Intergenerational Succession in SMEs Transition
INSIST

National Report on Family Businesses in Hungary

Final version

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1. Introduction
Family Business: Definition

Family businesses are at heart of the economy. Their function is not exclusively restricted to the contribution to economic wealth, but they play a significant role in employment creation and stabilisation as well as in intergenerational knowledge transfer. Despite the growing interest in the issue a widely accepted definition is still missing. There are more than100 definitions and concepts of family businesses available in the literature, as the name of the phenomenon itself is quite heterogeneous, as well: *family business, family firm, family company, family-owned company, family-controlled company.* When defining the term 'family business' usually three different aspects are taken into account, namely ownership, governance and participation in daily operation. Ownership refers to the assets the family possesses in the company. Governance is related to the fact to what extent the family members are represented in decision making bodies (board of supervision, board of directors, etc.) and exercise control over the company's strategic direction. The third aspect is the involvement of the company members into the day-to-day managerial actions. Family businesses may differ with respect to what combination of the above presented practices they apply in their everyday operation. The complexity of the issue means a serious challenge for both the scientific community and policymakers when aspiring after making a broad-based concept of family business that captures each aspect of the phenomenon. Instead of providing a taxonomy of heterogeneous attempts made to define family firms, in the following parts of this report we will rely on the definition elaborated by the European Commission that describes family business in the following way: "… most *rights of decision* are reserved for natural person(s) who founded the enterprise, or such natural person(s) who have obtained *ownership* in the enterprise or spouse, parents, children or children's children of the persons already mentioned, the *rights of decision* are direct or indirect, at least one member of family or kinship formally participated in the *operation, stock-exchange-* listed companies can be considered as family businesses in the case when the person who founded the company or purchased it or his family, descendants have ownership over at least 25 % of shares represents right decision." (Csákné Filep 2012:5)

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2. Roles and Importance of the Family business

With respect to the difficulties mentioned about briefly, providing precise statistics about family businesses is far from being unproblematic. According to estimates family firms' contribution to the global GDP varies between 70 and 90%, while more than 30% of the Fortune Global 500 companies belong to this category. (Ellstrodt – Poullet 2014)

If we want to understand the position of family firms in Hungary, it seems to be worth drawing the broader context with special attention to the characteristics of the post-socialist transition process. An often neglected dimension of the transition is the radical change of the economy's organisational morphology. On the one hand it means that the large, state-owned companies dominated the state-socialist economy have been replaced by micro-, small- and medium-sized enterprises and it is resulted in a rather heterogeneous economic structure, on the other. Martin (2008) referred to the second issue as segmented market economy, where the following four basic types of firms are forming the organisational landscape: state-owned, privatized, foreign-owned and newly established (*de novo*) organisations. Most of family firms fall under the latest category, e.g. they have been founded in the last 25 years and are micro-, small- or medium-sized enterprises.

In Hungary there is no systematic data collection about family businesses, there are, however, different statistical sources available that can provide an overall picture. The distribution of the different size-categories within the Hungarian firms indicates the dominance of micro-sized companies. According to the data of the Hungarian Central Statistical Office (HCSO) in 2012 89.26% (575.476) of the total economic organisations employed 1-4 people, 5.84% (37.765) of them operated with 5-9, 2,67% (17.312) with 10-19, 1,39% (8.690) with 20-49, 0,71% (4.578) with 50-249 and 0,13% (871) with more than 250 employees.

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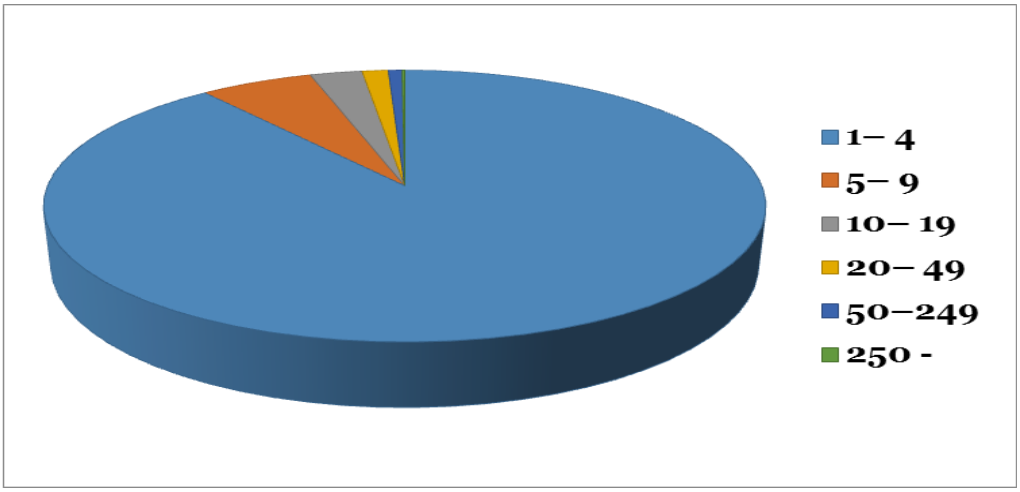
Figure 1: Distribution of different sized categories of Hungarian enterprises, 2012



Source: Hungarian Central Statistical Office

Albeit there are some family-owned firms even among the large enterprises employing more than 250 people, most of the family businesses operate in the smaller size categories.

In her report Mandl (2008) provides a comparative overview about the ratio of family businesses in the different European countries. The next table presents her data.

Table 1: Share of family businesses in European countries (in % of total enterprise population)

Austria	80
Belgium	70
Cyprus	85-90
Czech Republic	80
Denmark	95
Estonia	90
Finland	80-85
France	65
Germany	95
Greece	52
Hungary	**70**
Ireland	75
Italy	65-81

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Latvia	30
Lithuania	38
Luxemburg	70
Netherlands	22
Poland	**70-80**
Portugal	70-80
Romania	50
Slovakia	80-95
Slovenia	60-80
Spain	85
Sweden	54.5
UK	**65**

Source: Mandl 2008:40-46

The data presented above should be treated, however, very carefully, since most of them rely on experts' estimations and/or heavily depend on the official classification of family firms (if any) that varies between the various European countries. We must conclude that we only have a very inaccurate picture concerning the prevalence of family businesses in Europe and particularly in Hungary.

3. Institutional Setting of Family Business

Most important actors shaping the institutional environment of family businesses in Hungary are those associations that have been established with the clear aim to provide support to family firms along with the representation of their specific interests. One of the most important organisations in the field is Hungarian Association for Responsible Family Enterprises (FBN-H**, Felelős Családi Vállalkozásokért Magyarországon Egyesület)** that has been founded in 2010. The aim of the organisation is to help the establishment and operation of family enterprises in order to preserve the material and immaterial assets accumulated by family businesses and to support the effective utilization of the Hungarian direct investments. The Association provides professional, training and innovation services and facilitates the cooperation of knowledge share between the family firms. Acting as a partner in the ***Family Business Network***[1] it also supports the

[1] The Family Business Network (FBN) is a not-for-profit international network that is run by family businesses, for family businesses, with the aim of strengthening success over generations.

transferring of the international best practices in the area, especially focusing on ownership transfer issues. The Association runs the Family Enterprise Academy that launches a program to coach managers, developers, lawyers and family therapists.

The other important actor is the **National Association of Family Enterprises (Családi Vállalkozások Országos Egyesülete) (founded in 2013)** that also aims at supporting family businesses and representing their interests. Among others their primary goals are the following:

- creating more family business-friendly taxation environment, e.g. applying the same rules as in case of long-term investments
- to be able to deduct the next generations' training costs
- to convince decision-makers to prefer family business in public procurements
- to define family business as an independent legal category.

