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## MERET, Slovakia

- Type of restructuring:  
Internal restructuring
- Employees before restructuring:  
10-49
- Employees after restructuring:  
10-49
- Nace/Sector:  
Manufacturing
- Country:  
Slovakia
- Date:  
20/12/2011
- Keywords:  
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## Abstract

In order to remain up-to-date with technology changes, Slovak high-tech company Meret decided to introduce new technology for in-house production as well as to strengthen cooperation with a research institute. The new technology introduced in 2008 had a positive effect on company production and productivity, helping it to overcome the effects of the crisis and substantially enhancing the company's production.

## Organisational profile

MERET s.r.o. was established in 1990 and has gradually become the biggest Slovak producer of measurement and regulation technologies in the field of pressure measurement. It can be considered a high-tech company.

MERET is located in the southwest of Slovakia, in the capital city, Bratislava. Although it is an independent limited liability company, it has a working and contractual relationship with a wide spectrum of cooperating companies within Slovakia and the Czech Republic. This enables MERET to specialise in the finalisation of products.

The company has two co-owners, one of whom has already retired. The other is Dušan Hupka, who is the major shareholder and managing director (MD). Mr Hupka started his entrepreneurial activities in 1985, providing computer servicing when 8-bit computers became available on the market and the era of personal computers commenced.

In 1990, MERET started with six employees. This number rose with the increasing demand for their products and growing market share. At its peak in 2000, the company employed 24 staff. MERET requires very flexible production arrangements. Fluctuations in the number of employees are related to specific orders and natural turnover of employees, not exceeding two per year. In the first quarter of 2012, the workforce stood at 14. The general employment policy of the company is focused on highly qualified staff that are capable of the mutual substitution necessary in this

type of business. The company has benefited from the intellectual potential of its employees by implementing hundreds of technical solutions that have been considered highly inventive, at optimal cost level, and quick to implement. This has been a competitive advantage of the company.

MERET is a developer and producer of manometers, thermometers, calorimeters, various types of transmitters, data loggers, and displaying and control units. MERET products are found in nuclear, hydroelectric and thermal power stations, in dams at Czech and Slovak rivers, in drinking water basins, mines, dairies, agribusinesses, mobile or stationary devices of the Slovak Army, in storehouses of petroleum products, at petrol filling stations, and in major large companies such 'Slovenský Plynárenský Priemysel' (Slovak Gas Industry) Slovnaft, and US Steel production plants. The company's products are also exported primarily to the countries of the European Union (EU), China and the USA.

MERET's products have become more reliable with improved construction, quality and design. Passive visual display units have changed into modern devices equipped with processors, allowing for user-friendly operation and higher quality of communication with attending personnel, and have transformed into devices of the new generation. Despite the wide portfolio of products, the company's production has been focused on outsourcing of mid-tech parts to cooperating firms and concentrating on finalising its high-tech products. This allows for steady production growth. Despite the recent crisis, the company attained its maximal turnover in 2011.

The company does not have any relationships with trade unions, nor an existing works council.

## Background to restructuring events

MERET produces customer-designed measuring systems, which means that innovation is a permanent component of the firm's daily activities. The company has undergone two major changes in recent years: 1) introduced new technology for the production of small series components in-house; and 2) cooperated with a research institute to innovate their products.

In the spring of 2008, the MD started innovating the company's production by introducing new technology for soldering electronic elements to printed circuit boards. Previously the production was conducted manually and on order only. MERET's product portfolio is quite wide and production series of individual products are in the range of 150–200 pieces. Producing small series means that outsourcing production is not very viable for MERET as many companies are not willing to cooperate. The companies that did cooperate would usually take a long time to process the orders, or be very inflexible. This complicated the entire production process and MERET was more or less forced into finding an alternative. The MD admits that it would be easier for MERET if they could outsource this production to another company that already has the technological capabilities for this specialised production. The purchase of the new automatic machine, and its maintenance, was an extra cost for MERET, but it enabled them to produce their products in small series in-house.

