



# Interior Design Dreyer: a business model in need of new coating

Maya Wagner

Dissertation written under the supervision of professor Nuno Magalhães Guedes

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## Abstract

**Title:** Interior Design Dreyer: a business model in need of new coating

**Author:** Maya Wagner

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This Case Study tells the story of Interior Design Dreyer, a small German family business in the third generation. They started as a simple provider of paintworks and over the years adopted a differentiation strategy focusing on customized services. Today, they find themselves positioned as a premium service provider for a niche market of customers.

The industry of craftsmanship has been severely struggling with a shortage of skilled workers in the past years which represents a threat to the company's survival. The current operational strategy is based on specifically trained master painters who are a scarcity. Moreover, the company lacks a family-internal successor.

Readers will obtain an understanding of the dynamics in small family businesses. It allows studying a business model from a traditional industry that has been evolving over almost a century and is now confronted with the lifetime and scarcity of its most important Key Success Factors. The Literature Review discusses whether an academization is responsible for the staff shortage, provides leadership implications in modern companies, and highlights conditions for succession planning. The Teaching Note serves as a guideline for how to approach a case analysis in Management and Business Strategy classes. The goal of this Dissertation is to emphasize the importance of alignment in business intent, organizational structure, and operational strategy.

## Resumo

**Título:** Interior Design Dreyer: um modelo de negócio que precisa de um novo revestimento

**Autor:** Maya Wagner

**Palavras-chave:** Empresa Familiar, Modelo Empresarial, Artesanato, Escassez de Talentos, GenZ, GenY

Este estudo de caso aborda a Interior Design Dreyer, uma empresa alemã familiar de terceira geração. Inicialmente, forneciam serviços de pintura, mas evoluíram para se destacarem no mercado de serviços personalizados. Hoje, a empresa posiciona-se como um fornecedor de serviços de excelência para um nicho de mercado.

Nos últimos anos, o sector do artesanato tem-se debatido com uma grave escassez de trabalhadores qualificados, o que ameaça a sobrevivência da empresa. A estratégia operacional atual baseia-se em mestres pintores com formação específica, que são escassos. Ademais, a empresa carece de um sucessor familiar.

Este estudo oferece insights sobre as dinâmicas de pequenas empresas familiares. Examina a evolução de um modelo de negócio numa indústria tradicional ao longo de quase um século, confrontando-se agora com a longevidade e a escassez de recursos-chave. A Revisão da Literatura explora a relação entre a academização e a escassez de mão de obra qualificada, destaca implicações de liderança em empresas contemporâneas e aborda as condições necessárias para o planeamento de sucessão. Adicionalmente, uma Nota de Ensino é fornecida para orientar análises de caso em aulas de Gestão e Estratégia Empresarial. O objetivo desta Dissertação é sublinhar a importância de alinhar o desígnio empresarial, a estrutura organizacional e a estratégia operacional.

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## Case Study

On a Tuesday morning in January 2023, Michael Dreyer closed the front door behind the couple who had just left the shop of Interior Design Dreyer<sup>1</sup>. He returned to his desk, glanced at the scheduled appointments in his calendar for the upcoming spring months, and ruffled his hair.

His company specialized in interior design, painting works, and renovation for private customers and prospered in his reputation. Despite being based in Klein Meckelsen, a village between Hamburg and Bremen, there was demand from a broad area across Northern Germany. The previous year, the company generated a turnover of 700,000 Euro with 10 employees. However, the growth in demand led to a problematic situation as the company lacked the skilled staff necessary to keep up with its quality standards.

The sector of craftsmanship in Germany had been suffering a shortage of workers for several years, creating challenges, especially for SMEs (Small and medium-sized enterprises). Training specialists took time and resources, which Michael was willing to invest. But the industry had an image problem among the younger generations and their high requirements could hardly be met. This year, so far 40,000 apprentices were missing.

Michael pushed aside the heavy sample books of the designer wallpapers that he had just presented to his customers. He urgently needed to work out a strategic plan to secure the future of the company.

### **The Beginning**

In October 1925, Willi Dreyer laid the foundation of a family business that, three generations later, was threatened to not reach its centenary. Born in 1899, he trained to become a painter journeyman until he was drafted into the German military services during the First World War. 1918 he returned home and pursued his passion to eventually pass the master's examination in 1925. He immediately started the business and was able to build an extension to his parent's house for his own workshop only two years later. Also in 1927, Willi became the father of Helmut.

The following decade required hard work from Willi to grow the business and provide for his family. With the commencement of the Second World War in 1939, he again had to leave his

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<sup>1</sup> For ease of reading the original company name "dreyer raumgestaltung" has been modified

family for military duty. After his release from Russian captivity in 1945, he resumed his painting business but was confronted with very hard times. Germany's post-war economy was weak and the market for building materials was almost at a standstill. Due to strong inflation and lack of money, people were trading and barely anyone demanded paintwork.

Nevertheless, Helmut followed the example of his father and refined his expertise by working for different companies before taking over the family business in 1957. He added curtains to the offered products and had three children: Michael (1958), Hans-Ullrich (1968), and Dagmar (1969).

“Dreyer’s House of Colors” had a good reputation in the region. Helmut's improved techniques allowed him to provide better service to the customers. His business acumen led to a broader variety of materials; he purchased various curtains at the merchants so customers could choose from different fabrics and patterns presented in his shop. Later, he referred to these as “good old times” when customers came to browse for several hours. He would invite the men to the property’s garden, to share a drink and chat while the women would pick new curtains and wallpapers. Upon presenting their preferences, their husbands rarely had any objections.

In the 1960s, the German retail market was revolutionized. Until this point, one would buy tools and nails from a manufacturer of iron goods, paints and wallpaper from paint shops, and building materials from wood merchants. However, inspired by the American do-it-yourself (DIY) example, large hardware stores emerged in Germany. This meant an immediate loss in business for smaller craftsmen and thus ruled out those who did not adapt fast enough.

Helmut’s son Michael discovered his creative streak and completed the painter journeyman in a shortened training time. After acquiring additional training in floor-laying, he became a master painter in 1984. In 1987, he took over the business from Helmut and renamed it “Interior Design Dreyer” (IDD), corresponding to the adjustment of the business strategy.

In 1991 the first mass retailer opened close by, offering more and cheaper materials and additional equipment for DIY renovations. Michael’s rural location relied on customer visits with purchase intent, and he noticed significantly fewer walk-in customers interested in his pre-selected, high-quality materials.

Michael felt the need to pivot. He had extended the services offered but since people started doing paintworks themselves, a significant part of his service became redundant. Consequently, he decided to focus on complex and customized projects. Not only was more time required but

also special equipment and experience due to anomalies like interrupted or inclining walls, a crossbeam, or less accessible areas. Professionally trained staff was needed to perform work of long-lasting and superior quality. He understood that like the fashion industry, interior design was moving towards temporary trends. Accordingly, he changed the shop's concept from stock sale to individual consulting for interior room designs, including flooring, wallpapers, painting, windows, and sunshade systems. The shop was turning into a more inviting and customer-friendly atmosphere, exposing curated materials and selected brands. He also significantly reduced public communication of the company. The tailored services were facing high demand and the most efficient way of acquiring new customers was through recommendations and word-of-mouth. Without high marketing expenses, in a short time, he expanded the recruitment area for jobs across to a large geographical triangle, framed by the River Weser, the River Elbe, and the cities of Bremen and Hamburg.

### **The Occupational Profile**

The profession of the master painter was as old as mankind itself. The first paintings in human dwellings dated back to the Stone Age and were made from plant-based dyes, applied with animal hairbrushes. Over time, a variety of techniques and arts developed through different cultures and available raw materials. Industrialization finally established the craft of master painters in the middle class and added meaning beyond decorating surfaces. It was enriched by functional values like restoration and conservation. From there, specialized professional fields developed, starting from the profession of a master painter.

Craftsmanship was an essential pillar in the backbone of Germany's economy. Since 2011, however, a negative trend in the number of paint shops was registered. In one decade, the number of registered businesses dropped to 39,667, representing a decline of 7.22%. While the restrictions during the COVID-19 pandemic imposed severe challenges on in-person services, Michael registered a positive impact on his business. Money could not be spent on vacations and people were locked in at home. As a result, many came up with the idea of finally undertaking long-delayed remodeling, filling Michael's order books. His employees were working at full capacity and due to physical distance and less small talk more efficiently than ever.

In contrast to the registered businesses, the number of apprentices ended the negative trend for the first time in 2008. From 14,257 apprentices in 2019, there was an increase of 7.4% in two years.

For becoming a painter in Germany, the educational program started with a three-year apprenticeship which was divided into school blocks and professional work in the respective apprenticing company. In school, the trainees learned well-founded theoretical knowledge, the basics of crafts, and general techniques before they could decide on a specialization to delve deeper into the respective requirements. Working with the company allowed them to apply what they had learned to real-life job sites, improve their skills, and absorb knowledge from more experienced colleagues. After passing the final examination, trainees were certified as painter journeymen<sup>2</sup> and could start working full-time.

