



Intergenerational Succession in SMEs Transition
INSIST

CASE STUDY

GOOD PRACTICES IN THE SUCCESSION PROCESS
GENERATION TRANSITION AT QUALITY MEAT LTD.

Final version

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I. History and operation of Quality Meat Ltd

I.1. History of the family business

The founders, Károly Kovács (b. 1952) and his wife, Elizabeth (b. 1956), worked in the local Farmers' Co-operative until the early 1990s. Károly was the manager of the slaughterhouse and the meat store, while Elizabeth was employed in the office. Both of them became unemployed at the dissolution of the Farmers' Co-op. They founded this company located in the Northern Great Plain Region from their savings in 1992. In the privatisation process, they bought the old slaughterhouse and meat processing plant, and two years later, they bought the meat store, too. The start of the business was based on Károly's professional knowledge and his reputation with the community. His wife had a different training, so he taught her everything of the meat trade. At first they did almost everything themselves. They dealt with production, procurement, marketing and sales and with financing the business.

A new and modern slaughterhouse was built in 2004. At the same time the meat processing unit was also revamped. The investment was in excess of HUF 80 million. The slaughtering and meat processing are now done in completely separated premises and the plant's capacity increased 60 thousand slaughtered animals per year. As the firm grew, they opened another meat store in the town. To ensure continuous operation of the business, currently they have a slaughterhouse, a meat processing plant, two meat stores, five trucks and four buses. The value of their fixed assets exceeded HUF 290 million in 2013.

Károly and his wife have two sons, the elder one is László (b. 1976) and the younger one is Károly Jr. (b. 1978). Currently both of them work in the family business. They both got married and Károly Jr. has 3 and László has 2 children.¹ The founders of the business and the two brothers with their families live in the same town, but in separate housing.

¹ See Appendix 1. Illustration: Family tree



I.2. Division of the labour within the family

The daily tasks are still shared. The parents and the two boys meet and discuss their work each morning. The founder is responsible for the classification of the livestock and the control of finances. His wife deals with cash flow and co-operates with the accountant.

The company is divided between the two boys considering both functions and responsibilities. László manages the meat processing unit and the meat stores, and Károly Jr. oversees the slaughterhouse operation and organizes deliveries.

I.3. Strategy: Quality and reliability

The company's main line of business is meat processing and preservation. Every day an average of 100 to 130 pigs are being slaughtered and processed depending on seasonality. The total capacity of the slaughterhouse is 60,000 pigs per year. In the company's stores primarily pork and products made from it can be purchased. There are two types of pigs slaughtered and processed: white meat pigs and Mangalica pigs. Their supply is made wider by beef and veal as well. To meet the requirements of food safety the business applies the HACCP² system.

Meat and meat products reach buyers through two main channels. In their own meat stores they sell directly to consumers. In the other channel, acting as wholesalers, they supply a national retail chain. In addition to the two main channels, they complete individual orders and deliver to small shops, the kitchens of schools and kindergartens and restaurants. Their supply area covers about a 100 kilometre-radius circle. They make daily deliveries with 7-8 so-called 'tour routes'.

The company applies different levels in their pricing policy. They depend on the length of the distribution channel, the type of animal, the classification of animal, their body parts and the processing level. The company uses traditional small-plant technology³ resulting

² HACCP = Hazard Analysis Critical Control Points

³ For example: An Easter ham is traditionally made for at least 5 weeks. Process of the salting, pickling, curing in case of large-scale process technology (the curing solution is injected into the meat) last only one week.



in extra costs in the course of production. This is a major impact factor and increases the firms' sale prices, too. On average, there is a 20% profit margin built in the net retail price, plus VAT⁴. The average wholesale price – excluding the cheapest and the most expensive products - ranges between HUF 150 and HUF 2,800 net.

The company operates on a multi-player and high-risk market. It is important to maintain a good relationship with both retailers and customers.

The homemade, reliable quality products and on-time delivery have contributed to the sales growth. The products' and the company's reputation have increased mainly through “word of mouth advertising”⁵. The two stores' locations are well-chosen; they are close to a busy road, so travellers-by can also increase their turnover.

