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Company management and economic crisis

Introduction

First signs of crisis may be noticed very early, the problem is that usually we see what we want to see. And most often these are good balance sheets. It is possible to function against bad management, thanks to the resources, special tax exemptions, or loans. Practice shows that even when company managers use their position to make some illegal profits, the companies do not collapse. It happens that even if big amounts of money are illegally taken out of the company, it still has good financial results. As long as the company has money and good opinion, it may function until it runs out of money for covering liabilities. Then, many people wonder how this could have happened and why no one has noticed problems. Then we talk about the crisis.

Bad management is one of the reasons of the crisis. However, not all companies which have negative financial balance are in crisis, for example, if it is due to expenses incurred for the renovation of a new facility. In this situation we are dealing with the process of development rather than the crisis. A positive financial result does not always mean that the company develops properly and its results will not deteriorate in the future. In business there are examples of ‘properly’ functioning companies that suddenly, almost from day to day go bankrupt.

No one wonders why a particular company makes profit despite reduced production, why there are companies which produce nothing and in addition have only losses and no one wonders why the number of managers increases with the decreasing production. The initial denial of the crisis which occurs in these situations turns into a frantic search for solutions to the problem. Then it appears that managing in the time of crisis is much more difficult. Questions arise: should we save the company or declare bankruptcy? If we should fight, then how?

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1. The definition and types of crises

The crisis in the enterprises is a process of adverse events, a stage between the development and problem of decision-making nature. Very often it develops gradually over a longer period of time.

There are many definitions of a crisis. Mostly, they assume that the crisis has a negative impact on the development and the achievement of the objectives of the organisation. The most common definition is that a company in crisis is the one whose financial indicators show poor condition which threatens its existence in the foreseeable future. It is not entirely true since such phenomena should be connected with the poor management.

The crisis in the enterprise is a situation which leads to the collapse of the company if tolerated. Inability of implementing basic functions and objectives is usually evident in: a relative increase in cost, reduction of new ventures, debt. Speaking about the crisis we often have in mind conflicts, problems, hazards occurring in the company. If they are dealt with straight after they occur, they do not necessarily threaten the company and prevent the implementation of the strategy. Employees of the company experience its effects with varying intensity. Then adverse processes related to them may be observed. They have a significant impact on the performance of staff. We can say that we are dealing with the phenomena which:

- threaten the existence and then we talk about the crisis in the enterprise,
- make it difficult to manage, which is defined as a conflict, disorder or disaster, but these phenomena do not result in the collapse of the company.\(^4\)
- The crisis may also be analysed in respect to aspects such as:
  - the process – we pay attention to the crisis in the course of time,
  - phases of the process – divided according to the intensity of the threat,
  - place of origin,
  - a problem in the concept of company development.

According to B. Wawrzyniak, the course of the critical situation is as follows: firstly the crisis of the strategy occurs, which then changes into the crisis of performance. The next stage is when company begins to lose liquidity which can lead to insolvency and liquidation of the company. The crisis of the company’s strategy results in concerns about its potential. It is caused by different types of situations: strategic surprise, strategic drift. The crisis of the performance is manifested by a decrease in turnover and unrealised financial tasks. The fear of insolvency caused by the lack of cash or excessive debt is the result of the loss of liquidity. The negligence of remedial actions leads to the collapse of the company and its liquidation\(^5\).

Depending on the source of the crisis, two types of crisis may be enumerated: crises that arose within and outside of the company. External causes of crisis in-

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clude macroeconomic processes, new social phenomena, technological development, globalization of the markets. The management subsystems constitute internal source of crisis. It is sometimes very difficult to define the source of the crisis, in some cases it is almost impossible. A change of the demand for the commodity is a good example. If there is a decline in the purchasing power of customers, a change in demand can be classified as the external cause. However, the increase in product price caused by the increased manufacturing cost may be treated as the internal cause of phenomenon.

Most of the causes of the crisis have their source within the organisation since it is a place where visions, strategies, objectives are formed and different techniques and management methods are used. Therefore, search for the source of the crisis in the enterprise is the most reasonable.