A recent initiative of the Association was the establishment of the **Mentor Chain Foundation** with the aim to build up a mentor network that supports both new entrepreneurs in staring their business and family firms in ownership transfer by knowledge transfer from the side of most experienced association members.

A third initiative has to be mentioned here, as well. The first one is the Seed Foundation which is a state-owned non-profit body that aims to develop business culture in Hungary, the knowledge of entrepreneurs and to increase the competitiveness of SMEs, operating since 1990. It has various target groups:

- family businesses,
- female entrepreneurs,
- those who are planning to establish business, and
- micro enterprises with growing potential.

4. Internationalization of family businesses

As mentioned before, most of Hungarian family businesses are micro or small firms and serve mainly local needs as such. There are, however, some family-owned firms that are present on the global markets. Without being exhaustive, some examples are listed here:

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- Kompozitor Kft.: the company developed new chimney lining material and technology, along with corrosion resistant industrial composite chimneys.
- Zwack Unicum Zrt.: Internationally well-known fine herb liqueur producer.
- Kürt Kft.: Data insurance and data recovery technologies.
- iData Kft.: The firms develops and sells GPS tracking systems and related services.

5. Importance of the Succession and the National context

As presented earlier, the organisational landscape of the Hungarian economy is rather heterogeneous. Most of family firms – with few exceptions, like *Zwack Unicum* for instance –, have been founded after the collapse of the state socialism. Vast majority of the founders were in their 40s and are now about retiring. The most important challenge now is the ownership transfer of the companies in a radically changed environment. In the last two and a half decades the Hungarian economy went through different development cycles. After a short and intensive crisis in the early 1990s a growing period started. The economic growth was based on the mass privatization and a leading role of foreign direct investments (FDI) and multinational companies that were resulted in knowledge spill over and vital economic environment. The reserves of this model exhausted till the early 2000s and a stagnating period started – even before the global financial and economic crises. (Iwasaki et al 2012) Family business owner face, therefore, with a doubled challenge when planning and executing ownership transfer. On the one hand second (or third) generation owners should be able to preserve the founders' values and successful business solutions, while they have to adapt to the radically changed environment and seek for strategies that can create new and sustainable development paths, on the other.

6. Social perception of family businesses as the contributors to the national wealth, as employers and community leaders

Gere (1997) found, 70% of family business owners recruited their employees colleagues from their family members. They considered the cohesion, trust, common targets as the most important advantage of family business.

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In 2007 Corvinus University conducted a research among business owners who planned retirement. (Csákné Filep 2007) The researchers analysed succession characteristics and focused on two questions: 1. To what extent family and non-family businesses can be distingushed by the preferred succession outcome, the ownership structure and the family members active in business. 2. How family businesses can be classified by the preferred succession outcome, the ownership structure and the family members active in business. In family businesses there are combinations of family members in various business roles and subsystem (husbands-wives, parents-children, extended families, multiple generations playing the roles of stockholders, board members, working partners, advisors, and employees).

Kuczi (2011) discussed the topic *in Family and Enterprise after 1989*. In half of family businesses both husband and wife participated in business. Where the wife was the owner, the role of husbands has not changed much over the years, but where the owner the husband was, the wife gradually lost ground in the company. The asymmetry of the gender can be detected on different level of spouses' participation. 21 percent of the wives are co-owners of the company, while the husbands have 40 percent of the ownership in the wife's companies. Relatives had generally 28% of ownership in the family business in 1996 and their relevance showed that 26% of enterprisers received loan from relatives. Due to the lack of resources the family and relatives got significant role in such a business. In Kuczi's opinion a non-negligible factor of family business success is to what extent solidarity family members have to independent (external) parties.

7. Effects of the crisis on Family Business

The global financial and economic crisis started affected negatively the Hungarian firms in general and the family businesses in particular. The Hungarian GDP decreased by 6.8 per cent in 2009, which was accompanied by a dramatic increase of unemployment rate (from 7.8 to 11.2 %). Most of the enterprises experienced turnover decrease, difficulties

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in accessing financial resources, decrease in investments, delay in payments and most of them reacted with cost and capacity reduction. (Szabó 2009)

II. Socio-Cultural Environment of Family Business

II.1. Succession Process and Succession Infrastructure

The owner (founder) personality: entrepreneurial or/and managerial skills or "habitus"

As mentioned before, the generation of owners approaching to succession started their businesses after the collapse of the state socialism. Their professional socialisation, however, started before the changes, so most of them had to adapt to the market economy in their 40s. There are significant differences between economic activities and sectors but in most cases the founders have a strong professional identity over against being a businessman. It seems so that in sectors where personal presence and control is required in production (e.g. food industry), the wish to preserve family ties and values are stronger, than in other cases (e.g. IT sector). (Bálint 2006) In the former cases running a business is equal to value creation and succession is being regarded something more than a pure economic transaction. Since professional network building is inherent part of business success in case of family firms, one of the key challenges is to what extent the founder's social/professional network can be transmitted to the successors.

The founder owner role in the succession process

In their eye-opener work García and López (2001) set up a classification of entrepreneurs' habitus taking their values and norms into account. Their typology is based on two structural dimensions: 1. business value dimension (firm vs family orientation) and 2. psycho-social value dimension (self vs group orientation). The authors made a distinction between four basic types of company founders.

1. Founders of family tradition. In this group of founders business decisions may be constrained by family traditions. These business owners are group-oriented, appreciate human relations and are committed to ethical issues.

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2. Founder-achievers. This group views their firms as mere mean to earn a family living. Short-term thinking, task orientation and group-oriented values characterise these business founders.
3. Founder-strategist. The idea of business is an end to the representatives of this group but unlike the family tradition founders in this case the core value is self-realization. They are long-terms thinkers and exercise strong control over business.
4. Founder-investors. In this group family-orientation dominates accompanied by the values of self-realization. Innovation, family orientation and a negative perception of human relations are the core values.

According to empirical studies, founder of family tradition and founder-investors dominate in the food sector in Hungary, while founder achievers are prevalent in chemistry, construction and some areas of industry. (Bálint 2006) The results are presented more detailed in the section *Inhibitors and enablers of the succession process*.

The successor's role in the succession process (dilemmas of the next generation)
Different ways of succession require different attitudes from the successors. Family patterns and traditions, professional and business experiences, individual ambitions and interests and, finally, external social/institutional factors may form the willingness of the successor to step in the family business. Unfortunately we do not possess systematic information about the Hungarian successors' perspectives but the case studies to be conducted in the INSIST project will deliver more information about this issue.

Guidelines orientating the succession process
Csákné Filep (2012) conducted a representative survey among those Hungarian SMEs that were facing with succession challenges 2011 (not exclusively family businesses). According to her results 49.3% of family business owners have succession plans without having written that, 3.9% of them have a written plan, 18.8% thinks that succession is automatic process and 28.6% of the family firms have no idea about succession. Based on a non-hierarchical cluster analysis she distinguished five basic types of succession strategies of the Hungarian succession-involved SMEs. The clusters represent not

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exclusively the family-owned businesses but all the SMEs that have been involved into the research. Category 3, 4 and 5, however, cover the different types of family firms.

1. Businesses with no vision of independent parties

Those firms that are owned by independent parties, in most cases by former colleagues, independent professionals and/or external investors, belong to this category. In these firms neither close, nor distant relatives have a share and the owners have no visions about the company's future.

2. Businesses with vision of former colleagues

These firms are mainly owned by former colleagues who have a strong vision about the succession process after retirement of the founders. Most typical succession plan is the sale of the company to the other owner(s).

3. Kinship businesses

In case of these firms owners are recruited from the wider family (distant relatives) and/or friends, acquaintances, external professionals and other investors. They typically employ family members. Their successions vision is clear. They want to keep the ownership within the (wider) family.

