Construction Company, Belgium

- Type of restructuring:
  Internal restructuring
- Employees before restructuring:
  10-49
- Employees after restructuring:
  10-49
- Nace/Sector:
  Construction
- Country:
  Belgium
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- Keywords:
  Recession/Crisis

Abstract

The departure of two directors, and the assumption of the role by a new director not qualified for it increased the company's financial problems at the same time as the economic crisis affected the construction industry. In order to save the company, the general manager agreed with a successor who would take over the company to restructure it, on condition that the successor guaranteed the restructuring of the company, and agreed to retain the company's workers. The construction company is now continuing operations under the same name.

In this company case study, only the change of ownership/management process is described, not subsequent events.

Organisational profile

Construction Company is a company active in the construction and renovation of residential and non-residential buildings as well as in carpentry. Until the 1980s, Construction Company could complete entire projects without needing to subcontract parts of the construction to other companies. It handled the following aspects: basic construction, installation of electricity, heating, sanitary fittings, windows, roof, and so on. Over the last 20 years, the company has been concentrating on building carcasses and carpentry and subcontracts in other construction activities.

Construction Company's premises are located in a sparsely-populated region nearby the border of a neighbouring state. Consequently, the cross-border influences (both opportunities and threats) have been and still are important for the company.

During the last 40 years, the General Manager has been assisted and supported by his wife, but generally speaking Construction Company has always been a company controlled by one person: the General Manager.

Up to August 2011, the shares of the company were always held by the General Manager and members of his family. Until 2009, the administrative board of directors was composed of the General Manager and members of his family. In 2011, the General Manager sold 90% of the shares of the company to Company A, of which the Successor is a significant shareholder. Since September 2011, the administrative board of directors is composed of the General Manager, the Successor and Company A.

While in the 1970s and 1980s, the most prosperous period for general construction companies in this region, Construction Company counted between 150 and 180 employees, since 2005 the company has included between 30 and 40 employees. This reduction of business size was due to personal factors – such as a tragic accident involving the General Manager's family and the sudden death of the administrative director – as well as business factors: the concentration of activities as explained above.

At the end of 2011, Construction Company counted on average 30 full-time employees and five employees working on a part-time basis, mainly blue-collar workers. None of the workforce has a higher vocational diploma. About 10 to 15 workers are carpenters based either in the workshop or at clients' premises. Under the General Manager's supervisory control, the company has been managed by one administrative director and one technical director.

Under the General Manager, the company's activities were almost entirely carried out on a local and/or national basis.

The company has no corporate charter, no union delegation and no works council. General communications that had to be made to all members of the company were traditionally made by the General Manager in front of the workforce.

While the company seemed to be progressively improving between 2005 and 2008 by constant growth in the gross operating margin and reducing the deferred losses, there was a cut in 2009 when the gross operating margin decreased and the deferred losses increased considerably. The reasons for this negative development will be analysed in the section below, 'Background to restructuring events'. The restructuring of the company, started in 2011 by the Successor, was a necessary step. Thanks to several capital increases and reductions, the balance sheet situation was stabilised in 2011 and the latest figures show a promising direction.

Background to restructuring event

The main reason for the restructuring of Construction Company was not a single event but generally speaking the ageing of the General Manager. However, this was accompanied by other circumstances that made the restructuring necessary.

As in the most family-owned companies, the General Manager also wished from the beginning that the company would be taken over by one of his sons. However, for almost ten years, it seemed clear that his eldest son would not take over the company as he decided to go his own way in the private sector. Nevertheless, he was a member of the administrative board of Directors until 2011 in order to assist and support his father in the decision-making progress. The second eldest son worked for several years in the company, but, on the one hand, the General Manager considered him too young to take over the company, and on the other hand, an illness prevented him from accomplishing his tasks. Moreover, as we will explain below, the economic risk with respect to the take-over of the company was considerable.

Despite the General Manager's wish that the company would be taken over by his sons, he was aware that everything had to be right for this to happen, which is very rarely the case. Indeed, according to the General Manager, only 25% of family businesses are taken over by the children and only few of these family businesses are successful afterwards. According to the General Manager, the main reasons for these difficulties are the following: the founder does not want to leave the company, the successor feels permanently observed, the successor does not put the necessary energy into the business, etc. Generally speaking, according to the General Manager, it is difficult to establish a company, but it is even more difficult to take over an existing company.

In 2008, the technical director had to leave the company because of his wife's illness. This person worked for almost 30 years in the company and invested enormous energy into the company and worked day and night. It was impossible to replace him. Moreover, it was extremely difficult to find persons that were technically qualified for his functions. All published job offers were unsuccessful and competition with foreign job offers was too high.

