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# Leadership succession and the origin of successor in Hungarian SMEs

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**Abstract:** Researchers have been studying the management based approach in SMEs since the 1980's which has become an emergent theme in post-socialist countries after the changes of the 1990's. The force of generation change puts the phenomenon of business succession forward both nationally and internationally. Consequently, it is essential to ask questions about the nature of the SMEs succession process in the present and in the future. The aim of the present research is to explore the characteristics of succession types and the phases of the succession process of the Hungarian SMEs according to the nature of the successor. The examination of the succession process started with the identification of three main leadership roles found in the management literature. In our research we applied both quantitative and qualitative methods. The present and preferred succession process has been identified by the principal components of leadership roles. The results indicate that SMEs which show good example in the succession process that is independent of the founder/owner are few in number.

**Keywords:** SMEs, succession, leadership roles, successor type, post-socialist.

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## Introduction

The investigation of succession goes back to the 1960s. It started with the analysis of the main problem of succession which investigated the *raison d'être* of administrative succession and especially concentrated on sport teams and on subordinate management transfers. Nowadays, succession literature and investigation streams are one of the most popular topics, but we can say that the statement of Kesner and Sebora (1994) - "little what we know conclusively, much what we do not know because of mixed results" (p. 327) - is still correct. Moreover, the majority of already existent results concentrates on family businesses. Most of the family businesses are in a special position in the case of

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succession because of the role of the family aspects. We believe that this extensive attention to family businesses need to be expanded to include the size of the business. That means that we need to know more about the process of succession in the small and medium sized (SME) enterprises which do not necessarily belong to the family business category. The SMEs are one of the crucial units of the growing Hungarian economy because of their ability to rapidly adapt to changes and also because of their role in providing employment. This adaption should require a growth of the businesses, but Szerb (2007) observed that in spite of that, SMEs grow less dynamically and fast than expected from those considered the engines of the Hungarian economy. Most of the researchers see the reason for this in the insufficiency of managerial competencies. According to Gerber (1995), in order to fill this gap SMEs' owners need to balance three roles: the entrepreneur, who is dreaming of a new world for the business; the technician, who deals with the execution of core tasks and the manager, who directs people through the operation. If the roles are quite balanced, the enterprise can be successful, but if they are unbalanced and the owner is not owning up to one or more of the roles, then the business may fail. In this situation the owner needs to find a manager who can bring the missing competencies to the business. This is when the transfer of the business starts and the one-person directed business shifts toward a multi-managed business.

According to the European Commission in the next 10 years, around 6 million SME owners will retire (EKB, 2008). Hungarian SME owners are also involved in this process; according to Csákné (2012) 63% of the Hungarian companies will experience the succession in the next 5 years. In order to find out more about the managerial succession process of SMEs we need to know which roles are already transferred and which roles are desired to be transferred in the future. In our analysis, we concentrate on the leadership succession of Hungarian businesses, especially the transfer of managerial functions and leadership roles. Moreover, we would like to know more about the relationship between the successor and the transferred roles.

### **Leadership succession**

It is challenging to find a clear and generally accepted definition of the notion of succession. A diversity of definitions of succession is important because it allows us to separate the various types of succession and to identify the roles in the process of SMEs succession. Table 1 shows the definitions of succession from different aspects.

**Table 1.** *The aspects of different definitions*

The main definitional aspect	The aspects	References
What can affect the succession?	The exchange of key person, it may be succession in family business, succession of leader or manager roles	Grusky (1960), Beckhard and Burke (1983), Friedman (1986), Barry (1975), Lansberg (1988), Lansberg et al. (1999), Martin et al. (2002), DeTienne et al. (2005), Ip (2009)
What kind of factors can characterize the succession process?	adaptation to the environment, organization and individuals during the process, mutual adjustment process, deliberate process, strategic, managed and planned process	Pfeffer and Salancik (2003), Handler (1990), Barach and Ganitsky (1995), Rothwell (2005), Garman and Glawe (2004), Chand and Bronner (2008)
Who can be the successor?	a family member, a non-family member, professionals, an outsider, an insider, a company, an individual, employees	Beckhard and Burke (1983), Rubenson and Gupta (1997), Martin et al. (2002), SBS (2004), EU Commission (2002), Sharma et al. (2003b)

