

R E S E A R C H P A P E R

The Bata Shoe Company,  
1876 to 1970:  
Appraisal of Strategic  
Global Choices

Part I:  
Origin of a Global  
Family Enterprise  
(1876 – 1932)

Canadian Business History  
Professor Joe Martin

This research paper was prepared by Sanjeev Kumar under the direction of Professor Joe Martin as the basis for class discussion rather than to illustrate either effective or ineffective handling of a managerial situation.

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# The Bata Shoe Company, 1876 to 1970: Appraisal of Strategic Global Choices

## Part I: Origin of a Global Family Enterprise (1876 – 1932)

### 1 Introduction

“Today, this nation buried its hero. Every nation at certain times has its heroes, and they may be kings, military leaders, actors or sportsmen. This one was a shoemaker.<sup>1</sup>” These words, spoken by a radio broadcaster in 1932, referred to Mr. Thomas Bata, who was revered as a hero in his home country of Czechoslovakia. The late business executive was lauded for his vision, accomplishments and people-focused style of leadership. Bata, born into a family of shoemakers, founded the Bata enterprise together with his siblings in 1894. From its humble beginning in the town of Zlin in Czechoslovakia — the company was established with an initial capital investment of US\$320 (800 Austrian Guildens) — the Bata enterprise went on to become the largest family-owned shoemaking company in the world with establishments in 70 countries and sales of more than 400 million pairs of shoes per year.

Bata’s journey to become a revered business leader demonstrates a unique combination of leadership values and business vision. He navigated the massive political, social and economic challenges of the early 20th Century, enabling his company to prosper. The walls of Bata’s factory in Zlin were painted with the phrase “Be An Example”. He remains an example of the various traits of leadership, including the following:

- Inclusive and comprehensive leadership that emphasized an interconnected approach to people, money and machinery. Bata’s management style fostered the development of his employees’ skills and capabilities, a willingness to invest in new areas, and efforts to improve productivity through machinery;
- Resilient leadership in steering the business amidst difficult political situations at home and abroad;
- The agility to continuously improve through new learning and the creation of a global company with local culture.

This research paper will outline key aspects from the life of Thomas Bata (1876 – 1932) across the following stages:

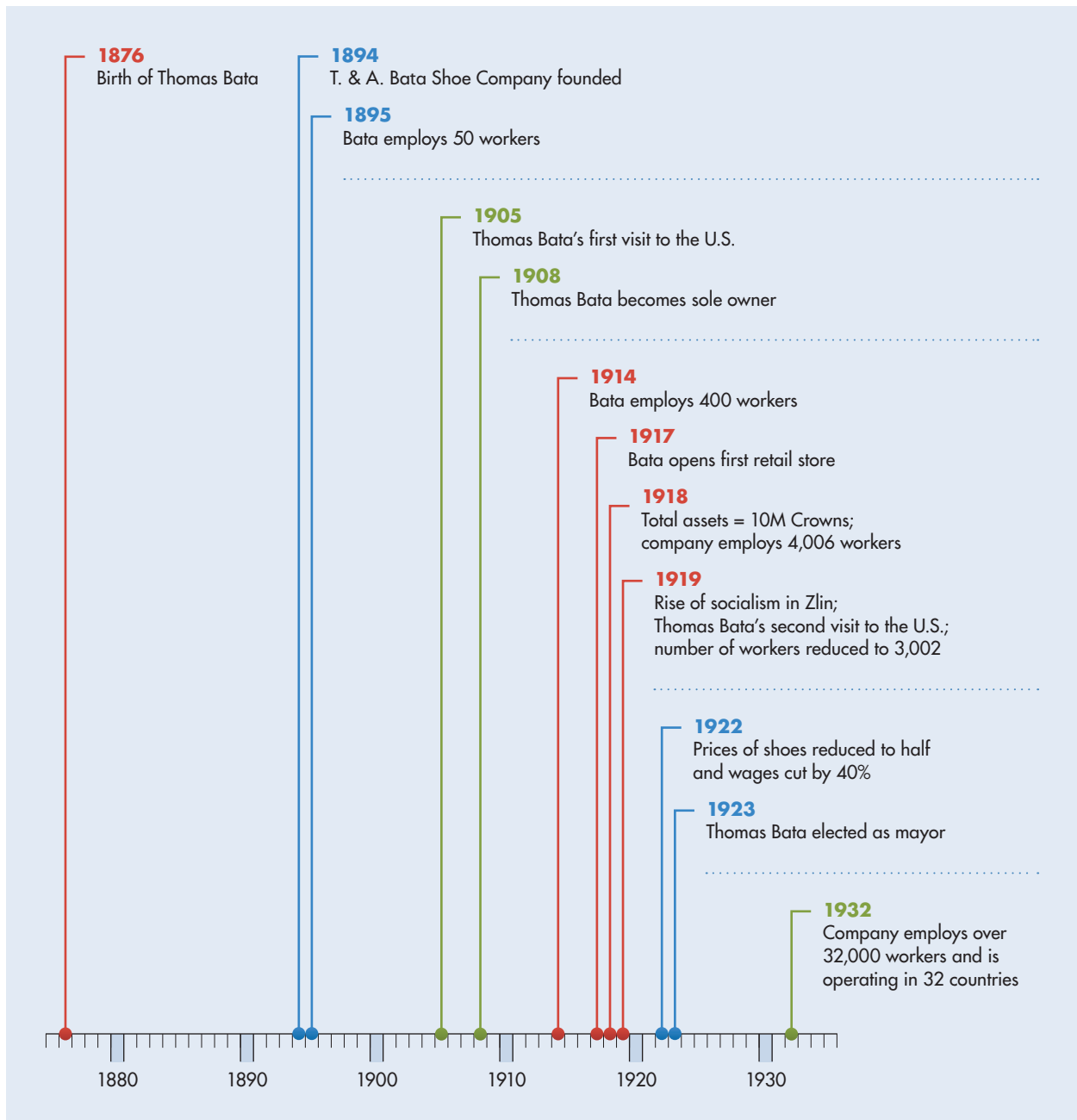
- His formative years and the beginning of the Bata enterprise;
- His enthusiasm for American management methods and his resilience in wartime;
- His work to build a global company.

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<sup>1</sup> Anthony Cekota, *Entrepreneur Extraordinary: Biography of Thomas Bata*. E.I.S. Toronto, 1968, p. 377.

**Figure 1:**

**Key milestones in the company's history during the lifetime of Thomas Bata (1876 – 1932)**



## 2 The formative years of Thomas Bata (1876 – 1894)

Thomas Bata was born in 1876 in the community of Zlin, which is now part of the Czech Republic. Zlin was one of the largest towns in the Moravia region when it was part of the Austro-Hungarian Empire. This region, situated in central Europe, forms the eastern part of the current Czech Republic. It is north of Austria and about 200 kilometres from Vienna. In 1876, the city of Vienna was the capital of the Austro-Hungarian Empire, and was seeing the benefits of the industrial revolution — increasing productivity due to modern machinery. Zlin was, at that point, still largely untouched by the developments of the industrial revolution. The town's economy was mainly based on agriculture and crafts such as shoemaking, pottery and cloth-stitching. These handmade products were usually sold via annual village fairs in the town of 2,300 inhabitants.

Thomas Bata was born into a family of shoemakers, a skill passed down by generations that originated more than two centuries before his birth. In 1589, Vaclav Bata was born. He is registered as the first shoemaker in the family (as per the historical records from the Catholic Parish Hall) and the family moved from the nearby town of Zelechovice to Zlin in 1667.<sup>2</sup> Successive generations of sons in the family followed in their father's footsteps for centuries, and marriages took place between families of shoemakers — mergers with both a social and a business component to them. Thomas Bata was a ninth-generation shoemaker, the son of Antonin and Anna Bata.

