



Eurofound

# Restructuring in SMEs: Lithuania

[Click for contents](#)

## Contents

Introduction	1
Relevance of different types of restructuring for SMEs	4
Drivers of restructuring	26
Distinctive characteristics of restructuring in SMEs	30
Main challenges and constraints facing SMEs in restructuring	35
Business support from public and private sources	38
Outcome of restructuring events	41
Conclusions and policy issues	45
Bibliography	46

# Introduction

This report provides a review of restructuring processes in Lithuania covering use of the term restructuring in Lithuanian legislation, a focus on restructuring of SMEs and the relevance of different types of restructuring for SMEs.

Unfortunately, restructuring is understood in quite narrow terms in Lithuania. It is not approached as a complex process that should encompass not only support for undertakings and their employees suffering difficulties, but also the monitoring of likely economic structural changes, timely preparation to eliminate negative social effects of such changes, and so on. In such a situation, the issues of anticipating and managing restructuring acquire special relevance.

According to the various actors involved, and for authorities and legislation in Lithuania ‘restructuring’ is synonymous with:

- bankruptcy;
- firing people/collective dismissals;
- closing down factory;
- an answer to the low effectiveness of the company/financial problems of the company;
- any other changes perceived as ‘business as usual’ or ‘the reality of business’.

In Lithuania, restructuring is not associated with the phenomenon of change and/or anticipation of change, with regional issues and/or regional implications and is not a main topic of reflection for the majority of the social partners: the employers’ representatives are predominantly interested in assuring tax incentives for new investors and increasing flexibility in the labour market. Representatives of workers’ organisations were even stating that restructuring has an adverse effect on their activities: representatives of the trade unions believe that redundancies caused by restructuring have an adverse effect on their organisations, making them lose members.<sup>1</sup>

On the other hand, some measures for anticipating restructuring are present in Lithuania. Employees of enterprises undergoing restructuring can claim the same labour market services and active or passive labour market policy measures as other persons dismissed from work.

A literature review on the available information on restructuring in Lithuania has shown that some fragmented data on certain types of restructuring was available. No research focusing on restructuring or restructuring of SMEs was found. Some information about internationalisation (relevant to outsourcing, offshoring, business expansion) was picked up from EU-wide company surveys: Internationalisation of European SMEs (for the European Commission), Observatory of European SMEs 2007 (Eurobarometer), SME Performance Review 2009.

Searches in other official information sources like official national (Statistics Lithuania, Ministry of Economy, Lithuanian Labour Exchange, Competition Council, Department of Enterprise Bankruptcy Management (hereinafter – DEBM), Centre of Registers, scientific journals (VU ‘Ekonomika’, KTU ‘Ekonomika ir vadyba’) or other public/science/research institutions) or international official (that is, ERM, European Commission, Eurostat, World Bank) has revealed that the topic of restructuring is under-researched in Lithuania, because no research or studies on

---

<sup>1</sup> Joint project of the European Social Partner Organisations. **Study on restructuring in new Member States**. Lithuania – Country Dossier, 2005.

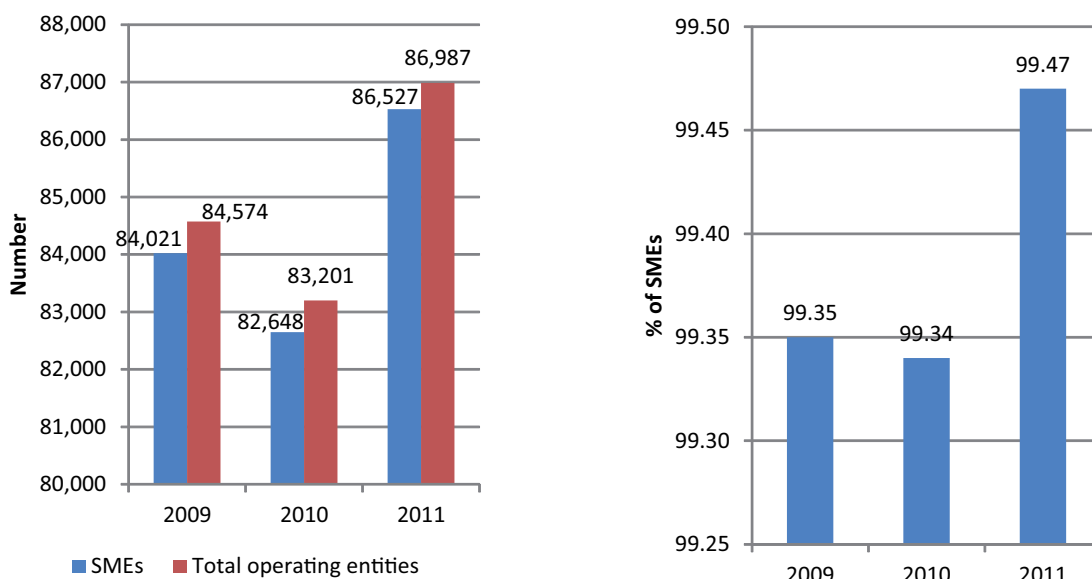
restructuring in companies at either the national or Baltic-region level was found. Available national representative company surveys are rare and mostly limited to the SME surveys carried out by Statistics Lithuania. The major shortcoming of these surveys is that they cover a wide spectrum of areas and provide only minimal and indirect information on company’s restructuring processes.

Data, case studies and other information about the restructuring of SMEs in Lithuania covers the years 2008–2011 mostly, but some data from 2001 were found, which is important in exposing long-term trends and demonstrating the impact of economic crises or other factors (such as the impact of amendments made to the Restructuring Law and Bankruptcy Law in 2009, which came into force in 2010) affecting restructuring. Its other purposes include abstracting the specifics of restructuring in SMEs compared to other companies and comparing the relevance of different types of restructuring for SMEs to find out any dependency or correlation between restructuring and certain phases of the economic development cycle (growth or decline). Other data or information are the latest data found (2010 or first half of 2011) or latest data compared with the previous period, where this is appropriate.

Official data on restructuring events are based mostly on court decisions that reflect ongoing restructuring cases and events only. More examples of SME restructuring were found in the media (newspapers, journals and internet portals). This means, that all available information was found in secondary information sources. Information about restructuring of SMEs in primary information sources is not accessible due to the data being confidential, not systematically recorded and due to company decisions to publish only selected, favourable and value-added information about restructuring.

Another restriction concerning the literature review was an absence of a separation between SMEs and large companies in collecting data about restructuring. This means there is no specific information about restructuring of SMEs, although since the vast majority of businesses in the country are SMEs, some of the literature that does exist may implicitly be referring to SMEs. In fact, over 99% of operating entities in Lithuania are SMEs (see Figure 1), accounting for 73.96% of total employees in 2009 and 88.69% in 2010 respectively (LStatistics, 2011).

Figure 1: *SMEs among the operating entities in Lithuania (2009-2011)*



Source: LStatistics, 2011

Since more than 99% of all companies in Lithuania are SMEs, available statistics on companies' restructuring may be used to some extent to describe restructuring in SMEs. Specific information about restructuring of SMEs is available in the three case studies undertaken as part of this project. Other SME-specific data was found in the media, where the causes, drivers and anticipation of restructuring are typically examined, and the specifics of SMEs' restructuring compared to that in large companies identified.

# Relevance of different types of restructuring for SMEs

## Overview

Collected data from the above-mentioned information sources show the relevance of some categories of restructuring for SMEs compared with large companies. For example, restructuring types, such as relocation, outsourcing, offshoring (delocalisation) are very rare or not used at all by SMEs. This might be explained by the fact that they require significant resources to complete, putting them out of reach for most SMEs.

Cases of merger and acquisition are rare compared to formal restructuring cases under the court decisions or bankruptcy cases. The explanation in this case includes: the consolidation of companies took place mostly in an economic growth period (up to 2009<sup>2</sup>); the merger/acquisition of SMEs is not usually reflected in statistics, Competition Council, stock exchange data or any other official or public databases. This is because in most cases SME merger/acquisition does not require permission or approval from the Competition Council due to the small market share.

Most restructuring cases were found in the categories of bankruptcy, internal restructuring (but only based on the court decision) and a little less in the business expansion category. Such findings are caused by the requirements of Lithuanian legislation, which regulate bankruptcy and restructuring issues in detail.

Internal restructuring may be formal (under a decision of the court with an officially approved restructuring plan, appointed restructuring operator etc.), or informal, such as a change in management structure, distribution of functions, establishment or abolition of branches. Formal internal restructuring is reflected in official statistics but informal is not, which means that official statistics do not reflect all internal restructuring cases. Formal internal restructuring starts as a bankruptcy case in the court and during the proceedings the bankruptcy case may turn into a restructuring case. The business may be fully restructured on favourable conditions and with agreement among bankruptcy initiators; or some vital part of the business may be restructured, while another part goes to bankruptcy.

In addition, informal internal restructuring usually accompanies business expansion, which is a separate type of restructuring. Focusing on the main aim of restructuring, if informal internal restructuring is aiming at cost cutting, this would most likely be internal restructuring; if restructuring aims to set up new branches and to redesign the management, this case would contribute to business expansion.

Business expansion may also be closely related to offshoring/delocalisation, outsourcing, merger/acquisition and even to bankruptcy as the following four points outline.

1. Offshoring/delocalisation is very often applied in cases of business expansion, first of all at seeking to increase sales, reduce logistic or labour force related costs or to overcome restrictions related to regulations in foreign markets, taxes or duties. Despite SMEs using offshoring/delocalisation quite rarely and much less than in the case of large enterprises, such important decisions of SMEs to offshore/delocate are typically considered in the context of carefully planned and reliable business expansion due to significant costs of offshoring and withdrawal from the foreign market in case of failure.

---

<sup>2</sup> Competition Council of Lithuania, *LStatistics*, 2012.

2. Outsourcing might not only be a self-standing type of restructuring, it also might be a part of a business expansion plan using SMEs both as suppliers and as contractors (especially in cases of diversification of products/services reaching the critical threshold in production volumes). Outsourcing provides SMEs with more flexibility and the ability to concentrate on the main activities, and enables more extended/faster business expansion with lower costs. More usually SMEs act as suppliers in outsourcing processes, but this role also facilitates business expansion – despite the deep specialisation and commitment to contractor oriented production/supply SMEs could increase production at least up to contract binding volumes and more (for other sales). Fragmented data<sup>3</sup> show that SMEs in Lithuania are usually subcontractors (outsourcing suppliers<sup>4</sup>) rather than contractors (outsourcing companies) (**Invest Lithuania, 2011**). This is determined by the small size and capacities of SMEs, therefore business expansion, which includes outsourcing, is indicating an intensive growth stage in a company's development.
3. Merger/acquisition could also be a source or means of business expansion. Due to high competitive pressure and the small size of the domestic/local market (when the company acts mostly locally) mergers and acquisitions intensify during economic crises and processes of concentration of SMEs has speeded up in Lithuania since 2009.<sup>5</sup> The problem is that cases of merger/acquisition of SMEs are very difficult to detect – only cases that need the permission of the Lithuanian Competition Council to merge or acquire are reflected in official statistics, other cases are in 'shadow' due to confidentiality of such agreements. On the other hand, typical mergers and acquisitions of SMEs at the business expansion stage are well promoted – many cases of SMEs' business expansion as merger or acquisition are presented in media as promotion, illustration or announcement to all who may be concerned. Such publicity attracts more attention, because business expansion always contributes to the positive image of company.
4. An interrelation between business expansion and bankruptcy may occur in a sometimes unexpected way – a too fast and thoughtless business expansion can easily turn into bankruptcy. The reasons for such transformations might be mismanagement of cash flows; too large liabilities; changes in the market; demand; technological changes in product or production, clients or customers; changes in the business environment (such as the introduction of new regulations, taxes, requirements or other restrictions); weak overall management; wrong partners/suppliers or distribution channels; improper positioning of the product; overproduction or underproduction etc. This interrelation is very visible among SMEs in Lithuania: experience and practice obtained from previous periods play a very important role in conservative business expansions, where SMEs generally 'play safe' in case of failure. The most interesting feature is that after bankruptcy due to too fast a business expansion businesspeople are still willing to start up a new company – this is well reflected in the media, because previous widely promoted business expansions, following bankruptcy and rebirth of a new company, is always the object of special media interest (**Lithuanian Free Market Institute, 2012**, internet portals [alfa.lt](http://alfa.lt), 2012, [teisingumas.lt](http://teisingumas.lt), 2012, [investicijos.net](http://investicijos.net), 2012).

Statistics on restructuring in Lithuania are not very consistent, but also they vary between specific types of restructuring, and for some types of restructuring data are not collected at all.

Information on cases of large-scale restructuring of companies and organisations in Lithuania have been recorded and accumulated since 2005 in the European Restructuring Monitor (ERM) of the European Foundation for the Improvement of Living and Working Conditions (*European monitoring centre on change*).

---

<sup>3</sup> Sourceplicity, <http://www.sourceplicity.com>

<sup>4</sup> Baltic Outsourcing Association, <http://www.balticoutsourcing.com/pub/default.aspx?Page=MainEN&l=en>

<sup>5</sup> **Competition Council of Lithuania**, 2012.

The system records and compiles information only on large-scale restructuring cases in Lithuania which meet at least one of the following criteria:

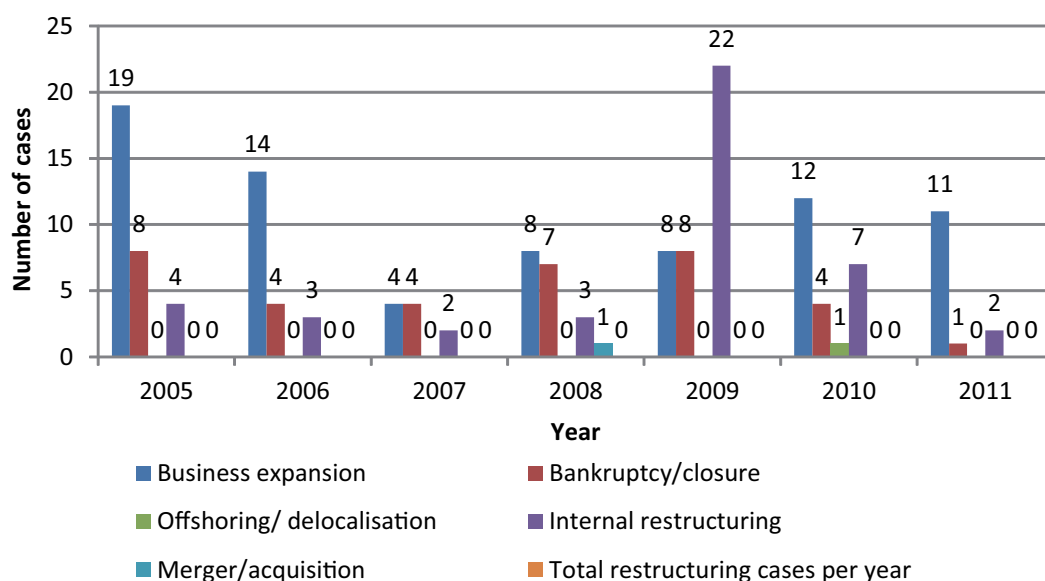
1. A company or organisation reduces/plans to reduce jobs for at least 100 workers.
2. A company or organisation creates/plans to create jobs for at least 100 workers.
3. A company or organisation with more than 250 workers reduces/plans to reduce at least 10% of all jobs in the company.

Within the period 2005– 2011 (until October 2011) there were 157 restructuring cases in Lithuania registered at the European Restructuring Monitor,<sup>6</sup> including:

- 76 cases of business expansion, although with a little impact on employment ;
- 43 cases of internal restructuring;
- 36 cases of bankruptcy/closure;
- one case of merger/acquisition;
- one case of offshoring/delocalisation.

Within the period 2005–2011 (until October of 2011), most restructuring cases were registered in 2009 (38 cases), including the highest number of bankruptcies/closures (eight cases) and 22 of internal restructuring, while 2007 accounted for the lowest number of registered restructuring cases (10 cases), including four bankruptcies/closures and two internal restructurings. During 2005–2011 business expansion cases prevailed among all restructuring cases, registered at ERM. However net job creation is very low (if omitting 2009) or even negative (i.e. net job loss if 2009 is also considered).

Figure 2: Number of registered large-scale restructuring cases in the ERM in Lithuania during 2005–2011 (January–October of 2011)



Source: ERM, 2011

<sup>6</sup> <http://www.eurofound.europa.eu/emcc/erm/index.htm>



ERM contains considerable data on different types of restructuring, but is mainly focused on large companies. The main criterion for inclusion in this database is the number of jobs affected by restructuring, which should be a minimum of 100. As a consequence, the chance that a SME is covered is very low.

In Lithuania there is no uniform source of statistical information on corporate restructuring and its impact on employment, organisational issues or the anticipation, planning and managing of restructuring. Some estimates can be based on individual sources of statistical information, such as the State Enterprise Centre of Registers, which collects data on companies entered into and leaving the register each year. They also include the Department of Enterprise Bankruptcy Management under the Ministry of Economy of the Republic of Lithuania (DEBM), which collects information on companies' bankruptcies and restructuring procedures; the Lithuanian Department of Statistics (LStatistics), which collects data on companies, entities, employees, sectors and SMEs; and the Lithuanian Labour Exchange (LLE), which collects data on redundancies of groups of employees. Some individual cases are reflected in media, but not in official sources.

The most comprehensive data are collected and analysed on a regular basis by DEBM, which monitors and publishes statistics on bankruptcy and restructuring cases. The definition of restructuring, set up by Lithuanian legislation, is defined and understood quite narrowly, considering restructuring only as cases proceeding in the court. However, when analysing the data of DEBM, one important circumstance should be taken into account: at DEBM all cases of bankruptcies are recorded – of SMEs and large companies. Despite a high correlation between all bankruptcy cases and bankruptcies of SMEs some error still exists (see Figure 2). Concerning trends, reasons, managing problems or procedures – there appears to be no essential difference between bankruptcies of SMEs and large companies.

