



CONFEDERATION OF INDUSTRY
OF THE CZECH REPUBLIC
REPRESENTING THOSE WHO CREATE VALUE

STRONGER TOGETHER

Restructuring and change management
from employers' point of view
Bohuslav Čížek

Contents

- **„MACRO“**
 - A little bit of history and theory (Crisis)
 - Czech economy – basic characteristics, results and outlook
- **„MICRO“**
 - Survey – Confederation of Industry
 - Survey – ProMCR
 - IBM Study
 - Case study

Data Source: CZSO



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Problems in the EA

Benefits stemming from single market, boosted trade... X Problems :

- „Debt crisis“ (expensive debt financing on the financial markets for some countries)
 - Private debt → Public debt (national budgets) → International debt (IMF,EC,...)
- Fiscal stimulation during the crisis (2008/2009) and lower economic performance → worsening of public finance – now it is getting better X fiscal consolidation → lower domestic demand
- Persisting financial risks (Spain...) (risk assets in BS, process of deleveraging,...)
- Missing credibility in political steps and resolution mechanisms not solving the real problems
- And many others:
 - Divergence of EU countries (GDP growth, unemployment, interest rates,...)
 - Unemployment – divergence and high levels (Spain, Greece,...)
 - ST measures – Measures solving the immediate problems, not the causes of the problems
 - Uncertainty – disunity, ST measures and ST effects, frequent changes
 - Political fragmentation (different national interests, mainly in case of crises)
 - Administration barriers
 - No benchmarking when creating rules (global competitiveness)
 - ...

Expansion of the world crisis into the CR (2008/2009)

- **Foreign demand channel**
 - openness of the Czech economy = strong export channel
- **↓ foreign demand → ↓ production → ↓ employment**
- **Exchange rate volatility increased**
- **Public finance + financial markets → fiscal consolidation**
- ...

How has the European financial crisis affected industry in the Czech Republic?

- * Credit activity
- * Higher risk of Bank Bankruptcy, „unhealthy banks“
- * Feedback loop between individual Member State budgets and some of their banks
- * International reallocation (transfers) of money (deposits)
 - * Risk of contain
 - * Basel III (CRD IV)

- „Europe financial crisis“
- „Fiscal crisis“
- „Macroeconomic imbalances and long term competitiveness“

Demand in the EA

Future expectations and stability (EA)

New Regulation

Future expectations and stability (CZ)

Drop in new offers
(=lower demand)

Expanding on new markets (outside the EU)

Depretiation of CZK and higher CZK volatility

Lower investments by companies (both foreign owned and domestic)

Lower FDI

Source: Bohuslav Čížek

Czech economy – overview I.

- **Economic level (GDP per capita in PPS):**

	2006	2007	2008	2009	2010	2011
EU (27 countries)	100	100	100	100	100	100
Euro area (17 countries)	109	109	109	109	108	108
Czech Republic	80	83	81	82	80	80

- **GDP structure 2011 (Resources of GDP):**

- **Industry/Gross Value Added = 30,2 % (EU27 = 19,5%)**
- **Construction/Gross Value Added = 6,7 %**

- **Small, open, export-driven economy**

- **Export/GDP (2011) = 75% (External Balance of Goods and Services = 4,1 %)**
- **Trading partners: EU (Germany, Poland, Slovakia)**

