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Subsidies in the Czech Republic



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Abstract

A periodic field survey of Czech companies has been carried out for a number of years. This is mainly focused on the analysis of the use of marketing, but the data collected also allows further evaluation. The article used the results of a survey conducted in 2022, but was also supplemented by official economic data of the companies obtained in 2023 after their publication. This text presents the results of the analysis of these data focusing on the economic allocation and use of subsidies.

Keywords: Use of subsidies; Economic data; Marketing Vitality; Medium-term profits; Foreign capital

Introduction

For a number of years, a large-scale qualified survey of Czech companies has been conducted within a two-year period. It was decided to repeat the survey after 2 years because most of the information about the company under study is obtained in the first year, but its economic data are published only after the financial statements. That is, during the autumn of the following year. The aim of the survey is to monitor the long-term development and changes in the Czech business sphere with regard to the marketing activities of the companies operating there. The questionnaire that respondents complete with company management has predetermined questions that are divided into the following main headings: Basic information about the company. Economic data, both published and some that are not published. Marketing activities and knowledge of marketing work in the company. Plans to expand marketing activities and the use of digital technologies in marketing. Every 2 years, thousands of data on about 300-400 companies registered in the Czech Republic are obtained from a given field survey. The main output after the processing and evaluation of the completed questionnaires is the evaluation of the so-called "Marketing Vitality" [1] and the comparison of the received mathematical results with the previous survey. However, the economic data obtained, if processed in a different way, provide insight into other aspects of the activities and condition of Czech firms. This text will further discuss the use and utilization of EU subsidies by Czech companies. It completely omits the marketing results of the survey in question.

Methods used

Considering the economic and marketing background of the respondents, each of the field surveys conducted is qualified. Each respondent chose which company to survey. Therefore, this also meets the condition of random selection. Considering that in each such survey data is collected from approximately 300-400 companies, this is a statistically significant number. The mathematically processed results of the field survey evaluation correspond to descriptive behavioral analysis. Considering the objective of the evaluation, simple statistical methods were used. For each of the analyzed economic parameters/factors, not sum totals but averages have been used due to the different number of companies belonging to a given parameter/factor under evaluation. Where absolute values of economic data are used, they are given in thousands CZK. In some cases, economic data have been converted to % for greater clarity. So that the result obtained for a given main group of parameters/factors can be compared relatively.

Since the subsidy programmes have a multi-year duration and it was not possible to obtain from official sources how much a particular company received in a given year, the cumulative amount found for a given company is used for the calculations. But by using averages or percentages for the results shown, these are comparable relative values. Each of the tables presented below does not provide absolute values, but is only comparative in

nature between the individual factors/parameters. The evaluation presented in the text also works with the statistical registration number of the main business activity of the company under study (CZ NACE) [2]. For the purposes of this evaluation, only the first digit of the statistical number was used, which characterizes the main group of business activity. Table 2 in the Results section shows which main branches of activity are concerned and the statistical numbers of the main groups. The information received from the questionnaires was validated using Student's T test [3] and Pearson's [4] test distributions to determine how much the data could be trusted. Next, an evaluation was performed using the Coefficient of Variation [5] to determine whether the error was systemic or systematic.

Working hypotheses

- i. H1 The subsidies are not distributed efficiently in accordance with the economic interests of the Czech Republic.
- ii. H2 The allocated subsidies do not have the expected economic effect.
- iii. H3 There is a large variation in the distribution of subsidies between the main branches of activity.
- iv. H4 Some branches of activity have been affected by the

"Covid crisis", but this has not been reflected in subsidies.

