
SMEs Export Activities in the Czech Republic and Export Risk Insuring*

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Abstract:

This paper focuses on export activities of small and medium sized enterprises (SME) in the Czech Republic with the accent especially on the business territories preference and the level of insurance with respect to risk of non-payment of export receivables. It is based on the quantitative survey conducted among 500 exporting SMEs in May 2015 and in some parts confronted with results of a similar survey conducted two years ago to capture the issue developments. The aim is to familiarize readers with the character of export activities of SMEs, their typical features as well as their share in total exports of the country which seems to be slightly falling. By contrast, a newly growing tendency to export outside the countries of the European Union was detected with increasing experience in foreign trade.

Key Words: *Export, SME, Export Risk, Export Receivables*

JEL Classification : *F1, F14, M21*

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1. Introduction

The role and importance of prosperity of small and medium sized enterprises for economy of any European countries is clearly on the rise although the value of their nature is still often underestimated at the level of national authorities and adopted political measures. A typical example may be public investment incentives that in a certain phase of economic development of given country, or in certain phases of the economic cycle do not necessarily bring long-term general prosperity.

Conversely, tax payers as well as small and medium sized enterprises may suffer from them because they are typically unable to reach convenient tax and financial support conditions, thus experiencing local or regional weakened competitiveness, e.g. in drafting of qualified professions. But only those can help companies create value added that in most cases is critical for successful export activities in global and sophisticated markets. They also include the single market of the European Union where, by the way, the overwhelming majority of exports from the Czech small and medium enterprises (SMEs) are directed.

Typical features of this segment of companies include, amongst others, the expansion preference rather to close markets and in a long term, it shows cautious expansion to geographically more distant markets although the validity of this fact has been successfully reduced over time. The Czech export statistics, however, are necessarily influenced by direct neighbourhood with an extremely strong economic player, namely the industrial Germany. Still about half of the Czech exporting small and medium sized enterprises do also export to markets outside the EU.

It was proved by the survey of the Association of small and medium sized enterprises and crafts of the Czech Republic (AMSP CR)² in collaboration with EGAP (Export Guarantee Insurance Corporation)³ conducted in May this year. Respondents of the survey⁴ were mainly amongst exporting SMEs and the aim was to map the primary export destinations of the Czech companies and the insurance method for export risk. The research results and discussion are presented in this paper.

² AMSP CR (Association of Small and Medium Sized Enterprises and Crafts of the Czech Republic), www.amsp.cz, an influential non-profit non-governmental representative of this segment of companies, mapping regularly the business environment, making analyses and consulting the new legislation with an impact on small and medium sized businesses. The author of this article has been involved in the Board of Directors of AMSP CR since 2008.

³ EGAP was established in 1992 as a joint-stock company fully owned by the state.

⁴ AMSP CR survey with the title "Export activities of SMEs in CZ" available at http://www.amsp.cz/uploads/Przkumy/Vysledky_35_przkumu_AMSP_CR.pdf. The author of this article was directly involved in this research.

2. Literature Review

Export is an essential international business activity mainly in the changing globalized world with growing logistics and technology capabilities, thus increasing the production capacity which more and more often strongly exceeds the needs of the local market.

Thus it creates the need for foreign expansion, and the Czech Republic is a traditional export economy with ever increasing annual exports. The share of the Czech small and medium sized enterprises in total exports was about fifty percent last year, but with a view to growing exports of machinery and transport vehicles (which is rather the domain of large companies), the total share is currently slightly falling (Export analysis and SME influence, 2015). The importance of export is, however, sometimes overestimated within the meaning of GDP formation no matter how its influence is growing. For example, household consumption (47%) had the greatest influence on the total GDP 2014 in the Czech Republic followed by gross capital formation (25%), governmental consumption (19.5 %), and only then followed by positive saldo of foreign trade (6.8%), with the rest formed by consumption of non-profit organizations (Export analysis and SME influence, 2015).

In addition, medium sized and above all small firms in the SME segment tend to export to geographically less distant territories. It is supported by a U.S. study (Neupert, Baughn, Lam Dao, 2006) claiming that SME exporters in the developer economies (amongst which the Czech economy can already be ranked) perceive issues such as country differences, general business risk, and logistics while exporting. Moreover, Rutihinda (2008) who surveyed the export barriers of SMEs stated that “foreign market industry barriers and lack of home government support were seen as factors distinguishing between successful and unsuccessful exporting firms“.

