

MEGAPOOL S. A.

Reconstructing a construction company*

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Resumen

Megapool S.A. es una empresa familiar localizada en Lima, Perú, y especializada en la construcción de jacuzzis y saunas. Fue creada en 1987 para desarrollar actividades generales en el rubro de la construcción y supervisión de construcción, importar, distribuir y vender materiales y accesorios y desempeñar otras actividades económicas permitidas por la ley peruana. En agosto de 1999, su presidente ejecutivo buscaba un consultor para reorganizar la empresa y resolver sus problemas financieros, así como para enfrentar la etapa de crecimiento del negocio. El consultor debe estar en condiciones de desarrollar una propuesta para la reorganización de la empresa, lo que implica el análisis de las principales áreas de la empresa, así como la situación de los recursos humanos.

On August, 1999, Pedro Ruiz Gallo, Executive President of Megapool S.A. was looking for a consultant to reorganize the company in order to solve its financial problems and to face growth. Megapool was a family business, located

in Lima, Peru, performing general construction activities, specialized in whirlpools and saunas. The consultant has to analyze the company's human resources condition and make a proposal to reorganize it.

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1. General company information

Megapool S.A. was organized on February 13, 1987 to undertake general construction and construction supervision,

build saunas and jacuzzi tubs, and import, distribute and sell building materials and fixtures, and perform all other economic activities allowed by Peruvian law.

The company employed the following staff personnel:

Pedro Ruiz Gallo, Executive President (holder of 80% of the equity of the company), Carmen García, Sales Manager, Jaime Ruiz Gallo, General Manager (20% of the company) and Juan Cabieses Luna, Technical Department manager.

Normally, Pedro Ruiz Gallo, the Executive President, carried out the company's sales, administrative and financial functions as a whole; he made all the company's financial and administrative operating decisions. Financial policies had neglected the obligations to suppliers, banks and others that were of utmost importance for the financial evaluation of the company.

Carmen García, the Sales Manager, Executive President's wife, devoted herself to selling the products, without support sales personnel; therefore there was no management function to establish sales policies and the criteria for marketing the products. She used to say: «I am running into trouble with some customers because Jaime (her brother in law) does not finish the jobs in time».

Jaime Ruiz Gallo, the General Manager, Executive President's brother, carried out a project manager's function in water systems rather than the company's planning functions or the strategic analysis.

Juan Cabieses, the Technical Department Manager, directed the works-in-pro-

cess (work sites overseeing and budgeting), and was also involved in company sales. He thought some structural adjustments were needed to solve the company's troubles. «I hope Pedro can turn things around before it's too late», he said with concern.

In general terms, management didn't keep work hours from 9:00 to 18:00 as support personnel do. Neither did Justo Ruiz or Hilda Gallo, who were in charge of administration.

2. All in the family (Support Personnel)

Justo Ruiz and Hilda Gallo, the parents of the Ruiz-Gallo brothers and sisters, as well as Carlos, the youngest brother, were in charge of management and production, respectively. «I have to look after my children's interests», said Hilda proudly.

When the employees met for lunch, they talked among themselves: «Justo and Hilda are too strict. Hopefully they will be well advised by the consultant and they will get some professional managers to run the company instead of their relatives» or alternatively: «Who would imagine Pedro's parents, such religious persons in their daily lives, are so cruel at work», pointing to the overall feeling of unease prevailing in that area.

A questionnaire was administered to evaluate the support personnel; its objective was to measure the quality, productivity, knowledge of position, dependability, readiness and independence at work. This survey was filled out by the direct superior of each employee. The results of the evaluation can be seen in *Table 1*. The

