

INSOLVENCY IN BULGARIA INTERNALIZATION OF GENERATIONS AT WORK

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Abstract. *Based on results from empirical research into generations at work in Bulgaria - pre- and post-war generation (born 1925 – 1944), the generation of the transition period from patriarchal order to modernity (born 1945 – 1964), the growth generation (born 1965 – 1980) and the digital generation (born 1981 – 2000) - carried out during 2008 – 2010, in 2011 and 2015, we uphold the thesis that the low degree of institutionalization of insolvency predetermines the externalization of its rules, principles and values – passively justified and substantiated as necessary and useful. It has been proven that there is need for internalization of insolvency – accepting it as compulsory institution in society to regulate the conflict of interests between debtors and creditors, establishing sustainable social order. Recommendations have been made with regard to social practice – the change process should be conducted through enlarging the research area, increasing the number of publications, making education more comprehensive, creating an acceptable media image of insolvency as a social necessity and as a regulator of the economic life in the Bulgarian society.*

Keywords: *insolvency, financial failure, bankruptcy, generation, generation in employment*

My nearly two-decade-long research experience in the area of insolvency⁴ has provided enough proof for its objective sustainability in different times and societies and its irrational (emotional) perception as a stigma, mostly in European societies, including the Bulgarian one. Welcomed or not, insolvency is a fact. [1, 3, 6] According to research carried out by Eurostat (1994 – 2006) on average 50% of the newly-established enterprises in EU-25 fail to survive in the first five years of their existence and 7% of the established companies declare insolvency every year. [8] Corporate failures in the EU-17 countries increased by 68% between 2007 – 2013. [9, 10] According to research carried out by Coface the annual average increase in the number of insolvent companies is by 5% in Central and Eastern Europe (CEE). Among the 13 countries subject of our study carried out in 2013 Bulgaria reported the highest increase in the number of companies that declared insolvency – 38.9% relative to 2012, followed by Czech Republic – 32.4% and Slovakia – 12.2%. Hungary reported a marked decline in bankruptcies – 40.9%. [2] In 2014, data provided again by Coface showed that the insolvent companies in the countries in CEE dropped by 0.5% on average relative to 2013. There was an increase in insolvencies in the Czech Republic, Ukraine and the Baltic states.

In Bulgaria, according to empirical research carried out by the author, the total number of insolvencies in the period of transition from centralized to market economy (1989 – 2000) was 765, which is 70 companies per year on average. By comparison, only in 2013 there were 834 insolvencies, which is 10 times more. [3] This trend demonstrates that there is need for in-depth study of insolvency as a social process and as an institution aiming to increase the degree of its institutionalization and internalization from various social groups in our society. The argument I uphold is: generations at work⁵ - pre- and post-war period, the generation of the transition from patriarchal order to modernity,

⁴ In the Bulgarian social and legal practice the notion **insolvency** is a synonym for bankruptcy, competition, crisis, whereas the term bankruptcy is used for criminal insolvency. It is an institution which defines models of behavior in society which provide for a special social order (legislatively determined) for fair resolution of conflict of interest between companies-debtors and their creditors. It has four main functions: recovering (helps the debtor to overcome his financial difficulties and to continue to function); satisfactory (provides equal satisfaction for the creditors in terms of repayment); penalizing (requires removal of the companies-debtor from the Commercial register) and preventive (issues a warning that companies will be declared insolvent if they default on their payments or become overindebted).

⁵ The classification of **generations at work** has been developed by the author of this article. It is based on results from empirical research carried out between 2008-2010 through implementing the methods of specific cases and the principle of accessibility to the units and principles of the respondents. This classification presents a

the generation of growth and the digital generation rather externalize than internalize the functional opportunities of insolvency due to the low degree of its institutionalization in Bulgaria after 1989. [5]

Generations at work – about insolvency

The argument outlining the externalization of insolvency by the representatives of the generations at work is confirmed by the results of the empirical research, carried out by the author in the period between 2008 – 2010 [5], 2011 [4] and 2015. In the 2015 research the representatives of these generations were asked the following questions: 1. What is the meaning of “insolvency”, “financial failure” and “bankruptcy”?; 2. Are you familiar with the functional opportunities of insolvency?; 3. What would you do if your business became insolvent?