Previously existing personal relationships have also helped them in building up the sales area for the company. In addition to the stable business relationships the constant standard quality of their products has contributed to the long-time survival of the family business. By now their good reputation has multiplied the value of the company.

By 2013, the sales turnover of firm grew over HUF 1 billion. Compared to the figures reached in 2008, this represents an almost 60% increase. A secondary activity of the company is passenger transport which started as a hobby of "the founding father". The new business unit was incorporated in the activities since 1997. In addition to the inland transport, today they operate internationality routes as well. The secondary activity's turnover on average represents 2.6-2.8% of all revenues.

The growth of the company is also reflected in the number of employees. In 2008, they already had a staff of 34, which increased to 45 people in 2013. Apart from permanent staff, they also employ six apprentices who spend their half-year work placement with the company. The increase in number of the staff also shows that the company operates on a solid basis.

⁴ In Hungary, the VAT rate is generally 27%. The modified Act of CXXVII / 2007 allows for certain products and services, the 18%, 5%, and the complete tax exemption.

⁵ Satisfied customers give positive reviews for their friends and purchase again.



The company has no plans for further growth. They would like to keep the present size of the company to be able to take in the operation. They do not plan to open new shops in other towns. They would not have enough time to check the operation of the new shop and they do not want to employ another senior staff. They would like to achieve growing sales by increasing the inventories. However, even the current quantity needs larger storage capacity. Therefore, they started the renovation and expansion of the storage facility of the processing plant. Their main target group remains the domestic consumers who prefer the traditionally made meat products. Export sales are not worth for the firm. The large-plant technology does not allow it to transfer to other countries.

II. Succession process

This case study aims to describe the succession process of a first-generation family business. It focuses on the situation where the owner has not transferred the ownership to the next generation yet, but the management tasks have long been divided among them. The ownership can transferred to the children – as stipulated by the parents - only after their death. Both boys will receive 50-50% ownership of the business. (See *appendix: 2.illustration*)

II.1. Establishment and acquiring executive management position

The owners got married at a young age and soon started a family. They had two sons, László and Károly Jr. The parents and the two boys grew up and got their education in the old, so-called socialist system. The father's qualifications were butcher and sticker, while the mother worked as a typewriter mechanic. In the early 1990s the parents lost their jobs. Károly described the events of the time as follows:

“My old workplace, the co-operative’s slaughterhouse and meat processing plant closed down. But I did not want to be in others’ employment. I thought more of myself than to give up my independence. My wife and I had a little money saved and we started our micro-enterprise in 1992. The boys had already participated in the work, but did not have



a say in it. We bought the old slaughterhouse and started to sell our products from so-called container box. After two years, we could buy the small meat store, too”.

The small business started to grow, and the small store and the family name became more and more well-known. However, their system of contacts was confined to a small circle. Only local customers purchased their goods and they delivered to a few grocery/food shops.

“After a while I noticed that we work a lot, but we retain very little of it. I tried to establish connection with retail chains”, said founder and owner, Károly. He approached the COOP chain where they said: “Károly, bring us your goods and we will look at them. If the quality and price are right, we will stay in connection with each other, if not, we will part.” But it turned out to be a success, and they were able to move on.

The growth brought about the need to employ more workers and the boys also got more and more types of tasks.

Even then, the parents decided that the business would once be owned by the boys completely. From the early period on they taught and helped them. Currently the boys work as managing directors at the company.

II.2. Roles and combination of family and business values in the succession

II.2.1. Family and business values, harmonization efforts

The founders always considered the most important thing in business to provide a quality and reliable service to customers. They think in the long-term and believe that the business will be taken over by their boys and later by their grandchildren. In establishing business partnerships they are also looking for permanent relationships with trustworthy partners.

“Nowadays it is different to make and build contacts. A phone call or an email seems to be enough, it is not necessary to know each other personally. On the other hand, you need elaborate contracts and lawyers for securing a new business partner. Sometimes it is necessary to investigate the financial background of the other party. Business honesty is very rare to find”, said founder Károly.



