

The war of the worlds? – A passing and taking of succession in Hungarian family businesses¹

The paper aims to analyse the succession process of Hungarian family businesses with a new, dyadic approach, examining both the founders' and the successors' (i. e. children of founders in these cases) point of view. The study focuses on two major notions: paternalistic leadership and the successors' human capital. Following the summary of the results of two empirical research conducted at Budapest Business School, the paper highlights the relation between paternalistic leadership style of the founder and professional readiness/human capital of the successor in the context of the multi-generational Hungarian family businesses. Our research identified three dimensions connected to the readiness of the incumbents to successfully hand over the family business that could be examined during the process of takeover, and these are: successors' human capital, socio-emotional wealth transfer and successors' potential. The paper gives an overview of paternalistic leadership and analyses the aspects of successors' human capital.

Keywords: family business, succession, paternalism, successor's human capital

Introduction

Doing private business became officially legal after the regime change in 1989 in Hungary and in other post-communist countries. The majority of founders, who have established their companies after the collapse of state socialism, now are coming close to retirement, therefore a great portion of family businesses need to face the challenge of succession in the coming years. Since the great majority of the incumbents are the founders, who need to pass on business to the second generation of owners and managers, there seem to be a lack of previous experience, tradition and role model of succession. Economic and socio-institutional environment has been dramatically

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changed in the last three decades (Gubányi et al. 2015), that also increases the challenge of successful business transfer.

In this study, we analyse the succession process from a twofold perspective, from the founders' view and from the successors' (i. e. children of founders in these cases) point of view. By doing so the paper elaborates on two major notions, paternalistic leadership as an inherent characteristic of first generation family businesses and the successors' human capital as a key leadership feature of succession. The results are based on qualitative research projects carried out between 2015–2018.

The notion of paternalistic leadership

First we observe the notion of paternalism as a dominant leadership style traced in first generation family businesses. Paternalistic leadership can be defined as '*a style that combines strong discipline and authority with fatherly benevolence*' (Farh–Cheng 2000: 91). The authoritarianism characteristic refers to the leader behaviours that assert authority and control, whereas the benevolence characteristic refers to an individualized concern for subordinates' personal well-being (Pellegrini–Scandura 2008: 567). For the authority concern Bing (2004) suggested that a boss is essentially a mutated replica of one's original authority figure: the parent. Leaders of this kind guide both the professional as well as the personal lives of their subordinates in a manner resembling a parent (Gelfand et al. 2007).

This parental feature, mainly father figure, is one of the reasons why paternalistic leadership is still a widely accepted leadership type in many parts of the world (Pellegrini–Scandura 2006; Aycan et al. 2000).

Our main concern is that paternalistic leadership is not an outdated development stage of leadership but a very vital and economically relevant form of management system. Many empirical researches has supported the dominant presence of it in India, Turkey, and Eastern-Europe to name a few of the developing economies (Pellegrini–Scandura 2008; Heidrich–Alt. 2009).

The notion of paternalism in family firms

Recent research also has broken down paternalistic leadership in family firms into three types: *authoritarian*, *benevolent* and *moral* (Rivers 2015). The authoritarian paternalist controls and expects obedience, which is reminiscent of the first part of the definition put forward by Fahr and Cheng (2000), when referring to '*strong discipline*

and authority'. Benevolent leadership means that employees are respected and cared for, their needs are satisfied and support is given. This type certainly exemplifies the more positive aspects of *'fatherly benevolence'*. The moral paternalistic leadership style results in the leader taking the helm with personal values, being seen as superior and leading by example. This third type seems difficult to contextualize in the definition of Farh and Cheng (2000) – seeing values as superior to others certainly appears very authoritative, whereas leading by example is not covered in Farh and Cheng's definition as it doesn't appear overly authoritarian or benevolent, and if anything, seems closer to an authentic leadership style. Aycan (2001) summarises the characteristics of paternalistic leadership styles (*Table 1*).

Table 1: *Characteristics of three types of paternalistic leadership*

PATERNALISTIC LEADERSHIP			
	Benevolent paternalistic leadership	Authoritarian paternalistic leadership	Moral paternalistic leadership
Characteristics	The leader demonstrates an individualised, holistic concern for familial and subordinates' personal wellbeing.	The leader asserts absolute authority and control; expects subordinates to display strong performance.	The leader's behaviour does not hinder subordinates' rights and development or harm the organisation. The leader behaviour as a manner that demonstrates moral values, superior personal virtues, self-discipline.

