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Cordovan Group, Sweden

- Type of restructuring:
Internal restructuring
- Employees before restructuring:
50-249
- Employees after restructuring:
50-249
- Nace/Sector:
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- Country:
Sweden
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Abstract

In the restructuring of the Swedish company Cordovan Group AB the board created a management team of 12 employees, who cancelled the initial strategic plan and then developed an alternative pathway.

Organisational profile

Cordovan Group AB is a communication and consultancy company with experts in public relations, advertising, design and web-strategists, psychologists, business developers and management consultants. Its clients consist of large global corporations as well as small local businesses and start-ups.

The company was founded in 1983 under the name Adera. In the beginning, the company carried out public relations management for large industrial companies. However, as the industrial companies did not need much publicity, it developed its business idea into a communications consultancy agency. The company was launched on the Stockholm stock exchange in 1995. Of course, it was difficult to compete with already established firms though the aim was to use the comparative advantages within the company and create something new. The customers for the firm's public relations management work have always been large industrial companies.

During the 1980s, the company had branches and offices in different places in Europe. The reason for this was to be able to give services to the customers at different locations. The idea was to work with international segments instead of administering everything from Sweden. The recession in the early 1990s impacted greatly on the company leading to several problems. The company decided to introduce more tools in IT for their customers in order to provide better IT solutions.

Since the burst of the dot-com bubble at the beginning of 2000, it has been increasingly hard to sustain profitability. In 2000 the company had over

700 employees. After the peak in 2001–2002 the company struggled to survive, and consequently both turnover and employment declined. Because of this the firm was forced to sell parts of the business, including its offices in Europe. Nevertheless, its main customers stayed with the company and in 2004 the firm decided to ‘start-over’ and renew its business, with a new name – Cordovan, also organised as public limited company.

The core division of the company is situated in Gothenburg. The company is divided into three parts, forming the company group. The first one is *Chamber Business Network* (CBN), which is a meeting place/venue for corporate leaders of listed companies where HR managers, CEOs and communication managers meet in groups of eight to ten people to discuss different issues. For instance, they can use this platform to discuss how to navigate foreign arenas, looking for possible business partners and share working strategies to enter new markets, for example, the African market. The purpose is to develop and strengthen leadership abilities within small and medium sized enterprises.

The second part of the company is *Cordovan Performance*. This part works more with organisational development, how to get employees in companies involved and understand the vision of their company. Performance assists companies in developing the trademark from the inside out, from employee to customer.

The third part is *Cordovan Communications*. This is the largest branch of the company and consists of consultants in communication. Web strategy, advertising and system-building for companies are their main services.

Today about 75 people are employed at Cordovan and their average age is 35. The Performance group has seven senior consultants employed full-time and within this group the majority of employees have an academic background. Cordovan Communications has fewer academics and the average age is closer to 30. Some employees have several degrees while others are self-taught. Previously, the company employed workers for their attitude and skill-level without demanding an academic background. However, recently Cordovan acquired a smaller company with employees who generally have a less academic background. This might cause a lack of innovation capacity and the firm therefore is thinking about perhaps demanding higher educational attainment from future employees.

Today, Cordovan has no offices abroad although almost everything it does is directed towards the international market. Cordovan’s customers have their offices and headquarters in Gothenburg though almost none of Cordovan’s services are targeted at the Swedish market.

There is no written strategy for Human Resources or Corporate Social Responsibility, although Cordovan assists other companies with writing their own policies and strategies in this area. Cordovan is not connected to any works council; however about 75 % of employees are trade union members.

Rolf Jansson is the retiring chief executive officer of Cordovan Group AB, a company founder, and has a degree in business administration. He was chief executive officer of Cordovan Group AB when the restructuring event took place. Today there is a new executive board in the company and Mr Jansson’s position is chief executive officer within the Cordovan Performance branch where he is a consultant. His position change is not a consequence of the restructuring event, rather it is due to a generation shift.

Background to restructuring event

The restructuring event took place during 2010–2011 and consisted of an internal restructuring whereby 15 employees were given notice.

During 2010, plans were made on which paths to take and which ideas to invest in. One important question was whether or not Cordovan would acquire another company about to go bankrupt, Jerlov. One central group within Cordovan during this period was working on digital solutions for customers, Cordovan Digital. It was strongly opposed to the acquisition so when the board decided to acquire Jerlov 20 of the 40 employees in Cordovan Digital group decided to leave, taking their customers with them to start a business of their own. They were upset because the board took the decision, despite knowing these key employees had been against the decision from the beginning. As a consequence, Cordovan lost employees, clients and competence. The board said it decided to acquire the other company because it felt the other company would complement Cordovan as it had much experience within social media and access to different networks, therefore opening up the possibility of finding new clients together.

