

## GOOD LEADERSHIP IS ESSENTIAL FOR ANY BUSINESS, EVEN FOR THE SMALL ONES LEADERSHIP SUCCESSION AND THE ASPECTS OF OWNERSHIP

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### **Abstract:**

Small- and medium sized enterprises (SMEs) are one of the most important driving forces of the performance of Hungarian economy. Not only because of their flexibility due to their small size but also their adaptability to the environmental changes. One of the most significant processes during the life-cycle of SMEs is the succession process, especially the transfer of leadership roles. In order to acquire the knowledge of how to prepare to the successful transfer the owners need to know more and more about the essential processes of the business transfer. The aim of our research is to investigate the succession process of SMEs from the point of view of ownership types. We investigated the leadership succession differences between family businesses and non-family businesses, and the differences based on the majority of ownership (Hungarian majority or foreign majority). We applied principal component analysis to investigate the process of succession and analysis of variance to investigate the differences according to aspects of ownership. The results show that the Hungarian SMEs and family businesses are less experienced in the leadership transfer than their foreign counterparts or non-family businesses.

*Keywords: management, leadership, succession, SME, professionalization*

## 1. INTRODUCTION

Hungarian researchers have been considering the management based approach to SMEs since 1980's and it became an emergent theme after the economic and social changes of the 1990's. Both nationally and internationally the force of generation change puts the phenomenon of business succession forward. Consequently, it is essential to ask the questions which phase the SMEs succession process is in presently and what future SMEs succession process will have.

## 2. THE PROCESS OF SUCCESSION

According to Grusky (1960) the succession occurs in every organization and it leads to instability because it will change the basic norms and values. Disruptive for every organization, it motivates the implementation of new methodologies, distracts the initial traditions, and induces change. According to Zhang and Rajagopalan (2004) the succession is the most powerful critical process in the life of the organization. According to initial succession researchers (Grusky, 1960; Barry, 1975) the succession is the change of key position during the lifecycle of organizations and can be distinguished into two parts: the transfer of ownership and leadership. The role of key leadership roles were emphasized in the researches of Pfeffer and Salancik (2003), too. The resource dependency theory based on Pfeffer and Salancik (2003) emphasized the leadership transfer which is influenced by the environmental changes (p. 226). According to Pfeffer and Salancik (2003, 228) the leadership change is a strategic answer to the possibilities of environment.

Most of the researches are emphasizing the role of the family during the succession process. According to Beckhard and Burke (1983) the family business succession means "the passing of the leadership baton from the founder-owner to a successor who will either be a family member or a non-family member; that is, a 'professional manager'" (p. 3). As we can notice during the process of succession two different roles are important, the role of the founder/owner/leader and the next generational member who can be also professional manager not only a family member. According to Handler (1990) who created the "dance" process of succession, "succession represents a mutual role adjustment process between the founder and next-generation family members" (Handler, 1990:48-49). The aim of Handler's research was to describe the "dance" between the actors of succession process and to call the attention of researchers to the relevance of succession planning. According to Chand and Bronner (2008) "succession is not about filling leadership vacancies; it's about creating an organization's future. It's about looking down the road, determining what future challenges await the organization and providing what's needed to arrive at the desired destination" (p. 1).

Summarizing the above and more other definitions we created an own definition to the succession: "The succession is a structural process whereby occur the transfer of business including the whole or partial transfer of ownership or/and leadership, moreover it is including the strategic decision of the founder/owner with respect of the future of the organization." During the decision the owner/founder is considering the characteristics of environment, enterprise and individuals in order to plan their own exit strategy and the entry of the successor, who can be a family member or non-family member and can come from outside or inside of the company. During our research we will use this definition in order to investigate the aspects of succession in SMEs.