The next higher qualification was becoming a master painter. This title not only permitted moving up to a higher salary bracket but also certified that someone was able to pass on the knowledge learned, lead teams, and become a trainer for other apprentices. Therefore, candidates had to pass a trainer certification, a business administration class, and in addition prove the necessary theoretical and practical expertise. Part of the final examination was to create a concept for an interior room design starting from sketching, perspective drawings of the floor plan, and the creation of a physical miniature model. The master painter degree qualified candidates to apply for universities and at the same time was a proof of expertise that enabled one to start their own business.

The occupational profile of a painter contained five specialization paths that journeymen could pursue during their third year of training (see Exhibit 1). A precondition was a completed school education of at least 10 years. As for the skill set, spatial imagination, creativity, and a talent for the composition of different elements in room interiors were required on top of manual dexterity to be able to practice the profession successfully.

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<sup>2</sup> Due to the word limit, job titles and degrees are utilized in the male form but also apply to the feminine gender.

## **The Business Model**

### Business Structure

Upon a client entering the shop, the key activities were divided between Michael and his team. First, Michael had to understand the client's needs, which often included a site visit to better know the room conditions, its dimensions, the illumination, and the impact of external influences like humidity, sunlight, or the foundations of the building. The consulting side was very important because clients usually only had rough ideas but no precise plan of what to change. They trusted Michael's experience and sense of interior design. Based on the information collected, he started the creative process and prepared a proposal. Michael's employees oversaw the follow-up activities including the physical execution of the client's order. Some years ago, Michael joined the teams on the job site but with the focus on customized services, he had to dedicate more time to consulting and desk work.

The superior quality standards of his company required a set of essential resources. People were a critical asset. With more team members, he was able to accept many orders at once. The more efficient and skilled his employees were, the higher quality could be delivered in a short time. To be able to carry out the jobs that Michael brought in, every employee needed equipment such as ladders, various brushes, and tools. Premium work requires premium products. They were provided with company vans to reach construction sites with the equipment, paints, and materials to be processed.

### Value Proposition

The aspect that Michael's clients most appreciated was his customized suggestions for the creative redesign. He took time to visit households on any weekday, collecting impressions and measuring dimensions to suggest makeovers. His ideas were always considering living trends and the client's preferences. The possibility to haptically present a room concept had its price: annual expenses accumulated to 8,000 – 10,000€ for samples, including wallpapers, carpets, curtains, and flooring or color palettes from several fabricants. All this was necessary for tailored offers and unique interior designs. Since the processed materials were used for one specific order only, Michael ordered small quantities to consequently higher purchase prices. His ability to turn a wish into tangible creations and the refreshing feeling of living in a recreated room distinguished his service from others and made customers willing to pay premium prices.

## Customers

Most clients have been requesting IDD's services for many years. Private households represented 65% of his customers, the remaining orders were commercial contracts and special projects. In the past, families would buy curtains and wallpapers from Helmut's shop. Meanwhile, their offspring moved into new houses and requested Michael to renovate and transform nurseries into teen bedrooms. Over time, the dedicated and customized service allowed him to establish trusting relationships with his clients. Some jobs took several days and were executed in the presence or even in the absence of homeowners. This required a great amount of trust from the client and Michael in his team.

In 2007, a coincidence led to a rather exceptional job. During a dinner party in the only tavern of Klein Meckelsen, he was introduced to the owner of a furnishing company that specialized in vessels. After a trial project, Michael was hired on the spot for challenging projects on the research vessels. Depending on his team's availability, the work was either executed while the vessels were towed in the harbor or while cruising. The latter alternative required lots of planning in advance, sending containers with equipment to the layover harbors, and precise analysis of what material was needed since the vessel was at sea for several weeks and had no contact with the coast. These projects accounted for 25% of the revenue until 2021.

The strongest channel for Michael to communicate with his clients was through recommendations and word-of-mouth. This is how he acquired the largest number of new customers. Despite newspaper articles announcing milestones like the renaming and extended service range in 1993, he barely allocated any budget to public advertisement. His shop and the company vehicles were carrying the self-created company branding. The logo consisted of a lowercase "d" in the form of an open container of paint from an aerial view with a brush resting on its edge (see Exhibit 2). The website got a makeover in May 2021 (see Exhibit 3) which increased the monthly visitors by 210% on average.

## Finances

The satisfaction of his clients was Michael's highest priority. Nevertheless, he knew that there would be room for optimization regarding an efficient balance of cost and benefit. Several association advisors had pointed this out in past conversations. He for example didn't charge

for the time he needed to create proposals as he considered it a passion that he enjoyed practicing.

The time employees spent preparing, customizing, and carrying out orders on the construction site was an important part of the cost structure. Traveling time, cleanup works, and disposal costs also had to be integrated into the total cost. Another decisive factor for the price was the chosen material and the size of the work area. For designer wallpapers, he paid a quadruple of regular wholesaler prices.

New buildings had a regulated set price for painting works since the rooms were empty and had extensive, blank walls where a big volume of the same material was evenly processed. There was not much room for profit margins.

Living rooms or offices with furniture – partly in use during the work – presented a greater challenge. Objects were professionally covered and protected from paint, paste, and dirt and sometimes shifted around if removal was impossible. Short work intervals on site involved more work for the teams which was reflected in the cost. There was no set price list, so Michael had to make assessments and trust his experience.

Once in the 1990s the company generated a turnover of one million DM<sup>3</sup> but ended up with a loss of almost 6,000 DM. The reason was the quality of jobs that year. Michael's calculations failed; his teams underperformed and took longer than expected. Outgoing invoices from 2022 testified to the shift in IDD's positioning: seven invoices generated 50% of the annual turnover, one of them being a commercial order and the remaining from private customers.

The bottom line was that the estimate had to be a balance between being affordable for the client and profitable for Michael. Individual projects generated higher profits. Michael did not flinch from complex, small-scale work, in fact, he knew that the competition was trying to avoid lavish projects and demanding material.

## Competition

Michael considered the few private painters in his region colleagues rather than competition as they worked alone and usually focused on simpler jobs, hence dealing with different customers. They avoided competing directly and preserved a good atmosphere. Only one company with an

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<sup>3</sup> DM = Deutsche Mark, German currency before entering the European Monetary Union

almost identical setup, 10km from Klein Meckelsen, he considered a rival. Founded in 1965 and run by the third generation, they owned a vehicle fleet, employed several teams, and likewise, focused on quality and customized projects. Occasionally, they competed for municipal public tenders like renovation of the local kindergarten or schools. Michael maintained good relationships with the building contractors and knew that public contracts were distributed evenly among the qualified paint shops. Besides he didn't favor these projects as public funds were scarce, followed strict rules, and required little of his creative talent.

He had once tried to sell decorative articles like pillows, bathmats, and rugs or covers for toilet seats in his shop. This attempt failed as he soon realized because of hardware stores and shops that specialized in decoration. With a wide range of standard products, they became the go-to place for customers in need of basic articles for interior design. Michael's customers did not fall for takeaway items, they wanted carefully curated designer pieces. Eventually, he continued selling only superior-quality brushes, paint, and paste that his teams would use on their job sites, leaving low-quality products for the hardware stores that vied for price-sensitive customers.

### **The Workforce**

Michael and his predecessors never intended to employ a large workforce. The focus had always been on acquiring profitable projects and delivering exceptional performance. Skilled people were a key variable and the most challenging one in this equation. For many years, Michael employed only three painter journeymen, occasionally supplemented by trainees. Depending on Germany's economic situation, demand for renovation, and the success of his hiring activities there was always fluctuation. In 2023, the company was counting 10 employees.

Together with his wife Sonja, Michael took care of the hiring himself. Based on the long history and small company size, there was family culture which they valued a lot. They wanted reliable and talented team players who mastered social interaction and behaved responsibly when working in customers' homes. Until the turn of the millennium, this concept was successful. Michael was able to rely particularly well on a handful of employees who worked for over a decade for IDD. In those years, the team worked routinely with fixed responsibilities and understood each other blindly. They identified with the company and shared Michael's goal of delivering excellent work.

In the last decade, however, the challenge in hiring shifted to finding applicants at all, not even considering their talent or expertise. To stabilize the workforce, support was needed for all positions with completed training, including a successor. In early 2024 he would legally be allowed to retire. Passing on knowledge and techniques had always been a priority to him, and he invested lots of time in training his people. The countdown to an uncertain future, however, stopped him from taking in new trainees. He now had to focus on a handover solution. Internal succession was off the table: his first son became a teacher, and the second one joined the German Navy. The families of Michael's siblings chose different academic paths over joining the family business.

Michael used mainly channels that he could control himself for finding new employees. The website always had an announcement, but he deliberately avoided promotion on the fleet of vehicles. He doubted the effectiveness of this way of recruiting and didn't like it as it was used by many low-quality providers in craftsmanship. Alongside the website, most applications came through the German employment agency, where he was in frequent exchanges with the responsible clerk. Michael's situation was known, and the requirements were understood. Still, many applicants did not live up to expectations, had too little experience, or lacked important soft skills. Sonja and Michael had to involve their employees and urged them to watch out for suitable candidates within their social circles. In August 2022, they created an Instagram account to establish a social media presence, posting not only their work results but also calling attention to IDD as an attractive employer. A campaign promoting open positions was in the planning phase but not yet published.

