Consultancy Company, United Kingdom

- Type of restructuring:
  Internal restructuring
- Employees before restructuring:
  10-49
- Employees after restructuring:
  10-49
- Nace/Sector:
  Professional services
- Country:
  United Kingdom
- Date:
  17/05/2012

Abstract

Following cutbacks in government expenditure, this business consultancy had to enter new markets in order to survive and grow, changing its service portfolio from programme design to delivery. Being small, the firm was more adaptable and flexible; however, existing personnel were less suited for the new tasks. As a result of the organisational changes, 90% of senior managers exited and a new team was put in place. The company now has more frontline staff and fewer in managerial roles. Five months into the reorganisation, there has been an increase in performance in some areas.

Organisational profile

Established in 1995, the company described in this case study is a London-based consultancy firm. The company operates mainly at a national, regional and sub-regional level, but also at the EU-level through the European Social Fund, European Regional Development Fund and community initiatives such as Leonardo.

Working with entrepreneurs, employees and business owners, this consultancy firm provides a range of services for individuals and businesses, including business advice, work-based qualifications, apprenticeships, training and development, employment and staffing. The services are funded by a variety of sources from the national governmental organisations to EU-level funding bodies. The company also works with communities through various partnerships with local authorities, colleges and universities, private training providers and voluntary and community organisations. In this area, their focus is on business development, research projects and evaluation studies, marketing and event management, programme and project management and community renewal and consultancy. They run training programmes from several offices in Greater London. In addition, they occupy office space provided by their partners to deliver products.

People are the core company asset: the team consists of experts in areas of enterprise, employment and skills development. In May 2012, the company employed 45 staff. The employee numbers fluctuate depending on contract value and the state of the market. They have had a drop to around 35 in the previous twelve months and predict that they will employ up to 70 staff by March 2013.

The company has been awarded a number of recognitions and has adopted various quality standards and systems to benefit both customers and staff. Their turnover has fluctuated from £3m (approximately €3.8m) to £5m (€6.4m) over a three year period up to 2012.

For this case study, the Managing Director (MD) and the Development Director (DD) of the company were interviewed.

The MD first joined the company in 2004 as its Commercial Director and has been the MD since 2005. He is the coowner and the major shareholder with around 60% of shares. The company has private investors alongside shares allocated for three Executive Directors.

The MD has two degrees: a joint degree in Computer Science and Mathematics, and a Masters degree in Philosophy, Public Policy and Economic Development. He has gained experience in all areas of economic and social regeneration during his 20 year long career in public service provision. He has operated programmes aimed at young people, business support, social enterprise development, and work-based learning.

Since joining the consultancy firm, the MD has actively reshaped the company, moving it into new areas such as brokerage, combining skills and employment, and developing deeper and broader partnerships and regional services in the Midlands and the South East of England.

During his career, the MD has been involved in restructuring in one way or another about every two years. This is inevitable when working as a service provider for ever changing public sector where programmes regularly emerge and disappear with changes of Government.

The Development Director has been with the company since 2003. During this time, he has progressed from various roles of Assistant Director into Director of Skills, Director of Skills and Employability, and Director of Operations. The role of the DD is to develop and win new business, generating income for the company to deliver. Moreover, he ensures that the transition from being successful with a new tender to making it operational is smooth. During his 12-year long career in this industry, the DD was involved in a number of small and major restructurings. He previously worked in multi-media design and IT training, owned a design company, and had also run a number of bars and restaurants. He originally trained as an architect.

The company has undergone a major change in terms of its service portfolio in recent years. From 2004 to 2007, public money for certain programmes dried up. At the same time, the organisations that they would previously help receive money or develop products for found it difficult to deliver and increasingly asked them to help deliver outcomes rather than design programmes that deliver outcomes. Above all, the money that was available for businesses doing contracts moved from programme evaluation and design, which are not outcome focused, to programmes that are entirely outcome focused. The company has therefore moved from providing design and evaluation services into delivery, reflecting the government agenda. Consequently, 95% of their services consist of delivery of outcomes in relation to jobs, apprenticeships, NVQs and business support, and the remaining 5% is evaluation work.

There is no works council and the company has no relationships with trade unions.

Background to restructuring events

The company has undergone two restructurings in recent years. The first, in 2008, was due to a combination of a management buyout and regional expansion which did not bring a commercial return and the company retrenched to London and their home markets. This was in part due to changes in government policy in the training and business support markets.

The focus of this case study is the second restructuring, in 2011, which was due to inefficiencies in the business and the key management not being capable to execute the new work that the company had won in new markets.

As the company entered new markets and changed its service portfolio from programme design to delivery, the existing personnel became less suited for the required work. According to the MD, this was not due to lack of skills or inability of staff to carry out the work; however, they were not necessarily the right team for driving and delivering outcomes. As a consequence, the company started to experience two negative trends: not reaching its potential in terms of turnover and profit and losing contracts value from funders.

