IT companies, Luxembourg

- Type of restructuring:
  Business expansion
- Employees before restructuring:
  10-49
- Employees after restructuring:
  10-49
- Nace/Sector:
  Information / communication
- Country:
  Luxembourg
- Date:
  12/06/2012

Abstract

This Luxembourg-based group operating in the IT sector began as a web development company. It subsequently developed a new product, payment services by SMS for phone-based goods. This activity was spun off into a new company in 2006. The process was relatively informal and smooth, but planning did take place to carry out the legal steps involved. Communication with staff was aided by having a workers' representative, and the coming changes were communicated by way of meetings organised on a regular basis. The outcome of the restructuring event has been positive and group turnover steadily increased following the split.

Organisational profile

Company A is a company active in the IT sector, more specifically in payment services. It is the sister company of Company B, both companies being held by a management company, Company C, whose shareholders are three individuals, all partners of Company A, including the interviewed General Manager. Company B is held 100% by Company C; Company A is held 66% by Company C, and 33% by a private individual. The holding company does not have operational activities. It has a few employees, providing administrative and accounting services to its subsidiaries.

Company B was created in 1999 as a web agency (design, development and operation of websites). Over the years, Company B developed a new product, payment services by SMS for phone-based goods such as logos, ring tones and games. As these new activities were of a very different nature than those of a web agency, Company B's new activities were split off into a new company, Company A, as a spin-off in 2006. This is the 'restructuring event' for the purpose of the present case study. In 2009, a subsidiary was created in France, Company D.

In 2012, the group of companies (B and A) and their French subsidiary had approximately 43 employees. (It should be noted that two additional companies, Company E and Company F, were created within the group in July 2012, with some employees of Company A moved to Company F.)

The company does not deal with trade unions but has an employee representative. The average age of the workforce of the group is low (upper 20s). The workforce is composed of men almost exclusively, especially for pure IT functions. Most employees hold a university degree or a vocational training diploma. Approximately 10% of the activities (sales) of Company A are outside Luxembourg.

The group has a brief corporate charter, taking the form of some slides setting out the values, mission statement and vision of the group. The core values are independence, autonomy and responsibility because, according to the General Manager, a company of this size cannot afford any lack of responsibility.

Before the split, the turnover of Company B was approximately €500,000 a year. Following the split, the combined turnover of companies A and B steadily increased to reach €4.5 million in 2011.

Company A is currently (first half of 2012) contemplating a diversification of its production chain, which is not part of the restructuring event mentioned above and not further described for confidentiality reasons (the 'new restructuring event'). This new diversification, which will result in the creation of another new company within the group, is nonetheless interesting and we refer to it below.

The General Manager interviewed for the purpose of the present case study holds an IT diploma from a German technical university as well as a master's degree in European business from a leading French business college. He has two years of international experience as a software engineer at IBM in the US. He joined Company A in 2006, on its creation. He and the two other partners at Company A have known and worked with each other for many years in the past. They met as they high school students and had developed and managed a successful chat platform in Luxembourg. The three partners at Company A therefore know each other very well.

Background to restructuring event

The General Manager identifies several triggers to the restructuring event:

• willingness to separate two activities of different natures;

• the arrival of two new shareholders/partners, including the interviewed General Manager;

• some market opportunities in Luxembourg that were spotted by the management of Company A at the time, which was relatively easy to do due to the small size of the country.

Restructuring processes

The General Manager describes the process as overall informal/spontaneous. There was nonetheless a minimal degree of planning which consisted of carrying out the legal steps to plan and implement the split (drafting articles of association, assessing the value of assets for determining the remuneration of shareholders, notary deed, and the like).

This was decided and implemented by the three owners of the firm, with some limited external support (see below). The General Manager describes the process as facilitated essentially by the fact that one of the three partners had a legal background, which meant they did not have to rely on external expertise. Moreover, the important decisions (including those on finance) were made quickly due to the small number of people around the table.

The restructuring event was based on the company's own funds. The company obtained a credit line from a bank but never activated it.

After the decision had been taken, all contracts with customers and suppliers had to be updated, which took a number of months. As only the names on the contracts had to be changed, it was quite a smooth process. Employment contracts with employees also had to be updated to move them from one company to the other.