### HR Stories of Success and Failure

Over the years, Michael gained manifold experiences with employees. A friend from school became a master painter and worked with him since he managed IDD. One of his trainees meanwhile passed the master painter's examination and worked ambitiously. But not every investment into human resources turned out to be a success story. Some trainees were not performing to the expectations and were not offered to stay. Another employee had worked one year for IDD only to learn and start his own business, as Michael later found out. Yet another painter was left by his partner and moved to his hometown in Southern Germany.

The research vessels projects taught him another lesson. The special expertise of his team qualified them for renovations of the night cabins, bathrooms, and flooring, so Michael sent

containers with tools, equipment, and materials to Walvis Bay in Namibia. Three weeks later, the team followed by plane, boarded the vessel, and carried out the job while the vessel crossed the South Atlantic to Chile. Machinery damage interrupted the tour and required an emergency stop in Brazil. On top of that, the team finished early, and Michael ordered their return for a job in Germany. They left the ship in Punta Arenas and flew home. One of his loyal employees quit after this experience. Everyone had agreed to this project, but he felt homesick, overwhelmed by the changing surroundings, and suffered from the unforeseeable changes in itinerary since he had just started dating someone at home. Coaxing didn't help, the loss was irreversible.

Another time, not only his employees were affected by unpredictability but above all Michael himself. The renovation works were supposed to be carried out on crossing from the Caribbean to Germany and the equipment had already been dispatched when a volcanic eruption in Iceland paralyzed air traffic. Being contractually bound and to avoid penalties, he had to make his team available upon the vessel's arrival in Germany four weeks later. The problem, however, was that his order book was empty for the next weeks having assumed his team would be absent and the projects he had scheduled for the vessel's and the teams' arrival in Germany had to be rescheduled.

Once he hired a master painter who was self-employed before. In an accident, she lost most of her teeth which required insurable employment to get financial support from her health insurance. Despite her satisfactory work, Michael had issues; older customers especially were shocked when she arrived and felt uncomfortable having her in their homes. Michael found himself in a quandary, as he needed her but couldn't risk losing his reputation with customers.

For a couple of years, he tried hiring talents from abroad. He had employees from Russia, Poland, and Romania with just enough German vocabulary so his team could communicate. Various reasons proved this not to be ideal for hiring either, because of a different understanding of responsibilities and a lack of alignment with the desired way of working.

## **The Challenges**

Michael was aware that the job market was evolving but lacked the methodology to cope with the changes. It bothered him that this topic was increasingly taking up more time, which he used to devote to business development, visiting fairs, and creating novel room concepts. Now, much more delegation was required. New employees often were familiar with hierarchical

working systems and constant supervision. They finished rough work without paying attention to details. Michael, however, demanded clean and high-quality work and he wanted the tools to be used responsibly. Branded work clothing was not to be used as cleaning cloths and, at the end of the day, teams were supposed to leave the job site without leaving traces.

Michael realized that many had wrong impressions of the job as a master painter. It was not an office job; activities were more diverse than the public assumed and the years of male dominance in the industry were gone. Hands would get dirty, it was physically demanding sometimes and as a counterpart to the creation process, cleaning up and disposal were essential parts. And yet, spatial imagination and creativity were needed as well as the ability to deal with customers and react when things didn't go as planned.

To Michael's frustration, the new generation of painters had higher expectations towards their employer while identifying less with the company. During a stressful phase in early 2020 with delayed projects, tensions among colleagues, and lots of frustration in his company, he decided to have one-on-one meetings where his young employees demanded a new leadership style. He noticed that those born after 1990 attached great importance to work-life balance, demanded recognition for their work, and exorbitant salaries with a 4-day working week. They also suggested the Instagram account for more external visibility and the purchase of large banners for construction sites with company advertisements. From there, Michael established bi-monthly performance reviews to share and receive feedback and concerns. He also provided the company cars to employees for the ride home after work, so that they would save the time of having to drive to the company in the morning before setting off to the job site.

There was another fact where Michael felt compelled to take a step toward his employees and away from profitability. His teams refused to work on the research vessels during ocean crossings and take on the long arrivals to German seaports when the vessels were docked. What Michael saw as a unique selling point as a service provider and employer turned out to be an opportunity for which he didn't have the right people. He couldn't risk losing any more employees because of these jobs. With a heavy heart, he informed his client about the circumstances, who was not happy at all but promised to award him with all the smaller jobs that the teams agreed to. Ultimately, Michael had the choice of no people versus no projects.

Michael had thought about the possibility of shifting his focus so that hiring would be easier. This essentially meant simpler, less demanding work that would no longer require his specialization. At the same time, he would have entered a mass market with lots of competition

and low margins where IDD could hardly stand out. Additionally, he would have to start from scratch with zero customers, losing the client base from the last three generations.

Time raced against him. He still had one year left to stabilize the workforce and appoint a successor with indispensable management skills and painting expertise. Michael knew that succession meant a shift in business focus, just like in the past. He hoped to find a suitable person as the alternative scenario was to close the store, lay off his employees, and rent out the building which he didn't have high hopes for, only for a fraction of the rent it was worth, if at all.

2025 would have been the 100th anniversary of IDD. Michael took a deep breath and exhaled noisily. Even though hope was slowly fading he wasn't ready to give up yet.

## **Literature Review**

The case study discusses different events that result in challenges or even threats for IDD. The Literature Review addresses topics related to those issues.

A lack of suitable staff and new trainees indicates changing industry and workforce trends, which is why light will be shed on the leadership implications of GenY and GenZ entering the job market. Next, the question of whether the claim of an academization of the German youth is playing a role. Lastly, the complex topic of succession in family businesses will be touched on as it marks a particular characteristic of the company.

### **Leadership Implications with GenY and GenZ Entering the Job Market**

There are observable characteristics across cohorts of people that are born around the same time. While on a micro level, there are regional differences due to culture and socialization, on a macro level external influences like resources available, social contacts, and external events shape generational development of values and behaviors.

I will briefly compare selected characteristics of the generational classifications, explain the forecasted trends, and research suggestions for companies to best integrate the newest generation in their businesses.

The oldest generation at work belongs to the so-called Baby Boomers. The term originates from the United States, deriving from a strong increase in birth rates after World War II (Mahapatra et al., 2022). In Germany, this effect on birth rates was measurable from the mid-'50s to the mid-'60s (Klaffke, 2014). This generation witnessed political conflicts, economic recession, financial instabilities, and technological development, resulting in a competitive “elbow generation” with high respect for authorities and hierarchy in the workplace (Mahapatra et al., 2022).

Clearly distinguishing Generation X from their parental generation was the minimal supervision while growing up. Children born between 1961 and 1979 were often left alone at home while both parents worked, demanding them to develop high independence and self-reliance (Mahapatra et al., 2022). This generation is characterized by even stronger competitiveness, individualism, materialism, and the valuation of status symbols (Francis & Hoefel, 2018).

The following generation, Generation Y, witnessed the turn of the Millennium which is why they are often referred to as “Millennials”. Most researchers assign those born between the early 1980s and 1995 to this cohort (Mahapatra et al., 2022; Chillakuri, 2020; Klaffke, 2014; Bieleń & Kubiczek, 2020), while others focus on the years between 1978 and 1989 (Half, 2015). Many notable differences from the previous generations derive from almost a decade of peace and prosperity in the West which led to self-confidence, persistence, and high expectations for life (Tulgan, 2013; Francis & Hoefel, 2018). Klaffke (2013) identifies four areas coining Millennials’ habits:

1. Internet and Digitalization: Technology has become an essential part of communication and entertainment. Strong in Multitasking. The tendency to question the status quo often gets confused by older generations with a lower willingness to work, which has not yet been empirically proven.
2. Globalization and international trade agreements: availability of vast offers in fashion, airlines, or nutrition with different prices, performances, and qualities. While having learned to process large amounts of information at the same time (Lyon, 2010 cited by Addor, 2011, cited by Iorgulescu, 2016) they constantly need to evaluate alternatives and make decisions, resulting in increasing numbers of mental health problems due to insecurity and stress (Klaffke, 2014).
3. Changing social settings: growing diversity in social groups, more visibility of single parenting, and different family models compared to the traditional constellation. More focus on meaningful connections and friendships.
4. Growing flexibility in the workplace and a shift to a service-oriented society

GenZ shows previously hinted characteristics of Millennials as a now integral part, whereas in other aspects they are very different and unique. According to Tulgan (2013), companies will experience the greatest generational shift ever recorded with a generation entering the labor market that has been exposed to technology and digital content from an early age. This enabled them to productively work on multiple tasks simultaneously (Bieleń & Kubiczek, 2020) and due to an innovative and entrepreneurial spirit to stay versed in technological advancements (Adecco, 2015 cited by Iorgulescu, 2016; Robert Half, 2015). Given the omnipresence of technology, some even assign “addiction to technology” as a distinguishing characteristic (Bieleń & Kubiczek, 2020). Strong connections in online communities claim to cause a severe lack of face-to-face communication skills which requires companies to specifically train GenZers in formal communication (Mahapatra et al., 2022; Robert Half, 2015).

