



Intergenerational Succession in SMEs Transition
INSIST

CASE STUDY

DOMEX S.A. (joint stock company)

Final version

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The case study describes the history of a family company operating in the real estate sector. The company rents apartments, office and commercial space and operates as a developer.

1. Introduction – short description

Interviewed representatives of the company

Name	Age	Education	Professional career	Role in the succession process
Tomasz	55	University degree	Initially a university employee. But started his own business venture – a machine tool workshop. Since 1989 – property management	Family doyen

A short history of the company

The company was founded by Tomasz's grandfather, who at the age of ten, had to leave his family home and walk from Wadowice to Krakow. He found a job at a glazier's workshop, living in attics and empty buildings. Working with glass damaged his hands. He became seriously ill as a result of hand injuries, malnutrition and poor living conditions. Some kind-hearted people working in the hospital run by the Brothers Hospitallers of St. John of God helped him to regain his health. Tomasz's grandfather did not forget the help he received and later on in life, when he could afford it, he donated a considerable sum of money for the renovation and extension of the hospital.

He managed to get a job as a shop assistant and became eventually the company's representative. This meant traveling abroad which gave him the opportunity to gain experience and learn. He also bought tobacco which he subsequently sold in Poland.

He got married. His wife came from a noble family who had lost their fortune and position as a result of their support for the January Uprising (1863 - 1864).

Tomasz's grandparents had a dozen or so children, but only two of them survived: a daughter and a son.

After getting married, the grandfather developed further his career as a salesman and became a respected employee. Highly successful, he was promoted very fast. By the end of the 19th century, the money he had earned allowed him to buy his first machine for



producing cigarette tubes. As time went on, he bought more machines and opened a small factory at 21 Krupnicza Street in Krakow.

He was an innovative and entrepreneurial person with a curiosity about the world. For example, he was the first civilian passenger on the flight from Krakow to Vienna. But he never forgot about his humble beginnings and the poverty he experienced at first hand. That is why he was always kind to other people and helped the poor.

At the beginning of the 20th century, he established a partnership with others in his business sector. Over time, the partnership evolved into a joint stock company. Grandfather and his partners transformed a small factory into a large scale industrial venture.

After the grandfather's death, properties and assets were divided between his two children. His son continued to develop business operations. He bought a paper manufacturing factory and moved to Warsaw. His factory soon became the largest facility of its type in Europe. He was also a Belgian consul in Poland and worked with Henry Spaak, who later became the Prime Minister of Belgium. To facilitate the succession process, he prepared a will, which smoothed the passing of his properties and assets to his successors, avoiding turmoil in the family. He decided to pass most of his shares on to his son, whereas his daughter received cash, movables and some shares.

The grandfather's daughter was a sensitive person, but he nevertheless decided to leave her the factory. She performed very well and became the first female director of a factory in Central Europe. She was keen to introduce innovation into her business and was ahead of her time. She was the first to use billboards to market products. During the Nazi occupation she got involved in the anti-Nazi movement and with Bishop Adam Sapieha. She bribed women at the post office so they would give denunciation letters to her and not to the Gestapo. She also worked with those trying to track down those denouncing others.

During the Nazi occupation Germans took over her factories and she was arrested several times by the Gestapo.

When the war ended in 1945, the factory reopened. She set about rebuilding her business, buying new machines. But in 1948, the factory was nationalized and taken over by the state. She was left with two buildings, which she managed until 1987.



She had only one successor – a son, who in 1989, took over her buildings and started managing them. Gradually new shops, office and service facilities opened in the buildings until they were transformed into office centres.

Tomasz had bought his mother's shares in the company before her death and this way he was able to take control of the company. At first his mother supported him in company operations – advising on important issues and what to consider in developing business operations. She always emphasized to her son, the ethos of entrepreneurship and stressed importance of fair remuneration for employees, as well as empathy and compassion for other people. These lessons proved much more valuable than university studies and degrees. As principles, they remain a core part of the company's business activity.

Main areas of activity

Renting apartments and office and commercial space.

Profits are used for renovation of existing properties, construction of new ones and investment.

Ownership structure

The company is a joint stock company, with 8 shareholders – including 4 members of the family (president, his wife and two daughters). The remaining shareholders do not belong to the family.

