

# THE BUSINESS ENVIRONMENT IN THE CZECH REPUBLIC

H. Chládková

**Received: December 17, 2010**

## Abstract

CHLÁDKOVÁ, H.: *The business environment in the Czech Republic*. Acta univ. agric. et silvic. Mendel. Brun., 2011, LIX, No. 2, pp. 115–120

The paper deals with a comparison of the business environment in 2004 and 2010. The aim of this paper is to compare opinions of managers of small and medium – sized enterprises on opportunities and threats of external environment and on strengths and weaknesses of internal environment after the integration of the Czech Republic into the European Union, in 2004 and now in 2010.

The basic sources of information were 70 SWOT analyses of small and medium – sized enterprises which have been made in 2004 by students of combined form of study, who work in management functions on medium or basic managerial levels and 228 SWOT analyses of small and medium – sized enterprises which have been made in 2010.

77 % of managers from analyzed enterprises identified the integration of the Czech Republic into the EU as an opportunity in 2004 and only 33 % of managers from analyzed enterprises in 2010. The competition as the most important threat was reported in both groups of respondents. Namely 64 % of managers in 2004 and even 82 % of managers in 2010.

The paper is a part of solution of the research plan of the FBE MUAF in Brno, MSM 6215648904.

small and medium – sized enterprises, external and internal environment, opportunities and threats, strengths and weaknesses

Small and medium enterprises are highly sensitive to the quality of business environment.

The business environment consists of a wide range of business conditions in the legislation, the institutional infrastructure and the functioning of the markets. The creation of the business environment is primarily involved in state institutions represented by the legislature and ministries, established by the State or State-supported institutions and agencies, courts, public authorities, educational establishments of all types, research and development centres, operators in finance, banking, insurance, capital market institutions, leasing companies, government business (chambers, unions, associations, clubs, etc.) and counselling, mediation and similar organizations, but also market participants – real and potential competitors, and real and potential cooperation partners.

The business environment in the Czech Republic, which operates small and medium-sized enterprises

after the Czech Republic into the European Union, is characterized by the following main features:

- relatively high degree of openness of the economy,
- harmonization of most national legislation with EU legislation,
- decreasing rate of income tax, while maintaining relatively high taxation of labour and the overall complexity of the tax system and its relatively high administrative cost, especially for small businesses,
- high degree of protection for employees terminating employment restrictive flexible response to market developments,
- limited capital market,
- lack of instruments for financing projects of highly innovative small businesses,
- inflow of foreign investment,
- improving the supply of industrial zones,
- lack of infrastructure to facilitate the transfer of research results into commercial use, development.

The aim of this paper is to characterize the conditions for doing business in the Czech Republic and find out opinions of managers of small and medium – sized enterprises on opportunities and threats of external environment and on strengths and weaknesses of internal environment after the integration of the Czech Republic into the European Union in 2004 and now, in 2010.

## MATERIALS AND METHODS

Entry information necessary to determine the conditions of the business environment in the Republic were drawn from the European Charter and reports on its implementation, further information from the Ministry of Industry and Trade and Information Office. For more information on the business environment were obtained primarily from the World Bank.

According to the recommendations of the European Union and to the statistical evidence used in the Czech Republic small and medium – sized enterprises are designated businesses with less than 250 employees.

The main source of information for identifying the views of respondents on the quality of business environment were 70 SWOT analyses of small and medium – sized enterprises which have been made in 2004 by students of combined form of study, who work in management functions on medium or basic managerial levels and 228 SWOT analyses of small and medium – sized enterprises which have been made in 2010.

During the recent period of time there have been many researchers from the FBE Mendel University in Brno, who focused on the analysis of the small and medium-sized enterprise, e.g. Bohušová (2007); Chládková (2009); Nerudová a Bohušová (2008); Kubíčková a Peprný (2006); Pošvář, Černíková a Erbes (2002); Zrůst a Pyšný (2008).

## RESULTS AND DISCUSSION

### Business conditions in the Czech Republic

Improving the business environment is the goal of all governments in the developed countries. When successful entrepreneurs and companies, the economy grows, unemployment falls and increased standard of living. Conditions for doing business in countries around the world annually assesses the World Bank. World Bank evaluates each country in the 9 key indicators:

- Starting a Business
- Dealing with Construction Permits
- Registering Property
- Getting Credit
- Protecting Investors
- Paying Taxes
- Trading Across Borders
- Enforcing Contracts
- Closing a Business.

