Strategic starting points for restructuring in SMEs

The restructuring of the family-owned Franzmann GmbH in Bremen, Germany

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Executive summary

The company under investigation is a medium-sized family business which produces glass and high-grade steel product such as windows, doors and building fronts in Bremen, Germany. The company registered as insolvent with the local court in January 2004. The insolvency proceedings commenced shortly afterwards.

Following the start of the proceedings, more than half of the workforce was made redundant. The innovation in this case study relates to the hiring of a specific consultancy called Quotac which provides insolvency-related consulting services to SMEs. This consultancy was brought in right at the start of the proceedings to monitor and organise the agreed redundancies laid out in the negotiated plan, which also included the provision of necessary training and further qualification as well as job placements to the dismissed employees.

Despite the difficult regional labour market, it was possible to secure employment in the company itself as the company manager invested his own capital as part of a management buyout. Secondly, an employee buyout of the outplaced smith and fitter's unit led to the reemployment of many industrial employees in this new, legally independent enterprise. The experience of the positive cooperation between the company management and the consultants led to their cooperation on a new personal development program as part of a European Social Fund initiative organised by Quotac.

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Photo: steel and glass fronts in modern construction

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1. Abstract

The company under investigation is a medium-sized family business that produces glass and high-grade steel product such as windows, doors and building fronts in Bremen, Germany. The company registered as insolvent with the local court in January 2004. The insolvency proceedings commenced shortly afterwards.
Following the start of the proceedings, more than half of the workforce was made redundant. The innovation in this case study relates to the hiring of a specific consultancy called Quotac that provides insolvency-related consulting services to SMEs. This consultancy was brought in right at the start of the proceedings to monitor and organise the agreed redundancies laid out in the negotiated plan, which also included the provision of necessary training and further qualification as well as job placements to the dismissed employees.
Despite the difficult situation it was possible to secure employment in the company itself as the company manager invested his own capital as part of a management buyout. Secondly, the employee buy-out of the outplaced smith and fitter's unit led to the reemployment of many industrial employees in this new, legally independent enterprise. The experience of the positive cooperation between the company management and the consultants led to their cooperation on a new personal development program as part of a European Social Fund initiative organised by Quotac.

The present study was compiled as part of the project „Monitoring Innovative Restructuring in Europe – MIRE". This project is coordinated in Germany in cooperation between the IPG (Institute for Psychology of Work, Unemployment and Health at the University Bremen) and the IAT (Institut Arbeit und Technik, Gelsenkirchen). It is the aim of the MIRE Project to identify innovative examples of restructuring in Europe and further to organise an international exchange and knowledge transfer. The project is funded by the European Social Fund. It commenced in January 2005 and comes to an end in November 2006.

To achieve the above mentioned goals,

- each of the participating countries (Belgium, France, Germany, Sweden, United Kingdom) have set up national expert networks which will meet and connect more closely during the lifespan of the project, and
- each country will conduct several studies which will document present national „good practice" examples of innovative restructuring.

2. Description of the organisation

Franzmann GmbH was founded in 1899 and is a medium-sized family business. The central business since the 1960s is the production of windows, doors and building fronts. The numbers of employees increased continuously and numbered 150 people in 2003 (see Table 1).

Table 1: Workforce development in Franzmann GmbH since the 1990s

Year	1990	1993	1996	1999	2003	Beginning of 2004	2004/05
Workforce	76	95	110	125	145	120	55

The workforce was drastically reduced as a result of the insolvency in January 2004. By August 2005, the workforce included just 41 employees and 12 trainees (plus a further 5 cleaning staff responsible for the company grounds). The average seniority for all employees in 2005 was ten years with the individual seniority varying between 1 to 27 years.

The head office is located in Bremen. There is a partner office in Berlin (Franzmann GmbH is represented by an agent) as well as a branch in Nürnberg that is legally independent. The company does not have a works council nor does it have any affiliation with employer's association. The management maintains, however, a traditional link to the trade union IG Metall.

The main products include tailor-made productions and sales of façades and building fronts out of high-grade steel and glass. Public invitations for tenders are important for the company to win over new customers and orders. Franzmann GmbH has been able to establish a name with special models and even owns several patents. Other orders also include product repair and maintenance contracts. Franzmann usually has similarly sized family enterprises competing for contracts. As soon as an order is received, this is being assessed by the „unit for pricing“ and subsequently produced by the construction unit. The orders vary in size and time required to prepare and complete each order, which means that employees frequently work on several projects, often depending on the customers and the progress made at the building sites where the product will eventually be installed. In general, Franzmann GmbH usually has orders planned and scheduled for a maximum period of up to six months in advance. Most customers are building and construction companies. Delays on building sites and client's inability to pay represent a reoccurring problem for Franzmann over the last few years due to the slowdown in the building sector. Franzmann GmbH does not have any further regional associates.