There are three basic phases of the crisis: potential, hidden and overt. Potential phase concerns all businesses and is difficult to see. The degree of risk can be determined using the early warning systems. However, their use requires knowledge and time, and it is easier to manage the company so as to avoid the crisis. Despite its name, hidden phase is quite apparent for those observing the company because of the possibility of crisis. It is not seen by those who do not want to see it. Today, most managers know the solutions the help to determine the status of the company and thus discover the development of the crisis.

Overt phase occurs when we deal with disorganisation of the company, chaos in the decision-making and competence area. According to the well-known saying: everyone can see how the horse looks like, and no techniques for finding crisis are not needed.

According to some researchers the crisis do not always surprise us, it is actually part of the company development. By observing the company, one may predict not only the phenomenon, but also its character. It is also easy to predict the crisis in the sector which is mature. Maximizing profits and minimizing investments is the most recommended strategy. The division into phases allows to determine the course of events in the form of the process. This allows, through the prediction of possible events in the company, preparing the actions to minimize the effects of the crisis and introduce the information policy. Determination of the origin of the crisis determines solutions to the problem.

The starting point for the further discussion about management in the crisis is an attempt to answer the questions about the ways of overcoming the crisis and the use of the phenomenon for a positive transformation of the company. S.

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7 Ibidem, p. 139-146.
9 Ibidem.
Sudół argues that “opportunities to come out of the crisis lie mainly in the management, but it must be adapted to the specific conditions of the crisis and it must be set precisely on fighting the crisis in its early stage”\(^\text{10}\) The ability to overcome the difficulties by the organisation with its own potential is an evidence of good management, or the understanding of management as called by B. Wawrzyniak\(^\text{11}\). Then we cannot talk about the threat of the existence.

Management in practice shows that the fight against the crisis is connected with the need to change the management paradigm. This will help the company to overcome the adverse events and enable it to compete. The change is necessary as the precious management have brought the company to the crisis.\(^\text{12}\)

### 2. Evolution and the diagnosis of the crisis

Nowadays, change is the one thing that is constant in management. The rate of reaction to the changes and their constant monitoring are the basis of strategic structure of enterprise and are important for fighting the crisis. According to U. Krystika\(^\text{13}\), three forms of crisis may be distinguished in the course of it. The first is characterised by the rapid process since the managers quickly lose the control over the phenomenon. Instantly, there is a threat to the organisation’s objectives. Second type of crisis is characterised by the fact that it is stretched in time. At the beginning, it develops slowly, at some point it even disappears, to eventually take the rapid course which in the end has destructive influence on the company.\(^\text{14}\) The crisis of the third type becomes visible fairly late as it is hidden for long time. It has mild course so everyone are certain that the main objectives of the company are not at risk. However, at some point it becomes visible and the future of the organisation is at risk.

Each of the types may change its direction as a result of measures taken by the company to deal with the crisis. More time for changes is needed at the beginning than at the end. It should also be mentioned that exceeding certain level of crisis there is accumulation of destructive consequences which make it impossible for the company to function normally. Initially, the destruction of the organisation is slow, then accelerate and lead it to fall. In the first period it is difficult to notice the crisis because the company operates as usual and it achieves good economic results. It is difficult to treat the disruption occurring in the company as symptoms of the crisis. Only targeted and accurate diagnosis of the company can

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\(^{12}\) B. Nogalski, H. Macinkiewicz, op. cit., p. 15.

\(^{13}\) B. Wawrzyniak, op. cit., p. 85.

\(^{14}\) B. Nogalski, H. Macinkiewicz, op. cit., p. 15.
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show the existence of adverse phenomenon. At some point, the symptoms of bad situation may be noticed.

Then, decisions aimed at the improvement are made. Inadequate approach to the problem or lack of it make it worse. Market shrinkage which causes overproduction phenomenon may be an example. When the cost increase causes the increase in the product price, the sales will decrease. Price reductions, in respond to lower demand, help only part of the market. Thus, in both cases profits decrease. Decisions to lower spending on development are the result of decreasing profitability which may result in the crisis. If the corrective decisions had been made earlier than the moment of a decrease in sale, the likelihood that crisis occurs would be smaller. The lack of actions against the crisis results in deterioration of the company condition. Everything starts to get complicated. The company collapses\textsuperscript{15}.

