

Succession in Hungarian Family Firms

Summary of the Research Report



**CORVINUS
UNIVERSITY**
of BUDAPEST
CENTER OF
FAMILY BUSINESS



Succession in Hungarian Family Firms

Summary of the Research Report

Succession in Hungarian Family Firms

Summary of the Research Report



Corvinus University of Budapest

Budapest, 2021

Succession in Hungarian Family Firms

Summary of the Research Report

Edited by: dr. Attila Wieszt

Additional Authors:

dr. Attila Wieszt, dr. Viola Sallay dr. Tamás Martos

The publication of the book was supported by the Péter Horváth Foundation

Layout, graphic design: Corvinus University of Budapest, Campus Service,
Printing house

ISBN 978-963-503-898-5

ISBN (e-book) 978-963-503-899-2



Publisher: Corvinus University of Budapest

Budapest, 2021

DEAR READER,

It is our pleasure to hereby present the Research Report of the Corvinus Center of Family Business on succession.

In the recent years the necessity of succession occurs *en masse* in the life of Hungarian family-owned enterprises: therefore, this is not only one of the most important tasks of the companies concerned, but it is also a challenge for the country at the level of the national economy. There is no precise recipe for success in facing this challenge, moreover, not all the elements of the succession process have been disclosed in detail so far, despite intense research interest.

The aim of this research was to focus on the exploration of lesser-known elements of succession (while building on prior results), and to provide a comprehensive picture of the succession situation of Hungarian family businesses.

We hope that the statements of the research, and based on them, our list of recommendations will prove to be useful support for both family businesses and professionals dealing with this topic.

Prof. Dr. Dr. h.c. mult. Péter Horváth, Prof. Dr. Reinhold Mayer
Péter Horváth Stiftung

Stuttgart, 23 November, 2021

Edited by dr. Attila Wieszt, dr. Viola Sallay and dr. Tamás Martos on the basis of the research results

SUMMARY

1. About the research¹²

Between 2019 and 2021, the Center of Family Business conducted a comprehensive research about the characteristics of succession in family businesses in Hungary, with the support of the Horváth Péter Foundation. The primary objective of the research was to identify the factors that help and the factors that set back the transfer of a company within the family, but it also gives a general picture about the succession situation in Hungarian family businesses.

Succession is one of the most investigated topics of international and Hungarian family business research. In addition, following the research work of recent decades, the less explored parts of the process have also been identified. Consequently, building on the work completed so far by Hungarian and international researchers, and starting from that basis, the project focused on these unknown or less known parts: the early phase of the succession process, the processes of making decisions on successors and becoming a successor within company and family relations, and on the development of family relations and the personal relationship of the predecessor and the successor during succession, and how this impacted the operation and the succession of the company.

The research project consisted of three phases. First we created a theoretical framework for the investigation in 2019, on the basis of processing international and domestic family business and relationship psychology literature. During the second phase, between October 2019 and October 2020, we conducted a grounded theory qualitative research with the involvement of 14 businesses. Finally, between

¹ We would like to express our special thanks to dr. Imre Branyiczki and dr. György Drótos, professional reviewers, for their valuable suggestions and support.

² We would like to point out that this research is the result of the joint efforts of the staff of the Center of Family Business and external researchers involved in the work. Authors of the chapters: dr. Tamás Martos, dr. Viola Sallai, dr. Szabolcs Varga, dr. Péter Vékás and dr. Attila Wieszt. For their valuable support, we say thank you to dr. György Drótos, dr. Marcel Hülsbeck, Zoltán Gódor, Zoltán Soma Kárpáti, Krisztofer Molnár, Rita Tóth, dr. László Trautmann, Éva Vajda and dr. Péter Vakhal.

October 2020 and January 2021, we carried out a questionnaire survey at 301 businesses based on telephone and in-person queries, building partly on our theoretical model, and partly on the results of the qualitative research.

