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Living with an investment fund – the company perspective

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From the decision to open up its equity capital to the withdrawal of the private equity fund four years later, step by step SOMDIAA reveals the four stages of this marriage of two worlds, and shows how a family business operating in Africa for more than 40 years changed its culture and adopted a more professional approach at the instigation of a financial investor. A report by the company's chairman.

At the beginning of the 21st century, SOMDIAA decided that it wanted to open up its capital to external investors. SOMDIAA is a French company that has been established in sub-Saharan Africa for over 40 years and holds majority interests in sugar-production complexes and wheat flour mills. An unusual feature of the company at the time was that it was owned by just one family.

The challenge for this key player in Africa's agribusiness sector – in particular in the CEMAC region1 and in UEMOA2 – was to bolster its own resources and build the capacity to develop the business further. In addition, the company needed to improve its operations and consider new working practices. Because of its history (based in Africa, family-run, etc.), the company had trouble breaking moulds and old habits. It has a large number of long-term employees who have been working in Africa for decades. Although not openly opposed to change, they nevertheless proved somewhat resistant. One of the reasons for involving financial partners is to remove constraints and break down barriers.

The initial idea was to list the company on the stock exchange, but in the end SOMDIAA decided to open up its capital to a private equity fund at the beginning of 2003. This experience, which proved to be an enriching one, but also traumatic for the company and its managers, can be broken down into four phases: the due diligence process, the decision to invest, day-to-day life with the fund and, finally, the exit.

Phase 1: Due diligence checks provide a jolt

The first stage is the most important. In the course of due diligence checks, the potential investors – in this case the private equity fund – strip the company to its bones, question its managers, and visit the industrial sites with the management team. During this period, the company's entire strategy and organisation are called into question. Looking back, this phase was by far the most crucial for restructuring.

Effectively, the workforces and managers see the company anew from a different angle, and modify and improve certain practices, approaches and working methods. Moreover, for a group like SOMDIAA, which was 97% owned by a single family, the due diligence phase marked the start of a real change of mindset. Because of its history, the company was finding it hard to enter the modern age. It was chugging along, mired in old habits. Some longstanding employees were resistant to change. The main topic of conversation within the company became 'why change?' The fund's teams were quick to supply the answer.

The fund's impact was a salutary shock. Private equity funds are staffed by young people who speak English and move in another world – the world of international finance. This means that they look at the company through fresh eyes, unimpeded by the company's history, traditions and genes. They dissect the company professionally and impassively, and shake up its routines – reaching right into the heart of Africa. Their financial approach proved extremely valuable.

Discussions, debates and – most of all – changes

This approach led to the professionalisation of a large number of practices, which have now become firmly established, including regular reporting from every subsidiary. SOMDIAA struggled to publish its monthly results and half-yearly accounts quickly. By visiting the subsidiaries with representatives from the investment fund during the due diligence phase, it was possible to have people from outside the group explain that these procedures were commonplace in many other companies. This challenge to employees' pride meant the practices were implemented. And they are still in place today, with monthly figures available no later than the 10th of the following month, and consolidated half-yearly; similarly annual accounts are produced and audited within a very short time frame.

In the same way, the investment fund, which had social and environmental responsibility commitments to its investors, asked the company's board of directors about this issue. This was another area in which the fund's teams introduced changes and professionalism during the due diligence phase. Since then, the SOMDIAA Group's corporate values have been promoted through a network of foundations.3 In every country where the group operates, the foundation's mission is to optimise the social and charitable activities that the group has been running for decades, and to manage the financing of development projects. The first foundation was set up in Chad at the beginning of March 2010. Today there are eight foundations in six countries (Cameroon, the Central African Republic, Chad, Congo, Côte d'Ivoire and Gabon). There is also a Health and Safety at Work Committee on each of the group's sites.

On the environment front, the SOMDIAA Group has introduced a proper policy based on ISO 14001 to improve the way it manages its impacts on the air, soil and water, to reduce its resource consumption (energy and water) and to establish a plan for the treatment of waste from the various subsidiaries. In a similar approach, since 2002, the group's sugar factories4 have been striving to develop a consistent quality procedure based on ISO 9001. It aims to find the optimum quality level for every product: products for industrial customers, for skilled tradesmen, for traders and for end customers.
All these changes were made possible by the presence of an external financial partner who was able to get messages across by opening the company up to the outside world and to the modern age.

Phase 2: The decision to invest

Once the due diligence phase was over, it was time for the final negotiations on the value of the company. For the company chairman, this stage was the most stressful and the most intense. The honesty and transparency with which he responded during the audit phase now seemed to backfire on him.

