Intergenerational Succession in SMEs Transition
INSIST

Recommendation to Policy Makers

Final version

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Budapest, 2015

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MOTTO

'In many cases the word 'succession" itself can provoke an extreme emotional reaction, especially in the founder or current CEO. It's an unwelcome reminder of age and mortality, and threatens loss of influence and redundancy, in the widest sense of the word." (PwC, 2014:27)

1. Policy pointers: main challenges and properly tailored policies

What have the government or policy makers had to do to facilitate the succession/business transfer process in the case of the FB? Are there at their disposal consistent and systematically collected comparative data to design and implement 'evidence based' European or nationally tailored public polices?[1] And what are the main focuses of these policy initiatives? These are the key issues to be presented and assessed in this section in relation to designing recommendations for the policy makers.

Before highlighting the cornerstones of the desired public actions, it is worth noting that the succession and business transfers are representing 'on and off' topic for both the European Commission itself and – we may add - for the national policy makers in the INSIST project countries.

At the EU-level the Commission established an expert group at the end of the century which was very active until the mid-2000s, and was then followed a period of inactivity and again more activity at the end of 2010. Since this time a period of non-activity was observed, and again, very recently the European Commission's 'Entrepreneurship 2020 Action Plan stressed that '… *transfer of business ownership, together with the transfer of management from one generation to the next, is the greatest possible challenge facing family businesses … (and) calls on the Member States to simplify administrative procedures and taxation systems, taking particular account of the specific challenges of small and medium-sized enterprises and family businesses'* (Niebler, 2015:7-8). This quotation from the recent Report of the European Parliament illustrates well that the succession/business

[1] Public policy represents „… all actions by public organisation that influence certain societal processes" (Edquist, 2014:4), in our case this is the succession/business transfer in the FB.

transfer process became again of high importance on the European political agenda and there is hope for its reproduction on the British, Hungarian and Polish policy makers' agenda, too. At the national level it was difficult to find - especially in Hungary and Poland – FB designed policy materials on succession/business transfer. In relation to this it is worth noting that there is no Ministry for Family Businesses in any of these countries and responsibilities for entrepreneurship and business affairs are divided between several ministries. Instead of the FB, the policy makers focus on SMEs and such issues as boosting innovation, competitiveness, financing start-ups, etc.

In relation with the future policy development, the following 'policy pointers' should be identified:

1: There is an urgent need for a European-wide, harmonized and legally binding definition of the FB as well as systematically designed and organised European data collection and analysis to establish evidence based public policy intervention.

It is time to take seriously the so-called 'knowledge – deficiency' syndrome in the field of the FB research/education and training in general and especially with regard to succession/business transfer processes at both the EU and INSIST country level. The key source of this knowledge shortage is the lack of comprehensive, European-wide systematic and consistent data collection and analysis to better understand the special architecture (i.e. structural and cultural features) and special needs of FBs within the SME sector. One of the main obstacles to carrying out comprehensive European surveys is the lack of a common standard European definition of the FB – similar to the Community Innovation Survey (CIS), which uses the innovation definition of the OSLO Manual. As was pointed out in the INSIST comparative report (Makó-Csizmadia-Heidrich-Csákné-Filep, 2015) there are more than 100 definitions and concepts for the FB. The recent Report of the European Parliament stressed that the lack of a legally binding and harmonized European-wide definition of FB hampers the evidence based public policy making, '... *this lack of reliable and comparable data can hinder policy decision-making and may mean that the needs of family businesses are not being met'*(Niebler, 2015:5). Beyond the necessity of systematic international comparative data collections – as the experiences of the company case studies in the INSIST project indicated – it is necessary to use qualitative research methods in order to better understand the socio-emotional and cultural features of the succession/business transfer.

2: The core importance of transferring entrepreneurial spirit – within the Socio-emotional Wealth (SEW) of the FB. The policy makers should be aware of the variety of factors shaping entrepreneurship in their policy design and intervention.[2]

All company case studies without exception indicated the core importance of such generic values as honesty, openness, correctness, reliability etc. and knowledge for the smooth intergenerational business transfer. These are the intangible assets to be passed to the next generation: *'… transferring the physical entity of the business itself may be less crucial than the transfer of its core values, such as* ***entrepreneurial spirit****, or of creating opportunities in general for the next generation, which can be facilitated by the building up of family (socio-emotional wealth) through business …'* (Devins, 2015:24).

According to the results of the latest comprehensive global survey on *entrepreneurship* there are significant differences in the factors shaping entrepreneurship, both globally and in the three INSIST project countries. The tables in Annex 1 summarize the contents and the results of 14 factors - shaping entrepreneurship in the world, EU, and New Member state averages. According to data on the Global Entrepreneurship Index (GEI) ranking (2013), the position of the INSIST countries is the following among the surveyed 130 countries: U.K. (4th position), Poland (38th position) and Hungary (45th position) (Szerb-Ács-Autio, 2014:9).

[2] In this relation, we agree with the following recent statement of the European Parliament: „… family business represent the largest pool of entrepreneurial potential and are natural incubators for future entrepreneurs."((Niebler, 2015:17)

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Comparing the 14 factors (pillars)[3] shaping the GEI in the three countries involved in the INSIST project, we may say that from the 14 pillars *UK* has the best scores on 11 factors from the 14 (these are the following: 1. Opportunity Perception, 3. Risk Perception, 4. Networking, 5. Cultural Support, 6. Opportunity Startup, 7. Technology Absorption, 8. Human Capital, 9. Competition, 11. Process Innovation, 12. High Growth, 14. Risk Capital. *Poland* has the best scores for the following three factors: 2. Start-up Skills, 10. Product Innovation and 13. Internationalization. Hungary is lagging behind the U.K. and Poland in relation to all 14 pillars shaping entrepreneurship. Examining the distribution of score values of the 14 pillars we find the following: in the UK case, the factors shaping the entrepreneurial attitudes are robust. However, even in this case, there is a need to strengthen the 'skills for start-ups', 'product innovation' and 'internationalization' of FBs. In the Polish case, beside the three pillars all other needs are to upgrade and be supported by the devices of public policy. There is a need for more complex and robust public policy intervention in the Hungarian case to improve all pillars of entrepreneurship. Comparing the various regions and countries participating in the international survey on the GEI we may say that '… the US outperforms the old EU member states in thirteen of the fourteen pillars: The exception is for Networking. The new EU member states outperform the old EU member states in Start-up Skills, High Growth and Internationalization. Moreover, the Internationalization pillar is almost on par with the US. The whole EU is considerably behind the US in terms of Opportunity Perception, Human Capital, and Risk Capital. The New member states are particularly vulnerable in Opportunity Perception, Cultural Support, Human Capital, and Competition' (Szerb-Ács-Autio 2014:11).

[3] The 14 pillars are as follows: 1. Opportunity Perception, 2. Start-up Skills, 3. Risk Perception, 4. Networking, 5. Cultural Support, 6. Opportunity Startup, 7. Technology Absorption, 8. Human Capital, 9. Competition, 10. Product Innovation, 11. Process Innovation, 12. High Growth, 13. Internationalisation, 14.Risk Capital. (Szerb-Ács-Autio, 2014:10)

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3: Further professionalization of the FB in the context of globalization is another important challenge for the next generation (NxG) of FB. New and original policy devices are necessary for facilitating the appointments of experienced non-family members into leading positions in the family firm. There is a need to consider original and powerful incentive schemes (e.g. participation in family ownership) to build the identity of non-family experts with the firm.

Psychological ownership – or SEW - may not only strengthen both social and psychological ties in the FB but also result in the strong professional identity of family members too, through the collective learning taking place in the family business. The family identity is further cemented by the strong ties with both professional and local communities, too. The socio-economic and cultural importance of embedding into the local community and its support by the policy makers do not need much research evidences. In the future, it would be advisable to pay more attention to the fast growing role of 'professionalization' in the FB. According a recent PwC global survey (2014) two fifths of FB owners/managers agreed that *'formalising and modernizing the business is a key challenge over the next five years… young and more ambitious businesses are more likely to cite professionalising as a business goal'* (PwC, 2014:14). The success of professionalization is key to the survivability of the FB. This represents a huge challenge in the succession/business transfer process too, and as the cited global survey report stresses: family members *'… have to accept a loss of control and an increase of discipline, both of which can be difficult, especially when there are strong personalities involved, as is so often the case'* (PwC, 2014:189).

In the INSIST project, this process of professionalization was identified in several company case studies (e.g. the Hungarian BI-KA logistics firm, the Polish WAMEC engineering firm, etc.). With a characteristic 'best practice', it is worth calling attention to the positive impacts of the Employees Stock Ownership (ESOP) scheme used for the non-family members occupying key positions in the firm. According to the experiences of the British Podiums Ltd., this kind of social innovation may intensify the community feeling and loyalty of the non-family members in relation to the family. The ESOP scheme is one of the most widely

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known ownership options helping to strengthen non-family talents' identities with the family firm.

4: Due to the huge impact of succession/business transfer in the FB on the whole economy and society it is a time to create a research institute and some training and education tailored to the needs of the FBs. The lack is this infrastructural support is especially acute in the case of the two New Member States) - Hungary and Poland - which are lagging far behind the UK practice in this field too.[4]

Comparing the three countries' intelligent infrastructures (i.e. research, education and training, consulting, mentoring services) targeted to help the succession/business transfer we found visible asymmetries between the two NMS countries and the UK. To demonstrate again the need for better data and knowledge concerning the process of succession/business transfer, it is worth knowing the experiences of the developed economies. In these countries, more than two thirds of FB's do not survive the transfer from the 1st to the 2nd generations, only 14 per cent survive the transfer from 2nd to 3rd and less than 5 per cent the transfer from 3rd to 4th generation. Only a tiny minority (19 per cent) has a formal written plan for succession (Surdej, 2015:3). The situation is not better in the NMS, either. Family business related issues are usually handled under the umbrella of a general SME support system. It would be advisable for the national policy makers to use the present favourable institutional initiative of the European Parliament and – among other things – speed up the creation of FB related research facilities and the development of training programs (modules) both at the public education and private training (consulting) institutes. Unfortunately, in the 'Suggestion' section of the European Parliament report, there is no specific (concrete) recommendations nor advised best practices on these issues (Niebler, 2015).

[4] For example, in the Hungarian case, only two years ago (May 2013) the Association of Family Enterprises in Hungary (AFE-H) was founded and until now has only 35 members. Within its activities, the mentoring chain was created only in May 2015. This Association, rightly complains about the unequal conditions of FB compared to non FB in the field of financing training. For example, the FB is obliged to finance its training from its taxed income.

