

# Mizia-96 (Bulgaria) - Case study, do not delete

Topic: Restructuring | Observatory: EMCC

## Abstract

This illustrative case study was conducted as part of a larger research on the restructuring impact on remaining employees. The key findings are published in the ERM restructuring report 2018. The case study examines the process of organisational downsizing in Mizia-96 JSC (Bulgaria) during the 2008-2009 economic downturn. Faced with a considerable and rapid market contraction, the corporate management had to find a way to keep the company afloat - measures included cost-cutting, reorganisation of the work process, shortened working time, unpaid leave, and a dismissal of almost 30% (almost 300) of employees in three rounds of restructuring. While the first concern of the management during this period was to save the company, different measures were implemented to reduce the negative effects of the restructuring on the dismissed and the remaining employees. The aim was to motivate remaining personnel to keep performing during the crisis, but also to give an incentive to those leaving to later return to the company when new growth was possible. The way the management handled the downsizing helped the company to weather the storm and by the end of 2010, the workforce had almost regained its pre-crisis numbers. Since the end of 2010, the number of personnel has been slowly increasing to 1,030 in 2017.

### About

**Case study name:** Restructuring in SMEs in Europe (/case-study-names/restructuring-in-smes-in-europe)

**Country:** Bulgaria

**Organisation Size:** 1000+

**Legal Form:** Private

## Organisational profile

Mizia-96 JSC is a joint-stock company, established in 1950 and located in Pleven, north-western Bulgaria. According to Eurostat data (2017), this is the EU's poorest region, with a GDP per capita equal to 29% of the EU average, and also the lowest in Bulgaria. Based in a small town (fewer than 100,000 residents), the company plays a very important role in the social and economic life of Pleven.

Mizia-96 designs and produces clothes (NACE Code 14.13; manufacture of other outerwear). Over 90% of production is exported (mostly to EU countries like Germany, the Netherlands, Greece, Slovakia, France and Spain, but also to Canada), while less than 10% is sold on the Bulgarian market.

The company consists of one establishment with five units: design department, cutting room, production unit (with seven production lines for clothes), ironing unit, and quality control. As of 2017, the company has 1,030 employees, which is marginally below the number of employees (1,050) at the beginning of 2008 - just before the start of the economic crisis, which was the main reason for the restructuring process in Mizia-96. By the end of 2008, the number of workers decreased to 935, and by the end of 2009, only 730 people remained in the company. As a result of the recovery in 2010, many former employees returned to work, and the number of workers reached 980.

The company is managed by the senior management, which is in practice represented by two people - Executive Director and Assistant Director. They are appointed by the Board of Directors, the decision-making body, which meets two to three times per year. Shareholders of Mizia-96 do not have the right

to manage the company directly nor to represent it, but can assert their influence through the General Assembly, which is the highest body of the company. Figure 2 shows the organisational structure of Mizia-96.

The personnel is divided in three main groups: blue-collar workers, specialists and management:

- Workers represent around 90%, while specialists and management are 10% of the personnel. Workers are directly involved in the production process and are further divided in principal and auxiliary workers. In principle, auxiliary workers offer manual assistance to principal workers who operate the machinery. Auxiliary workers generally are less qualified and are, in the eyes of management, more readily 'replaceable'. Among Mizia-96 workers, the most numerous groups are tailors, ironers and operators of textile cutting machines. Although layoffs affected all units of the company, these medium and low-qualified auxiliary employees comprised the largest share of workers dismissed during the crisis. The majority of the workers are women.
- Specialists are in charge of organisational, technical and economic management of the work process, or take care of financial, accounting, administrative and procurement duties. Specialists include the following positions (ranked hierarchically from lowest to highest): line overseer, technologist, technical controller, supervisor, and production manager.

Over 85% of employees are members of the Federation of Independent Trade Unions in the Light Industry (FITULI). The Mizia-96 union has a leadership and union committee, which are selected by and from the company workers. There is only one union in the company. Within the company, an Employee Assembly (EA) was also operational and acting as a works council. The function of the EA is stipulated by the labour law, particularly for information and consultation purposes.

## Background to restructuring event

The economic crisis and market contraction hit Mizia-96 in 2008, when turnover decreased and net profits fell to less than half of the 2007 level. The restructuring was driven by macro-economic conditions, and set against the background of the great recession in 2008-2009. As an export-oriented business, the company experienced a substantial contraction of its markets and decline in sales. This reduced the volume of work almost by half compared to the pre-crisis period.

The restructuring approach at Mizia-96 should be also understood within the institutional and legislative context within which the company operates. It should be noted that the Bulgarian Labour Code and related legislation are specific with regard to the procedures and treatment of the dismissed, but they are silent on how companies should support the remaining employees in restructuring situations. The attention of public employment services, local authorities and other bodies is also only sporadically focused on the needs of those remaining in employment. In practice, no specific provisions exist with regard to improving the well-being and working conditions of employees during and after the downsizing period.

Based on the examined company documents as well as the company interviews, Mizia-96 fully complied with the legal requirements concerning collective dismissals and restructuring during the 2008-2009 restructuring. In order to reduce the number of dismissals, the company also resorted to short-time working. The use of working time flexibility in Bulgarian companies was rare before the 2008-2009 crisis, but it had become a more common practice since 2009 when the government allocated funds for subsidies in the amount of one-half of the minimum monthly salary (€60 at that time) for the affected workers.

