

Legal form and types of enterprises

Types of enterprises

- Foreigners willing to **set up a business in Czech Republic** can choose from one of the four main **types of companies**: **branch office, partnership, limited liability company and joint stock company.**

Types of enterprises

According the ownership:

- Individual
- Family
- Private
- Collective
- Utilities
- State
- Mixed

According the organisational form:

- Single proprietorship
- Partnership
 - With unlimited liability
 - With limited liability
 - With additional liability
 - Commandite
- Joint stock company

Types of enterprises

- According the activity
 - Production
 - Financial
 - Intermediary
 - Insurance
- According to the size
 - Small
 - Middle
 - Big

Types of enterprises in Czech Republic – legal forms

In the Czech Republic, the most common forms of business are limited liability company and joint stock company. Other alternative business forms are general partnership and branchoffice.

Individual enterprise

A business entity owned by a single individual.

Advantages:

- **easy to set up and low establishing cost**
- **unobstructed handling of the profit,**
- **flexibility,**
- **tax advantage,**
- **keeping your business secrets.**

Disadvantages:

- **unlimited liability,**
- **the existence of an enterprise is connected to a particular owner,**
- **limited ability to obtain credit,**
- **limited business experience and knowledge,**
- **lack of opportunities for employees.**

Limited liability company

- Translation - (*společnost s ručením omezeným - s.r.o.*)
- can be formed of one to fifty members. One person can be both the sole owner and executive.
- The *s.r.o.* does not have a board of directors. Each of the contributors has the right to make decisions independently if the partnership agreement does not state otherwise.
- A registered capital of at least CZK 1 (5 euro cents) is needed for a **limited liability company in Czech Republic** and 30% of the share capital must be paid before the registration at the [Commercial Register](#). For non-monetary contributions, they have to be clearly settled in the statutory papers. For a company with one stakeholder, the full registered capital must be paid before the company is registered in the Commercial Register.

Joint stock company

- Translation: akciová společnost
- It is commonly used for large companies. To **set up a joint stock company**, there must be either a founder's deed by one shareholder (a legal entity) or an association of individuals or legal entities through a memorandum. For companies with more than one shareholder, the statutory body is the board of directors with no fewer than three members. **The joint stock company** must establish a supervisory board of at least three members.
- The minimum share capital required by the Czech law is CZK 2 million (**78,000 EUR**). If the joint stock company is set up by public offering, the minimum share capital must be CZK 20 million. An audit is compulsory if at least one of the criteria is met: a net turnover over CZK 80 million, over 50 employees or a balance sheet over CZK 40 million.
- Source: <https://www.czechcompanyincorporation.com/czech-company-types>

General commercial partnership

- Translation: *veřejná obchodní společnost - v.o.s.*)
- all partners are liable with all their property. The management has to be formed by at least two persons. The advantage of a general partnership is that you do not need the initial investment.
- Source: <https://www.czechcompanyincorporation.com/czech-company-types>

Cooperatives

- **Translation: Družstvo**
- Co-operatives are formed by at least 5 members (or at least 2 legal entities) to undertake business for the economic or social benefit of its members.
- The amount of registered capital (minimum CZK 50,000) and the amount of each members' basic investment must be entered in the Commercial Register.
- An indivisible fund of at least 10% of the registered capital must be created at the time of incorporation. At least 10% of the profits after tax must be transferred annually to the indivisible fund until such time as it reaches a minimum of 50% of the registered capital.
- Members are not liable for the debts/obligations of the co-operative.
- Foreigners may only be statutory representatives of the co-operative if they have a Czech residency permit.
- The audit requirements are the same as for a limited liability company.
- Source: www.mzv.cz

Limited partnership

- A limited partnership is formed by two or more natural persons or legal entities of which at least one general partner must assume unlimited liability and is responsible for the obligations of the partnership.
- The limited partners are only responsible for the obligations of the partnership up to the level of un-paid contributions as originally recorded in the Commercial Register.
- A partnership agreement must be drawn up.
- The entry in the Commercial Register must also include the partners' names and addresses or the partnership's registered office, a statement as to who are the limited and unlimited partners, the amount of paid-in capital by each limited partner and any outstanding amounts at the time of registration.
- Only general/unlimited partners are permitted to actively manage the partnership.
- The audit requirements are the same as for a limited liability company
- Source:www.mzv.cz

Public-law organization

- Organizations, which provide important services (railway and water transport, television, electricity production, etc.)
- Established directly by law (eg Czech Television, public college), or established by a state administration organization, eventually self-government (Lesy ČR, Budvar)
- Organizations solely owned by the state or territorial self-governing units (Lesy ČR, Budvar) or mixed ownership (ČEZ) – provide products that could be offered by private entities.

