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Exit strategies of family businesses in Hungary

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The study aims to examine the ownership transmission strategies in the context of family firm succession in Hungary. The successful transfer of ownership, management and acquired experience at a family firm represents one of its greatest challenges; however, there is still a lack of understanding of the unique future strategies and succession outcomes of Hungarian family businesses. As a significant proportion of the founders of those family businesses established after the regime change (post-1989) are now reaching retirement age, a study of how such business organisations plan to survive the generational transition is highly relevant. This study applies a mixed methodology of quantitative and a qualitative analysis (e.g., in the case of IPOs). The results show that the average age of the examined family firm CEOs is higher than the global average and the majority of them plans to keep ownership and management within the family. Other exit strategies (i.e. initial public offerings, mergers and acquisitions) are not typical of the examined sample.
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JEL code: M10, M14, M21

1. Introduction

In the global economy, family business is the most dominant form of organization (Sharma & Sharma, 2011). Family businesses constitute a large proportion of all businesses, and their contribution to GDP and employment also shows that their economic weight is powerful. Exact numbers highly depend on how broad or narrowed-down is the interpretation of the phenomena (Van der Vliet, 2021) that leads to an ongoing debate among researchers.

Based on the systematic overview of the wide range of definitions, Kása, Radácsi & Csákné Filep (2019) specified family firms to be those enterprises that define themselves as family firms or where at least 51% of ownership is kept in the hands of the family and additionally, they fulfil at least one of the following criteria: (1) family is involved in managing the firm, (2) family members take part in operations as employees and (3) the intended management and ownership transfer of the firm takes place partly or fully within the family. By this definition, 6 out of 10 Hungarian companies could be considered to be family businesses.

Modern family businesses (FBs) have quite a short history in Hungary, just as in other Central-Eastern Europe (CEE) countries, as most of them were launched after the regime change in 1989 and the founders of these FBs are about to reach retirement age (Mosolygó-Kiss & Csákné Filep & Heidrich, 2018).

Family business succession is a complex management challenge with remarkable financial aspects (Csákné Filep & Karmazin, 2016). In this paper, the focus is on these financial aspects of family business transmission, namely the ownership transfer strategies, because despite its relevance, it is still an under-researched area in CEE countries, such as Hungary.

Family businesses with outstanding performance are more likely to have a succession plan, according to Drótos, Wieszt, Meretei & Vajda (2019). Based on their research, the majority of current owner-managers plan to continue working for these companies after retiring from the management position.

This paper plans to bridge the gap between ownership transfer planning and reality, examined in the context of post-socialist Hungary, where the first mass generation change is an ongoing process.

First, a short historical background of Hungarian family businesses in general is presented. Then, the focus is put on the transmission of the family business, where the most typical ownership transfer types are analysed and discussed with several examples.

2. Background of the study: Hungarian family firms (with a brief examination of other Central-Eastern European countries)

This section aims to discuss the specific characteristics that have shaped and formed the nature of family businesses in Hungary.

This brief history of family firms is attributed to the changes which transpired after World War II. As in other CEE countries occupied by Soviet forces in 1945, Hungarian private equity was collectivised on a large scale between 1945 and 1949. Among others, all mining works, public utilities, large estates, and many businesses became state socialist properties, in several stages. Family businesses were disbanded, and in some cases, the founders were forced to flee abroad, or risk being falsely charged and even ending up in jail, whereas others were deported (Szabó, 2012). During the period of socialism, as with other countries undergoing the same changes in the region, private businesses were based firmly on bureaucracy, with the basic ideology of avoiding capitalization, capital accumulation and the creation of property. In fact, there were only a small number of private businesses in the service sector, such as hairdressers, beauty salons, and plumbers (Szabó, 2012: 86). Although these small businesses and peasant farms were tolerated to some extent, they were slowly removed from the economy in the socialist era. Theoretically, there could be several businesses that continuously operated during this period, but their actual number is extremely small.

In the early years of transition, the gates were "thrown wide open, resulting in some cases [in] rampant capitalism and illicit profiteering" (Mosolygó-Kiss, Heidrich & Chandler, 2019). It was in this climate that Hungarian entrepreneurs founded their first firms. Thus, founders had very few examples to follow - even in family firms - and they were thus forced to find their own ways to build their businesses and to survive against competitors.

With "the shift from state-socialism to the market economy in the transformational countries, a large segment of the workforce that was formerly employed by the state or cooperative owned firms lost their jobs and became unemployed" (Makó, Csizmadia & Heidrich, 2016, p.18.). Due to this radical economic and political-ideological shift the rate of necessity entrepreneurs in Hungary is above the European average, especially at the age group of 35-64 (Mascherini-Bisello, 2015). Necessity entrepreneurship most often refers to individuals who were unemployed before starting a businesses.