At the time of Thomas' birth, the family lived in a humble house with a thatched roof. The simple structure contained a kitchen and one other room which also served as the shoemaking workshop. The house lacked beds for all of the children, so the children often slept on the floor. "The most oppressed man in the world is he who does not have his own bed," recalled Thomas Bata of his childhood experience.

Thomas' apprenticeship began as a child, before he ever set foot in a factory or shop. At the tender age of six, Bata began to make doll's shoes from leftover scraps of leather and then accompanied his father to the local fair to sell these tiny shoes, offering them to prospective customers for a penny a pair. These ventures marked the start of a lifelong enterprise in shoemaking. Bata gradually learned all the steps involved in the shoemaking process by watching his father work.

Bata developed a solid grasp of all the tasks inherent in shoemaking. More importantly, he was able to identify at an early age the underlying economic weakness of a reliance on the local market alone. His family lived off the profits from shoe sales at the Zlin market. Profits were generally good during a successful crop season when the local farmers who were the shoe buyers had more money to spend. However, not all years yielded a good crop, and those same families did not buy shoes when times were tough. The volatility of the crop season directly affected the fortunes of shoemakers and the Bata family suffered severe financial hardship when the crop season was bad. Thomas Bata's biographer wrote that: "When sales were poor, hunger threatened." This early exposure to hardship triggered Bata's motivation to find an alternate path to economic stability. One of his first actions was to leave Zlin in search of a better and bigger market.

At the age of fifteen, Thomas Bata left Zlin and ran away to Vienna without informing his father. The capital of the Austro-Hungarian Empire, Vienna was a thriving city with a population of 700,000, some 350 times bigger than Zlin. In Vienna, he stayed with his sister, Anna, for three months. During his stay, he borrowed money from his sister. Anna lent him 30 Gulden (\$1 = approx. 3 Gulden,

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<sup>2</sup> Cekota, 1968, p. 2.

the currency of the Empire at the time). Thomas used that money to buy supplies and started to make slippers similar to those made by his family in Zlin (Mikado Shoes). However, he could not sell his product because there was no demand for his slippers in Vienna. This experience provided him with three key business lessons:

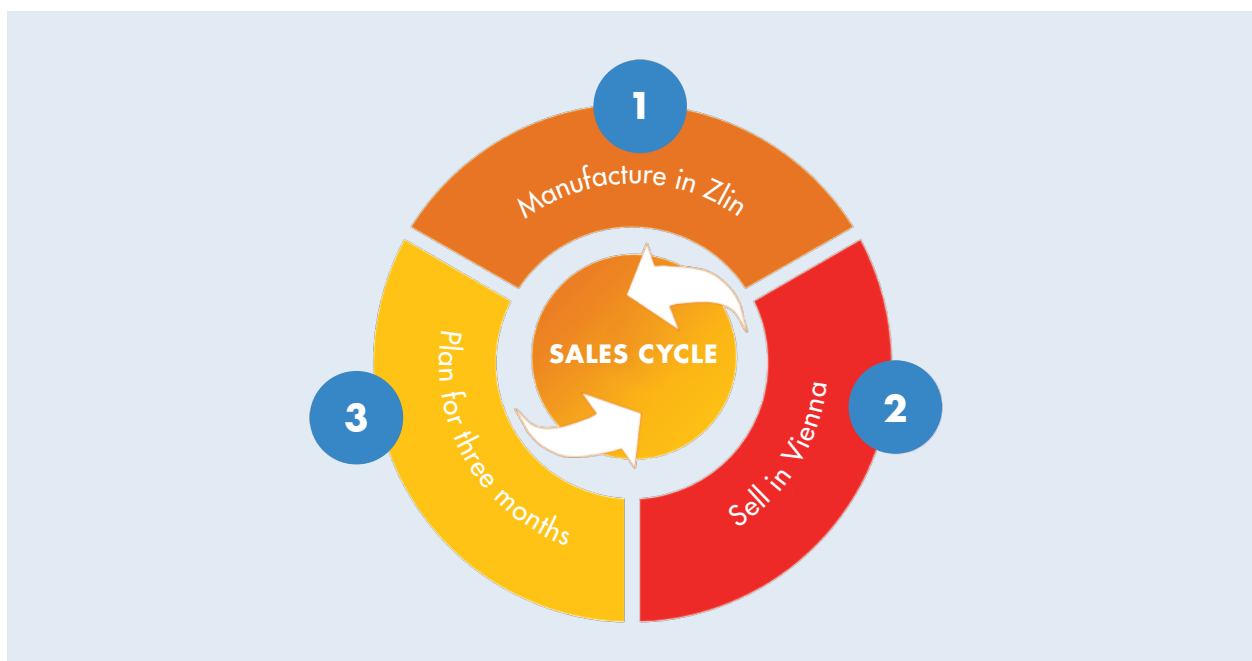
1. “Not one size fits all”; i.e. different markets have different needs
2. Production follows market demand
3. Capital management is key to operational success

These lessons broadened his understanding of the mechanics of business and therefore, even though his Viennese venture was unsuccessful, it helped shape his business acumen and comprehension of management challenges.

In Vienna, Bata gained an understanding of importance of size and scale in business after observing that the larger shoe stores made significant amounts of money. He also gained an appreciation for the value of a transportation infrastructure, such as a railway network, and he discovered an opportunity to mitigate the business risk to his family by selling his products in Vienna. Once back in Zlin, Thomas Bata devised a new sales approach that involved selling shoes to stores rather than to individual customers. Once he decided on this tactic, Bata convinced his father to allow him to execute this selling strategy. He then began a pattern of travelling regularly to Vienna to sell shoes. His three-pronged strategy was to: (1) manufacture the shoes in Zlin; (2) sell them to retail stores in Vienna; and (3) take orders for at least three months’ worth of products. (See Figure 2.)

This sales approach not only gave Bata access to bigger markets, but also fostered predictability and stability for the business. This foresight helped him to hedge against an uncertain cash flow.

**Figure 2:**  
Thomas Bata’s preliminary sales strategy



### 3 The beginning of the Bata enterprise (1894 – 1905)

This venture of exploring bigger markets led Thomas Bata to team up with his siblings to establish a more structured approach to shoemaking, i.e. moving from the traditional model of a single-owner cobbler's workshop to a company. The Bata Company was first established in 1894 in Zlin and it was registered as a business on August 24.<sup>3</sup> The company was registered in the name of Mr. Antonin Bata, the elder brother of Thomas Bata, because Thomas, at an age of 18, was not yet old enough to apply for a business license. They started the business with an initial capital investment of 800 Guldens, which was equivalent to around US\$320 at that time.<sup>4</sup> They had inherited this amount from their mother, who had willed it to them after her death.

This venture was not a typical family affair of cobblers. Instead, it was centred on the concept of a “factory” with a well-established process of business planning, procurement planning and a clearly defined worker compensation policy. The different tasks involved in shoemaking were compartmentalized into various functions. Bata started to leverage the concept of outsourcing. His employees would cut the upper parts and prepare other pieces of the shoes, and then pass these parts along to outside shoemakers for finishing. By 1895, the company had 50 employees, of which 10 were regular employees at the workshop, while the remainder brought the necessary materials home and delivered finished products to the company in the evening. Bata's business was highly leveraged with machines and materials purchased on short-term notes, using bank credit to meet working capital requirements. This structure made him prone to financial distress when sales slipped, a situation that happened early on when the company came close to bankruptcy.

The company faced its first near-bankruptcy situation within a year of its registration as it accumulated a debt of approximately 8,000 Guldens. That amounted to almost 10 times its initial capital, at a time when it lacked a stable cash flow. The company's reliance on cold weather footwear to drive sales was a key reason for the precarious nature of the cash flow. As a consequence, business was typically slow during the summer months. The situation was further compounded by a call for Antonin Bata to serve the compulsory three years of military service required by the government in 1895. This is when Thomas Bata, at the age of 19, rose to the occasion.