**Source:** Authors' own contribution.

As we can see in Table 1, the definitional clarification is challenging. Is it possible to create an equally unified definition for the succession of family and non-family businesses? What is really included in the succession; does it only concern the managerial functions, the leadership tasks or ownership aspects? It is unequivocal that the succession is more like a process than an event (Churchill and Hatten, 1987; Handler, 1990; Longenecker and Schoen, 1978; Vancil, 1987). It is not just one step, when the leadership and/or the ownership are passed to the successor. It needs to be handled as a process with a lot of hard and multifactorial decisions which can occur cyclically during the life of an organization (Handler, 1994). The core values of owners and the characteristics of the ownership have a strong effect on the output of the succession process. Thus, we need to separate the processes of the transfer of management and that of the ownership. According to Gersick et al. (1997) during the succession the management will be transferred first, but the real succession takes place when the owner gives up the ownership and transfers it to the successor. The output of the succession process depends on the environmental, organizational, and individual factors. The environmental factors define the selection of the successor (Pfeffer and Salancik, 2003), the organizational factors indicate the recognition and the completion of the succession (Lansberg et al., 1999; Rubenson and Gupta, 1997) and the individual factors dictate the process of the succession (Sharma, 2003). According to researchers (Beckhard and Burke, 1983, Rubenson and Gupta 1997, Sharma et al., 2003) the incumbent can be the founder or/and owner or/and leader and the successor can be a family member or a non-family member that is a professional manager, and the successor can come either from the internal or the external environments of the company. Moreover, the adjustment process is also important. This may be depicted as a “typically slow and subtle process, which can be thought of as a succession dance. Central to the progression of this dance is the transfer of leadership experience, authority, decision-making power, and equity” (Handler, 1990, p.

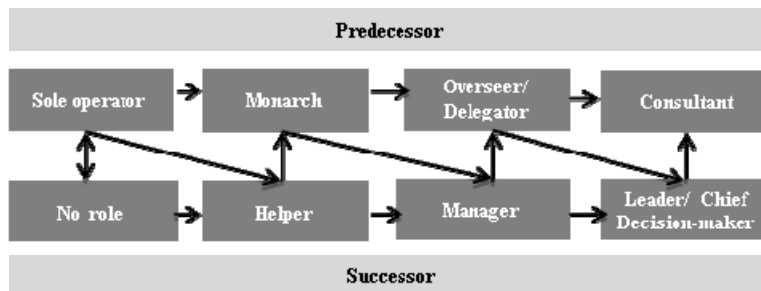
43). Summarizing the above and many other definitions (Kansikas and Kuhomen, 2008; Ellis, 2004; Wennberg et al., 2010, 2011) we can state that the succession is a structural process, whereby the transfer of business occurs including the whole or partial transfer of ownership or/and leadership, and a strategic decision of the founder/owner with respect of the future of the organization. During the decision the owner/founder/leader needs to consider the characteristics of the environment, the enterprise and the individuals in order to plan their own exit strategy and the entry of the successor.

**The process of succession**

The process of succession can be interpreted by two aspects: (a) the process models (Longenecker and Schoen, 1978; Handler, 1990) and, (b) the lifecycle models (Greiner, 1998; Barnes and Hershon, 1976; Adizes, 1992; Gersick et al., 1997). The process models construe the succession process as a periodic process, and the life cycle models interpret the succession process as a way of organizational evolution finalized with the transfer of business. Our research concentrates on the analysis of the process of succession so we will present Handler’s model (1989) in detail.

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

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



**Source:** Handler, 1989, p. 194.

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

### ***The types of successor***

During the process the two most important actors are the incumbent and the successor. During our research, we are concentrating on the influence of the type of successor because one of the most controversial empirical results was brought to light by this perspective. The previous researches examined the role of the successor from two different views: first, how the successor's competencies, abilities influence the process of succession, second, how the types of successor influence the post-succession performance. Our research relates to the first research stream but first, we would like to present the most important definitional aspects of the types of successor. It is important because one of the causes of the controversial results is the definitional multiplicity. The most frequently mentioned differentiation is the outsider and insider type of successor, but the definition behind these two terms could be totally different.

