

Theoretical introduction to Arista case.

Work Package 2

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GENERAL BACKGROUND ABOUT SMEs AND FOOD INDUSTRY IN THE CZECH REPUBLIC

- **History of Czechoslovak SMEs (1918–1989)**
- **A Systemic Approach of the Czech Government to SMEs**
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History of Czechoslovak SMEs (1918–1989)

“At the beginning of the 20th century, the Czech lands were the most industrially developed part of the Austro-Hungarian Monarchy, competing technologically and commercially with the most advanced countries in Europe.

Created upon the break-up of the Austro-Hungarian Monarchy in 1918, Czechoslovakia by the 1930s ranked among the 10 major European industrial countries. The new nation enjoyed a strong tradition of craftsmen skilled at producing machinery and other manufactures and businessmen adept at exporting these goods. Incomes were high, and the well-developed economy succeeded in forging close financial and industrial links with the rest of Europe.

During the inter-war years, the importance of the industrial sector to Czechoslovakia's economy constantly increased. As early as 1921, 33.8% of the working population was employed in industrial occupations. Estimates indicate that by 1937 industrial sector contributed 35% to the national income. In that period, Czechoslovakia had a substantial base of small and medium enterprises (SMEs); according to the 1930 Census, there was a total of 378,577 firms employing five people or fewer. This accounted for 89% of industrial firms.

The Nazi occupation of Czechoslovakia in 1939–1945 severely suppressed the entrepreneurial spirit. The short period of the left-wing capitalism in 1945–1948 was characterized by extensive nationalization and confiscation of property, and increased central control. However, some features of small-scale entrepreneurship (the principle of

serving the customer, esteem for the innovator and the hard worker, self-reliance, etc.) were retained during 1939–1948, and survived in a hidden form until the late 1960s, even though by 1964 practically all private property was liquidated.

During the 1950s, the private sector was almost completely liquidated, while several thousand enterprises were merged into approximately 1,400 centrally-controlled firms, 60% of which were accounted for by the manufacturing sector (Zemplerova 1989). This had the effect of stabilizing the development of the size structure of firms.

After the “Velvet Revolution” in 1989, economic reformers faced a market dominated by large state monopolies created and maintained by administrative action rather than economic determination. The economy almost completely lacked a private sector; private enterprises were tiny even when compared to Hungary or Poland. Small craftsmen who remained in the private sector were tightly regulated, highly taxed, and always subject to capricious local officials.” (Bohatá, M. and J. Mládek, 1999)

A Systemic Approach of the Czech Government to SMEs

“The law giving state support to SMEs, which was implemented in the first half of 1992, has become a fundamental systemic measure in regard to SMEs. It deals with the following forms of state assistance to firms with fewer than 500 employees (later 250) by providing capital, training, consulting, and information.” (Bohatá, M. and J. Mládek, 1999)

Nowadays, the Czech government offers a range of benefits that are targeted at small and medium-sized enterprises. SMEs are the driving force of business, growth, innovation and competitiveness. They play a key role in job creation. In the Czech Republic, SME account for 61.52 % of the employment and contribute by 35.17 % to the production of GDP (data for 2008, <http://www.businessinfo.cz/en/>).

