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Comparative Report on Family Businesses' Succession

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1. Introduction

Approximately 70-80% of the operating firms in Europe are family businesses (in the following FBs) (Mandl, 2008). According to estimates, family businesses' 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). Albeit family firms' economic and social weight is incontestable, relatively little attention has been devoted to the aspect of the succession process so far. In 2006 the European Commission estimated that in the up-coming 10 years, one-third of Europe's family businesses will have to transfer ownership either within the family or elsewhere. Succession is a general problem in Europe, but concerning different aspects by country. In case of the post socialist countries, for instance, the first generation of company founders after the collapse of state socialism is about to retire and these countries have no prior experiences relating to the successful management practices of ownership transfer. In the UK, one of the central problems is the commitment of the next generation(s), while in Germany the legal restrictions concerning family business succession is of particular importance.

With regard to the problems mentioned briefly above, the INSIST project aims at providing a general overview of the most important challenges of the succession process in the participating countries. The main goal of the project is to provide support for family business owners and managers in preparing and managing the succession process successfully.

Since family business management and especially successions processes vary in the different socio-cultural and legal-economic environments, the research consortium was established with the aim of reflecting these differences to the extent that at least three substantially different geographic regions of the EU are covered.

Despite the heterogeneity of the various participating countries, the project aims to identify the common problems and knowledge shortages in this area and consider them based on comparative research.[1] This report is the synthesis of the research work carried out by the different partners and covers the following main areas:

1. Theoretical and Methodological Foundations
2. Roles and Importance of the Family Businesses
3. Characteristics of the Succession Process in the Family Businesses:
    - Social-cultural Features of the Family Businesses: special focus on the founder's role in the succession process
    - Survivability" of the Family Businesses: Transferability of the „Social-Emotional Wealth" (SEW)
    - Organisational-collective learning: an underestimated dimension in the succession process
    - Managing the succession process
4. Policy Environment: legal and financial regulations in the succession process

[1] The project develops a training curriculum that may support family business owners, managers and employees in managing the ownership transfer successfully. The curriculum covers four basic areas: 1. Strategic module: the module explores a range of entrepreneurship theories and practices and involves an in-depth critical examination of business start-ups, the experiences of entrepreneurs and key aspects of small business management. 2. Mentoring module: the purpose of this module is to improve the ability of potential mentors to develop a close relation with SME owners to support them in facing daily issues and in developing a better vision of the future, for their enterprises to prepare sustainable transmissions with relevant business opportunities. 3. Financial and legal module: the core aim of the module is to compile such syllabus and training materials which are suitable for the different generations of small or medium-sized enterprises and which accommodate the small or medium businesses' leaders facing financial and taxation aspects of generational transition. 4. Social and cultural module: the module provides deep insight into the social and cultural aspects of succession, such as socioemotional capital and the role of trust and conditions necessary for the utilisation of social capital, the ability of successive generations to acquire the skills to identify new market niches, handling the effect of the "generational shadow", etc. The curriculum development is based on the results of this comparative research that consists of both desk-top analysis and company case studies.

II. Theoretical and Methodological Foundations

II. 1 Problems of defining FB

As shown in the introduction, family businesses are at the 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. When trying to provide a detailed picture of the current situation of family businesses there are two main barriers researchers have to face. The first problem is that a widely accepted definition is still missing. There are more than 100 definitions and concepts of family businesses available in the literature, furthermore the name 'family business' 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 extent to which 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 family members into the day-to-day managerial activities. Family businesses may differ with respect to what combination of the above presented practices they apply in their everyday operations. The complexity of the issue means a serious challenge for both the scientific community and policymakers when looking for 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 businesses, 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 2007:5)

In Poland there is no legal distinction between family and non-family businesses and there is no consensus within the academic community either. Sułkowski (2004: 99) contextualizes family businesses through the ownership relations, defining it as an economic entity in which the majority of property and the management function are possessed by a family. More recently, in 2011, Sułkowski and Marjański added the *involvement* as a further distinctive feature, saying that in case of family firms, ownership control or management is in the hands of a single family and in its functioning more than one member of the family is involved (Sułkowski – Marjański, 2011: 37). Other researchers stress the importance of the succession between different generations as a *'differentia specifica'* of family firms (Niedbała, 2002- cited by Surdej, 2015). Marjański (2012) adds that companies should be considered as family firms, if their owner is aware of the family's impact on the company and he/she intends to pass the ownership and control to the next generation. The nation-wide Polish survey 'PARP' in 2009 used three criteria to distinguish family firms: 1. at least 2 family members are engaged in family business; 2. at least one family member has an impact on managing everyday practices; and 3. family members have a significant ownership share (majority owners) (Surdej, 2015).

In the UK, similarly to Poland, there is no single universally accepted definition of a family business (Devins, 2015). According to the Institute for Family Business (IFB, 2011) family business can be classified using the following criteria: *'The majority of votes are held by the person who established or acquired the firm, or their spouse, parents, child or child's direct heirs, and at least one representative of the family is involved in the management or administration of the firm. In the case of a listed company the person who acquired the firm or their family possesses 25% of the right to vote through their share capital and that there is at least one family member on the board of the company'* (Devins, 2015: 4). For micro firms, subjective criteria are also needed. The Government Department for Business Innovation and Skills (BIS) define it as a business, majority owned by members of the same family (BIS, 2013: 6 – cited by Devins, 2015:4).

There is neither a broadly accepted definition of, nor systematic data collection on, family businesses in Hungary. When defining the term 'family business' usually three different aspects are taken into account, namely ownership, governance and participation in daily operations. After 1990 the large, state-owned companies that dominated the state-socialist economy were 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 constitute the organisational landscape: state-owned, privatized, foreign-owned and newly established (*de novo*) organisations. Most family firms fall under the last category, i.e. they have been founded in the last 25 years and are micro-, small- or medium-sized enterprises.

The second problem with family businesses is strongly related to the lack of a widely accepted definition. This problem is due to the lack of statistical sources concerning family businesses. There is no systematic statistical data collection on family businesses at the European-level, there are only estimates concerning their prevalence. 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 (as a % 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
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 in general, and p in the UK, Poland and Hungary in particular. Despite the difficulties the next chapter provides an overview about the economic weight of the family enterprises.

When designing the INSIST research, the project team members had to face the previously mentioned difficulties, as well. Because of information shortages and inconsistencies combined research methods were applied. Project team members carried out desk top analysis based on the existing (national) literature and empirical research in order to provide a detailed picture about the importance of family business in the particular economies, focusing on such issues as the economic weight of family businesses, the socio-cultural and financial-legal environment of family firms, the succession process and some psychological aspects of managing family enterprises. In order to gain deeper insight into the succession process and to understand the company- and family-level micro-mechanisms shaping ownership and management transfer practices, each participating country had to carry out 2 company case studies with the succession in focus. The company case studies were based on semi-structured, problem-oriented in-depth-interviews with different stakeholders (owners/employers and employees) of family businesses, dealing with issues, like rules of entry and exit, commitment of the next generation, management practices, etc. The Hungarian team compiled 3, the Polish team 5 and the British team 2 case studies.

II. 2. Short description of the company cases investigated[2]

BI-KA (HU): Established in 1991, BI-KA Logistics provides domestic and international freight services and transportation, rail transportation, as well as transport of oversized, air, container, marine or dangerous goods, warehouse logistics services, full customs clearance, cargo insurance and consultancy in logistics. The business is exclusively business-to-business in nature and serves its' customers in 30 countries, mainly in the European markets. The

[2] The descriptions are based on the company case studies compiled by the INSIST project team members.

company is continuously growing, and currently employs 103 people with a turnover of 16 million EUR, which means a 20.7% increase compared to the previous business year. To improve profitability, BI-KA Logistics plans to double its' vehicle fleet in 2015 and concentrate more on freight services. In 2010, after 20 years of intensive work György Karmazin, the founder of the company, was exhausted from the long working hours and started to think about making an academic carrier. He realized that he couldn't study and lead the company at the same time. At the age of 44, he decided to step back from the leadership. Since György's 2 children were too young for the succession, he decided to support someone from his own management team becoming the successor.

DOMEX (PL): The founder, Tomasz inherited two factory buildings and started to run his own enterprise in them in 1989. The company rents apartments, office and commercial space and operates as a developer. Currently the company employs 20 people. They are administrative employees and maintenance team workers. They are all employed with full time contracts. The company helps them gain new qualifications through training and conference participation. The wife and daughters of the doyen are company shareholders, but he remains a shareholder. His aim is to introduce his family members to running the business so that when he decides to leave the company, they will know how the company works and what projects and issues are of key importance to company success. Aside from her involvement in the company, the doyen's wife has her own business venture – a small bookshop. His older daughter completed a variety of studies and worked for a time at the university, but opted to join the company. She runs the branch concerned with letting apartments. His younger daughter runs a restaurant located in the company building. She established the restaurant herself and works to develop it further.

Fein Winery (HU): The winery was founded by Tamás Fein, who worked as economist, vintner, corporate leader, bank account manager at that time. The Fein couple decided to develop the wine cellar and press house in 1998. They bought 11 ha field and their estate was broadened to 21 ha in 2002. Fein Winery was officially founded as Limited Liability Company in 2003. The Fein family produces traditional, quality wines. The territory of the vineyard is 21 ha. The production results an average of 130 000 bottles per year. The wines produced from red grape varieties are merlot (5 ha), cabernet franc (4 ha), blue franc (4 ha), kadarka (2.8 ha) and syrah (1.2 ha). They have viognier (1.1 ha), pinot noir (0.6 ha), sagrantino (0.5 ha), tannat (0.5 ha), and portugieser (0.3 ha). The Fein Winery's distribution channels are a wine company[3] and its own sales channel. They operate ten shops in Budapest and five in other cities. Their own sales channel organizes wine tastings, dinners and an annual celebration. The founder and manager, Tamás and his wife, Zsófia, have two sons, the elder one is Károly, who will be the successor.

Parodan (UK): Parodan is a design and manufacturing company that produces special purpose production line machinery primarily for the Food and Drink, Automotive and Medical sectors of the economy. They have a diverse product range including robotics, ultrasonic welding, ultrasonic cutting, conveying and advance handling and control systems. Their main market is domestic business to business, with the food and beverage industry currently accounting for about 60% of their turnover. Harry Wood, the owner and founder of Parodan Engineering Ltd, started his career as a maintenance fitter. After retirement age, he decided to leave from the company. Harry and his wife are still the majority shareholders. All three of their sons have worked for the company at some point and two remain fully engaged, currently holding directorships in the company. Since 2012, the new MD (Harry's son Paul) has restructured the company, appointed a board of directors, modernised production and stabilised the finances

Pillar (PL): The Pillar company was set up in the Eighties in Krakow, Poland, as a micro-business offering small refurbishing and construction services. Martin and Helena founded the business at the age of 35. At first the company based its existence on the housing deficits on the Polish construction market, but in the Nineties its profile changed into a 'classic' developing business: they bought land and built apartments and commercial premises for sale, mainly in Krakow. At present the company employs 70 people. They are highly qualified specialists, who have been with the company for many years. The owners have two sons working at the firm and the company will be inherited by them.

3 With a number of award-winning wine store chain operates in Budapest and in other five towns for over 20 years.

Plantex (PL): Plantex Horticulture Farm has been on the market since 1981, and since its beginning it has been dealing with innovative plant propagation. The company offers high quality products: young, healthy plants for further cultivation in nurseries and on plantations. At present the farm employs 81 people on a regular, full-time basis, and sells around 4 m cultivars per year. The plant hosts administration buildings (150 sq. m), laboratory warehouses (300 sq. m) and 1 500 sq. m of glasshouses. The village premises comprise a 1200 sq. m production hall and 7500 sq meters of land under foil. The founders have three daughters. The two elder ones have their own businesses and the youngest one is about to take over the business with her husband.

Podiums (UK): Paul Morton started out as a scaffolder working in the construction industry. In 1977 he saw an opportunity to collaborate with a business partner to establish Podiums Ltd. to hire out, and later sell, scaffolding equipment. During almost 40 years of operation Podiums Ltd. has been through a number of phases of growth and consolidation. The company website describes Podiums Ltd. as 'a leading company that provides workplace access solutions'. The company designs and manufactures bespoke access equipment and specialised tubular structures using aluminium, steel and fiberglass. The products are designed and fabricated to customers' particular requirements and to meet prevailing industry standards. Podiums Ltd. currently has a turnover of approximately £4m p.a., employs 29 people and has plans for further organic growth in the short to medium term. After a family incident Paul decided to step down from direct management and to delegate leadership to his son, Tim.

Quality Meat (HU): After having become unemployed due to the dissolution of the Farmers' Co-op, the two owners Károly Kovács and his wife decided to buy an old slaughterhouse and meat processing plant from their savings in 1992. The company started to grow and in 2004 a new and modern slaughterhouse was built and the meat processing unit was also revamped. The company's main line of business is meat processing and preservation. Every day an average of 100 to 130 pigs are slaughtered and processed depending on seasonality. The total capacity of the slaughterhouse is 60,000 pigs per year. The couple have two sons who joined the business and gradually took over daily management. The founder only kept control over finances.

WAMECH (PL): Prior to establishing the WAMECH Company, Piotr Wąsik worked as a designer in the Krakow-based Centre for Research and Development for Construction of Chemical Installations in Krakow and later, as an engineer in the Tobacco Factory in Krakow. He then moved to the private sector, joining a private developer, where he was responsible for financial issues, customer care, cost calculations and project implementation. The experience he gained prepared him thoroughly for running his own business. The WAMECH Company was founded in 1989. The company manufactures machines which improve the economics of production processes in accordance with lean manufacturing principles. The main focus of operations is on the design and production of road transport vehicles and industrial trucks used for materials handling. From the very start, the company has operated as a family firm. Piotr's father-in-law is the engineer Józef Kielar, who helped construct the first prototypes. At the beginning, the business was based on Piotr's own work and that of family members. It took quite a while to establish a design team. Piotr's wife, also an engineer, joined the company to look after the company's finances and to support her husband. Piotr and his wife have three children and have always dreamt that one day their children would take over the company. The owner started preparations for the succession process some time ago, but the process had to be speeded up due to his illness. In 2010, his son, Wojciech, became the managing director just as the company celebrated 20 years of operation.

WITEK Centre (PL): During Poland's economic transformation, which began in 1990, Karolina and her husband started a trading business. They started with a small shop (20 sq. m) in the centre of Krakow, in which they sold china and glass crockery. As time went on, they managed to utilize another part of Karolina's parents' property, which extended their business activity. Growing demand for the furniture they were selling encouraged them to rent more and more retail space and their company continued to grow. The last stage of business development involved building a modern retail centre in the vicinity of Krakow, which continues to be expanded and developed. The company is active in the retail sector, selling furniture. Company assets were divided between Karolina and her children at an early stage. Today, each of them runs his or her own business independently, as separate legal entities.