Source: adapted from Aycan (2006)

If we consider literature outside the context of family firms then we find a fourth type of paternalistic leadership, referred to as enlightened paternalism, which derives from the logic of moral paternalism. This concept was referred to by Kaufman (2003) in his study of Delta Airlines and related this to high-performance HRM where workplaces adopt a more participative strategy. Moral and enlightened paternalism originates from the neo-charismatic leadership theoretical approach, that adopts the early charisma concept of Max Weber (1922, 1947, 1967) on how charismatic or transformational leaders affect their followers. The scope of our study extends to the above mentioned

forms of paternalism and we will examine the cases for evidence of the existence of these types, their impacts upon family firms.

The effects of paternalism on family firms

When the proud founder tells his son or daughter *'all this will be yours someday'*, this may also be considered as part of reward management (Lubatkin et al. 2007: 1025). Paternalism often results in an attitude of *'take it or leave it'* in terms of their leadership style towards children. Paternalistic drives result in leaders believing that they know best and even when faced with disagreement, they may continue on the same path as they are acting in the *'children's best interest'*. This belief in knowing best and acting with best intentions has been found to result in the use of influence tactics such as calculative, coercive and transactional behaviour (Lubatkin et al. 2007). The knock-on effect of this may well be that the children resent being coerced and manipulated and thereby resist and rebel. This in turn is likely to be viewed by the leader as the *'necessary cost of parenting'*. The rebellion and resistance on the part of children of paternalistic leaders was found by Lim et al. (2010) to be directly related to paternalism i. e. *'the more driven by paternalism, the more dysfunctional their firms intergenerational relationships become'* (Lim et al. 2010: 206).

In terms of familiness, paternalistic leaders in family firms are likely to see the benefits of familiness as a trade-off with formal governance. Lim et al. (2010) claim that this may particularly be the case in family firms where paternalistic leaders see familiness as the means by which their own values and judgements are passed to their children.

Intra-family business succession in Hungary: the founder perspective

Paternalism as a leadership attitude is present at the family businesses by nature, mainly in the founding stage of development. This feature provides the solid base for establishing a strong and proud culture built around the founder (Heidrich et al. 2016). This characteristic however is not an attribute that can be easily or at all transferred to the next generation. We examined several case studies for signs of existence and sustainability of paternalistic leadership style in CEE, specially at Hungarian family businesses.

Methodology

The INSIST project² 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. Part of the focus of this study was on company- and family-level micro-mechanisms shaping ownership and management practices. Each participating country had to carry out 2 company case studies. 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. As this study concerns paternalism in Hungary, we include the Polish cases as culturally relevant and will omit the British case studies.

Findings and discussion on paternalism

The INSIST cases³ were used to find examples of paternalism in organisation and look for indications of potential affects and other considerations.

If we consider the variable of paternalism, then the literature indicates a number of types of paternalism: authoritarian, benevolent, moral and enlightened paternalism. The INSIST cases indicate some signs of these typologies (*Table 2*).

Within the context of Central-Eastern Europe, especially Hungary, there are drives towards paternalism. The clan-like nature of family firms and the security provided by them was highlighted in the comment by family successors in the cases of WAMECH (Konopacka 2015b) and FEIN Winery (Gubányi 2015):

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 (Wamech), (Konopacka 2015b).

She *feels less threats* toward dismissal, she does not become lax, she can use time effectively and decide, communicate rapid (FEIN Winery), (Gubányi 2015).

2 For more details please visit the project website: <http://www.insist-project.eu/>.

3 For details about the participating companies, see: Appendix 1.

Table 2: Findings from interviews – evidence of paternalism types

Paternalism type	Comments from owner of family firms
<i>Authoritarian paternalism</i>	'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 admire 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 against undertaking managerial duties it's due to the successors' unwillingness to take over rather than any barriers on Antoni's side. [...] The charismatic personality of the Founder, his huge knowledge, innovative and visionary attitude to his profession, determination, extremely hard work over many years, perseverance in perfection and wise, responsible risk taking' (Plantex, Poland), (Paszowska 2015).
<i>Benevolent paternalism + Moral paternalism</i>	'For an owner, who is the founder of a private/family business, the company is similar to his/her own children' (BI-KA, Hungary), (Kiss 2015).
<i>Enlightened paternalism</i>	'The doyen is the principal manager in the company. He calls his management style " enlightened paternalism " – everyone has freedom in his or her field of action and decision making. However, decisions which need to be taken collectively must have his final say. There are no concessions when it comes to such values as reliability, honesty or justice. The company's success and its market position demonstrate that such management policy is effective and worth pursuing' (DOMEX, Poland), (Konopacka 2015a).