The current crisis, which started in 2007, is a crisis of sales and revenue, not costs. The size of sales and revenues has collapsed at an unprecedented scale. Consumers simply refuse to purchase. The problem does not lie in the fact that their purchasing power suddenly disappeared or costs and prices are too high. Moreover, unlike previous crises, the cause of this crisis lies also in competition from countries with low labour cost and unfavourable dollar exchange rate. On the contrary, many factors such as decrease of oil and raw material prices rather positively influenced the cost side. The reason for the collapse of demand lies more in the fact that private and corporate clients are afraid of what future holds and they save money. The slogan ‘cash is the king’ applies not only to business but also consumers who are uncertain of the future. Consumers’ saving ratio, unlike previous recessions, increased. Customers do not use their savings to compensate for the loss of the revenue. They continue to expand their assets in order to compensate for the losses incurred on investment in securities. The more serious the crisis becomes, the more evident are the trends described.

How should companies respond to the crisis of this kind? One thing is certain – effective cost management is of utmost importance. But this is not enough. Firstly, most companies have demonstrated an excellent cost discipline in recent years. Jürgen Heraeus very vividly describes the situation: ‘additional employee was hired only when we needed two of them.’ Secondly, there has been major advance in automation which also resulted in cost savings. This is demonstrated not only by the decreasing prices of electronic devices. Today for one euro you can buy more than ten years ago, both when it comes to electronic devices and cars. In other sectors (in Germany and elsewhere) it has become highly competitive on a global scale when it comes to costs, as it was under strong pressure from discount stores, forcing it to restructure. For these reasons, the potential of cost reduction in comparison with previous years is much more limited.

\textsuperscript{15} B. Nogalski, H. Macinkiewicz, op. cit., p. 16-17.
If revenues fall by 30 or 40% the game is just to survive. In such extreme situations, the cutting of costs is not enough. None company is capable of reducing costs at such a scale in short period of time. Besides, at the beginning, the optimisation of costs almost always generates additional costs. Savings appear later. Depreciation period is usually long. Since the current crisis is the crisis of sales and revenues, therefore, it must be fought in the area of sales and revenues, using all means available to the company. In a survey conducted by the Simon – Kucher & Partners, which involved 2600 companies from the industrial sector, 72% of respondents declare that they intend to fight the crisis, not only by cutting costs, but also using other market factors.

Currently, we focus on profit and liquidity. Profits are needed to survive, as Peter Drucker said. Liquidity must be assured at all times. Profit is defined as the product of price and quantity of goods sold minus expenses. There are three levers of profit: price, volume, cost. The main conclusions are clear. All the levers of profit should be used. Optimising only one of them has no effect. It is not enough to reduce cost or focus exclusively on price change, or take measures to increase sales volume by improving sales effectiveness. What is needed is a detailed and coherent program of remedial measures that can be quickly put into practice and which work quickly and with great force.16

3. Internal sources and causes of the crisis

As we know from practice, incompetent leadership is the most common source of the crisis. The inability to see changes in the environment of the company is an example of lack of competence. This make it impossible to create and correct the strategy. This is especially the ability to articulate the vision, mission and objectives and determine the balance between them and the company’s resources. Bad functioning of the business is the consequence of low managerial competencies. It is pointless to plan to increase sales if it is not followed by market research or improvement of logistics, and people do not believe it will work. Staff reduction will not help to improve competitiveness since age is the criterion for dismissal. Even giving staff particular tasks, without assigning responsibility and accountability for the decisions taken, may be the cause of the crisis inherent in the low competence of the company’s managers.

The competences that help to avoid many problems include the ability to anticipate in the management of the organisation, in other words coping with uncertain conditions, since anticipation of problems in advance allows to eliminate them or reduce their potentially negative effects. Another source of problems is a form of enterprise which does not correspond to the market reality and causes bad

management solutions. For example, nowadays, the company making all the parts of product on its own is unlikely to be competitive in relation to rival that uses the skills of others, i.e. outsourcing. A small family shop that sells products which are available in large supermarket will not win the competition with it.

