EMCC European Monitoring Centre on Change

Sanako, Finland

- Type of restructuring:
  Internal restructuring
- Employees before restructuring:
  50-249
- Employees after restructuring:
  10-49
- Nace/Sector:
  Information / communication
- Country:
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Abstract

The restructuring in Finnish digital language lab company Sanako was aimed at reorganising its business functions and diversifying its product portfolio. Despite the redundancies which were a necessary part of the cost-cutting process, the CEO has put in place a remuneration system to motivate current employees towards the development of the company, with 15%–30% of the company's profits to be shared among the employees.

Organisational profile

Sanako Corporation is a company that develops language learning solutions. Sanako's products and services include software and hardware-based digital language labs for classrooms, cloud-based solutions for virtual environments, flexible content integration and training modules, as well as consultation. The aim of the company is to enable language learners to speak and understand language better and to have good communication skills. Sanako's history dates back to 1961, when the first Tandberg language lab was produced. During the 1960s and 1970s, Tandberg grew and became the global leader in language labs. The educational division of the company was acquired by Teleste Corporation in 1984. In 2003, Sanako was born as a spin-off of Teleste.

Sanako operates internationally. The company has two offices in Finland: in Espoo and its headquarters in Turku. In addition, it has subsidiaries in India, the UK and the USA, and representation offices in China, Dubai and Mexico. Sales also take place via a worldwide partner network. The markets are divided rather evenly across Europe, Asia, and North and South America. Only 2% of Sanako's sales come from Finland.

The company employed 48 people in March 2012. About 25 employees work in Finland and the rest abroad; 90% are male and 10% female. Women work mostly in finance and administration and men in product development and sales. Most of the employees have a higher education degree (bachelor's or master's), typically in engineering or business.

The current CEO Tobias Elgh joined Sanako in June 2011 as sales director. In September 2011, he was promoted to CEO after the growth strategy of the company had failed. Elgh's task was to make the company profitable again and put it back on the path to growth. Sanako is privately owned, with equity investment from a group of varied investors. The CEO does not own any shares in the company.

There is no works council present in the company, but there are two shop stewards representing the employees. The shop stewards serve as local negotiators, conciliators and channels of communication between the employer and the employees. Shop stewards have been involved in the restructuring procedures related to dismissals (codetermination negotiations). This is required by the Act on Cooperation within Undertakings (or YT Act) applied in all businesses with a regular staff of at least 20 employees in Finland.

Background to restructuring event

Sales as well as the profitability of the company decreased greatly during the global financial and economic crisis. Neither Asian nor European markets maintained the demand Sanako expected. The political situation in certain countries also had a direct influence on Sanako's business where they were selling to ministries of education. For example, the company expected to have major projects from Egypt and Libya, but due to the unstable situations in these countries no deals were made. At the same time, Sanako's focus shifted from hardware to software, which in turn decreased the price per sale. Therefore, bigger projects became even more important for the company. The CEO considers it impossible for the company to grow with their current offering. There has been a declining trend in the sales of hardware-based digital language labs. If not enough compensating products are offered, sales growth is impossible.

The turnover of the company had remained reasonably stable, at a level of €10–11 million, from 2005, but in 2011, turnover dropped to €7.8 million. At the same time, fixed costs increased to €7.5 million. The first unprofitable year in company's history was 2010, and 2011 was even worse. The whole company was built for growth, and it had expected to grow by 40% from 2010, resulting in a turnover of €40 million by 2014. Many investments in new markets were made, and new employees were recruited (resulting in the increase of fixed costs), but growth did not ensue. In order to improve the cost-efficiency and create more synergies, the restructuring process was started.