MERET aims to constantly innovate its products in order to retain its market position and competitiveness on the world market. Since 2010, the company has cooperated with the research institute of the Technical University in Brno (the Czech Republic). The research project was designed to install standardised communication protocols into the MERET produced devices. This enables the integration of the company products into large control systems anywhere in the world. The HART protocol is one of the basic communication protocols for these purposes. It is used especially in the area of measurement technology and enables digital communication with individual measuring components while maintaining the requirements for easy installation. It enables their integration into large measuring systems. Only close cooperation with electronic hardware specialists, respecting the changes in company products, and software specialists on one-chip processors, with sufficient knowledge of communication with HART protocol and its application into measurement technology, could create an efficient solution to this problem.

## Restructuring processes

The implementation of the new technology, the automatic machine, took four months to complete and was funded from the company's surplus profits. There was no formal plan for restructuring, given the size of the company. Purchasing the new machine was solely the MD's decision: he did not seek any advice. He reviewed a range of machines before making the purchase. This decision has led to an increased productivity in the production chain, but did not have a major impact on the company's performance. The MD notes that their production is driven by demand. Hence they produce only in quantities that the company is able to sell. To operate the new automatic machine requires qualified supervision and programming expertise of the operating staff for accommodating the change to another product. Five employees received training which lasted for about a month to be able to operate the machine. They reacted positively to the changes in the company. To operate the machine requires only two employees at the time and they can simultaneously perform other activities. As a result, a number of posts in the company became redundant. According to the MD, two employees had retired during that period and were not replaced. Additionally, two employees decided to end their contract with the company. A number of contract staff were made redundant.

The company makes a regular contribution to the employment fund (*Národný úrad práce* previously known as *Fond zamestnanosti SR*), which provides unemployment benefits and skills training for the unemployed. Because the fund is compulsory for all employers in the country, the MD felt no need to provide further assistance to the employees affected by redundancy, apart from the two months' redundancy pay. The MD is dissatisfied with the employment fund, given their contributions. In the past, MERET approached *Národný úrad práce* to help them find new staff, but they could never find suitable candidates through the fund.

The integration of standardised communication protocols into products was driven by an attempt to increase the competitiveness of MERET in world markets. This would increase productivity and value added. Using standardised communication of the individual products enabled their integration into large measuring systems and automation of extensive and complex processes. Unified communication is the most important

precondition for smooth integration of the individual gauges and measuring circuits, even if they are made by different producers or some of their original components have already been replaced by MERET devices. This development in cooperation with the research institution was supported by the innovation grant. The grant was provided partially from the European Regional Development Fund based on application for international cooperation with the research institution abroad. The project was successfully completed in the middle of 2011.

## **Challenges and constraints of restructuring**

MERET is a small producer of special measuring devices for industry use. More than 60% of its production is exported, mainly to EU countries, China and the USA. The products can be found in the satellite-controlled system of unmanned petrol filling stations throughout the outback in Australia. It produces customer-designed measuring systems that require permanent research and development by its own staff and also in cooperation with other companies or research institutions. To manage and finance such innovation activities is very demanding.

Support for SMEs in Slovakia and the amount of financial resources for these purposes is insufficient compared to the state aid provided to large multinational investors. However, substantial improvements of the business environment would help SMEs more than any other forms of support. The business environment in Slovakia still has problems in certain areas, such as problematic enforcement of legal rights, high administrative burden for businesses, public sector inefficiency, a poor range of e-government services, high social and health insurance costs and an administratively demanding mechanism for reposting and paying those sums, and continuing practices of corruption in all state institutions. The process of addressing these shortcomings is progressing very slowly or not at all. This is a huge barrier for all activities in SMEs including restructuring either during company development or in crisis.

