

# Conditions of development of border area cooperation of the South Bohemian region and Upper Austria

## *Podmínky rozvoje přeshraniční spolupráce Jihočeského kraje a Horního Rakouska*

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**Abstract:** Retailers are the strong group both in South Bohemia and in Upper Austria. The development of this sphere is one of the development programmes priorities of both regions. South Bohemia and Upper Austria, especially Muhlviertel region, are areas with a similar economic structure, which is an excellent presupposition for mutual cooperation. An advantage will be the improvement of marketing activity and information transfer. A better technical equipment and its full exploitation will be possible. The problems, however, which could arise from cooperation with foreign partners, should not be underestimated. Not only the language barrier is concerned but also different techniques, methods and expectations that might be caused by different customs and interests of the partners. An important aid to the entrepreneurs, either concerning consultant service, establishing contacts or further education, are economic chambers and other institutions concerned with retail business development.

**Key words:** retailers, border area cooperation, region, economic structure, South Bohemian Economic Chamber

**Abstrakt:** Malí a střední podnikatelé jsou silně zastoupenou skupinou jak v Jihočeském kraji, tak i v Horním Rakousku. Jejich rozvoj je jednou z priorit rozvojových programů obou uvedených regionů. Jihočeský kraj a Horní Rakousko, zvláště pak region Mühlviertel, jsou oblasti s podobnou hospodářskou strukturou, což je dobrým předpokladem pro vzájemnou spolupráci. Zvláště přínosná by byla spolupráce v rámci sítí podniků nebo klastrů. Výhodou je zlepšení marketingové činnosti a přenosu informací, umožní se dokonalejší technické vybavení a jeho plné využití. Nesmí se však podcenit problémy, které mohou při spolupráci se zahraničními partnery vzniknout. Je to nejen jazyková bariéra, ale i rozdílné postupy, metody a očekávání, které mohou pramenit z rozdílných zvyklostí a zájmů partnerů. Významným pomocníkem podnikatelů, ať už v oblasti poradenské činnosti, navazování kontaktů, nebo dalšího vzdělávání jsou hospodářské komory a další instituce, zabývající se rozvojem malého a středního podnikání.

**Klíčová slova:** malé a střední podnikání, přeshraniční spolupráce, region, hospodářská struktura, Jihočeská hospodářská komora

## INTRODUCTION

Retailers are specific business units in all advanced states. Their main advantage compared with wholesale businesses is an easier management structure and greater flexibility. Retailers are irreplaceable in the Czech Republic. The European Single Market had opened to the Czech enterprises on 1<sup>st</sup> May 2004 with all its positives and negatives. The European Union is a natural partner to the Czech Republic which shares its traditions and cultural values, as well as the longest part of its frontier, and realizes more than a half of its commercial activity with the EU. Member states of

the European Union are the greatest foreign investors in the Czech Republic.

The enterprises, must get prepared to exploit the advantages of the membership, to become able to compete, and also to eliminate disadvantages arising from the membership in the EU. An important point is working out of an enterprise strategy, where the retailers should aim at the possibility of cooperation within and outside the regions. The cooperation with retailers in Austria and Germany would be very profitable. Yet it is necessary to realize that a frontier passing cooperation connects partners with not only different economic and cultural background but also

with different experiences. Further, the language barrier should be taken in account.

An important aid for the entrepreneurs is the South Bohemian Economic Chamber, which can provide important information in establishing new connections, working up projects and other activities.

## BIBLIOGRAPHICAL OVERVIEW

Retail development cannot be separated from the region development as a whole. It is necessary, to be able to exploit all possibilities and opportunities provided by the region, to learn about the region not only from the point of view of the economic situation, but to know it as a whole, from the historical, economic and demographic point of view.

South Bohemia is historically perceived as a predominantly agricultural area, with a well-known fishpond cultivation and forestry. Only at the beginning of 20<sup>th</sup> century the industrial production was being developed and the region was slowly changed into an agricultural-industrial region. Since 1945, a number of industrial enterprises have been built, especially engineering and textile industries (Haufler 1984). Wood-processing, papermaking and food-processing industries have also continued in local traditions. Yet retailers were suppressed and in the fifties they disappeared completely. Their importance for the region economy reappears after 1989, when the retailers have been quickly but chaotically started, and in most cases with minimum capital and experience. This situation was the cause of downfall of most of so founded enterprises.