4. Marital businesses

In this case the company is owned by the family members, especially by spouses but distant relatives also may have share. Spouses typically work in the company as employees. Ownership of children is not typical. As for the succession the main strategy here is to preserve family-ownership but to delegate the management to an external party or to sell the company if it is unavoidable.

5. Nuclear family businesses

Those family businesses belong to this category where the ownership and management is planned to be preserved in the hands of the small family members. (The ownership goes mainly from the parents to the children. Ownership of children is typical.) In this case

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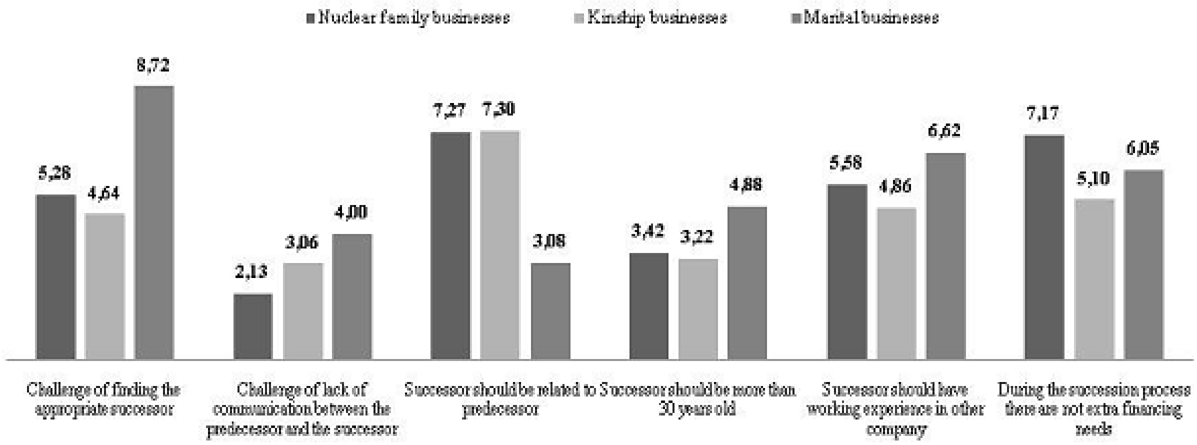
external, non-family member parties are excluded from both ownership and management. Spouses often take actively part in the day-to-day management operations.

Outcomes and the Impacts (advantages versus disadvantages) of the succession process
According to the results of the survey presented above there significant differences between the different types of family businesses with respect to various dimensions of succession.

Figure 2: Specialities of succession in different types of family businesses



Source: Csákné Filep (2012:151)

Marital family firms seem to differ from the other two types (Nuclear family businesses and Kinship businesses) quite significantly. In their case the most important challenge is to find the person who can act as an appropriate successor. The successor's age and working experience is of more particular importance to them than in case of the other two family business models while in their case the probability of an 'external-to-family' successor's engagement is the highest.

Inhibitors and enables or the succession process
Bálint (2006) conducted a survey among a representative sample of Hungarian family firms operating in various sectors. The most important factors that influence succession decisions and the process itself are the followings:

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- the size of the company: the bigger is the company, the stronger is the wish to preserve it within the family,
- business prospects: companies over 7 billion HUF pa (~22.5 million €) prefer the sale to family-based succession,
- the age of owner/entrepreneur: the younger is the owner, the higher is the probability of sale to external parties,
- the successor's competences,
- competition in the sectors: the more intensive is the competition, the bigger is the pressure on the owner to sell the company to external parties.

The sector is a key issue with regard to succession motifs. In chemistry, construction and retail trade the dominant pattern is the sale of the company, while in food industry the future vision is the family-based ownership transfer. In case of services the sale to other owners or to management is the dominant option. Export-orientation is also an important aspect of succession process. In cases where the share of export exceeds 50% of total revenue sale to external parties is preferred. (Bálint 2006)

Emotional capital accumulation process

The solution of conflicts often arises through specific logic in different subsystem (ownership, leadership, family). Conflicts occur from the merge of boundaries and paradoxes. The ways in which individuals communicate within a family, may be inappropriate in business situations, but that is fact in business situation both of partners are family members. Family business must keep lines of communication open, make use of strategic planning tools, and engage the assistance of outside advisors as needed. Bogáth (2013) examined 44 family businesses and by 68% of them conflicts have not impacts on family and business system. Half of the firms in the sample reported that the leader was able to balance between family and business duties. 38.6% of the leader devoted more attention to company than to family affairs, which can lead to long-term weakening of family ties. 11.4% of leader preferred family over business, which may be the danger of neglecting the enterprise, and therefore may decline.

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II. 2. Role of Psychological – Communicational Relation in the FB: Special Focus on the Succession Process

Family Business Dynamics[2]

Family business can be meant as multigenerational unit, thus from this dynamic explanation we can see the importance of the following research results. Reisinger and Kovács (2011) examined higher education students as potential successors. Their central question was what kind of facts affects the continuity of family business and the start of own business among students in higher education. The researchers focused on examination of the strength of family and institutional effects on students' carrier choice expectations. This research was the part of Global University Entrepreneurial Spirit Students' Survey: GUESSS project. The sample was based on students studying economic, engineering and IT. Most of them have completed the Bachelor's degree programme. In the project researchers wanted to demonstrate the stronger family effect on students' carrier expectation. The family effect variables were measured by family affect and family cohesion, the institutional effect by practise-lecture, scientific field and qualification variables. Results showed that right after completion of studies 51% of students would like to work in SMEs. If students thought about 5-year perspective received the diploma, one-fifth of them would choose job in SMEs, but 25% of them would decide on start of own business. 25% of students are involved in family business, but only 3% of them would continue the family firm. Research results showed that men are more venturesome, so the gender and family effects influence the plan of continuing/starting business.

Psychology of Succession

Köteles and Vincze (2011) investigated motivating powers in the case of family businesses. They examined with questionnaires, which are directed to discover the main motivations of the founders, plan of the company's vision and the career of the founders. The respondents were 63 persons from the southern Great Plains region. Based on the frequency of responded words the researchers recognised McClelland's motivation theory in the personality of the family business founders:

[2] The members of family system are in interaction and there are different systems of relations within the family

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1. Power: leading, influence, creation need, financial independence (mentioned words: independent, self-employed, free, self-realization)
2. Relationships: interaction, cooperation, collaboration (mentioned words: family, unit, existence, cohesion)
3. Performance: result-orientation, tendentiousness (innovation, market, need, expansion)
4. Job creation: scope of forced entrepreneurs (job creation, compulsion, maintenance)

The most frequent motivation is the need of power (45,6% of sample). The performance was the second most frequent motivation (24,1% of sample), 17,7% of founders in sample was motivated mostly by the need of job creation and 12,6% of sample was driven by relationship.
Based on the research the family entrepreneurs are mostly motivated by power need and the financial independence. The person of the owner and the manager is often identical. The leaders of family enterprise rarely make a written business plan at the time of the foundation or in the case of succession. The family life and the course of business affect each other.

Csákné Filep and Pákozdi (2012) approached the succession not from the side of the family relations. The researchers described the characteristics of founders because the founders are the key actors in succession, strategic targets, culture, external relationship and performance. They completed 25 case studies about the issue of succession, generational change in Hungarian SMEs sector. Those enterprisers who take over the company and not found it, have own experiences in how to transfer a business and it can make easy business transfer, but the founders rarely get at acting the retirement and can obstruct the decisions on succession. The surveyed enterprisers looked at their enterprises as life course, modernisation and innovation. They are considered, dynamic and self- fulfilling. During their entrepreneurship the financial stability is the most important. According to this research there are expectations towards the successor person. There are the followings: good organiser, communication skill, professional

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knowledge, financial management and knowledge about competitors and business and cooperation with predecessor and balance of power within the business, conflict tolerance are all greatly important in the firm strategy considering the innovation and change.