Based on the closely similar historical background, succession is a burning issue in each CEE country. With the aging of the founders, the time has come when entrepreneurial families need to face the challenge of transferring the business to the next generation in - or outside of - the business family. CEE family businesses have limited experience and role models in succession and building entrepreneurial dynasties in general.

As such, these countries are likely to have characteristics different to those countries without this shared history and may provide us with insights of the evolution of succession strategies.

3. Financial and non-financial aspects of transmission

Duality of family and business dimensions is present in the financial affairs of FBs, too. Csákné Filep & Karmazin (2016) found that the financial decisions in

FBs (especially SMEs) are affected by a duality of goals (see e.g. Davis & Harveston, 2001) rather than exclusively profitability, due to the simultaneous presence of family and business values and financial needs. In accordance with the social-emotional wealth (SEW) concept (Barrone et al., 2006), Hungarian family businesses, beyond their actual effectiveness, are guided by individual goals e.g. securing the family's standard of living, ensuring workplaces for family members, stability of operations, preservation of the company's and family's good reputation, and keeping the company's size at a level that the close family can control and manage (Csákné Filep, 2012). Zellweger (2017) found that family members insist on the survival of the firm even at the price of financial losses. Culture and long-term orientation of the family business significantly affect its financial decisions. As Basco et al. (2019:12) explain, "families imprint their particular culture by instilling a long-term vision in the business, providing low-cost of capital, and developing practices for reinvesting profit".

The emotional attachment of a founder to a business also explains family firms' refusal to opt for equity financing (Csákné Filep & Karmazin, 2016). Peters & Westerheide (2011) examined the financial behaviour of German family and non-family businesses. They found that family businesses are prepared to accept higher financing costs in order to preserve their financial independence and flexibility from external capital providers. This particularly applies to family businesses that are larger and generally more creditworthy (Peters & Westerheide, 2011 in: Csákné Filep & Karmazin, 2016).

Examining the financial specialties of family businesses, Csákné Filep (2012) found that Hungarian FBs follow a similar pattern as they are characterized by the desire to keep the family business ownership and management within the family, with a rejection of raising external (e.g., non-family) capital. It is worth to mention, however, that as average size of Hungarian family firm is significantly smaller than of German ones, thus they are less creditworthy.

4. Methodology

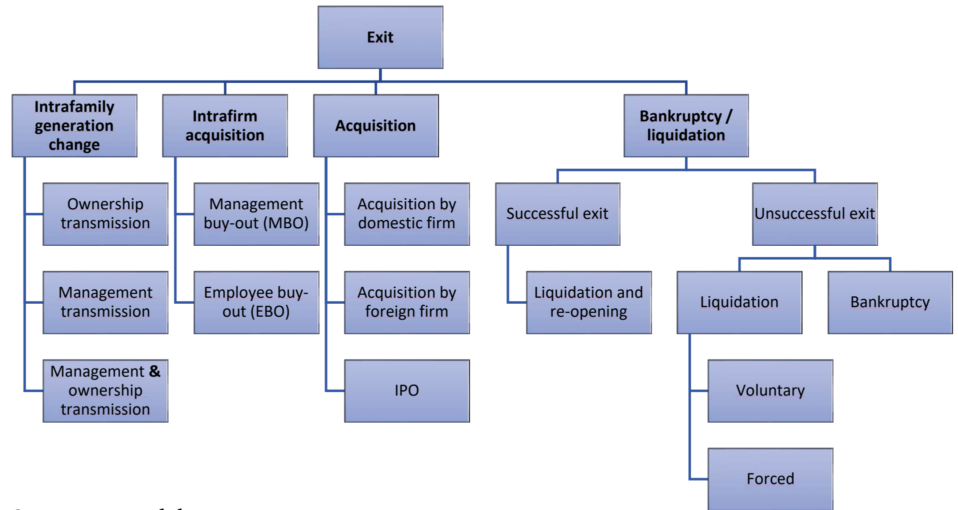
Via transmission, three elements are transferred from the predecessor to the next generation: (1) ownership control/power, (2) management responsibility and (3) competence/knowledge (Varamäki et al. 2003).

The successful transfer is one of the greatest challenges in a family firm. There is still little knowledge of the unique future strategies and succession outcomes of Hungarian family businesses in securing their long-term existence. To fill this research gap, this study contains a mixed method of quantitative analyses (e.g., in the case of an intrafamily business transfer) and a qualitative analysis (e.g., in the case of an IPO).

