Carlos da Silva Costa: Opening address - 8th Conference of the Central Balance-Sheet Database

Opening address by Mr Carlos da Silva Costa, Governor of the Bank of Portugal, at the 8th Conference of the Central Balance-Sheet Database "The buoyancy of the corporate sector", Lisbon, 4 February 2019.

* * *

As prepared for delivery.

Good afternoon. Welcome to another conference of Banco de Portugal’s Central Balance-Sheet Database.

It is always with great pleasure that I associate myself with this event, hosted by the Statistics Department of Banco de Portugal, and which is in its eighth edition.

The information produced and made available by the Central Balance-Sheet Database is a valuable asset, which we are proud to preserve and improve. Not only is it a valuable asset for Banco de Portugal, as producer of studies on the Portuguese economic reality, but also, and above all, a valuable asset for firms, economic decision-makers, academia and society in general.

The Central Balance-Sheet Database is, as you know, fed by so-called IES – Simplified Corporate Information. The IES, created a dozen years ago within the scope of the Simplex programme, is an internationally admired success case and a notable example of inter-institutional cooperation and articulation, involving Banco de Portugal, the Ministries of Justice and Finance, and Statistics Portugal.

As a result of this joint effort, the Central Balance-Sheet Database produces and releases information that is rich, wide-ranging and conducive to a timely and thorough knowledge of firms’ financial and economic situations, which is almost unrivalled at international level.

The potential of this wealth is enormous as it:

- Allows business owners and managers to frame their enterprise in the sector and size class to which it belongs, to make international comparisons and to assess business and investment opportunities;
- Provides policy-makers with knowledge of the microeconomic reality that is fundamental to successfully design the institutional and regulatory framework;
- And allows analysts and researchers to improve understanding of the corporate reality and thereby the performance of the Portuguese economy.

The study on the buoyancy of the corporate sector in Portugal, which will be presented today and will serve as the basis for the subsequent discussion, is a perfect illustration of this.

The results of this study provide very relevant clues to understanding the reaction of economic agents to the crisis we went through recently, and also to acknowledging the challenges we face.

In this study, we can find signs of the emergence, as a result of the recent crisis, of entrepreneurship focused on business opportunities in which the scale, organisation and capital requirements were not key determinants to success. This appears to have been – alongside outward migration – the response of economic agents to the job destruction caused by the crisis.
This is positive news as it shows that the economy was able to react.

However, although it is true that this type of entrepreneurship makes economic adjustment easier, it is important to recognise that it is not enough to lead the Portuguese economy to a higher growth path. For this we need two additional types of entrepreneurship:

- Entrepreneurship focused on technological business opportunities;
- And entrepreneurship that promotes the restructuring and growth of existing small and medium-sized enterprises.

Public policies have a relevant role to play in the promotion of these types of entrepreneurship, from the adoption of a legal and institutional framework conducive to an attractive business environment – that is, a business environment that enables a more efficient and flexible allocation of available resources and promotes a reduction in the levels of uncertainty that economic agents operate in.

The attractiveness of the business environment depends on countless factors, from the operation of the labour market to the operation of the capital market, to corporate insolvency and recovery mechanisms, to name but a few.

Notwithstanding, no matter how relevant the business environment may be, the way the manager combines that environment, the organisation and the firm’s strategy is actually equally critical to economic growth. For this to result in production that is desired and valued by the market, we always need a management model that is effective and professional.

In an economy like that of Portugal, in which family-run firms form a large proportion of small and medium-sized enterprises as a whole, the reconciliation between family ownership and management professionalisation is a critical element in the evolution of the corporate sector and the Portuguese economy. The separation of ownership and management is a decisive factor for management professionalisation. Such separation allows a fair balance to be found and safeguarded between the continuity of the entrepreneurial factor that was present during the development of a given firm, the legitimate interests of the different stakeholders of that firm, and the defence of an ambition to grow in scale and/or value chain migration.

That is, only through the professionalisation of management, combined with the continued commitment of the entrepreneurial elements present, can there be an affirmation of more effective management models and the sustainability and growth of business.

Public policy can encourage management professionalisation in family-run firms in different ways, amongst which I would highlight the development and provision of the “family holding” concept, as the legal expression of a centralised management model of the holdings of members of a single family. Always taking on an optional and supplementary nature, this legal concept would be especially effective if provided with a simple statutory and tax regime that was stable and easily accessible.

In order to understand the dynamics of the corporate sector fully and promote it with maximum effectiveness, aggregated information will never be enough. It is indispensable to know the microeconomic and sociocultural mechanisms that, on the ground, determine economic agents’ decisions and how they interact with the environment and public policies. Only then will it be possible to understand, for example,

- The reasons for death rates among firms in their third and fourth years of life;
- The positive and negative impact of the business environment on a firm,
- Or the management model a certain entrepreneur chooses for their business.
This is where the Central Balance-Sheet Database reveals its worth, not only for the answers it provides, but also for the questions it enables. Based on information like that which will be presented today, it should certainly be possible to find socioeconomic and multidisciplinary lines of research for fieldwork, leading to the micro- and macroeconomic data that we see in our tables and charts.

Let me therefore finish by inviting you to get to know the information that Banco de Portugal is providing today, and searching it for answers and the questions that will lead us to an ever-more dynamic corporate sector.

Thank you very much. Keep up the good work.