

EXECUTIVE SUMMARY  
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# THE COMPETITIVENESS OF SPANISH COMPANIES BASED ON THE ANALYSIS OF THEIR FINANCIAL STATEMENTS IN THE BACH DATABASE

**Mikel Navarro Arancegui**

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## Executive Summary

Territorial well-being and competitiveness are not possible if the companies in that territory are not productive, and if they do not obtain sufficient profitability for investors to allocate their resources to generate value through economic activity. The analysis of the level and evolution of the competitiveness of companies is fundamental, on the one hand, to understand the processes of creation and distribution of value and the problems of competitiveness linked to them; and, on the other hand, to foresee the possible effects of shocks and trends of an exogenous nature that affect economic activity, either one-off (such as the pandemic and consequent economic recession caused by Covid) or linked to transitions and major social challenges (demographic, environmental and technological, in particular).

One of the richest sources of information in this regard is corporate financial statements. In order to have data on balance sheets, income statements and various economic-financial indicators and to be able to carry out a comparative analysis (comparing the data for Spain with those for Germany and the EU12), we have used the BACH (Bank for the Accounts of Companies Harmonized) database, from which three years have been chosen (2008, 2013 and 2019). In addition to taking the values of the weighted averages, we have also worked with those of the medians (to exclude the effect of large companies and extreme values) and, together with the data for total companies, the data have been analysed for SMEs and large companies.

The analysis shows that ROA has been much more cyclical and oscillating in Spain, and that in 2019 it was higher than in the EU12 and Germany (3.8% vs 3.7% and 2.9% respectively). Spain's positive ROA result is explained by the higher Commercial Margin obtained by Spanish companies (5.0% vs 4.1% and 3.1%), which more than offsets their disadvantage in Asset Turnover (0.77 vs 0.93 and 0.96).

From the analysis of the income statement, it can be deduced that behind this higher business margin of the Spanish company in 2019 is the greater capacity of appropriation of the GVA that the Spanish company has over the worker (that is, a favourable labour competitiveness) and its lower rate of depreciation of fixed assets. In addition, the analysis shows a lower outsourcing of activities, reflected in a lower ratio of Intermediate consumption/GVA.

Spain's ROA advantage over the EU12 and Germany in 2019 is even greater when compared to ROE (or return on equity): 9.9% in Spain, 8.8% in the EU12 and 7.0% in Germany. There are three factors that have worked in favour of Spain's best result, and one that has worked against it. Among the former are its higher and positive financial results (mainly due to a lower cost of financial debt), its higher and positive extraordinary results, and the lower tax burden. In contrast, the higher percentage of equity in Spain, while increasing the solvency of Spanish companies and putting them in a better position to withstand the Covid crisis, also reduces the magnitude of their financial leverage.

The study distinguished the returns on Operating Assets (Operating ROA) and Financial Assets (Financial ROA). The process of financialisation of the economy is reflected in the notable weight of financial assets in total assets, mainly in large companies. Unlike the EU12 and Germany, where the percentage of Financial Assets increases significantly between 2008 and 2019, in Spain, which already started from a remarkable level, this hardly grows, and in 2019 its level (29%) is between those of the EU12 (26%) and Germany (34%). Financial ROA has outperformed ROA in the three territorial areas and in the three years chosen and, if we exclude the case of Spain in 2019, also ROA from operations.

In 2019, ROA exceeded the Cost of Financial Debt by 2.1 pp in Spain, by 1.3 pp in the EU12, and was slightly below (-0.1 pp) in Germany. That is, in the first two there was positive financial leverage, while in the third it was slightly negative.

The analysis of indebtedness offers different results depending on whether the Debt is related to Equity, to the GVA that it allows to generate or to the business results (and the consequent capacity to repay the debt). The Debt on Equity has been, both in 2019 and in 2008 and 2013, lower in Spain than in the EU12 and Germany. But according to the other two indicators, Spain has presented higher levels of indebtedness than those of the EU12 and Germany in 2008 and 2013; and only in 2019 did Spain have lower values for this indicator than the EU12 and Germany. Although a reduction in indebtedness can be observed in all three territories in the period analysed, the reduction has been more pronounced in the case of Spain. This is explained both by a greater growth in the weight of equity and a greater reduction in debt, as well as by a greater recovery in the level of profitability and GVA. This reduction in the level of indebtedness has made it possible for Spanish companies to be in a better position to face the shock that will shake the economy on the occasion of Covid in 2020, as well as to face the huge investments required by the already unpostponable energy-climate, technological-digital and demographic transitions.

Spain's financial debt is characterised in 2019 by a lower weight of that corresponding to Bonds and similar obligations, and by a higher weight of debt with Credit Institutions. This is despite the fact that the reduction in financial debt with credit institutions has been very pronounced in Spain. Public policies should enable and encourage greater recourse by Spanish SMEs to financing via financial markets or through non-bank institutions. The nature of the investments required for the major transitions mentioned above makes it all the more necessary to develop non-bank forms of financing.

The study has also confirmed the existence of a business dualism in the Spanish economy, contrary in its characteristics to that existing in the German economy. While in terms of unit labour costs and profitability, large Spanish companies compare favourably with their European counterparts, the opposite is true for Spanish SMEs. However, in the period 2013-2019 the recovery process of Spanish SMEs has been particularly outstanding, and this dualism has been mitigated.

In terms of public policies, the work includes proposals to promote cluster and business cooperation policies (to facilitate the processes of business specialisation and outsourcing of activities), to reduce bank dependence and greater recourse to alternative financing markets, to favour competition in product markets and to eliminate obstacles to business growth (to favour the dissemination of productivity gains, reduce the still existing business dualism and affect the distribution of GVA).



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