The Manager magazine compiled selection about Hungarian family firms' successor. The foundation and generational change of Béres Gyógyszergyár Zrt. is really interesting case. We introduce their story based on József Béres's narration.

The founder, the elder József Béres created so called Béres Csepp (*Béres Drops – a natural drug that strengthens the human immune system*), and he had trust his son and son-in-law to lead them to his business. The elder Béres was not entrepreneur type. In 1977 he worked in research institute in Kisvárda under distracted circumstances. The younger Béres began chemistry career on his own way and later from 1977 he worked as researcher chemist at Hungarian Academy of Sciences and searched the antiviral and anti-cancer compounds. After regime the company got to completely the Béres' ownership and the younger Béres stood by her father in the firm. It was also a moral duty for successor. The elder Béres was ambivalent but happy. The successor told his view about transfer: „I felt the time has come for me to follow the aim and conception what for my father worked and suffered what I can support." The successor underlined that he developed separately from his father. Firstly, the younger Béres dealt with the control of production and later with direction of research and product development. The starting work was led by intuition. The founder and successor became colleagues after 1989. The successor considered the teaching, learning the transfer of approach. One of pillars of it is research behaviour, approach of questions, looking for answers. The father was led by finding the answers, and went ahead to become innovative. The successor learnt synthesizing ability and moral behaviour from his father. The founder honoured the life, people and nation. They decided together on most issues until the death of the founder. After 1993 the leadership was more conscious, professionals were involved in the management. The Béres' couple has three children. Their daughter works as economist and communication specialist in the family company. One of their sons has been learning economy. The younger Béres is motivated by sureness of successor.

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III. Managing Family Business – Strategic Issues

III.1. Strategy formation and decision (participation of family and non-family members)

Family firms are distinguished from other organizational forms by the overlap of family and work systems. Members of the controlling family significantly influence the goals and strategic direction, as well the performance and survival of their enterprises. (Sharma et. al 2013) For long term prosperity, a family firm must achieve efficiency and effectiveness focused business goals, like other businesses. However, family oriented goals such as harmony, generational transition, and ownership issues must also be managed.

In Hungary, doing private business became legal again after the regime changed. We don't have much literature from the early years, and of course circumstances have changed in the last twenty years, but there is an interesting fact from the early years of market economy. Czakó et al. (1995) found the majority of the Hungarian SME founders had chosen their spouses and other relatives to be their co-workers. We suppose that these founders from the early stage are predominantly the same ones, who are now facing the challenges of succession.

A qualitative research at the end of 1990's and its' follow-up at the early 2000's examined a cooperative network of enterprising carpenters. (Kuczi-Makó 1993, Makó-Csizmadia 2003). These small business owners organized themselves in an innovative way to do large-scale work at the construction industry in the rural area of Hungary near the river Galga. The research proves that a certain type of effective and efficient work organization model exists, where specialists are linked to each other in a loose network rather than a formal organization, and where individual success depends on cooperation. Within the community not only economic factors define the regulating behavioural patterns of the cooperation among the actors, but also the professional and ethnic relations, or the level of trust being present at the local community.

The experience in the incorporation system highlighted the fact that that it does not worth to risk long-term stability for the short-term advantages of the competing behaviour, as long as the market conditions let them to do so. Kuczi's research (2000) raised our awareness that after the collapse of the state socialism, similar temporary or permanent exchanges worked among small business owner professionals, like among households in the traditional bees. In these new transactions not only labour, but information, goods, means or even capital were being leased.

The organizing method of these economic relations could be considered innovative in the SME sector that is in the lack of funds, but it also has its' own barriers. Bruno Dallago raised awareness on the fact that cooperation between Hungarian SMEs is mainly loose, and means only consultancy, leasing means and capital or acquisition of business. By contrast, Dallago (2011) shows in his work that they lack common production networks, which are common in Italian small business zones, and require more developed forms of division of labour and deeper integration of actors. These 'hard' networks need higher investments, deeper commitment and often even cross-ownership, but due to the more rational and flexible use of resources, they are more competitive and able to adapt to the changing environment. (Simonyi 1987, Pyke – Sengenberger 1992)

Csákné Filep (2012) in her dissertation examined if family business founders in Hungary want to succeed the ownership to the successor and if there is a difference if the successor is a family member, especially their children, or not. In 61% of the examined cases, regardless to the relationship with the successor, they do not want to give up their ownership at the firm, which makes decision-making more complicated for the successor. 50% of the family business does not even think about succession planning, but existence of a potential successor encourages them to do so.

In the following textbox Tamás Kürti, the vice president of FCSVE (*Hungarian Association for Responsible Family Enterprises*) shares his experiences concerning the different roles family firm owners and managers have to fulfil.

'In family businesses there are more owners than managers. This means more opportunity and more problems at the same time. The challenge is to help all generations and family members to become responsible owners. This way there is more opportunity open, and the adaptive capability of the family firm is stronger, if always the most able family member lead the firm, and the others could also enrich the firm as motivated owners.' The success of family businesses depends on the capability of understanding and handling in the right way the two levels of responsibility, the ownership and management of the company, which is not connected to wealth or hundred years of traditions, explains Kürti. (HVG, 2012) They also created a Family Board, where other members of the family meet on a regular basis, and they can take part in decisions. In this sense, there is a continuous presence of the family in the company. Tamás, the second generational son, has been preparing for 10 years to take over the president role from his father, which means than he could focus on strategic decisions. (Origo, 2011)

III.2. Division of labour between owners and managers (employees)

Family business research is unequivocal about the multi-dimensionality of goals pursued by family firms. For many family firms, goals such as family harmony, reputation, and continuity, are as, if not more, important than business-focused goals such as survival, profitability, and growth.

In Hungary, SEED Foundation organised several programs and conferences on Family Business They found that there is a lack of a comprehensive research on family businesses, including succession questions. (Soltész, 2007) Román (2007) also finds a lack in life cycle researches on Hungarian family businesses. SEED Foundation emphasises that family businesses need to pay attention on keeping the harmony and balance of the family and business. (Horváth, 2008) They found that most of the founders are afraid of the external takeover, they find optimal if the children succeed the company.

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No matter if the family takes part in the management or not, the family business could improve only if the management is well prepared and consists of professionals. It is essential to define the role of the founder-manager, understand and customize the operation rules of the business, choose the right managers for the operation, and create an entrepreneurial organization for sustainability and prosperity. For a family firm, business reputation is closely linked to family reputation. Vecsenyi (2009) emphasises that in most Hungarian cases, family firms use the name of the family. This guarantees quality and commitment. In multigenerational family businesses accumulated knowledge, secret recipes, professional experiences succeed from parents to children.

The following textbox illustrate the succession in a 6-generation family business using the example of the liqueur producer Zwack Zrt.

