

CORPORATE SUSTAINABLE LONGEVITY IN THE CZECH REPUBLIC DURING THE PERIOD 1995-2023

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Abstract

The article aims to shed light on the important issue of corporate sustainable longevity in the Czech Republic of all business legal persons. The concept represents a novel approach to the overarching management strategy of corporate social responsibility. One of the more tangible ethical considerations is the sustainability of a company, which can be measured by its continued existence and functionality on the market. In the light of these considerations, the authors examine the sustainability of Czech business legal persons in the context of their ratio between established and defunct in the period from 1995 to 2023. The results of the research indicate the emergence of a new socio-economic phenomenon throughout the period under study. Initially, there was a positive trend in which the number of newly established legal persons exceeded the number that defunct. This has been reversed and in the last year measured, 2023, the number of defunct legal persons dramatically outnumbered the number of established one's. The authors note that this negative trend may point to deeper structural problems in the Czech business environment.

Key words: Corporate Sustainable Longevity (CSL), Company Lifespan, Czech Republic

JEL Code: L21, L25, M14

Introduction

The concept of corporate sustainability has become a cornerstone in modern business strategies, as companies worldwide seek to balance long-term profitability with environmental, social, and governance (ESG) criteria. However, the pressure of short-termism—where businesses prioritise immediate financial gains over sustainable growth—often hampers these efforts. The issue of corporate sustainable longevity (CSL)—the ability of a company to remain viable over an extended period through responsible and adaptive practices—remains underexplored, particularly in transitioning economies. This research examines the dynamics of corporate sustainability in the Czech Republic from 1995 to 2023, a period marked by profound political, economic, and social transformations following the collapse of the communist regime in 1989.

The Czech Republic's integration into the global economy during the 1990s, alongside its accession to the European Union in 2004, opened new pathways for corporate growth but also introduced heightened competition and regulatory challenges. This study aims to investigate how businesses operating in the Czech Republic have adapted their practices to maintain both economic resilience and environmental responsibility over nearly three decades of dynamic change. Despite global attention to corporate sustainability, limited research focuses on the unique trajectories of Central and Eastern European companies during this pivotal period. This paper addresses the gap by exploring the intersection of sustainability practices and corporate longevity within the Czech business environment. The findings contribute to a broader understanding of how post-communist economies, like the Czech Republic, can foster corporate sustainability while navigating complex economic transitions.

1 Corporate Sustainable Longevity

The concept of corporate sustainability has gained prominence as businesses increasingly recognize the negative environmental and social impacts they generate. When formulating a corporate sustainability strategy, it is essential to evaluate both the potential benefits and the associated risks of the proposed activities. Research identifies several advantages of corporate sustainability, including reductions in production costs, financial relief, enhanced competitiveness, increased natural productivity, more efficient resource utilisation, improvements in corporate reputation, and a rise in innovation.

Corporate sustainability is fundamentally linked to the broader concept of sustainable development (Engert & Baumgartner, 2016). Over the years, organisations have established numerous sustainability policies aimed at minimising environmental pollution, fostering positive societal relations, and engaging constructively with stakeholders. A key element of corporate sustainability is the alignment of business strategies with sustainable development goals and requires a transition from short-term financial gains to long-term stability.

Corporate social responsibility (CSR) is integral to achieving sustainable development, positioning CSR as a voluntary yet essential managerial approach that complements corporate sustainability efforts. The relationship between CSR and corporate sustainability is further reinforced by the view that these two concepts are closely intertwined, emphasising that sustainable practices are not optional but essential for long-term corporate success (Behringer & Szegedi, 2016).

Moreover, the role of innovation in corporate sustainability cannot be overstated. Li et al. (2021) highlight that as stakeholder demands for environmental and social accountability

increase, companies are compelled to innovate to meet these expectations, thereby driving their sustainability initiatives. This innovation is critical for developing strategies that balance economic performance with social and environmental responsibilities (Sanchez-Planelles et al., 2022). The empirical findings further illustrate that positive corporate sustainability strategies can significantly enhance firm value, while negative strategies can detrimentally affect it, underscoring the importance of a well-defined sustainability strategy (Lin et al., 2021).

The complexities of implementing corporate sustainability strategies are also acknowledged in the literature. For instance, discuss the inherent tensions and trade-offs that organisations face when attempting to balance economic, environmental, and social objectives (Byl & Slawinski, 2015). This notion of trade-offs is critical, as it highlights the need for companies to navigate conflicting priorities effectively. Furthermore, emphasise the necessity of bridging the gap between the formulation and implementation of sustainability strategies, suggesting that a structured approach is vital for achieving desired outcomes (Engert & Baumgartner, 2016).