5: In relation to the Socio-Emotional Wealth (SEW), the transfer of socio-cultural capital and knowledge accumulated from one generation of FB to another, has a decisive role in the successful intra-family business transfer. Policy makers have to support the non-coded forms of knowledge development (competences) taking place in the firm's practice (e.g. supporting FB initiated non-formal forms of training.)

In family firms one of the most critical factors with regard to the smooth succession is socio-emotional knowledge and especially the 'core competence' transfer between generations[5]. This knowledge transfer is far from being unidirectional; learning may take place between all generations and within generations, as well. It is important to stress its fairly informal character and relation to the socialization process taking place within the company. Sources of th types of knowledge are the following forms of non-coded/non-formalised learning: 'learning by communicating'; 'learning by practicing'; and 'learning by doing'. These forms of learning are not only device of the professional development of the participants but facilitate the incorporation of rules, values, and patterns of behaviour of the 'familiness', too.

Beside the level of the individual FB - based on the concept of the 'triple-helix'[6] – policy makers need to launch programmes to enlarge the dissemination of best experiences. This network formation may represent a value-added cooperation between associations of FBs, universities/training/consulting agencies and government institutions. This 'institutional entrepreneurship' may speed up the knowledge transfer in the succession/business transfers and contribute to the sustainability of the FB.

[5] According to Prahalad and Hamel (1990, in Borras, S. – Edquist, Ch.(2014:2), the portfolio of the firm's core competencies refers to '... the company's collective knowledge about how to coordinate diverse production skills and technologies.'
[6] Etzkowitz-Leydesdorff, 2000.

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6: Policy makers and other stakeholders have to guarantee appropriate legal and financial conditions for a smooth succession/business transfer. For example, in relation to the inheritance and estate taxes it would be necessary to launch a nation-wide consultation with national policy makers and other stakeholders (e.g. associations of FBs, representatives of the educational-training institutions, consulting etc.) to elaborate consensus-based legal and financial regulations. The European Parliament's recent Report may play a leading role in the so-called 'soft regulation' for the national policy initiatives.

The national policy makers have to consult the recent suggestions of the European Parliament: *'…it is important that Member States try to improve the legal framework for the transfer of family businesses and improve access to finance for these transfers, thereby preventing cash-flow problems and distress sales and ensuring that family businesses survive, stresses, at the same time, that the legal framework must not permit any restriction of employees' rights, including social rights'* (Niebler, 2015:17). In relation to the inheritance practice in inter-family succession, visible differences exist between FBs in the Old versus New Member States. For example, while in the former case the family wealth and the business wealth are separated which facilitates the succession process. In the latter family business owners' wealth overlaps personal wealth, especially in case of micro and small businesses. This lack of separated wealth produces difficulties for the succession in financial terms: if the owner/founder transfers ownership rights to the new generation he is losing almost all financial stability or the guarantee to maintain the existing living standards, due to the fact that the business and private wealth are not separated. (For example, a great majority of the Hungarian SMEs and FBs are characterised by a chronic lack of financial resources, and therefore the founder is obliged to use his own wealth from time to time and cannot accumulate significant personal wealth. Therefore a special 'bridging loan' would be necessary for the successor to buy the ownership share of the founder. Via this construction the founder/owners may maintain their living standards

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and the new owner should pay back this special loan (cost of the loan-capital plus interest) from the operation of his business.)

7: Both at a European and national level, it would be necessary for campaign to raise awareness for the distinction between the FB created by 'opportunity' as opposed to 'necessity' entrepreneurs. Their motivations are different towards growth, professionalization etc. The number of these types of entrepreneurs varies across the INSIST project countries, too. Therefore tailor-made public policy interventions are needed.

In the case of the 'opportunity' entrepreneurs, the *'... main motif is the desire for 'independence' and a desire to 'work for themselves'* (Mascherini-Bisello, 2015:13). In the other case, the so-called *'necessity entrepreneurs ... are pushed into entrepreneurship because they have no other employment options'* (Mascherini-Bisello, 2015:13).

Between the INSIST project countries we may identify visible differences in the rate of 'necessity' versus 'opportunity' entrepreneurs. Due to the radical political-ideological and economic changes i.e. the shift from state-socialism to the market economy in the two new member states (Hungary and Poland), a large segment of the workforce formerly employed by the state or cooperatives lost their jobs and became unemployed. These people became the 'forced entrepreneurs'. Currently this pattern of entrepreneurship still exists but has different motivation and content. For example, the radical changes in the labour market and on the continuous re-structuring in the economy due to increased global competition produce 'new entrants' into this category of entrepreneurs. Looking at the percentage of 'necessity entrepreneurs' in the three countries surveyed, their share in the group of the adult entrepreneurs is much higher – almost double – in Hungary and Poland than in the U.K. Comparing the groups of adult (35-64 years) and young (18-34 years) entrepreneurs, the differences remain between these countries. Surprisingly enough there is a relatively high amount of young 'necessity entrepreneurs' in Poland in comparison even to Hungary.[7]

[7] In relation to this it is worth noting that in 2000 - at the beginning of the transformation process in Central and Eastern Europe – the share of temporary employees within the total number of employees was lower in

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The growth and innovation driven firms in the company case study sample – without exception - are ‘opportunity entrepreneurs’. The strategy of these firms is characterised by *‘longer-term investment in business, rather than pursuit of short-term profits for dividends’* (Devins – Jones 2015:23).

2. Executive summary of the research findings from INSIST project

2.1. Importance of Family Business (FB) and challenges in global and European perspective

Half a century ago, management scholars drew a rather pessimistic picture of the future of the family business. They anticipated *‘... the hereditary principle to fade fast, because of the greater ability of professionally-run public firms to raise capital and attract top talent. In fact, family firms have held their ground and, in recent years have increased their presence among the global business’* (The Economist, 2014:2). Contrary to this prognosis, the FB is not only present but also improving its position in the global economy and playing a key role in the European economy too. The majority of them sell to foreign markets. Interestingly enough – contrary to widely held public opinion – 80 % of FBs do not experience any difficulty with access to finance.

According to the latest Ernst and Young Family Business Yearbook 2014, and PWC 2014 surveys, 60 - 85 % of all European firms are family businesses and this accounts for 60 % of jobs and represent more than 60 million jobs in the private sector. The core share of the small and medium-sized companies are FBs and create more than four fifths (85 %) of new jobs. In the present economic situation the job creating capability of this sector is extremely important: *‘... throughout the EU, some 25 million people are still unemployed and there*

Poland than in Hungary (5.6 % in Poland compared to 6.8 % in Hungary), however in 2014, 28.2 % of Polish and only 10.3 % of Hungarians belonged to this category of employment. To escape from this unstable and dead end career type employment, becoming an entrepreneur by necessity could be a desirable option (Mrozowicki, A. – Karolak, M. Krasowska, A., 2015: Young workers’ life strategies and trade union campaigns against precarious work in Poland, International Workshop on *Labour and Social Transformations in Central and Eastern Europe: Europeanization and Beyond,* Paris: Sciences PO. (CERIS), 2nd October, 2015).

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are over 5 million young people under 25 years of age without work … whereas new enterprises create on average two jobs and expansion of existing businesses create approximately five new jobs.' (Niebler, 2015:12)

An evaluation of the internal challenges facing the firms belonging in this sector has been summarized in Table 1.

Table 1 Key internal challenges for the family firms in the next five years

Types of challenges	2012	2014
Need to continuously innovate	62 %	84 %
Attracting the right skills talent	58 %	61 %
Retaining key staff	46 %	48 %
Reducing costs	n/a	44 %
Need for new technology	37 %	41 %
Need to professionalise business	n/a	40 %
Company succession planning	**32 %**	**36 %**
Conflict between family members	9 %	11 %

Source: Global Family Survey 2014: 8

Comparing the internal challenges in the FB in the next five years, the importance of the 'succession/ business transfer' issue was indicated by one third by the firms surveyed. The other more important internal challenges are as follows: 'permanent innovation'; 'hiring and keeping talents and key staff'; and 'implementing new technology'. However, comparing these challenges between 2014/2012 we may say that the highest increase took place in the cases of 'need for new technology' and 'company succession planning'.

Illustrating the significant effects on employment for this issue, annually almost half a million family firms facing this challenge employ almost 2 million people. Due to various difficulties analysed in the INSIST project, too *'... an estimated 150 000 businesses are forced to close each year with the loss of some 600 000 jobs'* (Niebler, 2015:13).

Measuring the weight of these succession/business transfer processes in the coming years more than two thirds of FBs expect changes both in ownership and management. More precisely, one fifth (22 %) of them plan to pass the ownership of the business to the next generation (NxG), almost one quarter (24 %) of them are planning to transfer management of FB to the next generation and more than one fifth (23 %) are thinking of appointing a non-family CEO but keeping family ownership/control (European Family Barometer – 2014: 18). This trend is recognised by the European Commission's 'Entrepreneurship 2020 Action Plan' too: *'... the transfer of business ownership with the transfer of management from one generation to the next, is the greatest possible challenge facing family business'* (Niebler, 2015:8).

2.2. European and national institutional context: need to combine nationally 'tailored' and EU level initiatives

The previous section outlined the significant damages in the field of employment of the succession/business transfer failures: according to the European labour market prognosis, more than half a million job losses are expected. In relation to this, one of the most important objectives for the policymakers – according to the European Parliament - to guarantee *'... the right framework conditions to prevent these job losses. In particular, national regulations on taxation on inheritance and gifts and corporate taxation make transfer within family more difficult'* (Niebler, 2015:13).

In the INSIST project countries (Hungary, Poland and the UK), there is a variety of national institutional contexts for the activities of the FB. The highest density of institutions supporting FB both by interest representative associations and knowledge institutions (e.g. training/research facilities) were found in the U.K., followed by the Polish one and the Hungarian practices. In relation to the government institutions, there are some similarities in the countries surveyed. There is no Ministry for Family Businesses in any of these countries, and entrepreneurship and business affairs are divided between several ministries (Devins - Jones, 2015:39-45), (Surdej, 2015:28-30). Specialist agencies can be

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found in all three countries and can be considered as important supporters of family businesses. There are important differences between the British, Hungarian and Polish institutional settings. In UK numerous Family Business Research Centres exist unlike in Hungary and Poland. The private sector also provides support for family businesses via consultancy and accountancy services in all three countries. In the UK and Poland Family Offices support family businesses in managing their assets, while in Hungary we can't find any Family Offices yet. Typically private bankers help wealthy Hungarian families to handle their financial investments. Further differences between Hungary and Poland are noticeable. For example, the Polish government created in 2000 – and supervised by the Ministry of Economy – the Polish Agency for the Development of Entrepreneurship (Polska Agencja Rzwoju Predsieborczosci – PARP) to boost the activity of SMEs, including FBs.[8] Comparing the two Central European Countries to the U.K. it is worth mentioning that in these countries the research and educational/training activities are much less developed.

