

RESTART Baltic Sea Region - innovation tools, road maps & policy manual



restart
Baltic Sea Region

1st edition

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INTRODUCTION

The company is struggling with difficulties, loses financial liquidity, key employees leave, customers quit, there is a lack of ideas and finances for survival or development ... this is a problem for many companies. Currently, there is no uniform and effective system of assistance to such companies in our country, and enterprises on the verge of bankruptcy have so far been treated as a "necessary evil" and could not obtain help or professional advice on what steps to take to save the situation or minimize bankruptcy. This was and still is the case in many European countries. Fortunately, the approach to building legal and economic tools has been changing over the last few years, and a system of assistance in the form of counseling and monitoring is slowly starting to emerge. As we know, the collapse of the company brings about a number of further consequences - from financial to the loss of many people's jobs, social, family, and even mental and existential problems. So it is worth giving a hand to the "drowning person" to save the company, people and property, and sometimes even the family.

The European Union in the Directive issued on June 20, 2019. (COM / 2016 / 0723-2016/0359) requires Member States to develop approaches and mechanisms for such assistance. Region INTERREG BSR projects for the Baltic Sea Region are projects aimed at strengthening integrated territorial development and cooperation for a more innovative, accessible and sustainable development of the Baltic Sea Region.

These funds are used to finance the Restart BSR Program, whose beneficiary and lead partner is the Lower Silesian Intermediate Body from Wrocław. The Restart BSR project addresses problems that require a joint response from partners from several countries in the Baltic Sea region, ie Lithuania, Latvia.

Estonia and Poland. Another important factor for the project is the use of the experience of Denmark, which has been building and developing a system of helping companies for 10 years, as a pioneering system in Europe. The main goal of the Restart BSR project is to build an effective system of helping enterprises in crisis and encouraging business owners to start new business ventures (the so-called Restarters).

One of the more important goals of the project is also building the institutional capacity of various entities in order to support enterprises in a difficult financial situation, such as government and local government authorities, entities supporting innovation, business environment institutions or organizations associating employers.

Nothing happens without the participation of the interested parties, i.e. entrepreneurs.

The advisory councils created in each of the project countries consist of various institutions and entities, including companies that help to create and evaluate already developed solutions. This is to create a synergy effect for the best adjustment of the elements of the support system for companies in a crisis.

A very important element in the project is the emphasis on innovation in the process of building companies' potential as one of the key success factors. As we all know, it is difficult to expect effects while still operating with the same methods, hence these technological or process innovations are to be the driving force in the process of overcoming the crisis and looking for new development paths. International teamwork in the Restart BSR project is also based on the concept of Design thinking, which in its assumption has a component of empathy and an approach to solving problems and creating new concepts taking into account this factor, which is often of key importance in the crisis process.

By basing on the experience of Early Warning Europe (EWE), which was successfully carried out in several European countries, including Poland, the project is to complement the already developed methods and, by creating the so-called "Strategic Road Map" preparation of guidelines, incl. for the authorities to implement proven solutions as effectively as possible. One of the project partners - the Latvian Ministry of Economics will be the liaison between the governments of Lithuania, Latvia, Estonia and Poland in this area. The Family Business Foundation from Poznań is a supporting partner in the project. As an expert and beneficiary of the Early Warning Europe program, in the last 3 years she has been providing real help to entrepreneurs, using methods developed by a team of international EWE experts, also based on the experience of Denmark. An in-depth analysis of the current state, joint development of practical tools and guidelines for legislative solutions will be a complete set for the creation of a "first aid kit" for many companies.

The aim of the Restart BSR project was to build and develop in the four pilot countries a strategic roadmap outlining the strategy and resources needed for helping companies and restarters after the finalisation of the project and - in turn - scaling up the activities to other parts of the country, for instance by supporting other innovation actors with capacity building, for instance by training business advisers to become mentors. Key issues to be addressed in the strategic roadmap include identification of key partners, stakeholders and funding sources as well as plans for relation building, fundraising and communication. The roadmaps will be an important tool for ensuring the operation and scale-up of the activities in each of the pilot countries after the finalisation of the project.

The process of developing the roadmap was benefit from inputs from the presentations, activities and discussions at the national workshops (experts and organisations from the national and regional innovation eco-system) and the joint learning seminars (experts and the other partners). Moreover, the advisory boards in each pilot country was provide input and perspectives on the draft strategic roadmaps and support the partners with the implementation of the strategic roadmaps based on the final version of the strategic roadmaps.

The strategic roadmaps was discussed at each advisory board meeting after the finalisation of the project and thus contribute to the operation and further development of the organisation and activities. Each partner in the project (Latvia, Lithuania, Estonia and Poland) create own road map suited for the background characteristic for each country.

- Dorota Sała - Manager of the Restart BSR Project

INTRODUCTION TO CONCEPT

When a company is in a state of crisis, potentially headed towards bankruptcy, this has immediate and far-reaching consequences, not only for the future of the company, but also for its owners, their connections, families and for society as a whole.

When a major, external crisis hits, such as the COVID-19 pandemic, this is more relevant than ever. Company owners and companies need help to be able to adapt to new situations and/or life situations. It is most urgent to alleviate the immediate crisis, but it is equally important to gain insights on how to survive the new reality long-term. This often requires external guidance and tools that can lead and empower you to identify and grasp the potential of situation in relation to your business plan and strategy.

In addition to their economic loss, most owners find themselves in a deep, personal crisis. It is not uncommon that this is accompanied by feelings of guilt and shame. Too many business owners feel isolated with their problems, and because many people consider crisis and failure to be taboo, it is rarely something they talk about openly.

Considering the social stigma, it is entirely understandable that many entrepreneurs are hesitant to ask for help, but sadly, this is very counterproductive. In fact, the sooner business owners can find the appropriate help and support, the better their chances are of turning their crisis into new opportunities for innovation and growth.

For this to happen the business culture needs to change, in the Baltic Sea Region and beyond. Thus, this project argues in favour of a shift towards a more open, trusting business climate in which owners feel confident to talk about the challenges they face. The primary purpose of the Restart BSR project is this:

”To use empathy and respect to support Baltic Sea Region business owners who are experiencing a crisis in order to bring value to society and motivation for a better future.”

With this concept and the tools presented herein, we hope to contribute to a fruitful collaboration to reduce the number of costly and often painful bankruptcies. None of the tools are quick fixes, and they all require a sincere, dedicated effort and a critical look at the current practices. All the tools should be facilitated by a competent mentor in an atmosphere of trust and respect. Under these conditions we believe this concept can help business owners identify the root causes of their crisis, strengthen their reflection, encourage them to see new opportunities and go for them.

Rooted in the practice of design and design thinking, these tools can guide the process from crisis management towards innovation and new growth. It is our experience that design driven innovation has much to offer companies. This was recently validated by McKinsey, the global consulting firm, when they presented the results of a comprehensive five-year research project demonstrating the business value of design. The “McKinsey Design Index” (MDI)* shows how a strong MDI performance correlates with “superior business performance” overall. This is true across design for physical and digital products, services and combinations of these approaches.

We hope you will enjoy reading and experiencing the value of design-driven innovation.

Sara Velsing Groth, Alexandra Lindek, Stinna Hougaard Vinther Sørensen and Mathias Poulsen, Design School Kolding, May 2020.

* www.mckinsey.com/business-functions/mckinsey-design/our-insights/the-business-value-of-design

SUMMARY OF THE PROJECT

BACKGROUND

The Restart BSR project is a response to the widespread problem with bankruptcies, which not only threatens the company in question, but also companies in its value chain, local communities, the public sector and society at large. Furthermore, a company in crisis with the risk of bankruptcy will almost always have a negative impact on the personal life of the business owner, his/her family, employees and other social relations.

While preventing bankruptcies is already a priority across the Baltic Sea Region, this project directly addresses the lack of an ‘innovation dimension’ in the existing crisis management and 2nd chance approaches.

The concept described in this publication contributes to the build-up of the institutional capacity for innovation in Poland, Latvia, Lithuania and Estonia. It does so by combining design thinking with experiences from crisis management and 2nd chance approaches. As a part of this, the business consultants and mentors will be able to provide adequate advice and innovation support to company owners to help them restructure their businesses to avoid bankruptcy and job losses, and – in the medium to long term – also enter a new path of growth and job creation.

For the business owners this means they will be empowered to enhance their capacity for non-technological innovation, identifying and realising their potential for growth, while reducing the risk of bankruptcy. In addition, the concept and tools will enable business owners to pursue a 2nd chance effort in order to launch a new and more successful business venture.

Together, these efforts will help business owners regain their self-esteem and confidence, support the development of new and more competitive business models, and help restarters use their experiences

from a business failure to create growth and new jobs in the Baltic Sea Region.

ABOUT THE PARTNERS

The majority of the project partners are based in the Baltic Sea Region where they have substantial experience and expertise in working with crisis management and business support structures. Design School Kolding is based in Denmark and is responsible for the development of the innovation concept.

Together, we are an international network and team of experts and specialists who guide business owners in crisis within an atmosphere of trust and respect. We bring innovative tools and instruments to help business owners find hope and create new possibilities for future growth.

Project partners

- Lower Silesian Intermediate Body, Poland
- Design School Kolding, Denmark
- Vilnius Gediminas Technical University, Lithuania
- Latvian Technological Center Foundation, Latvia
- Ministry of Economics of the Republic of Latvia, Latvia
- Harju County Entrepreneurship and Development Consultancy, Estonia

OUR MISSION

- To support companies in crisis in the Baltic Sea Region
- To bring value to society
- To motivate business owners towards a better future



ETHICAL CODEX

We have developed a set of fundamental values, which inform, guide and shape the project as a whole, the concept and tools and all interactions with business owners:

Trust

We will always maintain a high level of trust in the relationship with the business owner by ensuring confidentiality, keeping promises and generally being trustworthy.

Empathy

We will always respect the business owner, defer judgement, use constructive criticism, establish common ground and show understanding of their emotions and needs.

Community

We will create a network of solidarity between mentors and business owners, sharing knowledge, trusting and helping each, so no one feels alone.

Empowerment

We will always aim to empower mentors and especially business owners, so they see their own resources, regain confidence, show responsibility and take action.

Openness for change

We will motivate business owners to develop an open mindset, to see new opportunities and accept the change required to achieve a desirable future.

Creativity

We will create a space where mentors and business owners can work creatively together to make innovation possible.

SUSTAINABILITY

When a company is in a state of crisis, there is a tendency to focus on the financial dimension. While it is obviously important to ensure a profitable business, profit is hardly enough to run a responsible, healthy and competitive business.

“The triple bottom line is a sustainability framework that examines a company’s social, environmental, and economic impact”* - Elkington

In Restart BSR, we apply the widely used concept of the “triple bottom line”, which was developed by John Elkington in 1994. Then, as well as now, this approach intends to highlight a focus shift from one bottom line – profit – to three equally important bottom lines: people, planet and profit. This means the business owner should pay as much attention to the needs of people and the Planet as they do to secure profit.

For this to have an impact on a fundamental level, the entire value chain must be scrutinized according to this framework, and every major decision should reflect the three bottom lines. Within the context of our concept, it means that every tool should be used with the awareness that it always addresses the potential growth for not only profit, but also people and planet.

DESIGN THINKING

Design thinking has become quite popular, also outside the field of design. At its core, design thinking is about understanding and addressing the needs of people, particularly potential users and customers. It is generally considered to be important to involve people, including stakeholders such as colleagues, employees, and representatives of the target group(s), in the design process. By engaging in ongoing dialogue, it is possible to reduce the risk of “tunnel vision”, challenging your own biases and bringing in fresh perspectives.

In any design process there is an ongoing exchange between what is often called “open mode” and “closed mode”, which relates to “divergent thinking” and “convergent thinking”, respectively. Open mode is all about exploring what might be possible, boosting the imagination and expanding your horizon. Closed mode, conversely, is about narrowing down the possibilities, moving towards more concrete ideas and taking action. Design thinking is thus about understanding what is in order to design for what might be, giving us the agency to positively impact the world.

Design thinking usually works with cyclical, “iterative processes” rather than linearity. Once you have done one full cycle, from early research to a potential solution, you examine the results and go back to revisit and revise the solution again. Likewise, we suggest revisiting necessary and relevant tools during the process e.g. when gaining new insights, the tools that you already used might have another outcome.



The triple bottom line
People, planet, profit

*www.hbr.org/2018/06/25-years-ago-i-coined-the-phrase-triple-bottom-line-heres-why-im-giving-up-on-it

GROWTH JOURNEY

In the Restart BSR project the primary concern is to improve the situation of the business owners as we want to help them adequately manage their current crisis, both on a professional and personal level.

The entire project is centred around the experience the business owner will have of interacting with the Restart BSR programmes, from first learning about its opportunities, becoming onboarded, engaging in sparring sessions and all the way to clarifying the future of the company and potentially launching innovation initiatives.

The progress is visualised by our “growth journey”, which describes the journey of the business owner together with the mentor. This journey holds rich opportunities for both professional and personal growth, for mentor and business owner alike.

The growth journey is divided into three overall phases:

- Onboarding
- Sparring
- Innovation

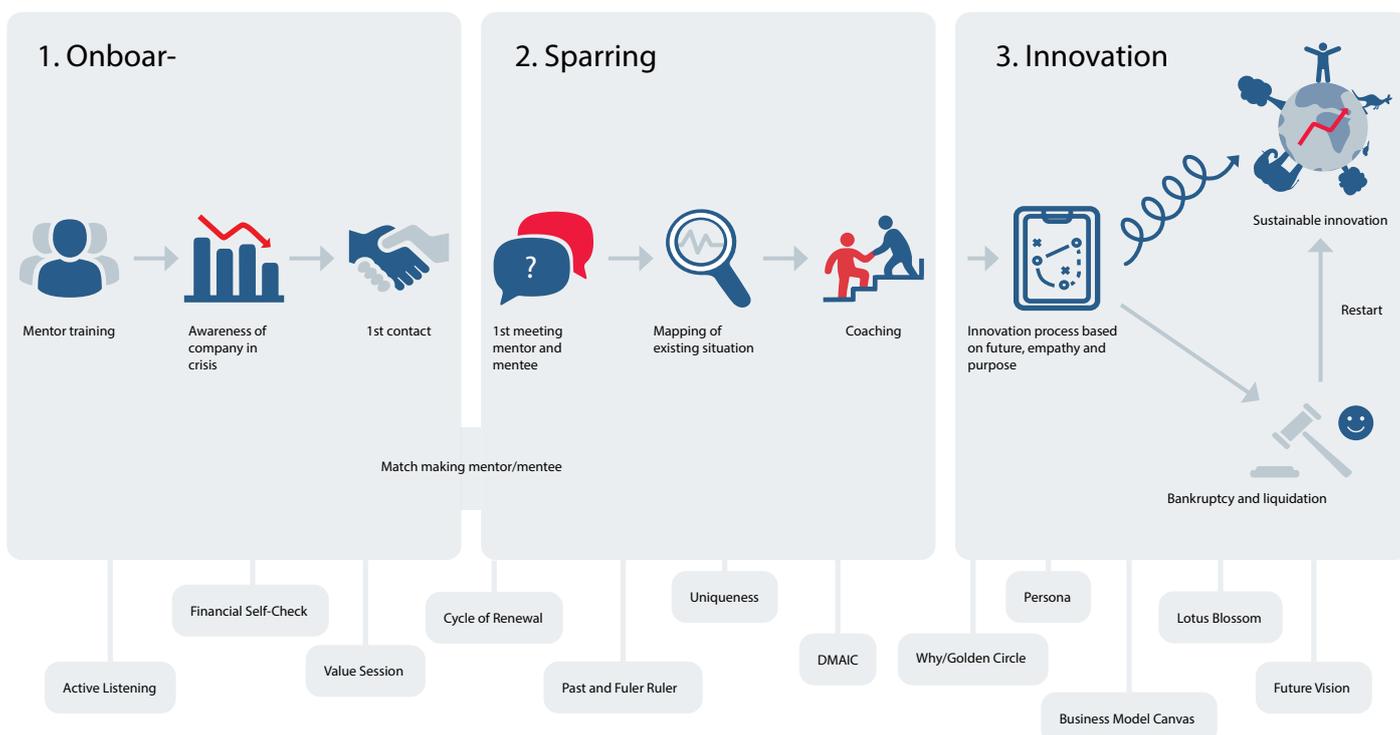
1. ONBOARDING

The onboarding process represents the business owner’s first encounter with Restart BSR. He/she is matched with a competent mentor and begins to examine the extent and causes of the crisis.

To achieve good results in the mentorship process, it is important to pay attention to the matchmaking of mentor and mentee. The more we can know about both the mentor and the mentee, the better are the chances of a fruitful match.

Who is the mentee and what characterizes her/his/their current situation? Which mentor has the knowledge and experience to best help the mentee?

Good matchmaking is also a matter of personality and chemistry. Some mentors will work better with some mentees than with others, and a good relationship increases the chances of a successful outcome. One way of making a good match is by aligning the values of the mentor and the mentee by creating a shared “value codex”. Another approach, directly addressing the question of personality, can



be to use the knowledge of “the big 5” personality traits and the related personality tests.

It is the job of the consultant to match the business owner in crisis with the right mentor since he/she is most likely the first person to have contact with the business owner.

In some programmes such as Early Warning Denmark, they have set up a digital system for matching mentor and mentee. This is done based on the experience of the mentor and of course also taking into account how many mentees a mentor can help at a time.

Based on the feedback from our associated partners we recommend including a set of personal values as well, especially since it is decisive when working with a person in crisis to have some kind of personal connection, common understanding and empathy. A challenge when matching people can also be the physical distance, both because of time and money spent on travelling. Though it is nice to meet in person, the COVID-19 pandemic has also improved our digital skills. We have gotten better at facilitating online meetings and working on digital platforms together on a distance. This might be helpful when the right mentor and mentee are positioned far from each other.

In this first phase of the journey the supporting tools implicate both facilitating, collaboration and basic analysis tools to get the right foundation for the further work are: Active Listening, Financial Self-check and Value Session.

2. SPARRING

In this phase, the business owner has been matched with a competent and well-suited mentor, and they engage in sparring sessions, collaborating on understanding and exploring the current situation. At this stage the business owner decides whether to close down and liquidate the company, restart or rethink his/her company. The mentee must trust the mentor and be willing to openly share everything that is related to the crisis.

It is possible to draw on external experts such as lawyers and accountants for specific issues, but the primary work is being done by the business owner in collaboration with the mentor.

The second phase of the journey is supported by the following tools to share learnings, gain insights, identify new perspectives and emphasise the need for mental support during crisis: Cycle of Renewal, Past and Future Ruler, Uniqueness and DMAIC.

3. INNOVATION

When the mentor and mentee have carried out a thorough investigation of the causes of the crisis, it is time to secure a better future for the company and its owner. This often entails acquiring better knowledge of innovation processes in order to be more competitive and ensure future growth.

The previous two phases will sometimes lead to the conclusion that the best solution is to close the company and not found a new one, which may be the right decision. However, this concept focuses primarily on situations where the company either survives, or the owner finds a new and different company through a 2nd chance effort. In both cases, the potential for innovation should be assessed and enhanced in order for the company to be able to compete.

In the Restart BSR project, we focus on “non-technological innovation” as it is defined in the “Oslo Manual”:

”Expressed in its simplest form, non-technological innovation covers all innovation activities which are excluded from technological innovation. This means it includes all the innovation activities which do not relate to the introduction of a technologically new or substantially changed good or service or to the use of a technologically new or substantially changed process.”

To support the third phase of innovation and progress the following tools are suggested: Why/Golden Circle, Persona, Business Model Canvas, Lotus Blossom and Future Vision.

PERSONAL JOURNEY

Where the “growth journey” describes how the mentor and mentee “grow” as they progress from onboarding through sparring towards clarification and potential innovation, the personal journey is all about the journey of the business owner.

To visualise this personal focus and underline the importance of being aware of the owner’s state of mind during the different phases of the crisis, we draw on ‘The Cycle of Renewal’ from the Hudson Institute.

The tool employs a holistic approach to personal development and change. It helps determine the psychological condition of the mentee in order to learn how to be a valuable dialogue partner, and what kind of change the mentee is open to. Every relationship between mentor and mentee should be based on trust. It can be used with other tools, e.g. the Active Listening tool.

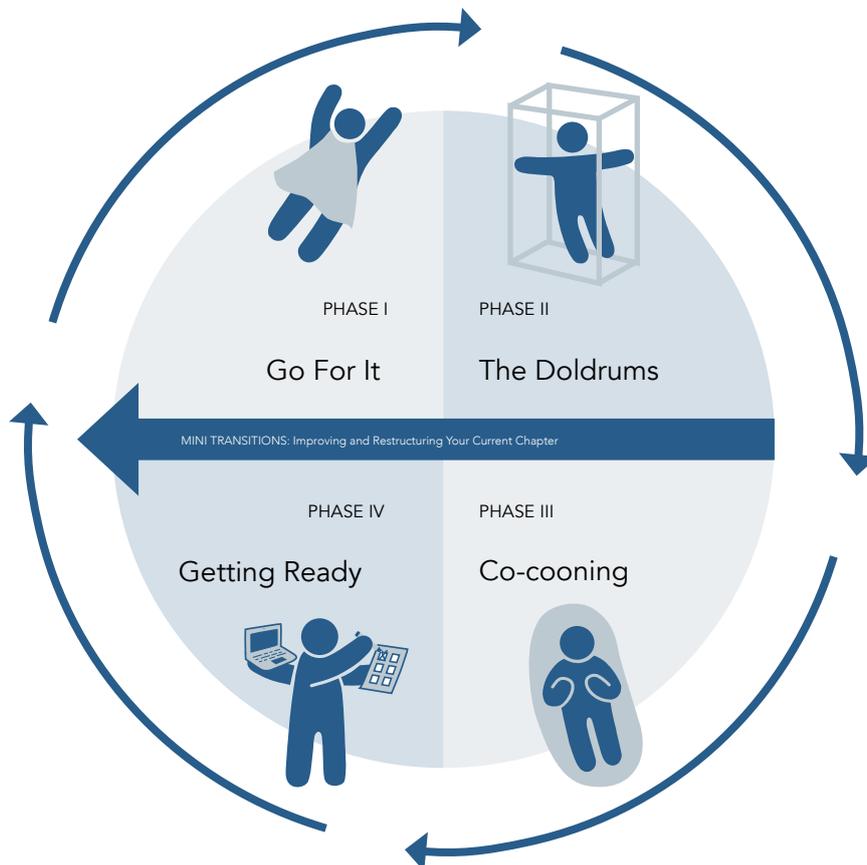
Read more about [The Cycle of Renewal](#)

COACHING AND FACILITATION

Throughout the “growth journey”, the primary goal is to empower the business owner to take charge, clarify the situation, identify the root causes of the crisis and address these. The mentor must never take away the agency of the mentee and should avoid trying to solve his/her problems. Instead, she/he should aim to guide the mentee towards new insights and the capacity to act confidently. This process draws heavily on the disciplines of coaching and facilitation.

The good mentor is also a good coach who is able to create a culture of trust, ask questions, listen actively and help the mentee shift his/her perspective. Within this culture of trust, the taboo of failure can be addressed, making it possible to speak about not just the weaknesses, but also the strengths of the owner and his/her company.

All the tools in this collection require some degree of facilitation, and in most cases, this facilitation is



carried out by the mentors. Facilitation is, in this context, understood as a way of reducing complexity, enabling the mentee to see new opportunities, making decisions and taking action.

When we talk about “tools” in the project, we refer to a wide range of design-based methods and techniques that can help us achieve the goal of the project, which is to empower business owners to manage their crisis, clarify their future and increase their potential for innovation.

None of these tools hold “the truth” and provides no magical cure. They are meant to help the mentors build their capacity for coaching, conversation, facilitation and innovation with the mentees. This, in turn, will allow them to empower the business owner.

In the following section, facilitation tips, we present a collection of more concrete suggestions for facilitating these tools to harness their full potential.

FACILITATION TIPS

The tools in the concept framework are accompanied by a few facilitation tips. These should be a helping hand for the mentor in preparing and facilitating a specific session with the business owner.

Below is a short, general description of the categories we use:

CO-CREATE



Co-create

Often it is good to apply the tools in a wider social context than just the mentor and the mentee, potentially involving colleagues, employees, external partners and end users. Thereby you ensure diversity in the thinking which add different perspectives and helps innovation on its way. Especially for a company owner in a crisis he/she is often 'locked' in a specific understanding of the situation and will be positively surprised to hear other people's perspectives.

The design tools help the co-creation processes to move forward in an empathic way, where we benefit from each other using a shared language.

Sometimes it might be an idea to separate leaders and employees when you work with a tool, and after the separated session get together and listen to each other, so that we ensure an open explorative mindset where leaders are not 'controlling' the thinking of the employees.

MINDSET



Mindset

Each tool will have the biggest impact if the people involved have the 'right' common mindset when they work together. As a mentor/facilitator of the meeting you have to choose which mindset that is most appropriate according to the purpose of tool and context you work in. At the most basic level this relates to the “closed” and “open” modes of design thinking. Closed mode is analysing 'WHAT IS' by looking at the current business and situation. When we work in a closed mode, we are thinking analytic, structured, logical, using the left side of our brain. Open mode is when we are exploring new opportunities on 'WHAT MIGHT BE' looking forward for changes and possibilities in the future. Here we use the right side of our brain, involving intuition, experiencing, sensing, making.

REVISIT



Revisit

Most tools should be considered part of an ongoing development process where you revisit and potentially revise your earlier decisions and solutions. Thereby you can continually adapt your company strategy to changing circumstances.

STAGE



Stage

It is always important to consider the physical context of working with the tools. Choose the right space/surroundings to create the right atmosphere. If you need a relaxed atmosphere for creating trust it might be a nice idea to go for a 'walk and talk' in the forest. If you meet in an office, which room do you choose and how do you prepare the room to create the right atmosphere? How do you use the tables, chairs, walls during the meeting?

It might be important to do one of the first meetings in the office of the company owner to 'smell' the atmosphere. If you arrange digital meetings, how might you create the right atmosphere according to the purpose? Can you do digital shared white boards in e.g. Miro to share your thoughts and connect in a nice way?

MOVE



Move

In holistic thinking you need to consider how both body, mind and surroundings support your learning and development. Rather than just sitting around a table, it can be helpful to get up, move around the room, use the walls, and maybe go for a walk outside.

It is our experience that the level of energy in a group of people rises, when using both body and mind to think and elaborate on a subject together. The minute you stand up, you are more active, which supports the relational aspect of being together in a room working on a task. This again contributes to a stronger social cohesion and better collaboration. Sometimes it can even add a joyful element to a working session.

To make a change in scenery during a process also encourages to action and thereby supports the workflow. In this case when working with people in crisis movement has a positive impact too.

In digital meetings it can be a great energizer to think about body movement as well and remember the breaks where people move away from the screen for a while, get some fresh air or some coffee, or maybe you need five minutes of stretching exercises together?

SUPPORTING TOOLS



Supporting tools

This tip suggests combining more tools for bigger impact. Have a look at the **GROWTH JOURNEY** to get inspired on which tools to use before and after each other. The order should be understood in a flexible way, where most of the tools can be used at different steps of the journey. Always think about where you are in the journey with the business owner, considering the state of mind of the business owner, and what is needed according to the specific company situation.

VISUALISE



Visualize

To get thoughts and ideas "out of your head" in order to refine and share them, it is a good idea to use visualisation, by printing out templates, drawing sketches while discussing, including photos and images along the way. For instance, you can ask people to prepare an image about their vision, or they can choose from images you have spread out on the table.

Visualisations helps people engage in a subject and to have a common focus and understanding in a work process. Many design tools ensure that the process is visualized and thereby also document and save insights and outcomes of the meeting.



When a business owner is in a state of crisis, he can feel stuck and in grief, and sometimes in these situations, images might add a joyful feeling and helps the mindset to open up.

MENTOR TRAINING

To ensure that the mentors are sufficiently equipped to handle the complex and demanding tasks of the mentorship, it is important to provide them with thorough training, both initially and over time.

In this training, the following areas stand out as essential:

- Coaching and facilitation
- Active listening
- “Dual positioning”

The mentors often possess valuable expert knowledge, but they have to learn to act primarily as coaches and facilitators. In this capacity, they cannot simply tell the mentee what to do, but must instead offer support and guidance that empower the mentee to find his/her own solutions.

When we have investigated the most important required skills of the mentors, the ability to listen is usually mentioned first. Active listening skills require the mentor to avoid passing judgement, to be present in the situation, and to respond to what the mentee is actually saying.

An analysis of the Danish Early Warning programme concludes that mentors should be able to shift between the role of “facilitator” and that of an “expert”. In fact, this “dual positioning” is considered the one thing that can “lead to the greatest positive changes in the collaboration between business owner and consultant/mentor”.

TOOLS FOR DESIGN-DRIVEN INNOVATION



ACTIVE LISTENING

The tool cultivates the ability to listen actively to achieve a better understanding of the crisis and help the mentee accept and deal with the situation.

Suggested time
Minimum 60 minutes

Materials
Post-its, pens

Participants
Mentor and mentee

GROWTH JOURNEY



Onboarding

[Sparring](#)

Innovation

PERSONAL JOURNEY



The ability to listen actively is a key skill in mentoring. It prevents misunderstandings and allows you to ask effective questions that demonstrate interest and understanding of your mentee. In everyday life, most of us tend to listen only superficially or hear what we would like to hear. Active listening is about making a conscious effort to hear not only the words a person is saying, but the complete message. To become an effective listener, you should keep the following in mind: Pay attention to the words while also paying attention to the tone of voice and observing the body language. Encourage, smile and keep an open posture. Give feedback by paraphrasing and reflecting on what is being said followed by asking wh-questions. Avoid being judgemental and do not interrupt. E.g. no questions before the person is finished talking. Respond in a respectful and honest way.

STEPS

- 01 | Clear time in your calendar, at best with no fixed end time and choose a location where the mentee feels safe and relaxed. Ask open questions.
Such as...
- 02 |
 - ”Tell me about...?”
 - ”How would you describe...?”
 - ”How does your company compare with...?”
 - ”What would happen if...?”
 - ”Why is that...?”
 - ”How could you change...?”
 - ”How would you improve...?”
 - ”How do you feel about...?”
 - ”What does that mean to you...?”
 - ”What is your opinion of...?”
 - ”What do you do differently...?”
- 03 |
 - ”Why do you/don’t you support...?”

Further reflect on what the mentee says, by asking ”What I am hearing is...” or ”To me it sounds like you are saying...”. Furthermore ask clarifying questions such as ”What do you mean when you say...?” and ”Do you mean...?”

To gather the different thoughts or highlight some insights, you can summarize the mentee’s comments regularly.

Try to take notes in a discrete way and try to sense the mentor’s state of mind e.g. in relation to Personal Journey/The Cycle of Renewal.



If you would like a more systematic grip in the way you ask questions, take a look at the GROW coaching model.

GROW stands for:

- Goal.
- Current Reality.
- Options (or Obstacles).
- Will (or Way Forward).

The model was developed in the 1980's by the business coaches Graham Alexander, Alan Fine, and Sir John Whitmore.

FACILITATION TIPS



MINDSET

It is of great importance that the mentor has an 'open modus' and takes on a supportive role, rather than forcing the mentee in a specific direction.



VISUALISE

Sometimes it helps the mentee if you draw simple icons explaining their story, or write down keywords you can share. Or you can choose specific prepared images to open up the dialogue.



STAGE

Choose a location with a relaxed atmosphere, where the mentee feels safe and relaxed. You can consider a walk in the forest. Your next meeting could possibly be you visiting the company to perceive the atmosphere in the setting of the situation.



FINANCIAL SELF-CHECK

The tool provides an overview of the financial condition of your company.

Suggested time
2 hours

Materials
Computer, link to tool (see below), financial data about the company, post-its and pens, internet access

Participants
Mentor and mentee

GROWTH JOURNEY

1 2 3

Onboarding

Sparring
Innovation

PERSONAL JOURNEY



The tool (similar to 'Profit and Loss Statement') presents an overview of revenue, expenses and costs incurred during a specific period of time (normally either for a quarter or fiscal year). The outcome provides information about the company's level of ability, also known as Net Income, which appears on the company's income statement. This serves as an indicator of the company's profitability and is useful for investors.

In this context we recommend that mentor and mentee fill in the figures together (e.g. online by means of shared screen), even though it is called a self-check tool. Both for support, since it might be difficult for the business owner to face the realities, and to have the opportunity to discuss and address the challenges and possibilities as they present themselves. Furthermore, it is crucial to fill in the correct data in order to provide an accurate picture of the situation.

After the introduction to the tool, the business owner is advised to use it on a regular basis. Link to tool: www.ec.europa.eu/research/participants/lfv/lfvSimulation.do

STEPS

The tool requires you to fill in several mandatory fields:

A) Assets: Subscribed capital, Fixed assets, Current assets

B) Liabilities: Capital & reserves, Creditors

C) Liabilities - turnover: Operating income, Gross operating profit or loss, Net operating profit, Profit/loss on ordinary activities, Profit/loss for

financial year.

Based on this the tool calculates a Financial Viability Simulation.

- 01 | You start by filling in the entry for revenue (top line).
- 02 | Now you work your way down filling in the costs and getting to know the company.
- 03 | The costs will then be subtracted and result in the company's financial bottom line.
- 04 | Additionally the ratio's results and analysis hereof are calculated.

- 05 | Note that the definition of equity for small business owners is simple: It is the difference between what your business is worth (your assets) minus what you owe (your debts and liabilities).
This tool is suggested by the project partner, Lead Expert og Ministry of Entrepreneurship Competitiveness Department in the ministry of Economics of Republic of Latvia.

FACILITATION

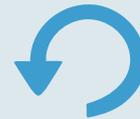


SUPPORTING TOOLS

Personal Journey/The Cycle of Renewal: At this stage the mentee might feel depressed and therefore not open towards new thoughts and actions. The theory of The Cycle of Renewal by Frederic Hudson, might help you to get a deeper understanding about the mentees personal condition.

Active Listening: To ask the right questions and establish a space of trust.

The Past and Future Ruler: To keep a focus on the successes and learnings from the past and have a discussing about what to do less of and what to do more of?



REVISIT

To remain updated on the company's level of ability it is recommended to revisit this tool regularly.



VALUE SESSION

The tool helps to identify the underlying values on which a collaboration is based with the aim to create a shared value codex.

Suggested time
Approx. 4 hours.

Materials
Post-its, pens, markers,
A3 paper, wall/
flipchart. List of values
for inspiration

Participants
Mentor and mentee,
the group of mentors,
the group of
consultants, etc.

GROWTH JOURNEY



Onboarding
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PERSONAL JOURNEY



The tool helps to establish common ground between participants in a group that allows them to build trust and develop a shared value codex. To gain and sustain trust between people in an innovative development process is crucial for achieving positive results. Trust is essential when we are working with something new and unfamiliar. Furthermore we also have to align expectations, level of ambition and wishes.

STEPS

- 01 | Starting off with a mindset exercise establishes common ground and gives everyone in the room a voice. The facilitator explains the importance of having a relaxed atmosphere and an open mind, referring to childhood experiences and one specific game: "We're going to Africa, and you can all bring one thing of your own wish, it just has to start with your initial letter" (works better with a large group). The extra benefit from this exercise is it helps you to remember each other.
- 02 | The facilitator (or chosen moderator) present The Dilts Pyramid and explains the different neurological levels to show the importance of making changes that would influence the culture and approach of the project/ company etc. towards the future. Moving from Behaviour, Skills, Convictions towards Values, Identity, Mission and Vision/Spirituality.
- 03 | (Working in groups – part I) Now form two groups. One group should work with the Mission. The other group should make a short explanation of who you are, using just one or two sentences. The groups present their work to each other, get feedback and adjust accordingly. Time frame: Groupwork 15-20 minutes, prepare flipchart/paper on wall 10 minutes, presentation 5 minutes, feedback/corrections.
- 04 | Individually everyone must choose 7 values that they believe in within the context of the project/company etc. Write each value on a separate post-it. Time frame: 10-15 minutes. To inspire you to identify your core values, a list of values can be found here: www.scottjeffrey.com/core-values-list.
- 05 | (Working in groups – part II) Gather the individual values/post-its produced by both groups. The groups then discuss, analyse, categorize and condense the values and choose the 7 most important values. The groups prepare a presentation of the chosen values and their meaning. Each group presents. ▶

Time frame: 30 minutes.

