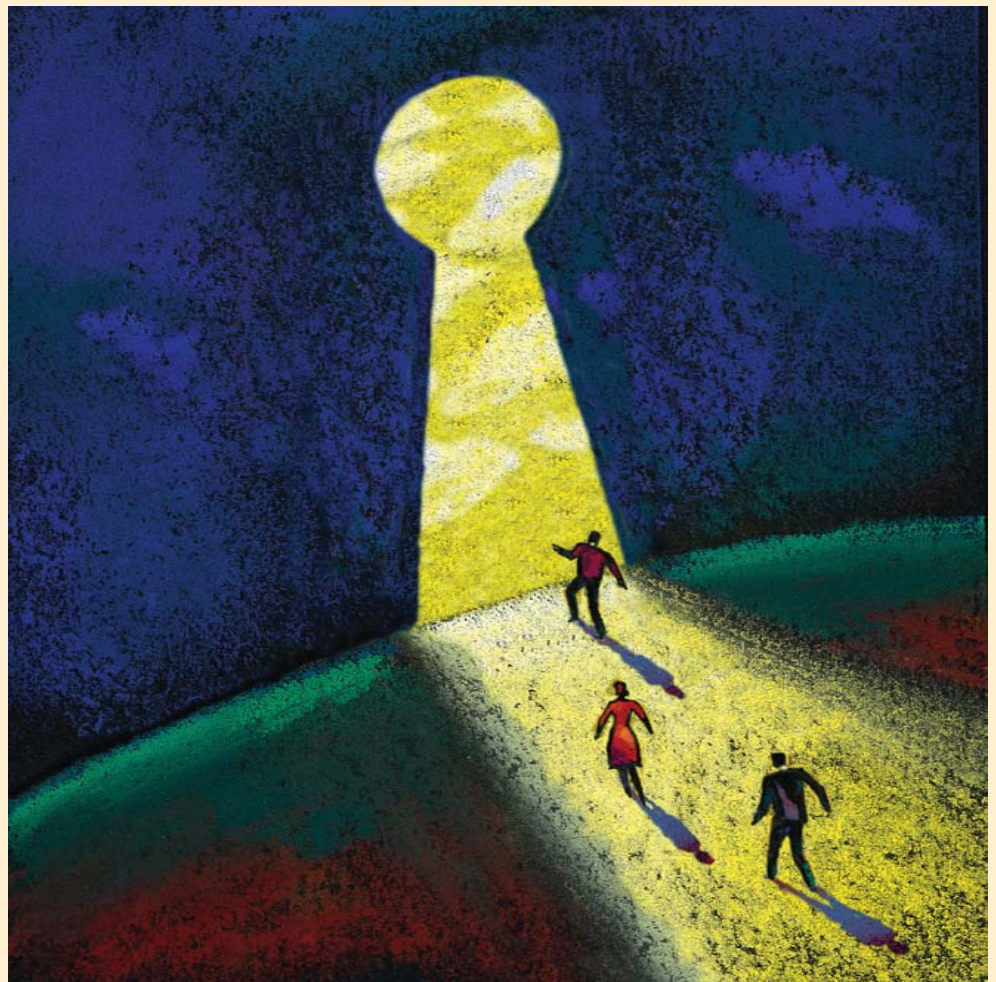




# Support measures for business creation following restructuring



## Support measures for business creation following restructuring

**Authors:** Antonio Corral, Iñigo Isusi, Jennifer Stack

**Research institute:** IKEI Research & Consultancy, Spain

**Foundation project:** Business creation as a result of restructuring processes, EMCC

**Research managers:** Sabrina Tesoka, Gregorio de Castro, Christian Welz



European Foundation for the Improvement of Living and Working Conditions

# Support measures for business creation following restructuring

Cataloguing data can be found at the end of this publication

Luxembourg: Office for Official Publications of the European Communities, 2006

ISBN 92-897-0932-4

© European Foundation for the Improvement of Living and Working Conditions, 2006

Cover image: Leon Zernitsky © Gettyimages

For rights of translation or reproduction, applications should be made to the Director, European Foundation for the Improvement of Living and Working Conditions, Wyattville Road, Loughlinstown, Dublin 18, Ireland.

The European Foundation for the Improvement of Living and Working Conditions is an autonomous body of the European Union, created to assist in the formulation of future policy on social and work-related matters. Further information can be found on the Foundation website at [www.eurofound.eu.int](http://www.eurofound.eu.int).

European Foundation for the Improvement of Living and Working Conditions  
Wyattville Road  
Loughlinstown  
Dublin 18  
Ireland  
Telephone: (+353 1) 204 31 00  
Fax: (+353 1) 282 42 09 / 282 64 56  
Email: [postmaster@eurofound.eu.int](mailto:postmaster@eurofound.eu.int)  
**[www.eurofound.eu.int](http://www.eurofound.eu.int)**

Printed in Denmark

The paper used in this book is chlorine-free and comes from managed forests in Northern Europe.  
For every tree felled, at least one new tree is planted.

# Foreword

The enormous economic and demographic changes across Europe in recent years have had a considerable impact on the business environment of companies, particularly small and medium-sized enterprises (SMEs). In order to respond to these changes and to remain competitive, companies today must constantly adapt and learn to innovate. One way of doing this is to embark on a restructuring process involving, or expected to involve, a downsizing strategy, namely, a reduction in the number of jobs.

Traditionally, restructuring processes are generally considered to be mainly about job losses. However, in recent years – and largely as a result of the need to create more and better employment in the EU in line with the Lisbon Strategy objectives – increasing attention has been paid to new business creation following restructuring and to the importance of ‘socially responsible restructuring’.

Against this background, the report aims to contribute to the Foundation’s 2005–2008 work programme by analysing, in detail, the critical elements that positively and negatively affect business creation and entrepreneurship following economic restructuring. It explores the reasons why people make the transition from being employed to starting their own business, and outlines the range of initiatives – both public and private – aimed at supporting business creation following restructuring. The report provides examples of and strategies for business creation initiatives following restructuring in six European Union Member States, identifying some important lessons to be learnt from these case studies.

In the present economic climate in Europe, support for new and innovative approaches to change is more important than ever. In particular, the values of entrepreneurship and innovation should be encouraged and developed, to help ensure that the needs of all players in the economic landscape are taken into account in the face of inevitable change.

We trust that this report will be a useful contribution towards developing policies supporting business creation and entrepreneurship following restructuring, thus favouring the creation of employment and economic growth at both regional and local level in the EU.

Jorma Karppinen  
Director

Willy Buschak  
Deputy Director



# Contents

<b>Foreword</b>	<b>v</b>
<b>Introduction</b>	<b>1</b>
Outline of the study	2
Methodological approach	3
<b>1 – Role and effects of restructuring</b>	<b>5</b>
Types of restructuring	6
Economic and social effects of downsizing	7
Reasons for restructuring	8
Determining factors of restructuring	9
Socially responsible restructuring	10
Business creation arising from restructuring	11
<b>2 – Entrepreneurship following restructuring</b>	<b>15</b>
Transition to entrepreneurship	16
Motives for becoming an entrepreneur	18
Profile of the entrepreneur	20
Factors affecting success of business creation initiatives	21
<b>3 – Public and private support for business creation</b>	<b>23</b>
EU initiatives	23
National public initiatives	25
Activities supported by individual enterprises	30
<b>4 – Business creation following restructuring: Six European case studies</b>	<b>33</b>
Case study 1: France Télécom, France	33
Case study 2: Otto GmbH & Co KG, Germany	36
Case study 3: Pomerania Shipyard Ltd, Poland	40
Case study 4: Valnalón, Spain	44
Case study 5: Wolters Kluwer, the Netherlands	48
Case study 6: JT Morgan & Co, UK	51
<b>5 – Conclusions and good practice recommendations</b>	<b>57</b>
Results, success factors and lessons learnt	58
<b>Bibliography</b>	<b>63</b>





# Introduction

Companies must constantly adapt and innovate in order to remain competitive in today's economic environment. One way of doing this is to restructure or reorganise its activities and workforce. In this context, restructuring is understood as the deliberate adaptation of an economic unit(s) to changes in its environment, implying or expected to imply a downsizing strategy, namely, a reduction in the number of jobs.

Nearly 50 years ago, Joseph Schumpeter defined this continuous trend of restructuring as the so-called process of 'creative destruction'. Following this approach, restructuring is necessary, and even positive, for businesses in order to remain competitive. Nonetheless, it often entails a number of negative socio-economic effects that need to be taken into account and addressed accordingly.

Due to the impact of restructuring on employment levels, there has recently been an increasing emphasis in business literature on the concept of 'socially responsible restructuring': the use of one or more approaches to consciously take into consideration the interests of all the organisation's stakeholders – owners and shareholders, managers, as well as workers and the community. Thus, the current question is no longer one of 'whether' to restructure or not, but rather 'how' to restructure, so that negative social and economic costs are minimised.

Responsible restructuring processes include both 'pull' and 'push' elements: 'pull' elements pertain to efforts to entice excess labour to leave restructuring enterprises, while 'push' elements often aim to encourage affected workers to quickly rejoin the labour market. Among the 'push' elements, there is increasing interest in possibilities linked to business creation and entrepreneurship as a feasible tool for minimising the negative social effects derived from restructuring. Over the last decade, this issue has merited a lot of attention at both EU and Member State level, with the objective of reducing the negative impact of restructuring.

Support for business creation after a restructuring process can be categorised according to three main forms. In the first form, a company is supported by a management buy-out (MBO) or an employee buy-out (EBO).<sup>1</sup> The second form consists of support initiatives for the creation of new enterprises launched by employees affected by restructuring, with these start-ups usually pertaining to another sector and/or activity. In the third form, support is proffered for reindustrialisation activities, to enable new employment opportunities for affected employees. Such business creation initiatives are conceptually very attractive, as they allow for the development of an entrepreneurial culture in the region and the local community affected by the restructuring process. This maintains or even increases existing levels of economic and social prosperity at regional and local levels.

In this context, national authorities have developed a number of specific policies aimed at fostering the creation of new businesses by people affected by restructuring. These national policies can be grouped into three main categories: regulatory initiatives, general support measures and ad hoc public measures. However, support to new business creation is not solely a public responsibility. As this study shows, European enterprises affected by restructuring processes are also helping former employees and local individuals to set up their own business, thus diminishing negative social effects and contributing to local and regional development.

---

<sup>1</sup> Not all MBOs/EBOs are linked to situations of economic distress, however.

Nonetheless, prospective new entrepreneurs require wide and comprehensive support for developing and implementing their business ideas. It should not be forgotten that these individuals are not 'professionals' in the business creation process. Instead, most of them engage in entrepreneurial activities as 'necessity' entrepreneurs rather than 'opportunity' entrepreneurs. As a result, they only have a partial vision of the requirements that are needed to make this process a success. For this reason, and in order to increase the success rates of such business creation initiatives, it is important to develop appropriate tools and support measures that will facilitate these practices.

As several of the case studies in this report demonstrate, partnership based approaches to restructuring are by far the most successful way of addressing these situations. Agreement on common objectives, mutual trust, a willingness to work together in partnership and an overall sense of pragmatism are essential ingredients when faced with a restructuring procedure. Therefore, the challenge is for enterprises, employees, public authorities and trade unions to find ways to work together and establish partnerships to manage the process positively for their common benefit.

This report also highlights the importance of carrying out systematic and continuous evaluations of support programmes aimed at encouraging business creation as a result of restructuring. Those in charge of these initiatives should take on this task. Moreover, it is important to have a thorough knowledge of the actual results obtained (such as the number of companies created and sustained, and the associated employment) and reliable indicators of cost/effectiveness. This dimension is crucial when assessing the adequacy of the measures implemented and their eventual revision.

### **Outline of the study**

This research project analyses in detail the critical elements that positively and negatively affect business creation and entrepreneurship following economic restructuring in Europe. The overall objective is to obtain a better understanding of the strategies developed by public and private EU actors in responding to the economic and social challenges of restructuring, through fostering business creation. In addition, the study builds on the analysis of successful and innovative examples of practical experiences.

Chapter 1 analyses the concept of restructuring and downsizing. Here, specific attention is paid to the main economic and social implications of such processes, the main reasons driving these processes and the determining factors that affect restructuring. Attention is also paid to the concept of socially responsible restructuring practices.

Chapter 2 discusses the importance of the entrepreneurship phenomenon in Europe. It describes, from a theoretical perspective, the main elements that influence an individual's decision to make the transition from being employed to starting their own business. This theoretical description is complemented by selected data on the issue and a brief discussion of the main success/failure factors affecting new business start-ups. The chapter concludes with an analysis of the issue of entrepreneurship from the unique perspective of 'restructured employees', or of those who have been directly affected by a restructuring process.

Chapter 3 examines existing initiatives fostered by public and private agents, which are intended to support business creation initiatives following restructuring. In the case of public initiatives, they have been categorised accordingly and a description of each of these categories is presented, as well as a discussion of the examples. The chapter closes with a categorisation of initiatives supported by individual private enterprises undergoing restructuring processes linked to business creation.

Chapter 4 presents, and describes in detail, six selected European case studies, outlining experiences of business creation and development following a restructuring process.

Chapter 5 provides an assessment of the factors that influence the success and sustainability of such business creation initiatives. Finally, the report presents some conclusions from the research, as well as outlining some of the most important lessons to be learned from the study.

This report is also linked to an Annex, which is freely available online at the EMCC portal.<sup>2</sup> The Annex includes a brief outline of the main regulatory initiatives and public support measures for business creation following restructuring identified in France, Germany, Poland, Spain, the Netherlands and the United Kingdom. It also gives a brief national profile of the restructuring policies existing in these countries.

## Methodological approach

Qualitative analysis was undertaken by research institutes, specialised in the topic of entrepreneurship and small and medium-sized enterprises (SMEs), in six EU Member States – France, Germany, the Netherlands, Poland, Spain and the United Kingdom (UK). The aim was to ensure the use of similar information sources in these countries, which were then analysed following a systematic approach to achieve consistent and valuable results.

**Table 1 Participating partners and associated countries**

Names of partner	Countries where information was collected
Ikei Research & Consultancy SA	Spain
Austrian Institute for SME Research	Germany
Citia	France
EIM Business & Policy Research	Netherlands
Department of Entrepreneurship and Industrial Policy, University of Łódź	Poland
SME Research Services	United Kingdom

Overall, the methodological approach is based on qualitative analysis which involved four main steps:

1. Compilation and analysis of existing research and initiatives on business creation following restructuring in the EU, drawing on international and European information sources (see bibliography).

<sup>2</sup> <http://www.emcc.eurofound.eu.int/content/source/eu06012a.html>.

2. Identifying existing regulatory initiatives, support measures and/or collective agreements dealing with business creation following restructuring in the EU. In addition, research at national level was conducted to gain insight into some of the most relevant examples of public support measures/regulatory initiatives and/or collective agreements aimed at fostering entrepreneurship and business creation following restructuring.<sup>3</sup>
3. Provide information on practical experiences of business creation and development following restructuring that had taken place in the last 10–15 years. This is based on a case study approach using face-to-face interviews with the person/s responsible for implementing the initiative and/or involved in the process. These examples include both evidence of individual restructured enterprises or experiences involving enterprises, sectors and territorial actors.
4. Analysis of the main factors that influence the success and sustainability of business creation following restructuring; this led to several recommendations for good practice in business creation following restructuring.

---

<sup>3</sup> See Annex online at <http://www.emcc.eurofound.eu.int/content/source/eu06012a.html>.

# Role and effects of restructuring

Enterprises today face a wide range of internal and external forces that continuously test their resilience and capacity to anticipate and manage change. The principal trends and drivers of change can be summarised as follows (International Labour Organisation (ILO) and European Bahá'í Business Forum (EBBF), 2003):

- *Globalisation of markets*: This globalisation implies not only a shrinking of geographical distances but also an increasing interdependence between different economic and social actors. In this context, issues such as business ethics are also becoming globalised due to new pressures coming from non-governmental organisations (NGOs) and international institutions calling for more responsible behaviour on a global scale.
- *Rapid technological change*: Changes, particularly in information and communication technologies (ICT), are not only transforming markets and production methods, but are also contributing to high labour displacement. They are also at the root of the globalisation process as they provide instant information on a global scale, thereby making domestic markets increasingly interdependent and integrated in the world economy.
- *Direct foreign investment*: Perhaps one of the most powerful drivers of change involving enterprise restructuring – particularly in developing and emerging economies – is direct foreign investment. In some cases, this investment provides access to new technologies and management practices. In others, foreign shareholders or partners increase pressure for change and greater competitiveness.
- *Deregulation and trade liberalisation*: The current trend towards the liberalisation of markets and trade is one of the main reasons behind company restructurings. This is true both for the new Member States, characterised by previously state-led economies, and also for the former EU15 countries where liberalisation has occurred in several network industries and public utility sectors.
- *Changing capital ownership*: The change of capital ownership, often through privatisation of state-owned enterprises or mergers and acquisitions, leads to major restructuring and change. This in turn creates both opportunities and the need for transformation at all levels. At the same time, there is a trend towards increasing employee ownership of companies through stock options, company share purchase plans, and different pension schemes.
- *Shift from an industrial economy to a knowledge-based economy*: Human capital is today regarded as the most important strategic resource challenging traditional job, work and motivation concepts. This is leading to new work processes and flows, as well different recruitment and personnel management practices.
- *Changing demographics*: One important shift has been the increasing presence of women and minority groups in the workplace. This has led to the development of new diversity policies and work practices. The other substantial change has been the ageing of the population, a tendency especially noteworthy in industrialised economies. These trends are expected to affect both the mix of future customers, as well as the composition of the workforce and the products produced.
- *Changing expectations and value systems*: Increasingly, the business world is being confronted with different lifestyles and more demanding expectations on the part of employees, customers and communities as a whole. This is particularly noticeable with regard to issues such as greater respect for international labour standards in the workplace or environmental sustainability.

Experience suggests that restructuring does not entail a ‘one-off’ process. On the contrary, enterprises must continue to reinvent and restructure themselves in response to continuously changing economic and market conditions.

### Types of restructuring

The term ‘restructuring’ takes many forms and is used to cover a wide variety of situations. For the purposes of this report, restructuring is understood as the deliberate adaptation of an economic unit(s) to changes in its environment; the report is primarily interested in those restructuring initiatives that imply a workforce reduction, also referred to as ‘downsizing’.

The concept of restructuring can involve the redesign of work processes or the elimination of structural elements through outsourcing, or through selling them off. It can also include the modification of the financial composition, market structures, technological characteristics, and production components. It is therefore quite evident that restructuring is a broad and inclusive concept and not solely a synonym for downsizing or re-engineering.

