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FINANCIAL CHARACTERISTICS OF FAMILY BUSINESSES AND FINANCIAL ASPECTS OF SUCCESSION

Family businesses are special in many respects. By examining their financial characteristics one can come to unique conclusions/results. This paper explores the general characteristics of the financial behaviour of family businesses, presents the main findings of the INSIST project's company case studies concerning financing issues and strategies, and intends to identify the financial characteristics of company succession. The whole existence of family businesses is characterized by a duality of the family and business dimensions and this remains the case in their financial affairs. The financial decisions in family businesses (especially SMEs) are affected by aspects involving a duality of goals rather than exclusively profitability, the simultaneous presence of family and business financial needs, and the preferential handling of family needs at the expense of business needs (although it has to be said that there is evidence of family investments being postponed for the sake of business, too).

Family businesses, beyond their actual effectiveness, are guided by individual goals like securing living standards, ensuring workplaces for family members, stability of operation, preservation of the company's good reputation, and keeping the company's size at a level that the immediate family can control and manage. The INSIST project's company case studies revealed some interesting traits of family business finances like the importance of financial support from the founder's family during the establishment of the company, the use of bootstrapping techniques, the financial characteristics of succession, and the role of family members in financial management.

Keywords: family business, family business finances, succession, bootstrapping, trust

In 2014, an ERASMUS+ Strategic Partnership Project – Inter-generational Succession in SMEs' Transition (INSIST) was started with the coordination of the Budapest Business School. Based on desk-top analysis and case-study research the main aim of the project was to develop vocational curricula and training systems in generational succession or transmission of family businesses. The members of the INSIST project's multi-actor partnership were: the European Multi-Actors Cooperation Network, ADINVEST International, Budapest Business School, the Confederation of Hungarian Employers and Industrialists, Cracow University of Economics, the Employers Union of Malopolska LEWIATAN and Leeds Beckett University (www.insist-project.eu).

Combined research methods were applied in the INSIST research project. Project team members carried out desk-top analysis based on the existing (national) literature and conducted empirical research in order to

provide a detailed picture of the importance of family business in the particular economies, focusing on such issues as the economic weight of family businesses, the socio-cultural and financial-legal environment of family firms, the succession process, and some psychological aspects of managing family enterprises.

In order to gain a deeper insight into the succession process and to understand the company- and family-level micro-mechanisms shaping ownership and management transfer practices, each participating country had to carry out two company case studies with the succession in focus. The company case studies were based on semi-structured, problem-oriented in-depth-interviews with different stakeholders (owners/employers and also employees) of family businesses, dealing with issues like rules of entry and exit, commitment of the next generation, management practices, etc. The Hungarian team compiled three, the Polish team five and the British team two case studies (Makó et al., 2015).

A case study is a particular strategy for qualitative research, which offers researchers opportunities to explore or describe a phenomenon in context using a variety of data sources. While quantitative methods are insufficient to investigate a phenomenon, which involves multiple levels and has dynamic and symbolic components, case studies using a variety of lenses allow for multiple facets of the phenomenon to be revealed and understood in its real life context (Yin, 2009; De Massis – Kotlar, 2014; Vohra, 2014). Rowley (2002) points out that the case study research method has traditionally been viewed as lacking rigour and objectivity, when compared with other social research methods. At the same time, case study strategy is widely used due to the insights (soft processes, leaders' experiential decisions) that might not be achieved with other approaches (Rowley, 2002; Prahalad, 2009). De Massis – Kotlar (2014) highlight the importance of the case study method in family business research. They claim that case study based research papers are often considered the “most interesting” and impactful works in the academic community.

The case study design is multi-coloured. This paper is based on research results from multiple-case studies. Multiple-case studies provide a strong base for theory building or explanation, allow the researcher to carry out analysis within each setting and across settings. By examining several cases similarities and differences can be understood across and between the cases (Baxter – Jack, 2008; Yin, 2009; De Massis – Kotlar, 2014). The multi-case study method focuses on holistic description and explanation (Merriam, 2009). The aim of this paper is to summarise the main findings of the desk-top research on the financial characteristics of family businesses and the succession process as well as examine the completed case studies from the aspect of family business financing and finally draw conclusions as to their financial characteristics, particularly the financial/funding features appearing through the succession process.

