

The Influence of Bata Shoe Company Development on Entrepreneurship and Implications for the Present

Vliv rozvoje firmy Bat'a na živnostenskú podnikání a implikace do současnosti

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Abstract

The aim of this paper is to examine the influence of the expansion of Bata Shoe Company on entrepreneurship in the period of the First Czechoslovak Republic¹ and to find a parallel with the current problems of entrepreneurship in the Czech Republic after almost a century. The partial aim was to trace the impact of the significantly development-oriented strategy of Bata Shoe Company to a steep decline in numbers of entrepreneurs in the shoemaking field in the stated period of 1920s and 1930s, and to realistically describe business environment of that time with the emphasis on entrepreneurship. Another partial goal was to find the above mentioned parallel with present and to identify any implications for the current situation and development of entrepreneurship in this country in general. Entrepreneurship comes back to centre of academic interest and is highly topical these days as one of the pillars of regional sustainability, which is, however, on decline. Concerning the methodology, the research is based on our own examination and processing of unique archive of statistical, descriptive and legislation resources from 1920s and 1930s. In addition, it is based on the analysis of the current entrepreneurship in CZE with an emphasis on artisan trades, as also other data and their comparison from surveys and analyses made by authors in the past were used. The results of the research proved that growth and development strategy of Bata Shoe Company had only a limited impact on the steep decline of entrepreneurship in the field of shoemaking, while among other a technological progress (and industrialisation) played an important role. In order to have higher validation of the result, the archive data were also compared with fields that did not undergo such dramatic technology change. The article also presents a number of parallels with the current entrepreneurship situation.

Keywords

entrepreneurship, Bata, market dominance, entrepreneurship decline, entrepreneurship history, shoe manufacturing

JEL Codes

N6, D4, O14

¹ First Czechoslovak Republic is usually dated from its founding in 1918 till 1938 — before the World War 2nd started.

Abstrakt

Cílem tohoto článku bylo zkoumat vliv rozvoje Baťovy firmy na živnostenské podnikání v období První republiky (Československé republiky — ČSR), a nalézt po téměř století paralelu se současnými problémy živnostenského podnikání v České republice (ČR). Dílčím cílem bylo jednak ověřit vliv výrazně rozvojové strategie firmy Baťa na prudký pokles počtu živnostníků v oboru obuvnictví v uvedeném období 20. a 30. let minulého století a jednak realisticky popsat tehdejší podnikatelské prostředí s akcentem na živnostenské podnikání. Dalším dílčím cílem bylo nalézt zmíněnou paralelu a identifikovat případné implikace pro současný stav a vývoj živnostenského podnikání u nás obecně. Živnostenské podnikání se vrací do centra akademické pozornosti a je dnes vysoce aktuálním tématem coby jeden z pilířů regionální udržitelnosti, jenž ovšem zaznamenává alarmující pokles. Metodologicky je výzkum položen na vlastním zkoumání a zpracování unikátních archivních statistických, popisných a legislativních zdrojů z dvacátých a třicátých let minulého století. Dále je položen na analýze současného živnostenského podnikání v ČR s akcentem na řemeslné živnosti, jakož bylo využito též dalších dat a jejich komparací z průzkumů a analýz realizovaných autory v minulosti. Výsledky zkoumání s použitím archivních dat a dalších dostupných zdrojů dokládají, že podnikání, růst a rozvojová strategie firmy Baťa měly pouze limitovaný vliv na likvidaci malého živnostenského podnikání v obuvnictví, přičemž významnou roli sehrál mimo jiné technický pokrok (industrializace). Pro vyšší validaci výsledku byla archivní data zkomparována též s obory, které v daném období neprocházely tak dramatickými technologickými změnami. V článku je též prezentováno množství paralel se současným stavem živnostenského podnikání.

Klíčová slova

živnost, řemeslné podnikání, Baťa, tržní dominance, pokles živností, obuvnictví

Introduction

Currently, entrepreneurship² is again of much social and academic interest. The reasons are numerous, from social perspective, at minimum, the topic of entrepreneurship is revisited with four-year periodicity of elections in the Parliament of the Czech Republic, as it concerns a relatively large segment of population, whereas frequently changing conditions for doing business for this group are a cause for heated debate and disillusion. In the academic field, we base our assumptions on serious results of statistics and their development, and subsequent analyses or research of business environment with an accent to entrepreneurship. For the purposes of this paper, legal regulation shall mean the existing regulation regarding the form of a self-employed person³.

Topicality of the problem has become very high nowadays. The technical professions and crafts generally are dramatically missing in the market in both, consumer segment (B2C) and industrial segment (B2B). It is partly a consequence of unfortunate education policy in the Czech Republic, where pursuit of at least 'A-levels' (even in weak specialisation) became an

2 *The entrepreneurship is one of the most common forms of enterprise, for which the term "trade" is used. In the Czech Republic, the entrepreneurial activity is regulated by Act No. 455/1991 Coll., on Trades. The entity conducting trade may be both natural person or legal entity.*

3 *The entrepreneur conducts business at his own risk, guarantees his liabilities with his entire property decides on the financing of his business at his own discretion.*

easily feasible idol, and it is uneasy to restore the prestige of good craft and virtuous piece of work.

As stated in Abstract above, the aim of this paper is to examine the influence of the expansion of Bata Shoe Company on entrepreneurship in the period of the First Czechoslovak Republic⁴ and to find a parallel with the current problems of entrepreneurship in the Czech Republic (CZE)⁵ after almost a century. The partial aim was to trace the impact of the significantly development-oriented strategy of Bata Shoe Company to a steep decline in numbers of entrepreneurs in the shoemaking field in the stated period of 1920s and 1930s, and to realistically describe business environment of that time with the emphasis on entrepreneurship. Another partial goal was to find the above mentioned parallel with present and to identify any implications for the current situation and development of entrepreneurship in this country in general. Entrepreneurship comes back to centre of academic interest and is highly topical these days as one of the pillars of regional sustainability, which is, however, on decline.

The entrepreneurship, and free entrepreneurship as such, have become widespread since the fall of the iron curtain in 1989 in the Czech Republic. Today, there are 972 356 active self-employed entrepreneurs (as of 31 December 2014), with a moderate inter annual decline (as of 31 December 2013 there were 977 228 registered self-employed persons) (Analysis of Crafts 2⁶, 2016 using resources of the Czech Social Security Administration (CSSA)). For completeness, in the same monitored period the number of legal entities showed even more significant decline (by more than 0.5 percentage points).