The family nature of a business can be originated from the effective personal presence of the family at the company and among the owners, and from the emergence of family values in the business. Summarizing these two aspects, we considered all the following companies as family businesses: where one or more families either have effective dominant control over the business, or – independently from ownership relations – reported their influence dominant and consider themselves as family businesses. We examined only at least strong small enterprises and medium-size enterprises which qualify as bigger family businesses under Hungarian conditions. We supposed that at these businesses the phenomena of succession within the business, within the family, between the owners, and between the business and the family are more separated from each other and can be observed more easily, due to the bigger size and more complex operation. Our unit of investigation was the complete family business system, with its family, business and ownership subsystems. For each business we investigated the characteristics of the individual family members, the subsystems and the whole system.

2. Key results

Table 1 – Basic descriptive statistical values of the sample

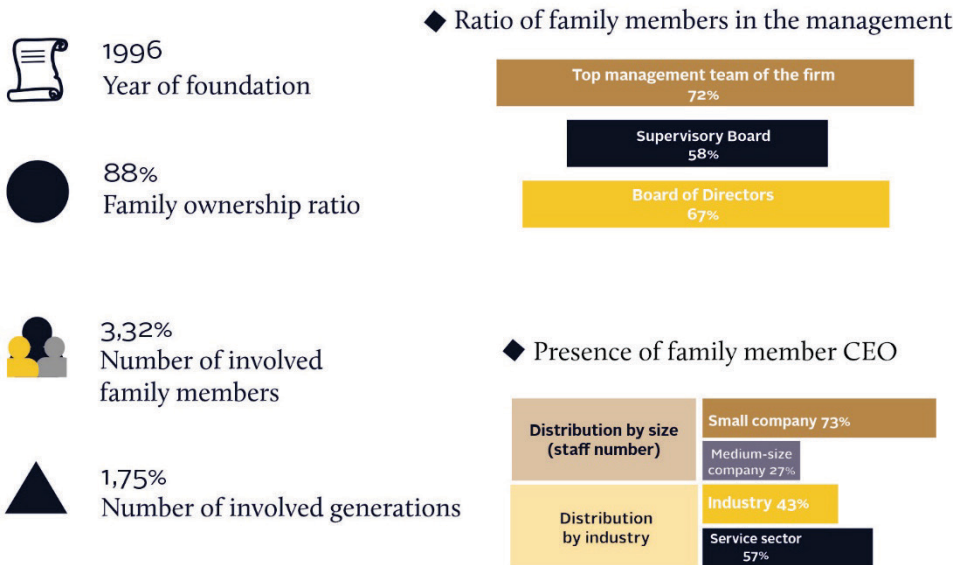


Table 2 – Planned succession outcomes „(the three proportions in the cells of the first column show the ratio of respondents planning complete, then majority, then minority family ownership succession)”