The aim of the research is to examine the potential exit strategies of Hungarian family firms. Based on the previously described historical similarities, it is important to emphasize that even if the study focuses on Hungary, its conclusions could be relevant and significantly true for other CEE countries (e.g., Czech Republic, Poland, Slovakia).

The potential exit strategies of family firms are summarized in Figure 1. The applied method and the sections to follow use this classification.

Figure 1.: Potential exit strategies of family businesses



Source: own elaboration

Potential exit strategies of family businesses differ at one point from the exit strategies of non-family businesses, in that the former strategy is that of intrafamily generation change. The head of the family business could decide on the transfer of ownership and/or management after the identification of the potential successor. In the case of intrafamily generation change, Hungarian responses to the international Successful Transgenerational Entrepreneurial Practices (STEP) research study were examined. The data collection took place between December 2018 and May 2019, in which 97 valid responses arrived from Hungary. The respondents are senior family members in leadership roles at family businesses. The sample design was based on random sampling procedure, where 71 responses arrived from 6000 email requests (1.48% response rate) sent to micro-, small- and medium-sized companies found in the BvD Amadeus database (based on the same family name found within the ownership structure of each firm, they are expected to be possible family businesses). In addition to random sampling, guided sampling method was also used, via 27 responses which arrived from the 450 requests (the response rate is 6%). Here, former respondents of the survey of Kása, Radácsi, Bakai & Filep (2017), the participants of a family business conference at Budapest Business School and the members of the Family Business Network Hungary (FBN-H) were addressed. Due to the guided sampling, medium-sized and larger companies are slightly over-represented.

Due to the lack of any statistical or survey data, intrafamily buy-outs are examined through the evaluation of solutions, the range of potentially affected family businesses and the factors supporting the choice of this exit strategy. This part of the study necessarily uses the descriptive method.

Mergers and acquisitions (M&As) are examined partly: since only larger transactions must be authorised, data on non-authorised deals are not available. Using these competition decisions of the Hungarian Competition Authority (abbrev. GVH) and another private-service finance database (e.g., "Ceginfo.hu"), the situation of generation change is described in the mentioned largest companies. These decisions are analysed with a focus on the change of shareholder structure.

In the case of intrafirm acquisitions, IPOs and bankruptcies, qualitative methodologies are used due to the lack of available data. Since some governmental measures attempt to facilitate successful exits of family businesses, a brief overview of these is provided.

Finally, no statistical data is available on the liquidation of family businesses. At the same time, based on the business demography statistics of the Hungarian Central Statistical Office and other sources, a general picture of the lifecycle and life span of Hungarian enterprises could be drawn. The results are compared to the findings of family business literature.

5. Intrafamily generation change

Researchers argue that transgenerational outlook is what distinguishes family control from other types of corporate control (Chua, Chrisman and Sharma, 1999). Transgenerational entrepreneurship is the "process through which a family uses and develops entrepreneurial mind-sets and family influenced capabilities to create new streams of entrepreneurial, financial and social value across generations" (Habbershon, Nordqvist and Zellweger, 2010, p. 1). Transgenerational family firms intend to keep control within the family. To successfully do so, at least one potential heir apparent is required. However, there must also be a willingness of the current generation in control to actually retire and of the heir apparent to want to take over the firm. Other extenuating conditions include current market circumstances and the importance of planning and timing. Additionally, the size and age of the company, and the complexity of the governance structure could also shape the succession plans of family firms.

It is not surprising that in post-socialist countries (e.g. the so-called V4 countries, namely the Czech Republic, Hungary, Poland and Slovakia), where the first generation-change is actively taking place, the most preferred succession option is the intrafamily transfer of the business. Weiszt et al. (2021) found that 83.5% of Hungarian family firm owners plan to keep both leadership and ownership within the family. The intent to keep the family in control is so strong that only 12% of them could imagine a non-family leader in the future and only 2.9% of them plan to sell the ownership rights of the firm.

The reality however is more nuanced – and often darker. More than half of all family firms fail in the game of generation change (Ward, 2004), with some statistics showing that only 10% survive until the third generation (KPMG, 2015). Even those who do so could go through significant changes within their ownership and management structures.

Failing to plan leads to planning to fail, according to Poutziouris (2001) and a PwC Global Family Business Survey (2016). They claim that the lack of planning is the main reason behind an unsuccessful family business succession. Kása et al. (2017) found that 50% of Hungarian family firms have no succession strategy at all. In contrast, for multi-generational family firms, long-term planning turned out to be significantly more relevant, as 69% of them took steps to insure their survival to some extent. However, more then one-fourth of them (27.2%) had no one to whom to pass on ownership and leadership in reality. In such cases, the lack of a family member capable of taking over the firm could possibly mean that, with the retirement of the founder, the family firm needs to wind up its activities.