For example, the simplicity of starting a business is evaluated: the number of necessary paperwork, which the entrepreneur has made, duration, until all administrative requirements of the various authorities and institutions shall discharge, the costs associated with the establishment of business and minimum required capital (% of gross national income per capita). In the area of paying taxes to assess how much tax to pay moderately large company. How much tax payments per year must be made and what the time demands associated with the payment of taxes.

The latest World Bank report “Doing Business 2011” has been rated a total of 183 countries (for the period June 2009 to May 2010). The best conditions for business as usual in developed countries with high living standards. Developing economies, however each year trying to improve their position. In the last five years, even 85 % of all rated economies improved their ratings. Global trend is clearly to facilitate the start-up, the declining financial requirements for the establishment of the company and reduces the administration required and speeds up performance of the domestic government.

Compared to last year, most improved conditions for businessmen of Kazakhstan, who advanced in the rankings by 15 places. The first place he held in Singapore, as it is Hong Kong, New Zealand, United Kingdom and United States of America. Companies and entrepreneurs in these countries have the most time to devote himself to business, innovation and new technologies. Minimal administration, regulation and low, close and powerful government, are all creating a positive business climate.

In the past year included the Czech Republic, 74th place in this year's report, the Czech Republic at 63 place. The reason for this is significantly better ranking in two categories (registering property and closing the business). The Czech Republic has the worst ratings in the areas of taxation and business start-ups. Although the conditions for starting a business improves, other countries went even further and minimize capital and administrative burden. The tax burden in the Czech Republic the average, but the tax agenda is too difficult in comparison with other countries. The Czech Republic belongs among countries, where most tax is introduced. Administration associated with completing individual tax return is complicated, as the whole calculation of tax liability.

Table I shows summary Doing Business 2011 data for the Czech Republic. The first table lists the overall “Ease of Doing Business” rank (out of 183 economies) and the rankings by each topic.

Table II documents the Czech Republic compared with the best-rated states and the average for OECD (Organization for Economic Cooperation Development) in starting a business. Establishment of a company requires more administrative procedures, more time and higher costs in the Czech Republic than in the comparison countries.

## I: Summary "Doing Business 2011" data for the Czech Republic

Topic Rankings	Doing Business 2011	Doing Business 2010	Doing Business 2009	Change in Rank 2011/2010
Doing Business rank	63	82	66	+19
Starting a Business	130	127	91	-3
Dealing with Construction Permits	76	75	85	-1
Registering Property	47	62	67	+5
Getting Credit	46	44	41	-2
Protecting Investors	93	92	88	-1
Paying Taxes	128	121	124	-7
Trading Across Borders	62	57	50	-5
Enforcing Contracts	78	78	85	no change
Closing a Business	32	115	115	+83

Source: Doing Business report

## II: Conditions of starting a business

Economy	Procedures number	Time (days)	Cost (% of income per capita)	Min. Capital (% of income per capita)
Czech Republic	9	20	9.3	30.9
Singapore	3	3	0.7	0.0
New Zealand	1	1	0.4	0.0
United Kingdom	6	13	0.7	0.0
OECD	5.6	13.8	5.3	15.3

Source: Doing Business report

Table III shows the taxes and mandatory contributions that a medium-size company must pay or withhold in a given year, as well as measures of administrative burden in paying taxes. Czech Republic

took the under, 127 place, in the evaluation of World Bank.

Extra burden for businesses is a particularly time-consuming compliance with tax obligations.