- Non-profit organizations – their primary objective is not profit, but fulfillment of its mission (thanks to this there are many public (Czech Television, associations of municipalities, etc.) and private non-profit organizations (political parties, professional chambers, etc.)

Non-profit organizations:

- Budget organizations (schools, courts, state health care facilities, etc.)
- Contribution organizations (theatres, libraries, galleries, etc.)
- Civil associations (various societies, movements, clubs and unions, churches, etc.)
- Foundations

Structure and coding of NACE

NACE consists of a hierarchical structure (as established in the [NACE Regulation](#)), the introductory guidelines and the explanatory notes. The structure of NACE is described in the NACE Regulation as follows:

- first level consisting of headings identified by an alphabetical code (**sections**),
- second level consisting of headings identified by a two-digit numerical code (**divisions**),
- third level consisting of headings identified by a three-digit numerical code (**groups**),
- fourth level consisting of headings identified by a four-digit numerical code (**classes**).

Specifics of production enterprises

- Three main production methods :
 - **jobbing** or **one-off production**, involves producing custom work, such as a one-off product for a specific customer or a small batch of work in quantities usually less than those of mass-market products (tayloring of expensive man suits)
 - **Batch production** - the object in question is created stage by stage over a series of workstations, and different batches of products are made (cars)
 - **Mass production** – also known as flow production or continuous production, is the production of large amounts of standardized products, including and especially on assembly lines

Specifics of production enterprises

(www.open.edu)

- Economists often distinguish three broad sectors of the economy(www.open.edu):
- **The primary sector** - involves extracting and harvesting natural products from the earth (for example, agriculture, fishing and mining).
- **The secondary sector** - consists of processing (for example, the processing of food stuffs produced by agriculture), manufacturing and construction. That is to say, the secondary sector takes the products from the primary sector and does something more with them.
- **The tertiary sector** - provides services, such as retail services, entertainment or financial services.
- **The fourth sector** - is made up of intellectual activities, such as education

Specifics of production enterprises – **Agriculture and forestry**

- **Dependence on natural conditions**
- **Temporal discrepancy of production and operation processes** – typically for vegetable production – growth of wheat and its harvest
- **Seasonality**
- **Results:**
 - Complicated organization of work
 - High demands on manufacturers – needs of knowledge and adaptability
 - Unstable working hours and unstable profit

Specifics of production enterprises – Building and construction enterprises

- Jobbing production on building site
- Long production cycle
- The product is intangible, production is moving
- Dependence on natural conditions
- Difference of work, machines, production processes

Services

- ***Specifics of services according Kotler et al. 2005:***
- ***Inseparability*** character of service refers to the fact that services are produced and consumed at the same time and that they cannot be separated from their providers, whether the providers are people or machine
- ***Variability*** - Services are variable and difficult to control. This is because they greatly depend on who provides the service as well as when, where and how they are provided
- ***Intangibility*** means that cannot be seen, tasted, felt, heard or smelled before they are bought thus the customer cannot evaluate it.
- ***Perishability*** - service is that they cannot be stored for later use or sale.

Specific of services

Breakdown of economic activities according (Foot and Hatt):

Terciary:

- Restaurants and hotels, Haircare and beauty shops, Laundry and cleaning, Maintenance and repair

Quaternary:

- Transportation, Retailing, Communications, Finance and insurance, Property, Government

Quinary: refining and extending human capacities

- Health, education, research, recreation arts

Specific of services

- management should closely look at the seven marketing mix of the services described above. (Product, price, place, promotion, + people, process, psychical evidence
- They should select the physical attribute carefully while making the price simple and clear to their customers. The management should create a culture so that the staffs have a clear vision on what role they play in creating loyal customers

SMALL AND MEDIUM ENTERPRISES

- **small and medium-sized enterprises**, abbreviated as **SMEs**: *fewer than 250* persons employed;
- SMEs are further subdivided into: **micro enterprises**: *fewer than 10* persons employed;
- **small enterprises**: *10 to 49* persons employed;
- **medium-sized enterprises**: *50 to 249* persons employed;
- **large enterprises**: *250 or more* persons employed.
- The number of persons employed should not be confused with employees or full-time equivalents; 'persons employed' includes employees but also working proprietors, partners working regularly in the enterprise and unpaid family workers.