Restructuring processes

The trigger for the restructuring event (the Cordovan Digital group leaving the company) took place in March 2010. For about nine months afterwards the company tried to regain its strength, trying to make up for the lost competence and clients. The idea of solving the problem by giving notice to a few employees was difficult to carry out quickly because of contractual arrangements. At the end of November, the decision was made after serious talks with the company accountant concerning the 2010 statement for accounts. In January 2011, 15 employees were given notice following a meeting where the announcement was made.

One incentive for restructuring was to show clients that Cordovan would be back in business and start afresh in 2011. For big clients the process was very transparent and they knew about the restructuring before it took place. At times the clients were even informed before the employees. Since the company is official and its customers demand openness from it, Cordovan issued a press release concerning the restructuring.

The actors involved in the decision were the members of the Cordovan board. They created a management team with 12 employees to work on

finding a strategy. The idea to freeze wages was cancelled and instead the decision to dismiss 15 consultants emerged. The reason for giving notice instead of freezing wages was, according to Rolf Jansson, that the workers given notice were talented and would soon be offered new jobs; therefore, it would be a better solution for everyone to let them go.

During the process some adjustments were made. One employee chose to leave in addition to the 15 who had been given notice. Some of the 15 people concerned took voluntary retirement (that is, some of the workers close to retirement volunteered to be the ones to be given notice) and the rest were asked to leave.

For the workers the restructuring was difficult. No one knew whether or not they would still have jobs in the morning according to Rolf Jansson. Loyalty made them stay under uncertain circumstances. This uncertainty was present up until the decision to restructure the company was made. There was no shortening of working hours, rather the opposite. For a time, everyone worked more, except two women who volunteered to work part time (60% and 70%, respectively). The employees given notice left the company right away after the decision was taken and, according to Mr Jansson, all employees were very satisfied with the final decision to remove 15 employees. This created a more secure work environment for the remaining employees. The company gave no direct support to those leaving except to tell others in the business that skilled labour from Cordovan was looking for employment and also to inform its former employees if it saw any openings at other businesses.

The Jerlov CEO, the company Cordovan had recently acquired, left Cordovan as a part of the restructuring event due to her lack of insight in the business and client contact according to Rolf Jansson. Also, it sent a signal to employees that jobs were being cut at every level, including management.

Challenges and constraints of restructuring

One challenge was to find a solution to retain the younger workers. These workers had key competences, though they had less experience working for the company. The company had to follow Swedish law on employment security (*Lagen om anställningsskydd*) which ensures that long-service employees cannot be dismissed before those who have been working for a shorter period. Cordovan avoided parts of this rule by dividing the company into different teams. It used the team classification strategy in order to clarify the skills within the company and to create a separate rotation list which defined who was next in line to leave the company in case of scarcity of work. This was linked to clearer role descriptions and made it easier to keep the employees the firm wanted to keep. The teams were 'interactive', 'creative' and 'PR and social media', where younger employees were placed, while the team 'graphical production' included older employees. During the restructuring most people given notice were employed within the 'graphical production' team. This raised voices from older staff who believed this action was taken to dismiss specific people for personal reasons and let others stay.

The company brought in a lawyer to define the roles within Cordovan and see how the restructuring would be performed legally. The lawyer made sure the actions taken were legitimate. However, some employees had a different opinion about this, and called their trade union for advice. The plan was explained and employees who were affected got the chance to be involved and share their thoughts and ideas concerning the restructuring. Two employees were very dissatisfied with the restructuring and hired lawyers to help them solve the situation. They questioned whether or not Cordovan had avoided Swedish law on employment security. Cordovan had to grant a settlement with the employees who hired lawyers to solve this disagreement. These two employees were given twelve months payment plus payment for the time it took to settle this.

After the acquisition, the loss of 20 employees and the internal restructuring, Cordovan felt it was lacking a clear plan for the company. The management team of 12 were given the mission to map the organisation's competences. They had to create a specific strategy in order to deal with the restructuring. They divided themselves into teams to handle the restructuring process. The organisation became clearer and they had discussions on, 'What do we want to become?' and, 'How will we get there?'

During this period of uncertainty, the shareholders, among them Rolf Jansson, were not able to sell their stocks easily. This created the need to dilute the stocks in order to finance restructuring expenses (such as severance payments and legal fees) and therefore Rolf Jansson's stocks became less valuable. Rolf Jansson concludes that perhaps he could have become wealthier by selling his shares sooner or investing differently though he says it has been an interesting and challenging journey and fortunately he has been able to keep his job.