Although intrafamily succession is an obvious strategy to continue a family business, the role of planning is essential for the survival of a firm. Planning refers on the one hand to the retirement plans of the senior leader, and in parallel, to the planning of the succession process itself. In the case of Hungary, based on STEP data, 60% of the respondents have a retirement plan. This figure is significantly higher than the global (47%) or the European (41%) averages. At the same time, only 37% have a formal plan for the succession itself. Considering that 50% of senior Hungarian family business leaders will reach retirement age in 10 years, their preparedness seems to be at a rather low level (even leaders having a chosen successor are usually older). However, due to the lack of sample representativeness, these statements cannot be statistically verified. According to the literature, both the existence of goals for retirement and trust in a potential successor have positive effects on retirement and succession planning (Gagné et al., 2011). Based on STEP project 2019 results, 63% of Hungarian family business executives and 57% of non-executives (all of them are senior family members and are in leading roles) believe that intrafamily business transfer is most likely.

The majority (80%) of the sample belongs to first-generation family businesses. A significant portion of these companies were founded in the early 1990s, in the years after the fall of communism. The founders of these companies are starting to reach retirement age, meaning a generation change is underway. Nevertheless, the low proportion of second-generation businesses may be explained by the young age of the Hungarian capitalist economy and by the failures of those generation changes that have taken place since 1990.

Based on the 2019 STEP research data, 88% of the chosen Hungarian successors are family members. This is very close to the European and global averages. It is particularly interesting that Germany stands out regarding non-family successors, which might be partly explained by the larger company sizes and the complexity of multi-generational operations there. Based on the local practice, intrafamily succession is particularly preferred among family firms in the agriculture and food industry, where winemakers perform with outstanding success. Here, the fact should be added that the laws governing inheritance also drive the planning of succession toward this direction.

In the selection process, 50% of Hungarian family business leaders decide based on the interests of the potential successor, while only a quarter of these successors are actually selected on the basis of their qualifications. This characteristic significantly differs from international practice, where qualification is the main argument in the selection process, as the STEP 2019 national report clarified (Mosolygó-Kiss & Szennay, 2019a) The rest of the respondents chose another main aspect (birth order, board decision, or other reason, each up to 5-10%) of decision-making. The importance of business interest in the selection process may be explained by the fact that the average size of firms in Hungary is relatively small and that only a small number of enterprises is competitive internationally (KSH, 2019b). This fact could be manifested in that the succession of family businesses is a less attractive carrier option for many potential successors.

To meet unexpected succession needs, entrepreneurs are slightly more prepared. More than half of the businesses have an emergency plan for any unexpected situation that might occur, such as an accident, illness, or death that would affect the ability of the executive to lead the family business.

In the meantime, the high share of executives over the age of 60 and the low share of executives under the age of 30 warns of a lack of succession planning and the absence or difficulty of succession at the same time. Although the next generation may be the source of strategic and organizational renewal and the driving source of innovative solutions and market growth (Németh, 2017), unpreparedness could obviously threaten the survival of the firm and its competitiveness.

When it comes to the question of ownership transfer, legal and financial aspects should also be considered. Intrafamily succession is rather supported by the regulatory environment. Inheritance between close family members (e.g., between parents and children) is regulated in detail by the Civil Code with clear conditions, leading to relatively quick succession with low additional costs. However, as a successor in a Hungarian STEP research case study states, "if the predecessor wants something different from the Civil Code, e.g. not the equal division of assets, then it has to be done during his lifetime" (Mosolygó-Kiss & Szennay, 2019b).

Restructuring of business ownership within the family is fuelled by favourable tax rules. Whichever structure the founder chooses, there is great flexibility in controlling both the founder's retirement and the successors' entitlement.

Intrafamily business transfer is not the only possible (and not necessarily the most optimal) solution for companies of different sizes to continue the family business after the predecessor's retirement.

It should be noted here that there were respondents who stated that their family businesses belonged to the third or more generation in a row. Regarding historical circumstances, this statement might need further explanation. By observing family traditions, Mosolygó-Kiss et al. (2018) found that many former entrepreneurs had created special narratives and social constructions for themselves that had helped them to remember and survive in countries once part of the Warsaw Pact, where de jure and de facto ownership and management of the businesses were violently separated from the families for long decades. Reallocation of family business heritage had several forms in practice:

1) recalling of former owners as experts to their former companies, keeping some influence on the professional operation and strategy of the company.
2) Others worked as entrepreneurs while employed full-time elsewhere, too, but in the grey zone (not accepted, but to some extent tolerated by the government).
3) keeping traditions in the shared stories of the family.
4) fleeing abroad and sometimes continuing family business traditions. (Only a few of them returned to Hungary after the regime change.)

