Eesti Finantsteenuste Agentuur, Estonia

- Type of restructuring:
  Merger/Acquisition
- Employees before restructuring:
  10-49
- Employees after restructuring:
  10-49
- Nace/Sector:
  Professional services
- Country:
  Estonia
- Date:
  16/02/2012
- Keywords:
  Recession/Crisis

Abstract

This restructuring case involves the merger of two small financial services companies: one lacked skilled labour but had extra office space; the other had a surplus of staff and hence needed extra space. A merger was seen as a quicker, more cost-effective way to grow than recruitment of new staff, saving time and resources on training and bringing the new person up to full capacity. The larger company brings greater specialisation and hence more opportunities for development. The management feels that their biggest mistake was not to publicise the merger more effectively, hence missing out on potential business opportunities.

Organisational profile

On 5 January, 2011 Eesti Finantsteenuste Agentuur (EFTA) was founded, a result of the merger of two companies: Assets RMP OÜ and ADEX Financial Solutions OÜ. Both the former companies as well as the newly formed company provide financial services (accounting, financial advising, and legal advice). The company has about 26 employees and is managed by three owner/managers: Ellen Tohvri, Kaire Lukkanen-Jaas and Mirje Trumsi. Most of the employees are young women (about 25–35 years old) with higher education. There is no trade union or works council in the company. The company has offices both in Tallinn and in Tartu, the second largest town in Estonia.

Assets RMP was founded by Ellen Tohvri in 1991 (the same year Estonia regained its independence). Ms Tohvri graduated from the University of Tartu in the field of economics. Over the 20 years, Ms Tohvri has from time to time worked for other companies as financial manager and CEO, but she has still always worked for Assets. These experiences helped her collect knowledge and skills she could not have obtained otherwise. Still, she had no former merger experience. Since 2006 she has been working full time in Assets again. In 2010, Assets had 15 employees.

Adex was founded by Kaire Lukkanen-Jaas and Mirje Trumsi in 1999. Both owner-managers studied law at the University of Tartu and economics at Tallinn University of Technology. They started their own business soon after graduation. Compared to Assets, Adex was smaller in terms of manpower (11 employees in 2008; six employees in 2010) but was developing very quickly in the field of e-accounting. The financial indicators of the two companies did not differ greatly.

Background to restructuring events

Business Register data shows that in 2008 1,842 companies provided accountancy services in Estonia and total turnover of the market was € 56.3 million. The market is very fragmented and even more self-employed accountants emerged during the economic recession because of the very high unemployment rate.

Neither Assets nor Adex had to struggle for existence but they still faced several challenges. Ms Tohvri felt that she did not have the time and energy to cope alone with all the main activities of the company – sales and marketing, internal processes and IT. Internal processes were well developed in Assets – for example it was ISO 9001 certified – however, in the area of IT the company had some gaps. In addition, Assets had lost some of its clients, not to competitors, but because they ceased to exist. In this situation, Assets had excessive resources in terms of qualified accountants. At the same time, Adex lacked employees.

The managers of the two companies met while preparing the foundation of the Association of Estonian Accounting Firms (ERPEL) in 2010. They soon found several opportunities for cooperation. As mentioned previously, Adex was lacking skilled labour and Assets had more resources than needed at that moment. Also, Assets had to find new space for its office in Tallinn and Adex had some extra space.

In addition, Assets was eager to develop in the field of e-accounting, but unfortunately their software did not support its endeavours. They used the international programme Hansa which they found expensive to continuously upgrade and new solutions a little slow to emerge. Adex was more advanced in this respect, using paperless accounting systems and the internet-based programme Directo. E-accounting is gaining more and more popularity in Estonia, partly because of very bold steps taken by the Government. The Estonian programme Directo uses the most up-to-date technology and is able to respond to client's additional needs quickly enough. In addition, it enables 24-hour access to the data independent of the location and is not too expensive (it is leased by clients).

One of Assets' key resources was the well-known Ms Tohvri, with her extensive social network and useful contacts, which were attractive to Adex.

As the cooperation ideas grew, the owners of Assets and Adex understood that both companies had different strengths and weaknesses and together they could add value to each other. Consequently, the cooperation plans grew into the idea of a merger. To be precise, Ms Tohvri had already thought of a merger earlier, but had not started to look for a partner yet. In her opinion, a merger is a less costly and quicker way to grow than growing step-by-step on your own. The reason lies in the fact that after hiring a new employee it takes time before he or she becomes efficient. Usually the existing clients do not provide full-time work for a new accountant, so they need to find ways to sell their services for the remaining time. All in all, it usually takes a year before the new employee becomes fully trained to do their job efficiently. Therefore, Ms Tohvri felt that a merger would be a wiser choice especially considering the fact that she felt she also needed competent help at managerial level. So she was to a certain extent prepared for the merger, at least, psychologically, and had no specific fears, although she admits that integration always involves risks if you have single-handedly led the company for a long time.

