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CAM, Italy

- Type of restructuring:
Business expansion
- Employees before restructuring:
10-49
- Employees after restructuring:
10-49
- Nace/Sector:
Manufacturing
- Country:
Italy
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Abstract

CAM, a manufacturer of hydraulic and pneumatic components, started to lose orders as many of its clients began internalising activities that they had been outsourcing to CAM. As production fell, the company launched a restructuring process, one highly dependent on state income support to compensate staff for their reduced working hours. In the meantime, the company launched the development of a new product, investing its own funds in product development, and in training employees in its manufacture. Developed through ongoing social dialogue, the restructuring meant that the company was able to maintain the level of employment and to develop a new product, one that attracted orders before development was finished.

Organisational profile

CAM is a crafts company mainly engaged in hydraulic and pneumatic components manufacturing, in particular the manufacture of components for the hydroelectric and hydrothermal manufacturing sectors. The company was founded on 14 February 1990, when the owner was only 17 years of age, and its main activity was to operate as a process manufacturer in the fittings manufacturing sector. The business idea was somewhat inspired by the owner's father, who in 1957, while working as a manager for a company, decided to establish an assembly company to provide assembling services for the company he was employed in. When the owner decided to establish its activity, his father had already decided to retire and close his business. CAM's owner opted to give 5% of ownership to his father.

Ownership and management are concentrated and the company is run as a family business.

At the beginning, the company operated in the fittings sector, and then came to specialise as a process manufacturer in the hydraulic fitting sector. At the present time, the company still supplies assembling services for other companies operating in the hydrothermal sector; however, CAM is in the process of developing a flow measurement fitting, and it aims in the near future to specialise in the manufacture of flow measurement fittings.

The company started in 1990 with three employees, and by the end of the year had seven employees. Between 1997 and 2002 the company hired a further 12 employees, making a total of 19 employees, which has since then remained unchanged.

The 19 employees are aged between 30 and 45, with 17 female and two male employees – one in quality control and the other in the technical department. All members of staff are employed on a permanent contract. The company has also availed of four external consultants, who are mainly technicians involved in assembling.

There is no work council within the company. However, when the company had to implement a first restructuring process in 2007 and benefit from social shock absorbers, the agreement and social dialogue as prescribed by Italian Law was done with the CGIL trade union.

The company is located in a very small village and it is highly embedded in the local community. All employees live a maximum 10 to 15 km from the site of the company and the owner, originally from the village of Mura, now lives only 30 km away.

The company does not have a written human resources strategy. Human resources management is administered internally to the company by the owner/manager. However, with future prospects of business expansion in the flow measurement fittings manufacturing sector, the owner foresees that a human resources department and a written human resources strategy and development strategy will have to be established and developed.

Background to restructuring events

The activity grew continuously until 2007, the company working with three main clients until then, with an additional two clients in periods of high demand. It enjoyed an average turnover of up to €3 billion per year (of which €2 billion from business with one specific client).

However in 2007, due to economic difficulties, the company started to lose most of its orders, as many of its clients started to internalise those activities that were outsourced up to then. Furthermore one of CAM's main client, which owed CAM €270,000, was declared bankrupt, and CAM lost the amount it was owed. At that particular time, the company had also financed the construction of a new site which had cost €1.800,000. The loss of the money owed from the bankrupt client and the high costs of the new productive site resulted in very difficult economic conditions, forcing the company to implement a restructuring process.

Restructuring processes

Small companies operating in crafts sector do not have the same access to social shock absorbers as larger companies in industry. However, these crafts companies can also benefit from the support of bilateral bodies, which are jointly managed by social partners, and which pay specific subsidies, as part of the unemployment benefit, to workers in the event of a reduction in working hours or suspension, from the contribution of the Employment Fund managed by the Italian Ministry of Labour and Social Policies (see also Eurofound, 2010)

Therefore, at the beginning of the restructuring process, the management got the support of the bilateral body for arts and crafts (EBNA – *ente bilaterale nazionale artigianato*) which provided income support to the 17 female employees while production was temporarily stopped for three months. However, after these three months, and due to the increasing demand for support to the bilateral bodies caused by the economic crisis, these bodies were unable to provide support to all its members and the company implemented restructuring via the support of the ordinary wage guarantee fund (CIGO – *cassa integrazione ordinaria* CIGO, see also Eurofound, 2010). Under this arrangement on a rotation base three to four employees at a time among the 17 female employees, were not working, while receiving a 80% of their normal salary (*cassa integrazione guadagni ordinaria a zero ore*). The two male staff, employed in the quality control and technical department, due to their occupational tasks were not affected by the restructuring.