- 06 | (Working as one big group) The facilitator guides the two groups to categorize the values and construct a shared list of 6-7 shared values.
Write the values on a flipchart.
- 07 | Explain what the chosen values mean for e.g. mentee and mentor, respectively. Stick large pieces of paper on the wall, one for each value. Divide the participants into smaller groups. Each group starts to elaborate on a value. Write it on the paper (use one colour). Time frame: 20 minutes. Afterwards the small groups circle around to contribute with additional aspects/points, which they add. Time frame: 2 minutes for each value.
- 08 | The Identity sentences "we are...", the Mission statement, the values and the meaning to the involved groups are gathered in a Value Codex Document.

FACILITATION TIPS



VISUALISE

When you work with your group on common values, it is beneficial to share thoughts visually by writing on Post Its, sharing it on a wall for a united overview, or draw on hudge papers at the floor. In digital meeting rooms we recommend Miro, where you can work together on a digital bulletin board simultaneously.



REVISIT

Values change over time, which makes it important to revisit your values from time to time.



MOVE

It might be an idea to hang the papers on the wall and move around while thinking to get the body and mind energized, and keep the group spirit high.



CYCLE OF RENEWAL (PERSONAL JOURNEY)

The purpose of the tool is to help the mentor facilitate the coaching process and guide the mentee/business owner towards new opportunities and a sense of 'renewal'.

Suggested time
90 minutes or more

Materials
Pen, paper for notes,
possibly visual
template with The
Cycle of Renewal
(PERSONAL JOURNEY)

Participants
2 people, mentor and
mentee

GROWTH JOURNEY

1 2 3

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PERSONAL JOUR-



The Cycle of Renewal by Frederic Hudson, employs a holistic approach to personal development and change through four different stages. It helps to determine the psychological condition of the mentee in order to learn how to be a valuable dialogue partner, and what kind of change the mentee is open to. The Cycle of Renewal can be applied throughout the collaboration between mentor and mentee, and its particularly useful for addressing the personal/human issues of being in a state of crisis. It is an umbrella tool, which navigate the mentor with applying other tools useful for the process of supporting the company and the person in crisis. Each mentoring session begins by determining the current mental status of the mentee. when you first meet, you never know what state of mind/which phase the mentee is in.

The four stages of The Cycle of Renewal include two different degrees of change: the 1st and the 2nd, according to Paul Watzlawick. The 1st degree change is a change in behaviour, procedures and schemes. It is observable and reversible at the same time, because it does not require any changes in attitudes.

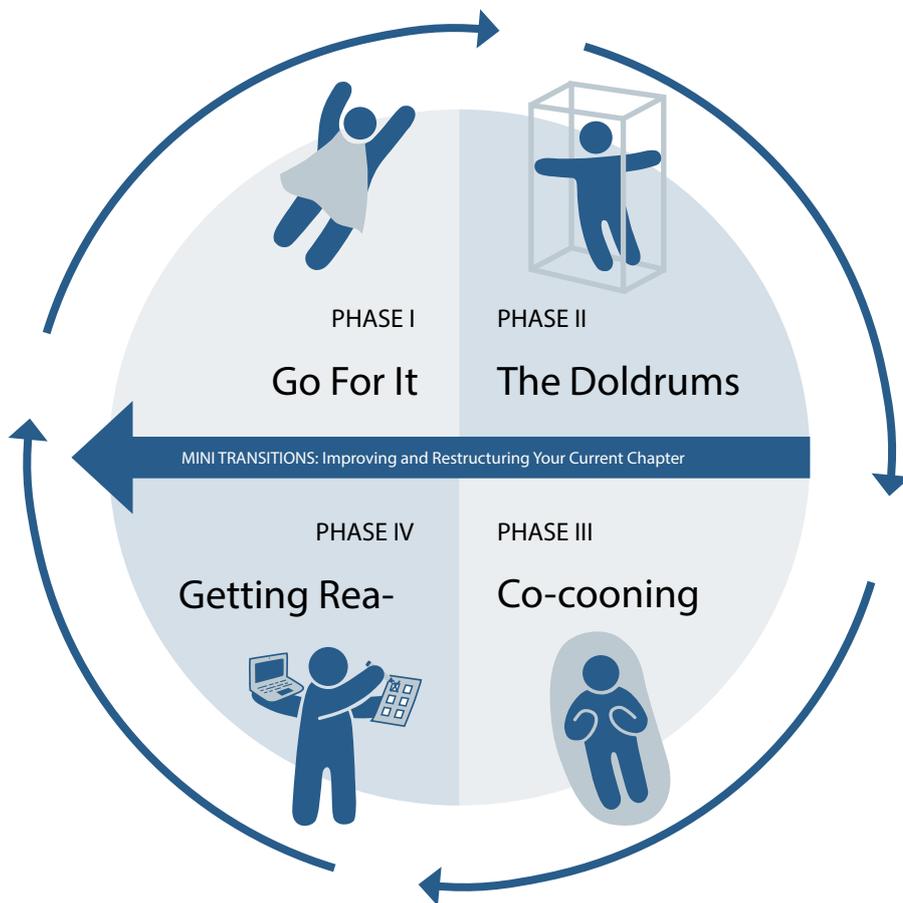
The 2nd degree change is a transformational change based on permanent, autonomous decisions concerning personal beliefs or values reflected in a permanent change of organizational culture. Some of the mentoring processes will be related to the 1st degree changes, while others will be related to the 2nd.

Phases: Mentees enter the mentoring process in one of the four stages:

- 1: Go for it
- 2: The doldrums
- 3: Cocooning
- 4: Getting Ready

The way a mentor works with an entrepreneur as part of the monitoring process differs depending on the stage of change at which the two parties meet.

Each change cycle starts with the breakthrough, which may result from an external situation, e.g. when a contract is expiring or when something is radically changing (Such as COVID-19 or other future scenarios). This stage may also be the result of internal transformation. It may emerge suddenly and even brutally, but may also emerge slowly, e.g. when we discover that we no longer find pleasure in what we do. Severance is a situation when all previous conduct, procedures, and resolution attempts are not sufficient and fail to produce the desired results.



Doldrums (grief)

The mentee feels stuck, restless. To refrain from acting and comforting the entrepreneur and accompanying him in experiencing difficult emotions related to the loss of: trust, money, opportunities, contracts or key employees. Knowledge of the process helps to secure enough time, especially during the first meeting, when the mentee needs to be listened to. The same knowledge also protects the mentor from feeling guilty about not yet taking any action.

During this phase the mentee is not open for change. As a mentor you cannot “fix” grief; you just have to let the mentee experience the emotions. The best thing for the mentor to do is to listen, ask open question and be patient.

- Supportive material: The grief stages by Elisabeth Kubler-Ross
- Tools related to the phase: Active Listening.

The Cocooning

During this phase the mentee is offered the space to be introspective and reflective. The key task of the mentor is to assist the mentee in achieving an honest balance in all strategic areas of the company, including their role and responsibility for the position the company is in. The mentor can ask open questions, for instance, what lessons did you take from the crisis? Try to transform the crisis into something positive. The mentee has to answer the most important questions: Where am I? Why am I making changes? Who am I making changes for – myself or someone else? It requires time to explore and reconstruct parts of one’s life and dream, values, purpose.

- Tools related to the phase: Past and Future Ruler, WHY/The Golden Circle, Persona, Uniqueness.



Getting Ready

This is the time for creating new perspectives and developing a new business strategy. During this phase the mentee gets to test, experiment and take risks. It is similar to the learning we did when we were young of constantly exploring new ways of being, thinking, speaking and dreaming. In fact, these are all necessary steps to lead the mentee back to Phase 1 — the dream. Eventually the mentee will find a way with a renewed sense of purpose (www.aethcoaching.com/the-cycle-of-renewal/).

At the ‘Getting ready’, the key task of a mentor is to stay in the role of a mentor and not to enter into the well-known role of a manager or investor, and to help make ideas real and to show support in keeping up the motivation to implement change.

- Additional theory - Coaching methodology GROW.
- Tools related to the phase: Future Vision, Lotus Blossom, Business Model Canvas, DMAIC.

Go For It

This is a phase of stability. The mentee’s energy levels are high and he/she feels focused and confident, accomplished and close to his/her dream.

This stage is composed of consecutive segments:

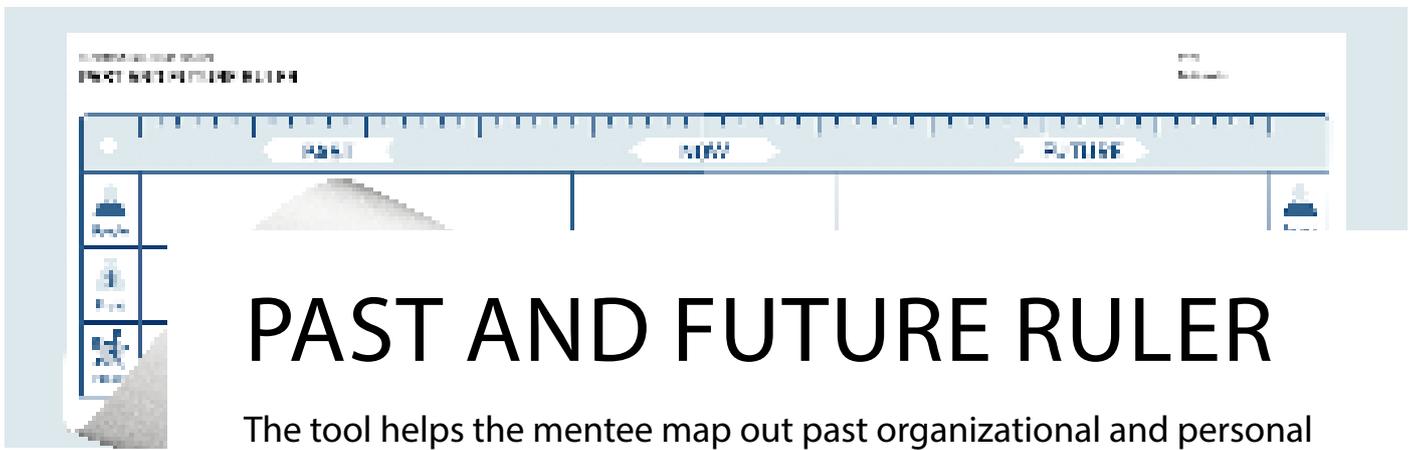
1. Imagine your dream business rethought.
2. Identify your conditions for its realisation.
3. Analyse your competences, resources, and what is still required to launch the project.
4. Launch your planned business and present to a wider audience.
5. Realise the business towards making it profitable.
6. Reap. If the change is appropriately prepared, designed, and launched, this is where you celebrate your success.

At this stage the mentor can offer: motivation, constructive feedback, find time for celebration.

- Background theory: The Cycle of Renewal can be applied throughout the collaboration between, 1st and 2nd degree change by Paul Watzlawick and The grief stages by Elisabeth Kubler-Ross.

STEPS

- | | |
|----|---|
| 01 | Build the first contact and your relationship with the mentee based on trust. |
| 02 | Make the diagnosis: At which stage of The Cycle of Renewal is your mentee? Understand the basic needs of your mentee according to the phase of renewal. |
| 03 | Adapt your behaviours ,working tools and pace of work to the phase of renewal. |
| 04 | Monitor the status of your mentee, plan your mentoring sessions according to the status and phase of The Cycle of Renewal. |



PAST AND FUTURE RULER

The tool helps the mentee map out past organizational and personal successes, which can contribute to effectively overcoming the crisis and moving towards a more sustainable future.

Suggested time
3 hours

Materials
Template Past and Future Ruler, preferable A1
Trendcards and Successcards (see 'visualise' below)
Pens, post-its

Participants
Mentor, business owner and possibly colleagues or stakeholders

The tool can be used to coach the mentee to identify the strengths of her/his past experiences in the company, and further to build upon those when describing and moving towards a desirable future. The approach is similar to appreciative inquiry, which has helped companies expand for years all over the world. The idea is to focus on your successes and your strengths, both at an organizational and a personal level. This mindset will help you to keep a positive and open-minded approach when you look towards the future and take new conditions into consideration. It is suggested that you share the picture of a positive future with the team, to establish common ground and enable you to develop a desirable future together.

As part of the process, the business owner describes what her/his vision for the future might look like, both in a short- and long-term perspective. The tool helps to identify where to focus in relation to people, planet and profit (triple bottom line) and how to move on towards a more sustainable future.

To work with this tool and enhance the learnings for the past, it is important to create a space of trust with a positive focus on successes and shared goals.

Choose a wide range of people: People who are new in the company, and people who have longer experience there. Including diverse perspectives will likely improve the quality of the ideas and solutions that the team is able to produce.

Examples of future trends:

'2025: CO2-friendly meat from insects is generally a supplement to vegetarian food. A frequent alternative to laboratory-grown meat.'

'2030: the large desertification in parts of the world generates climate refugees – it is estimated that 200 million will flee each year worldwide.'

'2022: good systems for circular economy exist, and trade in waste is common. All waste is considered to be a valuable resource.'

'2030: the Chinese stand side by side with the Americans in terms of economy and growth. US GDP is \$24,8 trillion, and Chinese GDP is \$ 22,2 trillion.'

'2050: the number of older people over 80 is 2,5 times greater than it is today. More than every 10 inhabitants is over 80 years old.'

'2034: Robots have taken over a number of job functions within the services sector.'

'2038: The world's water resources can only meet 60% of the global demand.'

GROWTH JOURNEY



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STEPS

- 01 | Every participant presents the prepared success cards and place them on the Past Ruler template. With inspiration from the success cards, ask every person to add more successful experiences by writing them on individual post-its (what, who, organizational changes, important products/services, team achievements, situations, etc.). Place the Post-Its on the Past Ruler template as well based on year/time and which of the three bottom lines they each relate to.
- 02 | Similarly, write your gathered data about future events, concerns, important regulations and the company-related events you already know of etc. on individual post-its and place them in the template.
- 03 | Present your prepared future trends and scenarios to each other and discuss their placement on the ruler.
- 04 | Now you have a shared overview of potential challenges, constraints and possibilities. Discuss whether or not your current plans meet the trends and scenarios of the future.
- 05 | Now imagine and brainstorm upon how to meet the needs of the future? In which ways could you develop your business into a more sustainable future. Place the ideas on the ruler/timeline.
If you get stuck, help each other by asking open questions that help you to identify opportunities.
- 06 | Evaluate your discussions.

FACILITATION



SUPPORTING TOOLS

Active listening: To help your awareness on asking effective questions to open up the mind of the mentee and create a space of trust.

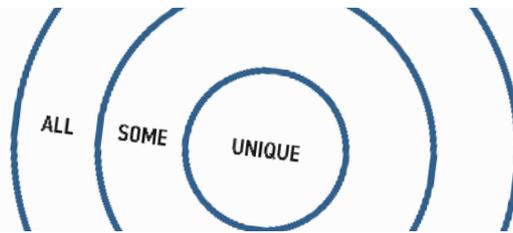
Why/The Golden Circle: To keep the purpose of the company top of mind.

Future Vision: To elaborate on your findings and unfold them to create a clear vision of your future business.



VISUALISE

It might be of great value to prepare images for this task. Ask every participant to prepare success cards – image and headline to previous successes, that you have experienced in the company (mapping successes of the past). Ask the team to research upon future trends and scenarios that might impact the future of your business – image, headline and short text.



UNIQUENESS

The tool helps you map the parameters that make your business truly unique and stand out from your competitors.

Suggested time
Minimum 30 minutes

Materials
A2 or A3 version of the model, post-its, pens

Participants
Mentee and mentor, preferably more colleagues

GROWTH JOURNEY



Onboarding

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PERSONAL JOUR-



To maintain a competitive edge in the market, it is essential to identify what makes your business stand out: What is your unique value proposition? Maybe your business used to have an unique position in the market and a clear profile that distinguished it from the competition. The current crisis could be caused or deepened by the loss of that “uniqueness”. This again could be linked to internal factors such as old habits, or external factors like technological development and globalization.

The tool describes a simple method to map the characteristics that 1) you share with **all** competitors, 2) you share with **some** competitors, 3) are **unique** to your business. It creates a good starting point for rethinking your value proposition and moving towards innovation and new growth.

The approach is close to the reasoning behind the popular “Blue Ocean Strategy”, which suggests that it is preferable to move from the saturated (red ocean) market where everyone competes to the wide open (blue ocean) market of the future. For further information visit www.blueoceanstrategy.com.

STEPS

01

Draw or print the template with three circles showing 1) the parameters shared by **all** companies in the outer circle, 2) the parameters that **some** have in common in the second circle and 3) your **unique** parameters in the inner circle. Hang it on the wall.

02

Start by doing an individual brainstorm: Which solutions, products, knowledge areas, skills and experiences characterise your business? Every item must be noted on a separate post-it.

03

Everyone gathers in front of the template on the wall and briefly presents their post-its while placing them in the proper circle. At this point hold back your comments, to provide an open space for everyone to contribute.

04

Now open up a discussion to gain a common understanding of the current situation and feel free to move the post-its around during the dialogue.

Try to build on knowledge rather than assumptions.

05

Use this mapping as a starting point for a discussion of how your business can shift towards becoming more unique in the future. Which parameters could you change? Which activities could be beneficial to close down/stop and which could be beneficial to expand?

FACILITATION TIPS



SUPPORTING TOOLS

Why/Golden Circle: To examine how the unique potential mirrors the core purpose of your business.

Business Model Canvas: To evaluate your unique ideas in relation to the value chain.

Future Vision: To mirror your ideas towards a future perspective.

Persona: Who is the present target group and what are their needs for your unique value proposition now? And in 5 years?



CO-CREATE

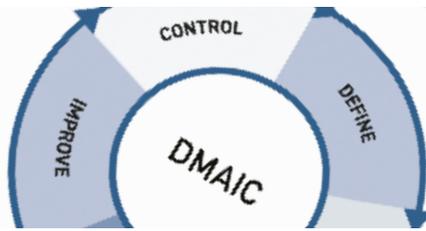
Get more people involved, maybe they see unique potentials that you have missed. You could use this tool in individual departments and afterwards share your different insights.



MOVE

Sometimes you should break the routine of always sitting around a table. Consider printing this model and hanging it on the wall.

This is a very simple, but surprisingly useful tip to shift the energy in the room from low to high.



DMAIC

DMAIC is a five-step method for identifying and improving an existing process problem in a company.

Suggested time
At least 3-4 days

Materials
Flip-over, post-its,
pens and paper

Participants
4-10 persons

GROWTH JOURNEY



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When a company is experiencing a crisis, it is essential to rationally identify and systematically address the root cause of that crisis. This can be challenging for most companies, and naturally the crisis in itself only further complicates the effort.

This is where the comprehensive process method DMAIC can be useful. DMAIC is an acronym for Define, Measure, Analyse, Improve and Control, and it is meant to guide a company through the steps of resolving an existing process problem.

DMAIC was developed as part of the Six Sigma concept at Motorola in 1980 to drastically reduce the number of defect products in the production process, and it has since proven to be very successful.

For the best result, it is a good idea to involve the whole company and maybe key stakeholders.

STEPS/DAYS

The following steps are based on the five steps of the DMAIC approach. Each step requires a number of smaller steps and actions, and throughout the process, it is important to draw on all available data and information. Leave some days between the steps/days, e.g. to gather additional information. For the Control phase, you will often want to come back later and revise the results.

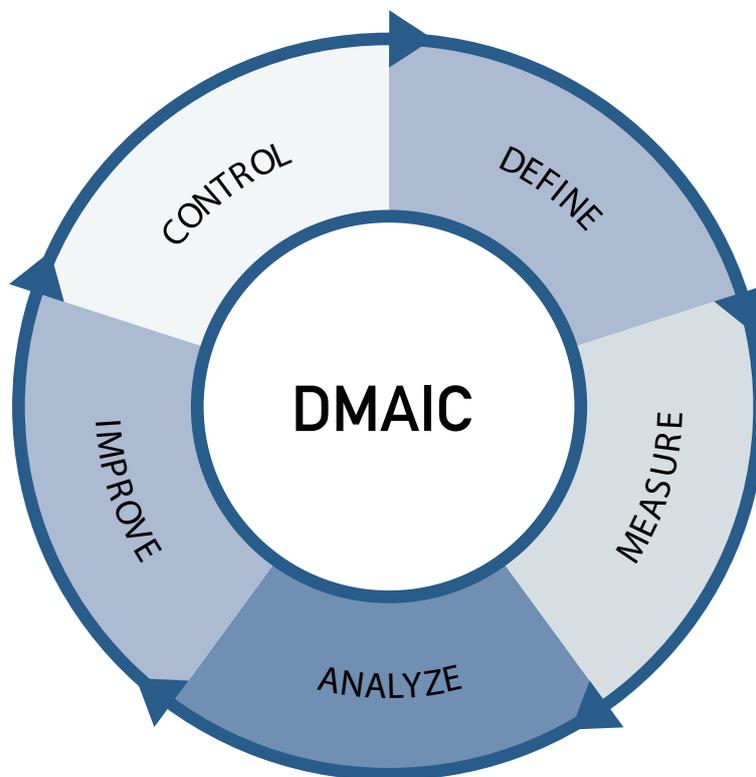
- 01 | Define: What problem in the company do you wish to fix? You create a project charter, including problem and goal statements, describe business case and customer needs (also: who are the customers?), plot the process ahead, and establish the team to be involved in this process.
- 02 | Measure: How big is the problem? You gather all the relevant data about the issue you want to address, including any statistical data from the production process, sales, etc. These data can be used to determine the current “baseline” performance.
- 03 | Analyse: What is the cause of the problem? You analyse all the available data in order to understand the problem. Do not jump to conclusions, but be thorough in getting to the core of the problem – the root cause – before developing a hypothesis for the next step.



04 | Improve: What can you do to fix the problem? You develop ideas and solutions for addressing the root cause(s), which you have identified. When you have decided on a solution, test it before making the final implementation.

05 | Control: What impact did the solution have? You develop a plan for documenting and keeping track of the changes, as well as a response plan if performance drops.

This tool is provided by the project leader of Restart BSR, Lower Silesian Intermediate Body.



FACILITATION TIPS



SUPPORTING TOOLS

Business Model Canvas: For Define.

Lotus Blossom: For Improve.



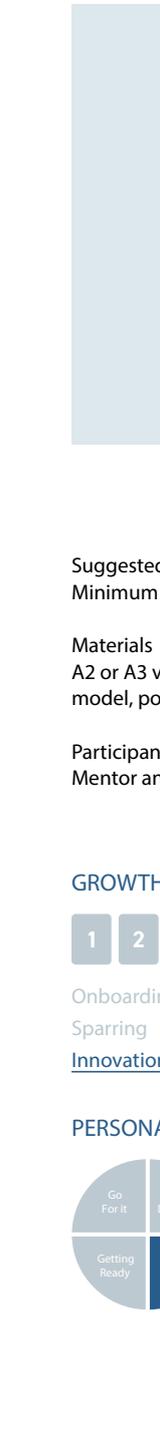
VISUALISE

Throughout the project, it is helpful to have a visual model of the DMAIC process and the most important data and insights – put it on a wall in the company.



CO-CREATE

Working with DMAIC is a collaborative process, which should be managed by a dedicated team, but the more knowledge and insight, the better. Consider involving central stakeholders.



WHY/GOLDEN CIRCLE

By focusing on the why, the tool can help you to identify the core purpose of your business.

Suggested time
Minimum 60 minutes

Materials
A2 or A3 version of the model, post-its, pens

Participants
Mentor and mentee

GROWTH JOURNEY

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PERSONAL JOURNEY



We humans generally experience stronger motivation and ownership when we can see clearly **why** we do what we do – when there is a sense of purpose that we can identify with on a deeper level.

In the middle of a crisis, it can be tempting to look for quick fixes and short-term solutions; how can we solve the problems, what can we do here and now? The problem is that this kind of thinking will rarely lead to sustainable, long-term growth. In fact, it may be even more important to have a clearly defined purpose to guide you through a crisis. What is the reason for your company’s existence?

The Golden Circle helps to maintain focus on the **why**, putting it at the centre of the circle, asking you to define the purpose of your business before you look for specific solutions. What is it that you hope to achieve in the long run? How does your company contribute to something greater than profit? It is possible to do this alone, but it is recommended to be at least two people for greater effect. When you have a strong, clear and compelling **why**, you will be able to build a stronger relationship with your target group and thereby reach them on an emotional level.

STEPS

- 01 | Phrase a question that can guide you to identifying your **why**: “What is the purpose of my business? What drives me? What do I hope to achieve? What makes me get out of bed in the morning?”
- 02 | Come up with as many answers as possible to this question and write them on individual post-its.
- 03 | Look at your answers and merge them into a single sentence that captures the essence of your **why**. Write it down on a post-it and stick it in the middle of the circle.
- 04 | With the **why** in the middle, move on to the next circles: **How** can you achieve your why? Which approaches will help you? **What** are the specific products/services that will realise your **why**?
- 05 | Look at all three layers. Do they correspond or do you need to make some adjustments? 

Re-visit and adjust your purpose/**why** over time. It will be of great value if you try to approach your purpose/**why** with different ways of generating knowledge. It is especially helpful to work with images and/or tangible objects to draw upon insights from your subconsciousness and intuition. E.g. mentor and mentee spend 5 minutes building the **why** in LEGO bricks individually. Then they interview each other. The listener takes notes. Afterwards swap your LEGO models and continue building to strengthen the story. Interview and take notes again. Then gather all notes and try to cluster them. Find insights/phrases that represent your purpose in the best possible way. Or you can work with **why** in a visual way, where you find images that represents your purpose. Base your dialogue upon these stories.

FACILITATION TIPS



SUPPORTING TOOLS

Persona: "Expand" it to also include the who. Who are the target audience/end users/clients of the products/services provided?

Uniqueness: To explore whether your purpose/why is unique or not.

Future Vision: To compare your purpose/why against future trends/scenarios to envisage the relevancy in 5, 10 or 15 years.



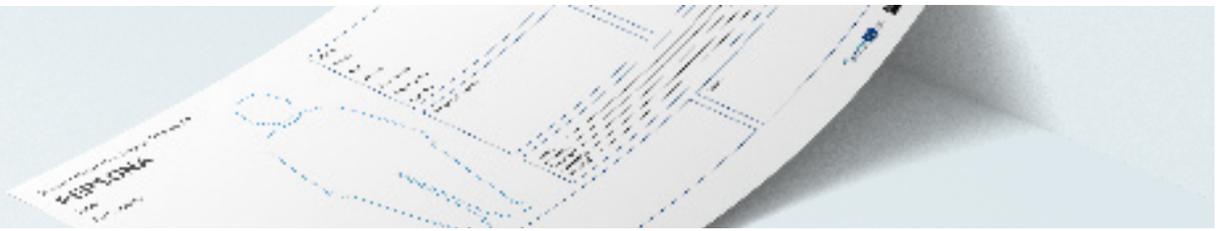
CO-CREATE

While the business owner is usually the person who has been thinking the most about the main purpose of the company, it can be helpful to include more people in this process. What does the management group think? What do the employees think? What about other professional contacts? How does your purpose affect the end-user and how do they relate to it?



MOVE

Sometimes you should break the routine of always sitting around a table. Consider printing this model and hanging it on the wall. Use post-its when working with possible whys before you decide on the final version.



PERSONA

The tool lets you achieve a shared understanding of your end-users and gives you insights, which stimulate your business ideation with a view to the future.

Suggested time
60 minutes per
persona

Materials
Post-its, pens,
paper (A3 or
bigger), collected
data, template for
inspiration

Participants
Minimum 2 (mentor
and mentee)

GROWTH JOURNEY



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PERSONAL JOURNEY



A persona is a fictional character that helps you to move from assumptions of end-user needs towards robust knowledge based on qualitative field research. It can be a current end-user group or a group that you would like to target in the future.

By representing data that reflects e.g. how your target group thinks, feels and operates, the persona can provide an overview and a basis to develop from. Most companies will have at least 4-5 personas. To achieve a broader perspective try to merge insights from different stages of the end-user journey, such as sales, customer service, retail,

webshop, wholesale, etc.

Often we tend to take on a company perspective approach and forget to take the perspective of the end-user and how they perceive/meet/interact with our product or service. With the persona tool we shift to a receiver perspective and try to understand and empathise with the end-user on a deeper level. Which problems are you solving for him/her? What are their needs and dreams?

STEPS

- 01 | Hang a large piece of paper on a wall and together decide on the end-user group that you would like to elaborate on. It can be a current end-user, or an end-user that you would like to target.
- 02 | Draw a person(ification) that represents your end-user group and write name and age on the paper next to your persona (maybe even add a photo). If you are lacking inspiration, you can use the attached persona template to get started.
- 03 | Write down on post-its everything your mind tells you about this end-user and stick them onto the paper as well. What are the persona's values? How does the persona behave? What does the persona aim for? What skills does the persona have? How is the attitude of the persona? Where does the persona live? What are the persona's challenges? Which interests does the persona have? How does he/she think and feel?



- 04 | When you cannot come up with any more information about your persona, take a step back and go through each post-it and consider/discuss whether it is something you know for sure or whether it is an assumption. Mark the post-its with assumptions. Often you will be surprised how many post-its are actually only assumptions. But not to worry, now you have a list of statements to go out and investigate.
- 05 | Investigate the statements that are assumptions. Start with the ones that have the highest impact on your business or hold the biggest potential. You have to leave the office and go out into the real world and find your end-user. Here you can for instance use interviews and observations to collect data on your persona. You are allowed to combine real-world experiences with desktop research. Collected data can be anything from keywords and text to photos, illustrations, etc.
- 06 | When you have tested your assumptions and found new insights, write each new insight on a post-it and add them to your illustration. Put up your persona(s) on a wall where it/they are visible and you are able to continue to work on them. Your end-user will develop over time. Your persona is not static.
- 07 | Now try to imagine 5 or 10 years ahead. Draw a new persona imagining your persona in the future. How will future trends and scenarios change their needs? And how will it affect your business?

FACILITATION TIPS



SUPPORTING TOOLS

Why/The Golden Circle: To broaden your shared perspective to include why, how and what.

Future Vision: To elaborate on your findings and unfold them to create a clear vision of your future business.

Business Model Canvas: To explore your customer segments and test how the personas fit the complete business picture, especially your value proposition.

Uniqueness: To make sure the needs of your end-user match the uniqueness of your company.

Active Listening: To help your awareness on asking effective questions to each other while you develop your persona. And further to ask effective questions when you turn to your end-user to gain valuable insights.



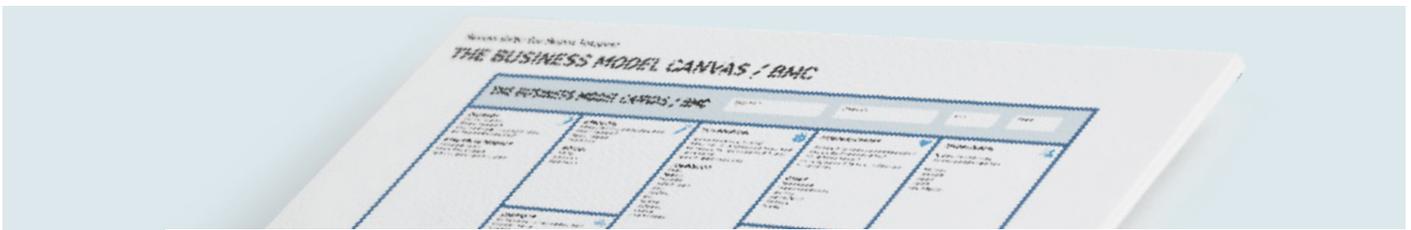
VISUALISE

Make a life-size drawing of your persona. It will help spark your creativity and imagination.



MOVE

Stand up while you draw. It will energize both body and mind, and you will get a better drawing result, when you draw on a wall instead of a table.



BUSINESS MODEL CANVAS

Business Model Canvas is a tool to analyse, develop and test business models in one poster.

Suggested time
45 - 60 minutes

Materials
Template BMC

Participants
1-5 mentor, business owner and possibly colleagues or stakeholders

Business Model Canvas is a dynamic way to develop and visualise a business model, which shows a specific strategy towards how to make money. The template takes into consideration who you are developing for, what their needs are (**Persona**), how to reach them, and what the main value proposition is (**Why**).

The tool requires you to map your available resources, who your partners are, etc. This gives you an overview of how you are running your business in terms of different aspects, which can help a group of leaders or colleagues to acquire a shared understanding.

Additionally you can also use the tool to develop your business model and test different ideas. For instance it allows you to explore different types of users. What would happen to your business if you shifted to another target group? Or what would be the potentials of a new external partnership? Or how will it affect your business if your regular sales outlets are restricted?

You can use the model to test the relevance of your business concept in a future perspective by combining the BMC tool with the Future Vision tool and the trend cards.

Business Model Canvas was developed by Alexander Osterwalder and is described in his book, Business Model Canvas, 2010.

GROWTH JOURNEY



Onboarding
Sparring
[Innovation](#)

PERSONAL JOURNEY



STEPS

- 01 | Map your current business through dialogue and by writing the insights on post-its and placing them on the poster. Make sure you begin with the right (not left) side of the template. What is the unique value proposition of your company? What types of end-users demand this value? What problem are you solving for them?
- 02 | Discuss the current situation. Where are you eager for change?
- 03 | Work your way through the template considering how the change will fit into your value proposition and affect other aspects of your business. How does it seem to increase your income and what kind of resources does it require?
- 04 | With the **Why** in the middle, proceed to the next layer: how can you achieve the purpose? What are the specific actions you have to take?



Hang the poster on the wall, so that it is visible in your everyday work. It is important not to consider this as a final product but more as work in progress. Revisit it, make a new poster to try out other aspects or new ideas.

FACILITATION TIPS



SUPPORTING TOOLS

Future Vision: To add the future perspective.

Why/Golden Circle: To go deeper into the value proposition.

Persona: To explore customer segment.



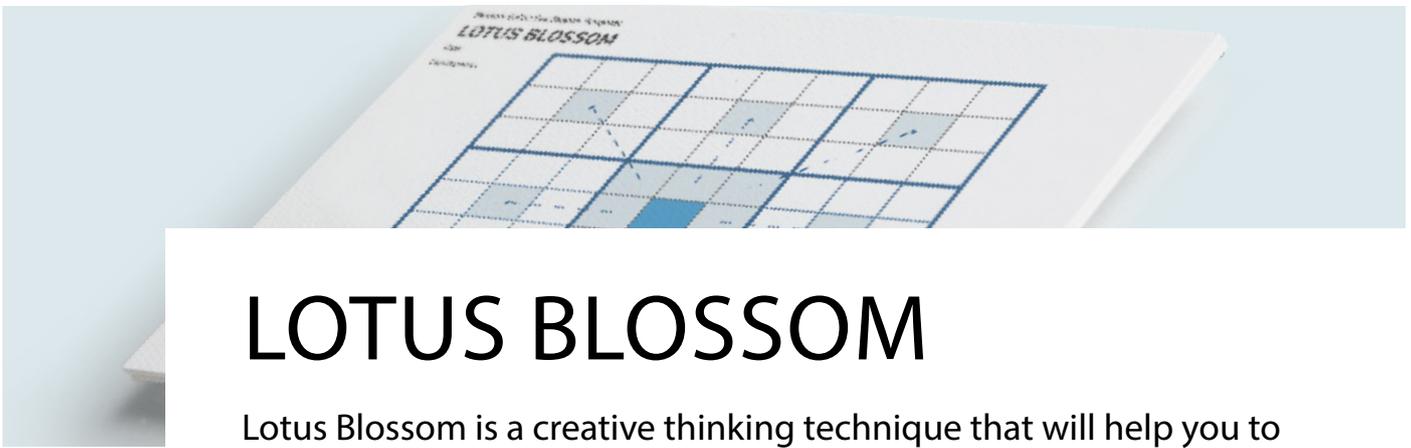
MINDSET

It might be important to articulate when you are analysing your current business (closed modus) and when you are exploring new opportunities (open modus), because it requires two different mindsets.



MOVE

It might be an idea to hang the template on the wall and stand up while thinking to get the body and mind energized and keep the group spirit high.



