Solic Group, France

- Type of restructuring:
  (Avoiding) bankruptcy
- Employees before restructuring:
  50-249
- Employees after restructuring:
  10-49
- Nace/Sector:
  Administrative services
- Country:
  France
- Date:
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- Keywords:
  Recession/Crisis

Abstract

French recruitment group Solic grew steadily from taking on its first employee in 1996 until 2008. By then it had some 92 employees in eight locations. Its recruitment service was badly affected by the crisis that struck in 2008 as French companies froze recruitment and cancelled recruitment contracts. Over three rounds of restructuring in 2008–2009 Solic Group reduced staff numbers, closed branches and entered administration to save the business. It exited the observation period of the administration in early 2010 and now has 34 employees.

Organisational profile

Solic Group was set up in Paris by Luc Doucerain in 1989 (without employees). Initially the group consisted of a consulting firm on IT engineering and a subsidiary specialising in recruitment. In June 1996, Luc Doucerain's 20-year-old son, Nicolas Doucerain, bought the recruitment subsidiary and took over the business while his father continued to own and manage the other line of the business (that is, consulting on IT engineering). Luc Doucerain continued working as chief financial director within the group.

Before working in the Solic Group, Nicolas Doucerain had worked for a Rover car dealer since he was 16 years old (starting as an apprentice). In 1994, he received an award for best salesperson in France. When he was 18 years old, he was promoted to commercial director of the company. Two years later he left the company to join his father's business.

After Nicolas Doucerain took over the family business, Solic Group grew steadily until 2008. In 1996, the first employee was recruited and by 2008 (prior to the restructuring) the company employed some 92 workers. Headquartered in Paris, Solic Group opened seven branches over the years (Lille in 1999, Lyon in 2000, Nantes in 2003, Besançon in 2005, Algiers in 2007, Geneva and Quimper in 2008). On the whole, about 60%

of the staff were employed at the Paris headquarters and the remaining 40% in the other branches in France and abroad. In France, all employees were employed on indefinite contract. About 90% were professionals (*cadres*) and 10% were administrative staff. Among the professionals there were six shareholders (*cadres dirigeants*) who were also members of the managing committee (*comité de direction*).

Female staff accounted for 70% of the company's entire workforce – this is partly due to the nature of the business as well as the qualifications required (women are more likely to study and specialise in organisational psychology, an important qualification in human resources and recruitment). Prior to the restructuring, the age structure of the workforce was very mixed (with employees aged 26 to 63 years). The average age was approximately38 years.

As the company grew in size, an HR strategy was put in place to ensure equality of treatment among the staff. This entailed the setting of well-defined objectives for each employee. The pay was partly determined by the objectives and consisted of a fixed basic wage and variable components. About 60% of the variable component was distributed among all employees and the remaining 40% was linked to individual performance. The new HR strategy also included investments in training related to the company's business.

The workforce was not unionised. There were four staff representative (of whom two were deputy staff representatives). Two were representing the professionals ('cadres') and the other two represented the administrative staff.

In 2007, Solic Group obtained a prestigious award for best performing and growing SME – the *Trophée des gazelles* – in recognition of its achievements. The initiative was launched in 2006 by the French government to award the 2000 best-performing SMEs which had generated double-digit growth and created jobs over the previous three years. The award-winning SMEs were then exempted from the payment of corporate tax and social contributions (for the staff hired in that year) for the duration of a year.

In June 2008, French investment fund Audacia (chaired by Charles Beigbeder) entered the company's capital by injecting some €1.5 million into the business. This injection of funds was driven by the wish to strengthen the capital base of the company and expand the business further.

Background to restructuring events

The business has been severely affected by the economic crisis which started on 15 September 2008 with the collapse of Lehman Brothers bank. At the outset of the crisis many French companies announced extensive and prolonged recruitment freezes. There had already been a slowdown in recruitment starting in spring 2008. On 30 September 2008, the company already had a deficit of €300,000. The effect of the global crisis was particularly felt by the company in November 2008 when many clients started to cancel or postpone their projected recruitment (for example, Invest Banking, Metalizer, Assuranciel).