3. Short portrait of the restructuring

The company Franzmann GmbH was forced to register as insolvent in January 2004 due to forfeited payments and various client claims. A number of company and structural causes also contributed to the insolvency (see Chapter 7). Shortly afterwards, an insolvency administrator was assigned to the company. The insolvency proceedings include the registration of outstanding claims to the insolvency table by the creditors. The insolvency was announced to the workforce in January 2004. However, the insolvency did not lead to the closure of the company due to its visible future potential and the amount of orders coming in. The manager organised a management buyout and the company was founded anew as Franzmann GmbH & Co. KG. The insolvency administrator subsequently gave control back to the original manager on July 1st, 2004. The insolvency proceedings are still running due to a few outstanding legal disputes between the company and its creditors regarding previous orders (damage claims and outstanding payments still owed to Franzmann GmbH, status December 2005).
The innovative aspect of the restructuring refers to the involvement of the consultancy Quotac to provide support during the insolvency proceedings. The insolvency administrator hired the consultancy at the end of January 2004. The insolvency administrator had already previously cooperated with the consultancy. The involvement of the Quotac provided the basis for a supported personnel reduction, further training and qualification measures and subsequent job placement for the laid-off employees. The insolvency administrator himself would not have been able to provide similar essential support during the restructuring. As a result of the cooperation the firma Franzmann decided to participate in a part-funded personnel ESF program as Quotac had designed a specific strategic business continuation and further development program for the company. The program commenced in 2006 and is organised by the Quotac.

4. Consequences of insolvency

Redundancies were one results of the insolvency in Franzmann GmbH in Bremen. Just before the insolvency, the company employed 117 people. Due to the insolvency, 38 employees were dismissed and another 12 (of 27) trainees had to leave during their training or finish their training earlier than planned. The selection criteria for redundancies were those found in the KSchG §1 ('Law on Protection against Dismissals' which specifies: age, seniority, obligations to support, disability status). However, some units were closed altogether, which is why these selection criteria were not applied to all employees.
Redundancies led to an increase in the average seniority amongst the workforce from 6,7 prior to the insolvency to 10 years following the restructuring. This was primarily due to the older and more senior employees who eventually remained in the new company Franzmann GmbH & Co. KG.
The consultancy Quotac was responsible for the all laid-off employees and trainees between January to July 2004. Following the announcement of the insolvency, 15 employees resigned or left the company as their work contracts expired. Amongst those who were dismissed, 4 employees submitted a complaint against the dismissal. However, the court dismissed all complaints. As a result, 63 people left the company in the initial, main phase of the insolvency proceedings. The personnel reduction and the plans for the continuation of the business as

Franzmann GmbH & Co. KG were generally implemented as agreed in the negotiations and resulted in fewer units and a smaller workforce.

5. The Intervention

5.1. Sequence of restructuring events

The company registered as insolvent in January 2004. The insolvency administrator got in touch with the consultancy Quotac Management, Verwaltungs-, und Beteiligungsgesellschaft mbH right away in the same month. Quotac was contacted as this consultancy specialising in providing services to insolvent SMEs and to organise transfer companies and transfer agencies. The insolvency administrator and Quotac had cooperated in previous insolvency cases in the Bremen region as the personnel support and consulting services take some of the load off the administrator during the difficult insolvency process. Usually, the consultants are only present during the initial period when the company has first registered as insolvent (the general period of time between the insolvency registration to the start of the insolvency proceedings is three months). During this period, it is possible to still run the business without the normal labour costs as employees receive special substituted salaries – the so-called „Insolvenzersatzleistung“).

One important fact to know about the insolvency process in Germany is that the insolvency application – that is the request to register as insolvent - to the courts can also be rejected by the court due to the lack of financial resources required to carry the costs of the insolvency proceedings. Thus, in addition to specific requirements for such an insolvency registration (such as threatening inability to meet payments, excessive debts), the application process also considers to the current company assets available to meet the costs of the proceedings. If the company does not have sufficient assets, an insolvency proceeding is only then initiated if somebody or an organisation is willing to provide an advance for the required costs. The short interval between the applications in this case study and the start of the proceedings can thus be understood as a positive sign. In this context, insolvency in Germany is to be differentiated from bankruptcy or collapse of a company.

The IG Metall representative attended the negotiations for the social compensation. The presence of the Quotac consultants and other social actors during the time of the negotiations was particularly important in this case of restructuring. Neither the company manager nor the employees had previous experience with restructuring and subsequent redundancies. As a result, the social actors involved in the negotiation and the consultants were able to answer employees' questions about the process. Following the conclusion of the negotiations, the consultants took over the administration of the agreed measures and the personnel reductions on behalf of the insolvency administrator.