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Moreover, Grusky (1960) propounded that we need to say that there are degrees of “outsiderness” and “insiderness” and their distinction is based on the “amount” of knowledge of the successor has about the organization. According to Grusky (1960), if the successor comes from the same group where he/she worked before it is an inside succession, and when the successor comes from the organization but from another group we deal with an outsider or insider succession and finally if the successor comes from outside the organization it is an outside succession. Helmich and Brown (1972) provide a similar definition regarding the origin of the successor. They claim that the origin of the successor depends on the knowledge of the successor about the social and political processes of the organization.

According to Brady et al. (1982), the inside successor can be the founder-owner, a family member, or a non-family member – either an employee or a manager with a larger amount of shares, and the outside successor can be a professional manager. Weisbach (1988) stated that the outside successor has no responsibility in the business before the succession, so he/she is not an employee, relative, or functional manager with respect to any of the businesses which are connected to the organization. According to Kesner and Seborá (1994) the traditional differentiation between the inside and outside successor is correct, but they emphasize that the distinction is more appropriate if the industrial experts is considered as well (Birnbaum, 1971). Santora and Santos (2001) differentiate the inside successor from the outside successor according to the company employment and the given company experience of the successor. Most of the researches (like in this research) are using the above presented, traditional definition in order to operationalize the type of the successor.

#### ***The influence of types of successor***

The investigation of the influence of the types of successor can follow three approaches. The first one is the so-called antecedent research stream which examines the origin and the characteristics of the successor. The second approach is called the consequence research stream, which analyzes the relationship between the types of successor and the organizational performance after the succession (post-succession performance) and the third one is the research stream which examines the previous two together. Typically – as in the other streams of the succession research – the emphasis of these researches is on the post-succession performance which does not have a clear statement about the direction of the influence between the two factors (Karaevli, 2007). According to Karaevli (2007) there is not a clear statement about the direction of the influence of the types of successor. There are researchers (Grusky, 1964; Beatty and Zajac, 1987; Haveman, 1993; Fizek and D'Itri, 1997; Haveman and Khaire, 2004) who state that the relationship between some types of successor and the post-succession performance is negative, some researchers (Helmich and Brown, 1972; Helmich, 1974; Wiersema, 1992; Lauterbach et al., 1999; Davidson et al., 1990; Virany et al.,

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1992; Weisbach, 1995) stated that there are certain types of successors who have a positive influence on the performance, and also some who found mixed results (Worrell and Davidson, 1987; Davidson et al., 2002; Bigley and Wiersema, 2002; Shen and Cannella, 2003; Zajac, 1990; Friedman and Saul, 1991; Kesner and Dalton, 1994; Worrell et al., 1997; Davidson et al., 2001; Shen and Cannella, 2003; Davidson et al., 2004; Zhang and Rajagopalan, 2004). Kavareli (2007) also highlighted that in order to find out more about the influence of successors we need to broaden the influential factors in our researches. Also, the research of antecedents shows a clearer picture about the influence of successors. One of the main points of this research stream is to connect to nepotism. In family businesses, one of the types of inside succession occurs when the family heir chooses family members to fill the leadership and ownership positions. The danger of this type of succession is the occurring nepotism (Gersick et al., 1997; Yeung, 2000) which can be dangerous if the incumbent is not considering the experience and capabilities of family members. Other researchers have proven that in this case succession is successful more often because the inside successor has the company and family specific knowledge (Harris and Helfat, 1997; Helmich and Brown, 1972; Dalton and Kesner, 1983). During the selection of the successor there are other contingencies which influence the decision. According to Kesner and Dalton (1994) the organizational size influences the selection because bigger companies often chose inside successors and small companies rather chose outside successors.