Right from the beginning the parents paid special attention to the upbringing of their children and strived to pass on the honour of hard work. They also expected a responsible behaviour of them.

„I managed to make them understand that in this business working time is not 8 hours a day and the work week is longer than five days“, remarked Károly, Sr.

However, the harmonization between work and family was brought about by the mother. Károly said about his wife: “She always stood by me in difficult times and took care of the kids as well. Without her we would not be here where we are now. Even now she gets up often at dawn to help the boys.”

Károly and his wife hold the key values of the decency, honesty and reliability in business life. Within the family they expect openness, the support and understanding of each other.

II.2.2. The accumulation of social and emotional capital in a family business

Besides commitment to work, love also plays an important role in family businesses. The emotional attachment of family members to one another can affect the efficiency of work, and consequently, the performance of the firm. It is evident in the case of Quality Meat Ltd. as well: the closely-knit family reached a high performance in business. They solve the problems together. Constant contact is well maintained within the family. This concern also extends to the relationship between family management and their employees. What other manifestations of socio-emotional capital can we discover? They always try to find some time for the family. They often spend holidays and free time together. The family is also closely tied to the local community. They all grew up here, went to school here, started to work here and started a family. They support the events organised in the town and the local sports clubs. Self-improvement is also an important issue for them. The head of the family and his wife have already passed on their knowledge to the next generation.

II.2.3. Family and business conflicts, conflict management practices

The owner-manager has already transferred most of the tasks to the successors. The areas of responsibility are clearly defined. However, decision-making right has not been completely abandoned. Károly, Sr. still goes to the office and deals with business matters on a daily basis. In strategic decisions affecting the whole enterprise his vision is still dominant. Arguments mostly occur with his younger son.

„One inn is too small for two pipers”,
commented Károly, Sr.

However, consensus is always reached. Having the morning coffee in the office is a conduit where everything can be discussed openly.

II.2.4. Practices supporting or hindering family cohesion and adaptability

The nature of the job requires that the two boys work all week, even on Sundays. Employees often have to come in on Saturday, too. Saturday is the big cleaning day because on weekdays work cannot be stopped. Extreme attention must be paid to cleanliness as they produce food for human consumption.

Sunday sees the transport of live animals to the slaughterhouse where they are classified to determine their purchase price. On weekdays, work starts early in the morning to make fresh produce available for delivery. The daily working-time of employees is 8-10 hours. Due to seasonal demand and holiday periods it can grow even longer.

Because of the small size of the company everyone knows one another in the plants and the stores. Most of the workers live locally, so the families know each other. Their children can go to school together. The feeling of togetherness is strengthened by the Christmas function when workers and their families celebrate together. Outside working hours, they meet at local events, especially at sports events, but they were not organized in advance.



II.2.5. The role of the founder's wife in the business

The founder's wife played a major role in conducting the succession process. Since the beginning she has worked in the family business. At first she worked in the meat store, as a seller. Later she managed a particular area of finances keeping contacts with the bank and the accountants. She performs these tasks even today, but also helps out in the stores or arranges deliveries, if needed.

The boys have learned a lot about the trade also from their mother not only their father. László sees it this way: “Originally, it was not my studied profession, and though I picked up a lot from my father in childhood, it was not enough. In the meat store I learned everything from my mother. For example: parts of meat and how to serve customers. Elisabeth was not only the mainstay of the business to her husband and sons but she provided the relaxed background for family as well.

The mother says about this: “I am proud of what we have achieved with my husband and I am proud of my boys, they both understood what values they received from us. Like my sons, I also had to learn the trade because originally I had other qualifications. I was able to pass on most of my learning experience to my eldest son because he also completed another type of school. In the first store we worked together for a long time.”

Today, she works only two or three hours a day so she can devote more time to the extended family. They have five grandchildren, which gives a lot of tasks to her. The founder's wife had multiple roles in the succession process. First, she worked with the same intensity and carried the same workload in the business as her husband and boys. In addition, she brought up the successors and also organized the family' logistics. She introduced the elder boy into the trade and now also deals with the third generation.