To conduct business in the Czech Republic, one must have a trade licence, while the number of the issued trade licences to self-employed persons, who are the primary focus of this paper, amounts to 2 638 525, being 2.7 trade licences per entrepreneur on average. By their type, they are classified as licensed, regulated, craft and non-regulated trades. At present, there are 27.87 % craft trades of all trades issued in the Czech Republic; from the regional perspective, the most trades have can be found in Central Bohemia and South Moravia regions, while Karlovy Vary region shows the least trades by far (Analysis of Crafts 2, 2016). Currently, there are 41 types of craft trades in the Czech Republic.

The emphasis on the craft trades is logically tied to the primary focus of this paper, which is mapping the environment, particularly of the shoemaking industry in the period of the First Czechoslovak Republic, although most of the findings will not be necessarily a comparison with the current situation, but rather **about finding the parallels, generalization and implications for the present time and for the future of artisan entrepreneurship**. The predominant aim of this paper is to trace the impact of the significantly development-oriented strategy of Bata Shoe Company onto a steep decline in numbers of entrepreneurs in the shoemaking field in the First Czechoslovak Republic, and to realistically describe business environment of that time

4 First Czechoslovak Republic is usually dated from its founding in 1918 till 1938 - before the World War 2nd started.

5 CZE – for the Czech Republic the acronym “CZE” issued in the text as that is the widely used international country code (ISO 3 digits code, <https://countrycode.org>).

6 AMSP ČR (Association of Small and Mid-sized Enterprises of the Czech Republic) (2016b). *Analýza řemesel_2* (Analysis of Crafts 2).

with an accent on entrepreneurship. A partial goal was to find the above mentioned parallel and to identify any implications for the current situation and development of entrepreneurship in this country in general.

There are many reasons why the period of 1920s cannot be actually compared in detail with the present time. Firstly, there are no precisely segmented statistics of artisans (or issued trade licences respectively) in the shoemaking industry broken down to both natural persons and legal entities, and secondly, it has had a significant impact on the dynamic development and industrialization over the last 100 years. Today, only small percentage of entrepreneurs make living through complete manufacture of shoes in the Czech Republic, and they only make very specialized products, e.g. sheep's wool house footwear, traditional Wallachian⁷ felt boots, felt slippers and so on, that in no way compete with shoemaking chains or multinational manufacturers, but rather make use of small market niches.

1 Literature Review

In general, the statistical outset of entrepreneurship in the Czech lands, dates back to the establishment of the independent Czechoslovakia, to 1918. Following the definitive and international recognition of its borders ranked 13th among the European states with its territory of 140 394 km². The Czech lands took 56 % of the republic's territory, Slovakia took 35 % and Carpathian Ruthenia took 9 %. With the population of 13.6 million, according to 1921 census, Czechoslovakia was 9th from the European states⁸ (Kárník, 2002, p. 269).

The new state was established after the war, in times when large parts of Europe suffered from the lack of basic raw materials, factories that had been converted to war effort, stopped their products, and much of the agricultural production was disrupted. In Czechoslovakia, the productivity of labour dropped approx. To half of the previous value and the standard of living also showed a steep decline (real wages plunged by 60 to 65 % and the prices surged 30x times during the war) (Klimek, 2000, pp. 92-93).

In spite of this, ever since its establishment, the new Czechoslovak state was one of the most industrially advanced in the world and ranked among the top ten most industrial states in the world by its production per capita, and even its total scope and structure of the production. However, the industrial equipment in the Czech lands was obsolete in comparison with the advanced capitalist states. During the first post-war years, the industrial production fell short of 65 % of the 1913 level (Československá akademie věd, 1960, p. 47).

In the period between wars, small-scale production and private capitalist sector in Czechoslovakia had the most weight from all sectors of economy. The crafts and agriculture was the main sphere of the small-scale production business. The hospitality sector, retail

7 Wallachia – region in the eastern part of current Czech Republic, on the border with Slovakia.

8 Russia came first with the population of 116 million, followed by Germany (59.8 million), Great Britain and independent state of Ireland (47.1 mil.), France (39.2 mil.), Italy (38.7 mil.), Poland (27.2 mil.), Spain (21.4 mil.), and Romania (16.3 mil.).

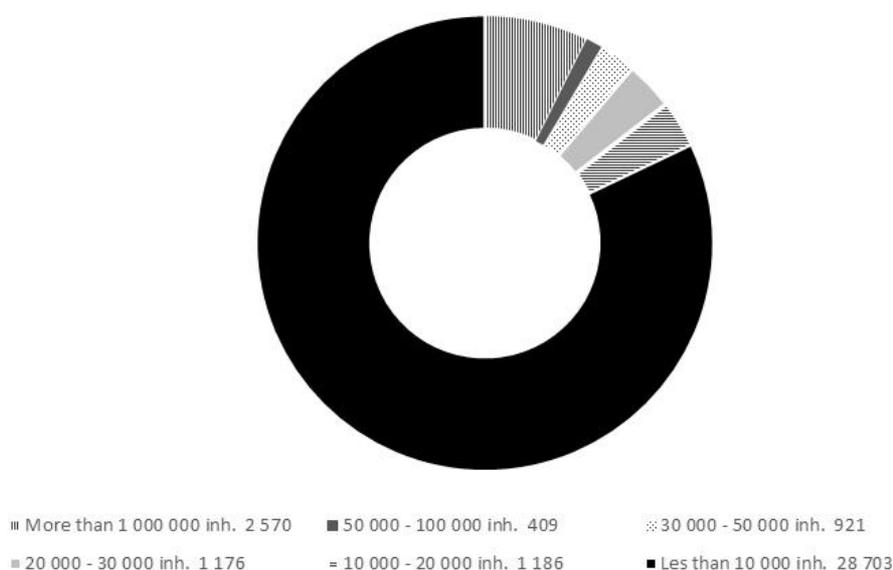
and transport were other most prominent fields among the small-scale businesses (Průcha, 2004, pp. 128-129).

With regard to small and medium business, the ownership by individuals or close relatives was prevalent⁹ (Cekota, 2004, p. 24), while large businesses were owned privately exceptionally. In Czechoslovakia, it was Bata that was the largest privately owned enterprise (Průcha, 2004, p. 129).

In general, the main advantages of large firms consisted in the resilience of capital, ability to manoeuvre in the production and on the market, in better technical equipment. The enterprise with broader assortment of the produced goods, such as Bata, had better position for rational organisation and division of labour and also better preconditions for production technical equipment (Geršlová, 2003, p. 6).

