

# The preservation of bankrupt businesses; experiences from the Czech Republic

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## Duration of insolvency proceedings, costs for proceedings and yields from proceedings (2011)

Country	Duration (years)	Costs (% of yield)	Yield (% of investment)
CR	3,2	17	56,0
OECD (average)	1,7	9	68,2
Finland	0,9	4	89,1
Germany	1,2	8	53,8
Italy	1,8	22	61,1
Poland	3,0	15	31,5
SR	4,0	18	54,3
Sweden	2,0	9	75,8
GB	1,0	8	88,9
USA	1,5	7	81,5
Portugal	2,0	9,0	72,6

Source: Doing Business 2012,

<http://data.worldbank.org/indicator/IC.ISV.DURS?page=1>

<http://www.doingbusiness.org/custom-query>

## Duration of proceedings and yield for creditors from proceedings following declaration of a debtor's bankruptcy in the CR

Year	Duration of an insolvency proceeding (in years)	Creditor's yield from debtor's bankruptcy (% of claim)
2002	9,2	15,4
2003	9,2	15,4
2004	9,2	16,8
2005	9,2	17,8
2006	9,2	18,5
2007	6,5	21,3
<b>2008</b>	<b>6,5</b>	<b>20,9</b>
2009	6,5	20,9
2010	3,2	55,9
2011	3,2	56,0

Source: Doing Business 2012, <http://www.doingbusiness.org/custom-query>

## Duration of a commercial lawsuit in the amount of days from filing to court ruling

Year	CR	Netherlands	New Zealand	Germany	Portugal
2002	663	534	232	403	-
2003	663	534	232	403	-
2004	653	534	220	394	577
2005	653	514	220	394	577
2006	653	514	220	394	577
2007	653	514	216	394	577
2008	653	514	216	394	577
2009	611	514	216	394	577
2010	611	514	216	394	547
2011	611	514	216	394	547

In OECD countries the average is 518 days

Source: Doing Business 2012,

<http://data.worldbank.org/indicator/IC.ISV.DURS?page=1>

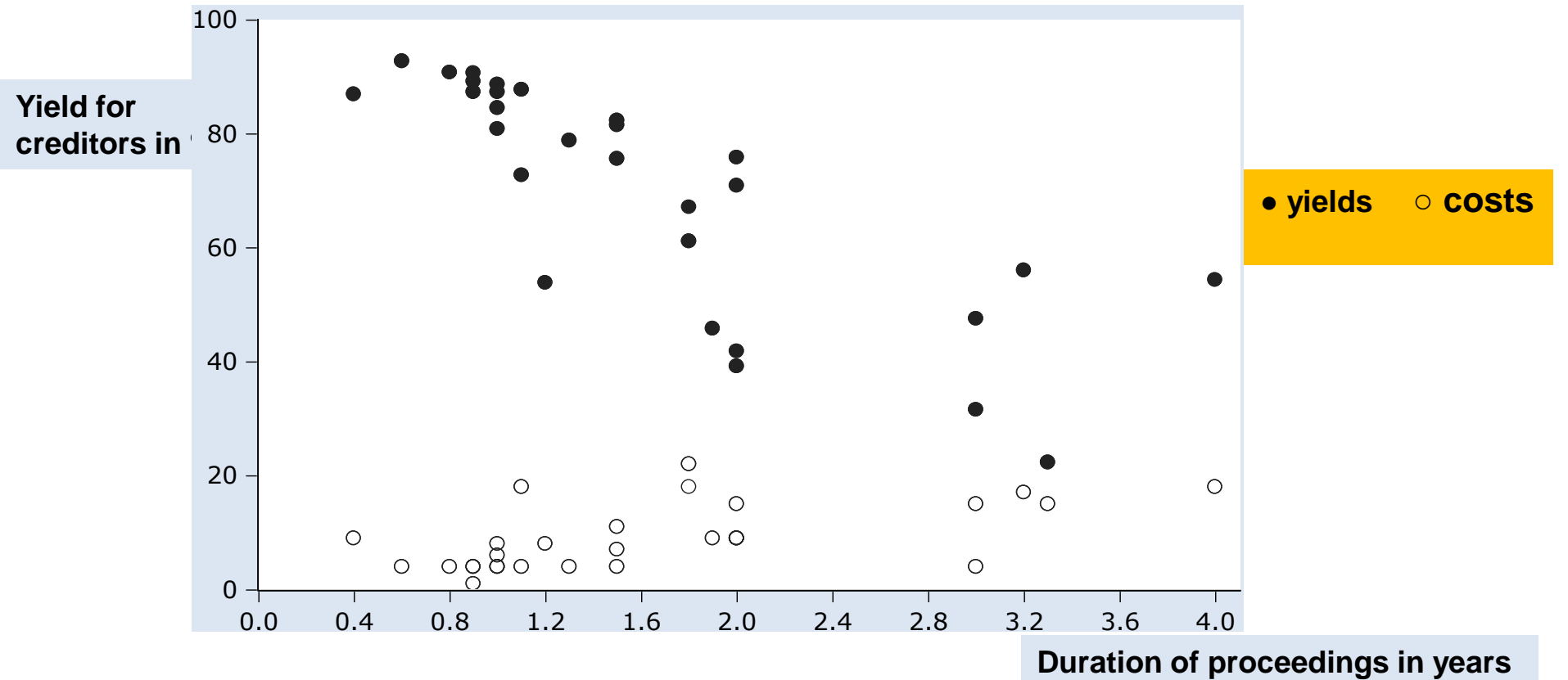
<http://www.doingbusiness.org/custom-query>