Source: own source (INSIST)

The paternalistic style results in benefits that may be considered as driving forces such as mentoring and guiding family members, and the enforcement of '*familiness*' through the passing on of the family owner's values and judgements to the children. The conscious education and training of a successor, regardless of whether they are family- or non-family member was found in the FEIN Winery and BI-KA Logistics cases (Gubányi 2015; Kiss 2015) as well as the encouragement of a formal education for gaining a wide international perspective, as with FEIN Winery (Gubányi 2015) and also in-company integration throughout the years as in the case of QUALITY MEAT (Szentesi 2015).

The ideological factors of protection and guardianship, traditions and ownership are also emphasised. The owner may also consider it a driving force that this style enables him or her to maintain control over employees as well as the family wealth. The passing on of family values was found to be heavily emphasised in the case of DOMEX (Konopacka 2015a).

A restraining force against the adoption of paternalism is that it is not a long term choice i. e. it is not sustainable. The literature indicated that after each generation of succession the paternalism decreases in family firms, likewise when external managers are chosen then these external managers are unable to adopt a paternalistic style. Furthermore, successors are likely to have a different mind-set even if they are the children of the founder. All of these factors highlight the unsustainability of a paternalistic style in family firms in the long term. We see the adoption of a different mind-set by family successors in the case of WITEK: *'Each member of the family has developed his or her own style of business management. Karolina's son has travelled a lot and had periods working abroad. This gave him the opportunity to learn new management methods, which he now uses successfully in running his business'* (Konopacka 2015c).

Intra-family business succession in Hungary: the successors perspective

With the aging of the founders, time has come when entrepreneurial families have to face the challenge of transferring the business to the next generation in- or outside the family.

In family business research there is rich literature of founders' succession and retirement strategy (e. g. Poza 2007; Westhead 2003; Chung Yuen 2003; Poutziouris et al. 2002; Garcia-Álvarez-López-Sintas 2001; Leach 2007; Cisneros 2010). However, there is a relatively little emphasis on examining the role of the successor, which seems to be a one-sided perspective, considering that without them, there is no long term survival for the family business. Therefore, the focus in this part of our empirical study is on the receptive side, i. e. the successor, as so far little emphasis was devoted to the systematic overview of the successors professional and emotional readiness for the takeover.

Methodology

Following the section on succession from the founders perspective based on the INSIST results, hereby we present the successors perspective as well, based on the results of the Succession Module of the Family Business Research Programme at Budapest LAB,

Budapest Business School, which focuses on the future of Hungarian family businesses⁴ (Mosolygó et al. 2018).

In this part of the study, a qualitative research design in the form of semi-structured interviews is used to gain deeper insights into the succession process of family owned businesses. The research is restricted to intra-family business transfers.

Based on the findings of previous research in INSIST project and rich empirical data of the Family Business Research Programme, the study addresses the following questions:

- **Are the successors professionally competent to take over family businesses?**
- **Are the successors socio-emotionally prepared to take over family businesses?**
- **How could we examine the readiness of the successors for the family business takeover?**

In this paper we focus on the first question, i. e. the human capital/competence of successors for takeover of leadership. A sample of 10 family owned businesses (FBs) in Hungary were identified where transmission of the firm's management and/or ownership is either a completed or an ongoing process from the founder and/or incumbent generation to their descendants.

This study utilized the snowball technique in order to gain deep and detailed understanding of the succession process through analysing various cases. 24 intra-family leaders/managers have been interviewed from 10 carefully selected family firms, in a narrative setting. The interviews were carried out between September 2017 to February 2018.⁵

Findings and discussion on the human capital of successors

Numerous studies have suggested factors that influence the success of succession outcome, however we found that little emphasis is put on the examination of the successors' readiness for takeover, and this area is highly fragmented and lacks an integrated framework.

We found that there are three comprehensive categories or dimensions connected to the readiness of the incumbents to successfully hand over the family business that could be examined during the process of takeover, and these are: *Successors' Human Capital*;

4 For more details please visit the website: <https://budapestlab.hu/index.php/tag/budapest-lab-csaladi-vallalkozas-kutatasi-program/>.

5 For details about the participating companies, see: Appendix 2.

Socio-emotional wealth transfer and Successors' Potential. As mentioned earlier, due to the limitations in the size of the paper and to stay focused on the founders' leadership perspective described earlier, we analyse the successors' human capital further on.

