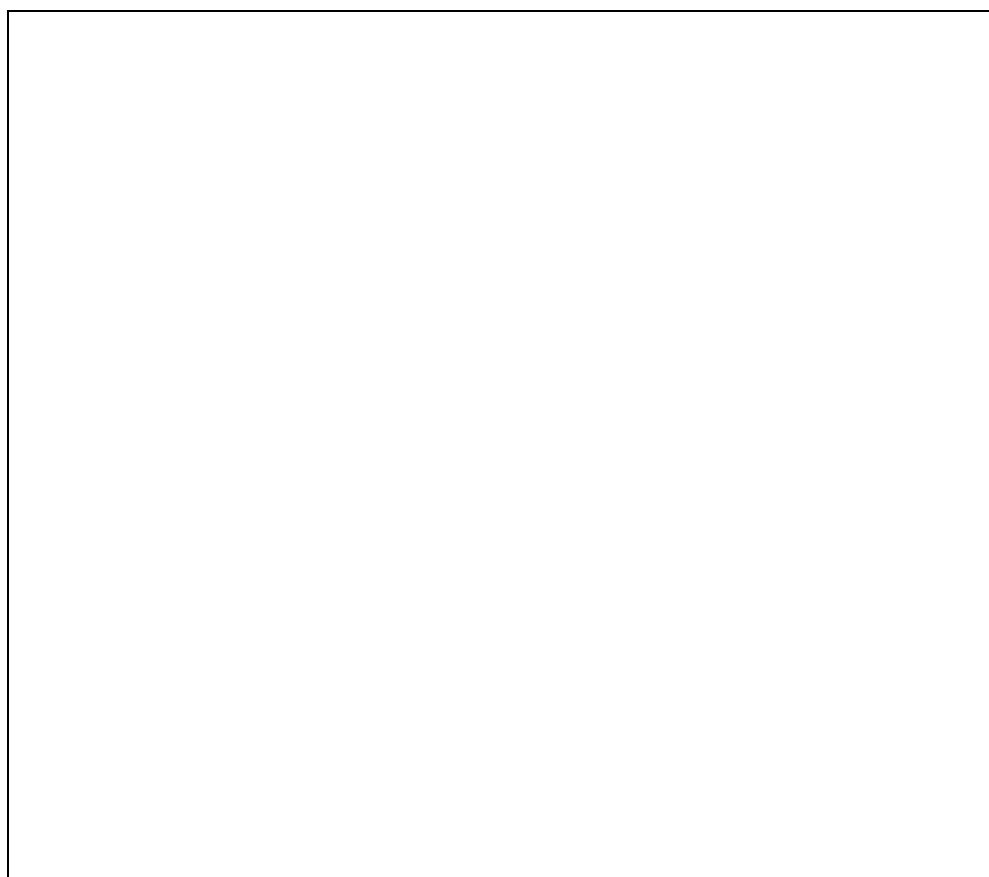


# Impact of the recession on age management policies

## Case study: Proniks Ltd, Latvia



## **Organisational background**

Proniks Ltd (Proniks) is a small, privately owned company that was established in 1993. Proniks is a manufacturing company that produces specialised work-wear and specialised clothing. All production is custom made in limited editions according to the customer's specification. Proniks's main customers are governmental organisations (for example, police and military service), local authorities and small and large private companies in Latvia. Approximately 25% of the production output is exported to Estonia. Proniks also imports and sells protective clothing (such as footwear, gloves, reflective vests and other protective accessories) from German producers. As such, Proniks is a part of the NACE C.14 sector.

Proniks has two branches, one in the capital of Latvia – Riga – and another in Valmiera, which is in north-eastern Latvia. The organisation employs 32 staff, most of whom are employed in the Riga branch. The average age of employees is 50, with the vast majority (90%) over the age of 45. Most of the employees in the Riga branch have been working there since 1993. Two-thirds of the employees in the Riga branch are female, many of whom are professional dressmakers working in the production department. The remaining 10 employees are involved in administrative tasks. The Valmiera branch, which was opened in 2004, closed for a period of time in 2009 and then reopened again in 2010.