These differences in the institutional setting for the FB have the following impacts for the policy makers: the 'universal' or 'generic' public policy at EU and national levels do not work efficiently in these countries. (This argument is presented in detail later in the Policy pointer chapter 2.)

[8] The most important functions of PARP are the following: Developing and running the National System of Services for Small and Medium Sized Enterprises (Krajowy System Usług dla MSP - KSU). This is a system of private entities that gets accreditation to assist small businesses and to participate in the EU financed projects – there are in Poland approx. 200 such entities accredited in the KSU. Within the register PARP runs also the register of entities that act to favour innovativeness in the „National Network of Innovation" (Krajowa Sieć Innowacji).
Financing and monitoring training and education for small businesses: within this area of activity PARP was financing training programmes and publications destined for family firms.
PARP is coordinating the preparation of governmental programmes such as, approved in 2014, the Programme for the Development of Entrepreneurship until 2020.
PARP is conducting and supporting research on the development and application of evaluation tools.
PARP is financing, conducting and publishing the research on the state of the SME sector in Poland (done yearly but covering two years – latest available for years 2013-14); (Surdej, 2015:2)

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2.3. Key findings: lessons from the INSIST project

2.3.1. Variety of patterns in the succession/business transfer: lessons from the company case studies and the literature review

The most natural mode of family firm succession is the intergenerational ownership transfer that ensures continuing family control. Statistical evidence, however, suggests that in most cases the succession process fails. There can be several reasons; a lot of personal, emotional and structural factors can act as an inhibitor to succession, from the unsuitability of successors through governance failures to the unfavourable financial and taxation environment. One of the most important preconditions for avoiding failures in the succession process is planning and creating a formal or informal strategy that can ensure early warning signs concerning problematic succession and thereby cope with them effectively (Miller et al., 2004). It is worth making a distinction between ownership, i.e. the capital and assets the family possesses in the company, and governance, i.e. the extent to which family members are represented in decision-making bodies and the involvement of family members in everyday management activities. There are family-controlled and family-influenced firms. Some families will take a role in the day-to-day running of the business whilst others will take a more hands-off approach and involve professional non-family managers. Thus, a distinction can be drawn between ownership transition (i.e. the next generation receives or buys equity in the business) and management transition (i.e. the next generation takes over running the business) (Devins, 2015).

In the UK succession planning and intergenerational transfer means an ongoing challenge for the economy and society. Survey evidence consistently suggests that many family firms are ill prepared for succession and transition *(Devins 2015: 11).*

In Poland Lewandowska (2014) examined the succession process from the perspective of potential successors. The following problems have been reported:

- ‘Unwillingness of incumbent founder/owner to talk about the succession prospects, which negatively impacts on the motivation of the potential successor;
- This leads to the feeling of being suspended, forced to wait too long for an imprecisely specified date;
- The lack of a formal succession plan;

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- The perception of a lack of trust in the successor's capabilities on the part of the owner/founder;
- The lack of freedom to independently act as the potential successor is overshadowed by the founder/owner;
- The lack of hope in eventually getting the power to manage the firm' (Surdej 2015: 23).

The Hungarian literature review suggests that the type of sector is a key issue with regard to succession motifs. In the chemical, construction and retail trade the dominant pattern is the sale of the company, while in the food industry the future vision is concerned with family-based ownership transfer. In the case of the service industry the sale to other owners or to management is the dominant option. Export-orientation is also an important aspect of the succession process, in cases where there is a preference for the share of exports to exceed 50% of total revenue sale to external parties (Bálint, 2006).

Box 1. The UK case study experiences

Podiums: The successors initially pursued their careers outside the family business but one of them decided to join the company and the other one supports the family business from the outside. The founder did not press their children to take over the business but ensured familiarity with the firm even in their childhood. Succession takes place gradually and financial advisors are involved.

Parodan: The three successors had the possibility to become familiar with the company but they were not forced either directly or indirectly to be involved. All of them gathered external work experiences and received an opportunity to join the company at a low position in order to learn and prove their ability.

Our case studies show different pictures with respect to succession planning. There were two basic modes of succession identified. The first way that can be labelled as typical is when the successor comes from the next generation. The other mode is when successor is not a family member. In the latter the founder preserves ownership control but retires from the daily management of the company, i.e. the firm is transformed from a family-controlled into a family-influenced one. In the first mode there are also different modes of ownership transfer.

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Three main patterns were identified that influence the succession strategies of the investigated companies. The first decisive factor is the characteristic of ownership transfer. It can accompany the management transfer and responsibility delegation as a gradual process. The other option is when founders do not share ownership until they have fully retired. It is a more controlled mode of succession.

Box 2. The Polish case study experiences

DOMEX: The founder plans to pass the operational management of the company to his successors, and remains involved only in strategic decisions. His elder daughter completed a variety of studies and worked for a time at the university, but opted to join the company. She runs the branch concerned with letting apartments. His younger daughter runs a restaurant located in the company building. She established the restaurant herself and works to develop it further.

Plantex: Succession is a consciously initiated process with a formal plan. The succession process is planned for about 5-7 years and now it's the second year of its implementation. The first two years have been devoted to: 1., reorganizing/clarifying the job descriptions of the successors and non-family employees; 2., introducing the successors to the decision making processes and strategic planning; 3., renting a new, better accounting office that would be more competent and helpful in the succession process; and 4., employing a Legal Advisor who specializes in company successions. He's already helped to draw up the succession plan and now assists in modifying it according to new developments.

Pillar: The founders are expected to ensure continuity and keep the firm in the hands of the family, but the children did not take for granted a career in the family business. It was a surprise to the parents and they then decided to plan the succession process. They convinced their children to take over the company and a gradual succession process started on a democratic basis ensuring equal rights for the participants. In order to avoid internal conflicts, competences and responsibilities of each successor are written down and continuously reconsidered.

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WAMECH: The owners of the company have three children. Since their teenage years, the parents have tried to talk to them about a possible future with the company and potential succession. The parents' priority has been to provide their children with an all-round education and give them the opportunity to see the world so that they will enter the labour market with knowledge, experience, an open mind and self-esteem. The eldest son decided to start his own business with friends from university. The owners' daughter chose medicine as her path in professional life. The youngest son decided to get involved in the family business. In consultation with his father, he prepared a plan for his succession in the company. The first step of the plan involved education. This involved gaining practical experience in working at other companies, mainly abroad, through internships and on-the-job training. He started systematically taking over responsibilities and ownership of the company. When he became a 51% shareholder of the company, he also became its managing director.

WITEK: The founder 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 her children became adults and were ready to start their own business activity, she divided the company between them. Each family member is independent and must take care of his or her own business. The founder still owns several properties, but has drawn up a will in which she has assigned properties to her successors.

The other aspect is the formal or informal character of the succession process. The scale varies between preliminary planned to fully spontaneous modes of managing succession.

The third aspect is at what level the successor is involved in the management transfer. It can take place gradually when successors have to start at a low position in the company and go through an internal career and learning process or the other way, when the successor immediately starts in a leading position.

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Box 3. The Hungarian case study experiences

Quality Meat: Succession is a consciously decided but never planned process. Delegation of management duties and involvement of successors took place gradually. Successors were not pressed to support the family business during their childhood and studies but family values have been strongly succession-oriented. The succession process is tightly controlled; the founder has not fully retired from decision making and kept 100% ownership.

BI-KA: The founder consciously decided to step back and transfer the company management to a non-family member. He kept the influence through ownership. Management transfer is a planned process with scheduled milestones and the involvement of external advisors.

Fein Winery: Ownership transfer is not intended yet; at the moment management of the business is shared. The successor is not directly forced but is socialised through family values to continue the business.

In this respect it is also interesting whether he or she collected work experience outside the family business that can serve as an external knowledge source and a basis for his/her legitimacy, as well. The various combinations of the different aspects may lead to heterogeneous outcomes in terms of the succession process but it seems that the autonomy of the successor is a key issue with regard to the characteristics of the process. It can be argued that the greater the autonomy is given to the successor (e.g. management transfer accompanied by gradual ownership transfer) the less tension and internal conflicts can be expected during the succession process.

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2.3.2. Double character of the succession/business transfer and the integration of non-family members – sustaining both 'family awareness' (identity) and economic viability of the FB

In case of the family businesses there are two overlapping sub-systems that should be balanced. Leading family businesses, FB owners and managers have to harmonize family goals, such as emotional stability, harmony, and reputation with business-related objectives, like survival, growth or profitability (Sharma et al., 2013). According to our findings, family businesses follow different strategies in seeking a balance between these dimensions.

The effectiveness of family firm management heavily depends on the extent family members are involved in ownership and management. The involvement of non-family members in the management of the company strongly influences the company's performance. In order to better understand the importance of the relations between family and non-family members, it is worth making a distinction between ownership and management transfer, as referred to earlier.

In our cases more combinations were identifiable with respect to family control and influence and involvement of both family members and non-family members in governance and management. Summarising our case study findings we may say that in almost all cases the ownership is fully controlled by the family while two different strategies are visible in sharing the management tasks. The followers of the **first strategy** keep the management within the family and share the task between family members. The typical way of management sharing is the involvement of the second generation accompanied by the gradual retirement of the founder(s). It often goes along with ownership sharing. Sharing ownership with the members of the next generation as (potential) successors is also a symbolic gesture that signals the transition from childhood to adulthood and can strengthen the children's commitment to the family business and, through this, more loyalty and responsibility taking can be expected.

The involvement of the successor(s) can take place gradually when successors have to start at a low position in the company and go through an internal career and learning process or the other way, when the successor immediately starts in a leading position. In

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this respect it is also interesting whether he or she collected work experience outside the family business that can serve as an external knowledge source and a basis for his/her legitimacy, as well. Knowledge development and transfer is a key issue in sharing management responsibilities. With regard to professional training and work experience there are two typical learning and career paths. In the first case successors start their professional education and/or working life outside the family business. It is sometimes spontaneous, sometimes encouraged by the founders' generation. When successors decide to join the family business such formal and informal methods, like learning on the job, mentoring and coaching by the founders, peers or other colleagues become the dominant mode of their personal development. Knowledge transfer in FB is often an altruistic process untinged by preliminary calculations. It is a necessary investment in the future accompanied by the risk that the second generation members can decide to not join the business despite all the efforts made by the founder(s). Knowledge transfer not only serves business goals, but it may also contribute to the emotional wealth of the family and to cementing the ties between family members.

In the **second strategy** FB owners aim in managing the business is to involve external (e.g. non-family-member) actors in management. The legitimacy of the non-family members depends on their professional experience and their motivation is a key factor in successful management sharing.