Production related trades were thus successful in the fields where they provided services to the public. The most trades were present in rural areas and in small towns where master craftsman worked in his business mostly alone or with one apprentice and worker (Kárník, 2003, p. 303). This statement is supported by the following Figure 1 where we can see that the concentration of shoemaking craft specifically, was in towns of less than 10 000 inhabitants in over 80 %.

Figure 1: Concentration of Shoemaking Entrepreneurs by the Population of Towns in 1920s



Source: Own calculations and processing based on data from the source: *Statistics of the income tax paid directly, tax from higher pay, annuity tax paid directly, general and special tax from earnings for 1928*. Prague: Český statistický úřad (Czech Statistical Office), 1932.czechoslovak statistics. Volume 82. Series VII, Public finance; book 7, p. 312

9 The business was started in 1894 by three relatives, siblings Tomáš, Antonín and Anna Bata.

This **demonstrates a historical importance of services in regions**, or smaller towns and municipalities. It is an area which is highly relevant due to the actual depopulation of municipalities. However, a minor parallel with the trend, being a moderate development of entrepreneurship in the field of services can be seen here (Břečková and Havlíček, 2015), including naturally both craft and craft-manufacturing trades. The very same author states that the share of this sector has been growing compared to 2011 and 2006. Contrastingly, the share of new business activity in the industrial and construction sectors has been declining. Newly launched companies often include those offering services such as hairdressing, cosmetic services and e-shops (Břečková and Havlíček, 2015). However, regionally it is very difficult to provide solid services in small settlements, and currently the government seeks ways for their improvement, but the motivation-related activities are not grasped and coordinated within the system, and thus have only a very limited effect.

In 1920s and 1930s, the whole 3/5 of the total of trades were self-employed that did not employ any “hired labour” (employees). The crafts were the most significant component of small businesses (up to five active persons). The top five places with the number of workers were taken by: tailors and dressmakers, shoemakers, butchers and pork butchers, joiners, blacksmiths and horseshoes. With the development of capitalism, the small-scale manufacture was driven back, but in some sections it still retained significant and indispensable position. These were fields that had not yet been penetrated by the competition of large-scale industries, such as glaziers, house painters, butchers, confectioners, chimney sweeps, tinsmiths or roofers. It was shoemakers, but also tailors, millers or weavers who had to deal with an entirely different situation when the small-scale businesses faced the increasing pressure of private mass production. In an effort to avoid bankruptcy, some trades were changing their scope of works and underwent transformation from manufacture to repair services, or different manufacturing specializations (Průcha, 2004, pp. 382-384).

2 Methodology

From the methodology point-of-view, the basis of this paper is a combination of several sources. In particular, the research is predominantly based on our own examination and processing of unique archive of statistical, descriptive and legislation resources from 1920s and 1930s. These are mostly data searched in the National Archives in Prague, State Statistical Office, or census in the Czechoslovak republic from 1921 or Statistics of the income tax from 1928, acts and government regulations from 1935 etc.

In addition, this paper is based on expert analyses¹⁰ of entrepreneurship (self-employed) with an emphasis on craft trades until present performed in 2015-16 in the Association

¹⁰ Some data from expert analyses of AMSP ČR (Association of Small and Mid-Sized Enterprises and Crafts of the Czech Republic) (2015) were used. *Srovnávací analýza OSVČ (osob samostatně výdělečně činných) a zaměstnanců (Comparative analysis of self-employed and employees).*

of Small and Mid-Sized Enterprises and Entrepreneurs in the Czech Republic¹¹. In the processing of analyses, verified data from sources such as the Czech Statistical Office, Ministry of Finance, General Financial Directorate, Czech Social Security Administration etc. were used.

Last but not least, a compilation of several researches (or their parts respectively), in which one of the authors (Břečková) participated in the past was duly performed. These are primarily the Comparative Analysis of the Self-Employed Persons and Employees¹² and two Analyses of Crafts¹³. Own researches Perception of Crafts in the Czech population¹⁴, Attractiveness of Craft Fields (2016)¹⁵ and research "Young Business" (2013)¹⁶ have also been exploited.

3 Results and Discussion

3.1 Business Environment in the Period of the First Czechoslovak Republic

Following the disintegration of Austria-Hungary, the Czechoslovak entrepreneurs were neither accustomed to customs barriers that came to existence around other successor states nor the competition of other firms that tried to establish their presence on the same markets with better technically equipped goods and for much more favourable prices. The competition from Western Europe was noticeable and mostly the small and mid-sized enterprises, not to mention small entrepreneurs, were not ready for such pressure, specifically in the financial area (Geršlová, 2003, p. 5).

Similar concerns were shared by both entrepreneurs and generally small and mid-sized enterprises in period when the Czech Republic was accessed the structures of the European Union in 2004. The Western competition was significantly more advanced in business practices, services, and methods of capturing new markets and so on.

11 AMSP ČR (Association of Small and Mid-Sized Enterprises of the Czech Republic, www.amsp.cz) regularly prepares expert analyses aimed at certain territories, themes or segments of small and mid-sized enterprises. One of the authors of this paper (Břečková) actively participates in the preparation of materials for data collection, their evaluation and interpretation.

12 AMSP ČR (Association of Small and Mid-Sized Enterprises and Crafts of the Czech Republic) (2015). Srovnávací analýza OSVČ (osob samostatně výdělečně činných) a zaměstnanců (Comparative analysis of self-employed and employees).

13 AMSP ČR (Association of Small and Mid-sized Enterprises of the Czech Republic) (2015, 2016b). Analýza řemesel_1 and 2 (Analysis of Crafts 1 a 2).

14 AMSP ČR (Association of Small and Mid-sized Enterprises of the Czech Republic) (2014). Průzkum Vnímání řemesel v české populaci (Survey on Crafts' Perception in the Czech Society).

15 AMSP ČR (Association of Small and Mid-sized Enterprises of the Czech Republic) (2016c). Průzkum Atraktivita řemeslných oborů (Survey on Crafts' Attractiveness).

16 AMSP ČR (Association of Small and Mid-sized Enterprises of the Czech Republic) (2013). Průzkum Podnikání mladých – Young Business (Survey on Young Business).

At the beginning of the 20th century, the Czechoslovak entrepreneurs first took a rather overcautious approach, and the determination to take risks was rather exceptional. However, if they were matching the competition from abroad, they had to invest in business and rationalize both production and management activities at significant cost. Due to the domestic capital poverty, not only was it difficult but due to no knowledge of the future development, as mentioned above, it was both bold and risky. In the times of crises, the entrepreneurs slowly adopted their goods to demand, and contrariwise, they were fast to reduce employment, cut wages and stop production. On the contrary, there were entrepreneurs who engaged in modern business policies having elements such as flexible price adjustments, keeping of at least essential workforce in times of economic downturns, or expansion of production capacities into related fields. Bata Shoe Company was the best known example of such policy in the period between wars (Průcha, 2004, p. 137).