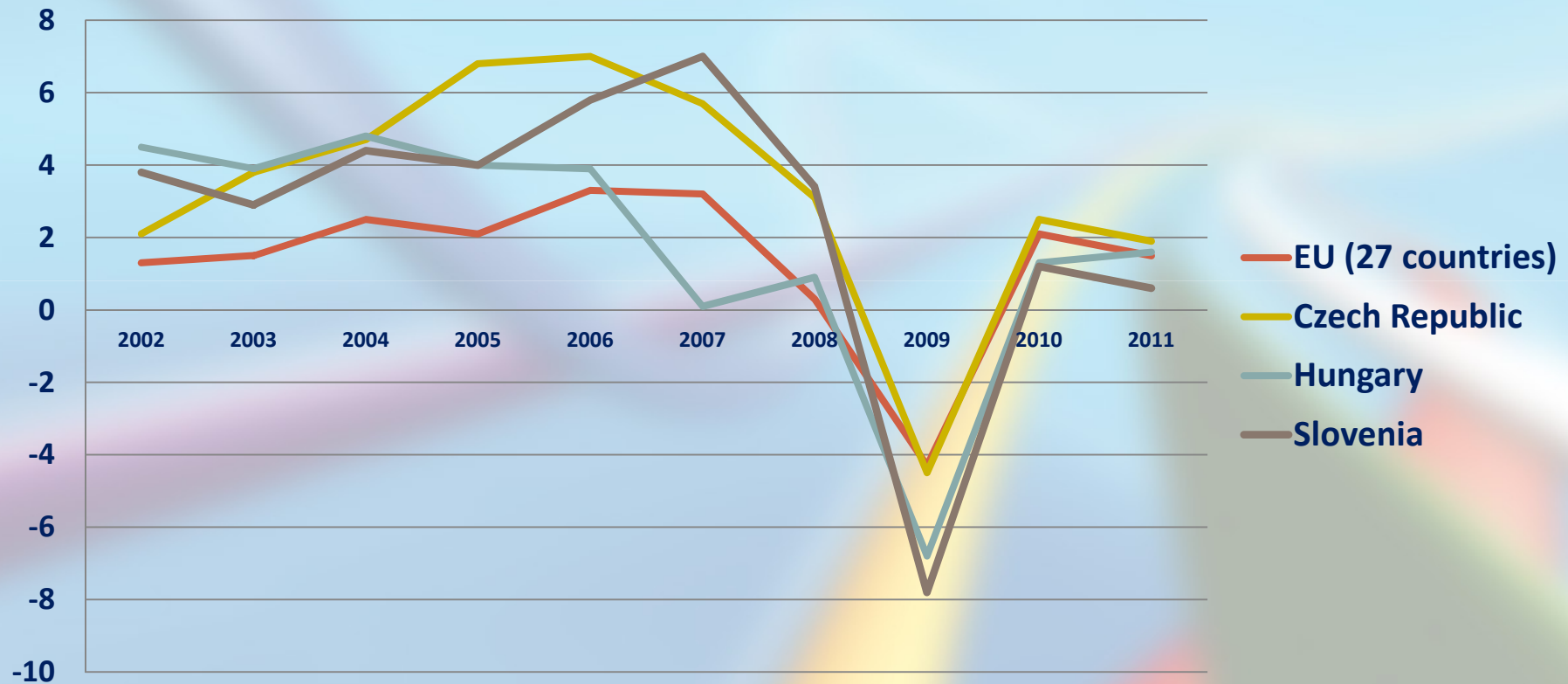
Data Source: Eurostat

Czech economy – overview II.

- **High openness of economy**
 - Sensitivity to external developments
 - Strong trade and ownership links with euro area
- **2011 H2 and 2012 – „recession“**
- **Exchange rate of koruna - interruption of appreciation trend**
- **Inflation**
 - Weak demand pressures X VAT, cost shocks
- **Domestic fiscal policy**
 - General Government Gross Debt/GDP (2012 expected) = 44 %

Economy – recent development

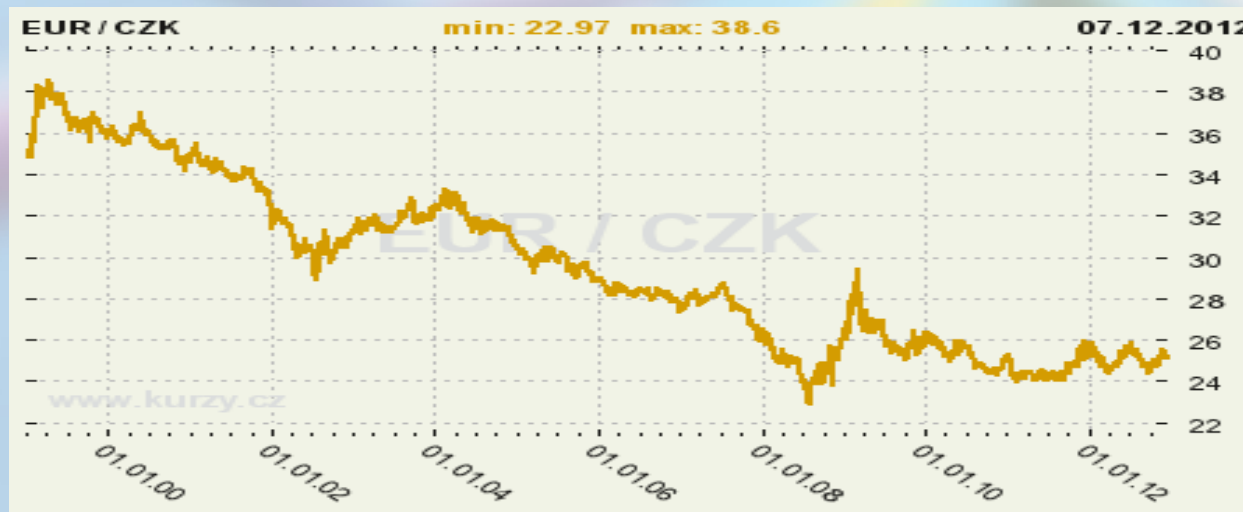
Real GDP growth rate (y-y change, %)



Data Source: Eurostat

Currency

- **Exchange rate**
 - Increased exchange rate volatility vs. weakening of exchange rate cushioned the slump in foreign demand
- **Public demand for euro adoption lower - Entering EMU?**
 - The recent evaluation of pros and cons leads to the conclusion that a quick euro adoption would not be appropriate at this moment
 - Confederation of industry: Yes (lower transactions costs, less volatility risks etc), in the future (stabilized EA)



Data Source: CNB, kurzy.cz

The Czech Economy 2012 – main factors

- Fiscal consolidation
- Uncertainty (Situation in the Euro area, political instability, frequent changes in business environment, drop in new orders, more pessimistic economic outlook...)
- Situation in Europe (stagnating Europe, structural problems, problems with competitiveness, country differences, financial instability of some countries, public finance)
- Oil and energy prices increase vs. weak European demand
- Labour market
- Lower consumption and investment
- Latest figures GDP (3Q2012) – no positive signals...
 - CZ: Y-to-Y: -1,3 %
 - Economic indicators (PMI, economic sentiment, new orders, ...)

