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Ödeshögs Mekaniska, Sweden

- Type of restructuring:
Internal restructuring
- Employees before restructuring:
50-249
- Employees after restructuring:
50-249
- Nace/Sector:
Manufacturing
- Country:
Sweden
- Date:
01/03/2012
- Keywords:
Recession/Crisis

Abstract

This Swedish metal engineering company suffered badly when orders dropped by a third due to the crisis. The inflexibility of the Swedish law meant they had to lay off those with the most important skills for the company survival. The experience has made the company more cautious when hiring new staff. Additionally, it outsources more to be more flexible in the next crisis.

Organisational profile

The company Ödeshögs Mekaniska was founded in 1986 and initially was a one-man company located in a garage. The founder had the vision to start up an engineering workshop where clients could order what they needed. He bought part of a field and built his enterprise – Ödeshögs Mekaniska. Soon there were three employees and later on the company grew.

The business is metalwork, from the raw piece of metal to the finished component, all produced according to the customer's requirements. The employees all are specialists within their fields such as metal cutting, Computer Numerical Control (CNC) and welding. The business idea is to be a subcontractor of components, not to produce products for final use.

In 2002 the firm invested in new premises, buying properties from the municipality of Ödeshög, which had formerly been used by SAAB. At this time it had 20 employees. The company continued to grow and in 2007 after making further investments in buildings it grew fast, from 50 employees to 75. When the company was experiencing its highest production levels there were 75 to 79 employees and, in addition to this, it hired temporary personnel from staffing agencies and used services from one-man subcontractor companies.

Ödeshögs Mekaniska works as a subcontractor for many clients but has no branches or outlets besides its plant in Ödeshög. The founder and sole owner of the company is still the CEO and today it has about 55 blue-collar workers and ten white-collar workers. Just around 14% are women

and the average age is 44 years old. The business does not export or work actively with international clients; however it is a subcontractor to many clients with international businesses. Before the financial crisis, in 2008, the business was directed more towards local customers than it is today. Now it is subcontracting for several clients at national level in order to diversify risk and not be dependent on a few, large, local customers.

Karin Claesson came to the company in 2007 after working as a teacher in a high school. She became human resources manager, a position that formerly had not existed. Before her appointment, the production manager had been responsible for issues concerning the personnel. Ms Claesson has a university diploma in pedagogics, and when she started her new job in 2007, she immediately became involved in improving the work atmosphere.

The company has a Human Resources Social Responsibility strategy that was developed before the restructuring in 2008 though it has now been developed further. Ms Claesson, who was hired when the company grew rapidly in 2007 started to create a plan to involve employees more in the company and to become aware of their vision. She has developed a system where she has a yearly planning and development conversation with every employee. This is done in order to get input from everyone and to anchor development within the company among the employees. Conversations have had different themes and groups have been formed within the company to involve employees more.

The company has an agreement with the trade union IF Metall. However, IF Metall does not have a local trade union branch at the company. Therefore during negotiations concerning dismissals it has, in keeping with the law on co-determination, to invite a representative from IF Metall's central organisation. Only one IF Metall representative is present during negotiations.

Background to restructuring event

In June 2008, Karin Claesson wondered if the company was going to be affected by the recession, as other companies had been during the year. At the beginning of November, she thought the company had avoided the worst part and would not have to give any notices to employees. Then overnight the phones stopped ringing. The firm realised that it was not getting any orders and that the financial crisis had finally reached Ödeshögs Mekaniska.

Back in 2008 the company was dependent on two large customers. When these customers dipped during the financial crisis, they took Ödeshögs Mekaniska with them.

Restructuring processes

The restructuring started in December 2008. Company assets had fallen by 30% and there were no other options than to give notice to employees even though the firm didn't want to do this. It waited a bit too long to make the decision since it was optimistic, hoping to find an alternative to announcing redundancies. It gathered all of the employees together to announce the restructuring necessary in order for the company to be able to survive. The process was fast when the board finally, after negotiations with a trade union representative from IF Metall, took the decision to give notice to 18 people. In December 12 employees had to leave, with an additional six leaving in April. In addition, one employee retired during this period; no-one else left voluntarily. Before the crisis, there had been a high turnover in employees, with many new workers recruited in 2007. This meant many staff had only a short record of working for the company. Since they had the fewest years in the company, they were the ones asked to leave as an effect of the Swedish law concerning employment security (*Lagen om anställningsskydd*). The notices were based on the law of 'last in, first out'. The negotiator on behalf of IF Metall was very firm on this matter and this speeded up the restructuring process.

During the negotiations Karin Claesson and the board tried to negotiate around the rules, explaining they had objective reasons for giving notices to employees in certain units and to retain the welders, since they were needed for the production. The negotiations led nowhere since the negotiator on behalf of IF Metall was very difficult to convince and showed no understanding. He was convinced the reason for keeping the welders was a personal one and not business. According to Karin Claesson this was not true, but finally the company had to accept this and give the welders notices.