'Familiness' is a further key characteristic of family business. Familiness, i.e. applying family behavioural patterns in business life, can be a strength of family firms when compared to non-family enterprises. Such HRM practices can, however, lead to negative consequences as well. Employing family members can be an advantage because of the higher trust level and management's range of possibilities for exercising control over family member employees (especially in the case of close relatives), but it may effect nepotism and create a "glass ceiling", limiting the opportunities of promotion for non-family members (Surdej, 2015).

In our case studies we could identify some 'family-like' patterns in the family businesses' HRM practices, such as personal relations with employees, empathy and patience towards their problems (e.g. in case of sickness or poor timekeeping), mutual commitment,

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emotional involvement, etc. Family patterns, however, are not automatically applied in relationships within family businesses. In cases when the FB founders were committed to applying family-like HRM practices, they mostly started working with people in a very similar social situation as they were in when starting the business. Similar life situations resulted in intense social interactions, common interests beyond the workplace and created the basis for community building. During the interviews these FB leaders expressed their social responsibility towards their employees and their families: they saw themselves rather as a community than just pure company leaders.

2.3.3. Need to develop professionalism and formalise the governance structure

According to the experiences gained from the case studies the balance between the owner and managerial roles is in most cases far from being problem-free. One of the main motivations of the FB founders is to ensure a secure income for the family, and the family business serves as a basis for that. This perspective sometimes may lead to conflict with a managerial approach that favours risk taking and growth even at the expense of short-term security. This problem can only be solved with the mutual commitment of owners and managers and requires intensive communication and the ability to take on others' perspectives. In order to resolve the contradiction between family-related objectives and business-orientation there is a need for a professionalization of FBs' governance structure and leadership. It implies the application of those managerial and work organisation practices that support efficient use of resources, effective division of labour and largely contribute to business growth. It requires investments in the development of leadership competences, with special attention to planning, organising, implementing, monitoring and refining tasks and strategies, as well. According to our findings the ability of task delegation and being familiar with various forms of non-direct control are of particular importance in effective FB management.

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Annex 1. The structure of the Global Entrepreneurship Index

Index	Sub-Index	Pillars	Variables
GLOBAL ENTREPRENEURSHIP INDEX	Entrepreneurial Aspirations Sub-Index	Risk Capital	*Informal Investment* DCM
		Internationalization	*Export* Globalization
		High Growth	*Gazelle* Business Strategy
		Process Innovation	*New Tech* GERD
		Product Innovation	*New Product* Technology Transfer
	Entrepreneurial Abilities Sub-Index	Competition	*Competitors* Market Dominance
		Human Capital	*Educational Level* Staff Training
		Technology Absorption	*Technology Level* Tech Absorption
		Opportunity Startup	*Opportunity* Economic Freedom
	Entrepreneurial Attitudes Sub-Index	Cultural Support	*Career Status* Corruption
		Networking	*Know* Internet Usage
		Risk Perception	*Risk Acceptance* Business Risk
		Start-up Skills	*Skill Perception* Tertiary Education
		Opportunity Perception	*Opportunity* Market Agglomeration

(Szerb-Ács-Autio, 2014: 5)

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Annex 2. Main characteristics of the company cases investigated

	Country	Year of establishment	No. of employees	Sector/Activity	Markets	Succession
Parodan	UK	1984	27	Engineering (design and manufacturing)	National	*
Podiums	UK	1977	30	Fabrigating	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 vinery	Hungary	1991	4	Food (wine producing)	Domestic/International	*
BI-KA	Hungary	1990	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*

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Annex 3. Short summaries of some selected INSIST company case studies

UK INSIST Case Study: Podiums Ltd.

Prepared by David Devins and Andrew Marran

This case is based on a second generation family business operating in the fabricating sector of the UK economy. The name of the company and the names of contributors to the case study were changed at their request. The case demonstrates a number of key learning points:

- A critical incident which acted as a catalyst for the owner to consider a change in the strategic direction of the firm and to consider succession issues
- Succession at the firm has involved two different plans to ensure a strong financial future (i) for the business and (ii) for the family, with both related to business assets and ownership
- Non-family members and independent advisors (e.g. accountants and solicitors) form an important 'bridge' when one generation steps back until the next generation are ready to assume management responsibilities in the business
- The planned succession that is taking place is gradual, ongoing and not part of a time-bound plan.

Background

Paul Morton started out as a scaffolder working in the construction industry learning his trade over a number of years working on projects, making connections and establishing a reputation for high-quality work. In 1977 he saw an opportunity to collaborate with a business partner to establish a private partnership and then as the business developed a Private Limited Company. Podiums Ltd. were established to hire out, and later sell, scaffolding equipment. During almost 40 years of operation the company has been through a number of phases of growth and consolidation. The business has changed from sales/service distribution of products to bespoke fabrication of specialist products. At its peak in 2005, the business employed 60 people with a turnover of approximately £8m per annum and had five depots covering the North, South, East and West of the UK. In 2015, the company is much smaller, but more profitable with a turnover of £4m p.a. It currently employs a core workforce of 30 people supplemented by a peripheral workforce of subcontractors as and when demand dictates. Podiums Ltd. is one of a small number of successful specialist fabricators serving a specific niche market which bucks the general trend of decline of manufacturing in the UK. The UK is the main market for its products and services, although it sources materials from elsewhere and reaches the European market through a prestigious client list including Rolls Royce, Bombardier, The Orient Express, CHC Helicopter, BAE Systems, LS Live and the PGA European Tour. Podiums Ltd. has developed high-quality assurance systems to enable it to serve markets and supply chains that demand the very highest operational standards.

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Business- and Family-Related Goals and Performances

In some respects Podiums Ltd. was not started as a family business, and has always employed 'outsiders' in key management positions. Paul's initial business partner shared management responsibilities, and they turned to the external labour market to fill other management positions as demand increased and the company expanded. Paul's sons became associated with the business in a professional management capacity more than 20 years after the business had been founded.

Business- and family-related goals and performance clearly overlap and interconnect to varying degrees and at varying times at Podiums Ltd. Paul has two sons, both of whom studied at university and initially pursued their careers outside the family business. Joe has become a freelance graphic designer and currently works in London. He provides professional services to Podiums Ltd including the design of the company website. Tim is directly involved in the strategic and day-to-day management of the company. He has taken an interest in the business from an early age. Throughout his childhood Tim spent school holidays and weekends in the business helping out and getting to know it. He went to university and studied Product Design, with a year-long placement back in the family firm. After university Tim spent some time in Australia and when he returned to England he worked in sales for a year for a company in the East Midlands. When a vacancy for a driver came up at Podiums Ltd. he decided to work in the family business. He has worked there ever since, taking on a variety of roles, learning through experience and progressing in the company.

Paul has always intended to pass on his wealth to his two sons irrespective of their role and activity within the business. Having experienced the uncertainties associated with financing of business in the early years, including personal guarantees and a mortgage on the family home, Paul was keen to place the business and the family on a firm financial footing and he is far more risk-averse now than in the past. The company now has a strong balance sheet and can provide assets where required to support the organic growth planned for the business.

Succession process

A critical incident played a key role in the development of the succession process at Podiums Ltd. In 2005, Paul's son Tim had recently started work in the business in the fabrication of platforms at about the time that Paul made the decision to take some from the business to look after his wife, who had been diagnosed with cancer. Paul left the main management and control responsibilities with his business partner, as his son was relatively inexperienced at the time. On his return to the business, Paul uncovered a major fraud and Paul felt he had no alternative but to take sole control of the business. It was at this stage that his son Tim began to take on a bigger role, with much more management responsibility for the production side of the business.

It was at this time that Paul developed a new strategic plan for the business. The external market was changing, with fewer opportunities for distributors of access platforms and specifiers of work. This was being driven by technological changes and the wide availability of online information for clients to use. Paul began to change the focus of the business from sales of other companies' products to the development of bespoke design, manufacture and installation of specialist access platform solutions. With his son taking an active role in managing the operational part of this, the business moved away from sales and service and the business became more knowledge-intensive with a design office being established and the development of systems for producing complex bespoke solutions. The result of the change in strategic direction has been a significant improvement in the productivity and profitability of the business.

Around this time Paul recognized the value of the skills and experience of key members of staff employed in the company. A plan to enable Tim to succeed Paul as owner and MD of the business was developed and remains in place today. A key element of this plan was to strengthen the ties with existing managers working in the business, and Paul worked closely with the company's accountants and solicitors to develop and consider several options. For a variety of reasons (not least achieving effective tax efficiency for the owner, employees and the company) an Employee Benefit Trust was established to transfer 10% of the business to eight key employees. When the company makes a profit, the managers share in the profit equally under this scheme. The Employee Benefit Trust acts as an incentive for managers to help make the business more successful and encourages retention, whilst maintaining the principle of family ownership. In addition Paul has recently transferred 15% of the shares to each of his two sons.

The new arrangements have provided space for Paul to step back from the day-to-day strategic management of the business. Paul sees that through this mechanism he is planning for the wider conditions that will support his son in taking over the business, which is now almost complete. Paul reports that he has 'no plans to retire just yet… I enjoy it too much and have too much fun'. Tim clearly values his father's leadership and support, highlighting the mentoring role that Paul has played as he learns about the business.

UK INSIST Case Study: Parodan Engineering

Prepared by Penny Wymer

This case is based on a second generation family business operating in the engineering sector of the UK economy. The name of the company and the names of contributors to the case study were changed at their request. The case demonstrates a number of key learning points:

- Founding and running a family businesses can provide a successful employment alternative for people at risk of precarious employment in the labour market
- Management succession is often an implicit, negotiated and contested process over a considerable period of time
- The next generation can come in with new ideas that radically change the business goals of the organisation and the way in which these are achieved may change the nature of 'familiness'
- Ownership issues can remain uncertain long after management succession issues are resolved
- A firm financial foundation and external networks are identified as a critical success factors

Background

Harry Wood, the owner and founder of Parodan Engineering Ltd, started his career as a maintenance fitter. After his apprenticeship he spent several years working for various manufacturing and engineering companies but, having fallen foul of redundancy on a number of occasions, he decided to set up his own business to try to establish a secure income for his family. He has owned a number of businesses and in 1984 he set up HLW Engineering with a partner. The partnership however was not successful, and in 1989 Harry left to set up Parodan.

Starting out on a very small scale with borrowed equipment, Harry began to build up a small but regular order book for their bespoke machinery for production lines. The customer base grew and with the help of his wife Elizabeth, part time staff and sub-contractors they were able to supply clients with high quality machinery on time and to budget. As the business grew it allowed them to purchase their own machinery, employ more staff and move to larger premises. By 1999, the company was employing 13 staff, had a full order book and again required more space. At this time the founders looked for external funds to finance the growth of the family business. As their bank was unable to offer them the full mortgage value of the property they wished to purchase, they approached the Regional Development Agency (Yorkshire Forward) for the remaining funds to support this expansion of the business. However, in order for them to secure this funding, they needed to become a limited company, so on 27th May 1999 the company became incorporated, with Harry and his wife each holding a 50% directorship.