With around 100 Guldens in cash, Thomas took control of the situation by demonstrating his willingness to work hard even if it meant performing all of the jobs usually done by the workers in the factory. Through hard work and an entrepreneurial streak, he developed a new summer shoe, the “seglaky” — a lightweight, fabric-covered shoe with a cotton-linen top, a thin leather sole and smart styling. This innovative product was made from a combination of leather and canvas at a time when all-leather footwear was the norm. This new summer footwear was a top-quality shoe at an unbeatable price. Branded as “Batovka”, it cost a quarter of the price of a pair of leather shoes and marked an eventful change in the shoemaking industry at that time.<sup>5</sup>

Initially, distributors refused to accept these shoes because they felt the product did not meet the same standards to which the leather shoes were held. To overcome this opposition, Bata devised a unique distribution and merchandising approach, selling his shoes at any kind of retail outlet, including

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<sup>3</sup> <http://www.batova-vila.cz/en/batas-history/>

<sup>4</sup> Cekota, 1968, p. 18.

<sup>5</sup> <https://www.bata.com/corpo/heritage/bata-story-begins/>

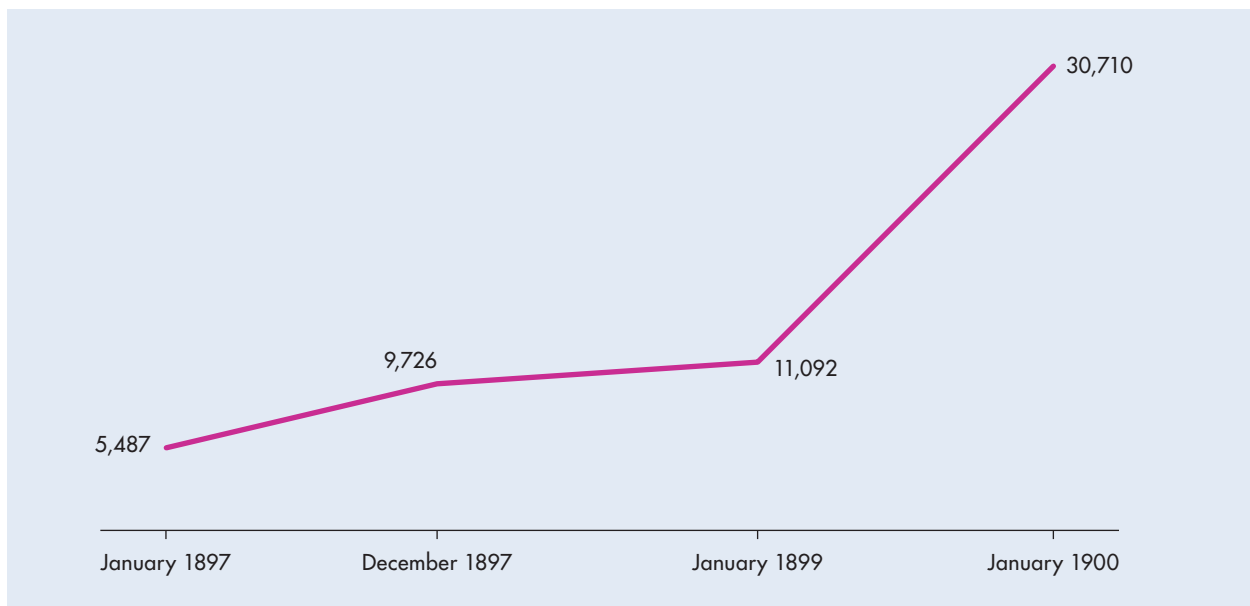
general stores, tobacconists, grocery and hardware stores — or to anyone interested in expanding their retail business. It was the first time that people saw shoes available for sale in these venues. He also launched an advertising campaign for his shoes, a novel approach since shoe products had not been promoted this way before. These initiatives led to a spike in demand for Bata shoes and stabilized the company's cash flow. Bata's own hands-on approach and his willingness to experiment with new ideas helped him to build trust with creditors. During this period, he closely monitored the minute details of manufacturing and production to identify cost-saving opportunities. He also kept himself abreast of current events and key developments around him so as to prepare for growth. For example, in 1899, he was quick to realize the benefits of rail transport. This prompted him to move his operations to a location near the Zlin railway station. From there, Bata shoes could be transported and sold in all corners of the Austro-Hungarian Empire.

In these early years, Bata experimented with ideas across different elements of the shoe industry's value chain, including distribution. For example, in 1899, railroads were scarce and did not extend far and wide enough to meet the company's distribution needs. In response, he developed a special type of horse-drawn carriage loaded with shoes that facilitated the delivery of goods right to the customers' doors. He hired salesmen to drive these carriages and deliver the company's footwear.

Thomas Bata's ability to innovate and differentiate helped the company to overcome initial hurdles and continuously grow during the first five years of its operation. This is evident if one examines the growth of its assets from 1897 to 1900. (See Figure 3.)

**Figure 3:**  
**Assets of Bata in the early years**

(in Guldens)

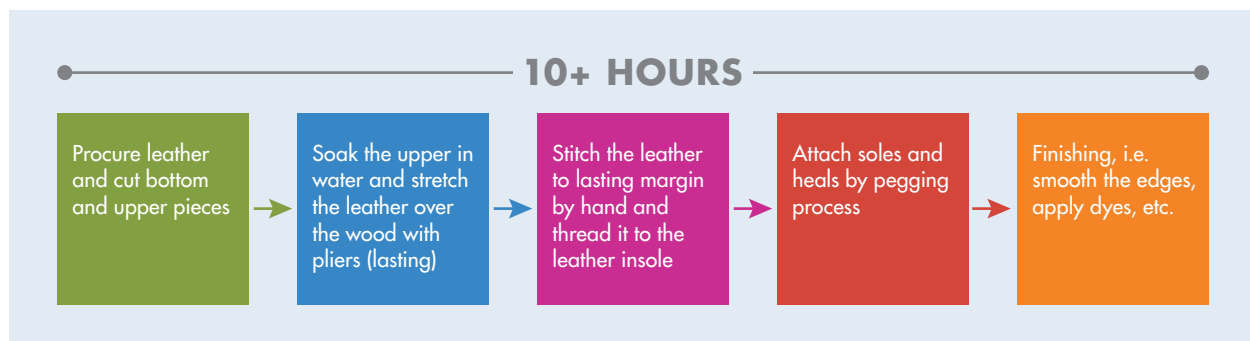




## 4 Gaining global experience and expertise (1900 – 1913)

In 1900, the ownership of Bata was restructured. Under the new structure, Thomas Bata's share amounted to more than two thirds, while the rest was held by his brother, Antonin. Thomas' views on business and life at this time were inspired by the writings of Russian novelist Leo Tolstoy. As he says, "I read the works of Tolstoy with his message of a simple and primitive life. I became an ardent disciple of that school."<sup>6</sup> This outlook kept him content with the status quo. However, a profound change in his business thinking occurred after a trip to Germany in 1900. It is important to understand the shoe industry in Zlin at the time in order to grasp the change in his thinking. The manufacture of shoes in Zlin was predominantly done manually, and for the most part the process remained the same over centuries. Figure 4 shows a high-level depiction of the workflow of making a shoe. The time it took to complete a pair of shoes was more than 10 hours using this method of preparation. It took even longer if the shoe was non-traditional or if it was of a higher quality grade.

**Figure 4:**  
A workflow of shoemaking



Thomas Bata was initially content with the firm's production processes, which included some basic machinery for sewing. He had entered into a contract with a large shoe selling company in Vienna, promising to deliver to it a new type of canvas shoe with a leather sole. This type of shoe had not been available in the region previously. Bata assumed that he would be able to teach his workers to manufacture these kind of shoes by hand. However, he soon realized that his current production processes put the company at risk of missing its delivery deadlines to Vienna. He learned that this product was time-consuming to create by hand, and his available machinery could not be used to accelerate production. This dilemma led him to do some fact-finding research. He visited Moenus A.G., a German equipment manufacturing company in Frankfurt.<sup>7</sup> Here, for the first time, Thomas was exposed to a vast array of machinery for every facet of shoemaking. Most of these machines were powered by steam and hence required a steam power plant, a significant financial investment. Even though he realized that these machines could boost productivity by 100 or even 1,000 times, he lacked the capital and scale to invest.