Market position

The company enjoys a very good market position. It rents facilities which are user friendly and offer good working conditions for employees of businesses renting office space. The office centre includes on-site facilities, such as a swimming pool, fitness room, hairdresser, post office and a restaurant, which are available to employees working in the building. The company strives to continuously raise the standard of its buildings, All disruptions or problems are dealt with immediately as the company has its own maintenance team and guarantees high quality of property management.



Number of employees and information on their age, sex, education, qualifications and length of employment

Currently the company employs 20 people. They are administrative employees and maintenance team workers. They are all employed with full time contracts. The company helps them gain new qualifications through training and conference participation.

Some of the tasks are outsourced – eg. security, clearing, construction teams for new developments.

age

Administrative – employees are 30 to 50 years old.

Maintenance team – employees are 27 to 55 years old

sex

Administrative – 7 women, 3 men

Maintenance team – 10 men

education

Administration: university degrees – 10 people

Maintenance team: vocational education and one person with a university degree in the area of administration.

qualifications

Qualifications of employees are appropriate to the positions they hold. The company helps its employees gain qualifications.

length of employment

Most employees have been with the company for more than 15 years. Over the past several years there have been no changes in the workforce. Employee turnover is very small.



2. The succession process

2.1. The rules for members of the family to enter or exit the company – are the rules formalised or informal?;

- a) Main goals (with respect to the ownership/ management structure), set by the controlling family regarding the succession process;
- b) Criteria for identification and selection (and training) the successor;
- c) Sequence of activities related to selecting and training the successor;'
- d) Methods used in the exit of the previous company owner/ manager (continuity or lack of continuity of ownership control)

Identification of the exit strategy; the role of the leadership style and other factors, including legal and financial barriers;

The company is a joint stock company which influences the way it operates. The management board of the company consists of the family doyen, his wife and two daughters and a person from outside the family. The board meets every month to deal with ongoing business issues.

The wife and daughters of the doyen are company shareholders, but he remains also a shareholder. His aim is to introduce his family members to running the business so that when he decides to leave the company or in case of his death, they will know how the company works and what projects and issues are of key importance to company success. Aside from her involvement in the company, the doyen's wife has her own business venture – a small bookshop.

His older daughter completed a variety of studies and worked for a time at the university, but opted to join the company. She runs the branch concerned with letting apartments.

His younger daughter runs a restaurant located in the company building. She established the restaurant herself and works to develop it further.

The doyen plans to pass the operational management of the company to his successors, and remain involved only in strategic decisions. He believes that if his children have interesting, though maybe risky ideas, he should trust in them and support their actions. According to the doyen, the company and management tasks will be taken over by his older daughter, but this is not yet certain. Maybe his successor will come from the next generation of the family?

Passing the company on to the successor must be a smooth and efficient process. Involving successors in deciding upon ongoing business operations will help ensure their continuity and development.



The doyen has taught his daughters the principles and values passed onto him by his mother, as he believes that they have been the key to his success. His goal is to instil the 'entrepreneurial gene' in his children, which will smooth the succession process and assure efficient company operations after he leaves.

The doyen is the principal manager in the company. He calls his management style 'enlightened paternalism' – everyone has freedom in his or her field of action and decision making. However, decisions which need to be taken collectively must have his final say. There are no concessions when it comes to such values as reliability, honesty or justice. The company's success and its market position demonstrate that such management policy is effective and worth pursuing.

The doyen can see no legal barriers related to enabling his successors to take over the joint stock company. In contrast, a one-man business has the prospect of breaking down in case of the death of the owner, as no continuity in management can be assured. In such a situation, no one is empowered to make decisions, pay off bank credits, etc. which may lead to the collapse of the company. Some changes to the Polish legal system are necessary to deal with such situations, e. g. one year long transition period for the family to take over the company left by the deceased. Working capital loans should also be made available to companies in difficult transition periods to enable them to continue operating.

2.2. The relation between business and family goals: linking family values and company goals

The meaning of goals such as harmony in the family, family reputation and company image vs. Business profitability.

Similarities/ differences in values of generations; Key formative events in the family and in the company;

Family relations and family events have no influence on the company in the doyen's opinion. Despite hard times for the family, the company was unaffected, demonstrating that personal matters did not impact the quality of services offered or the company's market position.

The doyen's family members support each other. At present, the doyen is the 'primary' advisor to other members of the family, although in some areas the family can rely on his wife's advice also plays an important role.