In this context, the EMCC defines the following seven types of restructuring in its *European Restructuring Monitor*<sup>4</sup>:

- relocation – when the activity remains within the same company, but is relocated to another location in the same country;
- outsourcing – when the activity is subcontracted to another company within the same country;
- offshoring/delocalisation – when the activity is relocated or outsourced to another country;
- bankruptcy/closure – when an industrial site is closed or a company goes bankrupt for economic reasons, not directly connected with relocation or outsourcing;
- merger/acquisition – when two companies merge or one company makes an acquisition; this can subsequently lead to an internal restructuring programme aimed at ‘rationalising’ the organisation by cutting jobs;
- internal restructuring – when the company undertakes a job-cutting plan, which is not linked to another type of restructuring defined above;
- business expansion – where a company extends its business activities, hiring new workers;
- other – when a company undergoes a type of restructuring that is none of the above.

It should be noted that the above restructuring categories or strategies may overlap and are not mutually exclusive. It is also important to bear in mind that restructuring can be defined as a multidimensional concept, in the sense that it may involve a variety of situations. Restructuring can affect an entire enterprise, one or several establishments of an enterprise, or a small unit affecting only a few employees within an enterprise. Equally, it can involve a relatively large number of small and medium-sized enterprises (SMEs) belonging to a specific industrial sector and located within the same town or region.

---

<sup>4</sup> <http://www.emcc.eurofound.eu.int/erm/>

## Economic and social effects of downsizing

Downsizing arising from a restructuring strategy may either represent a proactive measure to foster competitiveness, or a defensive response to a decline in work volume. Regardless of the approach, downsizing is always intentional and carried out for a specific purpose. It is not something that ‘just happens’ or that an organisation has no control over.

Downsizing can enable companies to reduce costs, improve competitiveness and reinvigorate an organisation, so it is often used as a tool to enable organisations to survive or to remain competitive. However, downsizing strategies following restructuring can also have a number of negative economic and social side-effects (Fundipe, 2004) for:

- the organisation – social costs in the form of severance payments, unemployment benefits, pension and benefit payments, as well as administrative and legal costs derived from actions from former employees; loss of key talent within the organisation, as employees not included in downsizing leave for a more stable environment; lower employee morale, loyalty and productivity, higher staff turnover and absenteeism; decline in quality, creativity and risk-taking; damage to the image of the organisation; labour conflicts; other costs entailed in recruitment and training of new personnel;
- employees – loss of jobs and associated incomes; negative psychological impact, especially on self-esteem, and loss of sense of stability; deterioration of family relationships and social image;
- the general social and economic environment – loss of business in the area (direct and secondary effects); loss of jobs (direct and indirect); impoverishment of localities (lost tax revenue, increased welfare payments) and risk of depopulation; other social effects, e.g. increased drug abuse/alcoholism.

### Table 2 Myths and facts about downsizing

Myth:

- downsizing boosts profits;
- downsizing boosts productivity;
- downsizing is a last resort;
- downsizing has no adverse effects on work load, morale, or commitment to a company;
- employees affected by downsizing suffer no long-term income losses as a result of structural shifts in the economy.

Fact:

- profitability does not necessary follow downsizing;
- productivity results after downsizing are mixed;
- data indicate that downsizing is a first alternative for many companies;
- in most companies, downsizing has adverse effects on work load, morale, and commitment;
- downward mobility following downsizing is the rule rather than the exception.

Source: Hansen, 2002

Interestingly, downsizing strategies also have an effect on employment patterns. A European Industrial Relations Observatory (EIRO) report shows that restructuring initiatives in the industrial sector during the 1970s and 1980s resulted in increasing employment in service sectors and decreasing employment in manufacturing industries. Moreover, downsizing initiatives have had specific employment effects on particular groups of workers, especially older workers, women and unskilled workers (EIRO, 2001):



- Downsizing has often been linked with the use of early retirement schemes to cushion resulting redundancies, mainly targeting older workers aged 50 years and over. Moreover, older employees often encounter additional risks such as the socially perceived inability of this group to adapt to change. A further risk linked to downsizing and witnessed in certain countries (for example, in Spain) comes from the creation of new jobs with more precarious employment conditions in terms of contracts, working time and pay.
- Downsizing may also push companies to revert to traditional gender patterns. As such, women generally suffer more as a result of downsizing, especially in cases involving reductions or reallocations of responsibilities and posts. However, it has been the experience in other countries (for example, in the UK) that the decline in manual occupations in manufacturing and the increase in service sector work has resulted in more full-time job losses for men. At the same time, this has led to a growth in part-time work, particularly for women.
- Unskilled workers usually face problems in restructuring measures that involve the introduction of new technology.

### Reasons for restructuring

It is possible to identify a number of common reasons for restructuring decisions leading to job losses. The main reasons for restructuring can be summarised according to the following six main interrelated elements (ILO and EBBF, 2003):

- *Survival of the enterprise*: sometimes, the enterprise faces serious difficulties, e.g. profit losses, increased foreign competition, financial constraints. This requires the adoption of measures intended to assure the future survival of the enterprise.
- *Need to increase competitiveness*: in some cases, enterprises that benefited in the past from various forms of protection must now face dramatic changes in order to remain viable under new competition rules arising from deregulation or tariff reduction strategies adopted by governments.
- *Pressures from financial markets and shareholders*: often, managers along with financial institutions, markets and analysts adopt restructuring initiatives in the short term, with the fundamental aim of increasing profitability levels.
- *Shrinking market demand and/or over-capacity problems*: these can be either temporary or permanent.
- *Poor management*: in some cases, the need to restructure originates from poor management practices, such as a short-term focus, poor strategic decisions or failure to anticipate future needs.
- *Privatisation strategies*: in the last 20 years, a number of European countries have experienced an intense privatisation of previously state-owned enterprises and public utility services. This has resulted in considerable restructurings.

Economic considerations lie behind the majority of business restructuring activities. However, as mentioned previously, the social effects related to restructuring must also be taken into account. The challenge, therefore, is finding ways to remain economically competitive and viable, while at the same time minimising the social costs of enterprise restructuring.

## Determining factors of restructuring

A number of interrelated factors can be identified to explain the concrete decisions taken by individual enterprises and public authorities regarding a restructuring process. Essentially, these factors can be categorised according to

- **internal factors**, such as the size of the enterprise or unit and the sector of activity;
- **external factors**, such as the status of economy, the characteristics of the local economy, legal, social and political support frameworks, and value systems (Esser and Ozoux, 2003; and Fretwell, 2004).

### Internal factors

*Size of affected enterprise/economic unit:* SMEs, in particular, are characterised by very limited financial and personnel resources. Thus, they do not have the ability to draw resources from other business units or subsidiaries in other countries (cross-financing), nor do they have any direct influence on prices, as industry leaders may have. This creates a problem involving the need to change quickly and to devote generally unavailable substantial resources to a process. Furthermore, the impact of a workforce reduction on SMEs is maximal and long-lasting.

In contrast, the size of large and multinational enterprises (MNEs) enables management in these companies to take advantage of optional external resources. For these large enterprises, more critical issues involve communication with both internal and external stakeholders, as well as additional complexities such as differing legislation and management styles among countries.

**Table 3 Implications of downsizing processes according to enterprise size**

	SMEs	MNEs	Large enterprises
Resources available	minimal	limited	limited
Flexibility needed	maximal	medium	medium
Complexity (managerial and legal)	high	maximal	high
Necessary process formalisation	low	high	high
Internal communication required	high	high	high
External communication required	limited	maximal	high
Impact on enterprise as a whole	maximal	medium-large	medium-large

Source: Esser and Ozoux, 2003

*Economic sector of activity:* a company's economic sector also has important implications for restructuring processes, particularly when taking into account the knowledge ratio (skilled workers as a percentage of the total workforce) of the respective industry. Thus, an enterprise with mainly unskilled workers is less concerned with issues such as loss of key talent or intrinsic knowledge, compared with a company with mainly skilled or highly-skilled workers.

### External factors

*Current status of economy:* it is easier to undertake a restructuring process when the economy is doing well, as redundant workers can find new employment and business opportunities more readily. In contrast, the worse the economic situation is, the more political and social commitment is needed.

*Characteristics of local economy:* a diverse, multi-sector local economy may facilitate redundant employees' search for alternative employment opportunities in other economic sectors. In the case of mono-enterprise communities (i.e. a region heavily dependant on one sector/industry), restructuring efforts are much more difficult, particularly when these communities are geographically isolated.

*Existing legal, social and political support frameworks:* existing regulations for layoffs and severance affect the speed and costs of a restructuring process<sup>5</sup>. Furthermore, the presence/absence, as well as level of importance, of existing social support programmes (e.g. social assistance, unemployment benefit systems, labour redeployment programmes) will directly affect the ability to absorb the laid-off workers and to help minimise social costs and frictions. Linked to this issue, the existing political commitment from competent authorities will influence the level and type of resources allocated to alleviate the negative consequences.

*Internal and external value systems:* in addition to an enterprise's own corporate culture, the surrounding culture has important implications for the management of restructuring processes, especially when workforce reductions are foreseen. Existing values, cultures and workers' expectations vary widely from one country to another. The extent to which an entrepreneurial culture exists in the region may also affect the restructuring processes, especially in relation to new business creation initiatives.

### **Socially responsible restructuring**

There is a growing consciousness among all stakeholder groups involved in restructuring processes that a socially responsible approach is as important as the resultant changes of such practices. This is in contrast to traditional restructuring approaches that have emphasised short-term cost reduction measures, intended to increase immediate shareholders' interests.

The concept of 'socially responsible restructuring' can be defined as the use of one or more approaches to consciously take into account the interests of all the organisation's stakeholders – managers, owners/shareholders, workers as well as the larger community. In this sense, many national governments and individual employers go beyond the legal framework, to ensure that any restructuring involving a reduction of the workforce is done in such a way as to minimise negative consequences for all parties.

The main elements of a socially responsible restructuring process include: an anticipatory or forward-looking approach; timely information and continuous social dialogue with all actors concerned (unions, employers, the local community and public authorities); and negotiations with workforce representatives on how to prevent the adverse effects of restructuring (Starcher, 2003).

These 'socially responsible' practices can have benefits both for the organisation and the workforce (Broughton, 2004). For the workforce, involvement in and dialogue around the restructuring process implies that individuals are more likely to retain their jobs or find an alternative job with the organisation's help. For the organisation, entering into dialogue with employee representatives

---

<sup>5</sup> For an interesting discussion on current differences, between countries, in the legal frameworks regulating restructuring processes, see Bernard Brunhes Consultants, 2002 (available in French only).

helps to build a more trustful relationship, which can help resolve possible conflicts through negotiated solutions. In addition, establishing a reputation as a socially responsible employer can improve the organisation's relations with the wider community.

However, as already suggested, there are situations where redundancies are inevitable. The available literature (Esser and Ozoux, 2003) identifies a number of socially responsible tools open to enterprises in helping affected employees find suitable employment. These tools require technical, psychological and logistical support and include:

- *Internal and/or external outplacement services*: such as training for employability (preparation of curriculum vita (CVs) and interviewing), time off to search for jobs, skills assessments, job fairs, job and psychological counselling, financial planning and information on government benefits.
- *SME creation unit*: intended to foster the creation of new enterprises among the laid-off workers who wish to set up an independent business activity.
- *Mobility support*: either through a change in place of work (geographical mobility) or a change in job (job mobility). This can include financial support to cover moving expenses, provision of information, and administrative help such as with registering children at school or dealing with local authorities, allowing days off to move, etc.
- *Early retirement*: in accordance with national legislation. This solution also includes part-time retirement (or partial retirement), allowing employees to work less (e.g. 50% less).
- *Part-time jobs*: which imply a reduction in production capacity as an alternative to layoffs.
- *Flexible leave*: provides a temporary solution by allowing for limited leave, agreed on between the employee and the company. In some countries, this possibility is fostered by existing labour legislation and regulations.
- *Sub-contracted workers*: enabling workers to be deployed to other companies for a limited period (sub-contracting).

Increasingly therefore, responsible restructuring processes include both 'pull' and 'push' elements (Hansen, 2002), combining efforts to 'pull' and entice excess labour to leave restructuring enterprises, while at the same time 'pushing' displaced workers to quickly rejoin the labour market. Among these 'push' elements, there is a growing interest among policymakers and social partners to introduce innovative practices, encouraging employees to set up their own business. This is regarded as an effective tool for job creation to counteract the effects of restructuring processes.

### **Business creation arising from restructuring**

Support for new business creation and entrepreneurship, targeted at people affected by restructuring, is regarded as a feasible tool for minimising the negative social effects of restructuring and for enabling new employment creation. Such initiatives may help companies to develop a positive corporate image and reputation among communities and governments, as well as helping to improve workforce morale. They obviously also help the company to implement its own restructuring plan. For employees, these types of solutions allow affected personnel to better manage their own futures, as well as maintain their existing social links, either because the individual can remain working in the same geographical locations or with the same people (often, achieving both is possible).

For the region and the local community affected by the restructuring process, business creation initiatives allow for the development of an entrepreneurial culture, which may help to diversify the area's existing economic structure. This, in turn, can help to reduce the area's level of economic dependency and maintain or even increase its levels of prosperity.

Overall, it is possible to identify three basic types of support for business creation following a restructuring process:

- *Support to personnel (either managers or employees) of companies that are subject to restructuring through MBOs or EBOs:* in this context, MBOs or EBOs take place when restructured workers become owners of the enterprise/establishment/business unit that was earmarked for closing. In some cases, this process is led by the managers or employees themselves. However, in other cases, the MBO/EBO option arises as a result of the enterprise's decision to spin off a part of the former enterprise or establishment, as an independent business unit.<sup>6</sup> The objectives of such spin-offs can be to manage explicit social plans or to anticipate potential labour excess situations ('conversion spin-offs'); it can also enable the company to better focus on its core activities while spinning off non-core activities ('spin-offs for externalisation') (Oiz and García, 1996).
- *Support for the creation of completely new enterprises by restructured personnel:* frequently in sectors/activities that are different from those which they had been previously involved in. In such cases, as in the previous one, the main motivation for an entrepreneur launching their own business initiative usually lies in their negative current or expected employment status.
- *Support for the creation of new start-ups in the affected geographical area by people not directly affected by the restructuring process.* These new start-ups, combined with other reindustrialisation tools (such as attracting new and/or existing enterprises to the area), are used to generate new employment opportunities for personnel affected by restructuring.

In all of these situations, and regardless of the initial motivation for doing so, starting up a new business idea is not an easy task as it presents numerous challenges in terms of access to finance, management issues (especially for those unfamiliar with these responsibilities), fulfilment of existing regulations, etc. In this sense, potential entrepreneurs require assistance in a number of issues that are critical to the future success of the business idea. These types of assistance may include (Esser and Ozoux, 2003):

- counselling and guidance in relation to business plans, identifying suitable business ideas, management and legal advice;
- determining which skills are needed for the proposed project;
- access to training to address necessary skills that the entrepreneur currently lacks;
- access to bank loans and other sources of capital;
- technology transfer support, including access to machinery and materials;
- access to a suitable location for the enterprise;
- initial contacts, e.g. introduction to potential clients and customers.

---

<sup>6</sup> This situation is particularly interesting for the large state-owned enterprises typical of eastern European countries, where it is possible to identify a large presence of potential micro, small and medium-sized enterprises 'internalised' in these larger enterprises.

Support mechanisms may cover a wide spectrum of measures and will undoubtedly differ according to the company's development phase. They will also vary according to the different contexts in which enterprises operate (such as the sectoral, socio-political, geographical, and cultural contexts). Broadly speaking, however, the list of core needs outlined in Table 4 is generally valid across sectors and covers the various phases of an enterprise's development.

**Table 4 Core needs according to company's development phase**

---

**For start-up enterprises:**

- development and screening of business idea;
- advice regarding the start-up phase (such as feasibility studies, and legal status);
- start-up finance;
- incubators, search for premises;
- competence development for basic business skills;
- introduction to potential clients/customers.

**For transferred enterprises (existing enterprises):**

- ownership transition assistance;
  - growth finance;
  - raising business skills;
  - continuous competence development of workforce;
  - technology transfer;
  - development of export potential;
  - use of internationally acceptable management system standards;
  - development of consistent human resource policies;
  - assurance of contracts.
- 

Source: EIM Business and Policy Research, 1997

Finally, it should be noted that this assistance can be provided by an individual enterprise going through the restructuring process or by partnerships involving the public sector and private agents. The following chapter identifies examples of public and private support measures aimed at supporting business creation and entrepreneurship arising from restructuring.



# Entrepreneurship following restructuring

Self-employment can contribute significantly to economic development. In particular, new enterprises create new jobs and stimulate business dynamics, since a significant share of them are innovative and flexible, and exploit niches in the marketplace.

However, starting a business is not an attractive option for a large percentage of Europeans. According to information provided by the 2004 *Flash Eurobarometer on Entrepreneurship*, 57% of Europeans aged over 15 years have never considered starting up their own business, while a further 16% have never set up a business but have thought about it.<sup>7</sup> Only 2% of those surveyed are currently taking steps to start a new business, 3% have started a new enterprise in the last three years, while 5% have been running an active business for more than five years.

**Table 5 Experience of respondents in setting up a business (in %)**

	EU15	New Member States (NMS)	EU25	USA
It never occurred to you	59	52	57	44
No, but you are thinking about it	15	22	16	28
No, you gave up the idea	8	8	8	1
Yes, you are currently taking steps to start a new business	3	1	2	8
Yes, have started or taken over a business in the last three years, which is still active today	2	3	3	4
Yes, started or took over a business more than three years ago and it's still active	5	6	5	3
No, am no longer an entrepreneur	7	6	7	1
Don't know/Not available	2	2	2	11

Source: European Commission, 2004a.

The comparison between the old and the new Member States shows that a greater number of respondents (59%) in the EU15 countries have never thought about setting up a business compared with the number of respondents (52%) who said so in the new Member States. Also, more citizens in the new Member States seem to be currently thinking about setting up a business (22% compared with 15% in the EU15).

Interestingly, in relation to people who are currently running their own business, the comparison between Member States shows important differences. The countries that show the highest percentages of people running their own business include Greece, the Czech Republic, Finland, and Hungary (ranging from 11% to 14% of the population); the lowest percentages were found in Slovenia, Estonia, Latvia and France (less than 4% of the population).

