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ATech, Slovenia

- Type of restructuring:
Internal restructuring
- Employees before restructuring:
50-249
- Employees after restructuring:
50-249
- Nace/Sector:
Manufacturing
- Country:
Slovenia
- Date:
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Abstract

Slovenian company Atech experienced such rapid growth that the owner/manager realised that it was not possible for him to be solely responsible for decision-making and control as he did not have enough time to cope with all issues arising in the daily business activities. An internal restructuring was initiated, including employee empowerment to delegate decisions to the lowest level possible and a separation of ownership and management through the recruitment of a company director responsible for day-to-day management issues.

Organisational profile

ATech was established in 1990 as a Swiss-Slovenian partnership. Owner Davor Jakulin, who had worked at Slovenian railways and as an independent entrepreneur, took a job as a production worker in 1989 in a well-established Swiss company that was a supplier for ABB, the global power and automation technology group. The company director, impressed with Jakulin's entrepreneurial drive and willingness to innovate, gave him the idea of setting up a company in Yugoslavia. At the age of 24, Jakulin was the youngest of four partners to establish the business and took over the role of manager of the newly established company which he named ATech – Advanced Technologies. Today he recalls being really surprised that the partners entrusted him with the task of establishing the company and setting up the business.

The main reason for establishing ATech as a subcontractor to a Swiss company was the lower cost of labour in Yugoslavia. The company started with electronic manufacturing services (design, test, manufacturing and distribution for electronic components and assembly for original equipment manufacturers). However, after drawing up a business plan, the partners realised that this was not viable enough, so they started a development service for the Swiss company as well. In 1996, Davor Jakulin bought out the other shareholders, becoming sole owner. At that time, the company employed five people and operated out of a garage in a small village, Markovščina, in the Primorska region.

Actual company development began that year, because up to then they had been almost completely dependent on the Swiss company. In 1997, the firm produced the first microcontroller-based electronic motor controller and as the company began to grow quickly, Davor Jakulin began to search for additional sources of financing. In 1998 the government-backed Slovenian Development Corporation invested €98,805 in ATech in

return for 52% of ownership, leaving Davor Jakulin with the operational managerial control. He said: ‘It was a tough decision, but I had to decide whether the company would move forward or stagnate.’

The investment enabled the company to grow, and in 2001 he bought back the shares and became sole owner. ATech became more firmly focused on developing its own products. From providing electronic manufacturing services, they gradually moved to design and manufacture (ODM). During that year, they were also certified for ISO 9001. They developed the first brushless DC motor controller the following year.

The company soon outgrew the garage works in Markovščina, moving to Bač in Materija near Kozina into new 2,000 sq m premises. They made business plans for several years ahead and planned investments in research and development. A new investor was sought, and ATech obtained €600,000 from Fund iEurope in exchange for a 29% equity stake. The company was obliged to report monthly to these new co-owners regarding success, profit margins of different products and programmes, cash flow, investments, forecasts of orders and marketing activities.

The following years brought numerous improvements for ATech. They developed manufacturing capacities and established an additional surface mount device (SMD) line, as well as a new wave soldering line. They introduced the new enterprise resource planning (ERP) type information system, the first sensorless AC motor controller and increased their SMD capacity.

Atech’s sales market spread across most of the EU where annual sales were increasing by a compound average growth rate of 25 %, with sales particularly important in countries such as Switzerland, Germany, Italy and Ireland. One of ATech’s goals was to enter the American market, following the trend of leading global multinational companies.

The design and development of embedded electronics assembly for home appliance industry, lighting, electronic motor controls and automotive information systems together with expert professional know-how are all characterised by the highest degree of responsibility towards social and natural environment. The recuperation of thermal energy was one of the environmentally friendly solutions for the renovation of the manufacturing hall. ATech is proactively promoting the principles of sustainable growth through its products and received an award for its innovation of the traction unit with integrated motor control electronics for battery powered vehicles, the so- called TR-550.