However, there is no official statistic recording relocation, offshoring, outsourcing, internal restructuring, or business expansion in Lithuania. Some fragmented statistics about mergers/acquisitions are recorded at the Competition Council of Lithuania, but just for cases when a permission to merge or acquire from the Competition Council is needed.

## Relocation

Relocation as a type of restructuring is not included in a definition of restructuring in Lithuanian legislation or statistics. Data about relocations is general, it is also not collected systematically, so is quite fragmented, and in addition it does not distinguish SMEs. Relocations are also not reported in the ERM for Lithuania.

Only particular cases of relocation are highlighted in the media. This together with some statistics from business centres gives a very rough overview (*Verslo žinios.lt, Pramonės išsikraustymo iš Vilniaus planams laikas vis dar nepalankus*, Retrieved November 3, 2011, from <http://vz.lt/Default.aspx?PublicationId=d1f3e1f4-13d9-43a1-acc8-13defa794bec>). Nevertheless, an analysis of highlighted cases provides important information about possible reasons for SMEs to relocate in Lithuania. Some reasons for relocation might be very similar to the situation across the EU – such as company growth, geographical proximity, costs reduction, clustering etc. However, the main reasons why relocation in Lithuania is rare include the limited size of the domestic market which means there is little incentive to relocate for market access reasons; in addition, all actions related to the growth of companies are very conservative. In practice where relocation occurs it is typically a cost reduction measure. Finally, the level of clustering in Lithuania is still not very high. In addition, relocation depends very much on the economic cycle– in recession or crisis period relocation in Lithuania slows down.

The relevance of relocation as a type of restructuring is uneven for SMEs and large companies.

As identified from the media review, relocation is more relevant to large companies than SMEs. Large companies:

- are more interested in improving geographical location (in the retail sector a warehouse location has strategic importance; in manufacturing factories or branches should be as close as possible to raw materials, human resources, cheaper maintenance or to other resources; in industrial parks or free economic zones there may be tax incentives or other better business conditions or business services, there may be regions or municipalities offering additional incentives; in the service sector locations in prestige areas or in areas with better accessibility are valued);
- are interested more in optimisation or more efficient distribution of resources;
- can dispose of sufficient financial, organisational, legal and human resources to arrange and complete the relocation.

The rationality of a decision to relocate depends on the possible benefits/cost reductions. In general, due to the wider scale of activities and incomes the ratio between benefits and costs from relocation will always be higher for large companies rather than for SMEs, however every particular case of SMEs' relocation should be considered.

An example of the relocation of large company is Klaipėdos laivų remontas (ship repairing). The company decided to relocate from downtown Klaipėda to allow its prime site to be developed for recreation, leisure and housing. The new area where a company is intending to relocate to gives more opportunities for modernisation, less maintenance and more opportunities for extension in the future. Such decisions require significant initial investment and a long-term return, something not usually available for SMEs.

Since 2009 relocation in Lithuania has slowed down due to the economic crisis and uncertainty around future developments.

### Outsourcing

There are no records in the ERM about outsourcing cases in Lithuania. Outsourcing is also not a subject of bankruptcy or restructuring law in Lithuania. Data about outsourcing is neither collected by official statistics, nor by researchers. Outsourcing is usually not considered as a type of restructuring in media, research, officialdom or in the business community, regardless of whether the outsourcers is a contractor or a subcontractor. However, some SMEs are profiling themselves as outsourcing providers, usually in IT, transport or 'other' services sectors.

SMEs that provide outsourced services to foreign companies would be more common, however such internal information is confidential (subject to a contract) and not accessible publically.

### Offshoring/Delocalisation

There is very fragmented data about offshoring/delocalisation in the literature, the media and statistics. Only one record about offshoring/delocalisation in Lithuania was found in the ERM and this case concerns Note, a Swedish electronics manufacturer announcing that it was to cut 115 jobs in Taurage by the end of the first half of 2010. The company had closed the plant in Taurage and delocated production activities to Estonia. According to the managers of company, the main cause of the relocation from Lithuania to Estonia was a 30% decrease in sales in 2009. Note operates in Scandinavia, the United Kingdom, the Baltic States, Poland and China (ERM, 2011).

Offshoring/delocalisation is usually not understood as restructuring in Lithuania. In addition, it is not a subject of official statistics or of bankruptcy or restructuring law in Lithuania. Only a few cases of offshoring are found in the media and reflect the specifics of offshoring in Lithuania. The Lithuanian companies become a subject of offshoring mostly when foreign companies relocate their production or service supply to Lithuania.

The Swedish company, Trelleborg, has relocated all production of inflatable mattresses for hospitals from England to Taurage, Lithuania, mostly due to well-organised production process and still underexploited production capacities. It is also considering to relocate two companies from Germany and the Netherlands to Lithuania.

Offshoring in Lithuania is more relevant in terms of the country being a receiver rather than a sender of offshoring. The Swedish example reflects the typical situation of offshoring – Lithuanian companies operate more as subcontractors to foreign companies or as delocated companies rather than using offshoring/delocalisation for their own companies.

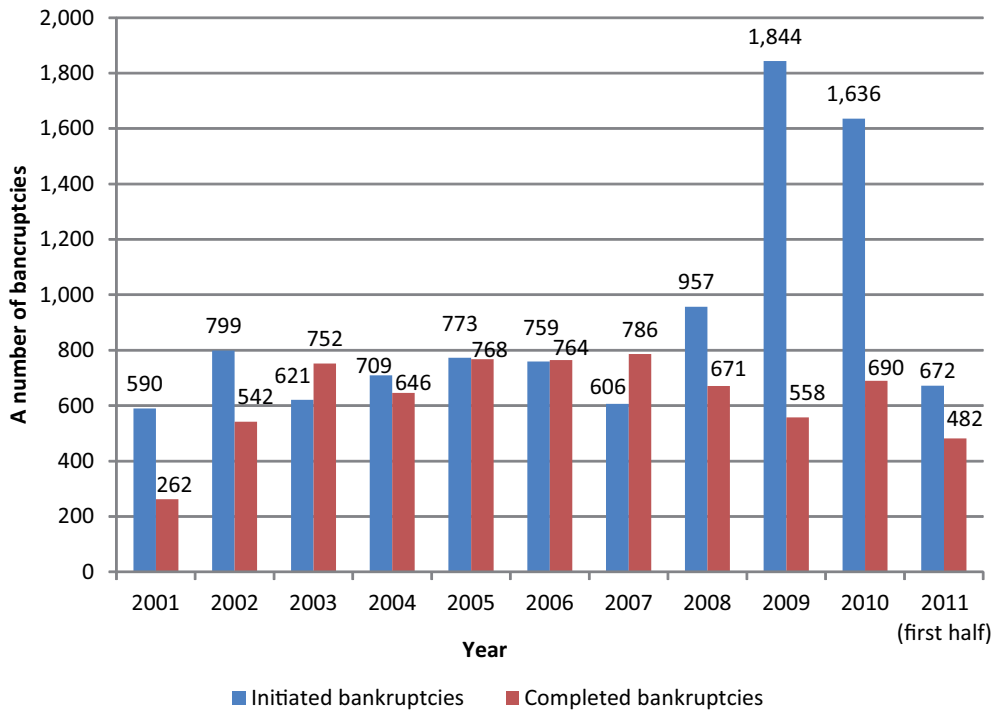
The rare cases of Lithuanian companies offshoring are mostly related to the neighbour countries in the region.

### Bankruptcy/Closure

According to the DEBM, bankruptcy was declared for 10,982 companies and 14 banks from 1993 through 2011 (first half of 2011). Bankruptcy proceedings were completed for 7,140 (65.0%) companies and 14 banks (100%). Among them 87 bankruptcy cases were cancelled, 6,950 companies were liquidated, 103 bankruptcy cases were terminated, three companies were reorganised, 17 companies were rescued, 41 companies signed ‘peace treaties’, 35 companies paid creditors and seven creditors cancelled creditors’ claims. At the end of the first half of 2011, there were 3,841 bankruptcy proceedings; among them 2,780 companies under liquidation procedures. Decisions on 1,096 companies under bankruptcy proceedings were not taken.

In a 20-year period a notable growth in the number of bankrupt companies was observed between 2002 and 2009. After the first growth of bankruptcy cases in 2002 the number of initiated bankruptcies remained relatively stable until 2008 and peaked in 2009. The number of initiated bankruptcies was high in 2010 and in the first half of 2011 (see Figure 3).

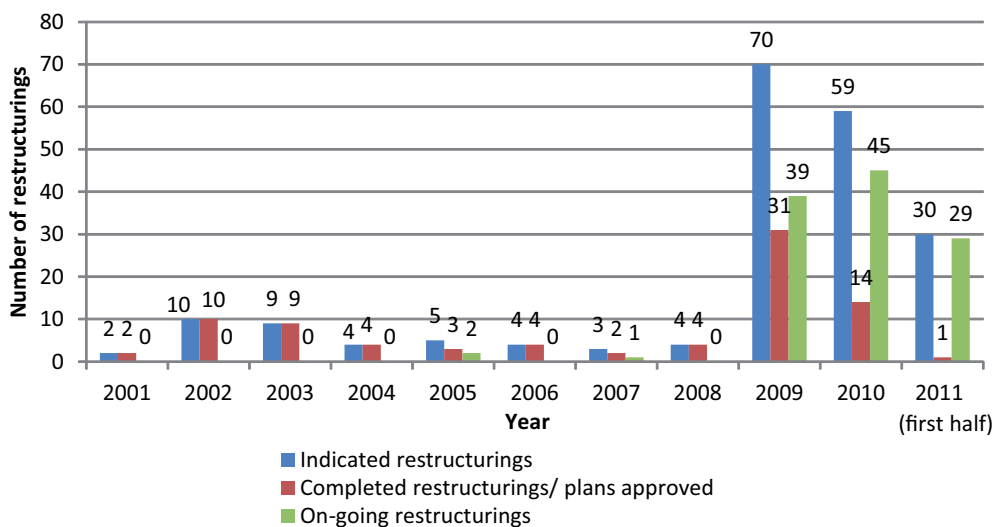
Figure 3: Number of initiated and completed bankruptcy cases in Lithuania during the period 2001–2011 (first half)



Source: DEBM, 2011

Although bankruptcy is usually considered as non-avoidable and part of doing business, the impact of the recent economic crisis is obvious, especially in 2009, when the number of both of bankruptcy and restructuring cases increased significantly (see Figure 3 and Figure 4).

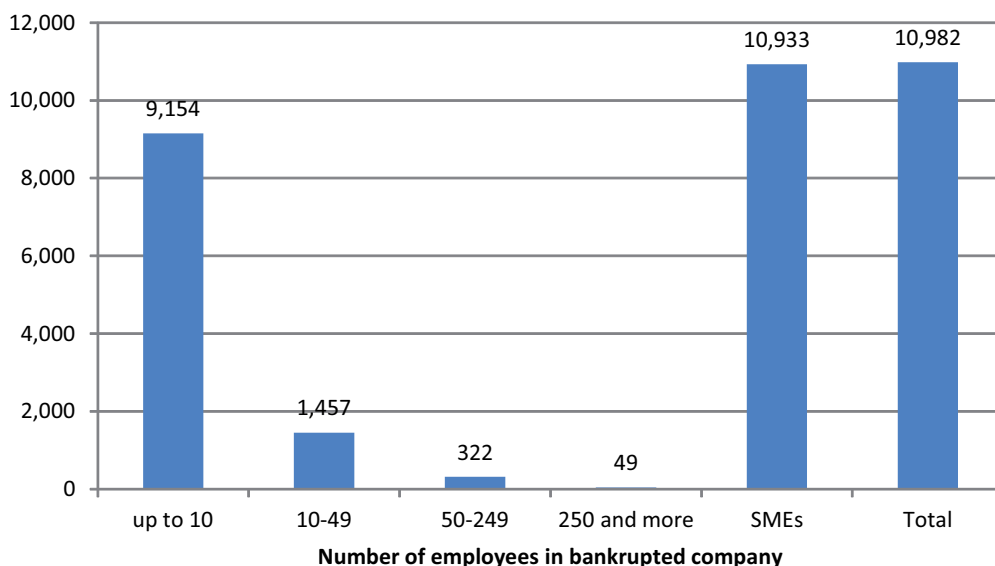
Figure 4: Number of initiated, completed (or restructuring plans approved) and on-going restructuring cases in Lithuania during 2001–2011 (first half)



Source: DEBM, 2011

While DEBM data about bankruptcy and restructuring cases is available in detail, information about SMEs' bankruptcy and restructuring cases is less exhaustive. The available data show that SMEs' bankruptcy cases exceed 99.55% of total bankruptcy cases in Lithuania from 2001 (when bankruptcy and restructuring cases started to register) until the first half of 2011 (see Figure 5). In bankrupted SMEs, 68.9% of total employees were employed in 2010 (LStatistics, 2011).

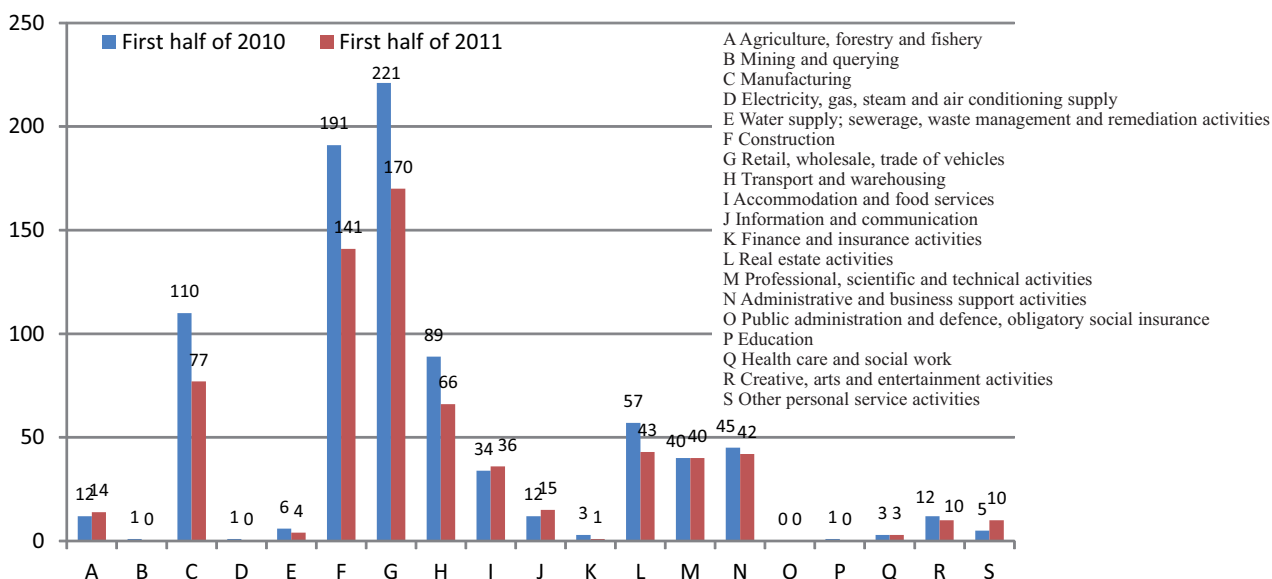
Figure 5: Number of bankruptcies by company size in Lithuania during 2001–2011 (first half)



Source: DEBM, 2011

An analysis of the January–June 2011 initiated bankruptcy proceedings according to economic activities shows that most bankruptcy cases are in the construction sector (21%) and in the retail, wholesale and vehicles trade sector (25.3%). In the manufacturing sector there are about 11.5% of bankruptcies and in transport and warehousing 9.8%. Compared to the same period in 2010 the total amount of initiated bankruptcies in most sectors in 2011 dropped a little, except agriculture, forestry and fishery and other personal services activities (see Figure 6).

Figure 6: Number of initiated bankruptcies in Lithuania according to economic activities



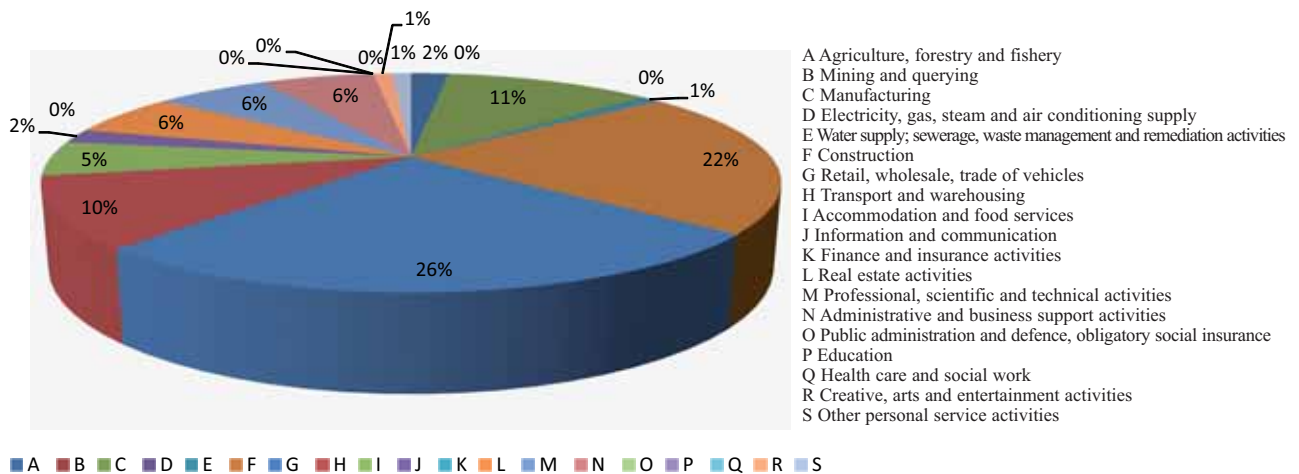
Sources: DEBM, 2011

However, the bankruptcy level in the first half of 2011 remains high in the trade sector (170 bankruptcies or 25% of total bankruptcies), construction (141 bankruptcies or 21%) and in manufacturing (77 bankruptcies or 11%), which together exceeds a half of total bankruptcies in the first half of 2011 (see Figure 7). This means that the productive sector depends more on global economic fluctuations and on the economic situation in export markets than the service sector which is oriented mostly to the domestic market. The domestic market is also sensitive to the recession, but was affected by it earlier (when the economic crisis began) – there was a peak in bankruptcies in the service sector in 2009. The importance of SMEs differs across these three sectors. While the concentration of SMEs in the trade sector is high (that is 41% vs. 31% in the EU average<sup>7</sup>), a little less in manufacturing, but comparatively low in construction and other services, the impact of bankruptcies on SMEs is also different.