Reviewing the research stream of succession we can state as influential factors the characteristics of selection of the new successor, the impact of rearrangement of the proprietary rights to the organizational processes, relationships and also to the social capital. Moreover, conflicts caused by cultural differences are indispensable to examine in order to learn more about the succession process. In fact, the family members are emphasized-actors of the succession process because their inter-organizational relationships are completely different from the non-family counterparties. All these lead to the need to carry research about the topic of succession in Hungary and we need to prepare for an intensive wave of the generational shift not only at the individual level, but also at the level of organizations and the economy.

The above results show the influential effect of the professionalization which means hiring professional successors who bring new methods, norms, knowledge etc. in order to create the base of the professionalized operation. To solve this significant problem we need to know more and more about the succession process, about the influential and outcome factors. This need is also apparent among those Hungarian SMEs where the leadership is in the owners' hands. This fact indicates that SMEs will need new leaders who can keep the organization alive and who can make the organization grow and operations more effective through their professionalism.

### Research methodology

The aim of the present research is to explore the characteristics of various succession types and the phases of the succession process of the SMEs in Hungary. Moreover, we explore the relationship between the types of successor and the transferred leadership functions and roles. In order to find out more about the process of succession we used fieldwork and a questionnaire which examined the types of succession, the transferred and the desirable transfer of leadership roles and the types of successor.

During the operationalization we tested the literature based leadership roles in five companies. First, we created 76 tasks based on the literature in order to describe the leadership roles. After the fieldwork we reduced these tasks to 38 and tested them with principal component analysis. In order to perform the principal component analysis we needed to test the questionnaire within companies. The questionnaire was tested and corrected by 200 companies and during the previously mentioned fieldwork we used the questionnaire as an interview plan. After the test of the questionnaire it was sent to more than 6000 companies and by the beginning of 2014 we received 393 questionnaires. Statistical programs were used during the data processing. The transferred and the “to be transferred” leadership roles were created through principal components analysis. The results of the analysis are listed in Table 2.

**Table 2.** *The requirements of principal components analysis*

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

**Source:** *Author's own research.*

As we can see in Table 2, the requirements of the analysis have been met so the principal components of the transferred and “to be transferred” roles can be used for further analysis. The present and preferred succession has been identified by the principal components of leadership roles and with the three types of succession (only managerial functions transfer, only ownership transfer or both happened in the company). After the identification we looked for the relational analysis between the types of successor and the transferred and “to be transferred” leadership roles during the succession process. To investigate this relationship we performed a crosstab analysis and an analysis of the variance between the mentioned factors. Table 3 shows the measured factors in the questionnaire.



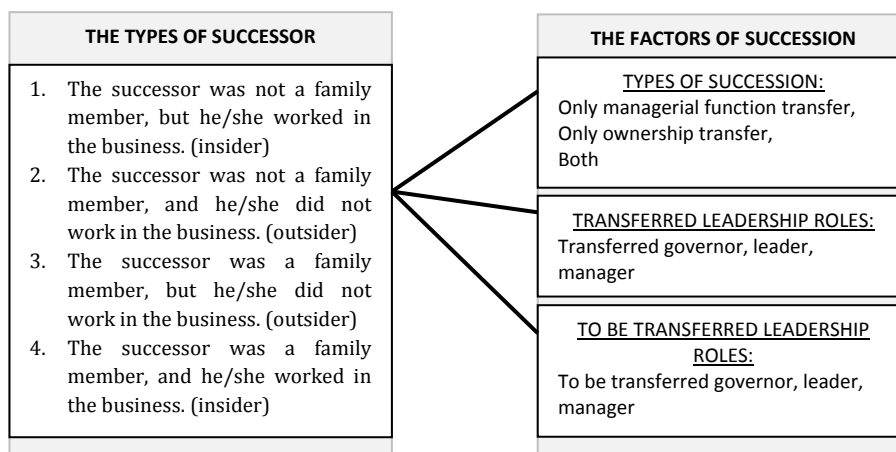
**Table 3.** *The subject of examination*

The subject of the examination	Measured factors
The types of successor	The successor was not a family member, but he/she worked in the business. (insider) The successor was not a family member, and he/she did not work in the business. (outsider) The successor was a family member, but he/she did not work in the business. (outsider) The successor was a family member, and he/she worked in the business. (insider)
The types of succession	Only managerial function transfer Only ownership succession Both leadership and ownership succession
The transferred and the "to be" transferred leadership roles	Governor, leader, manager

