Eurofound

Restructuring in SMEs: Czech Republic

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Introduction

Economic and political context

Benáček (2010), who describes the success story of CzechInvest (an investment and business development agency in the Czech Republic), distinguishes various stages in the post-socialistic development of the Czech economy with concentration on the industrial sector. In our case, it is useful to use the delimitation of two periods – from 1989 to 1999 and since 2000. This division allows us to distinguish between two totally different phases of Czech enterprises' restructuring.

Transformation phase of the Czech economy in the period 1990–1999

The Czech economy has experienced radical restructuring since 1989. Significant political changes have been reflected also in the economic sphere. Therefore, it is necessary to explain in a more detailed way the legislative, political and social background of such profound changes.

Transformation of property relations

The transitional strategy of the former Czechoslovakia was originally caused by special circumstances pertaining to the socialistic period. As a result, the restructuring progressed in the milieu of state corporatism, social market economy and quasi reactive (ad hoc) policies as a response to the social and political pressures (Sojka, 1994).

The transition from state to private ownership was based on the processes of restitution, small privatisation, large privatisation and transformation of cooperatives. In restitution, the possessions were returned to the original owners and their heirs. Small privatisation (1991–1993) ensured the transition of small commercial premises in the hands of private investors in the form of auction sales. Consequently, mainly restaurants, small shops and small service establishments have been founded.

Large-scale privatisation (in two waves – in 1992 and 1994) focused on the denationalisation of medium and large state-owned enterprises and thereby on their transformation to limited and joint-stock companies. There were many possible methods that could have provided smooth transition; however in this case, voucher privatisation[1] was chosen. One problem with the Czech method of privatisation was an obsession with privatisation to Czech hands, the hands with very little capital and little experience in selling on world markets (Benáček, 2010). Moreover, in order to ensure the fast transformation of ownership, the experience and reliability of the potential owners were not examined and this in fact caused a lot of problems in the form of closure and the asset stripping of large companies.

The transformation of cooperatives influenced most importantly the residential and agricultural sector. The final sort of transformation of property relations was a liquidation of uncompetitive state-owned enterprises. Their property was gradually sold and on this basis many new firms arose.

The changes driven by privatisation prompted a transformation of the social structure in which the number of entrepreneurs substantially increased. From the economic point of view, the average size of firms, regarding their number of employees, decreased.

[1] Voucher privatisation is a privatisation method where citizens are given or can inexpensively buy a book of vouchers which represents potential shares in any state-owned company. Voucher privatisation as a method for transforming economies appeared as not very suitable. Currently, the World Bank recommends other countries, where the state is the dominant owner of enterprises, other methods of privatisation.

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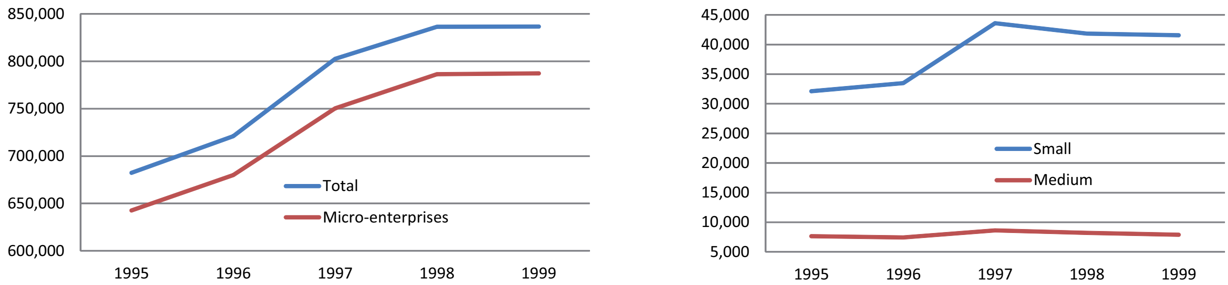
Transformation of enterprises according to their size and structure

At the beginning of the 1990s the number of SMEs grew rapidly, but stabilised at the end of the decade. When we consider the development of SMEs size-structure, it is noticeable that the number of medium enterprises stabilised before 1995, whereas the number of micro-enterprises did so before 2000. The number of small enterprises peaked in 1997 and since then it has been slowly decreasing. There are no clear reasons to explain this development – but one might be the lack of financial resources, which constrains further transformation of micro-enterprises into small enterprises. Therefore public financial support of SMEs is very important (Czech Statistical Office, 2007).

Figure 1: *Number of SMEs in the Czech Republic in the period 1995–1999*



Source: *Czech Statistical Office (2007)*

Transformation of the structure of the Czech economy and SMEs

In the 1990s, the performance of many sectors strongly decreased – mostly in the industrial and agricultural sector (nevertheless this decline was accompanied by the growth of labour productivity). Many enterprises started to be aware of the fact that in order to ensure the competitiveness of their production, they needed to change the range of products and significantly increase their quality. Quick structural changes initiated the development and expansion of small entrepreneurship as well as of the service sector, which was highly underestimated in the socialistic period. Whereas the importance of industry decreased significantly in the period 1990–1996 (its share on the national GDP by 15% and employment by 400,000 people), the service sector experienced rapid growth – the number of employees in this sector grew by almost 330,000 and its share of GDP by 17.5% (Holman, 2000).

In line with this development the number of SMEs in the service sector, their employees and value added grew significantly in the period 1995–1999. Similarly, industrial SMEs also increased their importance for the Czech economy although the share of industry on the total performance of the Czech economy decreased. The construction and transportation sectors stagnated in this period.

Concerning SMEs in trade, their growth in the Czech Republic was limited by the increasing competition caused by transnational retail companies, which had spread their plants throughout the whole country.

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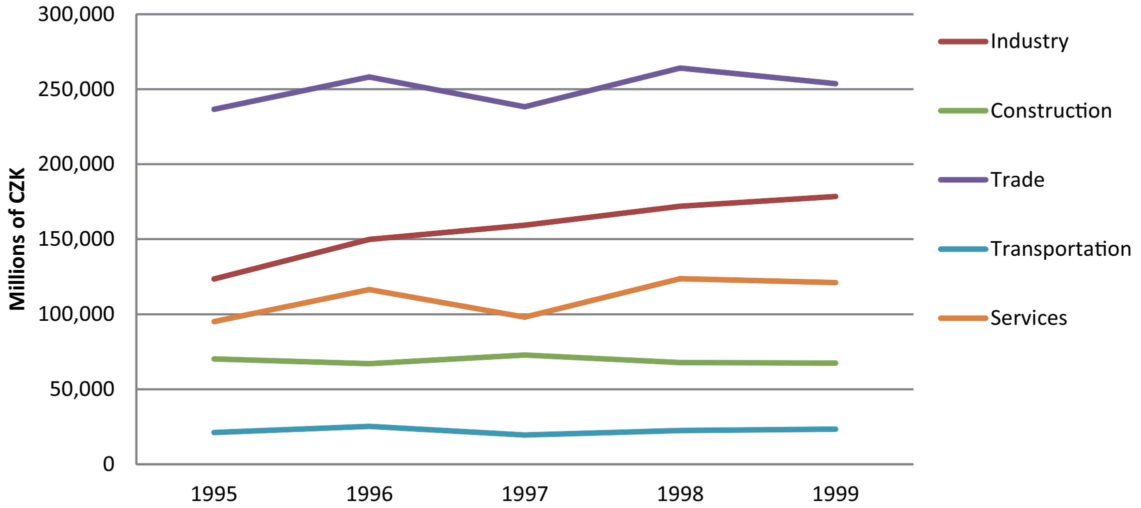
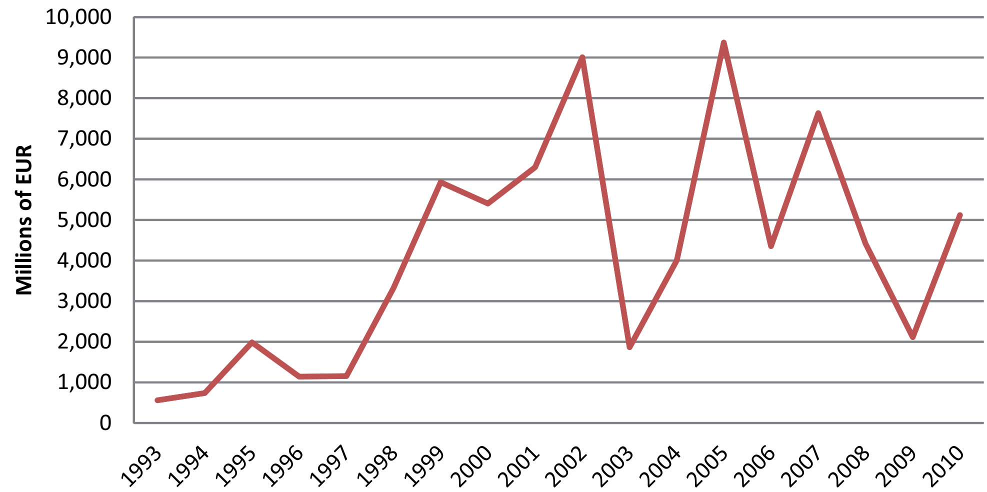
Figure 2: *Value added in SMEs according to economic sectors in the period 1995–1999*



Source: *Czech Statistical Office (2007)*

In spite of transnational companies gaining importance in the Czech economy, it took some time before the Czech government realised the importance of foreign direct investment (FDI) for the restructuring of the Czech economy. The FDI started to be promoted by the government from 1998; afterwards we can observe an increase in the volume of FDI in the Czech Republic. The value of annual FDI flows increased from 2.5% of GDP in the period 1991–1997 to an average of 8% of GDP in the period 1998–2006.