According to W. Sonntag the crisis consists of many causes which generally lie in the mismanagement. It is rare that the crisis is caused by one isolated cause. They are numerous and various. They occur simultaneously, or with the slight shift in time, almost in all parts of the business. The causes of the crisis in the management subsystem may include: unclear policy of the company, incorrect objectives, lack of organisation management, firm adherence to proven recipes for success, high turnover of managers, lack of understanding for the mission of the organisation, poor management style, wrong assessment of opportunities, indecision in the management and decision-making, failure to modernise and adjustment, errors in budgeting, wrong investments due to insufficient planning, inadequate controlling.

The internal causes of crisis include also:

1. the wrong approach to problems which occurred in the company – this involves especially solving problems without thinking about the future, routine or schematic solutions,
2. inability to identify needs of management – it has its source in the underestimation or ignorance of the achievements of management studies,
3. lack of management skills in determining the direction of activities – which results from too rapid promotions in the company,
4. fading of creative attitude of managers – lack of motivation,
5. vague personal relationships in the enterprise.

4. The warning signals of the crisis

The signals telling us about the occurring adverse phenomena are external signs of abnormalities of the organisation. Their analysis is helpful in discovering the causes of the phenomenon. Symptoms of the crisis are most apparent in the relationship between different parts of the organisation and its environment. The reaction to them can prevent the crisis. The symptom of the possible crisis is problem with credit, but sometimes in order to sort out matters relating to the financial side of the company you have to examine the strategy or structure of the company. Therefore, adequate reaction to the symptoms of the crisis should lead to better adaptation of the company in the market. Then, the shortage of cash is unlikely to occur. So the factor directly causing overt crisis will not appear.

According to S. Slater the symptoms of the crisis include: decreasing profitability, reduction of sales in constant prices, increased debt, reduced liquidity, dividend reduction, hiding the results of the organisations, signs of insecurity among managers, frequent replacement of managers, reduction of the market share, lack of planning and strategic thinking. Including lack of planning and strategic thinking in the symptoms seems debatable. They can be rather regarded as the cause of the crisis. However, each of the mentioned issues cannot be always regarded as the symptom of the crisis. For example, when sales decreases, we often talk about the possible crisis. This is not always true. Sometimes the drop in sales is the result of a general economic downturn. Then the size of supply should be adjusted to demand. There is no point in raising or lowering the price. There is also no need to change the structure of production and cost reductions should be found in constant improvement of business.\textsuperscript{18}

According to E. Urbanowska-Sojkin there are following symptoms of the crisis:

- difficulties in financing current and development (innovation) operations which identify indicators showing the condition of the company and its ability to invest,
- adverse changes in the size, dynamics and structure of sales (market presence) as a result of a variety of causes such as aging of the product, lack of new competitive products, expansive actions of competitors, changes in consumer demand, failure of the distribution system,
- the imbalance between the rate of market growth and sales growth of the company’s products expressed by a decrease in relative market share,
- deterioration of the company image among stakeholders as a result of disappointment caused by the confrontation of expectations and reality,
- decrease in value of the company recorded in the share price.\textsuperscript{19}

W. Sonntag emphasizes the importance of factors occurring at the interface between economic organisation and the environment. They can be found in relationships with banks, suppliers, customers, audit institutions, tax advisors and owners. The symptoms of the crisis occurring between the company and bank include: frequent renewal of credit lines and overwithdrawal, more frequent payment in form of bill of exchange, loan applications without sufficient justification with the increase in sales, increasing the stock or investment, handing in financial plans, balance sheets with the delay, often only at the request of the bank. Disregarding the symptoms of the crisis by management results in a lack of interest in the phenomenon and its causes.\textsuperscript{20}

\textsuperscript{18} B. Nogalski, H. Macinkiewicz, op. cit., p. 24-25.
5. The company in the conditions of the economic crisis

Bankruptcy, liquidation, insolvency and termination of employment have become common in market economy. These phenomena are closely linked with the crisis in the enterprise. Currently, the word ‘crisis’ is a term commonly used in different environments and it would seem that the knowledge of this issue is sufficient. Attributes and effects of the Great Depression that occurred in the 30s of twentieth century are described in numerous publications and journals. Nevertheless, the editor of ‘New York Times’ called the current crisis ‘the most terrifying global economic collapse since the memorable year of 1929’\(^\text{21}\). Peculiarity of the Great Depression was based not only on the fact that in different countries it occurred in different time, but also on the fact that it manifested itself in different ways in different countries. When in October 1929 there was a crash on the New York Stock Exchange, Europe and the rest of the world experienced a period of economic prosperity. Excellent development of world economies was interrupted by the outbreak of the Great Depression which lasted until 1933 in almost every country in the world\(^\text{22}\).