Another challenge during restructuring is how to keep the competence within a company without going against any regulations. The advantage for SMEs in Sweden, according to Mr Jansson, is that SMEs can more easily navigate around the Swedish law concerning employment security by using different solutions that aren't possible in large companies. In large companies one has to think more carefully before hiring anyone, while SMEs can be slightly more flexible. If Cordovan had had one trade union negotiating for all employees, it might have thought twice before employing.

Restructuring advice and support

The company used advice from a lawyer during the restructuring in order to ensure that the process was legitimate. However, in Cordovan there has never been any question of looking for any kind of financial or other support from actors other than the company itself, its clients or risk capitalists. The reasoning is this: if the company does not have enough customers to provide work and sufficient turnover it should not exist. A company like Cordovan is driven by competition and should live from its comparative advantages, and not be dependent upon financial support from the government, says Rolf Jansson.

Outcomes of restructuring

Cordovan Digital left the company and this triggered the restructuring, although these employees have now been replaced. During the restructuring a few left voluntarily since they were offered new jobs. None of the older employees about to retire within a few years accepted early retirement since they wanted to keep working for the company until retirement age. The employees that were given notice were offered the chance to freelance from their old desks, partly as compensation for making them unemployed. A few of them are still making use of this opportunity today.

Rolf Jansson concludes that a few mistakes were made. Some competence was lost during restructuring. Before the restructuring the working process within the company was not as clear as it was to become later. Afterwards, a few employees were replaced with more suitable employees. Up to May 2012, Cordovan had to pay salaries to some employees given notice. To do this, the company has had to dilute its stock capital in order to survive.

After Cordovan Digital left the group there was no money left to finance the costs of managing the merger with the other company. The acquired company, Jerlov, had no money since it was on the edge of bankruptcy. As a consequence, Cordovan had to deal with all the expenses themselves. Also the chief executive officer who left the company wished to sell her shares in the company. The company brought in many investors who could invest and they had to dilute their shares on the stock market. Today Cordovan is 50% owned by a risk capitalist.

The restructuring caused a delay in the company's orders. Cordovan had difficulties performing its consultancy work within the time demanded by clients. Large clients have large demands and if Cordovan had lost a few large clients this could have jeopardised the entire business. It was also difficult since it had won a few large procurements which it struggled to complete on time.

Unfortunately, the Cordovan reputation became tarnished since it had difficulties in paying suppliers. Some suppliers turned to Cordovan's clients to share their dissatisfaction with the company. This was one of the motives for the restructuring: employees and clients understood that the situation wasn't sustainable.

Today the clientele is stable. Cordovan works with employees and managers that want to be part of the company. The harmony within the company is different today according to Mr Jansson. It is better off after the crisis than before and the workers seem more motivated today when everything is working. One outcome of the restructuring was the four teams mentioned: 'interactive', 'creative', 'PR and social media', and 'graphical production'. After the restructuring event, most employees and the board concluded that the division into these teams has made the roles within the company clearer.

Further outcomes from the restructuring are that there have been plans to introduce a bonus system in order to increase employee loyalty. All the firm's employees are very competent and could start their own businesses to compete with Cordovan if they wanted to. They would also have some advantage with clients, since client-relationships are personal. Some employees have expressed a wish to start their own business and invited Rolf Jansson to join them. This bonus system has therefore been discussed to give incentives to stay with the company. The company has previously also offered shares to key employees to convince them to stay.

One recommendation is to create a management group that will stand behind the decisions. In Cordovan's case, its management group was too large and should have been smaller and stricter. It consisted of 12 people which made it difficult to hold anyone accountable for the actions taken. Mr Jansson concludes that four or five people would make a more effective team in both handling this sort of process and in being held responsible. The reason Cordovan decided to have 12 was because it had just acquired a new company and roles weren't clear yet.

Rolf Jansson still has contact with the Cordovan Digital employees who left the company, triggering the restructuring. He has a meeting scheduled with them soon and there are no hard feelings between them, according to Mr Jansson.

Outcome of restructuring according to an employee

Rolf Stridh has worked for Cordovan since 2006 when the company he worked for merged with Cordovan Group AB. He is a 55-year-old copywriter and has experience of working in small companies with five to six employees but also in larger companies with 90 employees. Mr Stridh wasn't personally affected by the redundancies. He is a senior in the company and therefore felt safe in his position. However, during the restructuring planning, Rolf Stridh was part of the management group at Cordovan. This meant he was one of the 12 responsible for planning the changes within the business. Within this group he was involved in evaluating employee competence and length of service in order to decide which employees would be asked to leave. This was difficult and stressful and the atmosphere in the company became affected by this.

