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SCIENTIFIC PAPER

OWNERSHIP STRUCTURES WITHIN HUNGARIAN FAMILY BUSINESSES – THEORIES AND PRACTICE

Júlia Tobak

University of Debrecen Faculty of Economics and Business Institute of Applied Economic Sciences
tobak.julia@econ.unideb.hu

Abstract: *We can talk about family business if the notions of family, ownership and business are closely connected to each other, namely if the business is in the possession of the family, managed and controlled by the family members. A family owned company is a business where a family has the majority ownership and/or the majority management and at least one family member actively works in the firm, the family owns the business. The study contains the results of research on ownership structure of family owned businesses. The examined family businesses are interested in long-term preservation of values, thus succession of generations plays a key role in their case. They attaches great importance how the ownership structure develops. The methotology to know more about the ownership structure of family businesses 11 expert interviews were made between november 2016 and september 2017 with owners and next generations of family owned agri-food enterprises in Hungary. A case study has been prepared too in this topic with the participation of companies with different activities (production, service, trade). In order to classify the analysed companies six categories of ownership were developed. These are non-owner, emotional owner, partial owner, controlling owner, majority owner and exclusive/sole owner. Each generation of the analysed FBs were classified to these categories. According to the results the analysed family owned companies even are sharing the property within family. There are only two interviewed companies whose case we can talk about exclusive/sole ownership.*

Keywords: *Generation, Expert Interviews, Ownership Categories*
(JEL Classification: *G32*)

Introduction

The family business form is popular all over the world. But what is family business? Several countries, many definitions, but the essence is the same. M. CANO-RUBIO et al. (2017) examined the lack of a standard definition of FBs (Family Business). Their work analyse and publicise many definitions of family firms. Basing their study and according to Ramadani-Hoy (2015) and DE MASSIS et al. (2012) the most commonly used concepts/terms/expression in literatures in connection with FBs (Family Business) definitions are the followings: ownership, management, directorship, self-identification, multiple generations, intra family succession intention.

We can talk about family businesses if the notions of family, ownership and business are closely connected to each other, namely if the business is in the possession of the family, managed and controlled by the family members.

Based on the work of Mandl (2008) And Csákné (2012) the three most important element of comprehensive definition of family businesses are the ownership, the participation in management and the transfer or the intent of the transfer between generations.

In short, a family business is a business where a family has the majority ownership and/or the majority management and at least one family member actively works in the firm, the family owns the business.

CHU (2011) analysed factors influencing the business's achievement paying attention to family management and control and the size of the business.

According To Chu (2011) And Giovanni (2010) the indicators of achievement in the business are the most appropriate for measuring effectiveness. In striving economies the capital markets are not perfect and the proportion of debt-own assets is usually high, thus there is a strong connection to achievement and risk.

A survey of 240 state enterprises in Thailand supported the fact that in the case of family ownership there is a more positive relation between the Return On Assets (ROA) ratio of the enterprise and the net sales revenues of sales than in the case of enterprises that are not family-owned, which points to a greater and better achievement, to the will to perform (CHU, 2011).

CHU (2011) used the data of 786 family businesses from Taiwan in his study. According to his view a company is stronger if the family members are present as chairmen, corporate executives, presidents or managers. If the family members do not participate in the management and control of the business, then the company becomes weaker. The results of his study show that the positive effects of family ownership are realised with a greater probability if the family ownership is paired with family management and control. The relation between family ownership and business achievement is stronger in the case of small or medium businesses, than in bigger corporations. In his view the determinant of success is the output of the business, thus one consequence of power of family. Performance depends on internal and external conditions. The characteristics of business, and especially the size of the company influences the relation between family ownership and profitability. The effect of family ownership on profit depends on family management and control and the size of the company.

As the definition reported by ARREGLE et al. (2012) stated that a firm only could be considered as a FB if the „ownership by persons outside the family should not exceed 49%". Also as stated in a study about family-controlled firms "a family business is one in which at least 50.1% is owned by one family" (CALABRÒ et al., 2016).