II.2.6. Perception of non-family members about the family business

There are few among the current employees who have worked there from the beginning. One of them is workshop manager, Zoltán Bartos⁶, who has been in the business since its

⁶ See Appendix 2. Illustration



foundation. Zoltán says: “I am satisfied with my job and happy that I can still work here. I know all family members and get along well with them. In my view, we have problems mostly with the new and young employees. They don’t look at the workplace as their own, they see in only as a source of earning money.”

Until the plant enlargement and the construction of the new slaughterhouse, the number of employees increased to 12 people who had been chosen by the founder-manager. The growth of the company's size started in 2005. Because of the company’s increasing production, new workers were needed. They were mostly employed by the successors, so they mainly adapted to them.

The company believes in training its own workforce and the best source is provided by those students who spend their professional practice time at one of the company's sites. "It is not an easy occupation but our training can provide a link between the company and the employee. A reliable, well-trained workforce is very important”, said founder, Károly.

In the opinion of Zoltán Bartos, operations manager, employees are satisfied with their jobs. In addition to salary they get various benefits and cheaper shopping. Employees are encouraged by shorter work hours if they attend vocational training.

II.2.7. Reorientation of retired family members

In a generational transition one of the potential sources of conflict is that the retired family members continue or give up control over the company. The "shadow of founders" indicates that one or both parents are affected and continue to control the next generation. In this case study, the ownership rights have not been transferred to the new generation. The parents’ plan is that the two boys will inherit the company. Both of them will receive 50-50% of ownership. The ownership of the other direct and extended family members have not been considered.

The retreat is not easy to digest for the father as I wrote in the previous section. He still goes to the office and monitors the operation, consults with the foremen on a daily basis.



He is an important participant in family discussions, or rather is still the leader. But the daily operational tasks are performed by the boys and they are responsible for the sites, the buyers and the suppliers.

“How does a day pass?” I ask him. “I still get up early. I go to the office, drink a cup of coffee with the boys and my wife. The children share their daily tasks with me and then I talk to the operations manager. Sometimes I answer the phone, but that's more the secretaries' task. But if there's a problem, I cannot let it pass. It is important that everything goes smoothly. My health has been failing recently so I feel the need to slow down. There are other things in life. For example I want to spend more time with the grandchildren and my wife; not to be together only in the workplace, but there will be private programs.”

Participation in the life of the local community is important to him, although it has not yet crystallised what he wants to do in it. The potential is there. He still likes to cook at local events and weddings. Travelling and its organization can also be an activity in which he can feel close to business later.

II.3. The next generation

II.3.1. Motivation

The outcome of the transition is affected by the successors themselves. It is not sure that the predecessor and the successor think the same way about the family business. The next generation may have several motifs to take over or not to take over the family business.

At the firm examined, the two boys have joined the business for two different motivations. The older boy saw an opportunity in it to ensure his livelihood. The younger boy has prepared for it since childhood, feeling the desire to be part of the company. The two boys learned the trade in different ways before becoming business managers. The older started in a different direction. “I did not want to deal with it, but life would have it, I got stuck here”, said László. He chose the construction trade and found his first job in it. By the mid-90s, the state companies were closed down and he lost his job. So he turned to



the family business. He started to work beside his mother in the shop. Then he moved to the meat processing plant. He got to know all the employees and work processes as well as the suppliers. The father saw that his work was reliable so he was appointed him manager in 2003. He is responsible for the operations of the meat processing plant and the stores.

László sees a lot of potential in having an own business. He does not depend on anyone, "only" accountable to his parents. He knows that what he creates for himself, he does not have to share with others. His family can buy everything that they need.

In contrast, the younger boy has done this type of work since childhood, and his vocational qualification is in this field. He spent a lot of time in the plants, so he got acquainted with every area quite early. "When my father was working in the old slaughterhouse, I went out to work with him in the summer. I liked the work, so I went to learn this trade in school", said Károly, Jr. In the family business he began to work in the small slaughterhouse. Later he supplied the products to major clients so he got to know the important customers, too. In 2003, together with his brother, he was appointed managing director by his father. He is responsible for the slaughterhouse's operation and customer relations.