Péter Zwack had seven children, of whom two - as representing the sixth generation - are actively involved in the company. Sándor Zwack, born in 1974, is on the Board of Directors and is responsible for the top premium imported brands and for the prize-winning Zwack Nemes - Nobel - Pálinkás produced at the distillery in Kecskemét. Izabella Zwack is in charge of the newly created wine division at Zwack Unicum, which distribute leading Hungarian wines as well as importing wine from all over the word. She owns a winery in Tokay, the legendary wine-making region in Northern-East Hungary. In 2008, Péter Zwack transferred the baton to his son: Sándor appointing him as President of the Board of Directors. Péter remained as eternal honourable President until he passed away. (Szabó, 2012)

III.3. Learning and Knowledge development/ transfer in the firm

One of the most critical organizational changes family businesses deal with at some stage in their lives is the succession process. When evaluating it, two main targets are sought: quality and effectiveness. To meet these quality-effectiveness standards three elements should be transferred from the predecessor to the next generation member(s):

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(1) ownership control/power, (2) management responsibility and (3) competence/knowledge. (Varamäki et al. 2003)

One important factor that affects transferability of knowledge is the perceived trustworthiness of the source of knowledge (Szulanski et al., 2004). In fact, experiments in the communication field have demonstrated that a trustworthy source could substantially influence a recipient's behaviour. (Szulanski et al., 2004) Likewise, it has to be said that trust develops over time as a consequence of individual interaction; in the end, trust is placed in a person, not in that person's specific actions. (Rempel et al. 1985)

Gere (1997) found that the strength of the Hungarian family businesses are: the unconditional transmission of the practice and knowledge, the commitment of the family members, relationship with the customers, easy decision making processes, safety and experience of common pride. It is important to show an example, but the question is how could it be succeeded to the next generations? Bálint (2002) found that many of the founders in Hungary do not have a long-term vision, either because of the lack of time, as they are too much involved in daily life activities or because they try to avoid strategic planning, because they are afraid of an inconvenient conflict which may occur with their family members or employees.

Family and business is built on different values. Cole (2000) found that conflicts in family businesses are often due to the dual contacts and roles of the family members. Solving conflicts in these cases is hard, because to find the real reasons you need to dig deep, and examine family members' relations, which is often loaded with tension. Bálint (2006) explains a case, where the father didn't take his potential successor son to any negations, so it was really hard to accept him then by the partners as a successor. It is helpful if at the beginning with the help of an older mentor to design a structured succession plan with milestones, to see how the successor can get ready for the takeover of the company. In an ideal case, developing the successor is supported by a mentor. The ideal mentor is someone, who works at the company since a longer time at a high position and ready to share the experience and some criticism. Parents could be really

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week teachers, because of the mutual emotional concern. Csákné Filep (2012) recommends to involve external advisors to the succession planning and to monitor the firm. It also helps if they establish a Succession Board of family members and managers. It seems that in Hungary lately a need for external help emerged. If the supporting infrastructure is developed or mature enough, the knowledge of an external professional, the objective interpretation and reflexions made help to avoid the misrepresentation of objectives the inner interpretation solely may make.

IV. Policy Environment, Financial and Legal Regulation

General financial characteristics of the family business

Finances play a key role in the life of every business, since the good financial position, the continuous liquidity and the adequate capitalization are the bases of reliable and successful business operation. Looking for international literature dealing with finance it can be found some books and articles which are focusing the family business specifically, but in Hungary there is a lack in case of discussing the family business in Hungarian. In the case of Hungarian firms it is particularly difficult to apply the definition, in which an essential element of the qualification is that in the family business more generations are working together within the company, because as it was previously mentioned, in most domestic family businesses the second generation today starts to work within the company. Therefore, we should not rigidly use only one definition, as for example, despite the fact that the next generation is not involved in the operation of the company, but there is a clear concept that they want to keep the family business within the family, so it would be a mistake that these companies would be considered not as a family business.

In the case of Hungarian family businesses to take financial decisions is not as clear as they are affected for the followings:

- When making business decisions are not necessarily the primary goal of profit.
- The simultaneous presence of family and business requires coordination the financial needs of the family and the business.

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- The family needs and possibilities to override the needs of the business, but often we can experience is the reverse of this.

Hungarian family businesses, beyond the actual effectiveness, are guided by individual goals as safe living and to ensure workspace for the family members, the stability of the operation, to preserve the company's good reputation, to keep the company's size on such level at which the transparency of the immediate family and the ability are managed. Follow these goals in many cases, the profitability may be reduced.

Coexistence of the family and the business aspect also needs to be considered in the financial decision making. In case of smaller companies typically occurs that a large expense related to the family (e.g. house purchase) causes a lack of resources in the family business or it causes postponement for investment or developments. In family businesses (and in most cases it is typical), where the family and the family business finances are merged, it is common for family and business resource needs compete with each other, and it causes financial problems sometimes in the life of family and sometimes in the family business.

The family is unique resource for a family business and it may be a source for competitive advantage for the family business. But it also is a barrier, where the needs and possibilities of the family become problems for the development of family business. This can be such family spending which would be a risk for the family business's liquidity or it is more difficult for the development or for the growth of family business, since the lack of resources the family business has to postpone the development. Table 2 lists the issues are related to financial activities, where the behaviour of the family business and non-family business are strictly different.

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Table 2: Financial characteristics of the family business

Tasks	Financial specialities	Family business characteristics
Relationships between family's and family business's financing and funding of succession issues.	• Mix the family's and family business's financial activities; • The use of the family's assets as collateral; • The firm represents a significant portion of the family's assets; • Succession require good financial plan and preparation.	• Desire to lead the family-run business; • Commitment; • The long-term approach; • To ensure the independence of the pursuit of family property; • The importance of maintaining a good reputation; • Risk management; • Paternalism; • Merger of family and business affairs; • Family dominance in the management; • Resistance against the non-family managers; • Nepotism.
Financial management, borrowing and debt.	• Risk management; • Less sophisticated financial management; • Preference for debt financing; • The debt ratio is lower than the non-family firms.	
Capital source, capital investment outside the family and capital sale.	• Maximizing the family's resources; • Rejection of external capital; • The definition of goodwill is difficult.	

Source: Csákné 2012:17

The relationship between the family's and business' financing and funding of succession issues

In Hungary especially in case of smaller family businesses the business and the family's finances are mixed. The most common reason is that the liquidity imbalance can be

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solved by reallocation of either the company's or the family's resources. If not treated separately from the family and business finances, family life events such as marriage, divorce, birth of children, retirement and death affect the financial stability of the family businesses (Mandl, 2008).

In Hungary it can be also shown that in case of smaller firms the most common direction of financial transfer between business and family is the usage family income for the treatment of corporate liquidity problems. This is especially true when the family business starts, and in specific subtype forms i.e. family-based enterprises by spouses. It is also characterized by Hungarian family businesses that the provision for the loan will be offered by family's property. The clear consequence of the mix of family's and the family business' financing is the characteristics of family businesses which means that the business affairs and the life of family are mixed. Somewhere the business, somewhere the family interests is more important, and it can be seen the organization of working time, the delegation of tasks, the different positions of the business. Many family businesses – where the important business decisions are usually made outside working hours or they are solved within the family, and where the business is often the scene of family life – not supplied ambivalent feelings of the two cross-financing systems. The reason of a merger of family and business finances is very simple, i.e. very often the major part of the total assets covers the whole property owned by the family. The fact that a very high proportion of family assets represent the family business clearly explains the movement of funds from the company for the family, because if there is a cover for family expenses it is easiest and fastest way. The background of financing the family business by family can be explained such features that commitment, long-term approach and to ensure the independence of the family property. The members of the family prefer the finance by family' cash and equivalent instead of loan to keep the family business's liquidity or to avoid the company become a vulnerable for an external financier. Financial assistance provided by the family to the family business has an advantage because of fastness and it saves the company by borrowing or administration (data collection, much more information). If it will be for external financing, collateral often family-owned property, properties are typically available.

Of course, the separate management of the business and the family's finances would make it more transparent funding of family businesses. In some cases this may be an obstacle to the functioning of the family business as well. Therefore it is not necessary to disregard the money transfer between them arising out of the family business resulting from the essence of the family and the business's symbiosis they have to make it transparent. But mixing of the family's and family business's finances effect impossible control on long-term. Both financial systems become confused financial situation, the continuous unplanned withdrawal of funds from the company leads a financial problem of the family business. In contrast, the proposed cross-financing flows using pre-defined rules and frameworks create the family satisfaction, the undertaking to the benefits of family finance.