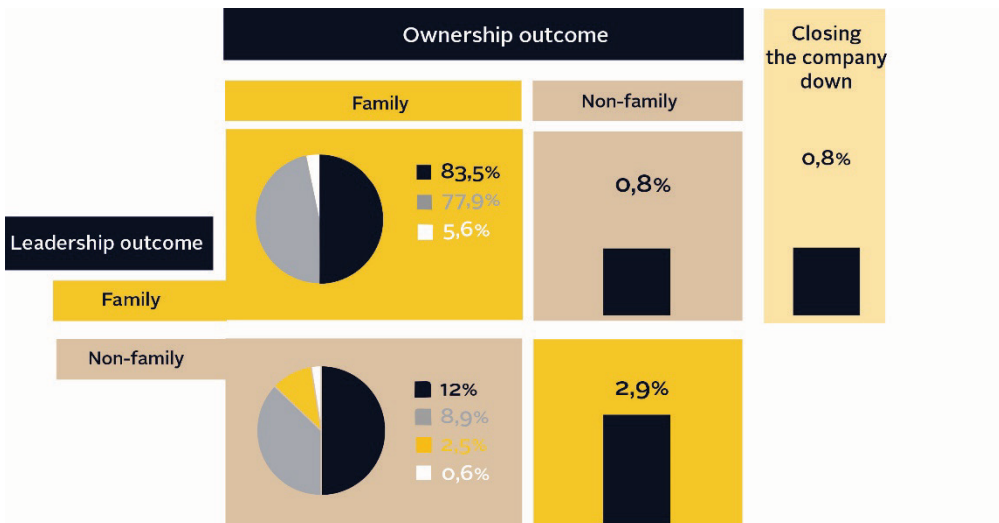
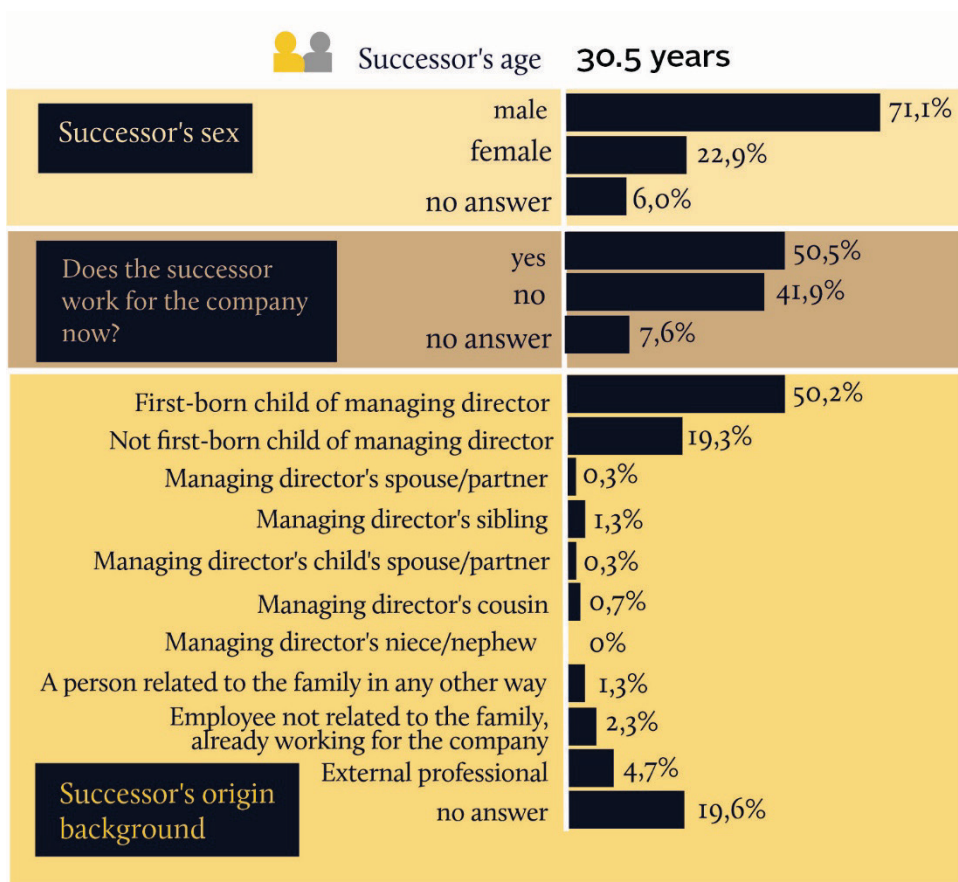


Table 3 – Characteristics of the successor



2.1. In the middle of the first big Hungarian family business succession wave

- ◆ We are now in the middle of the first Hungarian family business succession wave: the average of the years of realised or planned transfers in our sample is 2022, with a standard deviance of 12 years.
- ◆ Selected succession outcome:
- ◆ The most common planned outcome is the maintenance of both management and ownership within the family: 83.5% marked this as planned outcome. 77.9% of them would keep the company in full family ownership, while 5.6% are thinking about allowing minority owners to enter the firms.
 - ❖ 12.03% would like to keep only a certain part of the family ownership, but would not have family members as managers. 8.9% of them will

keep full control, 2.5% will keep the majority position only, while a negligible portion, 0.6% would participate in the life of the business as a minority owner, under the operative control of a non-family member managing director.