Figure 3: *Inward foreign direct investment to the Czech economy in the period 1993–2010*



Source: *Czech National Bank (2012)*

Restructuring of the Czech economy in the post-transformational period (since 2000)

In this period, the role of the state in the economy decreased significantly in comparison with the foregoing period. Privatisation processes ended as most of the economy was in private hands. The activity of the Czech government in promoting investment attractiveness brought success. The Czech economy became attractive for investors. However, most of the investors demanded unskilled workers and therefore the potential of relatively well-educated people in the

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Czech Republic was only poorly utilised, although their cost is lower in comparison with the countries of the EU15. Nevertheless, in comparison with other post-socialistic countries, labour costs in the Czech Republic were almost the highest (CzechInvest, 2010). This fact indicates that the Czech Republic is no longer such a favourable country concerning its investment attractiveness based on the cheap labour force.

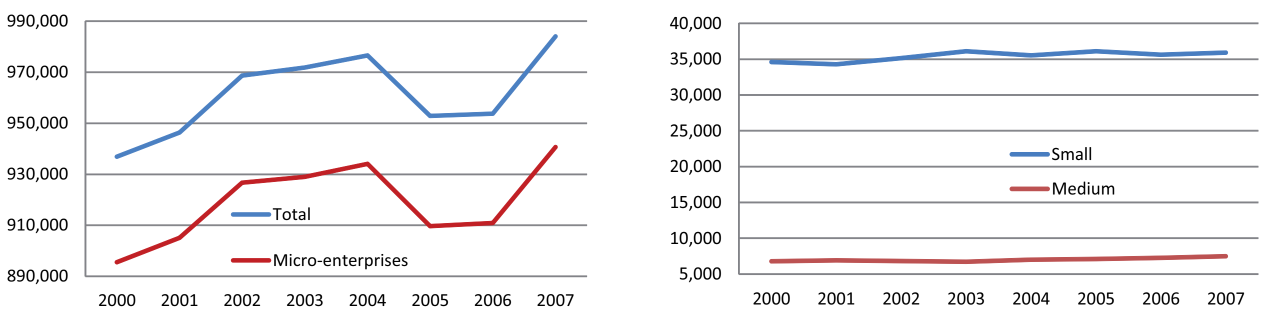
The Lisbon Strategy from 2000 has predetermined a new direction of the Czech economy – from greenfield projects with a lower technical level to progressive technologies and the knowledge economy. A shift occurred – from investing in standard technologies for mainstream manufacturing or labour-intensive industries and towards capital-, property- and technology-intensive production.

The membership of the Czech Republic in the EU since 2004 has stressed the importance of SMEs for the national economy and therefore their financial support – also funded from European sources (Operational Programme Industry and Enterprise, Operational Programme Enterprise and Innovation) has been growing correspondingly.

The attention has concentrated on the competitiveness of SMEs especially with respect to their human capital, their abilities to use modern technologies and to be innovative.

The number of SMEs in the post-transformational period increased, but only due to the increase in the number of micro-enterprises. Except for the end of the period 2000–2010, when the number of SMEs declined as a consequence of the global economic downturn, the number of small and medium enterprises stagnated.

Figure 4: *Number of SMEs in the Czech Republic in the period 2000–2007*



Source: *Czech Statistical Office (2009)*

If we consider the economic structure of SMEs according to value added, SMEs in industry and services experienced rapid growth in the period 2000–2010. Trade SMEs struggled with the increasingly growing importance of large transnational companies on the Czech retail market. The construction boom from 2005–2008 was followed by the growing value added of SMEs in this sector, however since 2009, the economic crisis has influenced their performance similarly as it was in other economic sectors.

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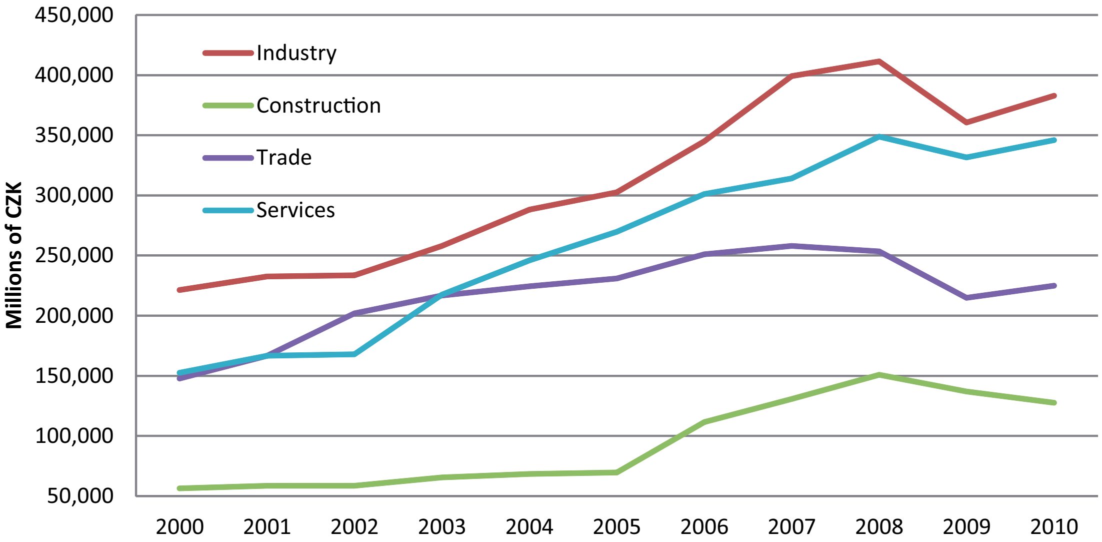
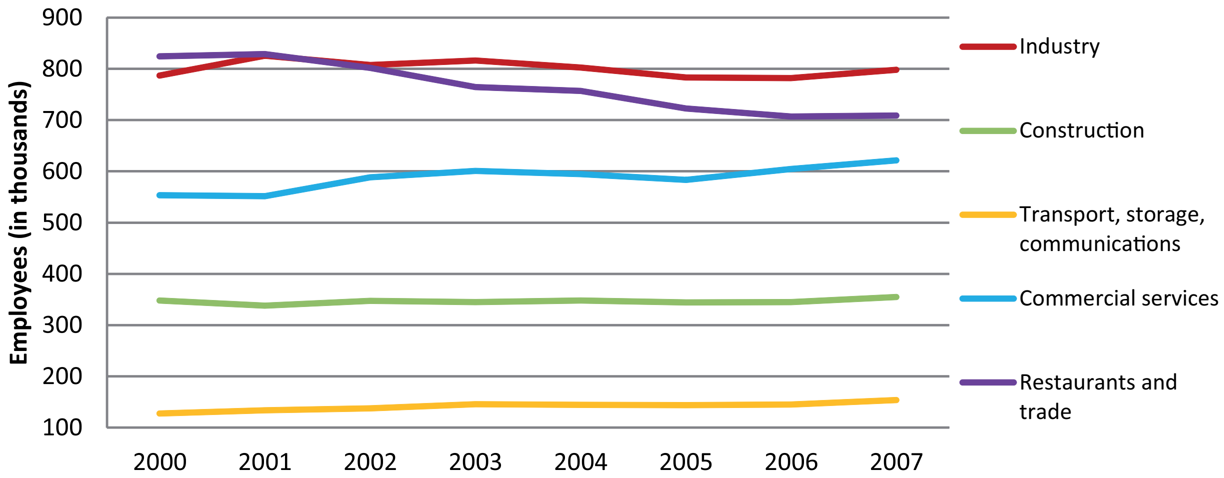
Figure 5: *Value added in SMEs according to economic sectors in the period 2000–2010*



Source: *Report on development of SMEs and their support in 2010 (Ministry of Industry and Trade)*

Value added grew in the period 2000–2007 accompanied by the stable number of SMEs' employees in most of economic sectors. This is a sign of growing labour productivity in Czech SMEs. Based on the number of people employed in SMEs, the industrial sector became the most important employer in 2002. However, employment in the service SMEs grew gradually and faster in the period 2000–2007 than employment in the industry sector.

Figure 6: *Employment in SMEs according to economic sectors in the period 2000–2007*



Source: *Czech Statistical Office (2009)*

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Current situation of SMEs in the Czech Republic

In the Czech Republic, the number of SMEs is identified according to the Register of Enterprises which is administered by the Czech Statistical Office.

The methodology of identification of Czech SMEs has undergone many changes, challenging research on long-term development of SMEs. In 2012, the official data on SMEs existed only until 2007, because the newer data have not yet been revised. Therefore there have been only preliminary data or their estimations since then.

In the Czech Republic there were more than 1 million SMEs in December 2010 (Ministry of Industry and Trade, 2011), so the share of these enterprises on the total number of economic subjects was 99.8 % (while DG Enterprise and Industry estimates about 920,000 SMEs in the Czech Republic and their share of 99.8%).

The economic crisis has had a significant effect on SME performance. In 2009 and 2010, we can notice a rapid decline in the number of people employed and the investments made in SMEs. The value added and import and export of production have started to grow since 2010 again.

Czech micro-enterprises, on average, are substantially smaller than the EU average: they have only 2.5 compared to 4.3 employees. Czech SMEs focus mostly on manufacturing – their share is almost a third of the total number, in the EU the value is 22%. Employment in SMEs has strongly decreased due to the economic crisis and the number of people employed in 2010 is approximately the same as in 2000.

