Family – business – development

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Small and medium-sized enterprises are the dominant form of enterprise; according to estimates, families run 65-80 percent of these companies. In our paper we first review the main approaches of literature about family businesses. The aim of our research is the analysis of the main features of Hungarian SMEs, mainly of family businesses, and the mapping of their demands for development and training. Since in literature we found a lot of characteristics of family businesses wich are different from non-family businesses, we supposed that this differences appear in demands for development and training. According to our empirical results, there is no significant difference between family and non-family businesses. the majority of challenges experienced by family businesses are identical with those faced by non-family businesses.

Keywords: *enterprise, family, entrepreneurship, resource based view, competitiveness, familiness*

1. Introduction

Small and medium-sized enterprises are the dominant form of enterprise; according to estimates, families run 65–80 percent of these companies. After reviewing the opinions about family businesses, we find rather contradictory statements. Family businesses are not professional, not modern, but rather remote from everyday life in case we study their operation from the point of view of business sciences; moreover, they are contradictory to the common sense. Only one undeniable fact questions the spreading of these opinions. This fact is that family businesses are the most successful and most important business entities in almost every national economy of the world (*Klett* 2005).

The aim of our research is the analysis of the main features of Hungarian SMEs, mainly of family businesses, and the mapping of their demands for development and training. First we explored the characteristics and contradictions of family businesses as they appear in the literature. After that we showed the role of family businesses in Hungary. Next presented our research findings based on our research aim, and tried to answer our research question. We could not verify our hypothesis on our sample, and this sample was the main barrier to our research because snowball sampling does not guarantee the representativity of results.

2. Definition of the term family business

The literature does not contain a uniform definition of family businesses. According to Wimmer, we speak of a family business, when a business is owned by a family or an association of families and the family/families has/have decisive influence on the development of the enterprise (*Wimmer* 2005, p. 6.). The influence of the family can manifest itself in relation to issues of organizational culture, personnel policy or e.g. management decisions. Their main features, based on which they can be considered a separate business entity, are the result of the strong connection between the family and the enterprise. Two social systems with different logics overlap and interact with each other. The definition above is rather broad, also implying small-scale entrepreneurs, medium-sized enterprises, and large enterprises, where a family is the majority owner.

For our research, we chose the related definition of the European Union:

1. A firm, of any size, is a family business, if the majority of decision-making rights is in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs;
2. The majority of decision-making rights are indirect or direct;
3. At least one representative of the family or kin is formally involved in the governance of the firm;
4. Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the decision-making rights mandated by their share capital (*European Commission* 2009).

The Commission proposes the application of this definition in the member states.

3. Family and business as distinct social systems

The family provides a special resource for the business, also called "familyness", which can have a negative impact resulting from the strong interaction between the family and the enterprise. Positive emotions increase the motivation and the will to sacrifice, while negative emotions can generate destructive behaviour. Accordingly, this form of enterprise is characterized by a complexity that increases its sensitivity to conflicts and makes them particularly vulnerable in critical situations. For a family business, familyness can represent serious additional resources, but it also can have an opposite impact and even peril the existence of the enterprise.

This form of business includes at least two connected social systems that follow different logics. Dyer summarizes the differences of the logics of the two systems in Figure 1.

Figure 1. Distinct characteristics of family and business systems

Dimension ⮛/System ⮚	Family system	Business system
Right to exist/goals	Birth, marriage, adoption	Affiliation
Withdrawal:	Theoretically impossible	Any time, according to contract
Communication:	Emotional communication	Decision communication
Forms of communication:	Informal, oral and hierarchical to a small extent	Formal, written, hierarchical
Decision:	Large zone of negotiation, rather agreement	Smaller zone of negotiation, rather hierarchical

Source: based on *Klett* (2005, p. 147.)