- ❖ 2.9% are planning to sell the business.
- ❖ 0.8% said the plan was to sell the ownership, but keep the management, and 0.8% were planning to close down the business.
- ◆ The successor's characteristics
 - ❖ The vast majority (94%) of the owners of family businesses have already decided who should be their successor.
 - ❖ However, only 65% of the businesses announced their potential successors publicly;
 - ❖ 50.5% of them already have the successor working for the business.
 - ❖ In the case of a group of companies that make up approximately 20% of the sample, it is true that the succession process seems to be partly or completely stuck, either because no successor has been selected yet, or the successor is not accepted or involved yet, or because of the non-identified succession outcome.
 - ❖ 7% of respondents indicated that the business would be run in the future by a non-family member professional.

The above data on the successor overshadow the perhaps overly optimistic picture of the preferred succession outcomes. Considering that the succession of domestic family companies as a whole is already very late, the fact that almost half of the selected successors do not yet work for the company, and that the succession process is stalled for every fifth company, carries a risk regarding the feasibility of their family succession intentions.

- ◆ Plans with the transfer of ownership:
 - ❖ 60,5% of respondents indicated that if the present management generation retires, the ownership would be transferred fully to the family, while 12% would keep it for themselves after retirement. 7% would transfer ownership to a family member only partially, and 4% would fully transfer it to a non-family member. 12% of the participants of the survey did not answer this question.

- ❖ The vast majority of the businesses participating in the survey, 90%, wish to keep the majority ownership of the family in the business.
- ❖ The business share not intended for family members is sold by the family typically to professional and not professional investors, secondly to non-family managers, and thirdly to employees. The former option was selected by 41.7% of the respondents, the second by 30.6%, the third by 13.9%. It is worth highlighting that (in line with the earlier answers), these respondents made up 12% of the sample only, although not all stakeholders (people selecting not full family ownership succession, or hiding for some reason) submitted answers.
- ◆ Success:
 - ❖ The majority of respondents find the process successful. 61.8% find it successful or very successful for the firm, and 61.1% find it successful or very successful for the family.
 - ❖ As success from the two aspects move closely together, and there is a small difference between the values, it can be supposed that respondents thought of the family rather from the aspect of the business. In addition, it can also mean that the question of succession is not experienced by the players in a way that family and business form two – partly related, but different - systems and criteria systems.

2.2. Succession as a process – planning in itself does not matter

- ◆ Previous process models of succession distinguished the different phases of succession along the necessary steps; reasonable decision-making points followed each other (for example, selecting the outcome of the succession, selecting the successor, the successor's decision, the successor's entry or the official takeover of the business). As a consequence of these models, we can conclude that the succession process can and should be planned as a pre-designed series of necessary decisions based on each other.
- ◆ The qualitative research showed that succession is made up of processes of relationship negotiations between the person currently holding the position (predecessor) and the successor. Major decisions that seem to be built on each other are primarily the results of these relationship negotiations, and not the consequences of comprehensive and conscious planning processes. Based on all of these, the planning of succession, that

is the decisions made in advance about circumstances, context and the most important steps of succession, can operate efficiently only through continuous relationship negotiations between the predecessor and the successor.

- ◆ These relationship negotiation processes are about the personal closeness of the predecessor and the successor, their trust in each other and their autonomy. During the negotiations about their relationship, these two people
 - ❖ determine their common identity,
 - ❖ determine what they will do together, how they will proceed together in the business, and
 - ❖ determine their approach to the family rules applied in the succession within the company, and how they should develop these rules further.
- ◆ The quantitative research showed – confirming the pattern showed by the qualitative research –, that formal planning in itself has low efficiency from the side of both the company and the family:
 - ❖ the planning of succession negatively affects the efficiency of the operation of the business;
 - ❖ formal planning does not have an impact on product and service innovation and the extent of internal development processes;
 - ❖ neither does it influence the success of succession in family context;
 - ❖ conversely, examined as an outcome variable, no examined variable of the succession process has effect on the planning of succession.
- ◆ In addition, the processes of relationship negotiations control those decisions, too, which are considered as management or strategic decisions of the business by a significant part of the literature on research concerning family businesses:
 - ❖ when and how does the successor join the company;
 - ❖ the possible invitation and participation of managers and managing directors not belonging to the family;
 - ❖ the participation of close and distant family members in the business;
 - ❖ the continuous growth of the leadership autonomy of the successor;
 - ❖ the recreation of the relationship between the predecessor and the company.

