

## Family businesses in Hungary

### Dr. Antal Szabó

UN ret. Regional Adviser  
Scientific Director of ERENET  
E-mail: erenet.hu@gmail.com

#### *Abstract*

*The importance of a family can not be substituted by anything else, the family in the society is indispensable. There does not exist an official definition of family businesses or related term in Hungary. So far in Hungary we do not have any official report about the role and economic weight of the family business sector. After the WW II the former flourishing family businesses were simply beheaded;. the former owners were deported, event false charged, strew into jail or forced to emigrate. The paper present the history of family businesses in nutshell, present definition of family business by the European Commission, highlights the story of the oldest family business: the Zwack co. in Hungary. It summarizes the process of creation of the private businesses in Hungary including the family ones. It presents the dilemmas in succession the business. Last but not least it present a few positive family businesses as role models.*

#### *Keywords:*

*family businesses, success factors for family businesses, business transfer and succession.*

#### Motto:

*"If the family is in good shape, then the company picks up. If the company is in good shape, then the family picks up. So it's like two wheels going together."*

William O'Hara

*"If a family business works well, it is better to any other company, if it works wrong, it is worst for eveyone."*

Tamás Kürti

## 1 History in nutshell

“Before the multinational corporation, there was family business,” writes William O’Hara in *Centuries of Success*. “Before the Industrial Revolution, there was family business. Before the enlightenment of Greece and the empire of Rome, there was family business.” In case you’re wondering, The oldest currently functioning, continuously family-owned firm is Osaka Japan’s Kongo Gumi, founded in 578 A.D. and now in its 40th generation! 1

The case is about the Osaka, Japan-based construction company Kongo Gumi Co. (Kongo Gumi), which was regarded as the world's oldest continuously operating family-owned business till the end of 2005. In January 2006, the company was liquidated and became a wholly-owned subsidiary of Takamatsu Construction Group Co Ltd. Kongo Gumi, which was run by the Kongo family and was believed to have been operating continuously since 578, had been engaged in the construction of Buddhist temples since its inception. In more recent times, it had diversified into general construction works as well. As of early 2009, Kongo Gumi operated as a wholly-owned subsidiary of Takamatsu and the new management had brought it back into profits. The company had reported a profit of ¥20 million in its first year of operation under the new management...2

Hoshi Ryokan is the oldest hot water spring and hotel according to the Guinness record. It was founded in 718 and today it is managed by the 46th generation. 3 According to legend, the god of Mount Hakusan visited Taicho Daishi, a Buddhist priest, telling him to uncover an underground hot spring in a nearby Awazu village. The hot spring was found, and the priest requested that his disciple, a woodcutter’s son named Garyo Saskiri, build and run a spa on the site. His family, known as Hoshi, have run a hotel in Komatsu ever since; the current structure houses 450 people in 100 rooms. Zengoro Hoshi is the current patriarch.

In Europe among the many hundred reputable firms I would like to mention the Antinori family, wine-makers based in Tuscany and Umbria who stand out from the countless Italian wine-makers for two reasons. 4 First, the family has been making great Chianti and Orvieto wines for 26 generations, dating back to 1385. Second, for the first time in the company’s history, the people who are poised to take over the family business are women. Since the current owner: Marchese Piero

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1 William T. O’Hara, Adams -Centuries of Success: Lessons from the World’s Most Enduring Family Businesses, Media, 2004

2 Kongo Gumi: Lessons from the Legendary Family-Owned Business' Longevity and Ultimate Demise. <http://www.icmrindia.org/casestudies/catalogue/Business%20Strategy/BSTR316.htm>

3 [http://www.ho-shi.co.jp/jiten/Houshi\\_E/home.htm](http://www.ho-shi.co.jp/jiten/Houshi_E/home.htm)

4 <http://www.antinori.it/eng/index.php>

Antinori, had no sons, his three daughters took over this incredible family business. 5

In 1790, the first Zwack, Royal Physicial offered to Joseph II, the Habsburg emperor a dark brown bittersweet liquor distilled by nearly 40 different herb. "Das is ein Unikum!" shouted the emperor according to family legend, giving its name to one of the most popular drink in Hungary synonymous to the Barack Pálinka - eau-de-vie of apricot from countryside of Kecskemét. That was one of the best marketing tricks in the word, when an emperor gave a name to a products. In 1840, József Zwack, the descendent of the royal physician in his age of 20 years established the first factory in the Morocco playground in Pest named Zwack J. and Partner. The first trademark call "My Treasure liqueur" was registered in 1881. The name Unicum was registered in 1883 and that time it has a characteristic globe with red cross on white basis. 6 Probably the most famous advertisement for the Unicum, is the poster of a wet haired man swimming in deep water who cheers up by the sight of the floating traditional ball-shaped bottle. By 1890 the territory of the factory became to small and it moved to the Danube-side of the Ferencváros called Soroksári road, which are the Zwack premises up to now. In 1894, in the heat of preparation for the Millennium comes the tragic news on the dead of voluntary hermit, Lajos Kossuth from Turin. The factory from this moment switches over to the dark green globe bottle.

