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## **THE THEORETICAL APPROACH TO SUCCESSION OF FAMILY BUSINESS**

### *TEORETYCZNE PODEJŚCIE DO ZAGADNIENIA SUKCESJI FIRM RODZINNYCH*

**Key words: family businesses, generations, social exchange, succession phases, four ideal cases**

*Słowa kluczowe: biznes rodzinny, pokolenia, zmiana społeczna, fazy sukcesji, cztery idealne przypadki*

*JEL codes: Q1, R2*

**Abstract.** The study deals with the questions and problems of the succession of generations concerning family enterprises, discussing the main succession issues. On a world scale most of the family businesses do not survive the first generation, thus succession has become the most important problem. This is the reason why the succession of generations has become the central issue of several research projects. In the diagnostic phase of the research the aim is to present the phases of succession of generations, the succession processes, their method and the possibility of processes especially characteristic of agricultural economics with the help of secondary data, with the application of contemporary research results and a methodological approach.

### **Introduction**

The biggest and best-known firms of the world are in family possession or operate under family surveillance. The oldest firm in America, a family business of a one-time Turkish family, the Zildjian, specialised in cymbal making is already at the stage of the 16<sup>th</sup> succession of generations. Moreover, one third of the 500 firms of the American S&P stock index is a family business. The longest-standing family business of the world is in Japan: the Houshi hotel and spa is 1300 years old and has been operating for 46 generations (II). A few examples listed by Leach Kristie and Jane Pearl [2010] are the following: Merck KGaA, Villeroy&Boch, Faber-Castell, Bombardier Inc., GroupeAuchan S.A., Groupe Danone, Michelin, Sodexo, ALDI Group, Robert Bosch GmbH, Oetker Group, Toyota Motor Corp., Heineken N.V., LG Group, Samsung Group, Inter IKEA Systems B.V., Roche Holding Ltd., Cargill Inc., Ford Motor Co., Wal-Mart Stores etc. There is little known and authentic statistics concerning Hungarian firms, their proportion is probably the same as recorded in the European Union: namely 70-80% [Mandl 2008]. According to the estimates by the SEED Foundation for Developing Small Enterprises half of the corporate enterprises and 20% of individual enterprises are family businesses [Horváth 2008]. Researchers mostly agree in the fact that family businesses are over-represented in agriculture, tourism and catering industry, construction industry and retail and wholesale trade, while their proportion in the financial sector is smaller [Westhead et al. 2001, Barclays 2002, Peters, Buhalis 2004, in: Csákiné, Filep 2012]. According to Ágota Scharle [2000], Hungarian family businesses characteristically act in the work intensive branches, almost two thirds of them operate in agriculture, trade or the catering industry. The high proportion of family businesses in agriculture can be explained by the fact that those in the agricultural sector can mediate entrepreneurial traditions with a greater chance to the following generations. When founding family businesses the number of founder family members is a crucial issue. According to A. Scharle [2000], more than half of the Hungarian businesses were established by several family members; moreover the research of Ágnes Czakó and his colleagues [1995] had the same result. They came to the conclusion that more than half of the business owners choose their spouse or their relatives as partners. According to some of the theories involving the family in the business is also influenced by the social climate. For the poorer layers family is the only serious capital, thus it is more frequent to have family members as participants in the launch of the business compared to those of a better social

standing, where the available sources do not make it necessary to involve family members [Kuczi 2000, in: Csákiné Filep 2012].

In the diagnostic phase of the research the aim is to present the main issues surfacing during succession of generations, the phases of the procedure, the succession process, its methods and the succession ladder characteristic especially of agricultural economics with the help of secondary data, literature and contemporary research results.