In the life of the family business the succession, the transfer to the next generation will be a significant challenge, since the future of the family business depends on the success of it that means the company remains a family business family whether or not a family business will continue to operate, or close. Despite the fact that during the transfer of the family business remains "within the family," the leadership transfer and its financial challenges are very important in the life of family business. The leadership transfer within the family requires more sophisticated financial solutions than company sales where the buyer pays the agreed price and he becomes a new owner of the company. During the transfer within the family it cannot be ignored that the founding entrepreneur's properties and sources of income are the significant part of an enterprise. The probability that the founding entrepreneur retires and except the regular income from the enterprise, and gives the company without any financial compensation to the next generation, is very low. During the company transfers it is necessary to make financial plan for the size of the retreating entrepreneur future regular income source, determining the extent and source of one-stop value for the company for the transfer of the potential new owners ownership of the firm's role, determining the financial compensation they are retreating contractor provided. Furthermore it is also very important to calculate the fees incurred in the transfer of consultants, legal fees, the source of so. In connection with the transfer of

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certain family members may have different preferences? It might be that it requires a large amount of its predecessor, one-time compensation, or other regular income they require, or both.

In Hungary during the planning of transfer it is necessary to clarify the funding issues requires creativity, foresight and development of custom solutions.

Financial management, borrowing and debt

Within the family businesses, depending on the size of business the application of financial management technologies could vary. The significant part of the Hungarian SMEs are controlled by owner-driven managers, who typically have started to work by own hands and they keep alive alone their company. The characteristics of financial management within family business have a strong relationship with the general characteristics of the family businesses, such as risk management, the importance of maintaining a good reputation and a long-term approach. These features are implemented in the direction of the family businesses to avoid financial risks when making financial decisions to keep the long-term, stable, stabile operation in mind.

In the Hungarian family businesses it can be observed the weak financial culture, the underdeveloped financial management, paternalism, nepotism, fighting external managers, and the family dominance in the management are dominant. Many family companies are characterized by mistrust, which is often the biggest development trig thereby. They do not trust anyone outside the family all the essential functions such as financial management are performed by family members, regardless of whether they have the necessary skills and qualifications. Up a certain size there are a few businesses that can afford to make a business without loan. In the family businesses the external financial requirement and the contact with the credit institutions (banks), the regular financial reporting and planning obligations often arises the development of financial management. The family business because of the business or on the other hand some changes in family life events requires banking services. In many cases the life cycle of family businesses explains the external financing: start of family business, development

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of the business, growth by acquisitions, restructuring and internationalization. Based on family needs protection and management, asset restructuring, succession and entering into the international market.

Based on family needs protection and management of property, asset restructuring, succession and business for sale, transfer can be regarded as events, which requires banking services. In Hungary examining the financial habits, strategies it can be observed that for family firms it is more important to improve their financial position by the reinvested profits and they will pay back their loans as soon as possible, thereby restoring their independence than non-family firms. If the Hungarian family businesses would need to involve external source, they prefer debt financing, rather than involving investors from outside because of they fear that their position will be weaker due to the family ownership changes. Despite the fact that they can borrow, given the extent of the debt will remain subdued. Family businesses are long-term, valuable and relatively risk-free banking partners. Credit institutions that recognize the special needs of these family businesses, and they are sufficiently flexible to take into account both the business and the family's interests in the development of funding bids, achieve considerable success in this particular segment.

The source of capital (capital investment outside the family, sale)

At the start most of the businesses have incomplete financial data, plans, the available collateral are insufficient, and so it is very common that the start-up family business in the beginning only rely on the resources provided by the prospective owners and their families. Gere in his research has shown in (1997) that family businesses are used for almost 90% of the family's savings to get started, and it was very typical that the sale and use of the relatives of the family-owned property loans provided the initial capital. The results are consistent with Vadnjal (2008) survey conducted among Slovak family businesses. Based on Czakó (1997) 70% of the Hungarian start-up family businesses founded in the early nineties needed used additional financial resources. One fourth of start-up companies used bank loan and two-thirds of the business used households' saving. According Kuczi (2000) there were common thing to start small enterprises became family business instead of non-family company due to lack of required resources, since the significant role in the family and relatives.

In the case of such family businesses, which are already operating the major source of financing are the reinvested profit, the short-term bank loans and savings of family members, relatives or friends. The Hungarian family businesses during the operation rely heavily on family savings (36.3%), and often reinvested profits are the funding basis (30.4%) (Gere, 1997). At the foundation they created exclusiveness for family, so during the operation of family businesses they do not willingly give up it. Although the outside investors could reduce their financial requirement, a significant part of funding owners is resistant these forms through capital raising or capital increases. In the background most often lies in fearing to lose the essential ownership and management control.

Family businesses can seek external investors in such case, if a business owner wishes to sell its stake. As it mentioned above, the major sources of family businesses are family savings, bank loans and the reinvestment of profits come from the business. This closed financing structure could make difficulty is in the case where a member of the family to sell its stake. On the one hand it is very difficult to determine the value of the family business, on the other hand it is difficult to find suitable new outsider buyer, who will be agreed by the rest of the family (Mandl (2008). In the case of family businesses the wisest decision is to sell ownership to the family members, which might fail in the case of if the family does not have sufficient funds to purchase of property for sale.

Family businesses may also be in a position where it is not only a part of the company, but the whole company up for sale. Vecsenyi (2009) denoted that the main reasons of it are fatigue, developmental constraint in critical situation, a good offer and a good chance. If the family business's owner decides to sell, it is absolutely necessary the family business's evaluation, which clearly shows how much it actually reaches the company. Especially in the case of family businesses to determine the true value of the company is so difficult, especially the problem is the estimation the value of the business the family and the personal presence of the owner, the value of his relationships, how to operate

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the family business successfully without him. Astrachan and Jaskiewicz (2008) specifically created the family business valuation model to be used, which means that they determined the value of the business by the owner family's perspective. According to their theory, the value of the business is not solely determined by the property and financial benefits will be realized in the future, but the emotional factors also play a role in the calculation of the final value. The emotional value depends on the emotional cost and emotional benefits. If the benefits are greater than the costs, the final value of the business will be greater, and if the emotional costs are greater the difference reduces the financial value. The critics of evaluation model note that although it helps for the family business to estimate the fair value but for the real potential buyer is unlikely to help in determining the purchase price paid for the business.

The very powerful features of family businesses' financial behaviour are to reject the involvement of outside investors. The dilution of family business owners may strongly lose a family nature, and thus the special characteristics. Of course, there are corporate governance and management techniques which support to keep dominance of the family members although the ownership structure changes, but in the majority part of businesses these are not too familiar, or they are wary to implement it, and fearing to lose family business1s control they prefer other ways to handle the financial requirements.

In Hungary, the family firms cover a very special segment of the business. It can be seen in their unique appearance, in their business and in their financial activity, too. Interpretation of their behavior is an important task, since through this can understand the background of their decisions can conclude the reasons of their business behavior.

If we understand the specialties of family businesses and their financial activities we can analyze much better the reasons of

- the financial merger between the family and the company,
- seemingly excessive caution regarding the level of indebtedness,

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- as well as to miss a new business and growth opportunities because of the aversion for equity investors coming outside the family.

In many cases the specialties can be seen as weaknesses, but these are not weaknesses but these can be logically deduced from the characteristics essential specialties. If they do different, it probably passes behind the weakening of family nature. In Hungary the most common reason for foundation was the hope for a better livelihood (36.4%), and it was very common when an enterprise was founded as an answer to some kind of dilemma (a family member lost his job (21.3%), need, compulsion (10.5%)). The rate of those who were motivated by self-sufficiency (8.5%) or by realization of their own vision, ideas (6.2%) are rather low (Gere 1997).