In 1915, József's son, Lajos, took over the factory and left it to his two sons, Béla and János, upon his death. In this year, Sándor Bortnyik has created one of the most famous and popular poster for Zwack Unicum: a shipwrecked guy happy to find a bottle of Zwack Unicum in the stormy sea. Lajos was a leading capitalist in the years of Hungary's Belle Époque, a real philanthropist.

During the WW II the factory was hit by a bomb, however the distillery equipment remained intact, those the production could continued following the war. In 1946, the new democratic Government introduced the new Hungarian currency called Forint, and in the popular satirical journal *Ludas Matyi* the wet haired man splashed in the water holing the coin of the new Forint in his hand. However, in 1948, the newly instated Communist Government confiscated the factory possessed with no compensation and the Zwack family was forced to escape to foreign parts. János Zwack fled to Vienna sitting on his shooting stick under an upturned barrel with the Unicum recipe in this breast pocket, having bribed a Russian driver to take him across the border. Péter Zwack took a train to the Yugoslav border. Béla Zwack decided to remain in Hungary, however, he was deported, together with thousand of other "class enemies", to follow the

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5 Antinori Family of Florence: 600 Years of Winemaking. <http://www.italylogue.com/about-italy/antinori-family-of-florence-600-years-of-winemaking.html>

6 Zwack Unicum, hvg.hu, 2005. március 25, <http://hvg.hu/magyarmarka/20050325zwack>

Hungarian nightmare on the Great Hungarian Plain. 7 In the era of socialism the production of the Zwack Unicum was launched based on a false recipe.

In 1958, János Zwack took legal action against the Hungarian Government and in consequence of the US verdict of guilty it was prohibited to export the false Unicum to West. In 1970, Péter Zwack returned to Europe. By this time the Unicum was already successfully marketed and distributed in Italy. Due to the change of political situation in Eastern-Europe, Péter started to receive overtures from Hungary inviting him to return and take over the running of his old family factory. In 1987 - two years prior the collapse of the Soviet block - he took the risk and returned home together with his family. At beginning he entered a Joint Venture with the Hungarian State. In 1991, within the framework of the Hungarian privatization program the Péter Zwack & Consorten AG purchased the Budapest Liqueur State-owned property incorporating thirteen factories 1,300 employees. In 1992, the company transformed into a shareholding one and he became up to now its President. 8

Péter Zwack has seven children, of whome two - as representing the sixth generation - are actively involved in the company. Sándor Zwack, born in 1974, is on the Board of Directors and is responsible for the top premium imported brands and for the prize-winning Zwack Nemes - nobel - Pálinkás produced at the distillery in Kecskemét. Izabella Zwack is in charge of the newly created wine division at Zwack Unicum, which distribute leading Hungarian wines as well as importing wine from all over the world. She own a winery in Tokay, the legendary wine-making region in Northen-East Hungary. In 2008, Péter Zwack transfered the baton to his son: Sándor appointing him as President of the Board of Directors. Péter remains as eternal honorable President.

### **SUCCESS FACTORS IN THE ZWACK FAMILY BUSINESS<sup>9</sup>**

#### **1. Family motto: the past obliges to the present".**

**We have lived through the past as hard times. We always wanted to be better than those who lived before us. However the things are rooted in the past, which provide the keys of the future"**

2. A family business can only work well if the family works well, when the family and business interests meet. Generally speaking, family businesses are agile, thanks to their internal drive motor, such as passion, responsibility, trust, and not

7 Zwack History. II. World War, <http://www.zwack.hu/worldwar.php>

8 Zwack History. Returned to Europe, <http://www.zwack.hu/europe.php>

9 Kertész Dalma: Zwack Izabella egy családi vállalkozás generációs kihívásairól (Generation challenges of a family business), HR Portal, 10. November 2011. <http://www.hrportal.hu/hr/zwack-izabella-egy-csaladi-vallalkozas-generacios-kihivasairol-20111109.html>

least the long-term thinking.