<sup>6</sup> Cekota, 1968, p. 41.

<sup>7</sup> Cekota, 1968, p. 43.

On his way back to Czechoslovakia, Thomas observed boats loaded with goods for export along the Rhine River coast and witnessed the prosperity of the factory workers. He attributed this prosperity to the use of sophisticated machinery in all kinds of factories. This trip not only helped him understand the benefits of productivity improvements, but also broadened his perspective on business. Inspired by what he saw in Germany, Bata started to learn more about advances in shoemaking. In turn, that sparked his interest in the U.S., and he planned a trip to America. While planning his trip, Bata made investments in machinery, including procuring equipment from the U.S. in 1903 to build new shoe manufacturing equipment.

Towards the end of the 19<sup>th</sup> Century, the U.S. had become a leader in several sectors, including shoe manufacturing. The U.S. shoe industry was ahead of its European counterparts in leveraging new technologies and management principles for productivity. American companies were pioneers in developing new machinery and methodologies, such as the Blake Sole Stitching Machine in 1858, McKay's sole-attaching methods in 1861, Goodyear welt machinery in 1869, and the lasting machine by Jan Ernst Matzeliger. These marvels complemented the earlier inventions of Elias Howe and Isaac Singer, inventors of the sewing machine, who were also garment industry pioneers. They developed the upper (i.e. a strip of material that joins the upper to the sole) sewing machine and the sole-pegging machine.

These inventions marked a tipping point for the shoe industry, which was transformed from a labour-intensive sector to a machine-based enterprise. To acquire these machines, one naturally needed more capital. In the U.S., the increasing demand for shoes and the scarcity of workers due to the Civil War led to further mechanization of the shoe manufacturing industry. Another growth impetus for the U.S. shoe industry was the advent of leasing, which enabled small manufacturers with limited capital to access desirable machinery by paying an annual lease to use the equipment.

Thomas Bata had developed an understanding of the shoe industry in the U.S. by reading shoe magazines and machinery catalogues. He prepared well for his visit there and had a clear objective in mind — to gain firsthand insight into the shoe industry in the most advanced industrial country of the time. In 1904, the American shoe industry consisted of hundreds of factories concentrated mainly in the New England States, in and around Boston.

In the fall of 1904, Thomas and three of his factory workers — two shoemakers and one machinist — sailed across the Atlantic Ocean to New York, and from there travelled by train to Boston. This was an era when the U.S. had a relatively open entry system, so no immigration permits or special visas were required to enter. The four men organized a solid plan — they would work in separate areas and then meet on a frequent basis to share and assimilate their lessons. Bata stayed in the U.S. for six months and for most of this time he rolled up his sleeves and took shifts as a factory worker. He returned to Zlin alone, as he had fired his three factory workers after finding them playing cards and drinking beer in the mid-morning hours.

During his time as a factory worker, Bata observed that employees in the U.S. were achieving 10 times higher productivity on machines similar to those used by his own workers. To gain better insight and hands-on experience, he chose to serve on the shop floor of a U.S. shoe plant. He was eager to learn from American shoe merchants, but also followed the progress of leading American entrepreneurs in other fields, such as the automobile industry's Henry Ford and the inventor

Thomas Edison. These American examples of innovation and productivity inspired him to take this long voyage back across the Atlantic with a level of excitement that even the gruelling 10-day passage did not curb. On his way home to Czechoslovakia, Bata also visited England and Germany to gain insight into other markets.

This visit to the U.S., England and Germany was an eye-opener, as Bata learned some key tenets of establishing a large business. These were: the importance of expanding business to the masses; the need to develop a brand that delivered more, but at a lower cost; the value of marketing and advertising to boost sales; and the benefits of inspiring employees and partners by defining mutually beneficial contracts. Thomas Bata found that American workers were specialists, whereas European workers were universalists. In other words, the latter could make the entire shoe but were slower than Americans. The best American worker could produce 1,200 pairs in eight hours, compared to a German's productivity level of 100 pairs in 10 hours.<sup>8</sup> This low output resulted in low wages even though the price per pair was higher. These discoveries prompted Bata to introduce the "American system of work" in Zlin, which he believed was better for both workers and customers.

In 1905, after his return from the U.S., Bata started to implement the business lessons learned from his visit. In 1905, Bata factories were producing around 2,200 pair of shoes per day,<sup>9</sup> and by then it was one of the largest footwear companies in Europe. After establishing a strong manufacturing discipline, his next focus was to expand the market across the entire Austro-Hungarian Empire.

To develop a broader market, he invested in the construction of a large electric-powered factory by replacing steam-based machinery. The scale of expansion was larger than anyone in Zlin had ever witnessed. This boldness prompted people to call Thomas Bata "the American Madman," among other names. He redesigned the local shoe factories based on the principle of modularity for developing specialization, i.e., the allocation of separate spaces for separate functions: a cutting room, sewing room, lasting room, finishing room and sales area. His exposure to top contemporary management principles and their subsequent application to his own factories led him to refine and develop a management approach called "The Bata System". This concept embodied a philosophy of business management with the virtue of motivating workers by building industrial communities with facilities for both personal and professional development. This approach also encouraged a systematic skills development path, disciplined financial management, shared ownership, and the flexibility to adopt and improve practices in order to achieve operational excellence.

Traditionally, the complexity of shoe production was due to the challenge of creating different combinations of size, colour, materials price, and delivery date. Bata simplified this in 1906 by introducing the concept of production planning to the shoemaking business. He introduced a practice of creating "the Plan", i.e. daily work tasks for his factory employees. The daily work tasks were based on an estimate of demand for different sizes of shoe and then sorting these shoes by the delivery time, i.e. time from design to delivery. He developed a mathematical model to estimate the inventory requirement that would meet delivery timelines. This step of organizing the tasks and inventory management helped Bata to effectively manage the working capital and cash requirements. The introduction of this planning system demonstrates Bata's desire to improve the company's business operations by employing new and innovative ideas.

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<sup>8</sup> Cekota, 1968, p. 81.

<sup>9</sup> <http://www.batova-vila.cz/en/batas-history/>

In 1907, a total of five shoemaking companies were operating in Zlin, with Bata being the largest. There were also 125 cobblers working as independent tradesmen. This concentration of shoemaking in Zlin helped the town to become an industrial centre, resulting in a much-improved availability of electricity, telephone service and rail network. In 1908, Thomas Bata became the sole owner of the firm after the death of his brother, Antonin. The following year, Bata started exporting by setting up sales agencies in Germany, the Balkans and the Middle East.<sup>10</sup> By 1910, Zlin had evolved into an important industrial town with a large concentration of shoe manufacturing companies, Bata being the biggest among them.

By 1914, the Bata factory employed 400 people and was one of the largest shoe manufacturers in the country. During this period, Thomas Bata started to expand into other parts of Europe, including Germany and the Balkan countries in southeast Europe. During this period he also developed a unique ability of decision making by contextualizing every choice, weighing it along an axis of time, money and men, as he called it. This meant that he would not spend money on an initiative if he felt the timing was not right and he did not have the right people. On the contrary, he would spend millions when he felt that the situation looked right to him.