Generation Z is growing up in unstable times of wars, refugee crises, economic recession, and climate catastrophes. Based on broad access to information, this future-oriented generation cares about an individual's impact (Chillakuri, 2020), and engages in activism for various causes (Francis & Hoefel, 2018) while at the same time expressing lower confidence and expectations (Tulgan, 2013).

For companies, it is crucial to understand that GenZers don't like to be labeled and put in boxes (Francis & Hoefel, 2018). This generation values diversity and tolerance, accepts multiple identities (Mahapatra et al., 2022; Francis & Hoefel, 2018), and is averse to any kind of discrimination and religion (Aggarwal et al., 2022). Interpersonal connection and togetherness are exceptionally important (Tulgan, 2013; Francis & Hoefel, 2018). Therefore, companies should recruit an inclusive workforce where individuals feel empowered by their individuality and where intense connections are supported (Tulgan, 2013) in a friendly working atmosphere (Bieleń & Kubiczek, 2020). Literature also suggests early, frequent, and intense mentoring of GenZers (Robert Half, 2015; Klaffke, 2014) with immediate, transparent, and individual feedback on their absolute performance (Tulgan, 2013; Chillakuri, 2020; Robert Half, 2015). Despite controversial observations in their abilities, they believe as "Dialoguers" in the power of open communication (Francis & Hoefel, 2018). Flexible work hours and work-life balance are key desires of Generation Z (Bieleń & Kubiczek, 2020; Klaffke, 2014). Being used to multiple choices, GenZers would rather leave their workplace for one with values they identify more with (Aggarwal et al., 2022) or that offers tailored career opportunities (Chillakuri, 2020; Bieleń & Kubiczek, 2020; Klaffke, 2014). Companies should be aware that GenZers consider the fit of a company during the recruitment as least as much as the company considers the fit of the employee (Robert Half 2015, Aggarwal et al., 2022). Klaffke (2014) suggests focusing on promoting career perspectives, adding university education to traditional training, and partnering with companies abroad for exchange programs, not only to increase the employers' attractiveness but also to enhance competencies among the workforce.

Summarizing the key strategies, companies must understand the relevance of social media and communication with potential future employees. They should foster high-intensity relationships in the company and provide continuing education opportunities to meet GenZers' expectations. Successful integration requires clear communication on narrowly defined expectations and frequently rewarded loyalty. Further, research recommends evaluating the opportunities of combining global reach with local connectivity.

The bottom line is that the only way to keep workplace volatility of the younger generations at a minimum is to deeply understand their needs and to find strategies to keep the “best of the best” within the company. The next topic will be going more deeply into this direction, but we have a growing gap between a minority of high performers that companies will be competing for and a large number of poorly qualified people or dropouts without completed education. It will be key for companies to create jobs that encourage employees to commit to staying with a company long-term.

### **Academization of the German Society and its Effects on the Labor Market, specifically for the Sector of Craftsmanship**

Different paths prepare young people for the labor market. Popular ways of professional education in the Western world are theoretical university studies or vocational training; a practical training for specific job functions. Some occupational profiles require specific training and certification but there are several paths to get there. Most professions in craftsmanship neither require a university degree nor Germany’s high school diploma, the “Abitur”.

Rözer (2022) refers to multiple studies that describe Germany’s dual system with connected educational and occupational training as a great success. The notion is that combining profound theoretical school knowledge and practical application at work facilitates the labor market transition. The result can be seen in Germany’s youth unemployment rate, which is the lowest across Europe (Lueg, 2015).

Yet, 40,000 training positions in Germany were free in April 2023 and the German Chamber of Crafts was mainly worried about not even receiving applications (James, 2023). In this context, Germany’s media landscape often discusses the trend of “academization” as the reason for missing trainees.

The truth among the growing number of Abitur graduates is an increased percentage of them aiming for vocational training (Dohmen et al., 2023). Due to shrinking cohort sizes, however, this development results in an emerging small “elite”. Simultaneously, the gap to the larger part of the cohort with lower qualifications is growing (Klaffke, 2014). Companies are increasingly interested in highly qualified graduates, which intensifies competition for the “elite” (Lueg, 2015). For graduates with lower or no graduation, the transition into the labor market becomes increasingly difficult. The number of NEETs (Not in Employment, Education, or Training) of

individuals between 15 and 24 years increased by 28% between 2019 and 2021 (Dohmen et al., 2023). German politicians are urged to prevent drastic future consequences and adjust the educational system (Klaffke, 2014). The public further demands correction in communication since vocational training is often not even mentioned in career advice sessions for high schoolers (James, 2023).

The issue of “What is the better qualification for the job market, a university degree or vocational training” becomes a key question.

Research has been conducted on whether a general education in universities or vocational and job-specific training is the “better” path of education. Results reported that individuals with vocational training initially have advantages but, in the long run, face a trade-off over those with academic education (Rözer, 2020; Hanushek et al., 2017; Brunello, 2017).

The prevailing notion is that transferring to the workforce will be easier from education with enhanced ties to the labor market, e.g., through apprenticeships, and therefore creates craftsmen that are “specialists” in their area (Rözer, 2020). This, however, impacts the adaptability of workers to adjust to technological advancement and structural changes in the economy. As the learned techniques depreciate over time, the likelihood of getting laid off increases parallel to lower chances of being hired with growing age (Hanushek et al., 2017; Brunello, 2017).

Further, studies suggest that besides an employment trade-off, vocational training leads to an income trade-off (Hanushek et al., 2017). Adults with vocational training receive significantly fewer opportunities for additional training as they age, compared to individuals with a more general, academic education. Brunello & Rocco (2017) found in their cohort survey individuals with vocational training at the age of 23 to earn more than those with academic education when entering the workforce, whereas, at the end of their twenties, they are overtaken by those with academic education. It must be noted that these studies refer to male individuals.

In contrast to Hanushek et al.’s findings, their British respondents born in 1958 reported the same or higher employment rates at the age of 50 to 55 than their academic counterparts. They could not find evidence for an employment advantage but instead concluded from skill depreciation to a wage trade-off; occupations with vocational training often receive lower salaries while working extra hours. At the same time, they face lower risks in earning variabilities, so the researchers don’t generally conclude lower labor market outcomes of vocational training.

The question of why young graduates prefer academic education remains. Some see in academization a growing prosperity across German society, as significantly more offspring from academic parents enroll in universities (Lueg, 2015). For appropriate reasoning, however, the changing needs of young generations need to be considered. Graduates barely know what they want to work in, so they decide on general studies for more alternatives in life. Hierarchies in vocational education are unattractive for Millennials and GenZers, and so is the fact that jobs that don't require university degrees often get paid less (Riedl, 2022).

On top of that, craftsmanship is facing a severe image problem (Lueg, 2015; Riedl, 2022). Lueg (2015) cites Michael Brücken from the Chamber of Crafts Cologne, who complained that communication for several years transmitted that “if you're not capable of doing anything, you can always work in craftsmanship”. This would not be the reality, as these jobs require high amounts of technical skills nowadays.

Germany's Chamber of Craftsmanship has made attempts to increase the attractiveness of craftsmanship by introducing a system of trial studies. This concept combines three important pillars:

- 1) Firstly, an apprentice training to learn about the profound theoretical knowledge
- 2) Secondly, it adds extended training, so that trainees can obtain the master title and
- 3) Thirdly, it adds university studies in economics for the necessary skill set to start one's businesses (or take over existing businesses, since a quarter of the current companies are led by managers over the age of 50)

(Lueg, 2015).

Concluding one can say that a perceived academization results from a focus on the decreasing size of a small group of highly qualified school graduates. An adjustment of the educational system and a broader offer for training systems in craftsmanship could help to better prepare school leavers and NEETs for entry into the workforce. The sector of craftsmanship needs to continue working on an image change and introduce more flexible working models to become attractive for high performers as well as for lower qualified graduates.

## **Succession in Family Businesses**

Small and medium-sized family businesses (SMFBs) represent a disproportionately large number of economies around the world. Motwani et al. (2006) refer to multiple studies that estimate 90% of companies in democratic countries to be family businesses. From this can be derived that the passing on of a company across generations is not only relevant for the people in the company but can also have an impact on the countries' economies (Sharma et al., 2003; Chrisman et al., 2008; Motwani et al., 2006). However, only approximately 30% of the family businesses seem to endure the handover process to the second generation, and 90% fail before the third generation gets a chance to take over (Handler 1994 quoting Beckhard and Dyer, 1983; Stalk & Foley, 2012). In this context, I will examine the relevance of management succession for family businesses (FBs) and the potential for success or failure of this process.