GDP forecast 2012, 2013

GDP FORECAST – Czech Republic			
GDP growth (y-y change, real terms, %)	Last update	2012	2013
Confederation of Industry	8/2012	-1,1	0,3-0,5
Ministry of Finance CZ	10/2012	-1	0,7
Czech Banking Association	10/2012	-0,95	0,45
Czech National Bank	11/2012	-0,9	0,2
IMF	10/2012	-1	0,785
European Commision	11/2012	-1,3	0,8

Business Europe (Autumn 2012)	EU27		Euro area	
	2012	2013	2012	2013
GDP growth (%)	-0,2	0,5	-0,6	0,1
Inflation (HICP, %)	2,7	2,2	2,4	1,9
Unemployment (Eurostat methodology, %)	10,5	11,0	10,8	11,5

Survey – Confederation of industry of the Czech Republic and ČNB - nonfinancial institutions

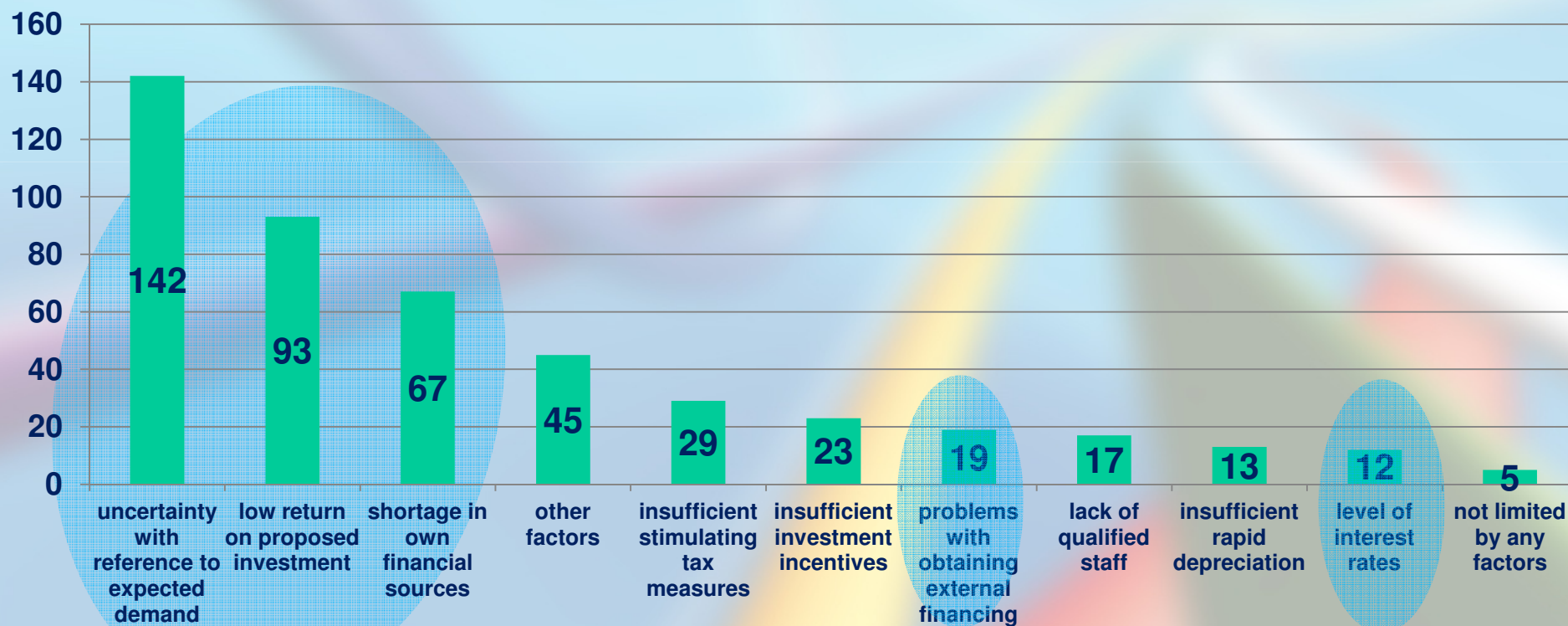
- September 2012 (3Q)
- CNB a SPCR
- 188 companies (respondents)

„The Czech Economy = the weakest in last 2 years, uncertainty remains at high levels, new orders are not expected to increase in following months, employment will fall.“