The situation in electricity, gas, steam, air conditioning, water supply, sewerage, waste management and remediation activities differs in term of bankruptcies. These sectors are still stable due to their nature – most of them are natural monopolies or oligopolies and are under regulation of the state authorities/bodies, and their size – but all companies in the sectors mentioned are large companies, not SMEs.

Professional, scientific and technical activities, administrative and business support activities, public administration, defence, obligatory social insurance, education, health care and social work economic activities belong to public services, which are supported by state or municipalities’ budgets or other public funds. That means these sectors are less affected by the common business environment, competition, lack of financing, deficiencies of market or mismanagement.

Figure 7: Percentage of bankruptcies in the first half of 2011 in Lithuania according to economic activities, %



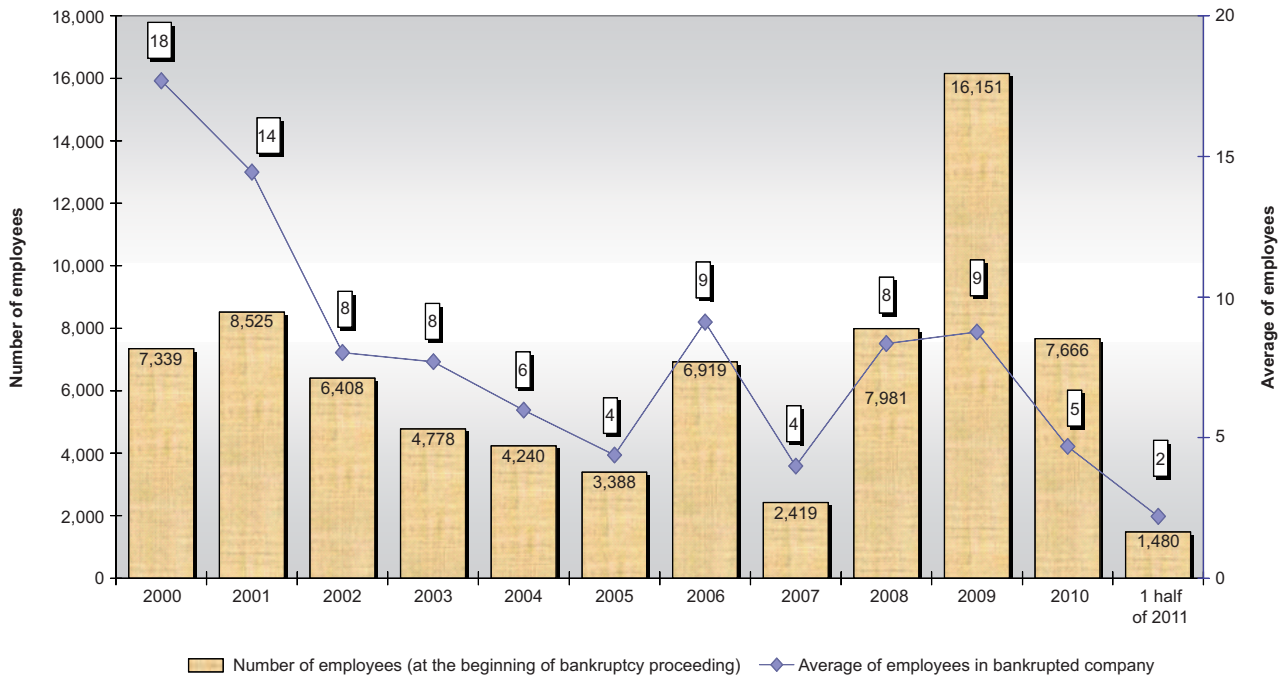
Source: DEBM, 2011.

An analysis of the duration of bankruptcy proceedings from 1993 to the first half of 2011 shows that bankruptcy proceedings in the court last about 22 months or 1.8 years. Simplified bankruptcy proceedings last 12.3 months or about a year; bankruptcy proceedings without proceeding in the court last 13 months or just over a year. An analysis of completed bankruptcy cases provides positive impacts of simplification of bankruptcy proceedings due to enterprise bankruptcy law amendments in 2009. Up to the end of the first half of 2011, 482 bankruptcy proceedings were completed and among them 469 companies were liquidated, four bankruptcy proceedings were terminated and nine bankruptcy cases were cancelled.

<sup>7</sup> The Small Business Act. Lithuania, The Small Business Act, Lithuania, 2010/2011, European Commission. Enterprise and Industry. 2011.

An analysis according to company size in bankrupted companies did not reveal any justified pattern, except one – the largest portion of bankrupted companies was small, with an average of eight employees in 2008, nine in 2009, five in 2010 and two in the first half of 2011 (see Figure 8).

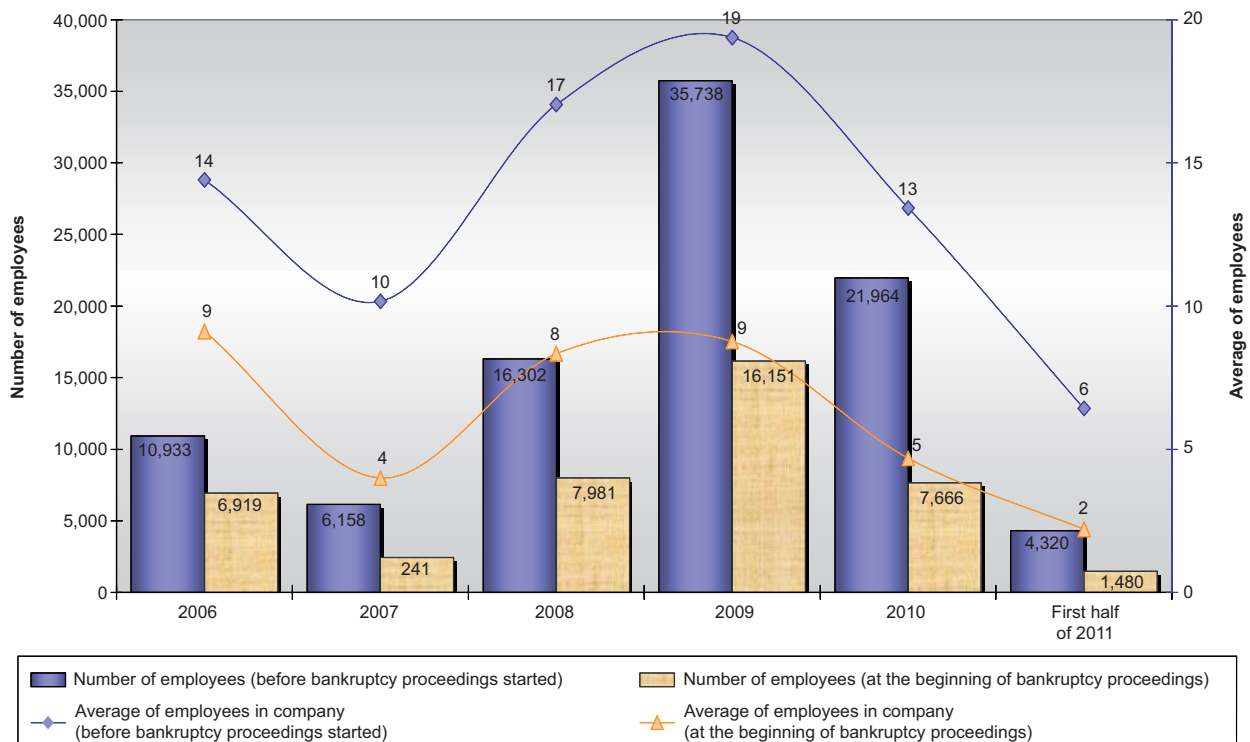
Figure 8: Number of employees in bankrupted companies/companies under bankruptcy



Source: DEBM, 2011

At the beginning of bankruptcy proceedings the number of employees is quite often reduced because companies suffer from financial difficulties and seek to cut costs even before proceedings start, so, they start the dismissal of employees. Available data show that almost half of employees were fired before an initiation of bankruptcy proceedings (see Figure 9).

Figure 9: Number of employees in bankrupted companies/companies under bankruptcy proceedings

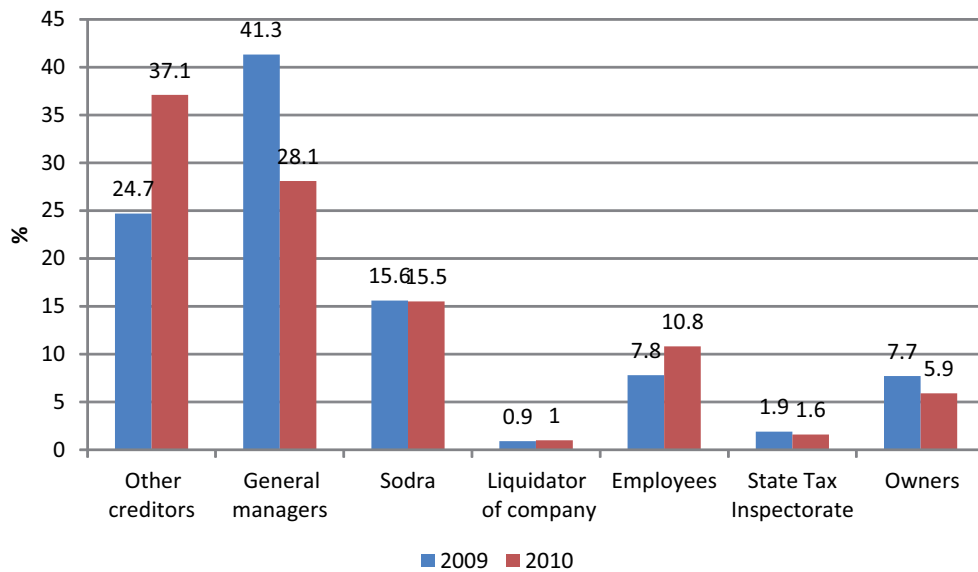


Source: DEBM, 2011.

It should be noted that most cases of bankruptcies in Lithuania are not initiated by the owners of the company. The main initiators of bankruptcy in 2010 were creditors of companies (37% of total initiators), companies’ managers (28%), which are obliged to initiate the bankruptcy in some circumstances by legislation (companies’ law, bankruptcy law etc.), and the State Social Insurance Fund Board of the Republic of Lithuania (Sodra) (16%), while employees and owners were not very active initiators of bankruptcy – 10.8% and 5.9% respectively (see Figure 10). Restructuring under restructuring law or bankruptcy law is defined very strictly, the exact procedures set up, requirements to appoint the restructuring external administrator or bankruptcy administrator (company’s manager and shareholders are suspended from management of the company during formal restructuring or bankruptcy processes).



Figure 10: *Initiators of bankruptcies in Lithuania*



Source: DEBM, 2011

Sodra, as initiator of bankruptcy proceedings, aims to protect employees from becoming socially insecure once the employer terminates the payments of social insurance contributions for them.

Major changes were seen in an increased importance of creditors as bankruptcy initiator (37.1% in 2010 compared to 24.7% in 2009) – mostly banks and other financial institutions. The reason for such the increased role might be banks and other financial institutions policy changes, when terms of existing financing or lending of new loans were drastically tightened and companies could not bear the new terms. Declining exports and a shrinking domestic market led to decreased sales and the reduced ability of companies to pay loans back and to cover other financial liabilities. In addition, declining markets were treated by banks and other financial institutions as additional risks, and in many cases it was sufficient grounds to initiate the bankruptcies.

A typical example of an SME bankruptcy case initiated by banks in 2011 would be ‘Slenkancios sistemas’. Due to bankruptcy all 67 employees lost their jobs. Various raw materials and equipment suppliers to the company were put into in very a difficult situation because the company did not pay for goods supplied. Once bankruptcy proceedings were started the company paid some suppliers, but not with cash, in kind with furniture. The main initiator of bankruptcy was the largest creditor – bank ‘DnB NORD’, and some small creditors. According to data from the credit bureau Creditinfo Lietuva, in October of 2011 the company was indebted to nine creditors and the total amount of past due debts exceeded 800.000 litas (about €232,000).

An analysis of available data on the causes of bankruptcy highlighted some trends, while direct economic crisis impact was not indicated as the main cause of bankruptcy as expected.

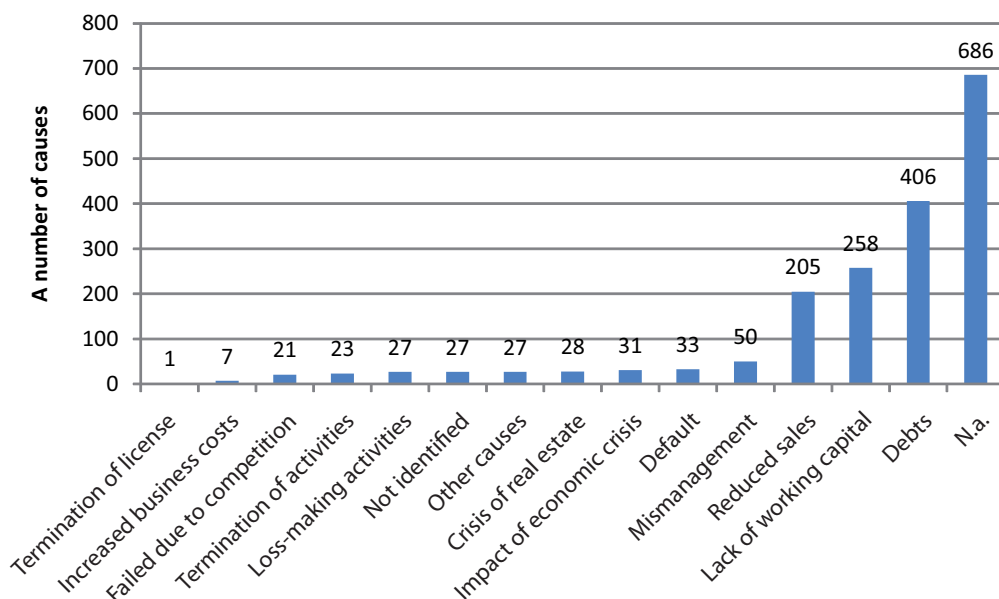
According to the DEBM, the most common causes of bankruptcies since about 2008 are company’s debts, lack of working capital, reduced sales and mismanagement. A significant amount of ‘unknown’ causes of bankruptcies also

might indicate mismanagement problems – companies possibly did operate wrongly and not know it<sup>8</sup> or did not like confess even to themselves about mistakes they made.

It can be said that the trends in the number of bankruptcies as well as in the difference between companies under bankruptcy and registered companies are quite logical and reasonable. Since, as a rule, a company faces business problems for a period of time before bankruptcy proceedings are instituted against it, it is natural that a certain time-lag is evident in the dynamics of this indicator, the worsening situation in the country being reflected in the bankruptcy statistics a year later and vice versa. An economic crisis was just ‘the last straw’ in a series of other causes which led to bankruptcy: the financial situations of bankrupted companies was weak many years before bankruptcy and the debts were increasing year by year, overestimated sales and underestimated risks pointed out mismanagement problems etc.<sup>9</sup>

On the other hand, the role of the economic recession to bankruptcies’ growth since 2009 can’t be ignored: the situation was mainly brought about by a significant economic downturn in both Lithuania and other countries (particularly in the main export partners of Lithuania, that is Russia and Latvia) or a number of orders for Lithuanian goods or services from export countries such as Poland and Germany decreased significantly. Reduced demand for enterprises’ products due to shrinking or lost markets, both internal and external, could be identified as the main reason for corporate bankruptcies in Lithuania.

Figure 11: *Causes of bankruptcy in Lithuania in 2009*



Sources: **DEBM**, 2011

During the first ten months in 2011 the largest proportion of bankrupted companies were managed by self-employed persons. During this period 1,123 companies were bankrupted – 17% fewer compared to the same period in 2010. In most cases these were companies operating over ten years. The average lifetime of the bankrupted company was 8.6 years in 2011 compared to 7.9 years in 2010.

<sup>8</sup> **DEBM**, 2011.

<sup>9</sup> Credit bureau Creditinfo Lithuania, 2011.

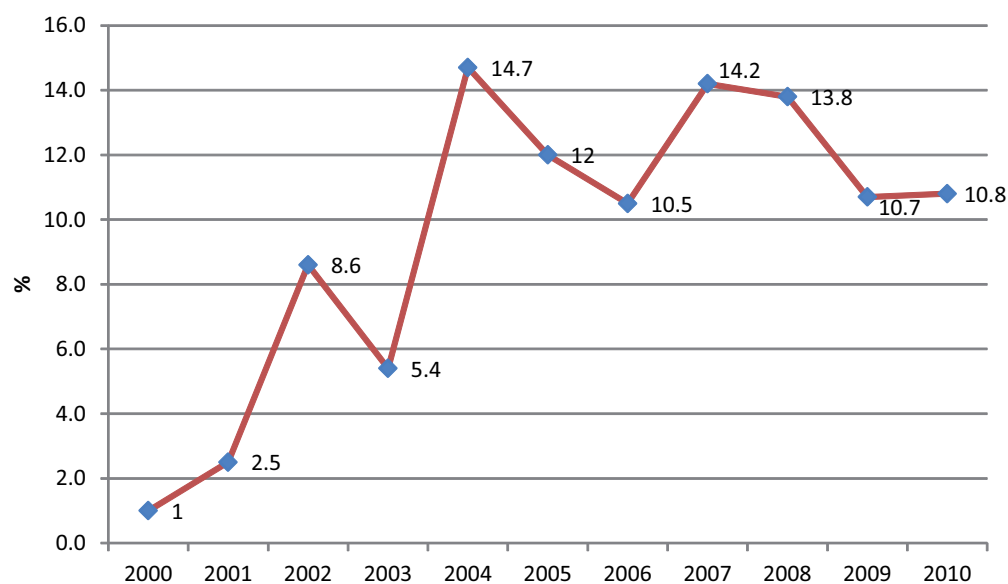
### Closure

Companies starting to suffer from financial or other economic difficulties do not always go to bankruptcy. Many terminate activities through liquidation procedures (closure). Among all closed companies in 2010 (DEBM, 2011) only 10.8% were closed due to bankruptcy. Nevertheless, any increase in business closure is accompanying with additional social and economic costs to society.