Table 2. Main characteristics of the company cases investigated

	Country	Year of establishment	No. of employees	Sector/Activity	Markets	Succession
Parodan	UK	1984	27	Engineering (design and manufacturing)	National	*
Podiums	UK	1977	30	Fabrigating	Regional	*
DOMEX	Poland	1989	20	Real estate	Regional	**
Plantex	Poland	1981	81	Horticulture	Domestic/International	*
Pillar	Poland	1980s	70	Construction	Local	***
WAMECH	Poland	1989	77	Manufacturing (automotive)	International	***
WITEK	Poland	1990	260	Retail trade (furniture)	Regional	*
BI-KA	Hungary	1991	4	Food (wine producing)	Domestic/International	*
Fein vinery	Hungary	1990	103	Logistics	Domestic/International	**
Quality Meat	Hungary	1992	45	Food (meat processing)	Local	**

*Management transfer completed without ownership transfer

**Management and ownership transfer under process

***Management and ownership transfer completed

III. Roles and Importance of the Family Business (FB)

III.1. Rationale behind the Sustainability (survivability) of the FB and the New Challenges

Half a century ago, management scholars drew a rather pessimistic picture of the future of the family business. They anticipated *'... the hereditary principle to fade fast, because of the greater ability of professionally-run public firms to raise capital and attract top talent. In fact, family firms have held their ground and, in recent years have increased their presence among the global business'* (The Economist, 2014:2). Instead of this prognosis the FB is not only present but also improving its position in the global economy. According to the *Fortune 500* company list, the share of FB increased from 15 % in 2005 to 19 % in 2014 in the global economy. In addition, the well-known consulting firm McKinsey predicts that '*in 2025, family companies from the emerging world will account for 37 per cent of all companies with annual revenues of more than USD 1 billion, up from 16 per cent in 2010*.'[4] In the case of the European economy, FB represents 40 per cent of the Fortune 500.

According to the latest European FB survey (European Family Business Barometer, 2014), in the European economy, more than 14 million FBs operates, representing about 50 % of GDP and offering more than 60 million jobs in the private sector. The majority of them sell to foreign markets. Interestingly enough – contrary to widely held public opinion – 80 % of FBs do not experience any difficulty with access to finance. In relation to the family business strategy every second FB considers strategic changes. Evaluating the sources of the strategic strength of the family owned firms, the most and least important five factors are as follows (European Family Business Barometer, 2014: 18):

[4] http://www.economist.com/news/business/21629385-companies-controlled-founding-families-remain-surprisingly-important-and-look-set-stay

Table 3. Strategic strength of FB

Five most important factors	Five least important factors
Focusing on core business: 48 %	Ability to win business and customer loyalty: 20 %
Fast and flexible decision making: 46 %	Attracting and keeping talents: 18 %
Customer service: 45 %	Competitive pricing: 15 %
Employees loyalty and commitment: 42 %	Assertive/aggressive marketing: 9 %
Family ownership: 41 %	Size: 6 %

Within the next year, more than two thirds of FBs expect changes both in ownership and management. More precisely, one fifth (22 %) of them plan to pass the ownership of the business to the next generation (NxG), almost one quarter (24 %) of them are planning to transfer management of FB to the next generation and more than one fifth (23 %) are thinking of appointing a non-family CEO but keeping family ownership/control. How can this visible high performance of the FBs be explained in the long-run? Which factors explain their sustainability? The factors responsible for the particular success of the FB are the following:

1: These firms – independent of the regions where they are operating (e.g. Europe, USA, Asia, etc.) are *better prepared – than several decades ago – to address the weakness of their operations.*

2: A great majority of the family firms is investing *heavily to train their future leaders*, sending the family successors to business schools universities and in several cases world-leading educational institutions in fields related to their activities. (See the evidence from some of our company case studies)[5]

3: There is a *well-developed consulting industry* specializing in helping FBs, e.g. the intermediary-mentoring-coaching role in the succession process, and arbitrating-managing personal conflicts within the family to diminish their harmful impact on the long-term business perspective etc.

[5] According to the survey of the FB by The Economist, „These days it is rare for a family boss to hand his job on an obvious dud... A growing number (particular in Germany) have become masters at moving family members from executive jobs to supervisory roles in the boardroom. " (The Economist, 2014:2)

4: FBs and their managers – with some exceptional cases – are "parsimonious" or, using a more recent term, they are adopting the lean-approach and *long-term efficiency*. At the beginning of the 20th century, for example, Henry Ford often insisted that the customers appreciate the quality and price of its products and not the fancy-lavish headquarters of the company[6]. Today, this value is still observable and visible: a FB is not motivated by the short-term cost efficiency but the long-term one: '*They are good at thinking in terms of generations rather than quarterly results: Roche makes long-term bets on developing pharmaceuticals; the Murdoch and News houses have stuck with print media in difficult times'* (The Economist, 2014:2). (See the empirical evidence from the INSIST project company case studies on the *thinking in terms of generations in the* sub-section 4.2.)

However, they are not immune from the turbulent uncertain environment during their operation. Of course, many of them suffer from time to time the serious shortcomings partly caused by such external factors as the fast-changing techno-economic and social-political environment and globalization, as with any other categories of firms. The internal challenges such as trans-generational succession are specific to the FB. In relation to this, we are encountering new challenges facing FB. '*The 'old-model' often was labelled as "patient capital", and it has some significant advantages, including its ability to take a long term view, and strong client relationships based on trust...but in today's economic climate family businesses acknowledge they will have to adapt faster, innovate earlier, and become far more professional in the way they run their operations'* (Global Family Business Survey, 2014:5).

III.2. Importance of the FB in the Countries Involved in the INSIST project

Providing statistical evidence on the role and the weight of the FB in the national economies surveyed in the INSIST project is rather problematic. These difficulties are partly due to the lack of consent regarding the definition of a FB and partly due to the lack of systematically collected data covering the process of succession in the new member states in the EU (see sub-section II.1.). As one of the key Austrian experts of FB noticed *'on business transfers and successions – this seems to be an 'on and off' topic of the Commission. They have an*

[6] Ford, H. (1925) *Ma vie et mon oeuvre*, Paris: Payot,

established expert group, which was very active in the early to mid-2000s, then in my opinion not active at all, but recently there was activity again' (Mandl, 2015).

In Hungary, there is no systematic data collection on the FB. Using the experts' estimation more than 70 per cent of the firms employ more than every second worker. Family and single owner firms represent more than two thirds of the SMEs (Petheő-Filep, 2008:3-4). In general the FB's contribution to the economy is identified by the same indicator as for SMEs. In addition, we have to mention that there is growing internationalisation in this sector too. FB's presence in the international markets belongs to the category of the traditional industrial sectors (e.g. Zwack Unicum Co. Ltd. in the beverage industry, Weber Ltd. in the transportation etc.) and in such high-tech sectors as IT (e.g. Kürt Ltd in the data security and recovery technology, etc.).

Poland has better recent statistics on the role and composition of FBs and their associations have more diversified strategies in their interest representation policy than in Hungary. The amount of Polish family firms is similar to the Hungarian ones: it ranges between 70 and 80 per cent. 78 per cent of them belong into the category of micro-, small and medium sized enterprises (SMEs). FBs produce 10 per cent of the Polish GDP and employ only 21 per cent of the Polish workforce. In relation with the internationalisation of FBs, the pattern is also rather similar to Hungary. Due to their small size, a great majority of them focus on the local market and are content to offer products and services locally. However, Poland has several large international players in the FB sector. Among others, it is worth mentioning the following: Mokate in cocoa and coffee drinks (Mokrysz family), manufacturing: plastic windows (Placek family) and in the auto industry, the Solaris city-bus manufacturer (Olszewski family) which *'... produces approximately 1 300 buses yearly and the company exports 80 per cent of its output'* (Surdej, A. 2015:15).

In comparison with the former two transformational economies (Hungary and Poland) where the family business started to develop in all sectors of the economy from the 1990's following almost half a century "break" following WWII, in the *UK* the FB sector is more mature and statistically more systematically surveyed. (However, due to different definitions, research and methodological tools these surveys produce the results are often non-comparable, especially for a longer term perspective). According to the survey of the Institute of Family Business (IFB) (2011), this sector represents two thirds of all firms in the private sector and a great majority of the FBs (96.5 per cent) belong to the categories of self-employed and micro firms. In connection with employment, the FB employs more than two fifths (40 per cent) of the private sector workforce in the UK. As a sector, we may say that in the following activities FBs represent higher a share than the national average: "real estate, renting and business", "construction", "wholesale and retail trade, repairs", "manufacturing", "agricultures, hunting & forestry; fishing", "hotels / restaurants" and "financial intermediaries". The lowest –i.e. lower than the national average – concentration of FBs are in such activities as "transport, storage & communications", "other community, social and personal service activities", "education" and "health and social work".

III.3. Succession as one of the Key Factors in the Restructuring in the FB

'Data from the fifth European Working Conditions Survey (EWCS) show that the share of employees having been affected by substantial restructuring or reorganization within the last three years increases with establishment size class. While about 23% of employees working in micro workplaces and 33% of those employed in small workplaces report recent restructuring, the share is almost 60% for large workplaces' (Mandl, 2013: 31). If we make a distinction between the external and internal factors responsible for restructuring in the SMEs and in particular in the FB, we may say that the external factors are rather similar for both large firms and SMEs. These common external factors vary from changes in demand to technological progress and global competition. However, the internal factors such as trans-generational changes and implementing new managerial concepts and strategies stemming from the succession process are rather specific to the FB.

According to the latest (2007) PwC study, surveying one and half thousand manager/owners in 28 EU countries, almost half of them have to face the problems relating to succession in the near future. As the UK report stresses: *'succession is set to become a larger issue as the 'baby boomer' generation reaches retirement age over the next few years" (Devins, 2015:11). In Poland, according one of the latest available papers, almost two thirds (58 %) of SMEs are facing the issues of business transfer to the next generation (NxG)'* (Kowalewska, 2011, in

Mandle, 2013:17). In relation to the Hungarian situation, it is worth mentioning the latest information of the National Ministry of the Economy, according to which at least half a million FB have to confront the process of succession in the near future.

IV. Characteristics of the Succession Process in the FB

IV.1. Social-cultural Features of the FB: special focus on the founder role in the succession process

IV.1.1 The Cultural Influence of Leaders in FBs

To understand the founder's role in the succession process a retrospective standpoint is worthwhile considering, namely what is their role in creating the organisation and its culture. The role of the leader in any organisation has the opportunity to influence the corporate culture. This is achieved by defining behavioural norms and decision making methods as well as through decisions which affect the organisation's value system. It seems very evident from the perspective of this research that founders of FBs can have a definitive impact on the culture of the established enterprise (Schein, 1983; Trice and Beyer, 1991).

Policy discourse all over Europe emphasises poor management and leadership skills in the economy and particularly amongst SMEs and by implication family businesses. The London School of Economics World Management Survey (Bloom et al., 2012) argues that on average across many countries, family businesses are the worst managed type of business. Other researchers such as Bacon et al (2013) suggest a lack of skills associated with Human Resources, especially regarding the use of best practice when family businesses are compared with non-family businesses. Whilst it may be tempting to make generalisations about owner/manager personalities, skills or leadership styles it is important to recognise the heterogeneity that exists amongst family firms and the wider context socio-economic context that influences the culture of family firms (Devins-Jones, 2015).

The basis for the leader's shaping of organisational culture can be threefold, especially when founding a business:

Leaders are role models

Founders as leaders exhibit the behavioural norms in the eyes of the members. Consciously or unconsciously they serve as role models. The espoused values are sanctioned by their actions and behaviour on a daily basis and thus becoming beliefs shared by everybody.

Leader's decisions explicitly influence the value system of the organization

Here those decisions are considered, which can serve as guidelines for the members of the FBs, such as the *reward system and personal recruitment*. Whereas the leader as a role model can only influence the culture implicitly, with the use of these devices (s)he is able to actively guide the norms and shared values in the direction (s)he desires. Both leadership instruments are further discussed in this study as critical elements, in the case of Family Businesses.

The ways decisions are made by the leader

The approaches to decision making could be defined as expectations, but can be built in as methods to follow as well. Their importance could be traced, when these methods outlast the leader and can serve as a support or constraint for the successor in decision making. Decisions regarding the change of strategy and structure are like that, and as such have an enormous influence on shaping the culture (Nahavandi–Malekzadeh, 1993).

Further refining the cultural influential role of leaders, García and López (2001) set up a classification of entrepreneurs' habits taking their values and norms into account, which dominantly influence the goals and strategy and therefore culture of FBs. 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 above two dimensions can be found in the INSIST case studies, where the motifs of founders were rather similar, but the values of leadership vary significantly. In the business value dimension, the two Polish cases the idea of *entrepreneurship* has been a focal family value through generations. At DOMEX, the real-estate joint stock company, the mother of the founder has *'... always emphasized to her son, the ethos of entrepreneurship' (Konopacka, 2015:3).*

In the case of WITEK, the Polish family holding, despite the state socialist social environment *'...entrepreneurship has always been a part of the family's way of life...they believed that everyone should make his or her own living and taught their children a work ethos from their earliest years, involving them in the family business. As the doyen of the family, Karolina adopted the model used by her parents to bring up her own children' (Konopacka, 2015:1).*

The second psycho-social value dimension can be seen in the Hungarian cases of FEIN and also BI-KA Although the entrepreneurship value can also be traced back to the ancestors of the founders, their present inner driver seems to be increasingly a regional figurehead role (ie. self), with all the *social responsibility* (Gubányi, 2015; Kiss, 2015). In Fein's case the '... *founder manager is doing his best to integrate himself into the region and to gain trust from the members of the region '(Gubányi, 2015:6).* Also in the second dimension, the UK cases of PODIUM and PARODAN demonstrate the values of '*familiness' (i.e.. group)* embedded by the founders (Devins-Marran, 2015; Wymer, 2015). However it is important to argue that seemingly contrasting values, can easily be present and in-use in the family businesses and serve as informal regulations, where procedures are non-existent.

IV.1.2. The Socio-Emotional Dilemma: Formal Development Procedures or Loyalty Based Human Processes

Positive employee relationships appear to be an outcome of the approach to leadership that is a characteristic of many family businesses. Long-term business sustainability requires retaining well-trained staff who buy into the business and feel a sense of engagement or 'ownership' and share the objectives (and successes) of the family. This requires the family owners to recruit carefully, so the employees fit in with the team and the ethos of the business, and treat the staff well to reinforce these values. a greater commitment to training, a stronger tendency to retain employees during a downturn, higher wages or long-term non-pecuniary benefits such as health insurance, and a smaller salary gap between employees and owner-managers (Miller and Le Breton-Miller, 2005).

'The empirical research by Baskiewicz and Nizialek (2014) has identified the differences between the organizational cultures of family and non-family firms. The employees of family

firms pointed to the possibility of a broader space of self-development, initiative and openness than in non-family firms' (Baskiewicz and Nizialek (2014; in Surdej, 2015:22).

Emotions are related to the problem of intra-family communication, - and especially inter-generational communication - regarding the commitment of the family to the firm and the prospect of succession. Qualitative studies show that Polish family firms have problems in developing a perspective for future generations and are not especially efficient in communicating the vision and strategy. As seen in the DOMEX case in Poland, the founder leader *'plans to pass the operational management of the company to his successors, and remain involved only in strategic decisions' (Konopacka, 2015:5)*. The founder views succession as an evolutionary process, where patience is badly needed.

'The empirical research shows that the employees of Polish family firms expect standard benefits: decent salaries (satisfactory salaries), security of employment, including indefinite periods of employment. That is the way they appreciate being employed with indefinite periods listed in the employment contracts, which give them a three month licensing period and not a licensing from day to day. In family firms they also like a friendly environment and informality' (Brzezinski, 2014; in Surdej, 2015:24).

