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Generation Change among Three Hungarian Family Businesses: Case Studies

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Abstract. *The aim of the paper is to examine the prerequisites of effective change of generations among Hungarian family businesses: on the one hand the succession and on the other hand the retreat will be examined. Both predecessors' and successors' viewpoints will be surveyed. One further aspect – the effect of the generation change – will be considered. Design/methodology/approach: The study is based on the interviews made on a conference organized by the Chamber of Commerce and Industry of Győr-Moson-Sopron County. The method of our research was the observation of the mentioned public interviews with the representatives of three Hungarian family businesses: the Borsodi Műhely, the Biotextima and the Leier. Findings: The significance of this issue – leadership succession and change in leadership in the case of family businesses – were determining in the past, dominant in the present and will be important in the future so their actuality is permanent. The relevance of the topic comes from the fact that most of the founders of the Hungarian family businesses are around retirement. According to a survey of the European Commission from the early 2000's, between 2005/15 one in three owners were going to retire. As a result of the research we could gain experiences on the prerequisites of effective succession in leadership of family businesses: the role of predecessors and successors. Another result is to raise awareness of importance of strategic planning of succession within the family businesses. The prerequisites of effective change of generations will be discussed.*

Keywords: family business, succession, generation in change, effects

Introduction

Within the confines of this paper we had the opportunity to get a picture about the family businesses facing the stage of succession and change of generations. The major objective of this research was to produce an empirical analysis to study the succession process of three family businesses (FB) running in Hungary. It was investigated on the one hand how their operations were influenced by engagement of predecessors and successors and, on the other hand, how these SMEs were coping with the

challenge of generations change. Interviewees were questioned about their reasons and motivations of founding /continuing family owned businesses, difficulties and driving factors pursue the enterprise, the way as they cope with different problems, furthermore the role of family itself in the adaptation to the always changing environment and the everyday fight for surviving, moreover represent the interest of their family.

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Considering the literature related to family business, we can conclude that the family businesses, the difficulties and supportive factors of their success became relevant issues in the 2010s. The businesses founded mostly at the beginning of 1990s nowadays are facing generational transfers and the second generations are "ante portas".

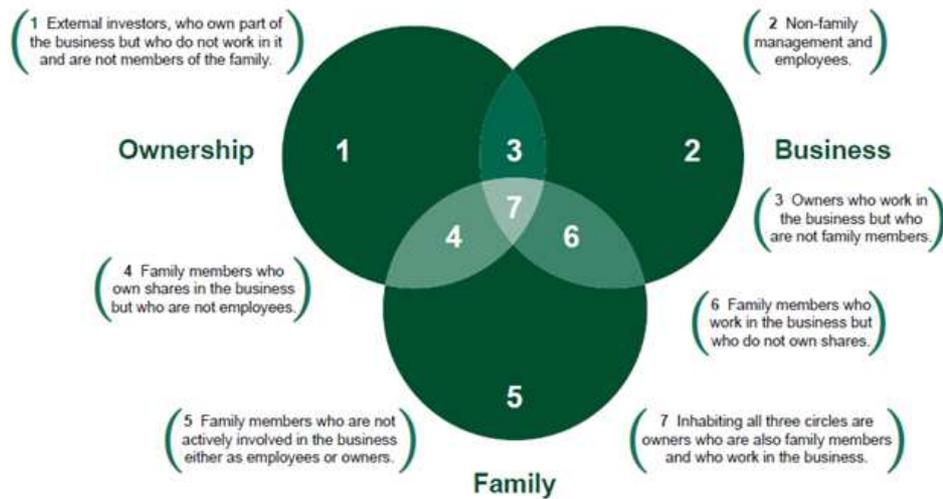
Theoretical background

In the frame of theoretical background, the article gives firstly a short draft about the family businesses, secondly about approaches to the succession, thirdly about the results of the European Family Business Barometer.

Concept of family business

In the family businesses two systems are intertwined: family and company. Participation of families in the company could represent on varying degrees, plus often professional management is entrusted to carry out the operational management. In this case, the system becomes "three-factor" system: family, owners, management (Figure 1). Among the possible roles in the figure the 7 number indicates the person who is a family member, owner and a manager in one person (Konczosné, 2015).

