Bairaktaris Marble, Greece

- Type of restructuring:
  Internal restructuring
- Employees before restructuring:
  10-49
- Employees after restructuring:
  10-49
- Nace/Sector:
  Mining / quarrying
- Country:
  Greece
- Date:
  01/03/2012
- Keywords:
  Recession/Crisis

Abstract

Bairaktaris Marble S.A. began operations in Greece in 1987 as a wholesale and retail company in marble processing. Family-run and export-oriented, the company employs 27 high-skilled workers. To expand into the artistic marble processing market, the company bought out PARMO S.A. in 2010 to build a new production unit. The firm had to introduce cutbacks in expenses, let some workers go and take on others, train unskilled workers and cut wages, all at a time when the crisis was affecting export sales and product prices. Yet the company maintains a strong competitive advantage.

Organisational profile

Bairaktaris Marble S.A. (BM) is a wholesale and retail company engaged in marble processing. Its main products include columns, bollards, tiles, monuments and the resurfacing of fireplaces. The company holds a competitive advantage in the artistic marble processing market. It is one of only two Greek firms currently operating in this market, owing to the owners' high skills and the technical equipment it owns. BM is housed in privately owned facilities of 22,000 square metres in the industrial area of Drama, close to the border with Bulgaria in the north-eastern part of Greece. Customers include commercial companies from the Greek and foreign market, and individual clients seeking customised products.

Bairaktaris Marble S.A. was founded in 1987 by the current managing director's father, who had worked for a long time in the marble processing industry. Despite its legal status, BM is a family business, since the shareholders include three family members (a father and his two sons), and a German entrepreneur who has worked with the company in the past, being the owner of another SME himself. The founder's two sons are now in charge of the company (as managing director and production manager); the founder remains on as chairman. Sales reached €1.6 million in 2011. There are 27 employees, the majority of whom are higher education graduates and skilled craftsmen with numerous years of experience; however, there is no works council or trade union at the workplace.

BM has a strong orientation towards exporting and has established a dynamic international presence since its early years of operation, since some 60% of the production is for sale to export clients. However, given that large quantities are exported through wholesalers, the general manager was not able to provide accurate figures regarding the countries to which the products are shipped. The company was engaged in an international agreement in 2009, which involved the construction of an impressive convention centre in Uzbekistan, where 4,500 people from Europe were employed for the nine months taken to complete the project. Participation in this project arose out of previous cooperation with the German company that undertook to construct this building, while it allowed BM to diversify its production by acquiring specialised machinery that can be used in artistic marble processing. At the same time, it enhanced the company's experience of international collaboration, while it also contributed to a significant increase in cash flow. This constituted one of the major drivers of restructuring.

Management of the company is undertaken by the three family members, reflecting a centralised structure. The company founder retains an advisory role, owing to his extensive experience in the sector, while the two sons are in charge. One of them, the managing director, received a degree in business economics after his studies in Germany, while the other, the production manager, is a sculptor, with a degree in fine art. Hence, it could be argued that their joint expertise constitutes a competitive advantage for the company.

Background to restructuring event

Following the Uzbekistan project, the owners realised the potential in the artistic marble processing market, given that two specialised machines which had been bought to cover project needs remained idle mainly due to space restrictions, as the area of the company's production unit was not large enough to install them. At the end of 2009, the family considered investing in a new production unit, in which this specialised equipment could be fully operational. At the same time, it was obvious that access to raw materials should be further enhanced, given that local suppliers had reached extensive agreements, mainly with international wholesalers and the vast majority of quarried marble was exported to countries such as China.

The family examined three alternative solutions to overcome these barriers to growth. The first involved building a new production unit in a rented area, so that the owners could take advantage of the subsidies available through the National Investment Law. The second referred to a buy-out of an existing company, since the area presents an extremely strong concentration of marble industry firms. According to various estimates, the prefectures of Drama and Kavala represent almost 70% of the total volumes of exported marble from Greece. Unsurprisingly, this area presents a strong concentration of Greek firms engaged in the sector, the majority of which have undertaken significant exporting activities mainly to the Balkan region, Italy, Spain, China and Hong-Kong. The third alternative included moving the production unit to Bulgaria, where a strong concentration of Greek-owned firms has occurred during the last 20 years, mostly owing to lower labour costs, geographical proximity and the favourable business environment. The first solution appealed most to the family and, thus, the necessary procedures were followed in order to submit a proposal and receive funding through the Greek State under investment law.