Finances of family businesses – Review of the corresponding literature

As the parallelism of the family and business dimensions characterize the whole existence of family businesses, it is also present in their financial affairs. The financial decisions in Hungarian family businesses (especially SMEs) are affected by the following factors:

- the primary goal of business decisions is not exclusively profitability,
- the simultaneous presence of family and business financial needs requires careful coordination,

- the preferential handling of family needs at the expense of business needs, though there is also evidence of postponing family investments for the sake of business, too.

Hungarian family businesses, beyond the actual effectiveness, are guided by individual goals like securing living standards, ensuring workplaces for family members, stability of operation, preservation of the company's good reputation, and keeping the company's size at a level that the immediate family can control and manage. These goals are in accordance with the SEW (socio-emotional wealth) concept (Csákné, 2012). The unique features of family business finances are most importantly reflected in the refusal of external equity funding and the intermingling of family and business finances. Family businesses are comparatively conservative in the type of financing they use. Their most important sources of funding are internal financing from cash flow, shareholders credit and bank loans (Peters – Westerheide, 2011; European Family Business Barometer, 2014). In case of family businesses that already operate successfully, the major sources of financing are reinvested profits, short-term bank loans and the savings of family members, relatives or friends.¹ Gere (1997) pointed out that Hungarian family businesses relied heavily on family savings (36.3%) during their operation, and often reinvested profits (30.4%) were the main source of financial needs.

As reported by the European Family Business Barometer (2014), financing their operations and growth is not an issue for family businesses. 80% of them confirm that they do not have difficulties with funding. Keasy et al. (2015) also point out that the majority of business owners prefer to raise finance via debt rather than dilute their position via equity. They highlight that young family firms are typically characterized by the presence of the founder, who may be reluctant to dilute family control given their long-term perspective. The emotional attachment of the founder to its business also explains family firms' refusal to opt for equity financing. Peters and Westerheide (2011) examined the financial behaviour of German family and non-family businesses. They have found that family businesses are prepared to accept higher financing costs in order to preserve their financial independence and flexibility. This particularly applies to family businesses that are larger and generally more creditworthy, which confirms that for family businesses independence from external capital providers has central importance.

Other researchers explain the particular financial behaviour of family businesses by the pecking order theory, which ranks internal financing as the most economical form of financing followed by external debt

rather than external equity financing (Myers, 1984; Romano et al., 2001; Gallo et al., 2004; Koropp et al., 2013). In family businesses (especially smaller ones) the business and family finances are often mixed. The most common reason for this is that the liquidity imbalance can be solved by a reallocation of either the company's or the family's resources. Mandl (2008) states that if family and business finances are not treated separately, the expenses of family life events such as marriage, divorce, birth of children, retirement and

method). The comparison highlights that intermingling and bootstrapping have overlapping areas and therefore one cannot clearly criticize the intermingling of family and business finances (Table 1).

There is rapidly growing reference in international literature to socio-emotional wealth (SEW) (first defined by Gomez et al. in 2007), which describes those non-financial aspects of the family businesses that shape their particular behaviour. However, the aim of the SEW concept is not to describe family businesses'

Table 1

Bootstrapping and intermingling in family businesses

	BOOTSTRAPPING	
INTERMINGLING	<p><i>Use of owner resources to benefit the business</i></p> <p>Loans from relatives Cash from relatives Personal savings Use of personal credit card Household property used as collateral for business loans Family labour receives no pay or below-market rates Manager works another job and takes no pay from business Manager foregoes pay for a time Business uses home space and utilities</p>	<p><i>Use of business resources outside the business</i></p> <p>Loans from business to relatives Business cash used to help household cash-flow problems Business purchases items used by family Business pays family at higher than market rate Business assets used as collateral for family loans Drawings by owner</p>
	<p><i>Business strategies related to customer / supplier / community resources</i></p> <p>Accounts receivable management methods (e.g. speed up invoicing, choose customers who pay quickly, cease business with late or non-payers) Sharing or borrowing resources from other firms (shared space, equipment, employees) Delaying payments (suppliers, tax and employees) Minimizing of resources invested in stock through formal routines Use of subsidies</p>	

Source: Yilmazer T. – Schrank H. (2010, p. 402.)

death may affect the financial stability of the family business. However, before judging family businesses for mixing family and business finances, it is worth examining the table compiled by Yilmazer and Schrank (2010) that compares intermingling and bootstrapping (which is considered a very effective business financing

financial behaviour; it gives an explanation for family businesses' long-term financial orientation, profit realisation and growth characteristics. The concept states that family members' main goal with their business is not only to maximize financial returns, but to increase the socio-emotional endowments they derive from the

business (Miller – Le Breton-Miller, 2014). The following table summarizes the main financial issues of small family businesses, their peculiar features and the family business' characteristics that affect the firms' financial behaviour (Table 2).