As Mosolygó-Kiss et al. (2018) suggest, if any of the above mentioned scenarios happened at a FB, it may consider to integrate it into its identity, irrespective of the discontinuity of their registered firm. Through this act and mindset, they represent a stability of values in the distracted historical times, and strengthen family resilience.

6. Intrafirm acquisitions

Passing the family business to the current management or other employees can also ensure the continuous operation of the family business after the predecessors' exit. This solution is likely to affect the owning family members' emotional attachment to the family business more favourably than other non-family exit options, since the continuity of operation and the stability of organizational culture are rather presumed. The largest barrier to any intrafirm acquisition is, however, the financial capabilities of the actors involved – while a management buy-out (MBO) is conceivable at a larger medium-sized enterprise which is managed (even partially) separately from the owners, employee buy-outs (EBO) may be taken into consideration at smaller businesses. Although the financial capabilities (e.g., own savings, loans) of current managers may be more significant, enterprise values are also higher, which sets a barrier for any potential deal. Leveraged buy-out provides a good option for both MBOs and EBOs, since future cash flows of the (well-managed) business can cover the repayments of a loan. It is important to emphasise that in this case (1) the firm is assumed to have significant and continuous growth opportunities; (2) efficiency reserves are assumed to be in the firm, but it qualifies the former activities of the management as well. An additional problem is that leveraged buy-outs need a financier capable of granting sufficient funds for the deal and that the firm's risk appetite accepts such deals.

There are no available data on the number and volume of MBOs and EBOs, nor any information about the affected family businesses. Based on the authors' professional experience, however, it is assumed that the number of such deals may be quite small. In order to facilitate generation change led MBOs or EBOs, a venture capital fund called Hiventures, part of the Hungarian Investment Bank (MFB) group, started a Generation Change Capital Scheme. The scheme provides equity financing for MBOs and management buy-ins for SMEs in Hungary, in order to support family business owners selling their shares. Given that the upper limit of equity financing is ca. EUR 1.6 million (HUF 500 million), as well as own funds and bank loans, this programme could be an appropriate exit option for some medium-sized companies. Due to the novelty of the programme, the participants and/or the number of interested companies is not yet known.

7. Acquisitions

7.1. Mergers and acquisitions

M&As are one of the most important types of corporate restructurings. In the first part of this chapter, we introduce the theoretical background of M&As, especially the types of M&As. In the second part, we publish the details and the results of our investigation.

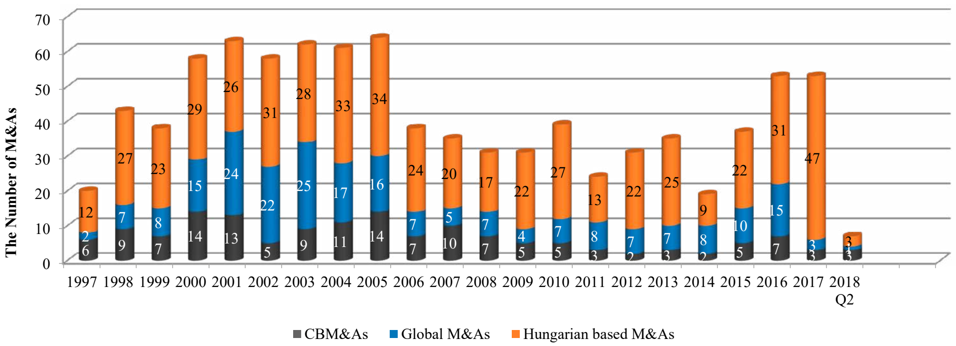
The types of M&A transactions are (1) the cross-border M&As, (2) the global M&As and (3) the management acquisitions. In case of a cross-border M&A a foreign based company acquire a Hungarian based company. In global M&As, two

foreign companies merge, or one acquires the other, which also have subsidiaries in Hungary. In the latter case, these subsidiaries are also involved in the merger, and a permission procedure must be implemented by the GVH. The majority of foreign acquisitions were carried out by German, Austrian and French companies (Kucséber, 2019). In case of management acquisitions, the acquiring company may purchase either the entire target company or only the majority shareholding, which means taking over the control in the target company. This offer an opportunity to improve the company's long-term performance, which is impossible when the entire company is purchased, given that the target company merges into the acquiring company and their shares are no longer traded.