Any business and trade carries along certain risk and the very same applies to export activities. There the risk is more elevated by other possible entrepreneurial, market, business or payment culture that firms encounter. In 2013, the paper Breckova and Havlicek (2013) reported on the export by the Czech small and medium sized enterprises and exchange risk management where the authors stated that finance management is truly thoroughly pursued only by a minority of firms. SMEs are boosting activities outside the EU, 30% SMEs exported outside the EU in 2012 while 49 % in 2015⁵. SMEs are looking for a quick and inexpensive tools to get an effective funding for their exports (Havlicek et al., 2013). In the paper by

⁵ AMSP CR Survey, ČS, Entrepreneurial opinions on SME export support II, 01-02/2012. AMSP CR Survey, CzechTrade, ČEB, Ipsos, SME Export, 05/2015 (in Export analysis and SME influence, 2015, available at http://www.amsp.cz/uploads/dokumenty_2015/Aktuality/Analyza_exportu_a_vliv_MSP.pdf)

Schlossberger (2011) such possibilities are discussed, and the author deals with cross-border payment system, which can be used also by SMEs.

In their latest book Havlicek, K. and P. Breckova, 2015, "Export risk management of SME" (Eupress, Prague) further stated that: grasping business risk management correctly means to understand the basis for development of business plans and management of probable deviations between planned and expected actual revenues by successful management of individual business cases and by management of individual stages of business receivables. The insurance of mainly business receivables arising out of export activities of the Czech small and medium sized companies was the focus of the survey with results presented in this paper.

3. Material and Methods

Export activities of small and medium sized enterprises in the Czech Republic were researched in the survey conducted in May 2015, and the author of this paper was actively involved therein (for details see the AMSP's 35th survey with the title "*Export activities of SMEs in CZ*", 2015)⁶. The main objective of the survey was to map export destinations of small and medium sized enterprises and compare results with the survey conducted in 2013 where not even a third of export companies headed into markets outside the European Union. Another key area of the latest export survey was to identify export methods of companies and maturity of export deliveries as well as the rate of export financing and insurance of receivables.

In order to obtain empirical data, a quantitative research was chosen and applied. The main research method was survey using in-depth telephone interviews based on a questionnaire for data collection. Computer Assisted Telephone Interviewing (CATI) was used as the main survey method and contacts were randomly selected among the exporting small and medium sized enterprises mainly from the Albertina database. The survey conductors requested data from respondents during telephone interviews based on a structured questionnaire in the electronic script for 10 minutes and stored data directly on a PC. The full questionnaire was completed by 500 respondents who had 5 to 249 employees with a quite uniform distribution in the segments of 5-24 employees (29%), 25-49 employees (22%), 50-99 employees (25%), and the last group was 100-249 employees (24%). Another dimension was not applied, however, the turnover reported by most of firms (81%) was less than 299 mil. CZK (equivalent to app. 11 mil. EUR).

The structure of the respondents' sample was as follows: manufacturing companies about 79%, trading 13%, and the service sector 8%. As shown in the Figure 1, more than one third of firms had a share of export in total activities of their respective

⁶ AMSP CR survey with the title "Export activities of SMEs in CZ", 2015, available at http://www.amspace.cz/uploads/Pruzkumy/Vysledky_35_pruzkumu_AMSP_CR.pdf

firms between 60-100%, and another third of surveyed firms had 20-59% export share.