According to RANTANEN-JUSSILA (2011) the F-CPO (Family-Collective Psychological Ownership) phenomena does not only represent the potential influence of the family, it also indicates real effect. The F-CPO takes several correlations into consideration, such as collectivity, identification and interdependency among family members in business correlations. Reasons for such Psychological Possessions can exceed the motives of social-emotional affluence and can help in enlarging the present-day knowledge concerning the non-exclusively financial aims of the family business.

'This business is mine.'

This could be the key sentence for this structure, since the Psychological Possession is a state of mind which is activated by the need for owning. This kind of emotion can emerge in connection with material or immaterial goods.

From the aspect of psychological possession, the family can be interpreted as a social system, while the business can be considered as a social and physical organisation. Namely, business is in the family.

The F-CPO – scale can be characterised by the following statements:

- We (my family and me) feel that the business is ours.
- We (my family and me) are strongly attached to the common business possession.
- We (my family and me) share the feeling that the business – as a whole – belongs to the family.

On the basis of the paper by Randel S. CARLOCK (2012) in THE TIMES the flow of ownership and control between generations – passing the baton – is a challenge which family businesses have to face. Unfortunately, several family businesses do not work out a plan for the further operation of the business. However, this is one element of the strategic planning which is inevitable for the future operation.

All family businesses whose founders created the unity of aims concerning the acquisition of values and the future want to hand over business values and attitude directly to their children, namely would like to pass over their experiences inside the family. The reality and immediacy of generation succession has become a necessary current issue (Nagy, 2007).

There are expected and unexpected events within an operation of family business. The succession is a foreseeable fact while the events like birth, death, marriage, divorce or retirement are unpredictable and may upset the family balance. These kind of changes forces the family businesses to rethink the ownership structure.

The following parts of the study contains the results of research on ownership structure of family owned businesses. The examined family businesses are interested in long-term preservation of values, thus succession of generations plays a key role in their case. They attaches great importance how the ownership structure develops.

MATERIAL AND METHOD

Analysed Family Businesses

The focus area of the research is the examination of successful operation of family owned businesses from agri-food sector. To know more about the operation of family businesses 11 expert interviews were made between november 2016 and october 2017 with owners and next-generations of family owned agri-food enterprises.

A case study has been prepared too in this topic with the participation of companies with different activities (production, service, trade). There are 3 companies who took part in both research methods (Master Good Group, Tatár Bakery Ltd., V-Trade Ltd.). In their case the statement is the same according to both approach. The illustration the result was built on the expert interview (Table 1).

The question framework of expert interviews included questions about the ownership structures. The current ownership sturcture has been stated in case of analysed FBs. The information about the ownership structure based on the contatnt of the official bylaws of each analysed family owned company. The results show current sturcture of ownership. The table below (Table 1) shows the relevant information about analysed enterprises.

Table 1.Summary data of analysed enterprises

Method	Name and form of FB (Ltd./LLC , PLC)	Generation	Activity
Expert interview	Aqua Plastech LLC	2	agri-food enterprises
	Bold Agro LLC	2	
	Flavon Group Ltd.	2	
	Gál Tibor Winery	2	
	Heimann Winery	2	
	La Fiesta LLC	1	
	Master Good Group	2	
	Szamos Marzipan LLC	3	
	Tatár Bakery Ltd.	2	
	Tranzit Group (Tranzit-Ker PLC)	2	
	V-Trade Exhibitions Ltd.	2	
Case study	Krajcár Packaging Ltd.	2	production, service, trade
	Pata József Machinery Ltd.	2	
	Vivaco LLC	2	

Source: own work

1 According to Hungarian Statistical Office both the Ltd. and LLC means the same, limited-liability company. Basically the abbreviation of LLC was used except in case of those companies who has an own english name. (The sources of the english names are the companies websites.

The column of the Table 1. named "generation" shows the current state of the FB. The number indicates which generation is present in the business in 2017. The first generation nearly in all cases are the founder thus the first generation is the founder generation in Hungary. There are one analysed company which is a third generation enterprise (Szamos Ltd.). Typically, the second generation are active in Hungarian FBs nowadays after historically significant changes in business economics.