The greatest added value the company got from its foreign owner was the establishment of good corporate financial management and control procedures. The investors were also very active owners, since they were able to help develop business contacts in the international areas due to their experience in managing comparable quick growing companies. Additional capital allowed ATech to equip themselves better technologically and increased the volume of assembling components more than five times, while at the same time they managed to maintain the status of a strategic partner with crucial buyers. In this period, the company transformed from a craft based company into a high-tech industrial organisation. Fund iEurope exited in 2008.

ATech is an active member of the United Nations Global Compact. In addition to the environment and society, people count among the three key corporate values. A consistently good relationship with employees was acknowledged in the first national project Golden Thread (*Zlata nit*) in which ATech was ranked among 101 best employers of the year by publisher Dnevnik.

ATech was awarded the ‘Primorsko-Notranjska Gazelle Award’ of 2003 and was given the ‘Best Entrepreneurship Idea’ award in 2004–05 for its innovativeness. At the Slovenian Innovation Forum, ATech was ranked among the 40 most innovative Slovenian companies in 2007, 2008 and 2009. In 2008, ATech was selected among the top ten most innovative Slovenian companies. They have developed numerous new products and were certified for ISO 14001 in 2007 when they installed the first lean production cell for electronic boards manufacturing.

The educational profile of employees in ATech can be seen from the Table 1. One quarter of employees have university-level degrees, mainly in technical subjects, with one third having secondary and higher professional. The average age of employees is 35.

Table 1: Educational level of employees

Qualified and nonqualified workers	33.80%
Lower vocational (up to 2 years)	2.80%
Secondary vocational and general	30.99%
Higher professional	8.45%
University	23.96%

Source: *Company data*

In Table 2, the average number of employees in ATech is presented. The data show employment growth in 2008 interrupted by the crisis and the strong decline in 2009.

Table 2: Average number of employees

Year	2006	2007	2008	2009	2010
Average number of employees	70	69	78	66	69

Source: [GVIN business information data base](#)

The company has had a clear written strategy since 1997, while human resource management relations are set out and there is a written description of work assignments. This preceded restructuring. There is no organised trade union. There were attempts at organisation, but there wasn’t enough membership for it to be a representative union and the whole activity was abandoned.

The company has a clear lean organisational structure, with one owner and one director and department managers. Business functions such as development, manufacturing, marketing are undertaken in-house while IT services and legal services are outsourced.

Background to restructuring event

After 20 years of leading ATech, Davor Jakulin decided that there needed to be a change of leadership. In 2008, he began to delegate authority and responsibility to his co-workers, fearing that, otherwise, the company would be in trouble. Interestingly, the impetus for this move, wasn't the financial crisis but the success of the business. With such fast growth, Jakulin realised that maintaining control was difficult while having sole responsibility for decision-making. The entrepreneur was becoming overloaded and new customers were almost avoided. Davor Jakulin remembers:

'People were coming to me with good and less good ideas for business and I confirmed and denied them, without having enough time for an argumentative discussion and justifications. I decided more by guessing than actually getting into it, which I confirm, because I definitely didn't have any time for it because of the work overload. I took over the responsibility, without really knowing why.'

A leap in income from € 5,578,987 to € 7,858,331 in 2008 would mean a growth rate of 50% in 2008 if it hadn't been for impact of the financial crisis in the last quarter of that year. In the last three months of 2008 sales almost completely stopped, indicating something had to be done urgently.

Jakulin felt the need for new leadership and believed that employees ought to be given empowerment in order to accept responsibility for certain decisions. Not only did the demands of the fast growing market have to be addressed, but there was also the question of being able to solve problems before they became too serious.

Restructuring processes

The internal restructuring and reorganisation at ATech had two phases. The first was employee empowerment, so that decisions could be delegated to as low a level as possible, with managers being able to make business decisions independently and in teams. The second phase involved the separation of ownership and management functions. Management authority was transferred to Massimo Makovac, who joined the company in 2010, on a trial basis as the quality control manager before becoming company director. Now Jakulin runs the company primarily on the basis of financial indicators – but does not deal with day-to-day management issues.