The credit market was yet another factor that might have influenced the decision of entrepreneurs whether or not, or to what extent they should take risks. In 1931 Czechoslovakia, the cost of credit were high, and the leading businesses could only take loans for 9 to 10 %, while in Germany in the same period the credit interest rate was at 7 %. A strict deflation policy also limited the economic growth. One or two large enterprises, such as Škoda, may provide loans by themselves, otherwise new industrial firms (such as Bata) had to expand from their profits (Warriner 1933, pp. 314-327).

Therefore, there is a parallel with the present time with regard to several aspects. The **financing of the start of the business is virtually difficult anywhere in the world** when the firm has no history and may not demonstrate its credibility. Unfortunately, the credit situation of entrepreneurs with long history is not much different from the situation in the period of the First Czechoslovak Republic described above, moreover the current period does not undergo crisis, on the contrary, the economy in the Czech Republic in 2015-16 experiences very fast growth. In spite of this, financing of operations and investments of entrepreneurship very seldom drops under 7 %.

3.2 Legal Regulation of Entrepreneurship, Government Incentives and Labour Code

The year 1859 was one of the most important milestones in the development of entrepreneurship. As early as in this year, the act that was to regulate entrepreneurship, the so-called Trade Licensing Code, was enacted. As part of the new economic policy and needs of modern business, the so-called freedom of trade that in principle repealed all regulations related to this field. The Commercial Code from 1862 that legalized free business competition was an essential addition to this act (Geršlová, 2003, p. 9).

The holders of trade licences must have complied with obligations laid down by the Trade Licensing Code. It was e.g. compliance with applicable provisions of opening hours, work overtime, work on Sundays and rest days and possible approvals of exceptions, on conditions of education and work of apprentices, health and safety at work of employees etc. (Geršlová, 2003, p. 9).

Particularly, Bata Shoe Company received preferential treatment in the form of tax exemptions. It was e.g. the tax advantage granted to Bata Shoe Company as the biggest export enterprise, having a form of a renewal of the decree of the Ministry of Finance of 17 May 1929 on Exemptions from the turnover tax for exports of leather footwear. In addition, Bata Shoe Company as a combined enterprise, had tax advantages over other firms regarding turnover tax for leather, rubber heels and soles etc. According to the applicable laws, for all types of leather that Bata Shoe Company made and used in the shoe manufacturing, paid fixed turnover tax of 1 %, when other, non-combined enterprises paid a fixed turnover tax of 3 %. In addition, in 1931 Bata Shoe Company, with the approval of the government, gained the so-called foreign exchange autonomy, being a general permission of the National Bank to use freely foreign currencies (Lehár, 1960, pp. 157-158).

A parallel with the above for today can be seen in the current government **investment incentives** in the Czech Republic that can be obtained by rather large and companies. These incentives result in the exhaustion of labour market with a record-breaking low level of unemployment (around 5 % in 2016) and the increase of wages without concurrent productivity of labour (also as a result of incentives in the form of exemptions, subsidies and compensations allowing these firms to provide attractive benefits). Despite the fact that the entrepreneurship is not typically in collision with investment incentives for large foreign players where direct collision rather with Czech small and mid-sized business (SMEs) exists, yet such incentives (apart from other influences) have an indirect impact on business, including entrepreneurship, e.g. through reduced ability to employ a local person, which as a result has a negative impact on depopulation of rural areas, or services in the region respectively.

The significant laws that related to entrepreneurship included the act of 19 December 1918 on eight-hour working hours. The actual working hours of employees could not last longer than eight hours in the period of 24 hours, or 48 hours weekly at maximum. The act applied to businesses that were subject to the Trade Licensing Code or were operated as a trade and also to the state-run factories and institutions (Buchtelea and Štědrý, 1933, p. 13). Back then, it was a ground-breaking feat, however the working week lasted 6 days, i.e. not current 5 days. In addition, the employees did not have such massive protection as they have today.

At present, a new draft of the **Labour Code** is being open for comments¹⁷ with a declared ambition to make the labour market in the Czech Republic more flexible. However, some seriously proposed solutions by the Ministry of Labour and Social Affairs head in the opposite direction. These are e.g. measures such as the obligation of an employer to provide work to employee without any stress, while sanctions may be imposed purely on the doctor's certificate regarding the mental harm of the worker. The duty to avoid isolation of a staff member working from home from other is another controversial measure. The arrangement of meetings of homeworking employees with their colleagues working in the firm is related to this. The transfer of an employee to a different position

¹⁷ *The draft amending Act No. 262/2006 Coll., the Labour Code, as amended, and other related acts, was presented in the interdepartmental comment procedure in 3/2016. The deadline to present the draft to the government was set for April 2016.*

with his/her consent poses another problem. For now, the employer could do so without his/her approval. Particularly in the times of economic crisis this measure may directly jeopardize enterprises that must very flexibly respond to the situation – a principle that have not changed over the centuries of enterprise. For the time being, the draft of the above mentioned Labour Code has not been approved in this version, however to even compromise solutions of the proposed solutions will not be a contribution to cultivation and support of healthy enterprise.

Thus, it is not surprising that the survey¹⁸ of Association of SMEs and Crafts among young people on starting own business reveals that the business environment is perceived as not entirely friendly for starting business. A total of 72 % of respondents evaluate it as negative or rather negative. Students do not view the current situation as ideal for starting business (Břečková and Havlíček, 2015). And other authors add: “a new phenomenon was relieved – young people seem to insist on having a good work-life balance from the very beginning of their professional careers. For achieving it they find it more convenient to become employed rather than trying to start their own business” (Břečková and Lacina, 2016). Moreover, in the Czech Republic there is generally high administrative and legislative burden on business which is difficult to manage especially for micro enterprises. As shown by the latest analysis of AMSP ČR (Analysis of Crafts 2¹⁹, 2016), this is also the reason why there is a significant decline in the dynamics with regard to the establishment of new craft trades. While in the last 15 years, the average was more than 24 000 new craft trades per year, in the last year, it is less than 10 000 of new craft trade licences.

