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- [Case studies](#)
 - [Attractive workplace for all](#)
 - [Ageing workforce](#)
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 - [Dispute resolution](#)
- [News](#)
- [Events](#)

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You are here

- [Home](#)
- [Observatories](#)
- [EMCC](#)
- [ERM](#)
- [Restructuring in SMEs](#)
- [Sjølund, Denmark](#)

Sjølund, Denmark

- Type of restructuring:
Business expansion
- Employees before restructuring:
50-249
- Employees after restructuring:
50-249
- Nace/Sector:
Manufacturing
- Country:
Denmark
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Abstract

When Danish firm Sjølund established a subsidiary in China, a blacksmith was sent to China for three months to train the new staff. Furthermore, as management felt that the Chinese plant had become a bit too autonomous, it was decided to send an employee from Sjølund to China to monitor that it was running as a Sjølund clone and not just as a plant in China doing the same kind of work.

Organisational profile

Sjølund A/S is a specialised subcontractor in aluminium and steel section bending. 'We want to be the world's best to bend profiles' is the officially declared vision, and the company currently considers itself the European leader when it comes to competence and quality. The company was founded in 1936 by a local blacksmith, and had developed into a specialised subcontractor by the second generation. Sjølund is now highly specialised in bending profiles.

Today the company is owned and managed by managing director Søren Ravn Jensen, who has been the sole owner of Sjølund since he bought out his three partners in 2007. He was export manager at Sjølund for 13 years before he took over the company completely. Apart from being a skilled worker and engineer, Søren Ravn Jensen also has a Certificate of Business Administration (CBA) from AVT Institute and has studied strategy, innovation and leadership at INSEAD (the European Institute of Business Administration).

Sjølund is located in the village of Sjølund, Denmark, but in 2009 it established a production plant in Hefei, which is located between Beijing and Shanghai in China. Sjølund Profile Bending (the company name in China) is managed by a Chinese general manager, John Fang, in close cooperation with Sjølund in Denmark. The Chinese subsidiary produces for its own customers and is not an outsourcing unit for Sjølund in Denmark. The customers of both companies are mainly companies in the wind energy, transport and building sectors. Sjølund owns the majority of Sjølund Profile Bending, with IFU (the Investment Fund for Developing Countries) as equity partner with 20% of ownership. IFU is a self-

governing fund associated with the Ministry of Foreign Affairs in Denmark, which invests public money in business projects in developing countries. The challenges and advantages of this management structure are described further in this case study.

Sjølund currently has about 65 employees and another 45 employees at Sjølund China. Employees are mainly skilled metalworkers with many years of experience, typically organised in the Dansk Metal union. The majority of employees are men; four women work in administration. Since Søren Ravn Jensen took over the company, Sjølund has strategically hired a few people with higher education and solid management experience at the management level, among them the CFO, the sales director and the production manager. This has raised the level of education and experience in the management team considerably. The team members are all in their forties.

Sjølund in Denmark is an international company, with 60%–70% of its turnover from exports. However, it still has a local presence, with 100 mainly local customers, whose orders are small. Establishing a subsidiary in China is part of an internationalisation strategy that has been generally defined by Søren Ravn Jensen and planned in detail by the management team, where Sjølund will establish ‘clones’ of Sjølund in new growth markets especially.

A CSR (corporate social responsibility) strategy has been developed for the new production plant in China. This was one of the conditions for funding by IFU, and it provides the staff at Sjølund Profile Bending with better working conditions than regular Chinese standards.

Sjølund has been profitable throughout the financial crisis, even though sales and profits fell dramatically in 2008–2009. The crisis also caused a reduction in staff from 75 to 65 in Sjølund, Denmark – the same level as in 2005–2006. Sjølund Profile Bending in China had losses in the start-up phase, but was profitable for the first time in the first quarter of 2011, and the number of employees has increased from 15 in the start-up phase to 45 in the first quarter of 2012.

Table 1: Gross and net profits for Sjølund, 2005–2011, in DKK (000s)

	2005–2006	2006–2007	2007–2008	2008–2009	2009–2010	2010–2011
Gross profit (000s)	54,893	72,277	82,712	49,518	61,713	3,415
Net profit (000s)	17,077	27,130	31,594	9,077	17,887	-63

Source: Annual reports from Sjølund, 2008–2011

Background to restructuring event

The restructuring of Sjølund started in 2007, when Søren Ravn Jensen bought out three co-owners in the management team. He had tested and trained his management skills while attending a CBA programme and had become ambitious for the company. Studying with managers from large and well-known companies raised his confidence in his own management abilities, and he believed that he could take Sjølund to a higher level by establishing production in other markets. His partners and colleagues in the management team were not quite as ambitious and thought ‘why bother when things are going very well anyway?’ So Søren Ravn Jensen offered to buy them out. He wrote a business plan to raise funding from the bank, mentioning the option to establish production in India or China. Søren Ravn Jensen felt that with his vision of becoming the world leader in section bending and with the global development of the industry, the company was vulnerable because of its mainly European customer base. One of the reasons was that these European customers were, or would potentially be, moving production to new markets like China or India.