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Since its incorporation the company has had its ups and downs, most notably through the recent economic downturn in the late 2000s. However the company survived intact and in 2012 the founders decided to retire from the business and to hand control over to the next generation. In the last three years annual turnover has doubled to £4.6 million. In addition, the workforce has grown from 11 to 27 and has adopted a more formal and professional organisational structure.

Business- and Family-Related Goals and Performances

Parodan Engineering was started by Harry primarily to provide security and a future for the Family. It was seen as an opportunity to develop a more reliable source of income for the household given the uncertainties of working in a trade where employment was often precarious. The business has met its business and family related goals although there have been conflicts and tensions at various times along the way. For example, during periods of recession the family have all put personal resources into the business to keep it going and to avoid reducing staff numbers. Harry has used the family home and pensions as collateral at various times to ensure that the business traded through challenging times. These experiences have helped to shape the values and priorities of the next generation and Harry's son Paul, the current Managing Director has resolved to put the business on a firmer 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.

Parodan engineering was an integral part of the Wood sons childhood years and the children often spent their school holidays working in the business. The Parodan workforce has been influenced by family ties in the past with many of the workers employed by the business being friends and both direct and extended family members. Whilst this sometimes led to a mismatch between the skills required and the skills available in the business, it did create a very loyal workforce with low staff turnover and strong morale. As the business transition to the 2nd generation has taken place, company employment policy has changed to attract more workers from the wider labour market.

Succession process

One of the primary goals of the founder of the business was to ensure that it survived and provided employment opportunities for family members. All the sons started at entry-level shop floor jobs and two of the brothers have worked their way up to director level over a number of years. Like their father, both sons have an engineering background, with Rob starting in general fabrication and working his way up to the current Production Director position. Paul started as a machinist, moved sideways into electrical design and then sales and general management before going on to become General Manager, then Sales Manager, then Operations Manager and finally Managing Director in 2014. Both sons gained hands on experience from working across the business and benefitted from coaching and mentoring by both their father and other key workers in the business. Whilst they were always recognised as the owner's sons, they do not feel as if they were automatically accorded additional status (although there were times when family members were allowed some preferential treatment).

Danny, the youngest son has had two distinct spells of employment at the family firm, both for relatively short periods of time and he has decided to develop his career elsewhere. Paul (the middle son) saw himself as his father's natural successor and was keen to assume more responsibility and control in the business and this led to a degree of complexity in the interplay between business and family interests and the interpersonal relationships both between the brothers and with their father. There were disagreements between father and son about the direction and pace of the strategic development of the business and the type and level of investments the company should make and between siblings in relation to roles and rewards.

In 2012 when Harry and his wife retired, their middle son Paul became the Managing Director with their elder son Rob becoming the Production Director (although they did not actually use these titles until 2014 when roles within the business became more formalised). Paul has a very clear vision for the company based on increasing capacity and profitability to achieve dramatic increases in turnover. He has made external appointments to the Board and is keen to add an operations director in the near future. Whilst Rob has a position on the Board and can vote on these issues, it is ultimately Paul that is guiding the strategic direction of the company. Whilst the additions to the management team represent considerable change, Parodan remains at heart a family business with the two brothers working together for its future success.

Whilst no longer involved with managing the company, Harry and his wife are still the majority shareholders. They are gradually transferring the ownership of the business to each son until a time when each son will hold 40% with the parents retaining a 20% share (10% each). Paul and Rob have also made ownership transfer arrangements and have put in place a shareholder protection plan which transfers shares to one another in the event of one of their deaths and which prevents the shares transferring to their immediate family or other beneficiaries.

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Poland INSIST Case Study: PLANTEX*

Prepared by Romana Paszkowska

**The name of the company and names of the protagonists have been changed at their request.*

Plantex Horticulture Farm has been on the market since 1981, and since its beginning it has been dealing with innovative plant propagation. Advanced technology combined with good horticulture practice allow the company to offer the highest quality product – young, vegetatively propagated, healthy plants for further cultivation in nurseries and on plantations. At present the farm employs 81 people on regular, full-time basis, sells around 4 mln cultivars per year and owns 1,5 ha in City outskirts and 3,5 ha in Village.

The small family business was set up as a “sole-trader” in the times of command economy in Poland, when it was very difficult for a private enterprise to survive on the fully regulated market of mainly state-owned companies. In the 1990's the company started developing fast, however the owner was more interested in new planting methods, constructing production facilities and opening new business opportunities than in formal development of the company administration.

The three daughters of Antoni and Marta (the owners) – Sylwia (b. 1979), Joanna (b.1983) and Magda (b. 1985), had no pressure when they were choosing their education or life paths but the family firm was always present in their conversations and holiday or other plans and the girls, when they grew up, sometimes helped their parents run the company when there was such need and emergency.

In the years 2005-08 the oldest daughter, Sylwia and her husband Alex worked for the family firm, but in 2008 they decided to set their own company, complementary to their parents’. When Sylwia and Alex quit the company their jobs were taken by the youngest daughter, Magda, and her husband Karol. After three years the same pattern repeated: in 2011, after having grasped the principles of running planting business, they left the family company and set their own, also based on Plantex planting material, but they specialize in other plants than Sylwia and Alex. Both ‘parting operations’ were friendly, with a lot of advice from both parents and both “daughter companies” are advertised on Plantex website.

In 2011 the middle daughter Joanna and her husband Jan returned from their 2-year stay in the UK and joined the family company, by taking over the duties and position of Magda and Karol.

At the time when Antoni and Marta started thinking about slowing down their professional activities – so Joanna and Jan became natural successors, also due to their education profiles and international experience. The succession process is being supported by the whole family.

The succession process is planned for about 5-7 years and now it’s the second year of its implementation. The first two years have been devoted to

1. reorganizing/clarifying job descriptions of the successors and non-family employees;

2. introducing Joanna and Jan into the decision making processes and strategic planning;
3. hiring a new, better accounting office that would be more competent and helpful in the succession process;
4. employing a Legal Advisor who specializes in company successions. He’s already helped to draw the succession plan and now assists in modifying it according to new developments.

In the next couple of years several changes will take place:

1. The successors decided with the Father's agreement to take a bank loan and buy some land in the neighbourhood of the already existing plant in Village. Such consolidation of business would help them combine family life with business duties more effectively.
2. The family company has already started formal transformation from “sole trader” business form into a partnership under the supervision of the Legal Advisor.
3. The ultimate ownership structure of the transferred business has not been definitely decided yet, but it would probably be around 50/50 shared between the family of parents and children.

If in a few years’ time, Plantex becomes a company managed by the Successors it will be due to:

- The charismatic personality of the Founder, his knowledge, innovative and visionary attitude to his profession, determination and extremely hard work over many years as well as his perseverance towards perfection and wise, responsible risk taking
- The Founder’s leadership skills.
- The values which the Founder and his wife managed to pass on to their daughters; among others –responsibility for their own fate, high level of trust, loyalty to their family and ability to give and take
- Equal treatment of children in the family – when all the kids in a family feel they are loved and no one is treated in a privileged manner, children are more prone to be cooperative when adults
- Ability to keep balance between business and family life
- Ability to accept decisions of adult kids and support them, whatever they decide to do in their lives; without judging or criticising their steps, as long as they are ethical
- Transfer of knowledge as the basic issue of the succession process at Plantex – willingness to share the know-how without calculations or conditions
- Employing a Legal Advisor

Setting no rigid deadlines for succession, which means the main “actors” understand that this is a process with its own dynamics that should not be artificially pushed forward.

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Poland INSIST Case Study: Pillar

Prepared by Ireneusz Górowski

Business Context and Background

The case is based on the history of a family business operating in the Polish building construction market. The Pillar company was established in 1983 in Krakow, Poland, as a small business offering renovation and construction services. Martin and Helena – a married couple - founded the business at the age of 35. Current business model focuses on selecting and buying land, then building a single building or complex of blocks. The company outsources construction operations, so its business activities mainly cover planning, supervising end marketing/selling new projects. The group runs simultaneously 3-4 development projects at various levels of progress. They usually consist of 40-60 apartments or commercial premises within one project. At present the company employs 70 people.

The Founders Martin and Helena (who withdrew from active involvement in the family business), have got two sons: Piotr (42) and Paweł (37). After completing his degree, the older son started working for a big international company when he was still a student and then continued working for them at the headquarters in Warsaw. Then he joined Pillar company. Immediately after completing his studies, the younger son was employed at Pillar as an ordinary junior employee responsible for carrying out one of the investment projects.

Succession process and experiences

Martin and Helena first realized they should start considering and planning the succession when their older son started working for an international corporation while still being a student. They were surprised he didn't take for granted a career in the family business.

Succession in the Pillar company has been planned without any external consultants. The final form was designed on the basis of life and professional experiences of the Founder. Both sons were first employed in the holding company Pillar 2, starting from lower positions in the sectors of investment management, sales and finance. After a few years they substituted the operational directors and took over their responsibilities. The responsibilities and authority of both new directors were formulated in a written document. The position of the parent company's President does not bring any effective decision power, since all decisions transcending the usual management are to be taken jointly by father and both sons. As far as the sons' and father's remuneration packages are concerned, an analysis of all three family's needs was made, i.e. the families of the successors who in the meantime started their own families, and of the parents.

Currently 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 monthly salary equal to the salary of each of his sons. All additional income is re-invested in the activities of the capital group. Nestor is still involved in the operations of the group mainly through participation in the weekly meetings with sons and offering advice regarding the running of business on daily basis.

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The process of passing the ownership to sons took about 10 years since the day they started to be employed in the company. The owner believes that from 2013 the company has been able to function without his supervision. In the near future Martin Pillar plans to withdraw from active participation in the group operations. Since his older son reached the age of 40, Mr Pillar wanted to avoid his own mistake and has already started discussing with his sons the plans of the following generation succession.

Conclusion and lessons learned

- The critical issue in succession process is to enable successors at an early age to have contact with the company's operations.
- Delaying discussing the topic of succession with family can lead to successors developing their own careers and arranging their life independent of the family.
- Choosing the adequate legal form of the business entity may hinder or facilitate the process of transferring management and ownership.
- The writing down of the rules of joint management and their subsequent improvement helps to avoid conflicts.
- Addressing the key financial issues at the early start of succession can significantly contribute to the success of the process.
- Pillar succession proceeded without major problems. They developed a unified management model, where each of the sons is responsible for his departments, and father acts as an arbitrator and advisor, especially during frequent meetings and deliberations.
- Nowadays performance of the company is based on an informal agreement between father and sons and their close emotional relationship. The status of two successors is equal. It seems that this equilibrium is relatively fragile and this model solution cannot be directly transferred to the next generation.