As previously argued on the leader's cultural shaping role of decisions, Sułkowski (2006) also *'…stresses the fact that the remuneration rules in family business are shaped not only by narrow financial calculations, but above all by the value system of the owner, his perception of the social mission, his responsibility towards other family members and external employees'* (Sulkowski, 2006; Surdey, 2015:25).

The contradictory dimension of FBs' development has always been the dimension of formality/informality. Larger or longer functioning family firms have remuneration codes with regard to all employees and they even extend such codes to family employees. As mentioned in the previous section as a criticism of FBs, small and younger family firms treat family employees and non-family employees differently, which might subvert the functioning of the firm. The conscious move from the informal loyalty- based culture to a formal efficiency-based one is generated by second generation successors as seen in the case of FEIN winery (HU) and PARODAN construction (UK), where the internationally exposed and well-educated children, usually with an MBA, strive for more formal business model development in contrast to their parents' views. In these cases the focal values of the enterprise are at stake with the succession (Devins, 2015; Gubányi, 2015). As the successor manager Paul argues at PARODAN: *'We are making that shift from owner-led and managed to being an enterprise with a formal structure, reporting and processes. Once we've got that under control the net profits will increase and we can expand further' (Wymer, 2015:6).*

The phenomena of intertwined spheres of family vs. business is well represented in all INSIST case studies *'… employees of family firms pointed to the problem of equal treatment and equal opportunities between the members of the owner's family and other employees. …in the family firms the whole family endures the problems of the firm and discusses business issues over breakfast, lunch and dinner'* (Surdej, 2015:22). The lack of separation of business vs. family time seems as much strength as a weakness.

Considering Handy's (1993) organizational cultural typology (i.e. power, role, task and person cultures) the *power type culture* seems the most occurring prevalent in FBs. This culture is best illustrated as a spider's web. The culture depends on a central power source, namely the leader who is still intensely present all the time. (S)he is the central figure who is connected to the other parts of the web by functional or specialist thread. The organization very much depends on the personal trust and beliefs in each other, and in the leader as an effective and competent person. There are few rules and procedures and not much bureaucracy. The control is exercised by trust, with choosing the family or non-family people for the jobs. Such power cultures are based on pride which is earned from all the success the company has achieved. The basics for this feeling are established in the early days, when the handful of employees had been working overtime almost constantly. Hence the esprit de corps had been developed. Original members of the organization, who started their jobs with the founder, feel privileged. This is clearly an emotional challenge for the successor, be s(he) a family or non-family member. The biggest disadvantage of this culture is its size which can become the biggest constraint to *formal organizational* ***development***. This culture limits the growth of the organization mainly because of the figure-head role of the leader. (S)he still has the old organization in mind, when everything has started and life at the company was much simpler because of fewer employees and a different social and business environment. Encouraged and proved by the past successes, the leader expects the successor to use the same leadership practices. The organization often outgrows the founder-leader who still wants to control all processes from marketing to finance and manufacturing.

IV.1.3. The founder's Parenting vs. Mentoring role in the succession process

There seems to be a consensus that the founder of a business has a responsibility and a role to play in preparing for succession. Having a succession plan is a first and important step but one obstacle to this may well be the original business founder. Craig and Moores (2005) suggest that without succession plans, professionalization of the firm is seriously inhibited. Thus internal processes for family businesses (like all businesses) must be included in strategy development. Arguably, what makes internal processes, particularly changing these processes, more problematic in family businesses is the influence of the founder and the preparation for succession.

'To achieve effective inter-generational succession, there must be a balance between 'parenting' (i.e. a personal approach) and 'mentoring' (i.e. a more detached, business-focused approach). However the evidence is mixed when it comes to whether the process works best when the mentor is a family or non-family member' (Distelberg and Schwarz, 2013, in Devins-Jones, 2015:16). Mentoring as a major asset was demonstrated in the PODIUM (UK) case where mentoring leadership has been institutionalized in the organisation even after succession (Devins -Marran, 2015).

A great range of conscious planning has been observed in the INSIST case studies. At one end of the scale WAMECH (PL) where, due to decades of entrepreneurial genre and self-reliance embedded in the family, all children started their own business supported by the founder in order to diversify the family holding (Konopacka, 2015). Another positive example seems to be the BI-KA case in Hungary, where the founder has retired from management at a very early age (47 years), and passed the management to a well-mentored non-family member of the management team (Kiss, 2015). At the other end on the scale of conscious succession planning seems to be the QUALITY MEAT and the above-mentioned DOMEX case, where actual succession is still unplanned (Szentesi, 2015; Konopacka, 2015).

IV.1.4 Challenges relating to the multiple roles of successors in the succession process

One of the biggest challenges facing the founder or manager of the family business is the choice of the successor. '*Lewandowska (2013) looked at the succession process from the perspective of potential successors. The following problems occurred from the successors' point of view:*

- *An unwillingness of the incumbent founder/owner to talk about the succession prospects, which negatively impacts on the motivation of the potential successor;*
- *This leads to the feeling of being suspended and forced to wait for an unspecified period ;*
- *The lack of a formal succession plan;*
- *The perception of a lack of trust in the successor's capabilities on the part of the owner/founder;*
- *The lack of freedom to independently act as the potential successor is overshadowed by the founder/owner;*
- *The lack of hope in eventually getting the power to manage the firm'.* (Lewandowska, 2013; in Surdej, 2015: 22-25).

There was not a single case in any of the INSIST case studies where, equal roles could be found amongst the potential successors. The motifs were different, although it seems that one of the cases, only one of progenies has the motivation, skills and endurance to become the real successor. This phenomena were most evidently traced at FEIN Winery (HU), PODIUM (UK) and WAMECH (PL) (Gubányi, 2015; Devins-Marran, 2015; Konopacka, 2015). Involvement varies though throughout the INSIST cases, from successors being absolutely detached from the family business (WAMECH), through being contracted suppliers of services (FEIN) to becoming Managing Directors and having brothers/sisters in other functional managerial positions (PARODAN) (Konopacka, 2015; Gubányi, 2015; Wymer, 2015).

The dilemmas of the next generation are a key issue identified in the literature. Like business founders, successors are also accused of being the prime culprits in succession failure. Some successors are accused of lacking the ability to replace business founders, usually because of a lack of suitable experience or an appropriate attitude towards taking over ownership. Research undertaken by Kraus et al. (2011) suggests that successors are also playing multi-entity roles in the succession process. Without knowing, quite often successors are expected to take on the combined role of a filial son or daughter, experienced business owner, and professional manager etc. Furthermore, from the successor's perspective, many of them want to play the role of an ambitious owner-manager and to be in charge, while at the same time wanting their parents to keep an eye on the business. With these mixing and often contradictory roles to play and expectations to meet, it is an extremely difficult, if not impossible, task for successors to please everyone, including themselves. Kraus et al. (2011) conclude that it is important for successors to be well aware of their different roles and conflicting expectations in the family business.

The inability on the part of the founder to let go, and the difficulty for the successor of operating in the shadow of the founder lead to conflicts, especially in second generation businesses (Davis and Harveston, 1999; Bjornberg and Nicholson, 2012; in Devins-Jones,2015:). The above-mentioned multiple roles were less explicitly expressed in the INSIST cases, whereas the founder’s challenge of letting go are implicitly present in many of the cases, like QUALITY MEAT (HU), DOMEX (PL), WAMECH (PL) (Szentesi, 2015; Konopacka, 2015).

IV.1.5 The Familiness impact in the succession process

The process of succession can be thought to encompass three distinct stages (Stavrou and Swiercz, 1998): (i) pre-entry, where the designated or potential successor(s) is prepared or 'groomed' to take over; (ii) entry, involving the integration of the successor(s) into business operations; and, (iii) finally, promotion to a management position. As most INSIST cases to some extent are success stories, it comes as no surprise that the above-mentioned three stage process was completed, though with differing degrees of mindfulness and transparency.

To some extent the IFB research provides some guidelines and insights into what to do and what not to do to support successful intergenerational transfer (Nicholson and Bjornberg 2007). There is almost universal agreement that a well-developed succession plan is seen to be crucial (Sharma et al. 2001) in successful intergenerational transfer and succession in the family business. Good practice includes preparing the next generation as soon as possible for succession, cooperation to develop and agree a formalised succession plan developed with all family business stakeholders (including influential non-family members) and the use of experts, often external to the business, to navigate the complex and uncertain waters of relationships between family members, visions and values as wel as the reluctance of the older generation to step aside (Lansberg, 1988, Sharma et al., 2001).

What seems to be common in the relative success stories of the INSIST cases (PARODAN, FEIN) is that, the founder(s) consciously educated their children for the expected leader role (engineering/viticulture and/or business studies) and made them gain work experience outside the family company beforehand (Devins, 2015; Gubányi, 2015). In most cases where in-company development was carried out, e.g. PODIUM (UK), child(ren) had been rotated across different jobs and levels of operation throughout their learning process over a number of years. In the latter case the rare occurrence of external consultants in the succession process proved to be a success factor (Devins-Marran, 2015)

As Morris (1997:386) noted, *'family business transitions do occur more smoothly when successors are better prepared, when relationships among family members are more affable, and when family businesses engage in more planning for wealth-transfer purposes'* (Morris 1997; in Devins-Jones 2015).

Polish entrepreneurs differ in their awareness of the succession problems. Some, more mature, start thinking about it and try to design the path best suited for them. Others delay thinking and preparations. No precise data exists as to the distribution of features (Surdej, 2015). The IFB guide (Drake, 2009) suggests that it is in the interests of successors (and the employer) to ensure that the employment relationship is conducted in the same way as the relationship with non-family members. '*Familiness'* as a major asset ensures these fair relationships in the case of PODIUM, where according to the successor *'…there were a number of other family groups represented in the business: employees who were mothers and* *daughters, siblings, cousins or had different family ties worked across the organization, helping to reinforce that 'family feeling" and this aspect of familiness applies to everybody. As Paul at PODIUM has argued: "…people have lives outside the business and these can have an impact upon the business life … We will help and support people where we can.' (Devins-Marran, 2015:7)*

IV.1.6 The supporting role of strategic mindedness in the succession process

Many of the inhibitors and enablers of the succession process are discussed in multiple sections of this review. What seems evident from the literature is that effective strategic planning is clearly one means to enable successful transition (Devins- Jones, 2015). What seems a **clear** inhibitor from the INSIST cases is the lack of planned succession, which sometimes was tagged as *'organic'* (PARODAN, FEIN) or *'evolutionary'* (Wymer, 2015; Gubányi, 2015).

Another serious constraint to the succession can be the founder manager him/herself as a paternalist leader, be it even *'enlightened paternalism'* as is argued in the DOMEX case (Konopacka, 2015:5). As opposed to the parenting role of the founder, the mentoring work of external consultants unquestionably served as effective support for the successors (Davins-Marran, 2015).

For cases at the strategic and managerial level there was already a separation between the 'parents and children', or the owner and the successors, however the presence of the founder can seriously influence everydays work (Konopacka 2015).

What seem to be significant enablers from the cases are the conscious education and training of the successor, regardless of whether they are family- or non-family member (Parodan, 2015; Gubányi, 2015; Kiss, 2015). This includes formal education for gaining a wide international perspective, as happened in case of FEIN Winery (Gubányi, 2015) and also in-company integration throughout the years as in the cases of PARODAN and QUALITY MEAT (Szentesi, 2015). In this way the successor seems a natural choice for the non-family members as well and the cultural shock in relation to fitting into the organisational culture is decreased.

IV.2. „Survivability” of the FB: Transferability of the „Socio-Emotional Wealth” (SEW)

IV.2.1.Introductory remarks on the concept of SEW

This concept stresses the importance of the non-financial outcomes of family members from the business and *‘... family members are said to attempt to manage their business not to maximize financial returns but to reserve or increase the socioemotional endowments they derive from the business...they may work against the interests of non-family owners ... preserving family control of the firm by avoiding profitable investments and initiatives that would threaten such control’* (Miller – Le Breton-Miller, 2014:713).

SEW has a variety of outcomes, both positive and negative, depending very much on the socio-economic environment of the firm’s operation. For example in a stable and slowly changing market context a conservative or risk averse attitude and the drive of the family to control the business to secure position for the next generation could be beneficial. However, if the context is that competition is intense, price pressure is constant and technological change is speeding up then this conservatism becomes “dysfunctional” and may result in the “strategic stagnation” (Bertrand-Schoar, 2006) of the company. In addition, motives or priorities of SEW may result - especially in the long term perspective – in significant positive outcomes, such as: “... care for reputation in the community and thus solicitous treatment of stakeholders may create loyal partners who can actually help enhance financial performance (Miller – Le Breton-Miller, 2014:714-715).

To better understand the various outcomes of the SEW identified in the company case studies of the INSIST project, it would be productive to use Miller – Le Breton-Miller’s (2014) approach which makes a distinction between the “narrow and short-term” and “broader and long-term” dimensions of SEW. The following table summarises the characteristics of both “restricted” and “extended” SWE:

Table 4. Contrasting Restricted Versus Extended SEW Priorities

	Restricted SEW	Extended SEW

Typical SEW priorities	Permanent job security and access to business resources for all current family members	Long-term well-being of motivated later generation, able and willing to nurture the firm
Focal stakeholders	Immediate family	The family over time, the business and all its stakeholders
Related theories	Agency and behavioural agency theory, family altruism	Stewardship theory, stakeholder theory, sustainability
Governance arrangements	Family dominated leadership and governance – regardless of capability	Competent, motivated family members only; balance between family and non-family executives and directors
Strategic outcomes	Strategic conservatism or stagnation, sparse investment in the business, risk version, family extraction of funds from business	Generous investment in products and processes; continuous reinvestment in the business and its renewal
Commercial outcomes	Inferior growth and longevity	Superior growth and longevity
SEW outcomes	Nepotism, entrenchment, family control of firm	Family pride in their offering(s) and relations with stakeholders and the community

Source: Miller – Le Breton-Miller, 2014:717

IV.2.2. SEW and attitudes of the risk-taking: dominance of the pro-growth FB

Attitudes of family owners/managers towards the growth potential of the firm represent a core part of the literature. These attitudes have an important impact on the "survivability" of the FB and are rather often underestimated in the complex and long-lasting process of succession. In relation to this, it is necessary to mention the "loss" averse" / "risk averse" attitude of FB, which is reflected in entrepreneurial behaviour *'... to scrutinise opportunities* *very carefully and eschew diversification into the new market areas, unless closely related to the existing line of business'* (Devins, 2015:23). This loss averse attitude depends very much on the scale of resources available for the entrepreneurs and on the competitive pressure.

This vigilante, loss averse behaviour of the owner/founder may result – in the short run - in growth- and innovation-resistant behaviour. However, from a long-term perspective this "anxious vigilance" should be interpreted as supporting the well-prepared, evidence-based and tested exploitation of the opportunities via growth and/or innovation. Reviewing the company case studies, we may identify the diversity of this "anxious vigilance" or, using a more appropriate term, "patient capitalist" attitudes of FB shaped by the SEW priorities of various types of entrepreneurs and generations.

Beside this general pattern found in the literature, it is worth calling attention to the following two broad categories of entrepreneurs: ***'opportunity' versus 'necessity' entrepreneurs*.** In the case of the "opportunity" entrepreneurs, the *'... main motif is the desire for 'independence' and a desire to 'work for themselves'* (Mascherini-Bisello, 2015:13). In the other case, the so-called *'necessity entrepreneurs ... are pushed into entrepreneurship because they have no other employment options'* (Mascherini-Bisello, 2015:13).