### Material and methodology

During the approach of the topic we built on the article by Joshua Daspit et al. [2016] with the title *Examining family firm succession from a social exchange perspective. A multiphase, multistakeholder review*, on the chapter “Patterns of Succession and Inheritance” in the book *The Farm Family Business* by Ruth Gasson and Andrew Errington [1999], the book chapter “The Main Problems of Family Businesses” by Éva Málóvics, Beáta Vajda [2012], the work of Le Breton-Miller et al. [2004] with the title *The Three-Phase Model of Succession* and the thesis of Judit Csákiné Filep [2012] entitled *Family Businesses – Succession in the Focus* together with several other studies dealing with the issue of succession. To confirm the practical character and actuality of the topic a few statistical data are also presented in the study. Following the clarification of the notion of family businesses, on the basis of J. Daspit et al. [2016] the social exchange theory is presented together with the types of exchange relations. The roots of this can be traced back to anthropology, economic science, social psychology, sociology and psychology. The process of succession incorporates exchanges between the three types of those interested. Phases can be differentiated on the basis of participants in the exchange as follows: (1) exchange between the one in status and the successor; (2) the exchange of family members inside and outside the family; (3) exchange of family members and non-family employees or other non-family members concerned. R. Gasson and A. Errington [1999] specifically dealt with the questions of succession of generations in agricultural economy; their model presents the possible succession methods in two dimensions and they describe four ideal base cases. Based on the two dimensions, namely responsibility taken for the decisions of the home (own) business and the management of the new, independent enterprise there are corporate enterprises, detached enterprises, father-son joint ventures and the so-called reserve economies. Le Breton-Miller et al. [2004] and Tortsen Wulf and Stephan Stubner [2008] touch upon the issues of succession as a system of process in their papers. In their opinion succession can be divided into four clear-cut phases.

### Literature review

A research carried out in the European Union identified 90 different family business definitions, most of which are based on the ownership of the family and their presence in the management of the enterprise [Mandl 2008]. The family business is an organisation, in which the control and management functions are attended to by several members of one family – even through several generations [La Breton-Miller et al. 2007]. In his works Adrián Nagy [2006, 2007] emphasises the dominance of family capital, ownership, management and use of workforce complemented by the fact that in an ideal case the firm is inherited from generation to generation. According to PricewaterhouseCoopers [PwC 2008] family businesses are firms where at least 51% of the ownership is concentrated in the hands of one family or related families; upper management is mainly constituted by family members and the owners participate in the everyday operational activities of the business [<http://www.pwc.com>]. In our study the abovementioned is considered to be authoritative. Under the term generation we mean the family age groups taking over from one another and attending the controlling and management functions of the business. To be able to understand how the successions of generations can take place and between what positions we have to know the attributes of the family business, namely the potential players of the business. Possible positions are demonstrated by the three-circle model of Renato Tagiuri and John Davis [1982], in a work considered to be a classic (Fig. 1)

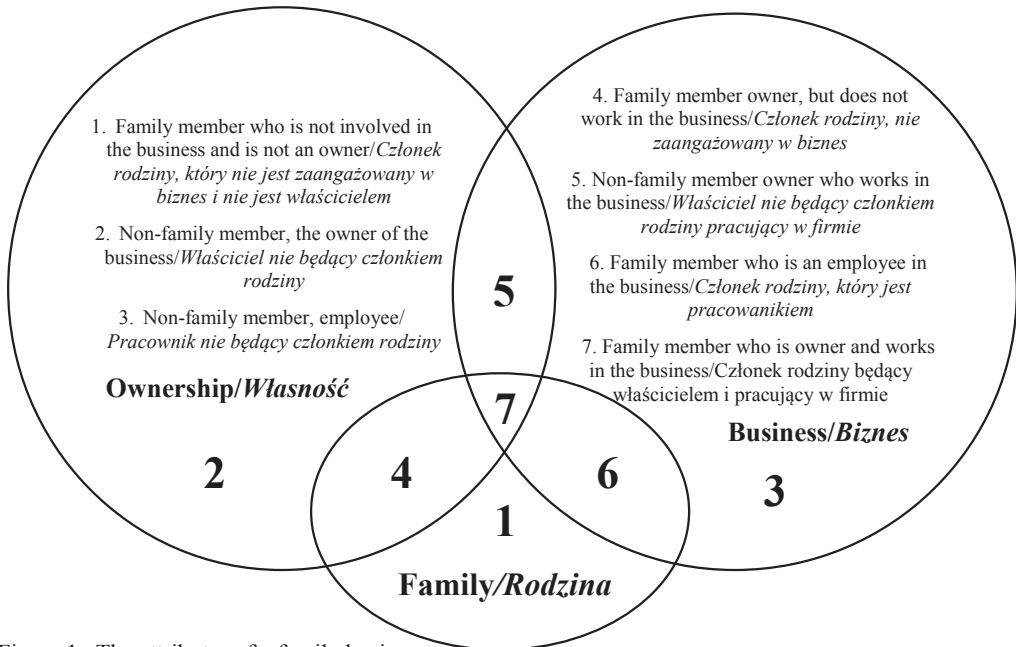


Figure 1. The attributes of a family business

*Rysunek 1. Atrybuty przedsiębiorstwa rodzinnego*

Source: own study based on [Taguri, Davis 1982]