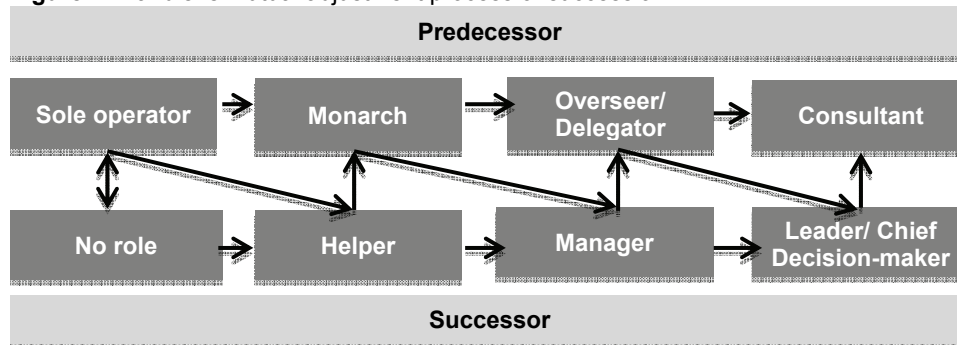
It is widely accepted that the succession is more like a process than an event (Churchill and Hatten, 1987; Farquhar, 1989; Friedman, 1986; Gilmore and McCann, 1983; Handler, 1990; Longenecker and Schoen, 1978). It is not just a step where the leadership or ownership will be transferred. Succession also needs to be handled as a multi-decisional process, which is happening repeatedly during the organizational life. The process of succession can be interpreted by two aspects:

- the process models (Longenecker and Schoen, 1978; Handler, 1990;) and,
- the lifecycle models (Greiner, 1998; Barnes and Hershon, 1976; Adizes, 1992; Gersick et al., 1997).

The process models construe the succession process like a periodic process, the life cycle models interpret the succession process as the way of the organizational evolution in order to reach the transfer of business. Our research is concentrating on the analysis of process of succession so we will present Handler's model (1989) in details.

According to Handler (1989) the process of succession can be divided into phases, which can be phases before the arrival of successor and the after phases of transfer of leadership. Handler (1989) executed 32 interviews with family businesses and experienced that the “next-generation family members indicated that their own role in the business was shaped by the role of the predecessor” (p. 43). With her case studies a mutual adjustment process is described in which the roles during the process of succession are not separated rather evolving according to the succession of the other actor. First the successor has no role then he/she becomes a helper, a manager and at the end of the process he/she will be leader/chief executive decision-maker. On the other hand the roles of the predecessor are first sole operator, followed by the role of a monarch, an overseer/delegator and finally a consultant. Figure 1 shows the process of succession.

**Figure 1:** Handler’s mutual adjustment process of succession



Source: Handler, 1989:194

As we can see on Figure 1 during the first phase the predecessor is the sole operator of the business. During this phase the owner mainly deals with leadership functions and initial operational functions in connection with the establishment of the business. In this phase the owner is equal with his/her business. The successor role is not apparent yet or it is not necessary to think about the succession. During the next phase the predecessor takes up the monarch role which already gives him/her an outstanding power over the business. In line with these the successor also gets a new role as a helper. In this phase the successor gets functional tasks and learns the operational mechanisms of the business. When the predecessor is a delegator he/she transfers the responsibility over the business to the successor, who is a manager. This point is one of the most sensitive parts of the progress. According to Handler (1989) most of the companies cannot get to this phase. To get over the phase mutual trust, common share and delegation of responsibilities are needed. During the last phase the predecessor is a consultant, actively not part of the operation of the business. A main difficulty during the phase is the disengagement or retirement from the organization and the simultaneous pursuit of other interests. The leadership role of the successor will be successfully transferred if the power and influence will be also passed. According to Handler (1989) the succession will end if beside the transfer of leadership the transfer of majority of ownership also takes place. The starting point of a typical succession process is not when the successor enters the business. It happens earlier when the idea of the succession surfaces in the mind of the owner. After the entrance into the business operation the relationship between the owner and manager is based on the recognition of the roles and the transfer of business specific knowledge to the successor. The successor receives managerial functions or tasks when he/she steps into the formal hierarchical system. The phase will end when the predecessor appraises the work of the successor and decides about the transfer of the whole leadership. At the end of the whole process the transfer of majority of ownership occurs, and finally the succession ends.

