An Ideal World

Entrepreneur Ulrich Wacker must have been tired of his family business for a long time. Who wants to spend 30 years fighting? It’s a small miracle that this construction machine manufacturer, founded in 1848, still exists. Making a pact with a private investment firm finally brought salvation. CORNELIA KNUST

A company with a long tradition

HE STILL LIVES IN ONE OF THOSE VILLAS on the Ammersee, not historic, but cozy, with a deeply sloped roof, a spacious lot and a half-hour drive from Munich. Previously, he lived nearby. There, like his forefathers, he lived right next to the Wacker company. This was the company that he was to take over in 1983, at age 33, as the fifth generation. Not alone, but with his beloved relatives in management and in the community. “You have to tolerate each other,” the stern patriarch demanded. He specified that after his death, both sons and a cousin would manage the company together. They had practiced their leadership under his guidance from 1975 to 1983. When Wacker senior died at his desk — still a long way from retirement — something emerged that he hadn’t thought of: a recipe for conflict. Ulrich Wacker, his brother and his cousin were running the firm, but they couldn’t find a mutual strategy for the company.

Wacker, not to be confused with the chemical firm, is one of those middle-sized companies that was brought to the very brink of extinction by a family feud and a tradition of pride. Founded in 1848 as Schmiede, Wacker specialized in construction machines — rammers, compressors, rollers, concrete saws and breakers — small, robust equipment that is deployed to construction sites all over the world.

Wacker had become a valuable enterprise with several hundred million Euros in revenue. Evidently, Wacker had never shown a loss in any year of the company’s history. The only thing lacking was mutual respect within the extended family tree. That happens frequently in family businesses. When it seems people are fighting about business management, it’s often about unsettled emotional scores, said University of Witten/Herdecke professor Arist von Schlippe.

According to Schlippe, “It’s about ancient wounds to the soul. These are archaic conflict mechanisms.” Completely different expectations are placed on a person’s behavior in a family than in a company. The two roles are constantly in conflict with each other. This often occurs unconsciously, and after a certain line is crossed, the conflict can no longer heal on its own.

Gattus Hösl, a professional mediator in Munich, said most squabblers would still rather get hauled into court than accept the help of a professional referee. Many are simply not prepared for such situations.

“Very few companies have an obligatory conflict resolution system,” Hösl said. Rena Haftlmeier-Seiffert, CEO of the EQUA Foundation, who specializes in conflict resolution for family businesses agreed with Hösl that there isn’t a huge demand for conflict resolution. Business people like to sweep problems under the proverbial rug. After all, they’re movers and shakers who can handle anything. The subject of conflict is taboo, and it is essential for the family to appear outwardly unified. “We decide everything unanimously,” is a sentence that should arouse skepticism right away, Haftlmeier-Seiffert said.

Even at Wacker, they pretended that it was an ideal world. At times it even seemed as if the conflict would resolve itself. In 1991, Ulrich’s cousin and Wacker’s third manager gave up and left company management, even though he held the largest stake in the company with 48 percent of the shares. In 1993, Ulrich's brother died unexpectedly. Suddenly, Ulrich stood alone as manager. That meant he had free reign. However, he didn't have the trust of the extended Wacker family. A dozen lawsuits turned its members against each other. Ulrich said that in one year there were 14 general meetings. "Before that, five of us sat together and passed cookies around. After that about 35 people sat there, including lawyers and auditors," Ulrich said.

It couldn't go on like that. In 2001, Ulrich presented the family with a plan: Conversion of the company into a stock corporation, the introduction of a private investment firm as a neutral third party and an initial public offering. "Let the government choose a new electorate," Ulrich called this plan. The enervated electorate, that is, the family, agreed. The fact that individual family shareholders wanted out possibly accelerated the conciliation process.

In 2003, the private investment firm that was to liberate the family from its dilemma was hand-picked: the American holding company Lindsay, Goldberg & Bessemer (LGB). They didn't pay the highest price, but they didn't saddle the company with any debt, either. They also settled for a minority stake of 32.5 percent.
Almost more important was the fact that LGB had a representative in Germany who knew how mid cap companies tick: Dieter Vogel. This giant of a man, most recently head of the Thyssen steel group, had devoted his own money since 1998 to private equity.

"Vogel tipped the balance," Ulrich said and showed sure instincts. He really took care of things: he not only led the Wacker board, but spent a day at the company every four weeks. Vogel asked questions and called for ambitious plans. Family-owned companies are easily satisfied with profits, but investors aren't. Ulrich needed coaching when it came to the courage for takeovers, but he finally bought the agricultural machine manufacturer Weidemann. The fact that the investor kept a close eye on the balance sheet and on management, and offered his praise, impressed the family. That must have instilled the feeling that they were involved in a brilliant, well-run company.
As Ulrich said, "That worked to build confidence." Also, in mid-2005, Ulrich retired from the board of directors. The new board chairman was long-time tech boss Georg Sick, who brought the eloquence and experience needed to take the company public. Ulrich instead devoted himself to his hobby and in 2001, he established the EQUA Foundation, Germany's think tank for conflict prevention. Ulrich probably imagined his life at the company was behind him.