The consultants were contracted to assist for six months starting January to June 2004 (length of the dismissal notice period). During this time, transfer measures according to §216a SGB III (Social Security Legislation) would be co-funded by the local labour administration. The majority of consultancy and support services were all concluded by the end of June 2004, with the exception of a few individuals who received consulting services till August 2004.

The negotiated plan stipulated transfer measures in form of transfer agencies. Initially, the implementation of a transfer company according to §216b SGB III has also been considered since the company had enough resources to meet the costs. However, when reconsidering the situation and the good cooperation between the company manager and the consultants, measures according to §216a SGB III (transfer agencies) were chosen as the most appropriate instrument to ensure that dismissed employees and trainees were provided with the opportunity for retraining and had access to job placement services. The costs for these measures were shared by the company and the labour administration, each contributing 50%. This was the first time that such an instrument was to be introduced at Franzmann GmbH.

The company status was changed and Franzmann GmbH was renamed Franzmann GmbH & Co. KG. Following this change, the insolvency administrator handed over control to the company manager on July 1st, 2004. This concluded the main insolvency proceedings as most claims and disputes had been successfully resolved. A few outstanding legal disputes still remain which means the insolvency proceedings have not yet finished (these legal disputes regard outstanding payments from customers, who refused payment, supposedly due to product flaws).

Table 2: Sequence of events during insolvency proceedings

Year	2004												2005														
Month	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3
Sequence of events during insolvency proceedings																											
Insolvency: registration																											
Business controlled by insolvency administrator																											
Bekanntgabe der Kündigungen																											
Rückgabe des Unternehmens zurück an Franzmann																											
Insolvency proceedings (settlements of legal disputes still ongoing)																											

5.2. Workforce characteristics and transfer measures[1]

The qualification level of the workforce included university degrees amongst the technical unit mangers, technical college certificates and graduates of graphic design. In the past, unit managers at Franzmann GmbH organised the continuous professional development internally, but also enabled staff to attend relevant courses with other providers. Training varied according to each

[1] The following sections are based on the information found in the application form the ESF initiative called „Weiterbildungsinitiative Mittelstand" (WOM – Further Education for Medium-Sized Enterprises) to fund continuous professional development measures at Franzmann GmbH & Co. KG (Quotac, 1.11.2005)

unit and included welding courses, computer systems, seminars as well as presentations by clients, suppliers and external trainers.

Prior to the insolvency, the age characteristics of the workforce was rather mixed. The majority was aged between 20 and 40 years; just few were older than 40, with just one employee over 50. This was primarily due to the company taking on many of its former trainees.

Process following insolvency registration, announcement of dismissal and subsequent consultancy services

As soon as the insolvency was announced to the workforce in January 2004, a group of 15 employees handed in their resignations. The insolvency proceedings started shortly afterwards, being closely followed by the negotiations according to social collective agreements. It became soon apparent to the insolvency administrator and the consultants that the company had future potential if the company were strategically aligned and staff numbers reduced. Two units, the smith and fitter's and the metalworking units were closed down altogether. This meant that these unit employees were all made redundant without considering the usual selection criteria. Several other employees were also selected for redundancy if their professional qualifications did not meet the new company requirements.

Two different transfer agencies (TA 1 and TA2) were organised to meet the training and job placement needs of two different groups (dismissed employees and trainees). The following sections describe the measures.

Job placement and training measures for the industrial and commercial employees

The first transfer agency (TA1) according to §216a SGB III included the provision of transfer measures, which had been approved by the insolvency administrator and the local labour administration so as to support the group of dismissed employees. The duration during which this had to be achieved was four month (27 February to 30 June 2004).

As soon as the dismissals were announced, the consultants focused particularly on the employees in the shut down units in case they were considering notice complaints. In the metalworking unit, however, a new initiative was started to take over the business in form of an employee buyout. This initiative was successful indeed and the unit operates now as a subcontractor to Franzmann. The company is owned by two former employees and employs nine workers. The subcontractor continues to provide services to the main company on the same premises to this day.

Similarly to the metalworking unit, only few of the employees formerly employed in the lock and fitter's unit could be reemployed. As a result, consultants focused their efforts on placing these employees into new jobs as soon as possible. Advantageous in this case were the following: the fitters not only had very good qualifications, but they were also flexible and accepting of longer commutes to work. This resulted in the successful placement of all fitters within four weeks to new employers in the region (that is, within a 50 km radius). There were few problems reported for this group. Most individuals required no further training except for a few individuals who took a welding course.

During the TA1 duration, consultants were able to place 5 employees. A further 11 could be placed shortly afterwards. Only 3 employees could not be placed. Following unemployment, they choose early retirement.

Only 4 dismissed employees made a dismissal complaint, however, the court rejected all complaints.