Factors influencing (limiting) investment decisions

- Number of answers (companies) – out of 184 companies:



Banking sector is in good shape

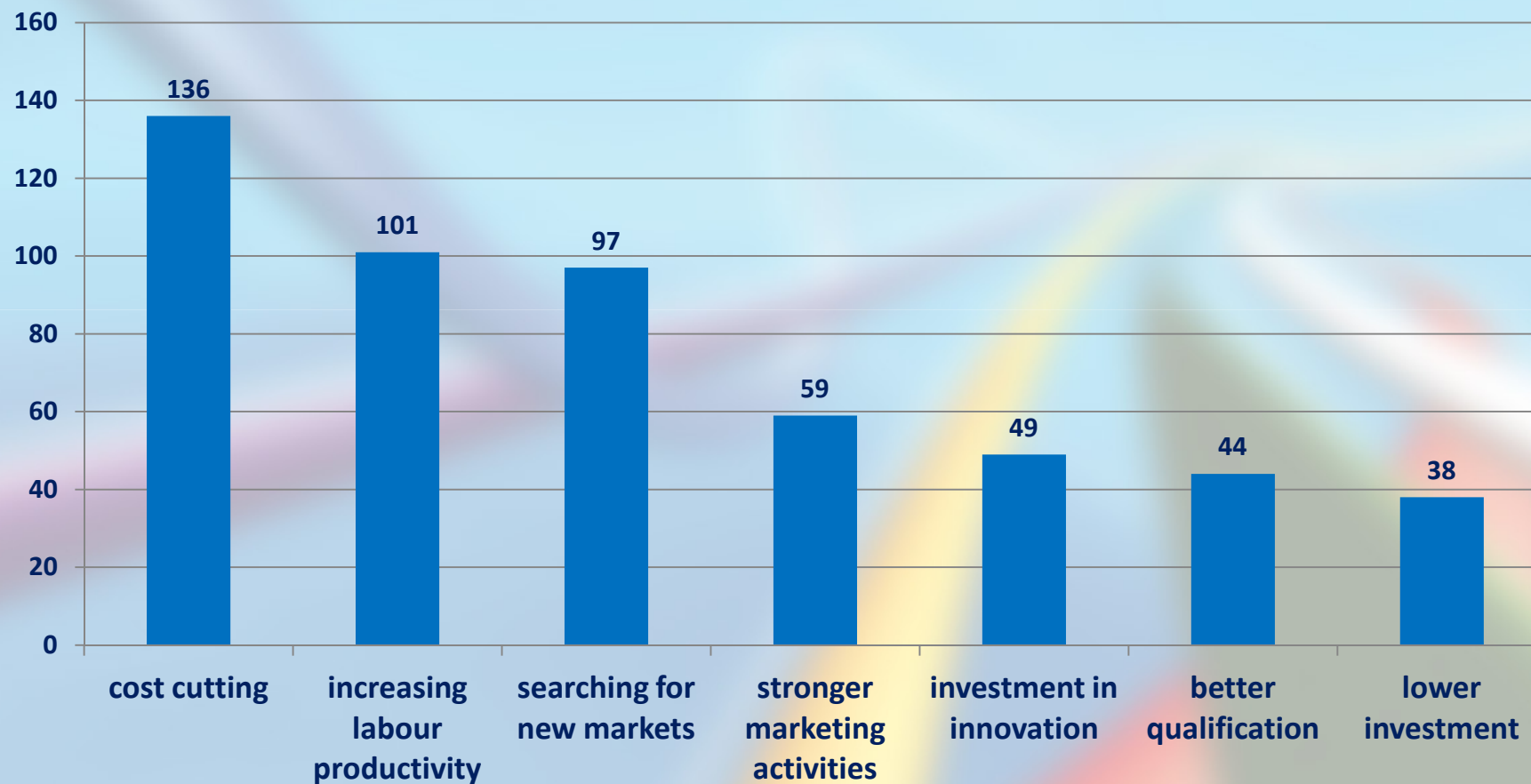
- **CNB**
 - **Price stability**
 - **Inflation targeting system**
 - **2w Repo Rate 0,05 % (since November 2012)**
- **Relatively sound financial sector**
 - **Deposits of residents > loans to residents – lower liquidity risk**
 - **Stress test: The Czech banking sector is strong, stable and resilient**

Changes in business environment in 2011

Quality of the business environment	Better	Worse	No change
public finance sustainability	4%	<u>31%</u>	<u>65%</u>
quality of legislation	1%	<u>25%</u>	<u>74%</u>
corruption	2%	<u>25%</u>	<u>73%</u>
byrocracy	1%	<u>23%</u>	<u>76%</u>
transport infrastructure	6%	<u>19%</u>	<u>75%</u>
enforceability of law	3%	<u>15%</u>	<u>82%</u>
structural funds	6%	13%	84%
export (foreign trade) support	3%	9%	88%