3.3 History of Crafts (shoemaking), Bata's Influence and Influence of Industrialization

Until the end of the 19th century, the shoemaking was a craft, as its technology had not changed since the beginning of shoemaking. The tools, equipment and materials were passed from father to son for fifty or sixty generations²⁰ (Cekota, 2004, pp. 13-14). At the same time, the status of shoemakers had not changed either. The shoemaking together with tanning shared equally the last position in the hierarchy of crafts²¹ (Cekota, 2004, pp. 33-35). While the craft as such had a significantly higher prestige, as opposed to the

18 AMSP ČR (Association of Small and Mid-sized Enterprises and Crafts of the Czech Republic) (2013). *Průzkum Podnikání mladých – Young Business (Survey on Young Business)*.

19 AMSP ČR (Association of Small and Mid-sized Enterprises and Crafts of the Czech Republic) (2016b). *Analýza řemesel_2 (Analysis of Crafts 2)*.

20 This was also the case of Tomáš Bata's family. Tomáš Bata asked for a genealogical research of his family line as far as the records have permitted. Bata's shoemaking history goes back all the way to 1580 when Batia, a shoemaker, was born. Then the shoemaking craft was passed from father to son: Lukáš Batia (born in 1610), Lukáš Bata (born in 1660), Martin Batia (born in 1691), Martin Batia (born in 1715), Šimon Batia (born in 1755), Antonín Bata (born in 1802), Antonín Bata (born in 1844), Tomáš Bata (born in 1876). Tomáš Bata was the ninth in the family tradition.

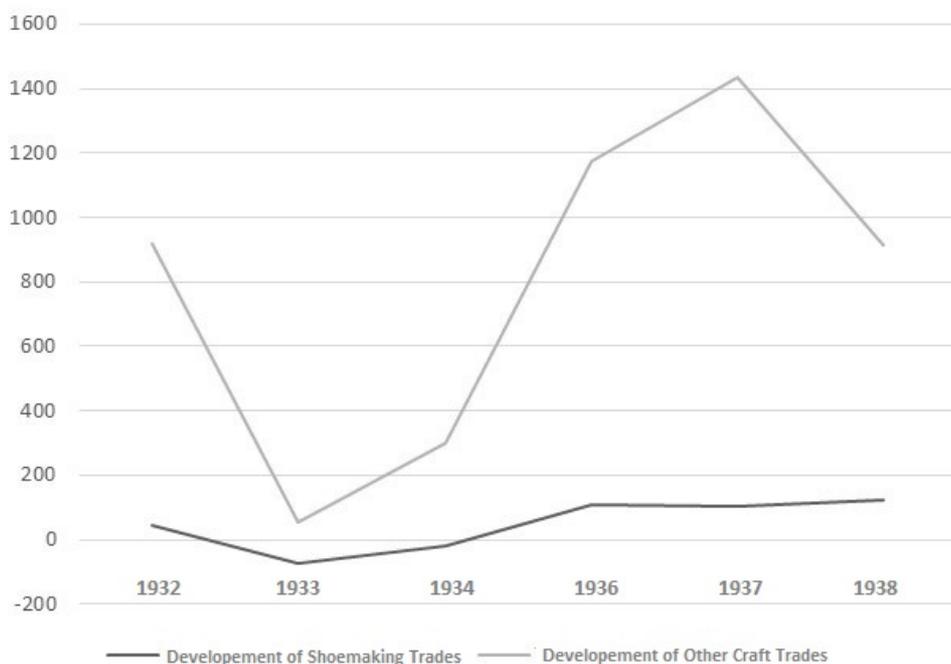
21 We can find a related parental threat recorded in history archives from that that era that was more effective than a beating: “If you do not study, I will have you become a shoemaker.” (Cekota, 2004, pp. 33-35).

present time, probably due to long declining prosperity, specifically in the shoemaking industry, this industry was pushed down to lower positions from the prestige perspective.

In Europe, the shoemaking industry was still in infancy at the turn of the 19th and 20th centuries. **Only a small fraction of the total consumption was manufactured in factories**, specifically, lightweight footwear for urban citizens, house slippers and army boots. The shoemaking can thus be divided in two parts. The first part that was in minority, was manufactured using machinery. The second part, much more extensive, was manufactured by the household industry, being a mix of purchase and sale organisation and division of productions among individual entrepreneurs – shoemakers. In **the Czech lands, shoes were manufactured exclusively manually as late as in 1870s with no distinction (with exceptions) between the left and right foot until 1890s** (Cekota, 2004, pp. 35-36).

Significant changes in the shoemaking branch occurred practically at the end of the World War I. The **decline of handmade shoemaking that could not be stopped until the mid-1930s was related to the development of factory shoemaking** (see the Figure 2). Also consequences of economic crises in 1921-1923 and 1929-1933 contributed to the decline of this craft. The shoemakers, as the most numerous group of entrepreneurs were the most affected (Štroblík, 2009, p. 90). The shoemaking industry had already undergone a deep crisis before the monitored period, in 1907 and 1908. During these years, many shoemaking factories had to significantly reduce or stop entirely their production (Lehár, 1960, p. 27).

Figure 2: Development of Shoemaking and Craft Trades in 1932-38 (net increase/decrease)



Source: Own processing and calculations on the basis of data from the Národní archiv Praha (National Archive in Prague), box No. 1957.

Impact of the expansion of Bata Shoe Company to the decline of shoemaking trades should not be trivialized, but the great number of business liquidations was also detected, because the shoemaking trades were the most numerous ones. Lehár adds (1960, p. 64) "Regarding the sales situation both on the domestic and international market, this was mostly caused by low purchasing power of working population and also by high prices of goods." Some shoemakers, the oldest ones in particular, blamed the war for the decline of their trade. Many of them were larger manufacturers before the war, and then spent several years in the army and their trade perished and they had to start again and with no funds. They said that it was a duty of public officials to help such situation (The National Archives in Prague, box No. 1970).

The economic problems peaked in 1922, and Bata's factory in Zlín could not even be helped by double price reduction, in the autumn of 1921 and in the spring of 1922 and they still could not sell out goods from their full warehouses. Therefore, Tomáš Bata performed a surprising risk-involving operation when, as of 1 September 1922, he reduced the price of his shoes to half. At the same time, he cut the wages of the factory employees by 40 %, which he partially tried to compensate by e.g. cheaper foodstuffs and other goods for his employees. This reduction in shoe prices was well-received by the consumers, the stock was being quickly sold out, it put capital in motion and the firm cashed money the value of which was increased by deflation (Pokluda, 2004, p. 19).

Specifically in this point, it can be difficult to find a parallel with the present time, despite the fact that in 2008-2010 enterprises were facing no less significant problems in the times of modern crisis. However, among other the remedial action along the lines of reducing the employee wages by 40 % would be practically impossible today for legislation reasons, due to the current a rather rigid labour code.

