

Reorganization business management model for increasing the competitiveness of Real estate management companies in Latvia through Merger and Acquisition transactions

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Abstract. Research background: Globalization, the impact of geopolitical conditions, the rapid rise of inflation, and the rapidly changing conditions intensifies competition between companies, which influence companies think about expanding their services. Economic survival forces companies to think about reorganizations through mergers and acquisitions. Companies consider mergers and acquisitions as a strategy for product market expansion to improve competitive advantage, however, achieving the expected success through mergers and acquisitions poses serious challenges to company management and does not provide the expected value from these transactions. Acquisitions and mergers without reorganization business management model may not deliver the expected benefits. Purpose of the article: to present a reorganisation business model to enable Latvian Real estate service companies to implement the product market expansion strategy through acquisitions and mergers and reorganisation processes.

Methods: A monographic and descriptive method was used to analyse the theoretical aspects of company strategies, secondary data analysis and expert interview were used to describe the situation of real estate management service industry, but quantitative research method such as analysing of statistical data of the apartment maintenance companies, in connection with the comparative, analytical, deductive, logical approach method was used in this research.

Findings & Value added: Real estate management companies in Latvia face the conditions created due to the influence of globalization and geopolitical conditions - market limitations to expand. Companies, their managers have not enough knowledge of reorganization process, and many other factors about properly conducted reorganization transactions, incl. about acquisitions, due diligence, transaction progress, therefore companies need a reorganization business management model suitable for reorganization transactions

Keywords: *mergers and acquisitions, product market expansion strategy, Latvian real estate service companies, reorganization business management model.*

I. INTRODUCTION

The expansion of the range of services is relevant in every business and in every industry, and the companies are constantly forced to adapt to changing business, and their economic and strategical conditions.

Real estate management companies in Latvia face the conditions created due to the influence of globalization and geopolitical conditions - market limitations to expand, so the development of these companies is not possible without a product market expansion strategy, which can be implemented through reorganization transactions.

The purpose of this research is to present a reorganisation business model to enable Latvian Real estate service companies to implement the product market expansion strategy through acquisitions and mergers and reorganisation processes.

Initially a review of competitiveness of companies will be presented in line in the context of the reorganization process. This topic has been dealt with by a number of authors in the competitiveness of companies, such as Michael Porter [28], [29] who created the foundations of modern competition theory and the concept of competitiveness, so much so that today the volume of literature and researches about competitiveness is continuing to grow [6], [31]. This paper seeks to retrieve the importance of reorganization for companies in order to better adapt to competition changes [11], [12], but study

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shows achieving product-based competitive advantage is a key task for a company [8].

Despite those worldwide studies [4], [5], [13], [15], [16], [36] show that approximately 80% of transactions do not meet expectations, acquisitions and mergers are complicated transaction projects, therefore mismanaged they may not deliver the expected benefits [1], [3], [20-22], [26].

Before describing reorganization model based on several findings [3], [20], [22], [24], [26], [30], [34] the authors present research findings on product market expansion strategy, based on H. Igor Ansoff [27] as a less risky strategy [33], [37] for real estate service provider companies.

In addition to the basic characteristics of the reorganisation model, the description of Latvian real estate service companies will be presented in scope of their need to carry out reorganisation as product expansion strategy, based on an expert interview. As will be seen, the reorganisation model presented, is based on the complete 10 criteria, from which some as most essential are - company strategy, reorganisation leader, appropriate and professional team, plan for the implementation of the reorganisation and product market expansion strategy, performing of reorganisation transaction and integration or restructuring of acquired company, according to the literature reviewed.

II. METHODS

The purpose of this research is to present a reorganisation business model to enable Latvian Real estate service companies to implement the product market expansion strategy through acquisitions and mergers and reorganisation processes.

To achieve the goal of the research, three tasks were set:

- a) to analyse the theoretical basis of competitiveness and of companies in the context of the reorganization process;
- b) to describe the companies operating in the industry of real estate management services in Latvia;
- c) to develop reorganization business management model for real estate management companies in Latvia suitable for reorganization transactions.

The research question: How reorganization business management model created for real estate management companies in Latvia can help to carry out reorganization transactions?

The results of the application the monographic and descriptive method were used to analyse the theoretical aspects of merger and acquisition transactions and company strategies, secondary data analysis and expert interview were used to describe the Real estate management service industry.

An expert interview was created as a semi-structured interview. In expert interview authors used following questions and themes for discussion like:

- a) what are the main problems from experience for possibilities of increasing the competitiveness of real estate management companies in Latvia?

