

Favourable and unfavourable aspects in the process of small enterprise establishment in the Czech Republic

Podpůrné a brzdicí faktory v procesu zakládání malých podniků v České republice

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Abstract: Countries associated in the European Union pay great attention to the development of small and medium-sized enterprises. At the same time, however, the member states are concerned that following the EU enlargement strong migration flows on the part of new members are likely to occur. Therefore, it is in the interests of the member states to learn whether the citizens of candidate countries are internally motivated to run their own businesses and whether suitable conditions have been created, i. e. whether there are any factors negatively affecting the establishment of small enterprises. To this end, an extensive survey was carried out in the Czech Republic aimed at the above mentioned issues and at identifying favourable and unfavourable factors in the process of small enterprise establishment in transition economies, using the Czech Republic as an example.

Keywords: small business, European Union, establishment of small enterprises

Abstrakt: Země asociované do Evropské unie věnují velkou pozornost rozvoji malého a středního podnikání. Současně se však členské země obávají, že po rozšíření Unie nastanou velké migrační toky ze strany nových členů. Proto členské země zajímá, zda obyvatelé kandidátských zemí jsou vnitřně motivováni k samostatným podnikatelským aktivitám a zda jsou pro ně vytvořeny podmínky, respektive jaké faktory působí proti zakládání malých podniků. Za tímto účelem byl v České republice proveden rozsáhlý průzkum, který měl dát odpověď na tyto otázky a na příkladu České republiky identifikovat podpůrné a brzdicí faktory v procesu zakládání malých podniků v transformujících se ekonomikách.

Klíčová slova: malé podnikání, Evropská unie, zakládání malých podniků

INTRODUCTION

It is expected that the Czech Republic will join European Union countries (hereinafter the EU) within a year at the earliest. The EU policy focuses, among others, on setting up favourable conditions for the development of small and medium-sized enterprises. This support is provided for in the criteria formulated under the "Agenda 2000". In relation to their entry into the EU, these criteria are to be observed by the countries in Central and Eastern Europe undergoing transformation.

The establishment of small and medium-sized enterprises in the Czech Republic was connected with the transformation of large state-owned companies into private companies and with the establishment of small enterprises, in particular based on a trade licence. The question is whether sufficiently benign conditions were created to carry out these major structural changes and to facilitate the growth of these enterprises and whether they were able to absorb workers released from these companies and from agriculture.

From the point of view of the near future and of EU member states, in particular those neighbouring with the

EU candidate countries (Austria and Germany in the first place), there is a great concern that these countries may be subject to a strong wave of migration and "back-and-forth travellers" in the case of full border opening. Moreover, candidate countries, upon acceding to the EU, will be obliged to adopt certain restrictive and restructuring measures affecting e.g. the numbers of workers in agriculture and in other sectors.

With regard to the above mentioned, two basic problems arise:

- Are citizens' entrepreneurial activities and the existing conditions able to maintain migration flows at levels acceptable for the current EU member states and
- do enterprise establishment activities and the existing conditions have a positive impact on the country's economy in terms of new job opportunities, innovative activities and economic growth?

Therefore, it is in the interests of the Czech Republic, of the one part, and the neighbouring EU member state (namely Austria), of the other part, to identify factors promoting or inhibiting enterprise establishment activities in the Czech Republic, i.e. factors having positive or negative influence on their quality. Then, based on the

understanding of these factors, to propose and implement intervention strategies which would help, in an proactive and positive manner, to eliminate the barriers in the process of establishment of small enterprises, in the first place, and to encourage this process.

OBJECTIVES AND METHODOLOGY

A broad survey was carried in the Czech Republic in the course of the years 2000 and 2001 concentrating on three critical areas:

1. Why are small enterprises established or why not?
2. Based on the enterprise establishment motives, personal skills, equipment availability, enterprise establishment conditions, and enterprise establishment management, is it possible to find out whether the establishment of an enterprise is beneficial to the development of competition, creation of new job opportunities and innovation dynamics advancement?
3. What is the extent of differences between the personal characteristics of entrepreneurs in the countries undergoing transformation compared to those with traditional market economy?

The survey undertaken in the Czech Republic was founded on and inspired by the 1999 Austrian study (Frank, Korunka, Lugert 1999) focusing on the identification and analysis of factors limiting and facilitating the establishment of enterprises in Austria. The limiting factors are defined as factors inhibiting or complicating the establishment process, increasing its costs and the uncertainty of the preparatory process outcomes as well as restricting the successful performance of the enterprise, which is being established. The supporting factors are those that speed up the process of enterprise establishment, diminish its costs and the related risks.

