Finchemics, Finland

- Type of restructuring:
  Internal restructuring
- Employees before restructuring:
  10-49
- Employees after restructuring:
  10-49
- Nace/Sector:
  Manufacturing
- Country:
  Finland
- Date:
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- Keywords:
  GlobalisationRecession/Crisis

Abstract

Poor financial performance was behind the restructuring of Finnish chemical company Finchemics, a family-run business. Restructuring began with a reformulation of business strategy, which focussed on the development of a new product line. A succession process was instigated, with the CEO moving to become chairman of the board while his son took over as CEO. A third aspect of restructuring was cost-cutting, which involved two rounds of redundancies, as well as temporary layoffs and salary cuts. The restructuring has been tough for the company, and the CEO feels that more should have been achieved.

Organisational profile

Finchemics Ltd is a Finnish family company operating in the chemical industry. Established in the early 1900s, Finchemics has played a significant role in the development of the chemical industry in Finland. During its long history, the Finchemics business has taken many forms. At the outset, the company manufactured consumer goods, but in the 1970s and 1980s the focus was on packaging. The 1990s again brought new changes as Finchemics moved into technical contract manufacturing. In the decade leading up to 2012, Finchemics returned to its roots, as consumer goods have become its main business again. In addition to manufacturing consumer goods, Finchemics also carries out some technical contract manufacturing.

The basis for Finchemics' operations is to design, manufacture, market and deliver goods that satisfy the customer's needs. The company has no direct rivals in the Finnish market but there are some companies with comparable products. Finchemics' main business is in Finland but it also has international operations. Imports have accounted for 6% to 10% of Finchemics' business.

The company is located in southern Finland. Today, the family enterprise is in its fourth generation. The last business transfer process took place in 2011 as the previous CEO stepped aside to be the chairman of the board and his son took his place as CEO. The ownership of Finchemics is divided among four family members. The chairman of the board has the biggest share of the company with an ownership of 35%. His son, the current CEO, owns 20.4% and the rest is divided between the CEO's aunt and uncle, who are members of the board.

Finchemics has been involved in different kinds of restructuring during the past few years. In 2011, Finchemics went through a succession process and in 2012 part of the workforce was made redundant while some were temporarily laid off. A business strategy reformulation has also been taking place as Finchemics has been focusing increasingly on design products. The current CEO, incumbent since 2011, has devoted his whole career to Finchemics. He first started working at Finchemics when he was studying for an M.Sc. degree. Now in his thirties, he is in charge of the company. Succession planning was begun by the board of directors as there was a need to develop and renew the board's work.

There are 31 employees working at Finchemics. The number of employees fell by seven in spring 2012 and it was envisaged that two more employees would be made redundant in autumn 2012. About two-thirds of the employees are white-collar workers and the remaining one-third are blue-collar workers. Half of the employees in the office are women, but only one-quarter of the employees in production are women. When it comes to the age structure, the average age among white-collar workers is 40, while in production among males it is 30–40 years and among females 50–60 years. Such diversity among employees is naturally reflected in the educational backgrounds of the employees: four people have a higher academic degree, some have a college education and some have only completed primary school.

Finchemics is also a member of the industry association. There is no works council present in the company, but there are 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 redundancies and layoffs, as 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. The relationship between the management and shop stewards was described as open and active. During the cooperation negotiations the management and shop stewards were in daily contact.

Background to restructuring events

The background to restructuring lies in the firm's performance. The development of turnover has not been satisfactory according to the company management. The beginning of 2012 was a disappointment for Finchemics whose aim is to grow. Despite slight growth in recent years, this was not sufficient to enable the company to move forward to achieve its goals. In the years 2005 to 2008, company turnover varied from €4 to €4.65 million. However, from 2009 to 2011 Finchemics' turnover grew from €4.14 to €5.25 million. Despite the turnover remaining stable, the results in certain financial periods have been poor and in 2009 some employees were temporarily laid off. As Finchemics faced new challenges, it became apparent that the company could not go on making temporary savings with short-term layoffs. The decision to lay off part of the workforce was taken for reasons of economy and production. The renewal of the business strategy has been an attempt to improve the financial situation by targeting new markets both nationally and internationally with design products. However, it takes time for the new strategy to start working. At the same time, Finchemics has lost clients in technical manufacturing. There was a clear need to reorganise the cost structure, and redundancies and layoffs were seen as the only sensible solution to the situation.

