Construction company, Slovakia

- Type of restructuring:
  (Avoiding) bankruptcy
- Employees before restructuring:
  0-9
- Employees after restructuring:
  0-9
- Nace/Sector:
  Retail
- Country:
  Slovakia
- Date:
  05/12/2011
- Keywords:
  Recession/Crisis

Abstract

The economic crisis led this producer of glass blocks for the construction industry to insolvency. Slovakian legislation permits restructuring: a process whereby creditors write off part of the debt owed to them, and the debtor continues to operate in the hope of recovery. This can save a company from bankruptcy, enabling the changes required to become competitive. The company decided on this option and was able to repay its debts within one year. Bringing an external business consultancy on board was crucial for the business, helping the company assess its financial situation and the possibility of restructuring.

Organisational profile

This limited liability company was founded in 2001. It is located in the south-west of Slovakia, near the capital Bratislava, the most economically prosperous region in the country. The company has two owners having equal ownership shares. One of the co-owners, who has an educational background in construction and economics, is the founder and managing director of the company.

The company started its activities in Slovakia specialising in the production of building glass and glass blocks for the construction industry. Glass bricks and glass profiles became attractive for specific architectonic constructions when technological development enhanced their technical and aesthetic characteristics. Glass block, also known as glass brick, is an architectural element made from glass and is used in areas where privacy or visual obscuration is desired while admitting light, such as underground parking garages, washrooms and staircases. It has a wide range of uses and applications in interiors and exteriors. Glass block was originally developed in the early 1900s to provide natural light in industrial factories. Currently, glass block represents an innovative technology that reduces the thermal transmittance of the classic glass block, making it possible to create architectural façades made entirely of glass blocks that promote the conservation of energy and safeguard the environment. Texture and colour variations are challenging for architectural applications.

The company is among the most important importers and distributors of glass bricks and builders of glass profiles in the Slovakian market. It undertakes construction work for individual customers as well as large building companies. To be able to compete, the company has developed technologies and skills for laying and connecting glass bricks and glass profiles. These activities led the way for new wall installation methods and new special mortars for laying and finishing. The company also provides all necessary construction components and materials.

Providing good customer service is important for the company and a precondition for success. This is because the general knowledge and skills surrounding the use of glass bricks and glass profiles is not yet common.

The company imports building glass products from Italy (Vetroarredo), Germany, the Czech Republic (Vitrablok) and Poland. It distributes these products and provides services and construction works in Slovakia, the Czech Republic, Austria, Hungary and Poland. It also distributes these products to large retail chains such as BauMax and Hornbach. It has a partner company in the Czech Republic, which is registered as an independent company.

The company does not have any relationships with trade unions nor an existing works council.

Background to restructuring event

The company developed steadily over the past decade and its performance peaked in 2008. As a reaction to the boom in the construction sector, the company expanded its activities. This was due to the positive economic development in the country, where the economic growth in 2008 reached 10%. In 2007, as its markets matured, the company increased its number of employees from 6 to 14.

Very soon, the managing director foresaw negative trends in the construction industry. The first signs of global crisis forced the company to reconsider its strategy and change its business model. The company decided to outsource as a way of lowering personnel and operational costs more widely. This decision was made by the managing director. In 2009, the company decreased its number of permanent employees from 14 to 3 in order to be more flexible. Eleven employees were made redundant. The company followed standard procedures: the employees were given a notice period of two months and redundancy payments. According to the managing director, the employees received the news reasonably well. At the time, it was still relatively easy to find work, and new vacancies were more frequent in the labour market. The company provided references to the employees who requested them. Some of the employees established their own businesses.

Subsequently, the focus of the company has changed towards close cooperation with other construction companies. The company started to develop a network of cooperating companies specialising in specific tasks and activities which were performed previously by the company itself. These companies provided know-how and materials to serve their customers. Some of them were established by the former employees. This is a common practice in Slovakia in order to eliminate the very high administrative and financial burden related to employment.

In 2009, there was a substantial break in the market, and ever since the company has been stagnating. The current crisis caused a severe decline in the construction industry and affected some of its important cooperating companies and clients, who have not been able to pay for deliveries and services. This eventually led to the company becoming insolvent in 2010.

Restructuring processes

When the management became aware of the company's financial situation, it contacted a company that specialises in financing and restructuring of companies in financial difficulties. Based on the consultancies, the management decided that restructuring was a realistic option. 'Restructuring' (*reštrukturalizácia*) is a legal process whereby creditors, in their own interest, can write off part of their claims, and the debtor will continue operations in the hope that it recovers. This process is supervised by the court under the Act on bankruptcy and restructuring.

During the analysis, it appeared that there was a possibility that the company could continue in operation, mainly because of existing market demands as well as good relations with suppliers and customers. The company had the option to apply for restructuring in order to avoid bankruptcy. The management started to communicate with its creditors. It was necessary to convince the main creditors that the restructuring plan was realistic and that the operating company could pay back more of its debts than yields from forced selling of company assets in bankruptcy. According to the managing director, the company had several meetings with its main creditors to explain that this option would be the most beneficial for both parties. The negotiations themselves were not difficult but, initially, there was a degree of distrust because the option of restructuring, as a legal process, was unknown to the creditors. The Act on bankruptcy and restructuring only came into effect relatively recently, in January 2006. The creditors, not familiar with this option, thought at first that they might lose all their money.