Moreover, in 2008, due to a decrease in turnover of more than 65%, at times the entire production was temporarily stopped and all of the 17 female employees benefited from the CIGO and from the extraordinary wage guarantee fund (CIGS – *cassa integrazione straordinaria* see also Eurofound, 2010), which envisaged the stop of production (*CIGS zero ore*). Under this scheme employees work reduced hours up to zero hours worked, while receiving income support equal to 80% of their last salary.

Due to persisting negative developments, in 2011 the company continued the *CIGS zero ore* for seven of the 17 employees, meaning that on a rotation base seven employees would not work at all for a specific period of time – three months in this restructuring case – while receiving CIGS income support, while for the remaining ten employees the company introduced a solidarity contract (*contratto di solidarietà*, see also Eurofound, 2010), a social shock absorber which provides for short-time working of equal measure for the whole workforce, while employees benefit of income support. In this specific case, the ten affected employees reduced working hours, but production was not been stopped.

However, during the three months when they were not working and benefiting from CIGS, the seven employees were engaged in training courses organised by the trade union CGIL. In this specific case the seven employees attended a training course on ICT.

Moreover, since 2007, the manager started to develop a new idea to launch a new product on the market: a flow measurement fitting. After analysing and assessing in detail the hydrothermal market, management realised there was a vacuum in this sector. Indeed, such product was developed in Europe by one only company which had a monopoly in the entire market. The management of CAM noted that this Swiss company produced only flow measurement fittings which were standard and for this reason each client had to adjust these for their products. CAM started to research and study a method to develop a flow measurement fitting which can work with a universal adaptor. In 2011, the company registered

their industrial design for their own flow measurement fitting which is enabled with a universal adaptor. In this way, CAM's flow measurement fittings can be installed on any hydrothermal product.

CAM planned to launch their brand new flow measurement fitting in February 2012, with an investment of €400,000. The company will produce the fitting, while the molding of the specific fitting will be outsourced to a partner company operating in the thermal manufacturing sector, a former client of CAM. This partner company had outsourced the production of flow measurement fittings in China; however, due to the unsatisfactory quality of the production outsourced it became interested in CAM's idea and decided to invest in it. The costs of the molding activity will be borne on a 50% base by CAM and by the partner company. The partner company has also the technical capacity in-house to provide technical consultancy for the development of the new product.

Due to the development on this new product, the company has implemented extensive training for its staff on a solidarity contract in order to train them for this new production. In particular, four of these ten employees are attending a training course on quality control, organised by an external provider.

The CIGS will last until the end of December 2011, however as the production for the new product will start only in February 2012, the management believes that CIGS will be renewed at least for the first quarter of 2012, and once the new production has started, they will assess how the market is responding to this new product and they will then re-assess the situation of the company in light of the outcome of the new production, and the relevant steps will be then taken.

The company has already received requests for their own flow measurement fittings, therefore future prospects seem positive. Indeed, the partner company has already ordered 250 flow measurement fittings.

Challenges and constraints of restructuring

The main challenges the company encountered related to the great uncertainty regarding the prospect of orders from clients. This implied a high degree of uncertainty on how to manage the restructuring process as well as high costs incurred both for financing and developing the new product (also including training costs) – which has been all private capital of the owner and then private money of the partner company who invested in the molding activity of the new flow measurement fitting – and for anticipating the income support treatments from the Italian National Social Security Institute (INPS).

In fact, despite the fact that the restructuring was financed by the social shock absorbers (this is 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 INPS. This reimbursement, however, can be paid several months after the treatment. This can result in a large burden for companies which are already in difficult situations. In the specific case, by July 2009 the company had anticipated €200,000 of income support.