LOTUS BLOSSOM

Lotus Blossom is a creative thinking technique that will help you to explore ideas beyond your usual way of thinking.

Suggested time
45 minutes

Materials
Lotus Blossom Poster,
Post-its, pens, flip
chart

Participants
2-5 (ideally 4)

GROWTH JOURNEY

1 2 3

Onboarding

Sparring

Innovation

PERSONAL JOURNEY



The tool helps a group of people to develop ideas in a structured and inclusive setting that allows for mutual inspiration. It offers room for open yet effective brainstorming while bringing a sense of order to the process through its diagrammatic format. Once the brainstorm is finished, it leaves participants with a structured overview of their work. The tool is relevant when you have understood the challenges of the situation your company is in, and formulated these into a question that aim for a new, open direction.

It is of great importance that you choose the right challenge question as a focus of this exercise. Depending on the situation in the company, it can be relevant to explore different dimensions. The importance is that the question contains the challenges and guides us into a world of opportunities. The team who do the poster are ideally mentor, business owner, colleagues, stakeholders (e.g. customer). To reach the highest level of innovation potential, it might be a great idea to separate leaders and employees, if you have invited a team as participants. The two groups work on separate posters, and execute the exercise without interfering each other. After the work is done, the groups share their ideas and reflections. It is also possible to execute this online in the two groups. Eg. using miro where it is possible to import the tool template.

This allows employees to share their thoughts openly in a free way where they do not hold back. Further it allows the leaders to fully listen and explore the minds of their employees. The leaders have the mandate, of course, to choose afterwards, what they prefer.

STEPS

- 01 | Prepare a large sheet of paper with the Lotus Blossom diagram by printing the template (or drawing it yourself) and hanging it on the wall. Or you can work on it online.
- 02 | Place your central challenge question in the middle. A challenge question always starts with 'How might we...' and turns the problem into a space of opportunities, e.g. How might we ... help patients (the users) to maintain their identity (purpose) while being hospitalised (context)?
- 03 | Choose one person to facilitate the exercise. The facilitator explains the codex of brainstorming and writes it on a flip chart, e.g. (based on brainstorming rules from IDEO).
Go for quantity
Defer judgement



Encourage wild ideas
Build on the ideas of others
Stay focused on the topic
One conversation at a time

We are in the open positive modus where critique is not allowed. The facilitator must guide the participants to keep that in mind throughout the exercise to create a constructive and creative work atmosphere.

- 04 | Each participant now approaches the poster on the wall with a pen and a set of post-its. The facilitator must keep the logic of the proposed solutions. Everyone comes up with ideas for the question, writes them down and says them out loud while putting them around the centre.
- 05 | When the 8 squares around the middle are filled, you move the answers to the outer square and rephrase them into questions to dive deeper into the project. Continue until the diagram is full.
- 06 | Now step back and close the exercise by shifting from the open/opportunity-driven mindset to a closed mindset by analysing, evaluating and choosing the best ideas. Sometimes we need shared categories to evaluate the ideas. Choose for instance 3 parameters (e.g. level of value to the company, value to the user etc.) that have to be considered in the concepts. Sometimes a combination of different ideas suddenly appears as the right answer to the question in the middle, hence look for combinations.
- 07 | Revisit the poster another day and start working on the most valuable ideas, e.g. by unfolding the ideas into **Business Model Canvas**, and test them by sharing and getting feedback from different stakeholders, especially the end users.

FACILITATION TIPS



SUPPORTING TOOLS

Business Model Canvas: To explore the ideas in the context of the company.

Uniqueness tool: To test how unique the ideas are.

Why/Golden Circle tool: To explore how the ideas fit with the purpose of the company. Or you can find some users and pitch the ideas to collect their early feedback.



MINDSET

To get everyone in an open modus, and create a space where every voice in the room is equal, it might often be of great value to have each participant spend 15 minutes on their own before meeting in front of the poster.

1. Tell them to individually write down their thoughts on post-its to explore multiple answers to the question.

2. Everyone now gathers by the poster on the wall with their notes in their hand. This will oftentimes increase the quality of the ideas, and especially the introvert people will benefit from having an individual space before starting the group work.



FUTURE VISION

The Future Vision tool helps business owners develop and structure their plans for a desirable future for the company.

Suggested time
90 minutes or more

Materials
Future vision poster,
Post Its, Pens, Flip
Chart.

Digitally: Draw or drag
the template into Miro.

Participants
2-5

Future Vision is a framework to structure the complex task of planning for the future of a company. The tool combines strategic design thinking with concrete action, as it guides the business owner towards describing her/his big vision and identifying the next best steps to take.

When you are making plans for the future, you engage in a delicate balancing act, where a number of different parameters and perspectives must be considered. Future Vision aims to support this process by using both knowledge and intuition, assessing the needs of the company and the needs of clients and society, while considering both the professional ambitions for the company and the personal dreams for the business owner.

GROWTH JOURNEY



Onboarding

Sparring

Innovation

PERSONAL JOURNEY



STEPS

You can print this tool on A2 or A3 if you want to use it in a face-to-face setting, or place the template in a digital platform such as Miro.

- 01 | Start in the upper right corner by examining the trends that are expected to have an impact on the future of your company. You can use the trend cards to spark your imagination. Try to draw on both what you know for a fact, and what your intuition tells you.
- 02 | When you have identified the most important trends, try to distill these into the major gamechanger. What is likely to cause the biggest change in your area of business?
- 03 | Now you look at three connected dimensions of your company: Who are your primary users/clients, in which context does your company operate, and what is your core purpose for doing business?
- 04 | Based on the previous step, you can phrase the “challenge question” as a guide towards innovative thinking. This question starts with “How might we...” and it should always include purpose, users and context.
- 05 | The challenge question encapsulates your big challenge, and lays the groundwork for describing the vision and mission for the company. What is the big dream (vision) when you look five or ten years into the future?
- 06 | Finally, you can start taking action, as you describe how this is attained by transforming it into your mission. What should you should do less of and what should you should do more of in order to fulfil the vision. This should



point towards specific steps that you can take in the near future.

Often the process of developing your vision, mission and the allocated task to do or stop doing will be an iterative process. Here you go back and forth between the different levels of your future strategy and the actions you need to take.

FACILITATION TIPS



SUPPORTING TOOLS

The Past and Future Ruler: To identify the future trends in relation to your learnings and successes from the past, before elaborating on them with this tool.

Business Model Canvas: To evaluate the impact of your unique idea in relation to the value chain.

Why/Golden Circle tool: To explore how the ideas fit with the purpose of the company. Or you can find some users and pitch the ideas to collect their early feedback.



REVISIT

Values and surrounding conditions change over time, which makes it important to revisit this tool from time to time.

RESTART BSR ROADMAP – ESTONIA

1. Background

Overview of Estonian economic situation, policies, and initiatives of relevance to companies in financial distress.

Estonia's open and stable economy is characterized by adaptability and innovation. With conservative budget policy, flat-rate income taxation, extensive freedom for foreigners to own land, and 100% profit repatriation, Estonia is one of the most business-friendly countries not only in Eastern and Central Europe but in the whole world¹. Estonia positions in various indices:

- #1 - OECD Tax Competitiveness Index 2020
- #1 - Entrepreneurial Activity, World Economic Forum 2017
- #1 - Digital Economy and Society Index, European Commission 2020
- #2 - Freedom on the Net, Freedom House 2021
- #8 - Index of Economic Freedom, The Heritage Foundation 2021
- #18 - Ease of Doing Business, The World Bank 2020

The Estonian Government demonstrates flexible and needs-based legislation with priority on the facilitation of entrepreneurship. This has resulted in a simple, transparent, and nimble business environment that is one of the key drivers of foreign direct investment in Estonia.

¹ Invest in Estonia, Estonian economy overview <https://investinestonia.com/business-in-estonia/estonian-economy/structure>

Estonia combines elements of both the old and new economy – while the success of the technology sector has made the start-up scene blossom, the country is also moving up in the value chain in sectors such as forestry and oil shale.

SMEs dominate the Estonian business economy. In 2020, they generated a share of 78.3% of value added and 79.5% of employment. This was well above the respective EU averages of 53.0% and 65.2%. SMEs employed an average of 4.4 people in 2020, slightly above the EU average of 3.7 people. Average productivity, calculated as value added per person employed, was approximately EUR 32 200, almost one quarter below the EU average of EUR 40 000²

According to SME Performance Review 2021 Estonia has high entrepreneurial culture. For example,

- Early-stage entrepreneurial activity in Estonia is 19,38%, compared to EU average 9,57%.
- Established business ownership rate in Estonia is 11,37% compared to EU average 8,14%.
- Entrepreneurial intentions, percentage of adults who intend to start a business within 3 years, in Estonia 18,14%, compared to EU average 15,64%.³

² 2021 SME COUNTRY FACT SHEET'S BACKGROUND DOCUMENT, The SME Performance Review, European Commission.

³ SME Performance Review 2021, Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs

At the same time Estonia fall behind in so called second change indexes. For example

- Average time to resolve insolvency in Estonia is 3 years, compared to EU average 2,01 years.
- Cost of resolving insolvency, cost of recovering debt as percentage of the debtor's estate, is Estonia is 9%, compared to EU average 10,59%.
- Fear of failure rate in Estonia is 31,76% slightly below EU average 44,42%.⁴

Estonian public organizations, provide support, including consultation and grants, for establishing a new company and accelerating companies' growth, however no dedicated services or counselling is provided for entrepreneurs in distress. Network of County Development Centres provide advisory services for entrepreneurs, among them advisory services for entrepreneurs facing crisis and on initiating insolvency process.

Estonia compliance with Early Warning directive.

According to World Bank Group report commissioned by European Commission, Estonia meets many of the necessary preconditions to successfully develop a sophisticated Early Warning tool: a highly digitized economy, institutions committed to delivering high-quality public services, and a restructuring culture that mostly relies on amicable solutions that avoid court involvement whenever possible. At the same time, Estonia faces unique challenges in the implementation of this reform, including a relatively small economy where a strong business reputation is key, the prevalence of micro, small, and medium enterprises (MSMEs), and the lack of

positive credit information that may compensate businesses' prior defaults.⁵

2. Purpose and expected impacts of Restart BSR initiative.

The purpose of Restart BSR initiative, Early Warning and Second Chance systems is to provide advise to companies and entrepreneurs in financial difficulties, to provide mentoring services for company restructuring, to provide services for fast termination of a business that cannot be rescued, or to start a new business. On government, local municipality and social level tools and services developed by Restart BSR aiming following outcomes:

- By reducing number of companies which end up in insolvency process, tax revenues from these companies could be secured for government and local municipalities.
- By reducing number of companies which end up in insolvency process and helping these struggling companies to restore profitable operations, majority of workplaces at these companies can be rescued. It is extremely important in rural areas where unemployment rates are higher than in large cities.
- By providing advisory services and counselling for company owners and managers whose companies are forced to initiate insolvency process, these persons can be rescued from depression. As result these persons are mentally fit to start their new life as employee Which reduce cost in social services, including medical and unemployment benefits, needed for these persons.

4 SME Performance Review 2021, Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs

5 Estonia / Early Warning Tools, World Bank Group.

Restart BSR project goals are well aligned with Early Warning principles, that the earlier a debtor can detect its financial difficulties, the higher the probability of avoiding insolvency. Similarly, if with the viability of a business is permanently impaired, the more orderly and efficient the liquidation process will be.

That for Early Warning paradigm has changed over last years, from being just alert mechanism to *Alert and Advise* mechanisms, where Restart BSR services fill the void of *Advise* services.

3. Restart BSR organization.

Activities and responsibilities of the organization and national and regional partners in the innovation eco-system.

Lead partner of Restart BSR activities in Estonia is Harju County Entrepreneurship and Development Centre (HEAK). Harju County Entrepreneurship and Development Centre is a part of Network of County Development Centres (CDC) that includes 15 county development centres in Estonia.

The county development centres (CDC) were established in 2003 under the conception of the Government of the Republic of Estonia. The main aim was to create a supportive structure which would back the operational capability of companies, local authorities and non-governmental institutions as well as promote effective use of Structural Funds.

By the year of 2020, the county development centres have grown into development organizations which operate in all counties and, with the support of the state, European Union, and local partners, contractually provide information and counselling service as well as development support for companies, non-governmental organizations and local authorities.

In addition, the development centres offer investment services on the county level, energize the enterprising mind of young people

(Enterprising School) and organize all-Estonian information events (Business Week, Joint Action Week) in order to promote business and entrepreneurship. We initiate and implement various development projects, proceeding from the county's needs, and co-operate with different partners in the county.

The Network's partners: Ministry of Economic Affairs and Communications, Ministry of Finance, Ministry of Education and Research, Ministry of the Interior, Ministry of Foreign Affairs, Ministry of Social Affairs, Enterprise Estonia (EAS), National Foundation of Civil Society, Tallinn Enterprise Department, local authorities.

National and regional partners in Early Earning and Restart activities.

Harju County Entrepreneurship and Development Centre (HEAK) has built a Restart network of strategic partners to prepare for piloting and launching of advisory services for entrepreneurs in distress.

Consultants' partners pool consists of County development centres consultants and experts, like layers specialized in insolvency law and restructuring services. Consultants' pool partners will be responsibilities:

- Being a contact point for entrepreneurs.
- Conducting validation of entrepreneurs and companies seeking for help. To determine whether the reasons are purely business related or not.
- When mentors network is developed, matching entrepreneurs with mentors. For the period until formation of mentor network, consultants will carry out advisory and mentoring activities.
- External consultants and experts will provide legal counselling and coaching when it is necessary.

Early Warning partners pool consists mainly of ministries and government organization responsible for developing environment for Alert part of Early Warning.

Harju County Entrepreneurship and Development Centre (HEAK) is a member of Early Warning work group initiated by Ministry of Economic Affairs and Communications. Other members of Early Warning work group are - Ministry of Justice, Statistics Estonia, Information System Authority (RIA) and Estonian Tax and Customs Board. Early Warning pool partners are responsible for:

- Developing and implementing Early Warning Alert tools.
- Developing and implementing Alert notification procedures and notification delivery infrastructure. Notification delivery infrastructure shall ensure that alerts are treated as punitive measures, but as nudging instruments to encourage entrepreneurs in distress to look for help.
- Development and implementing communication strategy about Advisory services for entrepreneurs in distress.

Sponsor partners pool consist of government, EU organizations and private donors, who can provide financial funds required for further development and sustaining both Alert and Advise parts of Early Warning components.

Mentor pool. Volunteer mentors and experts, providing pro-bono services, supporting, and mentoring entrepreneurs in distress.

Main responsibilities of Harju County Entrepreneurship and Development Centre (HEAK) are:

- Further enhancement of Restart advisory service and tools, developed during Restart BSR project.
- Knowledge transfer to existing and new Consultant pool and Mentor pool partners.
- Building and enlarging number of mentors in the Mentor pool.
- Developing non-monetary motivation program for mentors.
- Participation in implementing and execution of communication strategy of Early Warning and Restart advisory services.
- Participation in development of funding strategy and engaging with potentials sponsors capable and willing to fund Early Warning activities.

4. Potential risks and mitigation measures.

Critical risks influencing implementation of Restart and Early Warning activities in Estonia. Measures to mitigate these risks.

Concerning the possible risks arising from Alert system, they are well summarized in report Estonia, Early Warning Tools prepared by the World Bank Group⁶.

Following is the abstract from the report. If and to the extent that an EWT is triggered by an event that turns out not to have been a "real problem," then the tool is generating false positives and therefore is not functioning optimally. The consequences may be serious:

6 Report ESTONIA EARLY WARNING TOOLS, World Bank Group (WBG) May 2020

- The spirit of entrepreneurship could be damaged, as debtors may be less inclined to take reasonable commercial risks if they are afraid of receiving notification of financial distress. This is particularly true in smaller economies and smaller populations. The EWT must not, therefore, seek to eliminate what one might call the “freedom to fail” on the part of an honest debtor. Since the EWT is intended to be accessed by the debtor for its own benefit, there is a persuasive argument that if the debtor so chooses, it should be possible to ignore a notification or reject it as wrong under the circumstances.
- The cost of credit could increase, as financial creditors will almost certainly make it a condition of credit that the fact of any notification to the debtor be disclosed; and
- The risk that parties other than the debtor will learn of a notification (already significant in the context of Estonia) will increase as the number of notifications to the debtor increases, with creditors and competitors taking advantage in whatever ways they can.

Measures to mitigate the Alert system risks:

- Ensure that alerts and notifications provided to entrepreneurs serve as judgement free, not punitive messages, rather nudging instruments to encourage entrepreneurs to seek for help. Involve communication and cultural behaviour experts in developing of communication strategy.
- Take actions, if necessary, changes in legislation to forbid financing institutions like banks and leasing providers to

demand information about Early Warning notification.

- Ensure that Early Warning notification channels are private and not accessible by third parties.

Possible risks that might jeopardize Advise system.

- Unexpected global events (climate change, catastrophe on global level, outbreak of military action or war) which will raise other priorities at global and local country level, leaving no attention or financing for addressing entrepreneurship problems and challenges.
- Rise of stigmatization attitude towards failed entrepreneurs.
- Failure to train mentors and consultants, which lead to insufficient quality level in providing advisory service to entrepreneurs in distress.

Measures to mitigate the Advise risks:

- Activities concerning teaching entrepreneurship to children and youngsters. By doing that population become more aware about risk involved in entrepreneurship and acknowledge that risk is essential part of every enterprise.
- Establish certification process for mentors and consultants, to ensure they have required skills and competences for working with persons in distress.
- Look for different sources for financing Restart and Advise services. Including both, government, and private financing.

5. Strategic roadmap, activities, and timeline. 2.

Within Restart BSR project Estonian team developed and tested advisory model for companies in distress. When creating and testing national model, best practices from other countries, including Germany, Denmark and Poland were adapted to fit local economical and cultural landscape.

To ensure initiative from Restart BSR projects will not vanish in vain, Harju County Entrepreneurship and Development Centre (HEAK) is motivated and committed to continue building support system for entrepreneurs in general and specifically for entrepreneurs in distress.

Below you can find summary of strategic roadmap.

1. **Establish system of periodical automatically generated company health-check notifications/reports and nudging entrepreneurs to take actions to prevent financial difficulties and insolvency.**

The first aim of the alerts/reports is to provide homogeneous information for all stakeholders – owners, council, and board members. Secondly, when communicated wisely, these Early Warning alerts and health report, being accompanied with suggestions to engage with advisors, who can provide professional support. In Estonia the first contact would be Network of County Development Centres (CDC).

2. **Develop marketing and communication strategy for Early Warning/Restart advisory service for entrepreneurs and first-tier contacts, so in case unexpected situation occur, entrepreneurs will know where to seek for advice.**

First-tier contacts - family members and friends who have knowledge, whom to suggest entrepreneur to contact. Among other communication options to develop one single portal for entrepreneurs where all information concerning entrepreneurship can be easily found, including Early Warning Restart counselling service provider contacts.

3. **Strengthen cooperation with external stakeholders, e.g., accounting service providers, auditors, banks, etc.**

Aim of the cooperation: Use external stakeholders to influence entrepreneur in crisis to seek for help.

4. **Sustain and enhance developed competency model for consultants' and mentors.**

Withing Restart BSR project Estonia developed counselling process and competency model for consultants and mentors. Continuously improve counselling process description and required tools. Develop standard training materials for consultants and mentors to ensure high level of counselling. Set up internal "certification" of both consultants and mentors.

5. **Re-define mentors' role and develop motivation package for mentors. Evaluate options to use mentors and consultants from other services which aiming for similar objectives with Early Warning and Restart.**
 Considering the Estonia is a small country with population just above 1,3 million, building parallel consultant and mentor pools for many specific services is not viable. Instead, our aim is to build up network of consultants and mentors having skills and motivation to provide support for entrepreneurs in wide scale. Specially when there are similar or overlapping challenges. For example, challenge many old generation entrepreneurs are facing when planning for retirement and they do not have necessarily successor in their own family willing to take over the company. Viable options in this case include selling company or company assets and closing company, which are similar possible choices for companies in difficulties. Thus, consultants with same skill set can be used form these two counselling services. Motivation package ideas for mentors including "certification" for mentors & networking and experience sharing. etc.
6. **Evaluate funding options and secure funding for Restart Advice system, including public and private funding, support for Early Warning Alert systems and Advise systems.**
7. **Develop psychological counselling services for former business owners who has went through bankruptcy process.** Evaluate options to involve partner who could provide this service.
8. **Initiate "AA style" support group system for former business owner who suffer from stress.**
9. **To develop second chance apprenticeship.**
 After bankruptcy company owner faces lack of self-confidence and lack of trust from business partners. To regain self-confidence one need time and opportunity to do something purposeful. By securing a purposeful job for entrepreneur we give him: (a) opportunity to have income, (b) time to go through cycle of renewal, and (c) regain self-confidence and trust of partners.

Roadmap for Restart / Early Warning scale-up activities in ESTONIA

Activity	Start date	End date	Milestone. Achieved result
Early Warning / Restart advisory service program development and upscale.	15 Oct 2021	31 Dec 2024	Advisory service for entrepreneurs in distress has been active for first term of 3 years
Formation of project team for the Early Warning / Restart advisory service	15 Oct 2021	15 Jan 2022	Project team is in place and ready for execution of roadmap
Carry out Early Warning / Restart project management tasks	15 Jan 2022	31 Dec 2024	
Secure funding for 3 year term of activities	15 Jan 2022	15 Apr 2022	Secured funding for period
Sustain and develop further competency model for consultants and mentors.	15 Apr 2022	31 Dec 2024	
Develop strategy for engaging mentors.	15 Jan 2022	30 Apr 2022	Strategy for engagement and motivation of mentors.
Management of mentors pool	30 Apr 2022	31 Dec 2024	
Develop strategy for providing psychological counseling for entrepreneurs in distress.	30 Apr 2022	31 Aug 2022	Strategy and action plan for providing psychological counseling
Procurement process for service provider	1 Sep 2022	30 Sep 2022	External experts for psychological counseling contracted.
Develop strategy for support groups	1 May 2022	31 Jul 2022	Strategy for AA-style support groups for entrepreneurs in distress. Detailed action plan in place
Investigate options to create second chance (apprenticeship)	1 May 2020	30 Sep 2022	Strategy for so called apprenticeship program
Marketing and communications for Early Warning/Restart advisory			
Hiring Marketing manager (team)	1 Jan 2022	31 Jan 2022	Marketing team is formed for execution of roadmap activities
Carry out Early Warning / Restart project communication activities	1 Feb 2022	31 Dec 2024	
Build strategic coalition with external stakeholders.	1 Mar 2022	31 May 2022	External partners (Accountants, banks, auditors) are engaged.
Develop system of periodical automatically generated company health-check notifications/reports.	15 Oct 2021	31 Dec 2022	
Develop first test system for piloting	15 Oct 2021	31 Dec 2021	Test system is ready for piloting.
Piloting of test system	1 Jan 2022	31 Mar 2022	Pilot results gathered and evaluated.
Creating specification for AI based notification system	1 Apr 2022	30 Jun 2022	Specification is created.
Procurement process and development.	1 Jul 2022	31 Dec 2022	Notification system implemented

6. Budget and funding plan.

Disclaimer. Following is summary of individual activities required to scale up and sustain Restart and Early Warning Advise mechanisms. Our current understanding is that for first year or two Harju County Entrepreneurship and Development Centre will be responsible for caring out majority of the required activities. By dividing activities among partners, might significantly influence the budget.

Estimated budget consist of activities managed by Network of County Development Centres and known activities managed by our partners. Activities 2.1, 2.2, and 2.3 are planned in cooperation Early Warning pool partners, including Ministry of Economic Affairs and Communications, Ministry of Justice, Statistics Estonia, Information System Authority (RIA) and Estonian Tax and Customs Board.

Cost of development and maintaining of infrastructure for periodical automatically generated company health-check notifications and reports will be covered by Early Warning pool partners. Exact share of each partner has not been agreed. However, budget has been pre-approved.

Rest of planned activities will be managed by Harju County Entrepreneurship and Development Centre with co-operation with Network of County Development Centres.

Activity 7.2, provision of psychological counselling services for entrepreneurs, will be provided by experts. Role of lead partner, Harju County Entrepreneurship and Development Centre, will be organizing tender for purchasing the external consultants' services and project management.

		2021	2022	2023	2024
Early Warning / Restart advisory service program development.		64 600,00	353 440,00	436 800,00	525 160,00
1.1	Project team salaries.	39 600,00	253 440,00	316 800,00	380 160,00
1.2	Other costs.	25 000,00	100 000,00	120 000,00	145 000,00
Periodical automatically generated company health-check notifications and reports.		75 000,00	550 000,00	155 000,00	110 000,00
2.1	Pilot application for testing AI based notifications.	75 000,00			
2.2	Ful scale AI based notification system		500 000,00	100 000,00	50 000,00
2.3	Annual maintenance costs		50 000,00	55 000,00	60 000,00
Marketing and communications for Early Warning/Restart advisory service for entrepreneurs and first-tier contacts		0,00	180 600,00	211 720,00	253 400,00
3.1	Marketing team and coordination		105 600,00	126 720,00	158 400,00
3.2	Marketing costs		75 000,00	85 000,00	95 000,00
Strengthen cooperation with external stakeholders.		18 200,00	50 840,00	68 480,00	81 120,00
4.1	Project management costs	13 200,00	15 840,00	18 480,00	21 120,00
4.2	Other costs	5 000,00	35 000,00	50 000,00	60 000,00
Sustain developed competency model for consultants and mentors		16 500,00	158 000,00	195 400,00	232 800,00
5.1	Program leader and team salaries.	13 500,00	108 000,00	140 400,00	172 800,00
5.2	Other costs	3 000,00	50 000,00	55 000,00	60 000,00
Motivation package for mentors		13 500,00	168 000,00	220 400,00	262 800,00
6.1	Project management costs, incl salaries of project managers.	13 500,00	108 000,00	140 400,00	172 800,00
6.2	Motivation package activities for mentors.	0,00	60 000,00	80 000,00	90 000,00
Psychological counselling services for entrepreneurs.		13 500,00	114 000,00	154 800,00	206 400,00
7.1	Project management costs, incl salaries of project managers.	13 500,00	54 000,00	64 800,00	86 400,00
7.2	Purchase of service from external experts.	0,00	60 000,00	90 000,00	120 000,00
Support group system for former business owner who suffer from stress		13 500,00	74 000,00	104 800,00	136 400,00
8.1	Project management costs, incl salaries of project managers.	13 500,00	54 000,00	64 800,00	86 400,00
8.2	Other program costs.	0,00	20 000,00	40 000,00	50 000,00
Second chance apprenticeship.		13 500,00	64 000,00	79 800,00	106 400,00
9.1	Project management costs, incl salaries of project managers.	13 500,00	54 000,00	64 800,00	86 400,00
9.2	Other program costs.	0,00	10 000,00	15 000,00	20 000,00
TOTAL COSTS		228 300,00	1 712 880,00	1 627 200,00	1 914 480,00

7. Communication plan

Communication plan will be developed together with Early Warning pool partners. Early Warning pool partners are Ministry of Economic Affairs and Communications, Ministry of Justice, Statistics Estonia, Information System Authority (RIA) and Estonian Tax and Customs Board.



RESTART BSR ROADMAP – LITHUANIA

Background

In 2016, 15 organizations from seven European Member States formed a partnership to develop Early Warning Europe as a project organization under the call “European Network for Early Warning and for Support to Enterprises and Second Starter” under the EU COSME program. The call was an integral part of the European Commission’s efforts to improve framework conditions for SMEs and entrepreneurs across Europe.

The project succeeded in implementing the Early Warning mechanism in four countries, Greece, Italy, Poland and Spain on the basis of previous experience from Belgium, Denmark and Germany. Partners from six new countries (Croatia, Finland, Hungary, Lithuania, Luxembourg and Slovenia) joined as 2nd wave in 2019 with the aim of launching their own national Early Warning mechanisms. An expert network was created, which provided a forum for debating and suggesting policy measures and new cooperation modes.

Definition and concept of early warning, support and “second chance”

In economics, an early warning system is generally interpreted as **a system, used to forecast the future performance of a company or country, possible deviations from the plan and to mitigate risks in times of crisis.** An early warning system refers to operations, systems, phenomena, people and other elements that constitute an economic system (ecosystem).

The early warning system can identify the current situation and potential risks both qualitatively and quantitatively (Ozgulbas & Koyuncugil, 2010).¹

The European Commission points out² that **insolvency rules cover a wide range of measures, from early intervention before a company is in serious difficulties, to timely restructuring** to ensure that viable companies are maintained, to liquidation of assets where companies cannot otherwise be rescued and, last, the so-called “second chance” for honest entrepreneurs in the form of debt relief.

Until mid-2021, **no unified definition of support for companies in financial difficulties, early warning and “second chance”, binding for all EU Member States and parties involved, has been identified at EU level.**

As other related definitions from the academic, partly governmental and civic sectors point out, legal insolvency proceedings are only a part of a wider system of support, early warning and “second chance”.

In the EU, there are several early warning, support and “second chance” organizations. The RestartBSR project carried out an in-depth evaluation of the six best systems in the EU: (1) in Germany, the “Team U” system; (2) in Denmark, the “Early Warning Denmark” system; (3) in Sweden, the “Företagsjouren” system; (4) in Belgium, the “Dyzo” system; (5) in France, the “60 000 Rebonds” system; (6) in the Netherlands, the “MKB Doorstart” system.

These EU support, early warning and “second chance” models aim to provide advice to companies and entrepreneurs in financial difficulties, provide mentoring services for corporate restructuring, provide services for the rapid cessation of a business that cannot be rescued and start a new business.

The number of services provided by EU support, early warning and “second chance” support organizations identified in the RestartBSR project research is very wide and covers a wide range of financial pre-crisis, crisis and post-crisis situations, from early warning when a company is not yet in crisis, but stagnant to the support of the entrepreneurs when the latter is planning or has started another business after bankruptcy.

One of a kind an Early Warning initiative³

The overall objective of Early Warning Europe is to promote entrepreneurship and growth of SMEs across Europe. A key element is to create strong framework conditions for entrepreneurs and businesses across sectors that can help them face key challenges, including managing a crisis, dealing with bankruptcy and getting a second chance.

The Early Warning Europe network is providing advice and support to companies in distress. Such interventions can help prevent bankruptcies and their negative consequences such as job losses, increased economic risk for suppliers in the company value chain, and a potential economic, social and personal deroute for the company owners and their families.

An early intervention will increase the likelihood of a turnaround of the company resulting in a stable economic situation for the company and even sustainable growth. Moreover, if a company in distress is closed down at an early stage of the crisis, the intervention can help avoid an unsurmountable debt for the company owner thus giving him or her the chance to start a new venture (2nd Chance).

One of RestartBSR project findings is that the **existing measurements of insolvency proceedings** of the Baltic States, Poland and EU member states of the EC and the World Bank’s Doing Business Index **should be improved⁴**, considering the OECD guidelines on productivity components and including measurements and key performance indicators for each extended procedural insolvency step.

As discovered during the RestartBSR project, currently, the insolvency proceedings in the countries are one of the most important performance indicators of support, early warning and “second chance” system. The World Bank’s Doing Business Index (hereinafter referred to also as the “DB” index) is currently one of the most respectable sources for qualitative and reliable comparisons of assessment of the environment of companies in difficulties.

According to the “DB” index, the overall framework of insolvency proceedings is rated the highest in Poland, comparing it among the RestartBSR project countries - the Baltic States and Poland.

In Poland, the strength of the insolvency proceedings is evaluated at 87.5% of the maximum possible 100%, followed by Estonia - 81.3%, Latvia - 75%, and Lithuania - 50%.

The percentage of companies, restructuring their operations within insolvency proceedings in Poland is also the highest - 65.6%. The Baltic States lag far behind – In Latvia only 44.6%, in Lithuania - 43.4% and in Estonia - 38.9% of companies restructure their business within insolvency proceedings.

The insolvency proceedings take the longest time in Poland and Lithuania (3 years), while in Latvia their time is the shortest (1.5 years). In Estonia, the insolvency proceedings take 2.3 years, while the OECD average for high-income countries is 1.7 years. The 2016 EC research on insolvency proceedings in the EU⁵ emphasizes the need to reduce the duration of insolvency proceedings, as it has been proven that a shorter period for terminating insolvency proceedings provides a better opportunity for a successful “second chance” for the company and the businessman.

Poland also has the highest debt recovery rate - 60.9 cents on US dollar, but does not reach the OECD high-income countries level of 70.2 cents on dollar. In the Baltic States, the recovery rate is the highest in Latvia - 41.4 cents on US dollar, followed by Lithuania with 40.3 cents and Estonia with 36.1 cents on US dollar. The costs of insolvency proceedings, measured in value of property, are the highest in Poland and Lithuania, 15% of the value of debtor’s property, respectively, while they are the lowest in Estonia - 9% and Latvia - 10%.

The insolvency proceedings quality index is the highest in Poland, with 14 points out of 16. The second highest rate is in Estonia, with 13 points, followed by Latvia with 12 points and Lithuania with 8 points. The OECD average for high-income countries is 11.90 points. Poland, Estonia and Latvia are all above the average.

The EC conducts an annual SME Performance Review, which is one of the main tools used by the EC to monitor and evaluate the progress of EU countries in assessing the SME environment on an annual basis. SMEs make up 99% of the total number of companies in the European Union. The complex SME assessment states that among the RestartBSR project countries, only Latvia’s “second chance” system has moved into the area that is assessed as positive current performance and growth in the period from 2008 to 2019, compared to the EU average growth. The assessment of Estonia’s “second chance” reveals a high current performance, but in terms of historical progress there is a deterioration compared to the EU average.

Poland has a low current “second chance” assessment, but a growth is observed. In turn, Lithuania has a negative assessment of both the current “second chance” performance and the historical progress compared to the EU average and current growth. Overall, the target countries of the Research have a significant potential to improve their existing “second chance” performance against the EU average.

In European business culture, closing a business is seen as a failure that leaves a negative impression on further business. Following the business liquidation or bankruptcy, entrepreneurs in the EU mostly opt for a paid professional job rather than re-establishing their business⁶. However, the experience of liquidation is inspiring - those entrepreneurs who re-establish their business after bankruptcy are experiencing faster growth than start-ups. Interreg Baltic Sea Region project "RestartBSR" (hereinafter referred to as the RestartBSR project) finding shows that entrepreneurs who have failed are more successful than start-ups⁷. This points out that an early warning and "second chance" policy that supports companies in difficulty or bankrupt entrepreneurs to start a new business as soon as possible is one of the most promising ways to strengthen existing and create new successful companies and thus jobs after COVID-19 crisis. Several early warning and "second chance" support organizations for SMEs are already operating successfully in Europe, while there are no such support systems in the Baltic States.

The RestartBSR project is very closely linked to Directive (EU) 2019/1023 of the European Parliament and of the Council of 20 June 2019 on preventive restructuring regulation, debt cancellation and disqualification with target to increase the efficiency of restructuring, insolvency and debt cancellation proceedings, which requires all Member States of the European Union to provide an early warning tool (s). Purpose and expected impacts

Purpose and expected impacts

The general objective of the Directive is to reduce the main obstacles to the free movement of capital resulting from differences between the restructuring and insolvency regimes of the Member States and to improve the rescue culture in the European Union in accordance with the second chance principle.

One of the key elements of the Directive is the establishment of an Early Warning System (EWS) to help small and medium-sized enterprises (SMEs) to identify circumstances which could give rise to insolvency and / or other probabilities of its business difficulties and to warn of the need to take action. By using SDS, SMEs would have more opportunities to keep their business viable and thus preserve the jobs already created.

Based on the experience of EU Early Warning Europe Network, the mission is to promote entrepreneurship, second chance and destigmatize failure. Also, important to stress that it should aim to create awareness and facilitate the change of mindset on early warning, second chance and bankruptcy. To set out the direction of activities of the Network, three specific objectives are identified:

Objective 1: EWS awareness and disseminate good practices at all levels

The Early Warning Europe Network incentivizes European, national, regional, and local events to EWS awareness and disseminate knowledge on Early Warning, second chance and bankruptcy.