The change raises a number of economic, strategic, organizational questions, legal issues. In Hungary recognizing the important turning point the Family Enterprise Academy started to operate. The objective of the Academy is to support the Hungarian and the regional medium and large family businesses because of the last two decades there were some changes of the operation, the organization framework and the legal background. In case of a given family business there are a number of legal issues to decide, for example, how to resolve the issues of classic corporate relationships, how to handle the members, decision makers relations with each other, to find the legal framework for the more successful operation of the business of promoting the development.

The articles of incorporation primarily handle the organization and the operation of the company, the rights and obligations of the members. The so-called syndicate agreement settles the relationship between the SMEs' members with each other. This syndicate agreement forms legal framework of the cooperation and of the expectations between the SMEs' members. This is extremely important when the family business is not managed by the founder's descendant(s), but this manager is coming outside of the family business. In this case inevitably arise in the question for decision making, for the voting rights, for the legal relationship between the manager and the family members. Therefore it could arise in the legal issues to ownership and to inheritance. If the

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descendants continue the family business, inside the firm it has to be satisfactorily settled the relationship between a company managing family members, their position within the company and their decision-making competence (which may be equal, but the result may be an opposite decision.).

The Hungarian laws do not currently support the succession within the family. Therefore, some cases it can be a problem for the family business' continuity. The new Civil Code in case of limited partnership prescribes market valuation for the outgoing member, in case of limited company there is no any regulation for it, so this is a very challenging case to obtain what is actually ours. Due to unifying nature of the assets of the company the company itself is the owner of the property, so it is not so easy to inherit the share of capital.

When founding an enterprise, the question of number of family members is important. Scharle (2000) found out that more than half of Hungarian family businesses were founded by more family members. Czakó and her colleagues' (1995) research also had similar result. They found out that more than half of enterprise owners choose their spouses and relatives for co-workers.

According to a survey Hungarian members of family businesses trust in the future and they do not want to fix the voting rates, do not want to make a written agreement with each other. But later the absence of written agreement causes problems, e.g. when the harmony between the partners disappears or one of the members who would like to exit the business. The situation becomes even more complex when one member dies and the heirs want to obtain the assets. A judicial proceeding in fact take years and finally the members of the family business may loss the full property of the firm.

Policy environment, legal status of family businesses, legal regulations

Despite the fact that there is overwhelming evidence confirming the importance of family businesses in the Hungarian economy legal distinction of family and non-family

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businesses doesn't exist. They are under the same legal consideration.[3] The most important laws in force related to companies, partnerships and entrepreneurs are the following:

- Act V of 2013 on Civil Code,
- Act CXVII of 1995 on Personal Income Tax,
- Act XCII of 2003 on The Rules of Taxation,
- Act XCII of 1990 on Duties.

The listed acts cover every aspects of the operation and taxation of family and non-family businesses from establishment of a new business through transformation to closure. The renewed Civil Code contains the rules of family foundation and trust which are very important legal solutions for family businesses especially in case of succession.

The related Hungarian legislation contains answers for all kind of business needs. As a consequence of the heterogeneity of Hungarian family businesses and their strategy standard solutions doesn't exist. Family businesses after clarifying their future plans - with the help of the right expert - certainly can find the most suitable legal and tax solutions.

Legal, financial and tax issues play an important role in the life of every Hungarian family business but their answers to these issues may differ considering their size. While medium size and large companies tend to use wide range of services provided by specialised consulting and advisory firms the micro and small businesses main source of advice are their family, friends, peers, lawyers, bookkeepers, bankers and insurance agents.

Source of starting capital, methods of financing the business operation in Hungarian family businesses

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

[3] Under the Act CXVII of 1995 on Personal Income Tax a special form of licensed agricultural small-scale producers - family farms - are defined. The distinction mainly serves tax considerations and can be applied exclusively for small agricultural family businesses.

savings to get started, and it was also typical that sale of family property and loans from relatives provided the initial capital. Based on Czakó's (1997) researches 70% of the Hungarian family businesses founded in the early nineties needed additional financial resources for the start. One fourth of them used bank loans and two-thirds of the business used households' savings as initial financial resources. According to Kuczi (2000) due to scarce financial resources family and relatives played an important role in the establishment of those businesses too that originally wasn't meant to be established as family businesses.

In case of such family businesses, which are already operating the major source of financing are the reinvested profit, the short-term bank loans and savings of family members, relatives or friends.[4] The Hungarian family businesses during the operation rely heavily on family savings (36.3%), and often reinvested profits (30.4%) are the main source of financial needs (Gere, 1997).

In Hungary especially in case of smaller family businesses the business and the family's finances are often mixed. The most common reason is that the liquidity imbalance can be solved by reallocation of either the company's or the family's resources. Mandl, (2008:55) states if family and business finances are not treated separately family life events such as marriage, divorce, birth of children, retirement and death may affect the financial stability of the family business. However, before judging family businesses for mixing family and business finances it is worth to examine Yilmazer and Schrank (2010:402) table that compare intermingling and bootstrapping (which is considered as a very effective business financing method). The comparison highlights that intermingling and bootstrapping have overlapping areas therefore one can't clearly criticize the intermingling of family and business finances.

[4] Global advisory firm – KPMG – in its recent report analyse high-net-worth individuals (HNWI) role in family business financing. HNWIs are usually close friends or relatives of family business owners. They share family businesses long term view, and are trusted, flexible partners. HNWIs are usually high-level experts who contribute with their advice and expertise to family business development (KPMG, 2014:8-11). The term HNWI is rather used in large company context but some similarity can be discovered among relatives and friends financial support for micro and small family businesses and HNWIs activity in large company financing.

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

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

Financial characteristics of Hungarian family businesses

There is insufficient empirical research on Hungarian family businesses financial behaviour, characteristics and challenges. Only a few theoretical paper and expert opinion are available on the subject.

There is a rapidly growing international literature on socio-emotional wealth (SEW) (first defined by Gomez et al. in 2007) which describes those non-financial aspects of the family businesses that shape their particular behavioural. However the aim of SEW concept is not to describe family businesses financial behaviour it gives explanation to family businesses long term financial orientation, profit realisation and growth characteristics. The concept states that family members' main goal with their business is not only to maximize financial returns, but to increase the socioemotional endowments they derive from the business (Miller – Le Breton-Miller, 2014:713).

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

- business decisions primary goal is not exclusively the profitability,
- simultaneous presence of family and business financial needs requires careful coordination,
- favourable handling of family needs at the expense of business needs, but we can also experience the postpone of family investments for the sake of business too.

Hungarian family businesses, beyond the actual effectiveness, are guided by individual goals as safe living, ensuring workspace for the family members, stability of operation, preservation the company's good reputation, and keeping the company's size at a level that the immediate family can control and manage. These goals are in accordance with SEW concept. (Csákné, 2012:17).

In Hungary, examining the financial habits, strategies of family businesses it can be observed that they prefer to use retained earnings, and bank loans rather than external capital as a source of their investments. The main reason for refusing external finances is the fear of diminution of family control. Family businesses are long-term, valuable and relatively risk-free banking partners. Credit institutions that recognize the special needs of these family businesses, and are flexible to take into account both the business and the

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family's interests in the development of their financial products may achieve considerable success in this particular segment (Csákné 2012:20).