Finance-related findings of the INSIST research project

The INSIST research project team compiled 10 company case studies. As mentioned earlier, the Hungarian

Table 2

Financial peculiarities of family businesses

Issue	Special financial features	Family business characteristics
Parallel financing of family and family business, and financing succession	<ul style="list-style-type: none"> • intermingling of family and business financing • using family assets as collateral • the family business represents a significant portion of the owner family's wealth • succession requires careful financial planning and preparation 	<ul style="list-style-type: none"> • desire to keep the family business ownership and management within the family • commitment • long-term approach • ensure the family's financial independence
Financial management, borrowing and indebtedness	<ul style="list-style-type: none"> • avoiding financial risks • less sophisticated financial management • preference of debt financing over equity financing • lower debt ratio than in non-family firms 	<ul style="list-style-type: none"> • importance of preserving a good reputation • risk avoidance • paternalism • intermingling of family and business affairs
Source of capital, raising external (non-family) capital, selling the family business	<ul style="list-style-type: none"> • maximum usage of family resources • rejection of raising external (non-family) capital • defining the value of family business is difficult 	<ul style="list-style-type: none"> • family dominance in the management of the business • refusal to employ non-family managers • nepotism

Source: Csákné (2012, p. 17.)

The literature review has shown that family businesses have peculiar financial characteristics. In the pages that follow, the authors will examine the finance-related topics of the INSIST project company case studies. The next chapter of the paper has been divided into five parts. The first part deals with the importance of the founder's family for financial support, the second part examines the bootstrapping techniques found in company case studies. We consider the questions: which are the most preferred alternate financing techniques and how are family businesses using them? The third part reviews the family businesses' behavior examined in period of tough (crisis) times which is followed by an overview of the financial aspects of succession, with the questions: how does the financial health of the business affect succession decisions and what are the most important aspects of financial management of succession? Finally, the last part analyses the importance of trust and its effect on family business finances.

team compiled three, the Polish team five, and the British team two case studies. The Table 3 summarizes the main characteristics of the company cases investigated (Table 3.).

The companies examined are at different stages of the succession process with different strategic aims. Although the main purpose of the case studies is to reveal the special features of the succession process, valuable findings about the financial features of family businesses and family business succession can be discovered.²

Sources of starting capital

In the early days after their founding, most businesses have incomplete financial data and plans, the available collateral is insufficient and so it is very common that at the beginning, the only source of finance for family businesses are the prospective owners and their families. Gere (1997) in her research has shown that almost 90% of family businesses used the family's savings to

Table 3

Company cases of the INSIST project

	Country	Year of establishment	Number of employees	Sector/Activity	Markets	Succession
Parodan	UK	1984	27	Engineering (design and manufacturing)	National	*
Podiums	UK	1977	30	Fabricating	Regional	*
DOMEX	Poland	1989	20	Real estate	Regional	**
Plantex	Poland	1981	81	Horticulture	Domestic / International	*
Pillar	Poland	1980s	70	Construction	Local	***
WAMECH	Poland	1989	77	Manufacturing (automotive)	International	***
WITEK	Poland	1990	260	Retail trade (furniture)	Regional	*
Fein Winery	Hungary	1991	4	Food (wine production)	Domestic / International	**
BI-KA	Hungary	1991	103	Logistics	Domestic / International	*
Quality Meat	Hungary	1992	45	Food (meat processing)	Local	**

*Management transfer completed without ownership transfer

**Management and ownership transfer under process

***Management and ownership transfer completed

Source: Makó et al. (2015, p. 16.)

get started, and it was also typical that sale of family property and loans from relatives provided the initial capital. Based on Czako's (1997) research, 70% of the Hungarian family businesses founded in the early 90's needed additional financial sources for starting up. One-fourth of them used bank loans and two-thirds used households' savings as initial financial sources.

According to Kuczi (2000), due to scarce financial resources, family and relatives also played an important role in the establishment of those businesses that originally weren't meant to be established as family businesses. Rather than being funded by equity and/or debt, the mass of the financing at the start of a new enterprise and in the early stages of its growth is provided by informal sources, which are colourfully called the four F's: founders, family members, friends, and foolhardy investors—the last one being angel investors, who may have a personal or professional interest in the founder (Brophy, 1997; Szerb et al., 2007; Tomory, 2014).