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Poland INSIST Case Study: DOMEX S.A.

Prepared by Anna Konopacka

The case study describes the history of a family company operating in the real estate sector. The company rents apartments, office and commercial space and operates as a developer.

The company was founded by Tomasz's grandfather who at the age of ten had to leave his family home and walk from Wadowice to Krakow. He found a job at a glazier's workshop, living in attics and empty buildings. Working with glass damaged his hands. He became seriously ill as a result of hand injuries, malnutrition and poor living conditions. Some kind-hearted people working in the hospital run by the Brothers Hospitallers of St. John of God helped him to regain his health. Tomasz's grandfather did not forget the help he received and later on in life, when he could afford it, he donated a considerable sum of money for the renovation and extension of the hospital.

He managed to get a job as a shop assistant and became eventually the company's representative. This meant traveling abroad which gave him the opportunity to gain experience and learn. He also bought tobacco which he subsequently sold in Poland.

He got married. His wife came from a noble family who had lost their fortune and position as a result of their support for the January Uprising (1863 - 1864).

Tomasz's grandparents had a dozen or so children, but only two of them survived: a daughter and a son.

After getting married, the grandfather developed further his career as a salesman and became a respected employee. Highly successful, he was promoted very fast. By the end of the 19th century, the money he had earned allowed him to buy his first machine for producing cigarette tubes. As time went on, he bought more machines and opened a small factory at 21 Krupnicza Street in Krakow.

He was an innovative and entrepreneurial person with a curiosity about the world. For example, he was the first civilian passenger on the flight from Krakow to Vienna. But he never forgot about his humble beginnings and the poverty he experienced at first hand. That is why he was always kind to other people and helped the poor.

At the beginning of the 20th century, he established a partnership with others in his business sector. Over time, the partnership evolved into a joint stock company. Grandfather and his partners transformed a small factory into a large scale industrial venture.

After the grandfather's death, properties and assets were divided between his two children. His son continued to develop business operations. He bought a paper manufacturing factory and moved to Warsaw. His factory soon became the largest facility of its type in Europe. He was also a Belgian consul in Poland and worked with Henry Spaak, who later became the Prime Minister of Belgium. To facilitate the succession process, he prepared a will, which smoothed the passing of his properties and assets to his successors, avoiding turmoil in the family. He decided to pass most of his shares on to his son, whereas his daughter received cash, movables and some shares.

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The grandfather's daughter was a sensitive person, but he nevertheless decided to leave her the factory. She perform very well and became the first female director of a factory in Central Europe. She was keen to introduce innovation into her business and was ahead of her time. She was the first to use billboards to market products. During the Nazi occupation she got involved in the anti-Nazi movement and with Bishop Adam Sapieha. She bribed women at the post office so they would give denunciation letters to her and not to the Gestapo. She also worked with those trying to track down those denunciating others.

During the Nazi occupation Germans took over her factories and she was arrested several times by the Gestapo.

When the war ended in 1945, the factory reopened. She set about rebuilding her business, buying new machines. But in 1948, the factory was nationalized and taken over by the state. She was left with two buildings, which she managed until 1987.

She had only one successor – a son, who in 1989, took over her buildings and started managing them. Gradually new shops, office and service facilities opened in the buildings until they were transformed into office centres.

Tomasz had bought his mother's shares in the company before her death and this way he was able to take control of the company. At first his mother supported him in company operations – advising on important issues and what to consider in developing business operations. She always emphasized to her son, the ethos of entrepreneurship and stressed importance of fair remuneration for employees, as well as empathy and compassion for other people. These lessons proved much more valuable than university studies and degrees. As principles, they remain a core part of the company's business activity.

The company is a joint stock company, with 8 shareholders – including 4 members of the family (president, his wife and two daughters). The remaining shareholders do not belong to the family.

The company enjoys a very good market position. It rents facilities which are user friendly and offer good working conditions for employees of businesses renting office space. The office centre includes on-site facilities, such as a swimming pool, fitness room, hairdresser, post office and a restaurant, which are available to employees working in the building. The company strives to continuously raise the standard of its buildings. All disruptions or problems are dealt with immediately as the company has its own maintenance team and guarantees high quality of property management.

The company is a joint stock company which influences the way it operates. The management board of the company consists of the family doyen, his wife and two daughters and a person from outside the family. The board meets every month to deal with ongoing business issues.

The wife and daughters of the doyen are company shareholders, but he remains also a shareholder. His aim is to introduce his family members to running the business so that when he decides to leave the company or in case of his death, they will know how the company works and what projects and issues are of key importance to company success.

Aside from her involvement in the company, the doyen's wife has her own business venture – a small bookshop.

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His older daughter completed a variety of studies and worked for a time at the university, but opted to join the company. She runs the branch concerned with letting apartments.

His younger daughter runs a restaurant located in the company building. She established the restaurant herself and works to develop it further.

The doyen plans to pass the operational management of the company to his successors, and remain involved only in strategic decisions. He believes that if his children have interesting, though maybe risky ideas, he should trust in them and support their actions.

Passing the company on to the successor must be a smooth and efficient process. Involving successors in deciding upon ongoing business operations will help ensure their continuity and development.

The doyen has taught his daughters the principles and values passed onto him by his mother, as he believes that they have been the key to his success. His goal is to instil the 'entrepreneurial gene' in his children, which will smooth the succession process and assure efficient company operations after he leaves.

The doyen is the principal manager in the company. He calls his management style 'enlightened paternalism' – everyone has freedom in his or her field of action and decision making. However, decisions which need to be taken collectively must have his final say. There are no concessions when it comes to such values as reliability, honesty or justice. The company's success and its market position demonstrate that such management policy is effective and worth pursuing.

The doyen can see no legal barriers related to enabling his successors to take over the joint stock company. In contrast, a one-man business has the prospect of breaking down in case of the death of the owner, as no continuity in management can be assured. In such a situation, no one is empowered to make decisions, pay off bank credits, etc. which may lead to the collapse of the company. Some changes to the Polish legal system are necessary to deal with such situations, e. g. one year long transition period for the family to take over the company left by the deceased. Working capital loans should also be made available to companies in difficult transition periods to enable them to continue operating.

The company is managed by a management board which includes all members of the family. Key management is with the president of the company – the doyen. The family is present in the company, but its members are treated the same way as all other employees (they earn the same as others would earn in the same job and do not have any special privileges).

The doyen tries to involve his daughters in business activities in order to pass on his knowledge to them and strives to develop their business skills and competences. This will ensure a smooth transition of company operations, once the succession process is initiated.

Conclusions

It is important to prepare for succession, especially in case of larger companies. Legal and financial preparations are of key importance. It is worth checking well in advance the legal

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options available related to business reorganization and division so that the process of succession generate as little risk as possible to business operations.

Parents should try to instill in their successors the ‘entrepreneurial gene’. In bringing up children, the parents should talk a lot about entrepreneurship and teach them about running business operations.

It is important for the children to gain experience on the labour market before they join the family company. This will enable them to treat their future employees’ needs with more empathy and understanding and will make them feel more responsible for company operations.

It may be risky to employ a stranger to run the company, as such a person does not identify with the company and lacks the same motivation to sustain the company. What is more, employing a manager from outsider the family may result in the company losing its independence.

A family firm is a business venture for many generations and not just for one person or a single generation. With such awareness in mind, it is easier to think not just in terms of one’s own interests, but in terms of investing to sustain the company over the long run.

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Poland INSIST Case Study: WAMECH Company:

Prepared by Anna Konopacka

This case study tells the story of a family company operating in the engineering and metalworking sector. The company manufactures machines which improve the economics of production processes in accordance with lean manufacturing principles. The main focus of operations is on the design and production of road transport vehicles and industrial trucks used for materials handling.

The founder of the company Piotr Wąsik is a very pragmatic and business-oriented person with an ability to anticipate the future. Planning for the future coupled with a desire to be independent proved to be the powerful driving force that led him to realise his dream of running his own business. The company is successful from a business point of view and enjoys a strong position in the engineering and metalworking sector.

The WAMECH company was founded in 1989. Operations were initiated in the owner's house taking up the basement, ground floor and garage. The living-room served as the company's office. But the specific character of the metalworking production soon forced Piotr to look for a new location for his production as the noise and dust became a real burden for Piotr's neighbours. In 1995 he moved the company to a new location, where the company operates still today following several expansions. In 2013, serial production was moved to a facility in Skawina, leaving prototype development and manufacture and company offices in the former location.

From the very start, the company has operated as a family firm. Piotr's father-in-law is the engineer Józef Kielar, who helped construct the first prototypes. At the beginning, the business was based on Piotr's own work and that of family members. It took quite a while to establish a design team. Piotr's wife, also an engineer, joined the company to look after the company's finances and to support her husband.

Piotr and his wife have three children and have always dreamt that one day their children would take over the company. The owner started preparations for the succession process some time ago, but the process had to be speeded up due to his illness. In 2010, his son, Wojciech, became the managing director just as the company celebrated 20 years of operation.

The company has completed the process of succession. The founding owners still hold some shares, but their son is now the majority shareholder. Their other children do not work in the company.

The company is a leader in implementing innovative solutions in the production of road trains for short-range and on-site transport. Services offered by the company are unique in the global market. Competitors are western companies, especially German. There are other businesses with a much bigger potential in Europe, but the WAMECH company puts emphasis on cooperation and not on competition, and so tries to work out ways of cooperating with companies with a similar business profile.

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The succession is a completed process in the company. The owners were preparing their successors for taking over a company for years which helped in a very smooth company's takeover.

The owner has not identified any legal barriers in the process of succession, but considers that changing the organisational form of business must be undertaken with a view to assuring financial security of the company and the interests of his family.

The son used the BSC methodology to prepare the business development strategy, which seeks to take into account the interests of all stakeholders in the change process. The strategy was developed with participation of the company's employees and enabled production processes to move from low profit products towards lean production innovative solutions.

This approach made the employees see new potential of the company and new opportunities for their professional development. It is also helped motivate them to stay with their employer.

It is important to plan the succession process well in advance. This gives the opportunity to prepare the successor in an appropriate way, equipping him or her with the right education and necessary skills and competences. For the doyen, who worked hard on developing the company, it is natural to prepare for transferring the company to the next generation.

In the case of the WAMECH Company the succession plan and its successive stages were clear to family members and employees. The founder of the WAMECH company took the view that the successor should not wait too long to take over running the company. The doyen was nevertheless committed to staying on with the company as a mentor for his successor, who can provide support and advice as needed.