Restructuring processes

The restructuring in Sanako is related to reorganisation of its business functions and product portfolio. Previously, the sales and marketing organisations were located around the world. There were two sales organisations, one for projects and one for 'normal' sales. Projects refer to custom projects done jointly with national governments and ministries of education, where Sanako takes care of planning, financing, installation, user training and support. Normal sales refer to smaller-scale sales of the company's products. Each subsidiary and representation office was responsible for its own marketing. To achieve greater cost efficiency and to promote more synergies, these activities, along with financial services, have been integrated and are currently centralised in Finland. A service centre has been created in Finland, which serves the subsidiaries and partners abroad. Previously independent subsidiaries are now operating as sales companies. Centralising the financial administration and sales and marketing organisations in Finland was done during 2011. The business operations of Sanako are now reorganised into three functions: 1) business services (financial department and back office), 2) product and service production, and 3) sales and marketing.

Product development has always been led by Sanako headquarters, but reorganisation has also taken place there. Some product portfolios have been terminated, and due to this, some employees have been let go. The focus has been directed towards the development of new products in the form of cloud-based services. This will change the revenue generation model of the company. Whereas customers previously paid once for the hardware, they are now paying annually for services. The old products are currently in maintenance mode; as long as they are selling, they are kept in the product portfolio. The aim is to launch three to six new services per year. The company has a separate unit of product designers, who are responsible for designing new products and services. Within three to five years, the company should have found a service that can replace the hardware-based language labs, as they are coming to the end of their life cycle. The renewal of the product portfolio started at the end of 2010 and should be finished by the end of 2012.

Cutting all kinds of costs has been central in the restructuring done in Sanako to build a healthy basis for the business in the future and to make the company profitable by the end of 2012. All cost items have been reviewed and even small costs are cut. One example of this is ending coffee machine rental. In addition, the number of management team members has been cut from nine to three. All the former members of management left the company, so the current management team consists entirely of 'fresh' faces.

The biggest cost-saving was made from redundancies. The management also looked at options to make some working time adjustments, such as short-time working and compulsory paid leave, but these were not considered sufficient. The company had two codetermination negotiations resulting in lay-offs, the first in September–October 2011 and the second at the turn of 2011–2012. The process was carried out according to the regulations of the Act on Cooperation within Undertakings. There were meetings every few days. The second time, the process was much faster (the minimum time was two weeks as the number of people dismissed was fewer than ten). At the time of the second codetermination negotiations, the new collective agreement took effect. An across-the-board increase of 2.4% in salaries, a standard annual raise varying slightly in size, was included in the agreement. There was a possibility to negotiate a lower increase or no increase at all, but the employees did not accept the offers made by the employer.

One alternative to the restructuring was outsourcing the financial administration. A proposal was requested, but it was impossible to implement it in the timeframe set by the board, that is, by the end of 2011. The CEO also considered selling one of the product portfolios that had been profitable for the company and making the company solely a software business. Both of these options are still possible. However, currently the focus is on stabilising the business and gaining back the trust of the employees.

The CEO has had the main responsibility for the costs savings and strategic renewal. The CEO examined all functions thoroughly and interviewed employees all around the world to get to know the company and to identify the functions where savings could be made. He also listened to employees' suggestions for potential cost savings. Employees were encouraged to share their views in meetings and via e-mails. After that, the CEO made a written proposal regarding cost savings to the board, which accepted it. The employees were informed of the codetermination negotiations a week before the negotiations started, following the YT Act.

Challenges and constraints of restructuring

The biggest challenge was related to change management. The news about the dismissals was a shock to the employees. It was the first time they had experienced such an event, and they did not know what exactly was going on. As the codetermination negotiations affected the whole staff, there was huge uncertainty about future employment among the employees. The lay-offs had a crippling effect on employees' performance for a long time after the decisions were made.

Restructuring advice and support

The CEO has had the main responsibility for the costs savings and strategic renewal, but he has worked closely with the board and has been able to share ideas with the members. The CEO's own support network, mainly his friends, relatives and other business contacts, has also been important. No financial or non-financial support has been received for the restructuring. The CEO considers that this is partly because there is not enough information about available support for SMEs. The company has received financing from Tekes (the Finnish Funding Agency for Technology and Innovation) for development of the service business, but this support is applied continuously and it is not directly related to the restructuring.