Examination criteria of analysed family businesses

It was necessary to work out a criteria for the clear classification of generations of examined enterprises. Six categories were developed to classify FBs. Table 2. lists the categories and main characteristics of each ownership level. The characterization based on various criteria like:

- age group category of next generation (MiniGen, JuniorGen, Discoverer, Owner/New manager)[2],
- family links (wife, husband, children, new family member(s), sibling(s), cousin(s)),
- ownership proportion according to articles of association.

Furthermore there are some common criteria which shall be taken into account, such as:

- the number of family members (parents, children, family links),
- the number of family members which divides the possession,
- the number of family members in top management,
- the number of family members in management,
- the exact proportion of ownership,
- the number of external owners, shareholders.

Table 2. The main characteristics of ownership categories[3]

Name of ownership category	The main features of the categories
1.Non-owner (NO)	• MiniGen (less than 14 years old) • Wife/husband/new family member(s) • No ownership proportion (0% proportion)
2.Emotional owner (EO)	• MiniGen (less than 14 years old) • JuniorGen (between 14 and 18 years) • Wife/husband/new family member(s) • Emerging collective psychological feeling (F-CPO) of ownership (0% proportion) (Rantanen-Jussila, 2011)
3.Partial owner (PO)	• Discoverer (more than 18 years old) • Owner/new manager (more than 25 years old) • Family members (head of the family, sister(s), brother(s)) • Wife/husband,new family member(s) sibling(s), cousin(s) • Has 0%-49% ownership proportion
4.Controlling owner (CO)	• Discoverer (more than 18 years old) • Owner/new manager (more than 25 years old) • Head of the family • Wife/husband/new family member(s) • has proportion more than 50% of ownership and is in a leading position
5.Majority owner (MO)	• Discoverer (more than 18 years old) • Owner/new manager (more than 25 years old) • Head of the family • Has a high proportion of ownership (more than 50%)
6.Sole owner (SO)	• Discoverer (more than 18 years old) • Owner/new manager (more than 25 years old) • Head of the family • The exclusive/sole owner of the business (100%)

Source: own work

The most questionable category is the emotional owner. The member of the next generation becomes an emotional owner when he/she starts to feel that the company plays an important role in the life of the family and thus starts to help to operate the business at least in a low level.

The following table (Table 3.) contains the theoretical coherence between the typical ownership categories, the next generation's age, the degree of responsibility (low, medium, high) and the senior's working activity. If the next generation already works in the company the senior - who is typically the founder the company in case of interviewed enterprises – can be classified into three groups according to the degree of working activity. Actively working (AW), activity decreasing (AD) and there are some cases when the previous generation is not presented (NP). The event determining activity level of the senior could be suddenly and unexpectedly or consciously.

Table 3.
Theoretical contexts of NextGen, Senior, responsibilities and ownership

Name	Categories				
Next generation (name, age) (children)	MiniGen (less than 14 years old)	JuniorGen (between 14 and 18 years old)	Discoverer (more than 18 years old)	Owner/new manager (more than 25 years old)	
Ownership categories[4]	NO EO		EO PO CO MO SO		
Responsibility, Management, Independence[5] (independent management, independent decision-making, the degree of responsibility)	L	L	M	M/H	H
Senior (working activity)[6] (parents)	AW			AD NP	

Source: own work

2 The classification of age groups are built on the NextGen Strategy of FBN-H (2014).

3 These are generalized characteristics. There are many dif ferent cases in practice.

4 Ownership category abbreviations have been applied, indicated in Table 2.

5 L=low, M=medium, H=high

6 AW=actively working, AD=activity decreasing, NP=not present.

The next chapter specialize the examined FBs to ownership classification in the light of successive generations and shows the contexts with the currently working generations. There are indicating which generation is presented in the business activity during the period of research. In the case of interviewed FBs the second generation are the children and third generation are the grandchild of the first generation. The table highlights the relation of the next gen's responsibility and the senior generation's working activity.

RESULTS AND DISCUSSION

In the last year during a theoretical research it was identified that there is "also a great quantity of international literature and case studies available, at the same time there is not much national experience, applied method and database to use" (TOBAK – NÁBRÁDI, 2016). For the purpose to expand the Hungarian practical knowledge about family owned businesses 11 interviews and a case study were made. The theoretical and practical context of the Hungarian practice is summarized in Table 4.