## Proposals rejected on the grounds of insufficient debtor property in comparison with other cases

Year	Proposals rejected on the grounds of insufficient property	Declared bankruptcies	Approved reorganisations (compensation)
2003	627	1719	9
2004	889	1435	6
2005	1159	1230	6
2006	1536	1238	7
2007	1986	1104	11
2008	668	651	6
2009	1768	1660	14
2010	1571	1948	19
2011	1441	2229	17

Source: Ministry of Justice CR, <http://www.insolvencni-zakon.cz/>

## Costs and yields from insolvency proceedings according to the length of these proceedings in OECD countries in 2011



1. We can clearly see the **inverse proportion** between the costs and the length of an insolvency proceeding, i.e. with the increase of the length of the insolvency proceedings the profit for creditors decreases.

2. Note the **direct proportion** between the costs and the length of an insolvency proceeding, i.e. as the length of the insolvency proceedings increase, so do creditors' costs.

Source: World Bank, IFC (2012)

<http://www.doingbusiness.org/~media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB12-FullReport.pdf>

# The results of a regress analysis of the yields from insolvency proceedings according to costs and length thereof in 2011 in OECD countries

Dependent variable : YIELDS					
Number of observations: 29					
Variable	Parameter	Standard deviation	t-statistics	Significance level	
C	101,6195	5,805968	17,50260	0,0000	
LENGTH	-8,665793	3,627907	-2,388648	0,0245	
COSTS	-1,947001	0,570290	-3,414055	0,0021	
R <sup>2</sup>	0,606550	R <sup>2</sup> -adjusted		0,576285	
F-statistics	20,04107	significance level		0,000005	
DW stat.	1,835923				

Source: World Bank, IFC (2012), author's calculation

$$\text{yields} = 101,62 - 8,67\text{length} - 1,95 \text{ costs}$$

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When the duration of insolvency proceedings is increased by one year, the yields are decreased by about 9 percentage points, and increased costs by one percentage point decrease yields by about 2 percentage points.



# Conclusion:

**1. Minimize the length of insolvency procedures.**

2. Arrange for business subjects declare their insolvency in time, when there is still some property for creditors' satisfaction. Minimize rejection of insolvency proposals on the grounds of insufficient property.

*Narrow the definition of insolvency in the Insolvency Act.*

*Implement tougher financial and criminal sanction for statutory bodies in cases where insolvency proposals are rejected on the grounds of insufficient property.*

**3. Decrease the duration of commercial lawsuits, thereby improving the process for individual collection of claims.**

## Comparison of statistic parameters - 2010 vs. 2008-2009

Observed parameter	2010	2008-2009
Number of permitted reorganisations	19	20
Debtors under the test of size	3	1
Debtor insolvency proposals	9	18
Moratorium	3*	2*
Present filing of insolvency proposal and proposal for reorganisation	3	7
Creditor decisions and manner of settlement	12	14
Limiting of debtor's dispositional authority	10	3
Conversions to bankruptcy	5	4

**\*0 before filing of insolvency proposal**

Source: Richter, T. (2011): Reorganizace povolené v třetím roce účinnosti InsZ: základní empirická pozorování a náčrt trendů, *Ekonomika a management*, číslo 3, ročník 2011, Vysoká škola ekonomická, 2011