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# OMB Composites EU, Czech Republic

- Type of restructuring:  
Business expansion
- Employees before restructuring:  
50-249
- Employees after restructuring:  
50-249
- Nace/Sector:  
Manufacturing
- Country:  
Czechia
- Date:  
08/03/2012

## Abstract

The restructuring in this Czech manufacturing parts company helped it to withstand the impact of the economic crisis. The internal restructuring process was completed according to management expectations and resulted in considerable business expansion. A new, more effective, organisational structure was implemented and the number of customers was increased from two to 13, thus decreasing the company's dependence on two key customers.

## Organisational profile

OMB Composites EU a.s. is a Czech company that produces composite products which are used in various branches of the manufacturing industry, particularly in the automotive industry, transport, and agriculture, as well as in a number of non-manufacturing fields. The primary product manufactured is laminated components: mainly interior and exterior components used in the automotive industry (buses), automobile accessories, spoilers, and covers for construction machinery. Outside this field, it also produces covers for air conditioning units, shower units, and horse trailers.

The company was established in 2006. It was built on the foundations of the Karel Klenor – KLN that was based in the nearby municipality of Choceň. The company's current owner purchased the failing enterprise and, under the new name of OMB Composites EU, relocated it to the current manufacturing premises in Králíky. The main reason for purchasing the failing enterprise was because Karel Klenor – KLN was an important supplier to the bus manufacturing companies SOR Libchavy spol. S.r.o. and the Netherlands-based company VDL Berkhof. Therefore, the owner thought the company could achieve successful results by developing the already established contracts and relations.

Milan Konečný, the company's acting director, was interviewed for this case study. He does not have any ownership relation with the company. He joined the company in March 2009 following a request made by the company's owner, who wanted to reverse the negative developments in the manufacturing programme in place at OMB Composites EU. The company's management had just restarted production and was delivering products to bus manufacturers, but was not able to generate new growth. Mr Konečný gained extensive managerial experience from the Royan

Classic a.s. textile company, which he headed for nine years. That particular company was established when it was split from another textile company, Mosilana a.s. As a result, Mr Konečný also has a certain amount of experience with restructuring and the associated processes. In spite of the entirely different nature of Mr Konečný's former workplaces, the acting director soon adapted to the conditions at OMB Composites. Mr Konečný has successfully completed his vocational education.

After his arrival at the company, Mr Konečný began to create a new company structure, in which the ownership structure is separate from operations. Two levels of management were introduced, in which the company's sole owner is the chairman of the board of directors (which consists of three members including the chairman), with the acting director in the person of Mr Konečný at the level immediately below him. At the beginning of 2012, the company had approximately 100 employees, who tended to fall into the younger age groups. The majority of the employees are Czech; however the company also has a significant number of Polish and Ukrainian employees.

The company not only focuses on the domestic market but is also successfully establishing business relationships with companies abroad. For this reason, it is expected that exports will start to take on a larger share of the company's total production volume. The current foreign markets include the Netherlands, Germany and Austria, to which the company supplies components made specifically for buses. It is therefore possible to characterise the company as an international enterprise. It exports the majority of its production volume to European Union markets (55%). The remainder is produced for the domestic market. OMB Composites EU does not export any products outside of the EU.

The company does not have a specifically formulated human resource development plan. Requirements are addressed on an ad hoc basis. As far as the hiring of new employees is concerned, the company prefers employees who have a secondary school education due to the complexity of the production programme. Employees have to work with blueprints and must be able to read them. One example of an ad hoc solution to a problem is the training that was provided for reading blueprints by a retired acquaintance of the executive director. The company does not have a corporate social responsibility strategy, but it makes contributions to life insurance on behalf of its employees according to the number of years they have worked. The company does not have a works committee and no labour unions are represented.

In 2008, the company had turnover of approximately CZK 60 million (approximately €2.3 million). Since 2009, the company's turnover has been increasing year-on-year by approximately 15%. The company expects turnover to reach CZK 112 million in 2012 (€4.5 million) and its long-term objective is to achieve a turnover of CZK 250 million (€10 million).

## **Background to restructuring events**

In 2008, the company was in a bad state due to the incompetence of the previous management. The company was in a downward slide towards negative figures, not because of the global economic crisis (which started in the CR in 2009) but mostly because of the high fluctuation of employees and low workforce productivity. Any expansion under the management of that time could not even be considered. Another problem that existed under the former management was the poor quality of production, which resulted in the Netherlands-based VDL Berkhof decreasing the volume of its orders for the products manufactured by OMB Composites EU. Under the previous management, the company had many Ukrainian and Polish employees, which led the local people to make many unjustified, prejudiced assumptions. This affected the recruitment of new workers as local people were not keen to work in the OMB Composites EU. In addition, approximately half of the company's employees were temporary agency workers, which resulted in great fluctuations in employee turnover and a corresponding decrease of the company business results because of the low quality of work which led to a high rejection rate. Such were the conditions at the beginning of two restructuring events.

## **Restructuring processes**

The restructuring processes took place between 2009 and 2011. The first was internal; the second was the business expansion.