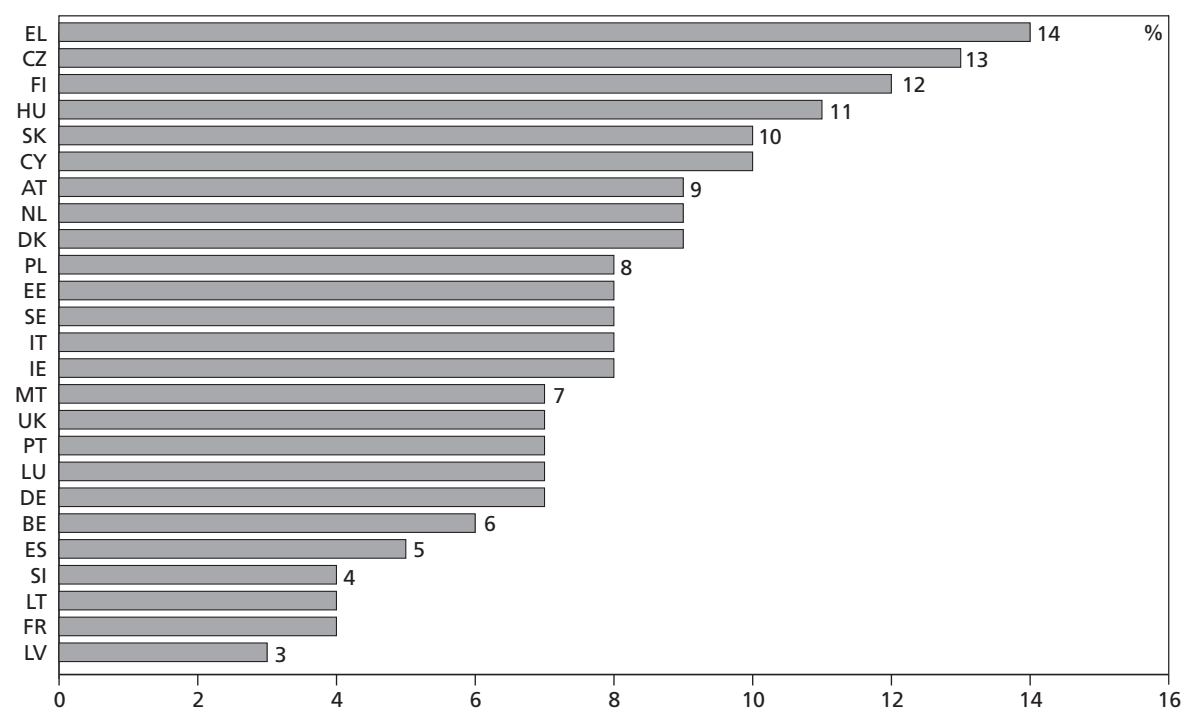
An analysis of the socio-demographic variables in the EU for this question reveals, among other things, that two thirds of women admit they have never thought about setting up a business or

<sup>7</sup> This Barometer was developed in June 2004 on behalf of the European Commission DG Enterprise and Industry. It provides comprehensive information on the issue of entrepreneurship in Europe, as well as interesting comparisons with the situation in the United States (US) (European Commission, 2004a).



taking steps to that end. By job category, a majority of both employees and manual workers have also never thought about it.

**Figure 1 Percentage of people currently running their own business**



Source: European Commission, 2004a.

Younger people are more inclined than older people to consider setting up a business. The proportion varies from 6% among those aged 55 years and over to 27% in the 15–24 age group. Respondents who studied at least up until the age of 21 years are the most likely to have thought about or taken steps towards setting up a business but also the most likely to have abandoned their project.

### Transition to entrepreneurship

According to research (CES, 2005), the decision to become an entrepreneur is dependent on a number of factors, which can be classified into two main groups: factors external to the enterprise and factors internal to the enterprise:

- External factors refer to those elements (economic, political, social and demographic) that cannot be influenced by the entrepreneur but which influence his/her activities. These factors can be divided into macroeconomic ones (e.g. financial framework, labour market characteristics, educational system, degree of economic development, institutional/legislative framework, prevailing cultural values towards entrepreneurship) and microeconomic ones (factors specific to a sector, such as level of openness of the market, type of sector, minimum critical enterprise size, prevailing sector strategy policy).
- Internal factors refer to those elements intrinsic to the entrepreneur, and encompass the personal motivations for setting up an enterprise, e.g. ability to perceive business opportunities, previous work experience, as well as the entrepreneur's ability to create and develop a new enterprise.

Thus, the personal characteristics of an individual who decides to create their own business have a major influence on the business creation process. In particular, an individual's previous work experience and their associated abilities are among the key elements affecting the decision to set up an own enterprise.

Some authors (EIM Business and Policy Research, 2003a) have developed a theoretical transition model, which attempts to identify elements that influence an individual to make the transition from being employed by a third party to starting their own business – a situation typical for a restructured employee starting their own enterprise.<sup>8</sup> This transition is viewed from the perspective of the old situation and from the perspective of the possible new situation; in both perspectives, positive as well as negative signals play a role. The combination 'perspective–signal' results in four elements of this decision process that are summarised in Table 6.

**Table 6 Theoretical model for transition from being employed to starting an own enterprise**

Signals	Perspective	
	Current position	(Possible) future position
Positive	Braking factors	Pull factors
Negative	Push factors	Barriers

Source: EIM Business and Policy Research, 2003a

The interpretation of the four elements is as follows:

- **Braking factors:** positive aspects or positively appreciated aspects of the current position. In the case of people currently employed, examples may include, for instance, regular/fixed incomes or employment stability.
- **Pull factors:** positive aspects or positively appreciated aspects of the possible future position. In the case of becoming an entrepreneur, examples include: motivations for setting up an enterprise, availability of policy measures aimed at stimulating entrepreneurship, positive framework elements present in the national economy (market openness, availability of initial funding, etc).
- **Push factors:** negative aspects or negatively appreciated aspects of the current position. Examples include being unemployed/in personal crisis, dissatisfaction with current job or working conditions, lack of attractive opportunities as an employee. Also includes negative perceptions/uncertainties about the current job (i.e. for those employees expected to be laid-off as the result of a restructuring process).
- **Barriers:** negative aspects or negatively appreciated aspects of the possible future position. Examples include uncertainty about the future situation, associated risks, legal and administrative constraints,<sup>9</sup> lack of resources (financial, skills, knowledge) to become an entrepreneur. Another important barrier is lack of a business idea and lack of interest in becoming an entrepreneur (an important cultural barrier in Europe, as will be discussed later).

<sup>8</sup> Of course, there are also a number of factors related to national considerations that affect the number of business start-ups (see for instance Wildeman et al, 1999).

<sup>9</sup> For a further discussion on the existing legal and administrative barriers to become an entrepreneur, see EIM, 2003b.

Referring to the transition towards becoming an entrepreneur, the Global Entrepreneurship Monitor (GEM)<sup>10</sup> relates the two previously mentioned 'pull' and 'push' factors to what it refers to as 'opportunity' and 'necessity' entrepreneurs. Accordingly, 'opportunity' entrepreneurs are defined as people who start a new business to exploit a perceived business opportunity; 'necessity' entrepreneurs, on the other hand, are those who are pushed into entrepreneurship because all other options for work are either absent or unsatisfactory.

People affected by restructuring situations and who are contemplating entrepreneurship probably fall more frequently into the category of necessity entrepreneurs. Therefore, an employee negatively affected by a restructuring process is more likely to be 'pushed' into entrepreneurship because other employment options are more uncertain. This situation is not always so straightforward and may depend on a number of factors (such as the economic situation where the new entrepreneur is located).<sup>11</sup>

### Motives for becoming an entrepreneur

One of the most important sources of statistical information on entrepreneurship is the aforementioned *Flash Eurobarometer on Entrepreneurship* (European Commission, 2004a).

An interesting finding of this Eurobarometer is that the willingness to become an entrepreneur is not something that everyone necessarily shares. According to recent data for the EU15, around 45% of Europeans would like to run their own enterprise (the figure is the same for the EU25), whereas this percentage is much higher in the United States (61%). Europeans generally seem to prefer working as an employee more than Americans do, and this preference seems to have been reinforced in recent years. Men, young people and those with self-employed parents are more likely to be interested in running their own business.

**Table 7 Preferences of employees and self-employed people, EU15 and US, 2000–2004, (in %)**

	2000	2001	2002	2003	2004
EU15 being an employee	44	48	50	49	51
EU15 running own business	51	48	45	47	45
US being an employee	28	35	29	37	34
US own business	69	59	67	59	61

Source: European Commission, 2004a.

Available data on non self-employed people show that 33% of European employees are tempted by the idea of becoming self-employed in the next five years; this percentage is as high as 40% in the new Member States (versus 32% in the old Member States). However, these percentages are lower than those in the US, where 46% of non self-employed people are interested in the possibility (13 points higher than in the EU). Again, men, young people and more highly educated people are

<sup>10</sup> GEM is the world's largest and longest-standing study of entrepreneurial activity. In 2004, GEM conducted research in 34 countries around the world. For more information, see <http://www.gemconsortium.org/default.asp>.

<sup>11</sup> In locations and regions characterised by high per capita incomes, and therefore more diversified labour markets and stronger social welfare safety nets, it can be expected that 'necessity' entrepreneurship will be less relevant than in locations characterised by the opposite situation.

more attracted to the idea of becoming entrepreneurs. Some 67% of European employees regard the option of becoming self-employed in the next five years as unfeasible; this percentage is lower in the US at 54%. In all cases, important national differences between the individual Member States can be observed.

Based on the GEM methodology, which distinguishes between ‘opportunity’ and ‘necessity’ entrepreneurs, around 65% of those involved in entrepreneurial endeavours across the world claim that they are attempting to take advantage of a business opportunity. A total of 35% state that they are doing so because they have no other viable employment option. However, it is also worth mentioning that there is a large degree of variation among countries in the balance between ‘opportunity’ and ‘necessity’ entrepreneurship. Moreover, the GEM report identifies a positive relationship between ‘opportunity’ entrepreneurship and GDP per capita (Acs et al, 2005).

This therefore confirms the results of the *Eurobarometer on Entrepreneurship*, which indicates the greater importance of ‘opportunity’ compared to ‘necessity’ entrepreneurship in the EU. Thus, a majority of EU25 respondents are launching or have launched their own business because they saw an opportunity (55%), although this proportion is lower if the results obtained for the 10 new Member States (48%) are taken into consideration. On the other hand, a very large majority of American entrepreneurs (71%) are setting up or have set up their own business because they saw a potential opportunity.

**Table 8 Main reasons why entrepreneurs started their own business (in %)**

	EU15	New Member States	EU25	US
Came across an opportunity	56	48	55	71
It was a necessity	32	33	32	13
Both reasons	9	16	10	10
Don't know/Not available	3	3	3	5
Total	100	100	100	100

*Note:* Respondents only included those people who are either currently taking steps to set up a business or people who have previously had the opportunity to set up or take over a business.

*Source:* European Commission, 2004a.

It is important to stress, nonetheless, that the survival rates among newly created enterprises are quite low. According to information provided by the European Observatory for SMEs (see EIM Business and Policy Research, 1995), an average of 87% of newly created enterprises survive their first year; however, this percentage drops to 67% and 54% after the third and the fifth year, respectively. Clearly, therefore, the survival of new enterprises is a critical issue.

Despite the fact that the individual characteristics of the entrepreneur – age, gender, work experience, educational qualifications, family background, ethnic background, etc – are frequently hypothesised to influence business survival and performance, the available literature suggests that a correlation of these elements does not appear to be consistently verified in major empirical studies (Storey, 1994).

Interestingly, available research indicates that the motivation to engage in entrepreneurial activity affects the direction and nature of the existing or proposed business entity and the potential for the activity to provide a major contribution to the economy (see Reynolds et al, 2003). Accordingly, opportunity-based entrepreneurial activities are more likely to survive and create more jobs within five years than necessity-based projects are. Also, opportunity-driven entrepreneurs are more likely to be involved in export sales and in creating market niches.

### **Profile of the entrepreneur**

Individuals affected or potentially affected by restructuring, who have considered entrepreneurship, are likely to possess a number of common characteristics in comparison with other groups of prospective entrepreneurs. Other potential new entrepreneurs may also possess a number of these characteristics, however, this specific group as a whole stands out in comparison with other groups.

Such characteristics can be divided into three main categories: demography, attainments and professional experience.

**Table 9 Characteristics of individuals who have become entrepreneurs following restructuring**

<b>Categories</b>	<b>Characteristics</b>
Demography	<ul style="list-style-type: none"><li>• Mature in age</li><li>• Dependent family</li><li>• Personal savings</li></ul>
Attainments	<ul style="list-style-type: none"><li>• Career as dependent employee</li><li>• Relatively high income</li><li>• Entitlement to social security benefits</li></ul>
Professional experience	<ul style="list-style-type: none"><li>• Knowledge and working experience</li><li>• Certain knowledge of markets</li></ul>

*Source:* Ikei consultancy and research, 2005.

There can be levels of variation between individuals regarding these three categories. Therefore, one cannot assume that the situation of a highly qualified scientist in his/her forties (probably with a high income, professional qualifications, developed network with clients/suppliers) is easily comparable to that of a low-skilled worker, who is also made redundant and is in his/her fifties (probably has substantial work experience but gained in a more 'narrow' environment).

However, it can be surmised that in most cases, a restructured employee setting up his/her own enterprise is usually compelled by 'push' factors, that means by negative or negatively appreciated aspects of the current work position that urge the person to start up his/her own enterprise. As already mentioned, according to the GEM terminology, restructured individuals are more likely to belong to the 'necessity' rather than to the 'opportunity' entrepreneurs group. This factor often determines the likelihood of survival for new start-ups.

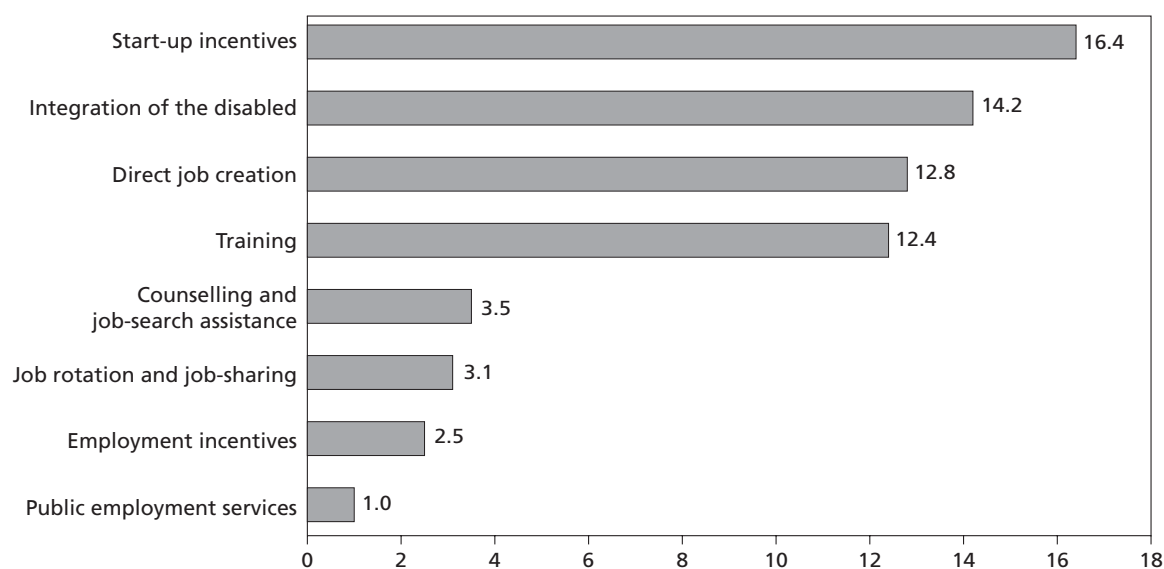
## Factors influencing success of business creation initiatives

Business creation initiatives following restructuring have an important role to play in promoting new employment opportunities for employees who have been made redundant (see next section for examples). They can also play a positive role at local and regional levels, in terms of industrial change and economic renewal.

However, it is also important to mention that such initiatives are subject to a number of limiting factors, which should be considered. The first obstacle relates to the limited number of participants that such initiatives tend to attract, i.e. those people who have, or believe themselves to have, a combination of good business ideas, entrepreneurial skills and the motivation to survive in a competitive environment (Martin, 1998). Available studies estimate that on average, only 5%–6% of participants from privatised eastern European state-owned enterprises actually benefit from these initiatives (Fretwell, 2004). Meanwhile, information from western Europe shows that support for creating new enterprises by former employees has only been implemented in a limited number of cases (see European Commission, 1999; also several examples provided in this report). In these cases, the percentages for those interested in setting up their own business range from 1.2% to 10% of the restructured workforce.<sup>12</sup> This confirms that self-employment is not an attractive alternative for a considerably large percentage of Europeans, as argued earlier in the report.

A second limitation is that support initiatives related to enterprise creation tend to be more expensive than other active support measures. Again, evidence collected in eastern European countries shows that these initiatives are characterised by high unit costs, particularly in comparison with other labour support programmes (Fretwell, 1999). This evidence is also supported by Eurostat, which shows that start-up incentives are the most expensive labour market policy measure per participant, and clearly more expensive than other measures such as integration of the disabled or direct job creation (Eurostat, 2002).

**Figure 2 Expenditure by measure and participant (in '000 euros)**



Source: Eurostat, 2002.

<sup>12</sup> Of course, those situations where MBOs take place (see three of the six case studies) affect a much larger percentage of workers.

Thirdly, and as previously mentioned, it should not be forgotten that survival rates among newly created enterprises are generally low. In the case of new enterprises started up by workers affected by restructuring, there is no specific information on survival rates. Nonetheless, data collected from several authors (Reynolds et al, 2003) suggest that necessity-based entrepreneurs (most workers affected by restructuring fall into this category) have, in aggregate terms, lower effects on the economy than opportunity-driven entrepreneurs. This is both in terms of lower survival rates and employment creation.

# Public and private support for business creation

Initiatives have been developed both at EU and Member State level, aimed at supporting business creation initiatives following restructuring. These initiatives can be grouped into three main categories:

- regulatory initiatives – legislative measures aimed at encouraging the creation of new enterprises following restructuring;
- general public support measures – policies aimed at encouraging the start up and development of new and small enterprises among those people negatively affected by restructuring processes;
- specific ad hoc public measures – ad hoc public interventions at sectoral, regional or even individual enterprise level.

It is also possible to categorise the initiatives supported by individual private enterprises undergoing restructuring, in the field of business creation.

