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Furniture Company, Italy

- Type of restructuring:
  Internal restructuring
- Employees before restructuring:
  50-249
- Employees after restructuring:
  50-249
- Nace/Sector:
  Manufacturing
- Country:
  Italy
- Date:
  25/11/2011
- Keywords:
  Recession/Crisis

Abstract

This Italian furniture company was compelled to restructure when faced with falling orders, turnover and profits. The company implemented the CIGO measure, under which part of its workforce reduced their working hours while receiving 80% of their normal salary. At the end of the CIGO, the company implemented a solidarity contract for some employees, who reduced their working hours by 20% while receiving 80% of the lost salary for the non-worked hours. Employees at the company's smaller production site were laid off under a mobility procedure. The restructuring process has required continuous organisational adjustments, both in terms of tasks and roles.

Organisational profile

The group is composed of three branches: the manufacturing of furniture accessories and decorative hardware, and industrial design.

The company was founded in the 1950s and has been run since then as a family business, and it is now in its third generation. Ownership and management are concentrated in the same hands.

Since its foundation, the company has invested in a strong design discipline and manufacturing expertise. In order to respond to the emergence of new trends in the 1970s, a second company was founded in the plastics sector to offer plastic with conscious, intrinsic value as a material that is strongly expressive as well as being technically versatile and highly functional. In addition, a third brand was introduced to renew classic taste, mixing it with the modern aspects of design. This brand introduces a new era in which industrial product is enhanced with elegance and optimum quality.

The company has two production sites. The main site is adjacent to the main offices and it is where they manufacture and cast products in zamak. A second smaller unit, located in a nearby village, is engaged in molding processes.

The company has 74 employees; of these 38 are women and four non-nationals. In terms of educational profiles among the staff, five hold tertiary degrees, 17 have an upper secondary education, 45 have secondary education and three have primary education qualifications. The company has no information on the educational profile of the four foreign members of the staff. Seven employees (of whom four part-time workers) are employed in the second productive unit of the company, while the remainder 67 staff are employed in the main offices and main production site.

Despite the fact that the number of employees has diminished in the past few years, from 91 staff in 2009 to 82 staff in 2010 and currently 74 staff in 2012, the company did not make any dismissals. The decrease in the number of employees has been solely due to voluntary redundancies or natural wastage.

There is a unitary work council (*Rappresentanza sindacale unitaria*, RSU). This body is elected by all employees, but representatives are usually elected through trade union lists. Therefore, it includes features of both works councils (the broad active electorate) and trade union bodies (the almost exclusive inclusion of trade union representatives). In general, it can be associated with trade union bodies. The RSU was highly involved in the described restructuring process.

The company is very embedded in the local community: 20 years ago, 80% of the employees cycled to work. Nowadays, all employees live a maximum of 40 kilometres from the company. Also the owners of the company live nearby and are well rooted in the local community.

The company does not have a written human resources strategy. Human resources management is administered internally by each head of sector, who is responsible for all aspect of human resources and their development, whereas other aspect of administration, such as pay-rolls, are outsourced to an external consultant.

The company has a large number of clients: around 1,000 active clients, both from Italy and abroad. Foreign clients are mainly located in Europe, the US and Russia. The client base in Russia grew extensively during the last ten years. The company has also some clients in Asia and South Africa as well as some in North African countries.

Distribution in Italy is carried out through hardware products wholesalers or producers of furniture. The same applies to foreign markets, where they either sell to furniture producers or they resell directly on foreign markets via local wholesalers.

Since the economic crisis, the Italian market for hardware products shrank dramatically, however this was partially offset by a considerable expansion on foreign markets in the last years, in particular in Russia, France and Germany. In general, around 63 % of turnover derives from the Italian market while the rest from foreign markets.

Background to restructuring event

Due to the economic crisis, turnover started to fall by 30–35% since 2008. However, this fall was not immediate; indeed turnover fell by 27% in 2008–2009, and decreased further in 2010 and 2011, even if for 2011, the decrease was concentrated in the first quarter.