Those transferring running a company to the next generation need to appreciate the potential of youth and the new ideas that come from the next generation. On the other hand, the successor should make the most of the doyen's experience. Such a solution enables the doyen to feel needed and useful, and not to leave the company from one day to the next. In turn, the successor can test his skills, competences and potential under supervision of the experienced doyen, who can help in avoiding fundamental mistakes.

The ability to listen to the needs of the next generation brought very good results. The company has expanded and continues to be state-of-the-art, having got involved in the development of innovative solutions for its industry. All this has strengthened the company's market position.

Early succession is an evolution and not a revolution. Parties engaged in the succession process have enough time to adapt to the needs of the company. The process in gentle and there is no shock to employees, the budget or to the company as a whole. Late succession, on the other hand, can lead to an unwanted revolution.

The owners of the company still get involved in activities related to the development and promotion of the idea of family firms. They access experience of other people running similar companies and gladly share their own experience with others.

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Early succession is the direction family companies should follow. A well-planned succession can be a gentle process, smooth for all stakeholders. It gives the doyen a chance to transfer his experience to the successor, which protects the company from unnecessary risks or shocks.

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Poland INSIST Case Study: The WITEK CENTRE

Prepared by: Anna Konopacka

The case study describes the history of a family company operating in the commercial sector. The company sells furniture and household accessories.

Entrepreneurship has always been a part of the family's way of life. The owner's parents moved to Krakow in 1953 and started farming and production activity in the vicinity of the city. They believed that everyone should make his or her own living and taught their children a work ethos from their earliest years, involving them in the family business.

As the doyen of the family, Karolina adopted the model used by her parents to bring up her own children.

Karolina's parents passed on their estate and company to their daughter and son. Karolina and her husband received a building in which they started their own business, independently of her parents who continued with their own business activities. Their first business activity involved running a poultry farm but over time the market situation changed and the business became unprofitable.

During Poland's economic transformation, which began in 1990, Karolina and her husband started a trading business. They started with a small shop (20 m^2) in the centre of Krakow, in which they sold china and glass crockery. As time went on, they managed to restitute another part of Karolina's parents property, which enabled them to extend their business activity. Growing demand for what they were selling, encouraged them to rent more and more retail space and their company continued to grow.

The last stage of business development involved building a modern retail centre in the vicinity of Krakow, which continues to be expanded and developed. The company's development has not stopped – business activity continues to grow and new investments are being planned, including the building more storage space etc.

Company assets were divided between Karolina and her children at an early stage. Today, each of them runs his or her own business independently, using different legal entities.

The family doyen is self-employed, as is her daughter. Her son runs his business through commercial law companies that he has established.

areas of business activity overlap to some extent, but as a rule, they focus on different sectors and do not compete with each other.

The company is active in the retail sector, selling furniture. The business enjoys a good reputation in the marketplace even though it does not operate a nationwide retail chain. Retail chain shops, such as 'Agata' or 'BRW' offer cheaper, economy products, whereas the companies operated by Karolina and her children sell high quality, unique products, which is unusual in the marketplace, emphasizing high quality service in order to attract premium customers.

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. That is why, when her children became adults and were ready to start their own business activity, she divided the company

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between them, providing them with assets to enable them to develop their own businesses. In the beginning, her daughter took over the toys and stationery branch, whereas her son took over china and glass crockery and accessories, leaving her to trade in household goods. In 1996 they started selling furniture. At this point, Karolina's daughter rented some commercial space from her and started selling carpets. The children continued to rent commercial space from their mother, paying for it from the income earned in their business activities. Thanks to this arrangement and the income generated from her own business activity, Karolina was able to pay off the bank loans she had taken to build the retail centre.

From the very beginning, it was assumed that the children would actively participate in their parents' business activity, but that they would strive to build their own independence.

As the business developed over time, Karolina turned over part of her estate to the children, who at this time had grown their own businesses. Her son is still engaged in the interior accessory branch, and trades in lighting and crockery, whereas her daughter became involved in the hotel sector and successfully runs a conference venue, hotel, while continuing to sell carpets, wallpapers, curtains, curtain rails etc.

Each family member is independent and must take care of his or her own business. Karolina still owns several properties, but has drawn up a will, in which she has assigned properties to her successors.

Karolina continues to be actively involved in her business operations. For the moment her legal successors do not intend to take over her part of the company (furniture).

In her view, the succession process does not pose any financial or legal risks to the company as she has already divided the company between her successors, enabling them to build their own independence and gather appropriate experience related to running business operations.

Each member of the family has developed his or her own style of business management. Karolina's son has travelled a lot and had periods working abroad. This gave him the opportunity to learn new management methods, which he now uses successfully in running his business.

Karolina's daughter runs business operations in accordance with values conveyed to her by her mother, which include taking good care of her employees, maintaining good quality of services offered and building a brand based on customer care, honesty and reliability in running the business.

Over the next four years, business operations currently run by Karolina will be taken over by her children. In case this does not happen, all issues related to inheriting Karolina's properties and companies have been specified in her last will, which will regulates how assets are to be passed on to her successors.

Just as with her parents, Karolina has always assumed that he children would engaged in the business of their parents. In this spirit, she managed to instill entrepreneurship in her children and involve them in developing her company by encouraging them to undertake their own business activities. Passing on to the children parts of the company early on, resulted in her successors benefiting from the experience of the doyen related to running business prudently, gradually becoming self-reliant. The present financial condition and market position of the businesses run by family members demonstrate that the family has succeeded and the operational model it has adopted has proven to be both practical and efficient.

Karolina is ready to support her successors with her knowledge, experience and advice, while at the same time she has transferred to them parts of her business.

She is involved in various community and charity activities as well as associations of family companies which provide opportunities for exchanging experience related to operating a family business. She also likes to share her knowledge related to running the company with younger generations.

Conclusions

Dividing up the company into separate business units at an early stage can result in tangible benefits. Each family member is involved in a business activity and its development, creating its potential and building its market position.

Having divided her estate and assets between her children early on, the doyen was able to support her successors with her advice and experience. The self-reliance of her successors has given them the opportunity to gain business experience and successfully run their own company. Such model guarantees there will be no risk or element of surprise in the event that a family member dies with respect to the business. This contrasts with the situation where other family members who have not been involved in business operations, have no capability to act and so have to rely on advice of strangers.

Karolina's business achievements and community involvement have won her a number of awards and distinctions, which help also to consolidate the market position of the company.

As she notes: „I feel satisfied with my life and do not want to change anything in it. I have always been lucky and I am far better off than I ever dreamt I would be".

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Hungary INSIST Case Study: Hungary INSIST Case Study: Fein Family Winery Ltd.

Prepared by Mónika Gubányi

This case is based on a first generation family business operating in the trade sector of the Hungarian economy. The name of the company and the names of contributors to the case study were changed at their request. The case demonstrates a number of key learning points:

- The family's conscious and systematic growth strategy puts emphasis on international quality, branding and innovation.
- The creation of high-quality wine cluster by corporate social responsibility
- The importance of family values
- Informal and formal process of knowledge transfer between generations

Background

The main activity of the family company is producing and selling high quality red wine. The Fein family had several hundreds years of experience in wine making (1758-). The founder manager, Tamás Fein started the development of the family winery with his wife, Zsófia, when they found a commercial and service limited partnership in 1990 at the time of transition. At this time, Ágnes had been on maternity leave and Tamás's father became retired and passive. The founder manager wanted his father to have active and meaningful occasions. He financed the operation of the family vineyards, and his father and mother managed it. In this period the founder manager worked as economist, corporate leader, bank account manager. In 1998 the couple decided to develop the basement. In 2002 they bought 11 Ha field and their estate was broaden to 20 Ha field. The company was officially incorporated in 2003 under the name of Fein Family Winery Ltd. with six employees. The company is micro-enterprise. In 2005 the estate got its present formation. In 2009 the family moved near to the family winery to run the estate. The successor selected from the family is the elder son. He continued his studies at wine academies in Germany, Italy and France. The younger one is doctor in Munich. In the daily operation of the family estate the family members cooperate. Tamás Fein is responsible for strategy and overseeing investments, plantings, holding wine tastings. His wife, Zsófia is responsible for the winemaking, the harvest, the administration. In the future the successor will have two-thirds ownership in the company, and gradually takes the control over viticulture and winemaking responsibilities.

Business- and Family-Related Goals and Performances

The Fein Family Winery Ltd. was started as a family business, and has never employed 'outsiders' in management. Tamás, the wife, Zsófia and Károly, the successor shared the tasks in management. The Fein Couple takes the affairs of the family winery, and the successor has also role in determining the strategy direction. They turn focus to the local economy at the same time to the international market with increasing high-quality products. The Fein Couple's elder son became strongly committed to the winery and he would like to transfer it to his child in the future.

Business- and family-related goals and performance clearly overlap and interconnect to varying degrees and at varying times at Fein Family Winery Ltd. The couple has two sons. The younger son has become a doctor and currently works in Munich. The elder son studied at wine academies and initially obtained their work experiences outside the family business. He has taken an interest in the winery from adolescent age. Throughout his childhood Károly did not spend school holidays and weekends in the winery, but during secondary school he was helping out and getting to know the business. After university Károly returned to the family winery, and he has taking on different roles, learning not just in a formal way, but in an informal environment through experiences. The formal learning is essential to the successor. In the spring of this year he spent professional study period in Australia. At this time the successor would like to meet the requirements of the international standards and the founder manager is working on the creation of the high-quality wine cluster.

The Fein Couple plans the share of the ownership between the sons. Considering the growth of the business, the financial safety and the managerial responsibilities, the elder son, the successor will get two-third ownership. Zsófia, the wife will gradually take the administration over to the successor, and the successor plans to obtain MBA degree and to put some trainings through as well.

Succession process

The succession process is complex and time-consuming in this family winery started from that the responsibility for Tamás's old father was the key incident in the development of the family winery. Tamás's father was influential man in the socialism and Tamás had to struggle for independence in his young years.

Since 2003 the Fein Couple is the owner and manager of the business and the successor has been working in the business since 2006. The ownership and management transfer is in the agenda in the Fein Winery and it is in an early stage.

The first stage of the succession process is the transmission of the family's value system like respect for past and tradition, value creation, self-realization. As the successor has strong attachment to his father and mother, by these values the affective commitment to business could be developed. So before the entrance into the family winery the successor perceived the existence of the company through his parents' relationship. In the second stage during the initial entrance the successor started to get in contact the family winery before beginning his winemaking studies and Zsófia expressed to the successor the benefits of working in the family estate. At the same time the family cohesion is not inflexible. The successor had ambition to study abroad and get international experiences. In the third stage the initial exertion of the managerial function progressed: the successor entered the company for part time job in 2006. In the former times the successor had alternative career opportunity outside the family winery, but the successor is aware of it that he can establish his ideas and plans within the family winery. This international

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perspective is supported by the founder manager. “The family members have common strategic targets.”