In the INSIST project countries we may identify visible differences in the rate of 'necessity' versus 'opportunity' entrepreneurs between Hungary, Poland and U.K. Due to the radical political-ideological and economic changes i.e. the shift from state-socialism to the market economy in the two transformational countries, a large segment of the workforce that was formerly employed by the state or cooperative owned firms lost their jobs and became unemployed. These people became the 'forced entrepreneurs'. Both in the past and present, this pattern of entrepreneurship exists but its prevalence depends very much on the radical changes in the labour market created by intensive continuous re-structuring in the economy.

Looking at the percentage of "necessity entrepreneurs" in the three countries surveyed, their share in the group of the adult entrepreneurs is much higher – almost double – in Hungary and Poland than in the U.K. Comparing the groups of adult (35-64 years) and young (18-34 years) entrepreneurs, the differences remain between these countries. Surprisingly enough there is a relatively high amount of young "necessity entrepreneurs" in Poland in comparison even to Hungary. In the category of adults, the share of "necessity entrepreneurs" in Hungary and Poland is similar. However in the U.K. the share of this category of entrepreneurs is below the EU-28 average, as shown in the following table:

Table 5. The Share of 'Necessity entrepreneurs' in the INSIST Countries - 2013

Countries	35-64 year old entrepreneur	18-34 year old entrepreneur
Hungary	37 %	23 %
Poland	38 %	42 %
U.K.	21 %	14 %
EU-28 average	28 %	17 %

Source: Mascherini-Bisello, 2015:14

When considering "necessity entrepreneurs", it is necessary to make distinctions in the case of Hungary and Poland between the generations who started FB in the aftermath of the collapse of state socialism at the beginning of 1990's and the new generation who is choosing the carrier of an entrepreneur in the FB due to disillusionment with the other types of employment (e.g. working at large public or private firms with insufficient autonomy or promotion opportunities etc.).

The case of the Hungarian food processing *(*Quality Meat Ltd.) and the Polish construction companies (Pillar Ltd.) illustrate well both the first and second type of "necessity entrepreneurs". In the first case, the owner-founder lost his job at the agricultural cooperative during the early mass privatisation movement that took place in the early1990's, In the second case the older son of the Polish Pillar construction company owner/founder was dissatisfied with the employment practice at an international company operating in Poland. *'My old workplace, the co-operative's slaughterhouse and meat processing plant, closed down. But I did not want to be in others' employment. I thought more of myself than to give up my independence. My wife and I had a little money saved and we started our micro-enterprise in 1992'* (Szentesi, 2015:5). In the Polish construction company case, the older son belonging to the second generation of entrepreneurs was dissatisfied with the large international company employment practice and left it for the family firm of his parents and became a successor too, alongside the younger son who had prepared to be entrepreneur from his childhood:

'The owner couple, Martin and Helena first realized they should start considering and planning the succession when their older son started working for an international corporation while still being a student. They were surprised he didn't take a career in the family business for granted. Only then did the parents decide to plan and implement a succession process. They started talking with both sons about their possible future roles in the family firm. These conversations about engaging them in the future development of the company lasted for two years. Eventually, the sons agreed with each other and with the parents to undertake cooperation with their father. It should be mentioned that the older son was a bit disappointed with the work at the large global corporation and that was the main reason for changing his mind. In the meantime he gained significant business experience by working for the corporation and obtained an MBA management degree' (Gorowski, 2015:5).

The risk avoidance attitude of the FB – where the owner-founder is labelled as a "necessity entrepreneur" – relate to the short-term perspective of the business. However, if this "anxious vigilance" attitude is coupled with a long-term perspective of business, it is not at all contradictory with the possible growth or innovation strategy. Quite on the contrary, this risk cautious attitude may help in the carefully prepared future development of the firm. This strategy dominates the overwhelming majority of the company case studies in the INSIST project.

Growth or innovation strategies were identified in all the company cases – with the exception of Hungarian Quality meat Ltd. -. The growth and innovation driven firms in the company case study sample belong – without exception - in the category of the "opportunity entrepreneurs". The strategy of these FB firms is characterised by "longer-term investment in business, rather than pursuit of short-term profits for dividends" (Devins, 2015:23).

We found within the same company case examples for both "risk-averse" and "pro-" growth" attitudes that reflected restricted and extended SEW. This is the case of the British Parodan Engineering, when the company grew under the management of founder/owner H. Woods, he '... *tended to put friends and family members on the payroll ... this sometimes led to a mismatch between the skills required and the skills available in the business, (but) it did create a very loyal workforce with low staff turnover and strong morale' (Wymer, 2015:8).* When his son Paul, the succeeding Managing Director took control, he *'... has a very clear vision for the company based on increasing capacity and profitability. He is keen to ensure people are hired* *for their skills and abilities and not just because of their relationship to the family... he needs to ensure he has the right people in place to realise the ambitious growth plans'* (Wymer, 2015:9). Company case studies characterised by pro-growth or growth averse strategies are presented in Table 6.

Table 6. Company case studies and the types of development strategies

Countries	**Pro-growth strategy**	**Growth averse strategy**
Hungary	BI-KA Logistics Ltd.	Quality Meat Ltd.
	Fein Winery	
Poland	Plantex Case	-
	Pillar Ltd.	
	The WITEK Centre	
	The WAMECH Company Ltd.	
	DOMEX Ltd.	
UK	Podiums Ltd.	-
	Parodan Engineering	

In another case, György, the owner in the Hungarian BI-KA Logistics Ltd., *'... has a motto, that 'if it is not growing, it is decreasing'. He defined 5 KPIs that Gabriella (her successor in manager general) has to reach quarterly. In the last two years, she has exceeded even these ambitious requirements. Income improved by 20% and business results improved by 56% in 2013'* (Kis, 2015:3).

As result of this growth strategy, BI-KA Logistics Ltd. is planning to double its transport fleet in 2015. The Polish Plantex Case, which was founded at the beginning of 1980's, is characterized by strong growth performance in the high-tech horticulture sector, too. *'In 1990, when a market economy was introduced in Poland, the company started developing more dynamically. The milestones in development were:*

1. *1997 - construction of a modern laboratory enabling sterile propagation, equipped with technologically advanced air filters and other high-tech equipment,*
2. *2003 – purchase of 3-.5 ha of land near the City, in Village*
3. *October 2008 onwards – implementation of **GLOBALGAP®**, a certified programme of quality assurance. This is a system of overall good agricultural practices aiming to protect the customer and environment.'* (Paszkowska, 2015:1).

A growth strategy may focus on getting and keeping position in the niche market of the high-quality specialised product. This is the strategy of the Hungarian Fein Winery*:*

'*Fein Winery has no aspiration to reach a definite proportion of revenues coming from exports, however Fein wines could be found in the famous restaurants across Europe like the three Michelin star restaurant Fat Duck in London. The international market presence serves as a benchmark of quality. Direct orders are built on personal recommendations therefore reputation and quality has a high importance'* (Gubányi, 2015: 4).

A similar growth strategy characterises the British Podiums Ltd. shifting from products of other firms to product development, manufacture and installation. As a result of the new strategy both the productivity and profitability of the business improved significantly.

'*It was at this time that Paul (owner and managing director) developed a new strategic plan for the business. The external market was changing, with fewer opportunities for distributors of access platforms and specifies of work. This was being driven by technological changes and the wide availability of online information for clients to use. Paul began to change the focus of the business from sales of other companies' products to the development of tailored design, manufacture and installation of specialist access platform solutions. With his son taking an active role in managing the operational part of this, the business moved away from sales and service and Paul began to consolidate the business. The business became more knowledge-intensive with a design office being established and the development of systems for producing bespoke solutions no matter how simple or complex. The result of the change in strategic direction has been a significant improvement in the productivity and profitability of the business'* (Devins-Marran, 2015: 4-5).

Risk averse or strategic conservatism is located on the other extreme point of the scale of SEW. This strategy is represented by the Hungarian Quality Meat Ltd. According to the researcher who made this case study, the risk averse strategy of the owner/founder should be explained by his fear of losing control as the company grows in size:

'... *the company has no plans for future growth. They (both the owner/founder and his two sons as successors) would like to keep the present size of the company ... they do not plan to open new shops in another town. They would not have enough time to check the operation of the new shop(s) and they do not want to employ another senior staff member'* (Szentesi, 2015:4).

IV.2.3. Psychological ownership as a special mental relationship in the FB

The psychological ownership reflects both the owner/manager's and the potential successors' way of thinking or mental dimensions in relation to the business, family and the community in which the FB is embedded. For example, the owner/founder of the Hungarian Quality Meet Ltd. stressed several times during interviews the importance of *directness, honesty and trust* and he treated his two sons as successors through this lens:

'*I am a straight man and I expect it from others, too. There is something of me in both my sons. Károly Jr. is tougher and more consistent than László, in whom I discovered my more emotional side'* (Szentesi, 2015: 12).

In the British Podiums Ltd*.* case for the owner/manager, the key role of the experienced and knowledgeable "core" staff (non-family key employees) and their *identity with the firm* became visible during the difficult period of consolidation and re-structuring of the business activity. This was the key motif in implementing an **"**Employee Stock Ownership Plan" *(ESOP)* for their key employees which operates as a powerful incentive tool.

'*A key element of this plan was to strengthen the ties with existing managers working in the business …For a variety of reasons (not least achieving effective tax efficiency for the owner, employees and the company) an Employee Benefit Trust was established to transfer 10% of the business to eight key employees. When the company makes a profit, the managers share in the profit equally under this scheme. The "Employee Benefit Trust" acts as an incentive for managers to help make the business more successful and encourages retention, whilst maintaining the principle of family ownership*' (Devins-Marran, 2015:4-5).

The Polish Plantex Ltd. is operating a highly-advanced micro planting plant, where the extremely rich professional experiences of the founder/manger guarantee the safe operation of the firm and at the same time demonstrate the key role of the *family ties in the collective learning process* resulting in a strong professional identity of the family members.

'The whole family perceive the family business as a bedrock and source of their professional identity. That's why the position of Antoni, the founder and owner is so strong. Not only has he built a sound business but the family admires him for enormous professional knowledge, expertise and willingness to share it with the new generation. His leadership style is strong and individual, but he has no problems with delegating or sharing responsibilities. If there is any reluctance towards undertaking managerial duties, it's due to the successors' unwillingness to take over rather than any barriers on Antoni's side' (Paszkowska, 2015:8).

The Hungarian Fein Winery Ltd. case study is a good illustration of, how the FB firm is developing a *wide national-international network and social responsibility* to improve the economic performance of the local economy. Social responsibility is "transferred" and "maintained" by the family members (e.g. wife or, successor son) and not limited to the activity of the founder/owners. However, his example is an important driver in developing a strong identity with the *community of the wine business*.

'*The founder manager, Tamás has begun to establish a social network and take responsibility for the local community after founding the family company in 2003. In various wine related organizations the founder manager plays a central role. An excellent example of this initiative is the so-called Etalon, a blend of four winemakers' wines from the region…*'(Gubányi, 2015: 6).

IV.2.4. Social system in the FB: advantages of the trust based relations

According to the literature of the FB one of the most important advantages of the family firms is the high level of social-cultural control – based on trust relations – which bind together both family and non-family employees in a common purpose.[7] The trust-based relations are the

[7] Trust and its anticipated positive impacts became rather popular in recent Hungarian economic literature. However, there are few attempts to develop and use concepts and indicators based on the consent of the community of social scientists. Our knowledge is even more limited on the time-consuming learning process of trust building by social actors in the field investigated (e.g. preparation of the succession process,

sources of the exceptional strength of FB, which often help the firm in navigating during the periods of severe economic difficulties. Thus, it is necessary to indicate the long and difficult process of trust building and consider the risks associated with its fast erosion.

In the following section, we intend to demonstrate both the positive impacts of the trust based strong ties and also their negative side effects resulting from a violation of trust within the business practice. According to the experiences of Polish FBs found in the literature, '... *close relatives (e.g. parents and offspring) have heightened inter-personal emotions because they care deeply about each other's feelings and about how they are perceived by each other. These emotional links can present advantages for family firms, as they can inculcate loyalty, mutual understanding and trust, but they can also lead to misunderstandings and have a negative impact on the performance of a family firm'* (Surdej, 2015:20).

The trust based strong social-cultural control in the FB – as British experiences indicate – has also a negative side of the coin when, "self-conflicting messages ... among family members through ongoing social interaction... giving rise to the confusion, frustration, disappointment, rivalry and emotional trauma that is commonly experienced by business founders, successors and other stakeholders, including family members and non-kin employees." (Devins, 2015:27).

Polish family firms operating in the engineering and metalworking sector, adopted the following social-psychological contract: *'The company has its own code of behaviour and all employees subscribe to it. The basic principle in the company relates to treating employees with respect. This includes providing proper remuneration, opportunities to gain new qualifications and support in times of personal hardship. Family members are close to and supportive of each other. All of them subscribe to the values described above'* (Konopacka, 2015:6).

developing common entrepreneurial actions, etc.). Due to lack of space and time, we intend only to outline some basic characteristics of the trust building process. Tolerance of one another's interests and endeavours is only one component of trust. „This mutual respect for one another's interests can be called 'moral competence'. It's abiding presence along with a second component – the partners' professional competence, including work discipline – guarantee the long-term advantages of trusted relations. A third dimension of trust was time, which is in effect tantamount to testing the participants' moral and professional competence and is seen as a period in which relations are based on mutual dependence, as opposed to unilateral dependence" (Kuczi-Makó, 1997:183).

Using the experiences of the Polish literature review, '... *a family firm should avoid ambiguity between treating non-family members as if they are co-owners in times of sacrifices (expecting from them wage restraints) and treating them as dependent workers in times of prosperity (not sharing with them the benefits/profits)*' (Surdej, 2015:25). This kind of ambiguity of owner-managers' expectations in relation to non-family members may destroy one of the most important features of the family business: the trust-based social relations and strong commitment of employees towards the firm' targets, and they may be replaced by short-term financial transactions.

IV.2.5. Survivability of FB: the Key Importance of the Transferring Generic Human Values and Embedded Knowledge

Survivability of the FB could be interpreted as a set or *'... a combination of human, social and financial capital, working in a way that distinguishes family from non-family businesses'* (Devins, 2015:24).

In identifying the various components of the human and social capital it is worth stressing the importance of such values as openness, motivation to develop and eagerness to learn and therefore support the beneficial effect of lifelong learning in regard to the survivability of the firm. The company cases illustrate well how they function in business practice in shaping the complex and time-consuming process of succession. In the case of the Hungarian BI-KA logistics Ltd, for the owner, *'... core human values are openness, learning behaviour, the need for development, respect and humility, acceptance of others, and beyond the materialistic world, how to give. Now I am able to give, but for this I need a management team who operate the system. If they run the company properly, I will be able to live this life in line with the values'* (Kiss, 2015:4).

The continuous learning – formal training and 'learning by practicing" - are decisive factors in guaranteeing the sustainability of the British Podiums Ltd. too. *'Learning generally plays a key role in the sustainability of the business, and Podiums Ltd. supports the professional and technical development of their workforce, providing time off work to study and paying course fees where appropriate. However, much of the learning is on the job, with coaching and* *mentoring by peers and leaders a key element of work-related and personal development. Progression is supported in the business with, for example, welders moving on to design positions and shop-floor workers being promoted to supervision and management positions'* (Devins - Marran 2015:6).