Stakeholders have a significant influence on the decision-making process of M&A transactions (Ray 2010), while the important roles in strategic planning and implementation are played by the managers. Damodaran (2006, p. 898) came to a similar conclusion, stating: "the owners and the managers are the ones who can change the operation of the company, so its value, as well". In addition to privatisations and acquisitions, foreign companies are involved in green investments, as well. These include family-owned companies that managed a generation change, for example Schaeffler, a leading global high-tech company based in Germany, which operates a factory in Western Hungary: "Together with her son Georg F. W. Schaeffler, shareholder Maria-Elisabeth Schaeffler-Thumann is continuing the lifelong work of her husband Dr. Ing. h.c. Georg Schaeffler, who died in 1996" (schaeffler.com).

After the theoretical introduction, in the next part we introduce our own research in connection of Hungarian M&As driven by generation change. The investigation covers the period between 2013 and 2018 Q2 (see Figure 2), as the generation change has been present in recent years. 179 acquisitions occurred in this period, from which the acquired family firms were filtered out. Research in the public databases of Hungarian authorities covered the year of foundation, that of the acquisition, the sector in which the company operated, the name of the acquirer and the background of the shareholder structure (domestic or foreign), as well as the type of the transaction. The analysis of the ownership structure revealed eight family firms among the acquired companies in the period under review, but it should be emphasised that only the largest companies and their transactions were members of the investigated group, those that are subject to authorisation.

Figure 2.: The number of the permitted mergers and acquisitions in Hungary



Source: Kucséber (2019)

The database – elaborated by one of the authors – shows that (1) the FBs sold was established in the years of the regime change and (2) their owners have recently reached retirement age, since they were born between 1949 and 1955. As for the sector type, no common feature was identified, confirming that the generation change problem is present not only in certain sectors, but it is a national-level phenomenon. Half of the acquirers were foreign multinational firms, which suggest that foreign investors have found certain Hungarian (family) businesses to be attractive acquisition targets. These companies certainly would have wound up their activities without such (foreign) investors.

The majority of cases is management acquisition and there were only two instances that could be connected to the sales of only one fragment/department of the company. Although the company was forced to survive under new ownership, this result can be considered to be a positive outcome, given that the company persists. Finally, in this empirical part we tried to explain the potential causes of the sales of the family firms on the basis of public data. To that end, information was collected about family structure and the age of heirs. Investigation of the shareholder structure resulted in describing the following 4 types in the sequence of their occurrence:

1) Owner without heir in the shareholder structure – 1 company
2) Family with another 'outsider' owner – 2 companies
3) Siblings with one of the parents – 4 companies
4) 4. Siblings without parents – 1 company

The third type is obviously the most common case, so the following conclusion could be made: generation change was in progress, but it was interrupted because the family decided to sell the company.

Ages of the heirs (their children), who were born between 1970 and 1977, brings an additional perspective to the picture, as this data indicates that these are now middle-aged individuals, currently active on the labour market. Since these family firms are still operating, the reason of selling the company may be other than financial problem. Four plausible reasons may be for doing that are

1) change of market conditions (lack of growth opportunities on domestic and/or foreign markets, etc.),
2) appearance of operational and/or financial problem, such as in the case of FÉMKER, Sprinter or Acélbázis;
3) getting an offer hard to neglect, or even
4) personal issues (e.g., losing of interests, other professional qualifications).

7.2. Initial public offering

Initial public offering (IPO) may provide a suitable exit and/or capital raising option for some middle-sized enterprises, as it allows owners to retain family control over the firm through various instruments (e.g., majority ownership, management positions, or shareholders' agreements) while the shareholder structure is allowed to become more diverse. Furthermore, share distribution among family members may facilitate the succession process and support individual exits of family members. Thus, the exit of the entire family can be delayed for an extended time. Nevertheless, listing on a stock exchange results in a significant additional administrative burden due to the greater transparency required and the more sophisticated corporate governance schemes this requires.The Budapest Stock Exchange (BÉT) was acquired by the Hungarian National Bank in December 2015. The five-year strategy of the Stock Exchange was carried out immediately following its acquisition, between 2016 and 2020. One of the goals of the strategy was to increase the presence of SMEs on the capital market, setting a target of 30 SME IPOs by the end of 2020 (BÉT, 2016). Since additional administrative burden and costs of public operations may be high for medium-sized enterprises in relation to their size, the Stock Exchange has created a new market segment, called Xtend, to meet these needs. A venture capital fund (National Stock Exchange Development Fund [NTfA]) was also established to facilitate IPOs. Since the expected risk of publicly traded SMEs is higher than that of larger corporations, their expected return should be also higher. To mitigate risks, the Stock Exchange established some risk mitigation measurements, such as (1) SMEs on the Xtend market have a market-appointed consultant; (2) all listed corporations are supervised; (3) a higher degree of transparency and reporting are expected.