Job placement and training measures for dismissed trainees

To meet all legal requirements for the dissolution of trainee contracts, a second transfer agency (TA2) according to §216a SGB III was set up for a three-week period (7 June -30 June 2005). The transfer measures aimed to support those trainees who had to be placed with a new employer to finish their education as well as those individuals who were already near the end of their training. The efforts required to place trainees were somewhat extensive given the limited availability of trainee positions in the labour market.

Table 4: Placement successes

	Absolute numbers	Placement successful
Staff supported by Quotac consultants	**50**	
Industrial and commercial employees	38	
Trainees	12	
Placement of industrial and commercial employees	**38**	**79%**
Placement during TA1	5	
Placement after TA1 finished	11	
Unemployment after TA1 and subsequent retirement	3	
Reemployed in outsourced smith and fitter's unit (employee buy-out)	11	
No placement	8	21%
Placement of trainees	**12**	**100,0%**
Placement in other companies during TA2	4	
Exits following completion of examinations (provisions of tutorial support)	5	
Signed agreements to terminate contract (current status unknown)	2	
Working for Franzmann	1	

4 trainees – all of them still in their first year of training - were quickly placed into new positions with different employers. However, it was more difficult to place those who had been in the middle or at the end of their training. Special exam preparations help 2 more trainees to successfully pass the already scheduled exams for graphic design that had been rescheduled to take place. Another three also passed their examinations following intensive, individual tutorials for which Quotac employed a teacher.
The tutorial support improved their grade point average significantly, which again improves their chances in finding new employment.

Therefore, 5 trainees had passed their exams, their training ended and they left the company. 4 trainees were placed into new positions. From the last three trainees remaining, Franzmann eventually took one on. The two others signed an agreement to terminate their training with the company as it was not possible to find them new trainee positions. Their current status is unknown to the company manager and consultants. Despite this, the placement of most trainees, the successful examinations due to tutorial support marks a considerable success.

Another success of the transfer measures refers the costs for both transfer agencies TA1 and TA2 plus the additional services: these represented just a tenth of what had been the calculated costs for a transfer company, which had been initially discussed during the negotiations (based on the social collective agreement). A social plan is only then negotiated when there is a works council present to act on behalf of the workforce.

Reviewing personnel figures

Prior to the insolvency, Franzmann GmbH employed 117 people (including 27 trainees). The new concept intended a staff of no more than 39 industrial and commercial employees and no more than 12 trainees. Once a further 15 individuals had handed their notice, Quotac became responsible for placing 38 industrial and commercial employees and 12 trainees into new jobs or training positions.

Table 3: Employee figures before the insolvency and following placement activities

	Absolute numbers	Percent in relation to a)
(a) Total workforce prior to insolvency January 2004	**117**	**100,0%**
Industrial and commercial employees	90	
Trainees	27	
(b) Number who handed in their notice following insolvency announcement	**15**	**12,7%**
(c) Staff supported by Quotac consultants	**50**	**42,7%**
Industrial and commercial employees	38	
Trainees	12	
(d) Planned staffing after restructuring	**51**	**43,6%**
Industrial and commercial employees	39	
Trainees	12	
(e) Total workforce August 2005	**53** *(+5)*	**45,3%** *(+4,3%)*
Industrial and commercial employees	41	
Trainees	12	
Others: cleaning staff on premises	*5*	

The current personnel numbers around 50 people plus a further 11 former employees (dismissed regardless of social selection criteria) who are now working in the subcontracted, independent metalworking unit which is the result of the employee buyout.

The insolvency also affected partner offices and other branches. The office in Mannheim had to be closed; the assembly team in Berlin was dismissed. Currently, the company only maintains an associate in Berlin. Only the independent Nürnberg branch remained. Unfortunately, no exact figures were available about the affected offices.

Overview of transfer measures

The following transfer measures were used in 2004 (§216a SGB III):

- Seminar 1: professional reorientation, „Profiling“ according SGB III
  List of all strengths, weaknesses, present qualification and mobility; assessment of training needs, investigation regarding the job chances in professional sectors, social security legislation SGB III (criteria of acceptance, supplementary income, transfer measures)

- Seminar 2: Application training, teaching basic computer skills and internet use

- Seminar 3: Additional training assistance (i.e. special classes for mathematics, training certificates)

Table 5: Sequence of transfer measures

Year	2004												2005	2006
Month	1	2	3	4	5	6	7	8	9	10	11	12		
Sequence of measures														
Transfer agency (TA1) for the dismissed industrial and commercial employees														
Transfer agency (TA2) for the dismissed trainees														
Consultancy involvement and support (some individuals were supported well into August)														
ESF- Personnel development initiative starting January (till December) 2006 *														

* Quotac submitted an application to the ESF so as to co-finance the personnel development program conceived and aimed at improving the long-term prospects of Franzmann GmbH & Co. KG. This application was successful and this one-year program commenced in January 2006. There are no results available at this point.