The third solution was rejected, mostly for emotional reasons, as the family preferred to retain the company's activities fully within Greece. However, despite initial efforts to build a new production unit in Drama, the owners were concerned with reported delays in project approvals and funding under the Greek Development Law. This is why the family decided to keep an eye, as the managing director stated, on a possible merger/acquisition with an existing company in Greece.

Thus, during the first months of 2010, the family realised the potential of a possible buy-out of a company in the industrial area of Drama, namely PARMO S.A. Negotiations were initiated, while an examination of company financial data was carried out, in order to evaluate past performance and future prospects. The family was soon convinced that this option constituted the most suitable solution to expand in the artistic marble processing market, while retaining the standard production line, meaning that an efficient combination could be achieved. Hence, the first option, of building a new production unit, was rejected and the family decided to proceed with the acquisition of PARMO S.A. as soon as possible, in order to grab the opportunity.

Restructuring processes

The family moved fast regarding the acquisition and, as a result, a detailed plan was not set out, apart from some general goals, such as to complete the acquisition and implement the necessary changes within the same year. Thus, the buy-out was officially completed on 1 July 2010, meaning that it was finalised two to three months after the opportunity arose. The procedure was entirely managed by the three family members, along with the company tax consultant. The expanded company was now renamed 'Bairaktaris Marble S.A.'. At the same time, the owners decided to implement a vertical integration process, which involved renting a quarry 35 km from the production unit, in order to secure access to raw materials.

The new owners identified several weaknesses in the new company such as low productivity, high wages, a different working mentality evident among some of the workforce and wide-ranging expenses. These factors constituted a barrier to accomplishing the main goals of the acquisition and, hence, the owners chose to implement further restructuring measures, such as a major cut-back in expenses, operations and labour, which included redundancies and the replacement of four to five employees. Thus, even though total employment remained roughly the same, the managing director believed that an increase in productivity rates could be achieved. Moreover, training schemes were implemented, especially for the unskilled workforce, which involved familiarisation with the new technologies, and the specialised machines installed in the processing unit. Lastly, negotiations with the company's bank took place in order to reach a new agreement about loan repayments, and a final agreement was reached regarding the renting of the quarry. The general manager stated that they were lucky enough to initiate negotiations before the 'real' impacts of the current economic crisis appeared, in the sense that Greek banks are nowadays more reluctant to offer loans to SMEs, owing to the negative economic climate in the country. Thus, this process was rather smooth.

These measures were announced by the management as soon as the new owners came into business, by informing PARMO's employees that these procedures would be executed during the next two months. This raised employee concern and caused some reactions (mainly a legal dispute between a particular worker and the new management – see below), which were partially counterbalanced by the fact that all legal procedures would be followed, such as the provision of compensation (for example, redundancy payments). The absence of collective employee representation further enhanced the success of these procedures, which were implemented during the scheduled period. At the same time, BM's original employees were also informed about these plans during this stage, even though there was no direct impact on them.

By applying a combination of restructuring measures, such as acquisition, business expansion, internal restructuring and insourcing, the owners felt that company performance would be significantly improved, while the major goal of focusing on artistic marble processing could be secured. However, a detailed plan and timetable was not prepared, owing to the new owners not being fully aware of several problems emerging after acquisition. Hence, efforts were undertaken, during the family's meetings, to set milestones for each procedure and implement the necessary changes until the end of the year.

Challenges and constraints of restructuring

A major challenge in these restructuring events centred on the managing board's ability and experience to perform such a combination of radical changes in the newly formed company. As the managing director stated, things proved to be more difficult and complex at the end than they seemed at first. Specifically, one significant challenge was the legal status of the company (S.A. – unlimited liability), whose management is different and requires enhanced skills and capabilities, compared to a 'general partnership' (that is, limited liability type of business). As the general manager reported, the expenses related to the publication of annual financial data – which is obligatory for an S.A. – are much higher than expected, while the same is true for other operational expenses. The managing board was not fully aware of these specificities and this proved a hindrance to the successful implementation of restructuring.

The owners were also not fully aware of the work mentality and the productivity rates among the acquired company's personnel. As a result, they were forced to implement some changes related to the number of employees (firings and hirings), which resulted in some unexpected expenses in the form of compensation. However, the total number of employees remained roughly the same, as five people left the company and four new employees came into the business. These changes prolonged the restructuring event, given they were not planned from the outset. Additionally, it created some psychological pressures among the remaining workforce and the owners had to (re)establish an effective communication link in order to improve their relationship with employees. Specifically, as one employee mentioned, there was a 'certain air of tension' between the new owners and the employees, given that the new measures (firings, hirings, and wage reductions) were announced as soon as the former took over the management of the company. Hence, an anxiety was evident as well as a rather negative attitude towards the new management, which led the owners to apply some measures to mitigate the negative results (for example, daily communication with the employees in order to confirm that no more firings would be made).

