

THE CHANGE IN SIZE OF SMES IN LIGHT OF SUCCESSION

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Abstract:

SME leaders face specific tasks generated by challenges of our time. As a result organizations are to move towards professionalized operation driven by succession.

The aim of the authors is to examine the change in size of Hungarian SMEs which experienced one of the succession types. The main question of our research is what process characteristics can be identified in connection with the change in size of SMEs and the succession. With reference to our future research, factors need to be explored which can additionally influence our model besides the size or the increase in company size.

On the whole we have found that there is a connection between the leadership succession, the frequency of this succession and the change in size especially in the case of growing. The research contributes to broaden our knowledge about the Hungarian SMEs in light of succession and preparation to the forthcoming generational change.

Keywords: succession, change in size, SME, change, professionalization

1. INTRODUCTION

Today's challenges encourage SMEs to implement changes which are especially concerning their basic values and norms. Organizational change such as succession basically affects the main operation of SMEs. According to Grusky "succession is the process of replacing key officials in organizations" thus affecting processes of succession when the owner is passing the baton to the successor (Grusky, 1961, p. 261). Due to this change among others new leadership style, new operational mechanisms, new values, and new competencies can be created. The growing importance of SMEs and the role they play in participating in growing economies and employment suggest that the influence of the owner or the founder to these mechanisms is indispensable. In order to face these challenges we need to know more and more about this process and which factors influence the succession.

The main question of our research is what process characteristics can be identified in connection with the change in size of SMEs and the succession. And also with reference to our future research factors need to be explored which can additionally influence our model besides the size or the increase in size of companies. The paper presents Hungarian SMEs which have already experienced one of the succession types.

2. LITERATURE REVIEW

It is challenging to find a clear and generally accepted definition of the notion of succession. Differentiating definitions of succession is important first because it allows us to separate the various types of succession and the identification of the roles in the process of SMEs succession. Hereby three definitions reflecting the approaches of succession are presented:

1. Initial succession: during the process the founder transfers the control to family member or to professional manager (Rubenson & Gupta, 1997, p. 21).
2. Family business succession: mutual role adjustment process between the founder/owner and the next-generational family member, in the process the successor role is increasing while the incumbent role is decreasing (Handler, 1990).
3. Entrepreneurial exit: strategic decision by the founders/owners who have their share, remove themselves from the operation and the control of the company (DeTienne et al., 2005).

It is unequivocal that the succession is more like a process than an event (Churchill & Hatten, 1987; Friedman & Singh, 1989; Gordon & Rosen, 1981; Handler, 1990; Longenecker & Schoen, 1978; Vancil, 1987). It is not just one step, when the leadership and/or the ownership are passed to the successor. It needs to be handled as a process with a lot of hard and multifactorial decisions which can occur cyclically during the life of an organization (Handler, 1994). Otherwise the core values of owners and the characteristics of the ownership have a strong effect to the output of succession process which is usually a strategic and multifactor decision-making process.

According to Grusky (1960) the succession occurs in every organization and it leads to instability because it changes the basic norms and values. Disruptive for every organization, it motivates to implement new methodologies, distracts the initial traditions, and inducts change. According to Zhang and Rajagopalan (2004) the succession is the most powerful critical process in the life of the organization.

Research studies of the field of succession can be divided into two parts: one group of researchers focus on the effect of the succession on performance, the other group of researchers considers succession as an organizational function. According to Giambatista et al. (2005) researchers have already answered questions implied by the basic models of succession. Now it is time to examine the influential factors of this process. The focus of the researches are mainly the effect of succession on the organizational performance, but there are only a few research studies which concentrate on the most affected actors of this process which are the SMEs. For these reasons we need to explore the influential factors which play important roles in the process of succession.