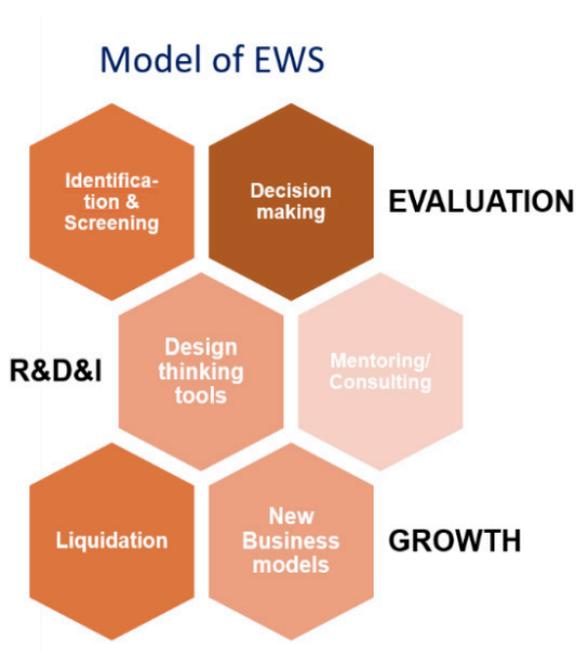
Objective 2: Facilitate capacity building

The Early Warning Europe Network strengthens the capacity of Member States, candidate, and potential candidate countries to facilitate the establishment of Early Warning mechanisms to support entrepreneurs in difficulties.

Objective 3: Encourage networking and exchange of knowledge at European level

The Network organizes events at European level to gather experts from European countries, to foster community building, facilitate the exchange of knowledge and good practices between stakeholders and to discuss policy questions related to Early Warning, second chance and bankruptcy.

Therefore, the main goal of EWS is to ensure that entrepreneurs whose companies are experiencing difficulties not only receive warning about it in the right time, but also promptly receive advice and support from experienced professionals, mentors, experts. Experience in other EU countries shows that proper and timely received advice not only encourages the emergence of new businesses, but also has a direct link to business growth initiatives.



The main tasks of the EWS are:

- develop and implement an accessible, user-friendly and professional EWS model for businesses in difficulty;
- ensure that company in distress have access to relevant up-to-date information on existing early warning system;
- ensure that information on early warning system is publicly available online and in a user-friendly way (especially for SMEs).

Lithuanian Government have dedicated the task for the Ministry of Economy and Innovation to develop an integrated EWS model, taking into account the expected changes and investments that can create much higher return value, using appropriate services and tools systematically in business support models, integrated models of the Early Warning System in Lithuania should be constructed and evaluated, rational use of state resources and planned investments, ensuring their integrity.

Organisation of the Restart BSR organisation

The RestartBSR project has united 6 partners - the Ministry of Economics of the Republic of Latvia, the Latvian Technological Centre Foundation, the Polish business support organization "Lower Silesian Intermediate City", Design School Kolding, Lithuanian Gediminas Technical University and the Estonian business support organization "Tallinn County Entrepreneurship and Development Consultancy" in order to facilitate the implementation of a business support model in four pilot countries - Latvia, Estonia, Lithuania and Poland, that would meet with the requirements of the above Directive and be the most effective solution for financially distressed companies and its development, implementation, institutions, persons involved in maintenance.

The roadmap is discussed and reviewed by the national Restart project advisory board which consist of 20 experts and professionals representing academics policy makers (Ministry of the Economics and Innovation, Enterprise Lithuania, Agency of Science, Technology and Innovation), innovation and business support actors (Sunrise Valley Science and Technology Park, business incubators, Lithuanian innovation centre), law firms (Metida), business (10 companies involved in the project activities from the very beginning) and academic experts (Vilnius Gediminas Technical university staff). The platform that facilitated our discussions and works was national workshops, individual interviews.

Identification of key actors at national/ regional level

The Ministry of Economy and Innovation is responsible for the whole Early warning system development and implementation. Ministry dedicated a task for the Enterprise Lithuania agency to develop an initial EWS model which could be tested and after improved and started to implement on full scale. Enterprise Lithuania with the help of the State tax inspection on the 1st of July started to pilot the initial EWS model.

From our point of view, the Lithuanian business and innovation support infrastructure organizations also should be integrated into the EWS process. Lithuania has an extensive business and innovation support ecosystem, but it is closed for the company being in financial difficulties and in tax debt zone.

The existing support system is focused on growth for start-ups and/or companies that are in growth stage.

Taking into account the above mentioned, it is important to highlight that the key role of the successful EWS deployment is the national favourable attitude to the failure – real shift of the mindset among policy makers and supervisors (as State tax inspection, funding agencies, society, employers, etc) access to financing, favourable national support schemes, professional and supportive mentors' pool (as they will be giving free of charge consultancies) and the most important are the ones that will be in the front desk identifying companies in distress.

We think it could be State tax inspection (as now it is proposed by the Enterprise Lithuania (here and after – EL), but also the ones in the front desk could be also other key actors of an innovation and business infrastructure, like science and technology parks, business incubators, Lithuanian innovation centre, even the support agencies (like Science, innovation and technology agency, Lithuanian business support agency, other ones). Lithuania's science and technology parks (STP) offer favourable infrastructure for the establishment of new innovative businesses in Lithuania and serve as a convenient space for business enterprises, scientists and students to combine their knowledge, experience and ideas, and lead to the development of innovations as well as initiating and implementing numerous business projects.

A bit of background got from interviewing main stakeholders (information provided by the Re-start BSR manual).

According to experts, the current support of Lithuania's support, early warning and "second chance" system, both in the field of prevention and in the legal framework, **is rather incomplete and having little incentive to keep business** than strong and stimulating to keep business.

The most significant factors influencing the introduction of Lithuania's support, early warning and "second chance" system in the country is: (1) **economic stagnation and recession**, (2) **insufficient funding for support** from the part of non-government organizations and (3) **difficult access to risk capital** for entrepreneurs.

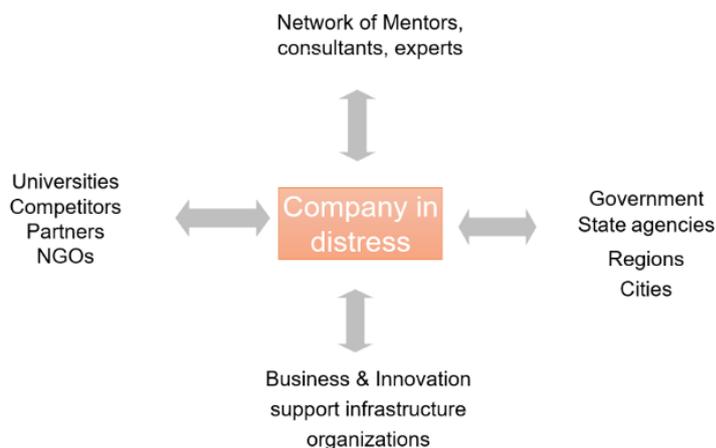
In Lithuania, the attitude of Lithuanian state and local government policy towards business failures has a more negative assessment than in the other neighbouring countries in the Baltics - the attitude has been evaluated as rather unfavourable than favourable.

Entrepreneurs own attitude towards business failures is also assessed as rather unfavourable than favourable. In turn, the public attitude towards business failures is assessed as rather favourable than unfavourable.

The most significant obstacles faced by entrepreneurs in financial difficulties in Lithuania are: (1) **economic stagnation or recession**, (2) **difficult access to risk capital** for a company in difficulties, (3) **negative public attitude** towards business failures, (4) **time required** for legal insolvency proceedings, and (5) the **costs of insolvency administrators**. Lithuanian entrepreneurs point to the problems emphasizing the closed support door in case of even a minor tax debt (<50 EUR), the feeling of being left alone in the struggle for the company's survival and an extreme stress, which leaves a significant drop in productivity when it is most needed.

The entrepreneurs have repeatedly emphasized the lack of supportive hand and the fact that business associations, chambers of commerce, associations and other unifying organizations are focused on success and growth, and a company in financial difficulties finds no response and support.

Early Warning System – Key actors



The principle of operation of the pilot EWS model is based on good foreign practice experience and the e-business diagnostic tool that will be developed by the EL. The principles of the models are more or less similar to other country early warning systems, like:

1) identification of SMEs in distress.

The first step should be done by the State tax inspection or any of innovation and business infrastructure that approaches the EL through the one window e-platform tool. Then the EL experts will work with the owner of the SME (which is in distress and willing to get help) in order to find out more detail information on the difficulties which should allow EL to identify the initial condition of the applicant company and assess the motivation to use the EWS model and its assistance.

2) The SME e-diagnostics tool will also be used for SME analysis, which will be developed and will enable SME owners to better understand their business operations, examine strategic and operational aspects of the management process, determine business maturity, potential operational risks, etc. Depending on the outcome of the business diagnostics, it will be easier to identify problem areas / difficulties and properly select the next steps of action.

3) Following the business diagnosis, the business owner would be referred to the insolvency lawyers and / or insolvency administrators of the SME. On the basis of the initial consultation and the recommendation of the lawyers and / or the administrator free of charge, the SME decides on the opening of insolvency proceedings or on further assistance measures.

4) Based on the company's diagnostics and the above-mentioned recommendation, SMEs are referred to a targeted / personalized business mentor for advice (free of charge or with the partial contribution of an SME in order to manage low motivation risks). The mentor's consultation would last up to 6 months. The duration of mentors' consultation will depend on the need of SMEs and on the mentor's possibility to "work" on voluntary basis. This is a part where EL and the ministry will have to decide on mentors' motivation system.

5) After the mentoring services, the certain decisions are made and certain actions with SME are taken, the monitoring process should continue in order to make sure that the owner of company in distress is working on the agreed actions.

What is worth to mention, mentors' pool who will be the key actors and expertise providers at EWS will be additionally selected and will specialize in a certain area having the most experience to advice SMEs in distress. Although mentoring is free, they must be reimbursed for transport costs, networking with Early Warning mentors in other countries, setting up a network of mentors for this specialized group, and creating and implementing a value proposition. Mentor's advice should be provided on voluntary basis (or with the partial contribution of SMEs – this could be the decision of the Ministry and EL). Mentors wishing to provide advice in the EWS model would be selected on the basis of selection criteria specifically designed for them. It is important to mention that in order to avoid possible agreements between SMEs and business advisers (fictitious advice), a system will be set up in which depersonalised advisers to SMEs will be selected automatically. If mentors need to be paid off, they should be reimbursed by the state for the advice provided at a fixed hourly rate.

From the international experience the mentorship should be organized in that way, that mentors would be willing to work on voluntary basis – this is one the key success factors of EWS. Such kind of mentors will work honestly with the purpose ahead to succeed. SMEs in distress owners are from our point of view a key factor which is I think the most important. This is their decision to be willing to get help, also to start working with the provided mentors and lawyers. The bilateral cooperation connection is important among the two collaborative parts. Moreover, the owners of the company in distress, should be willing to face the changes, to learn on how to work with the changes or to increase even their capacities to be efficient in new business area.

Therefore, it is important to provide a package of training courses for owners of the companies in distress. It is foreseen that the e-learning platform will be developed by EL. The e-learning platform is intended to focus on the development and development of individual business competencies, taking into account and evaluating also the results of the business diagnostic tool and the identifiable strengths without weaknesses.

Potential risks and mitigation measures

The below mentioned are the main challenges ahead that might be mitigated via efficient communication and dissemination strategy and its implementation.

Also, the continues national support policy, especially for the implementing body, also for the relevant stakeholders. And most important for the development of public positive motivation system that will encourage mentors to join the EWS.

- Ways of reaching the companies in distress
- Insufficient company engagement in the process
- National support policy is fragmented
- Poor mentors' network, competence, engagement
- Dissemination channels doesn't work properly
- Still need to overcome the societal mindset of "failure"
- Insufficient awareness rising for companies

Time plan

The timeplan is at this moment to try and to test the pilot version of EWS till the end of 2021 year. Afterwards, the backbone and lessons learned should be taken into account the pilot EWS should be improved for the deployment. From our point of view, the system should be upgraded continuously trying to adjust with the needs and conditions that are important for the system to work efficiently.

Funding plan

Funding for the EWS efficient implementation should be foreseen in the new funding" period of 2021-2027. As far as we know the Enterprise Lithuania is testing now the initial EWS with the small budget amount, but for the full execution of the EWS system the government should allocate the significant amount of support which should include support for Owners of SMEs in distress training activities, development of the needed infrastructure (for EL to manage the whole process of EWS), development and maintaining the efficient mentors' pool and of course, communication and dissemination actions.

Communication and dissemination plan

Communication of national EWS should be a strategically planned process that should start as soon as possible and continua in order to reach all the necessary target groups. The aim is to spread the information about the EWS, its' benefits, logic and the results that the EWS can bring for the SMEs. Communication activities will raise awareness of EWS and its results among broader target groups particularly the media and the general public, but also other key stakeholders (e.g. scientific society, research performing and funding organisations, policy-makers, business companies, companies that are in distress, mentors, experts, etc.)

and other relevant groups. A wide range of communication instruments should be organised within the communication plan of EWS.

To enhance the impact and improve the potential of the EWS, the communication activities should be used to raise general awareness about the work developed, to target important audiences, to generate discussion and to assist the release of significant results. The communication activities could be based on the following channels:

- Web-based: through a EWS website established and operated in accordance to guidelines that could include regular, up-to-date releases of information on EWS concept, logic, already achieved results;
- Press campaigns to promote the EWS, including information targeting the technical press, and wider awareness-raising through more popular press;
- stakeholders' networks: all related stakeholders maintain an extremely large network of collaborators. Diffusion of EWS information towards those targets is essential for the success of the dissemination and the EWS in general.

The dissemination and exploitation of the executed EWS towards the target group and the relevant stakeholders plays a significant role in the success of the employment of national EWS.

Therefore, the strategic objective of the EWS dissemination is to ensure the effective dissemination of the EWS, its concept, logic, benefits, target groups in order to raise the awareness and maximize the results and positive impact and achievements of the deployed EWS.

The dissemination should aim to achieve impact at different levels of the European union: decision makers, academics, industry, experts and the general public, but the most important SMEs in distress.

The main tasks of the dissemination are to identify and reach relevant groups and stakeholders, including SMEs in distress, possible mentors' pool from academic society, policy makers, industry and the public, in order to raise awareness of the EWS.

More specifically the Project Dissemination and exploitation plan include the following tasks: The Dissemination and exploitation plan contemplates activities and actions to attract the most important EWS target groups:

- **SMEs in distress and its' owners**
- **Mentors' pool** (may consist of Academia/ Researchers, Industry (relevant industry, companies, business people, business angels)
- **Public** (society, citizens as a whole)

From our point of view these the above-mentioned target groups are the most important ones.

The owner of SME in distress – it very important target group that should be reached and qualitative informed about the operating early warning system, its concept, logic, benefits, possibility to get mentors' support and advice. These are the advantages that should be very clearly defined and told to the owners and motivate them to start doing something with the company in order to survive, to learn, to get training session, to work with mentor, to grow or to start insolvency process. Another important target group is mentors' pool.

According to the EU experience, mentors should work on voluntary basis – this is the core and the success factor of all EWS in EU. Therefore, the development of mentors' pool is of high importance. In this case, the dissemination and communication actions about the EWS can significantly contribute to attracting and engaging people (mentors) that are willing to contribute to the welfare of the local business.

And the third target group is the society as a whole. We need to change and overcome our mindset that says "the failure is for the rest of the life making you loser". This attitude is wrong.

The mindset should shift towards the positive way of thinking. We do take into account not to encourage failure but we apply to think that failure could be a new opportunity, lessons learnt might lead to new ideas, new business models, etc.

Therefore, the purpose of the dissemination should be to reach all the society (thinking that it might be policy maker, agency employee that evaluates applications and so on and so force) which could be the huge supportive force for the owner of the company in distress.

Dissemination channels and tools

In order to reach out the above-mentioned target audiences, we could use a number of channels and cooperate with other relevant national and international organizations sharing similar objectives. The following channels will be used for dissemination of information on the efficient deployment of the EWS its activities:

- Events: workshops, seminars, conferences, trainings, etc.
- EWS website
- Ministry of Economy and innovation and Enterprise Lithuania websites

- International conferences and events
- Other channels (wide-range audience): mass media, mailing lists, newsletters, other websites and social media.

The roadmap will be presented to the Ministry of Economy and Innovation as well as for the Enterprise Lithuania agency.

RESTART BSR ROADMAP – POLAND

Background

The RestartBSR project has united 6 partners - the Ministry of Economics of the Republic of Latvia, the Latvian Technological Centre Foundation, the Polish business support organization "Lower Silesian Intermediate Body", Design School Kolding, Vilnius Gediminas Technical University and the Estonian business support organization "Harju County Entrepreneurship and Development Consultancy" in order to facilitate the implementation of a business support model in four pilot countries - Latvia, Estonia, Lithuania and Poland, that would meet both the requirements of the above Directive and be the most effective solution for financially distressed companies and its development, implementation, institutions, persons involved in maintenance.

The roadmap is discussed and reviewed by the national Restart project Advisory board which consist of 18 experts and professionals representing policy makers, innovation and business support actors, Marshal office of Lower Silesia, law firms, business (10 companies involved in the project activities from the very beginning) and academic experts (University of Economy Wroclaw). The platform that facilitated discussions and works was national workshops and individual interviews.

In 2016, 15 organizations from seven European Member States formed a partnership to develop Early Warning Europe as a project organization under the call "European Network for Early Warning and for Support to Enterprises and Second Starter" under the EU COSME program. The call was an integral part of the European Commission's efforts to improve framework conditions for SMEs and entrepreneurs across Europe.

The project succeeded in implementing the Early Warning mechanism in four countries, Greece, Italy, Poland and Spain on the basis of previous experience from Belgium, Denmark and Germany. Partners from six new countries (Croatia, Finland, Hungary, Lithuania, Luxembourg and Slovenia) joined as 2nd wave in 2019 with the aim of launching their own national Early Warning mechanisms. An expert network was created, which provided a forum for debating and suggesting policy measures and new cooperation modes. From Poland site was involved the Family Business Foundation which in Restart BSR project was the main expert sharing the knowledge and solution used in Early Warning Poland project.

Definition and concept of early warning, support and "second chance"

In economics, an early warning system is generally interpreted as a system, used to forecast the future performance of a company or country, possible deviations from the plan and to mitigate risks in times of crisis. An early warning system refers to operations, systems, phenomena, people and other elements that constitute an economic system (ecosystem). The early warning system can identify the current situation and potential risks both qualitatively and quantitatively (Ozgulbas & Koyuncugil, 2010).¹

The European Commission points out² that insolvency rules cover a wide range of measures, from early intervention before a company is in serious difficulties, to timely restructuring to ensure that viable companies are maintained, to liquidation of assets where companies cannot otherwise be rescued and, last, the so-called "second chance" for honest entrepreneurs in the form of debt relief.

Until mid-2021, no unified definition of support for companies in financial difficulties, early warning and “second chance”, binding for all EU Member States and parties involved, has been identified at EU level. As other related definitions from the academic, partly governmental and civic sectors point out, legal insolvency proceedings are only a part of a wider system of support, early warning and “second chance”.

In the EU, there are several early warning, support and “second chance” organizations. The RestartBSR project carried out an in-depth evaluation of the six best systems in the EU: (1) in Germany, the “Team U” system; (2) in Denmark, the “Early Warning Denmark” system; (3) in Sweden, the “Företagsjouren” system; (4) in Belgium, the “Dyzo” system; (5) in France, the “60 000 Rebonds” system; (6) in the Netherlands, the “MKB Doorstart” system. These EU support, early warning and “second chance” models aim to provide advice to companies and entrepreneurs in financial difficulties, provide mentoring services for corporate restructuring, provide services for the rapid cessation of a business that cannot be rescued and start a new business.

The number of services provided by EU support, early warning and “second chance” support organizations identified in the RestartBSR project research is very wide and covers a wide range of financial pre-crisis, crisis and post-crisis situations, from early warning when a company is not yet in crisis, but stagnant to the support of the entrepreneurs when the latter is planning or has started another business after bankruptcy.

One of a kind an Early Warning initiative³ and other in Poland

The overall objective of Early Warning Europe is to promote entrepreneurship and growth of SMEs across Europe. A key element is to create strong framework conditions for entrepreneurs and businesses across sectors that can help them face key challenges, including managing a crisis, dealing with bankruptcy and getting a second chance.

The Early Warning Europe network is providing advice and support to companies in distress. Such interventions can help prevent bankruptcies and their negative consequences such as job losses, increased economic risk for suppliers in the company value chain, and a potential economic, social and personal deroute for the company owners and their families.

An early intervention will increase the likelihood of a turnaround of the company resulting in a stable economic situation for the company and even sustainable growth. Moreover, if a company in distress is closed down at an early stage of the crisis, the intervention can help avoid an unsurmountable debt for the company owner thus giving him or her the chance to start a new venture (2nd Chance).

In Poland also is in process of the implementation of the Preventive Restructuring Directive. The main objective of the directive is to harmonize the EU legal landscape in the area of business restructuring.

The procedures should be simplified. Notably the directive eventually takes the SMEs into the account. For SMEs, any formal restructuring is too costly, and consumes too much time. Lowering, the cost of the solution and the transfer of risk would, in turn, translate into lowering of the overall risk.

The key to understand the directive is to understand the repair process itself, as it does not necessarily need to take place in-court. Court proceedings are usually lengthy – both in Poland, as well as in other EU member states. The goal is to keep the repair process out of court.

Early warning and granting access to information for the entrepreneurs is also a key notion here, as the entrepreneurs are often unaware of the moment when they should act.

Protecting the enterprise from debt collection activities happening during the restructuring process has also been brought up. As the restructuring should pertain to the enterprise mainly – its finances, logistics, employment – the problem requiring restructuring stems from insolvency, hence, the objective of the proceedings (restructuring) is to create a platform for dialogue, where the debt collection activities would not interrupt the dialogue. Therefore, the entrepreneur should be protected from partners' withdrawal from any deal, thus making economic blackmail impossible. However, to maintain balance, the partners should be granted access to information on the restructuring procedure, so that they are aware of the reasons behind the steps that the entrepreneur is taking. The directive defines the interest of the creditors, it also protects the financing, helping entities who are willing to help the entities in crisis. Finally, the directive also regulates the goals and the model for cancelling the debt.

The whole package was to enter force on Jul. 17 2021 – that was the deadline, and later on, it was postponed by a year. However, the Polish Ministry of Justice invited a group of experts to discuss the directive among law practitioners and theoreticians. The discussion covered the so called national options, as the directive is not an imperative instrument – it is just a recommendation. The implementation is solely a matter of adopting it to the Polish legal reality.

Compared to other EU states, the Polish legislation is ready to adopt the directive, as out-of-court restructuring and protection measures have been in force since January 2016, when the restructuring law act was adopted. Simplified restructuring proceedings would be valid by November 2021. Meanwhile, as of December 1st, regulations associated with simplified proceedings would enter force.

We still need to discuss the directive implementation and details. This process is still in progress. The Ministry did discuss the matter with experts, but we hope NGOs would also be involved.

The other implemented document - „Policy of the New Opportunity” [Polityka Nowej Szansy], that acted along the the government-led program named „Anti-crisis Shield” would supply money (in cheap debt-based instruments) to entrepreneurs touched by covid pandemic. These are distributed through regional offices of ARP (Agencja Rozwoju Przemysłu; Polish for Agency for the Industry Development).

Another imitative soon available to entrepreneurs is SWO (System Wczesnego Ostrzegania, Polish for Early Warning System), somewhat an extension of the Early Warning Europe activities, proposed by PARP (Polish Agency for Enterprise Development). Based on a number of criteria indicating problems, enterprises would be enrolled in the project. Majority of the criteria adopted by PARP reminisce those defined for EWE, however, no specific definitions or outline have been provided. The process proposed by PARP is to be procedurally similar to EWE. Nonetheless, the entrepreneurs would be free to choose the services they may feel they need. The scope of services, however, would be limited to ones that receive financing from EFS (available through BUR platform, operated by PARP). Noteworthy, the PARP financing amounts have been listed as net amounts. Therefore, the entrepreneur would need to cover the amount of VAT. PARP does not cover the soft-skill-related areas – such as conflicts or succession, that could potentially impact the functioning of the enterprises. EWE did cover the soft criteria, the new solution does not. SWO will operate for 3 years and it starts 2021.

PARP (Polish Agency for Enterprise Development) also launched another support project. Profesjonalny Restart [Polish for: Professional Re-start] has timeline set between 2020 and 2021, dedicated to 200 micro-businesses and SMEs, implemented by Euro Capital Doradztwo Gospodarcze consulting company. The project is dedicated for businesses that want to restart their activities within 2 years after a previous closure. The project envisages use of similar tools – training, consulting, mentoring. However, no education nor training for the Restarter is proposed in regard to coping with failure. The support is completely focused on new business being established, without a diagnosis and securing that practice which generated failure is not transferred into the new business. Additional consulting is also offered, within the scope of management, finances, law, and interpersonal skills. Nonetheless, the project has low reach. It has no extensive media presence.

Very important issue is the Early Warning Europe Consortium activities – somewhat in contrast to the state-created proposals. Established within EWE in Poland mentor team (120 people) and Europe (900 people) is still active and rendering support to entrepreneurs in distress. This EWE Consortium still involves 36 entities from all around EU. All of the organizations involved in the initiative establish mentor networks of their own as well. Any business that wants to make use of the EWE assets can also work with foreign mentors.

Family Business Foundation from Poland is running ResC-EWE project (Erasmus Plus funded project) - new tools created for the sake of businesses' resilience, which are going to be verified by the test of time and custom-tailored to meet the Polish reality. A cooperation between both projects (Restart BSR and ResC-EWE) was established and participants will be able to share to one another the tools created within each of these projects.

Summarizing the changes of the entrepreneurial landscape caused by COVID, one needs to note that the environment in two years may require the use of the same assets but in a different way as the environment is evidently changing.

Purpose and expected impacts

The general objective of the Directive is to reduce the main obstacles to the free movement of capital resulting from differences between the restructuring and insolvency regimes of the Member States and to improve the rescue culture in the European Union in accordance with the second chance principle.

One of the key elements of the Directive is the establishment of an Early Warning System (EWS) to help small and medium-sized enterprises (SMEs) to identify circumstances which could give rise to insolvency and / or other probabilities of its business difficulties and to warn of the need to take action. By using SDS, SMEs would have more opportunities to keep their business viable and thus preserve the jobs already created.

Based on the experience of EU Early Warning Europe Network, the mission is to promote entrepreneurship, second chance and destigmatize failure. Also, important to stress that it should aim to create awareness and facilitate the change of mindset on early warning, second chance and bankruptcy. To set out the direction of activities of the Network, three specific objectives are identified:

Objective 1: EWS awareness and disseminate good practices at all levels

The Early Warning Europe Network incentivizes European, national, regional, and local events to EWS awareness and disseminate knowledge on Early Warning, second chance and bankruptcy.

Objective 2: Facilitate capacity building

The Early Warning Europe Network strengthens the capacity of Member States, candidate, and potential candidate countries to facilitate the establishment of Early Warning mechanisms to support entrepreneurs in difficulties.

Objective 3: Encourage networking and exchange of knowledge at European level

The Network organizes events at European level to gather experts from European countries, to foster community building, facilitate the exchange of knowledge and good practices between stakeholders and to discuss policy questions related to Early Warning, second chance and bankruptcy.

The Restart BSR project fills up the gap between requirements of the Directive and practical realization of early warning system in Poland.

The Road Map purpose is to show how is the best and efficient way to create the support system of building and strengthening system for to support companies in financial difficulties in Poland.

- The main identified barriers in Poland in the system are:
- shame (failure is taboo)
- lack of trust in experts, governmental institutions, strangers
- loneliness of leaders
- little experience in taking advantage of networking support
- low management culture
- inability to take advantage of HR potential.

The Restart BSR project can help to building and strengthening institutional capacity – engine to support companies in financial difficulties in Poland.

Identification of key actors at national/ regional level

During the work on Road Map for Poland Advisory Board and experts including entrepreneurs point to the problems emphasizing the closed support door in case of even a minor tax debt (<50 EUR), the feeling of being left alone in the struggle for the company's survival and an extreme stress, which leaves a significant drop in productivity when it is most needed. The entrepreneurs have repeatedly emphasized the lack of supportive hand and the fact that business associations, chambers of commerce, associations and other unifying organizations are focused on success and growth, and a company in financial difficulties finds no response and support.

The policies enforced in Poland and the business ecosystem – in the EWE system key actors are:

- Ministry of Development (Polish Development Fund + Polish Agency for Enterprise Development)
- Ministry of Finances
- Entrepreneurs
- Marshal's Offices
- Business associations
- BGK and other banks
- Industry Development Agency
- NGOs
- Mentors
- Consultants
- Experts

The principle of operation of the pilot EWS model is based on good foreign practice experience and the e-business diagnostic tool. The principles of the models are more or less similar to other country early warning systems, like:

1) identification of SMEs in distress. The first step should be done by the State tax inspection or any of innovation and business infrastructure that approaches through the one window e-platform tool. Then the experts will work with the owner of the SME (which is in distress and willing to get help) in order to find out more detail information on the difficulties which should allow to identify the initial condition of the applicant company and assess the motivation to use the EWS model and its assistance.

2) The SME e-diagnostics tool will also be used for SME analysis, which will be developed and will enable SME owners to better understand their business operations, examine strategic and operational aspects of the management process, determine business maturity, potential operational risks, etc. Depending on the outcome of the business diagnostics, it will be easier to identify problem areas / difficulties and properly select the next steps of action.

3) Following the business diagnosis, the business owner would be referred to the insolvency lawyers and / or insolvency administrators of the SME. On the basis of the initial consultation and the recommendation of the lawyers and / or the administrator free of charge, the SME decides on the opening of insolvency proceedings or on further assistance measures.

4) Based on the company's diagnostics and the above-mentioned recommendation, SMEs are referred to a targeted / personalized business mentor for advice (free of charge or with the partial contribution of an SME in order to manage low motivation risks). The mentor's consultation would last up to 6 months. The duration of mentors' consultation will depend on the need of SMEs and on the mentor's possibility to "work" on voluntary basis. This is a part where EL and the ministry will have to decide on mentors' motivation system.

5) After the mentoring services, the certain decisions are made and certain actions with SME are taken, the monitoring process should continue in order to make sure that the owner of company in distress is working on the agreed actions.

What is worth to mention, mentors' pool who will be the key actors and expertise providers at EWS will be additionally selected and will specialize in a certain area having the most experience to advice SMEs in distress. Although mentoring is free, they must be reimbursed for transport costs, networking with Early Warning mentors in other countries, setting up a network of mentors for this specialized group, and creating and implementing a value proposition. Mentor's advice should be provided on voluntary basis. Mentors wishing to provide advice in the EWS model would be selected on the basis of selection criteria specifically designed for them. It is important to mention that in order to avoid possible agreements between SMEs and business advisers (fictitious advice), a system will be set up in which depersonalised advisers to SMEs will be selected automatically.

If mentors need to be paid off, they should be reimbursed by the state for the advice provided at a fixed hourly rate. From the international experience the mentorship should be organized in that way, that mentors would be willing to work on voluntary basis – this is one the key success factors of EWS. Such kind of mentors will work honestly with the purpose ahead to succeed.

In SMEs in distress the owners are a key factor which is the most important.

This is their decision to be willing to get help, also to start working with the provided mentors and lawyers. The bilateral cooperation connection is important among the two collaborative parts. Moreover, the owners of the company in distress, should be willing to face the changes, to learn on how to work with the changes or to increase even their capacities to be efficient in new business area. Therefore, it is important to provide a package of training courses for owners of the companies in distress. It is foreseen that the e-learning platform will be created. The e-learning platform is intended to focus on the development and development of individual business competencies, taking into account and evaluating also the results of the business diagnostic tool and the identifiable strengths without weaknesses.

The actors who can help an entrepreneur to be 'warned' of being in the early stage of trouble and by which institution:

- Social Insurance Institution, Revenue Office – reminder attached to information on arrears
- Bank - app
- Flyers – distributed upon business registration
- Ministry of Development – e-mailing

- Accountants
- National Court Register – information upon registration
- Central Registration and Information on Business - e-mailing
- Invoicing software - info at reduced sales invoices
- Business associations
- Business academies

Potential risks and mitigation measures

The below mentioned are the main challenges ahead that might be mitigated via efficient communication and dissemination strategy and its implementation.

Also, the continues national support policy, especially for the implementing body, also for the relevant stakeholders. And most important for the development of public positive motivation system that will encourage mentors to join the EWS.

1. Ways of reaching the companies in distress
2. Insufficient company engagement in the process
3. National support policy is fragmented
4. Poor mentors' network, competence, engagement
5. Dissemination channels doesn't work properly
6. Still need to overcome the societal mindset of "failure"
7. Insufficient awareness rising for companies.

Time plan

The timeplan is at this moment to try implement the experience of pilot version of EWS run in Poland in 2017-2019 and other common projects. The need is also to providing financing for the project from national or EU funds. Afterwards, the backbone and lessons learned should be taken into account the pilot EWS should be improved for the deployment like a stable support system. From our point of view, the system should be upgraded continuously trying to adjust with the needs and conditions that are important for the system to work efficiently. Taking into account the pandemic and the situation of many companies in a crisis, solutions should be implemented as soon as possible to minimize the effects of the crisis.

Funding plan

Funding for the EWS efficient implementation should be foreseen in the new funding" period of 2021-2027 UE funds. The existing programmes of EWS for entrepreneurs in crisis is now insufficient and on the initial with the small budget amount, but for the full execution of the EWS system the government should allocate the significant amount of support which should include support for Owners of SMEs in distress training activities, development of the needed infrastructure (to manage the whole process of EWS), development and maintaining the efficient mentors' pool and of course, communication and dissemination actions.

Communication and dissemination plan

Communication of national EWS should be a strategically planned process that should start as soon as possible and continua in order to reach all the necessary target groups. The aim is to spread the information about the EWS, its' benefits, logic and the results that the EWS can bring for the SMEs. Communication activities will raise awareness of EWS and its results among broader target groups particularly the media and the general public, but also other key stakeholders (e.g. scientific society, re-search performing and funding organisations, policy-makers, business companies, companies that are in distress, mentors, experts, etc.) and other relevant groups.

A wide range of communication instruments should be organised within the communication plan of EWS.

To enhance the impact and improve the potential of the EWS, the communication activities should be used to raise general awareness about the work developed, to target important audiences, to generate discussion and to assist the release of significant results. The communication activities could be based on the following channels:

- Web-based: through a EWS website established and operated in accordance to guidelines that could include regular, up-to-date releases of information on EWS concept, logic, already achieved results;
- Press campaigns to promote the EWS, including information targeting the national and regional press, and wider awareness-raising through more popular press;
- stakeholders' networks: all related stakeholders maintain an extremely large network of collaborators. Diffusion of EWS information towards those targets is essential for the success of the dissemination and the EWS in general.

The dissemination and exploitation of the executed EWS towards the target group and the relevant stakeholders plays a significant role in the success of the employment of national EWS. Therefore, the strategic objective of the EWS dissemination is to ensure the effective dissemination of the EWS, its concept, logic, benefits, target groups in order to raise the awareness and maximize the results and positive impact and achievements of the deployed EWS. The dissemination should aim to achieve impact at different levels of the European union: decision makers, academics, industry, experts and the general public, but the most important SMEs in distress.

The main tasks of the dissemination are to identify and reach relevant groups and stakeholders, including SMEs in distress, possible mentors' pool from academic society, policy makers, industry and the public, in order to raise awareness of the EWS. More specifically the Project Dissemination and exploitation plan include the following tasks: The Dissemination and exploitation plan contemplates activities and actions to attract the most important EWS target groups:

- SMEs in distress and its' owners
- Mentors' pool (may consist of Academia/ Researchers, Industry (relevant industry, companies, business people, business angels)
- Public (society, citizens as a whole).

From our point of view these the above-mentioned target groups are the most important ones.

The owner of SME in distress – it very important target group that should be reached and qualitative informed about the operating early warning system, its concept, logic, benefits, possibility to get mentors' support and advice. These are the advantages that should be very clearly defined and told to the owners and motivate them to start doing something with the company in order to survive, to learn, to get training session, to work with mentor, to grow or to start insolvency process.