Szabolcs Varga, managing director of Bank Gutmann Hungary[5] has extensive experience in private banking of Hungarian family businesses. Recently he shared his thoughts about family businesses' financial behaviour with Piac&Profit magazine. He highlighted the following attributes of family businesses (www.tmkronika.hu, 2015):

- tend to finance their developments and growth from retained earnings, their debt ratio is usually lower than non-family businesses,
- prefer to invest into other family businesses,
- show more intensive market activity during recession than non-family businesses,
- separate company and private wealth from the third generation.

András Herczeg, executive director of AVHGA (Foundation for Loan Guarantees of Agricultural Enterprises) in a recent interview explained that 85% of AVHGA clients are micro enterprises majority of them are licensed agricultural small-scale producers and family farms. He shared his experience about agricultural enterprises especially licensed agricultural small-scale producers and family farms which are considered better debtors than other sectors' businesses. The reason for their financial stability are their strict control resulting from EU funding, their full and unconditional liability and their bound to the land (www.agrarszektor.hu, 2015).

The following table summarizes the main financial issues of Hungarian family businesses, their specialities and those family business' characteristics which affect family firms' financial behaviour.

[5] Bank Gutmann is an Austrian family business specialised managing large accounts. Gutmann's clients include domestic and international entrepreneurs, foundations and trusts, high-net-worth individuals and families as well as institutional investors (www.gutmann.at).

<table>
<tr><th>Issue</th><th>Financial specialities</th><th>Family business characteristics</th></tr>
<tr><td>Parallel financing of family and family business and financing succession</td><td>• intermingling of family and business financing
• using family assets as collateral
• the family business represents a significant portion of the owner family’s wealth
• succession requires careful financial planning and preparation</td><td rowspan="3">• desire to keep the family business ownership and management within the family
• commitment
• long-term approach
• ensure the family financial independence
• importance of maintaining good reputation
• Risk avoidance
• paternalism
• intermingling of family and business affairs
• family dominance in the management of the business
• refusal of employing non-family managers
• nepotism</td></tr>
<tr><td>Financial management, borrowing and indebtedness</td><td>• avoiding financial risks
• less sophisticated financial management
• preference of debt financing over equity financing
• lower debt ratio than in non-family firms</td></tr>
<tr><td>Source of capital, external (non-family) capital raising, selling the family business</td><td>• maximum usage of family resources
• rejection of external (non-family) capital raising
• defining the value of family business is difficult</td></tr>
</table>

Source: Csákné (2012:17)

Investments, family business valuation and financial challenges of succession

Asaba (2013:712-713) examined patient investment of family firms in the Japanese electric machinery industry and got some interesting results which relevance worth to consider for Hungarian family businesses too: family businesses decide investment in the long run and are less concerned with short term uncertainty and fluctuation. They tend to continue to invest under uncertain and volatile environments and when market is declining family businesses do not suppress investment as much as non-family businesses. Asaba (2013) results are in accordance with SEW concept but one may ponder whether SEW concept totally explain them or other factors like family businesses national and sector commitment or bound also affect their investment decisions.

One can view family business in two ways: as an "investment asset" or an "operating entity" (Isaac, 2014:18). In most cases the family business is the main source of a family wealth and it is the family largest investment (Wiktor, 2014:65). For these reasons it is important for family business owners to consider their company as an asset, an investment which is particularly relevant in time of business transfer. Small and medium sized family business owners usually don't pay too much attention the value of the family firm. Defining the value of a family business can be a challenging task but there are moments when it is inevitable. In the life of a family business, succession, generational transfer can be one of these moments. Family businesses owners as a succession outcome may decide the sale of the family company. Besides that Vecsenyi (2009) states that the main reasons of selling the family business are: fatigue, developmental pressure, emergency, a good offer or a good possibility. If the owners decide to sell the company a reliable business evaluation is absolutely necessary. Defining the value of a family business is a particularly difficult task. The additional value created by the founder and the owning family is hard to define. A very important question is how much does the family business worth without the family?

Astrachan and Jaskiewicz's (2008) family business valuation model determine the value of the company from the owner family's perspective. According to their theory, the value of the business is not solely determined by the value of the assets and the future financial benefits but the emotional factors should be equally evaluated. The emotional value depends on the emotional cost and emotional benefits. If the benefits are greater than the costs, the final value of the business will be greater, and if the emotional costs are greater the difference reduces the company financial value.

Succession, business transfer to the next generation is a very important event in the life of family businesses. Wiktor (2014:66-68) points out that family business owners planning business succession need to focus on timing, transition and taxes. Future of the family businesses highly depends on the success of generational transfer. Family

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business succession is a complex management challenge with significant financial aspects. Leadership transfer within the family requires more sophisticated financial solutions than company sale where the buyer after paying the agreed price becomes the owner of the company. If the family business owner decides to keep the firm within the family careful financial planning is needed to define the future income of the founder (one time money withdrawal, regular income from the business), whose most important personal wealth is probably the family business. Planning the financial aspects of business transfer requires creativity, foresight and development of unique solutions (Csákné, 2012:19).

V. Concluding remarks

Most of family businesses in Hungary have been founded after the collapse of the state socialism. The majority of the founders were in their 30s and 40s in that time and are now about retiring. As a consequence ownership transfer seems to be a quite radical challenge. Two aspects of the issue should be emphasised here. The first one is the lack previous experiences and traditions of successions. The second is that the economic and social-institutional environment has been dramatically changed in the last two decades. Successors, therefore, should be able to preserve the founders' values and successful business solutions, while being able to cope with the new challenges represented by the different development cycles of the Hungarian economy and society.

The growing public attention on the issue of succession can be illustrated by the fact that in the last 3 years two business associations have been founded with the aim to provide support to family firms and to represent their specific interests. Their goal is to transfer best practices based on international experiences and to help of the creation of more family business-friendly institutional environment.

Despite the growing interest on the issue, there is neither broadly accepted definition of, nor systematic data collection on family firms in Hungary. When defining the term 'family business' usually three different aspects are taken into account, namely ownership, governance and participation in daily operation. After 1990 the large, state-owned companies dominated the state-socialist economy have been replaced by micro-, small- and medium-sized enterprises and as a consequence, a rather heterogeneous economic structure came into being. According to Martin (2008) Hungary represents a segmented market economy, where the following four basic types of firms are forming the organisational landscape: state-owned, privatized, foreign-owned and newly established (*de novo*) organisations. Most of family firms fall under the latest category, e.g. they have been founded in the last 25 years and are micro-, small- or medium-sized enterprises.

Empirical data collections show that Hungarian family firms have different succession strategies. Csákné Filep (2012) classified three types of family businesses in this respect. In case of *kinship businesses* owners are recruited from the wider family (distant relatives) and/or friends, acquaintances, external professionals and other investors. Their successions vision is clearly identifiable: they want to keep the ownership within the (wider) family. *Marital businesses* are owned by the family members, especially by spouses but distant relatives also may have share. Their primary goal is to preserve family-ownership accompanied by the delegation of the management tasks to an external party. In case of the *nuclear family businesses* ownership and management is planned to be preserved in the hands of the close relatives. The ownership goes mainly from the parents to the children.

There are external and/or structural factors that influence the ownerships transfer, as well. Bálint (2006) calls attention of the following aspects: the size of the company, business prospects, the age of the owner, the successor's competences and the competition within the sectors. It is very important to stress the significance of the market, especially the local/regional and international dimensions.

As for the legal environment of the succession we have to call attention to the fact that the Hungarian laws do not currently support the succession within the family. The Civil Code in case of limited partnership prescribes market valuation for the outgoing member,

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in case of limited company there is no any regulation for it, so this is a very challenging case to obtain what is actually ours. Due to unifying nature of the assets of the company the company itself is the owner of the property, so it is not so easy to inherit the share of capital. This situation is often accompanied by the absence of written agreements between the family members and/or generations that often leads to irreconcilable conflicts within the different stakeholders.

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