One of these influential factors might be the change in size of the SMEs. The life cycle models were the first frameworks which examined the relationship between the size of organization and the aspects of succession. Greiner (1972) was the first who examined this relationship who divided the enterprise

lifecycles into revolutionary and evolutionary processes based on the increase in employee numbers and the age of the company. As a result all of these Greiner (1972) distinguished five stages with the emphasis of the occurred leadership crises after every shift between stages. After Greiner, researchers were interested more and more in the development of new lifecycle models (Lavoie & Culbert, 1978; Adizes, 1992; Quinn & Cameron, 1983; Churchill & Lewis, 1983; Scott & Bruce, 1987; Kees van Montford, 2006). Every lifecycle research has a common focus namely the problem or the occurrence of the succession. Within the question of succession the challenges of leadership or/and the ownership transfer or the professionalization are emphasized (Adams, 1996; Chenhall, 2003; Chua et al., 2009; Flamholtz, 1986; Perren et al. 1999; Whisler, 1988, Gersick et al., 1997). When the relatively small individually controlled enterprises are starting to develop, the pressure of growth can lead to the decentralization of control that stimulates the owners of the companies to use “outside” help in the operational processes which implies the occurrence of succession. In connection with these and according to clarification of definitions we need to divide the succession types into various parts. Barry (1975) and Handler (1994) emphasized that we need to distinguish leadership and ownership succession. Researchers are usually concentrating on the examination of leadership succession and the ownership succession is less in the focus of analysis. Basically the succession on the level of leadership is clarified but the ownership of succession is less clarified as property right (Bjuggren & Sund, 2001, 2002; Howorth, et al., 2004; McCollom, 1992) or fiscal function.

According to our literature review we can state that those enterprises will grow dynamically which have already passed the leadership baton. But we need to find the answer also for the questions of what is happening with organizations which have passed only the ownership and those that passed the ownership as well as the leadership. Based on our literature review our research question is what kind of relationship can be revealed between the change in size and the succession types.

3. ANALYTICAL METHOD

In order to find out more about the process of succession we made a questionnaire which examined the size of the organizations and the occurred succession types. The aim of our research is to ascertain more about the process of succession among the Hungarian SMEs and identify features which can indicate the nature of the connection between the organizational size and the succession. We analyzed the changes in size, the size at the first succession and the present size.

Besides these we also received the main statistical data about the organizations such as the majority of ownership and the forms of organization whether it is a family business or not. Firstly, the survey was made public in an online version, but regarding the low filling rate we sent to the companies the paper version also. The survey could be filled between September and December 2012. The data were analyzed by statistical software. The size was measured by the number of employees, and in order to measure the change in size we made curve estimation based on which four types of change could be distinguished: exponentially growing, linearly growing, stagnant and companies decreasing in size. This type of data analysis allows the construction of simple statistical distributions and frequencies, but to measure the significance between the connections it is inadequate (which was not the aim of our research). Besides we examined the three types of the succession: leadership-, ownership succession or both of them.

Table 1 shows the measured factors in the questionnaire.

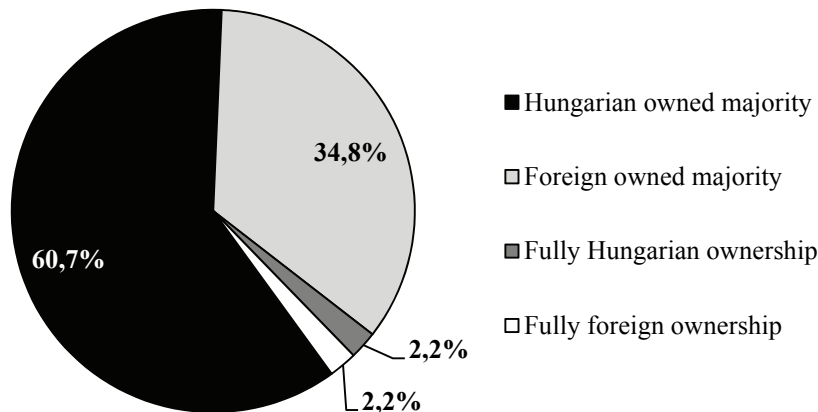
Table 1: The subject of examination

The subject of the examination	Measured factors
The size of the enterprise	The number of employees, turnover
The change in size	The change in the number of employees
The types of succession	Only ownership succession, Only leadership succession, Both leadership and ownership succession The date of the successions
The leadership succession	The date of the leadership successions and the frequency The type of the passed baton

We could use and analyze 145 questionnaires. Figure 1 shows the most important main data about the sample. 60,7 % of the respondent companies owned by Hungarian majority and 66,7 % of the

respondents are family owned. 70,7 % of the respondents are small and 29,3 % are medium sized enterprises. 47,1 % is operating in the processing industry and 41,3 % in the service sector.