Research on FBs is challenged by the absence of one universal definition. They are complex organizations of various legal forms, company sizes, ownership models, and management approaches (Kęsy & Kęsy, 2022). Additionally, their rather confidential nature makes it hard to access relevant research data (Pöschl & Freiling, 2020). While non-family businesses traditionally pursue profitability, FBs put significantly more focus on the satisfaction of family and non-family members in the company (Bigliardi & Dormio, 2009). From an operational perspective, they distinguish themselves through different strategic orientations or demographics in the workforce and management besides the additional dimension of family characteristics requiring a different approach to planning and running a business (Motwani et al., 2006). By applying the three-circle model of Davis and Tagiuri, anyone's relationship with a family business can be categorized and explained (see Literature Review Exhibit 1). They describe FBs "as three independent but overlapping subsystems: business, ownership and family". Any relation with the enterprise can be located in the model, depending on whether one is connected with one, two, or all three of the subsystems. The allocation helps to understand the individuals' involvement and hence expectations, priorities, and potential conflicts that arise in the business system (Davis et al, 1997).

The ultimate goal is maintaining the self-created prosperity in the family for future generations. This requires a high commitment from family members and weaves strategic business planning inseparable into family planning (Ward, 1988). To explore the strategic advantage, managers must commit to nepotism (Barach & Ganitsky, 1995). The transfer of a business from one generation to the next is complex, commences many years before the manager's resignation (Barach & Ganitsky, 1995; Bigliardi & Dormio, 2009), and includes more stakeholders than

just family members (Morris et al., 1996). Longenecker & Schoen (1978) describe this as a seven-step process. A simple breakdown divides the process into four stages:

1. Owner management: The incumbent position is exclusively in the hands of the first generation.
2. Training and development: The offspring is prepared and learns about the business during childhood until partial involvement in the business without greater responsibilities.
3. Business partnership between the incumbent and the successor with shared responsibilities and the final stage
4. The ultimate transfer of power with the incumbent stepping back from all responsibilities, preparing the retirement, and leaving operational responsibilities and decision-making to the successor.

It should be noted that there are two elements of transfer: the ownership and property rights of the business and the decision-making power or management of operational aspects (Churchill & Hatten, 1987). For a successful succession, both need to be transferred simultaneously (Kęsy & Kęsy, 2022).

In a collection of empirical results on succession planning, Sharma et al. (2003) discover the presence of a trusted successor to be driving succession planning far more than an incumbent's intention to pass on the business. Further, they conclude that incumbents must understand that solely the presence of a potential successor is no guarantee for a successful succession. When defining 'successful succession', research quotes Handler (1991) and Kets de Vries (1993) suggesting a division into quality and effectiveness of a succession process with quality referring to all stakeholders' perception of the process and effectiveness representing the external judgment of the result of the process (Morris et al, 1996). Agbim (2019) summarizes "Successful succession is a function of the incumbent's willingness to plan for succession, a progressive delegation of authority, acceptance of clearly specified roles, the incumbent's willingness to step aside, continued family involvement, and the successor's willingness to succeed [...]".

The existing research briefly summarizes the following criteria as relevant: a successor needs to have the right intentions for taking over the business and bring the right educational qualifications (Morris et al., 1996; Bigliardi & Dormio, 2009). At the same time, the incumbents' role is just as crucial (Sharma et al, 2003). A high difference in age and thus more

years of work experience increase the chance of successful succession (Agbim, 2019). Early involvement of the offspring in FB matters helps to sow business acumen and train the required skill set (Barach & Ganitsky, 1995). While competitiveness, aggressiveness, inability to delegate, and lack of trust inhibit the process, clearly defined roles and the transfer of decision-making power as well as shared values, transparent communication, and hence a solid base for conflict management contribute positively to a successful succession (Barach & Ganitsky, 1995; Morris et al., 1996; Chrisman et al., 2008). For the new generation of managers, collecting professional experience outside of the FB is recommended (Morris et al, 1996; Bigliardi & Dormio, 2009) so they can develop competencies beyond those that already exist inside the FB (Barach & Ganitsky, 1995, Stalk & Foley, 2012). Ward (1988) supports the benefits of this by highlighting that renewing or regenerating business strategies over the years to flexibly respond to changing markets is a reoccurring pattern across successful FBs. Stalk and Foley (2012) see another trap in the affluent offspring that has been promised a position in the FB should their own careers fail. This would reduce their overall efforts in the development process and could lead to a poor commitment to the new function.

Despite the multitude of studies on the matter of FB succession, little research was conducted on the factors that negatively impact a successful succession (Chrisman et al., 2008) and even less for management succession of non-family members in FBs (Pöschl & Freiling, 2020). The relevance of further research can be derived from the fact that, as Pöschl and Freiling state, about 40% of the transferred FBs in Germany in the years between 2002 and 2008 were handed over to successors from outside of the business-owning family. Keşy & Keşy (2022), however, claim that smaller FBs seldom consider an external manager in order not to dilute the essence of the company.

## Teaching Note

### Learning Objectives

This case study showcases a small family-owned business in the third generation suffering from a lack of skilled employees as one of its most essential resources. This shortage is partly provoked by the differentiation approach of the business strategy but represents an overall industry problem.

Among the main learning objectives, this case study aims to make readers:

- Identify the challenges of a business model based on differentiation dependent on scarce resources.
- Assimilate the importance of aligning business intent, organizational structure, and operational strategy.
- Recognize the challenges of operating in traditional industries and acknowledge the complexity of succession planning.

### Analysis

#### 1. What is your assessment of the company's past strategy and business model?

IDD is an SMFB offering high-quality painting services. The specific customer base built over three generations is a critical business model feature that even impacted the service offered. The business strategy is very much customer-centered as, according to Michael, client satisfaction is higher valued than margins.

Across generations, the business strategy was successfully adapted to the industry situation. IDD survived World Wars and the following economic recession despite hardly any demand. By expanding the product offer and refining the techniques, Helmut initiated a differentiation process and positioned IDD as a premium service provider. When large hardware stores emerged in Germany, the business was confronted with the risk of becoming obsolete since people started painting by themselves. Michael pushed the differentiation strategy into another direction: firstly, he specialized in consulting and offering tailored services to his customers. Secondly, he focused on complex projects that require special skills and well-trained staff. With that, he positioned IDD as a niche provider.

Assessing the Key Success Factors (KSF) identifies the issues Michael is facing. **Innovation** and **Operation** are factors that positively contribute to the company's performance through a

hardly imitable approach, high standards, and excellent execution of the paintworks. IDD's **financial** independence contributes positively, yet it is not exploring the full potential of profits. The same applies to **Marketing**, which bears the potential to boost overall success. The most threatening issues are related to the KSF **Resources** and **Employees**. To serve the abovementioned client base, IDD is dependent on trained employees with distinctive skills that are equivalent to a resource. If Michael cannot find talented painters or even loses more employees, he won't be able to keep up with the volume of orders. Consequently, he might lose customers or even have to cease operations. His unique talent and passion make Michael himself a KSF. His way of understanding the client's needs and creating customized designs are important drivers of the company's success. A third component of the problematic staff situation is the absence of a suitable successor. There is no candidate within the family, but apparently, it is equally difficult to attract a suitable manager from outside the company. With the approaching retirement age of Michael, IDD faces an existential problem.

In summary, the current business model is unstable. Resources and Employees represent two KSFs that are not sufficiently guaranteed, while Finance and Marketing are not exploited to their full potential. A threat to the company is imminent.

## **2. How do you evaluate IDD's external environment?**

A key determinant in analyzing IDD's external environment is its **geographical location**. Klein Meckelsen is a small village. Together with other municipalities and provincial towns, it forms a patchwork of rural heathland, 50km north of Bremen and 45km south of Hamburg. The scattered population, distance to highly frequented areas, and limited marketing efforts result in low exposure to potential future employees or clients. Contact is either initiated by the company or established through word of mouth from current clients or employees.

The application of Porter's Five Forces Model helps to analyze the forces that shape the industry and thereby the external environment in which IDD operates.

Painters are found with high density in the German business landscape. Their business models usually are simple and the services require skills obtained in regular training. This keeps the entry barrier to the market low, increases competition, and focuses on cost leadership. In contrast, IDD pursues a differentiation strategy by offering tailored services of superior quality to niche customers. Michael complements the basic training by teaching particular techniques for more demanding projects. These skills are difficult to obtain and protect the business model

from imitations. **Entry barriers** to this niche therefore are high. The specialization also keeps the **threat of substitutes** low, since IDD provides services that are customized. Sometimes, Michael creates designs without guidelines or targets. His talent and passion are unique selling points. Paired with trusting relationships that were built over three generations, switching costs for clients are extremely high. This advantage, however, is based on scarce resources as Michael is struggling to maintain a stable workforce for his services. Occasionally, customers already must expect longer waiting times before the team is available. This could negatively impact the relationships. The appearance of hardware stores providing low-cost equipment and support for DIY paint works confronted IDD with a new rival attracting price-sensitive customers which notably reduced walk-in customers in Michael's store. Not least because of this evolution, he strategically focused on differentiation through customization. With this positioning, Michael identified only one competitor in his region. Thus, **rivalry** can be categorized as medium to low.

Before, the bargaining power of buyers was high as customers could easily switch to alternative products from hardware stores. The new strategy positioned IDD as a premium provider, serving a less price-sensitive customer segment with special product requests. Consequently, due to fewer alternative products, the **bargaining power of buyers** is low. High margins are not Michael's priority, so there is not much space to give in anyway.