Profits have diminished considerably. The market is much more exigent, as customers demand perfection; furthermore, most of the clients of the company no longer purchase to build up stock, but rather order items already sold to their own customers. This implies an increase in the stock of the company with a longer rotation of this stock, as well as very quick delivery times. Financially, for the company this means an increase in costs and a reduction in profits. Moreover, the intrinsic characteristics of the Italian labour market, which do not allow companies to adjust employment levels quickly to market developments, lead to rigidities and profits reduction.

The company was also largely affected by a strong speculation on the raw materials which are used in their production. This speculation could not be reflected in the prices, as these had to be kept stable or in some cases reduced in order to make them more appealing to their customers, who were also suffering from the economic crisis. Also repayment terms had to be extended and renegotiated, while conversely, access to credit, funding and financing were extremely limited.

The company has also suffered a lot from competition from foreign countries with a cheaper labour force. As already discussed, the company's production is all made in Italy and based on a strong design element. The company launches about 35 new products per year and in order to develop these, they study, research and develop at least four times that many. This is a very long and costly process, however once produced and launched on the market the product and its industrial design can be immediately replicated by competitors. Most competition comes from China and Turkey.

To counteract the difficult developments of the economic and financial crisis as well as the rise of competitor countries at the end of 2008 company decided to implement a restructuring programme.

Restructuring process

Since the end of 2008, turnover fell and costs became unsustainable. There was also a surplus of human resources compared to the level needed under the new conditions which could not be offset even by natural wastage, so the company started to consider which feasible options could be implemented to face the new deteriorated economic conditions. The company decided to implement a restructuring process via the use of social shock absorbers.

In May 2009 the company introduced the ordinary wage guarantee fund (*cassa integrazione ordinaria* CIGO – see also Eurofound, 2010). Under this arrangement, on a rotation base the affected employees were working reduced hours, receiving 80% of their normal salary. The CIGO affected both production sites and some offices. In the administration and in the trade divisions there was no necessity to implement short-time working, as these offices operated already with a limited number of staff. The average number of non-worked hours is eight hours per week. At the beginning the company had opted for working one less hour per day, however in order to guarantee continuity in the production cycle, the company decided to concentrate the hours under the CIGO on two days, during which the affected staff worked on a rotation basis.

Moreover, the specific contract which regulates the conditions of employees of the company (*contratto metalmeccanico*) envisages a large number of paid hours for special leave. Thus at the beginning of the restructuring process, those employees who had accumulated a considerable number of hours of paid special leave had been encouraged to make use of them during periods of reduced work. For the main productive site and the affected offices, the CIGO lasted until the end of June 2012. At the end of the CIGO, the company had to re-evaluate its conditions. Indeed, as there was too many staff in proportion to the amount of work and turnover, the company decided to implement a solidarity contract (*contratto di solidarietà*, see also Eurofound, 2010) for a number of its employees. Solidarity contract is a social shock absorber which provides for short-time working of equal measure for the whole workforce of a unit or division, while employees benefit from income support of 80% of the lost wage. In this specific case, the solidarity contract affected 51 employees who under this agreement reduced their working hours by 20%, while receiving 80% of the lost salary for the non-worked hours. Those employees not affected by the solidarity contract resumed working standard working hours.

While restructuring in the main production site and some offices has been implemented through short-time working under the CIGO and more recently by the *contratto di solidarietà,* restructuring of the smaller production site engaged in molding has been more difficult. In 2011, as the decline in turnover was concentrated in plastic material products, the second production unit was considered no longer profitable and the company was forced to assess its conditions and possible developments. At the beginning the company had considered the possibility of transferring the molding activity to the main production site. This would have resulted in a reduction of costs while safeguarding the affected staff. However, after assessing the level of investments the company would have had to make in the main production site, it became obvious that this was not feasible and economically viable. At this stage, the company was left with the only option to outsource the molding activity and implement a procedure of extraordinary wage guarantee fund (*cassa integrazione straordinaria* CIGS) for the site which envisaged the stop of production (CIGS zero ore). Under this scheme employees work reduced hours or even no hours (complete stop of production in this case), while receiving income support equal to 80% of their last wage.