According to the **World Bank's** data (*Doing business, annual report, 2011*) Lithuania is ranked 39 of 186 countries in terms of how easy or difficult it is to close the business. The recovery rate<sup>10</sup> in Lithuania is low – 49.6 only, that is less than half of the lent loans. Such a level of recovery rate means significant losses in case of withdrawal from the market and closing a business. The time for closing a business was reduced from 1.7 years<sup>11</sup> in 2007 to 1.5 years in 2010. This reduction proves a progress in regulation and facilitation of proceedings, but still remains too long. While the costs to close a business are relatively low in Lithuania (7%<sup>12</sup> of the estate value vs 11% in the EU), the degree of support for allowing for a second chance (83%) is in line with EU standards.

The share of companies de-registered due to bankruptcy did not change in 2010 very much compared to 2009, however an analysis of previous years' data shows that this indicator was as high as 14.7% in 2004 (see Figure 12).

Figure 12: Percentage of companies de-registered due to bankruptcy of total de-registered



Source: **Registru centras**, 2011

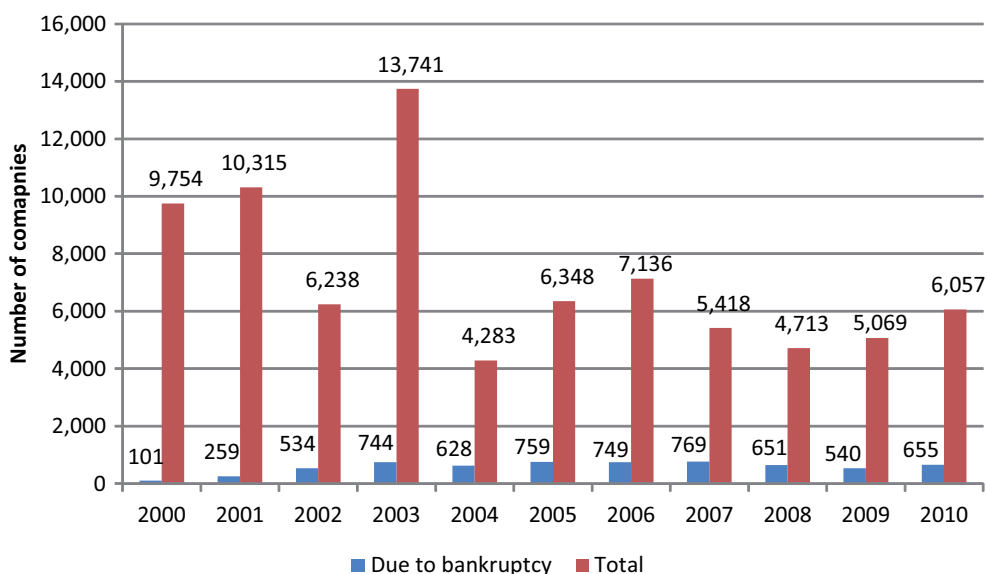
<sup>10</sup> Recovery rate is a function of time, cost and other factors such as lending rate and the likelihood of the business continuing to operate. Recovery rate is measured in cents on the dollar recovered by creditors, present value of debt recovered, costs of the insolvency proceedings are deduction, depreciation of furniture are taken into account, outcome for the business (survival or not), affects the maximum value that can be recovered.

<sup>11</sup> Time is measured in calendar year and includes an appeals and requests for extension.

<sup>12</sup> Costs to close a business are measured as percentage of real estate value, includes court fees, fees for insolvency administrators, fees for lawyers, an assessors and auctioneers' fees, all other fees and costs.

While analysing the change in the number of companies deregistered due to bankruptcy the maximum is found in 2007 (see Figure 13). This means there is no obvious trend in the role of bankruptcy in closing a business or direct impact of economic crisis, but proves a correlation between inevitability (companies in difficulties) and other causes of closing business, such as business environment, importance of market size, competition etc. Despite the fact that any statistics or cases are not recorded in official figures or databases, closure due to bankruptcy is more relevant to SMEs compared to large companies, which are obliged to negotiate before dismissal with trade unions or work council, if established.

Figure 13: Number of companies deregistered due to bankruptcy, and all deregistered companies



Source: *Registrų centras, 2011*

The exhaustive data and trends analysis show that bankruptcy and closure as types of restructuring are very much relevant to SMEs, and for many years bankruptcy was used as a synonym of restructuring or as the only possible solution for restructuring SMEs.

Such point of view is slowly changing and now restructuring is treated a little differently. Restructuring (more relevant to internal restructuring) is separated from bankruptcy's definition and proceedings; a bankruptcy is separated from closure, including legislation and proceedings. The most important change both in legislation and public opinion which happened recently, is that bankruptcy, closure and restructuring are now understood as offering a second chance for businesses, the withdrawal from business activities in the form of bankruptcy or closure is now understood as a usual, justifiable and natural action in carrying out business.

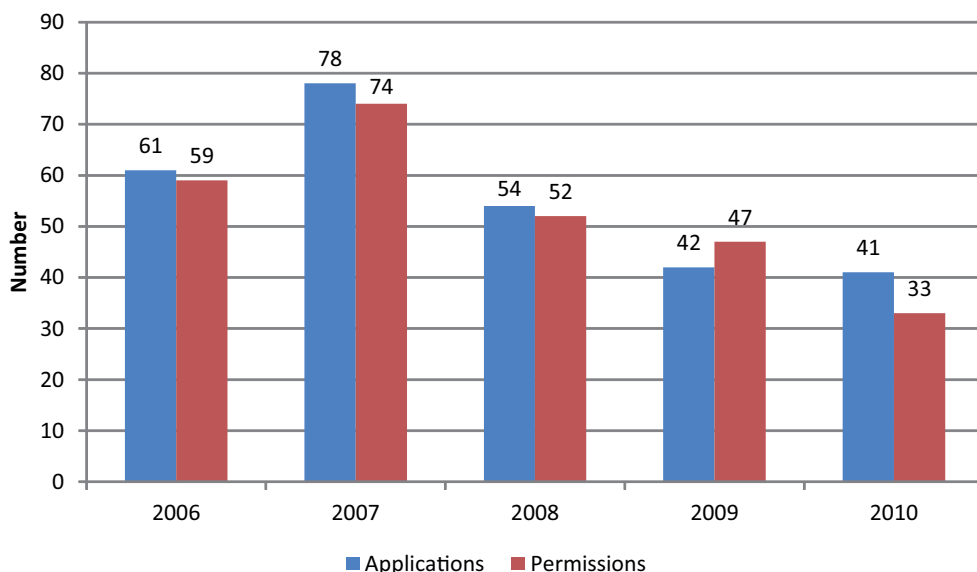
However, what is lacking is a broader outlook and understanding of restructuring as a complex of measures that includes different types of restructuring, anticipating and managing restructuring processes and involvement of social partners.

## Merger/Acquisition

Merger/acquisition cases are not considered as restructuring according to bankruptcy or restructuring law. Data about merger/acquisition are recorded by the Competition Council of Lithuania, an official authority that assesses the applications and grants the permissions to merge or acquire companies in compliance with competition regulation of the EU and Lithuania (see Figure 14). This means that only some exceptional cases of merger/acquisition are included in

official statistics and many possible small merger/acquisition cases that do not affect competition on the market are not included. The number of applications to the Competition Council for permission to merge or acquire could reflect possible trends in the SME situation, which are more likely to be seeking to use this type of restructuring under competitive pressure conditions during economic crisis periods, and both reasons and types of mergers are as typical for large companies as they are for SMEs.

Figure 14: Number of applications and permissions to merge/acquire in Lithuania



Source: Competition Council of Lithuania, 2011

Among various types of merger/acquisition cases conglomeration (more specific to large companies) and horizontal mergers (more specific to SMEs or with involvement of SMEs) prevail, which indicates the SMEs’ efforts to combine their advantages for cope with the consequences of the economic decline. There were seven conglomeration cases and 21 horizontal mergers in 2009 compared to 14 conglomerations and 19 horizontal mergers in 2010 (Competition Council of Lithuania, 2011).

Merger/acquisition is usually related to companies’ development and almost every company seeks to spread such favourable information as wide as possible. Many articles in the media bear witness to such publicity efforts.

For example, the Lithuanian IT company NTSG and engineering company Techniniai projektai merged into c ‘TP Engineering’ and will employ at least 100 engineers and IT specialists. TP Engineering is expecting to provide process optimisation, production security, IT and other engineering solutions to manufacturing companies. ‘We will seek to make engineering into one of the most demanded occupations in Lithuania, which was famous for highly qualified engineers in the past. The advanced engineering technologies and skills will enable Lithuania to rely on its own internal resources and be less dependent on other countries’, said TP Engineering manager. The company is also planning cooperation with universities in terms of proper training for students and cooperation in R&D. TP Engineering is expecting to deploy branches and carry out activities in France, Qatar, United Arab Emirates, Hungary, Finland, Latvia, Poland, Slovakia and Azerbaijan.

Despite the recession in the global financial market there are more than one and a half times more companies in Baltic states that consider development via acquisitions than companies that would be willing to sell a company. Very similar data across all three Baltic states presumes a high probability of forthcoming mergers and acquisitions in Lithuania too. The trend was revealed by the first survey of the mergers and acquisitions market in the Baltic states, conducted in September–October of 2011 by the law firm SORAINEN together with the daily business newspapers *Verslo žinios* (Lithuania), *Dienas bizness* (Latvia) and *Äripäev* (Estonia). About 150 companies operating in various sectors were questioned across the Baltic states.

According to survey data, about 50% of questioned companies were considering an acquisition or merger and over 19% had already prepared plans to do this. While only 10% of questioned companies had plans to sell a company, about 26% would have considered the opportunity to sell the company in the case of an attractive proposal.

Among the companies considering selling, small companies with a turnover of less than five million litas (about €1.44 million) prevailed. This could be explained by two main reasons:

- Small companies are more likely to consider selling as an opportunity to realise the value of the company and to transfer it to a financially more capable company.
- A new business culture in the Baltic states, focused on starting a business, developing it and later selling it or attracting financial investment.

Such active interest among Baltic states' companies for merging or acquiring other companies indicates the consolidation of the market in some sectors. There are many SMEs today that are ready to sell or attract financial investments; this means a probable increase in mergers and acquisitions in 2012.

The upsurge of the merger/acquisition market in the Baltic states in 2010–2011 is the subject of another review, conducted by the Evli investment bank, acting in northern Europe and the Baltic countries. The total value of mergers and acquisitions in the Baltic states exceeded €87 billion in 2010 compared with €40 billion in 2009. Both the number of merger/acquisition cases and the total companies' value increased; that is, the median of the EBITDA multiplier used for company evaluation in the Baltic states almost doubled – from 5.1 times to 11.2 in 2010 (compared to eastern European companies where the median of EBITDA multiplier increased from 8.3 times to 12.7 times). Despite this increase in value the Baltic states' companies still remain relatively cheap, because after the significant decline in 2009, turnover and profits were not as high as the three or four previous years. While the macroeconomic indicators of Baltic states become more stable, investors begin to look for prospective companies. There is a fragile growth forecasted for the Lithuanian economy in 2011 and 2012, but this growth will not reach the level of before the crisis. The faster growth of the economy will be limited by increasing prices of fuel, energy, other raw material and a shrinking domestic market. The involvement of banks in the processes of merger/acquisition, lending for merger/acquisition, readiness to sell mortgaged companies transferred to banks during the crisis, some new venture capital firms that entered the Lithuanian market in 2010 and looking to invest in companies all increased cash flow in companies. These are the main drivers for merger/acquisition in 2011 and the expected drivers for 2012.

The situation described above differs very much from the situation in 2009, when the economic crisis began. With worsened company financial situations and decreased liquidity in financial markets business considered it an opportunity to sell or acquire a company. Despite the decreased number of transactions the process of mergers and acquisitions continued.

‘The number of transactions in merger/acquisition during the first half of 2009 has decreased by 47% and the total value of transactions – by 44%’, – said Mr Žygintas Mačėnas, manager of the investment bank SEB Enskilda Lietuva. A significant decrease in large transactions in the merger/acquisition market in the Baltic states was identified: just seven contracts over €10 million for merger/acquisition were signed in 2009 compared to 30 contracts in 2008, and only three such contracts for merger/acquisition were signed in Lithuania (all cases were for large companies, not SMEs).

However, the total number of smaller merger/acquisition cases indicates an increased number made by SMEs: 46 small transactions were made during the first half of 2009, including merger/acquisitions in the form of additional capital investments and share trading on the stock exchange.

According to data of the SEB Enskilda Lietuva investment bank large-scale mergers or acquisitions will be fewer than in previous years, but mergers and acquisitions in the energy, agriculture and IT sectors could still be expected – small companies would be more willing to sell rather than acquire and the process of consolidation will speed up in the future.

A new trend on the merger/acquisition market in Baltic states is emerging – the change of generations in business. The founders or the first managers of many companies are 50–60 years old and they desire to gain value from the company they developed. Statistics from the investment bank Evli show that over 95% of such companies were sold to strategic investors from abroad, mostly from Sweden. This trend has replaced the previous trend, which took place before the crisis, when a mix of types of acquisitions prevailed. Some companies were acquired by foreign investors and some by developing domestic companies (Evli, 2011).

### Internal restructuring

Internal restructuring is important to SMEs, because it allows a quick adjustment in the permanently changing environment. On the other hand, it is difficult to get information about internal restructuring due to data confidentiality. Only cases of internal restructuring announced by SMEs themselves become known due to statements in media. A very similar situation could be found concerning business expansion – only cases announced by SMEs in the media become known, despite the fact that business expansion as a restructuring is used in Lithuania relatively often.

The Law on Restructuring of Enterprises of Lithuania (the ‘Restructuring Law’) came into force on 20 March 2001. Implementation of this law in practice tends to run up against certain problems, and attempts to influence changes in enterprises using administrative means are not effective.

At first, the question of restructuring was regulated only by the bankruptcy law which stipulated that there are basically two possible cases: liquidation or bankruptcy. The law was altered in 2001, however it has to be noted that the perception of the restructuring process as the synonym of bankruptcy is still deeply rooted, therefore introducing such concepts as ‘restructuring for competitiveness’ or ‘anticipation of change’ may be a challenge. In 2001, the law on bankruptcy was altered to the Restructuring Law.

The Restructuring Law provides a definition of a restructuring process of an enterprise understood as ‘change of the type of economic activities, upgrading of the production, rationalisation of work, sale of the enterprise assets or a part thereof, acquisition of assets of other enterprises through their merger or division, implementation of technical, economic and organisational measures intended to restore solvency of the enterprise, change in the amount of the enterprise’s liabilities to its creditors and deadlines of their discharge’.

The Restructuring Law also defines conditions for enterprise restructuring, the process of initiating restructuring proceedings and the role of the court in the restructuring proceedings (appointment of an external administrator).



Additionally, the Restructuring Law describes relations between restructuring and bankruptcy, the content of the restructuring plan. It also regulates the sequence and procedure of satisfaction of creditors' claims and gives guidelines on how the enterprise and its assets are to be managed during the restructuring process. A significant part of the law deals with the rights and obligations of creditors. The Restructuring Law does not specify in detail the obligations of employers towards laid off employees and does not regulate trade union involvement in the process either.

Restructuring plans mainly include economic obligations for the company. However, the required information on the social aspects of restructuring is very limited. Only the number of employees foreseen to be laid off is to be indicated in such a plan. The redundancies are to be executed under the Law on the Employment Contract.

The fundamental change happened in 2001; at that point the Restructuring Law recognised two distinct cases: restructuring (for enterprises that can still improve their economic performance) and bankruptcy. Possible future developments of the existing law may encompass the situation of insolvency, which in fact seems to be in some way close to the European concept of 'restructuring for competitiveness'.

The process of restructuring in Lithuania seems to have its specific features. Some social partners believe that the involvement of trade unions 'smooths' the process. Another characteristic feature is that people get organised at the 'termination' stage, when there are not too many chances to remedy the situation. No anticipatory measures are taken beforehand. Sometimes, the restructuring process is postponed by protesting workers (VABD Drobe, Kaunas) or by influential people, for instance the chairperson of the Social Protection Committee (Limetal).

On 1 October 2010 a new amendment of the Restructuring Law came into force. The main objective was to create more favourable conditions for businesses suffering from financial difficulties to exploit the opportunities of restructuring: more companies could avoid bankruptcy and were able to continue their activities, pay back to creditors, save jobs and simplify the termination of the business. This amendment was tackling the main problem under restructuring – a lack of working capital, which could not be recovered by EU financial assistance or guarantees provided by the state company Investment and Business Guarantees, and banks were not willing to lend to companies in difficulties. The amended Restructuring Law permits the start of the restructuring process six months earlier, before the company becomes hopelessly indebted. With creditors' assistance it would be possible for financial difficulties to be overcome, solvency problems answered and a bankruptcy avoided. The restructuring process could be started three months before possible difficulties arose.

Seeking to increase the probability of faster approval of the restructuring plan in the court and successful restructuring, the duration for submission of the restructuring plan was prolonged for up to six months and did not discount interests that would increase attractiveness to creditors. For approval of the restructuring plan two-thirds of votes by creditors are needed now, compared to three-quarters previously, before claims against the company can proceed.

