

Case Study 3: How to engage the employees for material participation and to ensure company succession (Germany 2018)

Abstract

The case study describes a highly developed medium-sized company in the engineering and architectural sector. The HR problem is to find ways in which the SME to ensure the long-term existence of the company through entrepreneurial investments.

The practical part of this case study focuses on applying HR knowledge to the employee ownership problem in order to explore new ways of employee participation to achieve four goals in particular: (1) to make the company attractive for new employees, (2) to deepen the loyalty of current employees to the company, (3) to develop the succession of the company from within the own ranks and thus, and (4) to secure the existence of the company.

Introduction

The medium-sized company Building-Design-Ltd. is a highly developed enterprise in the engineering and architectural sector in Saxony. The company uses the latest technology in order to provide an excellent service to their customers, but they lack suitable ways to engage their employees in more material participation. With the help of these participation models, employees can be appropriately remunerated for their activities and, if relevant, for their higher risk acceptance.

Simultaneously, they can get more responsibility with the consequence that the income differentials derived from work, on the one hand, and from capital, on the other hand. Indeed, depending on the specific model, to a different extent will be reduced and at the same time will lead to a fairer distribution of wealth.

In addition, the long-term existence of the company is to be secured through entrepreneurial investments. This are the special HR problems.

The Company

The X-GmbH is an office for engineering and architectural services. This includes planning services regarding:

- Building construction and statics
- Civil engineering
- Areas such as heating, ventilation, sanitation

The HRM Facts of the Company

The following information is available for the 2018 financial year:

Employee Structure

The company employs approximately 54 employees. There are a number of different divisions, namely Overhead, Profitcenter 1 construction above ground, Profitcenter 2

construction below ground, Profitcenter 3 subsection and Profitcenter 4 structural analysis with each a number of different team members with different responsibilities, qualifications and tasks on strategic as well as operative levels.

Table 1: employee structure (source: own elaboration)

Devisiion	Function	Count
Overhead	Director	2
	Controller	1
	Accountant	1
	Technical administration	2
Profitcenter 1 construction above ground	Manager	1
	Project leader	4
	Other architects or engineers	6
Profitcenter 2 construction below ground	Technical assistants	4
	Manager	1
	Project leader	3
	Other engineers	4
Profitcenter 3 subsection	Technical assistants	3
	Subtotal 35	
	Manager	1
	Project leader	3
Profitcenter 4 structural analysis	Other engineers	5
	Technical assistants	2
	Subtotal 46	
	Manager	1
Profitcenter 4 structural analysis	Project leader	2
	Other engineers	3
	Technical assistants	2
		Total 54

Controlling data over the past five years

Key performance indicators. Following the consolidation of the annual financial statements, "Building-Design-Ltd." initially shows the following development for the years 2014 - 2018:

Table 2: Key performance indicators (source: own elaboration)

Business ratios		Year 2018	Year 2017	Year 2016	Year 2015	Year 2014
Revenues and added value block						
Revenues	T€	5400	5300	3550	4800	4200
Raw materials used	T€	1715	1100	1425	900	1030
Gross earning	T€	3685	4200	2125	3900	3170
Staff block						
Staff costs	T€	2320	22200	21500	21500	21000

Staff (§ 267 HGB)	Count	54	53	53	52	51
Revenues staff	T€	?	?	?	?	?
Staff costs	T€	?	?	?	?	?
Profit- and productivity block						
Cashflow	T€	1195	1860	400	1310	1050
Profit from operation (before tax)	T€	505	780	45	1120	590
Annual result	T€	300	500	20	520	200
Net profit ratio	%	?	?	?	?	?
Return on equity	%	?	?	?	?	?
Innovation/ Investmentb lock						
Non-current assets	T€	4970	4930	3865	31180	2671
Investments	T€	770	1515	1147	9470	1039
Depreciation and amortisation expenses	T€	730	450	400	500	700
Statement of financial condition and liquidity block						
Total assets	T€	7720	8250	72400	5670	4640
thereof equity	T€	2120	1820	14200	1420	900
Equity ratio	%	?	?	?	?	?

Balances. (in T€) The balance of this SME is as follows in the tables regarding assets and liabilities and equity.

Table 3: Assets (source: own elaboration)

Assets	31.12.18	31.12.17	31.12.16	31.12.15	31.12.14
A.Non-current assets					
1.Intangible assets	20	30	15	18	21
2.Property, plant and equipment	3500	3800	3200	2900	2500

3.Long-term investments	1450	1100	650	200	150
	4970	4930	3865	3118	2671
B.Current assets					
I.Inventories	1150	1600	2000	1300	1000
II.Receivables					
1.Trade receivables	820	1120	700	800	700
2.Other receivables	100	150	180	130	100
III.Investments	0	0	20	50	0
IV.Cash and cash equivalents	430	200	250	200	150
	2500	3070	3150	2480	1950
C.Deferred tax assets	200	185	140	50	0
D.Prepayments	50	65	85	22	19
	7720	8250	7240	5670	4640

Table 4: Liabilities and equity (source: own elaboration)