The development of retail business in the Austrian part was, according to Mugler (1997), different. After WWII, the retail development can be divided into two periods: till the seventies the process of decrease of this type of business was predominant, the following period is marked with their new increase. The suppression of retailers by wholesale businesses has been significant in the last years especially in commerce, while in production and service sphere stabilization in the relationship between wholesale and retail businesses is apparent. This stabilization, however, should be designated as a dynamic one, since the old enterprises are being incessantly substituted by enterprises with new technological and trade conceptions.

The creation of net of retail businesses and cooperation among them improves their ability of competition, their situation on the market and possibility of access to other markets. In the Italian region Prato, there has been a good experience with creation of regional

nets in the field of textile industry (Zelený 2000). This example proves that regional economy can be based on the net model, especially in a homogenous area, which applies in general to South Bohemia.

A frequent underestimating of marketing research is a problem especially of small enterprises (Duchon 1997). This attitude, however, is a shortsighted one, since every business, that wants to “survive”, must observe well its current and potential competitors and look for new solutions how to establish on the market. An active search for occasions and threats ought to become a part of the management.

The ability of businesses to compete on the regional level has been analyzed in foreign and internal studies. Based on the results of these studies, the South Bohemian economic chamber (2004) has worked out an overview of theoretical attitudes of regional ability to compete assessment. Two basic attitudes exist for solving regional ability to compete:

1. Attitudes, which analyze regional ability to compete as a accumulation of readouts of basic factors
2. Attitudes, which focus on particular driving wheels of ability to compete. In this category, seven key factors have been marked:
  - Net of enterprises
  - Demographic development, migration and area
  - Administrational and institutional capacity
  - Industry structure
  - Innovations/regional system of innovations
  - Property

Concerning large-scale and small-scale business, it is necessary to develop the borderline cooperation, including services for the economic sphere, to reinforce regional economic structure and to create acceptable conditions for development of the existing and creation of new enterprises.

## METHODOLOGY AND THE AIM OF WORK

This contribution is divided into the analytical, comparative and design parts. The analytical part includes description of both regions concerned-Upper Austria, especially the border zone of Muhlviertel, and South Bohemia. In the comparative and design part, both regions are being compared and a file of measures is suggested concerning development of large scale and small-scale businesses including their cooperation.

Proper methodology is based on standard methods used to comparison and primary data acquirement for establishing and analysis of external environment of enterprises.

SWOT was used to assess common weak and strong points, opportunities and threats in observed regions. The comparative method was used to data processing of the Czech Statistic Office and the Upper Austria Economic Chamber.

The aim of this work is to characterize and to suggest conditions for cooperation of enterprise entities of South Bohemia and Upper Austria.

## RESULTS AND DISCUSSION

### Economic structure of South Bohemia

South Bohemia is one of the average industrial regions without any significant partakes of heavy and power industry. The industrial production is concentrated especially in the densely populated area of České Budějovice, a more important ratio of industry is also in the district of Tábor and Strakonice. Dominating is the manufacturing industry, within it food and beverage production, means of transport production, machine and machinery production, textile and clothing industry and wood processing industry.

South Bohemia is not a region rich in mineral and power raw materials. Important natural resources are large forest areas, especially in Šumava Mountains and Novohradské Hory. The greatest raw material resources are the deposits of building and glass sands, brick clay, aggregate and turf.

Typical for the region is fishpond cultivation and pisciculture. There are more than 7 000 ponds with total area over 30 000 ha, which create a characteristic landscape pattern of the region. More than a half of total fish production of the Czech Republic takes places here. Important is also poultry breeding.

Agriculture has also its tradition in South Bohemia. It is focused on crop production, especially potato and grain growing. In animal production, beef and pork breeding are the most important. In total about 11% of agricultural production of the Czech Republic is being produced here. In the region, less favored areas (LFA) represent a significant ratio of the land area. Their highest ratio in agricultural land is in districts Český Krumlov, Prachatice, partly Jindřichův Hradec and Strakonice. Further there are areas with ecological restrictions, which is the cause of certain existential problems of farmers. It also affects founding of new industrial enterprises in the area. Still not clarified property relationships, low diversification, insufficient economic strength of enterprises and unsatisfactory living conditions in rural areas cause the loss of competitiveness of business units and exodus of labor force from the region.

The Table 1 gives number of business entities according to number of employees in South Bohemia in 2003 and their development in the first half of 2004, that is the time periods just before and after the EU accession.