Restructuring processes

Three kinds of internal restructuring took place in the company. The first one is related to the reformulation of the business strategy which was started in 2008–2009 and is ongoing. In conjunction with this, it was seen as relevant to start the succession process, the second restructuring, which was implemented at the beginning of 2011. The third form of restructuring, in 2012, related to cost-cuttings, including redundancies, in order to improve the financial situation of the company.

Although improving the profitability of the company was the main trigger for the renewal of the business strategy, environmental issues played a role. For example, the company was not able to compete with Chinese manufacturers due to higher production costs. The idea for reformulating the business strategy came from the board as there was a need to generate added value for consumers with other means than pricing. A new competitive advantage was seen in design products. It was clear that the products have to meet certain standards and appeal to the consumers.

The new product line started with cooperation with a famous Finnish designer in 2008–2009. Finchemics contacted the designer and he was interested in the cooperation. At first, only a few design products were launched and these received a positive reception among customers as well as the designers. Next Finchemics created partnerships with several Finnish designers, who design products for Finchemics. Earlier Finchemics produced a wide range of consumer goods and carried out contract manufacturing. In the new business strategy the company has three product strands: 1) design products; 2) everyday household products; and 3) industrial contract manufacturing. With the design products, Finchemics also aims to grow in international markets. When it comes to contract manufacturing, Finchemics seeks to maintain profitable customers, while cutting the rest away.

The succession process started as a result of a perceived need to develop the board work together with the formulation of the new strategy. There had been talk among the board members that sooner or later some changes would have to be made in order to improve and renew the course of action. In particular, the need for developing the board work became even more topical as the future CEO attended a course called 'Approved member of the Board' in 2008. Following completion of the course and in line with the renewal of the business strategy, a succession process took place whereby the CEO was changed at the beginning of 2011. Finchemics' employees were informed of the succession process and changes in leadership only when the decisions had already been made. The employees' reactions were hard to describe, according to the CEO, but he concluded that the employees saw that change coming as he worked for the company already some years. Neither trade union nor other actors were informed about this decision but the Finnish business publication *Talouselämä* covered Finchemics's leadership changes in a fairly neutral way.

The CEO has not attended leadership training but he has had a tutor to encourage and help him out in different issues regarding leadership. Personal goals for management have been set, job descriptions have been redefined and lots of leadership tools and skills have been taught. Examples of these are the art of giving feedback and development discussions which the CEO has started among the employees.

The third restructuring process at Finchemics related to cost-cutting measures which were necessary in order to save the company from bankruptcy. The board was involved in making the decision about the cost-cutting. In the spring of 2012, the company carried out cooperation negotiations and as a result seven employees were made redundant. In addition, savings were made with temporary layoffs and salary cuts for three employees. The cooperation negotiations, in which the shop stewards were involved, were constructively carried out and in general the employees understood well the situation of the company so the cost-cutting did not cause huge turmoil in the company. In addition to the redundancies and layoffs, the company did not pay any additional holiday pay for the employees in summer 2012 – instead all employees had extra unpaid leave. These cost savings were, however, not sufficient and the company had a second round of cooperation negotiations in autumn 2012, aimed at making two employees redundant and temporarily laying off another two employees.

The actual restructuring was not carried through with excessive planning and timetables. Naturally, the new business strategy was written down, but otherwise no written plans or schedules were made. This seems to be quite common for SMEs that are undertaking restructuring. There was no personnel strategy or social responsibility strategy. And although there were no written documents and no written schedules, it is obvious that some planning had been done. There were some ideas on how the succession would be realised and the same applied to the redundancies. In addition, the need for restructuring had been evident for a long time and many issues surrounding restructuring processes had been discussed. The need to make some staff redundant and lay off others was on the table even before the succession process started. When restructuring was undertaken, other options were not considered too deeply, as it was seen that other options in the end would end up in closure and bankruptcy.

Challenges and constraints of restructuring

The restructurings, especially the redundancies, have undoubtedly been tough ones. Coming out of a challenging year and stepping into even a more challenging one, the CEO has come to know what it takes to restructure. However, it has also been a learning process. The greatest challenges and bottlenecks in implementing the restructuring have been lack of time and know-how. Progress has been much slower than the company expected and wished for, and the sheer volume of things to take care of has been overwhelming. It is easy to get buried in unfinished work and lose sight of what are the most crucial things to manage in restructurings. The CEO feels that many things have been done somewhat poorly as a result of these pressures.