**Source:** *Author's own research.*

As we can see in Table 3 and Figure 2, we measured the types of successor with the aspects of the insider or outsider successor and with the family connection, so four types of successor have been created: The successor was not a family member, but he/she worked in the business (insider), The successor was not a family member, and he/she did not work in the business (outsider), The successor was a family member, but he/she did not work in the business (outsider), The successor was a family member, and he/she worked in the business (insider). The factors of succession are measured by the types of occurred succession (whether it was only managerial function transfer, only ownership transfer or both); by the presently transferred and the desirable leadership roles we mean what kind of and to what extent the leadership tasks the owner wants to transfer in the near future.

**Figure 2.** *The basic model of the analysis*



**Source:** *Author's own research.*

The question of the research is what kind of differences can be found between Hungarian SMEs' succession processes according to the employed successor types? Based on the literature review the following research question was formulated: Is there a relationship between the types of successor and the factors of succession?

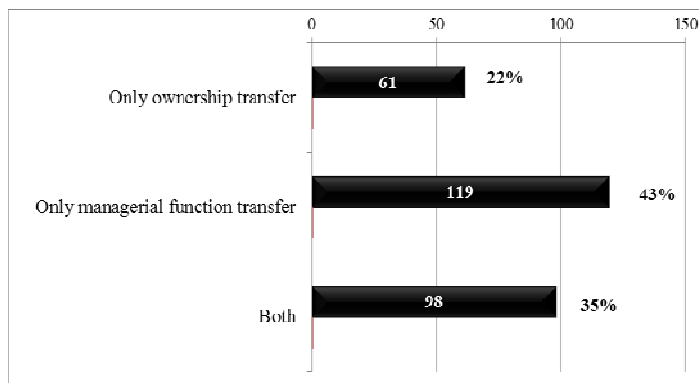
Based on the literature review we can state that trust is an important factor because during the process of succession the family members or the insider successors have greater chances to get more leadership tasks and managerial functions. It is also an important question whether the SME can invest in the outsiders or not? We can presume that if SMEs' owners can afford to employ outsiders they will get more leadership tasks than insiders.

**Results**

The questionnaire was designed on the basis of literature review as well as based on the field studies. After sending the it to the companies we received 393 responses and we could use the data of 278 companies where one of the succession types had happened. 73% of the companies are small and 27% are medium sized enterprises (we adopted the definition of the EU Commission). 64% of the respondents were owner-managers, 26% of the respondents were only managers of the company and 6% of the respondents were only owners of the company. It was important to ask whether the company was owned by a family or not. According to the distribution 44% of the companies are owned by families and 56% are owned by non-family members.

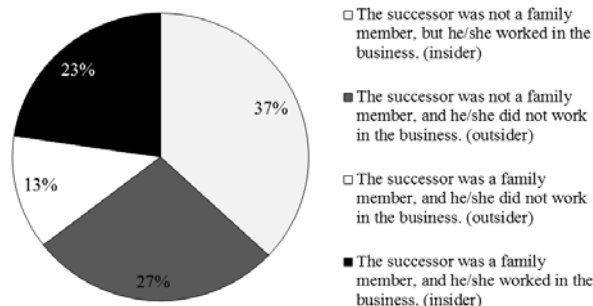
As we can see in Figure 3, 22% of the companies experienced only an ownership transfer, 43% of the companies had only a managerial function transfer and 35% of the respondents indicated both types of succession together.

**Figure 3.** *The sample distribution according to the experienced succession types*



Source: Author's own contribution.