The restructuring process was carefully planned, to take place from February 2008 to May 2009 with all decisions made by Jakulin. The process was supported by company reorganisation, a competencies model and systematic and targeted training. The empowerment process involved a lot of preparation, as well as delegating certain functions, negotiating, and coordination with people. It followed the classic steps of 'plan, do, check, act'. This is not a quick process since empowerment cannot be forced through; it has to be agreed. About half the employees were directly involved in the process of restructuring. About ten people who were already managers now got more authority.

The first step in the process of empowerment was to assign and discuss new responsibilities and authority with chosen team leaders and their teams. The process intensified in 2008, but the financial crisis changed the company's orientation, since growth was not now a problem and resources had to be focused on solving the sales decline. Jakulin said:

"Restructuring on the basis of empowerment is a process that demands a lot of contemplation. People want to feel they helped in the success of the company and that others appreciate their cooperation and skills. A lot of employees want to be able to make decisions, look for solutions for problems at the workplace, take initiatives and be responsible for the results. Empowerment is a mash of procedures and behaviour that supports and encourages people in the whole organisation for these trends to come true."

During the restructuring process, paid for by the company, some employees were promoted; others were moved to other workplaces. Some technicians went on to work in manufacturing. Inter-departmental borders were blurred and teamwork was established, since the success of the entire company, not just one department, was considered as the goal. There was only one compulsory redundancy because of the crisis, and there were no salary reductions or delays in pay; indeed, average salaries increased. The purpose of restructuring was to retain as many people as possible – individuals that didn't agree with the changes left the company voluntarily. Most changes occurred among administrative and technical employees where numbers declined from 46 to 34. Manufacturing employment increased. Some technicians became sales staff.

In April 2010, Massimo Makovac was appointed as quality control manager on the understanding that, should he prove to be equal to the task, he would become company director. Bringing a quality expert into ATech proved extremely beneficial. Massimo Makovac said:

It wasn't an innovation unless, of course, we call a different type of communication between employees an innovation. The key problem wasn't of technical nature, rather mostly the problem of connections and communication in the company.

In January 2011, Massimo Makovac took over as director and within a year took over all responsibilities as Jakulin ceased daily management of the company. A more flexible organisation structure was introduced, capable of dealing with constant change. The process of establishing efficient

business functions, especially logistics and manufacturing on which cash flow is dependent, took place throughout 2010 and up to June 2011. From June to the end of 2011, a more strategic approach to selling processes and development was adopted.

Jakulin and Makovac meet once a week, mostly outside the company, to discuss planning. They still need to organise more effective communication with the public, and clearly demarcate the director's and entrepreneur's roles in public relations.

Challenges and constraints of restructuring

The main challenge in restructuring was the effect of the crisis, which meant that the process of empowerment did not succeed fully; nor was it implemented on time. Jakulin, who had planned to head the restructuring had instead to focus on providing necessary leadership for daily running of the business. As not all assigned managers had necessary competences for running their departments the process of restructuring was stopped. If the 2009 crisis had been less severe, this process could have gone through, more or less normally. Jakulin remembers:

In March 2009 I was very close to the decision to lower the number of employees by 60%. I went to a bank and asked them what they wanted to see: a positive cash-flow or profit. We agreed for positive cash-flow which we achieved also by selling stock, cancelling a contract with a certain buyer where there were high costs of material and a low profit margin. We took many different measures; for example with the Slovenian Technology Agency, we started some projects that weren't completely in the focus of our activity, but they did employ some of our R&D resources. Mostly, they allowed us to keep our key experts employed.

In ATech, ensuring survival got entangled with the process of empowerment and transfer of managerial responsibilities. As Jakulin became preoccupied with ensuring survival, responsibility for restructuring fell to the newly appointed director Makovac. The process of saving the company actually ran counter to the process of restructuring and destroyed some of the already established empowerment relations.