Table 1: *Development of selected characteristics of SMEs in the period 2000–2010*

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Number of persons employed (thousand)	1,830	1,848	1,947	1,910	1,904	1,924	1,983	2,033	2,011	1,866	1,827
Value added (€m)	27,295	28,820	31,142	35,934	38,590	41,109	47,409	51,149	55,682	49,432	51,218
Investments (€m)	6,824	6,771	6,812	8,589	9,423	10,624	12,145	12,074	15,526	12,849	11,855
Export (€m)	16,653	18,136	18,009	18,683	23,488	30,427	38,751	45,031	45,900	43,679	51,650
Import (€m)	24,659	26,154	27,621	28,715	36,441	40,030	47,400	52,083	54,170	45,763	53,724

Source: *Report on development of SMEs and their support in 2010 (Ministry of Industry and Trade 2011)*

Some of the problems of the Czech SMEs have been outlined above. In order to mention all of them, the SWOT analysis sketched out in the *Report on development of SMEs* (Ministry of Industry and Trade, 2011) and their support in 2010 is presented (Table 2).

Table 2: *SWOT analysis of Czech SMEs*

Strengths	Weaknesses
Flexibility with respect to the changing situation on the market Local market knowledge Adaptability of labour force High motivation of firm's owner to maximise the performance of a firm High-quality products Innovative potential Job creation	Insufficient financial sources for further development (especially valid for micro- and small enterprises and self-employers): • weak marketing • outdated technologies • insufficient emphasis on training of human resources Weak protection of intellectual property Prevailing production of low value added products Poor cooperation among SMEs
Opportunities	**Threats**
Business expansion abroad Development of cluster initiatives Broad public support of SMEs Development of R&D	Lack of technically qualified labour force High competitiveness High level of bureaucracy Legislative limits Technological lagging behind

Source: *Report on development of SMEs and their support in 2010 (Ministry of Industry and Trade, 2011)*

Discussion of economic restructuring in the Czech Republic

The discussion of economic restructuring in the Czech Republic is predominantly focused on the transformation of the (post) socialistic economy into a market-oriented economy, hence the privatisation processes and their impact on economy (for example Sojka, 1994; Jonáš, 1997; Holman, 2000; Šimíková, 2003). The term restructuring was practically used for example in connection with the activity of the Revitalisation agency (launched in 1999), which focused on restructuring of large industrial enterprises that were in danger of closing down.

The transformation of economy according to its economic sectors was described by many authors as well. An overview of the development of the promotion of Czech industrial enterprises is provided by Benáček (2010). From the regional point of view, restructuring is researched by Sucháček (2005, on the example of Ostrava and Katowice regions) and many others.

However, there is a large gap in the research literature concerning the restructuring at enterprise level. Large state-owned companies are exceptions in this point of view; they were often targets of research because of their importance for the Czech economy in the transformational period. There is no cohesive literature on the restructuring of Czech SMEs.

The fact that the classification of restructuring types, according the European Restructuring Monitor[2] of the European Foundation for the Improvement of Living and Working Conditions, has not yet been implemented in the Czech Republic causes the most serious problem concerning the accessibility of relevant data for this study. In order to ensure a sufficient base for interpretation of relevance of particular types of restructuring, an intensive background research (mostly with the use of internet sources) has been conducted.

[2] http://www.eurofound.europa.eu/emcc/erm/index.htm

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Concerning relocation of SMEs, no cohesive database exists. One possibility for substituting these data could be a comparison of enterprises according to their headquarters in the Register of enterprises in two periods. However the change of headquarters could be only of formal character without the physical transfer of production. Moreover such analysis would tell us nothing about the drivers and motivations for relocation.

There are general publications about the advantages and disadvantages of outsourcing for enterprises or instructions on how to implement it, but a detailed analysis of outsourcing in Czech SMEs is missing. An exception might be an article written by Petra Rydvalová (2008) from the Technical University in Liberec who focuses on this problem in SMEs.

For the analysis of offshoring companies we have used the official website for business and export (www.businessinfo.cz). This website is administered by the government agency CzechTrade under the Ministry of Industry and Trade (MIT). It gathers very important information for enterprises with export potential. The Czech enterprises which have offshored their production are specified here.

Concerning bankruptcy and closure we have made use of an MIT database that provides the number of enterprises (according to size groups, economic sectors, location) that have gone through bankruptcy or liquidation. However the database is for the time period 2000–2005 and the reasons why enterprises underwent this type of restructuring are not specified. Any literature that focuses on this problem is rather of a general character and doesn’t concentrate on the drivers which led to the bankruptcy or closure.

Regarding outsourcing, there are rather general publications and instructions on how to carry out merger and acquisition. Concrete case studies, which explain the causality of such processes, are focused on large enterprises.

Internal restructuring and business expansion very often occur naturally, however any coherent literature with a focus on SMEs is missing.

Finally, the topic of SMEs restructuring appears in the Czech Republic rather as an issue of political discourse which only scarcely has penetrated into the scientific or lay discourse. This might explain the weak development of literature on this topic.

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Relevance of different types of restructuring for SMEs

Evidence base for SME restructuring in the Czech Republic

When we considered the lack of relevant data for SMEs' restructuring, it was clear that a special methodology which would capture the complexity of the restructuring processes needed to be used. The methodology is based on the identification of companies that have undergone the specific type of restructuring. This methodology (let's call it 'small case studies') has been used to investigate the types of restructuring such as relocation, outsourcing, merger and acquisition, internal restructuring and business expansion where no compact data exists.

In this case we have analysed only enterprises that meet the requirements of the SME definition. From this point of view, we have also respected the condition of the time period of the restructuring event (2007–2011) applied for this project. The websites of SMEs were the main sources of information on the restructuring event. The number of companies included, their location and economic activity depended on the accessibility of information in the internet. At least three 'small case studies' are mentioned in connection with relocation, offshoring/delocalisation, merger and acquisition and business expansion. It can be assumed that these 'small case studies' demonstrate processes and trends throughout SMEs for which we have no comprehensive data.

We have also used results from the interviews with representatives of three case study companies interviewed in detail in this study. These are used when discussing the restructuring events of outsourcing, internal restructuring and partial business expansion.

Relocation

Any relocation of Czech companies progresses usually on the local level. However, regional differences in salaries are very small and therefore it is not worth it for a small or medium enterprise to leave its local labour market in order to save money on labour costs. SME owners also generally share a feeling of 'embeddedness' which does not allow them to move away from the locality of their enterprise. In searching for relocated SMEs, we did not find any company that would have changed its regional labour market totally.

Outsourcing

SMEs increasingly outsource their business activities to other companies. This could be demonstrated on the figures of the development of value added and employment in the service-oriented SMEs. When we compare the value added and the employment in this sector with other sectors of economy, we can find that the development of service SMEs in the Czech Republic between 2000 and 2007 (2010) is the strongest (see Figures 5 and 6).

Offshoring/Delocalisation

Due to the expansion to new markets, Czech SMEs are becoming increasingly internationalised. This phenomenon is driven by two factors: (1) rising labour costs in the Czech Republic and (2) a desire for higher profits. However, according to the SME Performance Review, the pace of such development is rather slow in comparison with other EU countries (fewer than 1% of Czech SMEs export outside the EU in comparison with 3.9% in the EU as a whole). Offshoring activities are mostly used by textile and machinery SMEs.

Bankruptcy/Closure

Table 3 shows the number of SMEs that went into bankruptcy or were closed down in the period 2000–2005. We can observe that the industrial SMEs were the most threatened. On the other side, the proportion of construction SMEs on the total number of enterprises in bankruptcy/closure was the lowest, although usually this economic sector is in the long term the most threatened.

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Table 3: *Number of SMEs* in bankruptcy or closure in the period 2000–2005*

Economic sector	Number of SMEs in bankruptcy /closure	Number of enterprises in bankruptcy /closure totally	Proportion of SMEs on the total number of enterprises in bankruptcy/closure
Agriculture, forestry and fishing	414	928	44.6
Mining and quarrying	14	39	35.9
Manufacturing	2,611	4,351	60.0
Electricity, gas, steam, water and air conditioning supply	22	46	47.8
Construction	609	2,060	29.6
Wholesale and retail trade, repair of motor vehicles and motorcycles	3,490	10,904	32.0
Accommodation and food service activities	395	1,111	35.6
Information and communication, transportation and storage	484	1,070	45.2
Services	2,345	6,926	33.9

Source: *Ministry of Industry and Trade (2006)*
* Since the number of employees of some enterprises was not specified in the database, we analysed only those enterprises where the number of employees was specified. Also enterprises with no employees were omitted.

Based on the Register of Enterprises, in 2009 a total of 1,480 companies went into bankruptcy, of which 14% were natural persons. However when we consider the closure of companies, in the same year there were more than 98,000 enterprises in closure and 90% of them were natural persons. Micro-enterprises with no employees were the most threatened; their share on the total number of enterprises in closure was 81% (EURO, 27 April 2010).

In 2011 1,778 companies went into bankruptcy, whereas in 2010 it was 1,661. Experts assume that the number of bankruptcies will increase due to the economic crisis in the EU. From this point of view – except for enterprises in traditionally problematic economic sectors like transportation, construction or agriculture – the crisis has been spreading into enterprises in the sale of automotive fuel and restaurants or in the sale of metallurgical products (Deník, 3 January 2012). In 2010, one third of agricultural enterprises were in danger of bankruptcy, in manufacturing, retail and transportation it was 25%. According to Czech Capital and Information Agency a total of 20% of enterprises in the Czech Republic were close to bankruptcy. On the other hand, the most stable economic sectors in the Czech Republic were financial services, education, health service or electric power generation, transmission and distribution (MF DNES, 2 November 2010).