The rich theoretical and practical knowledge of the founder/manager and its smooth transfer to the next generation (NxG) or organisational (collective) learning are the key factors in the successful succession process in the case of the Polish Plantex Ltd:

'Knowledge transfer is absolutely the key issue ... Antoni (founder/manager) willingly and enthusiastically keeps passing his incredibly broad knowledge to his family successors, while they are keen to learn and develop it as well as they can. All the family members have been taught from childhood and have it deeply ingrained in their minds that what each of them learns or finds out belongs to the family and may contribute to their prosperity' (Paszkowska, 2015: 9).

In another Polish case, the WAMECH Ltd founding owner '... *has always underscored the importance of such values as honesty, reliability and respect for another people in business activities. Respecting these values helped him to gain the trust and respect of his employees'* (Konopacka, 2015:6). A rather similar value system characterises the other Polish case, WITEK Centre: *'In Karolina's family, universal values, such as respect for other people, their dignity and opinions, have always been very important. This has helped ensure good relations between family members, the people managing the companies and their employees'* (Konopacka, 2015:5).

Psychological ownership may not only strengthen both social and psychological ties in the FB but result in a strong professional identity held by the family members too through the collective learning taking place in the family. The family identity is further cemented by the strong ties with both professional and local communities, too. It is necessary to call attention to positive impacts of the Employees Stock Ownership (ESOP) scheme among the key non-family members. According to the experiences of the British "Podiums Ltd." company, this kind of social innovation may intensify the community feeling and loyalty of the non-family members too.

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

Risk taking or adverse attitudes, psychological ownership, social systems and values and knowledge transfer represent the multifaceted character of the SEW that shapes the complex and time consuming process of succession. Assessing their diverse outcomes in light of the company case study findings, it is worth stressing again the role of the radically changing social-economic environment both locally and globally. It is rather risky to assess beneficial or harmful effects of SEW without knowing the context of business operation. Not denying the well-known competitive advantages of the FB derived from its „patient capital" nature (e.g. dominance of the longer view, stable client relations based on truth etc.) we have to insist that *'…in today's economic climate family businesses acknowledge they will have to adapt faster, innovate earlier, and become far more professional in the way they run their operations'* (Global Family Business Survey, 2014:5).

IV.3 Organisational-collective learning: an underestimated dimension in the succession process

In family firms one of the most critical factors with regard to effective succession is knowledge transfer between generations. The knowledge transfer is far from being unidirectional; learning may take place between all generations and within generations, as well. It is important to stress its fairly informal character and relation to the socialization process, e.g. the mainly unconscious incorporation of rules, values, behavioural roles and models, etc. Learning is, however, a complex phenomenon. Besides the complexity of approaches and theoretical models Lee at al (2004) call attention to some issue that are of central importance in the literature. Two of them will be presented in the following section: the problem of concept ’learning’ and formal/informal character of the learning process.

In the last two decades two basic paradigms of learning have emerged in the literature. The standard paradigm of learning (Hager, 2004) describes learning as an *acquisition* process (Sfard, 1998). The traditional or standard paradigm hinges on the implicit assumption that knowledge is an objective entity existing externally to the learner who is able to „acquire, internalize, possess and transfer” it (Sfard, 1998:5). In the learning process such knowledge, concepts, ideas, skills, information, facts, meanings, etc. are acquired that have not been possessed by the learner earlier. This model puts the emphasis on individual learning and on the rational, cognitive aspects of learning (Engeström, 1999) The acquisition paradigm stresses the importance of abstract, context-independent and transferable knowledge. In the cognitive approach the intellectual, reflexive elements of learning are of central importance and the non-verbal, context-dependent and implicit ways of learning are irrelevant.

The other basic approach to learning is the so-called *participation* paradigm (’learning as participation’) (Sfard, 1988, Lee et al., 2004). It is connected to the socio-constructivist approach of learning and describes learning as a process of becoming a member of a community of practice through social interactions (Lave – Wenger, 1990, Duguid – Brown, 1991, Lave, 1991). In this perspective learning is an organic process which is often a non-intended effect of other human social actions. Learning takes place in a concrete context of practical situations and is based on the cooperation of the different actors (Lee et al., 2004). The participation paradigm is strongly connected to the term ’community of practice’ that was defined by Wenger (2006:1) as *’groups of people who share a concern or a passion for something they do and learn how to do it better as they interact regularly’*. Communities of practice are such collective entities where community members create and define collective competences and identities based on their mutual relations to each other (Wenger, 2000).

In their seminal work Lave and Wenger (1991) presented the process of how newcomers or novices to informal groups become legitimate members. This process is not restricted to the acquisition of task-related knowledge, skills and competences, but participants also learn how the group works and in what way they can participate. Learning here is not a cognitive but a socialization process, where newcomers move from a peripheral position to a central one (Tynjälä, 2007).

In the acquisition model the learner acquires external knowledge and at the end of the learning process he or she will possess it. In contrast to that, in participation theory learning is equal to the participation *process* itself. The basic differences of the two paradigms are presented in the following table:

Table 7. Two basic models of learning

Learning as acquisition		Learning as participation
Individual enrichment	*Goal of learning*	Community building
Acquisition of something	*Learning*	Becoming a participant
Recipient (consumer), (re-)constructor	*Student*	Peripheral participant, apprentice
Provider, facilitator, mediator	*Teacher*	Expert participant, preserver of practice/discourse
Property, possession, commodity (individual, collective)	*Knowledge, concept*	Aspect of practice/discourse/activity
Having, possessing	*Knowing*	Belonging, participating, communicating

Source: Sfard 1998:7

The participation paradigm highlights the importance of learning processes connected to situated, often tacit and non-codified knowledge which is an important aspect in understanding the complex character of workplace learning. With respect to both paradigms, Engeström (2004) calls attention to the fact that knowledge and skills that can be acquired during the learning process are often unstable, preliminarily not defined, and in many cases are being constructed even as a result of learning. He suggests introducing a new paradigm of learning. This third model describes the learning process in which new knowledge is constructed by the mutual interaction between the learners, the learning process and the external environment. He calls this model the *'learning as construction*' paradigm. This kind of learning is of particular importance in innovation, when the environment is unstable and the participants do not possess any preliminary information about the outcome of the learning process. The model tries to capture the dynamics between the learners and their environment exceeding both the outcome-oriented and socialisation-focused other two models.

The other basic issue of learning is the relation between formal and informal learning. Formal learning means a process within organised frameworks, where the teaching material is preliminarily defined as well as the criteria of success. The teacher is a professional person here and the acquired knowledge is formally acknowledged at the end of the process (Tynjälä, 2007). Formal learning is strongly connected to the acquisition paradigm. Informal learning is related to practical activities, work task-related experiences and daily routines. The learning process is not preliminary designed and is based on the participants' cooperation. The learning outcome is on the whole not acknowledged in formal documents

(Lee et al., 2004). Eraut (2000) emphasises that a distinction should be made according to the learners' intentions. Informal learning in workplace settings can be a process based on explicit learning intentions. There are some cases, however, when learning is a non-intended consequence of other human activities and takes place unconsciously. This is implicit learning represents the manner in which most tacit skills are internalised.

With respect to learning and knowledge development the literature published in the last ten years in the UK calls attention to the informality of learning and knowledge transfer through problem solving and networks in smaller family firms as a recognised feature of many SME's in the UK (BIS, 2012 – cited by Devins, 2015)

With respect to intergenerational learning and knowledge transfer in family firms in Hungary 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; the relationship with the customers; easy decision making processes; safety and the experiencing of common pride. Bálint (2006), however, explains a case, where the father has not taken his potential successor son to any negotiations with him, so it was really hard for him to be accepted by the partners as a successor. It is helpful 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, the development of the successor is supported by a mentor. The ideal mentor is someone, who works at the company for a long time in a high position and is ready to share the experience and some criticism. Csákné Filep (2012) recommends involving external advisors in succession planning and monitoring 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, as well as the objective interpretation and reflections may help to avoid the misrepresentation of objectives that may occur with personal interpretation alone.

Based on the experiences collected from our case studies, the following picture emerges with regard to learning and knowledge transfer. Knowledge is transferred between and within generations containing various, mainly non-coded elements. Both professional and leadership skills are of particular importance. These types of knowledge are in most cases tacit and are accumulated and stored collectively. The character of the learning process is informal and the dominant mode of learning is participation, accordingly. Learning is an informal socialization process that often starts in early childhood. As mentioned earlier, the family business is an integrated part of the identity formation of the families. Successful family business owners can create an atmosphere where children are emotionally attached and that serves as a basis for making common narratives, which are the building blocks of the family's identity. Family history that is transmitted over generations, like in case of the Fine vinery, creates the foundations of those (family) values that make children identify themselves with the family and means an attractive pattern for the second generation stepping into the business. The core family business-related values identified in the case studies are the following: independency; ensuring the wealth of the family; being proud of building an independent life; mutual support of each other; and a commitment to family affairs, emotional security, etc. As referred to earlier, second generation members, while being children, are socialized in an environment where a family business has always been a part of every-day life, so children unconsciously learn that business is an integrated part of family affairs. Family meetings, like common dinners for instance, remain important areas of knowledge transfer and learning, even when children have grown up and joined the family business. Family members can share their experiences, thoughts, and visions with each other, and possible conflicts can be managed during these events. Social interactions taking place at these meetings also contribute to the creation of the rules and norms regulating the behaviour of family members towards each other and to the non-family members. The Polish Plantex serves as a good example: *'The succession process is supported by the whole family. Joanna and Jan get a lot of help and advice from the parents, but also from the sisters and brothers-in-law. Most of the current decisions and problems are discussed on a day-to day basis, via telephone and during family meals and gatherings'* (Paszkowszka, 2015:3).

As for the development of professional skills, it seems to be typical that second generation members become familiar with the activities of the family firm even during their childhood years when they helped out in the business during weekends and/or holidays. There are variations as to the extent to which second generation members are pressed by the parents to continue their profession, but a common practice seems to be to involve the potential successors even in their childhood years in the business as helpers in order to make the family business and the related profession attractive to them.

With regard to professional training and work experience there are two typical learning and carrier paths. In the first case successors start their professional education and/or working life outside the family business. It is sometimes spontaneous, sometimes encouraged by the founders' generation. As the case of Podiums, (UK) illustrates: *'Paul has two sons, both of whom studied at university and initially pursued their careers outside the family business. Joe has become a freelance graphic designer and currently works in London. He provides professional services to Podiums Ltd including the design of the company website. He is about to embark on the production of a company film to commemorate the 40-year anniversary of the founding of Podiums Ltd. Tim is directly involved in the strategic and day-to-day management of the company. He has taken an interest in the business from an early age. Throughout his childhood Tim spent school holidays and weekends in the business helping out and getting to know it. He went to university and studied Product Design, with a year-long placement back in the family firm. After university Tim spent some time in Australia, in his words 'playing rugby and growing up'; when he returned to England he worked in sales for a year for a company in the East Midlands. When a vacancy for a driver came up at Podiums Ltd. he decided to work in the family business. He has worked there ever since, taking on a variety of roles, learning through experience and progressing through the company'* (Devins - Marran 2015:6).

When successors decide to join the family business such formal and informal methods, like learning on the job, mentoring and coaching by the founders, peers or other colleagues become the dominant mode of their personal development. In case of Parodan Ltd (UK)

'Both Rob and Paul have had periods of working for other companies – for their own personal development and to escape the pressures of the family business setting – but ultimately both returned, settled into their careers and committed to a future with the family firm. Danny, the youngest son has had two distinct spells of employment at the family firm, both for relatively short periods of time and he decided to develop his career elsewhere. (…) As the two older sons settled into the business, Harry started to delegate more responsibility to them. The company had a very informal organisational structure for many years with Harry

taking a very visible role as leader of both the operations and strategic direction of the firm. As the business grew and the span of control widened, Harry was advised by a business consultant to develop a more formal structure and to provide opportunities for his sons to progress in the business. Over a period of time both sons moved from hourly-paid entry-level jobs to salaried management positions' (Wymer,2015:5).

In most cases we investigated the founder started his/her business after collecting experiences in his/her profession at various companies. In this respect, the Hungarian Fein winery represents a different pattern. The founder started his carrier as an economist and worked in various positions before opting for a winery. His younger son (the successor), on the contrary, is professionally trained and studied viticulture abroad. They represent two different perspectives that are sometimes difficult to be harmonised. As the founder says: *'I am an economist; I can speak foreign languages and have travelled the world. I have collected experiences as a merchant, manager and change agent. In the long run I see the economy from a broader perspective than winemakers do'* (Gubányi, 2015:6).

Beside strong emotional ties between the family members, learning as acquisition is also the basis for identification with the family. The founder started introducing his son to the local social-organisational environment of the firm and attempted to transfer his networking skills to the successor. On the other hand, the founder also encouraged the successor to set up his own international businesses, while at the same time wanting the successor to see the family winery as a means for the family's survival. The intergenerational cooperation and different expectations are the source of competitive advantage and creativity. *'The founder manager, his wife and their son are strong personalities, but they fully trust each other. All of their discussions are focused on professional or strategic issues, such as when they experiment with the blending of wines. This is a time-consuming but fruitful process. They have different ideas and visions with regard to the various paths leading to the strategic goals. It can be traced back to the differences of age, experiences and professional background. They have developed their own culture for discussion that helps them to learn from each other'*- as stated by a close friend about the learning style of the Fein family (Gubányi 2015). During these informal debates the successor and the founder's wife represent the professional aspects while the founder the strategic and business-related ones. When attempting to create balance between the two viewpoints a collective learning process takes place where the stakeholders can incorporate those social skills that help them to initiate mutual understanding and commitment. This is a very important precondition for the clustering of local wine producers - one of the strategic goals of Tamás, the founder.

Formal knowledge transfer is one of the key issues in a successful succession process. In the case of the Polish WOMECH company, the education and knowledge development of the successor was an integrated part of succession planning. *'In advancing the succession process, the doyen has always been keen to mentor his children and support them in areas relevant to managing the company. (…) The youngest son decided to get involved in the family business. In consultation with his father, he prepared a plan for his succession in the company. The first step of the plan involved education. This involved gaining practical experience in working in other companies, mainly abroad, through internships and on-the-job training. The assumption was that the person taking over the company should be a graduate of technical and business management studies and be fluent in foreign languages with practical experience of working in other companies. The plan has been realized successfully. After graduating from courses that his father thought essential, the son started systematically taking over responsibilities and ownership of the company. When he became a 51% shareholder of the company, he also became its managing director. The shares had been transferred to him formally, allowing him to become a co-owner of the company'* (Konopacka, 2015b:5).

Knowledge transfer in FB is often an altruistic process untinged with preliminary calculations. It is a necessary investment in the future accompanied by the risk that the second generation members can decide not to join the business despite all the efforts made by the founder(s). Knowledge transfer not only serves business goals, but it may also contribute to the emotional wealth of the family - cementing the ties between family members. The Polish Plantex case illustrates well this function of knowledge transfer and teaching in the family. *'Knowledge transfer is absolutely the key issue in this case. Antoni willingly and enthusiastically keeps passing his incredibly broad knowledge to his children, while they are keen to learn and develop it as well as only they can. The willingness to transfer knowledge to younger generations without any conditions or calculations is probably the crucial key to a fruitful succession of Plantex to Joanna and Jan; a succession that is currently in progress. It is also one of the most important elements in maintaining a good atmosphere and friendly relations in the family. All the family members have been taught from childhood and have it deeply incorporated in their* *minds that whatever each of them learns or finds out belongs to the family and may contribute to their prosperity. Like father, like children'* (Paszkowska, 2015:6).