3. A man easier finds purpose in life, working in a family business on a contrast with the multinational companies, where everything depends on whether it could reach a few percent increase in performance in the given year. A family business is also much to survive, because the goal is not only about the money. What is important is that people believe in something, be proud of, especially when even the name it bears. The intrinsic motivation starting from the boss for all employees means plus value.

4. An important virtue of the family business is that it is deeply integrated into the environment in which they operate, and because it depends on it, is in their interests to do something for him too.

5. A family business should always wear two hats: one for survival, the other one for the future. The question for me is not that where I'll be five years from now, but where I will be in 50 or 100 years.

*Izabella Zwack became the Member of the Board of Director with her brother in 2008. She represents the 6th generation of the Zwack family.*

## 2 Comparison of us and EU family businesses

In 1991, the Small Business Administration published a report prepared by Prof. Nancy Bowman-Upton, Director of the Institute for Family Business at the Hankamer School of Business. In this report there is a very strong statement, that 90% of all American businesses are family-owned ones. One third of the Fortuna 500 firms are also family-based businesses. It is estimated, that half of the Gross National Products - GNP - and half of the total wages paid is generated by the family businesses. 10

According to the Laid Norton Tryee 11 "family business in the heart and soul of the American Dream". Their Family Business Survey 2007 is a unique challenges presenting the role of the family businesses paid in the whole US economy. Nearly 800 senior leaders of familyowned businesses throughout the country provided views about the current state of their businesses, the unique challenges created by owning a family enterprise, and their outlook for the future. Family-owned businesses generate approximately 64% of America's GNP. Nearly 60% of

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10 US Small Business Administration: Transferring Management in the Family-owned Businesses, [http://hudson.sba.gov/idc/groups/public/documents/sba\\_homepage/serv\\_sbp\\_exit.pdf](http://hudson.sba.gov/idc/groups/public/documents/sba_homepage/serv_sbp_exit.pdf)

11 Founded in 1855, Laird Norton Company (LNC) was founded in 1855. It is a seventh generation, family-owned business with Headquarters in Seattle, Washington

majority shareowners in family businesses are 55 or older. Nearly 30% are 65 or older. Succession of leadership will be a pivotal point in these companies' futures, yet less than 30% of our respondents have succession plans, and fewer than 40% have a successor in line and preparing for the transition. <sup>12</sup>

According to European Family Businesses- GEEF- family businesses in Europe represent:

- Over 1 trillion euros in aggregated turnover
- 2.9% of the European Union's GDP and
- More than 5 million jobs. <sup>13</sup>

If we compare this number with the 130 million people employed by the SME-sector in the EU-27, that this number is extremely low. However, the European Commission states, that 20-60% of all European companies are considered as family businesses.

Family businesses in Europe cover a vast range of firms in different sectors and of different sizes. Specialised literature clearly shows that "there is not a single definition of "family business" which is exclusively applied to every conceivable area, such as to public and policy discussions, to legal regulations, as an eligibility criterion for support services, and to the provision of statistical data and academic research".<sup>14</sup>

Experts believe that a definition of a "family business" needs to be adopted and introduced at the European level in order to facilitate collection of data and development of policies related to the specific characteristics and needs of this type of enterprises. It was mentioned in the recent EU Expert Group Report on Family Businesses too. <sup>15</sup>

There is general agreement on taking into consideration three essential elements: the family, the business, and ownership. After having analysed existing definitions, the expert group proposes the following definition: <sup>16</sup>

*A firm, of any size, is a family business, if:*

- 1) *The majority of decision-making rights is in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs.*

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<sup>12</sup> Laird Norton Tye Family Business Survey, Family to Family 2007, Oregon State University, [http://www.familybusinesssurvey.com/2007/pdfs/LNT\\_FamilyBusinessSurvey\\_2007.pdf](http://www.familybusinesssurvey.com/2007/pdfs/LNT_FamilyBusinessSurvey_2007.pdf)

<sup>13</sup> European Family Businesses - GEEF - Who we are? Leaflet, 2010, Brüssel

<sup>14</sup> KfW Forschung Austria: Overview of family business relevant issues, Vienna, 2008

<sup>15</sup> European Commission: Overview of family-business-relevant issues: research, networks, policy measures and existing studies, November 2009, Brussels

<sup>16</sup> *ibid*

- 2) *The majority of decision-making rights are indirect or direct.*
- 3) *At least one representative of the family or kin is formally involved in the governance of the firm.*
- 4) *Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 percent of the decision-making rights mandated by their share capital.*

The group recommends to explore opportunities to introduce this definition at national level. National Governments should consider to adopt measures to create a more favourable environment for family businesses, including the ease the taxation, simplification the company law and improve the education system. It is advisable to establish a specific family business contact point in national administration.