**Figure 4.** The sample distribution according to the types of successor

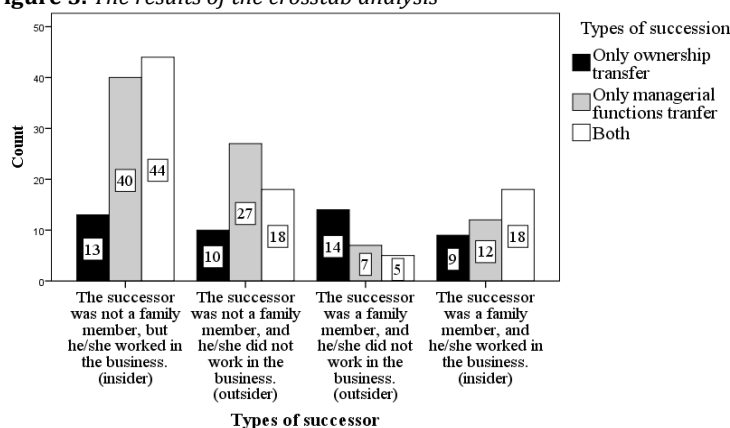


Source: Author's own research.

As we can see in Figure 4, most of the companies (37%) employed insider non-family member during the transfer, 27% of the respondents indicated the outsider, non-family member successor and 23% of the respondents employed a family member, insider successor during the succession process. During the process of succession 13% of the respondents chose only an outsider, family member as a successor.

During the presentation of the results, we first investigated the relationship between the types of successor and the types of succession. We made a crosstab analysis in order to find out more about the above relationship. According to the crosstab analysis there is a relationship between the types of succession and the types of successor (significance of Chi-square: 0.01 and Cramer's V: 0.235). As we can see in Figure 5, respondents choose an insider successor if they transferred both the ownership and managerial functions. In cases where only managerial function transfer took place, respondents mostly chose a successor who was not a family member. In those cases where only ownership transfer happened, respondents mostly chose a family member outsider successor.

**Figure 5.** The results of the crosstab analysis



Source: Author's own research.

The above results mean that companies would rather choose a non-family member (whether she/he is an insider or outsider) if they want to transfer only the managerial functions. But if ownership is the focus of the transfer they would rather choose a family member who protects the family share of the business. All of these indicate that for company owners previous company-specific experience is the most important when they transfer managerial functions, but in case of the ownership they would rather decide to transfer it to family.

In order to find more about the above relationship we also investigate the transferred and the “to be transferred” leadership tasks according to the successor types. We made an analysis of variance which shows significant differences between the means of transferred and “to be transferred” leadership roles. Table 4 shows the significance and the F-values of the differences.

**Table 4.** *The results of ANOVA*

The principal components of leadership roles	F	Sig.
Transferred governor	2,672	,050
To be transferred governor	4,697	,004
Transferred leader	3,239	,024
To be transferred leader	5,578	,001
Transferred manager	3,109	,029
To be transferred manager	4,224	,007

**Source:** *Author’s own research.*

The ANOVA table (Table 4) shows significant differences in all cases which means that the status of the transferred and “to be transferred” leadership roles are different according to the successor types. With the purpose of a deeper investigation of differences we made a post hoc analysis.

The post hoc analysis in Table 5 shows the following differences. The status of transferred governor roles are more mature in those cases where the companies employed a successor who is not a family member and he/she did not work in the company before the succession. In the cases of transferred leader and manager roles the leadership succession status are more mature when the company employed a family member, also called an outsider successor. In the cases of “to be transferred” leadership roles the desirable status of succession are more mature in the cases where the company did not employ a family member, also called an insider successor. Table 5 shows the detailed results and differences.

**Table 5.** *The results of post hoc analysis*

Successor types	Transferred			To be transferred		
	Governor	Leader	Manager	Governor	Leader	Manager
The successor was not a family member, but he/she worked in the business. (insider)	Lower status of leadership succession	Lower status of leadership succession	Lower status of leadership succession	Higher status of leadership succession	Higher status of leadership succession	Higher status of leadership succession

Successor types	Transferred			To be transferred		
	Governor	Leader	Manager	Governor	Leader	Manager
The successor was not a family member, and he/she did not work in the business. (outsider)	Higher status of leadership succession			Higher status of leadership succession	Higher status of leadership succession	Higher status of leadership succession
The successor was a family member, and he/she did not work in the business. (outsider)		Higher status of leadership succession	Higher status of leadership succession	Higher status of leadership succession	Higher status of leadership succession	Higher status of leadership succession
The successor was a family member, and he/she worked in the business. (insider)	Lower status of leadership succession	Lower status of leadership succession	Lower status of leadership succession	Lower status of leadership succession	Lower status of leadership succession	Lower status of leadership succession

**Note:** Higher status mean that the owners share more leadership tasks with the leaders of the company, so the top leadership tasks are more in the hand of the company leaders, and less in the hand of the company owners.

