Restructuring in SMEs: Ireland

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Contents

Introduction

This report presents the findings of a review of the literature on restructuring in small and medium-sized enterprises (SMEs) in Ireland.

The main forms of restructuring examined in this report are:

- relocation;
- outsourcing;
- offshoring/delocalisation;
- bankruptcy/closure;
- merger/acquisition;
- internal restructuring;
- business expansion.

The review found that there are limited studies on some types of SME restructuring while for others, there are no data available. This gap in data relates not only to the actions of SME owner/managers during the restructuring, but also to the impact on employees.

Even where data are available on enterprise restructuring in Ireland, the data relating specifically to SMEs may not be disaggregated. In other cases, such as reports published by private sector companies on enterprise restructuring, there may be limited information on the survey results or how the data were collected.

Reports on the restructuring of larger companies in Ireland are somewhat more plentiful; the study by Aritake-Wild on restructuring in Ireland as part of the Joint Study on Restructuring in the EU15 (part of the Joint European-Level Social Partners' Work-programme 2006–2008) featured case studies on the restructuring of two large companies, Cadbury Ireland and Aer Lingus.

This chapter sets out the current economic and political context in Ireland and also provides an outline of Irish business demographics.

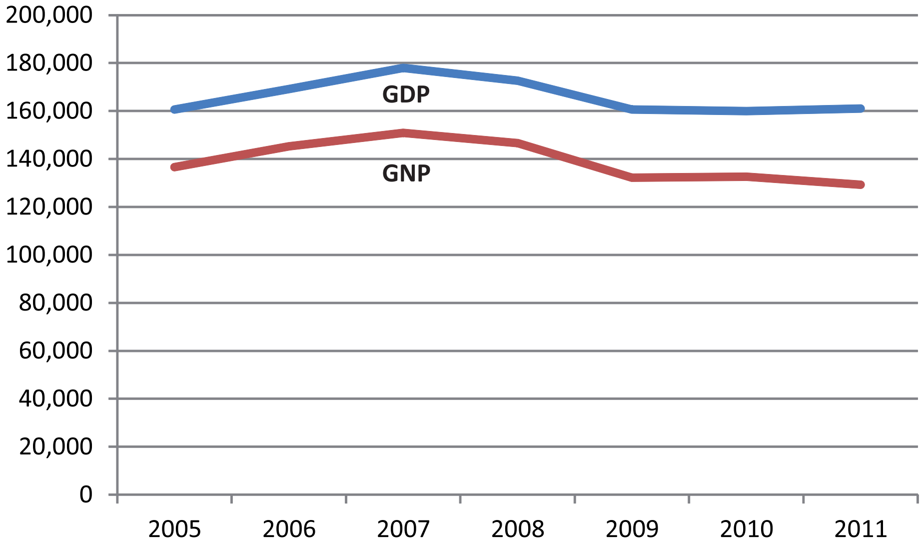
Current economic and political context

Ireland has been one of the hardest hit of all EU Member States by issues arising from the financial crisis. An analysis of Ireland's SME demographic trends must be viewed in the context of the extremely difficult economic, financial and fiscal climate.

The Central Statistics Office (CSO), Ireland's national statistics agency, has indicated that there has been sharp decline in economic activity in Ireland as measured by Gross Domestic Product (GDP)/Gross National Product (GNP) and significant increases in unemployment. The Irish economy contracted for the fourth consecutive year in 2011, leaving real GDP and GNP around 12% and 15%, respectively, below 2007 levels.[1] The decline in both GNP and GDP levelled off during 2010, largely on the back of strong export growth.

[1] Gross National Product (GNP) is regarded as a better indicator of Irish economic performance; in Ireland, GNP is lower than GDP because of income flows to non-residents, especially profits and dividends of foreign direct investment enterprises.

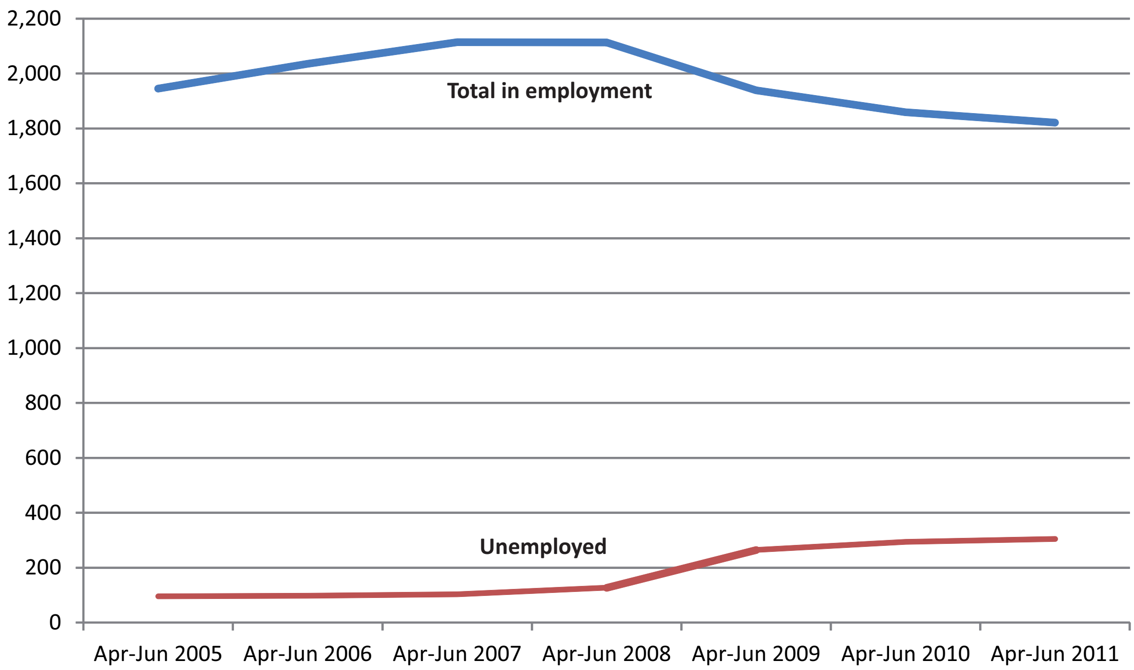
Figure 1: *GNP and GDP at constant prices in Ireland, 2005-2011 (€m)*



Source: *Central Statistics Office, 2012*

CSO data show that employment in Ireland grew strongly during the period 2005–2007 but that the trend has since reversed. Employment fell from the peak of 2.1m in 2007 to 1.8m in 2011, with over 320,000 job losses.

Figure 2: *Employment in Ireland, 2005-2011 (000s)*

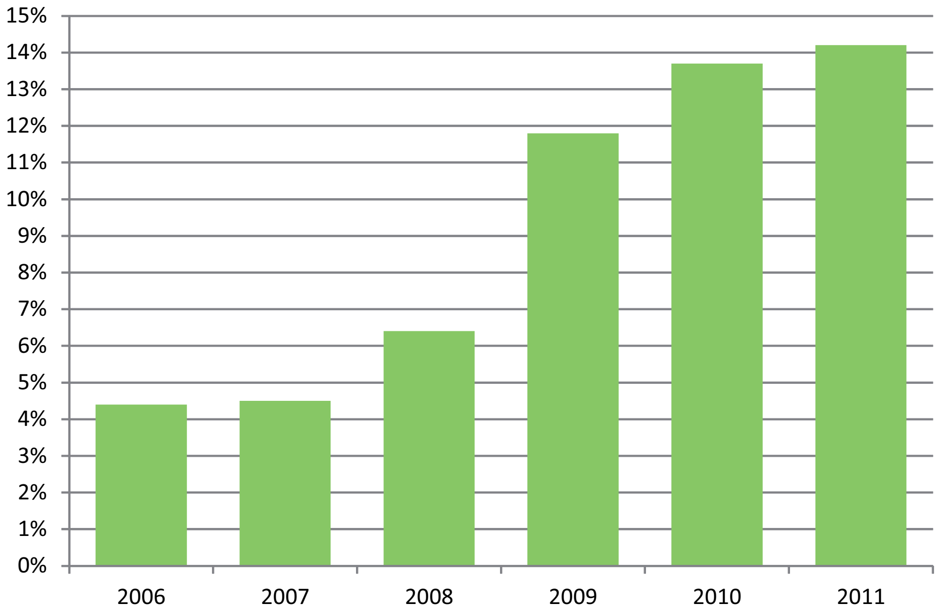


Source: *Central Statistics Office, 2012*

The seasonally adjusted unemployment rate has climbed more than threefold to over 14%, with around half of this total now accounted for by long-term unemployment.