At the same time, the company entered new markets in the post- 2010 general election period when competition was tough, market share was smaller and the money coming into the system was much smaller. As a result, larger firms in the industry were entering new markets because there was no work coming in from their usual streams. The present company, likewise, found it difficult to find contract value that was sufficient enough to keep the business going. And the contract value they had was not performing, partly due to the nature of the programmes, but also because they did not have the right team to drive performance in those areas.

In March 2011, the present DD moved a position and became the Operations Director (OD) to try and re-set some of the deliverables. Both the MD and the DD had a solid reputation. They had the organisational intelligence and market knowledge and so the MD took a chance at the time and promoted the current DD to OD. This however was going to be a short- to medium-term measure. The role of the OD was to manage staff and ensure smooth running of programmes. However, this did not work and from around September 2011, the MD started to feel that something was wrong with the positions of the OD and the Assistant Directors. At the time, the management structure of the company consisted of the MD, the OD, the DD, and Finance Director. Below the senior level, they also had three Assistant Directors in marketing, skills and employment.

Restructuring processes

In October 2011, the company appointed a new chief operating officer (COO), recruited from outside, with a background in programme delivery. Subsequently, the new COO and the MD looked closely at the business and decided to strip out the positions of Assistant Directors and restructure the company. The decision to restructure was taken by the MD in consultation with the Board and investors, with the aim to better adapt to their new markets and focus on outcome delivery. The restructuring, including planning, consultations with the Board, and implementation phase, took about two to three months to complete. The management developed a restructuring plan which was approved by the Board.

The Board consists of several members: the MD, two investors, and an independent chairman with no stake in the business to ensure that everything goes by the book. Besides the Board, they have an Observer who scrutinises their finances. According to the MD, there was some resistance from Board members during negotiations. There was some concern that the company was restructuring again and there was also nervousness about whether it would work. Moreover, there was certain nervousness and differences of opinion about retaining particular employees. Board members not involved in the daily running of the company had different views, as opposed to the MD who thought over how they can actually use existing human resources. In the end, the board came to an agreement. An alternative to restructuring would have been closure.

The restructuring event was about changing the way the business operates for the sake of the business. The company needed a new structure which had inevitable consequences for employment as seven posts were made redundant, including the three Assistant Directors. The company informed all employees by circulating letters on 23 December. This was clearly quite distressing, given that employees learned about the decision just before the Christmas break.

The company followed employment law and their own due process for handling redundancies; this involved consultations with the employees. According to the MD, some employees saw it coming but resisted and appealed against the decision. Eventually, the company signed a compromise agreement with all three employees. This was not a pleasant time for the company but it was necessary.

At the same time as making redundancies, new roles were being created through an open and transparent internal and external recruitment process. The redundant employees had the opportunity to apply for the new roles. One employee chose to apply and continues working at the company, two left and three employees were made redundant.

The new company structure includes two new Senior Operations Managers and a dedicated marketing division. The sales were moved directly under the operations management so there is a direct link into the delivery machine that then turns out the outputs as per contract requirements. The company increased the proportion of delivery done internally rather than externally through partnerships. By internalising delivery work, the headcount of frontline employees to management has shifted significantly. As a result of company reorganisation, they recruited twelve new staff who all received informal briefing sessions when they first joined.

Besides the mentioned negotiations, the MD and the newly appointed COO had a conversation with the OD about his role and decided to make that post redundant too. The MD thought that this employee had value for the business on the development side and was therefore offered the new position of the Development Director as he had the knowledge and experience required for the role.

According to the MD, as a small business, it is important that you have an approach to people and what they might bring to the business even if what they are doing at that time is not particularly useful. The company has tried to compromise and retain staff during this and past restructurings where a post became redundant but it was thought that an employee could bring a value into other parts of the business.

The cost of restructuring, including redundancy payments and compromise agreements, was around £20,000 (approximately €25,000), funded from the cash reserves of the company.

Challenges and constraints of restructuring

The MD notes that small businesses face problems when it comes to recruiting the right people. Some people want to see a progression fast or they join a bigger business. The family atmosphere in the small business with 50-60 staff is not for everyone, some people prefer a corporate environment and the company has to try and accommodate that. Recruiting the right people has been a great challenge. The company had been looking for a person with strong background and experience of delivery for about three years. They spent around £20,000 to £30,000 (approximately €25,000 to €37,000) on recruitment fees trying to recruit an Operations Director three times but failed because they could not find the right person. The company had to compromise on what they were really looking for. Besides the senior positions, they did not have the right team in place to drive delivery.

One of the challenges the company faced during restructuring were human emotions. There was a degree of employee resistance, anxiety and sadness. Communicating with staff throughout the process has been very important for the company. They held 1-2-1 sessions, regular briefings, team meetings and full staff meetings. They also had to think about how best to communicate to the market the changes made; what to say to partners and to funders. The MD addressed this by initiating a number of briefing sessions with major funders to explain that the company is now in the business of delivery and has therefore moved their teams to ensure that funders get what they want in return for their money.

