

CASE STUDY:
BUILDING INTERNATIONAL RELATIONSHIPS:
PHILIPP HOLZMANN AG AND J. A. JONES CONSTRUCTION
COMPANY

A large German firm's acquisition of a large American construction firm nine years ago is called a successful marriage by the participants. Not only have the two management styles mixed well, they say, but the transfer of technology between Philipp Holzmann and J. A. Jones Construction Company has benefited both companies by allowing expansion of worldwide construction horizons.

Philipp Holzmann AG had grown from a small family business into a leader in international construction. Founded as a railway contractor near Frankfurt am Main in 1849, the firm quickly extended activities to include civil engineering and building of all types. Holzmann won its first major contract outside Germany, the main railway station in Amsterdam, in 1882, and since then has been active in many European countries, South America, Asia, and Africa. Holzmann now has major activities ongoing in the United States.

The company designs and builds public and commercial buildings, manufacturing and industrial plants, marine structures, and mass transit facilities. Its range of services includes turn-key projects as well as maintenance and operation of facilities. Holzmann also undertakes reconstruction and modernization of buildings and industrial plants.

The general management and overseas departments of Philipp Holzmann are headquartered in Frankfurt, West Germany. The company operates 30 branch offices throughout Germany and has more than 50 domestic and foreign subsidiaries engaged in special fields of construction and construction-related activities around the world.

Holzmann is represented in the United States through its subsidiary, Philipp Holzmann USA, by Jones Group, Inc., in Charlotte, North Carolina, and by Lockwood Greene Engineers, Inc., Spartanburg, South Carolina, in addition to other subsidiaries. Jones is a construction contractor, and Lockwood Greene represents the architectural and engineering side.

In 1986 the Holzmann group of companies had sales of \$6.6 billion worldwide. Approximately 48 percent of that total was in the United States. The decision to enter the U.S. construction and engineering market was a result of events around the world. Since its first international experience in the late nineteenth century, Philipp

Holzmann AG has set corporate strategies beyond German boundaries. In the earliest years, the company built the legendary Baghdad railroad, the Dar-es-Salaam railroad in Africa.

By World War I, Holzmann had built the first skyscraper in Buenos Aires and entered the U.S. market with construction on the Barge Canal in New York. More recently, its activities centered in the Middle East—where some of the world's largest construction projects have been built with oil revenues—including hospitals and a sports stadium in Saudi Arabia. In the early 1970s, more than 50 percent of the company's foreign revenues came from Saudi Arabia. But the Iranian revolution, Iran-Iraq war, and the softening of oil prices made the prospects of a blooming construction market in the Middle East seem less promising.

Holzmann carefully evaluated the possibility of future construction market collapses and, in order to protect the company from such uncertainties, decided to diversify by investing in other countries. Economic and political stability and a self-sustaining market in the United States were an attraction. Holzmann sought a U.S. company that would complement its strengths and, in 1979, acquired the Charlotte-based J. A. Jones Construction Company which had 90 years of experience in the U.S. construction industry.

J. A. Jones has its own history and many successes. Founded in Charlotte, North Carolina, it has grown to become a U.S. and international leader. James Addison Jones started his work as a bricklayer in 1890, and got most of his early experience building for the textile industry throughout the southern states. But J. A. Jones's first project, like Holzmann's, involved the railroads. Jones built the dining car facility in Charlotte for the Southern Railroad Company.

Following the 1930s depression, Jones signed one of the largest construction contracts to that date, for a new airbase in the Panama Canal Zone. Since that project, military construction has been an important factor, including construction of Liberty ships during World War II, followed by what was then the "largest construction project in the history of the world"—the gaseous diffusion plant at Oak Ridge, Tennessee.

Following World War II, Jones began a long series of heavy and highway construction work while continuing commercial building throughout the country. Today, the company is also involved in industrial and energy work as well. As it, too, looked to the Middle East for work in the 1970s, J. A. Jones competed against Holzmann;

Engineers, Inc., of Spartanburg, South Carolina. Holzmann also encouraged Jones Group's formation of a new service company, which specializes in facilities management, similar to one Holzmann founded in the early 1980s.

The two companies have set up an informal employees program that enables young engineers to travel and work somewhat like exchange students abroad. Management level staff members also take part in orientation programs between West Germany and the United States.

J. A. Jones has added a dimension in international construction that has benefited the parent company. By offering procurement services for materials for projects where many of the designs call for American standards, Jones can help Holzmann avoid problems of selecting goods in a foreign country.

In turn, Johnnie Jones says that Holzmann "does not interfere with our operation but provides support. Keeping our management intact proved to us that Holzmann agreed with our philosophy that people are our most important assets."

The Jones Company now can take on major heavy construction projects which heretofore would have been undertaken only in a joint venture. And in a totally new direction, Jones signed its first contract to build, own, and operate a lignite mine in Louisiana. "It required a substantial investment in the beginning, but we wouldn't have been able to do it without the financial support of Philipp Holzmann," says Jones.

Both companies are in the process of diversifying in technical fields, expanding in other locations, and reestablishing positions in the international market. The formation of a real estate development company in Atlanta, Mark III, and additional activities from Queens Properties, Inc., in Charlotte, were steps in diversification.

Because the financial capabilities of construction firms have new importance, Jones Group this year formed Jones Capital Corporation to develop project financing and to hold the assets of projects in which Jones is maintaining an ownership position.

While still run as separate entities, Holzmann and Jones combined can pursue the largest construction projects in the world.