

Bata offers a lesson for surviving hard times

Following the death in 1932 of Tomáš Baťa, the founder of the shoe company with his name, his half brother Jan Antonín took over the firm. The Great Depression was a testing time for Baťa, as it was for practically all companies, but the Baťa story shows that success is possible even in the midst of an economic crisis—without government intervention or support.

BY MILAN ZELENÝ

Baťa's slogan "every worker should become a capitalist" irritated not only labor unions, but also industrial associations endeavoring, along with the state, to see that the crisis was shared "equitably" between as many firms as possible. In such a climate, Baťa's achievements—high wages, low prices, content customers and dynamic growth—had to be punished, not rewarded.

Such views were widely held during the Great Depression in the U.S. under the presidency of Franklin D. Roosevelt (FDR). According to a recent article in the weekly *Newsweek*, at a meeting with journalists on April 12, 1933, barely a month after he took office, the new president mentioned

a small sweater factory's efforts to fight the crisis. The factory employed some 200 people and was well-known for good relations between its owners and workers. It was the town's only industry, according to FDR. When sweater sales dropped sharply, the town was virtually starving, FDR said.

The employees agreed that they could keep their factory going if wages were cut by 33 percent. Prices could then be reduced creating an edge over the competition. FDR told his audience about how the factory's salesmen went to New York and sold so many sweaters in 24 hours that the factory had enough work for three shifts a day for the next six months. Journalists were naturally excited by this tale of a small community triumphing against the Great Depression.



FDR looked at them through his pince-nez. "They get a good deal of cash into the community. ... [But] they undoubtedly, by taking these orders, put two other sweater factories completely out of business," FDR said. He then started to explain his government's plan for the bulk of consumption in any given industry to be spread equitably through the sector as a whole. "Instead of trying to concentrate production to meet that consumption into the hands of a small portion of the industry, we want to spread it out. ... It might be called the regulation of production or, to put it better, the prevention of foolish overproduction," FDR said. That is how New Deal was born, protracting the economic crisis into the beginning of the 1950s.

FDR's story shows that the key to suc-



Tomáš Baťa was not afraid of crises

"The present crisis is not a crisis of our company, nor is it a crisis of industry. It is a crisis of the state economy as a whole. I am not a supporter of catastrophic jumps of our crown; on the contrary, since the beginning I was pleading for its stability, to give our industry a chance to develop in a stable atmosphere. The jump in our currency was made, although decisions concerning the currency lay in the hands of po-

liticians responsible for state administration. Industrialists are to accommodate such decisions as much as they can because the basic condition for improving economic life in the country is law-abiding people, mindful of public interest."

Tomáš Baťa did not desire any aid

"I want to prove not only in words but with deeds that a company managed according to our principles is invincible even against the most powerful competition. In this effort of mine I do not demand any support from anybody, namely not from the state. I need only one thing for my work: to be allowed to work."

Employees' weekly share of profit

1924	Kč 50
1929	Kč 90
1931	Kč 98

After the weekly profit share for an employee was established, Baťa's production reached its highpoint. This measure helped to guarantee direct responsibility for quality and performance with a majority of employees.

Amount of employee deposits in the company's bank

1924	Kč 12 million
1929	Kč 61 million
1931	Kč 101 million
1934	Kč 135 million
1937	Kč 196 million

The company bank was established in 1919 to ensure the company's capital independence. Investment capital was covered by the company's profit and employees' savings, yielding 10 percent interest, compared with only 5 percent in most banks. The company's bank was a partner; it created its profit from shares on the success of the financed project, not from interests and fees.

Number of Baťa's employees in Czechoslovakia

1924	3,011
1929	12,200
1931	19,722
1934	22,050

Baťa supported the capitalization of employees, enabling financially secure retirement after the age

cess lays in a transparent, self-contained organizational structure, which clearly defines common interests and conditions for cooperation between owners, managers and workers of a firm in times of crisis. Every company has to make decisions about taking measures to counter the effects of a crisis, thus establishing what new system of management—if any—is to be created, what steps and what strategy such a system allows, and what relations will prevail between owners, management and workers. Basically there are two possibilities:

The first is “passive macroeconomic reaction.” This includes lobbying, bribes and a big “waiting for Godot”—for various measures, regulatory rules and financial help to come from the state—meaning taxpayers and potential customers. The second is “active microeconomic reaction,” where the organizational structure and management of a firm is adapted to tackle the prevalent conditions of the crisis; looking for new business models, developing new products and services, taking advantage of the passivity and “waiting tactics” of other companies in order to create new competitive advantages. Strictly speaking, we are to decide whether we want “the party and the government,” or private enterprises operating in a free market to form the base of economic performance and social prosperity, or whether we prefer a state-controlled macroeconomy or a business microeconomy to provide the ideas and lead the way for entrepreneurial practice. If we want success and prosperity, we can choose only one of the two ways.