The internal reorganisation was initiated by the company's owner, who recognised the incompetence of the previous management at the end of 2008. In 2009 he appointed Mr Konečný to the position of acting director. Mr Konečný implemented a significant reorganisation of the company's structure. New sections were established as a part of the reorganisation, such as the modelling section and the sales section, which can more effectively address issues associated with the company's development. He increased the headcount of the company's technical and administrative workers, as the number of employees at the time was insufficient for the company's expansion. Before the reorganisation there were eight employees (of whom six were made redundant), now there are 17. The recruitment of new technical and administrative staff was not easy, as in Kralice there was a lack of sufficiently experienced people. However, after a short fluctuation of employees in this section the number of staff has stabilised. All new technical and administrative workers are permanent employees of the company.

As a consequence of internal reorganisation, the standard organisational structure with which he was familiar from other companies was introduced. Although the company did hold ISO certification, this system did not work in practice and Mr Konečný placed great emphasis on the actual implementation of the system (the implementation of the system was announced by Mr Konečný to workers immediately after his appointment). This implementation has led to a reorganisation of all the company's activities. The situation has improved, especially in the management of quality. The implementation has brought also benefits for the workers as their role and work competencies were better specified and they could realise their contribution to the performance of the company. The reorganisation brought about some redeployment and training of a few employees (as the organisational changes were mostly administrative, they did not influence the job descriptions of most of workers). Also training for new employees of management had to be provided. As the employees felt that the situation in the company was getting better after the

appointment of Mr Konečný, the redeployment and new training were accepted positively.

Mr Konečný also had to change the company's image quite significantly. For this reason, he changed the company's employee structure so that the majority of employees are permanently employed and of the Czech origin, which had a positive effect on the recruitment of new employees. Capable temporary agency workers got a permanent contract in the company, the rest were made redundant. The company currently has only two temporary agency workers.

The entire reorganisation of the company started in 2009, when Mr Konečný joined the company, and ended at the end of 2011, when the new company structure was stabilised.

The newly prepared organisational structure was used as the basis for the company's further expansion. Mr Konečný set a goal to increase the added value of production and to increase the number of companies to which OMB Composites EU delivers its products. In order to improve the company's marketing position, not only was an ISO certificate confirmed (there was a threat that company would lose the certificate because most of the measures it required were not practised under the former management), but the company also acquired trade-specific certificates issued to suppliers of components for military technology and railway vehicles. At this time, the company is striving to obtain IRIS (International Railway Industry Standard) certification, which would facilitate further expansion within the market (for example, this certificate is required by Bombardier, a company that has contacted OMB Composites EU in the past), as well as a certificate for producing laminated iron components.

The company is on its way to achieving its goal of added value and the expansion of its product portfolio through several steps. The newest effort is the offer to customers of the installation of small iron components into laminated parts, which makes the installation of components much easier at the customer's facilities. OMB Composites EU also offers varnished plastic parts, which is yet another way in which the company is responding to various customer requirements. The main step required for further business expansion is the purchase of a milling and cutting machine, which will make it possible to improve significantly the company's current production methods, both with regard to the quality of cutting as well as the production of models. A measuring centre will also be installed. The operating space required for the new machine however, requires the construction of a new hall, which will subsequently house the entire completion and development division.

The purchase of the new machine, which will be funded from public resources, will make it possible to cut and model (mill) laminate. This ability is crucial for the company's further development, as it will be able to perform the entire manufacturing process for laminated components. Up to now, the company has to work in cooperation with other companies, which sometimes leads to unexpected delays with deliveries. In addition, by being able to perform the entire manufacturing process, the company will gain a competitive advantage, as there is currently no company in the Czech Republic that offers anything comparable for laminated components.

A specific restructuring plan and time schedule have not been prepared and the new management has the owner's complete trust with regard to performing the required steps. Nevertheless, even these steps had to be discussed with the owner from time to time, as the owner was responsible for obtaining the financial resources required to implement the restructuring. In addition to using the company's own resources, the restructuring was financed through bank loans (the construction of the new hall) and public resources. The negotiations of the bank loans were not difficult. The purchase of the new milling and cutting machine was partially funded with a CZK 5 million (€200,000) subsidy from the Enterprise and Innovation Operational Programme, which covered approximately half of the costs.

The new company structure also greatly improved communication with the employees. This has had a positive effect on how informed the employees are about the changes that are in the preparatory stages. In addition to weekly meetings between management and the production section, specifically focused meetings are also held with the staff with the participation of the entire management team. It was at such meetings that employees were informed about the planned restructuring events.

## **Challenges and constraints of restructuring**

Mr Konečný considers small and medium-sized enterprises to be more flexible, however he sees a disadvantage in the fact that they have less access to credit (he cites the construction of the new hall as an example). In retrospect, he would like to improve work with human resources - both concerning employees' recruitment and training.