Family business successor's human capital is defined as the knowledge, skills and competences that the successor has gained with education, work and life experience outside the company (general human capital), and internal transfer of knowledge and mentorship processes (family related human capital).

General human capital

By education, schools, universities, shorter and longer professional trainings appear, that the successor attended. External work and life experience refers to those positions and experiences that the successor gained outside of the company.

In our sample a common pattern was found that most of the founders were already active at work when the political changes legally enabled founding private businesses in 1989. Therefore, upon becoming entrepreneurs, they possessed professional knowledge and experience; however management and development of business had to be learned by practice.

In our sample, the first-borns and sons rarely have an explicit resistance against this path-dependency. In spite of this, in case of three or more children, the psychological pressure is less intense. Furthermore, from the third generation onwards, when there are many potential intra-family successors the stress is even less.

In the cases of more than two descendants in the family, there seemed to be always one, who was not interested in joining the company and was let to find fulfilment in another carrier. However it never was the first-born or the son, which raise the question, if there is a freedom of choice, or a burden of succession, especially in case of the first-born male. Reflecting on the pre-determination of their path, one successor commented: *'we only had the illusion of choice'* (successor, case1.), but early involvement prevented them from getting in real touch with other experience and the potential temptation of other choices. *'I don't know who was more fortunate in that sense. Probably our parents'* (successor, case 1.).

Where there were at least two descendants, they often identified themselves as being different personalities with different skills, strength and interest. Based on their view, it had been a natural process how they arrived at different educational institutions and positions. From the founders' narrative however, it turns out that a benevolent hand was directing their path in order to cover all the crucial areas of business operations and management and also to avoid sibling rivalry.

Compared to the first generation, the second was consciously trained for certain professions that the company needed (e. g. to become accountant, engineer, controller, winemaker), also with the intention to be prepared to fill managerial roles. In many cases the successors complemented their knowledge within the family business and later at a rich spectrum of specialized trainings. *'He didn't want to go to university at all. I told him to come and gain experience at the firm. He accompanied me to all business trips and exhibitions, negotiations. For him, this was the university'* (founder, case 5.).

Experience outside of the family business is very limited in case of the Hungarian second generation managers, as their involvement happened very early, some of them finished their studies while working already at the FB. *'I received my diploma on Friday and started working on Monday. There was nothing like going on a world-around trip. I was already working at the firm on my own intent before graduation. I did not really like studying, I was waiting to start working'* (successor, case 2.).

Family-related human capital

Family firm – specific human capital is developed through training and experience within the family firm that enables the individual to acquire skills that are uniquely relevant in a particular firm and may not have general applicability or transferability outside the context (Sardeshmukh-Corbett 2011: 113).

Internal knowledge transfer refers to the process of exchanging knowledge between different family members and the creation of a common understanding family business (Csizmadia et al. 2016). It also refers to all the skills and competencies family members accumulate during their education, work and life experiences and possess collectively (Martínez et al. 2013). As Le Breton Miller et al. (2004) argue, *'knowledge transfer often begins at the dining table, builds up during summer jobs at the company, and continues through a career at the family firm'*. We found at the companies in our sample, that there are daily or weekly rituals of knowledge-sharing, feedbacks and common decision making at the Owners' Council. Whether it is by drinking tea at 3 am (at case 8) or having a breakfast before opening hours (at case 1.) or over Sunday lunch (e. g. at case 2.), founders and successors take their time to discuss relevant issues. *'At the weekends or at the table, work comes up. But it is our passion; it is not demanding... I love, what I do. This is our life... If business is part of your life, you cannot separate'* (successor, case 2.).

Family-specific knowledge – transfer started in the given investigated cases at the very early age of the successors. In case of the second generation, a very early involvement in business was identified. *'At summers, we had to go to the production as*

all the workers did, from 6 am. We had to go through all the stages.’ ‘I didn’t like the work that time, but well... it was actually... good’ (successor, case 5.).