Therefore, a solution had to be found within the company. The staff member already employed by the company who took over the functions of the technical director was not the best solution. The new director knew that sooner or later the General Manager had to sell the company. He was personally interested in taking over the company, but did not have the financial resources to accept the General Manager's offer. Consequently, he was not interested in improving the situation of the company but, on the contrary, sought the deterioration of the situation in order to reduce the value of the company. Moreover, he did not win the confidence of the workforce.

Hence, the important decrease of the gross operating margin and the huge increase in the deferred losses between 2009 and 2011 was related to the leave of the two directors and the promotion of the new director, who was not qualified for the job.

In addition to the uncomfortable situation with the new director described above, the General Manager was the victim of a serious accident in 2010 that prevented him from actively taking part in the company for several months. He never fully recovered from the accident. In the aftermath of the accident, important decisions had to be taken by the General Manager's family within the administrative board of directors. The new director gained even more power as he was the only active person having the experience and the technical skills to lead the company. In 2010, the administrative board of directors took the decision to fire the new director because of his poor leadership of the company.

Even if in the construction sector the impact of economic crisis is generally felt later than in other sectors, the slump in 2009 was certainly also due to the economic crisis. However, we understand that the crisis was not the main reason for the bad figures.

In 2011, the need for restructuring was obvious. In the past, such restructuring has always been carried out successfully. As an example, in the 1980s Construction Company's activity was based 90% on public turnkey construction contracts. Because of the decrease of the public offers, Construction Company had to reorient towards private contracts and concentrated its activity.

In recent years, the General Manager was also looking for other solutions with respect to restructuring the company. Expansion of the business activity into the neighbour country has always been an option and in the past Construction Company has been internationally active. However, the foreign clients were small ones and often poor payers. Construction Company would have needed a real business unit in this country, with domestic foremen and workers in order to succeed in establishing a strong position in these markets. Indeed, according to the General Manager, the different technical regulations and legal frameworks in the neighbour country do not allow a middle-sized Belgian construction company, such as Construction Company, to gain important market shares in this state without installing fixed business units.

In each and every case, Construction Company would have needed bank credit to realise the restructuring. The banks would only have granted the credits if the General Manager had accepted personal guarantees. In view of the age of the General Manager, the financial risk and the necessary energy were too high to consider the restructuring of the company by himself as a real option.

Consequently, the search for an external investor was the sole possibility. While in the 1980s, this was very easy, as a lot of foreign companies were acquiring small and medium-sized enterprises in this region, it became much more difficult in the last 20 years. As the General Manager has a young family, he could not have considered selling his company in the 1980s. The General Manager always learned about persons who are possibly interested in acquiring his company by word-of-mouth communication. In the same way, he learned that the Successor, whose parents are friends of the General Manager, was potentially interested in acquiring a Construction Company even one with financial problems, provided that it still had a good reputation.

In conclusion, the General Manager stated during the interview that there were three possible solutions in 2011 before meeting the Successor: to declare bankruptcy, to liquidate the company or to find a new investor.

Restructuring processes

In this particular case, the restructuring process was a very short one. As already stated above, the General Manager learned that the Successor was interested in acquiring a Construction Company in order to restructure it. Earlier, the Successor had been partner of a venture capital company that dealt with structuring and due diligence supervision. Later, as financial manager in a company active in the façade industry, he faced the challenges of building companies. Consequently, he had the necessary technical skills to organise the continuation of Construction Company.

For the General Manager, the following conditions were important with respect to the acquisition of Construction Company by a new investor:

- the successor had to guarantee the restructuring of thecompany;
- the successor had to retain Construction Company'sworkers;
- the General Manager wanted to follow the evolution ofthe company.

At the end of summer 2011, the General Manager and the Successor discussed all items concerning the functioning/structure of Construction Company, the modalities of the change of ownership and prepared all required formalities. The General Manager was keen to finalise the change of ownership in the short term in order to avoid rumours regarding the closure of the business.

In September 2011, Company A acquired 90% of the shares of Construction Company. In return for the liquid funds that were in Construction Company, the General Manager kept 10% of the shares and agreed to stay on as a member of the administrative board of directors. Company A guaranteed the company restructuring and to retain the workforce. Consequently, all of the abovementioned conditions were fulfilled with respect to the acquisition by Company A. Construction Company is now continuing operations under the same name.