From Table 1, it is evident that in the first term of 2004 the number of retailers with no employees decreased by 2 226 units. The decrease of sole traders does not affect only South Bohemia, it affects the whole republic. The majority of retailers finished or interrupted their trade because of introduction of income tax, which they must pay even when they run a loss. Sole traders further complain about the complicated laws, increasing competition or impossibility to succeed against greater companies. Another reason is that they were not prepared for the EU accession. That retailers were not ready for the EU is confirmed by a research from 2003 in South Bohemia (Jelínková 2004). Another group the number of which decreased

Table 1. Number of entities according to number of employees registered in RES in South Bohemia in 2003 and the first half of 2004

| Year   | Size of enterprises |        |       |       |       |       |       |         |         |
|--|---------------------|--------|-------|-------|-------|-------|-------|---------|---------|
|  | 0                   | 1–5    | 6–9   | 10–19 | 20–24 | 25–49 | 50–99 | 100–199 | 200–249 |
| 2003   | 93 371              | 11 225 | 1 634 | 1 625 | 399   | 786   | 436   | 175     | 28      |
| 1 <sup>st</sup> half of 2004                     | 91 145              | 11 359 | 1 632 | 1 605 | 399   | 780   | 424   | 175     | 28      |
| Change in %<br>1 <sup>st</sup> half of 2004/2003 | 97.6                | 101.2  | 99.9  | 98.8  | 100   | 99.2  | 97.3  | 100     | 100     |
| 2004   | 86 825              | 11 212 | 1 672 | 1 618 | 418   | 815   | 450   | 185     | 33      |
| Change in %<br>2004/2003                         | 93.0                | 99.9   | 102.3 | 99.6  | 104.8 | 103.7 | 103.2 | 105.7   | 117.9   |

Source: Czech Statistical Office, regional representation České Budějovice (2005)

Table 2. The development of number of South Bohemian Economic Chamber members and organizations

|   | 1999    | 2000    | 2001    | 2002    | 2003    | 2004    |
|---|---------|---------|---------|---------|---------|---------|
| Total number of organizations                           | 126 980 | 128 079 | 133 245 | 134 950 | 141 375 | 142 796 |
| Total number of South Bohemian Economic Chamber members | –       | 310     | 450     | 712     | 968     | 1 089   |

Source: South Bohemian Economic Chamber (2005)

are enterprises with number of employees from 50 to 99. During the first half of 2004, the number of these enterprises decreased by 2.7%. However, following South Bohemian economic chambers, the enterprises either fused with foreign companies and thus shifted to a different category or affiliated offices of larger enterprises were closed down. The number of other entities has either not changed or the change is negligible.

The situation at the end of 2004 is different in comparison with the first term. Number of retailers without employees decreased by 7% in comparison with 2003. There was a negligible decrease concerning retailers with the number of employees 1–5 and 10–19. The reason for decrease in the first group are financial difficulties and in some fields growing competition. The negligible decrease of retailers employing from 10 to 19 employees can be explained by low level of preparedness to exploit financial means from Structural Funds, which can be a very effective tool to increase the ability to compete. In other categories, the number of business entities increased. There was a significant increase in the category with 200–249 employees. An important role play foreign investments from Austria and Germany.

The South Bohemian Economic Chamber is a great help to entrepreneurs, since it has prepared a number of interesting services and activities for them. Membership is voluntary and the members get significant discounts for activities organized by the chamber. The problem is increasing but still very low number of its members, as shown in Table 2.

The research done in 2003 (Bednářová 2003) has proven that most entrepreneurs know about the existence of the chamber but not all do feel, that they

need to cooperate with it. They also suppose that this institution serves and is beneficial mainly to entrepreneurs with a larger number of employees. In this case it is probable that these attitudes are caused by insufficient instruction of retailers concerning the activity of the chamber. The entrepreneurs expect that the chamber will help them from arising problems or with establishing new connections and advisory service.

### Economic structure of Upper Austria

Upper Austria and especially the region Muhlviertel, which borders directly with South Bohemia, have a rather rural orientation. The industry is concentrated mainly in towns Perg, Freistadt and Rohrbach and in their close neighborhood. The densely populated area of Linz functions as an economic center and the source of development stimulus for the whole border area.

Predominant are the enterprises of wood processing, metalworking, textile and clothing industry. Large and small-scale businesses are predominant here, but their competitiveness does not exceed the region. In the last years, the service sector has been developing and tourism has also become more significant.