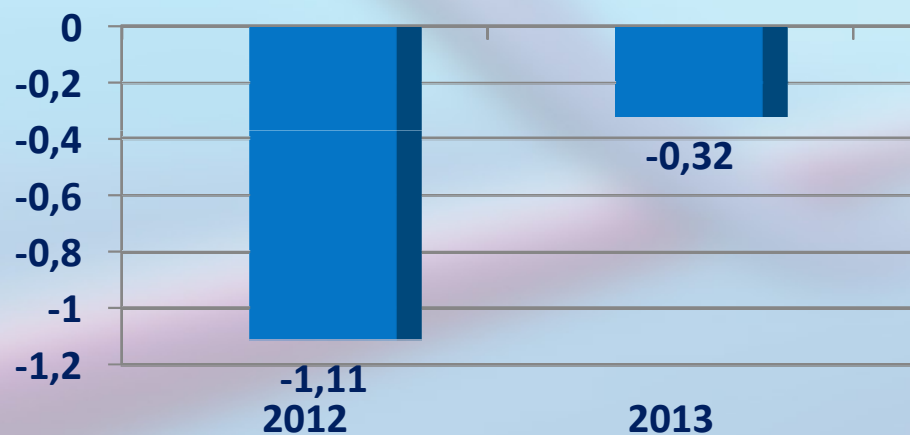
Main restructuring measures (2012/2013)

Number of companies (Total of 180 companies)



Expected change in employment and salaries

Expected change in employment (%
y-to-y change)



Expected change in average salaries
(%, y-to-y change)



Factors impacting organizations (worldwide)

- **The IBM CEO Study 2011/2012**
 - IBM (>1700 CEOs, 64 countries)
- **Factors impacting organizations ((factors of long-term success):**
 - 1. Technology
 - 2. People skills
 - 3. Market factors
- **New technologies**
 - Tools for innovation, communication, data and analyses, searching for potential
 - Changing life style, changing processes
- **People skills**
 - „Enhancing the capabilities of our employees is a key factor for our group’s competitiveness. We must leverage the strengths of those with various backgrounds to generate new value“
 - Collaborative, communicative, creative, flexible

ProMCR Survey – outputs Czech Republic



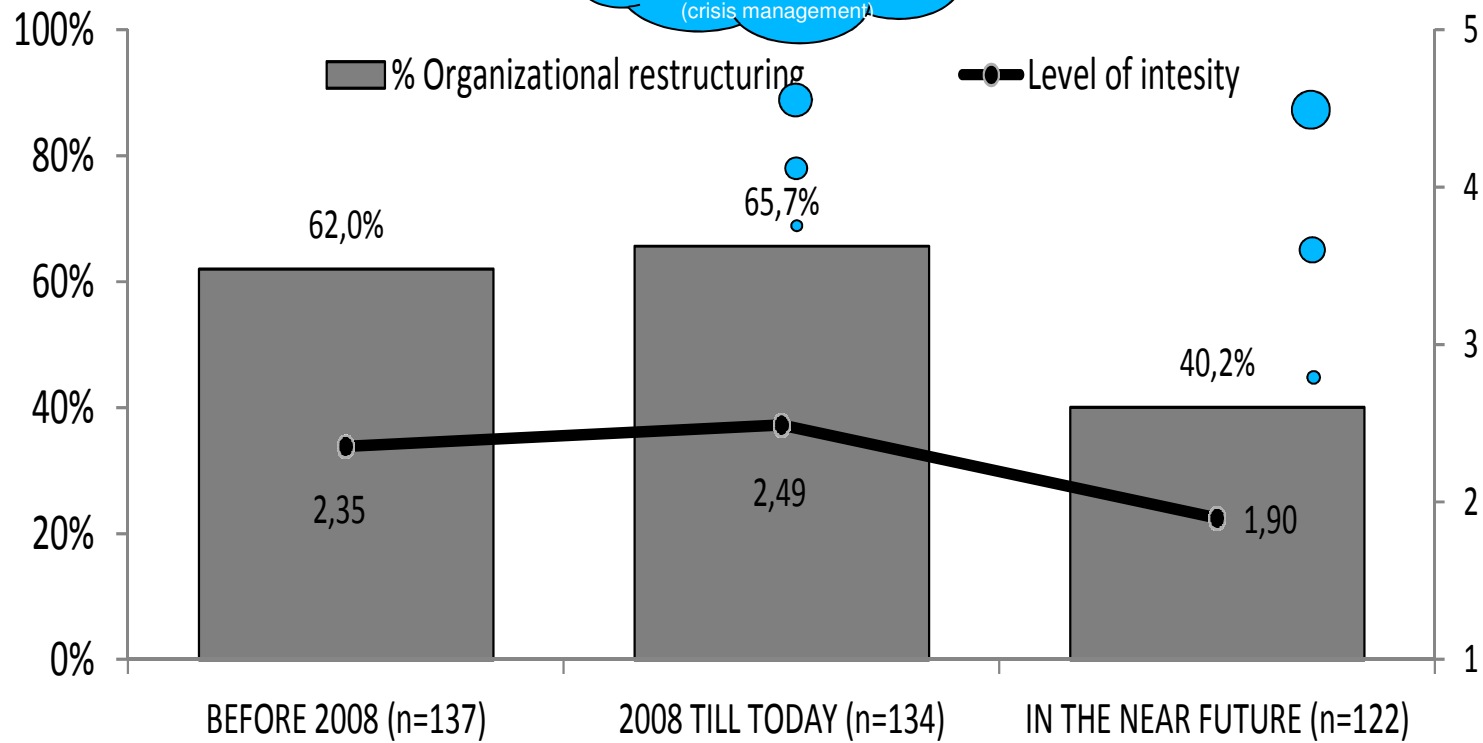
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Restructuring