All employees are employed full time on permanent contracts. Staff turnover in Proniks is very low, as noted by the business proprietor: 'Usually there is a very serious reason why somebody does decide to leave, for example a serious long-term illness or the family moves to another city.' During an interview with one of the employees in the business, some of the reasons why employees stay with Proniks for a long time were identified as good working conditions, flexible working arrangements, family atmosphere and high levels of autonomy at work.

There is no trade union in Proniks and none of its employees are trade union members. All negotiations related to employees' working conditions and age management practices are conducted directly between the senior management (who also are the co-owners of this company) and employees or through the middle manager. All human resources policies and practices are developed and implemented by one of the co-owners of the company, who also acts as a production manager.

## **Policies and practice in relation to age management**

There is a clearly defined age management policy in place in this organisation. Older staff are considered to be a valuable asset. One of the co-owners stated, 'The older they are, the better, the more experienced, committed and reliable they are. And we need them [older workers] because otherwise we have nobody whom we could employ.' In other jobs and sectors, older employees may be considered less suitable for employment for a number of reasons (e.g. lack of up-to-date skills), this is not the case in this particular sector. In the cloth manufacturing sector, older staff who have relevant qualifications and considerable professional skills and experience are highly sought after. Unlike in mass production companies, where each employee may carry out only a small number of operations (for example, attaching buttons or left sleeve), in Proniks, each employee is fully responsible for producing the whole garment (for example, a uniform jacket) from a sketch or even a description provided by a customer. This means that each employee has to be highly skilled and experienced.

However, following the decline of the textile industry in Latvia, there are no professional schools left to train the necessary workforce. Between 2005 and 2009 (the most recent data available), the number of employees in the NACE C.14 sector in Latvia declined from 16,432 to 9,502. Furthermore, the number of cloth manufacturing companies reduced from 1,064 to 914, according to the Central Statistical Bureau of Latvia. Despite this decrease, according to Guntis Strazds, the president of the Association of Light Industry Enterprises in Latvia, textile manufacturing companies are still experiencing an ongoing shortage of qualified employees even during a time of high unemployment rates (BNS, 2011). Due to the challenges of recruiting younger employees with the necessary experience and qualifications, Proniks has

adopted a proactive HR strategy that is specifically orientated towards hiring and retaining older, highly qualified and experienced individuals.

Since opening in 1993, older and post-retirement individuals have been a key recruitment target for Proniks. During the economic boom from 2002 to 2007, when its customer base expanded, it became particularly difficult to find new employees due to salary expectations in the market. The co-owner remembers how they regularly emphasised in the job advertisements that pensioners were especially encouraged to apply. As a consequence, during this period, around one-third of the employees working in Proniks were people beyond their retirement age (age 62).

The main aim of the age management policy and practice at Proniks is to ensure that all employees continue to work in the company as long as they are able or willing to work (interview with co-owner). To achieve this aim, one of the strategies that Proniks has put in place is the introduction of a flexible working system. This system is provided at the employer's own initiative and is not required by the law. The basic principle of this system is that the employees are free to decide when and how to work as long as the work gets done in time and according to specified standards. All work is conducted on site at Proniks. There are no set working hours – employees may come to work and leave whenever they wish. The vast majority of employees choose to work somewhere between eight in the morning and five in the evening and usually nobody comes into work before seven in the morning or leaves after eight (interview with co-owner and employee).

The financial package for employees is based on a piece rate system. Therefore, the more units of product employees produce, the higher their salary is, so employees are motivated to work hard. At the same time, flexible working time arrangements cater for different needs of employees. For example, Proniks currently employs two 60-year-old women, one of whom is disabled and another is allergic to certain materials used in production. The first employee needs frequent breaks and she can take them whenever it suits her. She can also stay at work longer if she wants to achieve a certain production target or work less if she does not feel well. The second employee is employed only in the production of clothes which does not involve handling the material she is allergic to.