Liabilities and equity	31.12.18	31.12.17	31.12.16	31.12.15	31.12.14
A. Capital and reserves					
I.Issued capital	500	500	500	500	500
II.Reserves	200	200	200	200	200
III.Accumulated profits and losses	1120	720	700	200	0
IV. Net profit or loss for the period	300	400	20	520	200
	2120	1820	1420	1420	900
B.Tax-free reserves (special item)	1000	1000	800	300	200
C.Provisions					
1.Provisoins for pensions	1000	800	600	350	300
2.Provisions for taxation	100	500	200	500	150
3.Other provisions	1500	1840	1800	750	500
	2600	3140	2600	1600	950
D.Liabilities					
1.Interest bearing borrowings	1200	1200	1300	1800	2000

2. Deposits received	0	0	280	0	0
3. Trade payables	680	710	550	400	350
4. Other payables	100	340	240	110	180
	1980	2250	2370	2310	2530
E. Prepayments	20	40	50	40	60
	7720	8250	7240	5670	4640

Profit and loss account. (in T€) The profit and loss account is presented in the following table.

Table 5: Profit and loss account (source: own elaboration)

Positions	2018	2017	2016	2015	2014
Revenues	5400	5300	3550	4800	4200
Changes in inventories	20	-590	680	-130	290
Work performed by the enterprise	0	35	0	40	60
Other operating income	90	215	230	280	350
Operating income	5510	4960	4460	4990	4900
Raw materials used	1715	1100	1425	900	1030
Staff costs	2320	2220	2150	2150	2100
Depreciation and amortisation expenses	730	450	400	500	700
Other operating expenses	240	410	440	320	480
Operating expenses	5005	4180	4415	3870	4310
Profit from operation	505	780	45	1120	590
Finance revenue	170	140	120	70	10
Finance cost	85	85	90	120	170
Financial result	85	55	30	-50	-160
Profit/ loss before tax	590	835	75	1070	430
Income tax/ Tax expenses	250	300	20	420	200
Other taxes	40	35	35	30	30
Profit/ loss after tax	300	500	20	620	200
Payout	0	100	0	100	0

Balance sheet profit	300	400	20	520	200
Result Profitcenter 1	100	150	40	200	70
Result Profitcenter 2	50	80	-30	70	30
Result Profitcenter 3	60	70	0	70	40
Result Profitcenter 4	90	100	10	180	60

Articles of Association/Shareholders

The company shares are held by four associates and each share holds one quarter of votes. (Managing Director, Deputy Managing Director and Manager of Profit Centres 1 and 2). The average age of the shareholders is 59 years.

Payment for the shares. The shares are valued according to the average value method: The enterprise value is then determined as the simple average of the capitalised earnings value and the net asset value.

The capitalised earnings value is the simple weighted average of the net profit/loss for the year for the last 5 years. The net profit/loss for the year of the last year is then weighted at 5 and that of the first year at 1. Accordingly, the weighting of the intermediate years is 2-4. The net asset value results from the equity of the last year plus any hidden reserves. The value of a share results from the product of the enterprise value and the share quota of the share capital.

Sale of shares or admission of new shareholders. This is decided by the shareholders with a simple majority.

Business Concepts

The corporate concept envisages steady moderate growth of around 5% per year. This growth is to be achieved both through digitisation and through the recruitment of new employees, especially with IT skills. To this end, a new remuneration concept is to be developed. Until now, remuneration has been based on qualification, age and function.

In this context, new ways of employee participation are to be explored in order to achieve four goals in particular:

- To make the company attractive to new employees;
- To deepen the loyalty of current employees to the company;
- To develop the succession of the company from within the own ranks; and thus,
- To secure the existence of the company.

To this end, the shareholders' meeting plans to accept both new principal shareholders and a circle of senior executives (A-Squad) will be built up.

Findings and Solutions

1. Determine the open relations in 2.1 (marked with question marks).
2. Evaluate the wage development over the last few years.
3. Develop the flat-rate remuneration structure of "Building-Design-Ltd." from the personnel expenses for 2018 and the structure of the employees.
4. Estimate the economic development of "Building-Design-Ltd." in the last 5 years and check whether participation in this company is attractive to the employees.
5. Calculate the purchase price for a stake of one percent.
6. Which participation/ownership forms are conceivable?
7. Which of these ownership forms is preferred?
8. Which employees in the individual profit centres (based on the functions, should be involved?
9. Please outline the participation resp. ownership model.
10. Develop a concept for financing the various participations by the respective employees.
11. Check the contribution of Building-Design-Ltd. to the financial support of the employee participation model you have chosen.

Practical Toolkit

1. Get controlling data for your company for the last five years
 - a. Key performance indicators
 - b. Assets
 - c. Liabilities
 - d. Equity
 - e. Profit and loss account
2. Which participation/ownership forms are conceivable?
3. Which of these ownership forms is preferred?
4. Which employees should be involved?
5. Outline the participation/ownership model.
6. Develop a concept for financing the various participations by the respective employees.

Literature

Kreuzhof, Rainer; Muschol, Horst (2015): Zur Zukunft der Mitarbeiterbeteiligung, Erfahrungen, Anwendungen, Ausgestaltungen, Die Neue Ordnung, 69. Jahrgang, Heft 2, April 2015

Muschol, H, (2018). Script Chapter 5. Employee Ownership (Human Resource Management Erasmus-Project- SHARPEN)

Muschol, H. (2016). Controlling und betriebliche Überwachungssysteme, Ein Handbuch zu dem entscheidungsorientierten (internen) Rechnungswesen, insbesondere für KMU, Plauen