The company case studies also confirm the importance of family assets for the foundation of the family business. In the case of Fein Winery, the founder-manager financed the operation in the early stages of the business and even later his personal wealth was the main source of investment: "The founder-manager,

Tamás wanted to give a position to Péter Sr. (Tamás's father), thus he financed the operation of the family vineyards and Péter managed it. In this period the founder-manager worked as economist, vintner, corporate leader, bank account manager. ... Tamás provided financial support and investment for the building of the family estate" (Gubányi, 2015, p. 1-2.).

One of the most prominent Hungarian logistics companies BI-KA Logistics was also founded with the help of the founder's parents-in-law (Hungarian – BI-KA Logistics, Kiss, 2015). At Quality Meat Ltd. the early stages were also financed from family savings: "The first task at the start was to provide the founding capital. The company was set up from savings and in the early period they tried to operate by keeping costs very low. They moved forward in small steps, always reinvesting the profits and developing their assets" (Szentesi, 2015, p. 14.).

The INSIST project's company cases confirm the importance of the founder's family financial support in establishing a new family business. In the examples the main financial supporter of the founder is usually the nuclear family which can be explained by the high-level of trust and emotional ties between nuclear family members.

Bootstrap financing of family businesses

Bootstrap financing or the creative acquisition of resources by a business is considered one of the most effective financing methods (Tomory, 2014). Bootstrapping techniques are considered an important element of modern financial management, but the motivation behind their use is not only the pursuit of efficiency, but especially in case of small businesses, which are not creditworthy, the necessity of finding an alternative for debt financing (Béza et al., 2013). Family businesses, due to their general rejection of external financing, usually rely heavily on bootstrapping techniques. In their work Helleboogh et al. (2010), point out that the use of bootstrapping techniques does not depend on the family business owner's education; it is rather a skill absorbed from self-employed parents or during the owner's prior work and management experience.

collected a detailed list of bootstrapping methods and classified them as bootstrapping measures for capital minimization and bootstrapping measures to meet the need for capital. The INSIST project's company case studies confirm family businesses' preference towards bootstrap financing. In the Table 4 based on Winborg and Landström's (2001, p. 251.) work, we collected some examples of when the family businesses examined employed bootstrapping techniques (Table 4).

The Polish Witek Centre company case (Konopacka, 2015) is a great example of alternate financing. During the succession process, the founder's company helped the establishment of the children's own businesses, which can be considered a special and interesting form of bootstrapping. The Witek Centre company case is particularly interesting as the family managed to transfer the entrepreneurial spirit and "bootstrapping knowledge" over three generations:

Table 4

Examples of bootstrapping techniques

Bootstrapping Methods	Example from the INSIST project's company cases	References
Seeking out best conditions possible with supplier(s)	The company was set up from savings and in the early period they tried to operate by keeping costs very low.	Szentesi, I. (2015, p. 14.) Quality Meat Ltd., Hungary
Withholding manager's salary for shorter/longer periods	Agreed equal remuneration for father and sons, the suspension of payments at times of crisis has developed the sense of responsibility and solidarity among them.	Gorowski, I. (2015, p. 8.) Pillar Ltd., Poland
Obtaining capital via manager's assignments in other businesses	At the foundation of the company, Sofia had been on maternity leave with her two children and Peter Sr. retired and became passive. The founder-manager, Tamás wanted to give a job to Peter, thus he financed the operation of the family vineyards and Peter managed it. In this period the founder-manager worked as economist, vintner, corporate leader, bank account manager.	Gubányi, M. (2015, p. 1-2.) Fein Winery, Hungary
Obtaining loans from relatives/friends	Further, in times of hardship, such as during the recession, the Wood parents and Paul put all their personal resources into the business to keep it going and avoid reducing staff numbers. Indeed, the parents invested their home and pensions against the business to ensure its survival for the next generation	Wymer, P. (2015, p. 8.) Parodan Engineering, UK

Source: Own compilation based on (Winborg and Landström, 2001, p. 251.).