Requirements of the Xtend market are simpler than those for the standard category. First, for IPOs with total issue value of less than EUR 5 million, an information document is sufficient instead of a stock exchange prospectus approved by the Hungarian National Bank. Second, reporting based on local GAAP standards are sufficient instead of IFRS. Furthermore, to ensure a higher level of transparency, it is expected to publish (1) financial reports on each half year, (2) responsible corporate governance reports and (3) any other information that may materially affect share price.

Nevertheless, only a few SMEs issued shares on the SME market as of October of 2021, meaning that the dedicated SME market has failed to reach the targeted 30 IPOs. Another remarkable aspect is that, although family relationship among the shareholders is presumed in the case of one of the new SME issuers, none of them describes themselves as a family business. In other words, even a simplified listing option cannot be considered as an attractive exit option for family businesses in Hungary.

8. Bankruptcy / liquidation

The Hungarian Central Statistical Office (KSH) provides an overview of the demographic conditions of Hungarian enterprises. Since family business is not defined by the statistical data collection, any divergent trends of family businesses within the business demographic data cannot be distinguished (Kása et al., 2017).

According to the published data, 351 thousand companies operated in Hungary in 2017. The Limited Liability Company is the most popular company form (70.5%), while the proportion of partnership companies is only 25.4%. The share of other company forms is negligible. It is remarkable that a vast majority of businesses are small enterprises with less than 50 employees, while the proportion of medium-sized enterprises is 0.7% (KSH, 2019). The high proportion of limited liability companies seems to indicate a low level of social trust. The fact that 85% of partnership companies operate in the less capital-intensive service sector also leads to this conclusion.

The five-year survival rate of companies has improved significantly since the global financial crisis – the latest data shows that 40% of businesses founded in 2012 were operating in 2017, while this figure was only 37% in the case of firms founded during the crisis. Aside from the improving trends, the five-year survival rate of companies was about 44% before the crisis. Companies are featured by a more favourable survival rate (43.3%) – 44.3% of limited liability companies and 42.9% of corporations survive their first five business years. This figure is much worse in the case of partnership companies and sole traders (29 and 35%, respectively) (KSH, 2019).

Both international literature (e.g., Miller et al., 2003, Zahra, 2005, Naldi et al., 2007, Leach, 2009, Wang & Poutziouris, 2010, Zahra, 2018) and the authors' professional experience about Hungarian family businesses suggest that family

businesses are more risk-avoiding and have a longer-term vision than non-family businesses. This is supported by the fact that according to Hungarian business analysts, 75% of family businesses are more reliable, while another 15 percent can be considered as highly reliable, compared to the average Hungarian company (Pénzcentrum, 2016). Therefore, the average survival rate of family businesses is expected to be significantly higher than average. Data of STEP research 2019 shows that the average age of the responding Hungarian family firms is 21 years, which is significantly lower than the average 45 years for global family firm. This discrepancy could be largely explained by the relatively recent appearance of capitalism in Hungary. Detailed analysis of the exact survival rates of family businesses and relevant trends in Hungary, however, calls for the development of a statistical data collection system.

9. Discussion

Generation change is a burning issue worldwide, causing the demise of more than 50% of family firms. The context of Hungary is distinct and worth deeper investigation, for at least two reasons. First, there is a mass generation change going on at the mainly first-generation family firms, and this is occurring without precedent or the guidance which comes from experience. In Hungary, founders establishing their businesses post-1989 are reaching retirement age and need to plan and execute their exits now. Second, so far, deeper investigation of their exit strategies, retirement and succession plans has not been carried out, and this paper aims to fill this research gap. The focus of this paper highlights the ownership transfer of Hungarian family firms. The novelty of the paper is the overview of the potential, desired and realistic exit strategies of Hungarian first-generation predecessors, while analysing their historical, legislative and financial environment, as well as existing examples and supporting initiatives. The results of the paper could help researchers to understand the current situation, with its potential threats and opportunities – both for decision-makers and practitioners.

In Hungary, based on our recent research in the STEP project, the average age of the family business leader is 51.2 years, which is quite high, but still reflects the world average and could partly be explained by Hungary's aging society. However, the two sides of the age pyramid point to a dangerous tendency, while more than one fourth of family business CEOs are above 60, and respondents under 30 are missing. This means, on the one hand, that many CEOs are unable to retire even if their retirement plans or age would warrant doing so, and on the other hand, that there is a lack of motivated, committed, competent, or even desired successors, to serve as driving forces for change. This gap in experience is worrisome. While

88% of Hungarian predecessors plan to keep control of the company within the family, it seems that most of family firms are not attractive enough, even for their potential intrafamily successors. For a successful generation change, both trust in a potential successor and a systematically realized retirement plan is crucial. According to international statistics, the proportion of companies that survive the change of generation is between 30-50%. Micro- and small firms are the most threatened, as they are usually not attractive enough for outsider buyers, either.