## III: Condition of paying taxes

Economy	Payments (number per year)	Time (hours per year)	Labour tax and contributions (%)
Czech Republic	12	557	48.8
Singapore	5	84	25.4
New Zealand	8	192	34.3
United Kingdom	8	110	37.3
OECD	14.2	199.3	43.0

Source: Doing Business report

## IV: Most often mentioned opportunities and frequency of their presence in SWOT analyses in 2004 and in 2010

Group of opportunities	Presence frequency in % in year	
	2004	2010
1. Improving economic situation of the country, growth of demand	69	42
2. Integration of the CR into the EU, international cooperation, cancelling of customs barriers, more available foreign markets	77	30
3. Unoccupied market, weak competition in location of place of business	17	–
4. Technical and technological development in buyers' industries and growth of demand for innovated products	53	50
5. Subsidy of small and medium – sized businesses	40	42
6. Changes in lifestyle of inhabitants and following changes in demand	34	40

Source: Results of SWOT analyses of small and medium – sized enterprises; own calculations

Level of quality business environment in the Czech Republic also documented the fact that from 2004 to 2010, it is estimated that the number of SMEs has grown with only 3 % in the Czech Republic, which is substantially below the EU average of 13 %. The net growth in the number of enterprises concerns particularly the group of medium-sized enterprises. Therefore, the business environment was also assessed from the perspective of managers of small and medium-sized enterprises. Their ideas include Table IV–VII.

Opportunities and threats of the Czech Republic and the strengths and weaknesses identified by the business managers of small and medium-sized enterprises in 2004 and in 2010.

In 2004 77 % of managers from the suspense file saw most opportunities in integration of the CR into the EU, international cooperation, cancelling of customs barriers, more available foreign markets. In 2010 only 30 % of managers answered the same. In 2010 the most of managers 50 % described as the most important opportunity Technical and technological development in buyers' industries and growth of demand for innovated products.

The most frequent threat of managers of small and medium – sized enterprises was competition and rivalry in the industry. (In 2004 64 % and in 2010 83 %.) In the 2010 65 % of managers reported as an important threat the financial and economic crisis.

V: *Most often mentioned threats and frequency of their presence in SWOT analyses in 2004 and in 2010*

Group of threats	Presence frequency in % in year	
	2004	2010
1. Threat of new competitors from the EU	54	53
2. Bargaining power, growth of demands, and repeated payments lack of discipline and insolvency of buyers	31	24
3. Government interventions into business	46	45
4. Technical development and threats of substitute products	27	21
5. Competition and rivalry in the industry	64	83
6. Growth of inputs' prices and difficult availability of credits	46	43
7. The financial and economic crisis	–	65

Source: Results of SWOT analyses of small and medium – sized enterprises; own calculations

VI: *Most often mentioned strengths and frequency of their presence in SWOT analyses in 2004 and in 2010*

Group of strengths	Presence frequency in % in year	
	2004	2010
1. Consecutive innovating and improving product quality	71	49
2. Tradition of brand, goodwill, and stable position on the market	51	44
3. High-quality and specialization of workers	57	42
4. Diversification of product and after-sales service	60	31
5. Simple infrastructure and high-quality of management	27	25
6. Productivity of labour, low costs and prices, economic self-sufficiency	47	33

Source: Results of SWOT analyses of small and medium – sized enterprises; own calculations

VII: *Most often mentioned weaknesses and frequency of their presence in SWOT analyses in 2001 and in 2004*

Group of weaknesses	Presence frequency in % in year	
	2004	2010
1. Obsolete technology, insufficient production capacity, low product quality	49	44
2. Management, absence of communication, autocratic style	40	52
3. Human resources, low qualification, ignorance of languages, fluctuation of manpower	36	42
4. Insufficient advertising and promotion	56	57
5. Insufficient knowledge of market and slow reaction to market changes, long delivery time, passing of delivery schedules	31	25
6. Bad work organisation, low productivity of labour, high costs and prices	44	33

Source: Results of SWOT analyses of small and medium – sized enterprises; own calculations

The most frequently mentioned groups of strengths of small and medium – sized enterprises in 2004 and in 2010 were innovating and improving product quality (according to 71% of managers in 2004 and 49% of managers in 2010).

Table VII showed that insufficient advertising and promotion are the big problems in 2004 and in 2010 too. As weaknesses was this problem identified by 56 % of managers in 2004 and by 57% of managers in 2011.