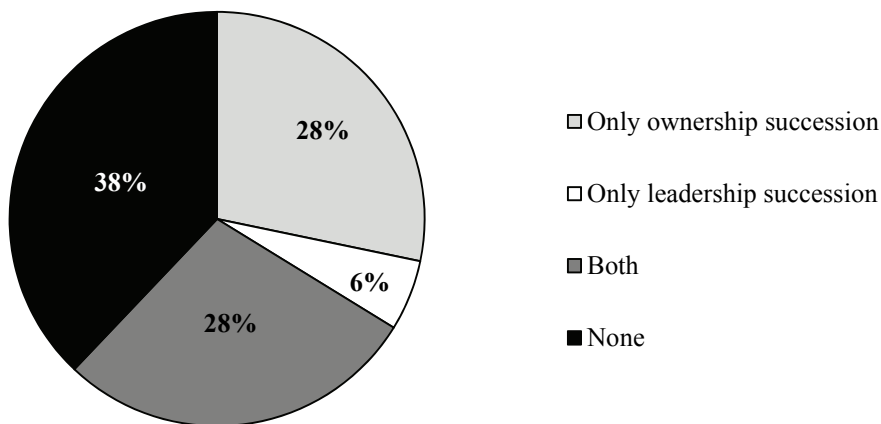
Figure 1: The majority of the ownership



4. RESULTS

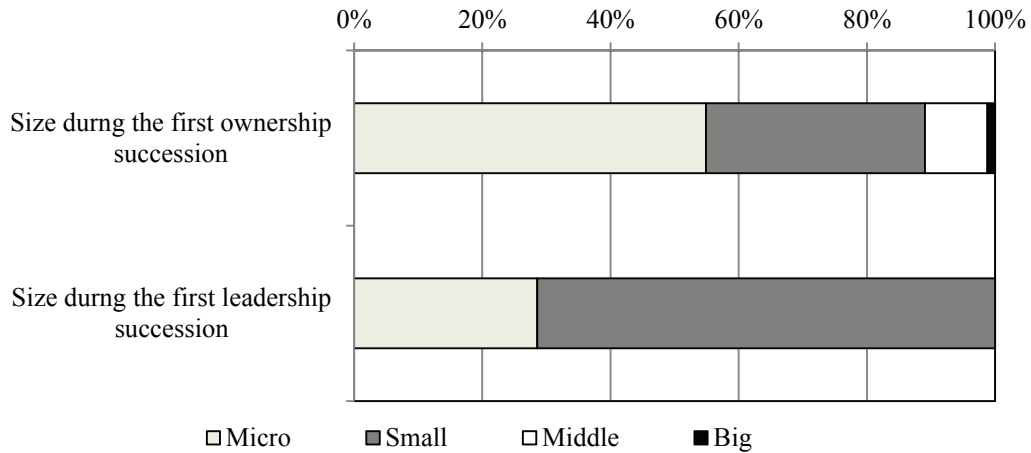
In most of the companies the ownership or leadership succession took place. Figure 2 shows the distribution of the respondent companies according to occurred succession. 38 % of the companies did not experience succession, and 62 % experienced one of the succession types. Hereinafter we are examining the companies in which one of the succession types took place. 6% of the companies experienced only leadership succession and 28-28% of the respondents went through one of the ownership successions or both leadership and ownership succession.

Figure 2: Occurred succession



Referring to above the aim of our research is to examine the change in size of the enterprises in the light of occurred succession types. Thus we examined 3 factors according to the change and succession. The first factor is the size of enterprises (Figure 3) at the first succession which is important to illustrate the past of the companies.