5.3. Evaluation in the context of a supportive environment

All dismissed employees and trainees continued to work as usual with their colleagues during their notice period. They thus remained in the production process up to the point they were either placed into new jobs or their notice came to an end. Employees were given time to attend necessary meeting with consultants to discuss their further training needs and job placement options. The open and participative nature of discussions between the insolvency administrator, the company manager, the workforce and consultants meant that conflicts were avoided to the most part. The quick placement of employees had prevented many more complaints. The implications of the dismissal – such as dismissal for half of the workforce - had been communicated quite clearly to all employees by the consultants right from the start. This led to employees taking the initiative quite early into the proceedings, searching independently for work and handing in their notice well before the negotiations had come to an end. All information to be given to the employees was first discussed between the company manager and the consultancy. The insolvency administrator further encouraged the company manager and workforce to put all questions forward to him to avoid misunderstandings and damaging rumours.

According to the lawyer working with the insolvency administrator, the work of the consultants in the company was a definite advantage during the main phase of the insolvency proceedings. It freed the insolvency administrator so that he could focus on the legal aspects and leave the placement and support to the consultants - rather than having to take extra time to answer queries from the company manager and the workforce.

According to the consultants, the company manager was open to new ideas compared to other SME managers they had encountered in their work. The company manager was thus particularly interested in the possibility of participating in future personnel development programs as a measure to ensure the long-term development and future of the company. The subsequent decision between consultants and Franzmann to cooperate and participate in an ESF initiative to improve the knowledge base of the personnel over the course of 2006 is rather exceptional.

As part of their role in Franzmann, Quotac consultants also provided some counselling to those dismissed employees who faced particular problems and had difficulty to cope with the dismissal. However, according to the manager of Quotac, providing support and helping individuals to move on was not as problematic as colleagues at Franzmann worked very closely together and were very supportive towards one another.

Whereas the consultants certainly contributed to the fact that employees were coping quite well with received their notice, another circumstance also influenced the atmosphere at work. The quick placement of the commercial and industrial employees had been particularly successful, primarily because the workforce had the advantages of young age and a good standard of qualification and training that compared very favourably to those older and less qualified job seekers on the job market. The good cooperation, the successful placements, and advantageous position of the employees to be placed on the job market may also be the reason why absenteeism did not increase after the insolvency was first announced. Just some of the dismissed employees registered as sick more often in their last two weeks of their notice period.

6. Additional social actors

The consultants also contacted the Industrie- und Handelskammer (Association of Industry and Commerce), the Craftsmanship Association as well as the Employer Association in an effort to place the employees and trainees. Unfortunately, these institutions were not able to assist.

Labour administration

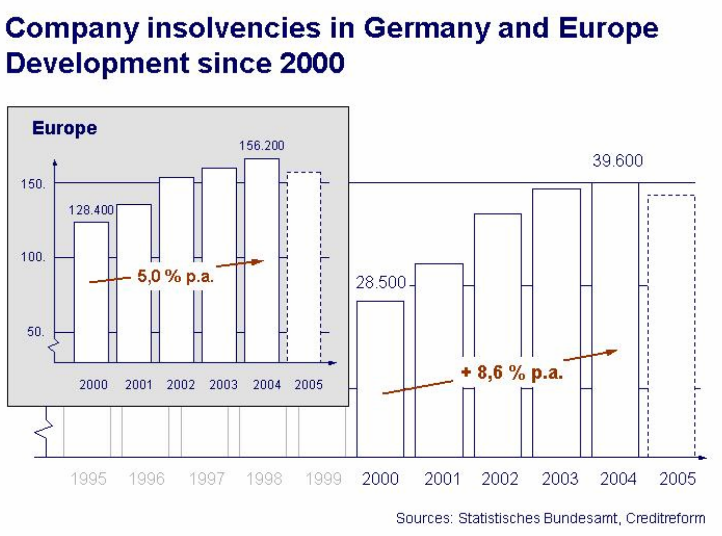
The Quotac consultants also contacted the local labour administration offices in the hope to get help with the placement of the laid-off workforce. However, the cooperation on the side of the offices was limited to the administrative processing of the transfer measures.

The union IG Metall

The union secretary who attended the negotiations was very keen to support turnaround suggestions to redevelop the company. His presence during the negotiations also led to the workforce becoming more accepting of the situation as his involvement decreased the workforce's apprehensions towards the company manager and consultants.

7. Insolvency in the regional, national and economic context

This case study also points out some of the problems which SMEs face in Germany. Insolvency rates amongst companies have increased continuously and rose on average about 6.6% annually between 1995-2004 (Statistisches Bundesamt in Bausch, 2005.) The figure below shows that this increase in Germany is about 2.6 points above the European average of 8.6% (for EU 15).