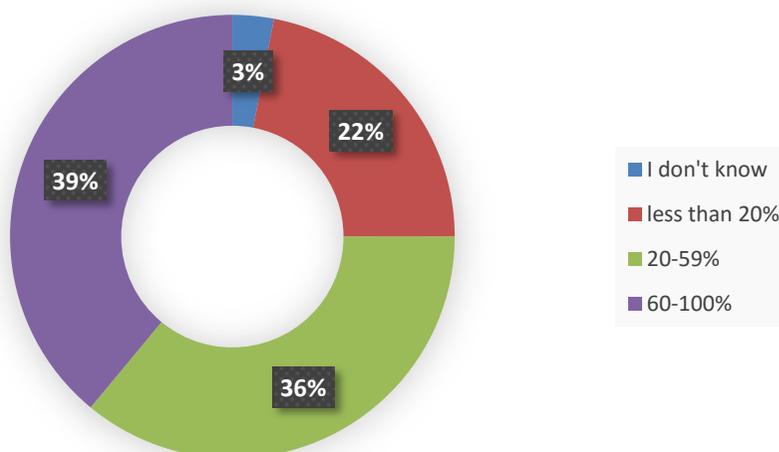


Figure 1. Export Share in the Research Sample of Companies

Source: AMSP CR Survey “Export activities of SMEs in CZ“, 2015⁷

The survey questions were answered by highly competent people responsible for the strategy and development of companies, specifically 54% owners or company executives and the remaining 46% were business or finance managers.

4. Results and Discussion

The major finding of the conducted survey was that practically all export companies are exporting within the European Union, and half of them also to the European countries outside the EU. Other most frequent destinations are the Commonwealth of Independent States and the Baltic states. It substantiates the theory that SMEs prefer geographically less distant territories for their export or in general internationalisation activities although the share of companies in the SME segment that are exporting outside the EU is on the rise. However, a very interesting and rather surprising finding was that only very small parts of exporting companies manage their risk using insurance of receivables although they are aware of this option. Moreover, 62% companies have encountered the problem in their export

⁷ AMSP CR survey with the title “Export activities of SMEs in CZ“, 2015, available at http://www.amsp.cz/uploads/Przkumy/Vysledky_35_przkumu_AMSP_CR.pdf. The author of this paper was directly involved in the AMSP research activities.

practice that an export invoice was not paid on the due date. It was more often experienced by companies exporting most of their production and those exporting outside the EU.

4.1 Export Territories of SMEs in the Czech Republic

In the survey sample of export companies in the SME segment, the overwhelming majority (97%) export their production to countries of the common market that is the European Union, similar to the result of a comparable survey conducted in 2013⁸. However, the share of SMEs exporting outside the EU countries is on fairly significant rise – not even one third in 2013 and almost one half in the latest survey 2015. This proportion is higher for companies with more than 50 employees. The structure of export countries, however, has not markedly changed over time.

4.2 Payment Morals in Export Receivables

In the survey, companies provided that about half of issued export invoices shall be paid within 30 days and this due date differs by the target country in more than half of companies. Almost two thirds of companies have encountered the problem of non-payment of an export invoice on the due date. This issue does not depend on the length of period for payment provided. It was more often experienced by companies exporting most of their production and those exporting outside the EU. At the same time, respondents provided that 79% foreign customers meet their payment due dates. It was an interesting finding that the share of those is growing with a period for payment becoming shorter.

Respondents were also asked how much it would help to increase their export activities if the period for payment was extended. Not even one fourth of export companies consider this step helpful as opposed to the full 71% who in fact ruled out this alternative as shown in the Figure 2.

⁸ AMSP CR survey with the title “Export activities of SMEs in CZ“, 2013, available at http://www.amspace.cz/uploads/Prizkumy/Vysledky_prizkumu_k_financovani_exportu_MSP_Egap_06_2013_WEB.pdf

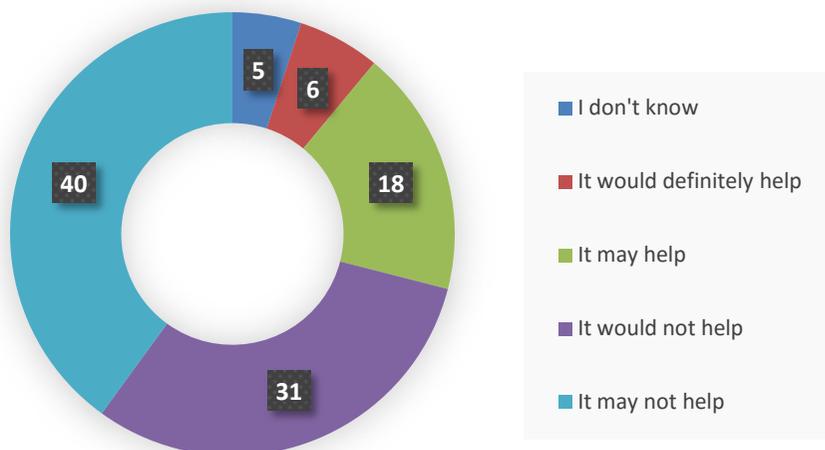


Figure 2. Effect of Extension for Payment of Export Receivables on SME Export Increase