Tomory (2014) in her dissertation compiled and analyzed a wide range of definitions of bootstrap financing from which perhaps Freear et al.'s (1995, p.395) is the most applicable for family businesses: „Highly creative ways of acquiring the use of resources without borrowing money or raising equity financing from traditional sources”. Winborg and Landström (2001)

”The first generation, (the grandparents), were farmers in the Cracow region. The second generation, led by the mother, Karolina, now 76, started a poultry breeding farm in 1961, which developed into a netting manufacturing business, but became unprofitable by the end of the 1980s. With the economic-political transition of Poland they switched for retailing opening a

shop in the centre of Cracow selling first household goods (china and glass crockery). The restitution laws gave back some of Karolina's parents property which enabled them to extend their business by renting more retail space and diversifying their retail activities into furniture, carpets, curtains, household appliances, interior accessories, lighting, etc. The business continued to grow and led to the building of a modern retail centre in the vicinity of Cracow.

Company assets were divided between Karolina and her children, a daughter and a son, at an early stage. Today all of them run their own businesses independently as separate legal entities. Each family member runs his or her business at their own risk and expense. The areas of business activity overlap to some extent, but as a rule, they focus on different retail sectors and do not compete with one another.

Karolina has developed the company by adopting her parents' philosophy that everyone has to make his or her own living and learn to be self-reliant. When the children started their own businesses, they rented commercial space from their mother. From the very beginning it was assumed that the children would strive to achieve their independence. As the business developed over time, Karolina turned over part of her estate to the children. Her son is still engaged in interior accessories, lighting and crockery, while the daughter has branched out in the hotel sector and successfully runs a conference hotel venue while still selling carpets, curtains and wallpapers. Karolina still owns several properties but has drawn up a will in which she has assigned properties to her successors. For the moment, her legal successors do not intend to take over her part of the company (furniture)" (Konopacka, 2015).

Evidence from company case studies suggests that bootstrapping techniques are the preferred financing methods of family businesses. It is not only the effectiveness of bootstrap financing that motivates their employment, but the fact that at times of crisis only the family's financial resources are available for the company. Knowledge of using bootstrapping techniques can be handed down from generation to generation, helping entrepreneurial-minded families to start more and more new ventures.

Family businesses' resilient behaviour in tough (crisis) times

The financial performance of family businesses differs from non-family ones. Kachaner et al. (2012), highlighted that during good economic times family companies have slightly lower earnings, but during downturns they outperform non-family businesses. They argue that the reason for this characteristic feature is family businesses' focus on resilience, not short-term performance,

which influences the following strategic choices: family businesses are frugal in both good times and bad; carry little debt; keep the bar high for capital expenditures; and acquire fewer companies. Furthermore, they are diversified, internationalised, and good at retaining talent.

Despite family business performance and survivability during a recession being a frequent research topic, there is no clear and reliable evidence as to whether the family businesses' performance and survivability chances are higher than their non-family competitors. However, company cases offer insights into their struggles:

"... in times of hardship, such as during the recession, the Wood parents and Paul all put personal resources into the business to keep it going and avoid reducing staff numbers. Indeed, the parents invested their home and pensions against the business to ensure it survived for the next generation. These experiences have helped to shape the values and priorities of the next generation and Paul has resolved to put the business on a firm financial footing. In 2014, he was able to renegotiate the company's banking arrangements to release his parents' equity from the firm with the borrowing now being against the business rather than their personal assets" (British – Parodan Engineering, Wymer, 2015, p. 8).

"Agreed equal remuneration for father and sons, the suspension of payments in times of a crisis has developed the sense of responsibility and solidarity among them" (Gorowski, 2015, p. 8). "During the economic downturn, both of the sons still at the company were gifted 5% of the shares by their parents as a reward for staying with the business" (Wymer, 2015, p. 2.).

Although research cannot reliably confirm if family businesses are more successful in handling periods of crisis than their non-family competitors, experiences from company cases suggest that their behaviour is more resilient, they are willing to use family savings and strive to the end with the creative use of their resources.

Financial aspects of succession

Succession, i.e. the act of transferring the business itself to the next generation, is a very important event in the life of family businesses. Wiktor (2014) points out that family business owners that are planning business succession need to focus on timing, transition and taxes. One can view a family business in two ways: as an 'investment asset' or an 'operating entity' (Isaac, 2014). In most cases the family business is the main source of family wealth and it is the family's largest investment (Wiktor, 2014). For these reasons it is important for

family business owners to consider their company as an asset, and an investment which is particularly relevant at the time of a transfer of ownership.