Insolvencies have become a frequent occurrence in the region around Franzmann, particularly amongst other family owned metalworking companies and service providers. Same as other small businesses, Franzmann has no other collaborators and network partners in the region that could have been called upon during the personnel reductions. The increased rate of insolvencies may also have contributed to the fact that the response from the social actors and institutes was noticeably indifferent and generally lacking when contacted by Quotac consultants. Insolvencies and inquiries regarding job placement opportunities are an everyday occurrence.

According to the lawyer supporting the insolvency administrator, insolvencies are particularly common in the building trade. Usually, an important client – often the main investor into a building project - is unable to pay for products and services rendered, which leads to a chain reactions amongst the suppliers who face the sudden loss of income and potential debt.
The slow pace which with the public authorities process payments and insolvency registration often make matters worse for SMEs. Whereas mismanagement is the main reason for insolvency amongst medium-sized companies according to the lawyer, the economic situation impacts negatively on both smaller and medium-sized businesses. Many SMEs register for insolvency just 3-4 years after the first insolvency. This observation may also be due to the situation in Bremen in particular: „The credit conditions have increasingly deteriorated for a quarter of all business [in 2004] in that many credits were rejected or not extended. Particularly heavy hit were service providers who also have the greatest difficulty with attracting external investors“ (DIHK, 2004, P. 13).

These statistics underline the necessity of SMEs to prepare and get active as soon as the first finance problems become apparent. The consultancy Quotac noticed a recent trend that many SMEs are indeed taking the initiative earlier than before. Many clients who contacted the consultants over the last two years did so well before they faced actual insolvency, improving the odds that they can avoid insolvency altogether through the timely reorientation of the business.

In this case, insolvency was caused by too many debts and an inability to pay outstanding creditor's claims. Banks are usually the first creditors with immediate access to the money that becomes available by liquidating a company's assets. In this case the banks approved not to liquidate all assets and to allow the company manager to found a new company. In the end, only very few assets were thus liquidated as the banks considered the future potential of the business promising, particularly since the company manager had invested significant amounts of his private money.

8. Results and evaluation of the restructuring

Following the settlement of all payment claims, Franzmann was able to continue its business operations due to the amount of remaining as well as new orders. Since August 2004, the company has successfully operated without further problems, now focusing primarily on the production of building fronts.

According to the final report submitted by the consultants to the insolvency administrator, the company restructuring was realized as planned. In addition, most of the dismissed employees and trainees had been successfully placed into new jobs and trainee positions - or been assisted successfully to complete their training.

The costs for consultancy services were significantly lower than expected. At the start of insolvency proceedings, transfer measures according to §216b SGB III were considered given that the company still had enough assets to carry the costs. However, the decision to use transfer agencies as a measure according to §216a SGB III rather than the above mentioned option of using a transfer company reduced the final expenses significantly. Considering all expenses for the transfer agencies implemented (TA1 and TA2) as well as the costs of the consultancy services rendered during the main phase of insolvency proceedings, the final costs only represent a tenth of the initial budget discussed for a transfer company. (Of course, 50% of the TA1 and TA2 costs were carry by the labour administration offices for TA1 and TA2).

The cooperation between the company manager and consultants also assisted the manager in recognizing the future potential for his own company. This process assisted him to consider the weaknesses and strengths of his current production policy (in relation to the high degree of diversification, rapid personnel increases and a lack of strategic long-term planning). This led him to reevaluate his company development and refocus the core business (building fronts) and emphasize personnel training to further the development of the company towards that of an all around service provider for his clients.

The majority of the restructuring success is due to the cooperation between the insolvency administrator, the consultants and the company manager – no other social actors were involved or provided further support.

The support during the restructuring also enabled consultants and the company manager to assess the human capital. They found that the workforce was characterised by a high level of qualifications and motivation. The company manager's decision to invest in education as part of the 2006 ESF program which was proposed and then organised by the consultants was based on the cooperation, experience and knowledge of one another. This is an unforeseen result of the restructuring, as the future was quite uncertain at the start of the insolvency. The initial strategy for the development program as part of the 'Education Initiative for Medium-sized Enterprises' ("Weiterbildungs-Offensive-Mittelstand") was already discussed in August 2005 and approved in December 2005. (More details can be found in the chapter on „Future perspectives").

8.1. Reasons for insolvency and continuation factors

Restructuring often addresses problems at several company levels, such as those based on structure and internal company policies. Internal problems are often found in form of inappropriate cost management, strong reliance on suppliers and main clients, lacking understanding of economic trends, wrong production policy, and poor stock management. Structural problems relate to lacking management qualifications, too fast expansion of businesses, inadequate accounting systems, overcapacity, and succession management (for details see Hauschildt & Haghani in Bausch, 2005).
The following factors were found prior to the insolvency in Franzmann GmbH: strong reliance on suppliers and certain customers, high degree of diversification that led to high costs (that is, wrong production policy). The company management also corroborated this assessment. The company has since then engaged in discussions with the consultants and is now focusing on certain strategies for the future to develop the business: personnel reduction, primary focus on products

for building fronts, continuous professional development, increased marketing and better client relationships. The last points are also elements of the HR development plan for 2006.