Another constraint involved the absence of any type of 'external' assistance regarding the management of the whole process. As the managing director admitted, the lack of an efficient advisory service constituted a major problem, given that the owners lacked the expertise or previous restructuring experience. Both the scope and the intensity of the implemented changes, combined with the strategic reorientation that was necessary, rendered the utilisation of external assistance extremely significant, especially in terms of legal and strategic management consulting services. However, this could not be achieved either through the public or the (local) private sector. This is why the managing director is seeking cooperation with a consultancy company in Thessaloniki, even though he believes this will be extremely difficult, owing to the peculiarities of the marble processing industry, which should be taken into account in order to plan and execute a programme with realistic and achievable goals.

The timing of the restructuring event constituted another major constraint in two different ways. First, the deteriorating business environment, due to the economic crisis in Greece, put extended pressures on sales, as regards the standardised production line in particular (for example tiles). On the one hand, it caused a reduction in sales in the national market (in the firm's particular market segment), while, on the other hand, it affected levels of trust among foreign clients and created pressures regarding price levels. As the managing director stated, orders would be completed through a single phone call or fax before the crisis, but now the procedure has become much more complex, since international companies have become more 'suspicious' of Greek companies. Obviously, this has affected implementation and the success of restructuring, in that it harmed the particular market segment that the owners believed would support diversification into artistic marble processing. Specifically, the general manager stated that his family believed that sales of the company (referring to exports to wholesalers, that is 'standardised production') would provide the necessary capital to invest in the 'artistic marble processing industry', something that was not achieved, given the economic downturn that affected export sales after 2010.

Second, the rental of the quarry to ensure access to raw materials has not yet proved to be a suitable solution, for environmental reasons. Specifically, the winter of 2011 was one of the worst recorded in Drama and heavy snow hampered the quarrying of marble in satisfactory quantities due to heavy snow. Hence, the owners are not in a position to predict the volume of future production. As the general manager reported, some two or three fully operational months of quarrying are needed in order to be able to predict the future levels of extracted raw materials.

Restructuring advice and support

The restructuring process was exclusively developed and managed by the three family members. This is attributed to the lack of public or private sector support, at least in the type of consultancy or financing mechanisms that were essential in the specific case. Hence, the owners relied primarily on their own skills and experience, while support was received internally from an employee, the company's accountant, who has worked for BM during the past years. His help was valuable, according to our interlocutor, in the sense of providing advice and support related to the evaluation of the financial performance of the target company, even though a relative lack of expertise was evident in this case as well, as this person has been working with the family in their previous business (that is a 'limited liability' type) and he was not always able to assist them in the management of the acquired company, due to differences (in the legislative framework) between the two types of companies.

Thus, apart from the necessity of a specialist consultant who could advise the owners as regards the strategic reorientation of the company as a whole, a significant need emerged *vis-à-vis* the procedure of buy-out and management of the acquired firm. The managing director identified several differences with regard to expenses in a company of this specific legal type (S.A.) that were not foreseen. This lack of experience constituted a significant barrier to restructuring that has augmented the need for an external consultant, for whom the firm would pay. This need is related to management and the evaluation of alternative growth strategies that can be implemented and executed in the near future. However, as previously mentioned, the company has not had access to this particular type of support, either through the public or the private sector.

Regarding public support, the instruments available at national level primarily target the establishment or restructuring of larger companies and, as a result, the managing director stated that alternative options were assessed (such as building a new production unit). However, once more, the extended delays and the bureaucratic procedures that characterise the Greek administrative system as regards the business environment were reported as being the greatest obstacle. Thus, even though financial assistance was required during the restructuring event, the owners decided to rely mainly on family backing in the form of private capital injections. The major concern reported relates to the means that could assist – especially the smaller – Greek firms to overcome the barriers created by the recession and deteriorating business opportunities.