Small and medium sized family business owners usually do not pay too much attention to the value of the family firm. Defining the value of a family business can be a challenging task but there are moments when it is inevitable. In the life of a family business, succession or 'generational transfer' can be one of these moments. Family business owners may decide on the sale of the family company rather than succession to family members. Vecsenyi (2009) states that the main reasons for selling the family business can be: fatigue, developmental pressure, an emergency, a good offer or a good opportunity. If the owners decide to sell the company, a reliable business evaluation is absolutely necessary. Defining the value of a family business is a particularly difficult task. The additional value created by the founder and the owner's family is hard to define. A very important question is how much the family business is worth without the family.

Astrachan and Jaskiewicz's (2008) family business valuation model determines the value of the company from the owner's family perspective. According to their theory, the value of the business is not solely determined by the value of the assets and the future financial benefits; the emotional factors should also be equally evaluated. The emotional value depends on the emotional costs and emotional benefits. If the benefits are greater than the costs, the final value of the business will be higher, and if the emotional costs are greater, the difference reduces the company's financial value. The future of family businesses highly depends on the success of the generational transfer. Family business succession is a complex management challenge with significant financial aspects. Leadership transfer within the family requires more sophisticated financial solutions than company sale where the buyer, having paid the agreed price, becomes the owner of the company.

If the family business owner decides to keep the firm within the family, careful financial planning is needed to define the future income of the founder (one-time money withdrawal, regular income from the business), whose most important personal wealth is probably the family business. Planning the financial aspects of a business transfer requires creativity, foresight and devising specific solutions (Csákné, 2012).

The company cases, of course, do not cover all types of business transfer outcomes. They focus on the most preferred solution when the business ownership and management is kept within the family. The evidence obtained from the Parodan Engineering company case suggests that financial problems within the company may become a burden for succession:

"A succession plan was implied but never discussed in any detail by Harry. As he reached statutory retirement age, Harry hinted at stepping back from the business but it was never openly discussed with his sons. Sometimes Rob and Paul would hear about various scenarios from third party advisors and clients but a clear plan was never formulated and communicated. Paul surmises that this reluctance by his father was due to the financial pressures of the business and the lack of clarity for its future" (British – Parodan Engineering, Wymer, 2015, p. 5).

Financial management can be an important area where the predecessor and successor approaches differ. As happened at Parodan Engineering, successors (often as a lesson learned from the economic downturn started in 2008) are more rigorous when it comes to financial control:

"Throughout the majority of his tenure, Harry took a keener interest in the production process, the people the company employed and the perception of the business in the local community, and spent little time on financial matters such as cash flow, only dedicating time to finances when there was a serious problem. However, in the last five years of his ownership this changed and the financial pressures the business faced (not least because of the economic downturn) became a huge burden on Harry and undoubtedly affected his health. Perhaps having observed his father's approach to financial management, Paul is far more commercially oriented, with ambitious growth plans and a keen eye for financial details that can make a significant difference to the bottom line performance of the company" (British – Parodan Engineering, Wymer, 2015, p. 7).

One of the most challenging tasks of business transfer within the family is dealing with its financial aspects. The financial solution should be satisfying for the family members that are stepping down without requiring too many resources from the successors or the company. The solution at Pillar Ltd. can be considered as best practice:

"As far as the process of ownership transfer was concerned, the founder, Mr Pillar was gradually passing over his parent company shares to his sons in 25% stock tranches per year. The owner passed all the shares to his sons having only kept within his personal property the minority shareholding of one of the partnerships that deals with renting municipal flats. From the economic point of view, taking financial control over the company didn't require any resources from the successors other than their own work for the company. Both sons hold equal stakes in the company, so none of them is able to formally solely control the group. The father remains an employee of the capital group and

receives a monthly salary equal to the salary of each of his sons. All additional income is re-invested in the activities of the capital group” (Gorowski, 2015, p. 7).

Financial aspects of succession are complicated but with a clear succession strategy optimal financial solutions can be worked out. A very important message from the company cases is that financial problems within the company may become a burden for succession.

Trust and family business finances

If we want to get deeper insight into the structures and peculiar company cultures built up by the private individuals founding family businesses, we need to have a closer examination of the trust which defines the degree of spontaneous sociality in general in society, which in turn will have an impact on company cultures and also on organisational structures (Fukuyama, 2007). The trust developed between individuals is very important because later it will function as the keystone of co-operation and the motivation for meeting each other’s expectations. Thanks to family bonding the level of trust in family businesses does not ‘start from zero’, however when misused it may head in the wrong direction or result in a passive, aloof stance in the business and family communities.