## EU initiatives

In recent years, the EU has developed several initiatives to address the issue of restructuring and its economic and social consequences. In 1998, the European Commission established a high-level group on the economic and social implications of industrial change (the Gyllenhammar Group). The final report of this group contained a range of recommendations to EU institutions, national governments and social partners (European Commission, 1998):

- set up a European observatory on industrial change;
- promote social dialogue on industrial change and its effects (including the information and consultation of employee representatives);
- encourage large companies to produce annual ‘change management reports’ on their employment policies, providing information on what structural changes are foreseen and how they will be managed;
- ensure that closures and collective redundancies are accompanied by joint efforts by companies, employee representatives and public authorities to agree to social plans, modernisation programmes and ‘mobilisation’ strategies.

In recent years, and in keeping with the objectives of the Lisbon Agenda, the European Commission has issued a number of Directives intended to foster information and consultation with the workforce on major decisions affecting them, where special emphasis is put on restructuring issues involving redundancies. Among them, the Information and Consultation of Workers Directive (2002/12/EC), which was due to be incorporated into national legislation by March 2005, requires undertakings with at least 50 employees or establishments with at least 20 employees to: inform on the recent and probable development of activities and the business's economic situation; inform and consult on the employment situation and any anticipatory measures envisaged, particularly whether there is a threat to employment; inform and consult on decisions likely to lead to substantial changes in work organisation or in contractual relations, including collective redundancies and transfers of undertakings.



Interestingly, the European Commission also announced on 10 May 2001 a package of initiatives aimed to help companies and workers adapt successfully to business change. This package commits the Commission to a number of activities, among them the promotion and use of all active labour market measures (including those financed by the European Social Fund) in addressing the social consequences of restructuring decisions, where particular attention is paid to depressed regions and sectors.

This line of action has been recently reinforced with the adoption by the Commission in April 2004 of a package of new recommendations for national employment policies with a view to strengthening the implementation of the European Employment Strategy (European Commission, 2004b). Among them, the establishment of different measures to support entrepreneurship are of particular importance, especially in the context of restructuring.

Other EU-led initiatives in this field include the European Charter for Small Enterprises, which calls on the Member States and the Commission to take action to support small enterprises and to work along 10 areas to improve the business environment in which SMEs operate. One of these areas directly relates to the promotion of entrepreneurship and new business ideas. The main EU policy instrument for the promotion of entrepreneurship and SMEs is the Multi-Annual Programme for Enterprise and Entrepreneurship for 2001–2005 (European Council, 2000).

Following the debate launched by the *Green Paper on Entrepreneurship* in spring 2003 (European Commission, 2003), the Commission published an Action Plan for Entrepreneurship. This Action Plan establishes a framework, centred around five strategic priority areas and 10 key actions, setting out Europe's agenda for entrepreneurship for the coming years (European Commission, 2004c). These key actions include:

- fostering entrepreneurial mindsets through school education;
- reducing the stigma of business failure;
- facilitating the transfer of businesses;
- improving the social security of new small business owners;
- providing tailor-made support to women and ethnic minorities;
- simplifying tax compliance.

In addition to the activities of the EU in the fields of restructuring and entrepreneurship support, the issue of restructuring and the management of its economic and social consequences is an important discussion topic for social partners at EU level. In October 2003, the social partners issued a joint text, *Orientations for reference in managing change and its social consequences*, which includes an annex with 10 case studies on which the orientations were based (UNICE/UEAPME, CEEP and ETUC, 2003). The text focuses on enterprise creation and reiterates the importance of exploring the possibilities opened up by supporting business creation as an effective tool for counteracting possible negative restructuring effects.

The latest European Commission Communication COM (2005) 120, *Anticipating and accompanying restructuring in order to develop employment: the role of the European Union*, presents an analysis of the restructuring phenomenon in the EU in light of the mid-term review of the Lisbon Agenda. The document also proposes a more coordinated policy approach to restructuring between the EU and Member States, as well as a review and refocusing of current support programmes. The

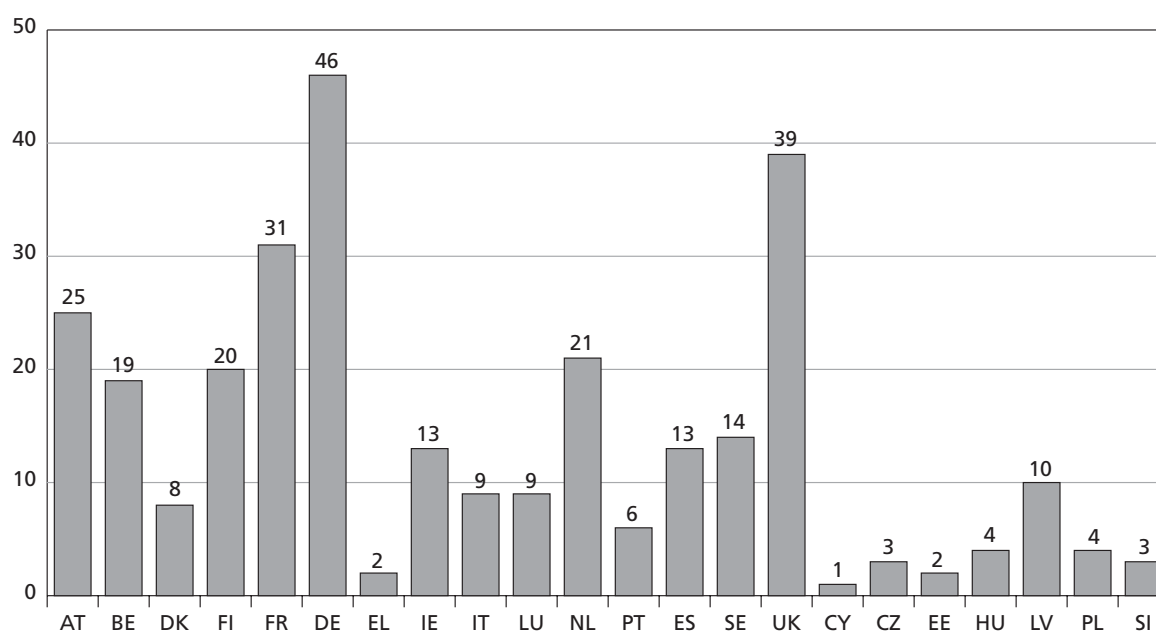
Communication has also given way to the creation of a European Restructuring Forum and an Internal Commission Task Force on the issue.

### National public initiatives

Despite the existing harmonisation efforts pursued by the EU, it is clear that the conditions and contents of restructuring processes are regulated mainly by national legislation; this explains why situations vary significantly between countries (see online Annex to this report).

One of the current objectives of national government policy is related to the promotion of entrepreneurship. While the reasons for pursuing this policy area vary between countries, they generally fall within a narrow range of objectives, such as to stimulate employment creation, regional development, innovation, wealth creation and economic growth. A large portion of these programmes and support measures are targeted at start-ups (Stevenson and Lundström, 2001). An illustration of the number of policy measures at the national level can be found in the following graph.

**Figure 3** Number of support measures aimed at start-up enterprises or those in first phase of development



Source: European Commission, Support Measures and Initiatives for Enterprises (SMIE) Database.

Generally speaking, public measures designed to support new start-ups are particularly focused on two target groups:

- segments of the population who are under-represented as business owners (i.e. women, young people, the unemployed, ethnic groups or people with disabilities);
- people with the highest potential for starting high-growth potential firms, such as scientific researchers, inventors, university graduates, and people with technology experience.

However, in recent years there has been increasing interest both at EU and national level regarding support for new business creation as an innovative measure to minimise the negative effects of restructuring. In this sense, it is possible to identify a number of specific policies developed by national authorities to help foster the creation of new businesses by people affected by restructuring processes. Essentially, these national policies can be divided into three main categories: regulatory initiatives; general support measures; and ad hoc public measures.

### **Regulatory initiatives**

Governments in consultation with employer associations and employee organisations play an important role in defining the legal and regulatory environment within which companies restructure. These regulatory initiatives may refer to existing national legislation that favours new business creation following restructuring. Analysis of existing information regarding regulatory initiatives (see Annex 1) shows a number of examples in this area.

In some cases, the existing legislation limits the scope and extent of the restructuring process. For example, the French Employment safeguard programme (*Plan de sauvegarde pour l'emploi*, PSE) limits the social effects of dismissals. This regulatory initiative concerns all French enterprises with at least 50 employees that dismiss at least 10 employees for economic reasons within a period of 30 days. It stipulates that such enterprises must elaborate an employment safeguard programme aimed at limiting the number of dismissals as well as facilitating the professional rehabilitation of those people whose dismissal could not be avoided. If this programme is not presented, the labour authority may reject the restructuring process. Employees (via their representatives or directly) must also give their opinion about the programme.

These PSEs can benefit from public support through the National Fund for Employment, and measures include: support for the creation or take over of businesses by employees; training for employees; reduction of working hours; development of new activities by the enterprise; support for the setting up of activities at local level.

In Germany and Spain, legislation dictates that a restructuring enterprise must present a social plan (*Sozialplan* in Germany or *plan de acompañamiento social* in Spain), to help avoid or reduce the negative effects of reorganisation on employees. In some cases, references to encourage complementary active measures are also included.

In other countries, the existing legislative framework allows for different ownership alternatives particularly aimed at facilitating the takeover of enterprises by affected employees. For example, Spanish legislation provides for the legal establishment of enterprises intended to assist workers left unemployed by the closure of their former employer but who are interested in continuing with the enterprise as owner-workers. The law includes key aspects necessary to establish a labour limited liability enterprise, such as minimum social capital, a minimum number of shareholders, regulations on the transfer of stock, etc.

In other countries, the tax legislative framework facilitates the transfer of existing businesses to third parties (for example, to co-entrepreneurs or employees) without any fiscal consequences. A good example of this type of legislation, called the *Doorschuiffaciliteit inkomstbelasting* or 'silent transfer', can be found in the Netherlands. Since 2002, silent transfers to co-entrepreneurs and/or

employees are possible, provided that they accept the previous owner's accounts. The European Commission has cited the silent transfer concept as an example of best practice in promoting business transfers. The transfer of businesses has many advantages over starting up a new business as the entrepreneur can take advantage of his/her existing knowledge as well as the existing organisation in combination with new ideas from the new owner.

### General support measures

These types of public support measures are aimed at encouraging the creation, development or takeover of new and small enterprises by people negatively affected by restructuring processes. However, they are not exclusively focused on people affected by restructuring, but are rather aimed at fostering new business initiatives among unemployed people or those threatened by unemployment. These types of general support measures do not specifically target any one sector or geographic region/locality. They can be classified according to two main categories (see on-line Annex for a detailed description and country breakdown):

- direct support measures – intended to assist unemployed people or people threatened by unemployment who want to set up their own business or take over an existing one;
- indirect support measures – intended to foster the creation of new businesses or the takeover of existing ones by people affected by restructuring processes. This type of support is not provided directly to affected persons, but rather to intermediate organisations that develop activities to promote new businesses among people affected by a restructuring.

**Table 10 Public measures to support business creation in restructuring processes**

	Measures for restructured and/or unemployed people	
Direct support measures	• Unemployment benefit in one shot	Spain, Greece, Luxembourg
	• Legal transformation of company to employee-owned company	Spain
	• Temporary exemption from social taxes	France
	• Free of interest loans	Netherlands
	• Advice and counselling activities	Germany
Indirect support measures	Addressed to intermediate organisations	
	• Wales Co-operative Centre	UK
	• Professional rehabilitation departments ( <i>Cellules de reclassement</i> )	France
	• Conversion companies ( <i>Sociétés de Conversion</i> )	France
	• Task Force on Economic Change ( <i>Mission Interministérielle sur les Mutations Économiques</i> )	France

Source: Ikei research and consultancy, 2005

In addition to these two main types of support measures, some countries have developed special tools aimed at facilitating the development of a new approach to restructuring. In France, for example, the French Government Task Force on Economic Change (*Mission Interministérielle sur les Mutations Économiques*, MIME) aims to contribute to a proactive and anticipative, rather than a reactive, approach to restructuring. The main activities of MIME include the coordination of public actors and actions concerning restructuring at a national level, as well as support to regional and local authorities of those areas affected or at risk of being affected by large restructuring processes.

Finally, it is worth mentioning that, in addition to these measures, people affected by restructuring can benefit from existing general support measures aimed at supporting all types of new business founders, self-employed people and established SMEs.

### **Ad hoc measures**

Public involvement in the field of economic restructuring mostly relates to ad hoc intervention at either the sectoral, regional or even individual enterprise levels (although very often, the limits between these three levels are blurred and not very clear). In these ad hoc interventions, the support to business creation is often used to help alleviate the negative social impacts of restructuring. Interestingly also, a large part of these ad hoc measures underpin existing public-private partnerships created to address the needs of specific restructuring processes.

#### *Sectoral level*

Ad hoc public support measures with a sectoral focus pertain to situations where, due to changes in structure or demand or in cost conditions, a sector of the economy finds itself producing the wrong mix of products or the right products with the wrong technology. Sectors that have been particularly affected by such loss of competitiveness include some extractive industries like mining (coal, iron and steel), as well as some manufacturing industries (such as textiles and leather). In these sectors, restructuring has given rise to significant social consequences in terms of high unemployment and low economic prospects, particularly in geographical areas specialising in these activities. In response, public authorities – usually in close consultation with affected stakeholders (employer and worker organisations) – have developed a number of alternatives to the standard response. One such alternative is support for new business initiatives to help create employment opportunities among those affected by restructuring in the sector.

An example is the Coalfields Enterprise Fund – a venture capital fund that has been specifically established to finance growth-orientated companies and encourage entrepreneurship in the UK's former coalfield areas, which were previously reliant on the coal industry. Another example is UK Steel Enterprise Ltd (UKSE Ltd), formerly British Steel, which helps generate new job opportunities for people affected by the restructuring of the British steel sector. Currently, UKSE provides support to small and medium-sized businesses, basically through the provision of finance and premises required by these businesses, which may not otherwise be available. Altogether it has provided a total of £50 million to over 2,400 new businesses, and has developed 570 self-contained workspace units.<sup>13</sup>

#### *Regional level*

Ad hoc public support measures with a regional focus pertain to situations where a town, province or larger region finds itself in severe economic decline, usually due to the economic decline of sectors and activities that are significantly over-represented in the area. In these cases, restructuring processes can have a very negative impact on the local community, not only in terms of the economy and employment, but also in terms of social cohesion (United Nations, 2005).

To counteract these negative consequences, a number of regional and local development strategies have been developed. These exist at EU as well as national and regional levels, and are very often co-financed by structural funds and other community initiatives. Such strategies are usually

---

<sup>13</sup> For more detailed information on these public support measures at sectoral level, see 'Examples of UK regulatory initiatives and public support measures' in online Annex at [www.emcc.eurofound.eu.int/content/source/eu06012a.html](http://www.emcc.eurofound.eu.int/content/source/eu06012a.html).

integrated in specific and ad-hoc regional or local partnerships between affected social partners and public authorities (European Commission, 2002a).

Examples of specific ad hoc initiatives, aimed at fostering regional restructuring with a focus on business creation and support for entrepreneurship, include:

- territorial employment pacts – promoted by the European Commission during 1994–1999 for the regeneration of areas and territories negatively affected by company or sector restructuring. Support for new enterprise creation was the central focus of the programme (for a further description, see the Europa webpages on territorial employment pacts<sup>14</sup>).
- the so-called ‘regional alliances for jobs’ (*regionale Bündnisse für Arbeit*) in Germany – aimed at preserving and creating employment opportunities to avoid the negative consequences of redundancies following restructuring processes at the individual federal state (*Bundesländer*) level. These alliances were initiated by the regional governments with the consensus of trade unions and employer and business associations. In a number of these alliances, support for new business start-ups is one of the tools employed, as seen in the cases of Hesse, Lower Saxony, Mecklenburg-Vorpommern or Saxony (EIRO, 1999).
- a regional restructuring public programme in Poland aimed at reducing the negative employment effects arising from the restructuring of the Silesian coal mining sector – includes a number of measures designed to support people (especially former coal miners) who want to start a business by ensuring access to loan funds, interest rate subsidies, re-funding social security premiums and advisory services (including preparation of business plan). The programme is coordinated by the regional authority and funded by European (i.e. Phare programme) and national sources.
- measures aimed at encouraging investment in specific regions particularly affected by bad economic conditions (often linked to the restructuring of specific enterprises/sectors). In France, for example, the Interministerial Committee for Regional Planning and Development (*Comité interministériel de l'aménagement et du développement du territoire*) has established a number of ‘poles of competitiveness’ whereby government authorities can provide aid for companies’ productive investment. The terms and conditions are more advantageous than in the rest of the country.

Existing literature on these issues suggests that the success of these regional restructuring programmes, based (fully or partially) on the encouragement of new business creation, is dependant on a number of ‘objective’ and ‘subjective’ elements (Nesporova, 2004). ‘Objective’ elements include the level of education of the regional workforce, the extent to which an entrepreneurial culture exists in the region, the geographical location of the region, as well as the existing diversity or homogeneity in the industrial structure of the regional economy.

‘Subjective’ elements include the readiness of regional authorities and other key economic actors (enterprises, labour representatives, NGOs, community leaders) to be actively involved and cooperate in making positive adjustments to changing economic conditions. Equally important is the need to convince the population to take a positive, active part in this restructuring process. The

---

<sup>14</sup> [http://europa.eu.int/comm/regional\\_policy/innovation/innovating/pacts/en/](http://europa.eu.int/comm/regional_policy/innovation/innovating/pacts/en/)

importance of regional/local partnerships among all affected stakeholders for securing the success of a restructuring process is also highlighted by other authors (Daynac, 1996) – the main reason being that these restructuring situations affect the entire community, thus implying that everyone has a stake in addressing the problem.

### *Enterprise level*

Public authorities can also develop ad hoc initiatives aimed at counteracting the negative effects derived from restructuring in an individual enterprise/establishment. This public intervention more frequently takes place when the enterprise concerned plays a key role in a specific geographical domain, e.g. where the company is a large employer or is deeply intertwined with the local economy.

This public support is generally carried out through strong partnerships and cooperation with all affected stakeholders, usually management and worker representatives. Public intervention can be direct, through a public development centre, or indirect through, for example, a foundation specifically set up for dealing with the process. Interventions may include attracting new enterprises to the area affected by the restructuring, or encouraging new business start-ups among the people affected by the restructuring. The main tools used tend to be a combination of financial advice, counselling and infrastructure support.

The case of French food group Danone in Spain provides a good example. In the mid 1990s, Danone closed a production plant in Ultzama (Navarra, Spain) as part of the multinational's larger restructuring efforts across Europe, triggered by problems of excess capacity even though the plant was profitable. Danone's restructuring measures included an industrial plan aimed at creating as many jobs in the region as would be destroyed by the planned restructuring process and centred around three main actions: to look for a company interested in occupying the former Danone installations; to identify and help new or existing business projects in the Valley of Ultzama that could make use of the facilities; and to attract diverse industrial projects and investors from outside Navarra.