His former partners agreed to leave the company within a year of the buy-out, and this left Søren Ravn Jensen with the option of setting up a completely new management team that fitted the company vision. While the original management team were all people with a long background at Sjølund, Søren Ravn Jensen decided to recruit a management team with a higher level of education and with management experience from other companies. The impact of this strategy was illustrated in the interview with the CFO at Sjølund, who has experience of business development from working in different large corporations. At the job interview, he told Søren Ravn Jensen that if he wanted to hire him, it should be because he wanted to develop and grow his company. ‘Business development is the fun part of the job’, as he said.

In 2008 the new management team decided to start working on establishing a production plant in China to be able to serve customers there. That China was chosen, and not India, was due to the fact that Sjølund was already delivering to a customer operating in China. Therefore the management team expected that they would have a customer base to start on.

Restructuring processes

The restructuring process described in this case study is mainly the process of establishing a production plant in China as a subsidiary of Sjølund. However, the decision to expand to China was to a large extent a consequence of a restructuring in ownership and management. Therefore these events are also integrated in the case study.

When the decision was made, a specific business plan for the production plant in China was made. The new CFO, Finn Mortensen, had previous experience in establishing new business units, from working in large international corporations.

The process of establishing production in China started with hiring a Chinese engineer with a Danish MBA, who at that time worked for the big Danish corporation Danfoss. After some scepticism over why an educated man in a big corporation wanted to work for a small company like Sjølund, the company hired John Fang in September 2008. He started out by working for three months at Sjølund in Denmark to learn more about the company and to 'breathe the air' of the Sjølund culture. The company began creating scorecards for the different factors they should look for when they decided where to establish the company.

Greenfield phase

In the early greenfield phase, the only resources were John Fang and a lot of extra work for the management team. The CFO visited seven different sites in China and had a lot of meetings with IFU (before John Fang was employed), while Søren Ravn Jensen focused on contacting potential customers.

Sjølund contacted private Danish business networks in the industrial centres on the east coast of China and got a lot of advice from people there and looked at potential facilities. However, the company finally chose a project in a smaller industrial area in Hefei, west of Shanghai. This meant that it got a lot more attention for a small project from the local authorities than it would have got in the larger industrial cities along the coast.

Technical set-up

After finding the right place and getting formalities in order, the next step for Sjølund was the technical setup. In this phase, one of the most important tasks was investing the capital from Sjølund and IFU in machines and training the new staff of 15 people. In a company where 80% of the work is craft and 20% is standardised industrial processes, there is a lot of tacit knowledge to be transferred. Therefore a blacksmith was sent to China for three months to train the new staff.

However, getting customers wasn't as easy as expected. Sjølund's expected customers in China didn't place any orders, but a European train manufacturer that knew Sjølund from the European market placed a big order. This customer had been the only one notified regarding the establishment of the production plant in China. Its order all of a sudden provided plenty of work, more than the Chinese plant was able to deliver in terms of the quality Sjølund wants to be known for. This meant that the Sjølund Profile Bending had to involve the Danish mother company in executing the order from China. It led to extra work and capacity challenges in Denmark on the operational level as well as for management. The project lasted a full year.

However, the big order and the fact that training takes time also forced Sjølund to be innovative and rethink the Chinese strategy. Since the company couldn't train people fast enough, it involved one of its experienced blacksmiths in transferring all of his tacit knowledge about a specific process into a machine that could automate the job.

After this experience, Søren Ravn Jensen has been rethinking and has learned that maybe the production in the Chinese plant should not be based on 80% craftsmanship and 20% production but maybe rather 50/50 or even 20/80, since it is a long process to train and develop good craftsmen.

During the process, Sjølund Profile Bending was managed mainly by general manager John Fang in frequent dialogue with the management in Denmark. However, Søren Ravn Jensen felt that the Chinese plant was becoming too autonomous. In the summer of 2011, he decided that he wanted an employee from Sjølund in Denmark posted to China at a high level, to monitor that it was running as a Sjølund clone and not just as a plant in China doing the same kind of work. The devil is in the detail, and becoming a Sjølund clone takes more than some months of training in the start-up phase. As Søren Ravn Jensen says: 'There is no easy way to learn how we do things at Sjølund. Here we breathe it in the air.'