The succession and strategy restructuring processes themselves were followed through largely as planned but some deviations from the original plans have naturally occurred. For example, when the ownership contract for the CEO was drafted, some things came up that had not been prepared for. These were related mainly to juridical issues. The restructurings have also required financing. The new CEO acquired his shares through a bank loan.

Restructuring advice and support

Finchemics received public support, both in terms of advice and financial support, in its restructuring. Among the supporting parties were Tekes (Finnish Funding Agency for Technology and Innovation) and the Centre for Economic Development, Transport and the Environment. The CEO felt that there were many advisers but not many people he could really count on. He found that while board members were prepared to 'get their hands dirty', consultants could sometimes be irritating as they do not necessarily understand what it is like to be in the actual battle. When it comes to financial support, the CEO acknowledged that it was possible to apply for it and sometimes even get it, but applying for different supports has its own costs as well. If a firm is serious about applying for financial support, it often means a great deal of bureaucracy and time spent in making the application.

However, public support has also been beneficial for Finchemics. Loans from Tekes for product development enabled the strategy reformulation and the formulation of mindsets. According to the CEO, the product development loans have been beneficial but the results achieved have not been as positive as he had hoped. The product development loan was received in 2010 to continue working on the new business strategy. The strategy has been in development for three years and still its impacts on company's result are not as great as the company expected to be.

Outcomes of restructuring

As a result of the succession process, the current CEO became the successor to his father, as the father moved on to be the chairman of the board. The new CEO took the operational responsibility while the former CEO takes care of things on a broader basis. The succession process and strategy reformulation have so far had some welcome impact on the business of Finchemics: operations have been clarified and objectives have been set at an individual level among the persons in charge. Previously there were no detailed job descriptions available in the company, but objectives and job descriptions have now been set down in detail. Greater attention has also been placed on giving feedback. Based on the feedback received from the employees, job satisfaction has also increased. In addition to these improvements in 2011, both turnover and net return have also increased.

The cost-cuttings – redundancies and layoffs – affected 10 employees in production. The planned redundancies and layoffs will affect the whole company, meaning that employees in marketing and sales might also be let go.

The CEO has mixed feelings about the restructuring that has taken place so far. Finchemics has received positive feedback about new products, new image and overall about the new direction the company is taking. However, when it comes to the succession process and the hard numbers, the CEO feels that more should have been achieved. However, no thorough estimations have been made about the influence of the succession process on Finchemics' business.

At first the employees reacted with suspicion to the strategic changes. Now they have adapted to these changes and overcome their suspicions, but again as redundancies are announced, commitment and attitudes will naturally get worse again. The truth is that if a company is running out of money something must be done.

Commentary

The CEO of Finchemics has been guiding the company through turbulent waters ever since he took the job in 2011. First there was the succession process, followed by the strategy change and then the workforce reduction. In the case of Finchemics, it is apparent that restructuring has had more to do with correcting the firm's direction than preventing different threatening issues. The goal of these corrections was to get the company in a shape where it attracts more growth.

At this point in the restructuring process, some of the unpleasant realities of being an SME become evident. In an SME restructuring, personal relationships are at stake. The SME boss who makes employees redundant is taking jobs away from people he knows, and who know him. The human aspect is much more present in SME restructuring than in restructuring of larger enterprises. Managers in large companies can impose mass redundancies without coming face-to-face with the employees whose jobs are gone. However, SMEs also have some advantages over larger enterprises. The CEO believes that if an SME has the right team leading it, then it can be more flexible and able to follow through restructuring on a shorter time scale. The truth seems to be that SMEs still struggle with inadequate resources and time in the midst of hectic circumstances and larger enterprises might have it better as they may have more adequate resources to do what has to be done.

In the CEO's experience the most important thing in managing restructurings is to have enough time to take the organisation through the change process. Know-how and experience are massive assets in restructuring situations. The more qualified the team is, the fewer mistakes are made and the less time is wasted. Other issues that the CEO gives attention to are the need for planning, coming up with a realistic schedule and being serious about both budgeted expenses and expected returns.

If the CEO had the chance to carry out the restructuring again, he would do some things differently. Instead of trying to renew too many things at the same time, he would focus on a few key issues instead. In other words, he would slow down the pace of restructuring and make sure that the basics were given enough time.

Authors' note: Finchemics Ltd is not the real name of the company. The information related to the company has been made anonymous in this case study.

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Telephone interview

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