IV.4. Managing Family Businesses and succession process

In this section we will discuss three issues that are of particular importance in managing family businesses successfully. In the case of family firms two overlapping sub-systems should be balanced. Family goals, such as emotional stability, harmony, reputation, etc. run parallel with business-related goals, like survival, growth or profitability (Sharma et al., 2013). Family firms follow different strategies in seeking the balance between these dimensions. The first issue that we will discuss in more detail is therefore the management of family and business relations, focusing on involvement of family and non-family members, governance and management. A further special issue is the management of human relations in family firms, since "familiness", i.e. the mixture of family and business roles, may impact upon the owners' attitudes towards their employees. The third issue in focus is the strategies and practices in managing the succession process itself that may vary between the different firms depending on their strategic goals, the owners' experiences and values, and the commitment of the next generations.

IV.4.1. Managing family-business relations

During their life-cycle, most businesses have to face the problems concerning growth. Leadership and management have to cope with more and more complex issues and in the case of family firms a further difficulty emerges, namely the complex and sometimes contradictory relation between family and business goals. It is also worth stressing the importance of personal interactions within the family or between family members and non-family members. The management of family firms is in a specific situation when trying to balance rational business motives with emotional aspects of family life.

The effectiveness of family firm management heavily depends on the extent family members are involved in ownership and management. Another important aspect of family businesses is the management of tensions and contradictions between family and business. Both the family and business are complex social systems with different specific logics, values and interests that can overlap each other and also be in conflict. Ward (1987) makes a distinction between four basic models concerning family versus business orientation of family firms. ‘Family first’ enterprises prefer family goals, ‘business first’ enterprises yield business, ‘family business’ enterprises seek balance between the two and ‘floating enterprises’ have no focus either on family or business issues. According to empirical evidence those family firms perform outstanding in the long run that perform well in both dimensions (Sharma et al, 2013). As Devins (2015:13) puts it, *‘…businesses with tight family ownership and management structures are more likely to report family-objectives as a high priority, while first generation businesses or those with a lower proportion of family managers were less likely to report the same.’* The embeddedness of family owners in the family affairs strongly influences their family- or business-orientation: the more family-owners are embedded in the family, the more family-oriented their motivations will be (Le-Breton-Miller and Miller, 2009). This is especially true in the case when the family business is a relatively closed system; there is a lack of external perspectives (e.g. few externally recruited managers, or a lack of experience of family members outside the business).

Family- or business-orientation of family firms depends on the founders/owners core motivations. When analysing Polish family firms, Sulkowksi (2004) classified the examined enterprises in this respect: There are firms that aim at creating family traditions. They are focused on one type of activity and they account for 50% of family firms in Poland. The second is composed of those firms that are oriented to generate profit for the family. The majority of these are small and medium sized companies that are flexible and agile, moving between sectors depending on their perceived profitability. The third group is the family corporations, e.g. large, capital-rich family-owned enterprises.

In Poland research has been carried out in selected regions proving that there are remarkable differences between the first and second generation with regard to involvement in the family firms. The first (founder) generation takes leadership while being owners, whilst the second generation works in the companies but does not share in the ownership. In the vast majority of cases, even if employees from different generations are represented in the company, they are not allowed to participate in the decision making as owners/founders seem to maintain these prerogatives for themselves. This reflects the relatively authoritarian management style of Polish entrepreneurs (Surdej, 2015).

There is, however, a common feature of the firms investigated. Independent of the founders' original aspirations, family businesses are an integrated part of identity formation in families. Identity is based on a shared cognitive and emotional narrative that serves as a tool to strengthen family ties and also works as an interpretative framework helping to understand the external world. It some cases it is created consciously, in other cases it is the result of spontaneous actions. Fein winery is a good example of the tradition making company with conscious efforts made regarding identity formation. The founder's father was the president of an agricultural co-operative and acted as a socially highly reputable and influential person. His and his fathers' story serve as the basis of the family narrative about traditions that have been transmitted over generations. Second generation members, while being children, are socialized in an environment where the family business is always present. They learn that '*parents are equivalent to the firm*', even when the founder tries to separate family and business matters. Here the role of the wife in making a balance between the family and business dimensions of family life must be stressed. In most of our cases when a couple decided to start running the family business together, once children were born, the wife had to step back and, at least partly, give up their careers in the company in order to take care of them. The case of Parodan Ltd. illustrates this process well: *'Parodan Engineering was started primarily to provide security and a future for the Wood Family. Harry was very much the head of the family business with his wife Elizabeth playing a key role in the development and administration of the company and ensuring things ran smoothly both at work and at home. Paul recalls that as a child the sons saw the company staff as 'part of the family', with their father being head of the family and their mother being the 'mother hen' who looked after all the staff. Even when the company was incorporated and each Wood parent owned 50% of the business, the company was always viewed as 'their dad's' by both the sons and the employees'* (Wymer, 2015:8). In the case of the Hungarian Quality Meat both the family and organisational culture were created "spontaneously" by the founders. The successors sort of grew into it. As the founder, Károly puts it like this: *'We always knew how to accommodate our pleasure with our purse, so I managed to make them* [the children] *understand that in this business the* *working time is not 8 hours a day and the working week is longer than five days'* (Szentesi, 2015:6).

Another aspect is that of family-business balance. It should be mentioned here that it is the involvement of non-family members in the management of the company that strongly influences the company's performance. As mentioned earlier, it is important to stress the distinction between ownership, i.e. the capital and assets the family possesses in the company, and governance, i.e. the extent to which family members are represented in decision-making bodies and the involvement of family members in everyday management activities. It is worth making a distinction between family-controlled and family-influenced firms. Some families will take a role in the day-to-day running of the business whilst others will take a more hands-off approach and involve professional non-family managers (Devins, 2015). The successful cooperation of family and non-family members depends on various factors, not least the way the two stakeholder groups can accept each other's social norms and values.

In our cases more combinations were identifiable with respect to family control and influence and involvement of both family members and non-family members in governance and management. The following table summarizes our experiences:

Table 8. Family control and influence in the INSIST company cases

	Ownership/Governance	Management
Podiums (UK)	Shared ownership between family and managers with family majority.	Shared management with family and non-family members.
Parodan (UK)	Founder and his wife are majority and successors are minority shareholders.	After restructuring management went from the hands of family members to non-family member managers. Only production is controlled directly by the family.
DOMEX (PL)	The founder, his wife and his daughter share ownership. The management board of the company consists of the family doyen, his wife and two daughters and a person from outside the family. The board meets every month to deal with ongoing business issues.	Shared management between family members.
Plantex (PL)	The founder and his wife keep 100% ownership and share neither with family members nor with external stakeholders.	Management is shared between family members with no external partners.
Pillar (PL)	Family ownership with the possibility to involve external investors. The founder passed his ownership gradually to their sons.	Management is shared between family members with no external partners.
WAMECH (PL)	Shared family ownership.	The founder's eldest son became the managing director.
WITEX (PL)	Ownership is shared between the founder and the children.	Each family member runs their own business within the company group.

Quality Meat (HU)	The founders keep 100% ownership and share neither with family members nor with external stakeholders. Next generation has no ownership.	Management is shared between family members with no external partners.
BI-KA (HU)	The founder keeps 100% ownership and do not share neither with family members nor with external stakeholders. Next generation has no ownership.	Founder-owner retired from daily management routines and delegated responsibility to a non-family manager.
Fein Winery (HU)	The founders keep 100% ownership and do share neither with family members nor with external stakeholders. Next generation has no ownership.	Management is shared between family members and an external partner is planned to be involved in administration.

According to our research experiences there are two critical dimensions of family business governance and management: the relation between family members (especially between generations) and the relation between family and non-family managers. One of the tools of the founders' control over both family members and non-family members is ownership. Sharing ownership with the members of the next generation as (potential) successors is also a symbolic gesture that signals the symbolic transition from childhood to adulthood and can strengthen the children's' commitment to the family business and, through this, more loyalty and bearing responsibility can be expected. In this respect the Hungarian cases are interesting, since the founders' generation does not share ownership with the successors, even in a lesser extent. It reflects a paternalistic leadership style where exercising control takes place in the form of strong direct control. In the case of Quality Meat the founder couple expressed openly that their ownership would be transferred to their sons only after they have fully retired. At the emotional level it may lead to personal dependence and compulsion to conform, at the organisational level, restricted autonomy, low-level trust and commitment. In the case of Quality Meat family ties are very strong; although the children already have their own families they spend a significant share of their free time together. For instance, they organise each year a common summer holiday.

The other important issue is the management of relations between family and non-family members. According to the experiences gained from the case studies this problem often takes shape in the conflict between the owner and managerial roles. One of the main motivations of the founders is to ensure a secure income for the family, and the family business serves as a basis for that. This perspective sometimes may lead to conflict with the managerial approach that favours risk taking and growth even at the expense of short-term security. This problem can only be solved with the mutual commitment of owners and managers and requires intensive communication and the ability to take on others' perspectives. As the owner of the Hungarian BI-KA puts it: *'We are worried about what we have created since it is the fruit of our work. It ensures the existential basis of the family. If we saw something that would threaten our existence, we would immediately intercede'* (Kiss, 2015:7). This attitude is also illustrated by Paul Morton, founder of Podiums Ltd. in the UK, who, *'having experienced the uncertainties associated with the financing of the business in the early years, including personal guarantees and a mortgage on the family home, is keen to place the business and the family on a firm financial footing and he is far more risk-averse now than in the past. Paul has planned the transfer of wealth to the next generation largely through property holdings and investments, made gradually over the years and held in a separate company'* (Davins – Marran, 2015:6)

IV.4.2. Human Resources Management

There are two basic approaches concerning HRM practices in family businesses. According to the first one it is assumed that *'family businesses tend to have better relationships between upper management and employees, particularly in terms of job satisfaction, employee loyalty, staff turnover etc'* (Devins, 2015:14). This approach stresses that 'familiness', e.g. applying family behavioural patterns in business life can be a strength of family firms when compared to non-family enterprises. According to the second approach, such HRM practices can, however, lead to negative consequences as well. As mentioned earlier employing family members can be an advantage because of the higher trust level and management's range of possibilities for exercising control over family member employees (especially in case of close relatives), but it may effect nepotism and create a “glass ceiling”, limiting the opportunities of promotion for non-family members (Surdej, 2015).

In our case studies we could identify some ‘family-like’ patterns in the family businesses’ HRM practices, such as personal relations with employees, empathy and patience towards their problems (e.g. in case of sickness or poor timekeeping), mutual commitment, emotional involvement, etc. It seems, however to be the case that family patterns are not automatically applied in relationships within family businesses. In some cases the founders started working with people in a very similar social situation, e.g. labour market entrants whilst having young children in the case of the Hungarian BI-KA or people made redundant during the privatisation of the co-operative in case of the Quality Meat. Similar life situations resulted in dense social interactions, common interests beyond the workplace and created the basis for community building. During the interviews these FB leaders expressed their social responsibility towards their employees and their families: they see themselves rather as a community than just pure company leaders. It may sometimes lead to internal conflicts, as well, as illustrated in the following example of BI-KA: *‘When I decided to retire from daily management and delegate the responsibility to my successor, it was a question of whether the employees are committed to me or the company’* (Kiss, 2015).

The other pattern we could identify was the personal commitment of the FB founders to applying family-like HRM practices. In the case of Parodan Ltd in the UK a conscious early strategy was to *‘put friends and family members on the payroll - especially those in need (for example employing friends who had been made redundant or were related e.g. their son’s wife etc.). Whilst this sometimes led to a mismatch between the skills required and the skills available in the business, it did create a very loyal workforce with low staff turnover and strong morale’* (Wymer, 2015:4). In the other case in the UK, the Podiums Ltd has initiated an interesting and efficient model for increasing the commitment of its workforce: *‘For a variety of reasons (not least achieving effective tax efficiency for the owner, employees and the company) an Employee Benefit Trust was established to transfer 10% of the business to eight key employees. When the company makes a profit, the managers share in the profit equally under this scheme. The Employee Benefit Trust acts as an incentive for managers to help make the business more successful and encourages retention, whilst maintaining the principle of family ownership’* (Devins – Marran, 2015:5).

IV.4.2 Succession planning in FB

The most natural way of family firm succession is the intergenerational ownership transfer that ensures continuing family control. Statistical evidence, however, suggests that in most cases the succession process fails. There can be several reasons; a lot of personal, emotional and structural factors can act as an inhibitor of succession, from the unsuitability of successors through governance failures to the unfavourable financial and taxation environment. One of the most important preconditions of avoiding failures in the succession process is planning and creating a formal or informal strategy that can ensure early warning signs of problematic succession and thereby cope with them effectively (Miller et al., 2004).

In the UK succession planning and intergenerational transfer means an ongoing challenge for the economy and the society. A distinction can be drawn between ownership transition (i.e. the next generation receives or buys equity in the business) and management transition (i.e. the next generation takes over running the business), which often occur together, although research tends to focus more on the management than ownership transition (Nordqvist et al., 2013 – cited by Devins, 2015). Survey evidence consistently suggests that many family firms are ill prepared for succession and transition. *'Succession is set to become a larger issue as the 'baby boomer' generation reaches retirement age over the next few years'* (Devins 2015: 11).

As referred earlier in the Polish case, Lewandowska (2014) examined the succession process from the perspective of potential successors. The following problems have been reported:

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

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

In the case of Hungary we do not possess systematic information about the Hungarian succession process of family businesses. Csákné Filep (2012) conducted a representative survey among those Hungarian SMEs that were facing succession challenges in 2011 (not exclusively family businesses). According to her results 49.3% of family business owners have succession plans without having written them down, 3.9% of them have a written plan, 18.8% think that succession is an 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 Hungarian SMEs involved with succession issues. The clusters do not represent exclusively family-owned businesses but all the SMEs that have been involved in the research. Categories 3, 4 and 5, however, cover the different types of family firms:

1. Businesses of independent parties with no vision

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 of the company's future.

2. Businesses of former colleagues with a vision

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

3. Kinship businesses

In the 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

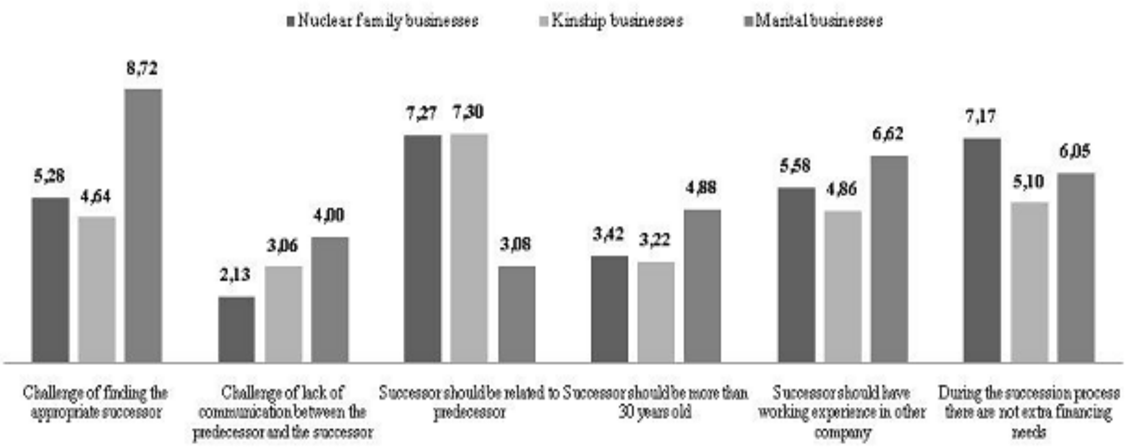
In this case the company is owned by the family members, especially by spouses but distant relatives also may have a share. Spouses typically work in the company as employees. Ownership of the company by the children is not typical. Regarding the succession the main strategy here is to preserve family-ownership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

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 the company by children is typical.) In this case external, non-family member parties are excluded from both ownership and management. Spouses often actively take part in the day-to-day management operations.