Results

The field survey was carried out in 2022 and data were obtained from 351 companies registered in the Czech Republic. From this number of completed questionnaires, most of the data was usable for the evaluation of "Marketing Vitality". But because some data is missing, 293 of these companies could be used for the presented study, while data from only 171 companies used for some calculations. Even so, this is a statistically significant amount. The data, which were mathematically processed with respect to the issue of subsidies, achieved a Pearson coefficient of 0.65-0.74. This is therefore a good probability. According to the Student's T-test, the data used had values of 0.18-0.25, with a significance level of 0.05. This is therefore sufficiently reliable data. At the same time, their Coefficient of Variation ranged from 0.1 to 1.4. The results obtained are therefore good or just over the threshold in this respect. The following table shows the relative amounts between the assessed domestic companies and foreign companies that have a registered subsidiary in the Czech Republic or are directly owned by foreign capital (Tables1-5) (Figure1). For example: If we consider companies in the CZ NACE 0 branch group, it would take them 100 years to pay back the cumulative amount of subsidy they received, given the profits they made in 2022.

Table 1: Ratio of cumulative subsidies and revenues to declared gross profit in 2022.

	Czech Companies			Foreign Companies		
	subsidies	sales	profit	subsidies	sales	profit
%	80	8	10	20	92	90

Table 2: Statistical registration classification CZ NACE and description of the main branch of activity.

CZ NACE	Main branch of activity
0	crop and livestock production, raw material extraction
1	food processing, footwear, clothing, wood processing industry;
2	logging, chemical and pharmaceutical industry, production of building materials, metallurgy and metal processing, electrical equipment and electronics, engines and machinery, motor vehicles;
3	ships, aircraft, locomotives and other means of transport, furniture, other manufacturing, electricity, gas and heat production and distribution, water management, waste;
4	construction, wholesale and retail trade, land transport;
5	water and air transport, warehousing, accommodation, catering and hospitality, publishing;
6	radio, television, telecommunications, IT, banking, insurance, real estate;
7	business management, engineering, research and development, promotion, special services, veterinary medicine, leasing, agencies;
8	security, cleaning, mediation, public administration and defence, education, social care, outpatient services;
9	artistic activities, libraries, gaming and casinos, professional organizations and associations, repairs, domestic activities, mining and support industries;

Table 3: Number of companies evaluated according to the CZ NACE statistical classification of the main branches of activity.

CZ NACE categories	0	1	2	3	4	5	6	7	8	9
number evaluated	10	19	16	11	48	15	27	13	7	5

Table 4: Average values of the size of cumulative subsidies and sales or gross profit in 2022 by main activity groups.

banking average [thous. CZK]			trade average [thous. CZK]		
subsidies	sales	profit	subsidies	sales	profit
3,262,524	191,913	337,263	1,140,213	33,536	28,207
production average [thous. CZK]			services average [thous. CZK]		
subsidies	sales	profit	subsidies	sales	profit
33,237,708	3,114,099	36,637	8,389,744	1,011,824	1,828

Table 5: Average values of the size of cumulative subsidies and sales or gross profit in 2022 and subsidy/sales/profit ratios by CZ NACE activity branch classification.

CZ NACE	average subsidy [thous. CZK]	average sales [thous. CZK]	revenue/subsidy ratio %	average profit [thous. CZK]	profit/subsidy ratio %	profit/sales ratio %
0	4,751,917	527,991	11	29,601	1	6
1	20,754,262	1,596,482	8	51,216	0	3
2	8,892,201	741,017	8	22,542	0	3
3	85,493,871	8,549,387	10	43,189	0	1
4	808,742	23,787	3	28,207	3	119
5	9,430,822	943,082	10	-5,661	0	-1
6	3,262,524	191,913	6	337,263	10	176
7	2,601,617	289,069	11	6,573	0	2
8	12,873,198	1,609,150	13	4,659	0	0
9	275,483	137,742	50	1,743	1	1