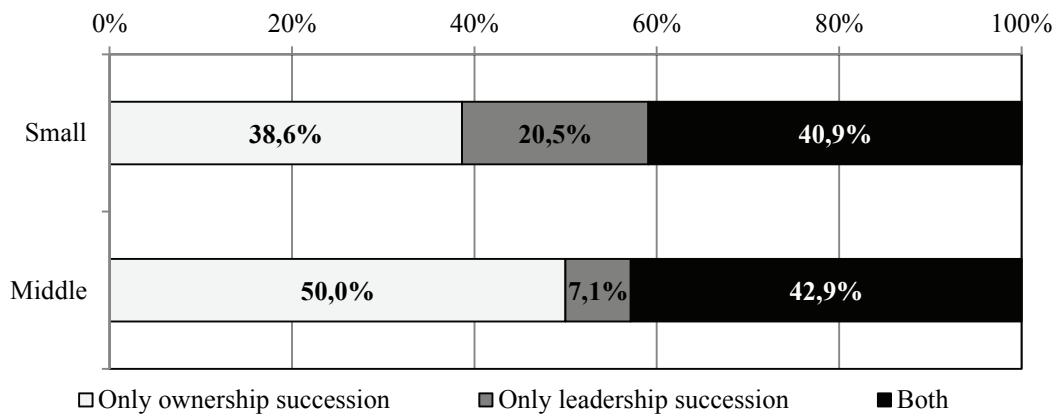
Figure 3: The size of the enterprises during the first succession



The size of the companies during the first ownership succession belonged to the category of microenterprises and during the first leadership succession most of the companies were part of the small company category.

Figure 4 shows the current size of the companies according to the types of succession.

Figure 4: Current size in the light of succession types

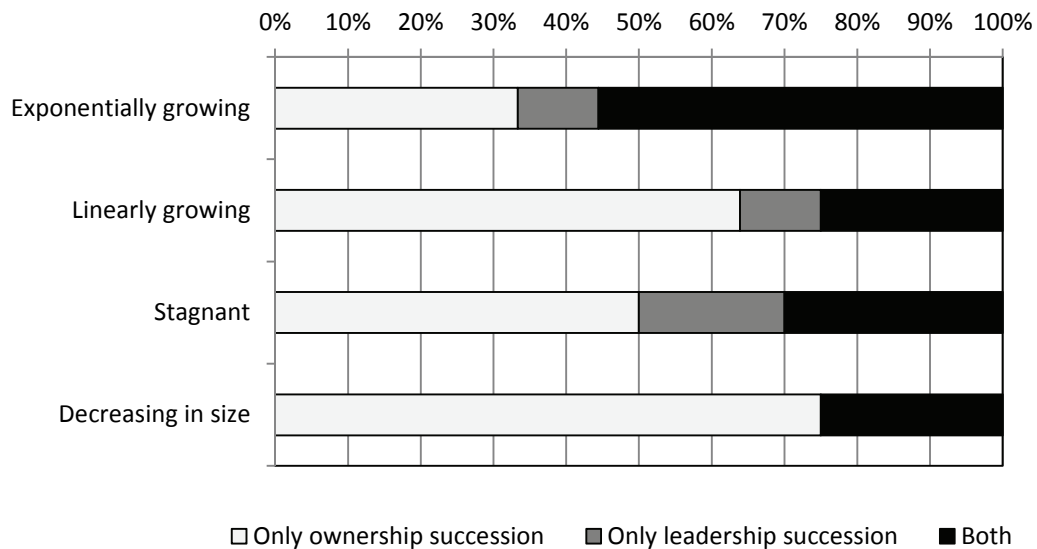


Presently most of these companies (77,7 %) belonged to the small company category and 40,9% of these companies realized both of the succession types. 50 % of the presently middle sized enterprises experienced ownership succession only and 42,9 % experienced both of the succession types. The distribution in the category of presently small sized enterprises are more balanced. 38,6% of the respondent companies took place only ownership, 20,5 % only leadership succession, while 40,9 % experienced both two types. Summarizing we can enunciate that most of the respondent companies after the first ownership succession were in the category of the microenterprises since then all of these companies are developed to the small- or medium sized company categories.

We need to note that in most of the cases (76,7 %) the ownership succession happened directly after the establishment while the leadership succession usually later. So most of the companies experienced a move forward to the professionalization, the benefits of insiders' help and delegation. While the ownership transfer happened once the leadership successions happened sequentially according to the increase in size of enterprises. We need to emphasize that companies where the leadership succession happened repeatedly the increase in size were major especially where this frequency was around 4 cases. Consequently these results are verifying our expectations on the base of literature, hence can assume the connection between the change in size and the frequency of leadership successions.

Besides we examine the tendency of change in all cases and distinguished four types of change.