The company is not seen in the market place as a family firm. It is identified with its president – the doyen. Even so, during business negotiations or while signing contracts the

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doyen and other managers always stress that the company is a family firm. Such information usually raises the company's prestige in the international market-place. Experience suggests that people are more willing to share their knowledge and experience with representatives of family companies. Managers of DOMEX S.A. prioritise other family firms in their business development.

The doyen's daughters respect their parents' values. Bringing up the children, the parents always emphasized such principles as honesty, empathy and positive attitude towards other people. Their daughters now treat these values as their own and use them in their private lives and business operations.

2.3. The family presence in the company (organisational and ownership map);

- The company structure vs family structure;
- The perception of the family role in the company;
- Methods for supporting family integrity in relation to business operations;
- Ways of coordinating the family presence in the company;
- The role of women in the family company.

The company is managed by a management board which includes all members of the family. Key management is with the president of the company – the doyen. The family is present in the company, but its members are treated the same way as all other employees (they earn the same as others would earn in the same job and do not have any special privileges).

The doyen tries to involve his daughters in business activities in order to pass on his knowledge to them and strives to develop their business skills and competences. This will ensure a smooth transition of company operations, once the succession process is initiated.

Women play very important role in the company according to the doyen. His mother's example convinced him that women are very effective at managing a company and making decisions and often demonstrate a 'can-do' attitude in business operations. Women in DOMEX S.A. are respected for their competences and have freedom in making decisions and taking actions. Women hold jobs which is significant for strategic company development.



2.4. Engaging the next generation

Getting the next generation ready for running the family company is a factor of critical importance for the succession process.

- Motivation, preparation and strategies of the next generation;
- Emotional aspects and calculations of family members
- Transfer of knowledge between members of the family;
- Network cooperation;

In many cases, there is a long wait for the children to gain the competences needed for them to take over the company from their parents. Young successors do not want to depend on their parents and their parent's assets. Sometimes it takes a long time before they come to see the family company as their future and heritage as something that should not be wasted. Young people want to see the world, gain experience, learn to work and cooperate in a team, and also to get to know the consequences of various action and behaviours. A parent wanting to pass his or her company on to the children must be very patient and wait for the moment when the children finally decide they want to work for the family company. According to the president of DOMEX S.A., this moment is worth waiting for. It takes years to prepare successors to take over the company. Preparations should start from the very moment they are born. Patience is needed while waiting for the children to gain competencies to collaborate in running business operations of a family company in ways that avoid numerous mistakes and quarrels in the family. If the relations in the family are good, it is much easier for the parents to pass their knowledge and values to their children.

Emotions are of key importance in developing a company. Negative emotions should be dealt with in a rational way, since outbursts of anger and screaming are of no use to anyone and will not bring positive results. It is also necessary to fight conceit and presumption on the part of other people, as such attitudes can harm the image of the company and the effectiveness of its managers.

Representatives of the company – members of the family – participate in meetings and initiatives involving other family firms, where they can exchange and compare knowledge and experience, and give each other support. Sometimes it is comforting to hear that other doyens are also waiting for their successors to decide on getting involved in running the family firm. Recognition that others have to cope with similar problems is reassuring.



3. Conclusions

It is important to prepare for succession, especially in case of larger companies. Legal and financial preparations are of key importance. It is worth checking well in advance the legal options available related to business reorganization and division so that the process of succession generate as little risk as possible to business operations.

Parents should try to instill in their successors the 'entrepreneurial gene'. In bringing up children, the parents should talk a lot about entrepreneurship and teach them about running business operations.

It is important for the children to gain experience on the labour market before they join the family company. This will enable them to treat their future employees' needs with more empathy and understanding and will make them feel more responsible for company operations.

It may be risky to employ a stranger to run the company, as such a person does not identify with the company and lacks the same motivation to sustain the company. What is more, employing a manager from outsider the family may result in the company losing its independence.

A family firm is a business venture for many generations and not just for one person or a single generation. With such awareness in mind, it is easier to think not just in terms of one's own interests, but in terms of investing to sustain the company over the long run.

'I would like to see the company taken over by my daughters and I would like to see them succeed. This would make me feel secure and satisfied. I would be furious if my daughters did not sustain the values important to my wife and I, which we have tried to instill in them. Aside from this, I want my daughters to be independent in making decisions and taking actions.'



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