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Samat Kovoizospol, Slovakia

- Type of restructuring:
(Avoiding) bankruptcy
- Employees before restructuring:
10-49
- Employees after restructuring:
10-49
- Nace/Sector:
Manufacturing
- Country:
Slovakia
- Date:
12/12/2011
- Keywords:
Recession/Crisis

Abstract

This Slovakian company produces aluminium window frames and other construction parts and has an international customer base, with 80% of its overall production being exported. The aim of the complex restructuring was the implementation of new technology and innovative production process of fibreglass window frames. While the company has experienced financial problems due to the recent global economic crisis, its ability to innovate and compete has helped it to give it a competitive edge.

Organisational profile

Jan Pauschek is the founder and sole owner of Samat Kovoizospol, s.r.o. The business is a limited liability company, and the owner is also the managing director. Despite its ownership structure, the company is a family business employing other family members, including Mr. Pauschek's wife and children. Mrs Pauschek, who was interviewed for this case study, is employed at Samat Kovoizospol as an economist. She joined the company at its inception, and in her management capacity makes important decisions concerning company operations. The family members constitute the core of the firm's management, including its economic, production and technology-related functions.

Jan Pauschek started his first venture in 1988 by establishing Kovoizospol as a cooperative. This was the only way to run any entrepreneurial venture under the socialist regime in what was then Czechoslovakia. Kovoizospol produced metal structures and roof hydro-isolations. Using his experience and contacts with clients, the owner was able to follow new trends in the construction industry.

In 1992, Kovoizospol created a joint venture with the Italian producing and trading company Samat Aluminio, whose main products were aluminium and aluminium profiles. The limited liability company Samat Kovoizospol was then established, with production facilities located in

several garages in a suburb of Bratislava. When its production increased, the company moved to a more spacious production facility in Čunovo, outside Bratislava. Later on, the company started production also in High Tatras, mainly due to intensive construction activities in this region and to be closer to customers. In 2006, Mr Pauschek bought his partner's share and became the sole owner.

The company produces aluminium window frames and other construction components for buildings, including plastic window frames, where demanded by customers. Its customers range from individuals to large construction companies. Samat Kovoizospol has extensive international contacts with its suppliers in China, which supply the highest quality raw materials, as well as with its customers, exporting to EU countries, mainly France, the Czech Republic and Belgium. It exports also to Russia, Egypt, Vietnam and China. Around 80% of overall production is exported.

Samat Kvoizospol constantly monitors the newest construction trends and innovations. In 2005, it started production of fibreglass profiles for the construction industry. In 2006, the company acquired a large site in Miloslavovo, where it built a new production facility for a new fibreglass technology. In 2007, it decided to buy a Canadian patent for the production of pultruded fibreglass profiles. The mechanical and thermal isolation characteristics of this material make it an excellent construction material for window frames. It eliminates the need for metal reinforcement structures regularly used in plastic windows. Additional advantages are stability, long-lasting durability and smooth surface.

Even though the price of fibreglass is about 20% higher than plastic, fibreglass is much cheaper than aluminium window frames. This makes it a very competitive product, and it is becoming better known by prospective customers. Due to patent protection, Samat Kovoizospol has no competitors in Slovakia or in Europe. There is no mass production of window frames, all business being based on specific customer orders. Production runs are short, which makes management of production quite demanding. Nevertheless, it provides jobs for about 40 employees. This level is quite sustainable despite the recent crisis in the construction sector and financial difficulties of the firm.

The company does not have any relationships with trade unions nor a works council present.

Background to restructuring event

The restructuring process of Samat Kovoizospol has been quite complex. The company has always tried to innovate to increase its competitiveness. Developing steadily from the start, it soon prospered in terms of performance and employment. When it found a new technology that was able to compete in terms of mechanical and thermal characteristics with aluminium window profiles and which offered considerably lower production costs, the company decided to use it. They bought the patent and implemented the new technology. To do this, the company needed large investments covered by bank loans.

With the new technology in place, Samat Kovoizospol became the only company in Europe able to produce pultruded fibreglass profiles and hence substantially increased its competitiveness. Under stable market conditions during the planning phase, the innovation project would have proceeded without any substantial problems. However, the onset of the economic crisis hit the construction industry particularly hard, and the loss of a large contract resulted in a cash flow problem and insolvency.

Problems arose in 2007 when the company lost a large contract in Prague that should have lasted for five years. The reason for this was a late shipment of new technology related to the patent for fibreglass profiles from Canada. For Samat Kovoizospol, it was impossible to replace such a big contract by new orders of a comparable size immediately, especially when the emerging crisis was already affecting the whole construction industry. It was necessary to look for new customers. This had a negative impact on cash flow and repayment of bank loans.

However, the events that triggered real financial difficulty for the company were the insolvency of one English customer and a Slovak company in 2008, when Samat Kovoizospol had not received payments for large deliveries to them. The company was in a state of failure, as it had a number of creditors and was unable to discharge its liabilities to them within 30 days.

The Act on Bankruptcy and Restructuring in Slovakia defines failure as when a business becomes insolvent and cannot pay creditors (in other words, where a debtor is more than 30 days late in paying what is owed), and it has more than one creditor, and the value of the amount due exceeds its asset value. In the case of a debtor becoming insolvent, the procedures for the administration of this event are bankruptcy or restructuring. Bankruptcy means the liquidation of the company and the lay-off of all employees. Restructuring (*reštrukturalizácia*) is a legal process whereby the debtor will continue operations in the hope that it recovers and creditors can write off part of their claims, as it is in their interest to do so.