The change of employment dynamics has created some tension between the culture that the new COO brought into the company – the crew of people he used to work with in previous organisations – and the pre-existing culture. To address this tension, they have done some work around certain ideas and preconceptions in order to bring people together. This involved a company quiz, role swap, IIP (Investors in People) implementation, old staff peer to peer with new staff, team away days and culture days.

Restructuring advice and support

Outcomes of restructuring

The restructuring of the company changed the way that the operations division was structured in terms of the teams, line management, and the resources assigned between programme delivery and management coordination. As a result, 90% of senior managers exited and a new team was put in place. The company now has more frontline staff and fewer in managerial roles. The new structure is made up of a Managing Director, Chief Operating Officer, Finance Director, and a Business Development Director. They have Senior Office Managers who take care of day-to-day delivery, and more frontline staff such as business advisers and guidance workers.

In May 2012, five months into the reorganisation, there has been an increase in performance in some areas, but it is early days to evaluate the outcome fully. There is a degree of uncertainty as some promises of where the company would be by this time have not been fulfilled. Moving the current DD from operations into business development has been beneficial; they have since won an £8m (€10.2m) contract in March 2012.The DD was instrumental in making it work and driving performance.

Both restructuring events in 2008 and 2011 resulted in staff reductions.During that period the employment number fluctuated depending on the contract value and changes to the market but the company was able to retain between 35-45 employees. As a result of the recent restructuring, two people left, three employees were made redundant, one re-applied for a different position and remained with the company and one was offered a different position. Some of the existing employees are still evaluating the recent changes and whether company aims will come to fruition. Time will show if they remain committed.

There is some cultural tension between the pre-existing employees and the twelve new staff that joined the company. The management have addressed this by organising quiz events, team away days and one-to-one sessions to bring staff together.

Turnover dropped initially by £2m (approximately €2.6m), and profit in the same proportion, but they are more stable in 2012. The company confirmed turnover of £5m (€6.4m) for the next three years and is in a healthier position. The MD predicts that in 2013 they have the potential to do very well; it will probably be their best year ever in the life of the company.

Overall, the MD concludes that restructuring was painful but necessary and as a result the company is in a much healthier position to face the markets in which they operate.

Commentary

The restructuring event described in this case study is an example of how a change in product markets can push a small company into restructuring. The cutbacks in government expenditure that have been implemented to cope with the deficit since 2010 have had a major impact on small company providers of public services such as this consultancy firm. With less money available and tougher competition, the company had to enter new markets.

Restructuring was a necessary reaction to changing markets. Entering new markets and adapting to the new requirements rapidly meant that the company survived and continues to grow. As a small company, the consultancy firm was able to benefit from their ability to adapt quickly, unlike many companies in their markets that closed in recent years.

With hindsight, the MD thinks that they should have implemented changes earlier when they crept into doing delivery. Instead, they decided to remain focused on their existing strengths which together did not work in the end. Despite this, the MD does not have any regrets about what they did and the processes followed. There are two important aspects to mention. First, the emotional response of human beings directly affected by the changes; and second, in the aftermath, the importance of linking people left behind, who go through a sort of grieving process, together with the new people who join the company.

This restructuring affected the DD more than any previous restructuring events due to the non-performance to the required level in his previous role as the OD. Appointing him to that role was a compromise not only for the company but for him personally. At the time, he was not 100% confident that the role was right for him; he feared that it was not really what he should have been doing. His strengths are in business development which is where he moved eventually and has been successful since. The DD notes that restructuring is a necessity. Markets are never stagnant, they change, and SMEs therefore need to react and find new markets. Market change drives restructuring and SMEs arguably need to restructure more often than large businesses. Even minor restructuring can have a greater impact within an SME but SMEs should not be frightened of it and should seek external advice and guidance if they do not have previous experience of restructuring.

As time moved on and there was a greater demand for programme delivery, the consultancy firm also had to move on and therefore the structure of their business had to change. Within that structure, changes were made which inevitably had implications for employment at managerial and other occupational levels. A number of staff left, some moved into different positions and some were made redundant. At the same time, the company recruited new staff with skills and experience that would match the new focus on delivery. In that process, they lost the intelligence, knowledge and experience of people who had worked at the company for years. There has been a change in company culture as a result of tensions between incumbent employees and new staff; however, the company is putting time and effort into trying to bring people together and ensuring that people know the company culture.

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Information sources

Interview with the Managing Director and the Development Director

- European Monitoring Centre on Change - EMCC
  - About EMCC
  - European Restructuring Monitor
    - About the European Restructuring Monitor
    - Restructuring events database
    - Restructuring support instruments
    - Restructuring related legislation
    - Restructuring case studies
    - ERM publications
  - European Jobs Monitor
  - Labour market research
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  - Future of Manufacturing in Europe (FOME)
- European Observatory on Quality of Life - EurLIFE
- European Observatory of Working Life - EurWORK

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