On this smaller production site, which as the main site had been under CIGO since May 2009, CIGS started in October 2011 and lasted until the end of September 2012. In October 2012, with the end of the CIGS, the employees of the second site have been dismissed under a mobility procedure. Under this procedure, the dismissed employees are placed in special regional mobility lists, which are special job placement registers compiled to promote the re-engagement of the dismissed employees into the labour market. Under a mobility procedure, the employees also receive income support, if their former employer is eligible for CIGS.

The restructuring process has required continuous organisational adjustments, both in terms of tasks and roles. This implied a high degree of flexibility to the staff, and also considerable costs to the company, as in order to implement staff rotation, most staff had to be re-trained. This process was the result of agreements with social partners, and efforts have been channeled to ensure skills, competences and professionalism were safeguarded, while at the same time ensuring that the least necessary number of CIGO were used.

Challenges and constraints of restructuring

The main challenges the company encountered related to access to capital, financing and funding as well as bureaucracy. Indeed, SMEs' limited size undermines their bargaining power with banks and financial institutions in accessing finance and credit. SMEs score higher than average failed loan requests or have to pay higher interest rates to compensate for the bank perceived risk. Either way, credit and funding support dries up when most needed and this is highly significant as no investment or restructuring can be implemented without financing and credit. Moreover, despite the restructuring being financed by the CIG (which is itself financed via a contribution that each enterprise pays, in a sort of insurance mechanism), the procedure requires that the income support is anticipated by the company, which will then be reimbursed by the Italian National Social Security Institute (INPS). This reimbursement, however, can be paid up to six months after the implementation. This is an incredible incongruence because it results in a dramatic burden for companies which are already in difficulty.

The employees were informed immediately via their trade union representatives, as prescribed by Italian Law. Quite understandably, at the beginning the employees were concerned, also due to the fact that the majority of employees had been working in the company for a very long time and there had never been a need to implement such a restructuring process in the history of the company. However, these worries and the uncertainty have slightly diminished during the ongoing process, especially once it became clear that the reduction of hours worked concerned only a limited number of hours per employee (eight hours per week during CIGO) implying that there was not any prospect of temporary stoppage to the production or even closure. However, the impact on the employees of the second production site, which effectively stopped production, has been much more dramatic, as their future outlook in the company seems quite negative.

For the owners, the decision to restructure was emotionally very difficult. The company is a family-run business, which has been in the family for three generations. The owners are very bound to the company and the employees, and even if the impact on wages has not been dramatic, thanks to the supply of the CIG and of the solidarity contract, the decision to result to these instruments has been emotionally challenging.

Restructuring advice and support

The company has been supported in its restructuring process by the local offices of Confindustria (the Italian employers' organisation for the industry sector), which provided advice and information especially on the social shock absorbers, its procedures and the social dialogue with the other involved actors. The restructuring processes and the different options have been discussed with Confindustria which provided indispensable advice. The company has also been extensively supported by the external consultants that are also responsible for the outsourced administrative activities. The consultants provided detailed information on the different options of restructuring, providing also legal requirements, and expected outcomes and different scenarios of the different restructuring options.

The final decisions however are the sole result of the company decision and they are the result of the social dialogue.

Social dialogue has been very fair, and the main trade union representative has been extremely fair to the company as well as the employees. Employees did not directly participate in the social dialogue, but they did so through the trade unions and the RSU.

The Ministry of Labour as well as the Public Employment Services has not been involved at all. The Ministry of Labour has been only provided with the detailed information on the financial outlook of the company at the time of applying for CIG and solidarity contract as prescribed by the Law.

The company benefited of the economic support provided by the CIG and solidarity contract, which however are based on an assurance mechanism as they are financed companies. According to the company this support has proved vital for the survival of the company.

However, additional economic support to finance the restructuring in terms of costs for the training, and also costs toward the external consultants have been borne by the company.