## **5 Responding to the challenges of the war years (1914 – 1918)**

On June 28, 1914, the killing of Archduke Franz Ferdinand of Austria, heir to the throne of the Austro-Hungarian Empire, triggered a global war. This conflict originated in Europe when Austria-Hungary declared war on Serbia on July 28 that same year. The onset of war devastated businesses in Europe. This catastrophic event severely affected the company's sales and put a halt to Bata's growth plan. It also forced Thomas Bata to develop tactics for the firm's survival. In this uncertain situation, Bata quickly realized the impact of the war and focused on three courses of action: (1) reviving production even if it meant charging lower prices; (2) winning contracts to supply footwear to the military; and (3) minimizing the war's impact on access to raw materials and supplies.

The military contract for shoes during the war was a monopoly held by a cartel of two Austro-Hungarian military suppliers and other suppliers were shut out. Realizing the gravity of the situation, Bata approached this issue not as a company owner but as a representative of manufacturers. He organized the region's shoe manufacturers under a common umbrella and became the first Chairman of the shoe manufacturer's section of the Czech Association of Industry. He then gained cooperation from other shoe manufacturers in Austria and Hungary. Eventually, he was able to achieve a breakthrough, receiving a military order for approximately 50,000 pairs of shoes to be supplied by the newly-formed group. This was beneficial not only to Bata, but also to all of the shoemakers in the region.

This period of war saw other challenges, including constraints on the supply of materials such as rawhide and leather. A restriction was imposed on imports between the regions, so Bata invested in building up the company's own tannery and creating a separate procurement organization to efficiently manage the purchase of rawhide from various regions. Leather for military shoes was a priority, so the government curtailed the production of civilian leather shoes to address the supply problem. In response to this situation, Bata started to manufacture wooden-soled footwear and was producing 3,000 pairs of these shoes annually by 1917. To address the shortage of food supplies for workers and their families in wartime, Bata purchased farms and arranged food for his employees at huge subsidies.

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<sup>10</sup> <http://www.batova-vila.cz/en/batas-history/>

The other significant development for Bata during the First World War was the launch of retail stores. The company's first store was set up in 1917, and by 1918 the company was operating 18 shoe stores across Europe. This in turn rendered Bata a completely integrated shoe manufacturer. It not only owned tanneries for processing leather but it also sold shoes in the retail market. In 1918, the total assets of Bata were valued at 10 million Austrian Crowns. The war, which lasted for almost four years, saw the disintegration of the Austro-Hungarian Empire, but the Bata company survived.

## **6 Coping in the post-war recession (1918 – 1923)**

During the post-war period from 1918 to 1923, most of Thomas Bata's competitors withered away. Meanwhile, his company was becoming one of the largest shoemakers in the world. Bata had already demonstrated his ability to work hard and innovate. During the post-war years, he shaped a global vision and strategy for his firm while he was navigating through political, social and economic challenges. In the early days of Czech independence in 1919, domestic businesses were undergoing turbulent times as the newborn country grappled with huge fiscal deficits. These tough economic times resulted in downsizing and massive layoffs at many firms, including Bata. The output level of the economy in the republic's initial years, from 1919 to 1922, was even lower than that of the pre-war era. This severe economic downturn had a significant impact on Bata, which faced a steep decline in demand. In 1919, Bata's daily production dropped by about 80 per cent, with production output falling from 8,000 or 9,000 pairs of shoes a year earlier to just 1,600 pairs.<sup>11</sup> Subsequently, the number of workers declined by 50 per cent, from around 4,000 in 1918 to around 2,056 in 1920. Thomas Bata did not cut his workforce any further, but instead decided to use his enormous cash reserves accumulated during the war years to invest in expansion, an unusual and gutsy move at a time of economic contraction.

## **7 Economic uncertainty after World War I**

At the onset of First World War in 1914, the town of Zlin was part of the Austro-Hungarian Empire. The Empire at that time encompassed a territory of 415,000 square miles and a population of over 50 million. The largest linguistic groups in the Empire were German-speaking and Hungarian populations, each numbering over 10 million. The remaining 30 million included Czechs, Serbo-Croatians, Poles, Ruthenians, Romanians, Slovaks, Slovenes, Italians, and a variety of smaller groups.

The end of the war and the decline of the Hapsburg dynasty in central Europe was celebrated in Zlin. After the collapse of Austro-Hungarian Empire, the city of Zlin became part of a new nation — Czechoslovakia. The birth of this new country in 1919 brought fresh hope for liberty and prosperity, and with this promise Czechoslovakia adopted a new constitution inspired by the French and American constitutions. However, the promise of prosperity soon seemed a distant reality. The potential markets for Czech companies fell dramatically, as the customer base was now comprised of Czechoslovakia alone, rather than the entire region of the Empire. The population of Czechoslovakia amounted to a quarter of that in the former Austro-Hungarian Empire. In addition to this, the unemployment rate skyrocketed, with more than a million men returning from the battlefield to a dearth of jobs. These veterans accounted for a large percentage of the total population of Czechoslovakia. The immediate period following the first World War also affected the monetary system, since the Empire had run

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<sup>11</sup> Cekota, 1968, p. 140.

a huge deficit during the war years. Like all of the other European belligerent nations, the government had immediately turned to the printing press at the start of the First World War, producing more currency to cover the rising costs of its military expenditures. At the end of July 1914, just after the war had formally broken out, the amount of currency in circulation totaled 3.4 billion Crowns. By the end of 1916 it had increased to over 11 billion Crowns. And, at the end of October 1918, shortly before the end of the war in early November 1918, the currency had expanded to a total of 33.5 billion Crowns. From the beginning to the close of the war the Austro-Hungarian money supply in circulation had expanded by 977 per cent. A cost-of-living index that had stood at 100 in July 1914 had risen to 1,640 by November 1918. This resulted in hyperinflation.<sup>12</sup>

This hyperinflation affected all of the nations formed after the disintegration of the Austro-Hungarian Empire. To fix this issue in Czechoslovakia, the newly-formed government in the capital, Prague, stamped all currency, i.e. Austrian Crowns. This was done to reduce the flow of currency among the regions of the disintegrated Empire and to ensure control on the money supply. The government also imposed a 50 per cent wealth tax, requiring residents and businesses to surrender half of their available cash to the public purse. This step stabilized the currency in Czechoslovakia, but greatly compromised the level of cash available to run a business, especially for companies like Bata with big debts on their books. This prevented expansion of business and instead led to the loss of jobs. This economic uncertainty led to the emergence of radical leftist forces that began to make inroads into parliamentary, provincial and municipal elections.

## **8 A “Capitalist” mayor in a Communist era (1923 – 1931)**

The town of Zlin was not untouched by this leftist momentum, and left-supported candidate F. Novak was elected mayor in 1919. The volatile economy also gave rise to vandalism, which motivated a group of Bata employees to volunteer to guard company premises during the night to prevent looting and break-ins. A growing number of strikers also affected the shoe industry. However, the tipping point for leftist forces came in 1920, when a section of industry workers, including Bata workers, refused to join a general strike. This led to a clash between the two groups espousing these ideologies, one advocating Russian communism and the other supporting socialism within the democratic framework of Czechoslovakia. This clash resulted in turmoil.