Table 1: Support personnel evaluation

Name	Average Score	Positive Aspects	Negative Aspects
Carlos Ruiz Gallo	56%	Self-esteem, manual ability and ingenuity, spirit and readiness, capacity to operate with limited resources, honesty, team worker, problem solver.	Lack of organizational capacity, limited technical knowledge and theoretical base, tardiness, disorder.
Carlos Choquehuanca	54%	Great empirical experience, capacity and ingenuity, multifaceted and team worker, punctual, firm and energetic.	Lacks theoretical base, resists changes and innovations, lacks self-control, short tempered, careless.
Rafael Montes	53%	Good disposition for work, good general theoretical base, responsibility in performing tasks.	Lack of firmness and decision, lack of organizational capacity, inadequate handling of personnel.
César Costa	61%	Capacity and ingenuity, capacity to learn new techniques, team worker with a good disposition, problem solver, responds quickly, desire for self-improvement, engineering studies.	Irresponsible, often absent, lacks organizational capacity.
Justo Ruiz	48%	Punctual, team worker, honest, stable.	Exhaustion, short tempered, fails to keep promises of payments to suppliers and banks.
Delia Ramos	31%	Honesty, punctuality, presence of mind, good disposition.	Distracted, discouraged, disordered, little perseverance.
Carlos Paredes	39%	Responsible, strong personality, presence of mind, team worker, honest, vigorous, persevering.	Disordered, careless, short tempered, proud, slow, emotional.
Luis Rojas	23%	Good character, honest.	Disordered, apathetic, lack of personality.
Alberto Tinoco	35%	Desire for self-improvement, Versatile Enthusiast, Young.	Short tempered, undisciplined.
Hilda Gallo	34%	Personality, Responsible, Organized.	Impatient, bad temper, personality does not reflect professed religious beliefs.
Matilde Pachas	29%	She has interest in learning	Disorganized, no responsibility.
Mariela Ríos	29%	Disciplined, good worker, trustworthy, desire for self-improvement.	No studies.
Wilson Tello	29%	Disciplined, worker, trustworthy, desire for self-improvement.	No studies.
Julia Amésquita	58%	Identified with the company, responsibility, good character, versatile.	Can't set priorities.
Sonia Arguedas	43%	Limited training.	Communications issue. Fails to report to sales management though required to.

highest score was 100%. No organizational chart was available to show the current organization.

3. Megapool's areas

Financial administration

The company lacked proper management and financial administration, since these functions were the responsibility of the company's executive president.

The company was facing hard times because it had lost credibility in the financial system, mainly with Banco Continental and Banco de Crédito. Megapool S.A. management thought officials at both banks have hardened their position towards the company.

María Luisa Denegri, the company's account manager at Banco de Crédito, said: «Mr. Ruiz Gallo is always sitting on the edge. Coordinating with him is very risky. But we have confidence in the company's future projects and that he will honor his payments as best as possible».

Also the company has many outstanding obligations including taxes with the Tax Administration (Sunat), duties with Customs (Sunad), forwarders, advertising agencies, publishers, suppliers, etc. and likely they will not be paid in the short term. There was evidence pointing to a short term financial gap. Funding needs for this period, presumably the company's peak season, were extraordinary. Uncollectibles originated due to family differences and incomplete jobs, and lack of a collections area had put pressure on defaulting clients.

The company maintained the following accounting books: Cash, Banks, Purchases, Sales and Payroll. The journal and the ledger were kept externally by the accountant. This was not right, because without a computer in the office, he was not actually keeping the books, as he has said himself.

The priced goods kardex carried a five month delay.

The *Table 2*, projected cash flow for the next six months, gives an idea of the company's status at that time.

The accountant, who was the company's independent accountant, and an uncle of the Ruiz-Gallo, was asked to prepare a true balance sheet of the company to examine its equity position. The warehouse was updating its inventory and the accounting support personnel were pricing the company's assets. Information on the company's liabilities was available, and from the accounting equation the accountant would be able to determine the necessary equity.

Checks were issued every day without any sort of weekly planning. Occasional «rubber» checks resulted in protested bills or notes that should have been paid in time. Also there was a deposits system to transfer funds from one account to another, but without funding.

Books were kept manually; the treasurer (Paredes) recorded transactions manually.

A random examination of the company's checkbooks showed that even when the employee in charge of accounting kept the checkbooks and coordinated the issu-

Table 2
Megapool S. A.: Cash Flow 1999 (US\$)