In the framework of a research project of the MIT in 2008, a panel of experts categorised economic sectors whose production was in danger of substantial decline. The experts believed the most threatened economic sectors were the textile, clothing and boot industry; the steel industry; machinery (especially producers of motor vehicles); the porcelain and glass industry. Concerning non-industrial sectors, construction, real estate companies and developers were regarded as potentially threatened.

The textile, clothing and boot industries have been in decline for many years. Their competitiveness has decreased due to the exports from the newly industrialised countries in eastern Asia and the strong exchange rate of the CZK. Moreover, during the crisis, many firms in this sector have deepened their problems and some of them closed down their plants or even went bankrupt. The glass industry has been regarded as a traditional Czech economic sector. However, due to the same problems as the textile, clothing and boot industries, this sector too is in danger and its problems have increased during the crisis. Construction has been affected by the decreasing number of contracts especially from the private sector. It has been accompanied by the rapid loss of jobs in this sector.

Merger and acquisition

M&A Barometer in the Czech Republic and the region of central and south-eastern Europe (Ernst & Young 2012) provides us some data on merger and acquisition; however this survey does not differentiate its results according to the size-category of enterprises. The number of merger and acquisition transactions in the country in 2011 fell by 24% against 2010. However, the total value of transactions was €3.4 billion, up 29% on 2010. The most attractive sectors for investors were manufacturing and services, information technology and real estate. In 2011, there were 119 transactions on the Czech acquisition market (including 17 acquisitions undertaken by Czech investors abroad). Most transactions on the Czech market took place between Czech firms, whose share rose to 60% in comparison with 49% in 2010. Incoming investment was mainly from the United States, Poland, Germany, the Netherlands, Finland and Great Britain. Outgoing investment was mainly in Slovakia, Poland and Hungary.

Czech SMEs are objects of merger and acquisition rather than active drivers of this type of restructuring. IT companies especially are frequent objects of merger/acquisition in the Czech Republic from larger and very often foreign companies. However, SMEs can also make acquisitions.

Internal restructuring

Internal restructuring is a much discussed topic and during the economic crisis Czech companies looked for solutions that would lead to a decrease of their production costs. Some measures of this kind are more or less socially sensitive. Generally, many companies underwent or have undergone various kinds of internal restructuring during the crisis – internal reorganisation, rationalisation of production and its reorientation etc. – with specific impacts on the number of jobs.

According to the president of the Czech Chamber of Commerce, during the crisis SMEs made redundancies seldom, as they preferred to wait for new contracts. Moreover, as the president contends, in SMEs it is hard to reduce costs by means of cutting personnel, because further redundancies would threaten the process of production (Parlament, vláda, samospráva, 2012).

Business expansion

As the Czech market has been becoming saturated, new opportunities are appearing abroad. In spite of the growing export activities of Czech SMEs, their export is still under the level of import (see Figure 7). However in the period of culminating economic crisis the difference diminished importantly. SMEs do not take advantage of the European Single Market. In the evaluation of SME Performance Review, in the area of the single market the Czech Republic falls below the EU average, mainly because of the poor trading performance of Czech SMEs. Similarly, in the area of internationalisation the Czech Republic is negatively evaluated. One of the reasons is that fewer than 1% of Czech SMEs export outside the EU (in comparison with 3.9% in the EU as a whole).

According to MF DNES (January 25, 2012) there is a significant difference between the future export plans of local enterprises and enterprises which act internationally. Whereas 81% of Czech export-oriented companies intend to expand their export activities further, only 48% of enterprises that supply the national market think about it. This shows that companies that have already tried to export their products are deeply convinced about its benefit for their profit. It is a challenge for other enterprises prevailingly oriented towards the national market to expand their activities over the national borders to increase their profit and diversify the demand for their products.

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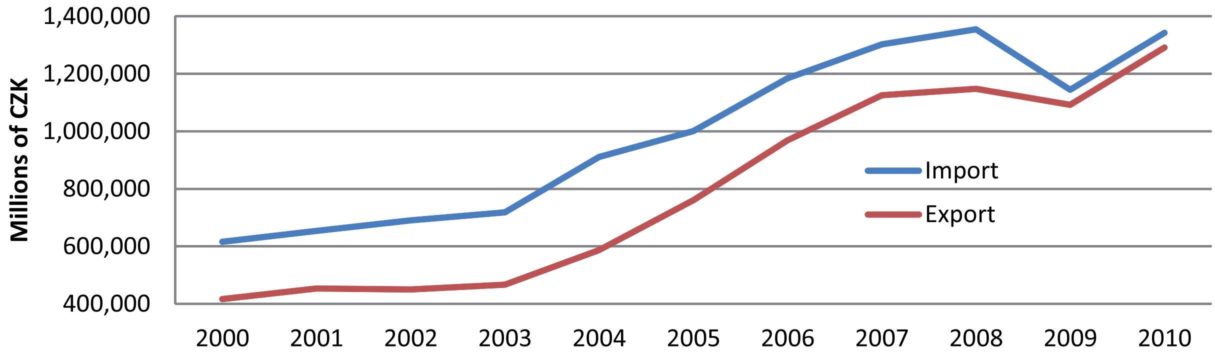
Figure 7: *Foreign trade balance of Czech SMEs in the period 2000–2010*



Source: *Report on development of SMEs and their support in 2010 (Ministry of Industry and Trade 2011)*

Drivers of restructuring

Generally, each driver of restructuring is originally focused on improving the economic performance of companies. Restructuring occurs when an enterprise aspires to further development or needs to maintain its own existence. There are various reasons and ways to restructure.

Relocation

Relocation at the local level usually occurred as a consequence of a given company entering the growth stage of its life cycle. Such a company would have to change the place of work because of insufficient production capacities that would have limited its further development. Regional differences in salaries appear not to be as important a driver for relocation, as there is strong SME 'embeddedness' in the local milieu and labour market.

Outsourcing

Outsourcing activities in SMEs are usually used to acquire a product or service in which the enterprises do not have sufficient capacities themselves. Czech SMEs, similar to other Europeans, quite often use outsourcing activities if they do not have sufficient personnel background. However the character of outsourced business activities is different than in large enterprises which invest more in marketing and other more expensive services. The pace of growth of outsourcing services is faster in the Czech Republic than in western Europe or in the US, because the demand and offer of outsourcing services has not been saturated (Matys, 2007). Different reasons for using outsourcing services in small, medium and large enterprises in the Czech Republic and the US are sketched below in Table 4.

Table 4: *Reasons for using outsourcing services in Czech and US enterprises*

Reason	Czech Republic	US
Cost-reduction and control	46%	69%
Better focus on the main activity of company	39%	35%
Internally inaccessible sources	35%	35%
Access to the best technologies	27%	15%

Source: *Makovský (2003)*

Offshoring/delocalisation

Offshoring of production is usually driven by a need to decrease the labour costs (as it is in the case of some Czech clothing producers in China) and expand to new markets (some machinery companies in China). Due to the growing labour costs in the Czech Republic and global economic competition, in the future we can probably await rise in the number of offshoring companies, including SMEs.

Bankruptcy/closure

In the case of SME closures we must be aware of a specific situation relating to businesses run by the self-employed. The closure of such micro-enterprises can occur as a reaction to the current condition of the market and the self-employed owners have the right to turn their status into dependent employee. This affects the oscillations in the micro-enterprises numbers.

The rate of bankruptcy/closure of Czech enterprises in the transformational period was very high because of the transformation (privatisation) of large, inflexible state-owned enterprises into smaller enterprises. As a consequence of

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these significant changes, which brought destabilisation of the economy, many of the already privatised enterprises were closed down soon after the privatisation or went into bankruptcy. Now, the privatisation processes influence the economic situation no more and bankruptcy and closure of enterprises are rather results of the market competition.

Merger and acquisition

Extension of marketing channels, access to new customers, complex services – these are the motives for acquisition and merger of SMEs.

Internal restructuring

Internal restructuring should reconfigure internal processes within a company to set a more effective form of management and production. Often a downturn in profit and effectiveness of production are at the beginning of this restructuring process. Such changes require qualified and experienced management, therefore in the case of SMEs with limited personnel backgrounds such operations can be very demanding.

Business expansion

Business expansion is a highly complex process in which many factors mesh together. Very simply, the standout driver of this process is a desire for economic success. Some of the economic sectors now have better prospects for business expansion than others; the currently growing service sector, for instance. Also the automotive industry is a very important sector of the Czech economy. Three plants of global automobile players are located in the Czech Republic – Škoda Auto (in Mladá Boleslav), Hyundai (Nošovice) and Toyota Peugeot Citroën Automobile (their joint venture in Kolín). When we compare the number of produced cars per 1,000 inhabitants of the European countries, the Czech Republic was ranked first in 2009 according to the Deník Referendum (January 14, 2010). Many SMEs as subcontractors of these companies have benefited from this fact, until they had to face the problem of the economic crisis as well.

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Distinctive characteristics of restructuring in SMEs

Restructuring of Czech SMEs

Restructuring in Czech SMEs has been influenced by the factors and processes mentioned in Chapter 2. However, usually more processes meet together in one restructuring event. Therefore companies which represent a particular restructuring type cannot be described exclusively as typical for that specific type. On the contrary, the restructuring event may be a reflection of other processes, which could be assigned to other types of restructuring according to the European Restructuring Monitor. Nevertheless, the ‘small case studies’ will be sorted in the restructuring types according to the prevailing process. The websites of particular SMEs were used as the main public source of information.