Planned restructuring

2008/2009 crisis
(crisis management)



Reasons for changes

„more strategic plans“
– long-term
competitiveness

	BEFORE 2008 (n=48)	2008 TILL TODAY (n=84)	IN THE NEAR FUTURE (n=48)
Introducing new technology/products/services	27%	30%	48%
Age structure of the employees	2%	5%	10%
Adjustment to meet change of market demand	59%	64%	54%
Due to increase of market share / entering new markets	22%	18%	42%
Enhancing the competitiveness	55%	60%	58%
Adjustment to environmental standards / legislation	7%	5%	8%
Adjustment to other (non environmental) legislation	10%	6%	15%
Adjusting to the age structure of employees	0%	1%	0%
Bankruptcy / compulsory settlement	2%	0%	0%

Restructuring measures

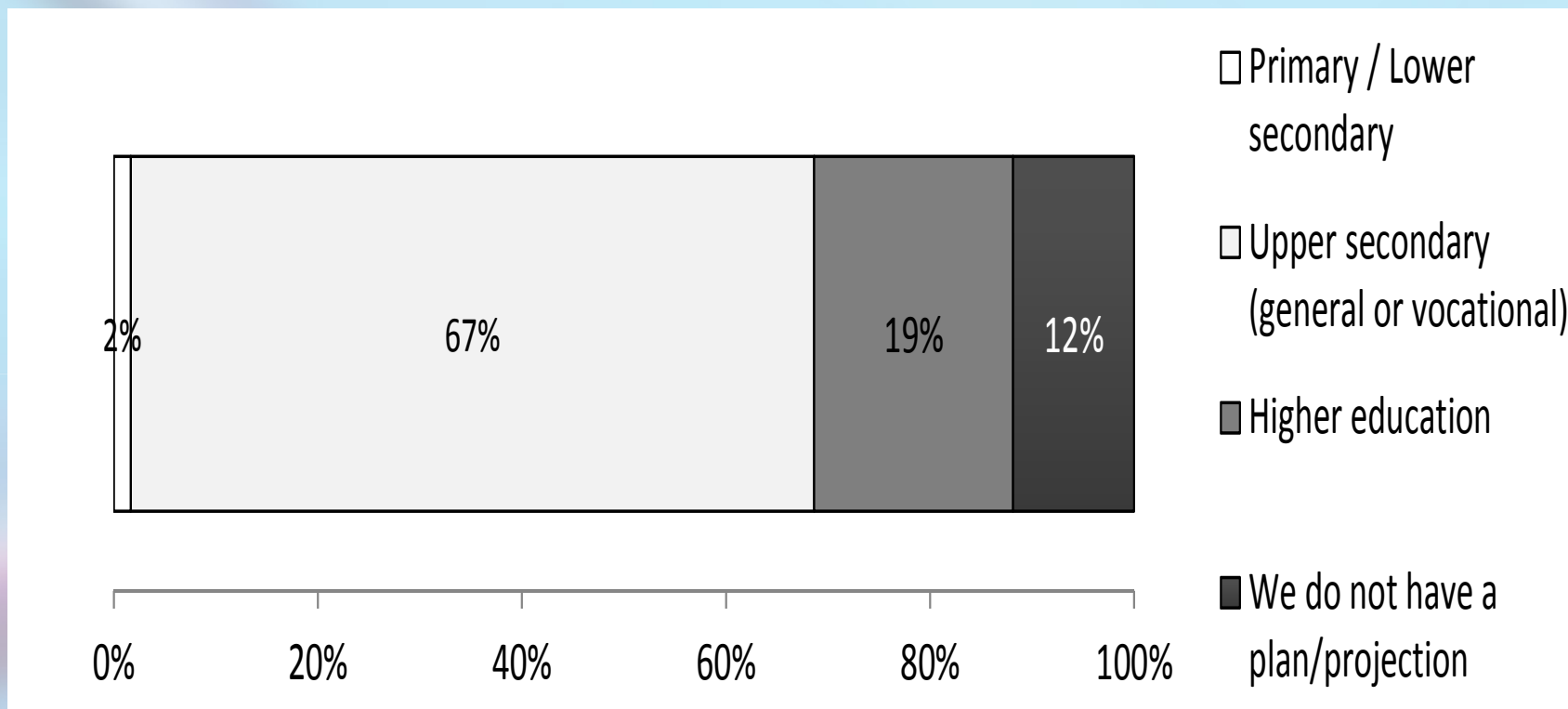
Reactive and unplanned ...to some extent