The employees were informed immediately via the manager of the necessity to implement restructuring. However, given the limited size of the company, and the high level of trust, loyalty and even friendship between the employees and the employer, all employees were quite positive during the restructuring. While at the beginning the events were received with some feelings of worry and uncertainty, these have diminished during the ongoing process, as the company showed a sincere interest in its employees and future prospects seems quite positive thanks to the development of the new product.

The manager started the company when he was only 17 years age, and therefore CAM represents his lifetime project. The manager is also very fond of his employees, and even if the impact on wages has not been dramatic, thanks to the supply of the social shock absorber, the decision to result to this tool has been emotionally very difficult.

Restructuring advice and support

The company has been supported in its restructuring process by the bilateral body EBNA, which provided advice and information especially on the social shock absorbers, its procedures and the social dialogue with the other involved actors. Indeed, the restructuring processes and the different options were discussed with EBNA which provided valuable advice.

Moreover, the company stresses that social dialogue has been very fair, and the CGIL trade union has been extremely fair and supportive to the company as well as the employees. All decisions have been the result of an agreement between the trade union, the employees and the company.

An external company, which is also financing 50% of the costs of the molding activity of the new flow measurement fitting, provided the technical consultancy for the development of this new product.

The company benefited from the economic support provided by the social shock absorbers which, however, are based on an insurance mechanism and are therefore financed by companies. According to the company, this support has proved vital to the survival of the company during times of uncertainty.

However, the additional economic support to finance the restructuring in terms of costs for the specific training for the four employees for the new flow measurement fitting designed by CAM have been entirely borne by the company. It must be highlighted that the company regarded the

training as very satisfactory and deemed it indispensable for a fruitful development of its activities.

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 and it has also enabled the company to develop its own new product which might help it to expand his business.

All the social shock absorbers implemented have proved to be indispensable in order to implement the necessary employment adjustments, while safeguarding the employment levels.

The restructuring process was continuously developed, through ongoing social dialogue based on the specific economic contingencies of the company. This implies that the company assessed the different restructuring tools on offer, it implemented those which seemed the most appropriate and it re-assessed them according to the market reactions. In any event, the restructuring reached the intended outcomes, as the company was able to maintain the level of employment and even to develop a new product.

The restructuring also impacted on the management, in monetary terms as he invested a lot of personal resources in the process, but most importantly in terms of personal effects, such as stress, insecurity, fear of having to close the company. However, the owner firmly believes and stands behind the reasons for restructuring, as after assessing all viable options, he agreed that the specific restructuring implemented was the only feasible process which would have guaranteed the survival of the company. This choice has been excruciating at times but essential. In particular, recent developments show that these difficult decisions were well worth taking as first reactions to the new product developed are quite positive.

In terms of staff, even when out of working all employees affected by the restructuring have been engaged in different training courses, even considering the slight decrease in wages foreseen by the social shock absorbers, outcomes on staff can be considered somehow positive.

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. CAM is also very positive on the future outlook of the company and is very confident on its new flow measurement product.

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 social shock absorbers were deemed essential to implement the restructuring and to provide for the company survival during uncertain times.

The company also declared that the support of EBNA and in particular the positive and fruitful social dialogue with CGIL which resulted in the restructuring agreement, have been positively contributing to the successful outcome of the restructuring. The fair process of social dialogue, as well as the loyalty and trust between the employees and employer, 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. According to the company the supportive behavior of CIGL was essential to ensure a smooth restructuring.

CAM stressed also that the great uncertainty on the outlook of orders received by clients resulted in a high degree of uncertainty on how to manage the restructuring process. Furthermore, the high costs incurred both for financing and developing the new product (also including training costs) and for anticipating the income support treatments from INPS imposes a burden on companies needing to implement process of restructuring. This is particularly negative, as it affects companies already negatively affected by difficult economic conditions. This is of great concern for SMEs, which generally face more constraints to capital access than their larger counterparts, due to size concerns. This is even more dramatic during times of crisis, when funding opportunities are extremely limited.

Author

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Interview

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