Relocation

There are some SMEs that have undergone total or partial relocation. However as we mentioned in the foregoing chapter probably only a few of them have changed their location because of the lure of cheaper labour power. Most have moved to another locality because they had reached the growth phase of their life cycle and the capacities and operating costs of old production buildings were not compatible with the idea of their further development.

Business expansion in ALLPACK s.r.o.[3] (*společnost s ručeným omezením*, limited liability company, 20–24 employees[4]), a producer of corrugated paper, paperboard and containers of paper, was accompanied by the transfer of production. In 2008 the company took the opportunity and bought a production area in its neighbourhood, which included two new production halls and a new administrative building. In 2009, within the framework of broader restructuring processes, they sold the old production hall and moved the rest of production and storage activities to the buildings that were purchased in 2008. This helped the company to maintain production during the economic crisis, which in the company culminated in 2009. In 2010 production grew again and in 2011 sales reached the value from the pre-crisis year 2008.

A small enterprise TESS CZ spol. s.r.o.[5] (25–49 employees) could serve as another example of relocation under the influence of insufficient production capacities in the place of work. The producer of a range of metal products produced firstly in Třebešov, however the growing demand for its products meant production capacities became a constraint for further development of the company. Therefore representatives of the company have bought a hall in the area of a former agricultural cooperative, Rychnov nad Kněžnou, in the periphery of the city. However, currently the company is going to move again due to the growing production. The construction of a new production hall is almost finished in Solnice and the company will move in soon after 2012. The case of TESS CZ has documented that owners of the company do not want to leave the district of Rychnov nad Kněžnou where all former or present production capacities have been situated. Strong linkages of the company with the local labour market is the main reason for this.

Another example is that of RPF s.r.o.[6] (20–24 employees) which could serve also as a good example of a relocation typical for the post-socialistic countries. RPF, the producer of rubber products, was founded in 1997 as a part of the manufacturing programme of large and formerly state-owned company Optimit Odry a.s. (*akciová společnost*, joint stock company). After the acquisition of Optimit Odry by a foreign investor, owners of the RPF have purchased the

[3] **http://www.allpack.cz/en**

[4] numbers of employees in each company are based on the data from Register of Enterprises by the Czech Statistical Office

[5] **http://www.tess-cz.cz/**

[6] **http://www.rpf-odry.cz/**

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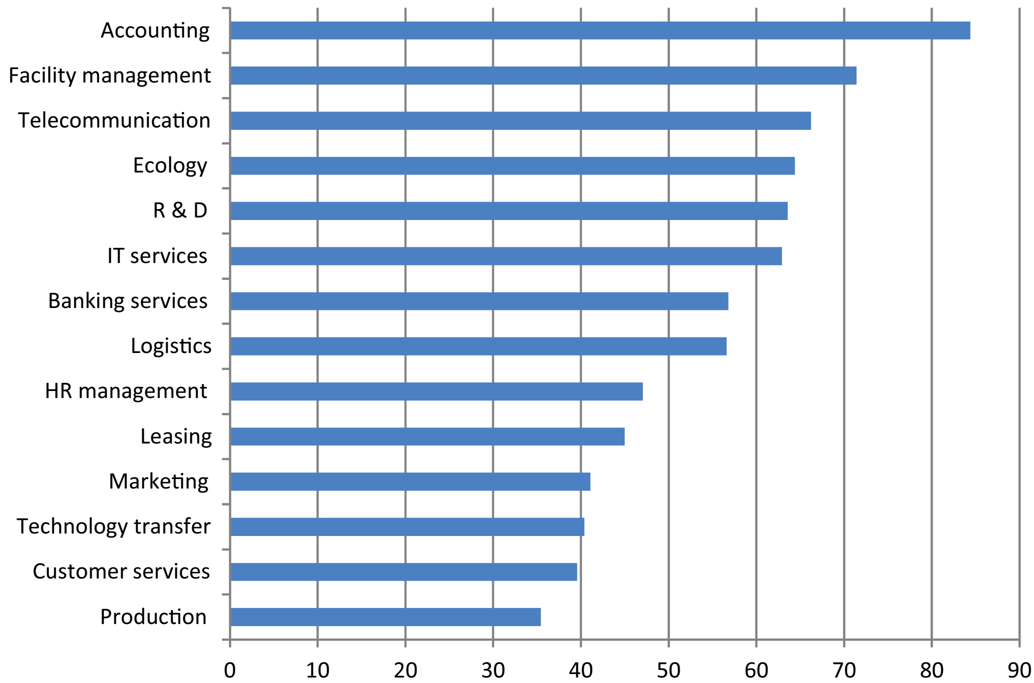
production programme together with its employees from Optimit. After a short time in rented halls in the factory area of Optimit, management of RPG has decided to move to their own production halls in the town of Odry. The reason was ensuring better conditions for further development of the company.

As it has been documented in the small case studies above, we can affirm the argument about the strong local embeddedness of SMEs. Usually firms are not willing to totally change their labour market because it supplies their businesses with labour force. This argument is strengthened especially in the conditions of the Czech Republic where regional differences in average salaries are not high and therefore the relocation costs would exceed the benefit of lower labour costs in the future.

Outsourcing

According to the analysis of outsourcing activities usage in innovative SMEs in the Czech Republic, most SMEs use outsourcing services for accounting (84% of the innovative SMEs), facility management and telecommunication. In contrast, the use of outsourcing for production and customer services was weak. The main reasons for the use of outsourcing in those particular SMEs were, as stated in Table 4, reducing costs and better concentration on core business (Rydvalová, 2008).

Figure 8: *Usage of outsourcing activities in the Czech innovative SMEs in 2007–2008*



Source: *Rydvalová (2008)*
Note: Innovative SMEs have been delimited according to their membership in the Association of Innovative Businesses of the Czech Republic (*Asociace inovačního podnikání ČR*) where enterprises with innovation profile are registered.

Case studies conducted in connection with this research also identify usage of outsourcing services in researched SMEs. For example, mirror producer – **Amirro s.r.o.** – has implemented a new information system which has replaced the old and quite primitive system on Microsoft Access which did not provide immediate data about the state of production etc. Support and actualisation of the new information system is provided by an external company (interview with representatives of Amirro).

The implementation of the information system was partly financed by the Operational Programme Enterprise and Innovation and elaborating of the grant application was provided by a consultant agency. This kind of outsourcing activity especially – consultancy in European Structural Funds – is commonly used in Czech SMEs that do not have sufficient personnel capacities (similar to large companies) for completing the grant application. According to the research of the Association of Small and Medium-Sized Enterprises and Crafts CZ (*Asociace malých a středních podniků a živnostníků ČR, AMSP ČR*), 46% of SMEs that applied for grants from the EU used consulting agencies to formulate their grant applications.

The pace of outsourcing services to other companies in Czech SMEs is quite fast and from this point of view they do not differ significantly from large enterprises. However the point, where we can register an important distinction, is in usage of more expensive outsourcing services like marketing, research and development services, technology transfer etc. From this point of view cluster initiatives could be a help especially for SMEs with innovation potential.

Offshoring/delocalisation

China is probably the most interesting country for the localisation and offshoring of the business activities of European and Czech enterprises. According to the Business Confidence Survey (European Union Chamber of Commerce in China, 2011) in 2010 78% of researched enterprises from the EU registered sales growth because of offshoring and export activities. Moreover 57% consider China as the most important market in respect of their global business strategies.

However, except for some Czech textile producers, only a few of the Czech SMEs manufacture in China. Some clothing companies have their clothes sewed in Chinese factories. The case study company H&D, a.s. could serve as another example. The reason for offshoring its whole production activity to China was the increasing labour costs and decreasing competitiveness in comparison with large transnational clothing companies. The director of the company mentioned that in 2004 the labour costs were approximately 220 USD (€180) per person and month. By 2010 the labour costs had increased up to approximately 600 USD (€500) because of growing salaries and especially the strengthening exchange rate of CZK to USD (interview with representatives of H&D).

Concerning non-textile producers in China, in the database of the CzechTrade agency few other offshoring SMEs could be found. One of them is a medium enterprise STAVUS, a.s.[7] (50–99 employees), producer of tractor motors, which established a joint venture with a Chinese company Gansu Guotou in the city of Lanzhou. For STAVUS, China is a very important business partner. For many years STAVUS has been exporting mining locomotives and other mining technology there. However according to many experts on the Chinese market, at least partial delocalisation to the Chinese market is crucial for further expansion there. This is valid especially with respect to the product price, which is the crucial factor in competitiveness building. Therefore STAVUS has expanded in China and together with its partner Gansu Guotou they will produce small tricycle tractors for less than €1,000 per unit. The division of labour between partners could be characterised as typical for these cases. The Czech partner will submit high technologies, its know-how and the Chinese side will offer relatively cheap material, labour force, distribution channels and branding.

Another joint venture, TESCAN China, was established in 2009 by a Czech company TESCAN, a.s.[8] (100–199 employees) and Chinese enterprise, Leading Electron Microscopy China. Until 2009 China was a very important business partner for the Czech microscope-producer and further expansion was conditioned by localisation of its enterprise in China. Since then, TESCAN has tripled its sales in China.

[7] http://www.stavus.cz/

[8] http://www.tescan.com/en/about-tescan

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Concerning other joint ventures by Czech SMEs in China we can name Hong Ye SVIT Machinery Co, Ltd founded by a Czech enterprise ZPS Prefix a.s.[9] (50–99 employees) and a Chinese company Hong Ye Machinery Company Ltd in Dagang-Yancheng. The new plant produces cutting machinery for shoe manufacturing industry. The factory has eight plants throughout China and they serve simultaneously as service and distribution centres for the products of the joint venture.