The rate of increase in unemployment almost doubled during 2008–2009 but levelled off during the period 2010–2011.

Figure 3: *Seasonally adjusted standardised unemployment rates in Ireland, 2006-2011*



Source: *Central Statistics Office, 2012*

Personal consumption fell by 21.4% from a peak in 2007 to 2011, with Gross Domestic Fixed Capital Formation falling by 74% over the same period. The outstanding stock of credit[2] to the non-financial, non-property related private sector has also fallen dramatically. The National Competitiveness Council in its *Ireland's Competitiveness Challenge 2011* publication noted that the total amount of credit outstanding to Irish private sector enterprises was €40.4 billion in June 2011, down from €59.6 billion at its peak in December 2008. A recent CSO survey on access to finance indicates that enterprises that applied for bank finance had a success rate of 95% in 2007, compared with 55% in 2010.

The downturn in the Irish economy was caused by a number of economic, financial, fiscal and political factors. A leading Irish economist[3] has pointed out that:

> *the Irish crisis was predominantly the result of an interacting property and credit bubble. Rising property prices fuelled credit inflows, which in turn fuelled the property bubble. What made the Irish property bubble ultimately so damaging was the fact that it was both a property price and construction bubble. When the bubble burst it led to both a massive wealth shock and a massive structural shock to the economy given the resources that had been misallocated by the bubble to construction. This in turn led to a series of adverse feedback loops: banking, growth and fiscal. The policy challenge has been so severe because policies to try to stabilise one element of the crisis — e.g. debt stabilisation — tends to make another worse — e.g. growth.*

[2] Includes credit advanced by all credit institutions.

[3] John McHale writing on The Irish Economy web site (**http://www.irisheconomy.ie/index.php/2012/04/30/fiscal-causes-and-consequences/**), April 30, 2012.

The banking crisis hit the business sector particularly hard as the Irish banks scrambled to deal with:

- the fall out of their disastrous lending to the property and construction sectors;
- the freezing of international money wholesale markets on which they had come to rely heavily for funds.

The net result was that the banks panicked and started calling back existing loans and curtailing new lending, precisely when SMEs most needed access to credit to finance their restructuring.

The reduction in the availability of bank credit was a direct cause of the collapse in the mortgage broker sector that so severely affected one of the case study companies, First Credit. Furthermore, the demand from the banks to the owner of another case study company, George Mordaunt, to return loans they had given him was a contributory factor to the downfall of his companies.

Concern over Ireland's escalating banking crisis was one of the key factors which led to the Irish Government seeking financial assistance of up to €85bn from the EU and the International Monetary Fund (IMF) in November 2010.

Recent government budgets have focused on tackling the large fiscal deficit, and under the terms of the EU/IMF rescue deal there were will be further reductions in exchequer expenditure, along with increases in taxation, over the next three years.

Following a general election in February 2011 a new government, comprising the Fine Gael and Labour parties, came into power in March 2011. The agreed programme for government includes an emphasis on supporting SMEs.

Business demographics

The lack of an official business register in Ireland makes it difficult to calculate how many enterprises are starting up, and how many close down. This situation is now being rectified by the CSO which has begun to compile a national register of business enterprises.

The main data sources used by the CSO for this are the national tax collection agency, the Revenue Commissioners, and the Companies Registration Office (CRO) which holds statutory information on Irish companies and business names.[4]

Recent research from the CSO indicate that, in 2009, SMEs[5] in Ireland accounted for 99.8% of the country's enterprises, 69% of private sector employment, 52% of turnover and 51% of gross value added.

Data published by the CSO reveal that there were over 195,000 enterprises active in the private business economy[6] in Ireland in 2010, with nearly 1.24 million people engaged[7] in them. This represented a decrease of 5.4% in enterprises and 5.5% in people engaged from the previous year.

[4] As shown in Table 2, public and private limited companies account for just under 50% of business enterprises in Ireland.

[5] An SME is defined as an enterprise that has fewer than 249 employees and has either an annual turnover not exceeding €50m or an annual balance sheet total not exceeding €43m.

[6] The private business economy covers the NACE Rev 2 sectors B – N (excluding 64.20 activities of holding companies).

[7] People engaged includes employees, working proprietors and family members.

The CSO's study of Irish business demography in 2010 also shows that, during 2010, over 11,000 enterprises were created, with an average of 0.9 people engaged per enterprise. Sector D, 'Electricity, gas, steam and air conditioning supply', was the sector with the highest enterprise start-up rate[8] of 12.3% (38 enterprises). The sector with the second highest start-up rate was Sector J, 'Information and communication', with a 9.2% start-up rate (928 enterprises).

More than 24,000 businesses ceased during 2009, resulting in a loss of nearly 35,000 jobs. The sector where closures had the largest effect on employment was Sector F, 'Construction', with 17.1% of enterprises in this sector ceasing during the year, resulting in a loss of 7.7% of jobs in the sector. This was followed by Sector L, 'Real Estate Activities', with 11.6% of enterprises closing, resulting in a loss of 6.9% of jobs.

Over a quarter of all enterprises active during 2010 started trading between 2006 and 2010. These new enterprises accounted for 5.3% of people engaged in the business economy in 2010.

Table 1 shows the numbers of enterprises in the business economy during 2006–2010.

Table 1: *Irish business demography NACE Rev 2 (number of active enterprises* and numbers of people engaged and employees)*

Indicator	2006	2007	2008	2009	2010
Active enterprises (number)	211,950	216,198	216,265	206,575	195,431
People engaged (number)	1,443,072	1,528,295	1,503,034	1,308,786	1,237,385
Employees (number)	1,307,471	1,392,564	1,370,216	1,190,851	1,126,796

* excluding activities of holding companies (B to N)
Source: *CSO, 2012*

Table 2 provides a breakdown of Irish business enterprises by type of legal structure (sole traders, and public and private limited companies). It shows that public and private limited companies account for just under 50% of the total while individual proprietors formed 42% of the total with other forms of ownership holding the balance.

Table 2: *Irish business demography NACE Rev 2 (number of active enterprises* by type of legal structure)*

Indicator	2006	2007	2008	2009	2010
Individual proprietorship	105,242	106,306	102,351	87,708	82,118
Other legal forms of ownership	16,184	15,696	16,200	16,584	16,210
Public and private limited companies	90,524	94,196	97,714	102,283	97,103
Total	**211,950**	**216,198**	**216,265**	**206,575**	**195,431**

* excluding activities of holding companies (B to N)
Source: *CSO, 2012*

Table 3 provides an analysis of active enterprises in the business economy by employment size. The table shows that, in 2010, enterprises employing fewer than 10 people accounted for 177,547 enterprises or 90% of the total number of enterprises. SMEs form 99.8% of the total number of active enterprises with large companies (those employing more than 250 employees) accounting for the balance of 0.2%.

[8] New enterprises as a percentage of active enterprises.

Table 3: *Irish Business Demography NACE Rev 2 (number of active enterprises* by employment size)*

Employment size	2006	2007	2008	2009	2010
Under 10	189,425	192,815	193,789	187,488	177,547
10–19	12,279	12,626	12,099	10,385	9,769
20–49	6,743	7,025	6,773	5,647	5,215
50–249	3,002	3,202	3,076	2,574	2,441
250 and over	501	530	528	481	459
Total	**211,950**	**216,198**	**216,265**	**206,575**	**195,431**

* excluding activities of holding companies (B to N)
Source: *CSO, 2012*

Data on the structure of the SME sector in Ireland is also available from the European Commission through its Small Business Act (SBA) Fact Sheet for Ireland 2010–2011.