In addition to internal strategies, the external context in which companies operate significantly influences their sustainability efforts. argue that stakeholder engagement is essential for developing governance strategies that incorporate sustainability into corporate culture. This stakeholder-centric approach advocates for a comprehensive integration of sustainability into corporate strategy, ensuring that all stakeholders' interests are considered (Nguyen & Kanbach, 2024).

1.1 Company Lifespan

The phenomenon of shortened company lifespans has become increasingly evident in contemporary business environments, driven by various factors including rapid technological advancement, changing consumer preferences, and competitive pressures. This trend reflects a broader shift in market dynamics, where companies must adapt quickly to survive.

The trend is exacerbated by the increasing agility required in supply chains, where organisations must swiftly adapt to shifting consumer preferences to maintain competitive advantages (Kankam, 2023). The pressure to innovate and respond to market demands can lead to operational difficulties, ultimately resulting in reduced profitability and a shortened lifespan for many companies.

Additionally, the average lifespan of companies listed in the S&P 500 has decreased significantly, from over 60 years to 15 years (Ernst & Young, 2023). This dramatic reduction underscores the urgency for businesses to develop robust strategies that not only address current

market conditions but also anticipate future trends. Kankam (2023) argues that companies must be able to adapt to rapidly changing market conditions to avoid obsolescence.

Furthermore, the implications of shortened company lifespans extend beyond individual firms to the broader economic landscape. The increasing rate of company failures can lead to job losses, reduced economic stability, and diminished consumer trust in markets. As businesses face these challenges, the importance of strategic planning and sustainable practices becomes even more pronounced. Companies must prioritise long-term viability over short-term gains to navigate the complexities of modern markets effectively.

1.2 Company Longevity in the Czech Republic

The longevity of companies in the Czech Republic is influenced by a variety of factors, including corporate governance practices, market conditions, financial health, and the overall economic environment. It can be argued that the reluctance of Czech companies to adopt effective governance models, as recommended by international standards, has led to reduced performance and competitiveness in comparison to foreign firms. This lack of adherence to best practices in corporate governance can hinder long-term strategic planning and operational efficiency, ultimately impacting the lifespan of these companies. Moreover, the rankings of competitiveness for the Czech Republic indicate that poor corporate governance practices are a contributing factor to the challenges faced by local businesses.

Financial health is another critical determinant of company longevity. The study (Šeligová, 2017) indicates that liquidity, influenced by factors such as debt equity ratios and return on equity, plays a vital role in a company's ability to sustain operations and invest in growth opportunities. Companies with strong liquidity positions are better equipped to navigate economic downturns and market fluctuations, thereby enhancing their longevity.

Additionally, the impact of external economic conditions cannot be overlooked. The 2008 financial crisis, Covid-19 pandemic, technological shifts, political and regulatory changes (e.g. Brexit), inflationary pressures following the Ukraine-Russia conflict, etc. have had profound effects on businesses worldwide, including those in the Czech Republic.

2 Methodology

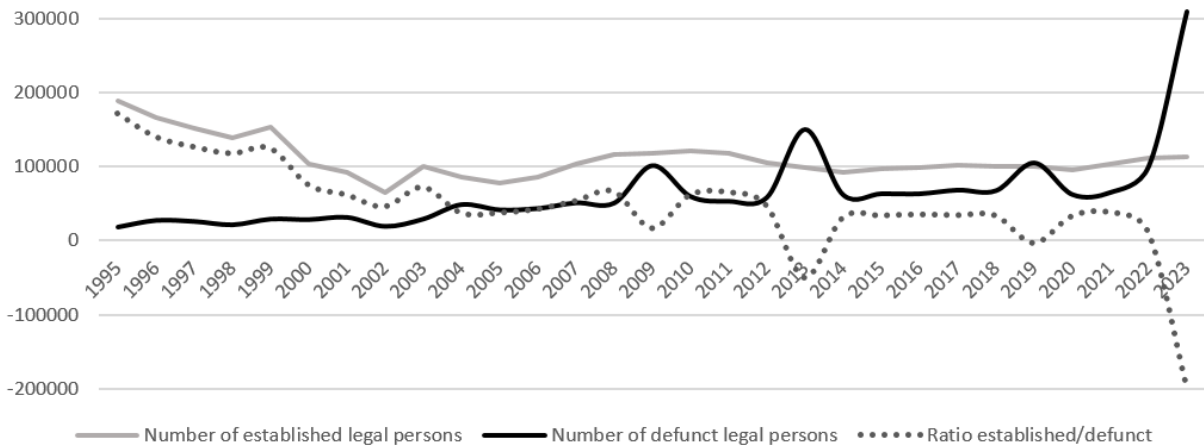
The research was based on an analysis of data about the established and defunct companies collected by the Czech Statistical Office in the years 1995-2023. The Czech Statistical Office is responsible for maintaining an up-to-date register of the total number of established and