2008/2009 crisis

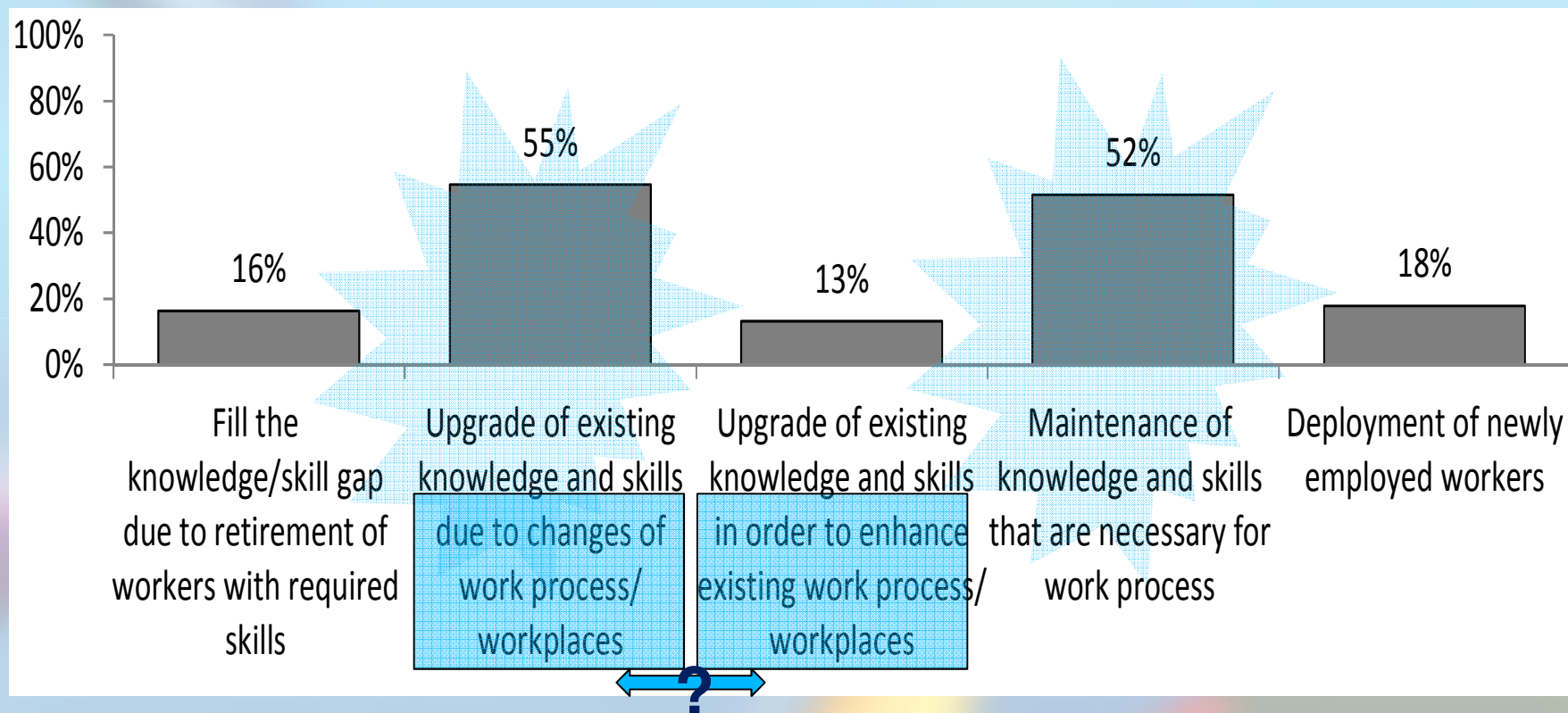
	BEFORE 2008 (n=83)	2008 TILL TODAY (n=86)	IN THE NEAR FUTURE (n=48)
Working hours / working hour system adjustments	14%	14%	8%
Termination of employment contracts – redundancies	51%	56%	19%
Employing new workers	35%	30%	38%
Workers left the company on their own – found new employment	11%	17%	8%
Retirement of workers	27%	35%	21%
Not prolonging / renewing fixed time employments	22%	50%	19%
By canceling / reducing the number of agency workers	10%	20%	10%
By increasing the number of agency workers	14%	10%	2%
Training and education of workers	29%	38%	52%
Introducing new technologies	48%	31%	46%
Redeploying workers to other departments	27%	31%	33%
Introducing part-time work and other flexible systems of employment	11%	8%	8%