*Źródło: opracowanie własne na podstawie [Taguri, Davis 1982]*

Potential participants of the succession of generations can be classified in seven bigger groups. The potential participants of generation succession can be interpreted not only in the abovementioned classification, the topic can be complemented with the emotion-based character of the family, with a so-called collective psychological ownership-feeling, which according to Noora Rantanen and Iiro Jussila [2011] means the feeling of family common ownership. The common ownership feeling as a peculiar family business category shows how complicated succession and inheritance can become when task, profit and emotion should be all taken into consideration. It is complicated to clarify this field scientifically-theoretically together with the clarification of the practical issues. At the same time it is inevitable. On the basis of the survey carried out by EFB-KPMG (European Family Business Federation, and KPMG) in 2015 more than 60% of family businesses consider the succession of generations as the most important strategic decision of their future. Applying the theory of social exchange relations to succession, two main types can be described: 1. the limited 2. the general exchange relation. Table 1 summarises the advantages and disadvantages of these.

The most important findings resulting from the application of the three-phase model and sources by Le Breton-Miller et al. [2004] and J. Daspit et al. [2016] are summarised by Table 2.

### **Succession of generations in the agricultural economy, the four ideal cases**

Keeping ownership and management in one hand is a crucial characteristic of family businesses. As a result, handing over ownership and management to the following generation is of central importance since this is the mechanism with the help of which the family business reproduces itself. Succession of generations can be brought into being owing to different details and motivations. Inheritance refers to the legal handover of the business assets' ownership, succession is the handover of the management over the use of assets. Initiation means the inauguration of the succeeding generation into farming, initiated by the leaving generation. Retiring is the reflec-

Table 1. The social exchange relations to successions  
 Tabela 1. Relacje wymiany społecznej w zakresie sukcesji

Type of exchange/ Rodzaj wymiany	Advantage/ disadvantage/ Korzyści/wady	Limited exchange relation/ Ograniczone relacje wymiany	General exchange relation/ Ogólne relacje wymiany
1. Exchange between the manager and the successor/ Wymiana między kierownikiem a następcą	advantage/ korzyści	It helps formal planning and the initiation of the potential successor into the family business, and the contractual agreement decreases instability/ <i>Pomaga w zakresie formalnego planowania i wdrożenia potencjalnego następcę w firmie rodzinnej, a umowa, zmniejsza niestabilność</i>	It decreases information asymmetry, advances the handover of authority, in case an appropriate amount of selflessness, mutual trust and solidarity are given/ <i>Zmniejsza asymetrię informacji, przyspiesza przekazanie władzy, w przypadku odpowiedniej ilości bezinteresowności, występuje wzajemne zaufanie i solidarność</i>
	disadvantage/ wady	If it lasts for long, it sets back the development of the successor/ <i>Jeśli trwa długo wpływa negatywnie na rozwój następcy.</i>	It sets back the planning of formal succession because of personal and contextual factors/ <i>Oddala process planowania sukcesji z uwagi na czynniki osobiste i kontekstualne</i>
2. Exchange inside the family/ Wymiana wewnątrz rodziny	advantage/ korzyści	It advances the recognition of the family members' role in the totality of the succession process, and it minimalizes the chances of monopolising resources by family members/ <i>Wzmacnia uznanie roli członków rodziny w całokształcie procesu sukcesji, co zmniejsza szansę na monopolizowanie zasobów przez członków rodziny</i>	It facilitates the mediation of knowledge and the development of the successor (knowhow and knowledge transfer)/ <i>To ułatwia przekazywanie wiedzy oraz rozwój następcy (know-how i transferu wiedzy</i>
	disadvantage/ wady	It provides a challenge to keep track of the family member's behaviour, improper conduct has to be sanctioned/ <i>Stanowi wyzwanie dla ustalonych zachowań członków rodziny, niewłaściwe zachowanie musi zostać poddane sankcjom</i>	It furthers faction (between family groups impenetrable abysses appear after a time); it decreases the interest of outside investors, and results in partiality stemming from bias/ <i>To sprzyja powstawaniu frakcji (pomiędzy grupami rodzinnymi pojawiają się przepaści po pewnym czasie); zmniejsza zainteresowanie inwestorów zewnętrznych, skutkuje stronniczością wynikającą z uprzedzeń)</i>
3. Exchange outside the family/ Wymiana spoza rodziny	advantage/ korzyści	It furthers the formalisation of relations and decreases information asymmetry between family members and non-family members/ <i>Pogłębia formalizację relacji i zmniejsza asymetrię informacji pomiędzy członkami i nie-członkami rodziny</i>	It harmonises aims between family members and non-family members/ <i>Harmonizuje cele pomiędzy członkami i nie członkami rodziny</i>
	disadvantage/ wady	It increases the number and cost of conflict solving arising during the succession process/ <i>To zwiększa liczbę i koszt rozwiązywania konfliktów powstałych w procesie sukcesji</i>	The development of relations is an expensive and time-consuming process, mainly with the chosen group of managers from outside the family and the concerned parties of bigger family businesses/ <i>Rozwój stosunków jest kosztownym i czasochłonnym procesem, głównie w wybranej grupie menedżerów spoza rodziny i zainteresowanymi stronami w większych przedsiębiorstwach rodzinnych</i>