Finally, the decision to merge the two companies was made in August–September 2010. From Assets' side, the decision was made solely by Ms Tohvri. In her opinion, employees usually have more fears and if they were involved in the decision-making process there would have been a serious risk that the process might be delayed too much and probably not end with an agreement at all.

Restructuring processes

No written plan was laid down during the preparations for restructuring besides the most important dates. The process itself was very quick – the decision was made in August–September 2010, in November 2010 Assets' Tallinn office was moved to Adex's office and on 5 January 2011 a new company was established. The need to move out from Assets' Tallinn office sped up the process a little – it was not feasible to move to a temporary office for a short while in-between.

Ms Tohvri believes that integration could have been quicker if they had planned the restructuring event in more detail. At the same time, they would not have been able to foresee all the risks. Also, the process was so quick that a formal plan would have been obstructive. In reality, the process was managed intuitively. Development manager Ave Sepik agrees that if they had had a more determined schedule and mid-term deadlines for specific steps of internal integration the process could have been faster. In reality some of the external deadlines, such as introduction of the euro, pushed the process.

Employees were informed when the decision was made in September 2010. At the end of October, all personnel from the two companies gathered in a location outside the town for the whole day to get acquainted and plan the future. Ms Tohvri admits that the management could have involved employees more in the preparations, as although it shared information the employees felt it was not enough. Ms Sepik agrees with this, but at the same time admits that in Assets the management board level, who could have been the partner to the owners, was missing. Therefore it made sense that employees were more actively engaged in specific issues concerning their everyday work.

Preparations included the decision about the future name of the company. Still, it was not the object of hard discussions as all owners agreed that the company needed a new name as they wanted the merger to be made on an equal basis. If one of the existing names had been chosen, it could have been interpreted as one of the companies swallowing the other.

The introduction of the new organisational structure was one of the most important steps in the process. Assets was formally managed solely by Ms Tohvri from Tartu where the head office was located. Every day work of the Tallinn office was managed by its own manager. According to the new structure, EFTA is led by three equal executives, each of which is responsible for a specific area. The division of labour was decided at the early stages of negotiations based on previous competences and specific strengths and weaknesses of each owner–manager. The decision was made quite quickly without protracted negotiations.

Although the company has two offices, one in Tallinn and the other in Tartu, it no longer has separate managers. For example, Ms Trumsi works in Tallinn and leads the internal processes both in the Tallinn and Tartu offices. Ms Tohvri works in Tartu but is responsible for sales and marketing for the whole company.

Changes in management were accompanied by changes in work methods. Now the whole company offers e-accountancy services and uses digital information systems. For this reason, employees of the former Assets were trained to use Directo by the providers of the programme. In addition, manuals were written on how to use eArvekeskus (e-Invoicing Center) which enables enterprises to exchange invoices electronically and also to process and store them electronically.

As everyday work is internet-based and paperless, the actual location of an accountant does not matter anymore. New clients are given to the employee with the least workload, irrespective of the location.

Challenges and constraints of restructuring

The changes in work methods quite heavily influenced the everyday work of all the employees. Due to the introduction of e-invoices, there was no need to input the information from paper invoices anymore. Employees who used to do this kind of work had a challenge to cope with more demanding work assignments. No special training was offered for this reason but they could use guidance from coworkers and management. The process ended with the firing two employees who were not able or willing to take the step forward. They were replaced by two new accountants. Also, the secretary of one of the former companies was laid off because one secretary could satisfy the needs of the new company.

A couple of employees did not settle into the new situation and left the company a while after the merger. They were not replaced one-on-one by new employees. Thanks to e-accountancy, a lot of the accountants' time was saved which allowed them to undertake more work and clients. In this way, higher productivity growth was achieved.

At first, employees were naturally confused by the whole process. Also, the managers had to get used to the new division of labour. Now and then orders given by managers were contradictory as they had not consulted each other. The situation was more complicated because one of the owner-managers left for maternity leave at the end of 2010, just at the time of the merger, returning in September 2011 after the merger was completed. Therefore, employees saw the situation changing twice. At first they operated temporarily with two active owner–managers who tried to fill in for the third owner–manager. After the maternity leave the responsibility areas were divided again among owner–managers and the former Assets employees had to get used to a new manager again.