It is important to emphasise that restructuring under the Restructuring Law is understood as formal procedures with involvement of the court, formal approval of the restructuring plan and participation of a restructuring external administrator. Restructuring cases that fall under the definition of the Restructuring Law of Lithuania would be reasonably called formal internal restructuring.

From 2001 until the first half of 2011, 200 formal internal restructuring cases were initiated, 84 formal internal restructuring cases were completed and 116 cases were ongoing. The peak of initiated formal restructuring was in 2009 (70 cases), a year when the impact of the crisis was the deepest. The level of initiated and completed formal internal restructuring cases still remains high in 2010 and 2011 (see Figure 3). A low level of ongoing restructuring cases (two in 2005 and one in 2007) from 2001–2008 was related to a low level of initiated formal restructuring cases, but 39



ongoing formal restructuring cases in 2009 compared to 70 initiated indicates a sufficient level of efficiency of restructuring procedures and applied measures (DEBM, 2011).

This data indicates the correlation between the impact of the economic crisis and the number of initiated formal internal restructuring cases. It also proves the relevance of restructuring as a means of companies adapting to changes in the economic environment.

The definition of restructuring set up in the Restructuring Law is very close to the understanding of internal restructuring. However internal restructuring is a wider term and includes other forms of internal restructuring without involvement of the court, other formal procedures, a restructuring administrator and without bankruptcy threat, that is organisational restructuring, which is purely an internal action. Such restructuring cases would be reasonably called informal internal restructuring.

Organisational change without significant job loss is one of the most efficient methods of informal internal restructuring. In recent years, major organisational change initiatives designed to produce more or different outcomes from essentially the same workforce have taken place in some of Europe's largest enterprises. Being a concern for 16% of SMEs in the EU, organisational change – unlike any other constraint investigated – is somewhat less likely to pose a problem in the new EU Member States than in the old ones. Taking into account the results of Observatory of European SMEs, Turkish SMEs (39%), Belgian (26%), Portuguese (26%) and Greek (24%) SMEs have mostly reported that implementing new forms of organisation resulted in difficulties in their business operation in the recent past. On the other hand, Hungarian, Danish, Bulgarian (all 7%), Norwegian, Polish and Swedish businesses (all 8%) are the least likely to suffer from the negative effects of organisational turmoil. The results also revealed that constraints/difficulties related to implementation of new organisational forms were encountered by only 13% of companies in Lithuania in the last two years; 81% did not encounter difficulties (The Observatory of European SMEs, Analytic report, EC, 2007). While statistics about formal internal restructuring are recorded by DEBM, statistics about the informal internal restructuring cases are not recorded. Just some fragmented information in media was found.

As an example of informal internal restructuring is the case of a new holding company Blue Bridge Baltic. The holding company was established on 1 January 2011, combining three IT companies Blue Bridge, Blue Bridge Bond and Blue Bridge Code and aimed to improve an organisational structure – to make it more flexible, efficient and manageable in a centralised way and ensure differentiation of products and services. All three companies together had 180 employees on 1 January of 2012 and turnover of these companies in 2011 was 17.7 million litas (about €5.13 million). 'This organisational change will enable the company's development and extension of activities abroad', – said Zbignevas Gulbinovicus, chairman of Blue Bridge Baltic board. These three companies develop intellectual IT solutions, provides IT services to business and specialise in different sectors. Blue Bridge provides integrated IT solutions for business processes, IT applications and infrastructure solutions, and supplies hardware and software. Blue Bridge Code provides software solutions and Blue Bridge Bond provides IT systems maintenance and management services with orientation towards SME needs.

## Business expansion

The business expansion as a possible type of restructuring does not fall under the definition of restructuring by the Restructuring Law, but this type of restructuring is applied very widely in Lithuania.

According to data from Creditreform Lietuva and SODRA, Lithuanian companies created 5,417 new jobs in the third quarter of 2011 compared to 43,762 in the second quarter of 2011. The first time a decrease in unemployment was observed was August, however new jobs were created in SMEs, especially in micro-companies, while the creation of new jobs in large and medium companies slowed down. Analysis shows that among all SMEs employing new persons, 8.6% were companies with a turnover of less than 1 million litas (about €0.3 million), while 6.4% were companies with a turnover over 4 million litas (about €1.16 million). The lowest number of jobs were created in companies with 1-4 million litas (about €0.3–1.16 million) turnover. The most jobs-creating sectors were construction, transport, manufacturing and retail.

While official statistics about business extension as restructuring is not recorded or monitored, there are many cases presented in the media, because any announcement about forthcoming business extension, including internationalisation, would be used to promote the company.

According to data from technology research company GfK Retail and Technology Baltic (GfK), the sales of electronics goods in the first half of 2011 remained at the similar level as in the same period of 2010. The number of units sold only increased by 2% but the value increased by 16%, reflecting a higher increase in more expensive goods. A slow growth in sales is predicted for 2012.

An electronic goods retailer, Avitela prekyba, a company with 170 employees can boast a 50% growth in sales determined the extension of its retail network – the number of shops increased from 12 to 16 in the first half of 2011. The company is focusing on higher quality, more expensive and the most advanced goods, especially in various IT, video and audio gadgets. A smaller retailer, Ogmina, managing three electronic goods shops, increased sales by 5%. This growth was determined by more intensive marketing efforts and spending for promotion.

These examples illustrate the relevance of business expansion as a means of company survival in good and bad times. A growing market facilitates business expansion without significant changes in market share, while a shrinking market forces companies to make additional efforts in seeking to save business by extending market share or taking market share from weakened competitors.

Business expansion usually takes place in the local or domestic market and very rarely internationally due to very strong competition and existence of other big players in foreign markets.

Such specifics and restraints remain as a trend during recessionary periods and correlate with some findings from a survey carried out at the beginning of the recession – in 2009 (*Ekonomika ir vadyba, National economy and international trade*, Retrieved November 5, 2011, from [Ekonomika ir vadyba, 2010, No.15](#))

A complex survey on behalf of LStatistics was carried out with the application of expert assessment, regression and correlation analysis methods. There were 63,187 SMEs in Lithuania in 2009 (LStatistics) and 401 managers of SMEs were questioned. The largest proportion of surveyed companies were micro-companies (74%), followed by small companies (22%) and medium companies (4%).

According to survey data, the business environment was assessed to have worsened by about 50% of questioned managers, as unchanged by 37.5% and as improved by 12.5%. Concerning business extension the prognosis of managers was pessimistic – 63% were not expecting any expansion in the next three years; 8% were expecting expansion by setting up new branches; 1% were planning to sell or close the company and shift to a new activity by setting up a new company; 2% expected to set up a new company and 26% of managers or shareholders were planning to sell or close a company.

According to the survey data the pessimistic prognosis concerned the financial situation in the company. Over 35% of businessmen were expecting a decrease in sales in the next three years, 10% expected a constant level of sales and 17% of questioned persons had no opinion. Looking at the prognosis for profitability about 38.5% of respondents were expecting profit growth in 2010–2013, 31% a decrease of profit and 10% did not expect any changes in profit levels. Therefore 35% of respondents were expecting a jobs cut, 12.5% jobs creation and 27.5% no changes in jobs.

This data evidences the relevance of business expansion to SMEs and the clear dependency on external factors – market size, level of competition and constraints in regulation, which limit the flexibility of companies restructuring to hire and fire employees.

# Drivers of restructuring

While the definition of SMEs in Lithuania is in compliance with the definition of SMEs from the European Commission,<sup>13</sup> Lithuanian SMEs are really small companies in comparison with SMEs in other EU countries, especially large EU countries like Germany, France or Poland. Just a small number of Lithuanian SMEs act internationally. Most act in the domestic market or locally. This specificity of Lithuanian SMEs indicates the main drivers of restructuring – the size of the domestic market and strong competition within it, which leads to restrictions for a company's growth and later to possible financial difficulties.

Dependency on the small and very open domestic market and on export markets makes Lithuanian SMEs very sensitive to changes and fluctuations in the global economy and to the economic cycles of growth and decline. This sensitivity means SMEs need to be as flexible as possible, and restructuring is one of the means of flexibility.

Informal restructuring (arising within the scope of Restructuring Law or bankruptcy law) is more determined by the market: organisational restructuring as part of internal restructuring, mergers/acquisitions, business expansion – these are appropriate measures of real restructuring in Lithuania seeking to adjust SMEs to the market, to clients or customers, proposing or developing a new products, or diversifying products or markets. Together with uneven capacities to compete also leading to the low internationalisation of Lithuanian SMEs this is causing the rare cases of offshoring/delocalisation, outsourcing and to some extent relocation across the country.

There are a variety of reasons for SMEs to relocate. Some are similar to those affecting large firms, while others are more distinctive:

- 1) **The growth of a company** might force it to relocate due to the need for more employees, the need for larger meeting rooms or more meeting rooms, workplaces, more or better parking places, more modern facilities, more convenient accessibility, better facilities, the establishment of branches or new factory lines, new products, increase in scale of production, etc. At a company's growth phase the ability to allot sufficient spending for relocation is an important factor for decision making. This factor is more important for SMEs than for large companies which may prefer to build their own buildings or factories or to rent facilities in office complexes. On the other hand, SMEs are more flexible for relocation, especially in the services sector. As an analysis of the available cases and data shows, the company's growth is a relevant reason to relocate both for SMEs and large companies and there are no obvious differences by size of company. A distinction should be made between SMEs in the manufacturing and services sectors: services providers are more mobile and able to relocate in the case of company development because their facilities are usually rented, not owned (typically an office facility) and their equipment is easily transportable (computers, printers etc.). SMEs in manufacturing are more conservative because they need assess all costs and benefits more accurately. Their investments, including investments in relocation, involve a more mid- or long-term return compared SMEs in the service sector (*Delfi.lt, Persikraustymas – Chaosas ar naujas iššūkis?*, Retrieved November 3, 2011, from <http://gyvenimas.delfi.lt/career/article.php?id=12609659>). Unfortunately, there are no comprehensive statistical data explaining this situation in detail, excepting a few cases highlighted in the media or provided by business centres.

---

<sup>13</sup> The European Commission defines micro enterprises as firms with fewer than 10 employees and a turnover or a balance sheet total of up to €2 million. Small firms employ less than 50 employees and have a turnover or balance sheet total of up to €10 million. Medium-sized companies have fewer than 250 employees and a turnover of up to €50 million or a balance sheet total of up to €43 million. SMEs also include self-employed and family businesses irrespective of their legal form as long as they engage in economic activity and can be considered an autonomous entity.

- 2) **Geographical proximity** might force SMEs to relocate to be closer to clients or suppliers or to find a more convenient location. Relocation from the centre of a city or overcrowded area to suburbs or outside the city may also contribute to the improvement of the geographical location of a company. The geographical setting is a very obvious reason for relocation as a type of restructuring when the rationalisation of resources is going on. For example, when the storage and distribution of products is spread among various warehouses in different places, or when administrative resources are concentrated in just one or a few places, when there is displacement of different production lines at different places or when more efficient distribution is needed etc. The relevance of accessibility or closeness to clients, suppliers etc. depends on the sector. Geographical proximity is more relevant in the service sector, to supplier/distributors, in logistics and to some extent manufacturing. The relevance of accessibility or closeness to clients might be assessed as a comparison of the relocation's costs against the benefits gained/costs reduced. The duration of being located in the same place could be a good indicator for finding out the best geographical location in terms of closeness to clients or suppliers, though a cost-benefit ratio calculation must be included. On the other hand, willingness to relocate indicates SMEs' flexibility to adjust to permanent ongoing changes when new relationships with clients, suppliers or contractors are established.

Relocation from the centre of a city or from the one city to another is quite rare for SMEs in manufacturing because this process is very costly and requires maintaining current facilities during construction of the new building or adapting existing facilities to be relocated. Expenditures for relocation of SMEs are very often higher than the possible benefit or cost reduction. In the service sector relocation from the city centre usually means being further away from clients or customers. In only well justified cases do SMEs relocate, and only in an economic growth phase with good prospects for the future.

- 3) **Changes in a company's strategy** also can also lead to relocation in terms of geographical location. New products, introduction of product or process innovation, diversification of products or services, exit from the market or entering a new market, the needs of different labour forces, new suppliers, different distribution structure, including optimisation or redistribution of other resources, and any other changes in strategy are typical attributes of SMEs' flexibility. Forthcoming changes in the company's strategy are not announced publically and quite often such information is confidential, in contrast to large companies. Correlation between relocation and successful introduction of new products, entering new market etc. becomes visible only after it happens, and indicates the high relevance of changes in SMEs' strategy on the decision to relocate.
- 4) **Costs reduction** could have crucial relevance to relocation for SMEs if the benefits exceed the relocation's costs and possible inconvenience. The decision to relocate and achieve cost reductions at the same time might be determined by many reasons including more favourable facilities, cheaper rent or parking prices, the opportunity to sell old facilities or forego rent for old or very costly facilities, the optimisation of resources (mostly human), better distribution,, cheaper maintenance, the opportunity to implement organisational improvements etc.

At the beginning of the crisis in September 2008 all SMEs moved out from the Akropolis office centre located in Kaunas, the second largest city in Lithuania. As a consequence, according to data from NEWSEC/Re&solution (one of the largest real estate companies in Lithuania, managing commercial real estate), rental costs dropped in large office centres by 30% in 2011 compared to 2007 – SMEs preferred smaller, lower quality and cheaper office facilities for retail company headquarters. Another trend is where SMEs moved from the main commercial street with the highest rent prices (Gedimino Avenue) in Vilnius to supermarkets and malls, which attract more footfall and where

rent prices are not so high. The percentage of free facilities to let on the main street exceeded 25% in 2011 compared to 5% in supermarkets and malls.<sup>14</sup> The turnover of SMEs located in malls and supermarkets operated by NEWSEC/Resolution increased by 8% in 2010 compared to 2009 and reached up to 568 million litas (about €164.5 million). The company forecasts a growth of customer traffic of 15% in 2011 and predicts qualitative changes in the tenants' structure.

- 5) **Clustering** – in the process of partnership working among SMEs, large companies and science/research bodies sometimes a natural necessity of relocation is arises. Being close to one other reduces logistics costs and makes partnership working easier. The need to be closely located is more relevant in sector-based clustering, where logistics costs are a significant part of total product costs, that is, a large company is usually surrounded by SMEs, providing it with secondary raw material or processing facilities. SMEs usually obtain various benefits (opportunities for cooperation, less costs, better terms, opportunities for specialisation etc.) from being in a cluster, which are not receivable outside, and relocation into a cluster under such terms is advantageous for SME. These benefits are more relevant for SMEs than for large companies, because SMEs do not have the same power as large companies to attract other SMEs or withdraw from a cluster. Even at exit from the cluster SMEs could receive benefits in the form of transferring buildings ownership or technology lines that facilitate the secondary relocation from the cluster. In seeking to fully exploit all benefits from relocation into a cluster, the possible risks should also be assessed on a regular basis.

Special business or public services to SMEs provided in clusters or business incubators, science and technology parks, research centres, hubs, industrial parks or free economic zones ('business centres') might pull SMEs to relocate there. Incentives for relocation are usually more favourable in the business centres than under usual market conditions. Additionally they provide SMEs with subsidised business support, and advisory, legal, financial and similar services. The duration of a tenancy in business centres is limited (it varies from two to five years; the average is three years), which does not restrain the willingness of SMEs to take the opportunity and to locate the company there even for a limited period. But the limitation is that SME after the end of the stay at business centres relocation is necessary. This outcome is a sign that the company has grown and is strong enough to operate under its market conditions.

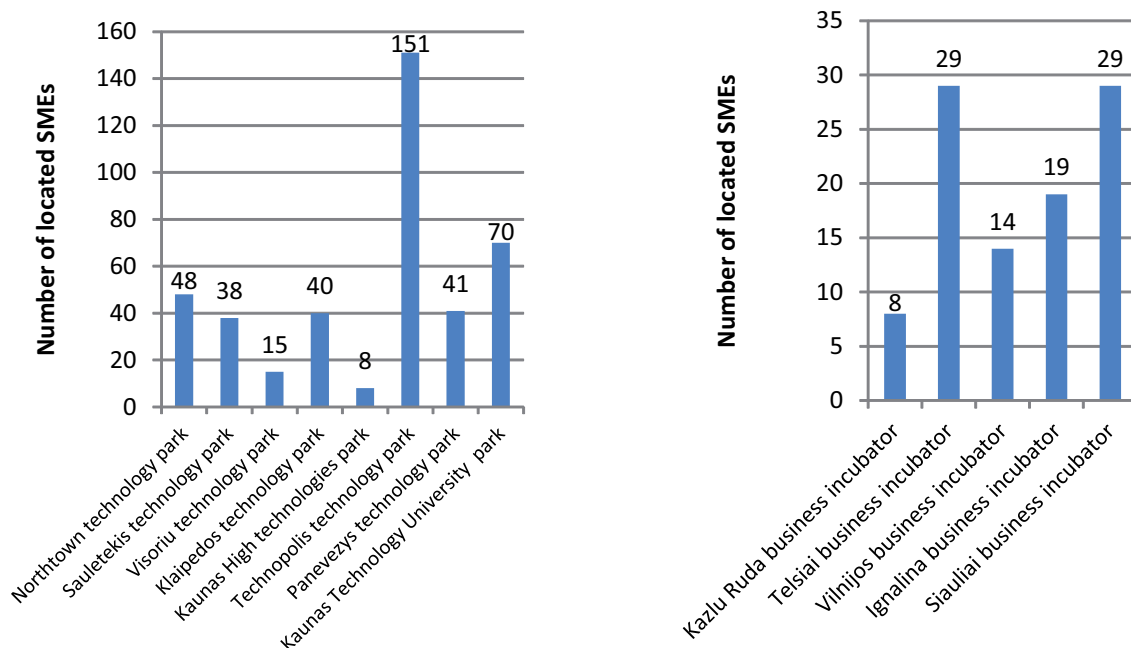
According to data provided by business incubators, science and technology parks/hubs and the Klaipeda free economic zone (operating as industrial park), in 2011 over 530 SMEs were located in business centres; 99 in business incubators;<sup>15</sup> 411 in science and technology parks/R&D hubs and 20 in the Klaipeda free economic zone (see Figure 15).