Source: own study based on [Long, Matthews 2011]

Źródło: opracowanie własne na podstawie [Long, Matthews 2011]

Table 2. Succession phases, main conclusions  
 Table 2. *Fazy sukcesji, główne wnioski*

Persons involved in the exchange relation/ <i>Osoby zaangażowane w wymianę</i>	1. Phase: Selection of the successor (ground rules and first steps)/ <i>1. Faza. Wybór następcy (podstawowe zasady i pierwsze działania)</i>	2. Phase: Nurturing/development/training of successor/ <i>2. Faza: Zapozdawanie, rozwój i szkolenie następcy</i>	3. Phase: Handoff/transition/Installation/ <i>3. Faza: przekazanie, przejście, instalacja</i>
1. Exchange between the manager and his/her successor/ <i>Wymiana pomiędzy menadżerem i następcą</i>	characteristics of the successor/ <i>charakterystyka następcy</i>	manager-successor relations/ <i>relacje menadżer-następca</i>	flexibility of the manager/ <i>elastyczność menadżera</i>
	The manager is liable to select the successor who shows integrity, loyalty towards the business and tendency to take over the position/ <i>Menedżer jest odpowiedzialny za wybór następcy, który pokazuje swoją integralność i lojalność wobec firmy oraz skłonność do przejścia stanowiska</i>	The open relation based on trust is optimal, which is appropriate to mediate knowledge between the two parts in the conning phase of the succession period/ <i>Optymalne relacje bazujące na zaufaniu, które jest odpowiednie do wymaganej wiedzy w najbliższej fazie sukcesji</i>	The ability for transition is a new role and changes personal aims (surrendering the manager position) and greatly influences the quality of power transfer/ <i>Zdolność do wejścia w nową rolę i zmiany celów osobistych (zrzeczenie się stanowiska kierownika) i znacznie wpływa na jakość transferu energii</i>
2. Exchange inside the family/ <i>Wymiana wewnątrz rodziny</i>	Design of the succession plan/ <i>Stworzenie planu sukcesji</i>	Successor-family relations/ <i>Relacje rodzina-następca</i>	Family atmosphere/ <i>Atmosfera w rodzinie</i>
	Second and third generation businesses prefer to make succession plans, while first-generation businesses do not/ <i>Firmy dwu- i trzypokoleniowe preferują tworzenie planów sukcesji, zaś jednopokoleniowe nie</i>	The formation of family relations plays a great role in the development of the successor and greatly influences the social capital created between the successor and the family/ <i>Powstawanie stosunków rodzinnych odgrywa wielką rolę w rozwoju następcy i znacząco wpływa na kapitał społeczny utworzony pomiędzy następcą i rodziną</i>	The atmosphere of the family influences the transfer of power. In the case of families laden with conflicts the handover is also laden with conflict/ <i>Atmosfera rodziny wpływa na przekazanie siły. W przypadku rodzin obciążonych konfliktami przekazanie jest również obciążone konfliktem</i>
3. Exchange outside the family/ <i>Wymiana poza rodziną</i>	Advantages and disadvantages of a non-family member (outsider) manager/ <i>Zalety i wady członka spoza rodziny</i>	The knowledge of the involved non-family member/ <i>Wiedza zaangażowanego członka spoza rodziny</i>	Involved non-family member partner relations/ <i>Relacje partnerskie włączonego członka spoza rodziny</i>
	Involving an outsider manager increases knowledge which results in a positive effect on the selection of the successor, however it can also be a threat/ <i>Zaangażowanie zewnętrznego menadżera zwiększa zasób wiedzy, co wpływa na pozytywny efekt wyboru następcy, co jednak może być także szkodliwe</i>	Knowledge resource acquired from the non-family member party fulfils a valuable role in the training and development of the successor/ <i>Wiedza pozyskana od członka spoza rodziny odgrywa znaczącą rolę w rozwoju następcy</i>	Healthy relation between the successor and the involved non-family member makes transmitting of power easier/ <i>Zdrowe relacje pomiędzy następcą i zaangażowanym członkiem spoza rodziny pozwala na łatwiejsze przekazanie siły</i>