II.3.2. Knowledge transfer between generations, ensuring continuity (organizational culture, leadership, management style), and setting growth on new track

The continuity between the founders and the next generation is ensured and the transfer of knowledge has been completed. The third generation is still very young; they are in primary and secondary schools. The owners (grandfather and grandmother) hope that at least one of them will continue the family business.

The second generation learned a lot of things from the founders about the trade and management.

Their management style was shaped most of all by their parents, but they were also influenced by their staff. The founder describes his leadership style like this: "I'm consistent, but I feel the problems of others, so sometimes I can be lenient, too. But I cannot stand equivocation and lies. I am a straight man and I expect it from others, too."



There is something of me in both my sons. Károly Jr. is tougher and more consistent than László, in whom I discovered my more emotional side."

It is important to study the culture of family businesses as well. At Quality Meat Ltd. the formation of organisational culture was done "spontaneously" by the founders. The successors sort of grew into it. Modifications and improvement have not been started yet as the still active participation of the predecessor does not make it feasible. Major decisions are made by the whole family but the father's opinion is the most important.

„We know how to accommodate our pleasure to our purse.” – said Károly, Sr.

Relations within the company are hierarchical. The opinion of the family managers about their employees is that basically they are unreliable and have to be closely controlled. They look for solutions to the challenges of the environment, try to be proactive, and typically will move fast than play for time. Rules and regulations govern the activities of the staff and the founder expects everyone to observe them. Family members are partly exempt from them but it is not typical. Employees are expected to implement the decisions made by the family and cannot question them.

As explained earlier, the business has no plans for further expansion and this approach is shared by both predecessors and successors. This means they are not interested in entering new markets. They do not want to open new stores and do not wish to deliver to longer destinations than presently. Development plans concern other areas like the rebuilding and expansion of the warehouse which has already started. The obvious aim is the extension of customer services.

III. Conclusions and edifications

The main advantage of the family business described here is that they think in the long term because they see a secure livelihood in their enterprise. Secure life requires financial stability. A further motivation is independence and accepting responsibility for



their decisions. The family name associated with the business expresses commitment towards society as well. The services provided and the quality of the products sold is added extra value. Quality Meat Ltd. is deeply entrenched in the community where they operate. Their goal is long-time subsistence and profitable operation attested by the over-20-year existence of the company.

The transfer of knowledge was made easier by working closely together. The two boys were initiated to work practices they would not have gained as employees in other workplaces. They were built up from the bottom and gradually burdened with new tasks trying to test what types of job they were the most suited for. Their places, responsibilities and management positions were carefully prepared not leaving anything to accident. The parents succeeded in finding the work fitting most to the boys' personalities.

Quality Meat Ltd. has a lot of employees working for them longer than 10 years. Some of them have been with them since the beginnings and also contributed to shaping the character of the successors. In turn, they also got to know the attitudes of the employees and their approach to the family business.

We cannot ignore the role of the mother in the generational succession process. Her role is multiple and complex. She has supported not only her husband but her sons and recently has turned her attention to the grandchildren as well. With her approach to family and work she set an example which has greatly influenced the outlook on life of the two boys.

The founders of the business under scrutiny see the future in their children and grandchildren. The founding father, however, is not very keen on retirement, still wants to take part in management. The two boys were moved to management positions, but ownership rights have not been transferred to them. The father still takes part in daily operations, is informed about everything and influences decision-making. Departing is very difficult for him. Business is not his first priority any more, but he has not found his new place yet.



He still spends the mornings in the office, inquires about daily proceedings, and wants to be informed about everything. He still makes plans about the future; the launch of the latest investment originates from him.

This situation may bring adverse consequences; the successors may not feel at the helm of the business even if they know later they will inherit everything. It is a hidden conflict situation, which does not manifest itself, but influences certain decisions. Considering the latest expansion, it is not clear whether the younger boy completely supports it. Does he really agree with it or does he have other ideas?