Taking into account the time limitation of being located in business centres these SMEs could be counted as relocated companies. This justifies the relevance of relocation to SMEs in the case of business centres where SMEs are acting in more favourable conditions or are receiving specialised assistance. The rotation of SMEs in business centres proves how important the role of public support is for strengthening SMEs.

<sup>14</sup> NEWSEC/Resolution, 2011.

<sup>15</sup> Some data about SMEs located in business incubators are not available (there are no records about the number of located companies).

Figure 15: Number of SMEs located in (science) technology parks and business incubators in 2011



Source: <http://www.inovacijos.lt/>, <http://www.krvi.lt>, <http://www.svi.lt>, <http://www.tavi.lt>, <http://www.vvi.lt>, <http://www.iaeregionas.lt>.

If SMEs are operating as subcontractors, any contractors’ decision to relocate into a cluster affects SMEs to a large extent. It is often the case that these subcontracting-related location decisions result in regional industry agglomerations or clusters in the production of specific intermediate processes or goods and are often located around a major client. The difference between relocation in clustering on a voluntary basis and a relocation based upon the decision of the buyer is that in the former case relocation is determined by objective reasons and is not mandatory (it allows the assessment of relocation costs and benefits in every case and the freedom to make a decision to relocate or not). In case of a buyer’s decision to relocate, SMEs have very little power to decide, especially in the case of Lithuanian SMEs, which tend to act more as subcontracted companies rather than subcontractors. This often causes unjustified SME relocation.



# Distinctive characteristics of restructuring in SMEs

The process of restructuring in Lithuania seems to have its specific features. Some social partners believe that the involvement of trade unions smoothes the processes of restructuring and possible dismissals, but size of company is usually not taken into account. In the case of SMEs, trade unions or work councils are set up in exceptional cases only. Significant dismissals (over 100 employees) are also not very relevant to SMEs, so the involvement and role of trade unions or similar organisations in SME restructuring could not be defined as essential. In restructuring cases without involving dismissals trade unions, works councils, labour exchanges or any other public organisation do not become involved.

Another characteristic feature is the fact that people get organised at the 'termination' stage, when there are not too many chances to remedy the situation. No anticipatory measures are taken up beforehand. Sometimes, the restructuring process is postponed by protests from workers (VABD Drobe, Kaunas) or by influential people, for example the chairperson of the Social Protection Committee (Limetal).

In some cases, companies tend to wait too long to start the restructuring process. The consequence of the delay leads to bankruptcy. At this stage change is no longer possible. Moreover, cooperation between social partners takes place only at the national level. There is hardly any cooperation at the enterprise level. Collective bargaining seems to be more complicated in the private sector than in the public one. It is very hard to obtain information about planned changes. Employee representatives do not know how to negotiate, especially in sectors such as retail (supermarkets). In the majority of cases companies that have gone bankrupt continue to function, sometimes as a company with different investors.

The most popular way of restructuring in Lithuanian SMEs is internal restructuring using cost cutting. This usually affects human resources – job cuts, decrease in salaries, organisational restructuring to removing layers of management, centralisation of management, replacing human resources with IT resources, redistribution of functions, etc.

Every reorganisation means informal restructuring, which requires additional organisational, human resources and sometimes technical, IT or other resources. Such actions do not create serious difficulties for large companies, but for SMEs these are essential because all kinds of resources as well as managerial capacities are more limited.

Taking into account restrictions related to formal and informal restructuring SMEs should assess all of the possible risks of restructuring. As mentioned before formal restructuring might involve the risk of going bankrupt, while informal restructuring requires a precise assessment of the available resources and the situation of the present and future market conditions. The higher risks for SMES in restructuring explain the conservative and reserved attitude towards it and especially towards business expansion. Despite the risks, restrictions and dismissals any business expansion that is vitally needed by SMEs should be planned and implemented very carefully. Companies that take too many risks may find themselves not in the market anymore.

## Anticipation, planning and preparation of restructuring events

The anticipation, planning and preparation of restructuring events differ very much depending on which procedures are used – formal (under Restructuring Law or Bankruptcy Law) or informal.



Formal restructuring (bankruptcy and partially internal restructuring, when the court<sup>16</sup> is involved) is regulated by law in a very detailed and precise way: there is a final list of conditions as well as formal procedures that should be started if the conditions are met. Formal restructuring always includes the involvement of the court and takes longer than one year (the average is two to four years; up to five years in the case of restructuring under Restructuring Law).

Informal restructuring (business expansion, outsourcing, offshoring/delocalisation, merger/acquisition, relocation and partially internal restructuring, when restructuring without the involvement of the court) takes more intellectual and managerial resources and efforts, requires responsible planning and preparation of detailed measures and plans.

The fastest informal restructurings are internal restructuring, if significant dismissals are not foreseen (usually this is organisational restructuring), there are no mergers/acquisitions and if the permission of Competition Council is not needed. The position is determined by some factors specific to these types of restructuring: a simple estimation of figures and data (needed to make a decision), simple procedures and preparation of documentation for restructuring, and an absence of serious restrictions in the Lithuanian legal regulations or the trade unions' involvement.

Other types of informal SME restructuring, like offshoring, outsourcing, relocation and business expansion, require detailed calculations, markets research, feasibility studies, search and checking of business partners, not to mention making efforts for closer partnership working, the investigation of the legal framework in the offshoring country, supply of resources, raw materials, clients, customers, introduction of formal procedures, adjusting to quality management systems, ensuring compliance with requirements in production, logistics or distribution, the introduction of proper control systems, certification etc. The extent of the planning depends on the SME, the restructuring scale, the nature, type (i.e., investigation of legal framework in offshoring country), product, accessibility and availability of relevant information etc. All possible risks should be assessed. These factors require much more time, efforts and planning and an opportunity to make flexible changes when the restructuring begins to be implemented.

### Managing restructuring

Managing restructuring also differs between formal (bankruptcy and partially internal restructuring) and informal restructuring (relocation, outsourcing, offshoring/delocation, merger/acquisition, business expansion and partially internal restructuring) procedures. In formal restructuring external administrators or bankruptcy administrators are appointed. In cases of informal restructuring the management of it lies exclusively on the company's shareholders or board and a manager just executes the decisions made by them..

The way bankruptcy is managed is based on the decision of the court when the bankruptcy is initiated. The bankruptcy could be initiated by shareholders, by the State Social Security Fund (Sodra) or the State Tax Inspectorate, by creditors, or by employees based on conditions set up in Bankruptcy Law. When the bankruptcy is initiated the court appoints an administrator who fully manages the bankruptcy process until all claims of creditors or other persons can be satisfied with the existing assets of company. The bankruptcy administrator organises the selling of existing assets and paying off creditors, fulfilling other liabilities according a legally defined order: employees, Sodra, financial creditors and lastly shareholders and other creditors or persons. Regular reporting to creditors and shareholders is also a duty of the bankruptcy administrator. The final step (the formal end of bankruptcy) is de-registering the company from the Register

---

<sup>16</sup> Terms, circumstances and case, when the court should be involved, are defined by the Restructuring Law. Only internal restructuring might proceed as a type of formal and informal restructuring.

of Legal Persons. The bankruptcy process could last from a few months to a few years. Managing actions and procedures are defined very clearly and in detail in Bankruptcy Law. The main challenge in managing bankruptcy is in selling existing assets at the highest prices, and sometimes in finding hidden or unaccounted for assets because the fee to the bankruptcy administrator depends on the amount reached for all assets sold.

In the case of (internal) restructuring under Restructuring Law the court approves the restructuring plan with very detailed measures (actions to be taken) a timetable and the appointment of an external administrator. After the decision of the Court is made the company obtains the status of a 'restructuring company' that can act as another company with some limitations. For example, without the permission of the restructuring administrator the company's manager can't take any actions related to the transfer or sale of a tangible asset, can't borrow money or to take any other action not in the restructuring plan. The restructuring administrator acts together with shareholders and the company's manager, the essential difference compared to a bankruptcy case. Usually, a five-year restructuring plan is approved. In some cases it might be shorter (up to two-three years). The restructuring administrator supervises the implementation of the approved restructuring measures and the daily management of the company. Purchasing of new materials, equipment, production or service provision, sales, marketing etc. is carried out by the company's manager. Among the duties of the restructuring administrator is the regular reporting to creditors and shareholders. After all debts are paid out to creditors and other liabilities fulfilled the company turns from having the status of restructuring company into a private company (the usual legal status) and can act as any other company without limitations. Sometimes during the implementation of restructuring plans corrections are needed. In such cases the restructuring administrator, with the permission of creditors and shareholders, can apply to the court for an amending decision concerning the restructuring plan.

Most of the formal internal restructuring cases finally lead to the survival and saving of the company, with the exception of cases when the trade unions are strongly involved; they usually result in bankruptcy. Such negative outcomes are related to the influence of trade unions on the restructuring management in that the necessary dismissals may not be able to be made on time and the company ends up not being able to carry out further activities due to lack of finance or can't take the actions needed and approved in restructuring plan. Trade unions' actions, their defence of some employees' rights backfire against all employees with job losses and the company going to bankruptcy. It is therefore very important to negotiate with trade unions at the beginning of restructuring to achieve agreements, but later to manage the company as was approved and foreseen in restructuring plan.

Informal restructuring in SMEs such as business expansion, relocation, outsourcing, offshoring/delocalisation, merger/acquisition or internal restructuring without involvement of the court might be realised during very short periods (a few months) or in the medium-term (one to three years), while in general the duration of the implementation of restructuring might last from a few months up to five or six years – this depends very much on the type of restructuring, objective, size of SME, its products or services and the sector. Once decisions on restructuring by shareholders are made, the implementation, control and management of the restructuring type depends on the company's manager, management team and shareholders.

In the case of a relocation, the company's manager together with the management team prepares detailed plans for carrying it out: search for proper facilities, the adaptation of facilities to the company's needs and technologies, transfer of existing equipment and technologies or purchasing and installation of new technologies, hiring and training employees or transfer of employees already employed in the company, the introduction of various management systems (quality, environmental, social) and certification, obtaining licenses, arrangement of logistics, IT systems, networking with headquarters; if its location differs, distribution or redistribution of management team, functions and responsibilities, amending or drafting of various guides, rules, statutes, signing of new contracts with suppliers, transport companies, distributors or clients, etc. Some technological processes may need to stop during relocation, then tested before restarting production or providing services in the relocated facilities. The break in production/services provision

should be planned very carefully (timing, human resources distribution, proper sequence of actions etc.) to avoid significant losses. The relocation processes is always a challenge for a manager and their team due to possible unexpected, unforeseen or uncontrolled issues and delays.

In offshoring/delocalisation, company managers take actions very similar to relocation, but a longer and more detail planning/preparation phase is included: investigation of the legal environment in the offshoring country, research, checking of new partners, suppliers and signing new contracts with them. In most of the cases of the management of offshoring processes advisory and legal services from the offshoring country are needed, especially at preparation stage. Additional control measures could also be introduced seeking to ensure the required quality, quantity and delivery time. Any specific legal regulations to offshoring/delocalisation are applied, including compliance with legal regulation concerning the establishment or activities of companies in the offshoring country.

Management of outsourcing differs depending on whether the SME is an outsourcing sender or receiver. If the SME is an outsourcing sender, the management is focused on researching possible outsourced companies, checking their reliability, capacity, quality, technologies, employees, logistic, legal requirements, costs etc.; negotiating, contracting, arrangement of networking, logistic, control measures, submission of relevant information, data, delivering of advisory services or training to outsourced companies, testing, amending or drafting relevant internal rules, guides or statutes, appointing people responsible for management and the control of production/services provided by outsourced companies.

If the SME is an outsourcing receiver (the most likely case in Lithuania), management is focused on outsourcing preparations, production/services provision and control. All of these stages are almost equally important, but the preparation stage determines the success of the next stages very much. To be outsourced a company has to have assessed its capacity properly. Many preparation actions should still be taken, such as adoption or installation of necessary technologies, hiring and/or training employees, the arrangement of networking, logistics, control measures, the introduction of various management systems (quality, environmental, IT security etc.), also amending or drafting new guides, rules, instructions, statutes, distribution of functions and responsibilities among top and medium-level management of company. Before starting to provide services, testing with the participation or supervision of the outsourcing company is needed. So management of outsourcing requires more efforts and responsibilities from the outsourced company (receiver) than management of outsourcing on the part of the outsourcing company (sender), while the risks are higher for the outsourcing company.

In case of merger/acquisition restructurings, at the first stage (negotiating and contracting) the main role is played by shareholders with the involvement of legal services. If the permission of Competition Council is needed the application is submitted. Contracting (procedures, steps, conditions, persons) in the case of merger/acquisition is regulated very specifically and strictly by companies law and competition law, so shareholders should just follow legislation. Once the contract for merger/acquisition is signed restructuring actions start: changes to the new company's board, new manager or management team, distribution or redistribution of functions, responsibilities, products/services, adjusting networks, IT systems, ordering and delivering, logistics, accounting, control measures, training, refining technologies etc. Merger/acquisition might be accompanied by employee dismissals, transfer to other positions or hiring of additional employees – sometimes all at the same time. This explains why this type of restructuring might have positive or negative total employment effects: if the number of dismissed employees exceeds the number of hired employees a negative employment effect will take place and vice versa. Some amendments in internal rules, procedures, guides and statutes could also be needed – these actions are usually done by a lead company team. There is no formal date for the end of merger/acquisition; the contract start date merely indicates the beginning of the restructuring actions.

Business expansion management does not require many special actions, except internationalisation: it is just the scale of usual activities that is extending for company managers and employees. Business expansion might require additional hiring and training, it also might require redistribution of employees, functions, responsibilities, it might require additional IT networking or additional licenses, the installation of additional technologies or equipment or adjustments to logistics. Internationalisation requires additional investigation of legal regulation, the research, checking and testing of new partners, suppliers and arrangements for additional logistics. Business expansion management is carried out by a company's manager and team as part of daily management.

Internal restructuring without involvement of the court is usually organisational change – changes in company structure, redistribution of functions, responsibilities. The amendment of internal rules, guides, instructions or similar could be also needed, sometimes new certification of management systems (quality, environmental etc.) as well. Internal restructuring might be accompanied by dismissals if some management chains are being removed (simplification of management and cost-cutting measures), functions or production of products/provision of services are being redistributed, or some employees transferring to other positions etc.

## Actors involved

Both formal and informal restructuring processes involve the same or very similar actors. They could be grouped according their role in restructuring, but relevance of these actors to SMEs differs as follows.

1. Restructuring initiating actors (relevant both to SMEs and large companies) – defined by the Restructuring Law or by the Bankruptcy law – are shareholders/board, authorities (State Tax Inspectorate, Sodra), employees (might be together with trade unions), creditors (banks, other lenders, suppliers, clients, etc.).
2. Restructuring managing actors (relevant both to SMEs and large companies) are restructuring external administrators (more relevant to SMEs, because restructuring process goes in close co-operation with shareholders, which are usually only one owner of company), or bankruptcy administrator (in case of formal restructuring) and shareholders/board, a company manager, and additionally in some cases – lawyers, advisors or consultants.
3. Actors affected by restructuring are employees, company partners, clients, suppliers, subcontractors or contracting companies, companies to be acquired/merged, municipalities (in terms of lost or increased incomes to municipality budget), labour exchange (early warning about forthcoming dismissals, needs for training or retraining).
4. Actors affecting the restructuring are the Competition Council (permissions to merge or acquire), municipalities (permission to build, planning, incentives, state land etc.), the State Tax Inspectorate, employees (strikes, longstanding negotiations), business support organisations or bodies (training, facilitation for business cooperation), Lithuanian commerce attachés (facilitation at search or check of business partners) and others.

In some types of informal restructuring (business expansion, relocation, offshoring/delocalisation, merger/acquisition, informal internal restructuring) the SME's board or shareholders are deeply involved, while the manager of the company plays the role of executor of decisions. In cases of offshoring, outsourcing and (partially) relocation other partners are involved, especially when franchising is part of the deal of when the company going to act far away difficult or unknown markets. In case of merger/acquisition and sometimes in cases of business expansion lawyers, advisors or consultants are involved in the processes' management. When business expansion goes international possible partners for cooperation are also involved in other countries – Lithuanian commerce attachés (if located in these countries) facilitate the research or check on partners and facilitate other business expansion activities.

# Main challenges and constraints facing SMEs in restructuring

As mentioned previously, the management of restructuring in Lithuania is closely related to a lack of managerial competence in general. The lack of quality in management is the business constraint that least bothers European SMEs: it has been a constraint for 11% at EU27 average. It is a concern relatively most prevalent in Turkey (37%),<sup>17</sup> Lithuania (31%) and Slovenia (24%) and least widespread in Bulgaria (4%), Germany (6%), Cyprus, Denmark and the Netherlands (all 7%) (Bernard Brunhes, Second Joint Project of European Social Partner Organisations. Lithuanian Dossier, 2009).

The lack of quality in management is discussed publicly at the EU27 level as a problem more often in the large-scale enterprise (LSE) segment: LSEs (16%) were more likely to report such concern than SMEs (11%) in 2009. This constraint is not very easy to fix either. In national public discussions of business people, authorities, business associations and other relevant bodies, the lack of managerial capacities in SMEs to elaborate a detailed plan, foresee its possible consequences and properly implement the restructuring once it decided is cited as one of main problems of all types of informal restructurings. This problem is common with SMEs in the EU, but it is specific in Lithuania, which, as a small country, has limited human resources for medium and top managers and even fewer managers that have experience in successful restructuring. The most competent and experienced managers are employed in large companies, only a small number manage SMEs. Another problem in the management of restructuring, especially in relocation and business expansion cases, is a lack of assistance from the authorities. There are long and difficult procedures in relating to planning and permissions for construction that means an additional burden when managing restructuring.