Pre- and post-war generation (1925-1944) is the oldest one still active mostly in private businesses. During their life and professional career they have experienced two significant transitions – from capitalism to socialism (after 1944) and from socialism to capitalism (after 1989). The generation representatives participated in the process of establishing socialism as social order and worked in state and municipal enterprises and cooperatives, thus not being aware of insolvency. Some of them associated insolvency with small and medium sized enterprises which prior to 1944 were recognized as crafts. When asked: “Are you familiar with the functional opportunities of insolvency?” they replied: “No, I am not familiar. I hope I never experience it. I will be really ashamed...”. After 1989 the representatives of this generation experienced a difficult mass reorganization and restructuring of the state and municipal enterprises and their fast privatization, liquidation, isolation, financial recovery, insolvency and the collapse of the economy – obliterating entire sectors, professions, change of the essence and quality of work, labour motivation etc.

They explained the insolvency of traders with the transition to market economy and the need for denationalization of ownership. The representatives of this generation experienced serious adverse consequences of the transformation processes – some of them ended up being unemployed for a long time, suffered poverty and social isolation, others rushed to retirement and still others lost their skills and went on doing “whatever work there is”. Some of them experienced “personality insolvency”, i.e. lost identity, suffered from stress and underwent marginalization. Only a small part of the representatives of the pre- and post-war generation managed to adapt to the new economic life – participated in the process of restitution and privatization and became new owners, establishing their own firms etc. The new owners that belonged to this generation display different attitude to insolvency and consider it “*company crisis and company dissolution*”; “...they do not want it, but see it as likely, do not accept it, but justify it as ‘an instrument for a quick liquidation and privatization’”. They do not differentiate the concepts financial failure, insolvency and bankruptcy, they are not familiar with the functional opportunities that insolvency provides, but if it happened to them, they “*would learn in the process*”. To the question: “What would you do if your business became insolvent?” the new owners replied that “*recovery is impossible and they would sell out whatever they could to repay their creditors in order not to leave any debts and bad reputation to their heirs*”. Therefore, the new owners that belong to the pre- and post-war generation are stigmatized by insolvency as an institution and are not willing to look for new business opportunities. They hope that this will be forgotten and will not be a hindrance to their heirs’ business.

The generation of the transition from patriarchal society to modernity (1945 – 1964) lived in a period characterized with labour security, equal access to social health care for everyone and equal education, professional qualification and labour opportunities. This generation’s working life underwent a period of economic growth and the advance of socialism. Its representatives define themselves as “*successful developers of socialism*”, well-educated and people who outperformed their parents both in terms of education and professional development. This generation developed and worked primarily in a centralized planned economy, but was the one that “*bore the entire burden of the transition to democracy and market order*”. During the time of socialism part of the people from this generation had key positions in the economy and politics, which resulted in serious shocks for them after 1989. A considerable part of the representatives of this generation were left without jobs after the transformation of the economy and the economic actors. Some of them took early retirement (military, minors, pilots), others participated in the privatization and became owners, still others –

reflection of the actual Bulgarian social practice of employment during the studied period and with some conditionality and approximation reflects the situation in Bulgaria of transition from socialism to capitalism, from centrally-planned to market economy after 1989. The author continues her research on generation at work from a different point of view – mobility, conflict nature, continuity, succeeding the business, internationalization/externalization of the insolvency by generation at work (the topic of this article) etc.

became part of real politic and/or related fields. This generation underwent a number of metamorphoses – first, they built the institutions typical of socialism, then, participated in their development or destruction and thirdly – in the establishment of a new type of “*democratic and market relations institutions*”. This is the reason why the generation is extremely stressed, stagnated, stigmatized by everything experienced and especially by the clash between “*building and destroying*”, “*public and private*”, “*ours-yours*”, finding it hard to overcome these oppositions. This generation experienced “*personal insolvency*”, just like their parents who belong to the pre- and post-war generation. Its representatives were asked: “What do you think the meaning of “*insolvency*”, “*financial failure*” and “*bankruptcy*” is? - and the answers this generation gave, although not very accurate revolve around the right one – the worsened financial situation of the enterprises. The answers given to the question “Are you familiar with the functional opportunities insolvency provides?” unequivocally point out that the representatives of this generation “*are not aware either of the positive and negative aspects; if need arises they contact lawyers for assistance; prefer to try and recover the business rather than declare insolvency; they are afraid of stigmatizing, but have no motivation to study the functional opportunities insolvency provides. In case of insolvency they learn in the process. They cannot anticipate insolvency, they do not want it, and they do not tempt fate*”. When asked: “What would you do, if your business went bankrupt? The representative of the new owners of the new generation replied: “*agreement between the partners for fast liquidation*”, “*selling the enterprise*”, “*looking for fresh capital*” and the final step “*file for bankruptcy*”. This illustrates that this generation also avoids insolvency, it is afraid that the firm will be stigmatized in public space. At the same time its representatives “*panic*”, when they find out that “*their firms incur huge debts, revenues decrease due to disloyal competition and the low degree of solvency of the population, they can service their debts to other countries and creditors*”. Some get rid of their firms with ease because they have not established their business on the market; others – have bought them cheap and it is not difficult for them to let them go; still others do not have the necessary knowledge about the functional opportunities that insolvency provides – to recover and continue their business.