A private equity fund is not just another shareholder. These young people, with their fresh (and above all, financial) perspective, are not entrepreneurs. Neither are they familiar with the environment of the company which they are reducing to figures. The fund has a clear objective: to get a 'good deal' when it invests in the company, with the investors convinced that the 'good deal' will be when the fund pulls out.
Having come this far, the management team does not really want to call into question all the work that has been done, or start the whole due diligence process again with another fund. And, of course, there is money at stake!

The fund's involvement in the group's capital was linked to an exclusivity agreement with the

SOMDIAA Group for business opportunities in the sugar and flour sectors on the African continent. The group hoped that the deal would enable it to use the fund's network to access other development opportunities, as well as providing a cash injection.
Finally, the arrival of an external shareholder was a good thing for SOMDIAA's image and reputation in the business world. A number of banks did not think that the group would be able to raise funds. This too created a sense of pride within the workforce.

Phase 3: Day-to-day life with an investment fund

For the fund, the most important moment in the life of a company is the that of the budget and results. The fund's aim is to check that its investment is profitable. Represented on the board of directors, the fund also keeps an eye on the group's global strategy. Otherwise, it generally behaves like a financial shareholder, leaving the management team to do its work, which is a very comfortable arrangement for the company chairman. This marriage between the worlds of business and finance did not cause any friction or generate any particular problems. On the other hand, this attitude is still quite disappointing, when compared with the due diligence phase. For its part, SOMDIAA put in place during this period everything that had been decided during the due diligence audits: the social and environmental policy, reporting systems, etc.

However, life with a private equity fund does not only boil down to this. It also sends a very strong message both to the workforce and to the outside world and introduces a new negotiating partner, who acts as a shield for the board of directors as they improve the company's working methods. This is vital in the regions where SOMDIAA operates. In sub-Saharan Africa the group generally has two negotiating partners: its employees and national governments. Having a 'financial' partner sent a strong message to the group's African partners (generally governments), facilitating and improving the company's relations with them and, above all, providing them with a structure. The presence of a fund is one way of professionalising African businesses and bringing them into the modern age. Everything that was put in place while the fund was involved is still there today.

Phase 4: The exit

For an entrepreneur, the withdrawal of an investment fund never comes at the right time. It is always either too early or too late. Above all though, once the decision has been taken, there is no going back. Once the fund has confirmed its intention to pull out, it will do everything possible to extricate itself. And the decision is a quick one. The exit arrangements are not written down and the exit date is not known in advance. Everything that was said about long-term strategy during the due diligence phase and in board meetings no longer exists. Only one thing matters: getting out. The fund's exit proved difficult and very stressful for SOMDIAA, quite apart from the fact that the fund did not do the company any favours. After the fund pulled out (at the end of 2007), the company no longer existed for the fund. That phase was over and they had no regrets.

More generally, for the company's managers, the fund's exit felt like a divorce. A divorce of vision first of all. The board (the entrepreneur) realises that the fund is there only to make a profit – the best profit possible – and not to help the company do well. The fund achieved its goal: it pulled out after four years having doubled its investment. This psychological aspect is very important, but is often ignored. It is a kind of trauma and it shocked the workforces at all the group sites. Over time, the fund and its representatives had become part of the group, part of the family… and then they broke off all contact overnight! It was as if the adventure (because the experience was indeed an adventure) was no longer of interest to them.

Did the withdrawal of the fund mean that the group's strategic choices changed? It is clear that from the moment a company requests help from a private equity fund, its very nature is changed, especially in the case of a family owned business. Of course in theory, when a fund pulls out, a company is no longer the same size, which was the case with SOMDIAA. And it no longer operates in the same way, which was also the case with SOMDIAA. This means that the life of the company changes dramatically and its future strategic choices will naturally be different as well.

Although the fund's withdrawal was traumatic, a year later the business was back on its feet. For a family firm operating in a somewhat complicated geographical region, life with a private equity fund is something to be experienced – provided one invests as little emotion and as much professionalism as possible.
A marriage of these two worlds is possible, as long as those involved remember that they are poles apart. The fund is aiming to make a healthy profit, while the business is using the money invested by the fund to leverage its development. If this is kept in mind, both sides will benefit from the arrangement.

Footnotes

[1] The Central African Economic and Monetary Community (CEMAC) is an international organisation covering Cameroon, the Central African Republic, Chad, Equatorial Guinea, Gabon and the Republic of Congo.
[2] The West African Economic and Monetary Union (UEMOA) is an organisation working to achieve economic integration of its member states (Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo) by strengthening economic competitiveness through open, competitive markets and the rationalization and harmonization of the legal environment.
[3] Each foundation in the SOMDIAA Group is financed by a subsidiary, which delegates to it all activities that are not linked to the group's industrial and agricultural operations.
4 Compagnie sucrière du Tchad (CST), Société sucrière du Cameroun (SOSUCAM), Société agricole de raffinage industriel du sucre (SARIS Congo), SUCAF Côte d'Ivoire, SUCAF Gabon and SUCAF RCA.