- b) which factors influence Real estate management service companies of the Republic of Latvia to carry out reorganization transactions and restructuring of the company?

- c) Do Real estate management companies in Latvia need reorganization business management model for reorganization transactions?

III. RESULTS AND DISCUSSION

A. Characteristics of increasing the competitiveness of companies in the context of the reorganization process

Michael Porter [28] created the foundations of modern competition theory and the concept of competitiveness - the prosperity of a country depends on its competitiveness, which is based on the productivity with which it produces goods and services.

In [29] it is stated that in today's hyper-competition conditions, it is critical for companies to understand the dynamic of external conditions and their impact on the possibilities of increasing competitiveness. Fierce competitive conditions can lead companies to liquidation, so company managers must guide companies to improve efficiency and financial performance [6].

Several authors [11], [12] point out that companies need to implement reorganization in order to better adapt to changes. Companies implementing reorganization should take into account that the necessary financial resources must be foreseen [11].

The business strategy of reorganization, mergers and acquisitions can be an opportunity for companies to increase their competitive advantages, improve their position in relation to customers and suppliers [24].

Achieving a product-based competitive advantage is the main task of any company [8] and in today's hyper-competitive environment, it is very important for companies to understand the dynamics of the environment and its role in creating competitive advantages [30]. By implementing the product market expansion strategy, it allows the company to achieve competitive advantage [8].

Companies do not operate in isolation and constantly compete with other firms to increase profits in the battle for customers and market share [23]. Fierce competition conditions increase the probability of a company's bankruptcy and liquidation, but to prevent the company from going out of business, competition encourages company managers to improve the company's efficiency and financial performance [6].

B. Characteristics of the Product market expansion strategy

Several authors [19], [34] have recognized that no core business is eternal, or that every product has its own life cycle.

COVID-19 pandemic, increasing of energy prices, supply chain disruptions, financial crisis pose a threat to business continuity, therefore companies are facing pressures for their very survival [9], and resilience does not just relate to the ability of a system to "bounce back" after an impeding event, but also to the capacity to adapt and transform [38].

The influence of increasing competition, customer complexity, and market turbulence is creating a latent hazard for the sustainability of established buyer–seller relationships [7] and the same the latter factors influence relationship between service provider and customer in service businesses and product market competition can have dramatic and far-reaching consequences for individual firms [14].

In [36] is indicated that strategy is the core of corporate competitiveness. By choosing product development strategy, offering new products and services to existing customers, this is less risky strategy, and corresponds to the needs of customers [33], [37] and according to [18] service synergies in relation to related services, the goal of related services is generating economic savings.

The mathematician and business manager H. Igor Ansoff has created Product market matrix, which was published in the Harvard Business Review in 1957 [29]. The Matrix is used to evaluate the level of risk of growth strategies for existing products and markets comparing with new products and markets [28], and is presented in Table 1.

TABLE. 1 ANSOFF'S PRODUCT MARKET EXPANSION MODEL [28], created by authors)

Markets	Products		Increasing risk
	Existing	New	
Existing	Market penetration 1	Product development 3	* = Relative risk 1=LOW 4=HIGH
New	Market Development 2	Diversification 4	
Increasing risk			

As visible in Table 1, there are several product and market expansion strategies at both the market and product levels, depending on whether the market and product are new or existing.

Those companies whose strategy is based on offering one type of product or service can achieve an increase in market share, but up to a certain limit, because the market is as big as it is. At this stage, the company's strategy should be based on either:

- a) market expansion, or
- b) expanding the range of services.

The service companies` strategy would be the most suitable product development strategy, offering new products and services to existing customers, which is less risky, and which also corresponds to the needs of customers, because the customers to whom cleaning companies already provides cleaning services for premises, all have different types of facilities, all of which require engineering communications management services.

C. The Real estate maintenance service industry of Latvia
 Real estate management services in Latvia are offered by several types of merchants:

- a) Providers of housing management services, for which the management of apartment buildings is the main type of business;

- b) Premises and territory cleaning service providers who have expanded their range of services with real estate - apartment building management service;
- c) Real estate brokerage service providers who have expanded their range of services with apartment building management services;
- d) Real estate developer companies that build multi-apartment houses of the new project and continue to manage and manage these houses.

The real estate management service industry in Latvia is wide and due local market specifics, due strong competition between companies, due small market, companies not specify to only one service, but provides similar, familiar services, to achieve higher competitiveness.