He has one reservation with regard to support for restructuring provided from public funds: the process for granting a subsidy takes too long. In the case of the purchase of the new machinery with funding from the Industry and Enterprise Operational Programme, it took one year and one month from the date the subsidy application was submitted to the time that the financing agreement was signed. This length of time is unacceptable when one is trying to complete the restructuring as quickly as possible.

## **Restructuring advice and support**

Other than financial assistance, the management of OMB Composites EU did not feel the need to receive any other form of support, for example, the provision of information. In addition to the aforementioned Operational Programme, the Town of Králíky and the local employment office also provided assistance during the restructuring process, as they are aware of how important this particular employer is for the economy of their region, which suffers from a high unemployment rate. For example, the Town Hall helped to make the arrangements for space where job seekers, identified by the local employment office as potential OMB Composites EU employees, could access company-financed training.

## Outcomes of restructuring

The internal restructuring process was completed according to the expectations of the company's owners and management and it has resulted in its business expansion. A new, more effective, organisational structure was implemented and the number of customers was increased from two (SOR Libchavy and VDL Berkhof) to 13, thus decreasing the company's dependence on two key customers. As a result, the company barely felt the impact of the economic crisis.

The portfolio of the company started to be gradually expanded in 2009, but the main initiating factor for further business expansion was the launch of operations in the new hall, scheduled for completion end of 2012. It is expected that this step will lead to an increase in production volume from 42,000 pieces to 51,000 pieces per year.

Prior to the restructuring, the company had 56 employees (at the start of 2009). At the beginning of 2012, there are almost 100 employees and, due to the implementation of new technologies, an additional 40 will be hired at the beginning of 2013. Based on the company's plan, the company might have up to 170 workers by 2013–2014.

The restructuring did not in any way affect the length of working hours. The restructuring was seen as positive; however, some local inhabitants voiced certain doubts about building the new hall during an economic crisis. Only the future will show whether these concerns were justified. Generally, the implications on the employees of the company are positive. The reorganisation of the company led to the more effective organisation of work which was positively accepted both by employees in management and production. Business expansion of OMB Composites EU has stabilised the jobs and also enabled the growth of salaries.

As far as the plans for the future are concerned, the company would like to increase its share of the laminated components it provides to its customers. At this time, the company delivers, on average, only approximately 5% of its customers' total requirements for laminated products (with the exception of SOR Libchavy, to whom it delivers 25%). The company would like to achieve an average share of 10%, whether by pushing out its competitors or through delivering partially completed laminated components, such as iron parts and servo drives. The company would also like to develop an education system for its employees and to expand outside of the European Union. Expansion to Russia is currently being planned in cooperation with SOR Libchavy. Mr Konečný would like to take advantage of his significant social capital during this expansion.

Vasil Kotovskij, the representative from the production side, is a 34-year-old Ukrainian who is the lead worker in the 'lamination' section. He has been employed at the company for three and a half years. Initially, he was a temporary agency employee, but he gradually worked his way up to his current position. As far as his work experience is concerned, in Ukraine he worked for ENO (a company with 2,500 employees) for six years and managed a division with 70 employees.

In his opinion, the restructuring brought many changes that were all for the good: his salary increased (as did the salaries of other employees which increased by 15%–18% as a reflection of improvement of the business performance), he moved up in the company hierarchy whilst being able to keep the same working hours, and communication with management improved. According to Mr Kotovskij, the company now holds meetings about the slightest details. He has no problems with his subordinates or with his supervisors.

Over the course of the restructuring process, the employees were always made aware of any upcoming changes in the company and they always had the opportunity to voice their opinions. Mr Kotovskij said that at first the employees were somewhat uncertain and there was a lack of trust with regard to the planned changes. However, once they discovered the benefits these changes would bring for the company and for its employees, their concerns abated. In his opinion, an explanation of the restructuring measures is necessary and contributes towards the smooth transition to the new production methods. Mr Kotovskij had no specific comments to make about the actual restructuring changes and their implementation.

Lenka Stráská aged 31, is an employee of the Asset Administration and Management and Quality Management Division. She previously worked as assistant to the manager for quality at Autoliv Stakupress s.r.o. in Králupy. Ms Stráská has witnessed significant changes within the company and she also actively participated in the implementation process for the reorganisation, during which she drew on the abundant experience she had from her previous job. In the former company she worked as human resources manager, therefore she helped significantly with the training of new employees.

Ms Stráská considers all of the changes from the restructuring to be positive. According to her, the only problem that arose in this respect occurred in relation to the recruitment of new workers as, even in a region with a high unemployment rate, it is difficult to find sufficiently qualified workers, despite the fact that people applied from as far away as Poland.

## Commentary

Mr Konečný recommends SMEs who are in the process of preparing restructuring to be proactive and not to be afraid of risk.

## Authors

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## Information sources

### Interviews

Milan Konečný, acting director of OMB Composites EU,

Lenka Stráská and Vasil Kotovskij, employees of OMB Composites EU

### Company website

<http://www.ombcomposites.cz/ombcomposites.cz/o-nas.html>

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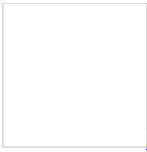
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