In order to coordinate the plan, a specific foundation for the development of productive activities in the Ultzama Valley was set up, with the participation of the regional government of Navarra, Danone, the Ultzama city hall and the unions active in the plant. The results of this initiative proved quite positive, with a total of 13 companies re-locating to the former Danone facilities, leading to the creation of 335 jobs (in comparison to the original 175 displaced workers) (Lozano and Folguera, 2003).<sup>15</sup>

### **Activities supported by individual enterprises**

Corporate policies aimed at supporting business start-ups by employees affected by restructuring also exist. In most cases, this type of support is only possible in medium and large-sized enterprises due to the required financial and personnel resources necessary to support such activities.

---

<sup>15</sup> Danone undertook a similar initiative in Italy when closing down one of its biscuit production facilities in Locate Triulzi (see EMCC case study report *Managing large-scale restructuring*, available at <http://www.emcc.eurofound.eu.int/content/source/eu05010a.html>).

Support may consist of a variety of different tools, depending on the specific strategy adopted by the restructuring enterprise. In most cases, these tools are the result of negotiations between management and workforce representatives and, on occasion, due to public authority support. Among the most frequent types of support are: support for spin-offs set up by the restructuring enterprise; support for restructured personnel who decide to set up a new enterprise, usually in a different line of business; and 'reindustrialisation strategies' intended to generate new employment opportunities for those people affected by a restructuring.

In the first case, where a spin-off is created either through an MBO or EBO, types of support include the parent organisation accepting the terms of the operation (which may not always be the case); training and guidance; lending of machinery, materials or facilities; financial support; guaranteeing a volume of orders in the initial years of activity; introducing the new enterprise to potential clients. In situations where an MBO/EBO does not take place, support from the restructuring enterprise may be conditional on the new spin-off being located in the same area that most employees from the restructured business unit are from.

In relation to the second type of support, i.e. support to restructured personnel who decide to set up a new enterprise, this may include a number of measures, such as financial support, counselling and/or management support, temporary provision of office and/or production space. The case of French Telecom and OTTO GmbH & Co KG, outlined in the next section, provide a good example of this type of support.

The third form of support, i.e. reindustrialisation strategies aimed at generating new employment opportunities for people affected by restructuring, may involve encouraging new start-ups in an area by non-former employees. This may include an array of tools such as financial support or management advice. In other cases, the restructuring enterprise may attract new or existing enterprises to the area or the premises occupied by the restructuring enterprise. These reindustrialisation strategies are intended to produce a long-term cultural change which fosters entrepreneurship skills in the area.

Finally, it is important to stress the fundamental role of direct dialogue between social partners within an enterprise in order to successfully foster new business creation as a possible tool for alleviating the negative effects of restructuring. This dialogue or partnership between employers and workforce representatives (very often also in collaboration with public authorities) facilitates the decision-making process, and often helps mitigate a negative outcome of a planned restructuring.





# Business creation following restructuring: Six European case studies

## Case Study 1: France Télécom, France

Following its transformation from a public to a private company, and arising from the fast changing markets for its products and a need to reduce employee numbers, France Télécom was forced to restructure its business. As part of this restructuring process, a spin-off initiative was set up, whereby employees who wanted to start their own company could do so using the technologies of France Télécom. Accordingly, the spin-off initiative is first evaluated by a team of experts and, if considered worthwhile, financial as well as practical support, including expert advice, is provided.

### Company profile

Although a relatively young enterprise – officially set up in 1991 – France Télécom (FT) has a long history. The French communications industry dates back to the creation of the Ministry for Post and Telegraphs in 1878. In 1991, FT became a public entity, separated from but still owned by the state; in 1996, it became a public limited liability company, and was transformed into a private company from 1997.

Today, FT is a leading company with 125 million customers worldwide, including 63.3 million wireless telephone customers in 19 countries, 49.7 million fixed-line telephone customers in eight countries, 11.1 million active internet customers in 10 countries and 900,000 cable customers in one country. Nonetheless, the number of employees in FT has declined over the years, with 243,573 employees in 2002, 218,523 employees in 2003, and 206,524 employees in 2004.

### Reasons for restructuring

FT's transformation from a government body (French PTT) to a private company meant that it had to operate in a highly competitive market subject to rapid changes, i.e. from traditional telephony to internet, voice over IP (internet protocol), and mobile telephony. This resulted in fundamental changes, with technological developments in the communications and information technology industries leading to the disappearance of a number of technical and administrative jobs; it also meant that new competencies, such as more commercial roles, had to be developed within FT.

The company concentrated on its core activities and at the same time, several activities were externalised. In order to remain competitive and to reduce costs, it was deemed necessary to carry out major restructuring as well as encouraging a change in mentality of employees, the majority of whom were civil servants. Employees had to learn about the importance of customer service, as they were used to working in a monopoly situation; now that FT had to compete in a liberalised market, it had to convince its customers that it was the best company.

### Business creation following restructuring

As part of the restructuring process, FT developed a spin-off policy for employees who wanted to launch their own companies. A primary aim of this initiative was to reduce salary costs without implementing redundancies. In 1998, a spin-off delegation was set up, managed by both FT's research and development (R&D) and human resource (HR) departments. A spin-off charter was

compiled and five regional delegates were nominated and made responsible for overseeing the process; support tools for employees interested in creating their own business were also developed.

Trade unions were not involved in the process. In 1996, FT did not have private sector employee representative bodies; only trade unions from the R&D sector requested a formal presentation of the project.

### *Spin-offs*

A business proposal first had to be put forward by the employee and this was then discussed confidentially. The feasibility of the project was then validated by a spin-off delegate, and subsequently a spin-off convention was signed with the candidate, a representative of his/her management and his/her delegate.

The underlying aims of the spin-off initiative were to valorise technologies, contribute to the mobility of employees, contribute to global wage reduction, stimulate a change of professions, and participate in job creation. In pursuit of these aims, FT considered developing different types of companies, including technological start-ups funded by venture capital, and SMEs close to the core business. Only projects in direct competition with FT's core business were not supported.

### *Financial support*

When a spin-off is linked to a technology transfer from FT, an ad hoc committee must validate the technology transfer. In such cases, venture capital can be provided via France Télécom Technologie Investissement (FTTI), a venture capital company created in 2000 and 100% owned by FT. The company has also developed a network of venture capital companies and 'business angels'. In some cases, venture capital can also be provided by Innovacom, a different venture capital company funded by FT and created in 1988. In other cases, no financial support is provided to the business; however, every employee may be entitled to a lump sum payment. This lump sum is determined on a case-by-case basis (according to a report from 2002, this sum varied from €762 to €7,622).

Other types of support differ according to the nature of the project. One form of support consists of a payment over a particular period of time to help the employee build up the project. During this period, employees retain their jobs and their wages are unchanged, however, they are provided with free time during their working hours for a period of three to nine months to devote to developing their project.

### *Other support*

Training and support from external experts and structures are also provided by FT. In addition, the company has founded an entrepreneur club with former employees who have created their own enterprises and who participate free-of-charge in meetings with candidates interested in setting up their own enterprises.

If the new venture goes bankrupt, the employee can go back to FT – this in itself represents another important form of support for employees. Twelve per cent of employees who left to set up their own business have returned under this scheme. This minimises the personal risk involved in setting up a business and provides a greater incentive to employees to start their own business.

#### *A win-win situation*

The spin-off system has advantages for both the employers and employees. FT is able to reduce the cost of employment without having to introduce harsh measures that would damage their image. As a result, FT can focus on its core business and at the same time enable new companies to be set up, often close to their own activities. Because of the expert help these start-ups have received from FT, they often end up working together afterwards rather than competing with each other. An additional advantage is that the technology is always close to that of FT's, facilitating this cooperation.

There are also clear advantages for employees: they can launch their own company with a good chance of success, receiving expert help and even the opportunity to return to FT if their business fails. Moreover, the support given by FT makes it easier to convince banks to provide a loan for the start-up phase.

#### **Results, success factors and lessons learnt**

Since 1996, some 500 enterprises generating approximately 2,000 jobs have been created as a result of this programme. Among these, 450 enterprises have been established in sectors with no link with FT's core activity, such as retail trade and services (including education, health and real estate). The remaining 50 new enterprises can be classified as technology start-ups, accounting for around 850 jobs. Some 38 of these 50 enterprises have benefited from financial support from FT.

At 10%–12%, the global failure rate of new enterprises created by former employees of FT is relatively low. These results can be partly explained by the fact that projects are closely analysed before FT decides to support the start-up, ensuring that only the most worthwhile ideas are passed and that they are supported through help from experts. The return rate (calculated as those business creators who later return to FT even though the newly formed enterprise continues its activity) is also an important consideration. Those who return are mostly researchers; this is mainly explained by the fact that researchers are more likely to be interested in research and development (R&D) activities than in the everyday management and commercial development of a newly formed enterprise.

Despite the successes of the project, difficulties remain largely internally. For one, the different status of employees (some of whom are civil servants) has been a significant factor, although FT has succeeded in creating a support system that is relatively equal for all employees. Another challenging factor was the resistance of middle management, who were not always in favour of letting employees, particularly motivated workers, leave in order to develop their own start-ups. The final factor affecting the success of the system was the level of knowledge of the options available: not everyone in the company was fully aware of the existence of the spin-off system – a factor which requires further improvement.

#### **Further information:**

France Télécom R&D

<http://www.francetelecom.com/fr/groupe/rd/offre/essaimage>

## **Case study 2: Otto GmbH & Co KG, Germany**

Otto GmbH & Co KG is a wholesale mail order company situated in Hamburg, Germany. Its main business activity is the selling of textiles, furniture and household appliances through mail order catalogues, as well as online via the internet. Until 2004, there were only ever small-scale cutbacks in its workforce and the company maintained a positive working climate and good relations with trade unions and other stakeholder groups. However, changes in the business environment – including a sector-wide fall in consumer confidence in Germany and the emergence of online shopping – necessitated a programme of internal restructuring. Proposed in 2004, the programme planned to cut administrative costs and improve decision-making procedures. One of the mechanisms for achieving these objectives was the reduction of staff by 15% (out of a total of 3,500 employees) at Otto's headquarters in Hamburg. In order to handle the cutback of 500 jobs in a socially responsible way, Otto's personnel department collaborated with the Hamburg-based consulting firm, Enigma Company Builders. This led to the development of a start-up programme known as the 'Otto incubator programme'. The project was reinforced by support proffered by the company's management board, its works council and the Federal Employment Agency.

### **Company profile**

Werner Otto Versandhandel (Werner Otto mail-order company) was founded in Hamburg in 1949 by Werner Otto. Between 1960 and 1970, the firm grew into a large-scale enterprise, selling textiles, domestic appliances and electronic goods. In 1972, the company started its own delivery service and two years later it began to expand internationally. During the 1980s, the Otto Group became the largest mail order company in the world.

In 2000, the Otto Group developed into the second largest online trader in the business-to-client segment following Amazon's lead. Currently, the company is active in 21 countries in Europe, Asia and North America and employs around 54,000 people. In 2002, Otto Versandhandel changed its name to Otto (GmbH & Co KG).

### **Reasons for restructuring**

Despite its already profitable position, in early 2004 Otto decided to introduce an internal restructuring programme, in order to adapt to changing market conditions. Two main reasons lay behind Otto's decision to restructure. First, changes in consumer habits, including the emergence of online shopping, posed a challenge to catalogue home shopping, on which Otto's main business was built. Second, a sector-wide slump in consumer spending across Germany affected the retail sector as a whole and necessitated a reorganisation of the company's business activity.

The restructuring programme aimed at a 25% cost reduction, the introduction of more direct decision paths and a cutback of 500 jobs in the company's main administrative offices in Hamburg. A key aim was to handle staff reduction without jeopardising the company's long-standing reputation of maintaining a harmonious balance between its economic and social responsibilities. This was achieved based on a partnership between management and the targeted personnel.

### **Business creation following restructuring**

Otto's personnel department played a crucial role in the development of the business creation project. This was facilitated by its cooperation with the external consulting firm, Enigma Company

Builders. Among other external partners, the Federal Employment Agency and outplacement companies also played an important role. Internally, the programme was developed in consultation with the works council, the legal department, the personnel department, the board member in charge of personnel and the company's president, Dr Michael Otto.

Enigma's expertise encompasses coaching small start-up businesses, evaluating the feasibility of business projects, providing operational equipment for start-ups and supporting potential entrepreneurs in finding the necessary financial resources for their activity. Since 1998, Enigma has coached around 5,800 prospective entrepreneurs and has dealt with 2,000 applicants in its assessment centre.

The ideas and experiences gained from a previous start-up 'incubator programme' in 1998 to 2004 were used by Enigma and Otto's personnel department to develop the Otto incubator programme. This was part of a broader placement project that was introduced, involving the 500 employees affected by the company's restructuring. The key measures developed by Enigma, and applied in the case of Otto, were the careful assessment of skills possessed by the employees and the viability of the business projects presented, needs-oriented support for entrepreneurs, and the creation of a more favourable financial environment for start-ups.

#### *New placement project*

The new placement project began with a series of orientation discussions and information events organised by Otto's personnel department. From the outset, the importance of confidentiality and voluntary cooperation was highlighted. In the orientation phase, which commenced in July 2004, the employees were able to receive advice without making any commitment to terminate their contractual relationship with Otto.

The Otto incubator project was well received by employees, with 600 of them taking part in orientation discussions. In the second phase, Enigma organised two information events based on setting up a business. During the workshops, participants could present their business ideas, test their viability and gauge whether becoming an entrepreneur was a realistic alternative profession. Attended by 150 employees, these discussions focused on the personality of the would-be entrepreneur and on how well it fitted the 'business profile' outlined by Enigma.

After passing through these two screening phases, some 35 of the original candidates decided to take part in start-up training. The company offered other alternatives to the remaining participants, including a retirement option (taken up by 34% of the target group) and replacement within or outside the Otto Group (taken up by 20%). Some employees (24%) found a new job without the support of the programme. Some 10% of employees for whom places could not be found either inside or outside the Otto Group, were allocated to a placement agency, co-financed by Otto and the Federal Employment Agency.

#### *Financial support*

A key feature of the programme was allowing employees to be released from their normal working duties, while still receiving their salaries based on their previous contract of employment, during the orientation discussions and start-up training (six months). The company financed 50% of the training programme costs, which amounted to around €5,000 per participant. It also paid the participants an indemnity at the end of the training period.

Prospective entrepreneurs were able to apply for further training by Enigma after they set up their business. During the second six-month coaching period (i.e. the 'spin-off' phase), participants were also able to benefit from an interim payment offered by the Federal Employment Agency, which amounted to 95% of their previous salary. In addition, the Federal Employment Agency co-financed 50% of the entrepreneurs' training programme during this spin-off phase.

It should be mentioned that although the Federal Employment Agency agreed to take part financially in the project, it usually only offers financial support if redundancies are triggered due to operational reasons. Public support for the project can be linked to Otto's crucial role as the largest employer in Hamburg and previous positive relationships between Enigma and the local employment agency. This joint public-private support was particularly important since the banks seemed to be reluctant to grant start-up loans to new entrepreneurs.

### *Key features of start-up programme*

The business start-up programme began in early 2005 and was scheduled to run until the end of the year. The programme consisted of five main phases, which together formed the 'start-up road map' of the Otto incubator project.

The first stage of the incubator project consisted of a four-week 'speed-up phase', during which the project initiation took place. Participants were split into working groups dealing with various aspects of starting a business. Sharing a common situation contributed to a high level of social support and exchange of ideas among participants.

The next phase was aimed at developing business plans, including time-planning and sector expertise. Two main types of start-up businesses were defined. The first type, the 'instant cash firms' (e.g. service providers, consultants, designers) did not require significant investment at the beginning. The second type, the 'risk and fun' projects (e.g. retail, workshops, software development, gastronomy) required much higher capital investment.

After presenting the first draft of their business plans, participants continued with the practical seminars and individual coaching tailored to their specific business ideas. The third phase of the programme was related to preparation for market launching, including development of the company's image, acquisition strategies, business terms and conditions, sources of finance and taxation plans. At the end of the process, during the fourth stage of the programme, the final version of the business plan was elaborated and presented.

The severance procedures from Otto only began when the business plans had been submitted and the new company was launched (the last and fifth stage of the programme). In the ensuing six-month 'spin-off phase', the new entrepreneurs were able to obtain additional support and training from Enigma.

Material support measures for the prospective entrepreneurs included all the necessary facilities for a 'business incubator'. These were provided by Otto in a building on the company's premises (offices with telephones, faxes, PCs, internet access, seminar rooms and workshop offices). In addition, Enigma and Otto offered a specific training and support programme based on key principles: coaching, forecasting, regular compulsory group meetings, workshops and seminars on topics of particular importance for launching a business; special support measures, including financial advice, legal advice, team coaching, focused discussions and crisis intervention.

Support measures were not only related to business needs but also included an individually oriented dimension. Focused discussions were aimed at identifying any possible personal problems that might distract participants from their start-ups tasks. In a similar manner, crisis intervention procedures were designed.

### **Results, success factors and lessons learnt**

Of the participants, 82% (i.e. 32 former Otto employees) who completed the six-month course have set up their own business or are in the process of doing so. Approximately equal numbers of women and men were involved in the project. On average, the participants were 40 years old and the average length of their employment in Otto was 13 years. Twelve start-up service companies, five shops and 15 consultancy companies, in areas including retail trade, advertising, textiles, IT, tourism, culture and installation, were set up. Thirteen start-up founders entered into new professional areas, while the remainder continued their occupational activity within their existing scope of expertise.

Key success factors of the project included strong commitment by all the stakeholders involved. This partnership-based approach contributed to greater transparency in the restructuring process, encouraging acceptance among those affected. Timely communication with the workforce and a corresponding level of transparency were equally critical for in-company acceptance of the programme. Ensuring that cooperation by personnel is voluntary, providing advance information and ensuring the confidentiality of individual decision-making processes can reduce the psychological costs of restructuring.

Nonetheless, Otto's personnel department admits that there are still aspects of the process that could be improved. Despite the broad information campaign, the confidence of many employees who remained at Otto was dented by the new placement project. To address this in the future, plans are being made to enhance the information flow and to better prepare management for such sensitive tasks.

Finally, the importance of smooth cooperation with an external consulting agency specialising in start-up businesses cannot be underestimated. In the case of Otto, the expertise of Enigma allowed for realistic assessment of the viability of the business ideas before the final selection of prospective candidates.

The new placement project in Otto achieved its economic and organisational targets and the company's expenditure for the project was even lower than expected. At the same time, as the Otto's personnel department highlights, employees were able to leave the company with dignity. The restructuring procedure that was adopted did not damage the company's enduring image as a 'good employer', in fact it reinforced this image.