Bankruptcy/closure

The topics of bankruptcy and the closure of SMEs have become very important during the global crisis. In the Czech Republic there were 1,778 companies in bankruptcy in 2011,117 more than in 2010 and 225 more than in 2009. Experts predict that the number of companies in bankruptcy will grow due to the crisis in the eurozone (Deník, 3 January 2012). Decrease in sales, high fixed payments, worse access to bank loans and subsequently lack of cash are the main reasons of bankruptcy of Czech enterprises. Big problems are caused also due to secondary insolvency (Finanční noviny, 4 January 2012).

Merger and acquisition

Merger and acquisition is a form of restructuring often used in the Czech Republic. However no cohesive evidence with focus on SMEs exists that would provide us with sufficient information. At least we are able to identify some individual cases of this type of restructuring.

For example VYDIS a.s. (100–199 employees before the acquisition), a provider of ICT solutions for a broad range of clients, used to be a medium-sized enterprise. In 2012 it finished the acquisition of small companies CESA and ŠINDY and established a company called VYDIS GROUP a.s.,[10] which now has 330 employees. The acquisition of CESA extends the portfolio of VYDIS especially in the installation and service of ICT infrastructure. The acquisition of ŠINDY, which focused on the construction of telecommunication networks, has improved the offer of VYDIS in respect to the construction and service of metallic networks. Moreover, the integration of ŠINDY will extend the distribution channels due to the long-term partnership of ŠINDY with Telefónica Czech Republic. According to VYDIS managers, the acquisition should provide new contracts and further strengthening of the marketing position of VYDIS. Synergic effects in the group should also decrease production costs of the company.

Two providers of IT services,VIZUS.CZ s.r.o.[11] (10–19 employees) and Optifor s.r.o.[12] (1–5 employees), have undergone a merger in 2012. The broadening of the range of services provided, improvement of their quality and better management of their effectiveness were the motivation of the companies' owners. Both companies cooperated for a long time before the merger and because of good complementarity of their services, the merger was perceived as a logical step for improvement of their competitiveness.

If we leave the ICT sector, we can name a small enterprise KTS-AME s.r.o.[13] (25–49 employees) as an example of acquisition. The company was founded in 2003 by merger of two companies KTS s.r.o. and AME s.r.o. The former specialises in water treatment and corresponding technologies and construction of fountains and waterworks. AME s.r.o.

[9] http://www.prefix.cz/en_default.htm

[10] http://www.vydis.cz/en/

[11] http://www.vizus.cz

[12] http://www.optifor.cz/

[13] http://www.kts-hk.cz/

concentrates on electronics, particularly on delivery of spare parts for electrical equipment. The acquisition has enabled complex services for clients demanding construction of water decorations and swimming pools. Moreover, the acquisition has resolved AME's problem with insufficient stock capacities.

Some SMEs became acquisitions of transnational companies. For example small ICT enterprise E-COM s.r.o.[14] (25–49 employees before the acquisition) was bought by transnational company SAAB Czech s.r.o. in 2011. Since 1992 E-COM has risen to become one of the leading producers and contractors of unique virtual training systems for a broad spectrum of clients from police, army and the civil sector clients in the Czech Republic. The purpose of acquisition of E-COM by SAAB Czech has been to increase the complexity of services offered by SAAB. DevIT s.r.o.[15] was founded in 2009 and it concentrates on information systems based on Microsoft products, similar to WBI Systems which bought the company in 2011 to hasten its expansion into the Czech market. The cooperation of these companies is based on strengthening of R&D and sales and creation of a new regional plant for WBI Systems.

From the above-mentioned it is evident that SMEs in ICT become subjects or objects of merger and acquisition relatively often. This is also a general trend of merger and acquisition for the Czech Republic (see Merger and acquisition in Section 1). Acquisitions of Czech IT companies are also very often driven by transnational companies from abroad.

Internal restructuring

During the crisis Czech SMEs have chosen various strategies. Jihlavan a.s.[16] (200–249 employees), a producer of hydraulic systems and plants for aeroplanes, stopped its production for three weeks at the turn of 2008 and 2009 and made 30 employees redundant from approximately 240. Working time was reduced repeatedly also in the following months and in 2009 it had introduced so called 'accounts of working times'. According to this plan, some days employees had to work more than eight hours, other days less, depending on the amount of contracts the company had. However, the employer guaranteed a steady salary (Šerý, 2010).

A medium enterprise, Antreg, a.s.[17] (100–199 employees) which focuses on machinery production had to make many employees redundant in 2009 (at the end of 2011 there were 100 people employed in the company). According to original plans, Antreg was going to increase salary by 3%, however due to the crisis the average salary decreased from 18,000 CZK (approximately €700) in 2008 to 16,500 CZK (€650) in 2009. The reason for this was the fall of contracts to the same level as 2004 (Šerý, 2010).

Small enterprise HS Flamingo s.r.o.[18] (10–19 employees) could be mentioned as well. The company was established in 2006 and since then it has enjoyed rapid growth supported by intensive export of its products. The company produces fireplaces and their components. During the crisis the company decreased the staff of its business department for the Czech Republic and in contrastincreased the number of employees in its export sections. In spite of this, and in spite of decreasing costs by 30%, it registered growth in both areas in 2010 (Deník, 24 January 2011) and in 2011 won a CzechTrade award in the field of export innovations.

[14] http://www.e-com.cz/

[15] http://www.devit.cz/

[16] http://www.jihlavan.com/

[17] http://www.antreg.cz/indexen.php?id=en/uvod

[18] http://www.hsflamingo.cz

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According to a research study of the Manpower Labour Market Index (2012) the situation on the labour market does not promise large improvement. Almost 10% of companies are going to continue in redundancies and only 6% are going to hire new workers. When we focus on the economic sectors the worse situationsare in manufacturing, the financial sector and real estate; on the other hand, enterprises in electricity, gas and water supply promise the hiring of new workers.

The economic downturn also influenced H&D, a.s., however its influence was rather of minor. The internal restructuring in this company has been caused by its declining competitiveness on the market. Although the company had a record turnover in 2008, the management was certain that the competition in the textile industry would continue to intensify, particularly due to the arrival of vertical production chains (international chains that sell their products in their own international retail networks, but do not purchase their product portfolio. They produce it themselves in countries with lower labour costs. Examples include H&M, Kik, C&A, and Inditex, which operates stores such as Berschka, Massimo Dutti, and others) in the Czech Republic. Due to the pressure of these transnational companies, the management of H&D has approved the diversification of the company's production and the textile producer started to produce home furniture and accessories. In doing this, Mr Havel, the director of the company has taken the advantage of his large experience and contacts with producers from south-east Asia and all the furniture under the trademark H&D Home Design has been produced there. It seems that the diversification of production paid off. Turnover in furniture and home accessories is growing; in clothing it continues to decline (interview with representatives of H&D).

Another Czech enterprise, OMB Composites EU, a.s., a manufacturer of laminate automotive components, experienced internal restructuring in 2008–2009. Poor business results blamed on the previous management were the reasons for restructuring in the form of internal reorganisation. The internal reorganisation was initiated by the company's owner and in 2008 he appointed Mr Konečný to the position of Acting Director. Mr Konečný subsequently implemented a significant reorganisation of the company's structure. He increased the headcount of the company's technical and economic workers, as the number of employees at the time was insufficient for the company's further expansion. He also introduced the standard organisational structure with which he was familiar from other companies. Although the company did hold ISO certification, this system did not work in practice and Mr Konečný placed great emphasis on the actual implementation of the system. Such measures have transformed the company, improved its performance and have become a basis for further business expansion (interview with representatives of OMB Composites EU).

Business expansion

According to the Global Entrepreneurship Monitor 2011 (Lukeš, Jakl, 2012) 5.4% of the population aged 18–64 in the Czech Republic participate in new entrepreneurial activity and in the next five years they would like to create at least one job in their company. It means that almost 75% of new entrepreneurs are going to create new jobs. In comparison with other European countries this figure is quite high. This fact could positively influence the situation on the labour market in the Czech Republic in future as this is the basic presupposition for business expansion.

When we focus on concrete enterprises, we can evidence that some SMEs, which act as subcontractors in the automotive industry, experienced a large boom in recent years. For example LUKOV Plast spol. s.r.o.[19] (100–199 employees), manufacturer of plastic, technical and electro components with higher value added for auto producers, based its development on the cooperation with automotive companies Škoda Auto, SEAT and Volkswagen. However its success would probably not be possible without promotion of R&D in the company and human resources support. The R&D division was established in 2003 and in 2009 it expanded. In 2010, the construction of a new production and warehouse hall including a new research laboratory was finished. In 2011 the company was named as one of the best enterprises in the Liberecký Region and in 2012 it expanded its deliveries for Volkswagen.

[19] http://www.lukovplast.cz

OMB Composites EU s.r.o., which exports 55% of its production, could serve as another subcontractor example company which has experienced business expansion. After reorganisation, which preceded a business expansion phase, the company's infrastructure has been prepared for development of its production. The philosophy of the company's development is based on increasing added value of its products and the expansion of its product portfolio. However the main step required the purchase of a milling and cutting machine, which will make it possible to significantly improve the company's current production methods, both with regard to the quality of cutting as well as the production of models. The purchase of the new machine is crucial for the company's further development, as it will be able to perform the entire manufacturing process for laminated components. By being able to perform the entire manufacturing process, the company will gain a competitive advantage, as there is currently no company in the Czech Republic that offers anything comparable for laminated components. Such development will bring 40 new jobs and based on the company's plan, it might have up to 170 workers by 2013–2014 (interview with representatives of OMB Composites EU).