The change of ownership was communicated by the General Manager to the workforce shortly after the finalisation of the agreement during a general meeting. The details of the change were announced at the company's traditional dinner before the winter break in the presence of the Successor. The workforce's reaction was unanimously favourable as they were aware of the company's financial difficulties. They were grateful that the General Manager and the Successor found this solution.

The change of ownership was communicated to suppliers by letters and personal visits in order to introduce the Successor. The suppliers also reacted in a positive manner and gave the Successor the same good terms and conditions that they already gave the General Manager.

Most of the clients have not been informed about the change of ownership. Indeed, Construction Company continued working under the same name and finished all projects in accordance with the agreements in place. According to the General Manager, there are still some clients that are not aware of the change of ownership.

Challenges and constraints of restructuring

In this particular case, from the point of view of the General Manager, there were no real challenges and constraints in the restructuring procedure.

From the point of view of the Successor, the main difficulty was to estimate the time and human and financial resources necessary to manage current difficulties and obviously (re) develop the business.

Most blue-collar employees were laid off and the company encountered a dramatic deterioration in the order book. Moreover, as already explained, the process of restructuring was quite short and consequently the due diligence process that sometimes allow dubious liabilities to be highlighted was also restrained. So the risks arising from the transaction, from the point of view of the investors, were very high, as Company A had to guarantee the financing of the restructuration. This would not have been possible without the confidence from the Successor to the General Manager on the situation of the Company.

Restructuring advice and support

As already mentioned above, the banks were only willing to grant credit if the General Manager would personally guarantee the repayment. Given his age, this option was not feasible. Regarding other possibilities of financial support, by public funds or venture capital companies, the General Manager has always been very cautious. He is against public funds as he thinks that they create discrimination between companies. Moreover, with respect to financial support by venture capital companies, the General Manager always feared the interference of these companies in the decision-making process within his company. Therefore, Construction Company has never been financially supported.

The new investors came with an excellent track record with the bank sector. As the building sector is very cash-consuming due to long payment delays and a seasonal activity, the confidence from bankers was fundamental to finance part of the company's restructuring. Investors had to finance accumulated arrears (and loss) and banks had to finance the short term needs for the new expansion of the business.

Due to the good reputation of the successor, suppliers also agreed to delay the payment of some accounts.

During the years before the transfer of the shares, the General Manager has always been assisted and supported by the members of this family. All possible solutions have been discussed within the family, in the broad sense of the term. The decision to sell the company to Company A has also been discussed and taken within the family.

Outcomes of restructuring

The acquisition of the company was fully successful. The situation of Construction Company's workers has not been negatively influenced by the acquisition. On the contrary, the secured continuation of the business as well as the restructuring of the company have been very well accepted by the workforce. Moreover, by continuing to use the same company name, Construction Company kept its former clients and can seize the new opportunities created by the new investor. The General Manager thinks that Construction Company is looking forward to a good future.

Personally, the General Manager did not take directly financial advantage from the sales of shares. However, the General Manager still holds 10% of the shares and owns the land on which Construction Company is established. Thus, he collects rents from Construction Company. Moreover, it was very important for the General Manager to keep up a good image. The bankruptcy of Construction Company would have cast a negative shadow on his life work as well as on his children's present and future careers.

Commentary

The General Manager is very satisfied with the solution that has finally been found. The General Manager is also aware that the situation would have been much worse – in fact, the business would probably have closed – if the Successor had not have acquired Construction Company.

Generally speaking, he believes that flexibility is very important for companies in the construction sector, as some of the workers have to be paid during the winter season even if there is no workload. He also thinks that the business environment changed very much in the last 50 years. Whereas in the past, the engagement of workforce was profitable for companies as the added value by the workforce exceeded the costs, nowadays he thinks that it is very difficult for small and middle-sized companies to be profitable. He feels that two or single-person enterprises are in a much more comfortable situation than middle-sized companies with respect to profitability, flexibility and risk exposure.

Finally, the General Manager believes that the support and assistance of one's spouse is always crucial in small and middle-sized family businesses.

Author

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Information Sources

Interview

Board Member (former CEO) and founder of the company

- European Monitoring Centre on Change - EMCC
  - About EMCC
  - European Restructuring Monitor
    - About the European Restructuring Monitor
    - Restructuring events database
    - Restructuring support instruments
    - Restructuring related legislation
    - Restructuring case studies
    - ERM publications
  - European Jobs Monitor
  - Labour market research
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  - Future of Manufacturing in Europe (FOME)
- European Observatory on Quality of Life - EurLIFE
- European Observatory of Working Life - EurWORK

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