Figure 1. Three-circle model of family businesses



Source: Gersick et al., 1997.

Succession

61% of the Central and Eastern European family businesses are planning to hand over their company to the next generation in the future while 28% of them want to sell it or involve external financiers to their business. George Antall (2015) states that in order to take over the leadership of the business effectively, first of all the next generation need experience. It is therefore surprising that the majority of the Central and Eastern European family businesses did not identify the future leaders and have no formal succession plans. Only 39% of the respondents have a succession plan for at least some positions while globally this figure is 53%. Similarly, only 29% of the family businesses in the region employ family members from the next generation while globally 55% of family businesses do so (piecesprofit.hu).

In the study by Tucker (2011), during the succession the interpersonal relationships play the most important role in most of the cases. In his view, the biggest obstacles of the successful succession are fear and notions of immortality. Fear from retreat, from discarding from the power and fear that the next generation can be more successful. For those who have established and formed something new in their entire lives, handing over the company can be foreign. A common criticism about the behaviour of the ancestors is that they act as if they were immortal. The next generation become uncertain and agonize in doubts because they do not know the ancestors' plans and notions.

Cater and Justis (2010) state that the quality of the joint work of two generations determines the success of the succession process. The open communication and the long-term approach significantly increase the effectiveness of this issue.

European Family Business Barometer

The European Family Business Barometer is a longitudinal research conducted by the European Family Businesses (EFB) and KPMG. The European Family Business Barometer reports since 2012 are based on the responses to online surveys across more than 20 European countries. "As family businesses in Europe continue to be an important market, with approximately 14 million family owned companies providing over 60 million jobs in the private sector, this report provides a better understanding of the trends and future plans of these businesses" (kpmg.com). The reports showed that family businesses in Europe continue to demonstrate a high level of confidence in their future prospects and business performance and are optimistic, determined and skilful at navigating through challenges and adapting to market changes. Several themes have arisen throughout the report analysis.

Overall, in 2016 according to 72% of respondents family businesses seemed to be confident about the future compared to 2013 when only 54% thought that. In this aspect 34% of family businesses were neutral in 2013 and by 2016 it improved to 21%. Unfortunately, there were family businesses who had a negative attitude for the future. The proportion of these family businesses is now less (7%) compared with the 12% in 2013.

Another issue is the overseas investment opportunities in other European countries, in Asia, in North America, in South America, in Africa, in Oceania or all over the world. In 2013 63% of the family businesses were planning to expand in these countries. Unfortunately, this proportion decreased by December 2014 because only 53% of the respondents were planning to expand in other countries.

Findings of the interviews with the Borsodi Múhely, the Biotextima and the Leier companies

In the following part of the paper a structured introduction and analysis of the three investigated enterprise will be effectuated. The history of the businesses, their succession methods, the role of women and men in the business and their opinion about the family business, and some final thought will be summarised based on the interview the members of this three businesses.

Borsodi Múhely

The history of the business

Mr. Borsodi started his own enterprise 35 years ago on 01/08/1981. His motivation was that he wanted to have a good job. He had to work in the GDR for 5 years and there he had a satisfactory job. At that time for him

not his tasks were important but the fact that they trusted in him and it was fantastic for him. Then after 5 years he came back from Germany and despite he had every 2 or 3 years another job, he could not find this confidentiality. He started his activity with vocational qualifications in a 12 m² kitchen. They were always focused on how differently they could carry out the tasks compared to the others even if it was more problematic and had to work a lot and how they could continue their production even more efficiently.

Succession

10 years ago Mr. Borsodi sat down with his two children to hand the business over five years later. The crisis intervened and from this preparatory stage became 7 years but generation change was completed successfully. They made contacts with external and foreign companies for some advice. They did it consciously; they took the 7 years' preparation seriously. According to Mr. Borsodi there was a moment when the family was nearly falling apart. One year before the handover he wrote down that one year later on 22nd of April he would hand over the business. Three years ago he totally handed the business over to his children – to the second generation –and now he feels himself very well. Of course he does not state that he is not interested in the business so once a month the successor have to report to the main owners – own parents. They discuss the situation of the business based on 11 criteria of success, developed by Mr. Borsodi. Once a year the whole family go on vacation. In this way, the family can stay in one unit.