As with bankruptcy, both creditors and debtors can apply for restructuring, and the debtor can appoint a bankruptcy trustee (*správca konkurznej podstaty*) to assess whether restructuring is possible. The trustee is a physical or a legal person listed under the Register of Bankruptcy Trustees of the Ministry of Justice of the Slovak Republic. The role of the trustee is to assist the courts in the process of bankruptcy and restructuring.

The trustee in this case was appointed by creditors to assess whether the debtor met the conditions of restructuring. The assessment could not be more than 30 days old. The outcome of the assessment was a recommendation for restructuring of the debtor, which also involved the assessment of its economic status. Based on the trustee's assessment, the request for restructuring to the relevant court was submitted. At this stage, the court reviewed the formal essentials of the submitted motion for restructuring. The ruling on commencement of restructuring process was issued on 9 November 2010. It protected the company from further moves by creditors.

The company, in cooperation with the trustee and the committee of main creditors, developed the restructuring plan. The plan stated how, when and in what amounts the claims of eligible creditors would be covered. In addition, the plan regulated monitoring of the company operation and its financial decisions. This plan was endorsed by the court on 14 April 2011. According to the managing director, the restructuring process has gone smoothly. Under the agreement, the company was required to repay around 60%–70% of its debts. The repayment of the amounts of debt under the restructuring plan has been covered, and the plan came to an end in the spring of 2012. The restructuring was to officially end in May 2012, when it would be deleted from the commercial register.

Challenges and constraints of restructuring

Restructuring was a challenging process for the company and its management. It was necessary to negotiate with the committee of creditors for an optimal restructuring plan. The main aim of the debtor is to keep the company operating while the creditors are requesting the best possible repayment of their loans. Reconciliation of the two conflicting parties is necessary for the success of restructuring. The final arrangement was formally embedded in the restructuring plan. The consultancy company contributed to this outcome by properly evaluating the potential and prospects of the company. The ability to convince the creditors was important for the overall success. However, fulfilment of the restructuring plan to be realised over three years was also challenging. It imposed tough restrictions on financial operations of the company and constrained its development activities. During this time, it was very difficult to get any loan or start any activities that were considered risky.

Restructuring advice and support

When the company became insolvent, the management used the services of a consultancy company that helped them assess whether the company could avoid bankruptcy and apply for restructuring. The consultancy company was instrumental in convincing creditors that restructuring was a viable option.

Outcomes of restructuring

The outcomes of restructuring were straightforward. During the restructuring process, the debtor, bankruptcy trustee and committee of creditors negotiated the restructuring plan that would allow the company to operate and provide the best return for creditors for their financial claims in a reasonable period of time. In this case, the plan was worked out for three years, which meant three years of monitoring business activities by the main creditors and maintaining the restrictions imposed by the restructuring plan. The company paid off its debts within a year, and the creditors were satisfied with the outcome. Subsequently, the records of restructuring were to be removed from the commercial register in May 2012.

There has not been any major change in terms of business activities; the company continues to operate as previously but maintains close relationships with its cooperating companies, which are crucial to its activities. The managing director did not report any negative impacts as a result of decreased employment numbers. These changes preceded the financial difficulties of the company and the need to apply for restructuring. The existing three employees have not been affected by the restructuring process. The option of restructuring has helped the company avoid bankruptcy.

Commentary

The impact of the global economic crisis on the construction sector in Slovakia has had negative consequences for this company. In order to cut its operational costs, it had to make most of its staff redundant and outsource services to other companies. Despite these changes, the company had been stagnating since 2009. Late payments from clients eventually led to its insolvency in 2010.

Solving the problems of a company that is in financial difficulties is always very demanding. This is especially true when there is an imminent threat of bankruptcy. Slovakian legislation provides the option of restructuring, which can save a company from bankruptcy, allowing for the necessary changes in management and production organisation in order to become competitive.

This legislation has been in force since 1 January 2006. Despite problems, this approach is useful and is considered as a contribution to improving the business environment. However, more extensive use can bring experiences and new ideas for its improvement.

In the present case, the company took the option to restructure and was able to repay its debts within one year. Bringing the external business consultancy on board was crucial for the business; it helped the company assess its financial situation and the possibility of restructuring. The company continues to operate as previously, but has not become more competitive as a result of restructuring.

Authors

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Information sources

Interview with the co-owner and managing director

- European Monitoring Centre on Change - EMCC
  - About EMCC
  - European Restructuring Monitor
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    - Restructuring support instruments
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    - Restructuring case studies
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  - European Jobs Monitor
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- European Observatory on Quality of Life - EurLIFE
- European Observatory of Working Life - EurWORK

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