The European Commission estimates that during the next decaded every third company owner will retreat from his business. According to the report "Markets for Business Transfers" of the EU (May 2006), more than 700,000 SMEs providing more than 3 million jobs will have to be transferred to a new owner every year. Thousands of enterprises are at stake if the Commission do not prepare these transition with the right approach. This is why the Commission should consider as an important issue the legal framework of the succession, the simplification of the inheritance tax, introduction of tax allowances and support masures for the new owners. SMEs are not in a position to cope alone with all problems of inheritance and difficulties in connection with these.

The table below compares the main characteristics of the family businesses with non-family ones based on the research in the Netherlands by Thomassen (2007)

<b>Family businesses</b>	<b>Non-family Businesses</b>
The purpose is continuity	The purpose is maximizing near-term share price
The goal is to preserv the assets and reputation of the firm	The goal is to meet institutional investor expectation
The fundamental belief is that the first priority is to protect downside risk	The fundamental belief is that more risk promises more return
The strategic orientation is adaptation	The strategic orientation is constant growth
The most important stakeholders are customers and employees	The most important stakeholders are shareholders and management
The management focus is continuous incremental improvement	The management focus is innovation
The business is seen as a social institution	The business is seen as a disposable asset

Leadership is stewardship
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Leadership is personal charisma
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### 3 Family businesses in Hungary

In Hungary - due to the specific historical development - the creation of the private entrepreneurship became possible only after the change of political and economic regime. Following the WW II, in the era of Soviet influence, the companies were nationalized - in 1948 all enterprises with employees over 100 and in December the remaining small companies with employees more than 10 people - , the former owners were deported, event false charged, strew into jail or forced to emigrate. The former flourishing family businesses were simply beheaded.

The main features of the private businesses during the socialism were that they depended on the bureaucracy, its individual and discretionary decisions, and operated only according to the actual ideology. The fundament of the basic ideology was to avoid the capitalization, capital accumulation and creation of property. During the socialism only a small number of private businesses could operated basically in the service sector, like hairdressers, cosmetics, pedicures, plumbers, and similar entrepreneurs. Since 1977 started the era of economic liberalization allowing changing the institutions of the civil legal society. This ended in the adaptation of the Law No. VI on Economic Companies in 1988. In 1980, three mathematicians without individual permission process created a private business for trade of softwares developed by themselves. This launched an avalanche in the country. By 1985, more that 30,000 private enterprises were established. 17

By 1988-89, the Central-European socialist economic system collapsed and in 1991, the Sovietunion has been disintegrated.

In Hungary, the newly elected Parliament and the winning parties started to break down the state property at a rapid pace and launched the privatization of the state property. New competition has been born similar to the socialist brigade movement: "Privatize more today than yesterday!" The often ill-advised denationalization induced enormouse tensions and in the consequence of the liquidation of state-owned companies thousands of people were dismissed. Although, once the political risks of creation of private enterprises have ceased to, instead of economic growth the markets started a narrowing and the multinational capital strangled the majority of the well-functioning indigenouse enterpises.

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17 rign magazin. Magánvállalkozás a szocializmusban (Private Enterprises in the Socialism), 2 December 2007, [http://archiv.ringmagazin.hu/index.php?option=com\\_content&view=article&id=2245&catid=90&Itemid=72](http://archiv.ringmagazin.hu/index.php?option=com_content&view=article&id=2245&catid=90&Itemid=72).  
Downloaded on 05.03.2012.



Following the political and economic changes in 1989, the number of business start-ups significantly increased. It was the consequence of three main factors:

first - increased unemployment rate due to liquidated and closed down state-owned enterprises;

second - streamlining the labour force at privatized enterprises; and

third - appearance and ambition of the Government demonstrating the wish to create a market oriented environment.

In result of the three consequences the only way out was the creation of the necessity/forced entrepreneurship including the establishment of family businesses. The appearance of entrepreneurship and self-employment was encouraged by the fact, that very slowly built up the institutional system for job seekers. In 1998, the year of the change of the regime the number of the private enterprises grew up to 29,000 and the number of the catering enterprises amounted at 10,000.

However, in the early years of the transition appeared also the wild capitalism taking illicit profit. Those, for example the socialist economic leaders and former secretaries of the communist party, who became the enthusiastic torchbearers of the capitalism.