Since she had worked to improve personal contact with the workers, this made the contact during the restructuring process easier since they were able to discuss difficult matters.

As mentioned, Ödeshögs Mekaniska waited a bit too long before it finally took the decision to give notices and commence the restructuring. The workers had to make sacrifices during this period. Some had to work extra while others had to sit around waiting for orders to come. Nevertheless, everyone had been aware of the situation due to the conversations they had had with Ms Claesson and the board, and due to the meetings that had been held.

Challenges and constraints of restructuring

In 2007, Karin Claesson had been searching for specialists in welding since this competence was hard to find within the region and there was much competition between companies to attract these workers. She had just hired welders when the crisis struck Ödeshögs Mekaniska and many of their production sectors were left without work, although the welding unit still received orders. Since she had recently hired the welders, this became a problem during the restructuring since, according to the Swedish law concerning employment security, the workers who enter the

company last are the ones to leave first. So, when the firm realised it had to announce redundancies it had to follow this law and give notices to the recently hired welders, even though the company was still getting orders.

Since the company had fewer welders than welding orders, those welders still employed had to work even more and this was challenging. Also, cleaning personnel had to leave due to the rule, causing a negative work environment. Meanwhile, other units in the company still had workers but no orders. The firm tried to deal with this challenge by cutting the night shift but were not able to move workers from one unit to another since particular skills were needed in each unit and specialists couldn't just be replaced by other workers. Neither was the firm allowed to hire the skills it required during the restructuring period. Everyone had to work harder, since 25% of the workforce left in this period. The remaining welders had to work double shifts which was hard, but this probably saved many jobs in the end.

The experience of December 2008 meant the process was easier in April 2009 when the second round of notices was given. This contributed to better negotiations. In April the company had a younger and more understanding IF Metall negotiator who had more experience of working with businesses and was easier to negotiate with. This made a great difference to the company's chances of survival.

Restructuring advice and support

During the restructuring process, the company used support from the Safety Fund (*Trygghetsfonden*). With this support it was able to give former employees coaching and help in finding new jobs. The employees that were given notice also got support in trying to find new jobs from the coaching company, Startkraft, a private company financed by Trygghetsrådet and thereby drawing on 35 years' experience of restructuring work in Swedish industry.

Another source of support was tapped when one of Ödeshögs Mekaniska's clients was visiting subcontractors asking if anyone was interested in joining a European Social Fund (ESF) project where they could invest in strengthening their skills. This led to the company applying for and receiving SEK 860,000 (€ 97,233) from the ESF to invest in employee training. Since business was slow at this stage, this was the perfect opportunity for the company to send its workers to improve their knowledge in their respective fields. Previously, the education budget had been very limited. The company gave this opportunity to prominent employees, allowing them to develop their skills within welding or other specialised metalwork and hopefully stay longer. The project was called IUC Öst and the result has been an entirely new way of thinking. This has been a great improvement for the company and the workers have appreciated the investment in their competence. Education has become more important within the company which formerly was more production-oriented.

Karin Claesson calls for more public support regarding counselling and guidance in restructuring. For instance, it would be helpful knowing which consultants to use and what coaching agencies to recommend to workers. After the crisis and the resultant redundancies, the company used coaching companies and found this really helpful for former employees. However, during the past few years, a lot of bogus coaching companies have emerged and Ms Claesson is calling for more control of these companies in order to ensure companies such as Ödeshögs Mekaniska get the right support during restructuring. The company Startkraft were recommended to them by the trade union IF Metall but further advice on this is requested in order to make the right choices in investments during difficult times.

Outcomes of restructuring

In 2008 the company hit bottom; now it is recovering step by step. It still experiences effects caused by the crisis and its business still has not recovered completely. One effect on the company is that it has become more aware of the financial situation on the markets and more observant of cyclical fluctuations within the economy. Today the workers and the entire company are more aware of the importance of product quality in order to prevent future problems. The employees are more involved and understanding when it comes to changes within the company.

Ödeshögs Mekaniska did see signs before it reacted and could have initiated the process faster. Karin Claesson believes it could have foreseen the problem earlier if it had done an analysis of the global financial situation and acted more proactively. Today managers talk about these issues and discuss the situation in Greece, Germany and China and how it can affect their business. This was not the case back in 2008.

Today 14% of workers are women and the average age is 44 years old; before restructuring 22% of the workers were women and the average age was 40 years old. Many of the younger employees in 2008 were the ones that had to leave during the restructuring, which has made the average age of the workforce higher today than it used to be. Before restructuring the company had 65 blue-collar employees and ten white-collar employees; today there are just 55 blue-collar employees left.

Karin Claesson had, before the crisis, focused on creating teams and had frequent meetings to unify the workers and create a good working atmosphere. When the notices were announced, the employees were not angry, just sad at having to leave the working team. The ones who left the company continued to visit and the door was always open to them.