Another important target group is mentors' pool. According to the EU experience, mentors should work on voluntary basis – this is the core and the success factor of all EWS in EU. Therefore, the development of mentors' pool is of high importance. In this case, the dissemination and communication actions about the EWS can significantly contribute to attracting and engaging people (mentors) that are willing to contribute to the welfare of the local business.

And the third target group is the society as a whole. We need to change and overcome our mindset that says "the failure is for the rest of the life making you looser". This attitude is wrong. The mindset should shift towards the positive way of thinking. We do take into account not to encourage failure but we apply to think that failure could be a new opportunity, lessons learnt might lead to new ideas, new business models, etc. Therefore, the purpose of the dissemination should be to reach all the society (thinking that it might be policy maker, agency employee that evaluates applications and so on and so force) which could be the huge supportive force for the owner of the company in distress.

Dissemination channels and tools

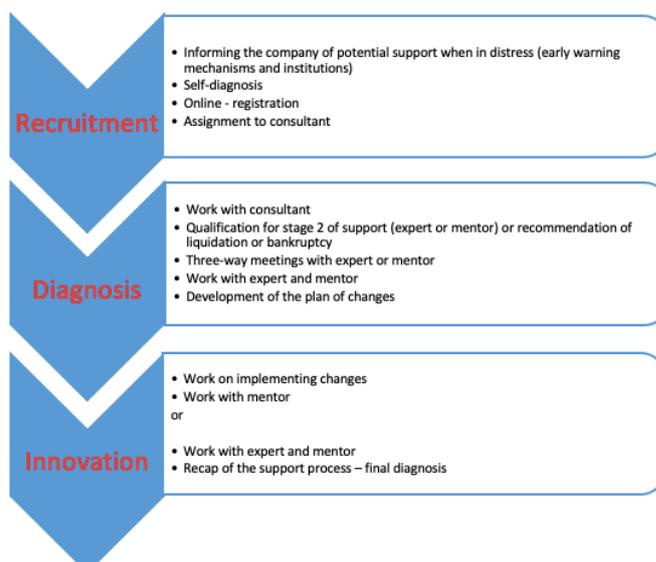
In order to reach out the above-mentioned target audiences, we could use a number of channels and cooperate with other relevant national and international organizations sharing similar objectives. The following channels will be used for dissemination of information on the efficient deployment of the EWS its activities:

- Events: workshops, seminars, conferences, trainings, etc.
- EWS website
- Ministry of Economy and innovation and Enterprise websites
- International conferences and events
- Other channels (wide-range audience): mass media, mailing lists, newsletters, other websites and social media.
- Road Map for Poland - preparation of structures, procedures, and groups providing support

Road Map for Poland - preparation of structures, procedures, and groups providing support

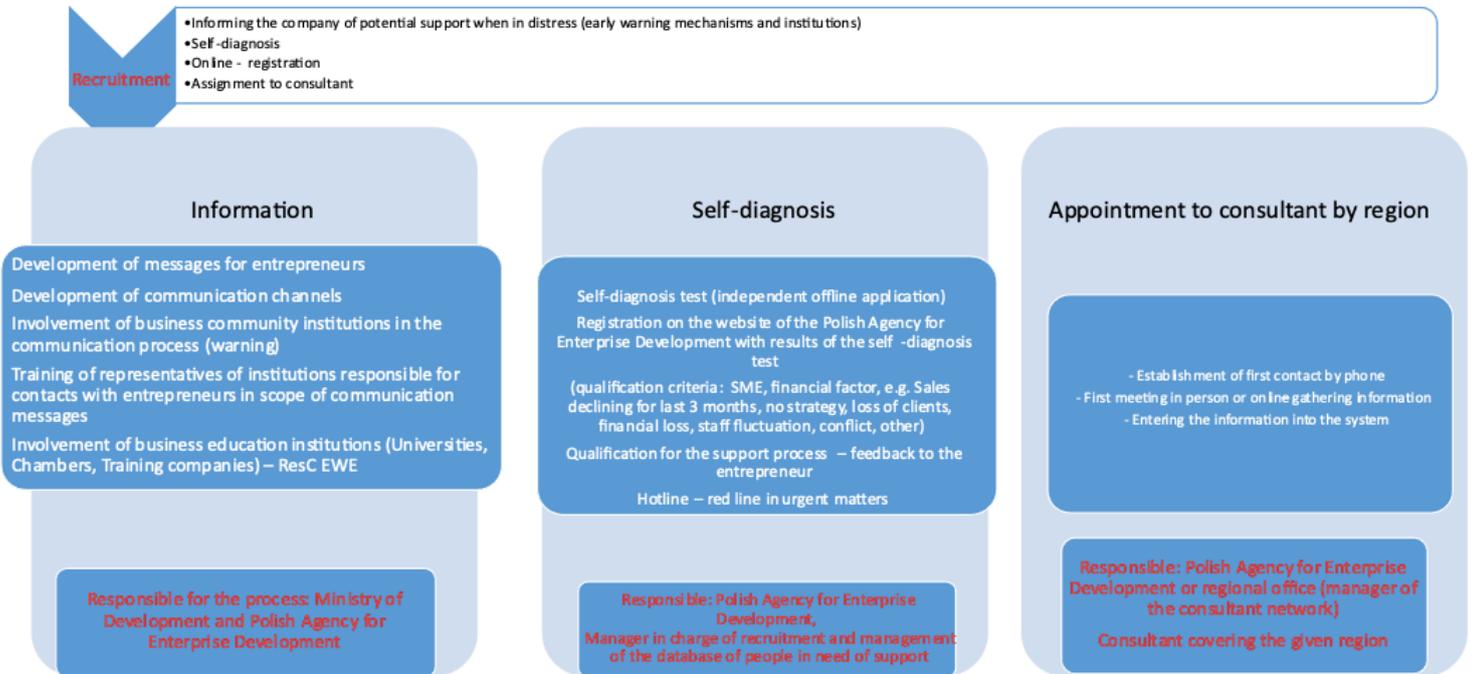
- Recruitment of mentors and consultants – standardised and nationwide (to ensure an even level and saturation of competences)
- Training of mentors and consultants – standardised and covering all regional groups under the same standards
- Networking meeting programme for mentors and consultants – pre-planned development of mentor competences based on the experiences of Early Warning;
- Standardised consulting standard (a single diagnosis method)
- Ensuring contact and standard maintenance in accordance with the international practices of the Early Warning Europe consortium.

Path of the entrepreneur benefiting from crisis support

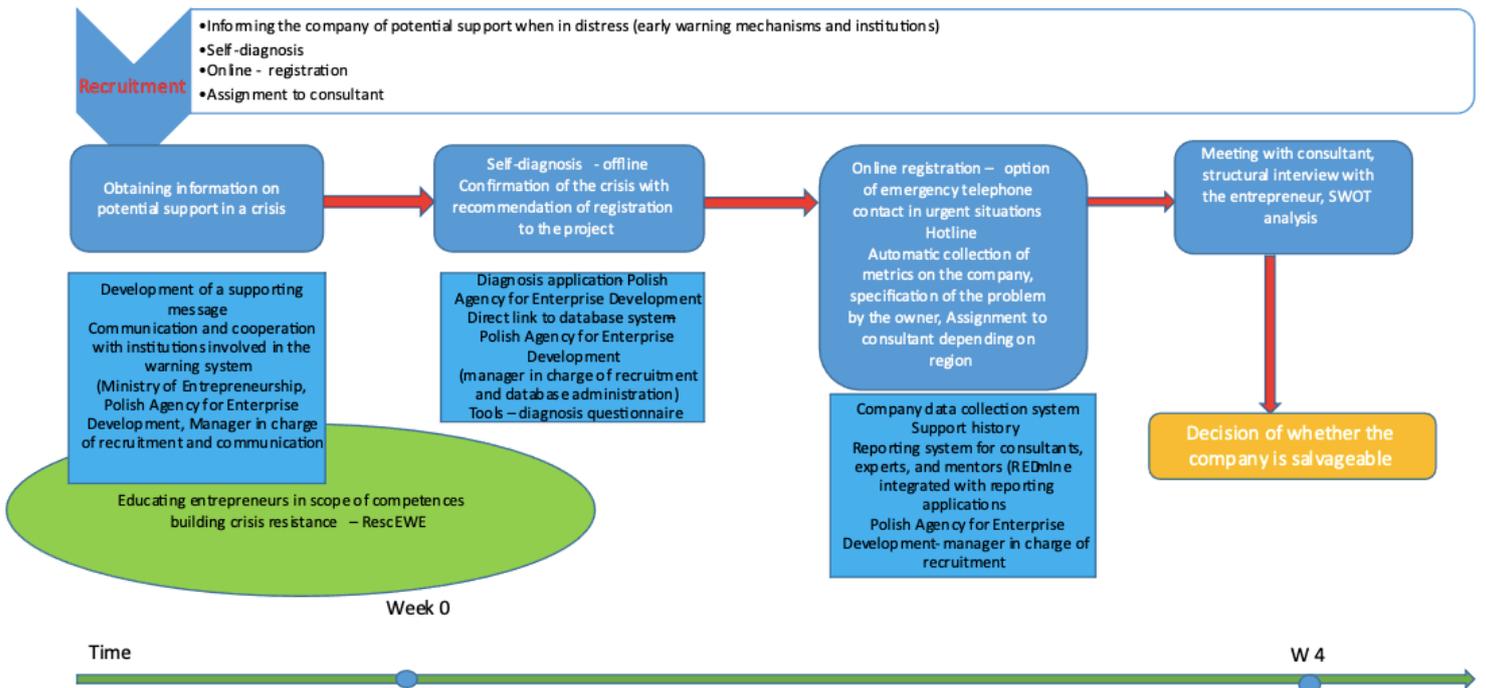


RECRUITMENT

Path of the entrepreneur benefiting from crises support



Path of the entrepreneur benefiting from crises support



Path of the entrepreneur benefiting from crises support



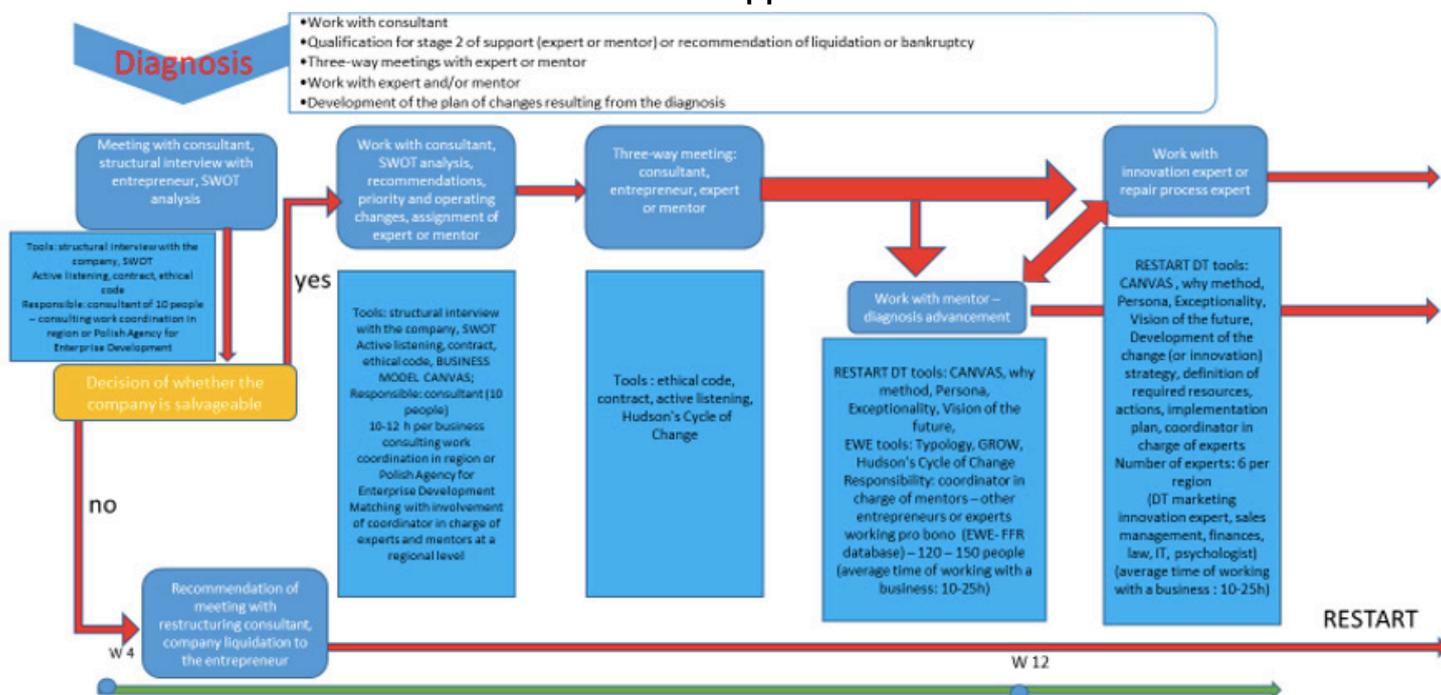
RECRUITMENT

1. Communications based on testimonials – provided by entrepreneurs who have gone through a similar experience and beneficiaries. This is an effective course of action with a track-proven record in the EWE project. An honest statement would encourage more persons with similar experiences, who may identify themselves with the protagonist. That also encourages them to act as any distress that emerges also has an end;
2. Provision of PR and comms assets – It seems that the USA is the only country of the second chances, while major organic effort needs to be done in Europe, to destigmatize the failures and break the business failure's association with the personal life of the entrepreneur, as a human being;
3. Pre-crisis business management training – among other entrepreneurs – as an additional tool available free of charge, for volunteers. WE HIGHLY RECOMMEND TO UTILIZE THE RESC-EWE acquis here, including the Toolkit exercises;
4. Information provided when the business/ company is registered in a relevant registry - message sent by the National Court Registry and CEIDG (Central Business Register and Information Service) suggesting what shall be done when the entrepreneur feels that he/she may be facing trouble; the message shall also list potential troubles - as the above does not necessarily refer to financial problems, but the companies should not be filtered based on that domain; the filtering system should only be put into use to differentiate those establishing their business for the first time, from those who are trying again;
5. Proper support and funds should be provided to facilitate PR and communications - the assets here should be shared between the two groups of entrepreneurs;

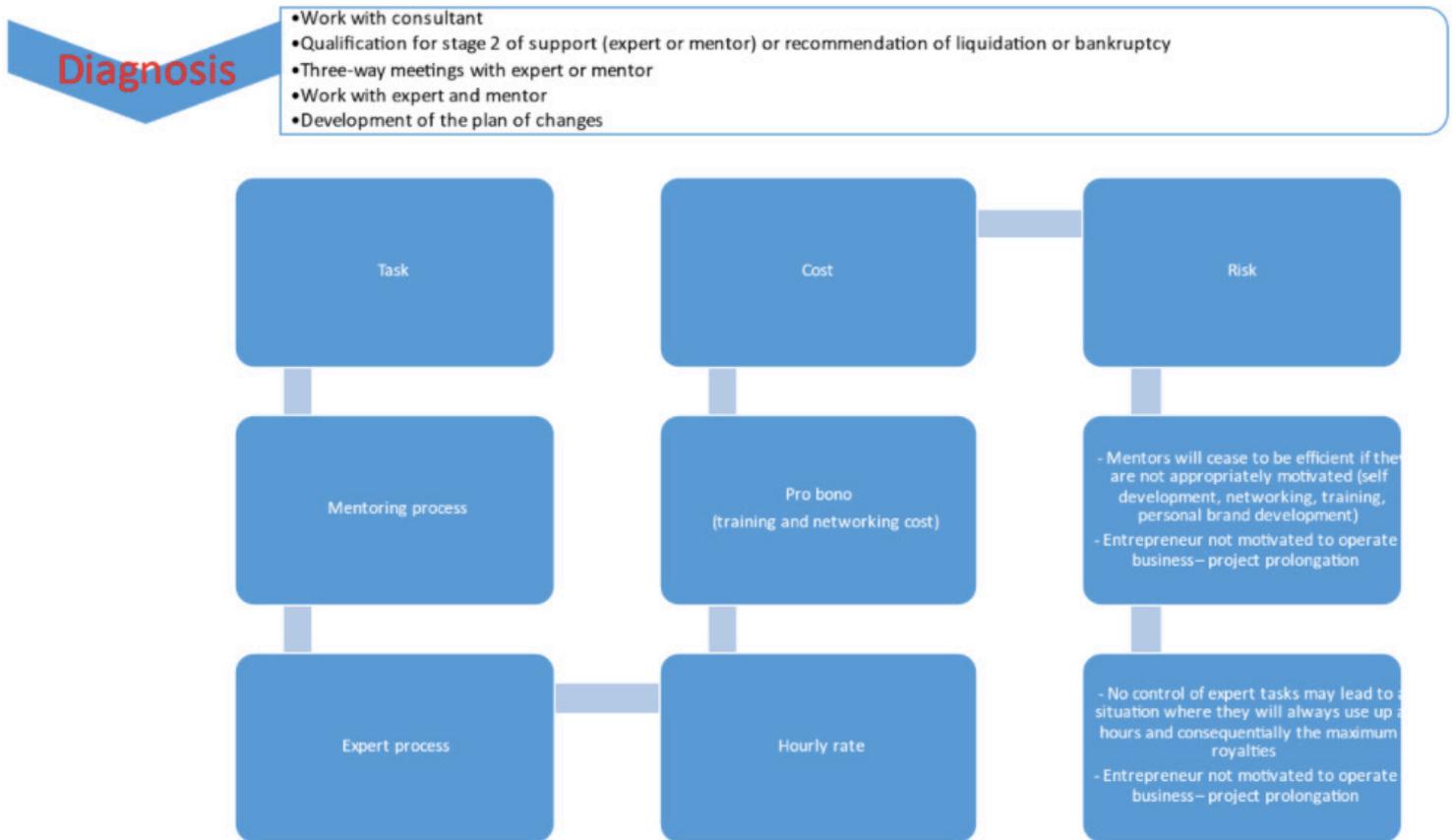
6. Involving restructuring specialists, or lawyers specializing in business closure/ liquidation proceedings - they shall be making their clients aware of the RE-START initiative - they would be reaching exactly the target group; lawyers dealing with restructuring may be recommended by the Ministry which would guarantee that they know the RESTART program in and out and thus it is certain that they would provide the entrepreneur approaching the restructuring or liquidation with a proper set of information; it is worth to return to collaboration initiated within the framework of the Early Warning Europe initiative in Poland here.
7. Information on support should be provided, when start-up companies begin the process aimed at obtaining subsidies - here the people who are founders at startup companies could be reached, with a particular attention paid to those who had run their own business in the past; the debuting start-upers could be made aware of what they could do if their start-up project turns out to be unsuccessful;
8. Auto-diagnosis - indicators shall be different than the ones used for crises - Barriers in mindsets and approach towards failure should be found, rather than symptoms of the up-coming crisis; the focus should be placed on the profile of the support required;

DIAGNOSIS

Path of the entrepreneur benefiting from crises support



Path of the entrepreneur benefiting from crises support



DIAGNOSIS

1. Hotline available 7 days a week to anybody in need of help - not only to those registered. Minimum documentation, TeamU experience. The assistance does not need to be available 24 hours a day necessarily, it could be available ad hoc, within a selected time-frame. The scheme shall involve consultants who would be able to redirect the entrepreneur to where he should be quickly, and assist him/her during the phone-call, should circumstances permit.
2. Experts - psychological support training session - psychological support training session shall become a compulsory and integral component of training that would be addressed to all of the experts and mentors involved in the project;
3. Financial education program for SMEs - it should be made available at two stages - in the very beginning, when the company is founded (freely available online training, such as the RescEWE tools), and at the stage of leaving the crisis behind, within the support groups where entrepreneurs tackling a similar set of problems could obtain a similar scope of financial know-how;

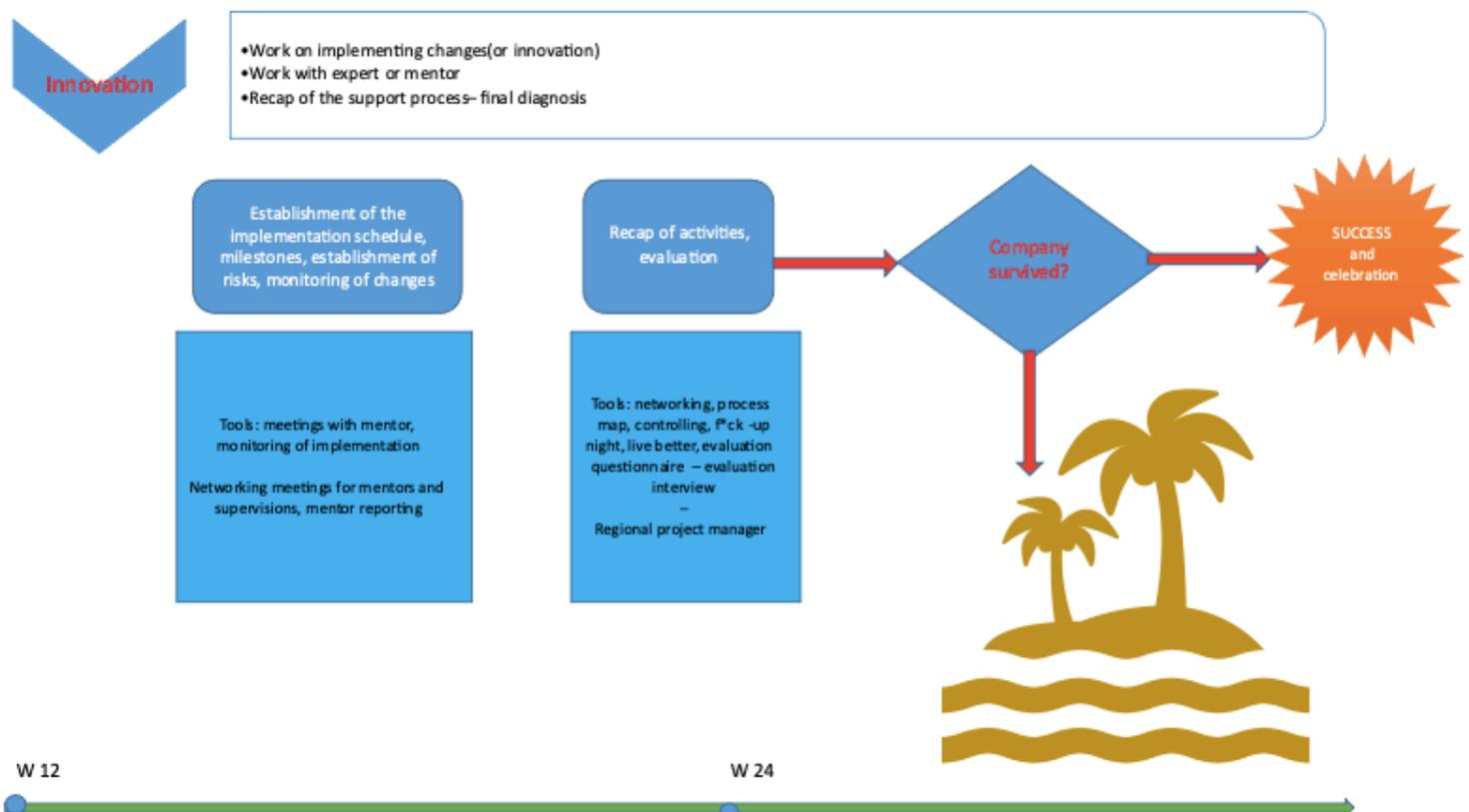
RESTART - DIAGNOSIS

1. Legal-accounting alert duty – there is a common ground here, shared with the hotline, as many solutions could be reached during a phone-call.
2. Analysis of causes of failure and coming to conclusions with an expert or mentor.
3. This effort should be done in sync with analysis of the motivation the given person has, to run his/her own business (“what is driving me”). Furthermore, business plan and resources should also be scrutinized.

Moreover, potential risks could be defined here. These should be the standard methods used by the consultant, when working with the program participants - at the level of business crisis, and at the restart stage as well. This could be a part of a structured interview.

INNOVATION

Path of the entrepreneur benefiting from crises support



INNOVATION

1. Establishing an international mentoring network - as some of the solutions could be transferred between the countries; experience sharing could be put into use, within the transnational EWE network; joining should be conditioned by the knowledge of the English language;
2. Flexibility in assignment of support hours by the consultants and mentors; the limit shall not be exceeded, but also, allocating less hours than expected shall be made possible - here, the effort should not be focused on designing of a rigid system, no two problems are the same, and no two problems require an identical set of resources; allocation of time should be based on the best knowledge and experience of the consultant.
3. Involving those who have the crisis behind them in voluntary mentoring activities, and in the PR activities surrounding the project - model examples would support further participants of the program, acting as a source of testimonials and case studies utilized in the pro-gram's communicational framework.

RESTART - INNOVATION

1. Meetings between people who have already closed their businesses that could become a space for exchange of know-how, lessons learnt, and redefinition of failure, as early as the process of business closure begin - we suggest that meetings as such are organized right from the very start of the
2. innovation process, once self-assessment/self-evaluation of the entrepreneur is diagnosed as "low", by the consultant;
3. Training covering the domain of finances - relevant both for the crisis, as well as for the restart process. Mastermind groups gathering restarters at different levels of advancement + teaching the participants the networking skills – this is where an opportunity presents itself to spontaneously exchange information and experiences; mutual inspiration may occur surprisingly, in a context such as a "fuck-up night"; information as such is never available in a structured format; limited access to a database gathering the information on the project participants is the primary obstacle in organization of events as such; the operator shall have an ability to contact them and invite to participate in activities as such; separate budget shall be secured for events and meetings as such.
4. Sharing the successes - automatic, or semi-automatic selection system could be used to choose the best restart processes that could then be showcased at the stages of communications, and recruitment (for instance, the results could be regularly verified via a business intelligence entity that would track the businesses participating in the RESTART program).

5. "Gazela Restartera" Awards (name inspired by and referring to the Polish "Gazela Biznesu" award for the most dynamically developing businesses) - not a "ranking" - numerous categories could be created, the best restarters could be brought to people's attention, with-out division between the better ones, and the less successful ones; the best cases can be used in PR activities surrounding the program as a whole;
6. Restarter-dedicated financial instruments - loans/subsidies - a base of financial products that could be utilized by the entrepreneurs facing the restart prospects could be created, al-so addressing the circumstances of overcoming a crisis;
7. Banks should be made aware that those who have gone through the RESTART-related mentoring program face a lesser risk - PR activities addressed to the banks; if we convince the banks that businesses that go through the crisis, or through the RESTART procedure face a smaller risk of failure, then the banks could create restarter-dedicated products; this may also have a positive impact on loan ratings; furthermore, data should be collected on the long- and short-term results and consequences of the actions undertaken during the program.

RESTART BSR ROADMAP – LATVIA

Background

Provision of overview of policies and initiatives of relevance to companies in financial distress and restarters and a short analysis of the main challenges for companies in financial distress and restarters (legal, financial, cultural, etc.).

RESTART BSR project is dedicated to develop additional measures to **reduce insolvency risk for small and medium size entrepreneurs** (hereinafter also abbreviated as SME), by providing early warning possibilities in Poland, Latvia, Lithuania and Estonia. In this roadmap we will analyze and early warning system (hereinafter also abbreviated as EWS) in general, existing legislation and insolvency system in Latvia, as well as RESTART positioning and system development. For roadmap composition we are going to utilize RESTART project Research conducted by Ministry of Economics, Republic of Latvia (hereinafter referred to as MoE) and composed by researcher group led by Liga Braslina, outcomes of 2 Innovation laboratories, 4 National workshops, direct interviews and pilot test cases. Before going in depth EWS and RESTART analyzes and possibilities, **brief overview of SME** sector in Latvia.

According to the information of the Central Statistical Bureau of Latvia (Table 1) there were 172 792 companies registered in Latvia. 99.9% were micro, small and medium companies with a number of employees below 250. 98.9% or 170 913 were micro and small companies with the number of employees below 50.

Employees	2015	2016	2017	2018	2019
0-9 (micro)	161603	170991	164708	163293	161714
10-49 (small)	9123	8597	9162	9599	9199
50-249 (med.)	1603	1598	1611	1649	1629
SMEs	172329	181186	175481	174541	172542
250 < (large)	238	238	235	251	250
Total	172567	181424	175716	174792	172792

Table 1 Company statistics in Latvia (2020)

SMEs play a **particularly important role** in the non-financial business economy of Latvia. They generate 71.1% of total value added and 79.4% of total employment, **well above the respective EU averages** of 56.4% and 66.6%. However, the average productivity of Latvian SMEs, calculated as value added per person employed, at only €17,900, is less than half the EU average of €44,600. As in most EU countries, the most important sectors in terms of SME value added and SME employment are manufacturing and wholesale and retail trade. On average, **SMEs in Latvia employ 4.6 people, above the EU average of 3.9**. In 2014-2019, the overall value added and employment shares of SMEs and large firms grew at similar rates. However, while value added increased by 29.9% for SMEs and 29.1% for large firms, SME employment growth was significantly lower, with a rise of only 6.3% for SMEs and only 5.0% for large firms. The **main drivers of SME value added growth were small firms**, with an increase of 36.7% in 2014-2018. In terms of **employment growth, micro firms led the way**, with a rise of 10.8% in the same period. More recently, in 2017-2018, overall SME value added increased strongly by 14.0%, whereas the rise in overall SME employment was much smaller, at 2.9%. As it comes out, small and micro companies are vital for country wellness growth and development. These companies usually are the most innovative and taking high risk projects, also their financial capacity is not sufficient to overcome unexpected obstacles. They **could be the most beneficiaries from EWS and RESTART**.

In economics, EWS is generally interpreted as **a system used to forecast the future performance of a company or country, possible deviations from the plan and to mitigate risks in times of crisis.**

An early warning system refers to operations, systems, phenomena, people and other elements that constitute an economic system (ecosystem¹). The early warning system can identify the current situation and potential risks both qualitatively and quantitatively (Ozgulbas & Koyuncugil, 2010²).

Another academic definition provides that **EWSs are socio-technical systems designed to detect, analyze, and disseminate knowledge on potential security issues in a wide variety of sectors³.**

One of the EC's definitions for the early warning system provides that an early warning system **is a mechanism designed to detect and warn of an emerging hazard as early as possible⁴.**

MoE is currently using two terms to designate EWS – agrā brīdināšana and agrīnā brīdināšana. Taking into account the term used by the EC and coordinated it with MoE, the roadmap will further use the term “early warning” (agrīnā brīdināšana). The explanation of the terms provided by MoE for support, early warning and second chance systems is:

A support, early warning and second chance systems is:

- **support system – consultation points or other support-oriented services for companies in financial difficulties** created for state / local government or private funding, which a company and/or entrepreneur in financial difficulties may contact for help;
- **early warning system – tools, consultation points, mentoring services and other services** created for state / local government or private funding for companies and/or entrepreneurs in financial difficulties for the purposes of fostering companies **to identify and start resolving financial problems in a timely manner;**
- **second chance system** – consultation points or other **support-oriented services** for companies in financial difficulties created for state / local government or private funding for entrepreneurs or managers / decision makers of companies in financial difficulties to **promote closing the existing business and starting a new business and/or support / foster failed entrepreneurs to restart business;**
- **support, early warning and second chance ecosystem for companies in difficulty in a country** – the environment and conditions existing in a country, which are faced by companies and entrepreneurs or company managers/decision makers in financial difficulties, incl. the legal regulation, political decisions, public services provided by the state and local governments, attitude and support of society (incl. public organizations, companies/entrepreneurs), etc.;

1. In economic terms, the term “socio-economic ecosystem” has become widespread over the last decade, referring to interinfluence and interdependence of all participants involved in the system, when changes pertaining to one participant affect the functioning of the rest of the system in the same way as it is in natural ecosystems. The term “economic ecosystem” is not unanimously accepted by economists due to several considerations. The term “eco system” is used in the research, but with the remark that there are differences in opinions on its applicability and some of the authors and experts of the Research have suggested replacing the term “ecosystem” with “economic system”.

2. Ozgulbas, N., & Koyuncugil, A. S. (2010) Financial early warning system for risk detection and prevention from financial crisis. In Surveillance Technologies and Early Warning Systems: Data Mining Applications for Risk Detection. In A. S. Koyuncugil, & N. Ozgulbas (Eds.). Surveillance Technologies and Early Warning Systems: Data Mining Applications for Risk Detection (pp. 76–108). New York: Idea Group Inc.

3. Louise Bengtsson, Stefan Borg & Mark Rhinard (2018) European security and early warning systems: from risks to threats in the European Union's health security sector, European Security, 27:1, 20–40, DOI: 10.1080/09662839.2017.1394845

4. EU Quality in education and training, CEDEFOP, Luxembourg: Publications Office of the European Union, 2011. <http://www.cedefop.europa.eu/en/publications-and-resources/publications/4106>

- company in financial difficulties – a company with limited ability to settle its liabilities/payments and/or to make profit.

The EC points out⁵ that **insolvency rules cover a wide range of measures, from early intervention before a company is in serious difficulties, to timely restructuring** to ensure that viable companies are maintained, to liquidation of assets where companies cannot otherwise be rescued and, last, the so-called second chance for honest entrepreneurs in the form of debt relief. However, definitions in the currently valid Directive (EU) 2019/1023 of the European Parliament and of the Council⁶ are related specifically to insolvency proceedings in the context of the **legal framework** rather than to a wider interpretation of the process of a company in financial difficulties, which also includes company management, financial literacy and growth and development aspects. The Directive identifies the following components of an early warning system:

- **early warning tools** should be available to entrepreneurs;
- **warning mechanisms** should be provided, if a company has debts;
- private and public **consulting measures** should be available;
- **incentives for third parties** should be promoted with relevant information about the debtor, such as accountants, tax and social security authorities, to flag to the debtor a negative development.

Directive (EU) 2019/1023 of the European Parliament and of the Council of 20 June 2019 on preventive restructuring frameworks, on discharge of debt and disqualifications, and on measures to increase the efficiency of procedures concerning restructuring, insolvency and discharge of debt, and amending Directive (EU) 2017/1132 entered into force on 16 July 2019, which provides that by 17 July 2021 Member States shall ensure that companies in financial difficulties have access to one or more clear and transparent early warning tools which can detect circumstances that could give rise to a likelihood of insolvency and can signal to them the need to act without delay.

Therefore, all EU Member States are bound by the improvements to the existing insolvency law anticipating supplements in accordance with the new directive, which requires specific actions to be implemented by EU Member States to provide companies with early warning and access to information:

1. Member States shall ensure that debtors **have access to one or more clear and transparent early warning tools** which can **detect circumstances** that could give rise to a likelihood of insolvency and can signal to them the need to act without delay. Member States may make use of up-to-date IT technologies for notifications and for communication.

5. EC Proposal for the Directive of the European Parliament and of the Council on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures, 2016/0359 (COD)

6. DIRECTIVE (EU) 2019/1023 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 20 June 2019 on preventive restructuring frameworks, on discharge of debt and disqualifications, and on measures to increase the efficiency of procedures concerning restructuring, insolvency and discharge of debt, and amending Directive (EU) 2017/1132 (Directive on restructuring and insolvency) (Article 2).

Early warning tools may include the following:

- **alert mechanisms** when the debtor has not made certain types of payments;
- **advisory services** provided by public or private organisations;
- **incentives** under national law **for third parties** with relevant information about the debtor, such as accountants, tax and social security authorities, to flag to the debtor a negative development.

2. Member States shall ensure that debtors and employees' representatives **have access to relevant and up-to-date information about the availability of early warning tools** as well as of the procedures and measures concerning restructuring and discharge of debt.

Member States shall ensure that information on access to early warning tools **is publicly available online** and that, in particular for SMEs, it is easily accessible and presented in a user-friendly manner.

Member States **may provide support to employees' representatives for the assessment of the economic situation of the debtor.**

The Directive provides for a significant restructuring of the insolvency proceedings by shifting the scales from company liquidation process to company restructuring process. This is a fundamental difference that transforms the existing insolvency paradigm from a "how to better liquidate" to "how to better restore" approach.