The growth generation (1965 – 1980) was born in the age of socialism and takes the access to free education, health care, social security for granted. Its representative are looking for “*new beginnings*”, “*new modernity*” which can be found in the democratic society and the market economy (even if only as transitology). Although they grew up in socially secure environment, their work experience is in the period of revived capitalism. This generation is familiar with the market principles, but also is aware of the market flaws. It clearly understands the concept of insolvency – long-term financial indebtedness to creditors, partners and contractors and the inability of the trader’s enterprise to perform on its own. The answers of its representatives to the question: “Are you familiar with the functionality of the opportunities that insolvency provides?” show that „*they are aware of them, but not in detail and are willing to study them in depth if the need arises. They are convinced that they have to run their companies in a modern way and to avoid inconsistency. If, however, the enterprise has to be bailed out, it is accepted as the ultimate, but not compulsory rescue measure*”. The respondents declare their unwillingness “*their business to be declared insolvent because it loses the confidence of creditors, clients, consumers, suppliers and its liquidation results in losses for the society, because the company provides jobs and incomes, pays contributions for the employees and taxes, fees, duties to the government*”. These answers show that the growth generation, just like their parents and their ancestors has not got rid of the understanding that insolvency as a “*moral fall*”, as “*a loss of image in the society*”. What is different in their case is the fact that they see inconsistency as a crisis – “*a stage of the business cycle*”. The latter highlights the broader and more modern understanding of the generation of the functional opportunities that insolvency opens. When asked: “What would you do if your business became insolvent? the respondents answered that “they will not let their business become insolvent, to lose financial independence, when they realize that crisis is looming, they would sell the enterprise in order to start a new one”. They see themselves as successful businessmen, entrepreneurs, manages and state that “they would never let such a “*moral fall*” happen as well as such physical and social losses”. They sympathize with those who have declared insolvency, but are not willing to support them (with intercompany loans, mergers with identical successful companies) in order to rescue their enterprise.

The digital generation (1981 – 2000) grew up and socialized in times of developing democracy and market regulation. This is the generation of the new communication systems and information technologies. It is extremely instrumentally-oriented and disloyal to employers and colleagues. The representative of this generation do not worry about insolvency, financial failure, bankruptcy (they consider these terms identical). They believe that in the competitive market

environment – “loyal and disloyal” no one is immune from declaring insolvency. When asked if they are aware of the functional opportunities which insolvency opens, its representatives say that “they do not know them, but they will learn them quickly if the need arises”. They believe that “*others should be responsible for the rescue of the enterprises in crisis for which they work*”. They are not afraid that they might “lose their job”, they identify themselves as “*competitive on the labour market*”, they rely on their youth – “*they are at the start of their professional career*”.

In lieu of conclusion or recommendations for the social practice

The data from both the official statistics and from the empirical research point to the conclusion that insolvency, welcomed or not, exists and it should be taken into consideration by both the representatives of the four generations at work as market and non-market subjects and the society as a whole. The research provides evidence that the working generations do not have profound knowledge and thorough understanding of insolvency and its functional opportunities which makes it difficult for them to consider it an institution which regulates the relationship between debtors and creditors. They justify its existence as objectively necessary and helpful to let the economy free itself from losing enterprises and recover, but they do not see it as a mandatory regulation in the society. For the representatives of all four generations insolvency is a stigma, while for the younger people it is also a stage from the life cycle of the business. This is why the results from the research justify the thesis outlining the externalization of insolvency. A **conclusion** can be drawn that there is need to improve the degree of institutionalization and internalization of insolvency in the Bulgarian society. What is more, this is also determined by the process of harmonization of insolvency legislation in the EU member countries. This can be implemented through a number of government measures, such as broadening the research area, increasing the number of publications, extending education, creating an acceptable media image of insolvency as a social need and as a regulator of the economic life of the society. This would also facilitate the natural transition from externalization to internalization of the functional capacity of insolvency of traders and would improve the degree of institutionalization of insolvency in the Bulgarian society.

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