El León, Spain

- Type of restructuring:
  Internal restructuring
- Employees before restructuring:
  10-49
- Employees after restructuring:
  10-49
- Nace/Sector:
  Manufacturing
- Country:
  Spain
- Date:
  02/11/2011
- Keywords:
  Recession/Crisis

Abstract

Spanish company El León has experienced decreasing orders and sales since 2007 and reacted to that by first offering incentives for voluntary redundancies, followed by the suspension of employment contracts for 120 days, before finally deciding to carry out compulsory redundancies. This damaged the image of the firm, which had previously been a popular employer in the region. Gossip and rumours are harmful for the company's relationships with its suppliers and clients, and some people in the area even think that the company has already closed.

Organisational profile

El León was founded in 1964, and is located in Ejea de los Caballeros, a village in the rural area of Zaragoza province. The main activity of El León includes the manufacture of bucket-loaders, which corresponds to NACE Rev2 28.3 (manufacture of agricultural and forestry machinery).

El León was originally a family business set up by two owners. At present, the two founders are about to retire. One of the owners has already handed his shares to his two children and stopped working at the company; the other has started proceedings to transfer ownership to his children. Both managers and workers think the transfer is influencing management of the company, reflecting the high importance of personal decisions, as suggested by the literature review in the Spanish National Report. As of November 2011 the company has 36 employees 35 men and one woman.It is estimated that the average employee is in the middle age category.

The company’s main market is domestic, with a small proportion of export sales. During the last five years, as a consequence of the international economic and financial crisis, sales have plummeted and the company has made huge losses. The general environment seems pretty negative, so future prospects are poor. The company directors are interested in enhancing exports, but this would mean a huge, and currently unaffordable, financial effort. Business aims are to cope with this difficult situation and survive, in the hope that conditions will get better soon. In order to maintain the business running, shareholders have had no choice but to contribute more funds to the company. Before hitting this bad patch, the company used to employ 85 and it was considered a well-established and renowned company in the area. Unfortunately, circumstances are very different these days.

Currently, there is no works council at the company. According to Spanish legislation, designating a works council is only compulsory for companies with 50 employees or more. Therefore, given that El León has only 36 employees, it is not required to elect a works council. Nevertheless, they do have personnel delegates acting as workers' representatives.

Background to restructuring event

The restructuring studied here is an internal restructuring process which took place in January 2011. During this time the management board decided to carry out a plan for the adjustment of employment levels, by which seven employees were made redundant. According to Spanish legislation, the plans for the adjustment of employment levels (*Expediente de Regulación de Empleo*) can be of three different types:

- termination of working contracts (i.e. collective dismissals);
- temporary suspension of working contracts for a specific time;
- short-time working arrangements.

Following the criteria of Spanish labour law, the seven redundancies were attributed to 'objective reasons', given the economic loss and productivity standards of the firm, caused by the global economic crisis.

Restructuring processes

The number of orders and sales had constantly decreased since 2007. The decision to terminate the contracts was seen as the best option for the future of the company. However, it was unable to offer the seven employees any support to find a new job.

In order to understand these redundancies, it is necessary to be aware of the delicate situation that El León has undergone since 2008, characterised by a serious drop in income. Other measures were implemented before the company decided on the dismissals. Since mid-2009, the company has offered incentives to promote voluntary redundancy, which some employees have accepted. During the summer of 2010, the company arranged a plan for the adjustment of employment levels (or 'ERE'), by which the company suspended employee contracts for a period of 120 days. It is clear that the company has been fighting the consequences of the crisis for a few years.

Company directors and owners unilaterally decided on the redundancies; employees were not consulted, as managers felt it was the only option to maintain the business. This reflects the difficulties of social dialogue practices within Spanish small enterprises, due partly to the absence of compulsory social dialogue solutions for smaller enterprises (as suggested in the Spanish National Report).

Conversely, the suspension plan arranged in the summer of 2010 was agreed and coordinated with employees, in order to reach a favourable accord between all stakeholders and the company. The negotiation process was not very problematic or lengthy, since everyone was willing to find a solution. At the beginning, workers' representatives had been rather unwilling to agree to the suspension plan, but eventually accepted the bad economic situation facing the firm. Thus, it was possible to finally make a decision on a suspension plan, as a temporary solution for the good of everyone in the long term. Unfortunately, the situation did not improve and the position of the business became increasingly difficult. The management board described the 2010 sales as a 'disaster'. In December 2010 and January 2011 management offered incentives to employees to take voluntary redundancy. However, when employees were unwilling to accept them management decided on the dismissals.