The family business through a woman's eyes

Monika studied engineering and many think that it was a lot of pressure but it is not so because it was such a familiar environment, she grew up with a family plant behind their house and it was never a problem for her to help. Regarding to her scientific area first of all she made engineering jobs and later she was responsible for the human resources and for the economics. Monika thinks that it is good that she and her brother share the tasks. It took a couple of years until she and her father restored the father-daughter and the boss-subordinate relationship. After the clean-up of the roles everything operated well.

The family business through a man's eyes

Laszlo is responsible for production and for dealing with the customers. He fell in love with the company and is very proud of the business. He had been active in the business since the beginning. He asked his parents to

try him as an executive director and they gave him a six-month ultimatum. He is technical-minded and he is pleased that Monika takes care of the human resources and the finance. Laszlo always used to say that it was him who did everything but in fact the tasks are halved and now they complement each other very well. It took a little bit more time until he and his father restored the father-son and the boss-subordinate relationship. After the clean-up of the roles everything operated well. The workers have become accustomed to the fact that if they have a problem they can go to uncle Laci who would give further and he will give them the direction. An integral problematic side of the generation change was that the workers exploited this situation.

Laszlo has already been the appointed executive director and if the workers could not agree with his opinions, decisions or instructions, they went to uncle Laci to ask him as well in the hope to convince him to contradict his son. For this reason, there were disputes, disagreements and according to László the real generation change actually proceeded only when his father was able to say that he did not deal with that certain problem any more. According to Laszlo it was rather difficult for his father to pronounce this and the workers, the clients, the partners, the local authorities and the chambers also had to understand that uncle Laci is no longer the one who handles the affairs but Laszlo. He also disclosed that in the case of conflicts they would sit together on Sunday for the broth but there were door-slamming, crying, rather let the whole thing thought. Finally the Sunday lunch became a time when they neglect the business. This idea came from Mr. Borsodi's wife.

Final thought

If Mr. Borsodi could go back in time to that age his children now are he would do anything differently. He got the job he dreamed and hopes that now 220 satisfied employees have a workplace there. He could not wish better than this. In addition, he could prepare his two children to manage the business.

Leier

The history of the business

Mr. Leier started his business 50 years ago. He himself built up his business. He grew up in a small pleasant economy, very close to the Hungarian border, there he created everything from his own efforts. He got already married at the age of 19. He obtained merchant qualification and when he learned the profession, the Spar shop network was launched in Austria, he was one of those who turned their attention to this new option and opened an independent Spar store. At that time from noon until two o'clock the shops were closed, during these two hours he was

thinking about what else he should do beside the store. Then he started to produce smaller concrete elements with homemade production. Later his wife took over the Spar shop and his two daughters got in the concrete business too. In Austria he established two concrete plants sequentially.

Then before the regime change he invested in Hungary and he is very proud about it even today. At that time in Austria many people laughed whether it had been a good move or not but in Hungary people honoured him very much for this courageous move. In 1986 he opened his business in Poland. Each member of the family took part in the work from the beginning. Since his wife went into retirement Mr. Leier has been working in the business and his wife has been keeping the house so much so that when his wife does not prepare his pants off than Mr. Leier would be able to go to work without having it.

Succession

Within the family but not only in the narrow family circle there are many family members inside the business. Mr. Leier is pleased that besides his own children he could involve other family members in this activity. In the business anyone in his family can do what they want as long as they cross-check with Mr. Leier. He forced no one to work with him and participate in the business. His children already took part in the business activities when they were 6-7 years old; He did not want to involve his children by crook to the business. His daughters are inside the business but both husbands are also in the enterprise. The responsibilities have been divided to a certain point. According to Mr. Leier family members should not be as monitored as freelance people because they trust each other. He thinks if a family member does not want to work there than he can proceed in his own way because for him it is more important to maintain peace in the family. One of his sons did not want to work in the business and he wanted to deal with something else but Mr. Leier understood and respected it. According to him the business is working well because of many kinds of view – because of that a lot of family members works there – prevails in the business. Mr. Leier would sum up the esteem of the people that a good labourer is worth much more than a bad manager. Mr. Leier is planning to remain in the business as long as possible, he feels himself good when he is inside the company. He enjoys doing it, for him it means freedom.