## SUMMARY

Between 2004 and 2010, SMEs in the EU-27 grew strongly and turned out to be the job engine for much of the European Economy. The number of SMEs increased by 2.4 million (or 13 %), whereas the number of large enterprise increased by only 2 000 (or 5 %). This growth was also reflected in employment figures. On average, between 2004 and 2010, the number of jobs in SMEs increased by 1.9% annually, while the number of jobs in large enterprises increased by only 0.8% annually. In absolute numbers, 9.4 million jobs were created in the SME-sector between 2004 and 2010. Unfortunately, the CR increased number of small and medium-sized enterprises by only 3 %, which indicates a lower quality of the business environment

The paper deals with a comparison of the business environment in 2004 and 2010. The aim of this paper is to compare opinions of managers of small and medium – sized enterprises on opportunities and threats of external environment and on strengths and weaknesses of internal environment after the integration of the Czech Republic into the European Union, in 2004 and now in 2010.

The basic sources of information were 70 SWOT analyses of small and medium – sized enterprises which have been made in 2004 by students of combined form of study, who work in management functions on medium or basic managerial levels and 228 SWOT analyses of small and medium – sized enterprises which have been made in 2010.

77 % of managers from analyzed enterprises identified the integration of the Czech Republic into the EU as an opportunity in 2004 and only 33 % of managers from analyzed enterprises in 2010. The competition as the most important threat was reported in both groups of respondents. Namely 64 % of managers in 2004 and even 82 % of managers in 2010.

This paper contains the views of managers on quality of business environment and also reflects the results of the World Bank, which annually assesses the conditions for doing business in different countries, including the CR.

## REFERENCES

- BOHUŠOVÁ, H., 2007: The Possible ways to IFRS (International Financial Reporting Standards) for SME (small and medium sized entities) Development. In: *Acta Universitatis Agriculturae et Silviculturae Mendelianae Brunensis*. sv. 55, č. 6, s. 9–17. ISSN 1211-8516.
- CHLÁDKOVÁ, H., 2009: Komparace vybraných podmínek malého a středního podnikání V ČR a EU. In: *Acta Universitatis agriculturae et silviculturae Mendelianae Brunensis*. sv. 57, č. 3, s. 55–64. ISSN 1211-8516.
- CHURCHILL, N. C., LEWIS, V. L. 1983: The Five Stages of Small Business Growth. *Harvard Business Review*. p. 30–50.
- KUBÍČKOVÁ, L., PEPRNÝ, A., 2006: Teoretické aspekty specifík procesu internacionalizace malých a středních firem v ČR. In: *Acta Universitatis agriculturae et silviculturae Mendelianae Brunensis*. sv. 55, č. 4, s. 1–15. ISSN 1211-8516.
- NERUDOVÁ, D., BOHUŠOVÁ, H., 2008: The empirical study of the SMEs position in the process of IFRS for SME application in the Czech Republic. *Ekonomika a řízení*. č. 1, s. 157–162. ISSN 1822-6515.
- POŠVÁŘ, Z., ČERNÍKOVÁ, R., ERBES, J., 2002: SME's business environment in students' cases. In: *WACRA – Interactive Innovative Teaching and Training*. Needham, USA: WACRA, p. 127–133. ISBN 1-877868-20-5.
- SRPOVÁ, J., 2004: Analýza současného postavení MSP v ČR. In: *Pokrok ve výzkumu malých a středních podniků*. Praha: VŠE, s. 23–34. ISBN 80-24-0739-0.
- TIMOTHY S. HATTEN, 2006: *Small Business Management: Entrepreneurship And Beyond*, Houghton Mifflin Company, p. 149.
- ZRŮST, J., PYŠNÝ, T., 2008: Malé a střední podniky v České republice. In: *Firma a konkurenční prostředí 2008–2. část*. Brno: MSD, s. r. o., s. 166–171. ISBN 978-80-7392-021-0.
- URL <<http://www.czso.cz/>> [cit. 2010]
- URL <<http://ec.europa.eu/>> [cit. 2010]
- URL <<http://epp.eurostat.ec.europa.eu/>> [cit. 2010]
- URL <<http://web.worldbank.org/>> [cit. 2010]
- URL <<http://www.doingbusiness.org/>> [cit. 2010]
- URL <<http://www.mpo.cz/>> [cit. 2010].

## Address

Ing. Helena Chládková, Ph.D., Ústav managementu, Mendelova univerzita v Brně, Zemědělská 1, 613 00  
Brno, Česká republika, e-mail: chlad@mendelu.cz