According to *Schlippe* (2012), in order to understand the conflicts in family businesses, we must see the different currencies of the different systems: In a family, the expression of the strong attachment or love for each other is important in an indirect or symbolic form. In a business, people bring their labour, and they expect remuneration on a short term. Appreciation is certainly important in the businesses as well, but nobody gives up his/her remuneration only for being thanked for something; however, parents do this for their children.

The different logics of family and business can cause serious conflicts as well. Without saying or clarifying it, the members of a family act in a business according to the family logic, they make efforts for the business that are larger than in normal working conditions, they give up their free time, overtime pay, and adjust their lives to the interests of the business (this is one of the familyness resources). This can imply a succession trap: The successor skips other career opportunities, stays in line for the family business without seeing clearly the time and way of affiliation.

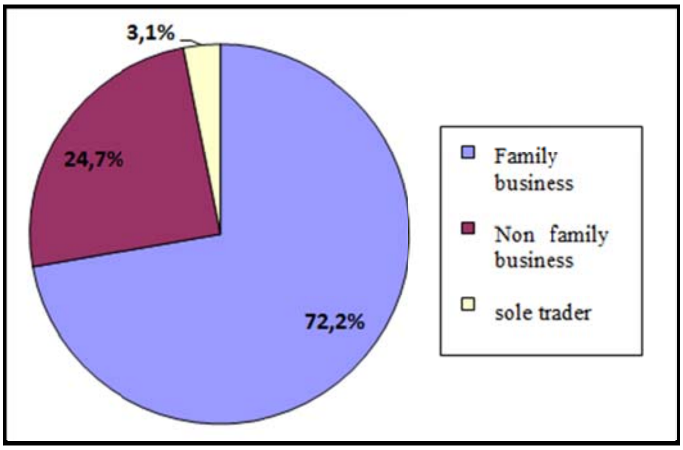
Based on the above-described facts, the family businesses are often called paradoxical organizations (*Wimmer* et al 2006, *Schlippe* 2012). The meaning of paradoxical is antinomic, filled with tension, even impossible, and due to the strong interaction of the two different systems mentioned earlier, these attributes could be related to family businesses, the basis of which is the ownership. Should the ownership gain a psychic and social meaning, and it cannot be arbitrarily used for a certain investment, a family is not only a family anymore, and the enterprise is not only an enterprise anymore, both systems start to interact with each other. Business interactions, decisions, organizational forms, culture, personnel-related decisions etc. are not considering business, market and stakeholder aspects anymore, their adjustment to the family, its history, members, values etc. becomes important as well. Similar things happen in the family as well. The business plays a role in the planning of the children's future, the formation and preservation of identity, and the development of the financial and social status. This interaction can have advantages and disadvantages for both systems. The point is that the two systems are functioning according two partially opposite, even exclusive logics, thus situations can arise in which a statement is true and false at the same time, depending on whether it is related to the business or the family.

A family and a family business are characterized by different dynamics from the point of view of their life cycles. In the founding generation, "the company is sitting at the table as well" (*Simon* 2005, p. 43.). Accordingly, the children learn about the business from early on. The parents, especially the fathers, are very busy handling the business; they feel remorse for it, and try to compensate it with presents. The “pioneer” fathers are often very autocratic both at the company and with their children, especially with their sons. Consequently, the children identify themselves with the mother, and not the father. This is a disappointment for the fathers and can start a negative spiral, since the father expects primarily from his son to continue his ideas. The second generation shows more understanding for the potential successor and his/her dilemmas. Accordingly, the children of the third generation enjoy a greater freedom of choice regarding the takeover of the company. Only 3 to 4% of family businesses are able to transmit the ownership from the second to the third generation. (*Simon* 2005). The longer the company remains in family ownership, the more family members can be mentioned for succession. The family members do not meet during breakfast anymore, but rather during owners’ meetings, thus the relationships become more formal. However, the dynamics of these families hides the possibilities of specific conflicts, one of which is the issue of equity. Even if one of the children seems incompetent, it has the right to a share of the company. *Simon* (2005) considers that in the case of family businesses, family therapy often transforms into family coaching.