The product market expansion strategy in the service industry is important because customers want to use and use a variety of similar, synergistic services, such as commercial building management, premises and territory cleaning, engineering crew, therefore the company that can offer a full range of services will have greater advantages to expand its market share [37].

D. Reorganization business management model for increasing the competitiveness of Real estate management companies in Latvia through reorganization transactions

Acquisitions and mergers are complicated, mismanaged they may not deliver the expected benefits. Several authors [1-5], [10], [13], [15], [17], [20], [22], [25], [27], [32], [35] indicates that a large number of reorganization deals fail and companies do not expect the expected benefits, while a McKinsey study shows that 80% of reorganizations fail and about 10% cause serious damage to the company [4], [5], [10], [13], [15], [35].

It would be important for companies, their managers and leading employees to first understand the process of reorganization transactions, the course of its implementation, which could help to avoid failures, as well as the planning of the reorganization process should be done correctly, starting with the development of the reorganization strategy and its implementation plan.

After the reorganization, managers begin to deal with the burning problems that need to be solved urgently, but in solving the burning problems, the managers miss several opportunities for business development. One of the biggest success factors is to create a future company's strategy - where the company wants to go in the future and not just focus on the problems of the past [31].

In [35] it is recommended to use the following approach when implementing the reorganization process:

Before the reorganization, the 3 S principle, denoted as: Strategy, Structure, Selection. In the course of the reorganization, the 3 C principle, denoted as: Communication, Compassion, Clarity. After the reorganization, the 2 T principle, denoted as: Transfer, Transition.

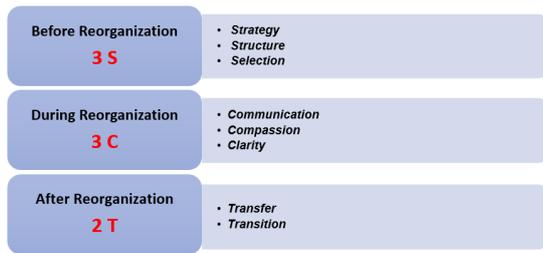


Fig.1. Principles for implementing reorganization (from [34] created by authors)

As visible in Figure 1, reorganization, as well as acquisition and merger transactions, should be seen as a big project with a holistic approach, which includes the beginning, implementation and completion of the project, or the post-reorganization stage.

Authors chose the expert interview as a method for the research to evaluate the real estate service companies' industry, to find out industry essential main problems and to understand companies' possibilities to expand their business and necessity to expand their services. As expert was chosen a professional expert in the field of real estate management service industry, who has worked for several years in the largest building management companies in Latvia. During the interview authors tried to find answers to following questions:

- a) what are the main problems from experience for possibilities of increasing the competitiveness of real estate management companies in Latvia?
- b) which factors influence Real estate management service companies of the Republic of Latvia to carry out reorganization transactions and restructuring of the company?
- c) Do Real estate management companies in Latvia need reorganization business management model for reorganization stage?

An expert interview shows following results:

The real estate maintenance service industry is complicated, the Latvia market is narrow for expansion with existing products, there are several options for such companies – to carry out product expansion strategy and to start offer new services, such like engineering communication services, cleaning of commercial premises, maintenance of commercial premises, or to buy another company which already has experience in those similar services, which will be more effective as to start new business types from beginning. As market in Latvia is small, the companies compete with each other and reorganization transactions are as one of possibility to expand their business.

In recent years in Latvia, three of the largest merger transactions in the sector of real estate management companies, are as follows, visible in Table 2:

TABLE 2. ACQUISITION AND MERGER IN REAL ESTATE MAINTENANCE COMPANIES' SECTOR IN LATVIA (2022-2024) [25] created by authors

No.	Transaction, involved companies	Year	Kind of Product market expansion strategy
1	Buyer: Civinity group companies: SIA Civinity Mājas and SIA Civinity Mājas Jūrmala Seller: SIA LABO NAMU AGENTŪRA SIA VBS serviss. SIA Home master	2022	1) Expansion of services, by acquiring real estate management service companies 2) Expansion of services, by acquiring engineering service companies
2	Buyer: SIA HAGBERG Seller: SIA TERMEX (engineering services)	2023	1) Expansion of services, by acquiring engineering service companies
3	Buyer: SIA City Service Sellers: SIA NĀ NAMI, SIA Nebruk Jelgava and SIA Jautukums	2024	1) Expansion of services, by acquiring real estate management service companies

Based on the findings obtained during the research, the findings obtained during the expert interview, the studies of theoretical aspects, the authors develop business management model for reorganization, which is visible in Figure 2.