Restructuring processes

In an attempt to avoid further distress among the staff due to the numerous cancellations of contracts, the management sought to improve the flow of information within the company and infuse optimism in the staff. Employees were encouraged to report regularly to the management on new contracts signed with clients and this information was widely circulated within the company. Those who felt that they had no work to perform were required to meet the management and discuss possible solutions. However, in spite of the efforts of the management, orders from clients continued to plummet.

Overall, the company went through three consecutive waves of restructuring from the end of 2008 until mid-2009. Throughout the whole process the works council (*comité d'entreprise*) and staff representatives were informed and consulted but not directly involved in the decision-making.

For all waves of restructuring, the selection of the posts to cut was made on the basis of the objective and pre-established criteria defined by law such as the length of service in the company, age, marital status, number of children, disability and level of education. The management informed the employee representatives about the decision to cut the posts during an extraordinary meeting. They did not oppose the plan as they realised that the company was in serious trouble and there were no other alternatives. They then informed the staff about the planned dismissals without disclosing the names of the redundant employees. All staff were shocked and very concerned about their jobs. The affected employees were sent redundancy notices by registered mail. In the meantime, the company director proposed individual meetings with all staff if they wished to meet him. In spite of the difficult circumstances, the employees showed understanding and did not challenge the decision.

With regard to support offered to the redundant employees affected by the restructuring, various measures were taken. Employees were offered the possibility of benefiting from state-subsidised reclassification schemes which entitled them to training, skills assessment and assistance to get back to employment. In addition, the management contacted various companies (including clients) in an effort to help the company's redundant employees to find jobs, and succeeded in placing all of them. Two internal consultants were also tasked to provide affected employees with psychological support on an individual basis throughout the whole process.

Due to the cancellation of many contracts with clients, the second semester of 2008 ended with a deficit of €1.2 million. In October 2008, managing director Nicolas Doucerain announced to his partners that he planned to dismiss nine employees, thus avoiding the red tape associated with the job preservation plan (*plan de sauvegarde de l'emploi*) which is required by French law only if the company (employing more than 50 people) intends to dismiss at least 10 employees on economic grounds.

In an effort to reduce the costs, the company director reduced his salary by 40% and proposed a 20% wage cut for the management. Another cost-saving measure was to discontinue the use of company cars. Also overheads were reduced – for example, by closing a number of branches. In 2008, the company closed the branches in Geneva and Lyon and dismissed nine employees.

In January 2009, many clients continued to cancel their recruitment plans and the losses for the company reached €113,000 – €50,000 more than expected. With the exception of the branch in Algiers, all remaining branches were severely affected by the crisis. By early February 2009, there was only €600,000 left as capital equity. In order to ensure the survival of the company, costs were further reduced with the suppression of bonuses and fringe benefits (for all employees), the closure of the branches in Besançon, Lille and Quimper and the dismissal of another nine employees.

Although some contracts were signed with new clients, the company continued to struggle financially. Solic Group entered into administration and initiated the liquidation procedure in June 2009. At the same time the company put in place a job preservation plan (*plan de sauvegarde de l'emploi*) which envisaged the loss of 35 jobs. On the same day the company entered into administration, all major clients were informed and reassured that the company was still viable and would continue in business. The job preservation plan was approved by the managing committee (*comité de direction*) and the administrator appointed by the court.

As soon as the company went into administration, a new bank account was opened in a specialised bank dealing with companies in administration. During the observation period (*periode d'observation*), the business had no credit and could not overdraw money. The company director did not receive any remuneration during the first four months of the observation period.

The Commercial Court of Nanterre appointed an administrator who took co-charge of the management of the company during the observation period which lasted six months from 1 July until 31 December 2009. During this time, there were regular progress meetings with the Commercial Court.

In September 2009 the economic situation improved and the deficit amounted to only €9,000. The business formally exited the observation period in early January 2010 when its continuation plan (*plan de continuation de redressement*) was approved by the Commercial Court.