There does not exist an official definition of family businesses or related term in Hungary. In general individual - one-person - enterprises and sole proprietors usually with family members can be considered as family businesses, however according to statistics there is no such kind of grouping. From the legal forms of partnerships the limited liability company and limited partnership are the most preferred by family businesses.

So far in Hungary we do not have any official report about the role and economic weight of the family business sector. The research of this sector is difficult to paraphrase and still does not exist independent research target. In 2008, the SEED Foundation for Small Enterprise development and the Central Statistical Office analysed the structure of the existing 1,233,704 domestic enterprises with the following result:

531,109 enterprises are collective ones, and

702,595 enterprises are individual ones.

In the research and statistical analyses no questions were raised concerning family businesses. According to the estimation half of the collective enterprises and 20-30 percent of the individual entrepreneurs can be considered as family businesses. That means there are 400,000 family businesses in Hungary employing nearly 1 million people. 18

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18 Horváth Anna: Tudatosság, fenntarthatóság, növekedés a családi vállalkozások gazdaságélénkítő és foglalkoztatási potenciálja (Consciousness, sustainability and growth: economic stimulus and employment)

"Without family businesses Hungary can not be either economically or socially successful" -stated Deputy Prime Minister Zsolt Semjén in April 2011 at the Family Business Bridges Conference held in Budapest. The importance of a family can not be substituted by anything else, the family in the society is indispensable. "If we want to build a normal society, for this the basis is to support the family." One of our major problems is the creation of fictitious businesses, which have no emotive affection and commitment to the owner of the enterprise in case, they only suck out the money and decide to take them bankrupt. Family businesses could provide guarantee against such criminal phenomenon, where the achievements of generations and prestige have been accumulated, current fiscal, political or other interest will those not risk or transfer the headquarters of the enterprise into an other geographical place of the world. The family businesses and enterprises have a greater guarantee for honesty and sustainability than any other ones. 19

The main advantages and disadvantages of the Hungarian family businesses are similar to the features mentioned in the international literature. 20 However, due to the fact that majority of them was not consciously established, they showed also several drawbacks not mentioned in the literature. Such as

- the work and private life becomes confused and blurred;
- often lacks the organizational structure;
- business problems sleep into the family life;
- due to overwork of the parents the undertakings are not becoming attractive for their children; and
- in the business administration the division of labour is unfair.

Family businesses are ready to employ others, because they work much, they are overloaded and they would need relieve from the load. They fill that because they become entrepreneurs due to their disadvantage situation, they are willing to help other, because they are sensitive to inequality of opportunity of others. However, they do not act in such manner, because they lack of managerial capabilities and knowledges, afraid of bureaucracy and severe labour legal proceedings. they afraid that they are not able to produce the high public taxes and could not contribute to the public incidents. 21

Often the members of the family businesses think only on making their own private labour force more rational, because they not intent to employ unknown

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potential of the family businesses). SEED Foundation, 11 September 2008, Budapest, [http://seed.hu/files/docs/Horvath\\_Anna.pdf](http://seed.hu/files/docs/Horvath_Anna.pdf). Downloaded on 05.03.2012.

19 Semjén: családi vállalkozások nélkül nem lehet sikeres Magyarország. (Hungary can not be successful without family businesses), Privatbankar.hu, [http://privatbankar.hu/kkv/semjen\\_a\\_csaladi\\_vallalkozasokat\\_vedeni\\_kell-235834](http://privatbankar.hu/kkv/semjen_a_csaladi_vallalkozasokat_vedeni_kell-235834), Downloaded on 07.03.2012.

20 Randel S. Carlock – John L. Ward: A családi vállalkozás stratégiai tervezése (Strategic planning of family businesses), Helikon Kiadó 2006.

21 SEED ibid. Downloaded on 05.03.2012.

persons in their businesses. In this cases those businesses are missing the capability of creation of an organization based on sharing the works and responsibilities. If the undertaking is only within the family, sooner or later it can lead to the obstacle of growth, because the business becomes the prisoner of the family.