Employees were informed about the empowerment from the beginning at the workers' assembly. Reactions differed as some did not agree with their newly assigned roles. Brigita Tomažič, who began at the company in 2008 as a sales clerk is now manager of sales and logistics. She thinks employee reactions during the first phase of restructuring were negative and that better information would have improved them. But, instead, certain responsibilities were assigned and then were not implemented. Jakulin remarks that:

Empowerment is like the Pandora's box – once you open it, all arguments, problems and questions that were suffocated by the organisational structure and leadership methods come pouring out. Life of middle management staff becomes complicated and is quickly tempted to close the lid and make your life easier.

Restructuring advice and support

An outside consultant was hired to moderate team meetings and to provide technical support for the empowerment process. No other advice or support was needed. On certain issues, Jakulin consulted his network of business partners and colleagues. The company did not receive any public funds for restructuring.

Outcomes of restructuring

After 20 years of heading the company, Davor Jakulin stepped down as director and handed over to Massimo Makovac. Now he focuses on development issues, strategic sales and monitoring company performance. Makovac established the new organisational structure fully in 2011. It is now a more flexible organisation capable of dealing with constant changes. The process of establishing new operational methods, especially in logistics and manufacturing, on which cash flow is dependant, took a year, finishing in June 2011. When the second wave of crisis hit in the last months of 2011, this new structure was able to cope.

Due to restructuring, the negative trends were reversed and employment grew in 2010. Gradual growth continued in 2011, with 73 people working for the company in December 2011. Gradual, controlled growth is planned for the future. The company considers training very important, with ATech employees participating in almost 1,800 hours of professional training every year.

After a record high year in 2008 when company made €7,858,331 in sales, their income plummeted because of the economic crisis and in 2009 sales dropped to 56%, to only €4,478,940. In 2010, sales improved to €5,584,418. According to Jakulin, growth continued in 2011. Further income and profit growth is planned, as well as employing more people, as they have invested a lot in development, have a sound infrastructure, good enterprise resource planning (ERP) information system, and micro plan their manufacturing. They have also reduced the throughput time from an average of 19 days to three. Today, 35% of sales go to export customers. They developed a module for collecting data in manufacturing and, together with their ERP system provider, made a Manufacturing Execution System (MES) module in which the data automatically enters the system.

One of the important outcomes of restructuring is also a clear corporate strategy up until 2020. It concentrates on the marketing strategy focused on services and products, and is based on three key competences:

- application know-how;
- development and production of motor controllers with connectivity functions;
- electronics value chain integration.

They also underline their skills in producing mass customised products, design and manufacturing and electronic manufacturing services.

Goals are constantly measured by key performance indicators and when needed, the strategy and plans are refined. New products are created from market research based on understanding their customers' needs. The company's motto is 'Our products solve our customers' problems,' and the general orientation is that:

'Innovations in electronic systems should contribute to the development in energy conservation, automation and individual wellbeing'.

A good example of such orientation is the ATech's FUMIS OXY controller for the biomass renewable heat energy sector. This received the national silver acknowledgement for innovation in 2009, awarded by the Slovenian Chamber of Commerce. However the company say they were a little surprised by the positive global reaction to the FUMIS; they are now selling their products to New Zealand, Chile and North America. Two years ago, at a fair in Hannover, they met a client who had flown to the fair all the way from New Zealand just because of them. Jakulin says: 'Such cases show that we are a company that sets trends. It is a good feeling'.

Commentary

The ATech experience of restructuring showed that it is difficult in small companies to find a critical mass of potential leaders who have the vision, ability and willingness to participate in a developing company. Jakulin said that if planning restructuring today, he would act differently. He would rely less on individuals, plan better and select his new managers more carefully. He said he was surprised to find how little people were prepared to change and do something for their own career growth.

The biggest support that could be established by policymakers would be appropriate entrepreneurial education to increase awareness that companies need nurturing and that appropriate measures need to be put in place before a company encounters problems. The realisation that changes in an organisation are a constant and that a firm's context changes a lot, should be accepted as a normal way of understanding how companies function; when the context changes, everything else changes as well.

The media should focus more on companies that restructure successfully and less on those that are in trouble, which is where most of the interest of the public and policy makers lies.

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