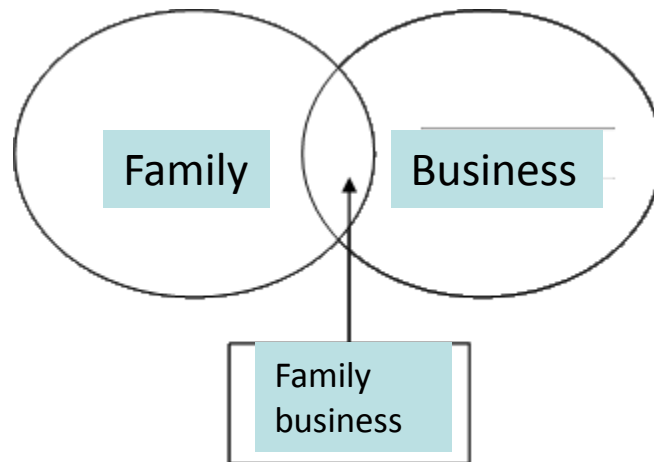
Source: eurostat.eu

Pros and cons of SME's

- + Simple structure
- + Flexibility
- + Faster response to customer needs
- + Inventiveness and innovations
- + Quick to react to changing market conditions
- + Uniqueness
- + Catering for limited or niche markets
- + Suppliers of big enterprises
- Low market share
- Limited budget
- inability to compete with larger companies
- limited borrowing power
- Limited resources to invest in marketing, development etc.
- Vulnerability to late payments
- Less negotiating power with suppliers
- Worse orientation in legal questions

Family business

- Models of circle– (Leach, 1996, Taquiry, Davis, 1996, Donckels, Frolich, 1991)



Family business

Family business	Non-family business
<ul style="list-style-type: none"> ■ Good relationship with employees 	<ul style="list-style-type: none"> ● Neutral relationship with employees
<ul style="list-style-type: none"> ■ Risk averse 	<ul style="list-style-type: none"> ● Inclination to the risk
<ul style="list-style-type: none"> ■ Orientation towards the sustainability 	<ul style="list-style-type: none"> ● Orientation towards profit
<ul style="list-style-type: none"> ■ Family financing 	<ul style="list-style-type: none"> ● Bank financing
<ul style="list-style-type: none"> ■ Nepotism 	<ul style="list-style-type: none"> ● Lot of employees
<ul style="list-style-type: none"> ■ Small number of employees 	<ul style="list-style-type: none"> ● Professionalization of the firm
<ul style="list-style-type: none"> ■ Orientation towards local market 	<ul style="list-style-type: none"> ● Orientation toward foreign markets
<ul style="list-style-type: none"> ■ Low capital intensity 	<ul style="list-style-type: none"> ● High capital intensity
<ul style="list-style-type: none"> ■ Lack of strategic planning 	<ul style="list-style-type: none"> ● Good strategic planning
<ul style="list-style-type: none"> ■ Centralization towards the family 	<ul style="list-style-type: none"> ● Decentralization and autonomy
<ul style="list-style-type: none"> ■ Customer orientation 	
<ul style="list-style-type: none"> ■ Emphasis on history 	
<ul style="list-style-type: none"> ■ Emphasis on quality 	
<ul style="list-style-type: none"> ■ Innovativeness 	

Family business in the Czech Republic

- In 2012, the Czech Civil Code, Act. No 89/2012 Coll., introduced the new institute of family enterprise as completely new term in the Czech Civil law.
- According to the Civil Code of the Czech Republic (Občanský zákoník České republiky, 2014), the family business is considered as an establishment, where the spouses, or at least one of them, are working together and where the other relatives up to the third degree or those related to husbands and connected via
- brothers-in-law up to the second stage are working, and where some of those people are the owners of such establishment (Koráb, Petlina 2015)

