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Theses of doctoral (PhD) dissertation

**The development of the controlling activities of domestic  
small and medium-sized enterprises, especially with  
regard to succession**

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## **Research content**

The subject of doctoral dissertation is the examination of the controlling activities of family businesses, among SMEs.

Research focus in the family business planning, measurement and controls ancient practice of mapping is like examining the holding companies controlling function displayed in these activities.

The definition of family businesses is not uniform in the literature. The authors analyzed a survey of companies who are predominantly members of that family were the owners and decision-makers in the business. Another aspect was that at least two family members were involved in the enterprise at the owner, executive or employee level.

The term controlling is broadly understood, and all activities can be classified as a means of conscious management tool, including during this shorter to longer-term foresight, preparation of plans for the company's development, in order to maintain, an examination of the achievements and accomplishments, from which they can draw lessons from the future.

They can increase their effectiveness in the next economic period.

The scope of the research included the classic controlling areas such as revenue, cost, margin, profit, investments, labor efficiency, etc; and their only meaningful part of family businesses areas such as succession planning or family member's performance testing.

In the topic selection, the term "controlling activity" included in the title was assigned a wide range of control functions interpreted by micro, small and medium-sized companies.

Since it is also emphasized in the literature that small business planning, measurement and control activities are performed most verbally, so during the research these oral elements are also a controlling activity group.

The relationship between target among family businesses use controlling the activities and characteristics of family businesses tracing it follows the priority of his close areas:

- succession planning
- labor force measurement, separation of family and non-family employee examination
- strategic planning
- property and income flow between a family and a business

## **Method**

The research methodology consists of secondary elements, which consist of the processing of domestic and international literature and primary elements in qualitative and quantitative data collection and processing.

In the dissertation, the author describes the need for controlling micro-, small and medium-sized companies using the relevant literature and knowledge in the subject, with special reference to their different design needs and controlling usage practices.

In addition to the general presentation of family businesses, books, conference papers, journals and other studies in hungarian and foreign languages are presented, some of the characteristics of family firms whose relationship with controlling activities is at the center of research issues.

These characteristics of strategic thinking, management, unique characteristics of the workforce, with particular emphasis on the subject of succession and the uniqueness of financial management.

A close analysis of the result of a questionnaire developed by the author based on sampling. During the data collection 745 valid fills.

Another component of the research method is the production and evaluation of personal interviews.

The questionnaire will help understanding of issues of operation of the enterprise market and family characteristics, and provide financial planning, organizing and controlling the characteristics of employees in the company to explore.

The managers of family firms were asked by the researcher during the interviews about controlling the existence, operation and role.

During the discussions, they discussed the causes, difficulties, reconciliation with the family and the results of the application of the procedures of controlling activities.

### **The actuality of the topic**

Selection of the topic was influenced by its relevance.

The economic strength of family businesses is increasingly recognized by researchers and economic experts.

Based on some research, these companies account for between 70% and 80% of the GDP of the European Union, while 40-50% of the employed work in these enterprises.

These companies have many features that are a competitive advantage over non-family workers

This includes family members' commitment to the success of the business and the familial mood and traditions that strengthen the retention of customers.

But these companies also have weaknesses. Among them, it can be emphasized the capital gains, the resistance to the involvement of external sources, and the excess risk associated with succession. The latter is a special driver change for family companies, when the company's leadership is inherited from parent to child. This is particularly relevant to domestic family businesses in these years, since the founders of companies in their 30s and 40s in the change of regime have reached the retirement age today.

International statistics show that the change of generation of companies is three in two failed, leading to the liquidation of the company. Taking this into

account, and considering the impact of this corporate sphere on economic life, it is easy to see that the negative consequences of this current problem can seriously affect the hungarian economy. One key to effective generation change is through careful planning, tracking processes, intervening if necessary, and after the completion of the transfer, the consequences are explored. Based on these, it is proposed to manage the issue in a controlling way.

The aim of the presented work is to find out how much the controlling activity is behind the successful transfer of company or at least the controlling approach.

The number of research into family businesses has increased in recent years. More and more researchers turn to this segment of economic operators, increasingly recognizing their significance. Based on the information gathered from the domestic and international literature, the author presents the operation, value system, planning practice and controlling role of family businesses in different sizes of small and medium-sized enterprises. In his dissertation, the author explores how the efficiency of small family businesses is influenced by the combination of the two domains, and how it can make these companies more effective through controlling activities.

## **Research questions and hypotheses**

At the beginning of the research, four research questions were formulated.

On each of these questions, 1-2 hypotheses, sub-hypotheses were formulated on the subject. These are the following:

### **What is the relationship between successful succession and the controlling activities used by the company?**

H1 Controlling helps promote succession planning.