Recent publications on medium-sized companies and SMEs describe the present circumstances in Germany – which are likely to be found in other West European countries. A weak domestic demand, high commodity prices, and credit problems are the most common dilemmas for SMEs. The German Association of Industry and Commerce (DIHK) confirm this: „Companies in Germany currently struggle with a tough investment climate. 24% of companies report another deterioration regarding their house bank's credit conditions at the start of 2004. As such, credit applications were not extended or even refused for 3% of companies. (...) Many companies with poor credit worthiness in a modest state of business are no longer granted credits or have to accept disadvantageous credit conditions even if they present filled order books and have good market chances in an improving economic climate. Particularly those medium-sized companies who lack equity capital experience on average significantly more credit problems" (DIHK 2004[2]).
One of the main problems for SMEs is that house banks allocate and extend credit contracts based on the companies' equity capital. However, low domestic demand has often negatively affected that capital. New equity capital rules have led to the increased importance of differentiated systems when assessing credit risks. The recommendations of ‚Basel II' call for the classification of credit applicants according to new credit ratings as central criterion for banks providing credits to businesses (Handelskammer Bremen, 2005[3]). Establishing Franzmann GmbH & Co. KG as a new business was in part only possible because the company manager invested his private equity into the company, which is a prerequisite for further credit allocation and a result of implementing Basel II recommendations.
The economic situation of medium-sized companies was summarized as follows according to a report from 2005[4] based on a survey of 20.000 medium-sized businesses in Germany. "Medium-sized companies (with up to 499 employees) considered their company situations worse than the large businesses (with more than 1.000 employees. The disparity between medium-sized and large companies has increased particularly due to the rather disappointingly weak development in domestic demand. [...] Export oriented companies and their medium-sized suppliers have a more positive view of their current business situation compared to medium-sized companies that focus on the domestic market" (DIHK, 2005, p 4). This also relates to the fact that larger, export-oriented companies are more likely to have access to additional equity capital. This kind of financial resource is often not available to SMEs. In addition, the weak domestic demand also affects the willingness of larger companies to invest into realty and modernise premises. Consequently, smaller companies such as Franzmann are hit hardest by the lack of investment that results in declining orders for new building fronts and similar products.

Another problem are rapidly rising commodity and fuel prices that often exceed the original cost estimates (DIHK, 2005, p. 1), particularly since SMEs often do not buy commodities in bulk and

[2] DIHK (2004). Kreditprobleme trotz konjunktureller Zuversicht. Ergebnisse einer DIHK-Umfrage zur Unternehmensfinanzierung im Mittelstand Frühjahr 2004. Deutscher Industrie- und Handelskammertag DIHK. Bereich Wirtschaftspolitik. Netzwerk Mittelstand. April 2004. www.ihk.de
[3] Handelskammer Bremen (2005). Rating und Basel II. Information unter www.handelskammer-bremen.de
[4] DIHK Mittelstandsreport (2005) Ergebnisse einer DIHK-Umfrage bei den Industrie- und Handelskammern. Deutscher Industrie- und Handelskammertag DIHK Bereich Wirtschaftspolitik. Netzwerk Mittelstand. Juli 2005. www.ihk.de

have to cover additional transport costs. The initial costs for raw materials like steel for building fronts could be significantly lower when an order is first placed to the actual prices that a company needs to pay for a few months later. This leads to the margins being squeezed, which may occasionally mean some orders are no longer profitable.

8.2. Future perspectives

The perspective according to the company manager of Franzmann GmbH & Co. KG

The company continued to fulfil old orders during the proceedings. At the same time, new orders continued to arrive. Once the main phase of the insolvency had passed and control had been handed back to the original management, the company was again solvent and has since then continued to fulfil and take on these new orders. At this point, the long-term perspectives are unknown. However, the company manager is hopeful that the smaller workforce and more orders will secure the company's future. One thing has not changed though; the company is still reliant on profitable order volumes and the ability of its customers to pay their bills that still remains problematic since their customers are primarily SMEs in the building trade.

The company manager also confirmed that it has been a good experience working with the consultants. Particularly the successful individual job placement had been advantageous for the dismissed employees and the company. If another staff reduction were to take place, the manager would consider contracting a consultancy to assist.

Quotac's prognosis (according to consultant)

„Following an insolvency, many newly created companies actually cease to exist after 2-3 years. It is important to get on to a completely different track, which can be achieved by adhering to a long-term development of the personnel. As such, the company [Franzmann] has quite good chances of success. (...) The company manager is still quite young and in contrast to other managers he is not going to retire soon. He is also interested to not only provide technical innovations, but also to develop internal prospects for the future".