4. The role of family businesses in Hungary

The Hungarian Central Statistical Office (KSH) does not yet examine the proportion of family businesses within the entrepreneurial sector, but according to the research of the Foundation for Small Enterprise Economic Development (SEED) of 2008, at least half of the corporate enterprises and at least 20% of the individual enterprises are family businesses. Accordingly, there are around 400,000 family businesses in Hungary, employing and ensuring an existence for at least 1,000,000 persons. Family businesses in Hungary play an important role in employment, since they often employ family members that were unable to find a job elsewhere in the labour market (*Scharle* 2000). The following diagram shows these proportions.

Figure 2. The proportions of family and non-family businesses



Source: Filep–Petheő (2008, p. 3.)

The proportion of family businesses is higher than the average in labour-intensive sectors, such as agriculture, retail and wholesale trade, and catering (*Scharle* 2000).

As for the ownership, according to the data of the SEED Foundation, at least two owners of more than 58% of the Hungarian small and medium-sized enterprises are from the same family. Usually, spouses and their children become co-owners, the formation of undertakings with brothers or sisters or sons- or daughters-in law is rather uncommon. In most cases, the husband manages the business and negotiates with partners, and the wife takes care of accounting and finance. It is rather uncommon for a woman to start an undertaking by herself, and to be joined by family members at a later date. Hungarian family businesses often fear that the outsiders are untrustworthy, thus they rather employ family members and/or relatives. According to a research carried out in 1998, 52.39% of the undertakings started the business with family members, 21.58% with non-family members, and in the case of 26.02% of the undertakings, family members joined the business at a later date (*Filep–Petheő* 2008, *Scharle* 2000).

According to the research of Laky of 1998, these companies are not growth-oriented but consumption-oriented, meaning that they adjust their development to the needs of the household, and not to their possibilities.

As for the legal forms of the undertakings, limited liability companies and limited partnerships are the most common forms among family businesses.

The businesses ask for advices and help mainly from family members and occasionally from external partners. During their business activity, they build mainly on their own business-related experiences, studies, books and the experiences of family members (*Filep–Petheő* 2008).

The previous subsection shows that a great number of companies and family businesses were formed at the regime change; the majority of the founders were in their thirties or forties. They soon reach the retirement age and face the issue of generational change. Contrarily to western European or U.S. family businesses, Hungary is lagging behind in this regard (as well), since there are mainly first-generation family businesses in the country due to historical reasons, thus they do not have the proper knowledge of and experience in the smooth implementation of the generational change (Filep, no available data on year).

A generational change already concerns 13% of the family businesses, the succession is in progress, 5% of them had a generational change in the past 5 years, and for 50% of them the issue will become timely in the next 5 years (*Filep–Petheő* 2008).

We can state that the most important Hungarian actors are aware of their family character, and a great number of them members of international organizations representing family businesses. The majority of the SMEs do not know how to manage the competitive advantages and disadvantages arising from the family character of the enterprises. The literature tries to define this difference less known in Hungary with the notion of familyness.

5. Empirical research

5.1. Presentation of the sample

The snowball sampling included 456 replies, with 445 evaluable ones. The proportion of micro enterprises in the sample was 48.3%, which is less than their proportion of 95.5% among small and medium-sized enterprises measured by the KSH, with around 700,000 operating ones in Hungary. This however is not a problem since an adequate number of small and medium-sized enterprises could be included in the sample. The questionnaire is irrelevant for single-member, self-employed businesses, and the national statistics does not include a statement of them, thus a stratified sampling would not have been practical. The other part of the sample included small enterprises – 39.8%, and medium-sized enterprises – 11.9%.

Half of the companies are seated in the region (South Great Plain). Less than 5% were formed before 1988 due to historical reasons, but half of the sample consists of undertakings operating for more than 10 years. As regards the legal form, 48% are sole proprietorships, 31% Ltd, 11% limited partnerships and 10% have other legal forms. 75% of the entrepreneurs are male, aged between 20 and 80 years (Mean=43.18, S.D. = 10.04), 35% of them have formed more than one enterprises. 87% of them are first-generation businesses, 21% are planning to change the top management in the next five years.