Outcomes of restructuring

The assessment of financial results during the first year after restructuring produces a mixed picture. The managing director stated that none of the goals have been entirely met, for various reasons. First, the economic crisis has severely affected the company's annual sales in the standardised products market. Moreover, it has also created enormous pressures for price discounts mainly from foreign customers, such as international trading companies. Given the undifferentiated nature of products in this market, their demand exhibits a strong price elasticity, which has also increased competition from neighbouring producers, such as those in Bulgaria. The general manager stated that, partially as a result of the crisis, competition from Bulgarian competitors has increased, as they have been able to enter the local and national market. This rising competition has undoubtedly affected restructuring outcomes, at least in this market segment, which was not fully appreciated prior to restructuring.

Restructuring has also affected the employment side: five employees of the acquired firm have been made redundant, while a wage reduction scheme was also brought in for inexperienced or less skilled employees. On the one hand, these procedures have improved financial performance, but, on the other, have created anxiety among the remaining workforce. It is worth mentioning that there is a continuing legal dispute between the company and a dismissed employee over the compensation offered to him. Even though this was a single incident, it illustrates the negative impacts, both in qualitative and quantitative terms, restructuring can pose to employment. On the other hand, there have not been any direct impacts on the initial employees of BM.

The vertical integration efforts, which involved quarry rental to ensure access to raw materials, cannot be assessed positively so far. However, given declining orders in the standardised products' market, it might have not constituted a major problem until today, as customer demand could be covered by relying on long term supplier networks. Indeed, though, a certain level of worry was observed regarding the outcome of this decision, particularly about the exact levels of materials to be extracted, since the owners are not yet able to estimate them.

On the other hand, the outcomes of the restructuring are evaluated in a more optimistic manner by both the managing director and an employee who was also interviewed, regarding productivity rates and employees' working mentality. Specifically, the owners have successfully implemented changes involving the knowledge and skills of the personnel by clearly demonstrating a different management culture that can also enhance the upgrading of the workforce. This is related to the new machinery in the production unit, whose operation requires new employee skills, as well as to the different environment in which the company functions, which is more internationalised but also more family-orientated, thus ensuring a more favourable working environment. As one employee said: 'It feels good to see a family working here all day long, even on Saturdays, compared to the previous situation. The previous owners were almost invisible here. Hence, the current situation certainly creates a family-like atmosphere for all of us working here'.

At the same time, outcomes are more promising as regards the artistic marble processing segment. A major goal, which involved the installation and exploitation of previously idle mechanical equipment, was met, offering the company a major opportunity to expand in this market, where competition is less intense and profit margins are considerably higher. This area constitutes a strong competitive advantage, while it has also allowed the owners to fully take advantage of their experience and expertise, a fact that constitutes a major positive impact of the restructuring process.

Hence, the owners are currently in the phase of inducing further changes in the future, which illustrate the 'learning by doing' fashion in the case of this particular case of restructuring. The outcomes so far could be characterised as moderate and even though certain goals have not been achieved, the owners are optimistic they will manage to overcome the barriers, even if the process is prolonged.

Commentary

The case of Bairaktaris Marble S.A. constitutes a good example of restructuring among smaller firms in Greece. It is characterised by an extended mix of actions and types of restructuring events (that is internal restructuring, insourcing, acquisition), combined with the relatively small size of the firm and the low levels of experience related to implementing radical changes. It clearly demonstrates the need for external assistance (especially in the form of consulting services) and possible barriers for smaller firms, such as restricted access to finance and lack of consultancy experts specialised in particular sectors.

Partially as a result, the process is managed by the owners, which confirms the general argument regarding their 'hegemonic' role in the management of smaller firms. At the same time, lack of expertise and experience does not seem to hinder the restructuring efforts *per se*, but rather their efficiency. Concretely, as the case of BM illustrates, owners and managers in these smaller firms are often forced to implement radical changes in their businesses even though they lack the experience. However, they are able to proceed by employing a 'learning by doing' approach and by relying on the company's internal strengths, even in the absence of a well-defined and accurate plan, given that there are often factors that cannot be foreseen.

At the same time, the case of BM showcases the vulnerability of smaller firms to the deteriorating business environment, such as the one currently prevailing in Greece during times of economic crisis. In turn, this can affect employment severely, in the form of redundancies or wage reductions, which seem to be the only solution, especially for labour-intensive firms, to remain active, given their limited access to finance that is further restricted during this financial recession mainly by the banking sector.

Authors

Lois Labrianidis and Nikos Vogiatzis, University of Macedonia, Thessaloniki, Greece

Information sources

Interviews

Managing Director and an employee in the Human Resources Department, Bairaktaris Marble S.A.

Company address

Bairaktaris Marble S.A.

Industrial Area of Drama66100 Drama

Company website

http://www.marmaro.eu/