



## INSIST National Report (Literature Review) guideline

*(Preliminary Remarks: 1. The National Report should not be restricted to the academic literature. Any other relevant (operational literature) sources may be used (e.g. reports of professional associations, financial service providers, statistical offices, etc.). 2. In the research tender approved by the founding Agency (Horizon +), it was explicitly stressed that “...written National Reports provides an overview about the current state-of-the art situation concerning the ownership transfer between generations in family-owned firms at country level.)*

### **Introduction**

#### **Family Business: Definition, Roles and Importance of the Family Business (1-2 pages)**

##### **Definition of Family Business**

Instead of shortage, we have an abundance of definitions (cc. 100 definitions) of the **family business**, it would be advisable to accept for the Insist project the following definition suggested by the EU Commission (Csakne, Filep J. (2012:5-6-): “... 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.”

- *Roles and Importance of the Family business* (statistical description)

E.g. share of family business (FB) in within enterprises, share of FB in the GDP, employment, export. (e.g. in Italy, 92 % of the 5 millions firms are family owned.)

- *Institutional Setting of Family Business*

Please describe as detailed as it is possible the activities of formal organisations, e.g. associations supporting family business.<sup>1</sup>

- *Internationalization of family businesses*

Position of family firms in the international division of labour, FB dynamics within the global value chains

- *Importance of the Succession and the National context*

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<sup>1</sup> In Hungary for instance ‘Towards a Responsible Family Firms in Hungary’ (Felelős Családi Vállalkozásokért Magyarországon)

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E.g. in Hungary, the first generation of family business owners is approaching the retirement age and facing with the challenges of the succession, etc.

- *Social perception of family businesses as the contributors to the national wealth, as employers and community leaders*
- *Effects of the crisis on Family Business*

## **II. Socio-Cultural Environment of Family Business**

### ***II.1. Succession Process and Succession Infrastructure<sup>2</sup> (5-7 pages)***

- *The owner (founder) personality: entrepreneurial or/and managerial skills or “habitus” (leadership style, dominance of the generic or specific (e.g. sector) professional skill, etc.*
- *The founder owner role in the succession process (e.g. anticipative, mentor- teacher, supervisor, cooperative, etc.)*
- *The successor’s role in the succession process (dilemmas of the next generation)*
- *Guidelines orientating the succession process (e.g. starting as soon as possible, cooperation between generations, existence or lack of formalised succession plan, joint activity of family members and other colleagues, degree and types of the external help (i.e. legal, financial, commercial consultancy).*
- *Outcomes and the Impacts (advantages versus disadvantages) of the succession process (e.g. family inheritance, selling in the market, inviting private investors, selling to employees (Employee Stock Ownership Plan – ESOP), Management Buyout (MBO), selling on the stock-exchanges etc.)<sup>3</sup>*
- *Inhibitors and enables or the succession process (different future views of parents and their children, lack of (suitable) successor, predecessor does not want to retire, children have no affinity to the family firm etc.)*
- *Emotional capital accumulation process (Intra- and inter-generational similarities and differences, harmonization of family and business values, social-cultural impacts on family patterns, etc.)*

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<sup>2</sup> By succession infrastructure the followings are meant: proper planning and management of intergenerational succession, existence of various intermediaries, like lawyers, financial and business advisors, etc.

<sup>3</sup> Example: in the Hungarian case the outcomes of the succession process are varying according to the following factors: 1. sectors (e.g. in chemical, construction and retail sector sales is dominant and in the food industry the family succession, 2. Age of family firm: younger owner-entrepreneurs prefer to sell the firm for external partner, with increasing age, the owner-entrepreneurs prefer the family succession, 3. export oriented family firms prefer to sell the firm for the external partner, etc.