2.3. How to 'success' well?

We define the following factors as the guarantees of successful succession processes.

1. It is worth focusing on improving the relationship negotiation skills of family members, especially the predecessor and the possible successors, by exploring possible relationship regulation methods, and facilitating the exercising of relationship negotiations.
2. Family members must recognize how the family members of the next generation can decide freely about becoming (possible) successors, while remaining faithful to family traditions and accepting the family heritage.
3. In terms of efficient succession, it is highly significant for the predecessor to recognize the similarity with the successor within the family. This recognition is primarily the discovery of the fact that the successor resembles the predecessor in some of his/her positive values. This can be related to the similarity of one of the characteristics of the successor, or maybe to the way he/she handles business opportunities or business partner relationships. In cases where the predecessor did not discover any similarity with his/her successor, he/she had mixed feelings about passing the baton, and looked for external managers not belonging to the family instead of the family successor.
4. It is important for both the predecessor and the successor to personally experience whether they are capable of doing something good for each other. In general, this common knowledge comes from before the official succession process, usually from an early phase of the successor's life, and it contributes to forming a common identity with the predecessor.
5. With the advancement of the succession process, concrete relationship dynamics becomes more and more important, and grows into one of the significant challenges of the company. This means the finding of a subtle, unique balance between the predecessor giving enough autonomy to the successor as a manager, and staying by the successor in such a way and such closeness that meets the needs of both of them. During the qualitative research we found no examples, not even after the official transfer, where the successor - the newly appointed manager - opted for terminating the professional relationship with the predecessor.

The results of quantitative research also show the parallel emergence of the demand for autonomy and the demand for connection:

- ❖ the impairment of the successor's autonomy has a negative impact on company developments; in addition, the planned degree of the successor's withdrawal after the formal transfer has a positive impact on the efficiency of the company;
 - ❖ moreover, the less the predecessor plans to stay involved in the operation of the company after the transfer, the less he will treat the successor as a family member and a boss, but rather as a partner, during the joint work;
 - ❖ however, the degree of the successor's withdrawal from the company after the transfer in leadership has a negative impact on the success of the succession as perceived from the point of view the family.
6. The results of the quantitative research further clarify what the predecessor should be deliberate in during relationship negotiations, so that it is useful for the family and efficient for the company:
- ❖ he/she should initiate succession within the family actively, but should not take it for granted, he/she should keep the opportunity open both within the family and the company for family and non-family succession;
 - ❖ beyond the identification of possible outcome(s), when involving the successor in the work and during the evaluation of the autonomy to be given to the successor, he/she should pay attention to his/her relationship with the successor; he/she should form the possible steps not alone, but together with the successor;
 - ❖ he/she should plan on leaving operative work after the formal transfer in leadership, but instead of leaving the successor to him/herself, he/she should help him/her further in the professional questions of strategic planning.
- ◆ 7. And finally, one more parameter, which adds to the success of the succession process: the ability of the successor and the predecessor to negotiate the predecessor's new place in the system of the family business during and after the succession, to re-build his/her relationship with the company, and connect him/her to the business again. Unfortunately, the complete termination of the relationship between the predecessor and the

company is often confused with the situation when the predecessor lets go of the company to a significant degree. The successor and the predecessor must avoid this confusion. This can be done by treating the forming of a new relationship between the predecessor and the company as a topic to be discussed and agreed in their relationship, and they should focus on this on purpose during succession.