IDD is sourcing its materials for daily operations from multiple suppliers. Temporarily, Hardware stores were among them, but the new strategic positioning required high-quality materials that mass retailers didn't offer. Client requests for specific brands or designer wallpapers changed the purchasing procedures. From the internal perspective on key resources, other essential suppliers are employees. The scarcity of talented staff with the needed qualifications ties Michael's hands and makes him almost powerless over his most important resource. This sector-related issue complicates operations and results in high **bargaining power of suppliers**.

Another relevant factor for IDD's projects is the **power of complementary goods/ service providers**. Uncontrollable weather conditions and fluctuating temperatures impact the progress of construction sites. Some processes like drying of the shell structure in walls must be finished before IDD can contribute their part. Finally, there is also a high dependency on the availability of raw materials like wood or cement supply which indirectly impacts IDD's work.

Concluding, the industry is quite challenging and struggling with global trends and technological advancements. Becoming a niche leader can become a great opportunity with a solid alignment of business models and strategies.

### **3. What are the main challenges that IDD is facing?**

The case touches on multiple aspects that directly and indirectly challenge or seriously threaten the company's survival. Most pressing is the running time until a decision must be taken about the future of the company. Without a family internal successor, Michael needs to find someone external. For an efficient and smooth transition, this process needs to commence at the earliest time possible. If he is not successful before his retirement, he will have to dismiss his employees and terminate the family business era before reaching the milestone of 100 years of operation.

Michael's differentiation approach led to a situation where business intent, organizational structure, and operational strategy were no longer aligned. His strategy is based on competencies that he and skilled employees provide. These resources, problematically, are characterized by either having a lifespan or being scarce which puts the strategic positioning at a serious risk.

Michael secured exceptional projects like the renovation of vessels, which is a great recognition of his expertise. Moreover, they guaranteed him great profits. His team however struggled with the unpredictable working conditions abroad. This left Michael helpless and doomed to turn down the contracts, as he depended on his team and couldn't afford to lose any more employees under any circumstances.

He invested lots of time into training his employees which, unfortunately, sometimes turned into a loss. Upon completing the training, most trainees moved to another city to work with another company and collect experiences. More senior employees left him after some years to start their own companies. Eventually, the likelihood of finding a successor amongst his employees has vanished.

The entire industry of craftsmanship is exposed to challenging developments for companies. Technological advancements, for example, facilitate the mixing of colors or accelerate the processing of work materials. There is little improvement, however, in the work conditions due to the dependency on manual human artwork. Technology improved the visualization

possibilities for showcase modeling of room designs, yet remote working and home office are no options for IDD's employees.

Politics didn't do much for the industry in the past years. Companies with simple business models in traditional industries need help to keep up with the pace of economic development. There is little space in public demonstrating role models in craftsmanship that people can identify with, that emphasize the industry's importance and create appreciation. Instead, young people create wrong ideas about working conditions, leading to aversion and a poor reputation. In this context, the trend of academization is often discussed. Professional education in Germany focused on developing study programs but neglected vocational training. There is huge unused potential in interweaving vocational training with university education to equip upcoming generations with manual skills and theoretical foundations to start their own businesses. Companies like IDD would be able to demonstrate the variety of paths in this profession and become more attractive to young people.

The image problem is one of the factors fueling one of the underlying challenges that has been present for the past years: shortage of staff. Michael struggles severely to find talented employees who meet the social and professional requirements and perform at the high standards of IDD. Additionally, the geographical location and communication strategy require employees to come from the region or relocate to the surroundings of Klein Meckelsen.

#### **4. What works in favor of and against focusing on a different customer segment?**

A strategic reorientation focusing on a different customer segment is a decision requiring careful consideration of both immediate and side effects. Building a customer base requires steady efforts over a long period. Financial resources have to be invested again into a new segment of customers, allowing for the conclusion that maintaining an existing customer base is cheaper than building a new one. Customers evolve influenced by factors like life stages, values, and personal preferences, and even new market players and product innovation may change their preferences and needs. It is essential to monitor customer behavior to understand changes and adapt the strategy accordingly.

The relevant question is whether it is feasible to keep the service offer for the niche customers they are targeting or whether it would be more profitable and sustainable to switch to a different segment. Fundamental problems are the lack of skilled staff willing to travel to renovation sites

at the research vessels and staff with appearance to work in private clients' households. Hence, Michael needs to question the suitability of these customer segments.

For a customer segment evaluation factors like size, relevance, accessibility, differentiation, and stability need consideration. We are comparing the current less price-sensitive private customer segment and the specific research vessels contractor with a customer segment demanding simple painting. The latter represents a mass market without a specified customer profile, particular preferences, or geographical limitations. IDD's location suggests a divided analysis of the segment from the immediate surroundings and the city segments.

Hamburg (1.9M inhabitants, 2,506 inhabitants/km<sup>2</sup>) and Bremen (685K inhabitants, 1,789 inhabitants/km<sup>2</sup>) represent large customer segments with high demographic variety. Demand is comparably stable due to a dynamic living situation with only modest dependency on economic fluctuations. A high inhabitant density goes together with a higher competitor concentration. Consequently, this segment is more price sensitive with a decreasing effect on margins. IDD has a disadvantage here since local companies don't have to charge for transportation costs to the job sites in their pricing. The immediate surrounding area is less dynamic with lower population density. Rotenburg (Wümme) county spreads over 2,074km<sup>2</sup> with 168K inhabitants in 2022 – a distribution of 81 inhabitants/km<sup>2</sup>. Short distances to clients increase the margin compared to the city areas.

Targeting the mass market for simple paintworks means that retailers become competitors again, intensifying price competition and decreasing profits. Yet, this segment bears opportunities. Compared to the complexity of projects IDD currently executes, the needs of mass-market clients are rather simple. Less demanding projects mean less time needed to complete a job. Michael's teams would be able to execute several orders in the time it currently takes to finish one project. Another aspect creates relief on the staff situation; since the specific skillset would not be a strict requirement, Michael could interview a larger pool of candidates. This could stabilize the workforce, potentially fill the order books with more projects, and even compensate for the profit loss from the research vessel orders without risking losing further employees. If he manages to increase the team size, public tenders of the municipality remain an additional option for occasional lucrative projects.

Improvement of external factors that solve the staff shortage and provide the employees Michael lacks is not expected in the foreseeable future. Hence, this should be the starting point to consider switching the customer segment. In consecutive steps, the business model needs

adaptation to ensure that the value proposition and communication fit the clients. The new strategic positioning needs to be aligned with the company setup and its operations to enable sustainable business activity.

**5. How would you reorganize the recruitment process to find new employees and position IDD as an attractive employer?**

With hiring being one of the greatest threats to IDD's survival, I recommend adding recruiting expertise to the company. A People & Culture Manager brings professional knowledge on how to target suitable candidates and can work in-depth on a solution. This will increase the efficiency of recruiting and save Michael time for other responsibilities. The additional cost for this hire is justified and will pay off if it stabilizes the workforce and enables IDD to continue working on high-margin projects. Starting with a part-time hire or engaging a third-party provider would be alternative options to save costs initially.

Corporate communication determines public perception and visibility, so I further recommend rebuilding the communication strategy from scratch. Despite Michael's aversion to public advertisements, there is no way around increased public presence when trying to boost recruitment activities. A clear message needs to highlight the features that distinguish IDD from other employers, like the inclusive and trustful working atmosphere. Moreover, with respect to young talent, IDD can pride itself on the diversity of projects, including the possibility of traveling and working on exciting projects abroad.

Besides the current channels, IDD needs to expand its social media presence. LinkedIn and Xing are business platforms focusing on networking and connecting with professionals beyond companies and industries. Due to the public profiles in CV format, both platforms are extensively used for recruitment. LinkedIn reported to have 930M users globally, whereas Xing counts 21.5M users mainly from German-speaking countries. I further suggest considering Facebook, TikTok, and YouTube profiles. Content creation takes time and skills that are currently not accessible yet indispensable for the new setup of a modern communication strategy. Primarily, it will raise awareness in several user groups but indirectly support the recruiting.

I strongly believe in networking and affiliate programs for a company to strengthen its network and establish itself as an essential element of the local community. Hence, I recommend intensifying collaborations with public institutions like elementary and secondary schools and

universities in Hamburg and Bremen in conceivable formats of sponsorships, trial workdays, or internships. IDD could initiate annual social projects dedicated to the renovation of community buildings or classrooms together with students and supervised by Michael's team. This would create awareness about the profession and raise interest among potential future recruits. Despite the mentioned challenges with non-German speakers, I recommend further exploring the opportunity for collaborations with the immigration office and refugee housing. Cultural differences might be a barrier at first sight, however, since many want to stay in Germany long-term, there is an opportunity for training committed personnel and creating close ties to the company.

IDD weathered a lot in its history and is telling a story that evokes emotions in people. Therefore, I would take the differentiation process one step further and challenge the status quo of working in craftsmanship. Michael evaluated the request for a 4-day working week as not feasible. I challenge this estimation. Admittedly, with the current setup and less than 10 employees, the quantity of projects and quality of work would suffer.