As with bankruptcy, both creditors and debtor can apply for restructuring, and the debtor can appoint a bankruptcy trustee (*správca konkurznej podstaty*) to assess whether restructuring is possible. The trustee is a physical or a legal person listed under the Register of Bankruptcy Trustees of the Ministry of Justice of the Slovak Republic. The role of the trustee is to assist the courts in the process of bankruptcy and restructuring.

If the trustee recommends restructuring, the debtor may apply for a restructuring permit. The assessment must not be more than 30 days old. The restructuring procedure begins with publication in the trade journal. Only those creditors who have registered their claims on time through a declaration are entitled to make claims during restructuring. The declaration, together with attachments, is submitted to the office of the trustee, and to the court. The declaration must be received by both the trustee and the court within 30 days of the restructuring permit being issued. A list of registered claims is drawn up by the trustee under court supervision. The restructuring procedure ends with the publication of a court resolution on the completion of restructuring in the trade journal.

Restructuring processes

To avoid bankruptcy, Samat Kovoizospol appointed a consulting company to assess whether restructuring was possible and to propose the best plan to convince and satisfy creditors. This is a common practice in Slovakia, and there is an entire market in consultancy firms that offer their services to help facilitate restructuring. Thorough analysis showed that the company had the potential to overcome its difficulties. The company had production capacity and there was market for fibreglass window frames. As a result of discussions with the consultancy, the company decided to apply for restructuring and managed to get an agreement from its creditors.

The company started to communicate with its creditors about the situation concerning its financial problems. At this stage, the creditors authorised a trustee to make a restructuring assessment, to find out if the conditions for debtor's restructuring had been met. The outcome of the assessment, which could not be older than 30 days, was a recommendation for restructuring and the assessment of the debtor's economic status.

Based on the trustee's recommendation, it was possible to submit the request to permit restructuring to the relevant court. The court ruling on commencement of the restructuring process was issued on 6 July 2010. At this stage, the court reviews the formal essentials of submitted motion for restructuring. The issuing of a ruling on commencement of the restructuring process has protective effects against further aggressive activities by creditors.

The company in cooperation with the trustee and the committee of main creditors developed the restructuring plan. The plan states how, when and what amount would be covered in claims of eligible creditors. Accordingly, the court ordered that the repayments be made to creditors every six months. The debt of a company that undergoes restructuring can be written off by as much as 85%. The company plans to cover the repayment by increasing their production and sales; the investments made in recent years to introduce fibreglass products potentially have made Samat Kovoizospol highly competitive. In addition, the plan regulates monitoring of the company operation and important decisions with financial effects. This plan was approved by the court on 3 May 2011.

Challenges and constraints of restructuring

The whole process of restructuring has been very challenging for the company. Above all, it was difficult work to convince the main creditors about the realistic prospects for company operations in the market and its ability to pay creditors' claims agreed in the restructuring plan. After the approval of the restructuring plan prepared by the trustee and creditors, a plan must be endorsed by the court. In this case, the restructuring plan was developed for the duration of eight years. During this period, the company's financial operations will be thoroughly monitored to ensure fulfilment of the restructuring plan. The company will be prevented from obtaining a bank loan for a large project during this time. The business will have to look for smaller projects that are less lucrative, and its new production capacities will not be used as efficiently.

Restructuring advice and support

In this case, the consulting company was an important factor in managing the restructuring process successfully. The assessment of the company's potential to restructure and the restructuring plan are the key documents in the process of restructuring. These can only be produced by the registered trustee. However, the assessment involved lawyers as well as economists from business consultancies, who provided a full analysis of the company's financial situation. They helped with the development of a comprehensive assessment document and the successful implementation of restructuring.

Outcomes of restructuring

The main outcome of restructuring was the implementation of new technology and mastering of the whole innovative production process of fibreglass window frames. However, such financial restructuring presented difficulties for the company. Despite the partial reduction of debts, there will be ongoing monitoring of financial operations to eliminate the possibility of the accumulation of excessive debts. During this period, it will be almost impossible to get a bank loan. It means that Samat Kovoizospol cannot take on any large projects and the opportunities to gain new customers are restricted. Nevertheless, the outcome of restructuring has been a success in terms of allowing the company to continue in its production activities. Due to innovative technologies, competitiveness, excellent position in the market and good relationships with suppliers and customers, the company is able to maintain production levels and the number of employees. Restructuring did not have any effect on the existing staff numbers.

According to Mrs Pauschek, the restructuring event was very demanding for the company and for her personally. The financial performance of the company was a central issue in the deliberations and decisions made during restructuring. On the other hand, the company is a family business, and this adds additional pressure, such as working longer hours, on all family members who are involved. Mr Pauschek said he felt he had aged by 10 years as a result of the whole process.

Commentary

Samat Kovoizospol is a successful construction company that constantly innovates in its product range. In 2005, the company introduced

fibreglass products as an alternative to plastic and aluminium. As the only company in Slovakia producing fibreglass window frames, Samat Kovoizospol has no competition. This places the company in a favourable position.

The company has experienced financial problems due to the recent global economic crisis; however, its ability to innovate and compete has helped it to continue in operation despite the problems in the construction sector. The possibility of the legal process of restructuring that is available in Slovakia has helped the company avoid bankruptcy and continue its activities without making cuts to employment or production. As a consequence of restructuring, the company is restricted in terms of business expansion; however, it has lowered its debts and continues producing. In these difficult times, the company will need to make a huge managerial effort to keep performing and provide employment for its staff.

Authors

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Information sources

Interviews

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