One aspect which nobody could foresee was the fact that in some ways it was not a merger of two but rather three companies. Assets had two offices with (to a certain extent) different cultures and habits. In reality, employees of the Tallinn office adjusted to the new company and its managers quicker as they worked at the same office with two new (Adex) managers. Adjustment of the employees in the Tartu office took a longer time, partly because they were used to working in the head office of a company. Only by September 2011 had the employees noticed that in everyday work they no longer called each other 'we' and 'you' but rather only 'we'.

The most serious mistake made was related to notifying the wider public of the merger, according to Ms Tohvri. All the partners were too occupied with their everyday work and did not plan the presentation of the new company seriously enough. Only a new homepage was created which has been in a temporary state for over a year. They published the news on their homepages but it was not picked up by media channels. Therefore awareness of the new company remains quite modest. It confuses both the existing and potential clients who still talk about Assets and Adex. Also, it would potentially have been news for large media channels as the merged company is the fourth or fifth largest in the field of financial services. This situation, if well exploited, could have been cheap marketing for the new company. Now it takes extra energy to introduce the new name of the company to the public. Apparently, a well-prepared merger plan would have also included carefully planned awareness-raising events. In other words, elaboration of the merger plan would have made the managers to think through the merger from the start to end.

Restructuring advice and support

The merger did not require any notable investments. All of the employees continued their work, although in new circumstances. Therefore, they did not need external support either. Ms Tohvri believes that external consultancy could be useful if the process is more extensive or involves several fields of activities.

Outcomes of restructuring

Today, the economic performance of EFTA is about the same that Assets and Adex had before, if added together. EFTA was expected to attract new clients faster. Apparently both the economic conditions as well as lack of awareness-raising activities could be blamed for this not being the case. Assets' turnover used to grow 25% per year. During the economic boom many new enterprises were founded which helped Assets to grow quickly. Understandably, the same growth rate should not be expected today although a 25% growth rate has also been set as a goal for EFTA. In any case, EFTA is ready for it. At the moment, opportunities to offer financial services to local municipalities are being explored and tested. This could serve as a new growth path.

Ms Tohvri feels more secure as she is supported by internal partners who take care of the processes inside the company, as well as by well chosen external partners. In these circumstances, it is easier to sell its services to local municipalities, for example. She feels she does not sell herself so much anymore but rather the whole agency.

Although the company turnover has not grown much yet, Ms Tohvri believes that internal integration has been more active and deeper than she envisaged.

Also, the number of employees has stayed approximately the same as the two companies added together. In January 2011, there were 26 employees including five on maternity leave; 29 employees (three of them on maternity leave) in January 2012; and 24 employees (three of them on maternity leave) in summer 2012.

For the employees, the whole situation has changed greatly and, according to development manager Ms Sepik, without a doubt in a very positive way. Today employees have, for example, more training opportunities, partly because the larger company can afford more and partly thanks to membership of the Association of Estonian Accounting Firms. Also, the larger company brings about specialisation and offers more opportunities to develop and make a career inside the company. Some employees were offered new and more demanding positions. Also, Ms Sepik believes that although wages have not yet increased they should do in the longer term as a result of the productivity growth.

Commentary

This case describes the merger of two small companies providing services. These companies did not receive any advice or financial support for restructuring. As the merger did not require notable investments they did not need any external financing either. What they lacked was know-how. The owners had not experienced any mergers before and did not prepare for the merger thoroughly either. Consequently, they also made mistakes which could probably have been avoided if they had thought through the event in detail before starting the merger.

Although Ms Tohvri did not see the need for consultancy, it could probably have been useful. The cost of a small-scale external consultancy would not have been an obstacle for them either. The use of external consultancy is generally very modest in Estonia for several reasons, such as low awareness of the usefulness of the service, inability to pay for the services and lack of experienced consultants. Consequently, even if public support in forms of free consultancy would have been available, for example for companies considering a merger, without extensive awareness raising activities the take up of the service would apparently be low. Small companies could benefit from well-prepared free materials on how to manage a merger, including the most common mistakes with examples.

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Information sources

Interviews

Ellen Tohvri, one of the owners and managers of EFTA and Ave Sepik, development manager of EFTA (former employee of Assets)

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http://www.efta.ee/

Secondary sources

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