The management system upon which Baťa was based in the 1930s and '40s used a lot of mutually tied principles that are no longer

used by any firms operating in the Czech Republic today—including the current shoemaker Baťa. Therefore, companies are completely powerless against the crisis and the consequences of state “anti-crisis” measures.

From Tomáš Baťa's thoughts on crisis

In 1922, lawyer and Minister of Finance Alois Rašín engineered an unprecedented rise in the value of the Czechoslovak crown by raising the interest rate to 7 percent through intervention on the Zurich stock exchange. His aim was to create deflation, but as a result of the high value of the crown, he ruined the competitiveness of Czechoslovak exports. The result was a huge drop in industrial output and consequent high unemployment. Only Baťa managed to maintain full production, though partly due to lowering both expenses and the prices of the company's shoes. The company's strategy dealt brilliantly with the government's incompetent macroeconomic policy. At the time, Tomáš Baťa issued a public proclamation announcing that wages for his employees were being reduced in order to maintain full production and to provide the public with affordable shoes. In fact he went as far as reducing the retail price of the company's shoes by a half. At the same time, Baťa pledged to provide his workers with life's essentials at greatly reduced prices.

The measures were a success and demonstrated that a good businessman can successfully resist adverse conditions such as short-sighted state policy. In a conversation with a certain Mr. Sonnenschein, the CEO of metal works Vitkovocké železářny, the latter reportedly asked Baťa how he expected his workers to survive following a 40 per-

of 50. The influx of young employees kept up performance and vitality; and during the crisis Baťa could choose new talent.

Average weekly salary of an employee

1924	Kč 205
1929	Kč 469
1931	Kč 514
1934	Kč 525

Wages were calculated for a workshop as a whole, not for one employee. The split was made within the team according to performance and added value. There were five categories in the system of pays: 1) fixed wages, 2) individual piece wages, 3) team piece wages, 4) a salary with a share on profit (for managers also, with a share of loss), 5) special rewards and premiums.

Average weekly salaries in 1932

	Baťa	ČSR	France
Qualified	Kč 400	Kč 270	Kč 373
Unskilled	Kč 280	Kč 150	Kč 140
Apprentices	Kč 180	Kč 100	Kč 108

Baťa's share on shoes production in Czechoslovakia

1929	33.2 percent
1931	77.8 percent
1934	84.6 percent

The dynamics of Baťa's growth in comparison with the decline of their traditional rivals can be seen in a steep rise of its share of Czechoslovak shoe production. The quality of Baťa's production also played its role in this respect.

New stores opened in Czechoslovakia

1924	36
1929	459
1930	752
1937	2,076

Baťa eliminated intermediaries by opening his own retail stores, where he sold only his own shoes. Baťa shops allowed direct contact with customers, maximum quality and flexible introduction of new designs. The store manager was its capital owner, under a franchise arrangement. The basic ethical rule was that taking any bribe led to instant dismissal. ➤

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PROGRAMME

June 27 - Saturday

Sacramento, Russia
Timur Galejev: **The Game**

Group de Teatro da Poli, Brasil
Without a Ground

June 28 - Sunday

Open Independent Stage, Poland
Emilia Betlejewska: **The Way**

Freie Bühne Dresden, Germany
L. Jacobsonová, C. Frühhauf:
My Loved Ones, Too Far-Away

Changpa Theatre, South Korea
Tadeusz Kantor: **Doodri, Doodri**

June 29 - Monday

Lord Alfred's servants
Czech Republic
Martina Krátká: **Do You Sleep with Me?**

Kompánia Theatre, Hungary
(based on W. Shakespeare):
Carneval, Wedding Feast

Al-Khareef Theatre, Syria
N. Bulbul-R. Alaswad: **Solitary**

June 30 - Tuesday

Theatre Harlequin, Russia
Non-linear Evolution

Tony Bulandra Theatre, Romania
Dumitru Acris: **Hitler in Love**

Studio Cyrano's Shoes, Czech Republic
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July 1 - Wednesday

DZ Disk, Slovakia
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cent wage cut. After informing him that he would supply them with essentials at highly subsidized prices, the metal baron reportedly asked Bata whether he was also a grocer. “Yes, I am also a grocer,” Bata replied.

Bata’s affirmative reply reminds one of Galileo’s words, “But still it moves,” which he supposedly said after he was forced to renounce his astronomical findings. Bata proudly acknowledged the necessity for an entrepreneur to care about the well-being of his employees. Compare his approach to that of a haughty elitist, disdaining everything except for himself, the interests of shareholders and their dividends.