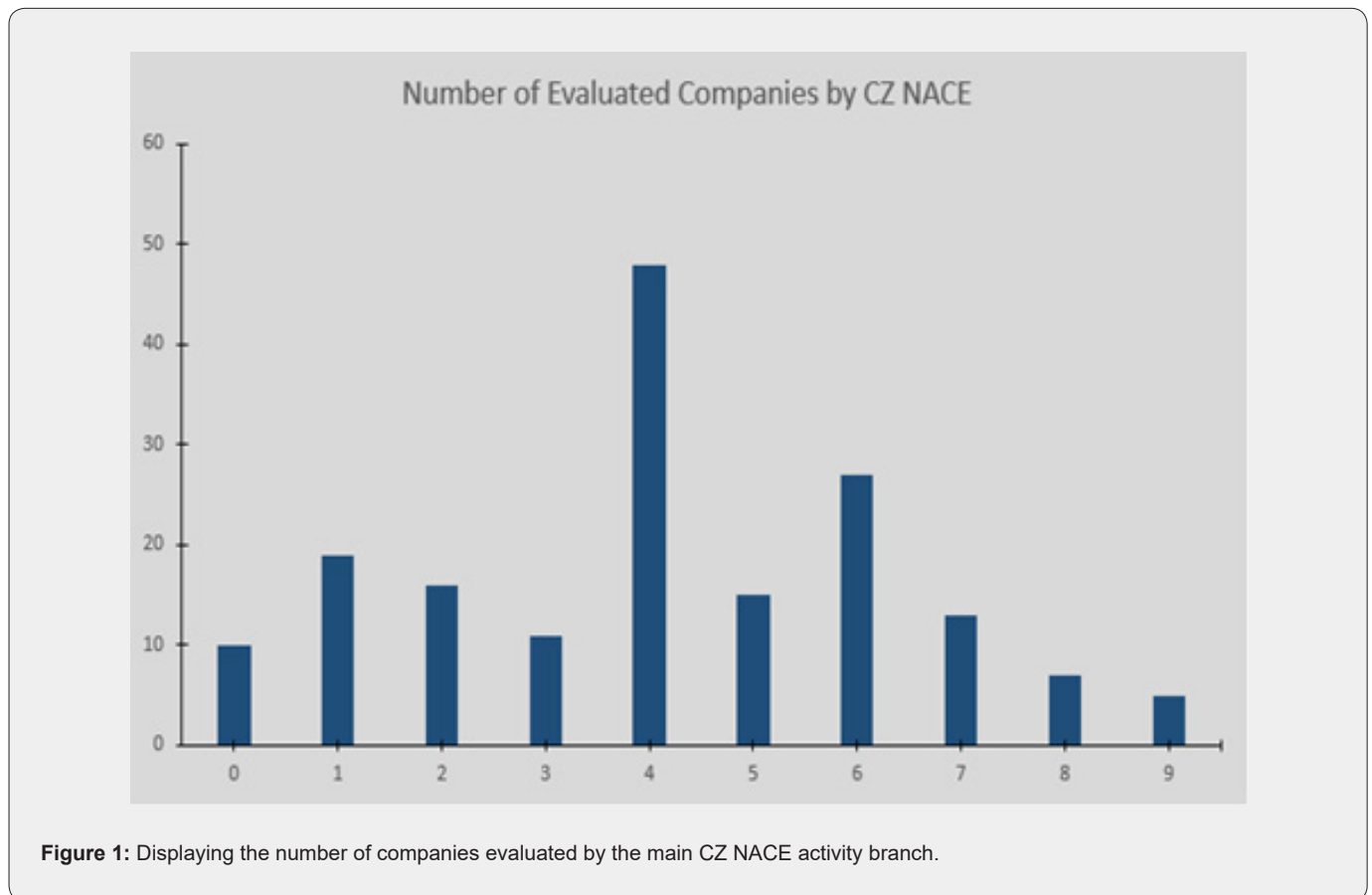


Figure 1: Displaying the number of companies evaluated by the main CZ NACE activity branch.