The family business through the grandchildren's eyes

His grandchildren have also been around the business since their childhood. One grandson is already 26 years old and he used to say that he had been in the business for 26 years. They grew up in the business and they could not even imagine to work elsewhere.

Final thought

Mr. Leier do not want to change because for him it is important to relate both the family and a the business and it was implemented.

Bio-Textima

The history of the business

Mr. Vörös started his business activity in 1994. A German Geophysicist Professor requested a pillow from meadow hay for medical devices. They implemented it with the help of roof batten, glue and two-stage hair dryer. It was their first product. Then his two sons have been acquainted with this work. They started their activity with mattresses. The business evolved and now they manufacture bed systems, a variety of mattresses, upholstered lying areas and also solid wood furniture. He started the business in a family house garage with his wife, a sewing woman and two sewing machines. The turning point in the business was in 2004 when his two children completed higher education and the children decided to remain in the business. Then they set up a thousand m² hall - warehouse in Bősárkány. In 2010 they extended with a new hall within the framework of a new investment. It is rather characteristic that they always kept trying to improve the business. Their wood springs are unique in the world. They got the first prize for its development on renowned exhibitions such as Las Vegas and Cologne.

Succession

According to Mr. Vörös they have already come over the hard situations in this issue. When his two sons began to work in the business he was the happiest, proudest person. They had the working ability and sense but besides practice should have been obtained. He thought that if they started to work, everything would go well. But at first time there was no harmony but the parent's love for a child and the child's love for parents was enough to be able to overcome and to talk this situation over. The result of the talks: one head of the business, it is a workplace. His sons took note of this; it was not a problem for them. Mr. Vörös would think it good if his two sons would be leader, the executive position would be a title to those cases if they have to make a decision. The executive director would have one more vote than the other. Mr. Vörös also highlighted that they need time when they do not talk about the business.

The family business through the Vörös sons' eyes

Gabor stated at the outset that there is a lack of decision-making and a lack of guidance. He is strong in building a relationship so he takes care of the foreign trade right now.

Gyula is stronger in the world of numbers. They got to the moment when Gyula recognized that he needs training and he is willing to do this. According to Gyula his father has presidential habit which is very good when he has to work with a lot of people and very bad when they should exclude emotions. This is manifested when he, his brother and his father had another idea how the business would work better. The rest of the family thought they should consciously begin to deal with generation change. He does not want to be a manager so that this decision would remain to his brother whether he wants to be or not. So it is even conceivable that there will be an external person the executive director. But Gyula wants that his brother would take over the position. According to him his brother is better in knowledge, experience, strength which should be obtained to be a leader. He hopes that his brother will be the executive director, in his view this would be the ideal scenario.

Final thought

If Mr. Vörös could go back in time to that age his children now are, he would only make changes in the process of generation change so that he would involve outside help. He would not change anything in the teaching and educating his children and making them love their job.

Conclusions

In Hungary change can happen in three different ways in the life of family businesses: inheritance, succession within the family or freelancer's involvement. The succession within the family is considered positive if the family prepares the next generation thoughtfully and professionally. This is one of the most beautiful perspectives what an executive director can experience. It is definitely determining what happens to the firms. If the companies are consciously building up this change it definitely will be positive for the future of the Hungarian economy.

It is used to say that the first generation is building, the second generation is keeping and the third generation is losing the FB.

The prerequisites of effective change of generations according to the interviews are the deliberate and detailed planning of the handover, the selection of a determined date for handover, the determination of the older generation to really do not interfere in affairs, the cohesive role of the family, family activities, the support from the family and the

agreement that there would be certain times when they do not talk about the company.

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