Bata was no supplicant. He never asked for state support that governments so willingly offer in a bargain for votes and political power. Conditions are never to be blamed for anything. Only people are to blame. Complaining about bad times is unworthy of Bata’s inheritors. “We have not created these conditions, but I am not willing to pity myself. I am pleased with these conditions!” Tomáš Bata told his employees in 1932. Initial dead silence was followed by thunderous applause. Bata never received—and would never accept—any “help” from the state. For him, to contribute to the state not to take from it, was every businessman’s duty.

Expansion during the Depression

The Great Depression began in the U.S. in 1929. Tomáš Bata died in 1932 and his half-brother Jan Antonín took over management of the company after him. While the U.S. and the world, including Czechoslovakia, were in the depths of the severe financial and industrial crisis, the Bata company began to grow at an unprecedented rate, which was only interrupted by the German occupation in 1939. Credit is due to both Bata half-brothers for making the Czech shoemaking industry successful while the industry was in deep decline worldwide.



It was under specific circumstances that in 1938 Czechoslovakia was regressing to the economic level of 1929. Public programs for Czech workers in the Sudetenland and the financial machinations of Finance Minister Rašín, for example, artificially postponed the cleansing effects of the crisis, and Czechoslovakia in fact never emerged from the crisis.

The country was then plunged into the war years, then came Beneš’s nationalization before the onslaught of communism and crisis-ridden post-communism. A permanent crisis was always inherent to Czechoslovakia and the Czech Republic, with the socialist preference for big companies—excluding the expelled Bata—at the expense of small and medium-size enterprise (SMEs), which are the engine of the national economy.

Lessons for today

Today we are facing a challenge similar to the troublesome era of the Bata half-brothers. Shall we take the active, creative way of enterprise of quality within our autonomous region, or are we going to wait with our hand outstretched to obtain a *bakshish* of EU structural funds, financial injections and presents from stressed out taxpayers - our potential customers, who lost control over their own earnings? This is not—this cannot be—good business.

The answer is more than obvious. Socialism is being revived, with state shares in banks, carmakers, insurance companies and so on becoming ever larger, while economies are plunged into debt under the frayed banners of last century’s Keynesianism. There are even economists saying that World War II was the Keynesian “injection” that successfully put an end to the crisis. Metaphors about “economic wars” are proliferating, trying to justify fiscal expenses of political neo-Keynesianism. Today’s unbridled scattering of money by governments is taken for something like simulation of a war’s impact on the economy.

Currently, governments are pouring money into the carmaking industry, delaying bankruptcy *de jure* of carmakers, while *de facto* they went bankrupt a long time ago. If no one buys cars from a firm going bankrupt, even fewer people would buy cars a company artificially propped up by the state. Rewards flow to those who are incompetent and nonperforming; to losers. As it was in the era of Bata half-brothers, punishment is reserved for the successful—

The plan of U.S. President Barack Obama even financially stimulates states to enlarge the number of people dependent on welfare. Employment of social workers and consultants will thus increase. The state sector is becoming the only growing employer in the economy— except for state medical care and the education system. As one American economist remarked: “If you think it is too expensive now, just wait till it becomes free.” ■

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Average sale price for a pair of shoes

1924	Kč 79
1923	Kč 53
1931	Kč 46
1934	Kč 34

Thanks to a high demand, selling prices of shoes were falling constantly in the time of crisis, always below prices of competitors, with help of the company’s world class marketing department and unrivalled level of services offered in Bata shops.

Share of total Czechoslovak exports

1928	50.7 percent
1931	71.7 percent
1934	86.1 percent
1935	88.6 percent

Bata’s export grew at the expense of domestic rivals, who were unable to compete in quality or quantity and who had no system of management.



What happened at Bata company during the crisis

1929 The collapse on the Wall Street stock exchange triggered the world crisis. New production facilities were established: Ottmuth, Germany; Tilbury, England; Hellocourt, France; Borovo, Yugoslavia; Chelmek, Poland; Möhlin, Switzerland; Best, Netherlands; Batanagar, India; Belcamp, U.S.

1930 Daily production: 100,000 pairs of shoes; 40-hour work week introduced.

1931 Privately held joint-stock company Bata founded, while publicly traded company T.&A. Bata ended operations. In 1931–32, five new factory buildings opened in Zlín, two warehouses, gasworks, a department store, 500 family houses. Deposits on accounts of employees grew to Kč 136.5 million.

1932 Death of Tomáš Bata at Bahňák airport. His half-brother Jan Antonín Bata took over the firm. As a help against the crisis new productions were started up including tires, wheels, rubber goods, bicycles, airplanes, plastic fibers. A department store and big cinema were built in Zlín.

1933 Export-import company Kotva was founded. Hotel Společenský dům was built in Zlín, Monument to Tomáš Bata’s unveiled in Zlín. ■