Source: own study based on [Daspit et al. 2016]

Źródło: opracowanie własne na podstawie [Daspit et al. 2016]

tion of succession. If the new generation enters the business, the older generation resigns, and as ownership hands over the decision making rights connected to assets, inheritance automatically signifies management tasks [Gasson, Errington 1999]. Literature related to inheritance describe four ideal basic cases:

1. Stand-by holding: reserve economy. The potential successor is placed into an independent business, where s/he works for a long time, while developing his/her own skills of economic system and management [Blanc, Perrier-Cornet 1993]. The successor is financially independent, after the father retires the two businesses can be united.
2. Separate enterprise: detached business. One part of the farm is cut out and the successor works independently.
3. Farmer's boy: father and son together. the successor spends years together with his/her father in the family farm and is involved in management tasks only at a small scale. Management is acquired at the death or retirement of the father.
4. Partnership: corporate business. The father involves his successor in minor decisions (e. g. discussion on machine acquisition), then after a time he lets his successor decide in all questions. Thus the successor works in a corporate business, which can become a formal corporate business. The four ideal cases, as described by Ruth Gasson, Andrew Errington [1999] can appear in different, even in mixed forms.

### Conclusion and summary

The described models have been presented on the basis of international literature. There is few or no Hungarian experience about their adaptability. In our opinion the three-phase model based on exchange relations and the four ideal cases are all easily applicable and analysable in Hungarian practice. Due to limits in coverage we could not represent the four-phase process model, which is also considered to be adaptable, especially for the analysis of succession processes of the huge number of businesses in agrarian economy. The main determinant factor of successful succession is the harmony of the concerned parties' contentment and the achievement of the organisation [Sharma et al. 2001]. The published studies in connection with succession can affect the education of future successors. Alfredo De Massis and Josip Kotlar [2015] present this necessity in their study about family businesses, a possibility we also encourage.

The conclusion of the diagnostic phase of our work is that there are several foreign models available, confirmed by theoretical and practical experiences, and it would be reasonable to adapt them to the Hungarian conditions. There is also a great quantity of international literature and case studies available, at the same time there is not much national experience, applied method and database to use. In our opinion the described models and methods could be exploited in the Hungarian practice.

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### **Streszczenie**

*Celem artykułu jest przedstawienie problemu sukcesji pokoleniowej w firmach rodzinnych. Omówiono poszczególne fazy sukcesji pokoleniowej, metody i możliwości wykorzystania tego procesu na Węgrzech. Dokonano pogłębionego przeglądu literatury w zakresie analizowanego tematu. Wymienia się kilka modeli sukcesji potwierdzonych doświadczeniami w praktyce, które można dostosować do warunków węgierskich. W wyniku badań wyodrębniono i opisano cztery fazy sukcesji.*

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