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Lito Balkan,Bulgaria

- Type of restructuring:
Business expansion
- Employees before restructuring:
50-249
- Employees after restructuring:
50-249
- Nace/Sector:
Manufacturing
- Country:
Bulgaria
- Date:
14/03/2012
- Keywords:
Recession/Crisis

Abstract

When confronted with the effects of the global economic crisis, increasing competition and decreasing demand for the current production, the management of the Bulgarian company Lito Balkan decided to expand and diversify by acquiring machinery to make new products. This resulted in access to new clients, a widening of their market and an increase in profits.

Organisational profile

Lito Balkan was founded in October 1997 as a joint stock company of 100% private capital in the printing and publishing sector. The 60 shareholders of the company include some of its staff or natural persons, owners of companies acting as clients to the printing house, such as advertising agencies and publishers. The five members of the management team have all completed higher education in the printing and publishing fields and have each more than 20 years of specialised work experience.

Boris Dimitrov has been executive director of the firm since 1999. He has a Masters degree from the Polygraphic Institute and has worked in the field of printing and publishing for 40 years. Over the past 30 years, he has worked as deputy director or director of different printing companies. He is the founder and co-owner of Lito Balkan. Mr Dimitrov has experience in the restructuring of firms. His motto is 'Do not run! You should have started on time!'

The firm has 89 employees, most of them graduates of vocational schools of printing. Almost 50% are women, and the average age of the employees is 40.

There is no works council or trade union branch in the company (similar to almost all SMEs in Bulgaria).

Lito Balkan has an HR development programme which includes the continuous improvement of workers' qualifications. This is a major reason for the limited staff turnover in the company.

Since 2004, at the request of Disney America, an annual international social audit has been carried out to ensure compliance with health and safety requirements and the local labour legislation, which the company has successfully passed.

The main competing tools of the company are high quality and short terms of the contract implementation. The company's basic operational channels are: magazines and albums – 30% of the total volume; advertising – 30%; labels – 30%; books (paperback and hard cover) – 10%.

The company was awarded an ISO 9001-2000 certificate by TUF Rheinland InterCert.

The annual volume growth is between 10 and 25%. The profit in 2010 was low and in 2009 very low. Both sales and profits rose in 2011 in comparison with 2010.

Lito Balkan's main clients are: Carlsberg Bulgaria; Coca-Cola Bulgaria; Egmont Bulgaria (a Walt Disney division for children's literature), as well as a number of publishers and magazines in Bulgaria.

About 15% of the produce is intended for export to Russia, Greece, France, Italy and Switzerland.

The technical equipment is as follows: a violet laser; sheet offset presses; binding machines; three folding machines, two straight binding cutters, and two label die-cutting machines.

The company operates a full in-house production cycle. The availability of the equipment allows for the operation of a full technological cycle with sufficient flexibility. Lito Balkan printing house is the only one in Bulgaria with installed production line for multiple sheet spiral bound calendars. Additional customised binding machines are also available.

The company has a successful investment programme. In 2000 it bought the Sts. Cyril and Methodius printing house from the Bulgarian Ministry of Finance in Sofia and over the past five years, using various forms of financing (leasing, internal credits, etc.), it managed to install and bring to full functionality equipment worth more than €3.5 million.

The latest big investment of the company in the amount of €2.5 million is in the framework of its Investment Programme for Modernisation, which is the restructuring event described below. It was cofinanced by the Operative Programme 'Development of Competitiveness of Bulgarian Economy 2007–2013' and includes a new state of the art machine for labels and binding: the Gallus RC 430. This puts Lito Balkan in a leading position in this area in the whole of eastern Europe.

Background to restructuring event

The reason for the company restructuring was the need to find new clients, to enter the new markets of labels and folding, and to improve the quality of production.

In fact, the start of the restructuring coincided with the beginning of the economic crisis. New developments included: the increasing competition in the branch, the decline in demand for the current production and an active motivation of owners and managers to expand and diversify.

The restructuring was planned in advance, on an annual basis, and the decision to restructure was taken by the board of directors of the company one year before the restructuring event. No other options for restructuring were considered because it was clear to the management that the introduction of a new printing machine was the only possibility for business expansion. The organisational stage of the preparation of the project was about six months.

The restructuring concept and the measures planned were developed by the company's management on the basis of their long experience of dealing with the strengths and weaknesses of the company.

Restructuring processes

The restructuring event took the form of business expansion – more specifically, the acquisition of a new printing machine for labels folding/binding which brought new clients, widening the market and increasing profit. The restructuring process started in June 2009 and ended December 2009.