### **Further information:**

Otto GmbH & Co KG  
<http://www.otto.de>

ENIGMA Gründungszentrum  
<http://www.enigmah.de>



### Case Study 3: Pomerania Shipyard Ltd, Poland

Pomerania Shipyard was established in 1999, following the purchase of the state-owned company, Parnica Repair Shipyard Ltd, by Polish private investors. The company is situated in Szczecin, a port city in north-west Poland. Pomerania's core activity is ship repair, although it also constructs small vessels, as well as manufacturing both simple and compound structures and producing equipment for various branches of the industry. On the basis of sales volume, Pomerania is the third largest shipyard in Szczecin.

In 2002, the company reached a crisis when it suffered financial losses, caused both by external factors and internal difficulties. In mid-2003, the new management board developed a comprehensive restructuring plan. This involved, among other things, the expansion of export services by Pomerania to other EU countries, the rental of unused company infrastructure, the creation of new subsidiary firms through MBO procedures, and the provision of assistance to company staff to help them set up a new business.

#### Company profile

Pomerania Shipyard is a private enterprise, which was founded on the premises of the liquidated Parnica Repair Shipyard, a well-known Polish shipbuilding company operating since the early 1950s. In 1999, Parnica closed due to financial difficulties and the company's property was purchased by private Polish investors, leading to the establishment of Pomerania Shipyard Ltd.

Pomerania provides both export and home services, although export services constitute the company's core business. Operations in Europe (with a special focus on the German market) encompass the full range of shipbuilding services. In Poland, the company carries out indirect cooperation activities, such as the construction of fishing boats, the manufacture of specialised steel structures and ship repairs.

Pomerania is one of the most important employers in the local labour market: it currently employs 258 people, with the core workforce formed by highly skilled male workers. In the companies subordinated to the Pomerania Group (created as a result of restructuring), a further 244 people are employed. Another 600 people work in companies using the logistics services provided by the group.

#### Reasons for restructuring

A combination of internal and external factors contributed to the problems that necessitated the restructuring at Pomerania. External factors were connected to the macroeconomic situation in Poland and the global context in which the shipyard had to operate. Pomerania's problems began in 2000, when a slump in the international freight carrier industry led to a crisis across the entire shipbuilding sector. A relatively weak Polish currency, particularly in comparison with the euro and the US dollar, exacerbated this crisis. As a result, Pomerania's most important clients experienced increasing financial difficulties, which in turn impacted negatively on Pomerania's financial status.

Certain company-specific problems also contributed to the financial losses. In 2003, one of Pomerania's major foreign clients refused to pay an estimated PLN 2 million (€480,000) for the repair of a ship, while a second company withdrew one of its contracts. In 2003, the banks servicing the company called in their credit lines, secured by the company's accounts receivable. As a result of this downward spiral, the company was unable to make insurance payments

designed to secure the execution of contracts. In addition, some creditors commenced execution proceedings and obtained court orders, which further exacerbated Pomerania's financial and commercial situation.

### **Business creation following restructuring**

Prior to the restructuring process, Pomerania was on the verge of liquidation and was PLN 25 million (€6 million) short of the working capital necessary to continue its operations. Workers were in arrears of the equivalent of two to three months' wages and the company was unable to pay social security contributions and local taxes; it also had to suspend its payments to self-employed subcontractors as well as to financial institutions.

#### *Business creation and asset reactivation*

The programme of change was preceded by a detailed analysis of Pomerania's current position. This analysis identified company assets with the greatest potential for contributing to the restructuring process, including: highly skilled employees, rich infrastructural, technical and logistical assets, a strong position in the German shipbuilding market, and good relations with legal advisors and financial consulting firms.

Having failed to find new investors, the management board decided to file for court bankruptcy protection in December 2004. This action was already a part of the restructuring plan and did not prevent the company from continuing its daily operations.

The restructuring plan included three action points. First, Pomerania would cease entering into contracts for the direct repair of ships in Szczecin. Instead, it would focus its activities on the rental of infrastructure space and provision of services to companies that would carry out direct activities in the areas where the company had expertise. Second, it would expand its shipyard activities and its companies within the EU, placing a particular emphasis on the German market in which the company was already established. Finally, the company would set up new business entities to continue its activities in Poland. Two mechanisms were envisaged for this: the first was a management buyout; the second involved support for new business start-ups by experienced craftsmen and supervisory management.

#### *Implementation of restructuring plan*

To convince the interested parties to accept the conditions of the restructuring programme, management arranged several meetings with the main stakeholders involved. These included the Supervisory Board and the General Meeting of Partners of Pomerania Shipyard, individual company employees, creditors (suppliers and subcontractors) and financial institutions, as well as public administration representatives of local councils.

Since the liquidation of Parnica Shipyard in 1999, there had been no trade unions in Pomerania. Therefore, throughout the restructuring process, the management board tried to convince individual workers to support the strategy using other practices (including information sessions, contacts through line management and face-to-face talks). It also committed itself to the repayment of outstanding wages as soon as the company's financial standing was improved.

Between April and July 2004, the first stage of implementation was put into effect. To begin with, management buyout procedures were embarked upon. A number of subsidiary companies –

Pomerania Service, Pomerania Seatech and Pomerania Control – were also set up. Trade and production activities were transferred to these new companies and to a shareholder group made up of former senior managers. Pomerania Shipyard's workforce was then reallocated to these newly created businesses.

At the same time, new business creation by experienced craftsmen and managers was also supported. Two new companies were established, i.e. Remstad and Pomerania Stal, of which only the latter has managed to survive up to 2005. The support given by Pomerania Shipyard for business creation included provisions for leasing its intellectual and material resources on preferential terms and offering administrative services (initially free-of-charge). A new logistical section was also established within Pomerania. This took responsibility for leasing the company's material assets and providing services to external companies in areas such as accounting, human resources, workplace safety, legal consultation and quality control.

### *Effects of restructuring*

In July 2004, the local district court officially declared Pomerania bankrupt. This allowed the company to enter into arrangements with its creditors. It also enabled the final stage of the restructuring plan to be implemented in which the positive effects of the restructuring became visible.

In the final quarter of 2004, Pomerania began to make a profit and regained its financial liquidity. This enabled the company to meet its outstanding obligations in relation to employment contracts. The favourable financial results also allowed the company to pay off its tax arrears and all outstanding contributions to the National Insurance System.

The leasing policy and improved management of fixed and current assets led to a significant increase in the sales of rental and logistic services, from around PLN 1 million (€250,000) in 2003 to PLN 6.3 million (€1.5 million) in 2005.

The subsidiary companies created as part of the restructuring process (Pomerania Service, Pomerania Seatech and Pomerania Control) have now been consolidated, together with the Pomerania Shipyard Ltd, to form the Pomerania Group. This group encompasses a coherent and complementary set of companies capable of providing a full range of services within the shipbuilding industry. In addition, Pomerania Stal, the surviving business start-up established in the course of this process, is reported to be doing well and is making a profit.

### **Results, success factors and lessons learnt**

Although the successful restructuring of Pomerania was strengthened by certain external factors, the most crucial role was played by internal planning and management. Three main lessons can be drawn from this experience. First, the company's most precious assets, i.e. its competent managers and skilled workers, must not be lost in the course of restructuring. In order to achieve this, the restructuring process must clearly promote and safeguard the interests of both employees and management. For example, senior managers at Pomerania were given shares in the subsidiary companies, while more junior managers were offered promotion and job security, and skilled workers could benefit from remunerative contracts abroad.

Second, unused assets should be reduced as soon as possible through the leasing or sale of these assets. In the case of Pomerania, priority was given to newly created companies operating on the parent company's premises. Business creation allowed companies not only to increase profits using existing assets, but also to transfer part of its workforce to these new entities. This made it possible to meet both the financial goals and the social responsibilities of the company.

Third, the role of external consulting companies in working out the best restructuring solutions and how best to implement them proved extremely valuable. Even though the company could not afford more than two small advisory firms, their help was of significant importance.

Finally, the Pomerania case provides an interesting example of successful restructuring in a new EU Member State. While the solutions adopted might be similar to some of those implemented in western Europe, they do exhibit specific characteristics. In the context of deep economic transformation and high unemployment, the restructuring of Pomerania is an important example of good practice. It aimed not only at securing short-term economic interests, but also at creating sustainable new businesses and maintaining a company's most valuable assets, namely its experienced workers and committed management.

In terms of employment creation, the companies of the Pomerania Group and other firms using the shipyard's premises together show a dynamic increase in total employment. In 2005, Pomerania Shipyard Ltd. employed some 259 people, compared with 210 employees in 2003. Meanwhile the number of employees in the firms forming the Pomerania Group almost tripled, from 84 employees in 2004 to 244 in 2005. The same tendency can be observed in the external companies operating on the shipyard's premises, which recorded a growth from 110 employees in 2003 to 600 people in 2005.

Furthermore, and as a result of its successful restructuring, the Pomerania Group has been able to obtain new contracts which guarantee work up to 2008, thus ensuring its financial stability and enabling the gradual repayment of its former debts.

**Further information:**

Pomerania Shipyard Ltd  
<http://www.stpomerania.pl>

## Case Study 4: Valnalón, Spain

The Valnalón project was set up in 1987, in response to the economic and social crisis caused by the decline of the steel industry in the Nalón Valley, Asturias (Spain). The project led to the creation of the first business centre in Asturias in 1989, followed by ambitious infrastructural projects designed to transform former industrial premises into educational, tourist and business incubation facilities. At a later stage, the Valnalón initiative redirected its focus to creating and encouraging a 'culture of entrepreneurship'. This included the development of a 'training programme for entrepreneurship', which applied a chain-like approach to the development of an entrepreneurial culture from primary school through to the business consolidation stage. The programme has been successfully implemented at all educational levels in Asturias since 1999.

The Valnalón project also supported the development of 87 companies located in Valnalón facilities between 1989 and 2005, confirming the success of a multi-tiered approach. As a result of Valnalón's efforts, not only have new enterprises been established in Nalón Valley, but the mentality of local residents has also been changed, thus enhancing the region's social and economic outlook for the future.

### Project profile

Valnalón (*La Ciudad Industrial del Valle del Nalón, SA*) is a public management society founded by the government of the Asturias region in northern Spain in 1987, as part of the National Programme of Community Interest (PNIC). A sum of €360 million was allocated to various projects in the PNIC programme, with the aim of improving the economic and social situation in Asturias after the economic transformation of the 1980s. The PNIC programme provided help for small industry, craft and tourism; facilitated the mobilisation of endogenous economic potential, and the creation of new industrial, service and tourist infrastructure; assisted in the reclaiming of abandoned industrial sites, cleaning of industrial waste, improvements in water supply and the redevelopment of road infrastructure.

Therefore, the aims of the Valnalón project were perfectly suited to the PNIC programme. The project was granted €20 million and up to 80% of the resources for the programme came from EU funds. It was located in Langreo city, on the premises of a steel manufacturing company, which closed down in 1984. Initially, the main objective of the project was to promote new business activity after the closure of important regional employers in the steel industry.

### Reasons for restructuring

The principality of Asturias is an autonomous community in northern Spain, populated by around one million people. Since the nineteenth century, the economic structure of the region had been dominated by heavy industry; the 1960s marked the 'golden age' of the Nalón Valley when industrial activity was booming, resulting in migration into the region. However, technological and market changes in the 1970s meant that the region began to lose its competitive advantage in steel manufacturing.

As a result of restructuring, the unemployment rate in Asturias rose to above 18% in 1985, in comparison to 3% in 1976. In Langreo city alone, around 5,000 direct and indirect jobs were lost. Thus, the economic activity of the inhabitants decreased significantly and people felt unable to react to the changes.

Along with deteriorating economic conditions, the social climate in Asturias also worsened, and the dismantling of companies was strongly opposed by workers' associations. This increased the necessity for social dialogue. Initial negotiations among employers, local governments and trade unions achieved several options for laid-off workers, including early retirement, various gratuities, retraining and new placement options. However, it was clear that the improvement of the regional situation required more far-reaching approaches. This realisation was the starting point of the Valnalón project.

### **Business creation following restructuring**

One key objective of the project was to set up a business centre. Although this was achieved early on in 1989, it became clear that the region needed additional infrastructure to support the improvement of its socio-economic situation. These additional projects were directed at transforming a former steel manufacturing site into a fully functional business incubator, an educational centre and an area of industrial tourism.

It was also realised that technical support was not sufficient for enhancing new businesses in Nalón Valley. A cultural change was also needed. This led to the aim of promoting a 'culture of entrepreneurship' along with the even more ambitious goal of transforming the Nalón Valley and all of Asturias into a twenty-first century society. According to the project's objectives, the enterprising citizens of the future should include not only self-employed entrepreneurs, but also 'intrapreneurs' – an enterprising workforce and social entrepreneurs within public institutions.

Attempts to generate a culture of entrepreneurship contributed to broadening Valnalón's substantive and geographical scope. First, the project's objectives were redefined to include the motivation, education and support of future entrepreneurs from the region. Second, the educational project for entrepreneurship was expanded beyond the borders of Nalón Valley, encompassing the whole of Asturias.

#### *Training programme for entrepreneurship*

The training programme for entrepreneurship is an educational initiative developed by Valnalón, which aims to nurture and support an entrepreneurial culture from the primary school through to the business consolidation stage. It was proposed by Valnalón in collaboration with the Department of Education and Science, and the Department of Labour and Industry of the principality of Asturias.

The educational project consists of several levels of interaction, beginning with young children at primary school level and continuing upwards to entrepreneurial adults who have the potential to start their own business. It consists of several key elements:

- 'A company in my school' – a programme introduced in primary schools in 1988, which targets children aged 8–11 years. Students set up and manage their own 'company'.
- European junior enterprise – a school course launched in 1999–2000, directed at young people aged 12–16 years. The programme emphasises the role of new technologies, language skills and international cooperation in educational processes. Students communicate with partner schools abroad in order to trade products, which they have designed and manufactured.

- Entrepreneur workshop – a programme introduced in 1994, which targets 17–25 year old students. The students develop their own business ideas, the viability of which is further analysed and assessed by Valnalón’s experts.
- The start-up and management of student micro-enterprises – a pilot project which aims to create suitable environments to encourage the setting up of micro-enterprises among vocational school students.

Arising from the strong support among schools in introducing entrepreneurial concepts and awareness from an early age, the Valnalón project has brought about a cultural change in the Nalón Valley and has also expanded geographically. Over 12,000 students participated in Valnalón educational programmes in the 2004–2005 school year alone. Many of its features now form part of the official school curriculum in Asturias, and have since been shared with other regions in Spain.

### *Support measures for new business start-ups*

A key part of the Valnalón project at present is joint, tailor-made support for business creation, encompassing both the training programme for entrepreneurship and concrete support measures for those who decide to start their own business. The support measures include pre-incubation and incubation services, as well as ongoing help at the business consolidation stage.

The main objective of the pre-incubation service is to analyse and test the viability of business ideas put forward by prospective entrepreneurs. In 1992, a service called the ‘Seedbed project’ was introduced at the Valnalón Business Centre. It offers 12 fully equipped workstations free-of-charge to users. Assistance is also provided by two full-time tutors for up to three to twelve months. The objective of this service is to promote the analysis and development of entrepreneurial initiatives. Accordingly, the feasibility of the proposed business concept is checked and, if possible, improved through advisory activities.

For those who decide to launch their own company after the pre-incubation phase (on average around 40% of participants), Valnalón offers a specific package of support measures within its two business centres. Currently, there is space for 50 start-up companies in the industrial, service or hi-tech sectors, at the Business Centre of Valnalón and the INCUVATIC Business Centre (especially for hi-tech companies).

### *Results of business creation programme*

The number of entrepreneurs assisted, as well as the survival rates of start-ups that are still in business five years after their launch (see Table 11) is a testament to the success of the Valnalón business creation programme to date.

The results are positive in relation to the type of companies currently using the business centre facility, as well as to those renting space in the industrial area of Valnalón. It should be mentioned that the survival rate of start-ups is significantly higher in Valnalón (84%) than in the rest of Spain (approximately 50%).

**Table 11 Business creation programmes, 1989–2005**

Number of entrepreneurs assisted through Valnalón programmes*	5,130
Total number of companies that have been located in the Valnalón facilities	86
Average number of employees per company	2
Percentage of companies that continued operations five years after their launch (as of January 2005)	84
Current number of companies located in Valnalón facilities (as of January 2005)	42

\* Programmes include the Seedbed project and business centre

### Results, success factors and lessons learnt

An important insight gained from the Valnalón project is how business creation can be a viable alternative at local and regional level and even in areas that lack significant entrepreneurial traditions.

A number of lessons can be learned from this case example. For one, effective business creation at regional level requires a continuous learning process in which all the stakeholders involved have a role to play. The Valnalón project could not have succeeded without the support of all the key players in the region, i.e. local government agencies, schools, regionally important employers and trade unions, as well as prospective entrepreneurs. In particular, the support of public agencies and EU funds for the regeneration of the economic, infrastructural and cultural environment, which would favour entrepreneurship, was of crucial importance.

Furthermore, the goal of regional transformation requires comprehensive strategies that reach beyond infrastructural transformation and address issues of broader cultural change. Transition towards a ‘culture of entrepreneurship’ requires well-designed education programmes, operating from primary school level right through to university level.

Support for business start-ups needs to be long-term. Careful selection procedures must be established to determine which business ideas are feasible. Viable projects should be assisted from the very beginning up to the point of business consolidation. Finally, it should be emphasised that, despite Valnalón’s success, the solutions applied in the Nalón Valley should not be automatically copied in different social, economic and cultural contexts. The message given by the managing director of Valnalón, José Manuel Pérez, for other similar cases is as follows: ‘Don’t copy our model; translate it into the reality of your own region’.

### Further information:

Valnalón, SA

<http://www.valnalon.com>



## Case Study 5: Wolters Kluwer, the Netherlands

Wolters Kluwer is a publishing company, located in Wageningen, the Netherlands. In 1985, the company decided to sell its printing division (Vada Printing) and to focus more on publishing. As Vada Printing provided a significant source of employment (421 employees) in the region, Wolters Kluwer decided to search for a social plan that would prevent any job losses. However, this proved more difficult than expected, and the final outcome resulted in the acquisition of Vada and the loss of the majority of jobs.