The launch of many restructurings is very often determined by the chosen cost-cutting strategy. While only about 45% of SMEs in Lithuania were using a cost-cutting strategy in 2009, reflections in the media indicate an expansion of such a strategy in face of the crisis during 2009-2010. Since 2011 cost cutting as a strategy for internal restructuring has been exhausted and there is little room for it in the future. It was an option available in the past but will be much less available in the future because internally restructured companies are now slimmer. (Observatory of European SMEs. Analytical report, 2010). This means types of restructuring other than internal restructuring will more likely.

Even though internal finance is the preferred form of finance among smaller firms, external finance is often required, for instance because internal resources are too limited to finance new investments. Bank lending is the largest source of external SME finance, and is used for financing investments, working capital and stock financing. As SMEs have fewer financing options than LSEs, small firms need external finance very much, so they are particularly vulnerable to the credit crunch and dependent on banks. These inequalities may lead banks to ask for higher interest rates from small firms, or even refuse a loan altogether. Banks may also refuse loans when security is inadequate. The latest Bank Lending Survey of January 2012 indicates the net tightening of credit standards by eurozone banks surged in the fourth quarter of 2011 for credit standards on loans to non-financial corporations. Even though Lithuania does not belong to the eurozone, the lending policy of banks operating in Lithuania doesn't differ from the policy applied in the eurozone very much.

Formal venture capital by institutional investors has – so far – been an option only for a very small minority of SMEs, particularly those with high growth potential and with a feasible exit route for investors. Even if SMEs have this profile, venture capital is an extremely scarce and expensive form of finance at the start-up stage of their life cycle. In addition, since 2009 the supply of venture capital funding has been declining. Another disadvantage of venture capital, specifically for Lithuania as for other small countries, is limited opportunities for national or regional stock exchanges in terms of trading SME shares on the market. SMEs usually have the legal form of a limited joint-stock company and shares of SME are not traded on the market.

---

<sup>17</sup> Data for Turkey is not incorporated into the EU27 average.



The report **Access to finance: differences remain despite wide range of responses, say SMEs** UEAPME (2009) can be summarised as follows. Banks are more risk averse, asking for higher margins, demanding more collateral and securities, notwithstanding lower demand for loans due to the recession. Many companies report a significant impact of financial difficulties on investment and employment. The lower rate of lending dramatically disrupted the flows of working capital to the small business economy. The Lithuanian economy is not excluded, and as small country with over 90% of SMEs it still suffers from the constraint in financing very much. Together with declining demand this constraint is the most limiting factor for business expansion, offshoring and relocation. This situation is very common with SMEs in other EU countries (**UEAPME reply to the Green Paper on ‘Restructuring and anticipation of change: what lessons from recent experience?’**, 2012).

In summary, cyclicity is a structural characteristic of SME finance. Ruis et al. (2009) find that economic cycles have a significant impact on bank lending to SMEs, in particular on medium-sized enterprises. Michaelas et al. (1999) find that during recessions the relative use of short-term debt (used to finance possible cash flow shortages) increases while the relative use of long-term debt (used to finance investments) slows down. These trends are relevant for SMEs in Lithuania now.

However, not all SMEs experience problems in getting access to finance. Since demand for the products and services of firms has decreased sharply during the crisis, many firms do not feel the need to invest, and hence do not apply for bank loans. Indeed, in the ECB Bank Lending Survey of October 2009,<sup>18</sup> about 50 % of the banks participating in the survey say that the demand for loans or credit lines to enterprises at their bank ‘remained basically unchanged’, compared to the previous quarter. This also holds for the second quarter of 2009 and applies equally to loans to SMEs and large enterprises. This finding is confirmed by responses of SMEs in the ECB Survey on the access to finance. About half of eurozone SMEs reported no major change in financing needs in both the first and the second half of 2009 and this is important news for the Lithuanian economy, which relies on EU markets for more than 50% of export sales.

Formal restructuring in Lithuania is heavily burdened with regulation by the Restructuring Law, which is in favour of dismissing employees. Despite regulation, formal restructuring plays a very important role in social issues, but, it may be argued, affects the survival of companies negatively due to the requirement to warn employees four months before dismissal. There are additional financial costs for mandatory dismissals’ allowances, which could directly lead to bankruptcy, especially if a company is already in financial difficulties. Such restrictions do not enable SMEs to become more flexible and adjust to rapid fluctuations in the economy or in the market of a particular product, limiting long-term planning. Hence Bankruptcy Law facilitates an exit of the company from the market. Liabilities against employees (together with Sodra, they are first in line for payments by bankrupted company; there must be at least four months warning period before dismissals, an announcement to the labour exchange, huge redundancy payments etc.) decrease the potential for success of a company at exit and the chances to start again in the future. An exit from the market via closure procedures is even longer than formal bankruptcy due to overregulation and almost impossible requirements to meet: the process of closing a company could last from two to seven years (**DEMB, 2011**) and there are companies still operating for ten years, but impossible to close (**Centre of Registers, 2011**).

An intervention of trade unions or influential persons in a formal restructuring usually worsens the situation: strikes or longstanding negotiations waste time and could lead to a state when it is too late to do anything effective for employees.

<sup>18</sup> The sample group of banks participating in the survey comprises 118 banks, representing all of the eurozone countries, and takes into account the characteristics of their respective national banking structures.

In summary, some constraints in the restructuring of SMEs in Lithuania are the same as with SMEs in EU, but there are some specific characteristics – dependency on (export) market, higher vulnerability to the economic cycle, overregulation in formal restructuring and in exiting from the market, the influence of trade unions, and more difficulties in internal and external financing.

# Business support from public and private sources

Some public support is set up in Lithuanian legislation on a mandatory basis and concerns formal restructuring mostly. However, public assistance in various forms is provided to informal restructuring of SMEs, too. In both formal and informal restructuring financial support in the form of allowances, public aid services, incentives etc. are available.

However, business support from private sources for restructuring is very limited. These sources are shareholder finances mostly (not for bankrupted firms: neither public nor private sources are permitted); bank lending (for very profitable and non-risky business expansion cases only and under limited conditions); private venture capital funding (in very rare cases) and funding from financial investors/funds (preferably for medium-sized enterprises with high profitability and low-risk).

Before and during restructuring (both formal and informal) SMEs can use the services of law firms and private consultancy/advisory companies that specialise in restructuring, business development and internationalisation. While external private finances usually are not available as support to SMEs under restructuring, shareholders in any case should allocate or find even limited resources for such services. Professional and proper advice and actions in time may save a company and facilitate a successful restructuring process. The relevance of such services is well recognised by large companies, which usually have their own lawyers, experts or managers, but SMEs usually do not.

Regarding restructuring employer organisations such as the Lithuanian business employers' confederation and the Lithuanian industrialists' confederation help their members to ensure fulfilment of the employer's obligations and their participation in the planning and implementation of mitigating measures through social dialogue (**27 National Seminars Anticipating and Managing Restructuring: National Background Paper Lithuania, European Commission, DG Employment, Social Affairs and Equal opportunities, Brussels, 2008**). Through regular contacts with its members the employer organisation might be aware of problems at certain enterprises that might lead to redundancies of groups of employees in the near future or it might be contacted directly by such enterprises.

Although the employers' organisations do not have any special obligations in group redundancy situations under Lithuanian law, they can help their member enterprises in many ways in the event of group redundancies, for example by helping employers fulfilling their obligations. The assistance the employers' organisations can provide to the employer for mitigating the process of redundancies of groups of employees can include presentation of the requests and qualifications of the employees to be dismissed, and exploration of possible job openings at other enterprises. The employers' organisations can gain from collaboration with or obtaining assistance from a number of other stakeholders, including the Lithuanian Labour Exchange and local labour exchanges.

## Public support available

Among the various practices within the restructuring process the following public supports can be enumerated:

- Early retirement scheme: maximum two years before retirement due date.
- Leave entitlement as stipulated in the labour code: the seniority principle applies (an entitlement of 200 litas (about €60) paid during six months – Telekomas).
- Retraining programmes (within the framework of EQUAL training and retraining took place for the dismissed workers from the Ignalina nuclear plant).



- The Guarantee Fund: unemployment benefits guaranteed only in the case of collective dismissals, usually for three months (sometimes even up to eight months); the sum stipulated in the labour law is paid to the laid off worker (the seniority principle applies); 0.2% of the salary of each employee goes into this fund, the Tripartite Council decides on a case by case basis how much money should be paid to the employee in each restructuring case; the entitlement paid from the Guarantee Fund is paid only for the workers of a bankrupt company.
- Official counselling and/or assistance in the job search labour exchange, this service can be organised in the enterprise (Telekomas).
- The Labour Code specifies that the employer who fires 30 or more people is obliged to inform the labour exchange about planned dismissals.
- Financing of retraining in the public sector by the state (education sector).
- Providing a generous 'leave package', financed by the state with the EU support (Ignalina).
- Distributing company shares among employees (Utenos Alus Svyturys).
- Providing the unemployed with an unemployment allowance.

Other forms of public support refer to assistance with finance, but only for some types of restructuring such as business expansion, offshoring, outsourcing or relocation. Any public assistance, including financing, is forbidden by law for companies in difficulties and under formal restructuring, closure or bankruptcy procedures.

For business expansion and to some extent for relocation, micro credits, loans with incentive interests or with interest rebates, loan guarantees, aid for investment, training, internationalisation, market research, training, R&D activities or clustering activities are available. Publically supported venture capital, business angels initiatives are supported from national and EU structural funds, some incentives for renting municipalities' land are also available. SMEs undergoing expansion may also use public agencies providing advisory, consultancy, internationalisation, market research, technology transfer, facilitation of cooperation, search for partners and other public business services.

A specific source of external finance, in particular for micro firms, is formed by micro-credits. On 2 July 2009 the European Commission proposed to set up a new micro-finance facility providing micro credit to small and micro businesses and to people who have lost their jobs and want to start their own businesses. The initial budget is €100 million. EU micro credits are loans under €25,000, tailored to micro-enterprises employing fewer than 10 people, and unemployed or inactive people who want to get involved in self-employment but do not have access to traditional banking services. Lithuania also is using micro credits from national funds and EU structural funds (*Annual report. Small and medium-sized enterprises*. EC, 2009). However, participation of Lithuanian SMEs in this micro-finance facility was slack due to weak awareness, language barriers, difficult procedures and the facility's preferences for start-ups rather than business expansion.

In the case of offshoring, SMEs are able to use an allowance from EU funds to pay for dismissed employees if the offshoring was caused by globalisation, and can rely on the assistance of Lithuanian government commerce attachés to search for partners for cooperating with.

To some extent at business expansion or relocation SMEs could use the public assistance for clustering activities when looking for outsourcing opportunities. The maintenance of relations among cluster companies, R&D bodies and institutions and common activities are supported.

## Demand for public support from firms

According to business associations data (Lithuanian industrialists' confederation; Lithuanian business employers' confederation; some sectoral associations) all public support for restructuring of SMEs is welcome. Demand for public support differs and depends on the type of restructuring, but in general reflects common trends in the demand of public support (**UEAPME reply to the Green Paper on 'Restructuring and anticipation of change: what lessons from recent experience?'**, 2012).

In the case of mergers and acquisitions the procedures are clear and relatively fast (up to six or seven months) compared to other procedures in restructuring (two to seven years). The Competition Council is involved in justified cases only, when permission to merge or acquire is needed. At business centres, providing public business services to SMEs, a company which is going to merge or acquire could get assistance in the form of legal advisory service. Such services are still demanded, because of the cheaper costs. On the other hand, the necessity to keep a planned merger/acquisition confidential during the whole restructuring process restrains many SMEs from applying to business centres (a private lawyer is still considered as a more trustful person).

More public support in aid form for investment, training and R&D is needed by companies regarding business expansion, relocation and to some extent for outsourcing. Public support for such purposes is provided in various financing forms, which do not fit the Lithuanian context well, because lending is concentrated in three foreign banks, which often abuse their dominant position and apply unfavourable policies for lending to SMEs (**Bank of Lithuania, 2012**). Subsidies for tangible investment and for R&D activities would be more welcome, however state support policy is not fully in compliance with SMEs needs.

Public services (advisory, internationalisation, clustering, etc.) provided by public agencies are used by SMEs and demanded in all types of informal restructurings processes, but the quality of such services is not satisfactory, often not meeting the high standards of SMEs.

SMEs undergoing informal restructuring such as a relocation or a business expansion need not only financial support but also the assistance of municipalities in granting construction permits, training, start-ups or preparing infrastructure for SMEs.

The most demanded public support concerns decreasing overregulation both in formal and informal restructuring (European Commission, DG Employment, Social Affairs and Equal opportunities. **27 National Seminars Anticipating and Managing Restructuring: National Background Paper Lithuania**, 2008). While the bankruptcy process now goes more smoothly, the formal restructuring process is still full of many duties and requirements and is very difficult to meet (**The Government disrupts the restructuring in companies**, at internet portal <http://www.nebankrutuok.lt>, 2012, **1st Lithuania's Conference on companies' restructuring**, 2010). Closures of companies remains the most overregulated restructuring type with the most significant financial costs and managerial resources needed (**Lithuanian Free Market Institute, Comparative analysis**, 2012). Demand to abolish the overregulation is urgent for restructuring SMEs coming out of economic crisis (**'Factors impeding the restructuring of companies'**. National Association of Business Administrators, 2004).

At the restructuring of SMEs, a simplification of the dismissals procedures is demanded from the **business** side (**Lithuanian Free Market Institute**, 2011, **Conference 'The good business practise due to insolvency problems'**, 2010). Some partial dismissals could save a company, give time for restructuring and may lead to future growth with employment for more persons than dismissed.

# Outcome of the restructuring events

Restructuring of SMEs irrespective of the form, type, duration or other factors in general has positive impacts and outcomes: SMEs adjust to new conditions, optimise the exploitation of resources, enter or leave markets, adjust to demands in products or services, increase competitiveness due to the various strategies of restructuring (cost cutting, business expansion, merger/acquisition, introduction of new product or removal of existing ones, entering or withdrawal from the market, internationalisation, relocation, clustering etc.). Even bankruptcy could be treated as positive outcome. A termination of economically unreliable activities – an exit from the market and from financial difficulties avoids the waste of economic and other resources (human and capital resources, time, raw material, energy etc.) and offers the possibility of a second chance.

Relocation of SMEs into business centres creates new opportunities for cooperation with other SMEs, R&D institutions, large companies and other organisations. Special business or public services, provided in business centres, are oriented or allotted exclusively for SMEs and focused on their special needs. The structure or package of services to SMEs usually is designed in ways that complement each other.

Every restructuring might also be accompanied by some negative outcomes, irrespective of whether it is formal or informal restructuring. The most visible social and economic outcome is dismissal, which increases unemployment, negatively affects the state's, municipalities' and Sodra's budgets by losing incomes and increasing the spending for benefits. Closures of branches or factories in some locations impose long-term unemployment and emigration, because in crisis conditions the creation or location of new businesses slows down. Closures of branches in small towns create a limited labour force, especially when highly qualified people leave the area, decreasing the possibilities of recreating or setting up new businesses after the recession.

In internal restructuring of SMEs in Lithuania popular cost-cutting means might have contrasting consequences:

- on the one hand, a decrease in the quality of products or services provided by the SME, losses due to the low qualifications of personnel, drop in the motivation of the labour force;
- on the other hand, cost cutting can mean taking out non-profitable or less advanced/less future-oriented products, clients, markets and management levels, which allows an increase in efficiency or productivity, the streamlining of core activities, the achievement of high profitability even with lower sales, or the ability to save the most valuable part of company, including the best employees. It also allows for possible development and rapid adjustment to new conditions in the market at growth stage.

Restructuring via merger/acquisition in such a small domestic markets as Lithuania has contrasting effects.

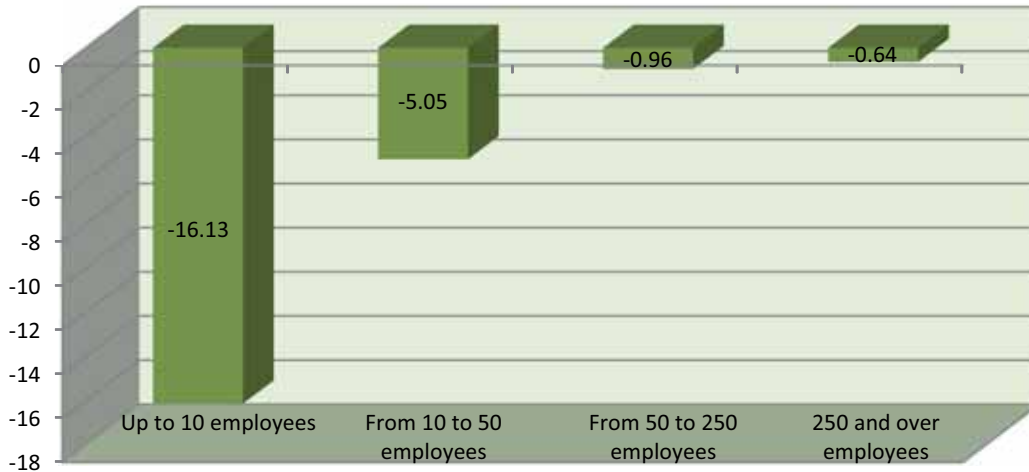
- Positive – SMEs become stronger and can act even in shrinking markets. Specialisation, diversification and better management is possible.
- Negative – expansion by taking larger parts of the market decreases competition and creates domination, oligopolies or monopolies across the country or region that could result in losses for customers, clients and suppliers, or higher prices and lower quality of products.

## Organisational effects

Less visible, but not less important are organisational outcomes from restructuring – they are not directly reflected in any official statistics or records, but are expressed in SMEs' sales, profit and other financial indicators. The main factor affecting the profitability and sales of SMEs in 2009 was the recession, however organisational effects from restructuring could not be excluded. The average net profit (net loss) was –3.97% in 2009 (LStatistics, 2011); the higher net losses

were incurred by micro enterprises and an obvious correlation between size of company and percentage of losses is detected (see Figure 16).