The reorganization business management model developed by the author within the product market expansion strategy is based on the following 10 main criteria:

1. Develop a company strategy. In the strategy, define what product market expansion strategy needs to be implemented. By what means will the product market expansion strategy be implemented:
 - a. The company itself will build the expansion of existing products, offering synergistic services to customers
 - b. The company will acquire an existing business to implement its product market expansion strategy
2. Finances. Does the company have the available funds to acquire an existing business to implement a product market expansion strategy?
3. Choose a potential acquisition company. If it is possible for the company to implement the product market expansion strategy through an acquisition transaction, search the market itself or instruct investment agencies to search for or approach potential acquisition companies.
4. Get to know the acquisition company and conduct its in-depth research.
5. Create a team. In order to successfully implement a reorganization and an acquisition or merger transaction, it is necessary to select a team that will work on the implementation of the reorganization and the implementation of the product market expansion strategy according to the plan.

6. Carefully develop a plan for the implementation of the product market expansion strategy and prepare the implementation plan of the product market expansion strategy in detail according to the principle:

- a) Involve competent specialists
- b) Define all necessary actions to implement the plan
- c) Set deadlines for each task of the plan
- d) Appoint those responsible for the implementation of the plan

7. Thoroughly familiarize yourself with the industry in which the acquiring company operates and identify all the nuances that should be known before implementing the transaction.

8. Get to know the essence of the business to be acquired.

9. To implement the purchase transaction.

10. Integrate or restructure the acquired company.

The most common mistakes and failures occur precisely because of this factor. Consultants believe that they have successfully completed their work with the completion of the closing phase of the transaction because the transaction has been implemented, but the acquiring company faces a reality after the acquisition is completed.

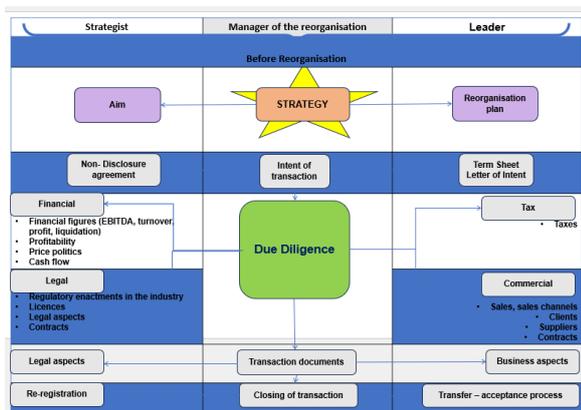


Fig.2. Reorganization business management model (created by authors)

As visible in Figure 2, the reorganization business model provide that there should be one main manager - the manager of the reorganization transaction or project, who must have strategic thinking and leadership abilities.

The reorganization business management model was approved in building management companies, of which: 1 company operates in Riga and Riga district, and 2 regional companies operating in regional cities.

The reorganization business management model provided for the improvement of the profitability of house management services, as well as the improvement of the content and quality of the provided house management service.

In order to organize the profitability of house management companies, within the framework of the reorganization business management model, many

important measures were taken, the most important of which are:

- A new debtor control and debt collection policy was developed;
- A schedule of object surveys and a plan for its implementation were created;
- A technical department was established, which was responsible for the unified accounting of technical works, repair works, implementation of works and selection of technical personnel;
- A unified customer call center, register of complaints and submissions and quality control were introduced;
- A new accounting IT program was introduced and a new financial accounting system was created;
- Service pricing was identified - how much each service costs, whether the service fee corresponds to real expenses and whether the services are profitable;
- A decision was made to raise the price of the service to customers in order to stop the company from operating at a loss, and due this decision – companies financial results improved in possitive level.

Post-reorganization business model should be the future research thesis.

IV. CONCLUSIONS

1. Reorganization transactions are serious transactions that are time-consuming and also require financial resources to be allocated to it, however, worldwide studies [4], [5], [10], [13], [15], [35] show that approximately 80% of transactions do not meet expectations.
2. The results of the research, within the framework of the information obtained during the expert's interview, show that the internal, disorganized management problems of companies can prevent managers from successfully implementing reorganization and company restructuring plans.
3. To recommend the owners and managers of real estate management companies to use the product market expansion strategy and the reorganization management model to increase the competitiveness of the companies.

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