2.4 The false myth of the 'original incompatibility' of business and family

- ◆ Our analysis showed that family members' socioemotional relations to the business have positive impacts on its performance and the assessment of the success of succession. This result is valid for the family SME group that comprises the samples.
- ◆ In the case of 'family' businesses where the identification of the family member with the family is high, the personal emotional connection of family members to the existence of the company and the intention to keep family control over the business on the long term are present, and the quality of the relationship between the stakeholders of the business and the family is important, that leads to
 - ❖ higher economic performance,
 - ❖ more intensive company developments,
 - ❖ and family members are more satisfied with succession than at companies where the behaviour of family members is not really characterised by the above list.
- ◆ An important aspect of the positive effects of socioemotional relationship is - if we look at its influence on the company only - that this impact may become negative at a time of economic recess.
- ◆ The ratio of family members in the management has a positive impact on the efficiency of the company: the higher this ratio is, the more efficient the production will be at the company. This relationship does not work under all conditions: it is probably true specifically for the examined companies, and for the situation where the founder involves his/her children in the operation of the company, too (following the involvement of spouses or partners).
- ◆ At the same time, the actual presence of family members in the management of the company does not matter in itself, only together with

the attitude of family members to the company, i.e. how they add content to their presence: the socioemotional relationships of sub-groups selecting different control formats and family and non-family management (board of directors, supervisory board, trust) are different from each other.

2.5. The decision to become a successor - appearance and reality

- ◆ Contrary to the assumptions of succession planning models, data shows, that there is no established way of the successor telling the family his/her decision as a truly equal, autonomous player. The predecessor is dominant in initiation and communication, and his/her communication in its content is more of an announcement or notification about choosing or appointing the person concerned. In his/her relation with the company, this person is not an autonomous player in the succession process. The possible successor can make a clear personal decision on family succession only with his/her company employment.
- ◆ Even though this would probably increase the quality of decision-making, only a few percent of the responders would involve a family member not active in the company, a nonfamily member manager, or an external professional.
- ◆ The provision of information to the organisation has no established forms. Family owners typically do not inform the whole organisation about this decision; all that non-family member and non-management employees see is that the successor starts to work for the business. The drawing of any conclusions depends on the features of the organisational culture, too, but it is basically up to them.

2.6. Female and male successors - differences between individual fates and business management

- ◆ Male and female successors have different relations with the business and are seen in different lights in succession.
 - ❖ For male successors, the process starts already during the primary school, but for female successors, it starts during the secondary school. While a higher ratio of boys join the family business right after

graduation, most of the girls start their own career first, and return home to the company later.

- ❖ The selection of girls is more like a collective decision by the family, while in the case of male successors, it is agreed between the predecessor and the successor.
- ❖ It takes more time to recognise female successors as successors, and the decision about their selection is communicated less to the organisation, they progress slower within the organisation.
- ◆ However, the average age of successors is not significantly different, and the family support behind female successors is the same as behind male successors, i.e. very strong.

2.7. Non-family management – reasons from a quantitative research perspective

- ◆ 51.2% of those who chose non-family management think that the background of the decision is that the possible family successor did not show any motivation to take over the management. 26.8% think the person has not got the necessary managerial skills, and 24.4% think that the selected family members has no professional skills. Altogether 7.3% said that the successor worked for the company, but left it. The two options, which say that the management succession process came to a halt because of a conflict between the predecessor and the successor or the successor and the family members, was not marked by anyone.
- ◆ The low ratio of dropping out from the company refers also to the fact that the failure of family management succession is basically not caused by negative experiences stemming from the joint work. The possible family successor does not even join the company to work there full-time. In other words: if the selected and identified successor of full age does not join the company, it is a warning sign that there is low chance for it later, too.
- ◆ The apparent absence of conflicts confirms the discoveries of the qualitative research. It refers to the fact that the common predecessor-successor identity among the previous and the next generation family members and the predecessor-successor relation were not deep or strong enough, and the inevitably negative emotions from the rejection of succession were not interpreted in the relation of the family with the

company. What they realize is that the next generation family member simply does not want to come, or he/she is not suitable.