Conclusion

The Pareto 80/20 rule also applies to the distribution of subsidies [6]. When 80% of them will go to those who have managed to plan and push the topic through the European Commission process. And because it is a lengthy and financially demanding process, only strongly capitalized companies can afford such a procedure. The remaining 20% of the funds of each grant programme will go to everyone else. But the rule also says that the 80% will only bring 20% of the profit, whereas the 20% will bring 80% of the profit. Table 1 is already very alarming. On the one hand, it shows that the Czech Republic has succumbed less to the trend to move production capacity to countries with higher profits for the sake of medium-term profits. Such shifts normally happen at the transnational level regardless of the long-term consequences. But has anyone asked themselves what would happen if Asian countries, led by China, stopped supplying textiles to Europe? What would people walk around in? In some other sectors, this dependence on imports from Asian countries is even worse. For example, the vast majority of medicines and all toothpastes would be unavailable. And Europe is better off than the US, where more than 80% of goods, raw materials and materials on the market are covered by imports. Table 1, on the other hand, shows how the financial resources of the Czech population end up going abroad. The revenues and profits of foreign companies in the Czech Republic are roughly 10 times higher than those of Czech companies. Has anyone thought about what this does to the purchasing power of the population and the circulation of resources?

However, the existence of the Register of Beneficial Owners makes it easy to verify whether a company is a Czech company or a company registered in the Czech Republic but owned by foreign capital. Like the author of the article did. And then the question arises as to why subsidies from the Czech budget are provided abroad. Even though it is 4 times lower than the amount of subsidies provided to Czech companies. Table 4 shows that the manufacturing sector in the Czech Republic received the largest amount of subsidies. This is the right economic situation. But why any subsidies were given to the banking sector, which includes the insurance sector, is economically incomprehensible. On the one hand, it works with the financial resources of its shareholders and customers, i.e. the state, companies, and the population. On the other hand, all companies in the banking sector in the Czech Republic are owned by multinational companies, so there is a direct outflow of invested funds abroad. Table 5 shows that in only three of the ten main branches of activity were the subsidies provided cost-effectively. One basic group of branches is questionable. Efficiency was demonstrated for the CZ NACE 0 branch group - crop and livestock production, extraction of raw materials. And for the group of CZ NACE 4 branches - construction, wholesale and retail, land transport. Yet paradoxically, this major group of branches received the least amount of subsidies. But it makes a high rate of profit through trade.

To a layman, it may appear that the subsidies were used efficiently in the main CZ NACE 6 branch group. But appearances are deceiving. It is the banking/financial sector that controls the currency, so they set their own numbers. Yet this sector is also the most profitable, and the official economic data published by them only show a fraction of their activities. Moreover, in absolute value in CZK, it is 7 times more than all other branches combined. The fact that these financial resources are transferred abroad has been mentioned above. The above tables show warning figures of how much and in what ways the financial resources of the state and the population of the Czech Republic end up going abroad.

Hypothesis H1, that the subsidies are not distributed efficiently in accordance with the economic interests of the Czech Republic, was confirmed. On the other hand, it is necessary to state that EU subsidy programmes are created at a higher level than the Czech Republic, which is obliged to accept and implement them. Hypothesis H2 that the distributed subsidies do not have the expected economic effect was also confirmed. In fact, only two of the main CZ NACE activity branches showed an economic benefit from the funds used. The banking sector cannot be counted. Hypothesis H3 was also confirmed. There is a wide variation in the distribution of subsidies between the main branches of activity. It is also true here that subsidy programmes are drawn up at the level of the European Commission, but this cannot justify why state subsidies are allocated to foreign companies, i.e. transferred abroad, when they can be used to support real Czech entities.

It is clear from the observed data and calculated results that the main group of CZ NACE 5 activity branches was the most affected by the "Covid crisis". Water and air transport, warehousing, accommodation, catering and hospitality, publishing. The level of subsidies for this group of branches was comparable to the group of branches in CZ NACE 2. At the same time, it was one of the most cost-effective. However, the resources allocated to the CZ NACE 1, 2 and 3 branch groups, where they were not used effectively, could be reallocated to help the CZ NACE 5 branch group. Therefore, the validity of hypothesis H4 was confirmed. Some branches of activity have been affected by the "Covid crisis", but this has not been reflected in subsidies. It is possible that the rigidity and inertia of the state apparatus did not allow for a sufficiently flexible response.

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