Table 4 shows the number of SMEs in Ireland compared with the EU27 by size, category and their associated employment and value added data. The SBA fact sheet data reveal that Ireland has relatively higher concentrations of small, medium-sized and large businesses than the European Union average, where micro firms are comparatively more prevalent. The SBA data covers NACE categories C to K, whereas the CSO data outlined above covers NACE categories B to N, so the two datasets are not comparable.

Table 4: S*MEs in Ireland*

	No. of enterprises			Employment			Value added		
	Ireland		EU27	Ireland		EU27	Ireland		EU27
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	72,054	82.6%	92.1%	212,520	21.5%	29.8%	10	11.8%	21.6%
Small	12,412	14.2%	6.6%	230,190	23.3%	20.4%	12	14.7%	18.9%
Medium-sized	2,298	2.6%	1.1%	217,006	22.0%	16.8%	17	21.4%	17.9%
SME	86,774	99.5%	99.8%	659,716	66.8%	66.9%	39	47.9%	58.4%
Large	467	0.5%	0.2%	328,095	33.2%	33.1%	42	52.1%	41.6%
Total	**87,231**	**100.0%**	**100.0%**	**987,811**	**100.0%**	**100.0%**	**81**	**100.0%**	**100.0%**

Notes: Estimates for 2010, based on 2002–2007 figures from the Structural Business Statistics Database (Eurostat). The estimates have been produced by Cambridge Econometrics. The data cover the 'business economy' which includes industry, construction, trade, and services (NACE Rev. 1.1 Sections C to I, K). The data do not cover enterprises in agriculture, forestry, fishing or the largely non-market services such as education and health.
Source: SBA Fact Sheet Ireland 2010–2011

The SBA Fact Sheet makes several observations:

- The SME sector's contribution to the economy, as measured by its gross value added, fell by five percentage points, from 53% to 48% between 2007 and 2010, suggesting that small and medium-sized enterprises were hit hardest by the economic downturn, and thus produced comparatively less than large enterprises.
- From 2007 to 2010, the SME sector in Ireland lost 15% of its total workforce and produced 18% less final output (gross value added). By comparison, large enterprises lost 9% of their workforce and only 6% their gross value added.

- The construction sector, and SMEs in construction, suffered the hardest blow. Out of more than 128,000 jobs lost by SMEs, a quarter was in the construction sector, which was reduced to less than half its size in 2007.
- The Irish economy was not expected to recover significantly until after 2011. It will probably take even longer to regain pre-crisis levels (especially on employment and production levels in the SME sector) and to continue the positive progress made by the SME sector before the crisis.

Restructuring

Restructuring within the enterprise sector is a significant and topical issue in public debate in Ireland as a result of the demise of the 'Celtic Tiger'[9] which has led to increased unemployment and a rise in the number of enterprises going into liquidation. There have been a number of high-profile cases of businessmen who have gone — in a very short period of time — from being among Ireland's wealthiest individuals to be being declared bankrupt. The restructuring of the main, Irish-owned, financial institutions — involving essentially their nationalisation by the Government — is a hotly debated public topic. However, it is important to note that, during the early part of the Celtic Tiger era, business confidence was high as a result of increased export sales, while during the latter years buoyant consumer demand stimulated business growth. This confidence translated into increased business activity[10] and consequently employment.

At a political level, one of the key Government aims is to achieve the objectives of the EU/IMF Programme of Support:

- restructuring and recapitalising the banking system;
- achieving fiscal stability;
- returning the Irish economy to growth.

Growing the economy is seen as an important method of accomplishing this goal, primarily through increasing exports, enhancing innovation, research and development and supporting SMEs.

The provision of credit to SMEs is a key Government concern. *The Programme for Government*, published in March 2011 by the two incoming government parties, highlights the actions the new Government would take to get the banks lending to industry and entrepreneurs.

[9] The Celtic Tiger is the colloquial term for the period between 1993 and 2007 during which the Irish economy grew strongly. There are differences between the growth that occurred before 2002 (strong export-led growth) and post 2002 which was largely fuelled by a domestic property market bubble. The subsequent collapse of the property market combined with domestic fiscal and banking crises and global financial and economic downturns since 2007 have spiralled Ireland into a major bust.

[10] Due to the lack of a national business register, the number of businesses registering for Value Added Tax (VAT) is often used as a proxy for measuring enterprise growth. Data from the Revenue Commissioners show that the number of businesses registering for VAT increased from 25,472 in 2001 to 35,842 in 2005 — an increase of 41%. The number of businesses registered for VAT stood at 195,282 in 2001 but increased by 21% to 236,090 in 2005.

A 2012 study by Lawless et al., for the Central Bank, *SMEs in Ireland: Stylised facts from the real economy and credit market*, indicated that Irish SMEs are experiencing unfavourable credit conditions, and that the level of non-performing loans on Irish banks' SME books is extremely high, with large, risky, exposures in sectors associated with the Celtic Tiger:

- hotels and restaurants;
- construction;
- professional;
- real estate;
- wholesale and retail.

The study by Lawless et al. showed that, while national policies focused on the importance of export-led recovery, many SMEs depended on the domestic market to generate business, and therefore employment.

The study also indicated that SMEs were more affected by the economic downturn than large firms. Small firms experienced the greatest decline in employment in 2008–2010, losing 8% of jobs on average, with micro and medium firms also reducing employment considerably. Large firms, however, experienced an average employment fall of 2% each year, which is also significant but shows greater resilience than the SME group.

The study by Lawless et al. also noted that Central Bank of Ireland data show a large expansion of credit to the private sector between 2005 and 2008 followed by a sharp contraction across all sectors to 2011.

Additionally, the study reported that, in terms of loan rejection rates, interest rates, collateral requirements and fees and commission, Irish SMEs appear to be experiencing much tougher credit conditions than the euro area average. In relation to loan performance, the study revealed that nearly a third of all SME loans were non-performing as of December 2010.

Relevance of different types of restructuring for SMEs

This section provides a review of the literature in relation to the relevance of different types of restructuring for Irish SMEs. The review has identified significant gaps in research in relation to the different types of restructuring, particularly the absence of national statistics on SMEs that are undergoing restructuring. Some of the available data on restructuring do not necessarily focus on SMEs or do not disaggregate SMEs from the total business population. There are, for example, a number of official sources of data on enterprise bankruptcy/closures but it is often not possible to distinguish the number of SME closures from the overall total.

The available data from public sources on restructuring primarily focuses on formal restructuring, for example, bankruptcy, or where the CSO has carried out a survey of restructuring as part of an EU-wide study, for example, offshoring/delocalisation. Data on issues such as informal restructuring of SMEs or family succession within a family-owned SME are lacking.

Other data on SME restructuring are available from private sector sources, for example business service providers and trade associations, but there is often little detailed information available on survey methodologies to substantiate the findings presented.

Relocation

The Irish business literature is silent on the issue of relocation by SMEs. This may be attributable to the fact that Ireland, geographically, is relatively small.

Outsourcing

The review of the limited literature on outsourcing in Ireland indicates that it can encompass an enterprise's core functions, for example, manufacturing; or functions that are ancillary to its main activities, such as IT or logistics. Developments in ICT mean, for example, that SMEs can use cloud-based services to outsource the storage of computer data in domestic or foreign locations.

IT outsourcing is common among 72% of Irish organisations, according to a study published in 2007 by the Irish Computer Society (ICS). This figure rises to 84% when public sector organisations are omitted.

According to the ICS research, smaller IT departments outsource less than their larger counterparts, despite the assumption that smaller organisations would not have the skills and manpower to cope with the increasing complexity of systems or to facilitate the offering of new IT services. However, the outsourcing survey did not indicate how it defined smaller IT departments, nor did it provide details of how many of the survey respondents were SMEs.