Table 4.
Theoretical and practical contexts based on the Hungarian results[7]

Name of FB	Generations (involved in entrepreneurial activity)	Ownership category of succesive generations[4]			Responsibility, Management, Independence[5] NEXT GEN	Working activity[6] SENIOR
		1st gen	2nd gen	3rd gen		
Aqua Plastech LLC	1, 2	SO	NO	-	M	AW
Bold Agro LLC	1, 2	PO	PO	-	H	AW
Flavon Group Ltd.	1, 2	PO	PO	-	H	AW
Gál Tibor Winery	2	NO	MO	-	H	NP
Heimann Winery	1, 2	PO	PO	-	L	AW
La Fiesta LLC	1	SO	-	-	L	AW
Master Good Group	1, 2	PO	MO	-	H	AD
Szamos Marzipan LLC	2,3	NO	PO	PO	H	1st NP 2nd AD
Tatár Bakery Ltd.	2	under negotiation	PO	-	H	NP
Tranzit Group (Tranzit-Ker PLC)	1, 2	MO	PO	-	H	AW
V-Trade Exhibitions Ltd.	1, 2	MO	PO	-	H	AW
Krajcár Packaging Ltd.	1, 2	MO	PO	-	L	AW
Pata József Machinery Ltd.	1, 2	MO	EO	-	H	AD
Vivaco LLC	2	MO	NO	-	M	AW

Source: own work

Based on the results it can be concluded that the property even are sharing within family in case of the analysed family owned companies. There are only two interviewed companies whose case we can talk about exclusive/sole ownership.

The international and national practice shows a specific context. When the activity is decreasing (AD) the senior starts to pass the rights of independent management and decision-making to the next generation. The proportion of ownership and the responsibility is growing at the same time.

In general where the responsibility of the next gen is medium or low (M/L), the senior generation is working actively (AW) and the larger ownership proportion is in the hand of the senior generation in the most analysed cases (Aqua Plastech LLC, Heimann Winery, La Fiesta LLC, Krajcár Packaging Ltd., Vivaco LLC). In case of the other analysed companies the high (H) responsibility is accompany with decreasing working activity of the senior generation and more divided ownership proportion. In these cases the next generation typically is in the age category of "Owner/new manager" which means they have more than 25 years old.

Concerning the analysed enterprises most of the successors are family members. However there are one case (La Fiesta LLC) where the founder owner was forced to educate the appropriate successor from among the employees.

As in the introduction part was mentioned there are unexpected events which forces the family businesses to rethink the ownership structure. The events like birth, death, marriage, divorce or retirement are unpredictable and may upset the family balance. For example in case of Tatár Bakery Ltd. happened a family and business crisis. The majority owner and founder of the company died in the last year that is why only the 2nd generation is involved in the entrepreneurial activity. The Tatár Bakery's second generation belongs to the partial owner (PO) category instead of category of controlling owner (CO).The change in the article of association it is still under negotiation (question of inheritance). In their case the next generation (2nd generation) has high responsibility and the senior is not presented. For instance another story of Gál Tibor Winery is a positive example to show how it is possible to resume again after a family and business tragedy with cooperation and with a lot of work.

Each company has an own story and in the life of family firms maybe it has more importance. In case of them beyond the family tragedy and crisis there are a business and financial crisis. The stability and the security of the family and the business becomes questionable which means a financial instability in the life of the family.

Since the change of the regime passed nearly 30 years in Hungary. It means that it is a time to pass the baton (NÁBRÁDI et al., 2016) together with responsibilities and ownership proportion in case of the most analysed company. The legal regulation and the possibility to share the ownership proportion makes this process easier.

In line with international practice to become a manager, top manager or controlling manager and owner from the next generation it is necessary to work in another company and gain more experiences. These kind of learning process is

7 Abbreviations have been appled according to Table 2. and Table 3.

mainly contributing to become a great successor and leader, and perform the leadership tasks well.

FB researches are related with many disciplines as to anthropology, economic science, social psychology, sociology and psychology. Because of the diversity of the topic further research and analytical work is needed to outline a Hungarian situation. It would be an interesting research direction the question of social categories in connection with succession. During the conscious generational transfer within family it is necessary to take into account the social generational differences.

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