The Directive assumes specific and detailed actions to be taken in the "Preventive restructuring" and "Insolvency" phases. "Preventive restructuring" is a new, hitherto unregulated phase to which most of the Regulation's directives are devoted. In turn, the main improvements for the "Insolvency" phase are related to the provision of well-ordered and efficient processes, which are maximally synchronized between the EU member states.

On the other hand, just one point of the Directive is devoted to the early warning issue, stating that EU member states need to develop **one or more tools** to detect circumstances that could lead to the possibility of insolvency. This fact largely indicates the Directive's primary focus on improving the legal framework for restructuring or liquidation of a company in financial difficulty, **leaving prevention and second chance support initiatives secondary.**

The directive itself contains an indication that Member States should be able to introduce a viability test as a condition for access to the preventive restructuring procedure provided for by this Directive. Such a test should be carried out without detriment to the debtor's assets, which could take the form of, among other things, the granting of an interim stay or the carrying out without undue delay of the test. However, the absence of detriment should not prevent Member States from requiring debtors to prove their viability at their own cost⁷.

7. DIRECTIVE (EU) 2019/1023 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 20 June 2019 on preventive restructuring frameworks, on discharge of debt and disqualifications, and on measures to increase the efficiency of procedures concerning restructuring, insolvency and discharge of debt, and amending Directive (EU) 2017/1132 (Directive on restructuring and insolvency), recital 26.

The directive also provides that Member States should be able to extend the scope of preventive restructuring frameworks provided for by this directive to situations in which companies in financial difficulties face non-financial difficulties, provided that such difficulties give rise to a real and serious threat to a debtor's actual or future ability to pay its debts as they fall due.

The time frame relevant for the determination of such threat may extend to a period of several months, or even longer, in order to account for cases in which the debtor is faced with **non-financial difficulties** threatening the status of its business as a going concern and, in the medium term, its liquidity. This may be the case, for example, where the debtor has lost a contract which is of key importance to it.

During project implementation and especially during national workshops, the entrepreneurs and support organizations came to conclusion, that in most case in a crisis situation they mainly need mentor support, which will be able to help to evaluate the situation objectively and to help to look for new opportunities to overcome obstacles.

In the Republic of Latvia legal insolvency proceedings are also defined as a **set of measures of legal nature**, within the framework of which creditor claims are covered from the debtor's property to contribute to the fulfilment of debtor's liabilities and which is specific to insolvency proceedings happening within the scope of lawyers' competence⁸. However, MoE, as it has already been stated previously, indicates to a much wider context of use of the terms "support", "early warning" and "second chance".

Therefore, there is **no common definition of support for companies in financial difficulties, early warning and second chance, binding for all parties involved at the EC and inter-ministerial level of the Republic of Latvia**. As other related definitions from the academic, partly governmental and civic sectors point out, **legal insolvency proceedings are only a part of a wider system of support, early warning and second chance**. As conclusion: in Latvia, the support, early warning and second chance ecosystem **is not homogeneous**.

The offered RESTART system covers the whole extended insolvency proceedings (figure 1) of a company in difficulty and it consists of four main components – prevention of insolvency, pre-court settlement, insolvency proceedings in court and support after insolvency proceedings. Two of the components have a regular monitoring and analysis system – the processes related to the legal framework for insolvency and partially the following phase with a view to contributing to the entrepreneur's second chance. Detailed and annual monitoring and analysis is carried out both in the EC's annual report on SMEs in a separate business monitoring section "Second chance" and by the World Bank's Doing Business Index for countries in section "Resolving insolvency".

8. Latvian Insolvency Control Service. Available at: http://mkd.gov.lv/lv/link_part_203/link_part_206/. Viewed on 30.04.2020

countries in section “Resolving insolvency”.

Resolving insolvency of a company in difficulty

Prevention		In court proceedings	Support after proceedings
Phase 1	Phase 2	Phase 3	Phase 4
Prevention of insolvency – early warning	Pre-court settlement – restructuring of debts and/or assets	Insolvency and/or restructuring proceedings with court involvement	Integration into the business environment after insolvency and/or restructuring proceedings <i>(ensuring equal conditions)</i>
	“second chance”	“second chance”	
Summarized statistical data not available		Monitored and evaluated on an annual basis by: 1. World Bank’s index “Doing Business” 2. EC’s annual reports on SMEs (“second chance”)	

Figure 1. Extended process for resolving insolvency of a company in difficulty and its components

The prevention section and pre-court components within the support, early warning and second chance ecosystems in international context are not monitored and analyzed by international political or non-governmental organizations on regular basis; neither it’s monitored in Latvia.

Evaluation of the Latvian insolvency proceedings

According to the “DB” Index a company in financial difficulties in Latvia is mainly sold piecemeal rather than restructured, creditors receive 41.4 cents on each invested dollar,

average insolvency proceedings last 1.5 years, the costs of insolvency proceedings are 10% of the debtor’s value and the comparative quality of insolvency proceedings received 12 of 16 possible points.

The general assessment of resolution of insolvency proceedings of a company in financial difficulties in Latvia according to the Index DB methodology and the set criteria is shown in Table 2.

No.	Indicator	Latvia’s result	OECD average for high-income countries	Best performance in “DB” Index
1.	Recovery rate (cents on the dollar)	41.4	70.2	92.9 (Norway)
2.	Time (years)	1.5	1.7	0.4 (Ireland)
3.	Costs (% of estate)	10.0	9.3	1.0 (Norway)
4.	Outcome (0 as piecemeal sale and 1 as going concern)	0	-	-
5.	Quality of insolvency proceedings (strength of the index 0-16)	12.0	11.9	Not nominated 2018/2019

Table 2. General assessment of insolvency proceedings of a company in financial difficulties in Latvia according to the Index DB methodology and the set criteria. Source: World Bank’s index “Doing Business 2020” Latvia.

The companies experiencing financial difficulties and in insolvency proceedings, according to the “DB” Index restructure and resume activity in 44.6% cases and the total insolvency regulation quality index is 75.0 Figure 2.



Figure 2. Restructuring and recovery rating and total insolvency regulation quality index of a company in financial difficulties in Latvia. Source: World Bank’s index “Doing Business 2020” Latvia.

Latvia’s total assessment of insolvency proceedings according to the “DB” Index is 59.8 of 100 points and is ranked 55th in the international comparison of countries. This is the third best result following Poland 76.5 (25th place in the index) and Estonia 60.1 (54th place in the index), leaving behind the Lithuania’s assessment 46.7 (89th place in the index). The regional average (OECD high-income countries) 74.9 of 100 points.

The average time required to recover debt in Latvia is 1.5 years and total costs amount to 10% of the value of the company’s debtor – company in difficulty. These are the best results compared to Lithuania, Estonia and Poland, because Lithuania needs 2.3 years to recover debt and 15% of company value, Estonia – 3 years and 9% of company value, while Poland – 3 years and 15% of company value.

The time outcome of Latvian insolvency proceedings received a better assessment than OECD high-income countries, where the average time

to recover debt is 1.7 years, compared to Latvia, where the assessment is 1.5 years.

“DB” Index also assesses quality components of insolvency proceedings indexing them from 0 to 16 points. The quality index consist of the following components:

- Management of debtor’s assets index (0-6).
- Commencement of proceedings index (0-3).
- Creditor participation index (0-4).
- Reorganization proceedings index (0-3).

Latvia’s total index of the quality of insolvency proceedings is 12 of maximum possible 16 points. This score was equally high as that of OECD high-income countries (12.1 points). If we compare it with Baltic States and Poland, the quality assessment of Latvia’s insolvency proceedings is the third highest following Poland (14 points) and Estonia (13 points). The Lithuania’s quality of insolvency proceedings is indexed with 8 points.

Latvia’s weakest positions are in the creditor participation assessment, which obtained only half – 50% of maximum score of 4. Poland and Estonia have a similarly low creditor participation assessment – also 2 points of the maximum score of four.

The creditors carrying out reorganization, liquidation or debt recovery proceedings in Latvia can recover 41.4 cents on the dollar. In the neighboring countries Estonia and Lithuania a smaller amount can be recovered, 36.1 and 40.3 cents on the US dollar, respectively. Poland has the highest indicator reaching 60.9 cents on the dollar, average indicator of OECD high-income countries – 70.2 cents on the dollar.

The recovery rate for creditor is one of the most significant indicators for potential investors, and its current outcome is an indication of the need to make improvements.

Latvia’s insolvency proceedings by phases for companies in difficulty are shown in Table 3.

No.	Process indicator	Latvia case	Example
1.	Judicial proceedings	Liquidation (after an attempt at reorganization)	Example, hotel in financial difficulties, management is likely to file for reorganization in order to benefit from certain legal protections, such as stay of enforcement proceedings. However, creditors are unlikely to approve the reorganization plan, because they would not get paid for two years, given Example’s current financial state. At that time, the proceedings would be converted into liquidation.
2.	Outcome	Piecemeal sale of the company	Reorganization of Example hotel does not seem viable, therefore, most likely the liquidation proceeding will commence. Example’s assets will be sold piecemeal, but the buyer is very likely to consolidate to continue operating the hotel. Although Latvian insolvency framework includes provisions on sale of business as a going concern, they are rarely applied in practice. Therefore, the most likely outcome is that the hotel’s assets will be sold piecemeal at the end of the liquidation proceeding.
3.	Time (years)	1.5	The process of reorganization converted into liquidation will take approximately 18 months. It will take 3-4 months for the Example hotel to file for reorganization and for the court to consider and reject the petition due to lack of support from creditors. After that, the debtor or its creditors will file for insolvency. The court will consider the case and issue a decision within 1-2 months. The insolvency proceedings will take around 10 months includes submission of claims, creditors’ meetings, etc. The sale of assets and other necessary formalities would take a few more months before creditors receive their payment.
4.	Costs (% of estate)	10.0	The total cost of the proceedings will amount to approximately 10% of the value of the hotel.

			The main fees will be as follows: administrator costs – 7%, attorney fees – 1%, fees of accountants – 1%, and other fees, including court fees, auctioneer fees and publication costs – up to 1.5%.
5.	Recovery rate (cents on the dollar)	-	41.4

Table 3. Detailed summary on insolvency proceedings in Latvia, including process description, outcome, time and cost. Source: World Bank's index "Doing Business 2020" Latvia.

Detailed information on the quality assessment of Latvia's insolvency proceedings by procedural steps is shown in Table 4.

	Answer	Latvia's result
Quality of insolvency proceedings (indexed 0-16)		12.0
Commencement of proceedings index (0-3)		2.5
What procedures are available to a debtor when commencing insolvency proceedings?	Debtor may file for both liquidation and reorganization	1.0
Does the insolvency framework allow a creditor to file for insolvency of the debtor?	Yes, but a creditor may file for liquidation only	0.5
What basis for commencement of the insolvency proceedings is allowed under the insolvency framework: a) debtor is generally unable to pay its debts as they mature; b) the value of debtor's liabilities exceeds the value of its assets.	Both a) and b) options are available, but only one of them needs to be complied with	1.0
Management of debtor's assets index (0-6)		5.0
Does the insolvency framework allow the continuation of contracts supplying essential goods and services to the debtor?	Yes	1.0
Does the insolvency framework allow the rejection by the debtor of overly burdensome contracts?	Yes	1.0
Does the insolvency framework allow avoidance of preferential transactions?	No	0.0
Does the insolvency framework allow avoidance of undervalued transactions?	Yes	1.0
Does the insolvency framework provide for the possibility of the debtor obtaining credit after commencement of insolvency proceedings?	Yes	1.0
Does the insolvency framework assign priority to post-commencement credit?	Yes over ordinary unsecured creditors but not over secured creditors	1.0
Reorganization proceedings index (0-3)		2.5
Which creditors vote on the proposed reorganization plan?	All	0.5
Does the insolvency framework require that dissenting creditors in remediation receive at least as much as what they would obtain in a liquidation?	Yes	1.0
Are the creditors divided into classes for the purposes of voting on the remediation plan? Does each class vote separately and are creditors in the same class treated equally?	Yes	1.0
Creditor participation index (0-4)		2.0
Does the insolvency framework require approval by the creditors for selection or appointment of the insolvency representative?	Yes	1.0

Does the insolvency framework require approval by the creditors for sale of substantial assets of the debtor?	No	0.0
Does the insolvency framework provide that a creditor has the right to request information from the insolvency representative?	No	0.0
Does the insolvency framework provide that a creditor has the right to object to decisions accepting or rejecting creditors' claims?	Yes	1.0

Table 4. Detailed information on insolvency prevention process as a quality indicator in Latvia. Source: World Bank's index "Doing Business 2020" Latvia.

As it is shown, Latvia does not receive the highest score in the creditor participation index, where only 2 of 4 possible points have been received.

According to the "DB" Index, the following improvements have to be evaluated in the Latvia's existing insolvency proceedings:

- To provide that the insolvency framework allows a creditor to file not only for debtor's liquidation, but also for restructuring.
- To prevent that the insolvency framework allows avoidance of preferential transactions.
- To provide for a selective impact creditor voting on the proposed reorganization plan.
- To provide that the insolvency framework requires approval by the creditors for sale of substantial assets of the debtor.

- To provide that the insolvency framework provides that a creditor has the right to request information from the insolvency representative.
- To take corrective actions to ensure that the provisions included in the insolvency regulation on restructuring of business as a whole company are applied in practice in the majority of cases.

Detailed assessment of the Latvian second chance system

Overall, the second chance system environment in Latvia is evaluated as being in line with the EU average. Latvia is above EU average in three SME support areas – business environment, responsive administration and state aid and public procurement. Figure 3.

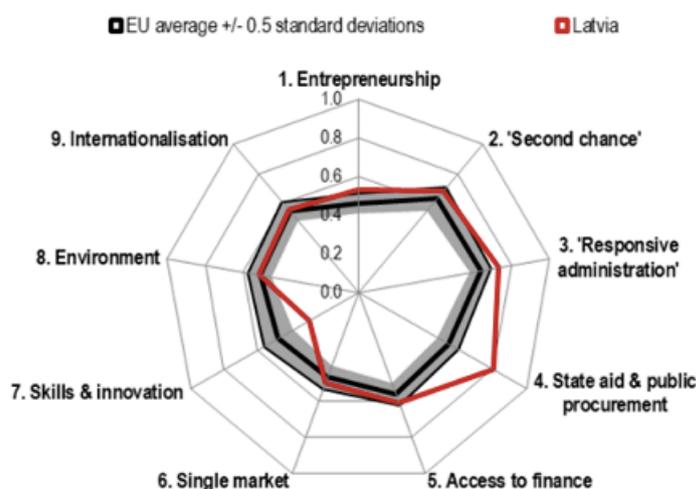


Figure 3. Assessment of the SME environment in Latvia. Source: EC annual report on SMEs 2018/2019.

The only SME support principle in Latvia, which is lower than the EU average, is “Skills & Innovation”, although significant progress has been achieved since 2008. Other SME support areas are in line with the EU average.

Latvia continues to increase growth in the second chance area as support to honest bankrupt entrepreneurs, and moderate progress has been achieved since 2008. Although growth is observed, most of indicators have remained unchanged or stable compared to the previous data.

Latvia exceeds the EU average indicators in the field of second chance in two aspects – time of insolvency proceedings (1.5 in Latvia, 2.01 years – EU average) and average costs (10% of the debtor’s estate in Latvia, 10.43 on average in the EU).

The quality of insolvency proceedings, the time required and costs are measured in accordance with the “DB” Index and Latvia is above the EU average assessment in both indicators.

Furthermore, “Fear of failure” is evaluated in accordance with the Global Entrepreneurship Index⁹. This reflects the percentage of the population aged from 18 to 64, who indicate that it is fear of failure that mainly prevents them from establishing a business. These are 42.27% of the population in Latvia and 44.16% in the EU on average.

In 2018, the Insolvency Control Service of Latvia conducted a study¹⁰ for the purposes of identifying challenges in the insolvency proceedings and to prepare justified proposals to identify problems. In accordance with this study the main problems in Latvia are:

- SMEs lack financial literacy;
- SMEs start to resolve financial difficulties too late;

- the insolvency status complicates the involvement of debtors in business;
- the costs of insolvency are usually a significant burden for small enterprises;
- the financing model defined in the law for the insolvency administrator does not function in process.

The study makes several recommendations for resolution of identified problems:

- introduction of the early warning system;
- improvement of financial literacy of SMEs;
- reduction of insolvency costs;
- improvements to regulatory enactments so that the SMEs with insolvency status could participate in public procurement.

In 2010, the amendments to the Insolvency Law reduced the time of insolvency proceedings from three to 1.5 years. In 2016, amendments to make insolvency proceedings more understandable and transparent for creditors were adopted. The purpose of both amendments to the law was to improve transparency and functionality of insolvency proceedings making them simpler and more understandable.

Significant portion of amendments to the Insolvency Law are intended for ensuring the functioning of the electronic insolvency supervision system (accounting system) and harmonization of the law with EU regulations on insolvency proceedings. The amendments will update and supplement the scope and sources of information to be included in the accounting system.

9 Global Entrepreneurship Report, GEM 2019, <http://www.gemconsortium.org/data/key-aps>

8 Study of the Insolvency Control Service “On Efficiency of the Regulatory Framework of Legal Protection Proceedings”

http://petijumi.mk.gov.lv/sites/default/files/title_file/Zinojums_Par_tiesiskas_aizsardzibas_procesa_efektivitati.pdf

Latvia is currently planning supplementing amendments to the Insolvency Law, including the guidelines of the new Directive (EU) 2019/2023 of the European Parliament and of the Council of 20 June 2019.

The amendments to the law corresponding to the Directive will be announced in 2021.

Expert evaluation for the Latvian ecosystem and support organizations for provision of support, early warning and second chance support

Government experts

Generally, the experts indicated that Latvia did not have the support, which is available in other countries, where “Early Warning Europe” or similar organizations were represented.

However, the experts have indicated **that Latvia has significant support**, for example, guidelines in case of an out-of-court settlement, which had been adapted from international experiences. There are also several educational measures provided by ICS. There is fragmented information among entrepreneurs on the availability of tools to help define that they are in financial difficulties, available financial mechanisms, and available proactive information to support entrepreneurs before they encounter financial difficulties.

The experts believe that the support mechanisms are more sufficient rather than insufficient. It is emphasized that there may not be widespread information about them, but that it is provided and received when seeking help. Examples of fundraising mechanisms have been mentioned, but the problem is that there is a need to improve knowledge where to search for information. An increase in the level of awareness of specific target audience should also be promoted.

The experts also indicate that insolvency proceedings are the “final phase” which just needs to be “cleaned up”. Experts do not see any potential support mechanisms in this phase due to the legal regulation.

The purpose of this phase is to sell maximally undivided company to a person, who will continue to develop it. However, in legal protection proceedings, which do not aim to liquidate a company, support mechanisms are possible.

The experts emphasize that a balanced legal framework has been created enabling the debtor to recover from the situation. They also indicate that although, in theory, support mechanisms are provided, practical access to finance is very difficult.

However, the experts indicate that “soft” (contrary to hard as in the legal regulation) support mechanisms in Latvia are rather little stimulating than stimulating the business environment.

The experts emphasized that outside their direct field of expertise in the field of law they did not have in-depth information about other support mechanisms and processes and it was necessary to grade the answers provided by them by the areas of expertise of the experts. This is another indication that the whole support, early warning and second chance process is very extensive. Although combined under one object, it consists of complex, multifaceted components, and experts in one component do not have an in-depth knowledge of other components.

The State Taxpayer Rating System is mentioned as one of Latvia's prevention tools, which enables companies operating for longer periods of time to identify the situation when they should start looking for help.

The information available in the Credit Register is also indicated as a supporting instrument, emphasizing that an entrepreneur requires financial knowledge to look beyond the figures indicated in the register. By putting together the data of the Taxpayer Rating System and the information available in the Credit Register, it is possible to get early warning signals. Experts emphasize that this requires the ability of the entrepreneur to analyze information.

The experts emphasize out-of-court restructuring guidelines as an existing support tool that can help entrepreneurs to resolve the situation. This is based on the UK model, directly aimed at the arrangement of customer-creditor relations.

The experts also mention the information obtained from the organizations representing businesses, which points to **the need for early warning from a non-governmental organization, as entrepreneurs fear punishing activity of the authority**. It is important for the entrepreneur to be sure that the public authority will not impose an even greater administrative burden.

Obstacles identified for the prevention of financial difficulties of companies

One of the identified barriers is access to additional funding for companies within out-of-court settlement. The importance of an inflow of fresh financial resources was emphasized by the international experts involved in the development of legal protection proceedings. However, Latvia does not currently have such financing opportunities.

Currently, companies in financial difficulties (including short-term and small difficulties, for example, a tax debt of 150 euro) are excluded from state support schemes in Latvia, which blocks other support available to a company in financial difficulty and therefore potential recovery.

Currently, companies in legal protection proceedings are excluded from some state support schemes in Latvia, including opportunities to participate in EU-funded projects. Such action further contributes to the potential failure of the company to recover. Currently, Ministry of Justice of the Republic of Latvia is working not to encourage such action.

Experts indicate that one of the barriers is lack of an early warning tool from the state, which warns an entrepreneur about potential difficulties.

Overall, the experts are of the opinion that the Latvia's support in the field of prevention is rather incomplete and having little incentive to keep business than strong and stimulating to keep business.

Furthermore, the experts believe that support in Latvia in the legal framework and post-court phase is rather strong and stimulating business restructuring and/or providing a second chance than incomplete and little stimulating.

Latvian government experts indicate that the most significant obstacles faced by entrepreneurs in financial difficulties are:

- dishonest behaviour of a cooperation partner when it learns about the existing difficulties;
- low confidence of the state and local government in entrepreneurs,
- late reaction of entrepreneurs to seek for support,
- dishonest attitude of entrepreneurs towards the insolvency proceedings,
- economic stagnation or recession and
- weak participation of supporting non-governmental organizations at the stage of insolvency prevention.

The most significant factors, which may influence the implementation of support, early warning and second chance in Latvia, according to the evaluations of government experts, are:

- lack of political will,
- level of corruption in the country,
- entrepreneurs' distrust in the efficiency of the support system,
- economic stagnation and recession,
- high fear of entrepreneurs to recognize the inability to cope with the crisis in the company,
- low competencies of entrepreneurs in business crisis prevention activities, and
- unequal attitude of cooperation partners towards restructuring processes.

Latvian government experts evaluate as unfavourable negative public attitude towards business failures and as rather unfavourable than favourable negative public attitude towards business failures. In turn, the attitude of state and local government policy towards business failures is assessed as rather favourable than unfavourable.

Entrepreneur experts

Latvian entrepreneurs experience with existing insolvency system. One of the entrepreneurs indicated that they contacted Altum intensively, but had not received support, and therefore the company was sold for a significantly reduced value. The second entrepreneur did not even consider that the state or local government could help, they had liquidated the company with a cooperation partner themselves and later established a new company learning from the previous mistakes. The third company, which is in financial difficulties right now, receives support from Investment and Development Agency of Latvia (IDAL), because it is in the incubation support system and primarily emphasizes the significant psychological support from the management team of the incubator and secondly the financial support that is available to overcome difficulties. The third company also indicates that they were lucky to be in the IDAL support system – without it they had not have survived and would not have hoped for successful optimization of company operations and getting out of the crisis.

The entrepreneurs evaluate the existing support, early warning and second chance system as rather incomplete and having little incentive to keep business. Similar is the evaluation by Latvian entrepreneurs of the support, early warning and second chance system – in-court proceedings. They are currently evaluated as rather incomplete and little stimulating business restructuring and/or providing a second chance than strong and stimulating.

Entrepreneurs indicate financial obstacles as the most significant ones (table 5):

- difficult access to venture capital,
- unequal attitude of banks,
- lack of information on restructuring opportunities,
- insufficient number of support mechanisms available.

No.	The most significant obstacles faced by entrepreneurs in financial difficulties in Latvia	Assessment by entrepreneurs in points (1-4)
1.	Difficult access to venture capital for a company in difficulties	4.0
2.	Unequal attitude of banks	4.0
3.	Lack of information on restructuring opportunities	4.0
4.	Insufficient number of support services provided by the state and local government – lack of the available support tools, services, mechanisms, incentives, etc.	3.7
5.	Insufficient efficiency of state and local government support services – the level of efficiency of available tools, services, mechanisms, incentives	3.7
6.	Quality of state and local government support services – the quality, level of available tools, services, mechanisms, incentives	3.7
7.	Economic stagnation or recession	3.3
8.	Negative attitude of the state/local governments to business failure	3.0
9.	Time required for legal insolvency proceedings	2.7
10.	Unfair court insolvency proceedings	2.7
11.	Insolvency practitioners' fees	2.7
12.	Lawyers' fees	2.7
13.	Assessors' and auctioneers' fees	2.7
14.	Complexity of insolvency proceedings	2.7
15.	Confidence of state and local governments in entrepreneurs	2.7

Table 5. The most significant obstacles indicated by Latvian entrepreneurs for companies facing financial difficulties in Latvia. The maximum assessment is 4, which is an indication that the obstacle is significant and has strong influence, while 1 means that the obstacle is insignificant. Source: Restart Research

The number of significant obstacles indicated by entrepreneurs is significantly higher than that specified by the government sector.

Similarly, the entrepreneurs have also listed considerably more factors having significant influence (table 6).

No.	The most significant factors influencing the implementation of Latvia's support, early warning and second chance system in the country, according to entrepreneurs	Assessment by entrepreneurs in points (1-4)
1.	Difficult access to venture capital for entrepreneurs	4.0
2.	Lack of the coherence of political will – legal and economic	4.0
3.	Insufficient funding for participation in support from the part of entrepreneurs	3.7
4.	Economic stagnation and recession	3.7
5.	Level of corruption in the country	3.7
6.	Entrepreneur's distrust in the efficiency of the support system	3.7
7.	Low competencies of entrepreneurs in business crisis prevention activities (including financial literacy, crisis management, etc.)	3.3
8.	Low experience and lack of competence to implement support on the part of the government and civil support society – difficulties in ensuring system efficiency	3.3
9.	Political stability (regulation)	3.3
10.	Proportion of grey economy in the country	3.3
11.	Absence of regional support for companies in difficulties	3.0
12.	Public disbelief that business failures are the result of good faith	3.0
13.	Incomplete insolvency legal framework – narrow view of the support, early warning and second chance process only from the legal side, not including providing prevention as an integrated support system in both legal and economic support schemes	2.7
14.	Low reputation of activities of insolvency practitioners	2.7
15.	Low confidence of entrepreneurs in judicial power	2.7
16.	High level of corruption	2.7
17.	Limited competence of state and local government in cooperation with entrepreneurs (e.g., SRS cannot discharge of debts in accordance with regulatory enactments)	2.7
18.	Insufficient funding for support from the part of non-governmental organizations	2.7

Table 6. The most significant factors indicated by the Latvian entrepreneurs, which influence the implementation of a support, early warning and second chance system in the country. The maximum assessment is 4, which is an indication that the factor is significant and has string influence, while 1 means that the factor is insignificant.

Source: Restart Research.

Access to required finance is emphasized as the most significant factor both by the entrepreneurs and the experts of the government sector. The entrepreneurs emphasize political will as the second most significant factor, while the experts of the government sector indicate the level of corruption in the country as the second most significant factor.

The overall assessment of Latvian experts (both the ones of government sector and entrepreneurs) indicates that support in the field of both prevention and the legal framework in Latvia is rather incomplete and has little incentive to keep the business strong and stimulating keeping of business.

Overall, if we combine the experiences of government experts and entrepreneurs, the most significant obstacles faced by companies in financial difficulties are:

- low confidence of the state in entrepreneurs,
- insufficient efficiency of state and local government support services – the level of efficiency of available tools, services, mechanisms, incentives
- Quality of state and local government support services – the quality, level of available tools, services, mechanisms, incentives
- economic stagnation and recession,
- lack of information on restructuring opportunities,
- dishonest attitude of entrepreneurs towards the insolvency proceedings,
- dishonest behaviour of a cooperation partner when it learns about the existing difficulties,

- insufficient number of support services provided by the state and municipality – lack of available support tools, services, mechanisms, incentives, etc.,
- difficult access to venture capital for a company in difficulties.

Experts in Latvia mark three main areas of obstacles, which would need to be improved – improving the level of mutual trust, increasing the number, efficiency and quality of support services and increasing the amount of information about available support.

Purpose and expected impacts

The overall purpose, goals and expected impacts of the organisation.

The primary purpose of the RESTART activity is to develop combined system that can forecast the future performance of a company, possible deviations from the plan and to mitigate the risks in times of crisis. The system refers to operations, environment, people and other elements that constitute an economic system.

RESTART activity is well aligned with Early Warning principles, that the earlier a debtor can detect its financial or other difficulties, the higher the probability of avoiding insolvency. Similarly, if with the viability of a business is permanently impaired, the more orderly and efficient the liquidation process will be.

The Early Warning and identification of companies that can face financial or other distress, well before it occurs, would lead to several important impacts:

- Reduced number of companies that end up in insolvency process, tax revenues from these companies could be secured for government and local municipalities;
- On time mentor help for struggling companies can lead to restoration of its profitable operations, majority of workplaces at these companies can be saved and maintained.
- Provision of advisory services and counselling for company owners and managers whose companies are forced to initiate insolvency process, these persons can be saved from depression. As the result these persons will be eager to start new company or to become employee that will lead to cost reduction in social services, including medical and unemployment benefits, needed for these persons.

Organisation of the Restart BSR organisation

Description of the activities and responsibilities of the organisation, the advisory board and - if relevant - national/regional partners in the innovation eco-system

The most significant factors influencing the development and implementation of Latvia's support, early warning and second chance system in the country are:

- lack of the coherence of political will – legal and economic,
- economic stagnation and recession,
- entrepreneurs' distrust in the efficiency of the support system,

- low competencies of entrepreneurs in business crisis prevention activities (including financial literacy, crisis management, etc.),
- level of corruption in the country,
- unequal attitude of cooperation partners towards restructuring processes,
- stability of political regulation,
- proportion of grey economy in the country,
- insufficient funding for participation in support on the part of the entrepreneurs,
- difficult access to risk capital for the entrepreneurs,
- low experience and lack of competence to implement support on the part of the government and civil support society – difficulties in ensuring system efficiency
- public disbelief that business failures are the result of good faith.

Therefore, the recommended newly developed RESTART system should meet the following criteria:

- the organization should have four main functions: risk analysis, monitoring and warning, distribution and communication, and responsiveness, which includes support.
- shared funding organization, which is, in ideal situation, able to attract partial funding.
- a high reputation organization with a high reputation leader, consultant, volunteer mentor and expert cooperation model organization.
- extensive and high-quality public relations communication organization that provides the organization with a wide recognition and helps to change the perception of business failures in the society.

- based on a productive and high-quality customer relationship management model(s) that helps the organization to become more efficient.
- strong and an approbated training program for consultants and mentors.
- full insolvency cycle support organization, including support services in both early warning and post-bankruptcy situations.
- highly discreet, neutral and confidential against potentially repressive state institutions.
- extensive networking with banks, public authorities and other organizations seeking solutions to customers' debt problems.
- based on the best practice model of EU support organizations.

The main part of experts agreed that the most optimal approach could be the system with 3 levels (figure 4).

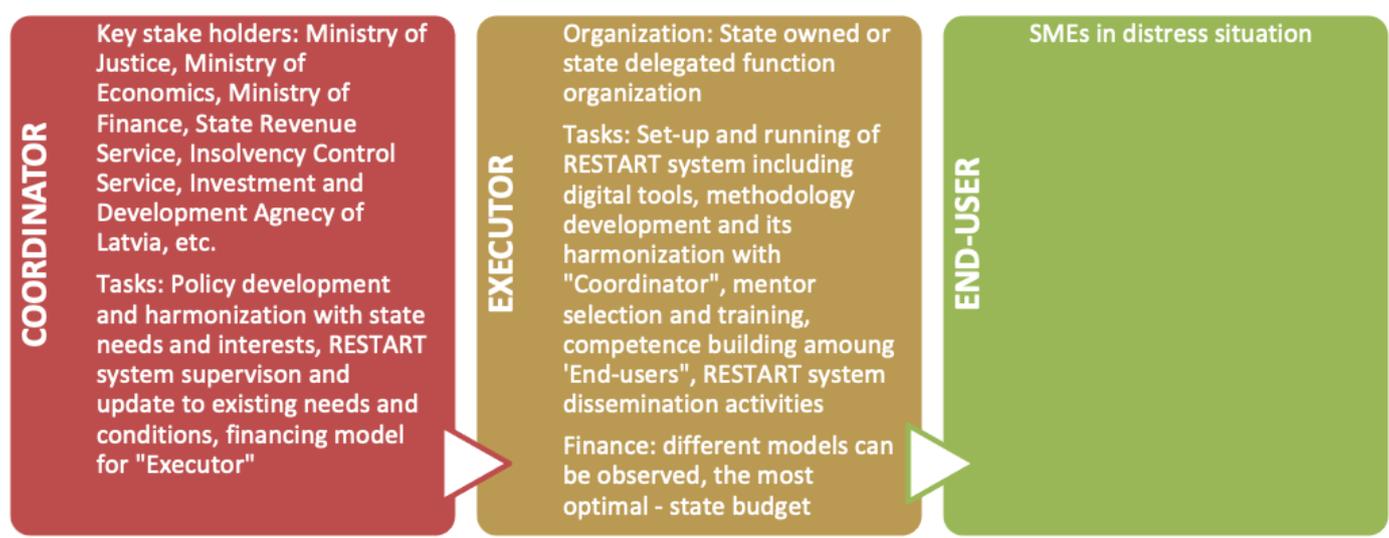


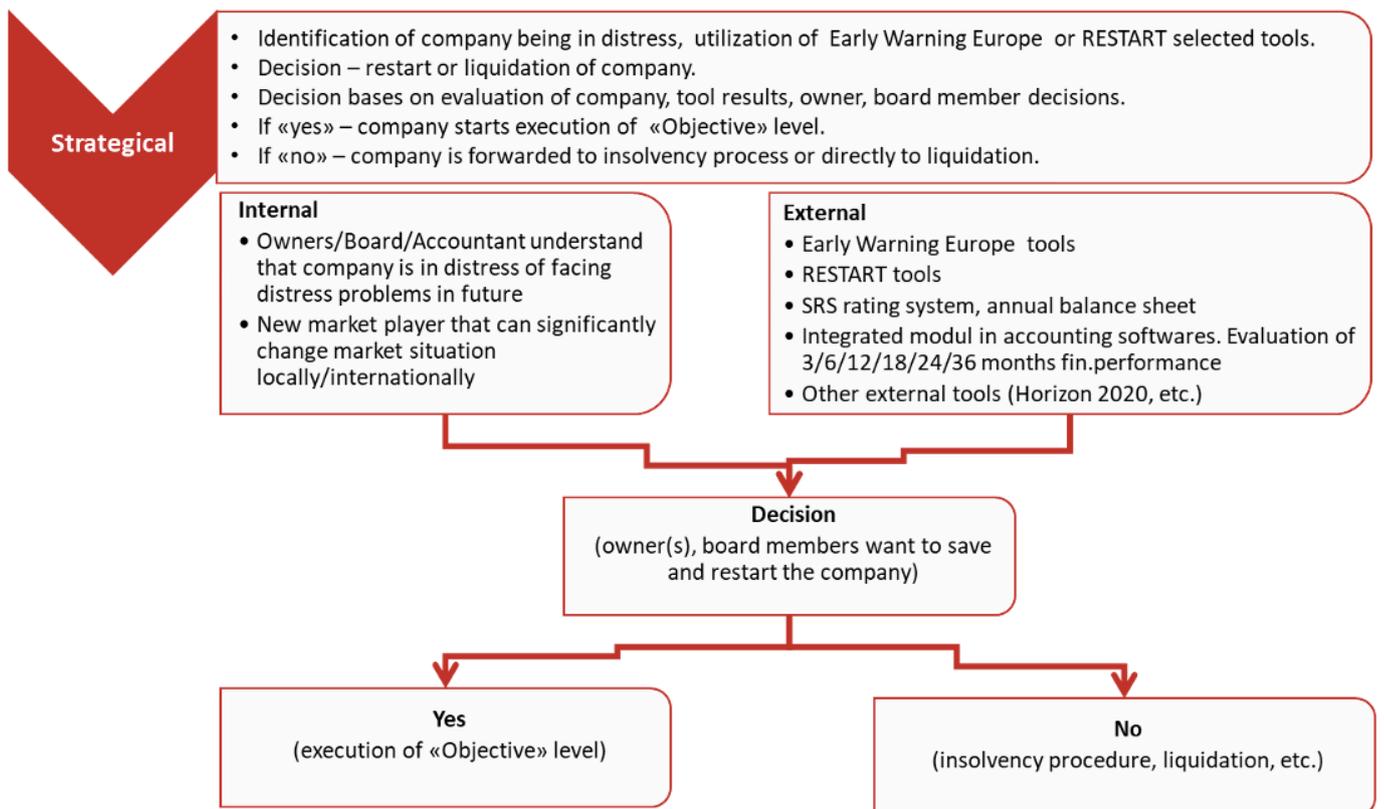
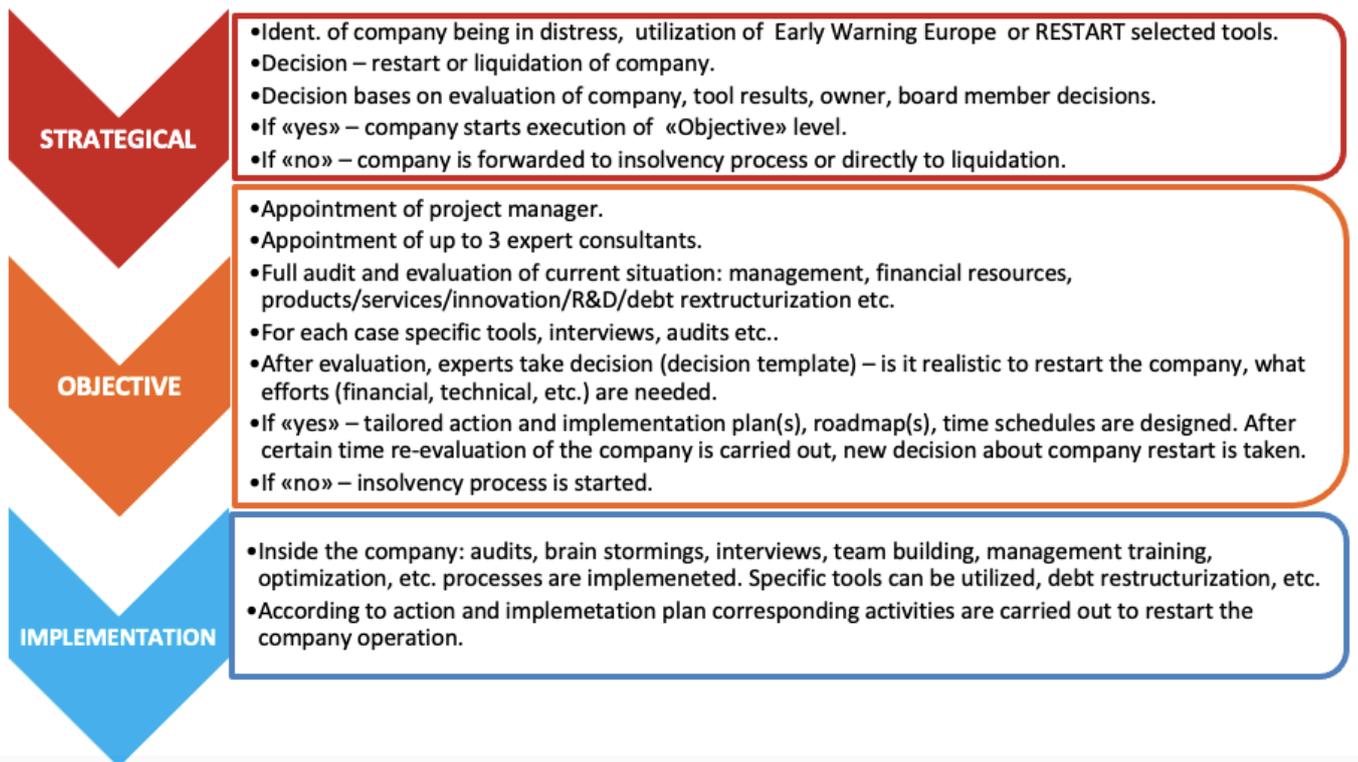
Figure 4 Overview of proposed RESTART-Latvia system

RESTART system development is not in empty place. At this moment in operation is Insolvency Law (<https://likumi.lv/ta/en/en/id/214590-insolvency-law>) and other related laws, as well as Taxpayers Rating Monitor offered by State Revenue Service, and well as other rating systems offered by institutions. But all the available instruments are defragmented, there is no one-stop agency and off course “no-wrong” door principle can’t be applied in this case.