Offshoring/delocalisation

Offshoring/delocalisation, while not extensively studied in Irish business literature, is a well-known phenomenon to Irish business people. A large number of multinational companies have manufacturing facilities in Ireland, because they are attracted by Ireland's low corporation profits tax, educated workforce and access to EU markets. Despite these benefits, some multinationals have moved their manufacturing plants to lower cost countries in the Far East, although they continue to base their production support services in Ireland. In 1990, for example, the US computer multinational company Dell Computers established a large manufacturing plant in Ireland, which it closed in 2009 with the loss of

1,900 jobs. It transferred operations first to Eastern Europe and then to the Far East[11], but it still retains a number of sales and support operations in Ireland.

The review of Irish literature has shown there is little data on the extent to which SMEs in Ireland use offshoring/delocalisation (in contrast, there are a considerable number of studies examining multinational offshoring/delocation). In 2008, the CSO published a report, *International sourcing: Moving Irish business activity abroad*, which presented the results of an ad hoc survey on international sourcing conducted in 2007. The purpose of the survey was to establish data on the movement of Irish business activity abroad during the reference period 2001–2006 and to establish enterprises' future plans for 2007–2009. The CSO study targeted all enterprises in the non-financial sector having 100 or more employees and therefore covered medium-sized enterprises within the SME spectrum. However, the study did not disaggregate the study results relating to the international sourcing activities of medium-sized enterprises from that of the total survey population.

The results indicated that, between 2001 and 2006, 38% of large Irish enterprises engaged in international sourcing. This level of international sourcing was higher than reported by other European countries that conducted a similar survey. The level of international sourcing of Irish business activity was highest in the manufacturing sector (57%) and the transport, storage and communication sectors (54%).

Bankruptcy/closure

The large rise in closures and bankruptcies has received extensive debate in the Irish media, largely as a result of the demise of the Celtic Tiger and the significant increase in unemployment in Ireland (estimated at approximately 14%). There has been significant media coverage of a number of high-profile company liquidations and entrepreneur bankruptcies, many of which had been major players in the construction/property sector. These include property developer Bernard McNamara who publicly admitted, in 2010, that he was broke and that his companies owed €1.5 billion, and construction and financial services businessman Sean Quinn[12], who went from being the richest man in Ireland with an estimated worth of €3.7 billion in 2008[13] to bankruptcy in 2012.

It is important to note that, under the Irish legal system, only individuals can go bankrupt. Companies that are unable to meet their debts (creditors or court liquidation) or where the owners of the company no longer wish to maintain the business (voluntary liquidation) are wound up. Companies which face financial difficulties, but which are potentially viable may opt for examinership (see the section on internal restructuring for a discussion on examinership).

There are legal obligations on company directors in Ireland to ensure that they act prudently where their companies are facing financial difficulties, particularly in relation to employees and creditors. The penalties for a director who has been found by the courts to have acted recklessly can be severe and can include heavy fines and disqualification, for several years, from acting as a company director.

[11] Also see **http://www.eurofound.europa.eu/emcc/erm/factsheets/12388/Dell?template=searchfactsheets&kSel=1**

[12] One of the companies controlled by Sean Quinn was Quinn Insurance which underwent internal restructuring as reported in the European Restructuring Monitor:
http://www.eurofound.europa.eu/emcc/erm/factsheets/15458/Quinn%20Insurance?template=searchfactsheets&kSel=1

[13] Sunday Times Rich List, 2008.

While there has been considerable public discourse on bankruptcy and company closures, there has been little empirical research on this form of restructuring.

Data compiled by the CRO indicate that the number of liquidations and closures among incorporated businesses is increasing and, since SMEs account for over 99% of enterprises in Ireland, it can be concluded that this form of restructuring has become more prevalent.

Merger/acquisition

Extensive data sources of mergers and acquisitions in Ireland are lacking and tend to focus on the merger activities of larger enterprises. As previously indicated, the lack of a comprehensive business register in Ireland makes it difficult to research the number of enterprises that have merged. The CSO [14] has indicated that their enterprise demographic database does not include changes to the overall enterprise population due to mergers, break-ups, a split-off or the restructuring of a set of enterprises.

The CSO has, however, published data on the reasons for which enterprises were expected to access finance in 2010 (see Table 5). The data show that 6.7% of enterprises surveyed expected to apply for finance for mergers and acquisitions.

Table 5: *Reasons why enterprises expect to request finance (%)*

Reason	2010
Maintain the business	60.4
Grow domestic activities	45.8
Finance export sales	10.6
Develop international activities	9.4
Finance innovation and research and development	8.2
Mergers and acquisitions	6.7
Other reasons	12.9
Total	**100**

Source: *Central Statistics Office*

The CSO data do not, however, provide a breakdown of these enterprises by company size.

[14] Presentation by Jillian Delaney, Statistician, Central Statistics Office (CSO) entitled '*Overview of CSO Demography release*', given at the Workshop on Business Demography and Job Churn statistics, Dublin Castle, May 12, 2011.

The Competitions Authority is a statutory body that administers and enforces the primary anti-trust legislation relating to the acquisition of Irish undertakings, and it has statutory responsibility for monitoring mergers and acquisitions in Ireland so as to ensure that the interests of consumers are protected and that competition is not reduced. Companies considering a merger/acquisition must notify the authority if, in the most recent financial year:

- the worldwide turnover of each of two or more of the undertakings involved in the merger or acquisition is not less than €40m;
- each of two or more of the undertakings involved in the merger or acquisition carries on business in any part of the island of Ireland;
- the turnover in Ireland of any one of the undertakings involved in the merger or acquisition is not less than €40m.

The authority's minimum turnover threshold of €40m is just within the definition of medium-sized enterprises used by Enterprise Ireland. This definition states that a medium-sized enterprise is one which has between 50 and 249 employees and has either an annual turnover not exceeding €50m or an annual balance sheet total not exceeding €43m. In theory, the authority has a remit for reviewing mergers involving medium-sized enterprises. While it publishes data on the number of mergers it is notified about (40 in 2011), it does not provide a breakdown of the mergers by company size.

The Irish Takeover Panel is the statutory body responsible for monitoring and supervising takeovers and other such transactions in relevant companies in Ireland. For the purposes of the Irish Takeover Panel 1997, as amended (1997 Act) 'a relevant company includes public limited companies or other bodies corporate, incorporated in Ireland, whose securities are currently being traded, or (if the subject of a takeover or other relevant proposal) were traded within the previous five years, on the Irish Stock Exchange, the London Stock Exchange, the New York Stock Exchange and Nasdaq'. As the Irish Takeover Panel primarily focuses on public companies listed on the stock exchange, its relevance to SMEs is very limited.

Financial institutions, stockbrokers and legal service providers frequently advertise in the business press the mergers and acquisitions in which they have assisted. The stockbroking firm, NCB, produces a quarterly report on mergers and acquisitions involving Irish companies, *M&A Tracker Survey*, and though it provides sectoral information (such as food, or financial services) of merger and acquisition activities, it does not provide a breakdown of the size of the enterprises involved.

Internal restructuring

Little published data exist on the extent of internal restructuring within SMEs in Ireland. However, a new legal arrangement, examinership, has been established in Ireland which provides court protection to help companies in financial difficulties to restructure where there is a good chance of being able to save the business.[15]

Essentially, an insolvent company that goes into examinership is cocooned by the comprehensive protection of the High Court for a period of up to 100 days as it attempts to restructure its cost base, renegotiate or exit from onerous leases and put in place a scheme with its creditors, including its landlord.

[15] An informative website, **http://www.examinership.ie/**, has been produced by accountants, Hughes Blake, which provides extensive information and case studies on examinership.

The process is managed by an outside party known as the examiner, usually an accountant. Entering examinership is the only way in Irish law, outside receivership or liquidation, that a company can, for example, hand back an onerous leasehold interest to a landlord.

The appointment of an examiner has been an option for insolvent companies in Ireland since 1990. During the recession of the 1980s, there was increasing demand for the introduction of a US Chapter 11-type recovery process which would enable fundamentally good businesses that were under pressure to survive. Examination was introduced as a result and the inclusive process involves the examiner leading the company through a recovery process involving management, lenders, creditors, suppliers and staff. Known in law as ‘examination’, over the years it has become colloquially known as ‘examinership’.