He subsequently hired a supply chain controller who had just finished his masters degree, but had been working at Sjølund during his studies and knew the company very well. His job in China is to monitor the quality, key performance indicators and human resources and send reports to Sjølund in Denmark. The job is not planned as a permanent job for him.

Søren Ravn Jensen has started considering posting a Danish production manager in China to strengthen the production management, but he is not yet quite sure how to do it so that the Chinese management doesn't lose face.

Staff involvement

Staff at Sjølund were not involved in the process of planning the China project, except for the management team. They were informed of it at a company meeting before John Fang started working in the company in September 2008.

There were some sceptics in the beginning, who were concerned that production would be moved to China, even though the major purpose was to strengthen the company and bring in new customers. Therefore it was helpful to morale to see that nobody was laid off and that it actually created jobs in Denmark too.

During the process, there was some scepticism when the project in China was still losing money, but as it started getting customers and as employees actually saw that Sjølund could also operate in China, they developed a sense of pride as well.

At the management level, Sjølund offered shares in the China plant to the management team at the beginning to motivate them. The production manager was not interested and wasn't really that keen on the Chinese project and the travelling it implied. According to Søren Ravn Jensen, the lack of commitment from a key person in Denmark delayed the project by about a year. The production manager chose to leave Sjølund during the process, which enabled the company to hire a new production manager who knew what the job would involve from the beginning.

Challenges and constraints of restructuring

According to Søren Ravn Jensen, the most significant challenges and constraints in the early process were getting customers, keeping the staff and making them believe that things would work out in the end and that customers would come. As for any start-up, it was also important to keep the costs low.

Hiring Chinese workers was difficult in the early stages when there was no operating production plant to show, so they had to imagine the place where they would be working.

Søren Ravn Jensen also learned that particularly in the early stages, it is important to have a native Chinese person involved in the process who understands how bureaucracies and relationships work in China.

Another lesson learned was that it is difficult to transfer work that is based on good craftsmanship to China. Søren Ravn Jensen subscribes to the belief that it takes 10,000 hours of practice to master a craft. There is no easy way around that, and it doesn't work if people try to come up with their own solutions when they lack the basic skills.

Furthermore, the company's culture of quality, order and cleanliness can be difficult to adopt for Chinese employees. Søren Ravn Jensen understood why when he was taken to the places where workers live their daily lives to see the physical environment that was part of their reality.

One thing that was easy to integrate, however, was the team-building activities that are also a part of the culture at Sjølund. This seems to fit well with the Chinese culture.

Regarding sales, Sjølund also realised that it is very difficult to win orders before you have a production plant to show to your customers.

Restructuring advice and support

Sjølund has received loans and equity capital from IFU, and it is a partner in Sjølund Profile Bending in China. Søren Ravn Jensen considers IFU a very valuable partner that, apart from funding, can offer advice on Chinese regulations and access to local networks. The presence of a Chinese person from IFU on the board is also very helpful when Danes and Chinese try to sort out issues caused by different cultures and different views on management.

Apart from IFU, Sjølund has not taken advantage of any public support programmes, but it has experienced a very helpful attitude from other Danish companies in China, and Nordic Industrial Park has been very helpful in finding a good location.

Outcomes of restructuring

In general, Sjølund Profile Bending is running according to plan – just delayed by about a year. This means that an enduring positive impact on earnings is yet to be seen.

During the process, the profitability of the company suffered since it had to produce some units for the first orders in Denmark and sell them below cost price, since the cost price of producing in Denmark is higher. Furthermore, the process created a lot of turbulence at Sjølund in Denmark since it had to solve problems that the Chinese plant couldn't solve. It even had to compromise on quality for new customers, which everyone at Sjølund disliked having to do. Existing customers haven't suffered on quality, but have had to accept longer terms of delivery. And in this turbulent period, the production manager had to split his time more or less equally between Denmark and China. This has been very costly, Søren Ravn Jensen points out.

Søren Ravn Jensen's conclusion is that it is possible to make a clone of Sjølund in another country – even though he may have been sceptical about whether it was actually possible. This has given him the courage to do it again in other BRIC countries (Brazil, Russia, India and China) or the USA. However, it is necessary that Sjølund Profile Bending is up and running before management resources can be allocated to new projects. He expects nevertheless that his ambitious management teams will be ready for new challenges when the most important Chinese problems are solved.

On the employment side, Sjølund Profile Bending has created 45 jobs in China, as well as four or five jobs in production and one or two administrative jobs at Sjølund Denmark.

Apart from that, it has required different meeting schedules due to the time difference and obviously more travel activity. The management team especially has a considerably increased workload, since they have had to split their time more or less equally between Denmark and China.