Trust can be further increased by empathy and the appropriate communication, whereas the lack of trust can cause a lot of problems and conflicts (between business and client, manager and subordinate, and even between family members). This can result in a tense atmosphere at the workplace and also within the family, and may ultimately lead to the termination of the business and the breakup of the family (Karmazin, 2011). In the course of the INSIST project, among the benefits of employing family members, a parallelism between a greater degree of trust and a more intensive level of control was revealed, especially with closer family members (Makó et al., 2016). However, this approach may bring about favouritism or a „glass ceiling” effect, which may restrict the advance of non-family members within the business (Surdej, 2015).

The trust inherent in individuals forming a community and affecting the demeanour of that community naturally appears as a skill within the given organisation. Expanding this line of thought, we may conclude that the level of trust developed within the particular businesses will eventually have an influence on the co-operation between the companies as well. This notion is supported by Fukuyama’s (2007) remark about an individual approach, which was born as a result of forwarding the concept of new organisational forms and joint ‘working’, namely that „the ability of companies to convert from large hierarchies into a flexible

network of small firms depends on the degree of trust existing in the entire society and the social capital” (Fukuyama, 2007, p. 45.). If we further examine the role of trust and its impact on the co-operation of family businesses, we can conclude and confirm Fukuyama’s point that the level of trust existing among the members of the community forming a family business will in turn influence the quality of co-operation not only within the company, but with its connecting companies as well (e.g. concerning the flexibility of co-operation) (Karmazin, 2014).

A lack of trust causes serious losses to both society and the economy. For family businesses, the minutes of business meetings and agreements have to be carefully recorded and interconnecting contracts have to be drawn up even in cases when they will not necessarily be needed due to a lack of trust (Karmazin et al., 2013). This lack of trust within a family business can lead to very serious problems and substantial costs, therefore the authorisation and involvement of a selected member from the next generation in management can play an increasingly important role in the life of family businesses. For example, this ownership attitude yielded significant returns as a management tool in the hands of the owners of SMEs during their recovery from the 2008 financial crisis (Lelkes – Karmazin, 2012).

Adding to the above we can refer to the findings of Chikán et al. (2006), who concluded that if we can increase the level of trust among the members of a community, it will have a favourable impact on productivity within the company and contribute to the competitiveness of the firm. Economic organisations, including family businesses, have started their activities with the objective of making a profit in the course of their operations (thereby increasing the wealth of the family), while also creating value for the customer which they are willing to pay for (Mester – Tóth, 2016). For their operation small and medium size enterprises need a properly devised financing structure which has become a key issue in the life of every family business in the years following the crisis starting in 2008.

The findings of research completed in Hungary identify the biggest problems faced by Hungarian family businesses as short operation periods and capital shortages due to rapid growth (Mester – Tóth, 2015). An earlier investigation also revealed that only about half of SMEs reach the fifth year of their operation (Kállay et al., 2003), a significant part of which are family businesses. Number one among the reasons for failure is the lack of financing sources although international surveys show that family businesses tend to be more crisis-resistant as the owners are willing to sacrifice even the family silver to save their business they think of the company as their beloved baby (Simon, 2010).

Table 5

Family members' role in financial management

Company case	United Kingdom	Poland	Hungary
Pillar Ltd.		Founder's elder son	
Fein Winery			Founder's wife
The WAMECH Company		Founder Management board Founder's wife Founder's daughter-in-law	
Quality Meat Ltd.			Founder Founder's wife
Parodan Engineering	Founder's wife Founder's son (managing director) Non-family finance director		

Source: Own compilation based on company cases (Gorowski, 2015; Gubányi, 2015; Konopacka, 2015; Szentesi, 2015; Wymer, 2015)

In all three countries there are examples where finances are controlled by family members (Table 5).

Financial management of the company is often a task entrusted on women, especially in smaller family businesses where usually the founder's wife has a key role managing the business's daily finances and she is willing to train herself to effectively support the family business:

"The founder's wife has been supporting her husband since the very beginning of the company and has also been engaged in the family business. She learned book-keeping and accounting in order to help her husband in running the company" (Konopacka, 2015, p. 7).

As an anonymus reviewer of the paper highlights, dealing with financial issues within the family business is often treated as a support function and the quality of trust relations within the family is often associated with that. Controlling finances, however, is also an important source of power. As a further research direction, it would be interesting to analyse the interplay between financial control, decision-making and the traditional family roles and power relations within the family business.