I do believe though that if more members can be added to the teams that are flexible enough to accept the impact on the working conditions (like rotating colleagues at the job site), a new system can be implemented. Such measures would reinforce a modernization strategy and secure IDD a leading position as an attractive employer.

**6. In a letter demanding support from the local government to change the image of craftsmanship, what could his suggestions be?**

As a local employer with a history, I consider the indications of problems and suggestions for solutions a right. Michael should emphasize the importance of craftsmanship for the German economy and as such the need for better protection of companies operating in this industry. The image problem not only impacts business operations but also shows a lack of respect and appreciation for jobs in craftsmanship. To change this, he could demand more public presence for these types of jobs; visibility creates awareness and will eventually lead to them becoming a more valued part of society. With investments in marketing campaigns, people can be educated because as long as occupational profiles are stigmatized, they remain unattractive for younger generations.

Another topic to raise is the course of education. To the industry's disadvantage, there is always a tendency to update content in educational training rather than revising the structure of how to

certify candidates. The Literature Review on Academization features the attempts of the German Chamber of Craftsmanship to roll out trial study programs. Michael should demand an acceleration of the implementation. It is a great example of how a traditional education path can get an innovative upgrade to better respond to the desires and expectations of young graduates.

**7. Suppose Michael's sister-in-law takes over the company and integrates it into an existing business. Which stakeholders does she have to consider?**

Any action taken by a company affects people and institutions that are willingly or unwillingly impacted by the business activities. In this succession scenario, a handful of stakeholders are immediately affected. Michael remains the owner of the business and is the most important stakeholder. Comparably important are the employees since the small team represents a KSF that IDD cannot operate without. This includes employees with all levels of experience, certified master painters, and journeymen in training. Structured communication about the intentions of the integration and the impact this will have on daily operations is needed. Transparency and room for conversation help mitigate doubts or rejections among the employees.

Next and equally important are current customers of IDD. The integration into another business may have an impact on the services provided, pricing, and communication since invoicing, consultations, etc. are done under a different company name and by another contact person than Michael himself. Especially if the new management is counting on taking over the current customers as a source of revenue, it is important to inform them about the changes upfront.

A larger group of passive stakeholders might be directly impacted but have no say in the company's policymaking. This, for example, applies to the rest of Michael's family. The inner family circle often has an interest in the company's well-being and the preservation of family values. In this case, however, there are not many ties as neither his sons nor his siblings' families are involved in business activities.

Further, affiliated partners like schools or the local painter's association need to be considered as they count on the continuous existence of IDD without having a voice in the company's decisions.

Another group of stakeholders is represented by competitors. The integration into a larger company means access to more resources which enables an expansion of the current customer

base and can become a strategic advantage. Transparent communication should be avoided here to improve the chances of successfully strengthening the market position before competitors can react.

The municipality represents a stakeholder to consider as there is mutual interest in a good relationship and business activity. From IDD's perspective, the opportunities for public tenders are relevant revenue streams. In return, the municipality benefits from the contribution to local employment and commercial tax payments.

Lastly, suppliers belong to stakeholders of IDD as they benefit from the procurement of raw materials and equipment. Nevertheless, this stakeholder group requires little management in the given scenario.

#### **8. What are the advantages and disadvantages of hiring a new manager who proves to have leadership qualities but is not a family member?**

Succession is approached differently when hiring an external manager compared with a family-internal handover. Bringing in an outsider's perspective naturally comes with advantages but also great challenges that someone from inside the family wouldn't have. To a certain extent, the company takes the risk of losing its unique features of a family business. Therefore, someone who gets entrusted with the management of a family business must meet some mandatory criteria and, in addition, some less mandatory but desirable criteria.

No link to the history belongs to the more beneficial aspects of an external manager. Due to less emotional connection with the company, this person can focus on the business side and act more rationally which also allows for an unbiased analysis of alternatives in decision-making. A fresh perspective also helps to identify opportunities that were not considered before and eventually solve existing problems.

There are several challenges entailed, starting with the fact that the ideal successor pictured by Michael will be even harder to find than trained employees. The ideal successor shares Michael's vision and simultaneously brings new ideas and experiences into the business. A common mistake is searching for an identical character and neglecting that someone with a different personality or background could be just as suitable as a successor. Working with someone from outside the family adds another layer of complexity to decision-making processes. This will require more communication and flexibility from Michael as well as some

detachment from the company. The successor will straddle between the current procedures and the need to evolve and drive the business forward.

The inability to see things from the business family's perspective potentially creates problems in two other dimensions: with employees of the company and with the client base.

Any change in the current procedure might cause aversion and rejection of the employees. They are used to transparent communication and consideration of their concerns in operational decisions. Maintaining a healthy and professional work relationship with the employees is crucial.

Similarly complex is the situation with customers. Over three generations, the client base was attended by a manager from the Dreyer family, leading to trusting relationships. Clients would let the teams work unsupervised in their homes and occasionally, if the job site was far away from Klein Meckelsen, offer overnight stays in guest rooms. They appreciated Michael's dedication, upfront inspections of the rooms, and the consulting when they had no clear intention. This fragile and valuable construct of personalized and time-consuming client service is difficult to adopt, yet it is an essential part of IDD's success.

## **9. What alternatives are open for the company?**

A set condition for the consideration of future scenarios is that Michael's age of retirement is approaching, and as a business owner, it is his choice of when to enter retirement.

If postponing retirement is an option and Michael is physically and mentally able to continue working, I see two potential scenarios for IDD. The one is shifting the operational focus again to a new niche where business intent, organizational structure, and operational strategy are seamlessly aligned. This could be serving a new customer segment with the current set of employees. Alternatively, the focus can be a new service like consulting for intelligent interior space design. Exploring the consultancy part requires employees with different skills and attracts new clients. He could even hire the current competitor or create a joint venture to offer a larger scope vertically. Admittedly, this radical change requires not only time, financial investment, and help from external consultants but also comes with high risk. So, it's not my first recommendation.

The other scenario with a postponed retirement is to continue with the current efforts and complete 100 years of operation. This allows Michael to reach an important milestone for his

family and provides enough time for his employees to find new jobs. Eventually, he can shut the business down by choice and with dignity.

The option for family-internal succession is off the table. Also, no one of the current employees is interested in taking over. Therefore, the best-case scenario is to find an external manager as soon as possible. With enough time, an appropriate onboarding can take place and responsibilities can gradually be transferred. If sufficient overlap in time is not given, Michael should only transfer the management but keep the ownership for some more years to have a say in business decisions. The sooner such handover can be initiated, the smoother the transition will be, and Michael can better ensure the satisfaction of employees and clients. Until any of these scenarios will take place, Michael must continue fighting and keeping up the current efforts. His main challenges remain the stabilization of the team, customer satisfaction, and the continuation of the business. He can decide on the emergency exit at any time by dismissing his team and ceasing the business activities. But despite the struggles of the past years, this represents the least desired scenario.

#### **10. What are your recommendations for the management of IDD?**

From my conversations with Michael, I conclude that despite the many challenges, he is not ready to give up on the company. This is essential for any future planning. I rank the idea of an external manager as the best-case scenario as it would allow Michael to slowly step back from his leadership responsibilities.

For the business strategy, my recommendation is to stick with the current differentiation as it is profitable and comes with low competition and stable demand. For a sustainable future, however, more strategic and financial stability is needed to hedge operations from the shortage of skilled employees. Hence, I suggest exploring the addition of new services to the value proposition. This could be tapping into the mass market – which I consider too little return for the required effort – or adding a completely new service or product like consulting for intelligent interior space design, as mentioned in question 9. The expansion of the company and hiring should then be based on the new requirements for employees.

With my experience and considering the latest industry and employer market developments, I highly recommend seeking external help to modernize the operational strategies. Between the lines, it was evident that due to personal preference and work overload, Michael is not

generating ideas himself. That is why I recommend exploring professional recruitment support by either hiring a trained full-time person or appointing a third-party provider to stabilize the workforce. Moreover, IDD should renew the communication strategy to a more persistent promotion of its workplace. I understand Michael's objections to vehicle promotion, however, promotion opportunities are abundant online and offline, especially with two metropolises close by. The website refreshment was one necessary step. Next, I suggest increasing the social media presence.

By opening to external support, IDD can unlock potential and apply changes with a tremendous impact on the perception of candidates. But realistically speaking; estimating the likelihood of finding a suitable successor in time is impossible and there is only so much that can be done to achieve this. Therefore, a backup plan is needed with factors that Michael can rely on. Provided that a postponement of retirement is feasible, I like the idea of continuing operations until the company's 100th anniversary. Ceremoniously shutting down after one century in business sounds like a worthy ending to the family business era.

## **Conclusion**

In the process of writing this dissertation, I experienced a deep fascination with the dilemma of IDD. At the same time, this was proof of having obtained relevant knowledge and skills during my educational path that helped me assess and consult a company's situation.

