in 2021).

Additionally, company size played a determining role in the export propensity of Basque companies, with 7.2% of micro-companies exporting compared to 70.7% of large exporting companies. Companies that were members of groups also showed a higher export propensity compared to independent firms (31.6% vs. 12.2%), and this pattern was confirmed in almost all size brackets. Finally, among the companies that were part of groups, those belonging to foreign groups were the ones with the highest export propensity (49.4% of these companies were exporters).

### Business groups and the competitiveness of the Basque Country

The results included in this report highlight the importance of conducting in-depth research into the shareholding structure and dynamics of business groups, with the aim of promoting a solid, sustainable and integrated business fabric in the Basque Country that will boost the economic growth and competitiveness of the region. The prominence of family businesses and business groups based in the Basque Country in the business fabric analysed seems to indicate that Basque companies are considerably well established in the region. Similarly, the significant presence of Basque group subsidiaries in other territories is a clear indicator of the openness of its economy and its marked international focus. However, the evolution observed over the last decade in the business groups with operations in the Basque Country reveals a growing prominence of Spanish and foreign groups, which highlights the need to monitor this phenomenon and its possible impact on the degree of rootedness of companies in the Basque territory.

To conclude, the key ideas that have emerged from this study include the following:

- Business groups play an essential role in business growth and diversification strategies. Within the groups analysed, 47% of the subsidiaries operate in sectors different from the parent company. This diversification facilitates risk management and allows synergies and opportunities to be leveraged in different sectors and markets, which are crucial factors for improving competitiveness and promoting economic development in the Basque Country.
- The development of business groups also seems to boost companies' internationalisation strategies, both through exports (31.6% of companies that are members of groups are exporters, compared to 12.2% of independent companies) and through the creation of subsidiaries abroad.
- The analytical methodology used in this study provides an effective tool for monitoring the business groups present in a given geographical area, which facilitates the identification of significant changes in their shareholding structure, size, degree of diversification of business activities, internationalisation strategy and performance.

The results obtained underscore the importance of fostering collaboration between companies, increasing corporate size, promoting internationalisation and strengthening the financing mechanisms that support these processes in order to encourage companies to take root in the Basque Country, boost their competitiveness and promote the economic development of the region.



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