Item	Aug. 99	Sept. 99	Oct. 99	Nov. 99	Dec. 99	Jan. 00	TOTAL
REVENUES							
Sales (works)	75 000	70 000	70 000	90 000	90 000	90 000	485 000
Sales (direct)							
Contracts to accept (Gremco)	40 000						40 000
Invoices receivable (US\$ 149 457,06 overdue)							
Total	115 000	70 000	70 000	90 000	90 000	90 000	525 000
EXPENDITURES							0
Wages (payroll and professional fees)	6 897	7 000	7 000	7 000	7 000	7 000	41 897
Cost of works	15 750	14 700	14 700	18 900	18 900	18 900	101 850
Cost of direct sales	19 500	18 200	18 200	23 400	23 400	23 400	126 100
Invoices payable (US\$ 11 522,06 pending)	10 800	10 750	10 800	10 800	9 900	8 300	61 350
Bills of exchange payable (US\$ 110 502,88)							
20% to be rescheduled	22 100	40 020	40 905	22 815	22 100	0	147 940
Contract to accept	24 000	0	0	0	0	0	24 000
Fiscal charges (Debt worth US\$ 12 113,91)	5 114	5 000	5 000	5 000	5 000	5 000	30 114
Inventory/ Payments abroad	15 312	0	0	50 325	0	0	65 637
Other expenditures	1 500	1 500	1 500	1 500	1 500	1 500	9 000
Total	120 973	97 170	98 105	139 740	87 800	64 100	607 888
SURPLUS (DEFICIT) FROM OPERATIONS	(5 973)	(27 170)	(28 105)	(49 740)	2 200	25 900	(82 888)
FINANCING							0
Bank amortization (US\$ 17 500 Continental Bank)							0
Amortization (US\$ 141 900 loan)	0	(11 825)	(11 825)	(11 825)	(11 825)	(11 825)	(59 125)
Bank loans							0
Financial amortization							0
Financial loans							0
Subtotal	0	(11 825)	(11 825)	(11 825)	(11 825)	(11 825)	(59 125)
Projected debt							0
Bills of exchange discounted							0
Leasing operations							0
Subtotal	0	0	0	0	0	0	0
Interest and commission (loans)	(2 188)	(2 188)	(2 188)	(2 188)	(2 188)	(2 188)	(13 128)
Interest and commission (bills of exchange payable)(663)		(663)	(663)	(663)	(663)		(3 315)
Leasing payable							0
Subtotal	(2 851)	(2 851)	(2 851)	(2 851)	(2 851)	(2 188)	(16 443)
FINANCIAL SURPLUS (DEFICIT)	(8 824)	(41 846)	(42 781)	(64 416)	(12 476)	11 887	(158 456)
INVESTMENTS							0
Sale (purchase) of securities							0
Sale (purchase) of fixed assets							0
Loans to associations							0
INVESTMENT SURPLUS (DEFICIT)	(8 824)	(41 846)	(42 781)	(64 416)	(12 476)	11 887	(158 456)
CASH POSITION INCREASE (DECREASE)	(8 824)	(41 846)	(42 781)	(64 416)	(12 476)	11 887	(115 000)
INITIAL BALANCE	115 000	106 176	64 330	21 549	(42 867)	(55 343)	(43 456)
FINAL BALANCE	106 176	64 330	21 549	(42 867)	(55 343)	(43 456)	(158 456)

ing of checks with the treasurer, at times she found checks written by other people without her knowledge, further complicating her financial control. For example, on August 20 she found two checks from the Dollars Account at Banco Wiese that she had not written.

Administrative planning

A prior evaluation has also shown that the company's support personnel lacked appropriate academic qualifications. For example, they lack any formal training or theoretical background to do their jobs, even though they may have sufficient experience in their field.

Authority lines were not clearly defined. A worker may have to report to several bosses. Personnel turn over was low, but this may be accounted for by the fact that most workers were family members.

Workers were not unionized. Positions were not documented. Workers did not receive any social security benefits (because not all of them are on the payroll) and there was no system of incentives.

There was no evidence of in-house or external personnel training. Despite their low wages, support personnel showed dedication and concern for their work.

The organization's senior management, for example, their executive president, sales manager, general manager and technical area manager, had occupied their positions in the company for 12, 6, 12 and 5 years, respectively.

The company used a Pentium server and two Pentium 75Mh computers, two 486 SXs running at 25 and 33, and a

DLC40 running at 40 that were used by the managers, the imports secretary (Delia Campos) and a sales executive (Julia Amésquita).

Office supplies (paper, ink, files, etc.) were neither appropriate nor sufficient. Shortages delayed daily work. Every time something was needed, somebody had to go and buy it, and if there wasn't petty cash handy, the delay was even longer.

On August 20, the lawyer sent a report telling the company they had lost its right to continue paying back taxes on an installment scheme granted by the Tax Administration (Sunat) under Decree Law 848. The company's lawyer, a cousin of the Ruiz-Gallo, did his best to fix the company's legal issues but accomplished little.

Sales administration

According to the Executive President annual billings had reached approximately one million dollars.

The sales force of the company consisted formally of three people (the Sales Manager and two sales executives, one on each store: Santiago de Surco and La Molina).

In some cases pricing was based on the competitors' prices; in others, prices were defined by the company's typical quantitative criteria.

The company also lacked a marketing program (media, expenses, agencies) that allowed budgeting and distributing.

Competitors had not been scrutinized to give the company a detailed notion of the consumer's needs.

Production management

The technical department's manager was not directly responsible for all those involved in the production function. For example, building and furnishing pools, or in warehousing. In both cases the authority lines were diffuse.