Source: AMSP CR Survey “Export activities of SMEs in CZ“, 2015⁹

It perhaps shows rationality as well as experience acquired by the Czech exporters in foreign trade. In a long term, it proves that if the customer tends to pay poorly (i.e. late), they will most likely do the same even the term for payment is extended. Extension for payment should be used to gain a competitive advantage, but it must not become a tool for solving long-term financial problems of customers.

4.3 Export Receivable Insurance

Insurance of export receivables is only actively used by 21% companies although the knowledge of this product is considerable amongst companies. Another fourth of exporting companies would consider using receivables insurance for more risky territories, most often in the Commonwealth of Independent States. The number of companies that insure their export receivables has only slightly increased since 2013, by 3 percentage points. The most frequently stated reason for lack of insurance amongst the survey respondents is that they do not have a problem with non-payment, or they do not need insurance for another reason. About 15% firms see receivables insurance as expensive and cost-ineffective.

⁹ AMSP CR survey with the title “Export activities of SMEs in CZ“, 2015, available at http://www.amspace.cz/uploads/Prizkumy/Vysledky_35_prizkumu_AMSP_CR.pdf. The author of this paper was directly involved in the AMSP research activities.

5. Conclusion

Annual exports in the Czech Republic have increased (2013 and 2014 comparison) by more than 13% while the number of active exporters remains unchanged. It means that the performance of the existing exporters is growing. SME contributes about one half (48.3%) to total exports with a view to growing exports of machinery and transport vehicles that are rather the domain of large companies, the SME share in total exports is slightly declining (53.8% in 2013) (Export analysis and SME influence, 2015).

A quantitative survey¹⁰ using a sample of 500 small and medium sized exporting firms employing between 5-249 workers was conducted in May this year and it proved that the dominant export area for SME in the Czech Republic remains the common market of the European Union. Nearly all exporting companies in this segment (97%) export to the EU countries. However, almost half of those firms export their production to other European countries outside the EU and further most often to the Commonwealth of Independent States. It thus substantiates one theory related to the SME segment which is the majority preference of geographically closer territories for internationalisation activities although the number of SMEs exporting outside the EU has considerably increased (from about one third to about half since 2013). In addition, nearly half of the surveyed export companies are planning to extend their export territories in the future while the spontaneously most often mentioned are the United States as well as Russia despite of the present political situation.

Another finding resulting from the survey was that just small parts of exporting companies manage their risk using receivables insurance although they are aware of this option. Moreover, 62% companies have encountered the problem in their export practice that an export invoice was not paid on the due date. The survey results, however, show that this issue does not depend on the length of period for payment provided. This problem was more often experienced by companies exporting most of their production and those exporting outside the EU.

Most of survey respondents (71%) also stated that extension of payment period (due periods) is not a factor that would help improve their export activities. This signal could be understood as a certain sign of corporate maturity and reflection of experience acquired by the Czech exporters in foreign trade. In a long term, it proves that if the customer tends to pay late, they will most likely do the same even the term for payment is extended. Extension for payment should be a pragmatic and functional tool to gain a competitive advantage; however, it must not become a tool for solving long-term financial problems of customers. It seems that small and

¹⁰ AMSP CR survey with the title „Export activities of SMEs in CZ“, 2015, available at http://www.amspace.cz/uploads/Pruzkumy/Vysledky_35_pruzkumu_AMSP_CR.pdf

medium sized enterprises in the Czech Republic prefer a proven and long-term partnership in foreign trade where they are then willing to take higher risk and not to insure payments arising out of the foreign trade. It may also be supported by the fact of exports to geographically less distant territories where firms have good experience or feel the closeness (familiarity) and an expectation of solid debt collection. The tendency to insure export receivables will then increase in proportion to the size of company (the larger enterprise the larger tendency to insure or ensure).

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