Communication with the workforce was intense, constant and informal as there were few people in the company at the time. People were informed about the coming changes, the timing and the conditions for change, by way of meetings organised on a regular basis. The General Manager notes that having a workers' representative is useful on several accounts, notably for sounding out the employees' reaction to ongoing change and for communicating difficult messages, such as organisational changes, which do not always please everyone. Regarding the new restructuring process, the management continues to seek the opinion of the workers' representative on a regular basis. Communication with employees is more formal today than it used to be in the past, before and during the restructuring process, notably with the use of official communication emails.

At the time, the three partners decided to restructure, Company B had eight employees (management included). At the time of the restructuring implementation, it had 12 employees (including management). A handful of them were requested to join Company A, including the General Manager, partner, director and one of the three owners of Company A. Regarding the operational transfer of activities from B to A, since the people working on the project were also migrated to the new company, the operational business did not change much more than using a different email address.

Challenges and constraints of restructuring

The General Manager does not identify challenges the group specifically encountered during the restructuring process, which, according to him, went very well. Generally speaking, he believes that the main difficulty SMEs face while restructuring is limited financial support due to their size, for example for developing new innovative products or processes or for obtaining credit lines.

Restructuring advice and support

The General Manager reports having used the services of one external expert, an auditor, to assess the value of the company. One of the partners has a law degree and this person provided most of the legal input for the process.

Outcomes of restructuring

Overall, the outcome of the restructuring event is positive and group turnover steadily increased following the split.

As far as the other two owners are concerned, the organisation and distribution of work has changed following the split, with the arrival of two new shareholders, including the interviewed General Manager. Distribution of work was no longer implicit, which meant that, with the restructuring event, for the first time they had to do a formal division of work. ime was needed for adjusting to this and for consolidating trust among the new directors.

The General Manager took over management functions that are very different from those he had in his previous job, where he was an employee in a large group with no real impact on the company's decision-making. One reason he opted for this change was in fact being able to have some real impact on the company's direction and activities and he seems to derive great satisfaction from this.

The arrival of the General Manager diversified the profile of the management. He is the only one of the three partners having a technical background, the others having respectively a legal and a communication and marketing background. This new skill in the management is of course useful for business development as the company operates in a highly technical sector. Following the split and to date both companies are still sharing offices, so there remains a lot of interaction between the employees. There is an intense exchange of knowledge between the two companies and A is using B for web development jobs frequently.

As far as employees are concerned, the General Manager believes that the group has more means to help them after the restructuring event than before:

- more funds for increasing salaries where required;
- more flexibility regarding packages (such as companycars);
- more possibility for ad hoc training.

The General Manager says that this is, however, related to the increasing revenues arising from the expanded activities of the companies rather than to the restructuring event itself.

Finally, implementing the restructuring event had some positive impact on human resources management, allowing the group management to refine their recruiting process. This is because numerous employees were hired in or mainly after the process. The management team itself carried out the hiring process and gained knowledge from it. The General Manager believes that as a result their hiring skills are better now than in the before the restructuring event.

Today, none of the eight employees initially employed by Company B remains within the group of companies. The General Manger explains that this high departure rate is essentially due to the fact that the companies used to be (and to some extent still are) small companies, employing young staff and that as these people mature professionally they tend to leave for new professional challenges.

Commentary

One advantage SMEs have over large firms in implementing change, according to the General Manager, is their agility. Large corporations implement change more slowly due to heavy reporting lines and complex decision-making procedures, whereas things are more informal within SMEs, which he says is 'priceless'.

He notes that communication is currently more formal with respect to the new restructuring event, due to the fact that there are many more employees in the group than in the past.

In relation to the new restructuring event, the General Manager sees it positive that the group benefitted from subsidies granted by the Luxembourg government for R&D. Without these subsidies, it would not have been possible for Company A to dedicate some staff to working full time on the development of the new product, including hiring new employees for that purpose. The subsidies also allowed them to develop the new product in a more structured way. An additional positive he sees is the active policy of the Luxembourg government to support intellectual property-related activities by exempting from taxes some of these activities. Company A is directly benefitting from this policy and the General Manager sees it as a positive for SMEs and innovation in general. In his view SMEs are the heart of innovation (they innovate while large groups buy innovative small companies).

Finally, the General Manager notes that most of the information in the present report is related to the continuous growth undergone by the group. The restructuring event described above is a means, among others, that was used for facilitating and implementing this continuous growth.

Author

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Information sources

Interviews

General Manager and partner in Company A

Note:

The present case study is not based on any employee interview as no employee who worked in the group prior to the restructuring event remains within the group today.

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