The company has been built on a number of mergers and acquisitions with other companies in the business and has grown with every merger. This has created a structure where the company has not been so careful with checking which competences already exist within the company and which competences should be recruited. The restructuring event has led to the insight that this is not the best way to build the business. According to Mr Stridh, perhaps the restructuring can be seen as a positive thing for the organisation of the work crew. The restructuring made the firm evaluate which workers were the key individuals within the company, although on an individual level the restructuring did not benefit anyone, he says.

The employees connected to a trade union always had a representative present during the restructuring negotiations. This representative made sure nothing inappropriate was done that would affect the workers in a way that could be prevented. While the situation was very tough, according to Rolf Stridh employees felt that the situation was handled correctly. Of course, employees felt angry and disappointed though they didn't feel inappropriately treated. The trade union representatives involved made sure above all that the priority rules were respected when deciding which employees to let go. One employee got advice from his union that if he were given notice this would be wrong, according to the priority rules. Therefore, he got to stay. Though this was the only exception, according to Mr Stridh, since the firm hired a lawyer to ensure the right actions were

taken.

There have been no specific actions taken to support the affected employees although business networking might identify job vacancies in other companies in order to help them.

The restructuring has improved the firm in general, according to Rolf Stridh. The economy is stable and the working atmosphere is positive. Unfortunately, however, searching for the company on the internet produces links to local newspaper articles on the redundancy notices as one of the top search results. This affects the clients' image of the company and reminds employees of the hard times they experienced, even though two years has passed since the event.

Rolf Stridh emphasises the importance of creating a company culture where the most important values are developed and shared between all employees in order to be able to handle this kind of situation. In times of uncertainty, there are always procedures that can be improved, although the restructuring was probably inevitable. In future, it may be possible to be more aware and prevent a situation like this from emerging so fast without having control over it. Many in the management group were surprised by the situation when it happened and perhaps they could have been better prepared for it. In Mr Stridh's opinion, for businesses such as Cordovan, it is not size that matters concerning whether or not a company can plan and implement restructuring events. In the communication and public relations business where Cordovan is active there are rarely any formal contracts with clients. This creates an insecure environment where situations can change fast regardless of company size.

Commentary

In highly skilled service industries, employees usually have a high competence level which makes them quite independent of the company where they work. Therefore, managers in such enterprises need, to a greater extent, to be aware of this condition and prevent competent labour leaving the company. This situation can be contrasted with the manufacturing industry where workers are generally less flexible and more dependent on their workplace.

In Sweden, the legal implications also create challenges for many SMEs facing restructuring with job cuts as a consequence. Swedish law concerning employment security (*Lagen om anställningsskydd*) is supposed to ensure long-service employees that they can't be dismissed before those employed for a shorter period. This creates challenges for SMEs with a small workforce where obeying the 'last in first out' system laid down by law means that a few workers with vital competence can't be given preferment. In SMEs the loss of one important employee can really affect the business in a negative way, much more than in larger companies. In Cordovan's case it was able to get around this rule. It seems to be easier for SMEs to navigate around the system since they can be more flexible and more ad hoc solutions can be formed than is possible in larger companies.

The main differences between restructuring in SMEs compared with large companies is, according to Rolf Jansson, that in large companies a lot more people are affected by a restructuring event. The chief executive officer for such a company has a greater responsibility for many families and it is probably not easy for large companies to make this kind of decision. Also, large companies are often listed on the stock exchange and when they decide to give notice to employees, the stocks usually go up and the restructuring is cheered even though it has caused difficulties for many families. It is different in an SME where the contact is much more personal concerning redundancy. Many affected employees take out their aggression against the board in SMEs. However, Mr Jansson concludes that in his position as a chief executive officer during the restructuring event he hasn't suffered a great deal because the employees given notice are very talented and will soon be back on track.

One disadvantage for SMEs is that large companies are connected with trade unions that negotiate the conditions for everyone. Cordovan had to negotiate the dismissals on an individual level with different trade unions which made the process less open.

Another difference between the highly skilled service sector and the manufacturing sector is that public support seems to be irrelevant. If a highly skilled service company cannot compete with their comparative advantages, it has failed with its services and public support is something that would distort the market economy for this industry. In comparison, the general idea in manufacturing industry seems to be more support-oriented. When demand is low, public support appears to be regarded as relevant and sometimes necessary in order to stimulate the business and to make it survive.

The main lesson Cordovan has learnt is that it should have done everything faster and sooner instead of waiting and drawing out the process. Other experiences, shared by Rolf Jansson, is that the company Cordovan acquired, which spurred the internal disagreement within Cordovan, tried to save itself by getting more clients instead of going through a restructuring. This made it almost bankrupt and if it had not been acquired by Cordovan it would have had to close. So this case shows that restructuring can save jobs by cutting jobs, an important lesson to learn as a company.

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Information sources

Interviews

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