In Zlin, Mayor Novak joined the Communists, bolstering the Communist party, which ruled the town until 1922. Increasing confrontations ensued between town officials and Bata management. Tensions escalated when the city decided to build a grand town hall at an expense of 6 million Crowns when the community was already reeling from financial difficulties. The proposed civic edifice would have amounted to an even higher tax bill for the company. In Thomas Bata’s words, the city council operated with a mindset that if Zlin needed civic improvements, it would “let Bata pay for them”. This drove him to take the plunge into politics himself, and to create his own political party. He floated his party, called “Batamen” in the municipal election of 1923 while he himself ran for mayor of Zlin. His party won a majority due to his campaign for transparency and improved financial management. He promised further investment in power generation and improved road maintenance. His party

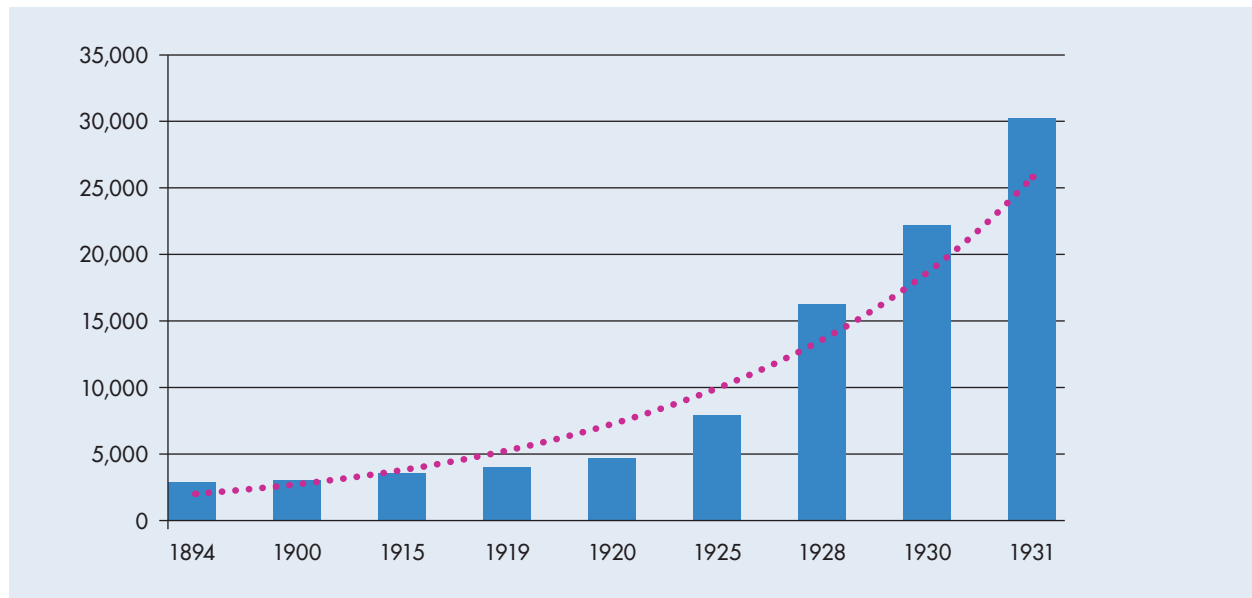
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<sup>12</sup> <https://fee.org/articles/the-great-austrian-inflation/>



won a slim majority in 1923, taking 17 of 30 town council seats, while Bata won the mayoral race. He went on to serve three terms as mayor, and by the end of his final term in 1931, his party held 31 out of 32 council seats. He served in the city’s top post for eight years. The population of Zlin grew exponentially during his mayoral term from 1923 to 1931. (See Figure 5.)

**Figure 5:**  
Zlin’s population



## 9 Inspiration from management principles

In the post-war period, Thomas Bata took a much broader perspective than his competitors as he continued to develop his strategic viewpoint. His strategic viewpoint helped him to withstand challenging market and political conditions. Despite economic uncertainty at home, Bata nevertheless pursued business expeditions abroad to enhance his learning. In 1920, he once again travelled to the U.S. to acquaint himself with management principles at large enterprises. He was particularly interested in an approach called “Taylorism”, developed by Frederick Winslow Taylor, an American mechanical engineer who sought to improve industrial efficiency. One of the first management consultants, Taylor developed the earliest form of what he called “scientific management”, a form of industrial engineering that established the organization of work, as in assembly lines. Taylor’s approach devised a standardized method of task management, including worker motivation to fuel improvements in productivity. Thomas Bata was a big proponent of the principles of scientific management, an inclination evident in a speech he delivered at the International Congress on Scientific Management of Work on August 2, 1924.<sup>13</sup> His visit to the U.S. gave him a firsthand view of the application of scientific management. One of the earliest application of Taylor’s management principles

<sup>13</sup> *Knowledge in Action: The Bata System of Management*, Thomas Bata’s speech, p. 81.

could be observed in the successful assembly of the Model T automobile at the Ford Motor Company. Bata visited the Ford assembly plant in River Rouge, Detroit. There he became convinced that similar techniques could be applied to the shoe industry.

He also made it a point to familiarize himself with the progress of the American shoe industry. In the 1920s, nearly 250 shoe factories dotted the landscape of Lynn, a Massachusetts city north of Boston that billed itself “the shoe capital of the world”. This town was home to the largest shoe company in America at the time, the Endicott-Johnson (“E-J”) Shoe Company, employing more than 20,000 workers and producing 52 million pairs of shoes in 1920. Thomas Bata visited E-J, whose output dwarfed the two million pairs made in Zlin that same year. In addition to witnessing this mass production in Lynn, Bata also toured the township and observed the cluster of amenities around the factories. These amenities included housing for workers, health clinics, schools, parks and sports fields. The two characteristics — better production methods and the provision of better amenities to workers — inspired Bata’s own enterprise in many ways.

## **10 Building a sustainable business model amidst crisis**

The Czech government’s monetary policy of deflation strengthened the nation’s exchange rate, which made it expensive to export goods to foreign markets. Hence exports fell in 1922 to 50 per cent of the volume of the previous year. This decline in both domestic and foreign markets led to a steep decrease in revenue and in 1922, sales were reduced to one fifth of the prior year’s sales. This drop in sales led to a reduction of the company’s work force by more than half, as the number of employees fell from 4,006 in 1918 to just 1,802 five years later in 1923. The region’s economic uncertainty was compounded by a policy of deflation, increasing Bata’s debt. The prospect of bankruptcy loomed before the company. This combination of recession, declining sales and high debt threatened the firm’s very survival. Facing this conundrum, Thomas Bata came up with two strategic imperatives which became a central core of the company’s management philosophy: a reduction in the price of shoes by half and an exploration of new markets — an audacious move at the time.

Price reduction was a logical response to the economic climate and eased the pressure created by deflation. Since farmers were Bata’s primary clients and they were forced to sell their produce at half of the previous year’s prices, it made sense to sell them footwear for half of its former cost as well. However, to sustain the adverse effects of this price reduction, Bata needed to find additional cost savings. The firm’s main expenses were labour (almost 30 per cent of costs), raw materials, subsidies to employees for food and other amenities such as health clubs, debt interest and tax. The company reduced wages by 40 per cent, cut subsidies to employees by 50 per cent and rationalized the procurement of raw materials to realize additional cost savings. The money saved from these initiatives helped the enterprise but were still insufficient to earn any profits when the price of shoes was cut drastically. The incremental savings were realized through improvements in the production process. These changes raised efficiency levels by a margin of 20 to 30 per cent. Reduced pricing was rolled out in May 1922 and announced in a splashy promotion in newspapers. In these advertisements, Bata demonstrated customer empathy and transparency to workers by making it clear that, as a firm, Bata appreciated the financial predicament of customers and in turn expected its own workers to



understand and accept wage reductions within that economic context. Lower prices drew customers to Bata stores in large numbers. This improved the cash flow and enabled Bata to start paying off its debt. In turn, it strengthened the company's working capital position, which enabled Bata to invest more in building production capacity. In summary, the decision to drop prices brought long-term gains despite short-term repercussions, including the loss of one of the firm's creditors, who argued that price reduction would create a self-inflicted wound. The period from 1922 to 1925 was marked by this bold price cut, but supporting this audacity were the following structural elements, which shaped the future of the Bata enterprise:

### **1. Advanced budget practices**

Starting a pilot program with 40 workers in 1922, Bata established a scientific approach to the budget process that encouraged company-wide participation. Every unit in the firm adopted a daily operational plan which outlined the precise amount of material required to produce different types of shoes. The units then linked their respective operational plans to the company's overall budget with an estimated cost for material and labour. These daily plans were gathered into a weekly budget, and at the end of the week, projected estimates were compared with actual expenses. The budget for a unit was shared with employees across all levels — workers, foremen, supervisors and managers. The variance between projected and actual costs on a weekly basis provided an opportunity for each unit to improve its estimation and planning process and to identify areas for savings.