**Source:** Author's own research.

The differences show that in all cases when the successor was a family member, or an insider the companies transferred the leadership roles less and for the future the desirable transfer status do not change in these cases. When the successor was a non-family member, or an outsider the transferred leadership roles were also lower but in these cases companies would like to change this attitude in the future and transfer more leadership tasks. The dominance of outsider successors (whether he/she is a family member or not) can be found in all cases. It is important to note that the highest leadership succession status is in the case where the company employed a family member, or an outside successor.

Previously it was assumed that there is a relationship between the types of successor and the factors of succession. Using ANOVA and crosstab analysis we found that there is a connection between these two factors therefore the hypothesis is supported by the data analysis. During our research we investigated the process of leadership succession from the aspect of successor types. Most of the respondent Hungarian SMEs chose successors who are not family members and had not worked for the business before the ownership transfer. In those businesses where only managerial function transfer took place the preferred successor was a non-family member. Respondents chose an insider in those cases in which the managerial and ownership transfer took place together. Besides the functional transfer we tested the transferred and the "to be" transferred leadership roles. The status of transferred governor role was more mature in cases where the companies employed a non-family member insider successor. In the other cases the transfer of leader and the manager role were more mature if the successor was a family member, outsider

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successor. The differences show that in all cases when the successor was a family member, or an insider the companies transferred the leadership roles less and for the future the desirable transfer status did not change greatly in these cases.

### **Conclusion**

Handling the process of succession is one of the main challenges in the life of businesses, especially in those businesses where the operation and the ownership are held in one-hand. To find the successor for a SME is not an easy one-step process. In the decision to pass the baton owners have to consider countless factors.

Summarizing the results we can state that during the succession process it is needed to differentiate the transfer of managerial functions and “top” leadership succession and to know more about the process of leadership succession. The results show that during the transfer of managerial functions a preferable successor is a non-family member whether he/she is an insider or outsider. But during the transfer of leadership tasks the status of leadership succession is more mature if the company employed an outsider and less mature if the successor is a family member, or insider. The study indicates that it is possible to predict the successor types based on the desirable succession type. It is possible that if the owners would like to transfer the ownership they would choose a family member, and if they want to transfer the managerial functions they would rather choose an insider. Finally if they pass the leadership roles they wish to find an outsider. The company’s specific interest and knowledge is most important during the transfer of managerial function. Conversely the outside (non-company) specific knowledge is more important during the transfer of leadership roles. Moreover the family relationships are important during the transfer of ownership.

These results are favorable for the forthcoming generational shift, but they also bring challenges for the Hungarian businesses. It is important to note that the SME owner can hand over the governor role to an outsider successor who have the ability and knowledge to create the professionalized organizational frame.

### **Research limitation and future implications**

The study has definite limitations. It applied an adequate sample of small and medium sized businesses in Hungary. For greater generalizability of the results future studies should be conducted in other countries as well. Furthermore a research to investigate the leadership succession in SMEs in other post-socialist counties is vital.

Future research should focus more on fieldwork and case studies because succession is a process during which the emotions and feelings of the incumbent and the successor can influence the success of the transfer.

During our research we investigated those companies where the succession process took place only partially, so the majority of shares were still in the hand

of the owner(s). The field study point out that during the process of succession the easiest phase is passing the role of leadership. In coming years, company owners need to make important decisions on how to transfer the business. In order to do so they need to prepare for the separation and find a new purpose in their life. This decision will be the hardest for all of them. The transfer of ownership has quite different aspects than the leadership transfer, for example the aspects of psychological ownership or the transfer of the owners' knowledge and social capital which are barely investigated in researches. All of these indicate that in Hungary we need to know more about the process of succession and also investigate the factors which influence the runoff of the process.

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