An important element of flexibility which allows the co-owners to provide such good working conditions is the fact that they have good cooperation with other small companies. For example, if Proniks has an especially large or urgent order and does not have enough employees to complete it in time (for example, if some employees are on sick leave or are already too busy with other orders), Proniks outsources the order, or part of it, to other enterprises who have spare capacity to help to deliver the order. As a result of these flexible working and business practices, most employees who join Proniks remain there until retirement.

## **Changes in age management policies and practice post-2008**

Proniks's business performance is directly linked to the economic situation in the country. If other businesses are flourishing, Proniks has a high demand for their products (i.e. uniforms and work-wear). If most of the companies in other sectors are experiencing financial challenges, this tends to have a knock-on effect on Proniks. Thus, Proniks was severely affected by the recent economic recession. The effects of recession had a considerable impact in 2009, when the company's turnover was only approximately 65% of the turnover it had in 2008.

Proniks underwent a major restructuring event in 2009 in order to respond to the economic challenges it faced. In 2009, management made a decision to close the branch in Valmiera. As a result, all seven people working in this branch in 2009 (or approximately 19% of Proniks's employees) were made redundant. All of the employees made redundant were aged between 45 and 60. Proniks, as required by the Labour Law, paid redundancy compensations to all employees made redundant. To avoid further redundancies and help the business to survive, all management (who are mostly members of the family which owns the company) took a

50% salary cut. As a result, the branch in Riga survived the hardest year of recession without any loss of employees. To retain the highly valuable but hard-to-find staff, employees' salaries were reduced only by 10%. The branch in Valmiera was reopened in 2010 when the demand for Proniks's products started to recover.

According to the co-owner of the company, a policy shift that had a profound effect on Proniks's employees' age profile was an unanticipated change in the State Pension Law in June 2009. This change meant that pensioners could only receive 30% of their salary if they continue to work. Therefore, all of the pensioners (five) who worked for Proniks decided to stop working and retire. Two more employees took an early retirement when the government announced that the early retirement option would be halted at the end of 2011. The main reason behind the decision to retire was that employees who had already reached their state pension age were worried that the government could introduce other unexpected changes (for example, deciding that working pensioners have to forego their pensions for a certain period of time) that would disadvantage them if they had continued to work (interview with employee). Not only was it very difficult for Proniks to find suitable replacements for the lost employees when the demand for production recovered, but these unexpected changes in legislation also negatively affected the labour market participation of individuals of retirement age. When the Constitutional Court reversed the changes in the Pension Law and pensioners could again continue to work and receive their full pension, Proniks was unable to take their ex-employees back, as they had already replaced them with other individuals. However, during periods of high demand from customers, Proniks employs temporary workers, most of whom are pensioners who previously worked for the company before the changes in the Pension Law. According to the co-owner, these individuals are keen to work and most likely would have continued to work full time if the changes to the Pension Law had not taken place.

## Summary

The core lesson that may be learned from the Proniks case is that older employees, because of their experience and skills, can be a highly valuable and hard-to-find asset that can contribute to a business well beyond traditional retirement age. The case of Proniks demonstrates how well-designed age management practices can facilitate older employees' engagement in the labour market. However, it is clear that the restructuring event triggered by the macro-economic decline and some changes in the Pension Law had a negative impact on the workforce participation of some older employees. Proniks values older employees who have the core skills that their business requires and are difficult to replace. As a result, their main age management principle, according to the co-owner, has always been and will continue to be that 'everyone can work with us as long as they want or are able to work. They are ones that keep our business alive. We cannot survive without them.'

## Contact person

Aina Krūmiņa, co-owner, production manager, Proniks

## References

BNS (2011), *Textile industry in Latvia is still experiencing a shortage of employees*, available online at [http://business.delfi.lv/biznesa\\_vide/latvijas-tekstilrupniecibas-uznemumiem-joprojam-trukst-darbinieku.d?id=38206003](http://business.delfi.lv/biznesa_vide/latvijas-tekstilrupniecibas-uznemumiem-joprojam-trukst-darbinieku.d?id=38206003) (accessed 16 June 2011).

[www.proniks.lv](http://www.proniks.lv)

Daiga Kamerade

EF/11/75/EN-19