- ◆ Separately examining the group indicating the lack of motivation in the successor, we can see that the role of the predecessor in the succession process is stronger than the average. The value of all dimensions of socioemotional wealth is lower than the average, and the index measuring emotional relation is especially low. In this group of responders, the average age of the predecessor is higher than the mean, 66 years.

2.8. External, non-family member professional as manager

- ◆ Based on the cluster analysis, a small group of those who chose non-family member management have an already identified successor. A part of the majority – which consists mostly of smaller companies – have no plan, no possible successor, thus they experience succession as a failure. The other part of the majority, consisting of larger companies with strong founder-management control, where – although there is no successor yet, the manager wishes to completely withdraw after succession, and the evaluation of succession is neutral. From the aspect of the latter groups, it is concerning that if the company management successor is not a family member, not an employee who worked for the company for a longer period, but an external professional, the opposition from the family is strong.
- ◆ If there is no family member successor, then, in the case of Hungarian family businesses, that does not only mean that there is no family member who would accept this role, or there is no predecessor who would give way to him/her, but it also means that in this situation, the family refuses to employ external professionals, too, who are probably brought into the family business system by the predecessor.

2.9. Succession as a resource of the family company system

- ◆ The family support given to family successors is uniform and very strong.
- ◆ As soon as the decision is made about the successor, the socioemotional relationship of the family with the company improves. This high value is there until the closing of the formal succession.

- ◆ Companies that went through at least one closed succession process, and now look back, find succession extremely successful. They select the long-term maintenance of the dominant influence of the family as the second or third succession outcome, too, without any exceptions, i.e. complete or majority family ownership succession, with family or non-family company management.

RECOMMENDATIONS

for the implementation of successful succession within the family

In the case of family businesses, succession within the family is not a one-off decision that affects the company only, but a long-term process that affects the whole family business system.

In the parent-child³ relationship, the formulation of the *joint identity of the predecessor and the successor* starts already in early childhood.

1. The parent should clarify his/her expectations - including hidden ones - against the child.

- ◆ *What kind of succession outcome does he/she prefer?* What expectations and possibilities would that mean for the child?

- ◆ *How is it possible to solve 'non-succession' within the family?* In his/her communication and relationships, conduct open discussions and negotiations about the way how the child is able to decide freely in the issue of succession. In addition, how can the child remain loyal to his/her parents and the parental inheritance in the case of any decision about succession.

2. The child should have a personal connection with the company.

- ◆ *The parent should allow the child to get information on the operation of the company in a way that is suitable in his/her age* – the parent should gradually introduce the products, the organisation, the buildings of the head office and the outlets, as well as the work in these buildings and his or her work.

- ◆ 3. The parent should have a relationship with the child that lays the foundations of the predecessor-successor identity - already before the successor actually and formally starts working.

- ◆ The predecessor should try and find some kind of personal similarity between the prospective successor and himself/herself, i.e. the predecessor

³ Of course, a family successor may not necessarily be a direct descendant, yet we decided on using the word "child". Firstly, because in practice this is predominantly the case (in our quantitative research, the proportion of direct descendants in the case of family succession is 95%), and the predecessor-successor relationship can be based on the parent-child relationship. Secondly, the recommendations here, applied according to the given family and company situation, can be valid and useful for predecessors and successors based on a non-parent-child-, but also for other types of family relationship.

should discover the positive values he/she shares with the successor. We found that this similarity is one of the bases of the creation of trust that is essential for joint work, and thus one of the bases of efficient succession.

- ◆ The predecessor should look for opportunities when the future successor and himself/herself may experience that *they are able to do something good to each other in a joint activity*.