Long-term competitiveness

Level of education needed in the future

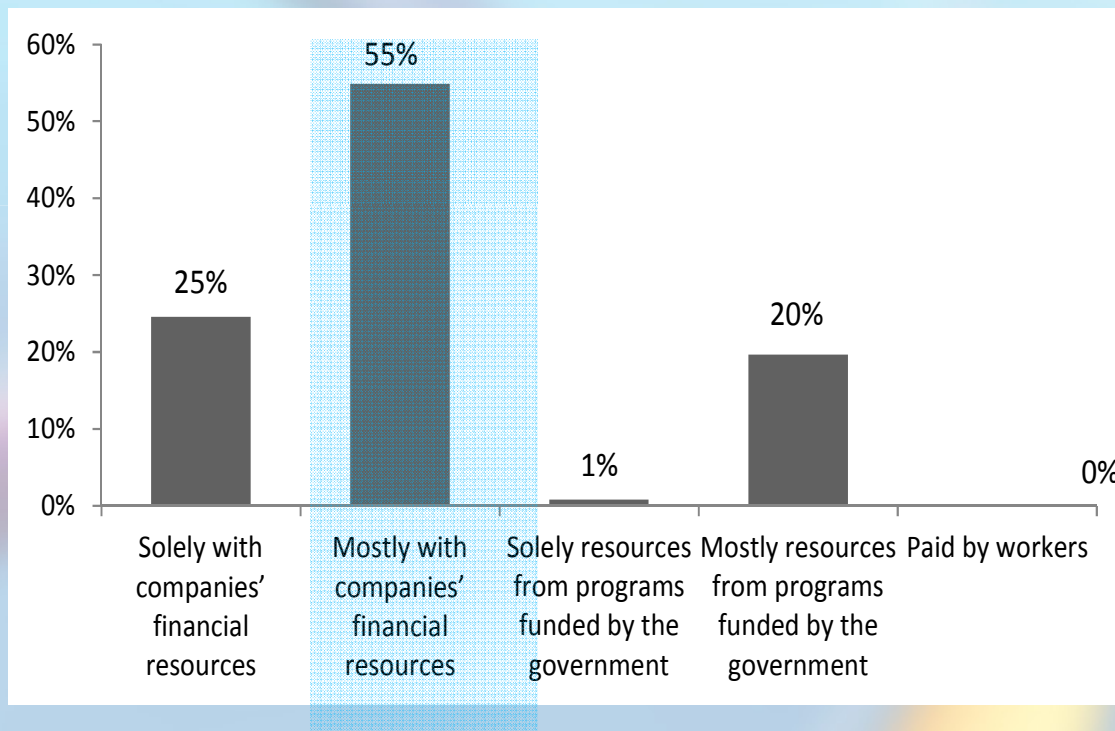


Reasons for education

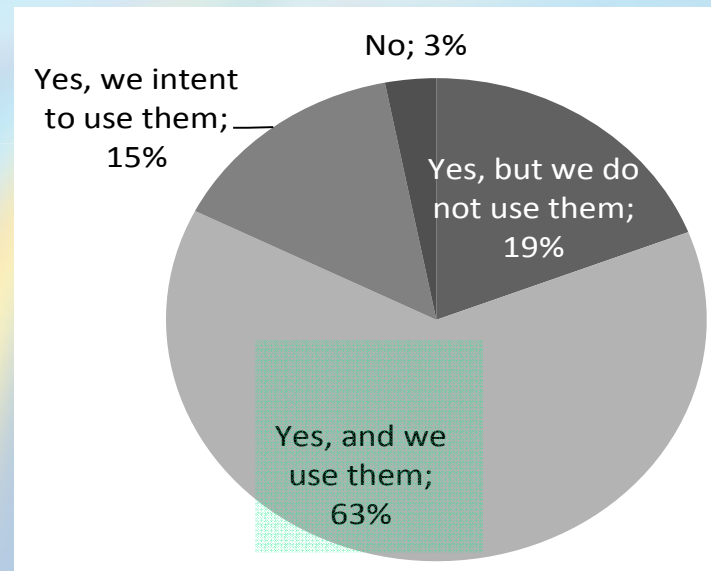


Financing of education

How is training and education financed?



Are you familiar with possibilities of public (co)financing of training and education?



Network ProMCR – Interview number 4

An engineering company with 300-400 employees where around 60 % of its production is exported

Reasons for restructuring:

- Expansion
- Modernization
- Lack of workers in Prague

Changes had been planned for several years - Crisis as a stimulus to do the planned changes

- Easier to satisfy orders
- Easier to negotiate with employees

One of the key restructuring measures was to build a new manufacturing hall and to move the main plant there

Restructuring outcome

- A long-term goal has been fulfilled: to have three manufacturing plants and run the lean production system



Network ProMCR – Interview number 4

Communication with employees – sophisticated but not very usual

- Employees were informed about moving of the main plant only once the new hall was ready for machines to be moved in
- Leaders informed only a couple of hours in advance
- Opportunity to move to the new plant
- Negotiations with influential employees
- Meetings held every week with individual working groups

Recommendations

- „Use the crisis as an opportunity to make positive changes. It gives you a chance to newly set up processes, abandon work stereotypes and set up manufacturing in a more beneficial and forward-looking manner. “



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