The founder generation's attitude toward finances is interesting. Very often during the succession process they keep the financial control for themselves, which can cause problems in the future as the successors do not have the possibility to learn the financial management of the company under their parents mentorship:

"The doyen still works in the company. He is always present and ready to offer his son advice and support. The doyen and his successor split responsibilities between themselves: the doyen looks after the financial security of the company (deals with accounts and pay-

ments), helping to solve technical problems and provide advice to his son as needed" (Konopacka, 2015, p. 5).

"After the managerial/ownership transfer Sofia would like to supervise the financial matters, but she will find other complementary activities. Her hobbies are gardening, cooking, singing" (Gubányi, 2015, p. 12.). *"The daily tasks are still shared. The parents and the two boys meet and discuss their work each morning. The founder is responsible for the classification of the livestock and the control of finances. His wife deals with cash flow and co-operates with the accountant"* (Szentesi, 2015, p. 2.).

As profit is the main driving force behind every venture the fact that family businesses prefer to keep finances in the hands of a family member is not surprising. Trust between family members reduces the monitoring cost and provides emotional security. During the succession process, the predecessors often keep control of finances for themselves which can lead to future problems as the successors do not have an overview or practical experience in such an important part of company management. Further research into family members' role in the family business finances, mapping areas that family businesses tend to keep for themselves may yield interesting insights.

Conclusions

In the INSIST research project combined research methods were applied. Project team members carried out desk-top analysis based on the existing (national) literature and empirical research. In order to gain a deeper insight into the succession process and to un-

derstand the company- and family-level micro-mechanisms shaping ownership and management-transfer practices the Hungarian team compiled three, the Polish team five and the British team two case studies.

The literature review indicated that the peculiar features of family business financing are most importantly reflected in their refusal of external equity funding and the intermingling of family and business finances. Family businesses are comparatively conservative in the type of financing they use. Their most important sources of funding are internal financing from cash flow, shareholders credit and bank loans. The size of the family business may influence the presence of the above-mentioned unique financial characteristics. While in micro and small family businesses their occurrence can be more significant, in case of medium-sized and large family businesses a more professional organisational structure, operation and decision-making processes can overshadow them.

Although the main purpose of the INSIST research project case studies was to reveal the special features of the succession process, valuable patterns of the financial features of family businesses and family business succession were discovered. Company cases confirm the importance of financial support from the founder's family in establishing a new family business. In company case examples the main financial supporter of the founder is usually the nuclear family which can be explained by the high-level of trust and emotional ties between nuclear family members.

Bootstrapping techniques are the preferred financing methods of family businesses. It is not only the efficiency of bootstrap financing that motivates their use, but the fact that at times of crisis only the family's financial resources are available for the company. Knowledge of applying bootstrapping techniques can be handed down from generation to generation, helping entrepreneurial-minded families to start more and more new ventures. Although research cannot reliably confirm whether family businesses are more successful in handling crisis periods than their non-family competitors, we can state that their behaviour is more resilient, they are willing to use family savings and strive very hard throughout the crisis by creatively using their resources.

The financial aspects of succession are complicated but with a clear succession strategy optimal financial methods can be devised. A very important message from the company cases is that financial problems within the company may become a burden for succession. As profit is the main driving force behind every venture, the fact that family businesses prefer to keep finances in the hands of a family member is not surprising. Trust among family members reduces monitoring costs and provides emotional security. During succes-

sion the predecessors often keep control of finances, which can lead to future problems as the successors do not have an overview or practical experience in such an important part of company management.

Although the case study method has its limitations in the generalization of results, the paper revealed many interesting aspects of family business financing. Gender aspects of division of labour within the family business, and the interplay between financial control, decision-making and the traditional family roles are probably the most promising directions for further research.

Further research into family businesses' bootstrapping techniques, the role of trust in family business financial management, and the family members' role in family business financing, as well as mapping areas that family businesses tend to keep for themselves may also yield interesting new insights.

Notes

¹ Global advisory firm – KPMG – in its recent report analyzed high-net-worth individuals' (HNWI) role in family business financing. HNWIs are usually close friends or relatives of family business owners. They share family businesses' long term view, and are trusted, flexible partners. HNWIs are usually high-level experts who contribute with their advice and expertise to family business development (KPMG, 2014). The term HNWI is rather used in a large company context but some similarities can be discovered between relatives' and friends' financial support for micro and small family businesses and HNWIs activity in large company financing.

² The company case studies are available at the following link: <http://www.insist-project.eu/index.php/about-insist/deliverables-outcomes/207-01-comparative-research-report-on-intergenerational-enterprise-transmission>.

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