Any company that has a reasonable prospect of survival, provides employment, and that is viable can be a suitable candidate for examinership. Many commentators argue that a company should have a certain level of turnover, be a certain size or have a certain level of assets in order for it to qualify, due to the cost of the process. However, examinership is accessible to practically all companies. It is possible to take a low-cost examinership application in the circuit court if the debts of the company are less than €317,000 (rising later this year to €500,000).

Legislators in Ireland opted for this more management-friendly form of recovery process when designing the examination legislation and, from a company director’s point of view, examinership in Ireland can be distinguished from the rather more onerous administration provisions of UK company law.

Examinership frequently involves bringing new capital into the business and this can result in existing shareholders having to cede control to new shareholders, and hence its inclusion in the internal restructuring category.

Examinership may help to save some or all of a company’s jobs. However, there have been no studies or reports that have reviewed the situation of employees of a small or medium-sized enterprise subject to an examinership.

Succession in family businesses is a form of internal restructuring which has not received much attention either in business literature. A report by Tom Martin and Associates (2008) on family-owned small and medium-sized enterprises in Ireland indicated that the transfer of business ownership from one generation to the next was a key issue for this cohort. Family-owned enterprises are estimated by the CSO to account for three-quarters of all Irish enterprises and to account for half of employment in the private sector. Succession is seen as a much more complex issue in a family-owned business than in any other business. The small amount of available research indicates that a minority of family businesses make it through to the next generation and very few make it to a third.

Business expansion

The lack of a comprehensive business register in Ireland makes it difficult to identify the number of SMEs that are expanding. A number of proxy indicators, such as new Value Added Tax (VAT) registrations/deregistrations, can be used to gauge the trend in enterprise start-ups and closures. However, these proxy indicators provide little information on SME business demographic trends as the underlying data do not disaggregate small and medium sized enterprises from the total population.

The *Global Entrepreneurship Monitor: Entrepreneurship in Ireland: The Annual Report for Ireland* (Fitzsimons and O’Gorman, 2010) notes that Irish entrepreneurs and enterprises have similar, or slightly better, scores to the OECD average in relation to Ireland’s Global Exchange Market expansion index (which combines measures of newness of product/service to customers, the extent of competition and the newness of technology).

The internationalisation of SMEs has received more attention in the business literature given that it is an important means of business expansion and also because it is a national policy objective. Ernst & Young's 2011 annual *Globalisation Index*[16] published in January 2012 shows that Ireland is the world's second most globalised nation in terms of GDP (after Hong Kong), and remains the most globalised nation in the western world. The report also says that Ireland is forecast to maintain its overall second place ranking until at least 2015.

In the 2010 edition of the annual global report, Ireland was reported to have displaced Singapore to become the world's second most globalised economy. In the 2011 edition, the report confirms that, in addition to retaining its second position overall, Ireland is the most globalised western economy and the most global economy worldwide in two key categories:

- global technology exchange;
- global movement of finance and capital.

Encouraging SMEs to internationalise is a key national objective. Enterprise Ireland, the national agency for the development of indigenous industry, says that its mission statement is:

> *to accelerate the development of world-class Irish companies to achieve strong positions in global markets resulting in increased national and regional prosperity.*

In its strategy document, *Transforming Irish Industry*, Enterprise Ireland committed itself to a target of assisting its client companies to generate an additional €4 billion in new export sales during 2008–2010.

[16] Ernest & Young, *Globalization Index 2011*, web link: **http://www.ey.com/GL/en/Issues/Business-environment/The-Globalization-Index-2011-interactive-time-line**.

Drivers of restructuring

Overview

The literature on the drivers for SME restructuring in Ireland is scant, with the exception of the impact of the economic, financial and banking crisis on the enterprise sector, particularly in terms of bankruptcies and closures. The increasing level of unemployment in Ireland is testimony to the number of enterprises that have closed, especially in the construction sector.

In February 2012, PriceWaterhouseCoopers (PWC), the professional services provider, published the summary results of its survey, *Business Barometer*, which revealed that two-thirds of Irish companies were planning to restructure their businesses in 2012. The survey suggests that key drivers for restructuring included making the business more efficient, reducing the number of employees and reducing debt.

The PWC survey also found that 70% of businesses hoped to make significant changes in the year ahead, even as they believed the process would be a 'significant challenge' for them, while 87% of those surveyed said their business had become more viable since they restructured. No data were available on the size of the companies surveyed.

The main findings of the PWC publication are summarised here.

- Streamlining (60%) is by far the most popular restructuring activity being planned in the year ahead.
- Other such initiatives include headcount rationalisation (48%), debt refinancing (35%) and business consolidation (25%).
- Nearly three-quarters (69%) of this restructuring focused primarily on operational restructuring.
- Less than a third (31%) focused primarily on financial/debt restructuring.

Other general business reports also indicate that cost reduction can be a primary motivating factor in respect of SME restructuring. However, this may not be universally true. As previously mentioned, a study on IT outsourcing in Irish enterprises noted that cost reduction was not the dominant motivator in IT outsourcing decisions. Of greater influence was facilitating the offering of additional IT services while concentrating on core competencies, enabling the implementation of scalable IT solutions, and increasing the functionality of the offered IT services.

The decision to outsource was not found to be linked to current performance of the IT department, as lack of in-house skills was not identified as a major influencing factor.

A study on outsourcing in the supply chain sector (see below) indicates that a desire to focus on key activities may lead to the outsourcing of less essential activities.

The development of new markets — particularly international markets — can be a contributing factor to SME restructuring. A study, *Supporting the internationalisation of SMEs* (European Commission, 2007), recommended that Member States should consider internationalisation as part of policies to enhance competitiveness. The study noted that, as countries progress through the value-added ladder this would lead to merging internationalisation and innovation under one single umbrella. It said that, inside Europe, this was already starting to happen in Ireland, Finland and Norway.

Outsourcing

The literature on the drivers for the use of outsourcing by Irish SMEs is relatively small. However, a 2005 survey of supply chain management capability among companies — 85% of which were SMEs — entitled *Competitive Challenges: Chain reactions — An analysis of supply chain management and competitive solutions for the island of Ireland*, by the National Institute for Transport and Logistics (Smith and Huber, 2005) found that there was a desire among respondents to focus on key competencies. This meant that activities which were considered non-core had the potential to be outsourced. The study found that, at an operational level, companies both in the Republic of Ireland (ROI) and Northern Ireland (NI) have become aware of third-party organisations that could transport goods more cheaply, more speedily and with higher levels of customer service than in-house operators. Respondents confirmed that outsourcing of transportation was likely to accelerate in the next three years, along with just-in-time and overnight deliveries, as well as shorter delivery times.

The survey identified that ROI companies expect to be affected to a greater extent by shorter delivery times, smaller and more frequent drops and the outsourcing of the transport function than NI firms. However, the Smith and Huber (2005) study pointed out that all firms needed to be agile and innovative amid increasing supply chain complexities and customer demands for shorter delivery lead times.

A study of IT outsourcing published by the Irish Computer Society in 2007 indicated that tactical (that is, short-term) motivations are more influential than strategic objectives in determining Irish IT outsourcing policy.

Offshoring/delocalisation

The CSO report, *International sourcing: Moving Irish business activity abroad* (2008), highlighted that efficiency-seeking factors were the main motivations for Irish enterprises to source internationally. Both the reduction of labour costs and the reduction of other costs ranked highest amongst the reported motivating factors, whilst the focus on core business activity was the fourth highest motivating factor. However, it is important to note that, while the survey included medium-sized enterprises as well as large enterprises, the report did not differentiate the offshoring/delocation motivations of the former.

Business expansion: internationalisation

The small size of the Irish market often compels firms to seek international sales at an early stage of their development. A study by Terjesan, O'Gorman and Acs, *Intermediated mode of internationalization: new software ventures in Ireland and India* (2008), provides a case study of a small Irish company, Cylon, which produces technical solutions for building management systems (BMS):

> *The small Irish market required that the entrepreneurs seek international sales (for example, by 1992 it was estimated that the Irish market represented only 1% of the European market for Building Management Systems). At this time Cylon had four staff and sales of approximately €100,000. In seeking how best to internationalise, the entrepreneurs chose a strategy of selling to firms with an established presence in overseas markets.*

The authors concluded that the small size of the Irish market prompted the entrepreneurs to internationalise.