### 3. ANALYTICAL METHOD

The aim of the present research is to explore the characteristics of various succession types and the phases of the succession process of the SMEs in Hungary.

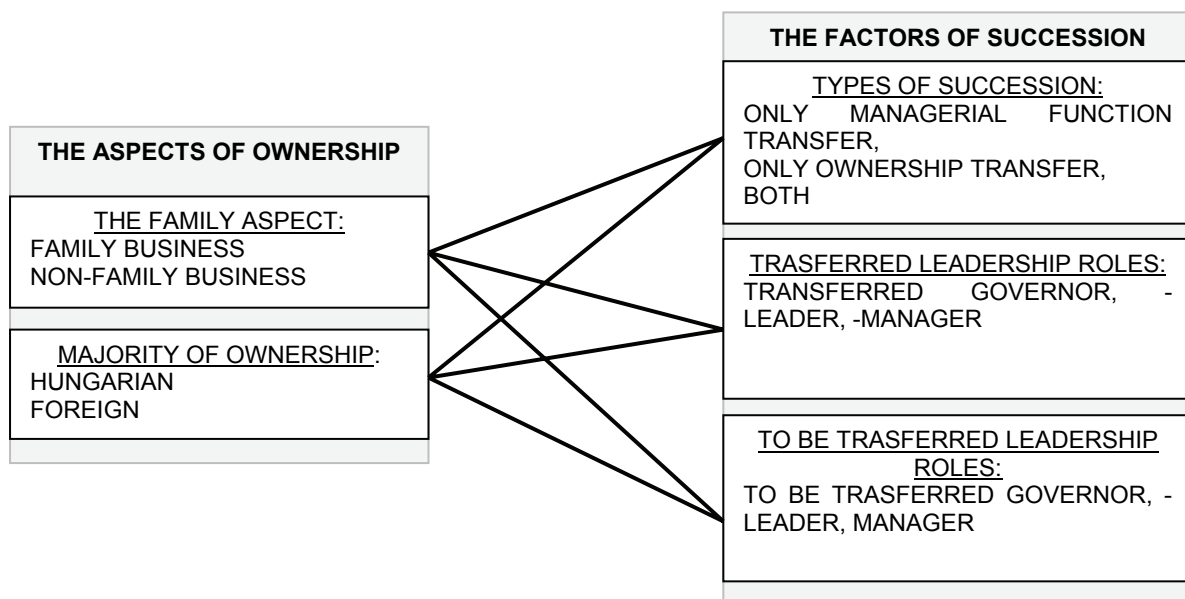
In order to find out more about the process of succession we made a questionnaire which examined the types of succession, the transferred and the desirable transfer of leadership roles and the characteristics of ownership. The transferred and the “to be transferred” leadership roles were created by principal components analysis. The results of the analysis are in Table 1.

**Table 1:** The requirements of principal components analysis

Principal components	KMO	Bartlett significance	Communalities	Total variance explained
Transferred governor role	,873	,000	✓	45,852
To be transferred governor role	,865	,000	✓	41,707
Transferred leader role	,943	,000	✓	59,812
To be transferred leader role	,934	,000	✓	55,823
Transferred managerial role	,949	,000	✓	64,760
To be transferred managerial role	,941	,000	✓	64,882

Before the principal components analysis we also tested the leadership roles in five companies. First, we created 76 tasks based on literature in order to describe the leadership roles. After the fieldwork we reduced these tasks to 38 and tested with principal components analysis. As we can see in Table 1, the requirements of the analysis have been met so the principal components of the transferred and “to be transferred” roles can be used for further analysis. The present and preferred succession has been identified by the principal components of leadership roles. After the identification we looked for the relational analysis between the aspects of ownership and the transferred and “to be transferred” leadership roles during the succession process. To investigate this relationship we made analysis of variance between the mentioned factors. Figure 2 shows the basic model of the analysis.