Following the sale of Vada Printing, a public-private cooperation was set up to encourage entrepreneurial and economic development (the 'Foundation Economical Perspective', STEP). Included in this foundation were the municipalities, Wolters Kluwer, the Chamber of Commerce, a local bank, as well as an accountant and an investment and building company. In addition, the consultancy firm – Business Creation – was appointed to develop a business park on the former premises of Vada Printing. The business park aimed to attract new companies and to help generate new jobs. Together with a property investor, Business Creation bought and developed the former Vada printing premises into the 'Computex Business Park'. The main goal of the project was to create 150 new, permanent jobs, as well as about 50 viable enterprises within two years.

### Company profiles

Three companies were involved in the development of the Computex Business Park – Wolters Kluwer, Business Creation, and Computex.

#### *Wolters Kluwer*

Founded in 1889, Kluwer – part of the international Wolters Kluwer company – currently employs around 1,300 workers and is a leader in legal, fiscal, financial, administrative, HRM and management publishing. Their products and services range from loose-leaf publications, books, newsletters and specialist journals to electronic products like CD-ROMs, online databanks, software packages and internet services.

In 2004, 18,400 employees worked for Wolters Kluwer and a total of €3.3 billion in revenue was generated in Europe, North America and Asia Pacific. Until 1985, Wolters Kluwer owned its own printing company, Vada Printing. However, in the 1980s, technological developments and large production investments led to a reduction of jobs and ultimately to the divestment of Vada's printing activities.

#### *Business Creation*

Established in 1982, Business Creation is a consultancy firm specialising in change management. Between 1982 and 1987, the company focused on regional economic development programmes and on the development of business parks in cooperation with public and private companies, as well as trade unions, in Europe and North America. Between 1987 and 1992, Business Creation broadened its activities to include a local outplacement bureau, in addition to the acquisition and redevelopment of industrial real estate. In 1994, it became active in the redevelopment of industrial activities.

### *Compotex*

Established in 1990, Compotex specialises in the development and maximisation of business centres for small-sized companies.

### **Reasons for restructuring**

The printing industry was traditionally of great importance in the town of Wageningen. Several printing businesses and publishers were located there, including Vada Printing, owned by Kluwer. In the 1980s, the printing industry saw several important technological developments and, to keep pace, Vada Printing purchased a new engraving rotary press in 1983. This new press, as well as other large production investments by the company, led to a reduction of jobs and ultimately to the divestment of Vada Printing activities.

Prior to the sale of Vada, Kluwer and its trade unions had agreed on a new social plan as part of the reorganisation. In 1985, it became clear that the reorganisation was insufficient and that additional restructuring was needed. In the end, Kluwer decided to focus on the publishing market and to sell off Vada Printing, instead outsourcing its printing activities. However, due to the overcapacity of the engraving market, selling Vada proved more difficult than expected, particularly since Kluwer wanted to act in a socially responsible way and to ensure all jobs would be preserved as part of the sale.

Extensive negotiations took place during which the workers council discussed the situation with trade union representatives participating in the negotiations on an ongoing basis. Despite the workers council's participation and their assessment that the plan could be presented to company personnel, disagreement appeared to exist between the workers council and trade unions. This was complicated by the fact that management at Kluwer did not want to discuss further agreements, whereas Vada management had informed the workers council that further agreements could be made. Notwithstanding these differences, the social plan was voted on and accepted (192 in favour, 42 against).

### **Business creation following restructuring**

The divestment of Vada Printing, together with the generally poor employment rate in the region, led to the setting up of the public-private partnership, STEP. Participating in the foundation were the municipalities of Ede en Wageningen, Wolters Kluwer, the Chamber of Commerce, NMB bank, the certified public accountant Walgemoed and Co, and Hazeleger Investment and Computer Utilization Building Industry. Each of these entities participated for their own individual reasons. The municipalities participated in order to preserve business and employment in their region. The Chamber of Commerce wanted to gain experience in assisting new enterprises in the start-up period. The bank, accountant and building company saw it as an opportunity to acquire new clients during the economic downturn.

The main goal of the job creation project was to create 150 new jobs, as well as around 50 viable enterprises within two years. The key tasks of Business Creation were to screen for appropriate companies and to provide business support and training. In general, there was a focus on creating spin-offs from existing enterprises, although new, young entrepreneurs could also apply to start their own business.

### **Results, success factors and lessons learnt**

In the first year of the project, 161 candidate entrepreneurs applied to take part in the initiative. From these initial applications, 30 new enterprises were established, resulting in 64 jobs with the potential to increase this number to 89 jobs. Two years after the launch of the project, most offices in the business park were occupied.

The relatively high number of enterprises launched can be attributed to the fact that the entrepreneurs who showed interest were strongly advised about the implications of starting a business, using the technique of 'positive discouragement'. In other words, would-be entrepreneurs were clearly advised about the risks, as well as the potential benefits, of setting up their own business. This screening process reduced the initial 161 candidates to 30 candidates, who emerged from the process with high levels of awareness and motivation. Of the 30 enterprises that were set up, only one failed during the first year. In 2005, there were about 65 tenants in the business centre, accounting for some 350 full-time jobs.

The start-up companies encompassed a diverse range of sectors, some originating from the University of Wageningen (hi-tech start-ups). Most of the companies belong to the knowledge economy and service industries. Computex made a conscious effort to bring together companies from diverse sectors into one building, so that they could make use of each other's services and facilities.

#### *Success factor I: Public-private partnership*

One of the key success factors of this project was the commitment and full participation of all partners involved and their shared belief that this initiative could be successful. In particular, the Foundation of Economical Perspective (STEP) initiative with its combination of public and private actors proved to be of immense importance. At the same time, although all parties involved invested a great deal of money in the project, they realised that results could not be achieved overnight.

Kluwer also played an important role. Arising from its desire to be socially responsible, the publisher's managers wanted to find good solutions for their former employees and to be as cooperative as possible.

#### *Success factor II: Facilitating entrepreneurship*

The second key success factor was the cooperation between the property investor (Jason BV) and the consultancy company with experience in restructuring (Business creation). Together, these two firms bought and developed the former Vada Printing property into what is now today the Computex Business Park. Besides developing the building, Computex also manages the building, looking after things such as searching for potential tenants. This is quite a unique situation, as an investor usually sells their property after developing it.

The property investor made sure that the business park provided tailor-made facilities to support entrepreneurship. These facilities include small units available at flexible rental prices conditions, in addition to shared facilities, e.g. reception, cleaning, security, meeting rooms. A particular advantage of the business centre is the synergy it creates between new companies, facilitating greater knowledge sharing and proximity between different types of companies.

### *Employers*

A factory closure can have negative consequences for employers. The main risks include devaluation of the property of the outgoing company, damage to the company's corporate image and a decline in workforce morale. By developing a socially responsible solution to the sale of Vada Printing, new forms of employment were provided to workers who lost their jobs, thus maintaining Kluwer's corporate image.

### *Employees*

By identifying new business opportunities, the initiative managed to safeguard the employment of workers affected by the restructuring. Experience shows that, on average, 70% of personnel affected by a divestment may be redeployed to new activities, 20% resign of their own accord and the remaining 10% can be out-placed to new companies.

### *Community*

The aforementioned public-private partnership aimed to minimise the social impact of the Vada closure on the community of Wageningen. This was achieved by safeguarding local employment, attracting inward investment, minimising unused industrial real estate, and providing subsidies and grants.

### *Commitment*

In order for a project such as this to be successful, it is of great importance that all parties involved give their full commitment, have confidence in the project and do their utmost to make it a success. As discussed, it was this cooperation between all parties that led to the project's success.

### **Further information:**

Wolters Kluwer

<http://www.wolterskluwer.com>

Computex

<http://www.compotex.nl>

Business Creation

<http://www.businesscreation.com>

## **Case Study 6: JT Morgan & Co, UK**

JT Morgan is a warehouse in Swansea, south Wales, which has the look and feel of a department store. In early 2004, the former owner offered the entire share capital of the company to the management team, made up of the former general manager, financial controller and IT manager. Together with the specialist support and finance provided by the Wales Cooperative Centre, a management buy-out (MBO) was achieved. As a result of this move, the store has become profitable again and all employees have retained their jobs.

### **Company profiles**

Founded in 1918, JT Morgan is the oldest existing company in Swansea. The bulk of the company's turnover comes from wholesale and support services, such as administration, IT, and finance. Altogether, it consists of 26 departments spread over four floors and including menswear, women's fashion, children's clothing and toys, electrical goods, home furnishings, a kitchen shop, cosmetics, jewellery, a nail bar, a hairdressers and a restaurant.

The Wales Co-operative Centre was set up in 1982 in response to the massive job losses in the coal-mining industry. Now the largest cooperative development agency in the UK, it is funded by the EU, the Welsh Development Agency (WDA) and Education and Learning Wales (ELWa), as well as local authorities across Wales. The centre provides business advice and training services to anyone wishing to establish a co-op type business in Wales, and has helped set up over 750 co-operative businesses.

### **Reasons for restructuring**

During the nineteenth and most of the twentieth century, the economy of south Wales was strongly dependent on coal mining and steel production. Since the mid-1980s, however, both industries became subject to closure and major restructuring. This led to large-scale job losses and an economic depression across the entire region. It also resulted in a marked reduction in the disposable incomes of many families, which in turn had a knock-on effect on consumer spending. This had an immediate effect on the retail sector and in turn on wholesalers.

One company affected by this downturn was JT Morgan, which employed some 125 loyal employees. As a solution, the idea of an MBO was put forward. The team of managers who took part in the MBO knew that the store had survived for over 80 years, despite the lack of efforts of its owners. Therefore, they were convinced that with careful management and marketing, the company could develop once again into a strong local establishment. They were also aware that some of their competitors were likely to close and that Swansea could sustain a well-run, competitive warehouse store. A SWOT (strengths, weaknesses, opportunities and threats) analysis revealed more strengths than weaknesses of the MBO and a global plan was developed to help save JT Morgan.

### **Business creation following restructuring**

Statistics show that 45,000 principal stakeholders seek to withdraw from companies in the UK each year, and that only 5%–15% of family businesses in the country (70% of all UK businesses) reach the third generation. Thus, there appears to be a high rate of business transfer in the UK. Moreover, the survival rate of transferred businesses is much better than that of new businesses. On average, a business transfer is 150% more effective than a completely new start up, which

explains why buy-outs are strongly encouraged. It has been estimated that around 30% of business closures might be due to the lack of a suitable successor.

In order to restructure successfully, JT Morgan felt that it had to let go of the past. This included letting go of a long list of internal processes and policies that were holding the company back and preventing employees from exploiting their full potential. The trade unions played an important role at this point by agreeing to go ahead with the proposed plan and to discard old job titles and descriptions, allowing for a more flexible allocation of tasks. In total, three-quarters of the workforce were union members. Nonetheless, the idea of letting go did not necessarily mean that all practices had to be left behind. Before looking forward, the managers took a long look at the company's past strengths.

The management team's main motive was to save 150 jobs in a region that already had high levels of unemployment. To achieve this, they wanted to design and implement a programme of activity that would generate a significant and sustainable increase in sales. This increase in sales had to support the longer-term objectives of the company – to build sustained revenue growth to enable an exit from the current site in six years time and to build a platform for a profitable retail/wholesale business.

To assist this process, a list of strengths and weaknesses was outlined. Among the company's strengths were its established and loyal customer base, its long-serving and loyal staff who had a genuine passion for the business, and the company's strong product range, which included leading brands at significantly discounted prices. Among the company's weaknesses were its inconsistent buying policy and incoherent operational standards, and a lack of culture of accountability and commercial awareness among key personnel on the shop floors. There were also problems with the internal signage, which failed to exploit the opportunities that existed within the store. The location of the site also posed some problems.

### *Support*

The challenges facing the MBO team were also considerable. For example, the team had problems finding the money to purchase the external support that was needed. As a result, they turned to the Wales Co-operative Centre for help, whose expert consultants advised the managers on the various methods of structuring the deal. This support related mainly to financial help, especially for the retail side of the business. It also included legal services provided on a contingency basis at subsidised rates.

A major source of support came from the team's own employees. Discussion sessions were organised where the employees were divided into small groups so that they could present their ideas about how best to improve the organisation. In the words of the financial controller and MBO team member, Denise Road, 'without staff support, the buyout could never have happened. Everyone is buzzing with ideas and these are very exciting times for the business'. The lack of finances available for professional advice made the internal advice from the employees very valuable. Most of the employees had already worked in the company for a long time and knew exactly what the current problems were.

### *Diversifying the client base*

Tourism was identified as a growing industry in the region and one that could bring new business opportunities in the hotel and catering sector. The other growth area identified was the leisure industry and fashion for the over 50s. It was forecast that these two market areas would generate approximately €4 million in turnover over time.

### *Forecasts*

Prior to the MBO, the company's turnover had fallen from €12.6 million in 2000 to €10 million in 2004. At the same time, profit before tax fell from €0.7 million to €0.24 million. The distribution of dividends to shareholders over that period had been €1.89 million. For 2005, a turnover of €9 million was forecasted, rising to €10.0 million in 2007, with gross profits rising from €2.62 million to €3.4 million in the same period.

Plans were also made for the ensuing 12 months, including: the introduction of major brands or concessions and the development of new product areas; ongoing training throughout the store at all levels; a restructuring of wholesale/retail/buying formats; the recruitment of additional key personnel; greater promotion of the corporate image; and the introduction of a wholesale-only department to deal with large corporate accounts.

### *Financing*

The former owner-seller agreed to accept an offer of €444,408 (GBP 350,000) for the company from the MBO team. However, the biggest problem the management team faced was financing the buyout. Although the MBO team was able to invest €160,000 in personal equity, the banks were not interested in providing the remaining amount. According to Norman Watson from the Wales Co-operative Centre, banks in the region are especially interested in financing hi-tech companies and give comparatively little support to companies in other sectors.

The Wales Co-operative Centre, financed by the Welsh office in London, the Welsh Assembly Government, WDA, the European Union and ELWa, was interested, however, and with their help, the MBO team managed to secure the money that was needed.

It should be noted that the UK was one of the first European countries to actively support buyouts through government agencies. This is of great importance, because the private sector rarely does so. MBOs are often very costly and there is little interest in many of the sectors where MBOs occur.

### **Results, success factors and lessons learnt**

The MBO enabled JT Morgan to secure the jobs of all its employees. At the moment, JT Morgan is reported to be trading well and is about to introduce an employee share ownership scheme. After the first six months of trading, the company's forecasts were revised to reflect changes in the market situation and the need to prepare for the seasonal Christmas trade. In Christmas 2005, trade was nearly all on credit and was slightly extended due to the holiday season. To meet this contingency, Lloyds Bank made an unsecured loan of €515,000 to the company. This is a good indication of the bank's confidence in the newly formed JT Morgan and the management team. It also confirms that the bank is prepared to share the risk of such a venture under the right conditions.

The advantages of an MBO are manifold. First, there is a continuation of the business, and the owner is given an agreed exit route. Destructive trade sales or take-overs are avoided. Most

importantly, there is a greater commitment from the employees. In most cases, everyone invests some money in the company, which in turn means enhanced commitment by all the workers. Another advantage is the spreading of risks, because of the often large number of investors. Lastly, an Employee Benefit Trust (EBT) can maximise the tax advantages to the company and its employees. An EBT is a mechanism to create a share market within the company, which would be very difficult otherwise because of highly restrictive regulations.

The main lessons learnt from this project were as follows:

- Good specialist advice at an early stage of the buyout process is essential. This case study could be used as an example of good practice in this respect.
- Flexible financial support, with a willingness to get close to the MBO client and to take some risks, is also important.
- Currently, there is still a greater emphasis on start-ups with little recognition by either the public or private sectors of the special needs and advantages of management-led buyouts.
- Finally, there must be good and regular communication between all active parties for the buyout to succeed.
- The case also revealed a need to establish and promote a business succession service as part of the business support strategy. Policies are mainly focused on MBOs; however, the records suggest that EBOs (employee buyouts) perform better in terms of growth and survival.

**Further information:**

J.T. Morgan & Co (Swansea)  
<http://www.jtmorgan.co.uk>

Wales Co-operative Centre  
<http://www.walescoop.com>





# Conclusions and good practice recommendations

In the current economic climate, companies are facing a growing number of forces that continuously test their capacity to anticipate and manage change in order to survive and remain competitive. Some of the most pervasive drivers include the globalisation of markets, deregulation and trade liberalisation, changes in consumer behaviour, new supply chains and financial flows, technological developments, growing direct foreign investment, changing capital ownership, changing demographics and, particularly, the shift from an industrial economy to a knowledge and information-based economy. This continuous adjustment to change is commonly referred to as 'restructuring', or the deliberate adaptation of an economic unit(s) to changes in its environment that implies, or is expected to imply, a downsizing strategy, namely, a reduction in the number of jobs.

Downsizing can enable an organisation to reduce costs, improve competitiveness and reinvigorate itself. It can therefore be essential, and on occasions inevitable, for a company to cut jobs in order to remain in business. However, downsizing strategies following restructuring can have considerable socio-economic effects for the organisation, its employees and the general environment in which the company operates.

In this context, companies become increasingly aware about the importance of conducting 'socially responsible restructuring' which takes into consideration the interests of all of the organisation's stakeholders (owners/shareholders, managers, workers and the community). Responsible practices include effective communication strategies, the correct use of social dialogue and of information and consultation procedures, development of partnerships with other actors, and all those actions that are aimed at increasing employment.

In recent years – and largely as a result of the need to create more and better employment in the EU in line with the Lisbon strategy objectives – increasing attention has been paid to new business creation following restructuring. This report identifies three principal types of support initiatives in this respect: management or employee buy-outs (MBOs or EBOs); support for the creation of completely new enterprises launched by employees affected by restructuring; and support for reindustrialisation activities.

Moreover, national authorities have developed a number of specific policies aimed at fostering new business creation among people affected by restructuring processes. These national policies can be grouped into three main categories: regulatory initiatives; general support measures; and ad hoc public measures. The EU has also issued a number of directives, programmes and consultation documents to help minimise the negative social effects of restructuring and to encourage employment creation wherever possible.

In addition to public initiatives, individual enterprises affected by restructuring processes also support the creation of new start-ups as a valuable instrument for alleviating the negative employment effects of restructuring. This support may comprise a wide array of possible tools, such as support for a spin-off initiated by the restructuring enterprise, support for restructured personnel who decide to set up a new enterprise, and so-called 'reindustrialisation strategies' aimed at generating new employment opportunities for people affected by restructuring. The latter course of

action can be realised in a variety of ways: through the creation of new start-ups in the area by non-former employees; by attracting new or existing enterprises into the area/premises formerly occupied by the restructuring enterprise; or through the introduction of a long-term cultural change by promoting entrepreneurship.