Food Industry in the Czech Republic

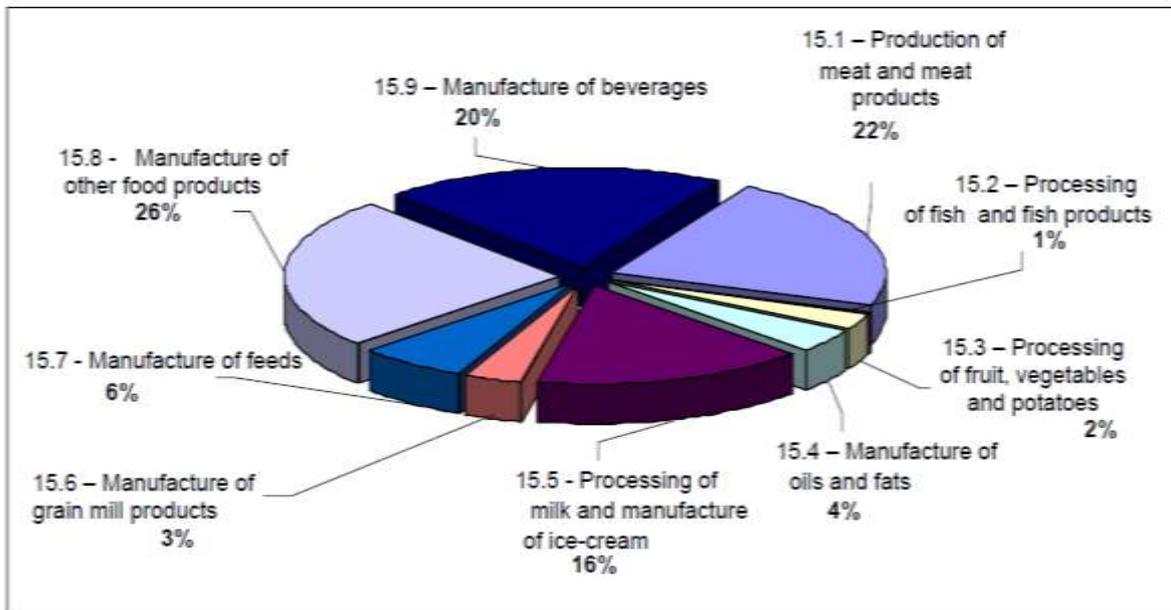
“The characteristic feature of the manufacture of food products and beverages (NACE 15) is its close linkage to agriculture, the production of which is further processed and delivered to distributors or directly to the consumer market. As it provides for the nutrition needs of the

population, the manufacture of food products and beverages is a strategic sector. Both presently and for the future it is necessary to consider food safety as a key priority. The importance of this NACE branch is also underlined by the fact that owing to its production performance it is also one of the key branches of the manufacturing industry. In terms of its structure, the analysed branch is relatively fragmented. As the assortment of foods and beverages must meet numerous needs of consumers, the branch is broadly diversified into product groups. According to the NACE nomenclature, it includes the following product groups (with their respective aggregations):

- 15.1 Production, processing and preserving of meat and meat products,
- 15.2 Processing and preserving of fish and fish products,
- 15.3 Processing and preserving of fruit, vegetables and potatoes,
- 15.4 Manufacture of vegetable and animal oils and fats,
- 15.5 Processing of milk, manufacture of dairy products and ice cream,
- 15.6 Manufacture of grain mill and starch products,
- 15.7 Manufacture of prepared animal feeds,
- 15.8 Manufacture of other food products,
- 15.9 Manufacture of beverages.

Figure 1 indicates the share of the above mentioned product groups, their respective shares in total receipts from sales of own products and services of the branch under review in 2005. The graph clearly shows that in terms of output, the following four groups predominate (ranked in descending order of sales volume): NACE Group 15.8 – Manufacture of other food products, 15.1 – Production, processing and preserving of meat and meat products, 15.9 – Manufacture of beverages and 15.5 – Processing of milk, manufacture of dairy products and ice-cream.” (VANĚK, D., J. MEZERA, and L. MEJSTRÍKOVÁ, 2007)

Shares of product groups in receipts from sales of own products and services in 2005