**Figure 2:** Basic model of the analysis



As we can see in Figure 2, we measured the aspects of ownership with the family aspect and the aspect of the majority of ownership whether it is foreign or Hungarian. The factors of succession are measured by the types of occurred succession (whether it was only managerial function transfer, only ownership transfer or both); by the presently transferred and the desirable leadership roles we mean what the owner wants to transfer in the close future.

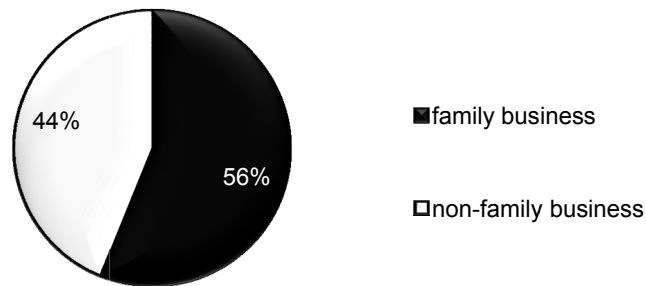
The question of the research is what kind of differences can be found between SMEs' succession processes according to their ownership aspects? In the next section we will present the main results of our study.

#### 4. RESULTS

First, we investigate the relationship between the family aspect of ownership and the presently transferred and desired roles according to succession. We searched the answer to the question whether there are differences between the “maturity” of succession according to the family or non-

family businesses. First, we examined the relationship between the types of succession and the family aspect of ownership. Figure 3 shows the distribution of the sample from the view of family aspect. As we can see 56% of the companies are family businesses and 44% are non-family businesses.

**Figure 3:** The distribution of companies according to family aspects



We analysed the relationship between the types of succession and the family aspects of companies with crosstab analysis. Figure 4 shows the results of the crosstab analysis.

**Figure 4:** The distribution between the types of succession and the family aspect of companies

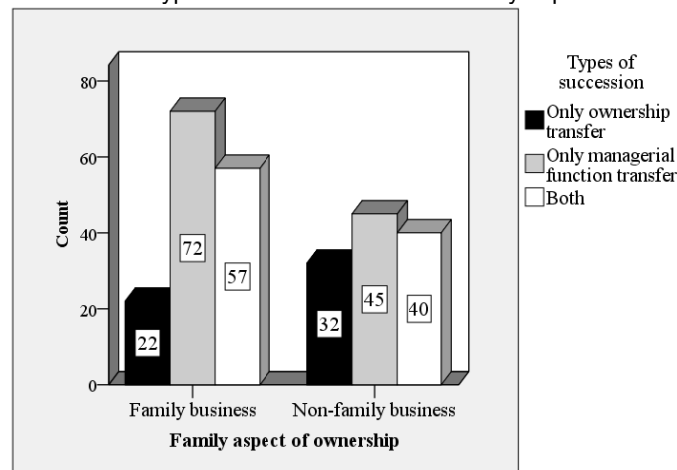
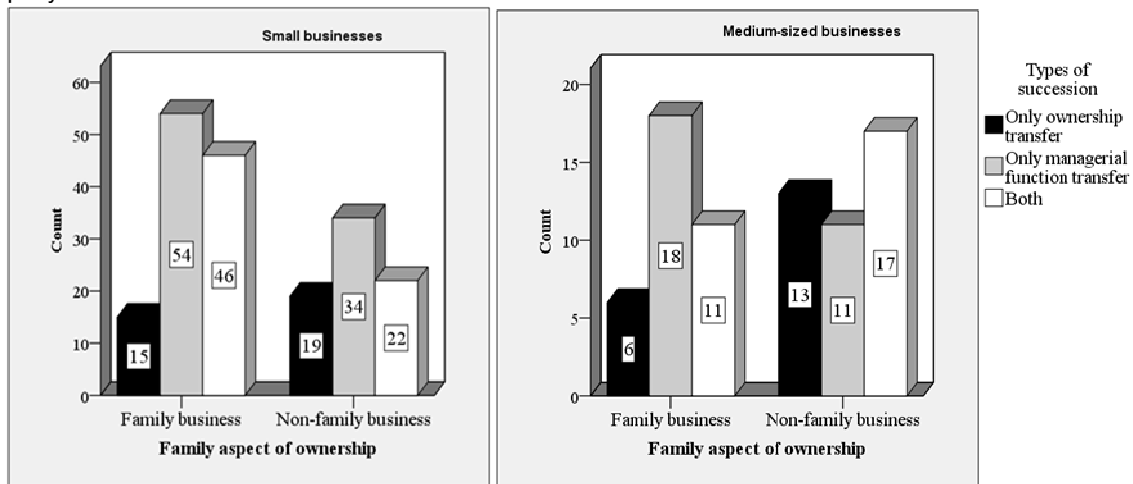