According to the results of the survey there are significant differences between the different types of family businesses with respect to the various dimensions of succession, as can be seen in the following figure:

Figure 1. 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 work experience are of greater 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.

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 following:

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

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

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

Table 9. Summary of succession planning strategies of the INSIST company cases

<table>
<tr><td>Podiums (UK)</td><td>The successors initially pursued their careers outside the family business but one of them decided to join the company and the other one supports the family business from the outside. The founder did not press their children to take over the business but ensured familiarity with the firm even in their childhood. Succession takes place gradually and financial advisors are involved.</td></tr>
<tr><td>Parodan (UK)</td><td>The three successors had the possibility to become familiar with the company but they were not forced either directly or indirectly to be involved. All of them gathered external work experiences and received an opportunity to join the company at a low position in order to learn and prove their ability.</td></tr>
<tr><td>DOMEX (PL)</td><td>The founder plans to pass the operational management of the company to his successors, and remain involved only in strategic decisions. His older daughter completed a variety of studies and worked for a time at the university, but opted to join the company. She runs the branch concerned with letting apartments. His younger daughter runs a restaurant located in the company building. She established the restaurant herself and works to develop it further.</td></tr>
<tr><td>Plantex (PL)</td><td>Succession is a consciously initiated process with a formal plan. The succession process is planned for about 5-7 years and now it’s the second year of its implementation. The first two years have been devoted to:
1. reorganizing/clarifying the job descriptions of the successors and non-family employees;
2. introducing the successors to the decision making processes and strategic planning;
3. renting a new, better accounting office that would be more competent and helpful in the succession process
4. employing a Legal Advisor who specializes in company successions. He’s already helped to draw the succession plan and now assists in modifying it according to new developments.</td></tr>
<tr><td>Pillar (PL)</td><td>The founders are expected to ensure continuity and keep the firm in the hands of the family, but the children did not take for granted a career in the family business. It was a surprise to the parents and they then decided to plan the succession process. They convinced their children to take over the</td></tr>
</table>

	company and a gradual succession process started on a democratic basis ensuring equal rights for the participants. In order to avoid internal conflicts competences and responsibilities of each successor are written down and continuously reconsidered.
WAMECH (PL)	The owners of the company have three children. Since their teenage years, the parents have tried to talk to them about a possible future with the company and potential succession. The parents' priority has been to provide their children with an all-round education and give them the opportunity to see the world, so that they will enter the labour market with knowledge, experience, an open mind and self-esteem. The eldest son decided to start his own business with friends from university. The owners' daughter chose medicine as her way in professional life. The youngest son decided to get involved in the family business. In consultation with his father, he prepared a plan for his succession in the company. The first step of the plan involved education. This involved gaining practical experience in working at other companies, mainly abroad, through internships and on-the-job training. After graduating from faculties that his father thought essential, the son started systematically to take over responsibilities and ownership of the company. When he became a 51% shareholder of the company, he also became its managing director. The shares were formally transferred to him, allowing him to become a co-owner of the company.
WITEK (PL)	The founder has developed the company by adopting her parents' philosophy that everyone has to make his or her own living and learn to be self–reliant. When her children became adults and were ready to start their own business activity, she divided the company between them. Each family member is independent and must take care of his or her own business. The founder still owns several properties, but has drawn up a will in which she has assigned properties to her successors.
Quality Meat (HU)	Succession is a consciously decided but never planned process. Delegation of management duties and involvement of successors took place gradually. Successors were not pressed to support the family business during their childhood and studies but family values have been strongly succession-

	oriented. The succession process is tightly controlled; the founder has not fully retired from decision making and kept 100%ownership.
BI-KA (HU)	The founder consciously decided to step back and transfer the company management to a non-family member. He kept the influence through ownership. Management transfer is a planned process with scheduled milestones and the involvement of external advisors.
Fein Winery (HU)	Ownership transfer is not intended yet; at the moment management of the business is shared. The successor is not directly forced but is socialised through family values to continue the business.

Three main factors were identified that influence the succession strategies of the investigated companies. The first decisive factor is the characteristic of ownership transfer. It can accompany the management transfer and responsibility delegation as a gradual process. The other option is when founders do not share ownership until they have fully retired. It is a more controlled way of succession. The other aspect is the formal or informal character of the succession process. The scale varies between preliminary planned to fully spontaneous modes of managing succession. The third aspect is at what level the successor is involved in the management transfer. It can take place gradually when successors have to start at a low position in the company and go through an internal career and learning process or the other way, when the successor immediately starts in a leading position. In this respect it is also interesting whether he or she collected work experience outside the family business that can serve as an external knowledge source and a basis for his/her legitimacy, as well. The various combinations of the different aspects may lead to heterogeneous outcomes in terms of the succession process but it seems that autonomy of the successor is a key issue with regard to the characteristics of the process. It can be argued that the greater the autonomy is given to the successor (e.g. management transfer accompanied by gradual ownership transfer) the less tension and internal conflicts can be expected during the succession process.

V. Policy Environment, Financial and Legal Regulation

V.1 Institutional environment: Variety of Density in the INSIST Project Countries

Despite the economic importance and large number of family businesses they are rarely in the main focus of political initiatives. Family business issues are usually handled under the general SME's support system. The following table summarizes family business related institutional settings of INSIST Project member countries:

Table 10. Family business related institutional settings

Institutional setting / Country	United Kingdom	Poland	Hungary
Government level	Department for Business Innovation and Skills Her Majesty's Revenue and Customs	Ministry of Regional Development Ministry of Labour Ministry of Education Polish Agency for the Development of Entrepreneurship (PARP) Regional PARP partners Local Institutions accredited with PARP	Prime Minister's Office Ministry of Human Capacities Ministry of Agriculture Ministry for National Economy
Specialist Agencies	Institute for Family Business(IFB) Families in Business (FIB) Scottish Family Business Association (SFBA)	Initiative of Family Firms (IFR)	Association of Family Enterprises in Hungary (AFE-H) Hungarian Association for Responsible Family Enterprises (FBN-H) SEED Foundation
Research Centres in Higher Education	London Family Business Institute Caledonian Family Business Centre Lancaster University Centre for Family Businesses University of Strathclyde Forum for Family Business Regents University London (Global Management – pathway in Family Business – MA) London School of Business and Finance (Professional Certificate in Entrepreneurial and Family Business)	-	-

Source: Own compilation based on ERASMUS + INSIST Project national reports (Devins - Jones, 2015:39-45, Surdej, 2015:28-30, Gubányi et al., 2015:20-28)

From the table it can be seen that at government institutions in the countries surveyed there are some similarities. There is no Ministry for Family Businesses in any of them and responsibilities for entrepreneurship and business affairs are divided between several ministries (Devins - Jones, 2015:39-45), (Surdej, 2015:28-30), (Gubányi et al., 2015:20-28). Specialist agencies can be found in all three countries and can be considered as important supporters of family businesses. Table 10 highlights an important difference between the British, Hungarian and Polish institutional setting. In UK numerous Family Business Research Centre exist contrary to Hungary and Poland. The private sector also provides support for family businesses via consultancy and accountancy services in all three countries. In the UK and Poland Family Offices support family businesses in managing their assets, while in Hungary we can't find Family Offices yet. Typically private bankers help wealthy Hungarian families to handle their financial investments.

V. 1.1 Legal regulations

The countries participating in the INSIST project have similarly sound and stable legal systems and national reports do not revealany problematic legal areas (Devins – Jones, 2015:39-45), (Surdej, 2015:28-30), (Gubányi et al., 2015:20-28). The company cases confirm the appropriateness of legal framework:

'In her view, the succession process does not pose any financial or legal risks to the company as she has already divided the company between her successors, enabling them to build their own independence and gather appropriate experience related to running business operations.' (Polish – Witek Centre, Konopacka, 2015:4)

'The owner has not identified any legal barriers in the process of succession, but considers that changing the organisational form of business must be undertaken with a view to assuring financial security of the company and the interests of his family.' (Polish – The WAMECH Company Registered Partnership, Konopacka, 2015:5)

Family business succession requires changes in the family business management and ownership structure which have legal impacts. The following table summarizes the types of legal issues revealed in company cases.

Table 11. Legal regulation related with the succession process

Legal issues	United Kingdom	Poland	Hungary
Establishment of a new company	Parodan Engineering	The WITEK Centre	Fein Winery BI-KA Logistics
Change the legal form of the family business	Podiums Ltd.	DOMEX – Joint Stock Company	BI-KA Logistics
Change in ownership structure	Parodan Engineering Podiums Ltd.	The WAMECH Company Pillar Ltd.	
Preparing a will		DOMEX – Joint Stock Company The WITEK Centre	

Source: Own compilation based on company cases (Devins – Marran, 2015:2), (Gorowski, 2015:7), (Gubányi, 2015:1-2), (Kiss, 2015:1), (Konopacka, 2015:5, The WAMECH Company), (Konopacka, 2015:2,4, The WITEK Centre), (Konopacka, 2015:2,6, DOMEX), (Szentesi, 2015:1), (Wymer, 2015:1,6)

The main reason for the establishment of a new company is to support the successor(s) in starting their own business and build their own independence. Some family businesses are established with limited liability while others with full and unconditional liability. As the business grows, the operations become more and more sophisticated and so the owners usually tend to change the family business legal form to a limited liability firm. This is usually motivated by: business growth, the growing complexity of operations and the imminence of succession.

V.1.2. Patterns of Ownership and Management Transfer: Degree of Synchronisation, Its Instant versus Gradual Character

The change of ownership structure is a natural result of family business succession; the retiring generation passes the ownership to the next generation. Depending on the values of the older generation, the family structure and motivations the method of ownership transfer (one time or gradual) can vary. In case of WAMEC Company the transfer of the management and the ownership of the company were synchronised:

At Parodan Engineering parents decided to gradually transfer the ownership of the business:

'Harry and his wife have made provision to gradually transfer the ownership of the business by passing a further 3.5% of shares to each son in the business until a time when each son holds 40% with the parents retaining a 20% share (10% each). However, recently Harry and Elizabeth have taken legal advice and now plan that Paul and Rob will receive a staged transfer of 90% of the shares and will also inherit the remaining shares upon their parents' deaths.' (British - Parodan Engineering, Wymer 2015:2,6)

Preparing a will may facilitate the succession process and helps to avoid turmoil in the family. Research suggests small business owners are more likely to make a will than the general population (Brooker, 2007:4). The reason for it is that business owners are in contact with professional advisors who inform them of the necessity of having a will (Gaffney, Rhys and Jones, 2013:110).

In all three ERASMUS + INSIST Project member countries the inheritance tax system is rather favourable for family businesses but usually every family business requires unique solutions, therefore they are advised after clarifying their future plans to ask for the help of legal and tax experts to find the most suitable legal and tax solutions (Devins – Jones, 2015:39-45), (Surdej, 2015:28-30), (Gubányi et al., 2015:20-28).

V. 2 Financing FB: More Resilient Behaviour in Period of Tough (Crisis) Times

The financial performance of family businesses differs from non-family ones. Kachaner et al. (2012:104-106) highlighted that during good economic times family companies have slightly lower earnings, but during downturns they outperform non-family businesses. They argue that the reason for this characteristic is family businesses focus on resilience, not short term performance which influences the following strategic choices: family businesses are frugal in good times and bad, carry little debt, keep the bar high for capital expenditures, acquire fewer companies, are diversified, internationalised, and are good in retaining talent.

Despite family business performance and survivability during a recession being a frequent research topic, there are no clear and reliable results. Company cases do not give indicate whether the family businesses' performance and survivability chances are higher than their non-family competitors but give insights into their struggles:

' ... in times of hardship, such as during the recession, the Wood parents and Paul all put personal resources into the business to keep it going and avoid reducing staff numbers. Indeed, the parents invested their home and pensions against the business to ensure it survived for the next generation. These experiences have helped to shape the values and priorities of the next generation and Paul has resolved to put the business on a firm financial footing. In 2014 he was able to renegotiate the company's banking arrangements to release his parents' equity from the firm with the borrowing now being against the business rather than their personal assets.' (British - Parodan Engineering, Wymer, 2015:8)

'Agreed equal remuneration for father and sons, the suspension of payments in times of a crisis has developed the sense of responsibility and solidarity among them.' (Polish – Pillar Ltd., Gorowski, 2015:8)

'During the economic downturn, both of the sons still at the company were gifted 5% of the shares by their parents as a reward for staying with the business.' (British - Parodan Engineering, Wymer, 2015:2)

V. 2.1 Source of starting capital: 'bootstrapping' practice

At the start most of the businesses have incomplete financial data and plans, the available collateral is insufficient, and so it is very common that at the beginning a family business's only source of finance is the prospective owners, their families and friends. Company cases also support the importance of family assets at the founding of the family business. In the case of Fein Winery the founder manager supported financially the operation in the early stages of the business and even later his personal wealth was the main source of investment:

'The founder manager, Tamás wanted to give a position to Péter, thus he financed the operation of the family vineyards and Péter managed it. In this period the founder manager worked as economist, vintner, corporate leader, bank account manager. … Tamás provided financial support and investment to the building of the family estate.' (Gubányi, 2015:19)

One of the most prominent Hungarian logistic companies BI-KA Logistics was also founded with the help of the founder's parents-in-law (Hungarian- BI-KA Logistics, Kiss, 2015:1). At Quality Meat Ltd. the early stages were also financed from family savings:

'The first task at the start was to provide the founding capital. The company was set up from savings and in the early period they tried to operate by keeping costs very low. They moved forward with small steps, always reinvesting the profits and developing their assets.' (Szentesi, 2015:14)

In the case of such family businesses which are already operating the major sources of financing are reinvested profit, short-term bank loans and the savings of family members, relatives or friends.[8]

Polish researchers in the following table summarized the main sources of capital in family firms:

Table 12. Sources of capital in family firms

Long term capital	Short term capital

[8] Global advisory firm KPMG in its recent report analysed 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 a 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.