Owing to the rationalization of production, Bata was able to sell shoes for prices that were below the level of shoe prices of the competition. In 1923, Bata Shoe Company increased the sales of shoes on the domestic market. In this had competition, many smaller shoemaking companies went bankrupt as they did not have sufficient working capital or were severely indebted. Not only factories, but small shoemaking entrepreneurs were primarily affected. Until the end of 1923, Bata also started to establish shoe repair shops, which were met with protests by small entrepreneurs (Lehár, 1960, pp. 88-90).

During the years of the Great Recession when the export of shoes from Czechoslovakia stagnated, Bata Shoe Company tried to offer new services to local customers. For this reason, Houses of Services were established where the customers were provided with full service when buying shoes. The company made marketing and advertising to perfection, and was generously introducing pedicure. Gradually, less successful companies were driven out of the market and market concentrations occurred and the market share of Bata Shoe Company amounted to 4/5. Many other producers responded to this trend by focusing their production on better quality and more expensive shoes, or sports shoes, such as Popper Chrudim or Chlud Otrokovice. In these years, many entrepreneurs lost their jobs and other professional movements were organised.

E.g. in 1931 when manifestation convention was held in Prague, Bata invited participants of this convention to Zlín, because he wanted them to see in person what they were protesting against. He offered jobs to many thousands of dissatisfied shoemakers, including those who wanted to continue to work independently and recommended them to establish repair cooperatives. He also proposed to start a new industry – chemical shoe cleaning for older entrepreneurs who did not dare to open modern repair shops. This proposal was issued in printed form as a 40 page brochure in 1931, and in principle it is a guide how to establish and organise repair shops and shoe cleaning shops. The proposal includes budgets for the furnishing of the shops with equipment for independent entrepreneurs and cooperatives, division of labour breakdowns by the number of workers, templates for keeping weekly accounts, loss and profit, and also drawings of layout of repair and cleaning shops, plan for the positioning of machinery and also their photographs with description and prices. This is demonstrated by his words written in the end of the proposal to increase employment in the shoemaking industry: “we do not mean to fight our colleagues-shoemakers who have honest thoughts about their craft. Those of you, we provide with our best experience in this proposal” (Štrobliík, 2009, p. 93). However, the problem was that the investments in such modern shops that were to be subsidised by the Ministry of Trade from the fund for rehabilitation of the shoemaking craft, were not approved. The Ministry dealt with Bata's proposals, but following the consultations with representatives of shoemakers, the proposal was dismissed (Štrobliík, 2009, p. 94).

The cheap Bata's footwear improved the competitiveness of the company in Czechoslovakia, but it resulted in the change of the structure of shoemaking industry—with trades and small-scale production being more frequently left with repairs of shoes, and other shoemaking and tanning businesses managed to stay on the market only when they selected a proper specialization, such as short-run production or fashion goods, straps, belts or manufacture of other leather goods, with such an example being Kazeto Přerov that was originally a shoemaking company, but under pressure from Bata Shoe Company it managed to shift production in time (Geršlová, 2003, p. 29).

At present, the parallel with Bata times with regard to the above can be seen e.g. in the field of market squeeze-out and reduced ability of prosperity of entrepreneur shops from centres of towns due to the massive development of retail sale in hypermarkets. The reduction of life in centres of — particularly smaller — towns and fewer services is the result. However, in larger towns of the Czech Republic, there are newly detected signals of the renaissance of small specialized shops resulting by the demand of inhabitants of these settlements. For the most part, these shops may not compete with prices, but usually by differentiation, quality and easy accessibility.

3.4 Development of Number of Trades and Business Environment

The competition between Bata Shoe Company and artisan traders resulted in the liquidation of small shoemaking entrepreneurs. At the beginning of 1921, the shoemaking craft was performed by 57 515 (State Statistical Office, 1927, p. 11) independent manufacturers, in 1928 the income tax was paid by mere 34 965 independent entrepreneurs (State Statistical

Office, 1932, p. 312). Thus, over 22 000, i.e. almost **40 % of independent shoemaking manufacturers** in Czechoslovakia **ceased their trade-related activities**.

These and other data were used to compile the following chart where other crafts are mentioned in addition to the independent shoemaking entrepreneurs. The data from 1921 when the census was made by the State Statistical Office are compared. The said census focused on census by the type of occupation of citizens. These data are compared with 1928.

Both tanning and leather-making crafts were chosen as Bata Shoe Company also affected these crafts. It is clear from the chart that particularly this craft had seen even more pronounced decline than the independent shoemaking craft, which is primarily examined in the given period. During 8 years, the tanning industry had seen a decline by almost 45 % when 510 from original 1134 entrepreneurs ceased their craft-related activities. In addition – to improve context – the rag trade was chosen as this craft was affected by advancement in technologies when new machines were gradually introduced in the manufacturing process. This craft posted almost a 26.5 % decline. For comparison purposes, we also included industries that were not related to the shoemaking industry or Bata Shoe Company at all, and which had not seen significant technology advancement, as with the previous industries. These are industries such as joinery, butchery and pork butchery, pharmacy, bakery and masonry. **On the contrary, these industries had seen an increase in trades** (see Table 1).

Table 1: Development of Entrepreneurs in Selected Crafts in 1921 and 1928

Craft Industry	Years		Increase (+) / decrease (-)	
	1928	1921	number	in %
Shoemakers	34,965	57,515	-22,550	-39.21
Tanners and leather makers	624	1,134	-510	-44.97
Cloth manufacturers	44,871	61,018	-16,147	-26.46
Joiners	20,823	20,155	+668	+3.31
Butchers and pork butchers	20,246	19,295	+951	+4.93
Pharmacies	1,208	1,199	+9	+0.75
Bakeries	12,701	10,565	+2,136	+20.22
Masons	4,055	3,391	+664	+19.58

Source: Own calculations and processing based on data from *Census in the Czechoslovak Republic of 15 February 1921. II. volume, (Occupations of citizens). 4. part, (Czechoslovak Republic). Prague: State Statistical Office, 1927.czechoslovak statistics. Ř. VI, Census; volume 23, book 5, pp. 8-12* and from *Statistics of directly paid income tax, tax from higher pay, directly paid annuity tax, general and special tax from earnings for 1928. Prague: State Statistical Office, 1932.czechoslovak statistics. Volume 82. Series VII, Public finance; book 7, pp. 308-315.*