The proposed RESTART system needs to ensure that it makes the best use of the resources it has and works better together to use and share services across the whole support ecosystem not only internally (country level) but also externally (EU level). This means going for a more systemic and integrated approach, bundling knowledge, excellence and competence together to cope with the complexity of the problems its clients face and want to solve.

To deliver this approach, means adopting a “hub and spoke” model of services in which RESTART system, as hub, is the support integrator for the end-user, providing the core services and pulling together the “spokes” of other system members to provide additional or more specialized services available within the system.

The RESTART system “Executor’s” theoretical principle is presented in figure 5. Its worth to mention that entrepreneur’s involvement and willingness to save the company is crucial and RESTART system will not be designed to do business instead of the company. The RESTART system is going to target not only companies in financial distress, but all companies that are facing any distress situation.



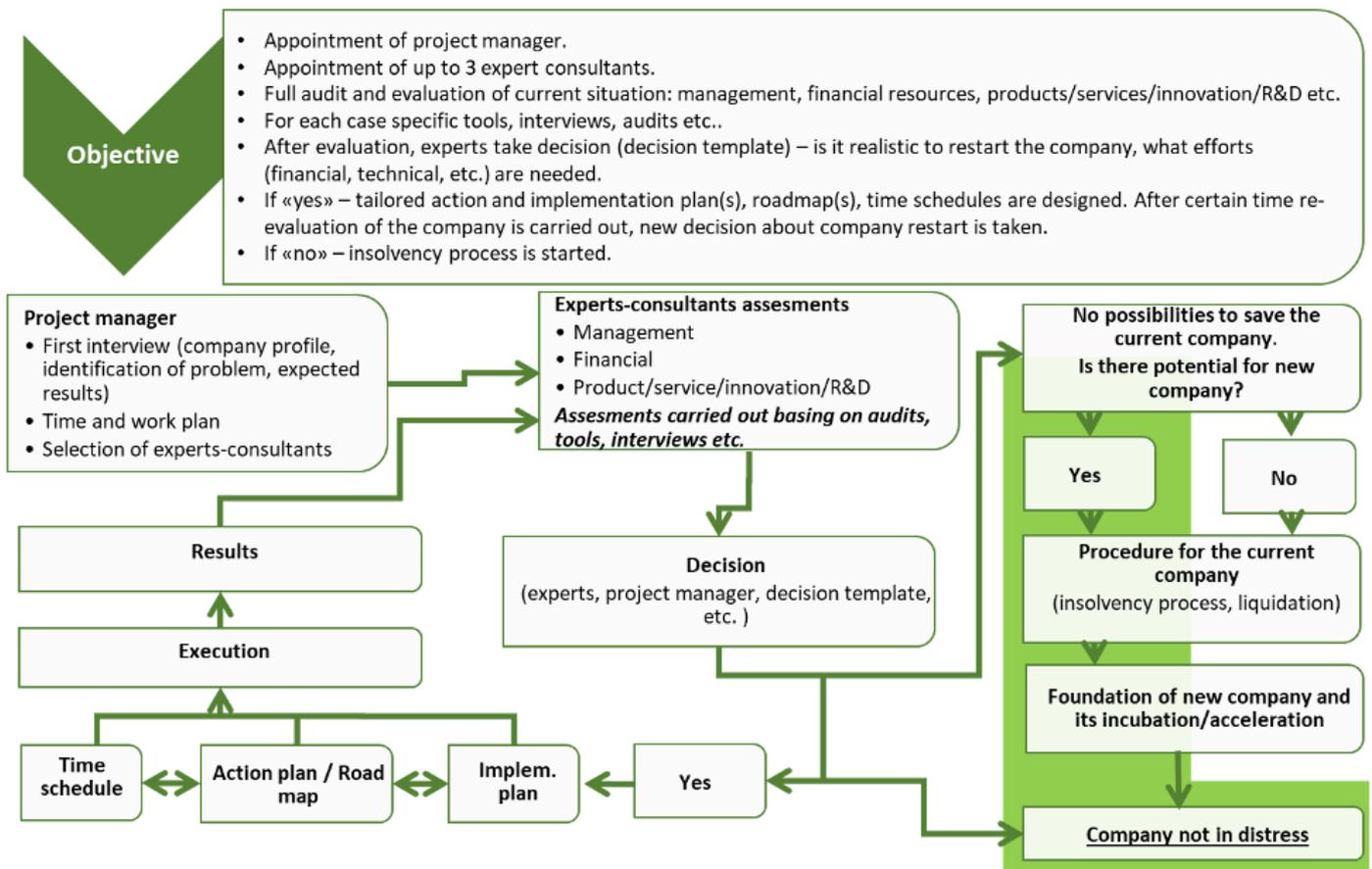


Figure 5 RESTART system Executor operational concepts

The final RESTART system model can be different to offered one. It strongly depends on financial and operational capacity of coordination and executor level.

Identification of key actors at national/ regional level

Identification of the most important public authorities and stakeholders, their importance and potential role and involvement in the project i.e. potential source of funding, political support, access to SMEs, etc.

Ministry of Economics (<https://www.em.gov.lv>)

- public administration in the field of industrial and service policy, business policy and tourism policy. The aim of the Ministry of Economics is to reach the competitiveness of the national economy at European level. Therefore the Ministry promotes sustainable development of structurally and regionally balanced national economy. Also the function of the Ministry is to introduce and supervise the programs and projects of EU structural funds and other foreign financial means. Leader of RESTART advisory group. Possible financing provider for RESTART system.

Ministry of Justice (<https://www.tm.gov.lv>) -

State administrative institution in the sectors of justice (legal system policy, judiciary system and court administration), as well as in other fields of the State policy referred to Insolvency law, EU Directive 2019/1023 and amending EU Directive 2017/1132. Involved in RESTART advisory group.

Ministry of Finance (<https://www.fm.gov.lv>)

– concerning RESTART system, develops and implements the following policies: state budget and finance management policy; tax and duties system policy; state and local government's procurements policy; state aid control policy; policies in accountancy fields; commercial companies audit policy.

Provision of control numbers regarding State Investment Program total state budget investment amount and agree them with the Ministry of Economics, evaluate financially economic justification of these projects, as well as monitors utilization of state budget resources during the implementation of the projects. Involved in RESTART advisory group.

State Revenue Service

(<https://www.vid.gov.lv>) - a direct administrative authority under the supervision of the Ministry of Finance, which ensures the accounting of tax payments and taxpayers; the collection of taxes, duties and other mandatory payments specified by the State in the territory of the Republic of Latvia; collects taxes, duties and other mandatory payments into the budget of the European Union; and implements the customs policy and organizes customs matters. Currently runs company wellness check rating system. Involved in RESTART advisory group.

Insolvency Control Service

(<https://www.mkd.gov.lv>) - a direct administrative authority under the supervision of the Ministry of Justice. Main duties are implementation of the state policy on legal protection proceedings and insolvency proceedings, as well as protect the interests of employees in the insolvency proceedings of their employer. Involved in RESTART advisory group.

Investment and Development Agency of Latvia

(<https://www.liaa.gov.lv>) - is a direct administration institution subordinated to the Ministry of Economics. Acts as a first point of contact and as a "one-stop-shop" in assisting investors and in developing tailored solutions. LIAA is also the main export promotion organisation in Latvia. Since 2004, implements state support programs, advancing

grants to entrepreneurs to increase their competitiveness, and state support were provided to the development of science, innovation and business by encouraging research, development and technology transfer, promoting applied research, encouraging the formation of new enterprises and by facilitating availability of financial resources. Involved in RESTART advisory group.

Latvian Chamber of Commerce and Industry

(<https://www.ltrk.lv>) – largest association of entrepreneurs in Latvia uniting 6000 members – micro, small, medium and large enterprises of all regions and industries, associations, city business clubs and other unions of entrepreneurs. Association represents interests of entrepreneurs, as well as provides services, so that Latvia has excellent enterprises in an excellent business environment. Involved in RESTART advisory group.

Register of Enterprises

(<https://www.ur.gov.lv>) - acts under the supervision of the Ministry of Justice and its activity is regulated by the law on The Register of Enterprises of the Republic of Latvia. The main activities: registers companies, traders, their branches and representative offices and changes in their founding documents, and other activities. The Register of Enterprises also registers commercial pledges, controlling interests, arbitration bodies, and insolvency proceedings.

Latvian Association of Insolvency Process Administrators

(<https://www.administratori.lv>) - In accordance with the Insolvency Law, the Association of Administrators performs the functions of a professional organization of administrators. The Association of Administrators unites all Latvian administrators according to the principle of professional activity.

Latvian Association of Business Consultants

(<http://lbka.lv>) - unites consulting professionals and organizations as well as organizes activities that unite, support and train them.

Credit Information Bureau (<https://www.kib.lv>)

- is a part of the world's largest credit information and risk management solutions providing group "Creditinfo Group" and it aims to reduce the financial risks of companies and individuals. By accumulating information from a wide range of companies and adding data from the state and commercial registry, they support companies: to make correct financial decisions quickly; to control debtors; to increase turnover. The customers have access to the database <https://secure.kib.lv>, which allows access to the financial data of Latvian companies and individuals.

Largest banks:

Swedbank (<https://www.swedbank.lv>);

SEB (<https://www.seb.lv>);

Luminor (<https://www.luminor.lv>);

Citadele (<https://www.citadele.lv>);

LPB Bank (<https://lpb.lv>)

Other key actors in RESTART system, business associations, local/regional entrepreneur clubs, municipalities as well as higher education institutions also should be involved. Their main task could be information provision, organisation of local financial wellness training events.

Potential risks and mitigation measures

Provision of a list of the three most critical risks to the implementation of the activities in your region/country as well as possible measures to mitigate these risks

As one of the main potential risks, during innovations labs, lack of the political will, to develop and implement RESTART system. The main risk mitigation instruments can be:

- Consultations with governments and political leaders - these enable RESTART implementers to be informed on national development plans, policy and tax changes that might affect SME wellness, RESTART operation and financing principles. It will also ensure smooth information flow regarding RESTART achievements and SME feedback about the program.
- Consultations with local SME communities and NGOs – awareness rising about RESTART activities and value for SMEs in distress situation, mentor and coach involvement.

Important risk will be – **financing of the RESTART system**. To ensure the system sustainability, stable financing resources should be foreseen. Project and/or volunteer based financing model can't provide stability and growth. The best solution would be state budget financing, as the minimum for executor level staff operation.

Convenience, user friendliness and confidentiality of the RESTART system.

The system concept and operation should be simple and intuitively understandable to end-user. It should encourage entrepreneurs in distress to look for help and support well before they have reached turning point when there is no possibilities to save the company. All the support should be discreet and highest level of confidentiality must be maintained.

Time plan

The time plan including milestones for the operation and scale up of activities

Activity	Month																	
<i>RESTART system -</i>	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
Concept development and working group	X	X	X															
Political decision			X															

Establishment of coordination unit				X	X														
Task definition for Executor, budget composition, supplementing documentation, etc.					X	X	X												
Legal acts and decisions								X	X	X									
Creation and training of Executor level											X	X	X	X	X	X	X	X	X
IT and other tool development													X	X	X	X	X	X	X
Pilot testing and improvements																X	X	X	
Communication strategy and dissemination													X	X	X	X	X	X	X
Launching																			X

Funding plan

Annual budget for the operation and scale up of activities and identify the main (potential) funding sources

RESTART system funding and budget strongly correlates with final system model. As described above, the best and most reliable funding model, which would guarantee system sustainability and grow, is state budget or long term fund based.

Communication strategy

Provision of communication activities and events at national, regional and EU/BSR level

The Communication strategy to be implemented by the RESTART team during the lifetime of the project is a strategy for both **for internal and external communication**.

This means keeping the RESTART team and the target group informed, responding to their concerns and even involving them in the implementation of the RESTART activities.

The Communication strategy will be based on the provision of bidirectional information flow by using the most appropriate tools for the information distribution in time and to appropriate target group. For these purposes Communication plan will be composed, that will be updated annually. The direction for communication activities will be:

- **Internal communications - within the RESTART team;**
- **External communications - with local and regional policy makers, key stake holders, general public, SME support organizations and main target group – companies in distress situation.**

As for **internal communication** the main emphasis will lie in direct and efficient information flow between all RESTART team members, to ensure that each member knows the development of the processes, objective achievements, potential bottlenecks and solutions provided by other team members.

For every day internal communications between all team members the IT platform (e.g. Skype, WhatsApp, Discord or similar) will be used. This platform can be used as a message board, where all the team members can share information, knowledge, working and activity plans. For companies in RESTART process internal client management software will be utilized. Such platform will allow all team members to contribute in service provision to clients, follow-up, planning new activities and, if needed, reporting to local authorities.

Additional message board will be opened for senior management staff, to share information related to activity implementation and other important issues. For official communication, electronic documents will be circulated between RESTART team organizations.

The **external communication** is foreseen in two groups:

- External communication with local and regional key stakeholders, EC stakeholders and general public;
- External communication with target group – companies in distress situation.

To ensure visibility and accessibility of the information about the RESTART activities, the team will maintain a common website, which will serve as a main platform and a tool for marketing, communication and apply for RESTART services. The website will contain information on the RESTART specifics and activities, activities of the team - services, goals and achievements, calendar events, cooperation partners, EU and national policy documents, other publications, important links, etc. The website will be updated on daily basis. The team will also continue development of the website, after set-up, both the content wise and functionally to make it more client friendly.

The links to the RESTART website also will be available on the key stakeholders: Ministry of Justice, Ministry of Economy, Ministry of Finance, State Tax office, etc. websites. The website will mainly be in Latvian and English languages. To ease communication with RESTART team generic e-mail addresses following the same structure (name.familyname@domainname.lv) will be opened.

It is foreseen to use also social media (Twitter, Facebook, LinkedIn) for promotion of services and activities as well as other relevant issues.

Upon the need the team will issue also leaflets, fact sheets and posters, containing information on the most important activities.

The elaborated materials will be used for daily contacts with the clients; they will be available in team and partner organization offices as well as during the promotional events (seminars, conferences, info-days, etc.).

The press releases will be issued upon the need. The RESTART team representatives, by invitation, will participate also on press conferences organized by key stakeholders.

In order to inform the business community about RESTART activities, best practices, and success stories, the team will prepare articles, containing targeted information, which will be published in local newspapers and magazines.

The team will be open to local and regional mass media – radio, TV, digital platforms for interviews on topics related to the RESTART services.

THE ACTIVITIES OF EARLY WARNING,
SUPPORT AND SECOND CHANCE

RestartBSR Manual 2021

GUIDELINES FOR POLICY MAKERS HOW
TO BUILD AND STRENGTHEN THE
INSTITUTIONAL ECOSYSTEM TO SUPPORT
COMPANIES IN FINANCIAL DIFFICULTIES IN
THE BALTIC STATES AND POLAND





This work is developed under the responsibility of the Interreg Baltic Sea Region project RestartBSR. The opinions expressed and arguments employed herein reflect to the Project outcomes. This document, as well as data and recommendations included herein, are reflected to Baltic Sea region countries perspective. The purpose of the policy recommendations and manual is to guide policy makers and public authorities on relevant policy actions and support measures, promoting how to create better framework conditions for companies in financial distress and for restarters.

What is early warning, support and “second chance” pillar systems for entrepreneurs and companies in crises? How it can be implanted in the Baltic Sea Region countries Poland and the Baltic States? How it should be measured and how best practices from other EU countries could be transferred? Understanding the scale of early warning, support and “second chance” activities, the characteristics of existing obstacles and influencing factors, RestartBSR Manual 2021 is the international reference guide for policy makers to build and strengthen the institutional ecosystem to support companies in financial difficulties in the Baltic States and Poland. The main goal of several years of international experts’ cooperation, despite the challenging conditions of Covid-19, was to develop guidelines that are as accessible and useful as possible to make a significant contribution to the Baltic Sea economies.

The statistical and qualitative data mentioned in the Manual are from the research “Analysis of the best European support, early warning and second-chance systems transferability in the Baltic Sea region countries”/ 2020/ EM 2019/131 conducted by the RestartBSR project in 2020, based on the official EU statistics.

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1. Introduction

In European business culture, closing a business is seen as a failure that leaves a negative impression on further business. Following the business liquidation or bankruptcy, entrepreneurs in the EU mostly opt for a paid professional job rather than re-establishing their business.¹ However, the experience of liquidation is inspiring - those entrepreneurs who re-establish their business after bankruptcy are experiencing faster growth than start-ups.

Interreg Baltic Sea Region project RestartBSR (hereinafter referred to as the RestartBSR project) finding shows that entrepreneurs who have failed are more successful than start-ups.² This points out that an early warning and "second chance" policy that supports companies in difficulty or bankrupt entrepreneurs to start a new business as soon as possible is one of the most promising ways to strengthen existing and create new successful companies and thus jobs after COVID-19 crisis. Several early warning and "second chance" support organizations for SMEs are already operating successfully in Europe, while there are no such support systems in the Baltic States.

The RestartBSR project is very closely linked to Directive (EU) 2019/1023 of the European Parliament and of the Council of 20 June 2019 on preventive restructuring regulation, debt cancellation and disqualification with target to increase the efficiency of restructuring, insolvency and debt cancellation proceedings, which requires all Member States of the European Union to provide an early warning tool(s). The RestartBSR project has united 6 partners - the Ministry of Economics of the Republic of Latvia,

the Latvian Technological Centre Foundation, the Polish business support organization "Lower Silesian Intermediate Body", Design School Kolding, Vilnius Gediminas Technical University and the Estonian business support organization "Harju County Entrepreneurship and Development Consultancy" in order to facilitate the implementation of a business support model in four pilot countries - Latvia, Estonia, Lithuania and Poland, that would meet both the requirements of the above Directive and be the most effective solution for financially distressed companies and its development, implementation, institutions, persons involved in maintenance. Organization "Lower Silesian Intermediate Body" is the leading partner of RestartBSR project, and all partners has joint with the aim to build institutional capacity to support companies in financial difficulties in the Baltic Sea Region.

Definition and concept of early warning, support and "second chance"

In economics, an early warning system is generally interpreted as **a system, used to forecast the future performance of a company or country, possible deviations from the plan and to mitigate risks in times of crisis**. An early warning system refers to operations, systems, phenomena, people and other elements that constitute an economic system (ecosystem). The early warning system can identify the current situation and potential risks both qualitatively and quantitatively (Ozgulbas & Koyuncugil, 2010).³

1. Global Entrepreneurship Report, GEM 2019/2020

2. E. Stam, D. B. Audretsch and J. Meijaard, "Renascent Entrepreneurship", ERIM, 2006.

3. Ozgulbas, N., & Koyuncugil, A. S. (2010) Financial early warning system for risk detection and prevention from financial crisis. In Surveillance Technologies and Early Warning Systems: Data Mining Applications for Risk Detection. In A. S. Koyuncugil, & N. Ozgulbas (Eds.). Surveillance Technologies and Early Warning Systems: Data Mining Applications for Risk Detection (pp. 76–108). New York: Idea Group Inc.

The European Commission points out⁴ that **insolvency rules cover a wide range of measures, from early intervention before a company is in serious difficulties, to timely restructuring** to ensure that viable companies are maintained, to liquidation of assets where companies cannot otherwise be rescued and, last, the so-called “second chance” for honest entrepreneurs in the form of debt relief.

Until mid-2021, no unified definition of support for companies in financial difficulties, early warning and “second chance”, binding for all EU Member States and parties involved, has been identified at EU level.

As other related definitions from the academic, partly governmental and civic sectors point out, legal insolvency proceedings are only a part of a wider system of support, early warning and “second chance”.

In academic environment, **early warning systems and their efficiency have been extensively studied** since the middle of the last century and cover a wide scope of research – at regional, national, sectoral and company level, including SMEs. **There are different conclusions, which are often contradictory.**

The studies also draw very specific conclusions on the key factors that provide early warning of potential financial difficulties and insolvency of SMEs. In addition, the increasing technological capabilities of large data processing and the latest generation of business information approaches to data retrieving have increased the accuracy of the EWS. The unifying conclusion of various academic studies is that the logic of early warning systems operation is based on deviations from conventional indicators or finding unusual and untypical behaviour in the subject.

Overall, the accuracy of early warning models depends on some basic factors: the reliability of the financial statements, the analyst’s knowledge and experience, knowledge of industry, knowing economic trends within the analysed period, and understanding of company management policy, which are highly variable components in economy.

To date, neither theoretical studies nor practice have identified a high-reliability crisis identification data mechanism. However, academic findings also point to the need to use data sets to reveal correlations, based on which further models can be developed.

This is especially true for large-scale analytics using sophisticated algorithms for the evolution of classical techniques, such as statistics, model recognition, artificial intelligence, machine learning, etc.

Academic findings point to the dual systemic nature of the early warning system - one early warning system refers to the determination of the object’s indicators (tools, models, subsystems, etc.) and the other interacts as a support system for the first system to activate it. Both systems interact with political, civic, academic and industrial environment. Only by interaction of the two systems an efficient result can be achieved. It is not enough to have increasingly efficient tools, models and subsystems in place to be able to identify the companies that need preventive actions to avoid insolvency. **It is equally important to create a support system(s) that launches these tools on a regular basis.**

4. EU Proposal for the Directive of the European Parliament and of the Council on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures, 2016/0359 (COD).

The previous findings of support, early warning and “second chance” in most of cases have been focused primarily on the research of the legal framework of insolvency from legal point of view, with a secondary and fragmented assessment of the business environment that directly affects the causes of a company’s crisis.

A complete and efficient early warning system supports four main functions: **risk analysis, supervision and warning; distribution and communication including responsiveness.**

The EC puts forward four successive sub-sectors that constitute the process of a company in financial difficulty, considering its broadest possible role: from the moment a company is established, its possible warning, in situations where serious financial problems arise, from the moment when the company is

finally reorganized or liquidated, and the subsequent effects of the company’s bankruptcy on the businessman. Thus, the EC conceptual framework has four main sections: (1) **prevention** (early warning systems, support mechanisms), (2) **out-of-court settlements**, (3) **trials, followed by restructuring or liquidation of the company**, (4) **attitude of the businessman towards bankruptcy and “second chance” conditions** (liquidation, termination of activity, debt relief and other consequences). This conceptual approach, as found during the RestartBSR project, is also shared by most of government sector experts of the Baltic countries and Poland.

When assessing the most appropriate potential support for companies in a crisis, it is also necessary to distinguish separately **what types of crises the companies experience in their different life cycles.**

Studies show that all companies periodically go through life cycle caused crises of different origins and, depending on how they manage to handle it, this can lead to financial difficulties and consequent insolvency. Different solutions are possible for each crisis, and **the solutions are largely determined by the internal ability and energy of the company’s manager to cope with the crisis.** This academic conclusion is confirmed by the statements of experienced mentors and experts of early warning, support and “second chance” support systems Early Warning Europe (hereinafter referred to as the EWE), “Team-U”, “Dyzo”, “MKB Doorstart”, “60,000 Rebonds”, expressed during the RestartBSR project research. The aspects of the reason of the crisis of business need to be considered when assessing the most appropriate support, early warning and “second chance” mechanisms in each country.

None of the in-depth interviews with EWE and other public organizations providing support to companies in difficulty in EU Member States, carried out in scope of the RestartBSR project, mentions the distinction between the company and the businessman, thus all of them express the opinion, existing in expert practice, that **the owner and/or manager of a SME and its vision are the grounds of the company that determine the direction of the company and its ability or inability to cope with the crisis.** It was repeatedly emphasized in the interviews that the struggle of a company in financial difficulties is fought by one person or a small group of people - company owners and/or board members. In 28 interviews with entrepreneurs from different countries, the opinion was unanimous that in the face of financial difficulties, the businessman is left alone, and the severity and responsibility of the current crisis should be borne by the entrepreneurs personally, finding the strength to solve them, whether the company continues to exist or is being liquidated, leaving the debt burden.

The EC Annual Report on SMEs 2018/2019 shows that more than 110 policy initiatives have been adopted in the EU in accordance with the “second chance” principle since 2011, including ten in 2018 and in the first quarter of 2019. **The registered number of policy initiatives, aimed at promotion of the “second chance” and “single market” principles, in the period from 2011 to Q1 2019 has been the smallest.**

In most of the EU member states, it is still impossible to complete legal insolvency proceedings within one year and to release a company from insolvency proceedings within three years. Similarly, half of *bona fide* entrepreneurs in EU member states do not have an automatic discharge following liquidation or accelerated insolvency proceedings. Post-insolvency companies are generally defined the same way as start-ups in most of EU member states. However, just over half of EU member states have timely warning and assistance service mechanisms in place to help prevent entrepreneurs’ bankruptcy.⁵

Context of the EC Directive (EU) 2019/1023

The new EC Directive (EU) 2019/1023 on a preventive restructuring scheme and the “second chance”⁶ adopted on 20 June 2019 lays down rules (Article 21) that all member states must ensure that over-indebted companies have access to at least one procedure which may lead **to their debt being repaid in full within a maximum period of 3 years.**

The Directive provides for a significant restructuring of the insolvency proceedings by shifting the scales from company liquidation process to company restructuring process. **This is a fundamental difference that transforms the existing insolvency paradigm from a “how to better liquidate” to “how to better restore” approach.**

The Directive assumes specific and detailed actions to be taken in the “Preventive restructuring” and “Insolvency” phases. “Preventive restructuring” is a new, hitherto unregulated phase to which most of the Regulation’s directives are devoted. In turn, the main improvements for the “Insolvency” phase are related to the provision of well-ordered and efficient processes, which are maximally synchronized between the EU member states.

On the other hand, **just one point of the Directive is devoted to the early warning issue**, stating that EU member states need to develop **one or more tools to detect circumstances** that could lead to the possibility of insolvency. This fact largely indicates the Directive’s primary focus on improving the legal framework for restructuring or liquidation of a company in financial difficulty, **leaving prevention support initiatives secondary.** The new Directive emphasizes mainly the need to disclose the circumstances, while the positive experience of EU organizations so far points to the provision of mentoring as the most efficient tool.

5. EU Proposal for the Directive of the European Parliament and of the Council on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures, 2016/0359 (COD).

6. Directive (EU) 2019/1023 of the European Parliament and of the Council of 20 June 2019 on preventive restructuring frameworks, on discharge of debt and disqualifications, and on measures to increase the efficiency of procedures concerning restructuring, insolvency and discharge of debt, and amending Directive (EU) 2017/1132 (Directive on restructuring and insolvency)

The RestartBSR project concludes that **early detection of financial difficulties determines success in coping with the crisis**, and that one of the major obstacles in EU member states is the late recourse of entrepreneurs to seek for help, but according to the information obtained in the RestartBSR project, **crises are different and one of their most spectacular common features is that they are unexpected. A crisis catches most of entrepreneurs unawares**, as in the case of Covid-19, or as a sudden loss of a transaction, due to personal circumstances, which do not provide a preventive possibility to predict it.

To achieve the EC's objective of increasing the number of restructured companies and "second chances", it is essential **to consider the insolvency proceedings not only as improving the legal framework but also as a part of a dynamic and complex business environment** that assumes a close cooperation of legal and business environment support experts in the development of both research and policy initiatives.

The support, early warning and "second chance" ecosystem is not homogeneous; it is a complex system consisting of both a complex legal framework and a complex and dynamic business environment, affected by both companies' internal factors and life cycle crises and changing external conditions. This is more pronounced in relation to the Baltic States as small economies, directly open to external influences.

The prevention section and pre-court components within the support, early warning and "second chance" ecosystems in international context **are not supervised and analysed by international political or**

non-governmental organizations on regular basis. The OECD also points to an incomplete assessment of current insolvency proceedings, which is currently focused on a formal assessment of the output of the process data in both the World Bank's Doing Business Index and the EC assessments. The OECD draws attention to three areas where improvements in assessment would be needed: the inclusion of personal costs of the businessman, the assessment of support for prevention mechanisms and barriers to restructuring.

2. Obstacles, factors and challenges for the support in the Baltic States and Poland

One of RestartBSR project findings is that the **existing measurements of insolvency proceedings** of the Baltic States, Poland and EU member states of the EC and the World Bank's Doing Business Index should be improved, considering the OECD guidelines on productivity components and including measurements and key performance indicators for each extended procedural insolvency step.

As discovered during the RestartBSR project, currently, **the insolvency proceedings** in the countries **are one of the most important performance indicators of support, early warning and "second chance" system**. The World Bank's Doing Business Index (hereinafter referred to also as the "DB" index) is currently one of the most respectable sources for qualitative and reliable comparisons of assessment of the environment of companies in difficulties.

According to the "DB" index, the overall framework of insolvency proceedings is rated the highest in Poland, comparing it among the RestartBSR project countries - the Baltic States and Poland. In Poland, the strength of the insolvency proceedings is evaluated at 87.5% of the maximum possible 100%, followed by Estonia - 81.3%, Latvia - 75%, and Lithuania - 50%.

The percentage of companies, restructuring their operations within insolvency proceedings in Poland is also the highest - 65.6%. The Baltic States lag far behind – In Latvia only 44.6%, in Lithuania - 43.4% and in Estonia - 38.9% of companies restructure their business within insolvency proceedings.

The insolvency proceedings take the longest time in Poland and Lithuania (3 years), while in Latvia their time is the shortest (1.5 years). In Estonia, the insolvency proceedings take 2.3 years, while the OECD average for high-income countries is 1.7 years. The 2016 EC research on insolvency proceedings in the EU⁷ emphasizes the need to reduce the duration of insolvency proceedings, as it has been proven that a shorter period for terminating insolvency proceedings provides a better opportunity for a successful “second chance” for the company and the businessman.

Poland also has the highest debt recovery rate - 60.9 cents on US dollar, but does not reach the OECD high-income countries level of 70.2 cents on dollar. In the Baltic States, the recovery rate is the highest in Latvia - 41.4 cents on US dollar, followed by Lithuania with 40.3 cents and Estonia with 36.1 cents on US dollar. The costs of insolvency proceedings, measured in value of property, are the highest in Poland and Lithuania, 15% of the value of debtor’s property, respectively, while they are the lowest in Estonia - 9% and Latvia - 10%.

The insolvency proceedings quality index is the highest in Poland, with 14 points out of 16. The second highest rate is in Estonia, with 13 points, followed by Latvia with 12 points and Lithuania with 8 points. The OECD average for high-income countries is 11.90 points. Poland, Estonia and Latvia are all above the average.

The EC conducts an annual SME Performance Review, which is one of the main tools used by the EC to monitor and evaluate the progress of EU countries in assessing the SME environment on an annual basis. SMEs make up 99% of the total number of companies in the European Union. The complex SME assessment states that among the RestartBSR project countries, only Latvia’s “second chance” system has moved into the area that is assessed as positive current performance and growth in the period from 2008 to 2019, compared to the EU average growth. The assessment of Estonia’s “second chance” reveals a high current performance, but in terms of historical progress there is a deterioration compared to the EU average.

Poland has a low current “second chance” assessment, but a growth is observed. In turn, Lithuania has a negative assessment of both the current “second chance” performance and the historical progress compared to the EU average and current growth. Overall, the target countries of the RestartBSR project have a significant potential to improve their existing “second chance” performance against the EU average.

Executive summary of Latvia

The overall internal assessment of Latvian insolvency area experts (both the ones of government sector and business) indicates that support in the field of both prevention and **the legal framework in Latvia is rather incomplete and has little incentive to keep the business strong and stimulating keeping of business.**

7. “Research on a new approach to business failure and insolvency Comparative legal analysis of the Member States’ relevant provisions and practices”. EUROPEAN COMMISSION Directorate-General for JUSTICE AND CONSUMERS

Latvia's government sector experts rate the support in legal framework higher, evaluating the support provided to the entrepreneurs in Latvia as rather strong and stimulating business restructuring and/or providing a "second chance" than incomplete and little stimulating.