Similar products are manufactured also in REALISTIC a.s.[20] (50–99 employees), which produces industrial gas and electric furnaces. Since 2001 annual turnover has been growing by 5–10%. The competitive advantage of the company is in its ability to project and produce an optimal solution of technologies for each client. In this field it obtained an ISO certificate. In 2011the reconstruction of the production area was finished. Old production halls were reconstructed and two halls were newly built to meet the demand of its clients from the Czech Republic and abroad. The total costs were €4 million of which €1.7 million was covered by the subsidy from the Operational Programme Enterprise and Innovation. A new production area allows producing under 'one roof'. The representatives of the company expect that due to the new production capacities they will increase production by 100% in five years. This should result also in substantial hiring of new workforce.

Actors of SME restructuring

Restructuring decision of SMEs in the Czech Republic is mostly a matter of the companies' managements. Employees can only seldom influence the process of restructuring, as only a minority of SMEs in the Czech Republic have work councils. The activities of trade unions are concentrated in large enterprises in traditional industries, whereas in newly established companies (most SMEs) the procedures for development of social dialogue are missing. All three case studies that accompany this report confirm these facts. Moreover, the power of trade unions in the Czech Republic is small (only 25–30% of employees are under the union contract) – and since the 1990s has been decreasing (Kroupa et al., 2004).

[20] http://www.realistic.cz

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Main challenges and constraints facing SMEs in restructuring

Some of the main constraints in restructuring stem from the size of SMEs. For example the executive officer of Amirro, s.r.o. confirms that SMEs lack the expert personnel who would be able to draw attention to the possible risks associated with restructuring steps. As a result, large enterprises can more easily determine the expected results of the restructuring. Similarly, the director of H&D, a.s. identified the problem of lack of qualified personnel when restructuring. If he could turn back the clock and perform the restructuring process again, he would hire a personnel officer, as he was not successful with finding high-quality employees for the position of designer quickly enough.

Similarly, the lack of qualified workforce is the largest problem for Czech SMEs, especially for industrial SMEs. There is no strategy for vocational or technical education in the Czech Republic. As a result, the country does not comply with OECD recommendation (1996) which states that the share between students of vocational or technical education and students with school leaving exam should be 40% to 60%. The current share of students in vocational or technical education is only 30% (Pělucha, 2007). This fact has negative influences on the competitiveness of industrial SMEs in the form of the lack of technically skilled employees. Especially for SMEs with plans for business expansion this could be a substantial constraint for their further development. Amirro's and OMB Composites EU's experiences only confirm these fears.

Although the amount of Czech SME investments has increased since 2000 (see Figure 9), the lack of finance for further investment continues to be a widespread problem which hinders business expansion. Moreover, some of them have limited access to bank loans. For example the executive officer of Amirro mentioned this problem, because the bank that provides an operational loan is starting to have concerns with regard to providing credit to the company for future years in spite of almost completely stable financial results (interview with representatives of Ammiro).

The director of OMB Composites EU s.r.o. has one reservation with regard to support for restructuring provided from public funds: the process for granting a subsidy takes too long. In the case of the purchase of new machinery with funding from the Industry and Enterprise Operational Programme, it took one year and one month from the date the subsidy application was submitted to the time that the financing agreement was signed. This length of time is unacceptable in relation to the requirement to complete the restructuring as quickly as possible (interview with representatives of OMB Composites).

Concerning business expansion, especially as regards internationalisation, we can demonstrate the state of the SMEs' export on export flows between the Czech Republic and Germany (the most important export partner of the Czech Republic). Czech exports to Germany have been based on low prices and have been provided mostly by exporters in the position of subcontractors and foreign companies which have had their plants in the Czech Republic. This tendency still continues, however Czech employee salaries are growing. Enterprises exporting to Germany, including those small and medium-sized, will be increasingly in danger of not being competitive until they will not increase added value of their production.

The director of Amirro stresses another problem that could limit the export capability of Czech SMEs and which could put a large share of exporters to Germany in the position of subcontractors. He believes that his products are not as marketable under the Czech image as it would be in cooperation with a German partner (interview with representatives of Amirro). Similarly, the director of the already mentioned enterprise TESCAN (microscope producer) contends that distributors of his company's products say that the label 'Made in Czech Republic' is the weakest point of the microscopes (MF DNES, 20 February 2012). In circumstances like these, in his opinion, he must decrease the product price by 15–20%.

Although there are some Czech SMEs that offshore their activities, for most of them this is very demanding upon finances, knowledge and time to do it.

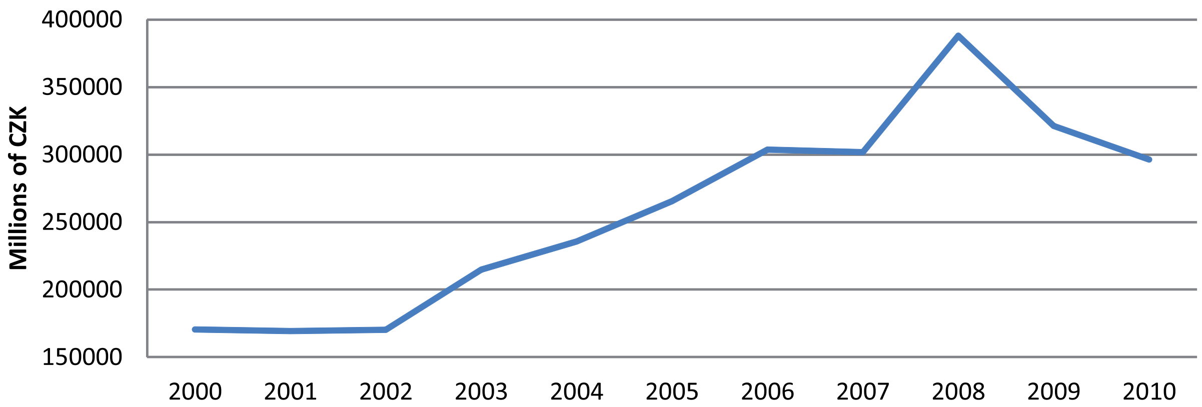
Another quite often discussed topic is the introduction of the Euro in the Czech Republic which would replace the Czech Crown. Some companies have significant problems with the exchange rate oscillation which decreases the value of their export. This thesis was mentioned also by the director of Amirro. However many SMEs have already adjusted themselves and have introduced the Euro to their accounting systems.

Finally, the present paradigm of economic development in the era of the knowledge economy identifies the following aspects of a successful enterprise. The successful enterprise should:

- be able to absorb and develop results of R&D;
- focus on the quality of its human resources and well-being of labour force;
- be innovative and open for new stimuli and challenges;
- care about building and strengthening its social capital;
- cooperate with public authorities (if they are willing to cooperate);
- be very well connected to transport and information flows.

Although the shift to the knowledge economy among Czech SMEs occurred, many of them do not fulfil the criteria stated above especially in respect to the innovativeness and using outcomes of R&D. They still take the advantage of relatively cheap labour force which allows them to export their production for favourable prices. However, such advantage is not sustainable in the long term; therefore they should focus on increasing their competitiveness by adding value to their production. Insufficient progress on the way to the knowledge economy is also a barrier for further internalisation of Czech SMEs production.

Figure 9: *Investments of Czech SMEs (2000–2010)*



Source: *Report on development of SMEs and their support in 2010 (Ministry of Industry and Trade 2011)*

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Business support from public and private sources

Demand side

In the case studies the interview partners did not mention any specific support which would have made the restructuring process easier. Naturally those interview partners, who used the possibility of financing their projects from the Operational Programme Enterprise and Innovation, really appreciated having this possibility. More generally, according to a research of AMSP ČR, 28% of SMEs are going to use European financial sources for financing their investments. In this respect, almost half of enterprises, which applied for subsidies, received the support also from the private sector due to the consultancies concerning their grant applications.

As regards the company OMB Composites EU, s.r.o. the director points attention to a good partnership with the town of Králíky and the local employment office. These public authorities provided the company with assistance during the restructuring process, as they are aware of how important this particular employer is for the economy of their region, which suffers from a high unemployment rate. For example, the Town Hall helped to make the arrangements for space where training could be provided for the job seekers identified by the local employment office as potential OMB Composites EU employees (interview with representatives of OMB Composites).

The director of H&D, a.s. regularly takes advantage of support of the MIT through its CzechTrade agency. The programme financially supports participation in trade fairs in foreign countries. The company also collects information on the basis of its membership in the Association of the Textile, Clothing and Leather Industry, which unites employers active in these fields (interview with representatives of H&D).

Other associations of enterprises or even SMEs (business chambers, AMSP ČR, social partners – Confederation of Employers´ and Entrepreneurs´ Associations of the Czech Republic, Confederation of Industry of the Czech Republic etc.) and public authorities and organisations (already mentioned CzechInvest, CzechTrade etc.) are part of the structure and institutional background for the promotion of enterprises.

When we have a look at more general problems of SMEs in the Czech Republic, we can use results of questionnaire surveys conducted by the AMSP ČR. In their surveys among Czech SMEs they identified the following requirements towards the public administration:

- concerning business expansion to foreign markets, complex information on foreign markets, support of logistics, export and participation on fairs abroad;
- law consultancy;
- information about specific enterprises especially with regard to their payment ability;
- to decrease the high level of bureaucracy connected with business administration (96% of respondents regarded the communication with public authorities as too demanding);
- to increase the transparency of public tenders (60% of respondents assumed that it was not possible to be awarded in public tenders without giving a bribe or provision);
- concerning internal restructuring, it is important especially during the economic crisis to introduce the possibility of flexible employment in the form of short-time working (92% of respondents agreed with it).