The point of the departure of the international survey implemented by a Czech-Austrian team was the above-mentioned Austrian study and a questionnaire used within the frame of this study. The questionnaire prepared for the Czech Republic had to be modified to suit specific conditions existing in the country and also to enable the comparison of the majority of outcomes of both surveys.

The questionnaire used consisted of 55 basic blocks of questions further divided into partial questions. At the survey, the interviewer asked respondents questions from the questionnaire providing them with variant answers to them and put their replies down into the questionnaire. The advantage lay in the fact that the interviewer was able to provide respondents with further clarifying questions. The blocks of questions concentrated, in particular, on the following:

- personal characteristics of the respondent,
- his/her professional and private background,
- motivation for starting a business and his/her expectations,
- characteristics of the scope of his/her business activity and the environment in the enterprise being established,

- available capital,
- strategies applied,
- contacts and their assessment,
- professional and private information databases,
- positive and negative aspects influencing the establishment of the enterprise,
- structure and length of the establishment process the respondent had to undergo.

In terms of territory, the survey refers to 12 areas of the Czech Republic. They were selected with the aim to cover both industrial and agricultural regions, areas with different unemployment rates and some border zones (in particular close to Austrian borders). The following towns and neighbouring areas were chosen: Cheb, Ústí nad Labem, Liberec, Pilsen, Jindřichův Hradec, Pardubice, Brno, Zlín, Karviná, Opava, Prague, South Moravia (Břeclav, Znojmo, and Třebíč).

918 respondents participated in the survey, out of which 74.9% were active entrepreneurs, 12.0% of respondents considered starting a business or made the first steps in this respect, 3.3% of respondents originally thought of starting a business, however, abandoned the idea, and 9.8 % of respondents had run a business, but terminated their activities (“bankrupts”).

In terms of the date of starting a business, 18.4% of respondents started in the period between 1989 and 1992, 30.4% in the later transformation stage, i.e. in the period between 1993 and 1998, and 50.3% started their business recently. The survey covered respondents active in various areas of business activities according to the sectoral classification of economic activities (SCEA). Regarding the age structure, the age of the responding entrepreneurs ranged from 19 to 76, the average age being 38.6 (this corresponds to the outcomes of similar surveys organised in other West European countries, see Wanzenböck 1998). The respondent group consisted of 66.4% of men and 33.6% of women. Men were dominant in the following fields: processing industry, construction, transport, agriculture; women, on the other hand, were more numerous in the field of retail and services.

RESULTS AND DISCUSSION

Enterprise establishment preparedness and enterprise establishment

As a part of the first goal, the factors having positive and negative impact prior to and in the course of enterprise establishment were identified. The climate for enterprise establishment and micro-social environment were determined as the most important factors in the period prior to the enterprise establishment.

Climate for enterprise establishment

The climate for enterprise establishment tends to be considered negative and the respondents generally think that the economic policy does not fully meet its objec-

tives regarding the facilitation of enterprise establishment and personal career development. The opinion of the majority is that the national economic policy does not sufficiently provide for supportive measures aimed at acquiring resources for business running and at simplifying the required administrative steps related to the establishment of enterprises.

Micro-social environment

In the respondents' personal surroundings, there is a great number of positive examples of entrepreneurial roles, although these examples are only rarely presented in public (i.e. in macro-social context) and, moreover, in a negative light. The rate of positive examples has been growing in the course of the transformation process and younger respondents are more conscious of them compared to the older. Business running is positively influenced by family tradition (20% of respondents) and a comparable number of the respondents held top management positions in state-owned companies prior to 1989.

Establishment of enterprises

The outcomes of the analysis have shown that the crucial problem of the majority of founders are the available financial funds. This is especially true for persons who had to interrupt the enterprise establishment process as well as for women and young people. High bank interests and charges and required pledges play a negative role. The survey has confirmed that the situation regarding available financial sources has aggravated during the transformation process. The prevailing number of the respondents had to solve their financial problems by means of private loans or leasing. The former state-owned company executives who take advantage of their personal contacts to deal with the state administration bodies or to access bank sources are the only exception.

Those respondents who held management positions in former state-owned companies and then privatised them dispose of the best professional knowledge, education, language skills, and experience. These entrepreneurs use their former contacts with business partners and are also the most active in the field of export. Privatised companies also employ the greatest numbers of people.