The founder manager plans to work beside the successor in partnership till he has a good physical health and he would like a matriarchal leadership instead of paternalistic relation. The founder manager would not like to step back from the day-to-day strategic management of the business. After the ownership transfer the wife, Zsófia also would like to supervise the financial matters. She has a key role in the family winery. After the transition she helped to put the operation of the business into legal form. She obtained winemaker technologist qualification and other winemakers’ advices. The successor will learn business leadership and economics from Zsófia. The successor learns sacrifice, will, control, efficiency from his mother and social skills, sense of community, assertiveness, communication from his father. The successor regards the generational transfer as organic process.

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Hungary INSIST Case Study: HUN Case Study: BI-KA Logistics Ltd.

Prepared by Ágnes Kiss

This case is based on a first generation family business operating in freight services and transportation sector of the Hungarian economy. The case demonstrates a number of key learning points:

- A founder should start to think about succession in due time. It's not enough to find the eligible successor, there is a need for reorientation of the retired family members.
- Children shouldn't necessarily take over the firm. External advisors and inter-generational managers could help to solve the succession challenge.
- Trust is a key factor in succession, and it has many layers. For future growth, the successor should keep the family business values but also to bring in new dynamics.
- Beside fiscal goals, and quarterly meetings, managers and founders should meet on regular basis, to avoid misinterpretations and misunderstandings of managerial decisions.

Background

After graduation, György Karmazin started his carrier at an agricultural trading company as a freight forwarder in 1991. The very straight and painstaking György couldn't follow, respect or learn from his gambler owner-manager, but at least he had freedom in his work. In the industry, he found that most of his business partners are his former classmates. He realized that he has both the connections and the knowledge, and he could try to start a business in logistics on his own. BI-KA Logistics was founded in 1991 by Hungarian private entities, Bíró and Karmazin families (György Karmazin, and his wife's parents) in Szolnok, a small city in the rural area of Hungary. The legal form of the family business changed from unlimited to limited liability in 2008.The small, family-owned company became one of the regional leaders in freight services and logistics. BI-KA Logistics currently provides domestic and international freight services and transportation in almost 30 countries. The company is continuously growing, closing the 2013's business year with a turnover of 16 million EUR, which means a 20,7% growth compared to the previous business year. In 2014, they could increase the turnover by 12%, even if their main partner remarkably cut orders. For the upcoming year, they have ambitious goals to improve profitability. BI-KA Logistics plans to double its' vehicle fleet in 2015 and concentrate more on freight services. Currently 100% of the private company is owned by Dr. György Karmazin, co-founder and previous Managing Director of the business. Although he kept ownership, the management of the company was fully transferred to a successor in 2012. The successor is neither a member of the family, nor an external manager. Gabriella Szécsi spent 10 years in different positions at BI-KA, before György asked her to take over the management of the company. György didn't want to become an obstacle in his company's development, so he decided to pass the company's management to an eager and ambitious young manager, Gabriela, in due time. Now she has the chance to bring the company to a new growth path.

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Business- and Family-Related Goals and Performances

György believes in customer-focused thinking, performance-based evaluation and high quality work in business. He is committed to lifelong learning, believes in team work, long-term thinking and planning. For him, core human values are openness, learning behavior, the need for development, respect and humility, acceptance of others, and beyond the materialistic world, how to give. *'Now I am able to give, but for this, I need a management team who operates the system. If they operate the company properly, I am able to live this life along values.'* György and his wife, Anita try to succeed important values to their young children, such as humility, respect of work. Both have worked at BI-KA during summers. The future is open, parents want their children to fulfil their own life goals. If they decide to continue the family business, there are several possibilities, but they also need to meet high quality standards and prove their management and professional capabilities. Anita always ensured the strong family background for György, who could focus on the business. As a deputy manager of the company, she takes part in the social representations and takes care of good collegial relationships. The family's reputation is high in the local community, and they often take part in charity activities. The family would be satisfied if the company could ensure their living in a sustainable way and could also maintain continuous development and growth. Expectations are high, but the new leader has the appropriate skills and ambition to exceed the plans. The new strategy contains plans for foreign appearance, as their biggest customers already indicated their needs for that. Another aim is to reach number 1 position in the region. They also plan to improve profitability and sales, therefore investment in the vehicle fleet is scheduled for this year.

Succession process

At the beginning of 2013, György transferred legally the managerial role to Gabriella Szécsi, a reliable, tested employee of the company. Gabriella joined BI-KA Logistics in 2002, where she made a carrier step-by-step, starting as a freight forwarder. She was talented and eager to learn, and she also had leadership competences. György and his wife fully trusted her. From 2005, she worked as an operational manager at the company besides György, who was the strategic leader at that time. During a 2-years' maternity leave between 2010 and 2012, she spent considerable time on self-education, doing a language exam and an executive MBA training. During the two years' leave, György talked to Gabriella about the potential succession. First György had other mid-term succession plans, such as offering the 33-year-old Gabriella a Division Manager position for some years, but there was no need for the delay. From 2013 January, Gabriella is the Managing Director and representative of the firm, and György stepped back to the owner's position, acting as a strategic counsellor. Though roles are still developing and conflicts may arise. Gabriella finds succession is still an ongoing process, György finds it is already completed. In a settled owner versus managerial role, decision-making and responsibilities are clearly articulated. György and Gabriella have not clearly clarified these points, so flexibility arise in handling situations. They have to find beside the quarterly reports the frequency of their informal meetings, where Gabriella could inform György about updates. They also need to figure out the owners' involvement in decision making. For György, it is the hardest to not to interrupt, when he would do something in a different way. Day by day György is giving Gabriella growing authority, and he de facto steps back from daily business activity. If we look at the

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internal and external acceptance of the new roles, business partners got used to the change within a half year. Young employees could also easily accept changes. Also do older colleges, but for those, who spent 10-20 years at the company, it takes time to get used to the new situation. *'It is a question, if they are committed to BI-KA or György, which is tough part of succession.'*-says György. Sometimes they complain about the new culture, which is unfamiliar to them. They need more time to adapt to changes. External observers recognize both of them. They won several awards, such as Entrepreneur of the year in 2009 (György), Young Manager of the Year in 2014 (Gabriella). The company was also rewarded with Pro Hungarian Economics Award, Best Women's Workplace, Business Ethics Award, etc. in the previous years. György has a motto, that 'If it is not growing, it is decreasing'. He defined 5 KPIs that Gabriella has to reach quarterly. The 5 criteria are the following: 1. growing income 2. growing results 3. growing profitability 4. no decrease in customer satisfaction 5. no decrease in employee satisfaction. In the last two years, she exceeded even these ambitious requirements. Income improved by 20%, business results improved by 56% in the 2013 business year.

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Hungary INSIST Case Study: QUALITY MEAT LTD

Prepared by Ibolya Szentes

This case is based on the story of a second-generation family business operating in the food processing industry of Hungary. The name of the company and the names of the contributors to the case study were changed at their request. The case demonstrates a number of key learning points:

- Founding and running a family business to provide a secure livelihood to the family and its members.
- Management succession is often a long learning process that begins in childhood and it is based on the founders' professional knowledge and experience.
- A charismatic owner-founder's retirement is difficult, and his influence may persist through several generations
- Family solidarity and support appears in the management practice of the company and help to survive the critical periods.

Background

The company was established in 1992, and was built up from the father's professional knowledge and connections. The founders, Károly and his wife become unemployed at the beginning of the 90s because of the dissolution of a Farmers' Co-op. They used their savings to set up the new company. The company's main lines of business are meat processing and preservation. The parents each own 50-50% of the company.

Károly Sr. transferred his experience to his wife who helped him in running the business. They continuously reinvested the net profits, and they changed and replaced the outdated, depreciated assets from time to time. Thus, the company was able to develop. Due to its steady growth, it can also provide secure employment for several people living in the area.

In 2004, the EU accession made the spatial separation of slaughtering and meat processing activities compulsory. A modern slaughterhouse was built as a green-field investment and they also increased the capacity of the meat processing plant. The investment credit in those days heavily burdened the company's assets, incomes and the family's wealth as well. Parallel with the capacity increase, they also opened a new butcher's shop and increased the number of employees. Today, the company owns a modern slaughterhouse, a meat processing plant, two retail shops, five trucks and four buses. The value of their fixed assets exceeded HUF 290 million and annual revenue reached HUF 1 billion.

The founders have decided to hand over the management of the business to their two sons, László and Károly Jr. The mother has retired, but if it is needed, she still helps out. The

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father, however, finds it difficult to break away from the business and takes part in the daily operational management even today.

Business- and family-related goals and performance

The founder, Károly set up the family business so that he could secure an income for the family, but he also fulfilled his dream to become independent from others. Facing the challenges of the uncertain economic and social environment of Hungary that time, many people discovered business opportunities as married couples like the one described in the case study. The founders saw a secure livelihood for the family in the business they founded. This has been proved by the firm's long-term survival. Thus, the goals of the business and family have met.

The need to adapt to changes in the business environment has rather improved the development of the company than hindered it. This is due to the father's strong personality, the strong ties within the family, the parents' ethical values and conflict-resolution practices. The successions process seems to preserve the family relationships, the care taken over from one another and applied to their own families, both in the workplace and at home.

The family's life has been infiltrated by the management of the family business, they got up and went to bed with it, so to speak. The two boys were involved since childhood in sharing the successes and failures of an entrepreneur's life. They also experienced what it means when a joint effort, helping each other manages to solve a difficult situation. These practices could not be learnt at school or in another workplace, they are almost restricted to the running of family businesses.

Succession process

In this case study, the two successors have been involved in the work of the company since its inception. Today, both of them work as managers at the enterprise with equal division of labour and responsibilities.

The two boys, joined the firm in various ways, their motivations were different. The beginnings were the same for both, as children they got acquainted with beauties and difficulties of the trade through their father's initiation.

The older, László first chose the construction industry as a profession and found a job in it. However, the state-owned companies closed down, there were few job opportunities, and the needs of starting his own family all herded him towards his father's business again. He learned a more in-depth professional knowledge from his mother and the old employees of the firm. First, he worked in the butcher's shop, later he was introduced to the work processes of the meat processing plant.

In contrast, the younger son has been preparing for this vocation since childhood, spending the summer school holidays with his father in the slaughterhouse and later acquiring the appropriate professional qualification. He started working for the family business at the slaughterhouse then learnt how to keep contact with customers and suppliers. It has

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become his responsibility to build a partners’ network and organise the logistics for the company.

The father appointed his two sons as managing directors in 2003, and divided their areas of responsibility. Today both of them act independently in their functions and manage the company.

However, the transfer of management tasks has not been followed so far by the transfer of ownership of the company. The two founding members are still the owners of the company with equal share. They are determined to keep it this way until their death.

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