According to European statistics family businesses are producing nearly 60 percent of the Gross National Products (GDP). Presumably the family businesses construct the backbone of the Hungarian enterprises too. László Rudas, President of the Public Utility Association of Responsible Family Businesses in Hungary (FBN-H), founder of the Rudas Holding and President of the Istenhegyi Public Clinic in Budapest estimates that the Hungarian family businesses and enterprises are producing 40-50 percent of the GDP. 22

#### **Dilemma of the Hungarian family businesses: issue of the succession**

Majority of the Hungarian entrepreneurs started their undertaking at the age of 30-40. This generation is today 50-60 years old and in the next decade we are facing a boom of inheritance. The half of the management of the Hungarian agrarian enterprises has turned 50-65 years and 20 percent already is in pension. The successful entrepreneurs created their businesses from nothing. In the meantime they could not deal with preparation of the successors. If they have children, they organized good schooling, however, the overwhelming majority not intent to continue the activity of their parents. There are only a few company like the **Master Good Kft** group of companies with headquarters in Kisvárda operated in Northern-East Hungary, which produces fodder of integration, raises and hatches poultry, processes and fattens boiler. The group of company is owned by the Bárány family. The successor continued his education abroad and in the meanwhile he continuously mastered the processes within the company and for him it was no question to follow in the footsteps of his father. In many family businesses the possible successor is bigheaded and despises his father's business or it keep to beneath and prefer to work abroad as an employee. This is why the succession may have a large explosion if the company without an appropriate successor can not continue its activities in the future. This would be a huge loss both for the economy as well as for the employment.

The generational transfer occurring in family businesses even in developed countries leads to serious crises. According the EU statistics half to two-third of family businesses bleeds to death. At best the companies will taking over by outsiders, which in case of bad management could lead to the total liquidation of the enterprise. In such cases the traditions and values which served the basis for family businesses are lost and in many cases the qualified staff is just gone. This is

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22 [origo] vállalkozói negyed: Készülnek a nagy generációváltásra a családi cégek (Family businesses are preparing to the big transfer of generation). 10 April 2011  
<http://vallalkozoi.negyed.hu/vnegyed/20110408-nagyon-szerencses-helyzetben-vannak-a-magyar-csaladi-vallakozok.html>. Downloaded on 06.03.2012.

why the ownership and management transfer should be one of the stressed issue and task, especially in the current European economic crises.

The preparation of the company inheritance is not only the task of the owner. In advanced market economies the company transfer has a serious past. Specialised consulting companies and organizations help in preparation of the transfer, the education of the possible successors and support the transfer process. In Central- and Eastern-Europe such kind of consulting companies are missing. In Hungary recently the **Family Business Academy** (Családi Vállalati Akadémia) was established (see below in details).

Taking into account that in advanced market economies family busienesses are the backbone of the economy, the succession is exempted to pay inheritance tax or imposed the lowest tax fee.<sup>23</sup>

Dr. Péter Gelléri, one of the most prominent expert in family businesses summarizes the problems in connection with company sussion as following: 24

- the Founder is not able to delegate the tasks;
- the prospective successors are not able to take over the delegated tasks;
- the successor neither in knowledge and skills, not in mentality are not prepared to take over the company management;
- bad relationship or no relationship at all with the possible successors (while running the business the owner had no time spent with the family to discussed the future);
- the Founder did not think to retire not at all; and
- the prospective successor has to cope not only with the task, but also with the family.

### **Public Utility Association of Responsible Family Businesses in Hungary (FBN-H)**

**The Family Business Network Hungary (FBN-H)** is a non-profit organization which was founded by responsible and successful Hungarian family businesses in

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23 In 2003, the Dutch Chamber of Commerce already developed a Business Transfer Toolkit. In 2005, the Dutch Ministry of Economy sent a letter to entrepreneurs of 55 years and older to ask their attention for timely business tranfer and indicated that they could order and information package. In total 32,000 packages were sent to entrepreneurs. The Dutch package had a speciality: it was suggested that business owner should take a rest every Friday and delegate the managerial task for the selected successor. Overview of Family Business Relevant Issues: Country Fiche Netherlands.  
[http://ec.europa.eu/enterprise/policies/sme/files/craft/family\\_business/doc/familybusiness\\_country\\_fiche\\_netherlands\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/files/craft/family_business/doc/familybusiness_country_fiche_netherlands_en.pdf). Downloaded on 07.03.2012.

24 fn24: Ebek harmincadjára juthat a cége? (Can your company go to the dogs?) 05.02.2010.  
[http://fn.hir24.hu/ceghirek/2010/02/05/cegorokles\\_buktatoi](http://fn.hir24.hu/ceghirek/2010/02/05/cegorokles_buktatoi), Downloaded on 07.03.2012.

November 2009. <sup>25</sup> The Association aims at helping enterprises to start and operate their businesses. In connection with this it collect information and materials supporting development of family businesses and create national culture in this field.