### **2. Employee profit sharing**

In 1924, when the concept of profit sharing was still in its infancy, Bata introduced and formalized profit sharing as part of its regular administrative structure. One crucial objective of profit sharing was to encourage employees across the organization to find cost-saving opportunities because the more money that was saved, the higher profits would be and hence the higher the share for workers. This initiative was segregated by department, unit or workshop, meaning that the financial performance of one unit did not affect the profit-sharing of other units. However, lessons that improved efficiency were shared across all the entities. Thomas Bata summarized his support for profit sharing by stating that his objective was to enhance both the morale and material well-being of workers. From 1924 to 1931, the number of employees participating in profit sharing increased by 96 per cent in spite of decreasing retail prices.

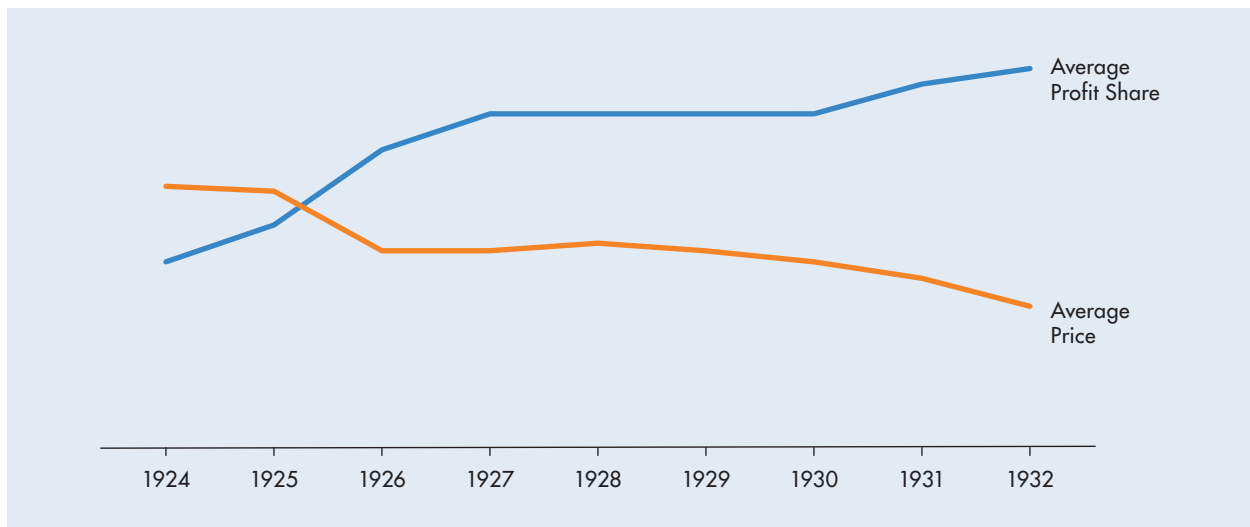
### **3. Industry autonomy**

In 1925, Bata established a de-centralized structure which provided adequate autonomy for managers to control the operations and profitability of their respective units. These entities existed within the same countries and in some cases performed different functions within the same market. This autonomous structure was designed to facilitate decision making in response to local challenges. At its base was the notion of top-down target-setting and integrated business planning with the involvement of leadership and a subsequent measurement of performance. The basic objective of this autonomy was to delegate responsibility to the local organization, fostering better preparedness to respond to unique market challenges.

In this system of industrial autonomy, every small unit within a shoe manufacturing plant was considered a separate business unit and each unit earned a profit by renting or selling material, space, machinery or resources to other business units. In effect, these intra-company transactions made the company one big marketplace. Often, units competed with one another to achieve better price or value. This autonomous approach streamlined operational efficiency and also set the stage for future growth by training and nurturing managers to think of themselves as owners. Collaboration and co-operation were encouraged at the firm, with various players sharing ideas to keep the enterprise nimble and to respond with agility to competitive challenges.

The structural changes made after 1922, as described above, had a positive impact on the company. The business grew fifteen-fold within five years after the price reduction<sup>14</sup> was introduced. Although the average retail price of shoes fell between 1922 and 1927, the level of profit sharing averages kept growing.

**Figure 6:**  
Increasing profit share despite decreasing price



The systems described above were established in an era when management principles and new organizational models were still evolving. To put this in context, around the same time, American business leader Alfred Sloan proposed a centralized structure for General Motors, the automobile company. Sloan went on to become CEO of General Motors. His organizational structure transformed GM from an agglomeration of many business units into a single coordinated enterprise through the creation of a general office. In this new multidivisional structure, a central office kept track of finances and the allocation of resources while the individual units, i.e. Chevrolet, Pontiac, Buick, Oldsmobile and Cadillac, exercised authority over their own divisions. Similarly, Bata's organizational structure during this time encouraged autonomy at the lowest levels while maintaining management discipline and consistency through leadership from the top.

<sup>14</sup> <https://www.bata.com/corpo/heritage/bata-story-begins/>

In 1924, Bata founded a “school for young men” which later became the “Bata School of Works”. The objective of this school was to instill business acumen in the students through a combination of theoretical and practical teaching. The graduates of this school later assumed leadership roles at Bata locations around the world.

## 11 Global expansion

Declining sales in Czechoslovakia prompted Thomas Bata to expand into new territories. In the early 1920s, he established Bata businesses in Holland (1921), Denmark (1922), Poland (1922), and England (1924). His growth strategy was twofold: (1) grow revenue and diversify markets to overcome economic downturns in home markets; and (2) efficiently procure raw materials by broadening the supplier base. The latter enabled him to:

1. Diversify the procurement of raw materials to mitigate the risk of wartime access restrictions.
2. Build new manufacturing capacity in other countries, fostering opportunities outside of his native Czechoslovakia. Bata was aware of a growing leftist movement that might affect his ability to meet the rising global demand for shoes. New locations also helped the company to avoid protectionism by conducting its manufacturing locally within target markets.

The company founder’s attitude towards market growth can be summed up by the following description from his biographer: “If the circumstances in one area are pressing you to the defensive and withdrawal, prepare to attack and expand elsewhere.” In a famous speech, Bata set out his corporate vision by stating that half of the world’s population still went barefoot and only five per cent were well-shod. He envisioned tremendous potential for the company and believed that there was an opportunity for Bata to make shoes for markets around the world.