### **What is the relationship between controlling activities and workforce management in family businesses?**

H2 Measuring the performance of non-family workers is more pronounced than family members in family businesses.

H3 There is a mutual relationship between controlling use and middle management layer formation.

### ***How do strategic planning and controlling use interact?***

H4/a Companies in which controlling activities prefer to borrow rather than not.

H4/b Companies in which controlling activities are planning to invest rather than not.

### ***How does the family's financial vulnerability influence the use of controlling at the family business?***

H5 It does not use controlling activities less often, the company from which a smaller proportion of the family's income comes from, or which is a smaller proportion of the family's assets than the larger part of it.



## **The results**

In the questionnaire research and interviews, I can summarize the following new and novel results in the research field:

T1 There is a multilateral statistical link between controlling use and succession planning. Companies that deal with succession planning are more controllable, have a financial officer, apply financial and controlling software. In addition, these managers are consciously applying controlling and run it over a longer period of time than those who do not deal with the transfer of the company. This is also reflected in the acceptable level of the amount of control, where predisposed for generational change, are increasingly willing to give an increasing financial framework to the controlling operation. All in all, companies whose managers are controlling a controlling approach to the controlling activities in the management of the company, this approach is also validated in the succession planning process for the company's long-term survival.

T2. There was no significant difference between measuring the performance of a family member and a non-family member on the basis of a controlling feature or other corporate characteristics. However, it can be shown that, where performance is not measured, there are hardly any other controlling activities, compared to where there are at least non-family workers, there are more controlling activities in other areas, and where the performance of all employees is monitored more than one of the more controlling activities of the former. I did not find a significant difference between measuring the performance of a family member and a non-family member on the basis of other controlling features or other corporate features.

T3 The development of the middle management level of family businesses is associated statistically with the existence of controlling. This interaction is manifested in which company is a middle-tier, there is a greater proportion of controlling activities, consciously doing it, employing a financial officer and software. However, both of these factors can be linked to the size of the company. It can be said that family business is also true that with the increase in size (number of employees and revenues), there is a growing demand for both middle management level and controlling system.

T4/a There is a statistical correlation between the average long-term loan portfolio and the average number of controlling activities. The probability of the stakes between them is enhanced by the relationship between controlling and responding to the existence of a financial officer and the existence of long-term credit. However, there is no statistical link between the borrowing intent and controlling. Accordingly, the existence of long-term credit is accompanied by a higher number of controlling activities, but the intention to borrow is not preceded by a higher level of controlling.

T4/b There is a connection between the investment planning and the controlling activities of the family business. Firms where controlling are more present in the business life are more likely to plan for larger investments. Factors strengthening the probability of investing in controlling are the presence of a financial officer and a data processing program, the willingness to increase controlling and related knowledge, and the openness to controlling software and services, as well as the amount of control that can be controlled.

T5 The controlling use of businesses is limited, but influences the extent to which the income of the family comes from the company.

The controlling use of businesses is limited, but influences the extent to which the income of the family comes from the company. The small income ratio, slightly less controlling activity, the greater the income ratio, suggests a slightly more controlling activity. In this case controlling activities can be classified according to statistical results: controlling consciously, performing multiple design, measurement, control activities, controlling from the past, and providing financial and financial services.

Further findings can be made with regard to the results: the family's financial dependence does little, but it affects the use of controlling. The use of controlling has a greater impact on how much of the family's wealth comes from the enterprise than the amount of income that comes from the company.

### **Conclusions and suggestions**

The number of domestic family businesses reaches the aging of the leadership layer in the coming years, hence the necessity of driving change. Earlier research results show that companies are not prepared for succession, and succession planning is only slightly more than half of businesses involved in some form. Quantitative research results show even worse, 31% of the 745 sample design. One of the characteristics of successful succession is that the company's transfer was preceded by careful design work. The dissertation reveals that the existence of a controlling approach and the continuation of controlling activities in the planning of succession have a positive impact. In companies where controlling is more present in corporate life, succession planning is even more pronounced, so successful success in succession is more predictable. Based on this, family SMEs are recommended to carry out controlling activities, which will lead to controlling approaches, which also favorably influence decisions on succession. To this end, the author proposes the following planning and control procedures:

- Performing the sales, costs, coverage, profit planning analysis, plan-fact comparison along the ÁKFN structure.

- Business planning at least annually, or investments, in case of borrowing.
- Measuring and evaluating the performance of all employees, with particular regard to tracking and building evaluations of the successor job.
- Analyze the annual report.
- Establish a benchmark system tailored to the needs of a family business.

In the author's opinion, these basic design and analysis procedures should be led by all family businesses, which would help them gain economic and financial knowledge, deepen economic thinking and logic. All of these will prepare the implementation of succession planning.