A further problem is the financing of business processes. The first task at the start was to provide the founding capital. The company was set up from savings and in the early period they tried to operate by keeping costs very low. They moved forward in small steps always reinvesting the profits and developing their assets.

However, external factors beyond the control of the company often create difficult situations for small family businesses. In the case of the business in question the first big test came with the legal harmonisation resulting from the country's accession to the European Union. The spatial separation of slaughtering and meat processing required a green-field investment of the company. The construction, equipment of the new plant and the modernisation of the old one proved to be a milestone in the firm's development.

The secret of their success lies in the close family co-operation and the well-developed contact network the basis of which they brought over from the earlier period. The solution of difficult situations drew the family ties even closer and the trust and faith of the employees in the future of the business also grew with it.

Appendix:

Characteristics of the interviewees:

1. Family tree:

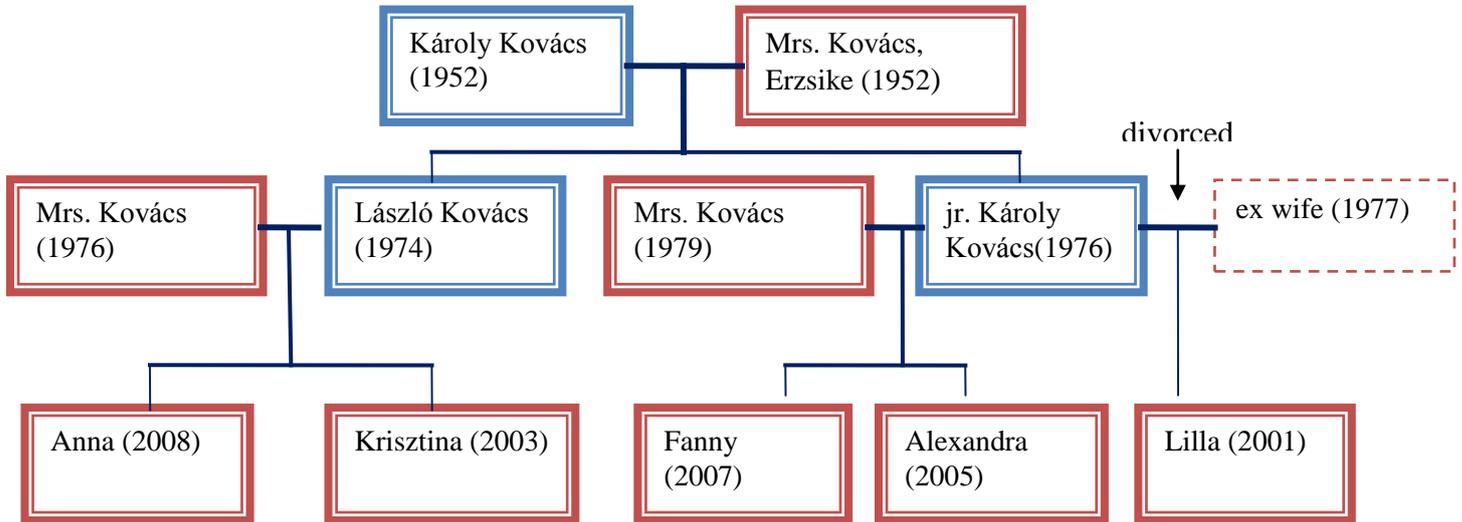


Table 1

	Date of birth	Gender	Qualification	Job title
Károly Kovács	1952	male	vocational certificate	Owner, manager (1992-)
Károly Kovács Mrs.	1956	female	vocational certificate	Owner (1992-)
László Kovács	1976	male	secondary vocational school maturity and vocational certificate	Manager (2003-)
Károly Kovács Jr.	1978	male	secondary vocational school maturity and vocational certificate	Manager (2003-)
Zoltán Bartos	n. d.	male	secondary technical school diploma	Operations manager (2005-)

Source: Own compilation based on the literature used



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