Concerning the business support from private sources, some SMEs have a problem with receiving bank loans. In the Czech Republic there are almost 80 loan products for enterprises, including overdraft schemes and specialised loans. However, Czech SMEs face up to the typical problem as other SMEs throughout Europe. Relatively higher costs and risk for banks make SMEs unattractive for banks. According to the questionnaire research of AMSP ČR, 47% of SMEs have already used a bank loan for various purposes.

The research of ASMP ČR focused also on the question of financing future investments of the company. More than 70% of SMEs would prefer internal sources, 36% a loan from a bank and 22% would use overdraft schemes. Also usage of leasing and subsidies from the EU were important for respondents (10 and 12% of answers).

The self-employed especially have a big problem getting a loan from a bank. Therefore self-financing is very often used in the case of Czech SMEs, sometimes also loans from relatives (Homolka 2006).All the above mentioned topics significantly influence both business performances of SMEs and progress of restructuring processes and especially their effectiveness. Proper structural milieu is a necessary condition for further development of SMEs.

Supply side

The main financial support tool for Czech SMEs is the Operational Programme Enterprise and Innovation (OPEI). In the programme period 2007–2013 on the basis of a thorough analysis of the state of the environment for enterprises and with special attention paid to innovation support, the following priority axes (including technical assistance) of the OPEI have been specified:

1. Establishment of firms
   - Priority axis 1 of the OPEI covers two areas of intervention focused on creating conditions for establishing new firms and on supporting the innovative firms. Attention is paid to accessibility of appropriate financial resources including new pro-innovation financial instruments to facilitate starting entrepreneurs' access to capital and thus broadening the opportunities to financing their business plans and submitted projects.
   - There is no clear relation to the restructuring types as this priority axis supports newly established enterprises which are in the initial stage of the life cycle and therefore not in need of restructuring.
2. Development of firms
   - This priority axis contains two areas of intervention. The first area is focused on the support of the implementation of business development plans by competitive small and medium-sized enterprises which are prevented from obtaining external bank finance due to low levels of personal capital or by their limited ability to provide a guarantee for a loan. The second area is focused on improving the technical equipment of firms by purchasing new modern technologies including information and communication technologies. It also focuses on the development of selected strategic services.
   - Clearly related to the business expansion type of restructuring.
3. Effective energy
   - Priority axis 3 of the OPEI contains one area of intervention aimed at stimulating the activity of entrepreneurs in reducing the energy intensiveness of the production processes, reducing the consumption of primary fossil fuels and at supporting new entrepreneurs in activities leading to a higher use of renewable and secondary sources of energy. The support provided is oriented to increasing the effectiveness of the production, transmission and consumption of energy, in addition to the use of renewable and secondary energy sources.

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- This axis could help SMEs that undergo internal restructuring and partly SMEs which relocate, as this axis supports modernisation of production halls etc.

4. Innovation

- Priority axis 4 contains two areas of intervention focused on the support of technical innovations (innovation of products and processes) and non-technical innovations (organisational and marketing innovation) in enterprises including the development of their cooperation with research and development institutions and the development of internal capacities for R&D and related activities, in particular in SMEs in order to increase innovative activities and the number of enterprises that carry out their own research and development. In this context the priority axis is focused mainly on the commercialisation of the results of R&D which can directly accelerate and improve innovative processes leading to higher competitiveness of the industry and service sectors. Attention is paid also to the activities related to the intellectual property rights protection.
- Clearly focused on enterprises which are going to expand their businesses and increase their competitiveness.

5. Environment for enterprise and innovation

- Priority axis 5 has three areas of intervention and focuses on stimulating an environment that encourages the establishment and development of innovative companies. It aims to create the necessary infrastructure for innovative new businesses through provision of business incubators, to extend and increase the quality of cooperation between enterprises, educational and research and development institutions to support and accelerate innovative processes in firms. The priority axis supports all forms of effective cooperation between enterprises.
- Axis is related to the companies which expand their businesses.

6. Business development services

- Priority axis 6 of the OPEI consists of two areas of intervention. It is oriented to the development and delivery of quality consulting and information services for companies; this applies also to seeking new business opportunities and professional preparation for strengthening the position of the Czech industry in international trade. The support also facilitates international marketing activities of small and medium-sized entrepreneurs and stimulates the interest of the entrepreneurs in forms of collaboration to facilitate market access and negotiations with business partners.
- This axis could help very much to those particular SMEs which are going to internationalise their production. Restructuring types of offshoring/delocalisation and business expansion are supported.

According to the Evaluation Report of the OPEI (MIT, 2011) based on a questionnaire survey among the beneficiaries, most were satisfied with their participation on the OPEI. Their projects brought increasing competitiveness (67% of respondents), introduction of new technologies (61%), acceleration of business plans (51%) and increasing of turnover (49%) and market share (35%).

The respondents mostly participate in the programmes within priority axes 1, 2 and 4, which mostly focus on promotion of business expansion. The priority axes 5 and 6 are not so interesting for SMEs, maybe because of their indirect contribution to development of a particular SME (MIT, 2009).

In the Czech Republic there is a wide network of consultant agencies that provide various consultant services for enterprises including SMEs (for example transnational companies PricewaterhouseCoopers, Deloitte, Ernst & Young and KPMG). These companies usually offer audits, tax and accounting advisory and legal services. They also provide advice in restructuring of companies with focus both on financial (debt restructuring, refinancing etc.) and operational restructuring (planning of restructuring and its implementation etc.). Concerning individual types of restructuring, except for already mentioned general advice in restructuring, they concentrate usually on merger and acquisition (tax advisory, the complex process of merger/acquisition etc.) and outsourcing (IT advisory and tax outsourcing).

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Outcome of restructuring events

Relocation in the Czech Republic happens at local level. Therefore the process of relocation rarely brings new jobs. Nevertheless many of the Czech SMEs undergo this type of restructuring in the growth phase of their life cycle when the existing factory area is no longer able to absorb new contracts. That is why relocation could provide the needed platform for further business expansion, including hiring new workers.

Outsourcing is very useful help for SMEs, as they mostly do not have sufficient personnel capacities to cover all the business activities. Supplier enterprises, very often small or medium-sized, are necessary complements of developed market economies. Presently the pace of growth of outsourcing services is faster in the Czech Republic than in western Europe therefore we can assume that employment in supplier SMEs will grow in contrast to the contractor companies.

Offshoring/delocalisation can have serious impact on employment. In the Czech Republic offshoring activities are quite often in textile and clothing SMEs as a consequence of the intensive global competition. Offshoring can lead to business expansion in the case where the expansion of production is not at the expense of the production in the country of origin (for example offshoring activities of companies STAVUS or TESCAN mentioned earlier). From this perspective such restructuring leads to the growing number of jobs in future. On the other hand, offshoring activities can lead also to rapid loss of jobs in a company, however sometimes it is the only possibility of maintaining at least some, usually more qualified, staff. The case study company H&D, a.s. can serve as an example – there was a rapid loss of jobs during a few years and nowadays the company has 45 employees in the production division, the creative division, the furniture and textile warehouse and the accounting department.

Bankruptcy and closure usually means loss of jobs, however in the context of micro enterprises it can be just a natural event in their life cycle.

If SMEs participate in merger and acquisition, they are rather objects of merger/acquisition due to their size. However also SMEs can make acquisition after which they are able to offer through new marketing channels more complex services or products with higher added value. Therefore, after the initial rationalisation and cutting personnel it can bring new jobs.

Internal restructuring is necessary when the economic performance of a given SME declines in the long term. At this time, when many SMEs implement their job-cutting plans, it would be economically and socially favourable to have a possibility to use flexible jobs (as for example short-time working). Reorganisation in a company can help to set a new and ‘healthy’ structure on which a new growth could be based.

Business expansion leads to growth of jobs by the means of insourcing or internalisation. As internalisation of Czech SMEs is still under the EU average, there might be a potential for increasing SMEs’ export and thereby also a potential for creating new jobs. It depends on how Czech producers will accept this challenge.

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Conclusions and policy issues

There is no easy recipe for a smooth and effective restructuring which would bring a particular company on the development trajectory. Some types of restructuring are not very relevant for increasing employment in SMEs. From this point of view we have identified relocation, which occurs in the Czech Republic only on the local level, and outsourcing. Companies certainly benefit from these types of restructuring, however their influence on the total business performance is rather indirect. Similarly, merger and acquisition have a particular potential for development of SMEs however similar forms of groupings of SMEs exist, providing the same or better results – we can mention various forms of business associations, cluster initiatives etc.

Nevertheless attention should be paid to internal restructuring, offshoring and business expansion which all have significant impacts on employment and companies' performances. Support policies should focus especially on these issues. Moreover in the context of the Czech Republic the support could be more concentrated on internationalisation of SMEs as the present level of internationalisation is under the EU average. Also the results of the surveys of the AMSP ČR bring evidence that the internationalisation interests of Czech SMEs owners are growing.

From this point of view it is necessary to create a favourable milieu for further development of SMEs. On the national level, more effective, businesses-friendly and transparent state administration should be set. Public financial and non-financial sources should focus on the advisory help for SMEs in restructuring, as their personnel capacities are too small. A reform of the educational system in the Czech Republic should be implemented in order to harmonise the supply and demand in the labour market which would finally lead to increasing the employment rate.

In such new conditions, it will be up to the owners of SMEs to ensure further development of their companies.

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