Challenges and constraints of restructuring

Although the French government introduced a set of measures to help SMEs, including loans and guarantees channelled through OSEO (support agency for the development of SMEs), the bureaucratic procedures required to make use of such measures were regarded as time-consuming, the regulations extremely complicated and certain conditions to access funds difficult to fulfil (for companies struggling financially). Also, the funding was limited and not sufficient to solve the financial problems. The maximum amount for the loan guarantee was €400,000. At that time, the company needed a much higher buffer to survive the crisis.

Even after the observation period, the company continued to have difficulty in obtaining bank loans. Banks are reluctant to give loans to a company that has just exited the observation period. The main challenge is to achieve a positive cash flow and a certain level of profitability to be able to cover running costs and continue developing the business.

As a more general consideration, in the context of a globalised economy, many businesses are faced with increased uncertainty. This makes it difficult to anticipate and avoid the negative consequences of major restructuring. This was and continues to be a challenge for Solic Group, as for many other companies.

Restructuring advice and support

As indicated above, the company explored the possibility of obtaining a loan from OSEO. However, certain conditions to obtain a loan could not be fulfilled by the company. For example, when applying for an OSEO loan, the company is required to declare that it would not enter into administration in the next six to twelve months. Another condition to obtain a loan from OSEO is that a bank contributes 30% of the loan. As the company was struggling financially, neither condition could be fulfilled.

In March 2009, the company applied for short-time working (chomage partiel), which was then authorised and lasted from April 2009 until the end of August 2009. All employees were affected by this measure (depending on the post, the reduction of working time was between one and two days per week). However, this was a temporary measure and did not help to avoid the third wave of restructuring.

In terms of private business support to the restructuring, the company was supported by a tax consultant during the whole restructuring process. He had been working for the company since it was established. The company also turned to an expert specialised in insolvency procedures three months before entering into administration (from March until June 2009). He trained and prepared the management to deal with the insolvency. He also provided his expertise throughout the observation period until the approval of the continuation plan (*plan de continuation de redressement*).

Outcomes of restructuring

- first and second waves of restructuring which led to theloss of 18 jobs, wage reductions, suppression of bonuses and fringe benefitswere not successful as the business continued to struggle with its finances in atroubled economic climate. The third wave of restructuring entailed theliquidation procedure and an extensive social plan affecting 35 employees. Ofthe six shareholding employees, one retired during the restructuring process andanother four left the company. Solic has currently 34 employees.

During the observation period, the management and the staff made efforts to remain in business and prepared a detailed continuation plan that could convince the judge that the company was still viable. The continuation plan will end in 2020. The company's deficit diminished and the continuation plan was approved by the Commercial Court at the end of the six-month period. This is a positive result considering that the observation period is often renewed for another six months and many French businesses do not even survive to the liquidation procedure. All clients were pleased to learn about the positive outcome of the restructuring and showed solidarity with the firm. Some of them offered to pay their invoices before the due date.

Immediately after the restructuring, seven or eight former employees were recruited on temporary contract as business started to improve steadily. Since then, the company has acquired new clients and reopened its branch in Lille in June 2011.

The company came out of its difficulties mainly thanks to the relentless efforts and determination of its employees and the management, who showed commitment to the organisation through the restructuring process.

Commentary

In the case of Solic Group, the determination of the company director as well as the support and dedication of the employees was key to the success of the restructuring process.

One of the main difficulties encountered by the company concerns the lack of flexibility of French labour law and the fact that redundancy procedures are time-consuming, bureaucratic and expensive for employers (especially for SMEs). This prevents companies that are already struggling financially from acting fast and efficiently. It was highlighted by the company managing director that although the ultimate objective is to protect employees, the result is the opposite.

The other difficulty that Solic Group, like many other French SMEs, is generally confronted with is the limited access to funding and insufficient accompanying measures to help them to grow and compete in an increasingly globalised economy. As a result there are many very small businesses (TPEs – *très petites entreprises*) and small businesses in France and very few medium-sized enterprises.

The importance of anticipation was particularly highlighted. In particular, business owners and managers are not familiar with liquidation procedures and the assistance of a legal expert is necessary to comply with the procedures and exit the observation period successfully.

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Information sources

Interview

Nicolas Doucerain, Managing Director, Solic Group

Nicolas Doucerain (2011), *Ma petite entreprise a connu la crise,* Editeur François Bourin.

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