4. In the formulation of joint work, it is the 'how' that matters, not formal planning in itself.

- ◆ Succession consists of the processes of relational negotiations between the predecessor and the successor. Major decisions that seem to be built on each other are primarily the results of these relationship negotiations, and not the consequences of comprehensive and conscious planning processes.
- ◆ Continuous relationship negotiations are about the personal closeness of the predecessor and the successor, their trust in each other and their autonomy.
- ◆ The predecessor and the successor should jointly specify the targeted or possible outcome(s) of the succession process. They should continuously reconcile the steps of implementation, and in the course of personal or corporate discussions, trust in each other and the comparison of autonomy requirements should have high priorities.
- ◆ *Both persons should be prepared for the fact that this will be a constant feature and one of the key tests of joint work.* The predecessor asks the following question: 'Can I trust him/her so much?' While the successor asks: 'Why does he/she not give me the autonomy I want? What shall I do to make him trust me?'
- ◆ The predecessor should be prepared to play a dominant and active, as well as initiative role in succession. However, this should be done in a way that the successor is treated as a partner in their joint work, not as a family member or a colleague.

5. Make attempts to separate family and business during the succession.

- ◆ *The predecessor should think over what non-family succession options are realistic, and how could the company be prepared for that. This will also help in identifying the skills and the type of the successor the business needs, as well as the expectations against potential family candidates.*

- ◆ *Family members that are not active in the business should be involved in the selection of the successor, but in the further progress of the successor within the company, they should not participate in decision-making.*
- ◆ *Non-family member company managers should also be involved in the selection of the successor.*

6. The predecessor should not lose hold of the company, but rather transform his/her relationship with it.

- ◆ There is often a confusion here because it seems that the predecessor basically loses hold of the company when the relation between the predecessor and the company is terminated. *The predecessor and the successor should continuously make sure that subjects to be discussed and reconciled should include the creation of a new type of relationship between the predecessor and the company.*
- ◆ Similarly to the relation between trust and autonomy, a balance should be found between two dynamics of opposite directions. It is useful for both the success of the company and the succession, and for the family that the predecessor withdraws from operative work after the change in managers, but does not leave the successor alone, but stays available for her/him on request and renews his or her connection to the company.

7. Use external help.

- ◆ The recommendations defined above present a number of challenges in skills and knowledge for the predecessor and the successor, as well as the whole family business system. However, they do not necessarily have these: in the course of their development, a high number of companies have not faced fundamental changes caused by succession yet. The system should allow information required for development to enter from outside.
- ◆ *All the phases of the research prove that the utilisation of this external help has positive impacts from the aspects of family relationships, the performance of the company, and for the success of the succession process.*
- ◆ For the assessment of the succession outcomes and starting in the selected direction, it is important to develop family members', and especially the predecessor's and the possible successors' skills related to the relationship negotiations, in addition to assistance in possible legal, taxation, company transaction, asset planning, organisational development, business consulting, family business advising or mentoring help. This can be done

by exploring the ways of regulating family relations and facilitating the exercising of relationship negotiations.

8. Becoming a business family - each family member should find his/her place within the company business system.

- ◆ In a certain rate and way, succession and the development of the company results in the more efficient operation of the company organisation. The relationships and the cooperation of family members who are less active in the business, or not active at all, should also change with the company, because of the growth of the family and the business, and the situation that is changing and getting more complex during succession.
- ◆ The distribution of tasks and competencies among siblings and the rest of the family, the partial overlaps between management and ownership roles, or the separation of these roles, and the distribution of assets among family members raise questions which have to be decided in a situation where there are no family rules yet reflecting the fact that efficiency and justice mean different things from the sides of the family, the company management and the ownership. In the case of the company management, the primary norm is the maintenance of decision-making ability under all conditions. In the case of ownership, the primary norm is the maximisation of asset values. Family norms about justice are enforced in different ways in both respects. Even if both remain with the family, *it is necessary to prepare for the fact that leadership succession and ownership succession will be decided on the basis of different considerations.*
- ◆ *Well thought-out considerations can only work if family members not active in the business and formally not affected in ownership are also aware of their rights and obligations, and personally accept those - if everybody sees and accepts his/her place in the family business system.*
- ◆ *Thus relationship negotiations refer not only to the predecessor and the successor, but to the whole family.*