As seen in the personnel roll, there was a work-in-process manager (Carlos Ruiz Gallo), a hydraulic technician (Carlos Choquehuanca), a works technician (Rafael Montes) and an employee in charge of the warehouse (Cesar Costa). Carlos Choquehuanca complained: «Carlos is the only one without proper production training and that leads to poor coordination. Carlos is the technical department's manager, but he can't make fast decisions because he needs to ask many questions».

The production area did not operate a working fund; they had to request each

payment for the suppliers through the cashier in the main office. The work sites were located in Lima and in other provinces.

4. What happened

The company hired a manager, who emphasized the human resources issues. He proposed to organize coordination meetings with the managers and chiefs, and especially with the company's family owners. Next exhibit shows the conclusions from the four coordination meetings. The company followed the recommendations from the hired manager and survived several years in the industry. In 2004 the family sold the company to another firm that was also in the construction industry but oriented to a lower income group.

Exhibit
Coordination meetings called by the new administrative manager and the executive personnel of the company

Coordination Meeting N.º 1

Attendees: Pedro Ruiz, Jaime Ruiz, Carmen García, Justo Ruiz, Juan Cabieses, hired manager.

Date: August 9, 1999.

Hour: 11:00 a.m.

Agenda:

- 1) All the participants defined what they consider the main problems of the company and agreed that the most important topics to define were:
 - The sales goals by product line
 - Organization

The lack of information is one of the main problems. The reason is accounting is done manually and not all transactions are registered. Also the company lacks liquidity.

- 2) The organization sought will include three units as follows:
 - Pumps and water systems (Under Jaime Ruiz's responsibility)
 - Pools, saunas, steam baths (Under Pedro Ruiz's responsibility)
 - Bathtubs, WCs, and taps & faucets (Under Carmen García's responsibility)

These units will require managerial, financial and technical support, so their leaders can do their best sales efforts.

- 3) For the next meeting attendees were requested to present their goals, both quantitative and qualitative, indicating their requirements and to define their functions.

The next meeting was scheduled for August 14 at 6:00 p.m.

Coordination Meeting N.º 3

Attendees: Pedro Ruiz, Jaime Ruiz, Carmen García, Carlos Ruiz, Juan Cabieses, hired manager.

Date: August 21, 1999

Hour: 6:00 p.m.

Agenda:

- 1) The administrative manager presented a preliminary analysis of the company, defining the problems in financial management, management planning, sales management and production management.
- 2) The proposal linked with this analysis is a new matrix organization that will embrace the following areas:
 - Three business units
 - Managerial Support: personnel, logistics, systems, part time legal counsel
 - Financial Support: accounting, treasury
 - Production Support: work sites, imports, warehouse, maintenance

Each unit should have a sales force, decide about their expenses and will be a client of the managerial, financial and production support personnel. They will also define the requirements of the positions to be filled.

- 3) The possibility of closing the store in La Molina was discussed.
- 4) Business unit leaders will present a profile for the technical salespersons in each one for initial evaluation.
- 5) In general terms a total change in the executives' attitude is required, primarily for improving the company's image. It is urgent to pay the company's debts so orderly work can resume. The company not only requires order but needs to honor its promises to third parties.
- 6) The next meeting will analyze the requirements for the proposed functions and human resources for the new organizational chart. Also during this week the questionnaires should be returned.

The next meeting was scheduled for September 2 at 6:00 p.m.

Coordination Meeting N.º 4

Attendees: Pedro Ruiz, Jaime Ruiz, Carmen García, Carlos Ruiz, Juan Cabieses, hired manager.

Date: 2 of September of 1999

Hour: 6:00 p.m.

Agenda:

- 1) The attendees discussed several current company problems as the lack of liquidity and the possibility of closing the store in La Molina. The outcome will depend on the decision whether to work with Saniart as a dealer.
- 2) The administrative manager presented the preliminary personnel requirements for managerial, financial and production support that was evaluated by all the attendees. The new hires and changes in present personnel were decided.
- 3) This week the applicant's evaluations will be carried out in order to fill the positions. An on-line system for Megapool will be analyzed. The preliminary interviews will be in charge of the administrative manager; the central interviews will be made by the corresponding area manager requesting the hire, and the final interview will be made by Pedro Ruiz.
- 4) Business unit leaders should also submit their personnel requirements to make the necessary evaluations. Initially we need one salesperson for each unit; they will be requested from architecture departments in universities in Lima.
- 5) The attendees were asked to complete the job description questionnaires and the strengths and weaknesses survey to finalize the company's strategic analysis.

The next meeting will be fixed through subsequent coordination.