dissolved economic entities, which has been available since 1995, first only in documentary form in the Statistical Yearbook of the Czech Republic (1995-2003), then in internal registers in the internal materials of the Department of Development and Methodology of Registers. Since 2003, more detailed enumerations of the number of established and dissolved economic entities have been available according to different aspects, including type of company legal form, different geographical categories of regions as the number of employees. The longitudinal data collection of the ratio of established and defunct legal persons in the Czech Republic demonstrates notable shifts from 2022 onwards. However, for more extended comparisons, it is essential to utilise row data. The data set that we have surveyed provides an approximate overview of the number of established and defunct for all legal persons, including both natural persons engaged in freelance activities and legal persons such as corporations, private limited companies, joint-stock companies, general partnerships and cooperatives. In order to clarify the terminology, it is important to understand that an established legal person is one that has been registered in the official registers after fulfilling the relevant legal obligations in the Czech Republic. Conversely, a defunct legal person is one that has been deleted from the registers.

3 Results and Discussion

The results of a rough comparison of the data show a major change in the study area from 2023 onwards. The ratio of established and defunct itself indicates a profound transformation of the Czech business environment from 2023 onwards (see Fig. 1).

Fig. 1: Number of established and defunct legal persons in the Czech Republic 1995-2023



Source: Czech Statistical Office (2024)

In 1995, when these statistics began to be recorded in the Statistical Yearbooks of the Czech Republic, there were 171,894 of established legal persons.

In 2023, a notable disparity emerged and those that ceased operations in the Czech Republic, marking a significant departure from historical trends. In 2023, there were 112,759 established legal persons, while in the same year, there were 309,787 defunct ones. The difference between established legal persons and defunct went into negative territory, with the number of defunct legal persons exceeding the number of established ones by 197,028 units. There may be a number of reasons for the gap.

The shortening lifespan of all legal persons (companies, corporations or freelancers) in the Czech Republic can be attributed to a combination of socio-economic factors. It would be beneficial to consider the reasons behind the new legal norms, which require the establishment of a data mailbox from 2022 for all legal persons who wish to conduct business in the Czech Republic. This measure has, in some instances, resulted in the cessation of official trade activity for small traders and a shift towards informal economic activities. The second factor is the ageing of the Czech population and the transition from active to retired small tradesmen, which has resulted in the closure of some trades to optimise the pension received from the state. The third reason is the Czech government's introduction of new regulations that have led to an increase in tax levies, which has had an impact on businesses. It appears that the most frequently cited reason is the increasing post-Covid effect on the economy.

It would seem that the post-Covid era in the Czech Republic has seen a notable increase in the number of defunct business entities and legal persons. Many companies have had to cope with significant operational challenges, which have unfortunately led to financial difficulties that have persisted into 2023. The pandemic has unfortunately compounded pre-existing challenges, such as low added value in production and a shortage of qualified labour, which are particularly pronounced in the Czech manufacturing sector (Freze et al., 2023; Skýpalová, 2024). The pandemic has prompted a shift in consumer behaviour, presenting businesses with the challenge of adapting swiftly to new demands and preferences. The shift towards digitalisation and remote work has presented many traditional businesses with an opportunity to re-examine their operational models. Those who have been unable to adapt effectively have faced increased competition and have been forced to consider exiting the market. The rise of e-commerce and remote services has created a divide, where businesses that were unable to transition to these models have been disproportionately affected, leading to a higher incidence of defunct entities (Nesiba et al., 2022; Kancik-Kořtun, 2024).

Conclusion

The research highlights the critical issue of corporate sustainable longevity within the Czech Republic. By examining the ratio of newly established to defunct legal persons, the findings demonstrate critical trends in corporate sustainability and survival rates, which serve as indicators of broader economic health and the resilience of the Czech business environment.

This research contributes to the understanding of corporate sustainability within transitional economies and opens avenues for further investigation into the factors influencing business longevity, including regulatory changes, economic cycles, and the role of innovation and corporate governance. In terms of future research directions, we recommend comparative analysis to assess whether the observed trends in corporate sustainability are unique to the Czech Republic or if they reflect broader patterns in other Central and Eastern European countries. Especially Visegrad Group countries underwent similar transitions from centrally planned economies to market economies, making them relevant for comparison. Secondly, we suggest focusing on an industry-specific basis, identifying which sectors are most affected and which industries remain resilient. Policymakers and business leaders can leverage these insights to promote more sustainable business practices that enhance corporate resilience and ensure a balanced ratio of established to defunct legal persons in the future.

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