Our family business definition can be used for 62% of the sample, representing a proportion similar to other Hungarian researches. There are two differences between family and non-family businesses. According to the Kolmogorov-Smirnov test, by a significance level of 5%, there are more sole proprietorships among family businesses, while limited liability partnerships are typical among non-family businesses, and non-family businesses employ on average a few more employees than family businesses.

5.2. Differences between family and non-family businesses

In our analysis, we present the crosstabs regarding the descriptive statistics for factors with a significant difference between family and non-family businesses according to the Kolmogorov-Smirnov test. These factors are the number of employees, the legal form of the entity, the level of education, and the question whether the entrepreneur is a founder as well.

Table 1. Differences regarding the numbers of employees

	Non-family Business	Family Business
1-9 persons	34.25%	45.39%
10-49 persons	49.32%	49.45%
50-249 persons	16.44%	5.17%
Total	100%	100%

Source: own construction

In the case of the number of employees, there is a visible difference for family businesses among micro enterprises. This is an unsurprising fact considering that numerous family businesses try to employ only family members, which is a serious barrier on the way to growing to a small enterprise. Among medium-sized enterprises, considered as big enterprises among SMEs, the family businesses are in a minority. Above 50 employees, the management-related tasks are in many cases assigned, which is a difficult step for a family business, especially when a non-family professional must be involved in the business management.

Table 2. Differences regarding the legal forms

	Family Business		Total
	No	Yes	
Individual entrepreneur	31.5%	60.1%	48.0%
Limited partnership	12.3%	12.1%	12.2%
Limited liability company	41.8%	24.2%	31.7%
General partnership	2.7%	1.0%	1.7%
Private company limited by shares	7.5%	1.0%	3.8%
Public company limited by shares	2.7%	1.0%	1.7%
Other	1.4%	0.5%	0.9%
Total	100.0%	100.0%	100.0%

Source: own construction

The legal form of the entities is significantly different as well. The proportion of individual entrepreneurs among family businesses is two times higher, and there are fewer limited liability companies. The more complicated forms are rather common among non-family businesses. The number of organization structures with several owners can only grow in economies with a strong legal protection of minority shareholders.

Table 3. Differences regarding the education

	Family Business		Total
	No	Yes	
Primary school	0.7%	1.5%	1.2%
Secondary school	11.0%	20.1%	16.2%
Vocational school	18.5%	29.6%	24.9%
College	38.4%	34.7%	36.2%
University	28.1%	13.1%	19.4%
PhD training	3.4%	1.0%	2.0%
Total	100.0%	100.0%	100.0%

Source: own construction

The managers of family businesses usually have a lower education level. The proportion of those with a university degree shows the biggest difference. This difference can probably be traced back to family dynamics, since there is no demonstrable difference in the case of other individual demographic characteristics. Family entrepreneurs are owners and managing directors of the company; the issue regarding the selection of the manager does not even arise at first-generation enterprises. Even if there are several owners, the position of the managing director is always occupied by the head of the family. The motivation for the formation is in many cases to guarantee a material welfare for the family, which in many cases results in a so-called false self-employment, if there are no other possibilities to be employed in the labour market. On the other hand, non-family businesses often choose their managing directors based on competence, rather than nepotism. In case of multiple unrelated owners, greater attention is paid to the fact that business affairs are managed by a well-educated professional, who can be an owner or an acting director.

There are more family-founded, first-generation undertakings among family businesses. The proportion of managers that are not founders is four times higher among non-family businesses. The sample does not include the wave of generational change mentioned so many times by Hungarian experts despite of the high proportion of the first-generation family businesses. There is no difference in the age of entrepreneurs, thus a change based on age is as justified as in the case of non-family businesses. Since family entrepreneurs are very much attached to the property securing the existence of the family, a smaller percentage, but still an insignificant amount of entrepreneurs plans a generational change in the next five years (18.6% of family businesses compared to 23.4% of non-family businesses).