Distinctive characteristics of restructuring in SMEs

Anticipation, planning and preparation of restructuring events

An examination of available literature reveals a lack of research into how SME owner/managers go about anticipating, planning and preparing for restructuring. What few publications exist suggest that the majority of small and medium-sized enterprises do not have a high level of planning or preparedness.

A survey by the Small Firms Association (SFA) in 2009 indicated that 67% of small family-run businesses do not have an exit strategy for their business. Almost half (47%) of those who had strategies preferred to sell the firm and 48% intended to pass the business on to a family member.

This survey also revealed that 69% of the business owners would seek advice on succession planning from their accountant and 26% would turn to a solicitor or a business adviser.

A study (Nummela et al, 2006) of internationalisation modes used in the software sector in Ireland and India indicated that there were two options open to SMEs: a direct mode and one where multinational enterprises were used as intermediaries. The study noted that the latter was particularly relevant to Irish software SMEs, given the large number of multinational software companies with a presence in Ireland (these multinationals were important as customers, as referral points for international customers, or as previous employers of the company's founders).

Managing restructuring

The literature review identified a considerable gap in the literature on the issue of how restructuring was managed in small and medium-sized enterprises.

The study by the SFA recommended that in relation to succession:

> *with a high proportion of the Irish business community populated by family-run businesses, it is vitally important for the economy that the owners of these businesses have the ability to successfully manage the issue of transference. Owner-managers need to consider all the issues at the earliest possible time, and then select and implement the appropriate succession plan at the right time to obtain the best result. Owner-managers need to realise that a successful transition of a business minimises disruption, ensures continuous profitability and guarantees satisfactory returns to employees, partners and shareholders.*

The CSO study, *International sourcing: Moving Irish business activity abroad* (2008), revealed that:

- 30% of all large Irish enterprises sourced core business internationally;
- 29% of enterprises sourced non-core support business functions internationally;
- the support business functions most likely to be sourced internationally by Irish enterprises were distribution (16%), marketing and sales (13%) and engineering (13%).

By far the most popular destination for Irish international sourcing activity was the other Member States of the former EU15. Of those Irish enterprises engaged in international sourcing during the reference period:

- 79% sourced some business functions within the EU15;
- one-third sourced some business functions to the 12 new Member States of the EU that joined in 2004;
- 25% sourced to the USA and Canada;
- 24% sourced to China.

Actors in the restructuring process

The Aritake-Wild (2007) study on restructuring in Ireland identified a number of actors that can assist companies experiencing restructuring. These include public sector bodies, employer and sectoral representative organisations, employee representative organisations and other organisations, as well as private sector companies.

Some of these organisations can provide assistance and advice to SME owners/managers in relation to restructuring. There are public sector organisations whose remit is to encourage SMEs to expand and to internationalise. Enterprise Ireland, the national development agency for indigenous companies in the manufacturing and internationally traded service sectors, is tasked by the Government to facilitate the development and growth of Irish enterprises in world markets.

Enterprise Ireland is responsible for the management of the network of city and county enterprise boards that provide support to businesses employing fewer than 10 people.

The Aritake-Wild report noted that the Government had established a number of mechanisms to assist employer-employee relations. It also noted that a number of social partnership arrangements had been put in place at a national level, but also that some of these had not filtered down to enterprise level.

Though the Aritake-Wild report was comprehensive in its coverage of the actors that could help businesses undergoing restructuring, it did not look at the actors that specifically focused on restructuring in SMEs. The review of the literature found only a limited number of reports or studies that examined the stakeholders that, potentially, could have a role or input in SME restructuring. One study of IT outsourcing pointed to the potential role that external service providers could have in persuading SMEs to engage in restructuring, specifically outsourcing (Irish Computer Society, 2007). Brian Kennedy of Lake Communications, author of the study, noted that organisations with small IT departments outsourced less and suggested some possible reasons for this trend[17]:

> *The fact that small organisations in Ireland are outsourcing IT services less than their larger counterparts perhaps suggests that outsourcing service providers do not focus their sales efforts on smaller firms. However, a more worrying alternative explanation is that smaller organisations do not yet fully appreciate the relevance of IT in achieving strategic goals and sustainable competitive advantage over the long-term.*

[17] Quoted in the online publication, The Register (**http://www.theregister.co.uk/2007/03/09/it_outsourcing_survey/**), 9 March, 2007.

The study noted that, for the 28% of Irish organisations that choose not to outsource IT services, the main deterrents are:

- uncertainty regarding providers' ability to supply the required level of service;
- apprehension about the realisation of outsourcing benefits and goals;
- concerns over the management of the outsourcing providers.

Fears over future employment for the organisation's workers are not a major influencing factor in the IT outsourcing decision.

Though there is a lack of data on the participation of trade unions in SME restructuring, anecdotal evidence appears to suggest that employee representatives are involved in negotiations in redundancies for those employees being laid off. The main focus for the involvement of trade unions is to ensure that the number of their members affected by the redundancy programme is minimised, and to secure the best possible redundancy package for their members who are made redundant. The employee representatives will also seek to influence the method used by the employer to determine the redundancy selection process for example, last in–first out.

Similarly, if a company is going into liquidation and all employees are being laid off, trade unions will often seek to negotiate with the liquidator to ensure that all staff wages and due benefits are paid. Trade unions can tell employees of their rights in SMEs that are restructuring or considering redundancies.

However, in the three Irish case studies, work councils, trade unions or other employee representatives were not involved in the restructuring process. None of the employees was a member of a trade union and consequently did not have any trade union representation during the restructuring process.

The Irish National Organisation for the Unemployed (INOU) has published several guides to assist trade unions in dealing with members who are being made redundant or whose company is being liquidated.

The INOU also provides training courses for employers, trade unions and employees facing redundancy. The courses cover issues such as tax and redundancy, social welfare entitlements and education options.

Main challenges and constraints facing SMEs in restructuring

With the exception of media reporting of company closures and bankruptcies, there are scant reports or papers on the restructuring of small and medium-sized enterprises. There are virtually no data on the challenges or the constraints on SMEs undergoing restructuring; equally there are no data on difficulties that SME employees might experience during the restructuring process.

The PriceWaterhouseCoopers' survey on restructuring, published in its Business Barometer publication (PWC, 2012), indicates that the main challenges faced by the companies surveyed in relation to restructuring were:

- employee buy-in (38%);
- available funding (18%);
- bank/lender engagement (15%);

Anecdotal evidence and the preparation of the case studies indicate that one of the issues facing SMEs in the restructuring process was that many entrepreneurs established their businesses during the so-called 'Celtic Tiger' years (1995–2007) when the Irish economy grew rapidly, initially on the basis of solid foundations such as high foreign direct investment, but latterly on the availability of cheap credit and lax financial policy supervision. A corollary of this was that these entrepreneurs had experience only of increased sales and had little exposure to economic downturns — though the IT sector suffered from the dot.com bubble collapse and from 9/11. This lack of organisational experience of how to deal with sudden and difficult market conditions, following years of consecutive sales growth that led to restructuring surfaced in one of the case studies, Brian Mordaunt and Sons Limited (BMS).

This inability to respond to restructuring caused by severe market and economic conditions is likely to have more severe consequences in small enterprises, given their relatively flat organisational structure and lack of management depth. A difficulty common to all three Irish case study companies was that they had flat and under-resourced organisation structures and did not have sufficient resources or access to in-house expertise for dealing with the crisis.

A study by Nummela et al. (2006) of Irish SME internationalisation noted that a small enterprise may have to reassess its financial arrangements, reconsider its organisational structure or diversify its personnel in order to acquire the skills and resources needed for internationalisation.

The lack of experience and expertise in dealing with turbulent market conditions is also likely to be an issue in organisations (for example, accountants, management consultants) that provide advice and support to small and medium-sized enterprises.