Figure 4 shows that 48% of family businesses and 38% of non-family businesses transferred only leadership functions. Family businesses prefer less the transfer of ownership, they rather choose only the transfer of leadership or both of the two types of succession together. Otherwise 27.6% of the non-family business transferred only the ownership and 34% of non-family businesses choose both of the succession types together. The significance of Chi-square is 0,032 and the Cramer V shows weak connection. It means that between the type of succession and the family aspect of ownership there is a significant but weak connection. These results mean if the governance of business is in the hand of the family transferred the ownership less as the non-family businesses but the family business more transfer the managerial functions than the non-family counterparts. If we add a layer to the distribution according to the size of the businesses we can find interesting changes in the group of middle-sized enterprises. Figure 5 shows the distribution of succession types according to family ownership aspects in the light of the size of the business whether it is small or middle-sized. As we can see in Figure 5 the distribution in the size of small companies the results are very similar to the above presented ones. In contrast the middle-sized enterprises are quite different especially in the family businesses where the transfer of managerial function is dominating. In the other group, in the non-family businesses besides the transfer of the leadership, the ownership transfer is happening more frequently.

**Figure 5:** The relationship between the family aspect and the succession type according to the size of the company



Based on the results we can state that the owners of family businesses want to hold the ownership in their own hand until their successors will be experienced enough to get that. Until that moment the successors can demonstrate their qualities in the managerial functions and earn the trust of the owner. On the other side the succession characteristics of non-family businesses in the group of small sized companies are very similar to the family businesses and the dominant type of succession is the transfer of managerial functions. In the middle-sized company category the non-family businesses already transferred besides the managerial functions the share of the ownership too.

Hereinafter we examine the relationship between the aspects of family ownership and the leadership roles during the succession process. The principal components of leadership roles were created to the present and to the desired status of leadership succession. To investigate the relationship between these two factors we made variance-analysis. The results are demonstrated in Table 2. The requirements of homogeneity of variances and the normality have been met so we can investigate the results of ANOVA table.

**Table 2:** The results of analysis of variance between the family aspect and the transferred and the “to be transferred” leadership roles

ANOVA		
	F	Significance
Transferred governor role	9,133	,003
To be transferred governor role	2,385	,124
Transferred leader role	9,346	,002
To be transferred leader role	,469	,494
Transferred managerial role	9,244	,003
To be transferred managerial role	1,220	,270

As the ANOVA table shows there is a relationship between the family aspect of ownership and the transferred leadership roles. We need to examine also which characteristics cause the differences which can ascertain from the descriptive of factors and from drawing the means. As we can see in Figure 6, family businesses transfer less leadership roles during the succession process as their counterparts.