Then things got serious again. In mid-2006, the IPO had to be called off at last minute because the bottom had fallen out of the market. But the family went into action as a unified group and bought LGB's stake back. Its asking price was known from the IPO preparations. The buyback succeeded, partly with private money and credit. In May 2007, the IPO finally took place, which triggered the release of more credit. The free float remained manageable at 30 percent. Ulrich was named board chairman. Vogel somberly described the situation at Wacker before he joined: "The differing strategic approaches of two groups in the company limited development of its business potential. Professionalizing all parts of the company, and increasing transparency inside and out, evidently settled the varying viewpoints within the family." After three years, all financial and operational goals had been achieved in size, strategy and structure, the company was ready to go public. As Vogel said, "Throughout this entire process, there were never any disputes among the partners."

KNOW HOW MID CAP COMPANIES TICK

Vogel likes to call the participation in Wacker an example of the fact that, "private equity funds have to bring everything but worst-case scenarios with them."
"At our company the investor proceeded cautiously," said Ulrich, who is a law school graduate. "We had good contracts and a solid negotiating position. We didn't even need any money. The sudden withdrawal of shareholders' equity or the complete shutout of family partners through forced resale to other investors — that all happened to other people. "I didn't trust the brothers either," he added.

"Private investment firms in family-owned companies do more harm than good because they speak a different language and want different things," warned Frank Roselieb of the Institut für Krisenforschung (Institute for Crisis Research) in Kiel. In referring to a study done by his group, Roselieb said it's not unusual for family partners to make every effort to quickly drive the private investor out.
Von Schlippen, however, thinks it can help

the healing process when someone from the outside comes in and makes clear decisions. "The conflicting parties are naturally still angry, but they're no longer caught up in their own dilemma."


Not status oriented: Ulrich Wacker

It worked well at Wacker and it went even further. The adventure with the investor was barely over, and peace barely made within the tribe, when Ulrich developed a new plan: a merger with the Austrian family firm Neunteufel and its company Neuson Kramer. Their products (track vehicles, small excavators and wheel loaders) were well-known and could be launched via the company's own distribution, rental and service facilities all over the world.

The founders of Neunteufel had no successor lined up and had already been ogling the stock exchange. So they piggybacked onto Wacker and found a spot on the Wacker board for their Neunteufel's CEO. Through an increase in real capital and the issuance of new shares, Neuson Kramer came under the Wacker umbrella in autumn of 2007 and brought in a company with about 900 million Euros in revenue, 3,700 employees and sustained healthy profits.

Since then, the Bavarian family businessman Ulrich has acted only as assistant board chairman under the Austrian Hans Neunteufel. This is surprising because the Wacker family holds the larger share of the now merged Wacker Neuson company. And, with a recalculated 10 percent, Ulrich is even the largest shareholder. "I'm known not to be very status-oriented," is how the entrepreneur explained his decision. However, he also expresses genuine respect for the 25-year-old Neuson Kramer company.

"They're a rejuvenator for us," Ulrich said. And his logic is even more.
"With the merger we have admittedly reduced the influence of the Wacker family, but we have strengthened the influence of family ownership."

That's because, with 70 percent of the shares, the Wacker family set the course for the company. Now they want to move into the U.S. market together since Wacker already has a dense network there and Neuson Kramer isn't represented at all. The board didn't want their strategy to get sidetracked for very long by recession, a real estate crash and the financial crisis. Then, in autumn they announced a cost-cutting program. Shareholders had long been skeptical, which is why their shares have been anything but a success story since the IPO.

"Swings in the stock market don't interest me as much as the long-term success of the company," Ulrich said. But do the other family members agree?

Since the IPO, the shares have been tradable: theoretically, anyone can get out at any time. However, the families that own Wacker and Neuson are bound through a consortium contract to keep the share purchase options together and to reach unanimous votes. "The contracts secure the character of the family business for the next 15 years," Wacker explains. But it is surely no coincidence that at his foundation's seminars, the children of entrepreneurs can learn how to act responsibly as passive shareholders.

Ulrich himself has at times experienced the pain of not having a choice. He had no way of escaping the responsibilities of the family business. Today he is proud that he maintains a good relationship with his cousin's lawyer on the board. "The conflict also made me grow," he said. Does he get any gratitude as a valiant fighter in the family feud? "Even from the workforce," Ulrich said, and he finds that completely appropriate. "I did everything to ensure the company didn't fall apart."

Seminar tip – Planning succession and securing the future

Strategically preparing for and organizing the generational transition

Target group: Participation is for all who are 5 to 10 years away from the transfer and want to secure the future of their company and their family assets for themselves and for the next generation.

Purpose: This seminar enables business people to gain fundamental and comprehensive information on the various styles of succession, its optimal planning and configuration, as well as both the success factors and stumbling blocks.

Date: July 3, 2009, 390 EUR
Place: IHK-Akademie Westerham
Complete information on the seminar is available at www.akademie.ihk-muenchen.de

Contact: Gabriele Fabian,
Tel.: 08063 91-272
E-mail: fabian@muenchen.ihk.de

IHK Info

Questions?
For general business succession issues, contact Markus Neuner, Tel. 089 5116-259
E-mail: neuner@muenchen.ihk.de