As this report has found, individuals who have been affected by restructuring and who are considering launching their own business are likely to possess a number of specific characteristics in comparison with other groups of prospective new entrepreneurs. First, they are usually relatively older, which implies a higher probability of having a dependent family but also a certain amount of personal savings. Second, these individuals usually have had a career as a dependent employee and therefore have entitlements to social security benefits and pension schemes. Third, these individuals often possess a significant level of professional knowledge and work experience, as well as market expertise. Finally, people affected by restructuring and opting for entrepreneurship are more likely to be 'necessity' entrepreneurs, who are pushed into entrepreneurship because all other options are either absent or unsatisfactory. This is in contrast to 'opportunity' entrepreneurs, who start a new business to exploit a perceived business opportunity. Research shows that 'necessity' entrepreneurs are less likely to survive and to create more jobs within five years.

As the report concludes, there appears to be greater consciousness and concern regarding the negative employment effects of restructuring. Governments at all levels, social partners and individual enterprises are showing some signs of a joint commitment to support business creation following restructuring. This can be witnessed through top-down, macro-economic and labour market policy messages coming from the European institutions, and also from bottom-up local action and enterprise initiatives.

Nonetheless, evidence about the extent of business creation remains limited and practices do not appear to be that widespread across the EU. This can be attributed to a number of factors, including the lack of entrepreneurial spirit among Europeans, the preference to work for an employer, existing legal and administrative barriers, limited access to finance and 'seed capital', and the preference to take early retirement if possible, particularly among workers aged over 50 years.

It is essential, therefore, that good practices in relation to business creation following restructuring processes are brought to light and disseminated as widely as possible. By raising awareness among all parties concerned, and demonstrating that restructuring can be turned into an opportunity for creating jobs, negative perceptions of this phenomenon may be changed. Equally, more needs to be done to evaluate and to encourage greater investment in business creation arising from restructuring, so that these initiatives can be improved and strengthened.

### **Results, success factors and lessons learnt**

Restructuring can impact severely on the socio-economic environment of a region or a local community. Socio-economic effects are compounded in areas that do not enjoy a diversified economic structure. Therefore, the challenge is for enterprises, employees, public authorities and trade unions to work together and establish partnerships to manage the process positively for the common good. In this context, business creation initiatives following restructuring are conceptually

very attractive, as they match both economic and social objectives, as well as political and psychological ones.

From an employee's perspective, this type of solution allows them to take their future into their own hands, at the same time enabling them to maintain their existing social links, by either working in the same geographical location or with the same people. It can also lead to increased levels of social and economic prosperity by encouraging the development of an entrepreneurial culture in a region or local community affected by restructuring processes.

Nonetheless, business creation initiatives of this nature are subject to a number of limiting factors. First, these initiatives tend to attract a limited number of participants (between 1.2% to 10% of the restructured workforce),<sup>16</sup> who have, or believe that they have, a combination of good business ideas, entrepreneurial skills and the motivation to survive in a competitive environment. The majority of affected personnel, on the other hand, still tend to opt for other more traditional solutions, such as unemployment benefits or early retirement, if available. Second, support initiatives related to enterprise creation tend to be more expensive than other active support measures. This is a significant drawback in times of public budgetary restrictions. Lastly, it should not be forgotten that the failure rates among new enterprises launched by people affected by restructuring are generally much higher than for other entrepreneurial groups.

To assess the adequacy of measures implemented and good practice for the future, it is indispensable of carrying out a systematic and continuous evaluation of support programmes for business creation. In this respect, a thorough knowledge of the actual results obtained by newly created and sustained companies and the associated employment generated is crucial.

Bearing in mind that failure rates among start-ups established by people affected by restructuring are generally quite high – and to help maximise the effects of support measures – it is of fundamental importance to back and to record the experiences of those projects that have positive economic prospects for the future.

Prospective new entrepreneurs emerging from restructuring situations require comprehensive support in developing and implementing their business ideas. It should not be forgotten that these new entrepreneurs are not 'professionals' in the business creation process, and that they often only have partial knowledge of the requirements needed to set up a new business. As Table 12 illustrates, several support mechanisms can be provided to help those involved in this form of business creation.

In summary, support measures for business creation should encompass a number of characteristics:

- The support should be economically advantageous for the new entrepreneur and not too onerous on him/her.
- Support should have a medium or long-term perspective. Once-off support that only intends to back the first stages of the business initiative is usually not sufficient. Since new enterprises

---

<sup>16</sup> With the exception of MBOs, which can affect a much larger percentage of workers.

often require continued support following its initial launch, this support should be maintained over several years, to help ensure the survival of the new business.

- Support should be provided by highly specialised and impartial personnel. The support should also be as flexible and customised as possible, not only in terms of the specific types of support but also in relation to its content, to best suit the needs of the entrepreneur.
- The support should be geographically as close as possible to the new enterprise, so that entrepreneurs do not waste time and resources in accessing this support.

**Table 12 Support mechanisms for business creation following restructuring**

- 
- Support in identifying ideas with a market potential
  - Introduction to new potential clients
  - Counselling and advisory activities
  - Providing 'incubators' and service centres
  - Providing premises, new business areas
  - Lending of machinery
  - Research and development (R&D), as well as technical assistance
  - Training and further education
  - Financial support and introduction to financial resources
  - Temporarily guaranteed subcontracting
  - Providing part-time work to personnel while they set up a company
  - Support for transfers (such as databases or schemes) to small and medium-sized enterprises (SMEs)
  - Attracting start-ups or existing businesses to the area
  - General entrepreneurship promotion (schools, cultural change)
- 

Source: Ikei research & consultancy, 2005

MBOs/EBOs or spin-off operations can also provide important alternatives, instead of simply closing down a business during restructuring. These possibilities could be particularly interesting for large state-owned enterprises typical of eastern European countries, allowing for the setting up of spin-off businesses, particularly micro, small and medium-sized enterprises. However, these alternatives will only be viable unless the business has a continuing value and can successfully cope in the market economy.

Several examples have been provided where support has been aimed at facilitating the transfer of existing enterprises to individuals wanting to embark on an entrepreneurial career. This option is very relevant, especially if European Commission estimations are taken into account. These suggest that around one-third of EU entrepreneurs, mainly those running family enterprises, will withdraw within the next 10 years. This would affect some 610,000 companies and 2.4 million jobs every year (European Commission, 2002b). Equally, transfers within a family are decreasing, meaning that more family enterprises could be transferred to employees or third parties. Nonetheless, many Europeans prefer starting rather than taking over a company, despite the obvious advantages of the latter, such as the opportunity to access an existing production structure, customer network and established name. Moreover, the chances of survival among transfers are higher than among start-ups.

Direct public support is particularly relevant in situations where available private resources are inadequate or limited. In this sense, public regulatory activity and support measures should provide a framework within which the private initiative and resources (such as financial

institutions or consulting firms) can be developed and directed in a socially responsible way.

Of course, restructuring processes take place within particular national frameworks and therefore, transferability of practices may not always apply. In fact, each case has particular features that make it unique, looking at motives and objectives for restructuring, enterprise size, sector characteristics and size, regional perspective, type of personnel affected, degree of involvement and agreement among stakeholders.

Overall, it can be concluded that there appears to be much room for improvement among all parties involved in devising measures aimed at business creation following restructuring. For example, a wide array of measures and support for business creation and start-up promotion could be adapted to restructuring situations, taking into account the distinctive characteristics of those affected and the additional efforts that are usually required. Bearing in mind that the number of restructuring processes across Europe is likely to increase rather than diminish in the future, support for business creation following restructuring is more pertinent than ever.



# Bibliography

- Acs, Z.J., Arenius, P., Hay, M. and Minniti, M., *Global entrepreneurship monitor 2004 Executive Report*, Babson College, Massachusetts, 2005.
- Bernard Brunhes Consultants, *Études de cas sur le traitement des conséquences sociales des grandes restructurations d'entreprises: Rapport final pour la Commission européenne*, Paris, December 1999, available at: <http://www.brunhes.com/EtudLigne/Cahiers/6/Cahier6.htm>.
- Bernard Brunhes Consultants, *Les conditions du licenciement collectif pour motif économique: Comparaison entre sept pays d'Europe*, Paris, Ministère de l'Emploi et de la Solidarité, 2002.
- Broughton, A., 'Cooperation of government and private sector: Outstanding issues', Regional Forum *Public-private cooperation in industrial restructuring*, Organisation for Security and Cooperation in Europe (OSCE), Almaty, Kazakhstan, 2–3 November 2004.
- Butler, E. and Boyfield, K., *Eighty ideas in economic and social reform illustrated by practical examples from around the world*, available at: <http://www.adamsmith.org/80ideas/idea/32.htm>.
- Consejo Económico y Social (CES), *Informe sobre el proceso de creación de empresas y el dinamismo empresarial*, Madrid, 2005.
- Daynac, M., 'Reconversión y dinámicas territoriales: Investigaciones recientes – análisis de las metodologías utilizadas en reconversión y mutación', *Economía Industrial*, No. 308, 1996, pp. 53–66.
- Duvert, R., Hekiman, N. and Vallat, D., *L'appui à la creation d'entreprises ou d'activités à partir de quelques experiences en Rhône-Alpes*, Lyon, Direction Régionale du Travail, de l'Emploi et de la Formation Professionnelle Rhône-Alpes (DRTEFP), May 2002.
- EIM Business and Policy Research, *Third Annual Report of the European Observatory for SMEs*, Research project prepared on behalf of the European Commission DG Enterprise, Zoetermeer, 1995.
- EIM Business and Policy Research, *Fifth Annual Report of the European Observatory for SMEs*, Research project prepared on behalf of the European Commission DG Enterprise, Zoetermeer, 1997.
- EIM Business and Policy Research, *SMEs in focus: Main results from the 2002 Observatory of European SMEs*, Research project prepared on behalf of the European Commission DG Enterprise, Zoetermeer, 2003a.
- EIM Business and Policy Research, *Self employment and becoming an entrepreneur as a second career for dependent employees*, Research project prepared on behalf of the European Commission DG Enterprise, Zoetermeer, December 2003b.
- Esser, D. and Ozoux, P., *Restructuring with workforce reduction: How to manage the process in a socially sensitive manner*, Geneva, International Labour Organisation (ILO), 2003.
- European Commission, *Managing change: Final report of the high level group on economic and social implications of industrial change*, Brussels, 1998, available at: [http://europa.eu.int/comm/employment\\_social/key\\_en.html](http://europa.eu.int/comm/employment_social/key_en.html).
- European Commission, *Social policy agenda*, COM (2000) 379 final, Brussels, 2000, available at: [http://europe.eu.int/comm/employment\\_social/social\\_policy\\_agenda/social\\_pol\\_ag\\_2000-2005\\_en.html](http://europe.eu.int/comm/employment_social/social_policy_agenda/social_pol_ag_2000-2005_en.html).
- European Commission, *Anticipating and managing change: A dynamic approach to the social aspects of corporate restructuring*, Consultation paper to the social partners, Brussels, January 2002a, available at: [http://europa.eu.int/comm/employment\\_social/social\\_dialogue/docs/changement\\_I\\_en.pdf](http://europa.eu.int/comm/employment_social/social_dialogue/docs/changement_I_en.pdf).
- European Commission, *Final report of the expert group on the transfer of small and medium-sized enterprises*, Brussels, 2002b.



- European Commission, *Green Paper on entrepreneurship*, Brussels, 2003, available at: [http://europa.eu.int/comm/enterprise/entrepreneurship/green\\_paper/presentation.htm](http://europa.eu.int/comm/enterprise/entrepreneurship/green_paper/presentation.htm).
- European Commission, *Flash Eurobarometer No. 160: Entrepreneurship*, Brussels, June 2004a, available at: [http://europa.eu.int/comm/enterprise/enterprise\\_policy/survey/eurobarometer83.htm](http://europa.eu.int/comm/enterprise/enterprise_policy/survey/eurobarometer83.htm).
- European Commission, *Strengthening the implementation of the European employment strategy: Proposal for a Council decision on guidelines for the employment policies of the Member States*, Brussels, 2004b.
- European Commission, *Action plan: The European agenda for entrepreneurship*, COM (2004) 70 final, Brussels, 2004c, available at: [http://europa.eu.int/comm/enterprise/entrepreneurship/action\\_plan.htm](http://europa.eu.int/comm/enterprise/entrepreneurship/action_plan.htm).
- European Commission, *Industrial relations in Europe 2004*, Luxembourg, Office for Official Publications of the European Communities, 2004d, available at: [http://europa.eu.int/comm/employment\\_social/news/2005/jan/industrial\\_relations\\_2004\\_report\\_en.html](http://europa.eu.int/comm/employment_social/news/2005/jan/industrial_relations_2004_report_en.html).
- European Council, *The Multi-annual programme for enterprise and entrepreneurship*, Council Decision (2000/819/EC) of 20 December 2000, Brussels, 2000.
- European Industrial Relations Observatory (EIRO), *The involvement of employees and collective bargaining in company restructuring*, Dublin, European Foundation for the Improvement of Living and Working Conditions, 2001, available at: <http://www.eiro.eurofound.eu.int/2001/07/study/tn0107201s.html>.
- EIRO, *The rise of regional employment alliances in Germany*, Dublin, European Foundation for the Improvement of Living and Working Conditions, 1999, available at: <http://www.eiro.eurofound.eu.int/1999/05/feature/de9905107f.html>.
- European Monitoring Centre on Change (EMCC), *emcc exchange: Business resilience – case example of Pharmacia and the Uppsala region*, Dublin, European Foundation for the Improvement of Living and Working Conditions, 2004, available at: <http://www.emcc.eurofound.eu.int/publications/2004/ef04106en3.pdf>.
- EMCC, *EMCC dossier on industrial restructuring*, Dublin, European Foundation for the Improvement of Living and Working Conditions, 2003, available at: <http://www.emcc.eurofound.eu.int/content/source/tn03001a.html>.
- European Round Table of Industrialists, *A stimulus to job creation: Practical partnerships between large and small companies*, Brussels, European Round Table, March 1997.
- Eurostat, *Labour market policy: Expenditure and participants*, Luxembourg, Office for Official Publication of the European Communities, 2002.
- Fretwell, D.H., *Mitigating the social impact of privatisation and enterprise restructuring*, Washington, World Bank, March 2004.
- Fundación para el desarrollo de la función de recursos humanos (FUNDIPE), *Mejores prácticas sobre redimensionamiento empresarial*, Madrid, MOA–Groupe BPI, 2004.
- Gibb, A., *Restructuring through small enterprise development* (unpublished), Durham, University of Durham and Foundation for SME Development.
- Hansen, G.B., *A guide to worker displacement: Some tools for reducing the impact on workers, communities and enterprises*, Geneva, International Labour Organisation (ILO), 2002.
- International Labour Organisation (ILO) and European Bahá'í Business Forum, *Socially responsible enterprise restructuring*, Geneva, ILO, 2003.
- Lozano, J.M. and Folguera, C., *Danone en Ultzama*, Instituto Persona, Empresa y Sociedad, ESADE, Barcelona, 2003.

- Martin, J.P., *What works among active labour market policies: Evidence from OECD countries' experiences*, Labour market and social policy, Occasional papers, No. 35, Paris, Organisation for Economic Cooperation and Development (OECD), 1998.
- Nesporova, A., *An active approach towards regional restructuring: The case of Ostrava, Czech Republic*, Budapest, ILO central and eastern European team, 2004.
- Oiz, C. and García, P., 'Spin-off: El futuro del desarrollo económico regional. La experiencia de Navarra', *Economía Industrial*, No. 309, 1996, pp 63–8.
- Reynolds, P.D., Bygrave, W.D. and Autio, E., *Global entrepreneurship monitor 2002, Executive report*, Babson College, Massachusetts, 2003.
- Schumpeter, J., *Capitalism, socialism and democracy*, Routledge and Kegan Paul, 1942.
- Sengenberger, W., *The role of labour standards in industrial restructuring: Participation, protection and promotion*, Geneva, International Labour Organisation (ILO), 1990.
- Starcher, G., *The role of large companies in SME creation and development*, European Bahá'í Business Forum (EBBF), 2003.
- Stevenson, L. and Lundström, A., 'Patterns and trends in entrepreneurship/SME policy and practice in 10 economies', *Entrepreneurship policy for the future series*, Vol. 3, 2001.
- Storey, D.J., *Understanding the small business sector*, London, Routledge, 1994.
- Union of Industrial and Employer Confederations of Europe (UNICE)/ European Association of Craft, Small and Medium-Sized Enterprises (UEAPME), European Centre of Enterprises with Public Participation and of Enterprises of General Economic Interest (CEEP) and the European Trade Union Confederation (ETUC), *Orientations for reference in managing change and its social consequences*, Joint text, Brussels, October 2003, available at: [http://europa.eu.int/comm/employment\\_social/social\\_dialogue/docs/300\\_20031016\\_orientations\\_restructuring\\_en.pdf](http://europa.eu.int/comm/employment_social/social_dialogue/docs/300_20031016_orientations_restructuring_en.pdf).
- United Nations (UN), *Social aspects and financing of industrial restructuring*, Economic commission for Europe, Committee for trade, industry and enterprise development, Geneva, 2005.
- Wildeman, R.E. et al, *Self-employment in 23 OECD countries. The role of cultural and economic factors*, Zoetermeer/Tilburg, 1999.



European Foundation for the Improvement of Living and Working Conditions

**Support measures for business creation following restructuring**

Luxembourg: Office for Official Publications of the European Communities

2006 – VIII, 66 pp. – 21 x 29.7 cm

ISBN 92-897-0932-4

## SALES AND SUBSCRIPTIONS

Publications for sale produced by the Office for Official Publications of the European Communities are available from our sales agents throughout the world.

### ***How do I set about obtaining a publication?***

Once you have obtained the list of sales agents, contact the sales agent of your choice and place your order.

### ***How do I obtain the list of sales agents?***

- Go to the Publications Office website <http://publications.eu.int/>
- Or apply for a paper copy by fax (352) 2929 42758

*Company restructuring has become a constant feature of the economic landscape of the European Union, driven by market changes, increased competition and globalisation. One way of minimising the negative social effects of restructuring is to encourage people affected by restructuring to set up their own business. This report examines the critical elements that positively and negatively affect business creation and entrepreneurship following company restructuring in Europe. It looks at different strategies developed by public and private actors to foster business creation. It presents case studies from six countries of successful examples of company restructuring, outlining in detail the experiences of business creation and development following the restructuring process.*

**The European Foundation for the Improvement of Living and Working Conditions is a tripartite EU body, whose role is to provide key actors in social policymaking with findings, knowledge and advice drawn from comparative research. The Foundation was established in 1975 by Council Regulation EEC No. 1365/75 of 26 May 1975.**



Publications Office

*Publications.eu.int*

ISBN 92-897-0932-4



9 789289 709323