Laws and regulations, usually characterised as a discouraging factor, have performed a negative role in the course of enterprise establishment. The reasons are not only their contents, but mainly the lack of clarity, their frequent circumvention, and insufficient law enforcement. The statements of individual respondents are often controversial and their answers to the questions concerning other areas serve as evidence that their knowledge of laws is rather limited.

The respondents also feel that administrative requirements, in particular the insufficient know-how of officials

who are in charge of administrative issues, are an unfavourable factor in the enterprise establishment process. The analysis has demonstrated that the volume of bureaucratic requirements has been decreasing in the course of the transformation process.

The other issues of concern are insufficient supply of information on the current offer of activities promoting enterprise establishment, in particular regarding state programmes. Therefore their exploitation is minimal. The overall scheme designed to support small business in the Czech Republic has not been functioning efficiently enough. As a result, about 90% of the respondents have expressed, as early as in the establishment process, their doubts as to whether they should start business or not. More than a third actually terminated their activities or at least considered this possibility. The majority of those respondents who gave up their entrepreneurial activities during the establishment process did so in its second half.

Quality of enterprise establishment activities

The second surveyed area was the impact of the quality of enterprise establishment activities on the development of competition among entrepreneurs, creation of new job opportunities, and progress of innovation dynamics. The outcomes of the survey have shown that the overwhelming part of entrepreneurial activities is based on Pull motives, i.e. on market opportunities or specific product supplies. However, the share of activities based on Push motives is not negligible either, this regards in particular the loss (real or potential) of employment by the respondents.

During the transformation process, changes occurred in the structure of entrepreneurial activities. The number of newly established enterprises in agriculture and processing industry was gradually decreasing. On the contrary, the share of new enterprises in the field of services was growing. The respondents also acknowledged the increase of competition, mainly reflected in the enhancement of quality and service. The respondents' business strategies were basically long-term, although there were also respondents, primarily in the group of "bankrupts", with Booty Capitalism Motive, with short-term goals.

The surveyed group demonstrated a very low level of innovation dynamics. This is due to the strong focus on the local market and to the offer of low-price products and services. Only 14% of the enterprises in the surveyed group are engaged in export activities, mainly concentrating on Austria, Germany and the former Eastern block. No significant increase in export activities could be seen in the border areas with Austria either.

Comparison of personal characteristics on international basis

The third objective of the survey was the comparison of personal characteristics of entrepreneurs in the Czech

Table 1. Comparison of Czech and Austrian entrepreneurs

Characteristics	Medium value		Difference
	CR	Austria	
Motivation for output	3.53	4.02	0.49
Personal initiative	3.73	4.02	0.29
Internal values	3.62	4.03	0.41

Republic, representing the countries undergoing transformation, on the one hand, and countries with traditional market economy, on the other hand. The survey carried out in the Czech Republic confirmed trends, which had been identified in the surveys aimed at entrepreneurs in market economies – high level of flexibility, motivation for output, personal initiative, and internal values, while they showed only average level of preparedness to bear risks. However, compared to Austrian businessmen, Czech businessmen lag behind in the area of motivation for output, personal initiative and internal values. International comparison was carried out on the basis of medium values of independent files through *t*-test (see Table 1) with the scale ranging from 1 (absolute disagreement) to 5 (absolute agreement).

Basic factors influencing the enterprise establishment process are similar, however, compared to the traditional market economy in Austria, different favourable and unfavourable factors could be noticed in transforming economies.

CONCLUSION AND RECOMMENDATIONS

The outcomes of the survey have shown that more attention should be paid to those social classes with no entrepreneurial family tradition or personal contacts with entrepreneurs. However, in order to avoid their failure in

business activities due to the lack of certain entrepreneurial prerequisites, it is necessary to ensure their relevant preparation. The Czech Republic still has not implemented systems of this kind, e.g. systems similar to those in Great Britain and other countries designed to deal with unemployment issues. Moreover, a true picture of business should be given, neither idealised nor presenting business running as an activity requiring high level of creativity, innovation thinking and successfulness. Running a business should be introduced as one of the common forms of gainful employment.

At the same time, enterprise establishment should be shown as a manageable activity and to this end, appropriate conditions have to be created. A precondition is a well-organised and easily accessible offer of information and consulting services (the Czech Republic has established a network of Regional Consulting and Information Centres which, however, are not sufficiently promoted). Sufficient volume of information and specific examples of entrepreneurial activities should be also provided to students of secondary schools and universities.

Financial support of entrepreneurs starting a business is a challenge. Those not possessing adequate property at the very beginning are disadvantaged. No wider support is granted to high-profit oriented projects. The information regarding the current possibilities of state support is also insufficient.

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