I gained insights into the background of a family business in the third generation, its history, and today's operational challenges the management is confronted with. Thereby, the company represents an example of a small enterprise with the exceptional features of a family business that navigates in a traditional industry and suffers from the consequences of strategic positioning. Based on the evaluation of KSF, the availability of resources, and the targeted customer segment the suitability of differentiation strategy can be questioned.

IDD was able to adapt the value proposition with every new generation and successfully served one client base over the years, continuously updating its offers. It managed to respond to changes in the markets with the appearance of large, powerful competitors. IDD was further capable of specializing its services to an extent where they are demanded by highly demanding contractors of high-value orders. Yet, the value proposition is based on scarce resources: Michael's expertise and dedication to customized consultancy and talented employees to execute the special demands of customers. The desire to have worked and lived elsewhere, self-employment and working conditions lead to a fluctuation of employees and instability in the organizational structure. Moreover, the current team refuses the working conditions of the most profitable contracts that Michael was able to secure.

To conclude, the company requires revision of the business model to ensure alignment of business intent, organizational structure, and operational strategy. In the light of modernization, pivoting leadership and working conditions are recommended for an attractive repositioning. Beyond the company's internal scope of action, the Literature Review allows a wider perspective on how the educational path needs to be modernized to facilitate operations in craftsmanship.

Lastly, readers are confronted with the blunt reality of succession planning in FBs. The absence of a family internal successor suddenly activates a countdown in search for an external manager and endangers reaching a milestone of one century in operation.

## Appendices

### Case Study Exhibits

#### **Exhibit 1:** Paths of specialization during the training as a journeyman<sup>4</sup>

##### (1) Design and maintenance of interiors

- Drafting and implementation of concepts for room and facade design
- Designing surfaces with patterns, with structures produced by tools or devices (tool structures), and coating materials
- Laying of wall, ceiling, and floor coverings as well as covering of ceilings and walls
- Production of inscriptions and means of communication
- Carrying out measures for wood and building protection as well as fire protection
- Carrying out energy efficiency measures on ceiling, wall, and floor surfaces

##### (2) Energy efficiency and design engineering

- Checking, evaluating, and preparing substrates for energy efficiency measures indoors and outdoors
- Carrying out energy efficiency measures on external surfaces by creating thermal insulation composite systems
- Carrying out energy efficiency measures on external surfaces by applying thermal insulation plaster
- Carrying out energy efficiency measures on external surfaces by installing system and finished elements
- Carrying out energy efficiency measures on interior surfaces
- Designing the surfaces of facades and rooms

##### (3) Church painting and preservation of monuments

- Manufacture of raw materials and coating materials according to historical recipes
- Execution of historical and creative work techniques
- Carrying out repair measures as part of the preservation of monuments

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<sup>4</sup> Deutscher Handwerkskammertag (DHKT) e. V. (2023). Deine Ausbildung – Maler/-in und Lackierer/-in.

- Execution of reproductions of historical objects and reconstructions of historical rooms and objects, taking into account the underground, according to historical templates

(4) Building and corrosion protection

- Setting up construction sites and operating and maintaining tools, devices, machines, and systems
- Carrying out maintenance work on and in buildings and on systems to be coated, including their components
- Carrying out anti-corrosion measures on metals
- Carrying out protection and repair measures for buildings and components made of concrete
- Application of safety signs and road markings as well as

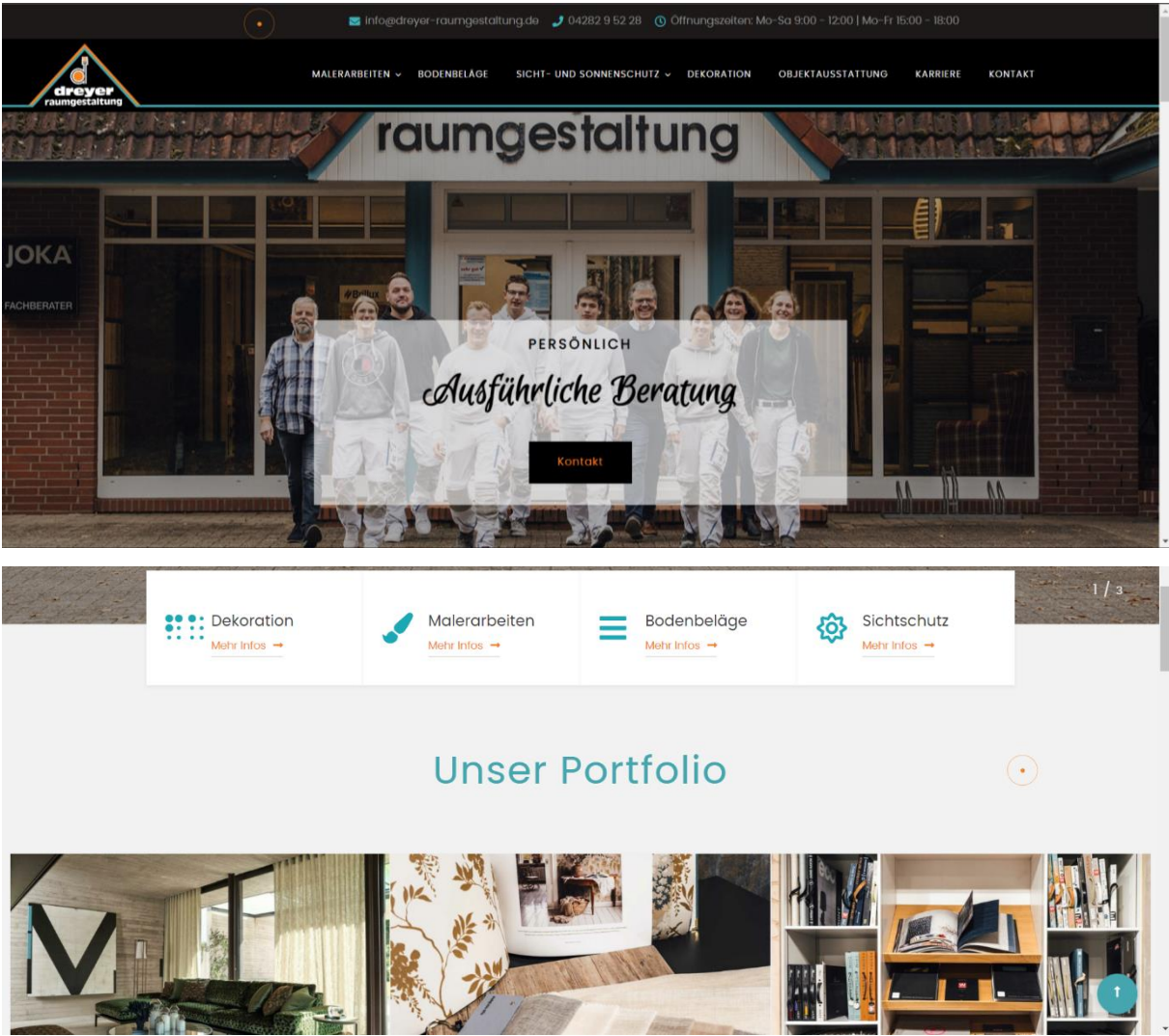
(5) Finishing technology and surface design

- Execution of expansion and assembly work
- Assembling and designing system elements and prefabricated parts, including substructures
- Processing of insulating and insulating materials
- Preparing and producing substrates and surfaces, especially plaster surfaces, for further design
- Execution of room and facade designs

**Exhibit 2:** The Company Logo

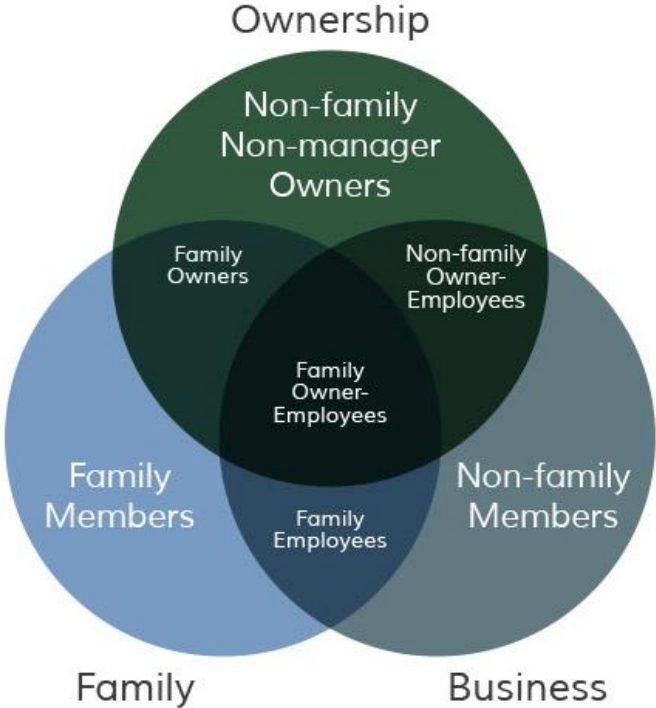


Exhibit 3: Outlay of the new company website



**Literature Review Exhibit**

**Exhibit 1:** Three-Circle Model of the Family Business System by Davis and Tagiuri



Source: Davis et al., 1997

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