The advice and support provided by Confindustria is free for all its members.

Outcomes of restructuring

The restructuring had a positive outcome as it enabled the company to face the decline in orders, turnover and profits due to the economic crisis.

The *Cassa*, in particular, has proved to be indispensable in order to implement the necessary organisational adjustments, while safeguarding employment levels. The company had not established a detailed restructuring plan which analysed the different steps and respective outcomes of the different phases of the restructuring process, but it rather outlined the first phase of the restructuring, while further steps were left for reassessment and renegotiation with social partners, after the period of CIGO (July 2012). By then as staff was still not proportionate to the amount of work and turnover, the company had to resort to the solidarity contract for 51 employees. This allowed an adjustment in terms of output and costs without jeopardising production, quality and employment levels. Those employees not affected by the solidarity contract have resumed working standard hours.

The restructuring therefore achieved the intended outcomes, as the company has been able to maintain the high quality standard of its products, while impacting as little as possible on employment.

Nonetheless, outsourcing the molding activity resulted in a loss of specific internal competences; regardless of this loss at products level, competences, know-how and skills as well as quality have been guaranteed.

The restructuring also impacted on the owners, and not only in monetary terms, but most for its emotional toll: indeed, never in the history of the company had the owners had to implement any cost-cutting measure. However, the owners firmly believe and stand behind the reasons for restructuring, as after assessing all viable options, they agreed that the specific restructuring implemented was the only feasible process which would have guaranteed the survival of the company. Notably, by implementing short-time working for most of the employees in the offices and the main production site, as well as deciding to stop production and outsource the activity performed in the second smaller production site, the company safeguarded the survival of the company and the job of at least 67 employees. This choice has been excruciating but essential.

The company was not negatively affected by the restructuring event in terms of their network of customers and suppliers. Indeed, given the economic contingencies, restructuring has affected a massive number of firms, and for this reason the negative outcomes on the network of relations in this particular time has not been as negative as it could have been in more positive economic times.

There have also been effects on staff, as due to uncertainty some members of staff have decided to voluntarily leave the company. However, the company believes there are positive outcomes ahead, and it does not foresee any impediments, limits or constraint to the professional and occupational development of its staff.

In the meantime, the company is actively engaged in developing a strategy to expand its core business to other areas. For this reason the company also foresees an expansion in 2013, which will also require new employment opportunities.

The restructuring process has not been formally evaluated, neither internally or externally. However, the company strongly argues that, notwithstanding the associated difficulties, the restructuring process has been positive.

Commentary

The restructuring event was deemed positive by the company, which has declared it would implement the exact same restructuring process if it could go back in time, but it would implement it quicker. Indeed, the support of the CIG was deemed essential to implement the restructuring and to provide for the company survival.

The company also declared that the support of Confindustria and the positive and fruitful social dialogue which resulted in the restructuring agreement, have positively contributed to the successful outcome of the restructuring. The fair process of social dialogue has also encouraged a calm and polite environment within the company and in the relations with the management. Indeed while at the beginning affected employees were understandably worried about their uncertain prospects, with time they have understood and supported the reasons for restructuring

The company identified access to credit and financing as the main challenge to restructuring and investment/innovation. Indeed, no investment or restructuring can be implemented without funding, financing and credit. However, due to their limited size generally SMEs face more constraints in securing capital, funding and financing opportunities than their larger counterparts. This is even more dramatic during times of crisis, when funding opportunities are extremely limited.

Also bureaucracy (both in terms of legislation and in terms of length of social dialogue) imposes a burden on companies needing to implement process of restructuring. In particular, the delay in INPS' reimbursement of the income support imposes a damaging economic burden to companies already negatively affected by difficult economic conditions. .

The company argues that the main difference in SMEs' restructuring, compared to larger companies, lies in the possibility of delocating towards countries supplying cheaper labour and in easier criteria to access credit, financing and funding opportunities.

Author

Lidia Salvatore, Eurofound

Information sources

Interview

One of the company owners who is also the CEO

Secondary sources

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