Figure 16: *Net profit (net losses) of Lithuanian companies in 2009, %*



Source: *LStatistics, 2011*

Other types of restructuring are always accompanied by changes in management – new organisational structures, an optimised distribution of functions, sometimes more centralisation. Hence these outcomes are not recorded officially, but SMEs under restructuring are willing to make announcements in the media about changes in management, especially about changes in organisational structure and persons, because this is a good chance to sustain a positive image of a vital or growing company.

A new organisational structure usually involves fewer intermediary chains in managements; similar functions are delegated to a lower number of employees or managers, the same unit starts to carry out activities of more branches or acquired companies, fewer IT personnel maintain the IT infrastructure, etc.

Organisational restructuring covers not only reorganisation in human resources, but in products, services and the management of suppliers, clients or subcontractors. Such organisational effects are directly related to a cost reduction strategy and not complicated legal regulation. On the other hand, once organisational restructuring is made there is not a lot of space for future cost-cutting actions – a critical level of management and employees should be maintained for the SME's operations. This means that organisational restructuring is good for short-term solutions, but is not very appropriate for the long-term. Flexibility in quick restructuring is very relevant to SMEs for adjusting to a changing environment, but other restructuring strategies should be combined too.

## Employment effects

A bankruptcy type of restructuring of SMEs is characterised by the largest negative direct employment effect – all employees are dismissed and only some return to the labour market fast and successfully. This type of restructuring of SMEs is also the most costly to society. It requires additional training, unemployment relief, search for new jobs or start-ups of small business etc.

Formal restructuring (under a decision of the court) also might involve dismissals, but in less scale as in bankruptcy cases: only some employees are dismissed, some medium or higher level management is simplified/removed, employees from closed technology lines, production of low demand or unprofitable products etc. are dismissed or relocated to other production units. For example, in December of 2011 according to **Lithuanian Labour Exchange** 2005 data 231 employees were warned about forthcoming dismissal due bankruptcy. During formal restructuring and internal restructuring training is used very widely and this creates job opportunities for re-trained persons with new competences and skills in the same company (Lithuanian Labour Exchange, 2011).

In the statistics the most visible and significant effects of the restructuring of SMEs are unemployment, while job creation is less apparent.

There were over 213,400 registered unemployed on 1 October 2011, 10.3% of the total labour force in the country. Compared to the same period of 2010, the number had decreased by 96,000 (about 1/3).

The percentage of unemployed among the total labour force has decreased by 4%. On 1 October of 2011 over 107,700 unemployed women were registered and they constitute 10.4% of total employable women compared to 13% in 2010.

These figures show a little higher (by 0.2%) unemployment among women compared to men (105,900 or 10.2% of total employable men). Unemployment of men has dropped in 2011 by 5.3% compared to 2010. The youth unemployment was much higher – 14.5% (or 31,000) in 2011; 15.3% (or 47,500) in 2010. This is very high, because 16–24 years-olds constitute less than 7% of the total employable population.

Job supply slowly increased in January-September of 2011; at the end of this period over 138,700 vacant jobs were registered compared to 112,900 in the same period of 2010. Time-limited jobs growth was slower than open-ended jobs. This indicates a fragile recovery in 2011 and, possibly, the positive consequences of restructurings. But the impact of restructuring is very difficult to distinguish from other factors; emigration decreases unemployment figures (34,700 residents emigrated in 2009 and 83,200 in 2010). The increase in the number of self-employed persons indicates an activation of SMEs due to activation of previous dismissed persons in the labour market: 44,900 of previously unemployed people have started a business as self-employed – twice more compared to the same period of 2010 (23,900) (Labour Exchange, 2011).

In November 2011, the Lithuanian Labour Exchange received three new warning announcements about forthcoming collective dismissals; 103 employees were ‘early warned’ and compared to the same period in 2010 the number of warning announcements about forthcoming collective dismissals decreased by 2.7 times. The number of ‘really warned’ employees decreased 3.8 times (eight announcements were received in November 2010 and 390 employees were ‘really warned’). The announcements about dismissals came from the furniture sector (among them 66 employees due to bankruptcy), logistics (among them 19 employees due to organisational restructuring) and the health/care service sector (among them 18 employees due to organisational restructuring).

During January-November 2011 there were 61 announcements about dismissals of 2,700 employees compared to 98 announcements about dismissals of 5,700 employees during the same period in 2010 and the number of early warned employees decreased by 2.1 times.

Seeking to mitigate the social consequences from collective dismissals and to provide assistance to dismissed persons for faster return into the labour market, representatives of the labour exchange have organised special meetings with employers planning to make dismissals and their employees. The provided relevant information about Labour Exchange’s services, other opportunities for training or retraining, about employment, start-ups programmes or initiatives.

Despite depressing unemployment data it should be stressed that the figures reflect formal restructuring only. More positive effects on jobs created and on other types of restructuring are 'hidden' in the usual business expansions, internal restructurings, merger/acquisitions, relocations, etc. While the unemployment level decreased in 2011, the total employment level is trending downward. The employment level in 2008 (the peak of economic growth) was 64.3%, in 2009, 60.1% and 57.9% in 2010 (LStatistics, 2011). The level of entrepreneurship (number of enterprises per 1,000 residents) was about the same (20 enterprises/1,000 residents in 2008; 19 in 2009 and 21 in 2010) and the level of self-employment was decreasing – 36 self-employed persons/1,000 residents in 2008, 37 in 2009 and 24 in 2010. Calculations of net jobs created (cut) also shows a negative perspective: 6,666 vacant jobs in 2010 compared to 5,833 in 2009 (833 jobs created in 2010), however 1,091,965 of occupied job places in 2010 compared to 1,164,052 occupied jobs indicates that there were 72,087 jobs cut during 2010 and a total 71,254 net job cut in 2010.

In summary, the restructuring of SMEs usually has more negative effects on employment, which cannot not be compensated by slow job creation, but it does save jobs in the restructured companies.

# Conclusions and policy issues

The role of SMEs in the Lithuanian economy is very important: their number exceeds 99% of the total number of enterprises. Restructuring for SMEs in Lithuania is one of the instruments for adjustment to permanent changes in the global economy and the business environment. It is also a response to changes in demand for products or services, pressures of competition, enabling SMEs to overcome the restraints of the small and open domestic/local market.

Perception of restructuring in Lithuania should be extended and cover not only so called formal restructuring under bankruptcy law or restructuring law, but also informal restructuring such as internal restructuring, relocation, offshoring, outsourcing, merger/acquisition and business expansion. Official statistics or records about formal restructuring and about some cases of merger/acquisition could not be found. Other data are fragmented, not systematic and mostly presented in the media. No detailed research or surveys about the specifics, anticipation, planning or management of restructuring of SMEs in Lithuania were found.

Drivers of restructuring are very similar to other EU countries (demand for products, opportunities for external financing, dependence on economic development cycle/phase etc.), but have some Lithuanian specifics – lack of managerial capacities, different regulation of formal and informal restructuring, a small domestic market that requires a maximum of flexibility, very difficult and overregulated procedures at exit from the market that impose a quite conservative attitude to business expansion, relocation or outsourcing.

The relevance of different types of restructuring varies: most relevant are internal restructuring, bankruptcy, merger/acquisition and business expansion, while offshoring and to some extent outsourcing are almost irrelevant. Relocation depends on the economic development phase, and in recession relocation is postponed or slowed down.

The main restructuring effects are contradictory: the positive effect is an increase of SMEs' viability; the negative an increase of unemployment.

The future challenges for restructuring of SMEs in Lithuania concern abolishing overregulation in restructuring, strengthening managerial capacities and more tangible benefits from public support policies like business development-targeting incentives, aid for investments, training or R&D, and higher quality public services as well.



# Bibliography

*European monitoring centre on change, latest*, Retrieved November 3, 2011, from [European Monitoring Centre on Change](#)

*Verslo žinios.lt, Pramonės išsikraustymo iš Vilniaus planams laikas vis dar nepalankus*, Retrieved November 3, 2011, from <http://vz.lt/Default.aspx?PublicationId=d1f3e1f4-13d9-43a1-acc8-13dcfa794bec>

*Verslo žinios.lt, „Klaipėdos laivų remontui“ metas iškraustyti gamybą*, Retrieved November 3, 2011, from <http://archyvas.vz.lt/news.php?id=23628926&strid=1002&rs=0&ss=c38e31ffcb9e935da305b59c73d2026a&y=2011%2010%2011>

*Delfi.lt, Persikraustymas – Chaosas ar naujas iššūkis?*, Retrieved November 3, 2011, from <http://gyvenimas.delfi.lt/career/article.php?id=12609659>

*Verslo žinios.lt, Nuomininkų kaita*, Retrieved November 3, 2011, from <http://archyvas.vz.lt/news.php?strid=1002&id=1869983>

*15min.lt, Prekybos centrai kratosi silpnų nuomininkų*, Retrieved November 3, 2011, from <http://www.15min.lt/naujiena/pinigai/lietuvos-naujienos/prekybos-centrai-kratosi-silpnu-nuomininku-194-161796>

*ntGuru.lt, “Newsec/Re&Solution” Lietuvoje perėmė 0.5 mlrd. LT vertės turto valdymą*, Retrieved November 3, 2011, from <http://www.ntguru.lt/naujienos/naujienos/mano-biuras/newsec-re-and-solution-lietuvoje-per-m-0-5-mlrd-lt-vert-s-turto-valdym/>

*ntGuru.lt, Kas šį kartą laimės dvikovą Vilniuje: Gedimino prospektas ar prekybos centrai?*, Retrieved November 3, 2011, from <http://www.ntguru.lt/naujienos/naujienos/komercinis-nt/kod-l-prekybinio-nt-kain-dvikovoje-pralaimi-istorin-s-sostin-s-prekybos-vietos/>

*Transporent.lt, Automobilių parko valdymas*, Retrieved November 3, 2011, from <http://www.transporent.lv/lt/services/management/>

*Budsava.lt, Bendruosius statybos darbai, inžinerinės sistemos*, Retrieved November 3, 2011, from <http://www.budsava.lt/autsorsingas-irenginiu-technines-prieziuros-paslaugu-privalumai/>

*IT Sprendimai, Online outsorsingas, lankstumo ir pigios darbo jėgos*, Retrieved November 3, 2011, from <http://www.cerebrum.lt/online-autsorsingas-lankstumo-ir-pigios-darbo-jegos/>

*Verslo Žinios.lt, „Kelprojektas“ eina į Latviją*, Retrieved from November 5, 2011, from <http://vz.lt/Default.aspx?PublicationId=fd8507dc-d591-4b6c-afbb-c70f0d031bb6>

*Verslo Žinios.lt, Trelleborg gamybą kelia į Ukmergę*, Retrieved November 5, 2011, from <http://vz.lt/Default.aspx?PublicationId=cbaee290-40c9-45d8-bcde-e3748368e03d>

*Verslo Žinios.lt, “Slenkančios sistemos“ nuslinko į bankrotą*, Retrieved November 5, 2011, from <http://vz.lt/Default.aspx?PublicationId=9fb46b70-53aa-42af-aea-dc7021451107>

*Verslo Žinios.lt, Antano Guogos "TP Engineering" veiks dešimtyje šalių*, Retrieved November 5, 2011, from <http://vz.lt/Default.aspx?PublicationId=d3895190-3eed-4f25-a6e0-612e67418b32>

*Verslo Žinios.lt, UAB „GRIFS AG“ vykdo plėtrą šiaurės vakarų regione*, Retrieved November 5, 2011, from <http://vz.lt/Default.aspx?PublicationId=bb6ee425-1eb3-4c4f-9123-bd04f87bd033>

*15min.lt, Daugiau Lietuvos įmonių linkusios įsigyti nei parduoti verslą*, Retrieved November 5, 2011, from <http://www.15min.lt/naujiena/pinigai/lietuvos-naujienos/daugiau-lietuvos-imoniu-linke-isigyti-nei-parduoti-versla-194-176672>

*VtV.lt, Evli: Baltijos šalių įmonių įsigijimų ir susijungimų rinka aktyvėja*, Retrieved November 5, 2011, from <http://www.vtv.lt/naujienos/ekonomika/evli-baltijos-saliu-imoniu-isigijimu-ir-susijungimu-rinka-akty-3.html>

*15min.lt, Verslo susijungimas – ne tik plėtra*, Retrieved November 5, 2011, from <http://www.15min.lt/naujiena/pinigai/lietuvos-naujienos/verslo-susijungimas-ne-tik-pletra-194-48527>

*CV.lt, Naujai įmonių grupei vadovaus Gulbinovičius*, Retrieved November, 2011, from <http://manokarjera.cv.lt/Default4.aspx?ArticleID=ab5914aa-7fe5-4e84-85d9-20ac0ffdb157>

*Verslo Žinios.lt, Naujas darbo vietas drąsiau kuria smulkusis verslas*, Retrieved November 5, 2011, from <http://vz.lt/Default.aspx?PublicationId=dc26f87c-fb88-4c18-8f9b-4d79c6c7a2fb>

*Verslo Žinios.lt, Norėtusi plėstis, bet stabdo patalpų stygius*, Retrieved November 5, 2011, from <http://archyvas.vz.lt/news.php?id=21705197&strid=1002&rs=160&ss=1a874d3e621bb9ea3bb34bb6b6aa985b&y=2011%2008%2022>

*Ekonomika ir vadyba, National economy and international trade*, Retrieved November 5, 2011, from **Ekonomika ir vadyba (2010, No.15)**

*Lithuania's Shared Services and Outsourcing Market*. Invest Lithuania, Retrieved April 23, 2012

*Zukauskas.V. "Feniksai" ir tyčinis bankrotas*. Lithuanian Free Market Institute, Vilnius, Retrieved April 23, 2012, from [http://www.lrinka.lt/index.php/meniu/ziniasklaidai/straipsniai\\_ir\\_komentarai/feniksai\\_ir\\_tycinis\\_bankrotas/5615](http://www.lrinka.lt/index.php/meniu/ziniasklaidai/straipsniai_ir_komentarai/feniksai_ir_tycinis_bankrotas/5615)

*Alfa.lt, Feniksai ir tyčinis bankrotas*, Retrieved April 23, 2012, from [http://www.alfa.lt/straipsnis/10317894/?Feniksai.ir.tycinis.bankrotas=2010-02-26\\_09-47](http://www.alfa.lt/straipsnis/10317894/?Feniksai.ir.tycinis.bankrotas=2010-02-26_09-47)

*Investicijos.net. Specifics of national bankruptcies in Lithuania – "phoenixes"*, Retrieved April 23, 2012 from

*Teisingumas.lt, Daugėja su vadinamuoju "fenikso sindromu" siejamų bylų*, Retrieved April 23, 2012, from <http://www.teisingumas.lt/naujienos/straipsniai-interviu/daugeja-su-vadinamuoju-201efenikso-sindromu201c-siejamu-byly>

*Access to finance: differences remain despite wide range of responses, say SMEs*, UAPME, Brussels, 2009, [http://www.ueapme.com/IMG/pdf/090121\\_pr\\_SME\\_finance\\_roundtable.pdf](http://www.ueapme.com/IMG/pdf/090121_pr_SME_finance_roundtable.pdf)

UEAPME reply to the Green Paper on “Restructuring and anticipation of change: what lessons from recent experience?”, UAPME, Brussels, 2012,

[http://www.ueapme.com/IMG/pdf/UEAPME\\_reply\\_Green\\_Paper\\_anticipation\\_of\\_change\\_230312.pdf](http://www.ueapme.com/IMG/pdf/UEAPME_reply_Green_Paper_anticipation_of_change_230312.pdf)

27 National Seminars Anticipating and Managing Restructuring: National Background Paper Lithuania, European Commission, Brussels, 2008, <http://ec.europa.eu/social/main.jsp?catId=819&langId=en>

European SMEs under pressure. Annual Report on EU Small and Medium-sized enterprises 2009, European Commission, Brussels, 2009, [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/pdf/dgentr\\_annual\\_report2010\\_100511.pdf](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/pdf/dgentr_annual_report2010_100511.pdf)

*Nebankrutuok.lt, Pirmoji Lietuvoje konferencija apie įmonių restruktūrizavimą parodė temos svarbą*, Retrieved April 23, 2012, from

<http://nebankrutuok.lt/lt/naujienos/item/29-pirmoji-lietuvoje-konferencija-apie-imoniu-restrukturizavima-parode-temos-svarba.html>

*Lrinka.lt, Darbo kodeksą gražinti į realybę*, Lithuanian Free Market Institute, Retrieved April 23, 2012, from

[http://www.lrinka.lt/index.php/meniu/ziniasklaidai/straipsniai\\_ir\\_komentarai/darbo\\_kodeksa\\_grazinti\\_i\\_realybe/6570](http://www.lrinka.lt/index.php/meniu/ziniasklaidai/straipsniai_ir_komentarai/darbo_kodeksa_grazinti_i_realybe/6570)

*Veiksniai trukdantys vykdyti įmonių restruktūrizavimą*. National Association of Business Administrators, Vilnius, 2004, <http://www.bankrotodep.lt/Studijos.php>

Lietuvos laisvosios rinkos ataskymas į Lietuvos Respublikos Vyriausybės konsultaciją “Kokiomis priemonėmis toliau mažinti nedarbą ir skatinti naujų darbo vietų kūrimą?”, Lithuanian Free Market Institute, 2011, Retrieved April 23, 2012, from [http://files.lrinka.lt/analitiniai%20darbai/LLRI\\_ats%20LRV%20konsultacija\\_Kokiomis%20priemonemis%20mazinti%20nedarba\\_20110429.pdf](http://files.lrinka.lt/analitiniai%20darbai/LLRI_ats%20LRV%20konsultacija_Kokiomis%20priemonemis%20mazinti%20nedarba_20110429.pdf)

Gera verslo praktika sprendžiant nemokumo problemas, Conference, Lithuanian Free Market Institute, 2010, Retrieved April 23, 2012, from [http://www.lrinka.lt/index.php?act=main&item\\_id=5705](http://www.lrinka.lt/index.php?act=main&item_id=5705)

**Danguolė Saldžiūnienė** and **Edmundas Piesarskas**, UAB ‘Ekonominės konsultacijos ir tyrimai’, Vilnius, Lithuania