Instructor's Guide for the Megapool S.A. Case

Overview

This is a real life case; the names and some information have been changed. Megapool S.A. was a small firm in Lima, Peru, in the construction industry. In 1999, due to financial problems, the managers decided to hire a consultant to reorganize this family business. The case allows students to analyze the different human resources problems as well as the functional areas in the company, so they can find the best structure for this environment.

Case objectives

The case covers topics such as:

- Family business.
- Doing business in Latin America.
- Human resources practices in a small firm.

Thus the case is suitable for use in:

- Introductory Business.
- Human resources management.
- Small Business Management.
- Management of Firms in a Crisis.

Questions for students' assignment

- 1) How does the new organization look?
- 2) What do you recommend for each area?
- 3) Which are the general conclusions?

Analysis

1) How does the new organization look?

Keeping in mind what has been observed

in this study period we can conclude the following for an initial stage of change:

The company should have the following support areas:

- Management
- Finance
- Production

The recruitment and selection processes should be developed by a human resources professional. The company has almost always hired family members to manage the company.

2) What do you recommend for each area?

a) The management area requires the following functions:

Personnel.- Payroll payment, regularize the employees that are not on the payroll or issue professional fees receipts, in order to comply with regulations, social security paperwork.

Logistics.- Office supplies purchases, materials, relations with suppliers, office equipment, etc. Purchases plan with financial support, orders based on the company's availability.

Systems.- External support for installing a system linking warehouse, sales, treasury and accounting activities under the supervision of a company employee and a consultant.

Legal.- Keeping in mind the quantity of protested bills and notes, as well as the cases of judicial and extrajudicial actions, the company requires a lawyer that may temporarily work at the company at

the least a couple of hours a day, to address these problems and report on the new legal regulations (it is advisable to have *El Peruano*, official gazette).

b) The financial area requires the following functions:

Accounting.- Accounting entries of all the operations of the company, establishing regulations to achieve both internal and external transparency. In this first stage it is urgent to have an in-house accountant of great experience and knowledgeable in the law in order to solve all the companies problems, to correct problems with Sunat, Sunad, and the suppliers and to determine a suitable date (for example September 1999) to prepare a balance sheet based on true information to know if the assets really cover the company's liabilities.

Treasury.- The company requires somebody to carry out the payment, collections and suppliers relations functions. We recommend this as an immediate action for reasons of order and getting the accounts back in the black as soon as possible. It is necessary to follow the recommendations to give this person the functions mentioned above; no checks should be made without his/her knowledge, keeping in mind that the accounts are overdrawn.

The company needs initially strong support for the financial area through the accountant to be hired and the treasurer. It is recommended to separate this function from management since it is one of the company's critical points.

c) The production area requires the following functions:

Works-in process.- Under the supervision of a production manager, it should have a work-in-process manager that will assist the business units as if they were clients, keeping control of each job and having the funds for local purchases. It requires operative personnel and equipment installers.

Warehouse.- It will provide the necessary resources (national and imported) to the different work sites. It is urgent to compile an up to date inventory list since each business unit requires to know what is in stock to focus the sales effort on those products. The warehouse manager should be in charge, should be physically in the warehouse and should not make the purchases himself/herself, nor should he/she have to ask headquarters for checks as now; there should be a buyer-driver as support personnel for paperwork and purchases.

Imports.- This function provides input to the production process. Placing it in the production area gives coherence to the whole process. Technical knowledge is required to determine the orders. It is required to define individual responsibilities; business units should insist on collecting payments for their contracts to be able to provide funding to the works sites or for imports, whichever the case.

3) Which are the general conclusions?

General

In general terms, coordination among the different areas is required. For example if a business unit gets a contract, it should communicate this to the production area

and take into account its schedules, availability, stocks, etc., to be able to determine responsibilities and completion dates.

Imports, treasury, sales and warehouse personnel have been asked to prepare a log during a complete week (August 21 at August 28) of their daily activities to define their specific activities and improve them if necessary.

The questionnaires on functions and the SWOT (Strengths, Opportunities, Weaknesses and Threats) questionnaires will allow the company to develop jointly with management the most convenient strategies for the firm.

It would be commendable to personally get to know the procedures followed in a work site, if it is possible to go to the

work site and spent a whole day in the warehouse to have better knowledge of this aspect.

The business units

At the end of the month they should present to senior management a sales report of their respective products to determine if it is possible to reach the goal already set, and if it is not possible analyze the reasons why the sales went down.

It is advisable initially to have one more salesperson for each unit so those responsible can establish the policies to follow without neglecting the sales function. Experienced specialized salespersons are needed for this type of products. It is necessary to hire a secretary receptionist for the company.