The restructuring plan was implemented through drafting the project for cofinancing from the 'Competitiveness' Operational Programme. Unfortunately, the time schedule for the restructuring event was delayed by seven months, because of a delay in the selection procedure of the proposed projects. This delay created some problems for the firm and postponed the plans for development. After the approval of the project the process went smoothly – finalisation of negotiations and dealing with the sellers of the printing machine, installation of the machine, training of employees, testing of the production process. The financing of the restructuring was 80% own funds of the firm, and 20% from the Operational Programme.

The whole process was supported by the workforce because they understood that the restructuring would save or even increase jobs.

Interviews with employees confirmed the opinion of the management that one of the biggest success factors of restructuring was the lack of labour turnover. The organisational restructuring of the firm, after the acquisition of a new machine, led to a reduction in the number of workers in some departments. These workers were transferred to work with the new label and folding machine. The transfer concerned about 10 workers, who accepted the change of work station and did it voluntarily; thus no redundancy was observed. Obviously they took into account the worsening economic situation at that moment. The management organised good information sessions on the forthcoming changes. The reaction of the employees was very positive – they understand very well the need for transformation of the business. Obviously they preferred transformation to losing their jobs. The prevailing opinion is that small firms have advantages in planning and implementing restructuring in comparison with larger companies. The advantages of SMEs include flexible HR, better adaptability, easier management, less formal organisational process, and so on.

Challenges and constraints of restructuring

During the planning and implementation of the restructuring event, no serious difficulties or problems were observed, except the already mentioned delay by seven months for approval of the project. Otherwise, the process of applying and approval of the project went smoothly.

Restructuring advice and support

Financial support for buying the new machine came through the ‘Competitiveness’ Operational Programme, which is focused on provision of support to Bulgarian business, in particular SMEs. Apart from the co-financing support by the Operational Programme, the company did not receive any advice or support from the state authorities, banks or media. The management of Lito Balkan tried to explore all these possibilities, but failed. In the past few years the importance of the Operational Programmes for Bulgarian business has increased because of the lack of funding from other financial sources. The combination of EU funds and national budget cofinancing proved to be successful. The fact that firms could not count on banks’ financing, unlike in previous years, pushed enterprises to be more active in applying for projects for funding from the Operational Programmes.

Technical support through experts and training (financed by the project) was provided when the new machinery was put into operation.

Outcomes of restructuring

In general, the restructuring, although somewhat delayed, took place according to plan. The employment effect was the preservation of the number of employees during the period of economic crisis. The firm prepared for a long time for this investment and mobilised all of its financial resources to purchase the new machine. The pay and benefits of the employees were preserved and during the last two years even increased.

The purchase of a new machine was for the purpose of closing the production cycle, which has led to a complete organisational change in the firm.

Various organisational adjustments were made: a new structure was approved and enforced, new departments developed their activities, the organisational chain in every department was streamlined, and the functions of all employees were described in more detailed manner. The restructuring is having a positive effect on the business performance of the company in terms of an increase in profit, retaining staff, closing the production cycle, diversification of products, and an improvement in the quality of printing materials.

The overall outcome of the restructuring was considered positive by both the management and the employees. For the time being, management has no future plans regarding the business strategy of the firm.

Commentary

The following lessons were learned:

- During a period of crisis SMEs have to diversify their activities.
- It is very important to invest in new products in a timely manner.
- SMEs have advantages over larger companies in planning and implementing restructuring because they are more flexible in production and management.
- During an economic crisis, state institutions have to develop a new policy and instruments for support of SMEs, such as easier credit for SMEs, improvement of the business environment, decrease of administrative burden.
- The ‘grey’ sector is a real threat to the development of SMEs, which are following the rules of the game especially during a time of crisis.
- Success is possible with a high level of work input and personal engagement, both by the management and the staff.

The main success factors identified were:

- A clear concept for restructuring is not enough for success: a huge amount of organisational work and self-help activities have to be done in order to achieve success.

- During the period of restructuring, the company has to prepare and adapt the internal structure for further growth.
- All players – owners, management, employees – have to recognise that they all have to bear the negative consequences of the crisis and its influence on the company.
- It is very important for the management to do its best to let the workers know that employers, by taking different measures, are trying to maintain the highest possible number of jobs in the firm.
- Lack of information concerning the upcoming changes in the firm often leads to rumours or fears or even a mistrustful atmosphere in the company, which always slows down the restructuring process (fortunately, this company did not experience such a situation).

Authors

Elena Krastenova and Vladimir Pavlov, Foundation for Entrepreneurship Development

Information sources

Interviews

Boris Dimitrov, Executive Director, Lito Balkan, and two of the employees

Website of the company

<http://lito-balkan.com>

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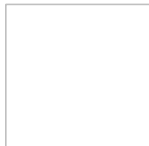
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