Outcomes of restructuring

As a result of the restructuring, the company aims to reach a turnover of €9.8 million in 2012 and cut fixed costs to €5 million. Before the restructuring, the company had around 74 employees, and of these, 26 were let go; 60% of the lay-offs took place in Finland and 40% abroad. In Finland, employees in all roles were let go, whereas abroad employees were reduced from marketing. There is still potential to reduce employees in India or China. The company now operates on quarter-year basis, and if the budget is not balanced, new restructuring will be considered, but mainly in the units abroad.

When the announcement of the first codetermination negotiations was given in September 2011, the reactions of employees were mainly disbelief, anger and fear for their jobs. Sanako had been considered a stable workplace, and the communication from the former management team had not given any clear indication about the company's problems. In the beginning, there was a confrontation between the employees and the employer. The second time was easier, but the employees still found it very hard to believe: 'Wasn't the first time enough?'

The current management has paid a great deal of attention to open communication with the personnel. Monthly meetings are organised, where topics such as sales development and cost levels are presented. Regular e-mail notifications are sent to inform the personnel about topical issues. This is important as the management team is in Espoo, although they visit the headquarters every week.

The trade unions have been informed about the restructuring via the shop stewards. Also the reseller network has been informed, as quite a few of the contact persons changed in the process.

The CEO has reviewed all the tasks of each employee in order to better know the company and to see if everyone is doing relevant tasks. As a result, the responsibilities of five employees have been widened. Three people have received a small increase in salary. One person agreed to have a pay cut. It has not been possible to offer any training to the employees. This is unfortunate, as training is needed in the company, but the company cannot afford it.

At first there was some confusion about the roles and responsibilities of each person. When interviewed early in 2012, the CEO believed that it would be a year of getting used to the new ways of working. The workload has increased for everyone, with the same amount of work having to be done by fewer people.

It is too early yet to know if the restructuring will lead to burnout, but the workload and stress levels have been high, especially among employees in financial administration. The codetermination negotiations happened simultaneously with the financial reporting of the company.

The employees have also been able to suggest costs savings. This has been a good way to motivate people and to improve the work atmosphere. One idea suggested by the employees was to get rid of the extra office space in the headquarters after the lay-offs. The previous office space of 1,000 square metres has now been reduced to 500. Moving to new workstations acted as a symbolic new start for the business that has been built by all the employees jointly. Also a remuneration system has been developed to motivate the employees towards the development of the company, and 15%–30% of the company profits will be shared among the employees.

The restructuring process has been a great learning process, although a very tough one, for the CEO. He came to the company to grow the sales and ended up addressing totally different tasks. As he was quite new in the company, it may have been easier for him to make rational and more analytical decisions, because he was not yet that emotionally attached to the people in the company.

Even though the restructuring process is still ongoing (the renewal of the product portfolio) and all the decisions were made quite rapidly, the CEO considers the outcomes positive for company profitability and also for the personnel. Costs have decreased, and sales have started increase compared to last year. The CEO says he has received positive feedback from the employees. Everybody understands now that the restructuring was necessary, although painful, to keep the company alive.

Commentary

SMEs are able to react faster to changes in the markets, but sometimes it can be hard to find the best people to implement a restructuring plan, as there are not that many people to choose from. Not all employees are able to act as change agents in the company.

The CEO of Sanako recommends other SMEs going through restructuring to carefully follow market trends and to react to them. It is important to analyse rationally the strengths and the weaknesses of the business and try to turn the weaknesses into strengths. He considers that if a company is not profitable, something needs to be done, and the sooner the better.

A personnel matrix recording the strengths and weaknesses of each employee is a useful tool for restructuring. It makes it easier to find a back-up person for each employee and to transfer employees from one task to another when needed. This is especially important if the company has gone through codetermination negotiations, as they are not allowed to recruit new employees for nine months after the negotiations.

The public support available for SME restructuring should be promoted more. It should also be easily accessible because in a time of crisis, SMEs do not have extra time to spend on the application procedures. Restructuring often demands cost savings and, therefore, support must not be expensive.

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Information sources

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