## Restructuring process

Faced with a considerable and rapid market contraction, the company initially sought to find alternatives to dismissals, for example by putting in place a new business strategy aimed at finding new markets and clients and diversifying the production. It became soon apparent that reduced profitability would not be turned around without more drastic cost-cutting measures. In 2008, the

company proceeded with the first round of dismissals (115) together with other cost-cutting measures including reorganisation of the work processes, short-time and part-time work, wage cuts and unpaid leave. Two additional dismissal rounds took place in 2009, affecting in total 205 employees.

The management developed a new business strategy aimed at keeping the company afloat while at the same time safeguarding as many jobs as possible. As the timely fulfilment of all contract obligations and delivery of high quality products was paramount to the survival of the company, the strategy was primarily focused on retention of highly qualified employees. However, the second principle guiding the selection of employees to be retained was based on 'social criteria' to protect the most vulnerable employees (in hardship situations). In Bulgaria, there are no stringent legal provisions on selection criteria for the layoffs (or staff retention) especially in situations of economic downturn. The socially conscious selection process in Mizia-96 was intended to retain those employees who most depended on the continuation of the employment. This approach was based on the company core values focused on care for all employees and grounded in the Corporate Social Responsibility (CSR) policy the company had committed to some years before the restructuring. With a view to reconciling employees' and company's interests, about half of remaining employees were retained on the basis of their skills and qualifications and the other half on the basis of their social situation. The management offered to the dismissed severance compensation higher than what was legally required. The HR department also cooperated closely with the municipal and regional authorities, including the public employment services, in order to assist the dismissed in their job search and provide them with comprehensive information about the alternative employment options, vocational training and application procedures for available public programmes. Besides that, the dismissed were also given strong indication that they would be rehired as soon as the company performance improved. The interviewed employee representative indicated that the selection process and procedures applied were perceived as fair by the employees. This perception is, to some extent, context dependent as common restructuring practices in Bulgaria tend to be less socially sensitive.

An important element of the management culture at Mizia-96 was the stable management-trade union relationship. The union (Federation of Independent Trade Unions in the Light Industry, FITULI) was actively involved in the restructuring and was regularly consulted by the management on the implementation of the change process. This started with the selection of the dismissals or employees to be retained which was subject to intense deliberations with the union. Also, after the first round of dismissals in 2008, the union negotiated a collective agreement which remained valid for five years and contained provisions on working conditions (particularly in relation to wages and working time), employee benefits and terminations. The trade union closely monitored the dismissal process, ensuring that the procedure fully complied with the legal requirements as well as the provisions set out in the collective agreement. Throughout the restructuring the trade union was also involved in the implementation of the communication strategy. From the management perspective, their role was essential to motivate the staff, foster legitimacy of the decisions and acceptance of the harsh measures, and ultimately instil confidence that company performance would be restored and the dismissed would be re-hired. The trade union performed this supporting role through three (already existing) channels: the Union Committee, the Employee Assembly and the Committee on Working Conditions. The Union Committee served as a main communication channel to inform the employees about the dismissals, the selection criteria and implementation process. The other official channels functioned as communication mechanisms after the dismissals providing employees with information about the state of change and the implementation of the restructuring.

The top management emphasised throughout the restructuring process that each and every employee would receive individual attention. A team consisting of HR specialists and trade union representatives met individually with each employee to explain the reasons, goals of the restructuring, the changed circumstances (shortened working hours, increased workload), the reshuffling within production units and reorganisation of work processes. These individual consultations were important for maintaining mutual trust between employees and the company, and preparing the employees for the changes.

In order to cope with the increased job demands due the workforce reduction, the employees in production units were given on-the-job-training provided by in-house trainers (line managers and more experienced colleagues). The training was mainly job specific to learn new skills, particularly to operate machines and manage operations previously done by the dismissed colleagues.

# Challenges and constraints of restructuring

Access to financial resources was highlighted by the interviewees as the main challenge to the implementation of a fully-fledged restructuring strategy that would adequately address the concerns and needs of both dismissed and remaining employees. The most pronounced challenge was the lack of sufficient resources for guaranteeing an appropriate evaluation or monitoring mechanism to detect issues arising from the implementation of the restructuring and put in place corrective actions. As the restructuring process occurred in a relatively short time frame (which lasted over a year) the management felt that they had limited margins to properly plan each restructuring round. This was also combined with the limited awareness of available instruments to secure employees' health and well-being as well as to support post-downsizing performance.

## Outcomes of restructuring for the remaining employees

As a direct consequence of the workforce reduction, workload increased. The remaining employees had to perform new tasks or attend to work duties previously performed by a workforce that was twice the size. This was only partly counteracted by the on-the-job training offered to the remaining employees. There is some indication that training, albeit limited, did help particular groups of 'auxiliary' workers among the remaining employees to gain the required skills and confidence over their work.

The intensified communication and management efforts during the restructuring were intended to secure as much as possible employees' commitment, loyalty and trust. In the most difficult period between 2008 and 2009 numerous Bulgarian textile factories shut down; Mizia-96 survived and later regained output levels and re-employed most of those who had been dismissed. In 2017, the company employed more people than in 2008. According to the interviewees, this positive outcome was mainly because of the good cooperation between the management and the union, which both had been committed to saving the factory and the jobs throughout the process.

## Authors

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## Information sources

Interviews

Representative of Federation of Independent Trade Unions from the Light Industry.  
Manager of work and technical control.

Company documents

Annual Management Reports and Financial Reports of Mizia-96 for the period 2007-2011.  
Panteleeva, M., (2009), Marketing Analysis of Mizia-96, Referati.

 **Revision log summary**