In case of the examined firms, early involvement helped the children to become committed and later to join the company. However, early involvement, limited or no external work experience and the ‘*illusion of choice*’ on behalf of the successor forms their succession strategy for the next generation. *‘I do not have a single day experience at another company. I want them (i. e. children) to gain life and work experience outside of the firm, standing on their own feet, than come back to the FB’ (successor, case 5.).*

Dyer (1986) emphasized the role of mentors in the development of successors. Mentors are primarily the founders; however, mentors also could be from within or outside of the family business. *‘For four years, he did not leave accountancy...He used to have a great mentor, Tante Marika, who was recognized at the company. ...After four years, he came out and stepped into retail’ (founder, case 1.).*

Conclusions

Succession from the founder to the second generation is a survival challenge for the family firm, where a dyadic (predecessor-successor) approach is needed to examine the inner characteristics of the succession process.

The study aimed to shed light on the succession process from two perspectives of the two major players of the process, i. e. the founders-owner and the successor-child. Two empirical studies were used to have enough concerns for further implications. From the founder point of view the paper argues that the development of paternalistic leadership is inevitable in case of newly founded FBs. This paternalism however can have positive effects on the identity and longevity of the company. In form of enlightened paternalism it can be even supportive to the successors work as new leaders. However, in form of more traditional autocratic paternalism, it might appear as a major burden of smooth succession. From the successors point of view it seems that succession has been an implicitly determined path for them. Therefore, they seem to be well-trained for managing the family company. Their professional competence is of a good quality. Moreover, internal knowledge transfer has been a key issue in most families, creating a solid family related human capital.

For the managerial implications, we argue that the second generation of Hungarian family business leaders have a very good potential to further develop the family businesses into a new stage of development. But to do so, there is a need from the founder to step back, which rarely happens without pain. Conflicts get more intense at the

succession process, while previous hierarchies broke down and new structures are being built. In the examined firms, handling conflicts was a part of common learning.

In the sample cases, we also found that there is a need for the successors' active participation in moving forward the succession process and there is a need for an irreversible support from the founder-owner. It is very demanding to step back from the decision-making role and breaking down the ego. Traditional paternalism and power culture of the founders generation does not support a smooth change in succession. Based on our findings, the constant monitoring of the successors' competencies on behalf of the founder, step-by-step involvement in the management, continuously increased pressure could lead to a well-grounded, confident takeover. Our research identified three comprehensive categories or dimensions connected to the readiness of the incumbents to successfully hand over the family business that could be examined during the process of takeover, and these are: successors' human capital, socio-emotional wealth transfer and successors' potential. Within the scope of this paper we analysed the successors' human capital which is defined as the knowledge, skills and competences that the successor has gained with education, work and life experience outside the company (general human capital), and internal transfer of knowledge and mentorship processes (family related human capital). Deeper elaboration of socio-emotional wealth transfer and successor potential are exciting potential research directions of the field.

Limitations of the research has to be acknowledged as using qualitative methods, the results and conclusions are not representative in their nature.

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Appendix 1: Main characteristics of the company cases investigated at the INSIST research

	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	*
Fein vinery	Hungary	1991	4	Food (wine producing)	Domestic/ International	*
BI-KA	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

Appendix 2: Main characteristics of the company cases investigated at the Family Firm Research Programme – Succession module

Family Business case nr.	case 1	case 2	case 3	case 4	case 5	case 6	case 7	case 8	case 9	case 10
main industry	car and light motor vehicle retail	food industry (integrated production)	industrial cleaning	mixed product wholesale	furniture production and wholesale	rear-view mirror production	gastronomy	wine making	wine making	wine making
markets	local	global	local	global	regional	international	local	international	domestic	domestic
year of establishment	1992	1997	1999	1995	1984	1998	2004	1987	2003	1997
size	small	large	small	middle	middle	middle	micro	small	small	small
generations of the same profession	2	5	2	2	3	5	3	16	3	2
generations actively involved	2	2	2	2	2	2	2	2	2	1
number of children	2	2	2	1	2	4	3	3	5 (+2)	3
children involved	2	2	2	1	2	1	2	3	2	2
management (share among generations)	shared	shared	shared	not shared	shared	not shared	not shared	shared	officially not shared	not shared
ownership (share among generations)	shared	shared	shared	shared	shared	not shared	not shared	shared	shared	shared
interviewees (M: Male; F: Female)	founder (M, 68), successors (M, 33; M, 31)	founder (M, 65), successors (M, 40; M, 38)	founder (M, 75), successor (M, 48)	successor (M, 29)	founder (M, 72), successors (M, 46; M, 42)	pre-founder (M, 80), founder (F, 48), spouse (M, 50) successors (M, 25; F, 23; F, 19)	pre-founder (F, 70) founder (F, 49), successor (F, 21)	founder (M, 67), successor (M, 40)	successor (M, 30)	successor (M, 38)