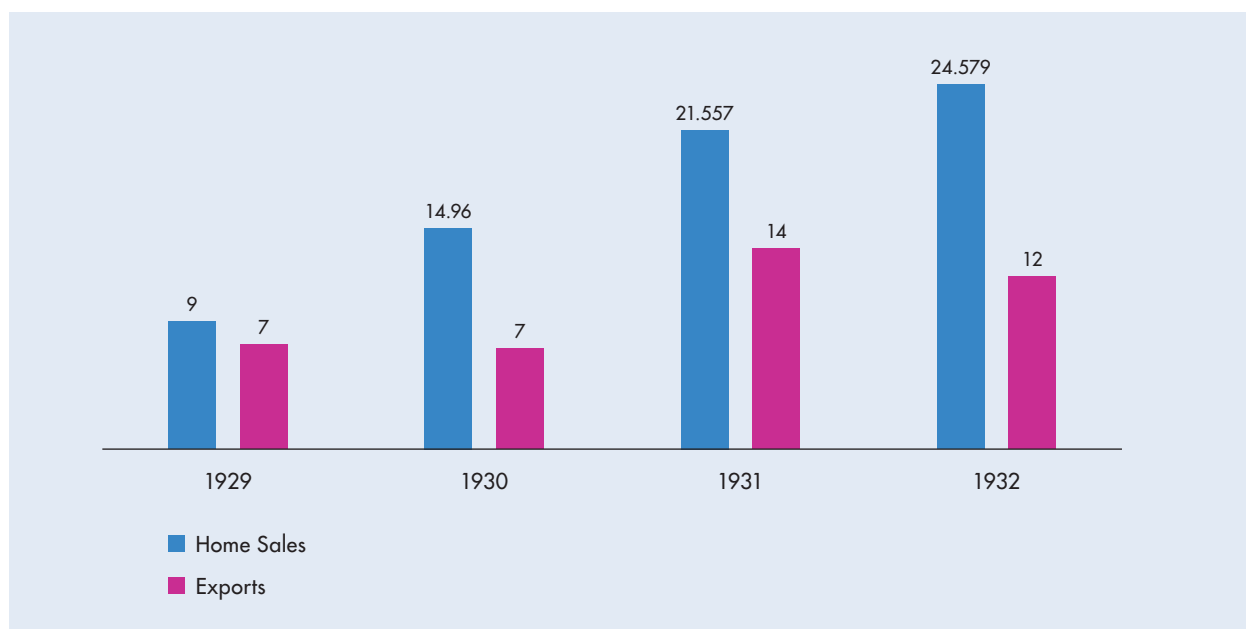
Bata understood the concept of elasticity of demand with respect to the price of shoes, and he had already witnessed the benefits of it. He knew that better pricing was crucial to building up demand and expanding into mass markets. To sustain lower prices, he consistently focused on operational efficiency to pass on cost savings to customers. To motivate his staff continuously and provide transparency in the enterprise, Bata created a weekly bulletin called “Sdeleni”. A regular update, this communication vehicle enabled him to disseminate the firm’s strategy, share insights into key financial metrics and boost employee morale with success stories despite the economic challenges of the 1920s.

By 1931, Bata accounted for 75 per cent of Czechoslovakia’s shoe export business. Despite increasing protectionism during the recession years of 1929 and 1932, Thomas Bata successfully established 29 international companies spread around the world with 22 of them founded between 1929 and 1932. By 1932, Bata stores operated in 37 countries and the Bata Shoe Company owned and operated two cargo ships to support its global expansion. In most of the host countries, factories were set up to manufacture shoes locally. To ensure the smooth operation of stores and plants and to maintain trade connections, the company began to establish new operations abroad. These units were mostly run by employees who had been trained in Zlin at the Bata School. Zlin became the headquarters that coordinated commerce and manufacturing for the firm across the globe. In 1932, Bata was responsible for 81 per cent of the total shoe production in Czechoslovakia.

The total sales for shoes — i.e. the sum total of home sales and exports — increased from 16 million pairs of shoes in 1929 to approximately 37 million pairs in 1932.<sup>15</sup> This more than two-fold increase in sales came from both growth in home sales and exports. The exports peaked in 1931 while still maintaining a strong growth at home. (See Figure 7.)

**Figure 7:**  
**Bata's Home Sales and Exports (1929 – 1932)**

(in millions of pairs of shoes)



The international operation was structured in a way that retained the elements of The Bata System's common management discipline, but with the flexibility to respond to local market demands.

Thomas Bata was always ahead of his peers when it came to pace, mobility and travel, whether it was by rail, water or in this case, air. He grasped the importance of railway networks long before his peers were willing to part with the horse and buggy. He embraced the use of ships when his contemporaries were still becoming accustomed to railways. And he became the first shoe merchant in Central Europe to visit customers by automobile in towns where the train did not stop. Finally, he quickly realized the importance of air travel for his company's international expansion. Bata became one of the first industrialists to buy an airplane at a time when airports did not even exist, so a landing area was often just an open field. In the early 1920s, he bought a World War I surplus biplane with an open cockpit and a single engine, flying it at 80 to 90 miles per hour. He was the first shoemaker in Europe to buy a plane.

Tragically, Thomas Bata died in a plane crash in June 1932 at the age of 56. His death came as a shock to his employees and customers around the world. His funeral was broadcast on the radio. One Czech announcer noted that "Today, this nation buried its hero. Every nation at certain times has its heroes, and they may be kings, military leaders, actors or sportsmen. This one was a shoemaker."

<sup>15</sup> Cekota, 1968, p. 253.

Starting from an agrarian town of Zlin in 1894 with a small investment of 800 Guildens, Bata created a company that grew in leaps and bounds. He took the business to a global scale, transforming it into a corporate giant with 32,000 employees in 37 countries producing more than 36 million pairs of shoes. Over the course of his career, he had transformed the company into the largest shoe manufacturer in Europe.

## **12 Lessons learned**

Thomas Bata's journey from Zlin to the wider world of global shoe production provides us with ample lessons about leadership, business models and self-reliance.

### **12.1 Lessons on leadership**

Thomas Bata led his people ably in all situations, whether the company was grappling with the threat of bankruptcy or taking on the cartels to boost military production of footwear. In all situations, he demonstrated the courage and conviction to devote himself to finding a solution. He always believed in hard work and had the patience to learn new ways of doing things, such as his journey to the U.S. on a fact-finding mission. When faced with adverse situations during the war years or declining sales thereafter, he demonstrated his ability to think differently. In both situations, he balanced the desire for short-term cash flow with a focus on long-term strategy. He acted decisively in making bold investment decisions such as building new tanneries, developing new retail stores and exploring new markets. Bata personified a results-oriented leadership in both his private business and his public profile. He was always on the lookout for new ideas and novel tools to strengthen his competitive position. He adhered to the “stabilize and transform” approach. This meant that when he was faced with challenging conditions, the priority was to stabilize the operation and then subsequently build on that foundation to transform the organization and nurture growth.

Thomas Bata was an excellent communicator who demonstrated his skill in communicating directly with his workers and customers in times of adversity. He delivered on his promises and built trust with his key stakeholders, which helped him to overcome challenging situations such as wage reduction.

### **12.2 Lessons on business models**

Thomas Bata clearly understood the market dynamics of the shoe industry. His grasp of these business realities enabled him to operate the right internal levers to respond to external market pressures. His tremendous ability to focus and build up the company showcases his comprehension of the importance of scale in the shoe industry. This, in turn, allowed him to wield better controls on the pricing of his products. This also demonstrated his belief in creating a business model that was agile enough to respond to shifting market dynamics. He never hesitated to experiment with different ideas to improve efficiency and seek opportunities for standardization and consistency. Bata was instrumental in creating a global business with a local sensitivity, maintaining a fine balance between a centralized and de-centralized structure. He put significant emphasis on the “people” component of the business model, increasing employee motivation through profit-sharing and nurturing worker's competence to take on increasing responsibility. Thomas Bata understood the relationship between different variables of his business and could therefore establish a planning process that incorporated reasonable estimates for shoe manufacturing.

### **12.3 Lessons on investing in the future**

Thomas Bata started out as a shoemaker but gradually extended his activities to serve at the helm of a global company, overseeing the entire value-chain of shoemaking with corollary activities that included the construction of his own power stations. Moreover, when he realized that the existing local school system did not provide his workers with the right skill set, he established his own school to train his workers. During wartime, he did everything possible to ensure an adequate supply of food for his employees. He even created an internal construction firm for building the factories. Many of these activities were not a core part of his business, but he pursued and invested in them regardless. He believed that the cost of not doing these things was higher than the cost of making such investments. For example, if he had not started up his own school, he would not have had enough talented workers to take his business global. The lesson is that firms should focus on investments in their core activities as a rule, but in exceptional circumstances they should not shy away from pursuing additional opportunities or investments that might be needed to protect the core business.

### **13 Conclusion**

From his humble beginnings as a ninth-generation shoemaker, Thomas Bata went on to build the largest family-owned shoe company in the world. He achieved this within a span of 40 years while the world endured an unprecedented and horrific war, severe political turmoil and two economic depressions. His ability to discern the connections between different variables of the market (both macro-economic and micro-economic factors), and his subsequent agility to respond with a decisive plan, created a sustainable business model that enabled the Bata Shoe Company to grow and thrive.

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