Source: VANĚK, D., J. MEZERA, and L. MEJSTRÍKOVÁ, 2007, p. 68

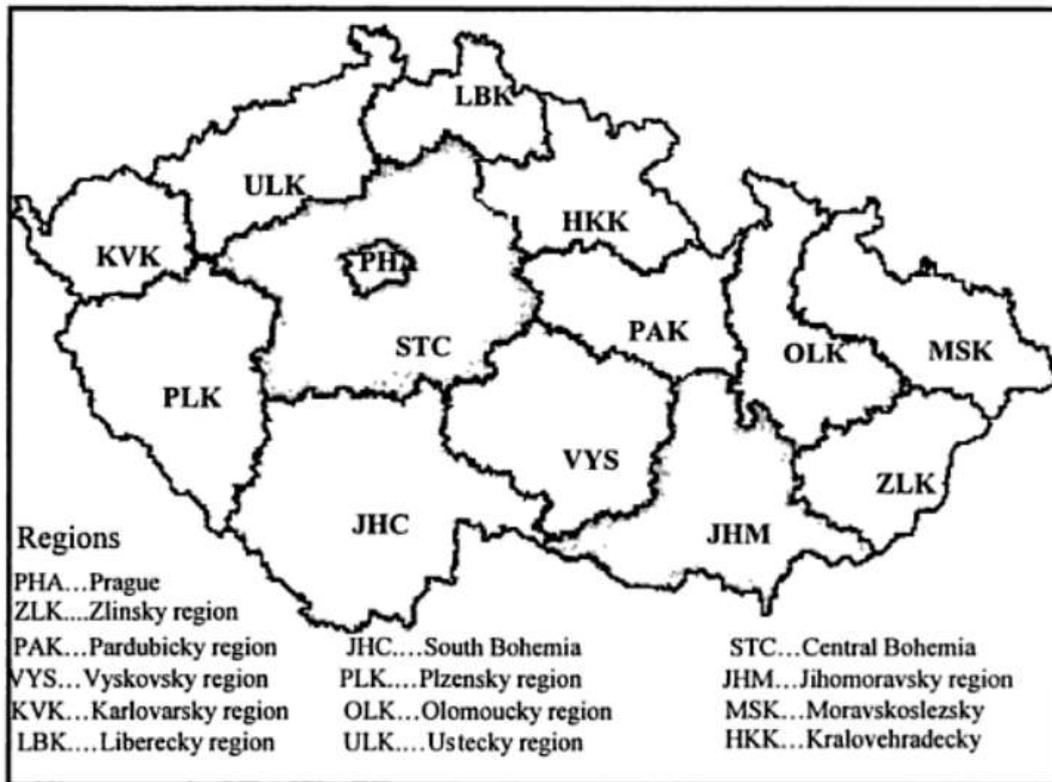
The Role of SMEs in the Regional Development of the Czech Republic

The importance of the SME sector for the Czech economy is illustrated in the data available. According to the statistics 1,122,511 private and legal persons (with the number of employees between 0 and 249) were registered and actually conducted business activities. The share of small and medium sized companies in the total number of active business subjects accounted for 99.86 per cent. SMEs employed 1,786,000 employees in 2012, which accounts for 59.43 per cent of the total number of employees in the entrepreneur sphere. The data prove the importance of the SME sector. (Czech statistical office)

“SMEs have an important function for the socio-economic development of regions. They also create specific positive economic “spin-off” effects for regions, in the form of employment, tax income to municipal budgets and social stability.

In the regional division of the country, 14 NUTS III regions and 8 NUTS II regions have been designated by the Parliament.” (BERAN, V. and J. FRKOVÁ, 2003)