As has been mentioned, Ödeshögs Mekaniska used the coaching company Startkraft in order to motivate and help those employees given notice to get new jobs. One employee got a new position at another company right away, another was at retirement age. However, most were young and no-one was willing to leave voluntarily, however they did not blame Ödeshögs Mekaniska as they knew there were no other options.

Looking back, the restructuring has had a positive impact on the company. Today everyone is more aware of the vision of the company and the work atmosphere has changed for the better. The education opportunity arising from the ESF financial support has created an incentive for

workers to improve their skills. Meanwhile the company has gained from the improved skills and innovation opportunities have increased due to this investment. Also workers that improve their competences are more likely to stay at the company which means the workforce is getting more stable. Employee turnover is nowhere near what it was in 2007.

The company has also become more careful when employing new workers since it knows it might be difficult to go through another restructuring. Today, it hires workers only after a period of testing and supervision. It also outsources a lot more today than before, using staffing agency personnel, who might be recruited later on a permanent contract when the company knows it can rely on this employee and his/her competences.

Today the firm has better links to trade unions than it did during the restructuring. If it could change anything about the restructuring process it would be to ask for another negotiator, as the person who was appointed in 2008 did not understand their situation. If Ms Claesson could have the chance to go through the process all over again she would have demanded another negotiator and not finish the negotiations as early. Maybe then the firm would not have had to see its remaining workers exhausted because the employees it really needed were made redundant.

Outcomes of restructuring according to an employee

Evelina Stillersson is 37 years old and has worked in the stores department at Ödeshögs Mekaniska since 2008. Before starting at Ödeshögs Mekaniska she had worked at a gas station for 6.5 years and within the childcare sector, so her prior work experience was in SMEs and the public service.

Since Ms Stillersson had been taken on at the time of the restructuring she was worried she would be made redundant. Her fears proved groundless, but she explains that she, as well as most employees at Ödeshögs Mekaniska, was affected by the restructuring because many feared they would lose their jobs and were worried about their future at the company.

During the process they were offered the opportunity to talk to Karin Claesson if they had any concerns or questions and the relation between the managers and the workers was good during the restructuring.

No employees, apart from one trade union representative, were involved in the decisions; however, she concludes the employees had trust in the managers and that they always got the information they requested. The workers were kept in the loop during the process. The company also informed those workers who were about to be made redundant, before the Christmas holiday, so that the workers knew what would happen after the vacation. The employees who were given notices were sad of course; however, the remaining three quarters of the workforce could go home for Christmas with a good message.

Whether the change has benefited the company is hard to say, though Ms Stillersson believes that it was a necessary action to take. Most employees got to keep their jobs and today they have even hired new employees so it was probably a positive restructuring for the company in the long run. Ms Stillersson believes that employees given notice were offered some support and it was all handled well. Ms Stillersson emphasises she can only speak on behalf of herself and she is satisfied with the handling of the restructuring. The remaining workforce are very grateful for being able to keep their jobs. Today, they value their positions more and are thankful for being able to stay at Ödeshögs Mekaniska. According to Ms Stillersson larger companies probably have more experience of restructuring and therefore a routine on what actions to take. That is an advantage for larger companies. However SMEs most certainly have a more personal relationship with employees, which makes the restructuring process easier to understand. In a small company where everyone knows everyone else and the managers say hello to everyone daily, the workers probably have more understanding of the situation and accept that restructuring is necessary. Giving notice in an SME is probably not as mechanical for the managers as it is in larger companies, and this can be both an advantage and a disadvantage for SMEs in restructuring, according to Evelina Stillersson.

Commentary

Karin Claesson would recommend that every SME be aware that the situation for SMEs is constantly changing and that they should be prepared for this. Her advice is always to create strategies and practical policies on how to act in difficult situations and be prepared before they occur. One recommendation is always to try to avoid dependency on just a few clients; another is to prepare employees by informing them on topics such as terms of notice and responsibilities. She stresses that one should always make that kind of information available to everyone but one should always also be careful not to exaggerate the situation and create unnecessary caution and insecurity.

As mentioned, Ms Claesson would have asked for a different negotiator if she had the opportunity again. Therefore, she emphasises the importance of good relations with the trade unions in order to make the restructuring process easier. It is also of vital importance that negotiators are familiar with the business in order to generate the best possible result.

It can be a challenge for SMEs when they temporarily have no work for someone and yet know this competence will be needed in the future. One solution to this, mentioned by Karin Claesson, is to make agree with an employee that he/she may leave and work for a staffing agency and then return to the company when the business is strong again. This kind of solution is easier and more relevant for small companies who know all of their employees personally. Also, SMEs have a better overview of their workforce since they are smaller and can therefore more easily see the consequences of restructuring. They always know who has been given notice and they have the phone number in case they want to rehire that person. This is an advantage for SMEs.

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Information sources

Interviews

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