### **The goals of the Association**

- support and promotion of responsible family businesses and their operation in order to contribution to the wealth of families, enterprises and national culture by the materials and immaterials values accumulated by these companies and keeping the accumulated saving in Hungary in form of active capitals;
- the Association provides professional, integrational, educational and research support for creation of responsible family businesses, and promotes the cooperation, exchange of experiences and practices of responsible family businesses and enforcing their interests;
- the Association supports, promotes and integrates such kind of responsible family businesses, which aiming at strenghtening the social responsibility, provide and maintain new jobs, support development of social integration, introduce family business model, maintain these and develop them for the future generation;
- the Association mediates and chanelles foreign experiences and knowledges towards Hungary and participates in the activities of the The Family Business Network with headquarters in Lausanne <sup>26</sup> and similar other international organizations.

Nearly 50 members of the Association provide a total domestic sale of more than HUF 150 billion. The members of the Association employ more than 10,000 people and they are family-owned Hungarian enterprises with long track records and appropriate references. Kürt Co and high IT security provider, the Lipóti Bakery, the Master Good Group, the Zwack group, the Béres co the market leader in the production and distribution of health protection products, Symbol Budapest gastronomic, entertainment and cultural centre, the Szamos Marcipán the leading chocolate, marzipan and pastries producing and trading company, and the ThalesNano technology insentive company specialized and providing microscale flow instruments for chemistry - are members beside the other ones. These family businesses 80 percent of their profit invests back into their business.

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25 [http://www.fbn-h.eu/?page\\_id=6](http://www.fbn-h.eu/?page_id=6). Downloaded on 06.03.2012.

26 See <http://www.fbn-i.org/fbn/web.nsf>

The Association differentiates the family businesses in two categories:

- **Hungary Family Businesses - Top 100**

Companies with employees more than 50 persons with generated value added more than HUF 1 billion and with ownership from one family. In the enterprise management beside the owner at least one further family member has to participate.<sup>27</sup>

- **Hungary Family Businesses - Hot 500**

Companies with employees between 15 to 49 with generated value added between HUF 300 and 999 million with ownership from one family only. In the enterprise management beside the owner at least one further family member has to participate.

We distinguish family businesses consisting of enterprises with different profile. The basic feature is the family ownership. Every group of such enterprise has a flagship basically holding the name of the founder. Such companies are e.g. the Bérés Co., the Zwack Co., the Petrányi Car Ltd or the Jüllich Glas Co.

It is not sure that the largest companies are the most well-known in Hungary. However, probably everybody knows Marcipan company, Icsi Beautiful Herbs Ltd. and Kürt Co.

## 4 Positive role models

### Szamos Marcipan

The young Serbian boy Mladen Szavits - who inherited the tradition towards oriental sweets - grow up without a father in Szentendre in poverty was a confectionery students in the confectioner shop of József E. Auguszt in the Krisztina Boulevard. At the early 1930s, one day a Danish confectioner came to the company and showed how to prepare the marzipan pretty roses by appropriate manual skills from sugared almond mass. The apprentice learnt the lesson. Since than hundreds of hours, days and many years many hundreds of thousands marzipan roses were sold. He met a women - of course in the confectionery -, they had beautiful children and for today even their grandchildren are grows-ups, a decent son-in-law came to the house and learnt how to make roses. The Szamos marzipan company today employs more than 200 people in Pilisvörösvár and came into leaf by the Middle of the 1990s from that rose.

### Icsi beautiful Herbs Ltd

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27 FBN-H: A legnagyobb családi vállalkozások Magyarországon (The biggest family enterprises in Hungary)  
<http://www.fbn-h.eu/?cat=7> Downloaded on 06.03.2012.

This fantastic career was called to life since 1958 by the lack of cosmetics in the fifties and the professional ambition of Aunt Ilcsi. During the long and hard years in the beginning Aunt Ilcsi was helped by her love of nature and the knowledge of four foreign languages, as well as reading foreign professional press constantly, visiting unique international conferences and participating in many courses and professional sessions in Hungary and abroad. In 1984, backed by legal and economic changes the time had come to found Ilcsi Beautifying Herbs Ltd. as a family endeavour with Aunt Ilcsi and her son, Ferenc Molnár. Even today they work together with unbroken swing and so they managed to expand from the 28 products in the beginning to the 140 we have today. In 2005, the company introduced the MSZ EN ISO 9001:2001 quality management system for production and product development and in 2008 the Biokontroll Hungaria Non-Profit Co received the HU-ÖKO-01 organic plantation certification.