The traditional option, of taking advice from a bank, has not been an option for SMEs in Ireland recently as the banks themselves have faced significant turbulence as a result of their disastrous lending policies during 2000–2007, which led to a huge over-exposure to the property market. A contributing factor to the Irish banking crisis was the lack of adequate supervision by the Central Bank.

The Government was forced to take either a majority stake or full ownership of a number of major Irish financial institutions. Additionally, the introduction of a stricter supervision regime on the financial institutions required them to develop higher capital reserves that constrained their ability to lend. The ongoing turbulence in international financial markets equally limited the ability of Irish banks to raise funds from these sources. These factors created pressures within the Irish banking sector to curtail their lending and to seek the return of loans. Their need to improve their capital reserve ratios and to deal with impaired loans took priority over the needs of their clients, particularly SMEs. It can be argued that the advice they provided to small and medium-sized enterprises, which themselves were facing extreme difficulties, was hardly objective. An example of this can be seen in the case study of Brian Mordaunt and Sons. The other two SMEs featured in the case studies also reported unsatisfactory experiences with their professional service providers.

Business support

Demand side

The review of the literature has found little evidence of research undertaken among SMEs involved in restructuring of the types of public support they, or their employees, would require. The small amount of data that exist only indicates what external advisers SME owners/managers might consult in relation to restructuring their businesses.

A key issue to emerge from the case studies is the lack of awareness of external sources of advice to managers of SMEs to assist with their efforts to restructure their businesses.

Anecdotal evidence suggests that one potential source of external advice is professional service firms, particularly accountancy firms. However, two of the case study companies had unsatisfactory experiences with professional advisers; one said that the bad advice he had received from a large accountancy firm was a key contributing fact to his business collapse. The other two case study companies also reported problems with professional advisers, particularly with the cost of the advice provided.

However, the advice provided by a second accountant in the Jo'Burger case study was instrumental in persuading the Macken family to opt for examinership, which ultimately saved their business, even though they lost majority control of the company.

George Mordaunt, although he did not initially have help, eventually traced two experts to help him deal with the banks, particularly in the context of negotiating on loans offered against assets whose value had fallen.

One of the issues emerging from the case studies was the difficulty experienced by companies in accessing credit facilities — which, in the case of BMS, was sought to assist with its restructuring. The European Commission's SBA Fact Sheet 2010–2011 for Ireland notes that in March 2010, the Minister for Finance established the Credit Review Office, an independent body. Its role is to ensure that the credit system operates effectively for SMEs (including sole traders and farm enterprises). The core aims of the Credit Review Office are:

- to ensure that credit is not refused to viable businesses with valid credit propositions;
- to assist the Minister for Finance in facilitating the availability of credit;
- to examine the lending policies of banks with respect to SMEs, sole traders and farm enterprises, including systems of exemptions to policy.

All SMEs may apply for a review of a decision by a participating institution to refuse, reduce or withdraw credit facilities, including applications for restructured credit facilities or debt restructuring, from €1,000 to €250,000.

Supply side

Potentially, there is a range of services that can be given to SME employers who are considering, or implementing, a restructure of their enterprise. These support services can be classified under headings such as financial, marketing or legal issues. The support services provided to SMEs can also encompass advice and information on how to deal with employees in enterprises that are being restructured (such as information provision, communication processes, redundancy programmes, staff counselling).

The support services can also be segmented by the provider for example, state organisations, private sector providers and non-governmental organisations. A number of state organisations such as Enterprise Ireland, and the network of County and City Enterprise Boards could potentially have a role in providing support services (and even financial assistance) to client companies that require restructuring — preferably expansion into international markets. However, it is understood that Enterprise Ireland took a policy decision in 2009 not to provide support to client companies seeking to move their main operational activities outside Ireland.[18]

However, this study has not found any evidence of studies or research examining the type or range of business support from public or private sources that SMEs involved in restructuring might have used.

In one of the case studies, the SME owner participated in an industry body set up by enterprises in the sector to promote their interests vis-à-vis the banks.

[18] Private email correspondence to the author, May 2012.

Outcome of restructuring events

Organisational effects

The literature on the outcomes of SME restructuring in Ireland is limited. This is not surprising given the lack of data available on the extent to which SMEs are involved in different types of restructuring, the drivers underpinning the restructuring process and the supports available to SME owners/managers and their employees. Similarly there has been a lack of research carried out by academics and others into this field of study.

The PriceWaterhouseCoopers Business Barometer study (PWC, 2012) provided data on restructuring outcomes arising from a survey it undertook of Irish companies. The main findings of the PWC survey in relation to restructuring outcomes are outlined below.

- The survey confirms restructuring success with 70% of participants reporting overhead reduction as a clear benefit.
- Other confirmed benefits were stabilisation of the funding structure (38%), margin improvement (33%) and improved staff productivity (25%).
- Restructuring did not result, for the most part, in any arrangements or compromises with suppliers (70%) or in an insolvency process (87%).

Some data do exist in relation to certain types of restructuring, particularly in relation to bankruptcy/closures and internal restructuring (examinership) that are available from the Companies Registration Office (CRO). Table 6 presents information released by the CRO on the number of companies in receivership[19], examinership and creditor and court liquidations during the period 2006–2011.

The data in Table 6 show that the number of creditor voluntary liquidations increased substantially during 2006–2011. There were 325 creditor voluntary liquidations in 2006 but this increased to 1,311 in 2011, an increase of 986, or 303%.

Table 6 also shows the number of official or court liquidations. The number of court liquidations stood at 31 in 2006 but increased to 99 in 2011.

The number of companies going into receivership increased over thirty-fold, from 17 in 2006 to 533 in 2011.

The number of court orders appointing an examiner to a company increased from three in 2006 to 84 in 2009, before slipping back to 31 in 2011.

[19] Receivership refers to the situation when a financial institution, court or a secured creditor assigns an external person (known as the receiver) to take over the administration of a company. This outside manager replaces the managing director of the business placed under receivership and endeavours to find the best way possible to pay the company's debts in a limited amount of time. The receiver will normally seek to sell the company's assets which may mean closing the company. In certain situations, the receiver may find that there is potential for the company and will seek to rescue some of the assets.

Table 6: *Companies in receivership, examinership and creditor and court liquidations, 2006–2011*

Category	2006	2007	2008	2009	2010	2011
Creditors voluntary liquidations	325	298	530	1,124	1,258	1,311
Official or court liquidations	31	36	83	121	128	99
Companies going into receivership	17	14	59	205	388	533
Examinership	3	19	49	84	28	31

Source: *Companies Registration Office, Annual Reports*

It is worth pointing out that the driving forces behind two of the case study companies that closed, John McGuire and George Mordaunt, have set up new businesses and that the former now employs almost twice as many employees as First Credit. George Mordaunt has set up a new car sales business selling through the web and employs a number of people from his previous company.

Employment effects

There is little specific data available in Ireland on the extent of the outcomes of SME restructuring on employees. There are, however, some small pockets of information on jobs created or lost as a result of restructuring.

The 2008 CSO publication, *International sourcing: Moving Irish business activity abroad*, which focused on enterprises engaged in offshoring, indicated that 15% of enterprises surveyed reported that jobs were created in Ireland as a direct result of international sourcing. Furthermore, 9% of these enterprises reported the creation of high-skilled jobs in Ireland due to international sourcing. The results show that 23% of those enterprises engaged in international sourcing reported that jobs were lost as a direct result of international sourcing, with 15% of these enterprises reporting the loss of high-skilled jobs.

Additionally, a Eurofound study, *Restructuring and employment in the EU: The impact of globalisation* (Eurofound, 2007), revealed that the proportion of job losses attributable to offshoring restructuring ranged from over 25% in Portugal and just under this in Ireland, to 4%–5% in Belgium and the Netherlands and under 4% in three new Member States: the Czech Republic, Hungary and Poland. The study showed that it is in high to medium-tech sectors rather than in low-tech sectors that delocalisation plays the more important role. The sector accounting for the highest proportion of EU jobs lost through delocalisation (one in four of the total) was banking and insurance, a service sector with a generally high-skill profile.

An analysis of the European Restructuring Monitor (ERM) database indicates that 512 cases of restructuring were recorded across all sectors in Ireland during 2002–2011 (see Table 7). It is important to note that the ERM data focus mainly on large companies.