## ***II. 2. Role of Psychological – Communicational Relation in the FB: Special Focus on the Succession Process (5-7 pages)***

- *Family Business Dynamics* (a deeper understanding of family organisations, guidance for possible conflict resolution within a family business, how family dynamics affect business behaviour, the role and importance of emotions)
- *Social systems* (family business as a "social system", the definition and clarification of roles and responsibilities of the owners, family members, independent members of the board and management is needed)
- *Family Strategy* (challenges that the FB faces in the family for generations, family strategic planning options, "Familliness" as the source, and the family strategic job, free and hindered communication, borders and border management, non-lineal inheritance, parallel strategy processes, forms of family management: a proactive means of conflict prevention, family constitution, Family Charter.)
- *The Psychology of Succession* (identity, values; special paradoxes of the succession process, the parent-child relationship in the family business; the gender differences; "invisible bonds"; open and hidden loyalties, the decision-making process of succession, including the role of emotions and conflicts)
- *Crisis and Conflict* (the family has a latent vulnerability at risks or succession. The family conflicts quickly impact the business, and affect the lead; paradoxes as a catalyst for conflict; conflict situations in family businesses, conflict and cooperation in the management, escalation dynamics, attribution mechanism, attribution errors, and conflict mediation methods)

## **III. Managing Family Business – Strategic Issues (5-7 pages)**

- *Strategy formation and decision* (participation of family and non-family members, etc.)  
Please consider the various roles family and non-family members can take in running business (e.g. board member, shareholder, manager, employee, etc.)
- *Division of labour between owners and managers (employees)*. (Separation between of managerial and operational/executive roles, keeping distance between family life and business, etc)
- *Learning and Knowledge development/ transfer in the firm*  
If there are relevant sources, please describe as detailed as possible the learning processes connected to succession, with a special attention to intermediaries like “knowledge brokers”, mentors, etc.



#### IV. Policy Environment, Financial and Legal Regulations (5-7 pages)

- *Initiatives supporting Family Businesses* (e.g. operational policy programmes, financial support mechanisms, mentoring programmes, etc)
- *Financial relations between the Family and the Business; Financial preparation of the succession process* (E.g. mixing family and business, family assets as collateral for the business, the share of business in the family wealth, financial planning of the succession etc.)
- *Financial management, practice of borrowing and indebtedness* (avoiding financial risks, features of the financial management, degree of indebtedness, loan-financing etc.)
- *Source of capital, capital raising non-family resources, sales* (extensive use of family resources, practice of “boots-strapping”, prudence toward external capital sourcing, difficulties related with the value-assessment of the family business, etc.
- *Impacts of the Tax Regime on Family Business Succession* (inheritance tax, example a balance sheet of an “X” firm at the date of transfer (“best example”), tax due on retirement, Law on inheritance tax or fee (levy) etc<sup>4</sup>.

#### V. Concluding Remarks

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<sup>4</sup> Examples on the Tax Monitoring – Comparing the Impact of Tax Regimes on Family Business (based on December 2013 rates):

1: Hungary – Full Exemptions Available: a). Inheritance tax and gift tax charged, b). Estates or gifts transferred to descendants, ascendants and spouse are exempt from tax.

2: Italy – Full Exemptions Available: a). Inheritance and gift tax re-introduced, b). Transfers to spouse or direct descendent of companies or equity investments are not subject to tax if: the business is continued for 5 years or the business is controlled by the spouse or descendants. Otherwise a tax at 4 % on the value of the estate or gift exceeding 1 million Euro is applicable. C). Real estate is subject to tax at 3 % if specific exemptions are not applied. Full tax exemptions are applicable for the main house or the estate transferred along with the business.

3: Poland – Full Exemptions Available: a). Inheritance tax and tax on gifts during lifetime are applicable. b). Inheritance and gifts from spouses, descendants and ascendants are exempt from inheritance and gift tax if declared with the respective tax office within 6 months.

4: U. K. – Full Exemptions Available: a). Inheritance Tax – 100 % or 50 % Business Property Relief available if it is a qualifying business. B). Transfer of relevant business property – Business assets have been held for at least 2 years prior to transfer. C). Capital Gains Tax – Gift Hold Over Relief: 1. No capital gains tax will be paid by the donor instead the gain is rolled-over reducing the recipient’s base cost., 2. Entrepreneurs’ Relief – 10 % tax rate on first 10 million gain on disposal of business.

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