Reserves	Short term bank loans
Long term bank loans	Recurrent loans
Credit guarantees	Trade credit from suppliers
Leasing	Trade credit from purchasers
Franchising	Factoring
Bonds	Loans from non-banking institutions
Subsidies	Short term financial obligations
Resources from structural funds	Loans from family and friends
Loans from family and friends	

Source: A. Skowronek-Mielczarek, Małe i średnie przedsiębiorstwa, źródła finansowania, Wydawnictwo CHBeck, Warszawa 2005, s. 31. in Surdej, A. (2015) National Report (Literature Review), Erasmus + INSIST Project, Krakow: Krakow University of Economics, March, p. 28

As reported by the European Family Business Barometer financing their operations and growth is not an issue for family businesses. 80% of them confirm that they do not have difficulties with funding. Their most preferred financing are bank debts and use of equity (European Family Business Barometer, 2014: 14, 16). Company cases also support the family businesses preference toward bank loans and equity finances:

'The children continued to rent commercial space from their mother, paying for it from the income earned in their business activities. Thanks to this arrangement and the income generated from her own business activity, Karolina was able to pay off the bank loans she had taken to build the retail centre.' (Polish – Witek Centre, Konopacka, 2015:4)

However bank loans are considered as conservative financial methods and an unfavourable economic climate can cause difficulties:

'In the years 2009-2012 the company suffered from a serious crisis of the Polish real estate market. Since the group activities were largely financed by bank loans the company was under tough pressure from the banks that imposed tight deadlines for loan repayments but due to the solid foundations of the family business model and consistently carrying out previously

adopted policies, the company managed to survive and since 2014 the enterprise has returned to the path of dynamic development.' (Polish – Pillar Ltd., Gorowski, 2015:1)

In family businesses (especially in smaller ones) 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 that 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 examining Yilmazer and Schrank's (2010:402) comparison of intermingling and bootstrapping (which is considered as a very effective business financing method).

Table 13. Intermingling and bootstrapping: Special Financial Tools for FB

	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 has 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 the family Business pays family at higher than market rate Business assets used as collateral for family loans Owners drawings
	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 of subsidies	

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

The comparison highlights that intermingling and bootstrapping have overlapping areas and therefore one can’t clearly criticize the intermingling of family and business finances.

V.2.2 Financial characteristics of family businesses

Family businesses (especially SMEs) financial decisions are affected by the following factors (Csákné, 2012:17):

- business decisions primary goal is not exclusively 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 postponement of family investments for the sake of business too.

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

Table 14. Relation between practice of financing and family role in business

<table>
<tr><th>Issue</th><th>Practice of financing</th><th>Family attitude to business</th></tr>
<tr><td>Parallel financing of family and family business, 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)

In all three countries we can find examples where finances are controlled by family members. Trust has to be the key in the explanation of this characteristic. Financial management of the company is often a task dedicated to women, especially in smaller family businesses where usually the founder's wife has a key role involving the business's daily finances. (See Annex 1). Wives often train themselves to effectively support the family business:

'The founder's wife has been supporting her husband since the very beginning of the company and has herself been engaged in the family business. She[9] *learned book-keeping and accounting in order to help her husband in running the company.' (Polish – The WAMECH Company Registered Partnership, Konopacka, 2015:7)*

Further research on family members' role in the family business finances, mapping areas that family businesses tend to keep for themselves may give interesting results.

V.2.3 Financial aspects of succession: conflicting views of predecessor and successor

Succession, i.e. the act of transferring the business itself 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. Family business succession is a complex management challenge with significant financial aspects. Leadership transfer within the family requires more sophisticated financial solutions than a company sale where the buyer pays the agreed price and then 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 (Csákné, 2012:19). For a detailed analysis of the typical business transfer outcomes, their financial needs and possible sources see Annex 2.

Company cases, of course, do not cover all types of business transfer outcomes. They focus on the most preferred solution when the business ownership and management is kept within the family. The results obtained from Parodan Engineering company case suggest that financial problems within the company may become a burden for succession:

'A succession plan was implied but never discussed in any detail by Harry. As he reached statutory retirement age, Harry hinted at stepping back from the business but it was never

[9] Originally she is an engineer.

openly discussed with his sons. Sometimes Rob and Paul would hear about various scenarios from third party advisors and clients but a clear plan was never formulated and communicated. Paul surmises that this reluctance by his father was due to the financial pressures of the business and the lack of clarity for its future.' (British - Parodan Engineering, Wymer, 2015:5)

Financial management can be an important area where the predecessor and successor approaches differ. As happened at Parodan Engineering successors (often as a lesson learned from the economic downturn started in 2008) are more rigorous when it comes to financial control:

'Throughout the majority of his tenure, Harry took a keener interest in the production process, the people the company employed and the perception of the business in the local community and spent little time on financial matters such as cash flow, only dedicating time to finances when there was a serious problem. However, in the last five years of his ownership this changed and the financial pressures the business faced (not least because of the economic downturn) became a huge burden on Harry and undoubtedly affected his health. Perhaps having observed his father's approach to financial management, Paul is far more commercially oriented, with ambitious growth plans and a keen eye for financial details that can make a significant difference to the bottom line performance of the company.' (British - Parodan Engineering, Wymer, 2015:7)

One of the most challenging tasks of business transfer within the family is to arrange its financial aspect. The financial solution should be satisfying to the retreating family members without requiring too many resources from the successors or the company. The solution at Pillar Ltd. can be considered as best practice:

'As far as the process of ownership transfer was concerned, the founder, Mr Pillar was gradually passing over his parent company shares to his sons in 25% stock tranches per year. The owner passed all the shares to his sons having only kept within his personal property the minority shareholding of one of the partnerships that deals with renting municipal flats. From the economic point of view, taking financial control over the company didn't require any resources from the successors other than their own work for the company. Both sons hold equal stakes in the company, so none of them is able to formally solely control the group. The father remains an employee of the capital group and receives a monthly salary equal to the

salary of each of his sons. All additional income is re-invested in the activities of the capital group.' (Polish – Pillar Ltd., Gorowski, 2015:7)

The future of the family businesses highly depends on the success of generational transfer. Planning the financial aspects of business transfer requires creativity, foresight and development of unique solutions (Csákné, 2012:19).

VI. Concluding remarks

The FB is not only heavily present in today's economy but it improves its position in the future global economy too. *The share of this sector* will increase to 37 per cent in 2025 from 16 per cent in 2010. In addition, more than two thirds of the FB reported growth in the last year and 15 per cent of them plan to grow aggressively over the next five years according to the latest international PwC survey (2014). The situation is similar in the EU too: this sector is employing more than 60 million people and producing half of the European GDP. In the INSIST project countries, the share of the FB varies between 65 per cent (U.K.) and 70 – 80 per cent (Hungary and Poland) according to anthe expert assessment.

The project started with a survey of the national literature of the FB in the countries participating in the INIST project. *The literature is highly disparate* – richer in the UK and then in Poland and rather mediocre in Hungary – and there is no generally agreed definition of FB. In spite of the weak impact of the effort of an EU-level expert group (2006) recommending a common definition, some common definitional ground has been identified. In defining FB the following three dimensions should be taken into account: ownership; governance structure; and the family members' participation in the daily operation of the business. In addition, the *statistical data on the FB are not collected systematically* and are inconsistent making it difficult to provide a detailed and comparable picture on the economic and social weight of the FB in the INSIST project countries, too.

To overcome these shortcomings of information and knowledge, the international consortium members designed and applied *a combined research methodology*. Project team members carried out a national literature review focused on the topic of succession and made – at least two – company case studies in various sectors of the national economies.

In relation with the social-cultural environment of the FB, it is necessary to stress the distinctive role of *entrepreneurial values* based on two structural factors: 1: business value dimension (firm versus family orientation), 2: psycho-social value dimension (self- versus group-orientation). Contradictory features of the FBs' development has always been originated its formal / informal regulations. The consciously-planned move from the informality-loyalty based culture of the founders to a formalised efficiency-based structure is usually initiated by the second generation. Internationally exposed and well-educated children – usually with business studies (MBA), etc. strive for development of a more formal business model, doubled governance structure in contrast to their parents' more informal paternalistic leadership style.

Having a *succession plan* is a primary and important step in designing succession. Without careful planning for the socialization of the future successor the smooth trans-generational changes are at stake. In this respect, there must be a balance between 'parenting' (i.e. a family care or family mentoring) and 'non-family mentoring' (i.e. a more detached, business focused approach). A variety of patterns were observed in the INSIST company case studies. The following three patterns were identified: 1. Management transfer completed without ownership transfer, 2. Management and ownership transfer under process, 3. Management and ownership transfer completed. Education/training of successor - whether there are family or not family members – is an important facilitator in the succession process.

Beyond the financial and economic survival of the firm, the FB intends to sustain and transmit to the next generation the so-called *'socioemotional wealth' (SWE)* or endowment, too. In this respect, it is worth mentioning that the 'pro-growth' strategy – and the related SEW transfer – dominates the company cases surveyed. Exceptional strength or growth potential of the FB derives from its unique trust-based social relations. However, the experiences of the INSIST countries - similarly to the international trend – revealed both the positive outcomes of trust (e.g. demanding sacrifices from the non-family members in times of crisis) and its misuse too (family owners forgetting to compensate their non-family members in times of growth). In order to avoid this emerging double standard in social relations, FB had to support and transfer not only the generic or core human values (e.g. correctness, reliability etc.) from one generation to another but also design and keep an ongoing incentive system and power relations or a "second governing structure" (beside the family one).

Knowledge transfer and collective learning are one of the most critical issues both in successful operation of FB and from the perspective of the smooth succession process, as well. Both professional and leadership skills are of particular importance in the knowledge transfer. These types of knowledge are in most cases tacit and accumulated collectively. The dominant mode of learning is participation: a process of becoming a member of a FB through social interactions. Learning in this case is an informal socialization process that is strongly connected to the identity formation of the family. Successful families create positive narratives that are the building blocks of the family's identity and can be transferred over generations. Informal family meetings like dinners or holiday vacations are the places where family members can share their opinions and discuss experiences. These social events also contribute to the creation of rules and norms regulating the behaviour of individual family members to each other and to the non-family members. They also play a crucial role in the development of trust-based social relations. Knowledge transfer is far from being a purely business-oriented activity; it also contributes to the 'socioemotional wealth' of the family, cementing the ties between family members. There are two typical ways of learning and collecting work experiences in the succession process. In the first case, successors start their professional education and/or working life outside the family business. In the second case, the successor commences his or her career immediately at the FB.

In managing FB and succession process, the company case studies revealed three important managerial issues: 1. managing the balance between family and business goals, 2. Human resource management (HRM) and 3. succession planning. Regarding the balance between family and business, the owners' motivations range from 'making tradition' to the other end of the scale, when firms merely serve as the basis for the family's existence. In creating this balance *the role of the wife* must be stressed. In most cases, when parental and business duties are in conflict, the wife steps back and, at least partly, give up their careers in the company in order to fulfil family duties. Other important issue is the involvement of non-family members in the management of the FB. It is worth making a distinction between family-controlled and family-influenced firms depending of the ownership and governance structure of the FBs.

In HRM practice FBs tend to use familiar methods e.g. applying family behavioural patterns in HRM practices such as personalised – face-to-face - relations with employees, empathy and patience towards their problems, mutual commitment etc., but it does not happen automatically. It is the result of the founder's individual choice or an organic process ("co-creation") that develops when the founder and employees start the business together. Succession is influenced by three basic factors. The first one is whether succession is extended to both ownership and management transfer or restricted to the latter. Secondly, succession planning plays a decisive role. The scale varies between the preliminary planned to the fully spontaneous mode of managing succession. The third aspect is whether successors have to start as a rank-and-file employee in the company and go up through an internal career ladder and learning process or if they immediately start in a leading position (e.g. CEO).

Institutional environment, legal and financial regulations have both converging and diverging patterns too. Despite the economic and social importance of the FB, its activity is rarely on the agenda of policy makers. Instead, the policy initiatives focus on the SMEs and their innovation, export and employment creation roles. In relation with the institutional density of the FB, visible differences exist between the Hungarian, Polish and British contexts: in the UK, numerous FB Research Centres exist in comparison to Hungary and Poland, where there are none.

The countries participating in the INSIST project have similarly sound and stable legal systems, the national literature reviews did not reveal any problematic legal areas. According to the case study experiences, the most frequent legal issues related to the succession process are the following: establishment of a new company; changes in the legal forms of the FB; changes in ownership structure; and preparing a will. In all three project countries the inheritance tax system is rather favourable for FB, but usually requires unique, customer tailored solutions. They are advised after clarifying their succession plans to ask for the help of legal and tax advisors to find the most suitable solutions.

At the start, most of the FBs don't have elaborated and well-designed financial plans, the available collateral is insufficient, and so it is very common that the owners, their families and friends offer sources of finance: this practice is called 'bootstrapping'. During the operation, the major financial sources for the FB are as follows: reinvested profits, the short-term bank loans and savings of family members, relatives or friends. In FBs – especially in the smaller ones – 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. The family business financial decisions are affected by the following factors: 1. business decisions' primary goal is not exclusively profitability; 2. the simultaneous presence of family and business financial requires careful coordination; and 3. the favourable handling of family needs at the expense of business needs - although it should be noted that we can also experience the postponement (delay) in family investment for the sake of business, too.

Succession, business transfer to the next generation, is a very crucial moment in the life of a FB. Business is a complex management challenge with significant financial impacts. Leadership/management transfer within the family requires more sophisticated financial solutions than the company sale where the buyer after paying the agreed price becomes the owner of the company. If the FB owners decide 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.

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Annexes

Table 15. Family members' role in financial management

Company case	United Kingdom	Poland	Hungary
Pillar Ltd.		Founder's elder son	
Fein Winery			Founder's wife
The WAMECH Company		Founder Management board Founder's wife Founder's daughter in law	
Quality Meat Ltd.			Founder Founder's wife
Parodan Engineering	Founder's wife Founder's son (managing director) Non-family finance director		

Source: Own compilation based on company cases (Gorowski, 2015, Gubányi, 2015, Konopacka. 2015, The WAMECH Company, Szentesi, 2015, Wymer, 2015

Table 16. Typical business transfer outcomes - Financial needs and their possible sources

Financial need	Source of finance
Management transfer to relatives	
Change of company form: advisers, lawyers, fees, taxes	Retained profits Bank overdraft
Change of group structure: advisers, lawyers	Retained profits Bank overdraft
Retired family members: - one time benefits - regular (fixed or variable) incomes	Retained profits Sales of existing assets Bank overdraft Bank loan (depending on the amount and the profitability of the company: short, medium or long term loan)
Ownership transfer with sale agreement: price of the company paid in one amount or in instalments	Retained profits Sales of existing assets Bank loan (depending on the amount and the profitability of the company: short, medium or long term loan) New owner personal property
Gifting: fees and taxes	Retained profits Bank overdraft
Compensation of family members who don't get ownership	Retained profits Sales of existing assets Bank loan (depending on the amount and the profitability of the company: short, medium or long term loan)
The new generation often plans to make changes in the company: new information and reporting system, new positions (new employees), new processes which can generate additional finance	Retained profits Bank overdraft
Delegation of management to non-family executives	

Change of company form: advisers, lawyers, fees, taxes	Retained profits Bank overdraft
Improvement of reporting system	Retained profits
Implementation of IT systems	Retained profits
Hire internal auditor, internal audit department	Retained profits
Quality assurance	Retained profits
Financial audit	Retained profits
New employees	Retained profits
Owners education	Retained profits
Education of non-family CEO	Retained profits
Advisers, lawyers	Retained profits
Merger with another business and either retiring; or stepping aside	
Company evaluation	Retained profits
Improvement of the reporting system	Retained profits
Disassociation of company and family property – fees and taxes	Retained profits
Advisers, lawyers	Retained profits
Exiting the family business (Selling the ownership)	
Company evaluation	Retained profits
Improvement of the reporting system	Retained profits
Disassociation of company and family property – fees and taxes	Retained profits
Advisers, lawyers	Retained profits
Closing the family business	
Payment of liabilities	Retained profits Sales existing assets
Severance pay	Retained profits Sales existing assets
Warranty obligations	Retained profits Sales existing assets
Wealth management	Retained profits
Advisers, lawyers	Retained profits

Source: Own compilation

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