In 1929-1932, 9461 of independent shoemaking business were wound-up (Lehár, 1960, p. 153). During 1933, 1579 of entrepreneurs cancelled their trades (Štrobliík, 2009, p. 94). In 1933, i. e. following the years of the Great Recession, 23 925 independent entrepreneurs businesses were registered (Zlin.estranky.cz). **From 1921 to 1933, 58.4 % of entrepreneurs ceased their craft-related activities.**

The parallel with the present situation is a rather distant one, however even now there is an **alarming trend in the development of entrepreneurship**. There is a clear decline in trades **that are the main source of income of the entrepreneur, or his family**. The ratio shifts towards the part-time trades, i. e. as an extra income to employment. Neither of the above is economically good news. It means that it is not worth to conduct business as an entrepreneur and there are many reasons for this conclusion, one of them being perception and prestige of entrepreneurs in the society. The Global Entrepreneurship Monitor (GEM²²) report mentions: "The image of entrepreneurs remains very bad, and less than half of our population considers successful entrepreneurs to have a high status. Experts are also very sceptical in this respect. It is necessary to work on creating positive examples." (Report on the Development of SME, 2014, p. 59.)

It is also the convenience of a younger generation who feel and often observed in their close vicinity that to build an enterprise of one's own mean a lot of work, responsibility and persistence, not always with a guaranteed result. Therefore, more and more run for the "safety" of employment (Please see the results of AMSP ČR research called Young business,²³ 2013). A role may also be played in this case by the periodically repeated social and political discussions regarding the hot topic of expense allowances, which can provide micro enterprises with a specific form of administrative relief of up to CZK 2 million (EUR 71,000) per year by giving them the opportunity to apply an expense allowance instead of conducting regular accounting. The way this works in practice is that the micro enterprise records only income (revenues) from business activity, applies an expense allowance to it, such as in the amount of 60 % (which is intended to reflect the approximate percentage of expenses necessary for achieving the particular income), and pays traditional income tax on the rest of the earnings. There are three different expense allowance percentages in the Czech Republic (40 %, 60 % and 80 % depending on the type of activity), and they have long been considered controversial by governing coalitions, since micro enterprises, through their existence and functioning, sustain regional infrastructure and social cohesion. Moreover, in the Czech Republic there is generally high administrative and legislative burden on business operators, which is difficult to manage especially for micro enterprises (Břečková, Havlíček, 2015).

22 *Analysis of business activity within the Global Entrepreneurship Monitor (GEM) international project, conducted in 2013 (available from the Report on Development of SME and their support in 2013, which we refer to as Ministry of Industry and Trade (2014). Zpráva o vývoji malého a středního podnikání a jeho podpoře v roce 2013 (Report on the development of small and medium enterprises (SME) and their support in 2013), 2014 – based on the year of issuance – see the Reference Sheet.*

23 *AMSP ČR (Association of Small and Mid-sized Enterprises of the Czech Republic) (2013). Podnikání mladých – Young Business (Survey on Young Business).*

Conclusions

This paper aimed to survey the business environment from the perspective of entrepreneurship in 1920s and 1930s and the expansion of the now-phenomenal Bata Shoe Company in this period. The predominant aim of this paper is to trace the impact of the significantly development-oriented strategy of Bata Shoe Company to the steep reduction in numbers of entrepreneurs in the shoemaking field in the First Czechoslovak Republic. The aim was also to realistically describe business environment of that time with an accent on entrepreneurship, and to partially compare this with the environment in which we operate currently (finding implications for present).

Concerning the methodology, the research uses unique archive of statistical, descriptive and legislation resources from 1920s and 1930s. In order to compare the situation and to find parallels with the current situation of the business and particularly the entrepreneurial environment, expert analyses with an emphasis on craft trades and current researches made in 2013-2016 by the Association of Small and Mid-Sized Enterprises of the Czech Republic²⁴, in which one of the authors (Břečková) of this paper actively participated in person, were used.

The liquidation effect of Bata Shoe Company to entrepreneurship in the shoemaking industry could not be proved unambiguously, which is demonstrated by the following factors.

1. In Europe, the shoemaking industry was still in infancy at the turn of the 19th and 20th centuries. Only a small fraction of the total consumption was manufactured in factories. The later impact of the expansion of Bata Shoe Company to the decline of shoemaking trades in the region may not be ignored, but the great number of wound-up businesses is also detected, because the **shoemaking trades were the most numerous ones**. Moreover, the decline of handmade shoemaking that could not be stopped until the mid-1930s was significantly related to the development of factory shoemaking from the first decade of the 20th century. From 1921 to 1933, 58.4 % of entrepreneurs ceased their craft-related activities in this connection.
2. To improve the context and validate the statement that the impact of the development of the large-scale business by Bata Shoe Company existed, but also the **technology progress and the development of factory manufacture** had massively contributed to the liquidation of shoemaking businesses. The comparison with other selected industries, both the ones where industrialization was under way (introduction of machinery in the manufacturing process, reduction of manual work, such as rag trade) and those where the industrialization was not predominant (joinery, bakery and so on) was made in chapter 3.4 of this paper. The decline measured in dozens of percent with all industries with industrialization was demonstrated, while other industries without

24 AMSP ČR (Association of Small and Mid-Sized Enterprises of the Czech Republic, www.amspace.cz) regularly prepares expert analyses aimed at certain territories, themes or segments of small and mid-sized enterprises. One of the authors of this paper (Břečková) actively participates in the preparation of materials for data collection, their evaluation and interpretation.

industrialization (such as joinery, butchery and pork butchery, pharmacy, bakery and masonry) showed in turn increases of trades.

3. **World War I and related post-war sales and production crisis** was another factor that played the role in the reduction of crafts. It follows from historical sources that many artisans who participated in the war and survived, blamed the war as the factor why their business perished. The manufacture crisis related to the lack of basic raw materials for the shoe production and also the sales crisis that consisted in the poor purchasing power of citizens played an important role in bankruptcies of entrepreneurs.
4. The **character of the craftsman's shop** was a factor that could not be neglected. In contrast with factories, it is practically impossible to use new technologies in the workshop or to try new methods for the growth of the productivity of work, among other for financial reasons. In factories, better division of labour and organisation of work can be applied, while in the craftsman's shop where only master with journeyman and apprentice usually worked, this can be done only to a limited extent. This resulted in lower productivity of work and hard-to-achieve competitiveness.
5. Other factors with an impact of massive decline of entrepreneurship, specifically in the shoemaking industry in 1920s and 1930s included the then existing **legislation that provided significant preferential treatment to large companies** of certain type. This is described in more detail below in the characteristics of parallels with current problems of entrepreneurship.