Table 4. Difference regarding the fact whether the current manager is a founder as well

	Family Business		Total
	No	Yes	
Is not a founder	23.3%	6.6%	13.7%
Is a founder	76.7%	93.4%	86.3%
Total	100.0%	100.0%	100.0%

Source: own construction

5.3. Features of the demands of trainings

Most respondents have already used more than one business development services, and only around 5% have not used any of these. The most popular service acquired so far was the one related to trade development; however, among those wished to be acquired in the future, the development of business relations is more popular than trade development. Overall, there are no significant differences between the types of services, each one of them has a rationale, but none of them is extremely important as regards the totality of SMEs.

Table 5. The proportion of enterprises having acquired and wishing to acquire business development services (N=445)

	Acquired	Would acquire
Trade development (new market, premises etc.)	39.10%	36.85%
Development of business relations	36.63%	44.72%
Education and training	35.28%	35.06%
Counselling	34.16%	31.46%
Provision of information (legal, market etc.)	33.71%	35.51%

Source: own construction

Table 6. Types of business development services acquired by the enterprises (N=445)

	N	Percentage
Trade development (new market, premises etc.)	23	5.2%
Development of business relations	185	41.6%
Education and training	142	31.9%
Counselling	63	14.2%
Provision of information (legal, market etc.)	22	4.9%
Trade development (new market, premises etc.)	10	2.2%

Source: own construction

The entrepreneurs consider general business training as the most important among business development services. Training is followed by the different types of counselling, while communication services are the least important according to the respondents.

Table 7. Ranking of business development services by importance

	1. place	2. place	3. place	4. place	5. place	6. place	7. place	Average ranking
General business training	30.37%	21.00%	17.58%	10.73%	3.65%	4.11%	12.56%	2.99
Special training according to the client's demands	21.87%	15.03%	19.82%	15.72%	3.42%	11.62%	12.53%	3.49
Marketing counselling	11.79%	20.18%	15.42%	17.01%	6.12%	12.93%	16.55%	3.90
Counselling related to growth problems	12.53%	14.81%	16.17%	14.35%	5.24%	15.72%	21.18%	4.17
Counselling related to succession	10.93%	14.35%	12.76%	13.67%	11.16%	18.45%	18.68%	4.30
Counselling related to conflict management	6.14%	8.86%	12.05%	21.59%	17.05%	22.05%	12.27%	4.50
Communication services	5.94%	5.25%	6.39%	7.08%	53.20%	15.53%	6.62%	4.69

Source: own construction

It may be surprising that the respondents trust mainly professional legal and financial advisers. Partners and family members come only after external advisers even in the case of family enterprises. The reason for that can be that in cases when the manager thinks that he/she needs counselling, he/she needs a competence requiring special education.

Table 8. Whose advice do they trust in first place?

	Non-family Business (N=154)	Family Business (N=199)
Lawyer	24,03%	26,63%
Financial service provider	27,92%	21,61%
Accountant	27,27%	20,10%
Associate or business partners	14,29%	14,07%
Spouse or registered partners	5,19%	12,56%
Parent	1,30%	5,03%

Source: own construction

6. Summary

In our research, we analyzed the main features of Hungarian SMEs, mainly of family businesses, and their demands for development and training. First, we presented the main characteristics of family businesses available in the literature, and their proportion among Hungarian SMEs. In our empirical research, we analyzed the features and training demands of family businesses among the examined SMEs.

According to our empirical results, there is no significant difference between family and non-family businesses. The majority of challenges experienced by family businesses are identical with those faced by non-family businesses. These are for example the confused economic situation, the continuous tax changes and legislative amendments, and the growing administrative burden. (*Filep–Petheő* 2008). We have to consider the factors impeding our research as well. One of these is the snowball sampling, which can distort the results.

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