At middle- and larger-sized companies, the complexity of their operation and financial needs could justify the involvement of outside-family ownership solutions. At family businesses, the authorized mergers or acquisitions – i.e. transactions of enterprises with an annual turnover above HUF 500 million – approved by the Hungarian Competition Authority have taken place only eight times between 2013 and 2018. M&As are only an available option for the few larger and more attractive companies. Intra-firm acquisitions by the management or employees could offer an alternative solution for middle-sized companies as well. Generation Change Capital Scheme provides equity financing for MBOs and management buy-ins for SMEs in Hungary, to support family business owners selling their shares. Due to the novelty of the programme, its success is not known yet. IPOs could also offer an alternative solution from mid-size at the SME market segment of the Budapest Stock Exchange (called Xtend), but according to the results of this study, even a simplified listing is not an attractive exit option enough for family businesses in Hungary.

Due to the complexity of the topic, each of the strategies presented would deserve a detailed, separate analysis in a future research. Conducting interviews with family business owners could be used to gather detailed information about strategies for which there is no widely available, public data. The results of these interviews at companies at a later stage that have been family-owned for generations, could be presented in multiple case studies and incorporated into the current result system. By analysing each strategy thoroughly at industry or organizational level, more specific suggestions could arise for the transfer. Expanding the focus of the research to CEE countries, there would be space for the comparison of the exit and succession strategies of family businesses in different post-socialist countries. These countries have a shared history of interruption at private ownership in and for the second half of the 20th century. However, an international research team would be essential, as the significant part of the available sources are available only in the local languages.

Based on our current analyses, only a little proportion of Hungarian family businesses could take advantage of the opportunity to get involved in alternative ownership transfers outside the family. Thus, with the retirement of the CEO, and in the absence of a successor within the family, a significant number of companies facing generation change are expected to close. While it takes several years

of preparation for succession, the role of forward-looking planning is a key for successful generation change.

Restructuring of business ownership is fuelled by favourable tax rules with a variety of financial and legal tools supporting processors in the process of ownership transfer in case of intrafamily succession. Whichever structure the founder chooses, there is great flexibility in controlling both the founder's retirement and the successors' entitlement.

It seems that the environment is supporting enough for the generation change, and now, family business owners need to take the challenge. Since conscious family business owners are overrepresented in STEP research due to the nature of the data collection method, and 50% of Hungarian family business leaders reach the retirement age in 10 years and only one third of them have a retirement plan, the preparedness of family business leaders for succession is rather low.

Planning also refers to the selection and preparation of the successor, as the succession process takes years, even the identity of the successor is known. This paper did not focus on the management transfer challenges, but from STEP 2019 data, it is known that 88% of the respondents plan to transfer management within the family and only 12% could imagine a non-family member at the top of the family business. This is a significant difference compared to e.g. German respondents, where more than 1/3 of the family business leaders plan to have a non-family member at the top. The different perspectives could partly be explained by the greater business size and the complexity of the multi-generational operation. The next switch from the second to the third generation is expected to bring a change in the mind-set of the Hungarian family business leaders, with a rising emphasis of knowledge and competency in the selection process.

Based on the research data, most of the family business owners prefer to keep both the ownership and leadership within the family. In case of smaller firms, this is easy to explain. Usually there is no other realistic option, as in most of the cases, the small-sized companies are not transparent, nor attractive enough for outside investors (often, not even for intrafamily successors either). What might be more surprising, is that even owners of larger, competitive companies share these preferences that cannot be explained by pure financial reasons. Financially, the decision to keep ownership and leadership within the family is rather irrational, especially with the growing size and age of the company. A whole research area aroused to examine the non-financial factors at family businesses. This is the so-called social-emotional wealth that seems to be one of the most important distinctive characteristics of family firms compared to non-family firms, explaining how they take risks and make strategic decisions. That is why an exact ranking of the possible exit options would need to take into account the weighted measures of both the financial and non-financial factors at family firms, that could vary based on several data (e.g. size and age). A company evaluation and succession planning together with key stakeholders and outside professionals started years before the succession is highly recommended, as it significantly raises the survival rate of family firms and also the possible outcome of the successful and satisfying transfer of the family firms, in case of all kinds of exit options.

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