A common feature of those problem areas in the business environment is their complexity and dependence on multiple functions of government. For this reason, any further improvement in these areas requires a systematic approach, interdepartmental coordination and active cooperation of the entrepreneurs and their professional organisations. The government is not able to make any substantial improvements.

## **Restructuring advice and support**

In the 1990s, when the company started, there were no opportunities to get advice or counselling. These services developed at the end of 1990s, with some state support and support from the EU through the pre-accession funds. More recently, there has been visible development of private counselling services in the area of company operations. However, MERET did not seek any advice or support services at the time. The company has been able to manage with its own knowledge and resources.

The mentioned grant is the only instance where the company received support. However, according to the MD, the bureaucracy and regulation associated with funding opportunities from the EU can be discouraging. In practice, any small company seeking funds from the EU is unable to proceed without employing administrative help. The MD is very sceptical about business advice and support for small and medium-sized enterprises in Slovakia, perceiving it as non-existent and more of rhetoric.

## **Outcomes of restructuring**

The new technology introduced in 2008 had a positive effect on the company production and productivity. MERET have been able to produce more for less as a result, also due to decreased cost of employment. The new technology helped MERET overcome the effects of the crisis and substantially enhanced the company's production; however, it has only been one of the contributing factors in their increase in sales.

The introduction of the new technology has affected employment in the company; two employees decided to end their contracts and left and two employees who retired have not been replaced. Moreover, the contracts with employees who worked on contract were cancelled and the staff were given two months' redundancy pay. Some were able to find a new job and some of those who were made redundant started their own business and still cooperate with MERET, providing services that are marginal to MERET's core activities. During these changes to employment the MD tried not to agonise too much over the whole process; there simply was no alternative and it had to be done. Despite this, he found it personally distressing to have to implement redundancies.

Restructuring related to the innovation and introduction of the HART protocol into the systems for control of measuring devices improved the competitiveness of the company's production in the world markets. It has had some impact on production organisation and management but, unlike the introduction of the new automatic machine for production, the introduction of HART protocol into MERET's products had no effect on the employment numbers. The current employment structure of the company allows greater flexibility, which can facilitate future restructuring.

The interviewed employee supervises and programmes the automatic soldering machine. He finds this work challenging but also rewarding because he must participate in the development activities related to specific orders. He considers interpersonal relations in the company to be good. Everybody is involved in and responsible for quality production and timely fulfilment of orders for customers. He knows that his salary is closely related to company performance. The interviewee took part in both mentioned elements of the restructuring, which he considers a good experience that has provided interesting work opportunities. Even though some employees had to leave the company, others continue working as subcontractors or employees in partner companies.

## Commentary

MERET is a successful high-tech company constantly involved in innovation activities. This is a precondition to success in this very competitive sector. The steady development and improvement of products and technologies of MERET depends on frequent restructuring events. The management of the company realises that only skilled and dedicated staff can guarantee the success of MERET in the market. The difficult decisions related to restructuring are made in an attempt to benefit both the company and its employees; however, as a small company MERET can look after and support its employees only to the extent that this does not threaten the existence of the company.

The case study of MERET provides an example of a small company that has had to cut staff numbers as a result of necessary changes to their production. The difficulties in finding a suitable contractor company to outsource their production forced MERET to innovate and produce in-house. The company purchased a new automatic machine in an attempt to make their production processes more efficient, which subsequently made several work positions redundant.

The high level of employment-related contributions is a great cost for small firms in Slovakia. At the same time, in order to help decrease the rates of unemployment in the country, businesses require greater motivation from the state to employ young people. According to the MD, it is currently more beneficial for employers to employ people of pension age rather than young graduates since contributions for the latter group are higher and the cost of time that an employer puts into training a young employee outstrips any benefits.

## Authors

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## Information sources

### Interviews

Dušan Hupka, Co-owner and Managing Director, MERET s.r.o.

Technical employee

### Company website

<http://www.meret.sk/>

- [European Monitoring Centre on Change - EMCC](#)
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  - [European Restructuring Monitor](#)
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