The heavy workload also had some positive consequences. The CFO had to delegate as much as possible down the organisation, and that was a gift to the bookkeeper, who had asked for new challenges. However, the CFO points out that you have to have the right staff to do that and to be careful to delegate the right jobs to the right people.

Salaries in general haven't been affected by the restructuring, but as Søren Ravn Jensen points out, the staff has got first-hand experience of the

competition from China – and some are probably happier with what they've got when it comes to wages and working conditions.

Travel and cooperation with the Chinese subsidiary also involves middle managers, and that has raised standards for new middle managers. In future, Sjølund will require English skills from all middle managers.

As indicated earlier, operating in China hasn't just required new skills. It has also added new skills to the company, such as new ways to control and monitor quality and performance, which may be useful for similar projects in the future. Structure and documentation have become keywords in the organisational strategy. As the CFO explains, Sjølund has done something for the first time without the know-how to do it. Next time it will know better.

Sjølund Profile Bending in China wasn't expected to be profitable in the first two to three years. Because improving sales took longer than expected, and because indirect costs were higher than expected, it wasn't until the first quarter of 2011 that the Chinese subsidiary was profitable for the first time. Furthermore, the lack of focus on China in-house at Sjølund has harmed the performance of the Chinese plant, according to Søren Ravn Jensen, since they didn't spend enough time following up. He expects overall profitability in 2012.

On a personal level, the Chinese plant has given Søren Ravn Jensen a lot of extra work, but also an opportunity to closely compare his original factory to something similar. It has also given him a good networking icebreaker to have production in China, and it gives Sjølund and Søren Ravn Jensen a different status among other business leaders in his network.

Commentary

In Sjølund, Søren Ravn Jensen has experienced both advantages and disadvantages in being an SME trying to establish a production plant in China.

First, he mentions the speed of decision-making and taking action in an SME as an advantage. During his CBA studies, he was stunned how little top managers in large corporations knew about what was going on at the lower levels of their organisations. 'I'm an "undercover boss" every day', he said, with reference to the Undercover Boss television franchise. 'I constantly know where they are and whether they are with me or not.' He also points out that a certain degree of sympathy for the owner can make hard decisions easier to accept. The authority of an owner-manager also makes it possible to say and do things that would never be accepted from an employed CEO. And having built the company gives an owner-manager an instinct for how people feel and what can be done.

The close relations between owner-manager and staff are underlined by the absence of an elected employee representative at Sjølund and very limited union involvement in employee affairs.

Being a well-educated manager in a very non-academic world, he points out the importance of having a hands-on approach to restructuring. But he has also learned the importance of having academics around you to keep the management team dynamic. The management team Søren Ravn Jensen originally bought out was more homogeneous, maybe too homogeneous.

One reason why a management team in an SME may become very homogenous was offered by the CFO at Sjølund. With experience from large corporations, he has noticed how people in large corporations tend to be more focused on their actual profession, whereas a CFO at Sjølund will also get technical questions about profile bending. In an SME, the managers have to understand the company as a whole.

The disadvantages for SMEs in a restructuring process are mainly the limited financial and management resources and the dependency on a few key employees. In the Sjølund case, it was a further challenge that the production and sales managers have been replaced twice since 2007. The dependency on a few key employees means that there is no backup, so these employees simply have to work longer hours when they start a restructuring project.

Søren Ravn Jensen is sure that it is better to be a big company if you want to start up production in China, but the project has given Sjølund the confidence to start new plants in other BRIC countries. For the next project, he has learned that the process will have to be managed more tightly from the parent company through reports and through close communication between functions in different countries (matrix organisation).

Furthermore, he wants a key person from the parent organisation to be on the spot to observe and report, somebody who has breathed the culture of the organisation and is able to see the small deviations from the overall culture and philosophy.

And finally he points out that next time he will appoint the best man for the job, not just the person it is most convenient to allocate to at the time.

Concerning advice to policymakers, Søren Ravn Jensen points out that access to funding can make a big difference. However, he says that the Danish guarantee schemes from Vækstfonden are ineffective because banks do not want to take their share of the risk. (Vækstfonden is a state investment fund that aims to create new growth companies by providing venture capital and competence. It invests equity and provides loans and guarantees in collaboration with private partners and Danish financial institutions.) In relation to China specifically, he mentions that the help of mayors can make a difference.

Søren Ravn Jensen's best advice to colleagues is to make sure they have the necessary financial and management resources and do not underestimate the resources needed – and to appoint the best man for the job.

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Information sources

Interviews

Søren Ravn Jensen, owner and managing director at Sjølund A/S

Finn Mortensen, CFO at Sjølund A/S

Contact information

Skamlingvejen 146

DK-6093 Sjølund

Company website

<http://www.sjoelund.dk/>

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