Partitioning of the national territory into NUTS III regions

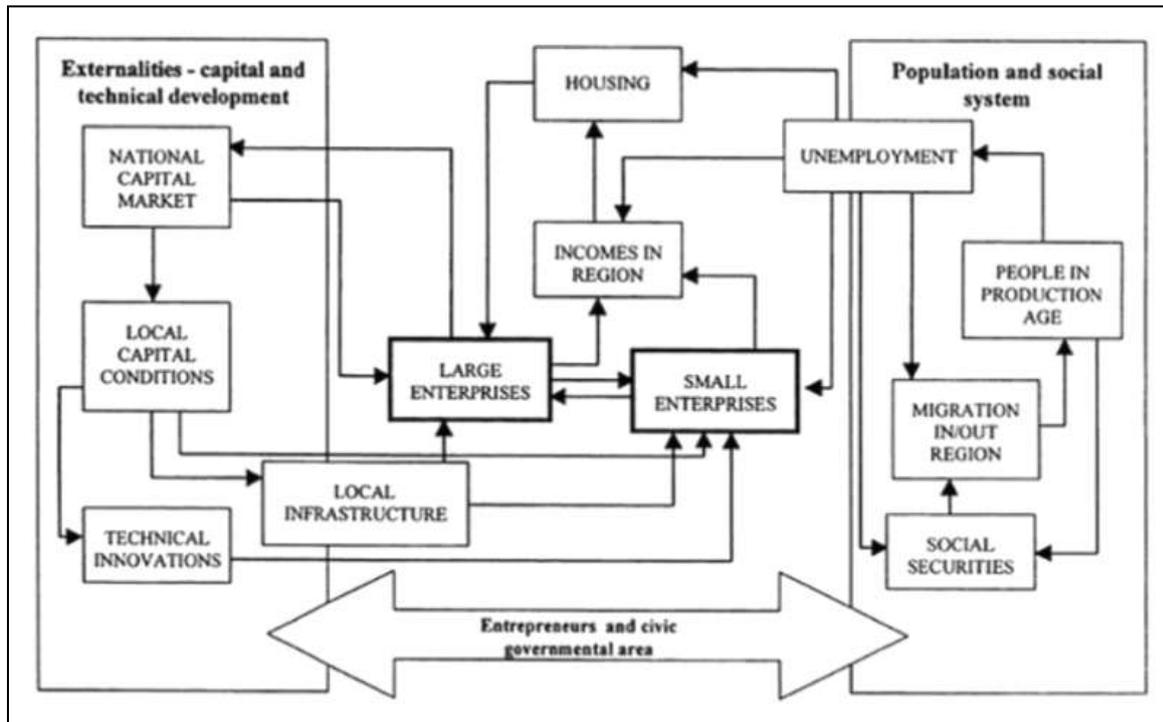


Source: BERAN, V. and J. FRKOVÁ, 2003, p. 211

Obstacles to Further Development of SMEs in the Czech Republic

“The economic environment in the Czech Republic is characterized by an improving, but still imperfect, legal framework, continuing privatization, and insufficient adaptability to world market conditions. In recent years, the national economy has suffered from the lack of domestic capital, low levels of investment in industry and the general decrease of fixed capital investment rate.” (BERAN, V. and J. FRKOVÁ, 2003)

Scheme of Dynamic Development model of regional growth (main elements)



Source: BERAN, V. and J. FRKOVÁ, 2003, p. 223

“The role of SMEs in the Czech Republic is the outcome of a long history of economic development and industrialization throughout the last century. The industrial basis went through different stages. The change from disaggregated small-scale manufacturing to relatively concentrated industry, on a private basis, which was the experience of the first half of the last century, was followed by the concentration of state-owned enterprises in the planned economy. The deregulation and privatization of the last decade, however, led to the revitalization of entrepreneurship and the creation of many small or middle-sized enterprises. The market driven economy promptly highlighted enterprises weak and strong points and the regional context of entrepreneurship became an important indicator of economic performance.

SMEs are crucial in the development of the regions. The investment requirements of SMEs are only half as demanding as the investment requirements of large-scale enterprises. Apart from this aspect of SMEs, they are more flexible and have an ability to create changes and

innovations. That is why SMEs are the subject of attention, not only in the Czech Republic, but also in the European Union.” (BERAN, V. and J. FRKOVÁ, 2003)

Problems in SME in the Czech Republic

Staff and contracts

A research project conducted in 2005 and 2006 by the University of Economics, Prague, *Specific Aspects of Human Resources Management in Small and Medium Enterprises* (Lucie Václavková et al, 2007), examined flexible forms of work among SMEs in the Czech Republic. The chief form of employment for this size class is the open-ended contract (83%). Slightly less than 50% of companies used other forms of employment, e.g. agreements on performance of work, part-time employment or fixed-term contracts. Medium-sized enterprises most often used open-ended or fixed-term contracts, and also frequently engaged temporary agency workers. Open-ended contracts were also used most frequently by small enterprises, although they also often used agreements on performance of work and part-time work. In addition to open-ended contracts and other forms of employment, microenterprises (and SMEs too) often used work on the basis of trade licences (c. 17%).

Barriers

In the past the development and internationalisation of SMEs activities have been influenced by many barriers. The shortage of financial resources, lack of experience, information and knowledge were the most important among them. Step by step the institutions and business supporting services for SME were introduced. The financial market development caused the change of the attitude of Czech commercial banks towards SMEs in a positive way. Another reason of this shift is the support the commercial banks receive from the international financial institutions /EBRD, EIB/ for financing of SMEs. The EU accession has brought new incentives to the international business activities of SME. To increase their competitiveness the efficiency of using the financial resources of EU funds might be crucial. The best ways of the financial support of SMEs would probably be the forms which are connected with

networking and cooperation among SMEs and management advice. (ČERNOHLÁVKOVÁ, E., 2005).

Personnel and its fluctuation

However, the most ardent problem the company has to face is the fluctuation of the personnel. This question is closely related to the type of work agreement. According to a research project carried out at University of Economics in Prague *Specific Aspects of Human Resources Management in Small and Medium Enterprises* (Lucie Václavková et al, 2007) there exist flexible forms of work among SMEs in the Czech Republic. The most frequent types of agreement are the following:

- the main form of employment - the open-ended contract (83% of companies)
- other forms of employment,
- agreements on performance of work,
- part-time employment or fixed-term contracts,
- temporary workers from job agencies.

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