Table 7: *ERM data for Ireland (2002-2011) on employment effect by type of restructuring*

Type of restructuring	Number of planned job reductions	Planned job reductions (%)	Number of planned job creations	Planned job creation (%)	Number of cases	Cases (%)
Business expansion		0%	49,649	99.80%	184	35.94%
Internal restructuring	50,564	57.43%		0%	167	32.62%
Bankruptcy/ Closure	14,714	16.71%		0%	68	13.28%
Offshoring/ Delocalisation	12,186	13.84%		0%	41	8.01%
Closure	3,484	3.96%		0%	18	3.52%
Bankruptcy	1,764	2%		0%	10	1.95%
Outsourcing	1,858	2.11%		0%	8	1.56%
Relocation	1,018	1.16%		0%	7	1.37%
Merger/ Acquisition	1,376	1.56%	100	0.20%	5	0.98%
Other	1,085	1.23%		0%	4	0.78%
Total	**88,049**	**100%**	**49,749**	**100%**	**512**	**100%**

Source: *European Restructuring Monitor, 2012*

Table 7 shows that the business expansion category accounted for virtually all of the restructuring that was planned to result in employment gains, while internal restructuring was the main contributor (58%) of planned job reductions. The total planned job reductions during the period amounted to 88,049, while the number of planned jobs created came to 49,749.

The experience of the employees who worked in two of the three Irish case studies, First Credit and BMS, illustrate that during restructuring they had to face periods of uncertainty regarding their employment prospects and to work in an environment where there was a lack of information on the prospects of their employer or how the restructuring process would affect them. Interviews with past employees of both firms indicate that employees were not aware of all the difficulties facing their employers until after the owners, John McGuire and George Mordaunt, had written a book about their experiences.

The employees of First Credit and BMS also had no support of employee representative organisations, as they were not members of any trade union. To a certain extent, the employees relied on each other for advice and support; one of the First Credit employees interviewed during this project obtained employment with another employer following a tip-off from an ex-colleague.

The interviews with the former employees of both enterprises suggest that the working environment became increasingly difficult during the restructuring period. The employees could see that sales were declining and, additionally in the case of First Credit, they had no product (mortgage credit) to sell. With declining sales, they suffered reductions in salary and commissions and many perks such as attendances at conferences became a thing of the past. In the case of BMS, there were a number of rounds of redundancies that created a difficult working atmosphere for employees; as BMS initially used last-in'/first-out as a selection criterion, it was the newer employees who had most to fear. However, as the crisis facing BMS escalated, the company had to start making senior employees — even managers — redundant. There was tension in the company as employees waited to hear of their fate during each redundancy round. Even those employees who survived to the last round of redundancy experienced a sense of guilt — in addition to relief — that it was they, rather than a colleague had survived the redundancy process. The BMS employees had also to contend with the small country-town rumour mill syndrome where stories of large-scale redundancies within the company regularly circulated (George Mordaunt also had to deal with rumours that he had, for example, left the country).

Anecdotal evidence suggests that the majority of employees who lost their jobs in First Credit and BMS were able to secure alternative employment elsewhere. In some cases, employees were able to find alternative employment through the contacts of their employers or as a result of references provided by John McGuire and George Mordaunt.

The employment situation for the employees in Jo'Burger has been more positive as a result of their employer's restructuring. The examinership process resulted in new investment and management that has transformed Jo'Burger's prospects. Employment has grown significantly, from 15 in 2010, to 95 (expected to reach 145 by mid–2012). In addition, the growth of the company has provided career opportunities for Jo'Burger employees. One of the first employees of Jo'Burger, who started as a waitress, is now a supervisor in one of the company's new restaurants.

Conclusions and policy issues

Conclusions

The report has identified significant shortcomings in national datasets on restructuring, particularly with regard to informal restructuring and to SMEs.

- The development of a central business register is only at an early stage of development.
- There are difficulties in obtaining meaningful longitudinal data on SMEs.
- Key sources of information on SMEs in Ireland are derived from organisations that collect data on small enterprises for different purposes other than statistics collection.
- Data that have been collected on enterprise restructuring by the Central Statistics Office (CSO) do not disaggregate SMEs.
- Similarly, CSO data on the reasons why enterprises apply for finance, for example expansion, mergers and acquisitions, etc., do not provide a breakdown by company size.

This report has presented data from the Companies Registration Office (CRO) about companies undergoing bankruptcy/closure. This information, while useful in indicating trends, is symptomatic of the difficulties in relation to SME restructuring in Ireland as it is limited to incorporated companies and, more importantly, it does not provide any breakdown by size of company. Nor does the CRO data provide any explanation of whether the company closure was caused by the owners wishing to cease the business through retirement or whether it was forced on them because of market or financial problems. The CRO data provide few, if any, clues on what advice or supports were provided to the company prior to its closure.

Theoretically, it would be possible to undertake an analysis of the documentation provided to the CRO by companies going through a receivership, examinership or liquidation. This investigation, which would require an extensive trawl of company documents, has not yet been undertaken, but it would represent a fertile data source on how restructuring resulted in business closure.

The literature on the restructuring of SMEs in Ireland is extremely limited and indicates that there is a need for policy makers and researchers to study the different forms of business restructuring. Little data exist on the factors that cause SMEs to restructure or the types of restructuring that they engage in.

The report has also found serious gaps in the available information in relation to employees of SMEs that are restructuring. Little data exist on the situation, experiences and outcomes of employees of SMEs involved in restructuring. The three Irish case studies showed that, in the case of two of the SMEs, the impact for employees was negative in that all of them lost their jobs. The outcome for employees in the third SME, Jo'Burger, was more positive: not only did the employees retain their jobs but the company's growth afforded them increased career opportunities.

The lack of data and studies on SME restructuring suggests, therefore, that policy makers do not have a good understanding of the contributing factors facing SMEs and their employees or the supports that they require or use. This suggests that policy makers do not have the necessary base to be able to develop an adequate policy response or to put in place appropriate support measures to assist SMEs and their employees undergoing restructuring.

The study has found that there has been extensive debate in relation to one form of restructuring, bankruptcy, arising from the economic crisis (it is important to state that under Irish law, bankruptcy concerns only individuals, not enterprises). The debate has centred on the severity of Ireland's bankruptcy laws compared to that of the UK system.

Under the Irish system, a person declared bankrupt must enter a period of restrictions for 12 years; in the UK, the period of restrictions is 12 months. These restrictions include curbs on owning or managing a business; additionally, a person declared bankrupt may leave the State only with the permission of the Official Assignee, a person appointed by the courts to distribute their assets among their creditors and to protect them from these creditors. In recent times, there has been a number of high-profile Irish business people — primarily from the property sector — who have elected to declare themselves bankrupt in the UK.

Though Irish bankruptcy laws have been criticised for being overly severe, there has been praise for the introduction of examinership, which is designed to help companies in financial difficulties to restructure where there is a good chance of being able to save the business.

Policy issues

A key recommendation is that SME policy makers, the Central Statistics Office and other relevant stakeholders should review the lack of data in relation to SME restructuring in Ireland and bring forward initiatives to rectify the situation.

The gap in available data on SME restructuring, particularly in terms of the supports that owners/managers may need, should be sorted out as no meaningful or effective policy initiative can be developed without this. A study undertaken by the Small Firms Association on family businesses indicates a lack of planning in relation to succession and has highlighted the need for training and appropriate supports to assist family-owned firms on ownership transfers.

There is also a need to improve the awareness and knowledge of SMEs on the restructuring options open to them. One case study company, Jo'Burger, was able to avoid liquidation through the use of the examinership option. Examinership, modelled on the US Chapter 11 approach, allows a company in financial difficulty to gain court protection from its creditors while it seeks new investment.

While the Government is rightly lauded in relation to its examinership regime, it does, nonetheless, need to quickly enact new legislation to overhaul Ireland's existing bankruptcy legislation that is regarded as being out-dated, unwieldy, expensive and bureaucratic.

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EF/12/47/EN 13