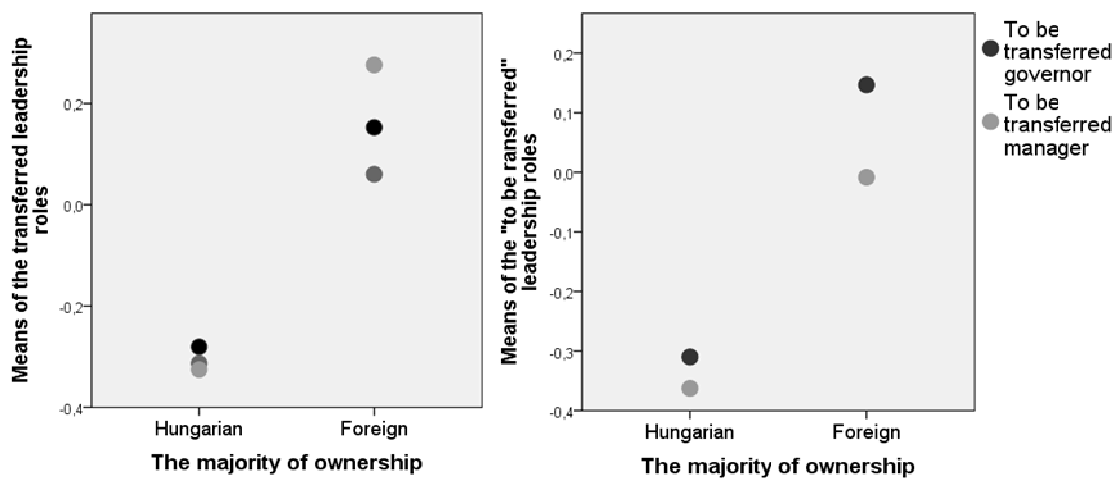
**Figure 6:** The means of the transferred leadership roles



The results show significant differences between the transferred leadership roles according to the family aspect of ownership. Moreover, the family businesses are less experienced in the transfer of leadership roles than the non-family businesses. These results mean that in the family businesses the tenure of the owner is significantly longer and it indicates that top management role is a strongly protected “throne” for the owner. The family business owners insist on the top management and will not transfer the leadership roles in the near future. Otherwise the non-family business’ owners are delegating more leadership.

We investigated another aspect of ownership, which is the majority of the ownership whether it is Hungarian or foreign. The main question was what kind of succession differences can be found according to the majority of ownership? First, we investigated the differences according to the succession types. We made crosstab-analysis to find a relationship between the types of majority of ownership and the succession types. The value of the Chi-square is not significant so on this sample we cannot manifest the significant relationship between the majority of ownership and the succession types. We would like to investigate the other aspects of succession in connection with these, namely the transferred and the “to be transferred” leadership roles. The ANOVA table shows significant differences between the roles and the majority of ownership. Figure 7 shows the means between the groups.

**Figure 7:** The transferred and the “to be transferred” leadership roles according to the majority of ownership



As we can see in Figure 7 the Hungarian companies transferred and will transfer the leadership roles less than the companies with foreign owners. On the other side foreign companies are more open to transfer these roles now and also in the near future. The analysis of variance shows that there are

differences between the means according to transferred leadership roles and the “to be transferred” governor and managerial role. There is no relationship between the “to be transferred” leader and the majority of ownership.

Summarizing our results we can state that there is a significant weak relationship between the family aspect of businesses and the type of succession. The family businesses transfer the ownership less than their non-family counterparts but the transfer of managerial functions are more often transferred in both types of businesses. On the other hand the family businesses transfer the leadership roles less than the non-family businesses. The other aspect of ownership has no significant impact on the types of succession but there are significant differences between the majority of ownership and the transferred leadership roles, and the “to be transferred” governor and manager roles. It means that the foreign companies are more mature in the succession process than the Hungarian companies.

## 5. CONCLUSION

The present status of succession process is more mature in non-family businesses than in family businesses. The analysis of variance shows that the family and non-family businesses are significantly different in the aspects of their succession process. The family businesses are transferring the majority of ownership rather than the non-family businesses. The non-family businesses are usually transferring only functional areas and the majority of the ownership stays in a hand of the owner. According to the results we can say that the approach of the family business owner about the letting go of the business is very hide-bound. They are applying a paternalistic attitude which is holding the owners very close to the business. Moreover, their stance is not helping to recognize the importance of the succession and the actions and competences of the new leader or leaders. This introspected organizational behaviour resulted in the fact that the family businesses failed to recognize the priorities of leadership succession. This may also lead to the stagnation of the family businesses.

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