### **KÜRT Co**

The KÜRT family business started data recovery in the year 1989. A data storage unit fell on the floor in the Public Prosecutor's office. The incident brought severe headaches to all involved, except for suspects. We worked for 40 days, and eventually managed to restore data structure, and headaches returned to the suspects where they belonged. To solve the problem, at least half a dozen six individual professions had to be applied. Experts of precision mechanics, surgery, electronics, analogous data transfer technology, and from the world of software, connoisseurs of operating systems and applications had to work together to attain the goal. KÜRT has become internationally recognized and one of the leading companies in the field of data recovery. KÜRT's information security services are regularly sought after by principal organizations of the European economy

There are many marketleaders family background of them even the partners do not know. Such businesses are:

- the **Master Good** started with 5 persons in 1994 and today producing 100,000 boiler chicken per day and owning 25 percent of the country total market share.
- the **Renaissance Ltd** which has more than 60 years of history in quarrying, carving and installing stones. In 2008, Renaissance was awarded "the best stone company in Central-Europe" on the Verona Stone Fair. Today the company is a major construction firm in reconstruction of protected historical buildings like the Parliament, the St. Stephen's Basilica and the Matthias Church in Budapest.
- the **Electro Profi Ltd** has a history of 20 years, it was founded in 1988 as a private company. At the inception we were only hoping that with starting our business we have created the basis for a group of companies with the potential of expanding dynamically on the long term and having

a dominant market share. This family business is owned by two business ladies.

- the **Oázis Garden Centre** was established in 1987 by István Boros and his wife, Hedvig with a start-up capital of HUF 5,000 only. In 1988, they opened the first retail shop on 350m<sup>2</sup> in Budapest. In 1992, the Oázis Gardener Ltd was founded. By 2008 the nationwide network has been formed with ten garden centers, ensuring absolute first place for Oázis in the Hungarian ornamental plant market. The first foreign Oázis Gardens were opened in Slovakia, but we are planning, Romanian, Croatian and Serbian expansion. The founder of the franchise system, Oázis is planning to open more own property stores, mainly in the capital. Today the company sales of return amounts at HUF 1.5 billion already.

### **Family Business Academy (Családi Vállalati Akadémia) <sup>28</sup>**

The Family Business Academy (CSVA) is the first Hungarian consulting company dealing with research and education of family businesses and offering serviced for them. This institution was created a few years ago aiming at promotion of Hungarian and Central-European family businesses in challenges facing in succession following two decades after the transition. The President of the Academy is Dr. Péter Gellér, Presidential Counsellor of the Association FBN-H, founder of the Information and Knowledge-Management department at the Budapest Technical University and founder of other knowledge-based undertakings.

The Mission of the Academy can be summarized as following:

- family businesses as soon as possible have to know themselves;
- exploring and raising awareness towards succession by exploring the possible support means;
- establishing a professional culture - in university education by training experts in family businesses and launching family business oriented research - providing assistance in solving problems originating in operation of family businesses; and
- during the succession processes could provide effective counselling services. <sup>29</sup>

Services offered by the Family Business Academy are the following:

- Relationship management - Program for transfer of the practice in relations and its renewal,

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28 Családi Vállalati Akadémia - Utódlásban az első (First in succession). <http://www.csava.hu/> Downloaded on 07.03.2012.

29 Családi Vállalati Akadémia, <http://www.csava.hu/pages/page6.html#D2>. Downloaded on 07.03.2012.03.



- Succession monitoring - Monitoring the transfer of the managerial role and inheritance of the assets;
- Decision planning - Program for the transfer of knowledge and methods for development of decision capabilities;
- Council of actions - Focused discussion of pressing problems with specialist in various fields.

## **5 Suggestions for succession**

- Carefully look at the situation of the company including its perspective in the long-run, the up-to-dateness of the produced products or offered services compared with the competitors, analyze the technological capabilities and financial circumstances and strength.
- Write up the possible potential candidates for succession, look at their capabilities and their track records.
- Start conversations with possible candidates, get acquainted with their ideas for the future.
- Discuss the outline of the succession with the family members.
- If someone of our childrens are picked up for running the business in the future, and the person is motivated in this, we should planning organizing the schooling in domestic and foreign institution including the possibility for obtaining practical skills too.
- It is advisable to bring the possible candidate into the business to learn the the company operation and the employees, to get acquainted with the company set of values and later to get a managerial task in the part or filial of the family business.
- If necessary, involve an external expert to assist in designing the circumstances and the transfer of the succession.
- Think about what you want to do after the transfer of the relay stick in order to avoid the problems within the family.
- Prepare the agenda for our own retirement.

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