In Latvia, the most significant obstacles faced by companies in financial difficulties are the following: (1) low confidence of the state in entrepreneurs, (2) insufficient efficiency of state and local government support services – the level of efficiency of available tools, services, mechanisms, incentives and (3) their quality. The significant obstacles that have also been identified include (1) economic recession, (2) lack of information on restructuring opportunities, (3) dishonest attitude of entrepreneurs towards the insolvency proceedings, (4) dishonest behaviour of a cooperation partner when it learns about the existing difficulties, (5) insufficient number of support services provided by the state and municipality - lack of available support tools, services, mechanisms, incentives, etc., and (6) difficult access to risk capital for a company in difficulties.

The factors that significantly affect the implementation of Latvia's support, early warning and "second chance" system in the country are: (1) lack of the coherence of political will - legal and economic, (2) economic stagnation and recession, (3) entrepreneurs distrust in the efficiency of the support system, (4) low competencies of entrepreneurs pertaining to in business crisis prevention activities (so-called financial literacy, crisis management, etc.), (5) level of corruption in the country, (6) unequal attitude of cooperation partners towards restructuring processes, (7) stability of political regulation, (8) proportion of grey economy in the country, (9) insufficient funding for participation in support on the part of the entrepreneurs, (10) difficult access to risk capital for the entrepreneurs, (11)

low experience and lack of competence to implement support on the part of the government and civil support society - difficulties in ensuring system efficiency, and (12) public disbelief that business failures are the result of good faith.

Executive summary of Estonia

The overall internal assessment of Estonian experts indicates that support in the field of prevention in Estonia **is rather incomplete and has little incentive to keep business** than strong and stimulating business keeping, while insolvency proceedings in the Estonian legal framework are rated higher, evaluating the support provided as rather strong and stimulating business restructuring and/or providing "second chance" than incomplete and having little incentive.

Estonian government area experts point out that the main reason for insolvencies is **insufficient knowledge and skills of managers**. As the most important obstacles they mention **late reaction of entrepreneurs to seek for support**. Experts also point to the **lack of the number of support services**. The **most significant factors** influencing the implementation of Estonia's support, early warning and "second chance" system in the country are: (1) Lengthy insolvency proceeding. Procedure for legal reorganization of companies and restructuring debts is available on only for large companies; (2) Although there is large network of county development centres in Estonia, providing consultancy and advisory services for entrepreneurs, so far no dedicated counselling for entrepreneurs in distress is provided. Partly, because this service is not financed.

Like in Latvia, the attitude of the society and entrepreneurs towards business failures in Estonia is assessed as rather unfavourable than favourable. In turn, the attitude of the state and local government is assessed as rather favourable than unfavourable, which creates suitable preconditions for the necessary support mechanisms to be introduced.

Executive summary of Lithuania

According to experts, the current support of Lithuania's support, early warning and "second chance" system, both in the field of prevention and in the legal framework, **is rather incomplete and having little incentive to keep business** than strong and stimulating to keep business.

The most significant obstacles faced by entrepreneurs in financial difficulties in Lithuania are: (1) **economic stagnation or recession**, (2) **difficult access to risk capital** for a company in difficulties, (3) **negative public attitude** towards business failures, (4) **time required** for legal insolvency proceedings, (5) the **costs of insolvency administrators** and (6) **inefficient company management of business and its finances**.

Like in Latvia and Estonia, the most significant obstacles in Lithuania are related to the economic recession and lack of financial capital. Unlike neighbouring countries, Lithuania has seen a negative public attitude towards business failures as a significant obstacle.

The most significant factors influencing the introduction of Lithuania's support, early warning and "second chance" system in the country are: (1) **economic stagnation and recession**, (2) **insufficient funding for support** from the part of non-government organizations and (3) **difficult access to risk capital** for entrepreneurs.

The common denominator of the factors and barriers uniting the Baltic States is related to the strong impact of unfavourable external economic environment and insufficient funding.

In Lithuania, the attitude of Lithuanian state and local government policy towards business failures has a more negative assessment than in the other neighbouring countries in the Baltics - the attitude has been evaluated as rather unfavourable than favourable.

Entrepreneurs own attitude towards business failures is also assessed as rather unfavourable than favourable. In turn, the public attitude towards business failures is assessed as rather favourable than unfavourable.

Lithuanian entrepreneurs point to similar problems as Estonian and Latvian entrepreneurs do, emphasizing the closed support door in case of even a minor tax debt (<50 EUR), the feeling of being left alone in the struggle for the company's survival and an extreme stress, which leaves a significant drop in productivity when it is most needed. The entrepreneurs have repeatedly emphasized the lack of supportive hand and the fact that business associations, chambers of commerce, associations and other unifying organizations are focused on success and growth, and a company in financial difficulties finds no response and support.

Lithuania has an extensive business support ecosystem, but it is closed for the company being in financial difficulties and in tax debt zone. The existing support system is focused on growth for start-ups and/or companies that are in growth stage.

Executive summary of Poland

In contrast to the Baltic States, Polish experts assessed the support available in Poland in both the prevention and insolvency legal frameworks stage as business stimulating, and it is largely explained by the activity of organization “Early Warning Poland” in Poland. Polish experts point out that the current system is strong within the legal framework for insolvency, but still needs to be improved to **support entrepreneurs in times of financial difficulties.**

Like to the Baltic States, the **main obstacles in Poland are:** (1) **difficult access to risk capital** for a company in difficulties and (2) **late reaction of entrepreneurs** to seek for support. In Poland, other key barriers that have been point out also include (3) **unequal attitude of banks**, (4) **negative public attitude towards business failures** and (5) **negative attitude of entrepreneurs** towards business failures. The current Covid-19 pandemic and the ensuing economic recession have been stressed as a distinctively significant additional obstacle.

The most significant factors influencing the implementation of Poland’s support, early warning and “second chance” system in the country are: (1) **insufficient funding** for participation in support from the part of entrepreneurs, (2) **low competencies of entrepreneurs** in business crisis prevention activities (including financial literacy, crisis management, etc.) and (3) **high fear of entrepreneurs to recognize** the inability to cope with the crisis in the company.

Polish experts, like Estonian experts, point to the low competence of entrepreneurs in business crisis prevention activities (including financial literacy, crisis management, etc.) and the high fear of entrepreneurs to acknowledge the inability to cope with the crisis in the company.

Polish experts assess the public’s attitude towards business failures in Poland as rather favourable than unfavourable and point to the success of “Early Warning Poland”, which is rated to the highest score, and the Ministry of Economy of Poland plans to expand it by setting up a regional network.

The Polish companies interviewed during the RestartBSR project, whose companies were facing financial difficulties, mentioned that the present success of their companies is largely due to the support of mentors from “Early Warning Poland”.

Consolidated executive summary of Poland and Baltic States

RestartBSR project has found a significant difference between Polish and Baltic entrepreneurs, that Polish entrepreneurs are grateful for the support provided by “Early Warning Poland” and wish to get involved or are already involved in further support for others to help, unlike Baltic entrepreneurs that have a negative experience of the experienced crisis and for that an intense emotional bitterness about the gained experience remained.

In EU countries, the entrepreneurs that have received support (from any of existing EU support organizations), and successfully overcome their business crises **value the psychological support provided significantly higher than the use of specific analytical tools and/or mechanisms.** The proportion of support most often mentioned by the entrepreneurs is 80% for psychological support and 20% for technical support. This can be explained to some extent by the high level of stress of the entrepreneurs in crisis situations and the loss of productivity in the conditions of crisis and stress.

The support, early warning and “second chance” **ecosystem is different in the Baltic States and Poland.** In Poland, both government experts and entrepreneurs assess the existing support of both prevention and insolvency legal framework stage as business stimulating, unlike in the Baltic States. This assessment is largely explained by the highly successful operation of the organization “Early Warning Poland” in Poland, which supports entrepreneurs directly in the insolvency prevention phase and provides mentoring services during the insolvency legal framework phase, if necessary.

In the Baltic States, there are also various (different from the EWE approach) support tools for companies in financial difficulties, such as educational measures on insolvency proceedings, national taxpayers rating system, information available from the credit register, guidelines for the cases of out-of-court settlements, possibility to turn to insolvency support organizations for support anonymously, legal and out-of-court protection process, consultations in business support organizations, consultation opportunities in county development centres and rural development support funds, as well as consultations available in business consulting companies.

The entrepreneurs interviewed in scope of the RestartBSR project in the Baltics fragmentarily evaluate the support provided by the institutions of the Baltic States in the period when the entrepreneurs (company) are in financial difficulties. In turn, Polish entrepreneurs highly appreciate the support of the organization “Early Warning Poland”, which, to cite the entrepreneurs, has protected their companies from liquidation.

In the Baltics, the support tools for companies in financial difficulties are rather analytical than mentor support-oriented, and this marks the most significant difference between Poland and the Baltic States.

One of the companies in financial difficulties, interviewed within the RestartBSR project, was in incubation program for start-ups and, in contrast to the other Baltic entrepreneurs, highly appreciated the support the company was currently receiving, and largely **because of mentoring and networking services offered by the incubator environment.**

Overall, the entrepreneurs indicated that in all Baltic countries the business environment has intensive and positively stimulating support, however, it is not available to a company in financial difficulties if the company has even a minor tax debt (starting from 50 EUR). Thus, a common narrative of the Baltic problem have been outlined - a locked support door at the time when the company needs it the most and the entrepreneurs faces a holistic problem stigma, when, according to all entrepreneurs involved in the study, the businessman has to face not only the company's, but also its private life-related crises, leading to a significant drop in productivity (up to 90%), which further pushes companies into financial and problem stigma.

Additionally, in Latvia, unlike in Lithuania and Estonia, a disagreement between the administration (support provider) and entrepreneurs (support recipients) has been marked. In future, such a difference of opinion between the government and industry could stimulate a communication and feedback gap between entrepreneurs and public authorities, which is better to avoid as a preventive measure.

If to consolidated findings from regional perspective, the most significant obstacles faced by entrepreneurs in financial difficulties in the Baltic States and Poland have been levelled out as follows: (1) lack of information on restructuring opportunities, (2) insufficient efficiency of state and local government support services – the level of effectiveness of the available tools, services, mechanisms, and incentives level, (3) insufficient number of support services provided by the state and local government - lack of the available support tools, services, mechanisms, incentives, etc., (4) economic stagnation or recession, dishonest behaviour of the cooperation partner, learning on the difficulties in place, and (5) low availability of risk capital for a company in difficulties.

In addition, the late reaction of entrepreneurs to seek for support, especially emphasized by Polish and Estonian experts, is a significant obstacle.

Overall, both in the Baltic States and Poland, the public's attitude towards business failures is assessed as rather unfavourable than favourable. In turn, the attitude of state and local government policy towards business failures is rather favourable than unfavourable.

The most negatively assessed are the Baltic and Polish entrepreneurs' own attitudes towards business failures, which indicate that the attitudes towards business failures are rather unfavourable than favourable, and which mark the necessary reorientation of attitudes of businesses towards failures in all countries from blocking experience to the experience that would provide for successful business in the future.

Executive summary of the best EU support experience

In the EU, there are several early warning, support and "second chance" organizations. The RestartBSR project carried out an in-depth evaluation of the six best systems in the EU: (1) in Germany, the "Team U" system; (2) in Denmark, the "Early Warning Denmark" system; (3) in Sweden, the "Företagsjouren" system; (4) in Belgium, the "Dyzo" system; (5) in France, the "60 000 Rebonds" system; (6) in the Netherlands, the "MKB Doorstart" system. These EU support, early warning and "second chance" models aim to provide advice to companies and entrepreneurs in financial difficulties, provide mentoring services for corporate restructuring, provide services for the rapid cessation of a business that cannot be rescued and start a new business.

The number of services provided by EU support, early warning and "second chance" support organizations identified in the RestartBSR project is very wide and covers a wide range of financial pre-crisis, crisis and post-crisis situations, from early warning when a company is not yet in crisis, but stagnant to the support of the entrepreneurs when the latter is planning or has started another business after bankruptcy.

Some of the EU support organizations have their own specific support focus. For example, "MKB Doorstart" is very successful in cooperating with banks and is able to assist the entrepreneurs not only in the core of crisis, but also at a very early stage, when the company does not yet have direct financial difficulties, but the bank indicates early signs of risk. In turn, the "60,000 Rebonds" in France supports the entrepreneurs after bankruptcy situations, helping to restore self-confidence and to start a new business.

One of the largest of support systems is EWE, which operates in many countries, including Poland and Denmark. EWE uses the conceptual framework of support, early warning and "second chance", defined by the EC and the OECD. In accordance with the defined model and its name, EWE's activities provide support at an early warning stage by alerting the company before the start of financial difficulties.

However, according to the interviews with the entrepreneurs and support organizations experts, the activities of the organization are much broader and primarily provide support to companies in a financial crisis situation, helping to resolve it. In a broader sense, it provides support to the company or the entrepreneurs throughout the entire cycle of financial difficulties, from the first signs of financial difficulties to the foundation of a new company and providing for its growth if the previous company has been liquidated during the process.

Most of experts of EU support organizations point to the need to expand the activity, with a particular focus on prevention, early warning, entrepreneurs' capacity improving, ensuring that the entrepreneurs turn to support in a timely manner, as time in crisis, as emphasized by absolutely all experts in support organizations, is the key component of how well a company succeeds in resolving a crisis. The most common reason for not doing so is limited financial resources available to the organization and the high demand for support services for the company in acute financial crisis, which forces the organization to focus the available resources on crisis solving here and now. It is likely that the priority for dealing with acute cases has been more pronounced at the time of conducting the RestartBSR project due to the shocks to companies caused by the Covid-19 crisis.

All support organizations have more in common than a different, and the most important component, which is emphasized by all organizations, is the presence of capable, knowledgeable and professionally trained consultants and mentors. The organizations emphasize the importance of company's trust in the organization and mentor and that confidentiality and anonymity is guaranteed to the businessman. It is very important that the mentor that supports the businessman has business experience, including crisis management.

Part of organizations are funded by the state and EU development funds, part of organizations operates as shared funding organizations, where a part of the budget is allocated from donations, state or local government, EU development funds and a part of the funding is obtained for services provided and/or support programs. Some organizations earn additional income by cooperating with other institutions, providing them with a generalized expertise. The organization "Team U" has one of the most advanced funding models, where in addition to donations and revenues from services provided, the organization acts as a venture capital for the supported companies and is able to obtain additional funds from this activity.

Regarding the quality of the organization's work, absolutely all entrepreneurs that received support from support organizations expressed the highest appreciation and gratitude for the support provided, often stating that the organization helped them save their company, therefore, differences in the quality at the individual level between organizations have not been identified within the RestartBSR project.

As regards the organization of support activities, all support organizations have developed their own unique, methodology-based approach, which is obviously efficient in terms of the result - the support provided to entrepreneurs. To evaluate in detail the tools, methods, models and approaches offered by organizations, in-depth research is needed.

According to RestartBSR project findings and the practice of EWE and other similar organizations, entrepreneurs do not seek for help at an early stage. There are two additional factors enhancing this: the risk of losing control of their business if they seek a financial arrangement with creditors, and more importantly, the psychological trauma of recognizing defeat.

The organization "Team U" operates most economically, helping an average of 4,800 companies and entrepreneurs at the lowest cost per support contact per year.

The German support organization "Team U" uses the CRM model, tested in modern customer relationship management, which is probably one of the key components without other efficiency approaches, to create the most economically optimal support model compared to other EU organizations.

Overall, all the support, early warning and "second chance" organizations considered offer advisory support to the entrepreneurs that has experienced financial difficulties in the company in some way. The support organizations act as a missing link between the experts and specialists that professionally assist to the entrepreneurs in developing the most optimal growth roadmap in a crisis, pre-crisis or post-crisis situation.

The necessity for such a support appears because of several situation-specific aspects:

1. An entrepreneur in financial difficulties is in a high stress situation, which requires quick action, that, in turn, creates additional stress,
2. An entrepreneur acts outside its area of competence, which is already related to legal aspects,
3. In financial crisis situation, the entrepreneur does not have access to financial resources for business and legal consultants,
4. The entrepreneur is often already in tax debt zone, which further closes the door to available potential support and/or potential growth.

These specific circumstances of the situation have an extremely strong impact on the businessman and its ability to act productively in times of crisis, when a fast and constructive action is crucial to resolve the crisis.

The entrepreneur also often has no previous experience in crisis management. The entrepreneurs, who had experienced crises in the past, indicated that previous experience helped them to deal with the situation in a more constructive way and to be much better prepared. In turn, the entrepreneurs that faced crisis for the first time, report extremely high levels of stress and relative paralysis of operations and stigma.

A significant influencing factor not only in the Baltic States and Poland, but also in the entire EU, is the negative public attitude towards business failures. It is concluded that action is needed to change public attitudes towards business failure, which is fundamental in the context of support, early warning and the development of a "second chance" support system.

3. Regional policy recommendations, based on findings obtained during the RestartBSR project

In the Baltic States, it is necessary to introduce an organization of support, early warning and "second chance" promotion as soon as possible. Within the framework of the RestartBSR project findings, interviews with entrepreneurs have provided clear evidence of the need for such a support organization.

For early warning systems to be efficient, they need to actively involve risk groups, promote public education and awareness of risks, distribute warnings efficiently, and ensure continuous monitoring. A comprehensive and efficient organization of early warning system should have four main functions: **risk analysis, monitoring and warning, distribution and communication, and responsiveness, which includes support.**

The RestartBSR project findings **has not identified reasons for the Baltic States to develop their own, new unique support model**, as the available support models, existing in the EU and developed over several years, as concluded in the RestartBSR project, are effective and efficient.

The RestartBSR project findings **has not identified any significant obstacles** to the operation of any of the existing EU models in the Baltic States, especially given the successful pilot project of EW Poland, using EWE's basic principles and circumstances that the "Team U" support model has already been informally operating in Estonia.

The RestartBSR project **identified that an existing model from Poland (EWE) or Germany (TeamU) could support Baltic entrepreneurs**. It is possible that international synergies can provide high added value, but pilot projects would be needed to prove such a hypothesis.

The upcoming organizations in the Baltic States **would need to consider adapting existing EU pillar model that already provides the widest possible support**, including early warning at its core and extensive support, including group support, for the entrepreneur to start a new business after bankruptcy. Currently, the organization "Team U" has one of the most advanced, most economic and extensive support models.

The Baltic States and Poland should **thoroughly assess the possibility of obtaining funding for the establishment and operation of a support organization** not only from the budgets of state and EU target funds, but also using other possible funding, based on the successful examples of other EU support organizations, like "Team U". By raising budget in addition to dotation from national and EU funds, it would be possible to provide more support, which is currently one of the main challenges for EU support organizations.

Learning from the good practice of Poland and the experience of support organizations of the EU countries, it would be necessary for the Baltic States **to provide resources for public relations and advertising communication from the very beginning**, informing entrepreneurs about the possibility to receive support.

The Baltic States and Poland **should consider introducing modern customer management tools and systems in support organizations, such as CRM and others**, that help ensure the organisation's economic productivity, inspired by the operations of the good practice transfer organization "Team U".

The RestartBSR project has identified that the upcoming support organization should be independent of public authorities in its operations - it should be neutral, independent, reliable and data-anonymous.

Thus, the recommended newly established **support organization in the Baltic States should have the following characteristics:**

- 1. Shared funding organization**, which is, in ideal situation, able to attract partial funding,
- 2. A high awareness and reputation organization** with a high reputation leader, consultant, volunteer mentor and expert cooperation model organization,
- 3. Extensive and high-quality public relations communication organization** that provides the organization with a wide recognition and helps to change the perception of business failures in the society,
- 4. Based on a productive and high-quality customer relationship management model(s)**, that helps the organization to become more efficient,
- 5. Strong and an approbated training program** for consultants and mentors,
- 6. Full insolvency cycle support organization**, including support services in both early warning and post-bankruptcy situations,

- 7. Highly discreet, neutral and confidential** against potentially repressive state institutions,
- 8. Extensive networking** with banks, public authorities and other organizations seeking solutions to customers' debt problems,
- 9. Based on the best practice** model of EU support organizations.

At the moment, **it is premature to shift the scales of support to the field of artificial intelligence diagnostics**, as so far neither theoretical research nor a practical mechanism for identifying high-reliability crisis identification data is identified. The existing best practices of EU support organizations, as well as countless other academic studies, point to the irrationality of the person who runs a business, firstly, and secondly, to its crucial role in being able to resolve (or not to resolve) the crisis, pertaining to the company. Best practice of EU support organizations shows that a combined support model, balancing psychological issues, data analysis and networking and cooperation support models, is currently the best-known way to support a entrepreneur/ company in a potential or current crisis.

To introduce support, early warning and "second chance" systems successfully and efficiently in the Baltic States and to improve the support of Poland and other EU member states, it is recommended that the EC and member states **agree on a common clear definition of support, early warning and "second chance", as well as its elements and measurable values.**

It is recommended that the Baltic States evaluate in detail the possibilities of introducing support models EWE and/ or “TEAM U” of the support systems. The “TEAM U” model is the most economically optimal and service-efficient of the EU support models currently available. It is recommended to make detailed projective comparisons of the operations and economic benefits of both models, developing the basic principles of the Baltic States support organization.

For the early warning system in the Baltic States to be efficient, it is recommended **to ensure that the Baltic support organization has four main support functions from the very beginning:** risk analysis, monitoring and warning, information distribution and communication and responsiveness that includes support to companies and entrepreneurs in its broadest sense, as considered within the RestartBSR project.

When introducing the guidelines of the new EC Directive⁸ to the national regulation of the Baltic States and Poland, it is recommended to consider the insolvency proceedings not only in the context of improving the legal framework, but also as a part of a dynamic and complex business environment, which is mainly the cause of a potential or current crisis in the company in cases of in cases of fair insolvency, assuming close cooperation between experts in both the legal and business support sectors, both in research and in the development of policy initiatives.

4. Leading policy recommendations for the states

LEADING POLICY RECOMMENDATIONS FOR THE COUNTRIES HOW TO BUILD AND STRENGTHEN THE INSTITUTIONAL ECOSYSTEM TO SUPPORT COMPANIES IN FINANCIAL DIFFICULTIES IN THE BALTIC STATES AND POLAND

During the RestartBSR project, a lot of recommendations were developed for policy implementers in Latvia, Estonia, Lithuania, and Poland on building or strengthening institutional capacity to support companies in financial difficulties. The following leading recommendations were highlighted in the RestartBSR project as the most important ones to be realized in each of the countries.

Estonia

1. To ensure periodical automatically generated company health-check reports and nudging entrepreneurs to take actions.

Aim of the AI and machine learning reports: (a) provide homogeneous information's for all stakeholders – owners, council, and board members; (b) EW alerts and health report, would be accompanied with suggestion whom entrepreneur can contact for advisory service.

2. To develop marketing and communications for Early Warning/ Restart advisory service to entrepreneurs and first-tier contacts, so in case unexpected situation occur, entrepreneurs know where to seek for advice. First-tier contacts - family members and friends who have knowledge, whom to suggest to entrepreneur to contact. Among other communication options to develop one single portal for entrepreneurs where all information concerning entrepreneurship can be easily found, including EW counselling service provider contacts.

8 Directive (EU) 2019/1023 of the European Parliament and of the Council of 20 June 2019 on preventive restructuring frameworks, on discharge of debt and disqualifications, and on measures to increase the efficiency of procedures concerning restructuring, insolvency and discharge of debt, and amending Directive (EU) 2017/1132 (Directive on restructuring and insolvency).

3. To strengthen cooperation with external stakeholders, e.g., accounting service providers, auditors, banks, etc. Aim of the cooperation: Use external stakeholders to influence entrepreneur in crisis to seek for help.

4. To sustain developed competency model for consultants and mentors. Continuously improve counselling process description and required tools. Standard training materials for consultants and mentors to ensure high level of counselling. Set up internal "certification" of both consultants and mentors.

5. Re-define mentors' role and develop motivation package for mentors. Evaluate options to use mentors and consultants from other services which aiming for similar goals like Early Warning and Restart. Motivation ideas Including: "certification" for mentors & networking and experience sharing. etc.

6. To evaluate funding options, including public and private funding, support for Early Warning Alert systems and Advise systems.

7. To develop psychological counselling services for former business owners who has went through bankruptcy process. Evaluate options to involve partner who could provide this service.

8. Initiate "AA style" support group system for former business owner who suffer from stress.

9. To develop second chance apprenticeship. After bankruptcy owner faces lack of self-confidence and lack of trust from business partners. To regain self-confidence one need time and opportunity to do something purposeful. By securing a purposeful job for entrepreneur we give him: (a) opportunity to have income, (b) time to go through cycle of renewal, and (c) regain self-confidence and trust of partners.

Latvia

1. To ensure strong political will and decision to implement Directive (EU) 2019/1023 essentially not only formally, with complementing RESTART activities.

2. To implement a two-level system: coordination and executor.

3. Implement one central coordination unit - respected by Ministries of Economics, Finances, Justice, State Tax office and other relevant organizations. The central coordination unit should be state governed or state delegated function executor. The coordination unit supervises the executor level.

4. Ensure executor level – one or several private institutions that provide RESTART services to companies in distress situations.

5. Ensure financing – the best option state budget, as it will ensure long term solution and reduce risk of dishonest decisions taken by executor level institutions. Other options: structural funds, private organization co-financing or Horizon Europe Framework projects.

6. To avoid and limit the number of entrepreneurs in distress situations, **develop of entrepreneurial' education system that includes financial wellness, design thinking and business ethics.** The course should be online, free of charge and managed by the central coordination unit. The course can be accessible also through the State Tax office webpage, organizations working directly with entrepreneurs (agencies, associations, etc.)

7. Ensure identification of companies in distress situation: entrepreneurs by themselves, banks or other financial institutions, machine learning – analysing of report data submitted to state tax office, publicly available data.

8. Ensure advertisement – web solutions with high search engine ranking, social networks, traditional media. Clear and simple message.

9. Ensure coordination unit, executor units, mentors – with high reputation.

10. Provide and ensure confidentiality and data protection at every step.

Poland

Recommendations for the effective organization of the early warning system in Poland:

1. Creation of free or low-paid consultancy for entrepreneurs (preferably locally information on where to get help, and professional advice in macroregions), where they will be able to obtain information on the restructuring process, available tools, including financial and mentoring, and the possibility of obtaining help as well as on the subject of bankruptcy proceedings.

2. Development of an AI (artificial intelligence) **early warning system** - together with other players of the ecosystem for diagnosis in the form of a self-diagnostic test for entrepreneurs (signs of the crisis phase - green, yellow, red alert) - should be anonymous, safe and not recorded in any state database data - due to the low level of trust in public institutions.

3. Development of a promotional and information campaign on a national scale, where enterprises in a crisis can obtain the above-mentioned diagnosis and further real information on the aid process - after the development and implementation of the aid system and the appointment of information points.

4. Affiliation and collaboration with an existing international network of mentors (with the possibility of cross-border education, exchange of experiences and possible international mentoring (possibility of cooperation within the EWE network, with the participation of the Polish public institution coordinating the support).

5. Use of the Early Warning Europe e-learning platform that consolidates all tools supporting entrepreneurs in crisis, including tools developed in Restart BSR.

6. Providing regular financial and organizational support from decision makers in order to maintain the continuity of the system operation - at the EU and national level.

7. Raising awareness of entrepreneurs through the financing system and conducting trainings **on how to manage finances, a company in crisis,** how to run a company that is struggling with financial difficulties (introductory training such as a driving course for everyone willing to learn). Preferably an e-learning system and thematic webinars.

8. Organization of a network of support groups for entrepreneurs - let's talk about failure and problems (e.g., employers' organizations, business clubs, etc.).

9. The need to obtain support at the policy level in the European Union (knowledge, best practices, money).

10. Providing psychological support for entrepreneurs - soft skills, psychological tools and knowledge for consultants and mentors who, if necessary, are psychologists - taking this factor into account in building the support system.

Recommendations for the government to support the early warning system in Poland:

1. Further work on the Restructuring and Recovery Law, Consumer Bankruptcy Law - clarification of the provisions.

2. Adaptation of support solutions and support tools for micro and small businesses. Simplifying the restructuring process and reducing costs.

3. Creation of new national programs to finance the initiative of creating a system of assistance

4. Establishing a dialogue with financing institutions / banks regarding the obligation to inform about the place created for enterprises in crisis, where they can obtain help and support.

5. Creation of a system of so-called whistleblowers - ZUS, Tax Office, accounting companies, which would be obliged to inform the company about the threatened situation and the place where it can get help.

6. Strengthening the out-of-court negotiation process with creditors.

7. Ensuring statutory protection of the company against debt collection for the duration of negotiations with creditors (e.g., 4 months, analogous to COVID-19).

8. Implementation of the "Professional Restart" or "Early Warning System" programs (implemented by the Polish Agency for Enterprise Development) into a continuous support system, including mentoring as a key success factor (not project activities on small-scale enterprises).

9. Strengthening the Social Dialogue Councils - the voice of entrepreneurs - in creating solutions to help in the crisis and for restarters.

10. Maintaining the system of loans and guarantees (introduced during the COVID-19 period) to save companies in a crisis.

Lithuania

1. To develop support mechanism that provides alerts before problem arises. Possible sources - financial, statistical, market, seasonal data, habits of consumers, etc.

2. Improve entrepreneur's financial and crises management literacy - risk and crisis management.

3. To ensure one stop information online for entrepreneurs in difficulties.

4. To raise awareness of exiting support mechanisms accessible for companies, who have financial difficulties and **to develop new mechanisms and tools.**

5. To ensure mentorship programme during instability period for company.

6. To ensure entrepreneurs ability to express themselves, to get support and be inspired, that problem can be solved.

7. Encourage companies to communicate with each other and share their experiences, also failures - what they would have been done differently.

8. Ensure awareness of available support that it can be used when needed.

9. Make insolvency process in Lithuania less complicated, by creating a simplified insolvency management process.

10. To make actions to change business culture of being afraid of failure.

When introducing the guidelines of the new EC Directive⁹ to the national regulation of the Baltics and Poland pertaining to the artificial intelligence mechanism for early warning data, it is recommended to consider the numerous academic studies conducted in this field for more than half a century, basing the mechanism on maximally rationale econometric and risk analysis-based models. It is recommended that the Baltic States and, if possible, Poland conduct a joint, in-depth research to identify the most efficient models.

It is recommended to conduct in-depth research to detect the efficiency of support organizations, revealing the number of cases of companies' insolvency in the countries that have been a coincidence of unexpected circumstances (a sudden crisis, dishonest actions of business partners, personal crises

of the businessman that significantly affected its business (illness, tragedy, etc.)), and the proportion of companies' financial or crisis management incompetence.

The findings of such research will provide a better understanding of early warning and "second chance" environments and thus the efficiency of support organizations, providing a better support to business environments.

The RestartBSR project recommends to improve regular annual assessment of support, early warning and "second chance" systems, including more detailed and sophisticated evaluation components in both international and national level country evaluations. The RestartBSR outlines some of the necessary improvements, but their complete development would require a wider team of international experts. Such improved assessments would allow the EU member states to evolutionary improve their support systems, thus improving both the EU and national business environment and the economy overall.

9. Directive (EU) 2019/1023 of the European Parliament and of the Council of 20 June 2019 on preventive restructuring frameworks, on discharge of debt and disqualifications, and on measures to increase the efficiency of procedures concerning restructuring, insolvency and discharge of debt, and amending Directive (EU) 2017/1132 (Directive on restructuring and insolvency).

5. Glossary of Terms

<p>RestartBSR project</p>	<p>Interreg Baltic Sea Region project RestartBSR.</p> <p>The RestartBSR project is very closely linked to Directive (EU) 2019/1023 of the European Parliament and of the Council of 20 June 2019 on preventive restructuring regulation, debt cancellation and disqualification with target to increase the efficiency of restructuring, insolvency and debt cancellation proceedings, which requires all Member States of the European Union to provide an early warning tool (s).</p> <p>The RestartBSR project has united 6 partners - the Ministry of Economics of the Republic of Latvia, the Latvian Technological Centre Foundation, the Polish business support organization “Lower Silesian Intermediate Body”, Design School Kolding, Vilnius Gediminas Technical University and the Estonian business support organization “Harju County Entrepreneurship and Development Consultancy” in order to facilitate the implementation of a business support model in four pilot countries - Latvia, Estonia, Lithuania and Poland, that would meet both the requirements of the above Directive and be the most effective solution for financially distressed companies and its development, implementation, institutions, persons involved in maintenance.</p> <p>Organization “Lower Silesian Intermediate Body” is the leading partner of RestartBSR project, and all partners has joint with the aim to build institutional capacity to support companies in financial difficulties in the Baltic Sea Region.</p>
<p>Restart BSR Research</p>	<p>The RestartBSR conducted research in 2020 “Analysis of the best European support, early warning and second-chance systems transferability in the Baltic Sea region countries”/ 2020/ EM 2019/131</p>
<p>EU early warning, support and “second chance” best practice</p>	<p>The RestartBSR project has identified 6 systems as the best EU support, early warning and “second chance” systems that have been established: 1) in Germany, the “Team U” system; 2) in Denmark, the Early Warning Denmark system; 3) in Sweden, the “Företagsjouren” system; 4) in Belgium, the “Dyzo” system; 5) in France, the “60,000 Rebonds” system; 6) in the Netherlands, the “MKB Doorstart” system. The purpose of these European support, early warning and “second chance” systems is to provide advice to companies and businessmen in financial difficulties, to provide mentoring services for company restructuring, to provide services for fast termination of a business that cannot be rescued, or to start a new business.</p>

Restart BSR Research	The RestartBSR conducted research in 2020 “Analysis of the best European support, early warning and second-chance systems transferability in the Baltic Sea region countries”/ 2020/ EM 2019/131
EU early warning, support and “second chance” best practice	The RestartBSR project has identified 6 systems as the best EU support, early warning and “second chance” systems that have been established: 1) in Germany, the “Team U” system; 2) in Denmark, the Early Warning Denmark system; 3) in Sweden, the “Företagsjouren” system; 4) in Belgium, the “Dyzo” system; 5) in France, the “60,000 Rebonds” system; 6) in the Netherlands, the “MKB Doorstart” system. The purpose of these European support, early warning and “second chance” systems is to provide advice to companies and businessmen in financial difficulties, to provide mentoring services for company restructuring, to provide services for fast termination of a business that cannot be rescued, or to start a new business.
RestartBSR countries	Poland, Latvia, Lithuania and Estonia
OECD	The Organisation for Economic Co-operation and Development
EC	European Commission
EU	European Union
EWE	The Organization “Early Warning Europe”
EWS	Early Warning System
SME¹⁰	<p>A micro-enterprise is an enterprise that employs fewer than 10 persons and <u>annual</u> turnover (revenue over a specified period) or balance sheet (statement of assets and liabilities of the enterprise) of which does not exceed EUR 2 million.</p> <p>A small enterprise is an enterprise that employs fewer than 50 persons and annual turnover or balance sheet total of which does not exceed EUR 10 million.</p> <p>A medium-sized enterprise is an enterprise that employs fewer than 250 persons and annual turnover of which does not exceed EUR 50 million or balance sheet total of which does not exceed EUR 43 million.</p>
Company in financial difficulties	A company with limited ability to settle its liabilities/payments and/or to make profit.
AI	Artificial intelligence

10. <https://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition/>

ProjectBSR Manual 2021

GUIDELINES FOR POLICY MAKERS HOW TO BUILD AND STRENGTHEN THE INSTITUTIONAL ECOSYSTEM TO SUPPORT COMPANIES IN FINANCIAL DIFFICULTIES IN THE BALTIC STATES AND POLAND

What is early warning, support and “second chance” pillar systems for entrepreneurs and companies in crises? How it can be implanted in the Baltic Sea Region countries Poland and the Baltic States? How it should be measured and how best practices from other EU countries could be transferred?

Understanding the scale of early warning, support and “second chance” activities, the characteristics of existing obstacles and influencing factors, RestartBSR Manual 2021 is the international reference guide for policy makers to build and strengthen the institutional ecosystem to support companies in financial difficulties in the Baltic States and Poland. The main goal of several years of international experts’ cooperation, despite the challenging conditions of Covid-19, was to develop guidelines that are as accessible and useful as possible to make a significant contribution to the Baltic Sea economies.