Figure 5: The change in size according to succession types



52,9 % of the companies experienced linear growth, 26,5 % exponentially growing, 14,7 % stagnant and 5,9 % were decreasing in size. Figure 5 shows the distribution between the tendency of change in size and the type of successions. Most of the exponentially growing enterprises (55,6 %) experienced both of the succession types together, furthermore the enterprises where the growth was linear mostly (63,9 %) only ownership succession. However there is a controversial result in the group where the growth is stagnant or decreasing, because 50% and 75 % of these companies experienced only ownership transfer (but the sample size in these categories were smaller than in the other groups which can influence the results and damage research reliability). It is unequivocal that in the group where the size is decreasing not all of the companies experienced the leadership succession and this similar result could perceive in the group where the size is stagnating. The results show that the companies where growth was more major both the leadership and ownership succession took place. We could also found out that in the case of companies that decreased in size leadership succession did not happen.

To summarize we need to note that in most of the companies took place one of the succession types. As a result most of the companies were microenterprises during the first succession and with the growth of the enterprises the leadership successions also happened. On the whole we experienced that there is a very strong connection between the leadership succession, the frequency of this succession and the change in size especially in the case of growing. There was a contradiction between the ownership succession and the change in size which shows that it is advisable to expand the model and complement more influential factors. Finally we need to highlight that the leadership succession, a special form of professionalization can affect the change in size of enterprises. Previously presumed connection between the leadership succession and the change in size can be accepted and also there is a probable connection between the frequency of leadership succession and increase in size. Most of the companies experienced the leadership succession at the beginning of the establishment of enterprises which shows that these companies considered the professionalization more relevant, similarly the enrollment of competent professional leaders. Admittedly the delegation of the functions can allow better allocation of the resources and as a result the leading by owner shift toward from the sole direction to a professionalized operation.

5. CONCLUSION AND LIMITATIONS

According to the European Commission in the next 10 years around 6 million SME owners will retire (EKB, 2008). The Hungarian SME owners are also involved in this process, according to Csákné (2012) 63 % of the Hungarian companies will experience the succession nowadays or in the next 5 years. SMEs play a significant role in national economies, so “their embeddedness, social responsibility and ability to combine innovation and traditions all support the idea that the transfer of knowledge in the enterprise is vital” (EKB, 2008, 6).

Factors, like the characteristics of selection of new successor, the impact of rearrangement of the proprietary rights to the organizational processes, relationships and also to the social capital and moreover conflicts following the cultural differences, are indispensable to examine in order to learn more about the succession process. In fact the family businesses are emphasized-actors of the succession process because the interorganizational relationships are completely different from the non-family counterparties. All of these are resulting in the need to carry about the topic of succession in Hungary and we need to prepare an intensive wave of the generational shift not only in the individual level but also in the level of organizations and economy.

During our research we examined SMEs which are experienced one of the types of succession. Moreover we analyzed the change in size and the connection between change and the succession types. Consequently in companies where the increase was major the “whole” succession was experienced so besides ownership succession leadership succession is happened. In addition in those companies where more leadership functions were transferred major increase could be experienced. However in those companies where the leadership baton were not transferred or only ownership succession happened the decrease in size could be experienced. The results show the influential effect of the professionalization which means hiring professional successors who bring new methods, norms, knowledge...etc. in order to create the base of the professionalized operation. We can presume the connection between the change in size and the types of succession but the nature of this connection we need to prove with more complex examinations. Our explorative research aim was to map the relevance of the topic in Hungary and to elaborate an initial model to our future research. Furthermore our aim was to confirm the relevance of the connection between the organizational, individual characteristics and the types of succession. Undoubtedly we need to expand our model with factors like the frequency and types of leadership successions, the factors of professionalization.

That assumption of what will happen in the coming years after the generational change are not clear, yet. In order to solve this significant problem we need to know more and more about the succession process, about the influential and outcome factors. This need is also apparent among those Hungarian SMEs where the leading is in the owners' hand. This fact indicates that SMEs will need new leaders who can keep the organization alive and even through their professionalism they can make the organization grow and operation can become more effective.

ACKNOWLEDGEMENT

“This article was made under the project TÁMOP-4.2.2/B-10/1-2010-0025. This project is supported by the European Union and co-financed by the European Social Fund.”

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