Quotac's prognosis (according to the Quotac manager)

The stigma of insolvency is no longer as relevant due to changing law such as the insolvency law (new version released in January 1999). Insolvency administrators now focus to preserve assets. Insolvencies have increasingly become a topic of public debate due to the changed legal position, the possibility of transfer measures, and the increasing occurrence of private and consumer insolvencies. This also led to investors being more interested in buying or investing in companies if they know that their personnel problems can be solved.

The personnel development at Franzmann is starting in January 2006. Quotac identified the following challenges in the application to the ESF to fund the program (as part of the „Weiterbildungs-Offensive-Mittelstand" – ‚Education Initiative for Medium-sized Enterprises'):

„The aim of this project in reference to the Education Initiative for Medium-Sized Enterprises is to secure the current job positions remaining at Franzmann GmbH & Co. KG following the prior redevelopment, and to implement new employment and qualification measures. To achieve this, the employees' qualification and competence level will be improved upon to meet present market requirements. [...] The employees must be able to offer and provide know-how regarding technical questions, building structure and physics, as well as the development of technical solutions", so as to make the company a competitive, all-round service provider for building fronts on the market.

The application of Quotac regarding the continuous development thus aims to „support this development with the help of an integrated personnel development concept. At first, it will be essential to assess the qualification and development needs. In the second step, concrete measures will be called for to enable employees to contribute and compete with their specialist competences on the labour market. And finally, the workplace should provide a learning environment, so that employees will continue to develop their skills and maintain their employability."

The workforce will receive a timely and extensive training to enable employees to manage the increasingly complex professional and work environment. The application for further training includes two concepts amongst others sector specific (such as building technology, insulation against noise and moisture) as well as non-sector training (including communication techniques, team development, marketing and sales, as well as work organisation and management strategy).

8.3. Conclusion

The success and the innovative potential of this case of restructuring are related to the cooperation between all partners.

1. The involvement of Quotac via the insolvency administrator to support the workforce enabled all participants to come to terms with the situation and process and to investigate alternatives. For the most part, no conflicts arose to impede the proceedings and consulting process.
2. The support for the two dismissed groups (industrial and commercial employees as well as trainees) according to §216a SGB III transfer measures was very successful due to the individually tailored job placement and training considering the difficult labour market situation.
3. The employee buyout of the metalworking unit that had been marked for closure is another success. The subcontractor now provides the still required services while employing former Franzmann workers on the same premises as before. Franzmann thus did not have to find another subcontractor and at the same time, it only needs to pay the costs for the production of special products rather than the entire unit.
4. A long-term cooperation between the company manager and the consultancy Quotac was an unexpected benefit given the difficult circumstances. The 2006 personnel development program is proof for the potentially long-lasting benefit of a successful consulting and restructuring cooperation between a consultancy and the supported, previously insolvent company. The nature of the cooperation in this case has positively changed the

management's attitudes towards consulting and continuous development that led the participation of the company in the ESF initiative. The risk of renewed insolvency is reduced alone by the manager's willingness to undergo an objective self-evaluation and review the company's strategic development. According to the lawyer advising the insolvency administrator, repeated insolvencies are often due to managers who are unwilling to face the business situation and to analyse long-term prospects.

However, the restructuring was less successful in respect to the following:

- A number of employees (and probably trainees) were unemployed following their dismissal. Some information was not available to these respects (i.e. present trainee situation, figures regarding dismissals at other branches of the company).
- The regional support from social actors was very much limited and the labour administration played only a passive role. The lack of network links with regional and sectoral associations on the side of the company was a significant disadvantage, particularly in such a case of SME restructuring where good contact and sources for information can be very helpful. However, this is a frequently found problem amongst family-run SMEs.

Transferability / applicability of findings

The potential of this case study for other companies concerns the employment of similar service providers during insolvency proceedings. Furthermore, the case study also reveals the benefits for an SME to encourage employee buyouts. Companies can support such initiatives, increasing employee participation as new shareholders of the subcontracted company and also safe jobs in the process.

Consulting services should not just focus on managing the aftermath of restructuring campaigns alone, but they should also include preventive measures and support (that is, concepts for companies that are not yet insolvent). An insolvency administrator once described the roles of the administrator and consultants in insolvency cases as follows: The insolvency administrator is responsible for "intensive care" and consultancies such as Quotac are responsible for "rehabilitation" of the company, which – unfortunately – still remains the exception in company restructurings.

Index of illustrations

Photo: steel and glass fronts in modern construction, Cover © Debora Jeske

Figure, page 13 © Source: Statistisches Bundesamt, information presented by Bausch, A. (2005). Details below.

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