From the point of view of the workers' representatives, the company is in a really bad situation. They feel that the new owners are not really able to adapt to new markets, innovate or find solutions to the current situation. They think that the situation got worse when the founders transferred ownership to their children. Some workers are pessimistic and afraid that company closure will be unavoidable in the medium-term. The lack of exports is seen as one of the main problems, due to the poor prospects of the Spanish market.

Challenges and constraints of restructuring

One of the challenges for management was to tell employees about the dismissals. Employers were afraid that their relationship with the workers would be damaged. However, it seems the situation was not particularly traumatic as the workers acknowledged the firm's difficulties.

On the other hand, it is interesting to comment on the damage caused to the image of the firm. El León is a long-established company and is very popular in the area (it is located in a village in a rural region) given that it has traditionally hired workers from the surrounding locality. Many employees have worked only for El León and no other company.

The difficult economic situation the firm is currently facing has led to internal restructuring with bad consequences for workers' conditions. This situation is having a very bad impact on the company's image with people in the area who think the company has already closed. Gossip and rumours are harmful for the relationships between the company, its suppliers and clients.

Restructuring advice and support

The company has not received any kind of support for restructuring. Decisions were taken internally with neither public, nor private external advice or financial assistance..

The labour law reform carried out by the Spanish Government in September 2010 (Law 35/2010 on urgent measures for the reform of the labour market) clarified and smoothed the proceedings of the company plans for the adjustment of employment levels. This new legislation facilitated the termination of the seven working contracts. Law 35/2010 was approved in the context of strong crisis with the aim of implementing long-term reform. Some of the measures included are directly linked to the economic downturn and its consequences, so they could be seen as temporary measures. The new Spanish government was expected to introduce further labour law reform in February or March 2012 which will modify Law 35/2010.

Outcomes of restructuring

The main outcome of internal restructuring has been the dismissal of seven employees. The compensation or indemnity for these has been a huge cost to company owners who paid it as an 'extra' amount rather than from internal funds.

The firm's future does not seem very hopeful. Company directors are thinking of implementing a new employment adjustment plan, based on the temporary suspension of working contracts. This plan is conceived as a way of getting over this difficult crisis stage. Management interviewees are trying to be optimistic and hope that economic recovery at both national and European levels will start soon.

With regard to working conditions, the work environment is quite tense. The company is operating a 'wage freeze' due to budget cuts. Workers accept the difficult situation the company is experiencing and there have been few labour relations problems.

Interestingly, the company might also find human resource difficulties if the economic context gets better and orders and sales increase. The dismissal of employees means a loss of knowledge and experience for the company. Moreover, employees are getting used to low production levels, where working rhythms are relatively slow. If production increases, it might be difficult to make employees work in a more efficient way.

The restructuring process has also caused a loss of prestige for the company.

Commentary

As to lessons learnt, the interviewee reported that one of the weak points which has led to this situation is 'arrogance'. The company has traditionally been a popular and buoyant business, and the management board may not have been able to notice the gravity of the economic situation early enough. From a critical perspective, a more proactive working group would have reacted in advance, going after its clients and fighting to maintain its market image. An earlier reaction might have softened the current delicate situation. Unfortunately, it has not been possible to talk to a workers' representative. The company has just 36 employees, and according to Spanish law, it is only compulsory to have a works council for companies over 50. Thus, despite our efforts, it has not been possible to reach the workers' representative, especially due to the current delicate situation of the company.

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Information sources

Interviews

Fernando Lacarra, General Director and owner of the company

Company website

http://www.el-leon.es/

Comment

Despite the authors' best efforts, it was not possible to interview a workers' representative for this case study.

Secondary sources

Online newspapers:

http://www.heraldo.es/noticias/detalle/siete_despidos_empresa_leon.html

- European Monitoring Centre on Change - EMCC
  - About EMCC
  - European Restructuring Monitor
    - About the European Restructuring Monitor
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