Table 3 shows the number of business units according to number of employees in Upper Austria.

It is evident from the table that small-scale businesses with number of employees from 1 to 9 are predominant. According to Upper Austria Economic Chamber data, small-scale businesses and wholesale businesses are predominant in industry centers as Linc, Wels or Braunau. On the contrary, in the district of Freistadt, there are not any businesses employing more than 250 employees. In this area, there are only small businesses. The Technological Center Freistadt is a support to retailers. It deals with wood conversion and treatment, power engineering and environment.

Economic chambers play an important role in the development of large and small-scale businesses. Economic chamber in Linc as well as all economic chambers all over Austria provides services for entre-

Table 3. Number of business units according to number of employees in Upper Austria in 2002–2003

| Year | 1–9    | 10–49 | 50–249 |
|------|--------|-------|--------|
| 2002 | 28 423 | 5 409 | 1 215  |
| 2003 | 28 552 | 5 387 | 1 292  |

Source: Hauptverband der Socialversicherungsträger (2004)

preneurs, beginning entrepreneurs and young people. Membership in the economic chamber is obligatory by law for all businessmen, which is different from the Czech Republic rules. The trade license is prerequisite for membership.

### **Analysis of cooperation development of South Bohemian and Upper Austrian entrepreneurs and measures to their improvement**

The regions of South Bohemia and Upper Austria, including the region Muhlviertel, have gone through a different development after the World War II. This is reflected on the standard of life of the inhabitants. Both regions, however, may be considered resembling from the point of view of attractive landscape, especially for tourism and from the point of view of the nature of economic structure. Concerning industry and retail business, on both sides of the border traditional industry branches are predominant eg. wood-processing, clothing and food-processing industry. The predominant large and small-scale businesses are centered especially in town areas. As tables 1 and 3 shows, in both regions businesses up to 10 employees dominate. SWOT analyses worked out in 2003 (Bednářová 2003) point out some common features, which should be considered to intensify the borderline cooperation. The following features are apparent from the comparison of strong points:

- Existence of important educational institutions, research and technology centers, especially in Linz and České Budějovice;
- Tradition and good level of wood and food processing industries;
- Natural resources and cultural and historical background for tourism development.

The cooperation has been started and it is very successful on the level of educational institutions and

research centers. Great possibilities could be exploited in the tourism sphere, where connection and cooperation of businesses on both sides of the border would be advantageous, either as a free cooperation or net creation. We could apply the same in other branches of enterprising. The weak points stress difficulties of retailers especially:

- A lower ability to compete of the businesses
- A low interest in founding new businesses
- Almost nonexistent cooperation structures of small and large-scale businesses in technology, innovation field etc.
- Unsatisfying level of retail businesses contacts within neighboring regions
- A complicated access of retail business capital, which is a problem mainly on the Czech side of the border, since Czech entrepreneurs have not yet learned how to use fully the financial means from the government, region and EU.

The comparison and nature of regions common opportunities could be derived which the entrepreneurs on both sides of the border should exploit. In the meantime risks appear, which if known about can be minimized or evited (Table 4).

Retail business support programmes are significant for retail development, its modernization, and market position and competition improvement and thus promote the possibility of cooperation with enterprises in Austria. The comparison of retail support condition showed that these systems were similar in South Bohemia and Upper Austria (Bednářová 2003).

The trans border cooperation benefits not only retail businesses but also the whole region. Entrepreneurs must, however, take in account difficulties, which can arise. It is not only the language barrier, which complicates cooperation. Their role plays correct choice of partners, different interests, customs and last but not least procedures, used by the partners. The entrepre-

Table 4. Common business opportunities and risks of South Bohemia and Upper Austria

| Opportunities   | Risks  |
|---|--|
| <ul style="list-style-type: none"> <li>• Regional trades extension potential</li> <li>• Competitiveness potential raised by know how transfer and labor force qualification</li> <li>• Intensification of trans border division of labor, including retail businesses</li> <li>• Market extension by creation of nets and co operational relations</li> <li>• Opening of perspectives in the frame of EU</li> </ul> | <ul style="list-style-type: none"> <li>• The wage level pressure</li> <li>• Qualified labor migration to regions with higher wage level</li> <li>• Competition increase</li> <li>• Transport intensification increase on the ground of commutation of higher number of people over border</li> <li>• Unfavorable impact on environment by transport increase</li> <li>• Tourism development has a harmful impact on the environment</li> </ul> |

neers who are interested in trans border cooperation, can be advised the following approaches:

1. To create a proper partnership i.e. to find an appropriate partner, to create positive working environment, to ensure know how exchange and transfer
2. To define the subject of cooperation
3. To ensure effective management activity
4. To inform the public about achieved results

It is necessary to support the enterprises in their effort to exploit new opportunities and to overcome difficulties related to the custom barriers abolishment. It is advisable to concentrate on the following activities:

- to strengthen regional economic structure; to create appropriate conditions for development and creation of new ones
- to improve innovative attitude and competitiveness of the enterprises
- to intensify inter-enterprise cooperation of small and large scale retail businesses both within the region and between Czech and Austrian regions.

Following measures are required to achieve these goals:

- to create new trans-border service offers, especially concerning information and consultancy, mainly consultancy for trans-border activities (export, import, legal system)
- to support trans-border enterprise cooperation, especially to create cooperational nets of enterprises to increase their ability to compete
- to create trans-border nets of suppliers and purveyors
- to cooperate with research centers and institutions providing education
- to create offers of educational courses, concentrating on qualifications applying in foreign countries.

In the course of mutual convergence, it is further necessary to harmonize regional border area development, not only in the immediate proximity of the border but also on the regional level.

Among the above-mentioned measures, we have mentioned the inevitability of education, common courses in the field of lifelong training and the possibility of qualification improvement with external application. In this field the cooperation development of educational institutions of all levels is necessary. A varying net in this field creates good prerequisites for cooperation intensification, concerning both, the supply development of educational and qualification opportunities and the field of experience exchange. All age groups can exploit these opportunities. Especially

those activities, the development of which corresponds to the needs of region development, should gain support.

As important as mutual school cooperation is the cooperation of schools with the business sphere. It is necessary to harmonize the educational system with the labor market. The educational system should adjust the education of young entrepreneurs so that they could join in the abroad collaboration and needn't encounter difficulties, which current entrepreneurs have to face to.

## CONCLUSION

Retailers are the strongest business group in South Bohemia and Upper Austria. Their development is one of the development programmes priorities of both regions.

The retail business development was significantly different in the past. While in Upper Austria these businesses were developing especially in the 70's, this kind of business did not exist in the Czech Republic till 1989. Currently the situation in this business field has changed and the majority, especially large-scale businesses, has found its position on the market. Small and large scale entrepreneurs, who still meet difficulties, should get some support in exploiting opportunities which arose through accession of the Czech Republic to the EU. The introduction of minimum income tax, increasing competition, non-preparedness for accession to the EU and financial difficulties are restrictive factors in their business. South Bohemian Economic Chamber and other institutions dealing with retail business development could be of considerable help. They provide consulting service for establishing new contacts, concerning external activities, and they provide offers of various seminars and courses etc.

The similar economic structure of both regions is a prerequisite for external cooperation including establishment of nets and nets of enterprises. Well managed wood-processing, processing and textile industry in the above mentioned regions create conditions for creation of nets of enterprises, which could contribute to amelioration of marketing activity, to improvement of technical equipment and its exploitation and to a more sophisticated transfer of information. The access and eventually creation of new networks of businesses would be then easier.

Entrepreneurs interested in external cooperation ought to realize difficulties connected with it. It is not only the language barrier but also a correct choice of partners. Solution of these difficulties depends on the abilities of managers to solve the arising prob-

lems. This means to look for common procedures and methods of work, to set up crucial points of common enterprising, acceptable by all partners.

Conditions for cooperation are also given by the existence of important educational institutions, research and technological centers, especially in Linz and České Budějovice. These institutions have besides educational activities a great impact on establishing of nets of enterprises and on innovation activities of enterprises.

Regional managers and institutions dealing with retail development should inform the business public with above mentioned methods of business and with practical experience from abroad (e.g. Italy) and to present their advantages. It is necessary to strengthen regional economic structure and to create proper conditions for development of existing and creation of new enterprises, especially in the border areas of the region. Only well prepared and competitiveness business are ready for cooperation. The external cooperation is one of possibilities of retail development not only on Czech but also on Austrian side and further it can help to limit anxiety of Austrian entrepreneurs who feel endangered by the migration for work of border areas inhabitants from the Czech Republic.

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