In the test sample, 84% of the managers of the surveyed companies are at some level, 64% of them are entirely of the opinion that they want to operate their company in the long run. 74% of the respondents at some level, 62% of the respondents want to keep the business entirely family-run. 74% of the respondents at some level, 62% of the respondents want to keep the business entirely family-run. It can be said that there are intentions for the company's directors to hand over the company, but no real action is taken on the matter. In 69% of the sample families, there is a child over 14 years of age, who should already have a role in the company's succession planning, at least as an affiliate family member. The situation is exacerbated by the fact that in these companies, only 30% of children over 14 years of age are at least involved in the business.

A family-oriented approach to succession planning has been developed for family businesses that can help plan and succeed in generating change. The design and evaluation elements discussed in the model should be developed by family members participating in the enterprise, but at least by the work of the predecessor and successor candidate.

The process of succession aims to integrate the successor candidate into the family business, filling the most important positions and carrying out the tasks

involved. This is based on SEW, which is the social and emotional value of the participants, such as trust, sense of security, recognition of performance, commitment, and a sense of belonging. Their importance in family companies often goes beyond the priority of profit making. The dissertation points out that in a well-functioning family, parents can basically provide them with their children, so in a business run by a well-functioning family, this emotional force is ensured. The basis of successful succession is the existence of this positive, supportive medium. It is important for the author to make this awareness of the family in the successor candidates. It makes a proposal for this in order to write the values represented by the business in a credible manner.

The succession process is divided into the dissertation as regards the offspring of the offspring and the predecessor. Agreements concluded should be written in order to avoid any further dispute.

#### Preparing the Successor or Receiver

- Motivation of successor candidates and their commitment
- The more accurate wording of the expectations of the successor
- Conscious development of career, managerial and managerial skills of successor candidates
- Supporting the pursuit of self-seeking aspiration. Listen to and build your own ideas.

#### Preparing your predecessor or transferring person, planning your exit

- Planning the financial side of the withdrawal.
- Plans and calculations for the financial support of the predecessor's retirement years.
- Designing a retreat from a proprietary site.
- Clarify the issue of ownership. Will the ownership of the company be transferred, if yes: fully or partially? To reach this decision, it is recommended that a company lawyer's opinion be sought. It is

recommended to fix the dates and conditions of the transfer. Involving the offspring into a part-ownership role can increase your commitment. As a condition, the author determines the achievement of the company's performance, such as running a successful project or obtaining a qualification related to a company.

- Retreat from the leadership side.
- Creating a middle management level. Delegate tasks, especially towards the offspring. It is advisable to record these steps and dates in advance.
- Designing the spiritual side of retreat. Conscious removal of the interest of your predecessor is recommended for your business. Use the assistance of a specialist (coach, consultant) if necessary.

The author suggests introducing a diary to record the main points of the process, their expected time, and the sub-targets and conditions for the given phase. This journal could lead to the development of the main indicators for the succession process. These indicators should be developed by the company itself, but it would be worth linking with key performance indicators. According to the author, the relatively rare semi-annual evaluation and revision of the objectives set out in this succession diary for family companies, as succession can take decades. It would be a good idea to create a family tradition in managing your diary, thereby reinforcing your offspring commitment to the company's continuation.

Within the framework of a comprehensive research, family businesses were contacted both for filling in the questionnaire and as a subject for the in-depth interview. The objectives include exploring the design, measurement and analysis practices of the economic processes of enterprises in this sphere. Another aim of the study is to determine whether these activities are exercised

and what relationships are related to the characteristics of family businesses, such as the preference of family members, the existence of a change of generation, or the emphasis on emotional and social gains against financial gains. The dissertation contains research results that show that controlling activities help the family business operate and its effectiveness.

## **The author's publications related to the topic of the dissertation**

- Opportunities and Limitations of Business Planning of SME In: Takács István (szerk.) MANAGEMENT, ENTERPRISE AND BENCHMARKING (MEB) 2017: "Global challenges, local answers". 510 p. Konferencia helye, ideje: Budapest, Magyarország, 2017.04.28-2017.04.29. Budapest: Óbudai Egyetem Keleti Károly Gazdasági Kar, 2017. pp. 9-21. (ISBN: 978-963-449-027-2)
- KKV controlling In: Csiszárík-Kocsir Ágnes (szerk.) Vállalkozásfejlesztés a XXI. században: VII. tanulmánykötet. Budapest: Óbudai Egyetem Keleti Károly Gazdasági Kar, 2017. pp. 70-81. (ISBN: 978-963-449-028-9)
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- Family Businesses and the Strategic Opportunities In: Michelberger Pál (szerk.) Management, Enterprise and Benchmarking in the 21st Century II. 419 p. Budapest: Óbuda University, 2015. pp. 89-100. (ISBN: 978-615-5460-47-0)
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