The parallels with the current situation were found in the following areas.

1. The then existing legislation cannot be neglected as a significant factor making the position of the entrepreneurship even harder, as Bata Shoe Company received preferential treatment under some tax regulations. This preferential treatment had a form of turnover tax exemptions for the export of leather footwear. In addition, Bata Shoe Company paid a fixed turnover tax of 1 %, while other non-combined enterprises, including entrepreneurs paid the tax of 3 % (three times more). A parallel with the above can be seen in the current government investment incentives in the Czech Republic that can be obtained by rather large and often foreign companies. These incentives currently result in the exhaustion of labour market with a record-breaking low level of unemployment (less than 4.5 % in 2016) and the increase of wages without concurrent labour productivity (also as a result of incentives in the form of exemptions, subsidies and compensations allowing these firms to provide attractive benefits). Despite the fact that the entrepreneurship is not typically in collision with investment incentives for large foreign players (where direct collision rather with Czech SMEs exists), yet such incentives (apart from other influences) have an indirect impact on business, including entrepreneurship, e.g. through reduced ability to employ a local person, which as a result has a negative impact on depopulation of rural areas, or services in the region respectively.

2. The serviceability mentioned above is a direct parallel. In the past, manufacturing crafts were thus successful in the fields where they provided services to the public. This demonstrates a historical importance of services in regions, or smaller towns and villages. It is an area which is highly relevant due to the actual depopulation of villages nowadays. However, currently (as opposed to the times of the First Czechoslovak Republic) it is regionally very difficult to provide solid services in small settlements, and the government seeks ways for their improvement, but the motivation-related activities are not grasped and coordinated within the system, and thus have only a very limited effect. The social climate should currently focus on the new role of entrepreneurs which no longer irreversibly consists in filling the state budget, but in the area of social cohesion and sustainability of areas outside large cities where the main population drain is heading these days. Dysfunctional villages of ghosts in some areas of Spain or Portugal and other countries may serve as memento.

3. For the purposes of this paper, on the basis of a detailed analyses of available sources and our findings, it can be actually said, how the entrepreneurs coped with crises that occurred in the monitored period. The solution of some shoemakers (minority) was such that they managed to shift their businesses from manufacturing to repairing (servicing) activities. Some of them started specializing in certain type of footwear, such sports or luxury footwear. At present, the parallel with Bata times with regard to the above can be seen among other in the field of **market squeeze-out and reduced ability of prosperity of entrepreneurs' shops from centres of towns due to the massive development of retail sale in the form of hypermarkets etc.** As a result, the reduction of life in centres of - particularly smaller - towns, and lower serviceability can be observed. However, in larger towns of the Czech Republic, there are newly detected signals of the renaissance of small specialized shops caused by the demand of inhabitants of these settlements. In majority, these shops can hardly compete with price, but they usually can by **differentiation, specialization, quality and easy accessibility.**

4. The economic problems peaked around 1922 when Tomas Bata performed a surprising risky operation when he cut prices for his shoes to half. At the same time, he cut the wages of the factory employees by 40 %, which he, however, partially tried to compensate by e.g. cheaper foodstuffs and other goods for his employees. This reduction in shoe prices was well-received by the consumers, the stock was being quickly sold out, it put capital in motion and the firm cashed money, the value of which was increased by deflation (Pokluda, 2004, p. 19). Specifically here, a parallel with the present time is rather a distant one, despite the fact that in 2008-2010, enterprises faced no less significant problems in the times of modern crisis. **However, among other the remedial action along the lines of reducing the employee wages by 40 % would practically be impossible for legislation reasons, due to the current a rather rigid labour code.**

5. In any case, the findings showed that from 1921 to 1933 the 58.4 % of entrepreneurs ceased their craft-related activities. In this case, the parallel with the present situation is fortunately a rather distant one; however, even now there is an **alarming trend in the development of entrepreneurship.** There is a clear decline in artisan trades

that are the main source of income of the entrepreneur, or his family. The ratio shifts towards the part-time trades, i.e. as an extra income to supplement employment (job). Neither of the above is economically good news. It means that it is not worth to conduct business as an entrepreneur and there are many reasons for this conclusion, one of them being **social perception of entrepreneurs and prestige of crafts in general.**

6. Until the end of the 19th century, the shoemaking was a craft, as its technology had not changed since the beginning of shoemaking. The tools, equipment and materials were passed from father to son for fifty or sixty generations (Cekota, 2004, pp. 13-14). At the same time, the status of shoemakers had not changed either. The shoemaking together with tanning shared equally the last position in the hierarchy of crafts (Cekota, 2004, pp. 33-35). While in general the craft as such had a significantly higher prestige, as opposed to the present time, probably due to long declining prosperity, specifically in the shoemaking industry, this industry was pushed down to lower positions from the prestige perspective. At present, the long-standing unpopularity of crafts together with the declining demographic curve and (overly) easily accessible secondary and university education caused a **painful lack of craft professionals and technical professions on the labour market in general.** Some prestige for crafts is to be redeemed by the so-called Year of Crafts²⁵ announced for 2016. And the trust in the honest and solid craft is to be renewed by the unique portal "Masters of Craft"²⁶.

More research related to the problem of the impact of Bata Shoe Company can be done with regard to the verification of the impact of Bata Shoe Company to other shoemaking factories in international markets, as Bata Shoe Company became the largest shoemaking company in the world in its time. Therefore, Bata Shoe Company had to face protests and boycotts of his shoes at the international level, not only in Czechoslovakia.

Acknowledgement

This academic text is dedicated to the project of internal grant agency VŠFS, Prague: IGA 7766 (2015-2016) grant entitled "Analysis of the SME Segment in Correlation with Competitiveness of Domestic (Czech) Economy", supported by the Institutional support for long-term strategic development of research organization. The majority of materials for this paper was drawn from the bachelor's thesis of Bc. Irena Němčická compiled under the supervision of Ing. Pavla Břečková, Ph. D.

²⁵ In 2016, the AMSP ČR (Association of Small and Mid-Sized Enterprises and Entrepreneurs of the Czech Republic) launched a historically biggest domestic offensive in support of craft trades. The fundamental objectives of the project include the improved prestige of craftsman's work and professional associations, motivation of young generation and re-introduction of practical training at elementary schools. For more information please see: <http://rokremesel.cz/o-projektu>.

²⁶ Internet search engine was created on the AMSP ČR platform for consumers www.mistrimesel.cz (Masters of Craft), offering the widest and most complex catalogue of craftsman.

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