Currently, many companies experience the crisis which involves the need to carry out organisational changes. This need is the result of the different approach to management. In conditions of economic crisis, business management approach should be applied individually, because there is no schematic approach. Enterprises, their surroundings and the way they function are too different to be able to create one universal plan of dealing with difficult situation. In such situations the whole range of possible techniques and tools should be used to develop several action plans and crisis procedures adequate to the situation. Currently, there is no effective management without continuous monitoring of the external and internal surrounding of the organisation. It is worth realising that while going through the crisis it is much easier to make changes, reduce costs, change staff or introduce new solutions. The company that went through the crisis and coped with it have greater awareness of the effectiveness of its own actions. Selecting the strategy appropriate to the life cycle determines the shape of the company. The consistent implementation of the strategy becomes a key factor for the multiplying the value of the company. While assessing the strategy adopted by the company one should assess not only the strategy itself, but also the effectiveness of its implementation at various levels and the increase of the company’s value generated by it.

The articles presented by the authors provides theoretical and practical considerations, where efforts were made to introduce the strategies of business management in the crisis. Therefore, two theses have been proposed:


• proper selection of the strategy in time of the crisis is an element of business success,
• restructuring is a part of the effective protection of the company against the crisis\textsuperscript{23}.

6. Phases of development of the company

The phase of the development of the company, i.e. business life cycle is the period of time from its creation to the end of activity. The company from its creation until its bankruptcy or commencement of liquidation is in the process of development, which may be a reflection of economic conditions of the surrounding or global economy. It should be noted that the development is measured not only by economic, but also social and other indicators. It is almost impossible to determine how long the company will operate. Some companies have existed for generations, but even those disappear someday. Japanese Hotel Hoshi have already existed for 718 years and for 50 generations of Hoshi family. Barovier & Toso company has produced glass in Venice since 1295. The longest existing company in the UK – John Brook & Sons was created in 1541\textsuperscript{24}. Each of these companies went through ups and downs over the years, but they were all subject to the same life cycle.

Each company goes through a natural evolution. The only difference between companies lies in the speed of going through the stages of the process. The natural life cycle of the company can be divided into three phases: development, maturity and decline. Each stage has its own characteristic features. The stage of development is particularly interesting.

The basic features of the development phase include: the increase of production and sales, increase of employment, increased market share and market expansion in the geographical and subject sense. According to Larry E. Greiner the course of the development stage depends on the size and age of the organisation and the development of the industry. During the development phase we are dealing with the evolutionary and revolutionary changes. Evolutionary changes involve the adaptation of the company to the environment which happens within the general framework of the accepted strategy and does not violate basic principles of this strategy. Therefore, those changes do not create the need for a thorough ‘rebuilding’ of the organisation. On the other hand, revolutionary changes occur when the processes of the adaptation to the environment require the organisation to develop a new strategy of development and what follows from that a substantial interference with its objectives, structure, procedures and even the attitudes of employees. In general, such changes are made in the situation of organisational crisis, when the processes

\footnotesize{\textsuperscript{23} Ibidem, p. 136.}
\footnotesize{\textsuperscript{24} http://www.ipo.pl/twoja_firma/zarzadzanie/cykl_zycia_firmy_904.html.}
of adaptation to the environment do not stimulate the company’s development but rather cause noticeable decline in the efficiency of its operation\textsuperscript{25}.

In the phase of maturity the company already has specific market position and it is able to accurately forecast its revenues and expenses. There might be another development stage thanks to successful restructuring or the sudden increase in demand for products and services. The maturity stage is characterised by stable increase in revenues and high liquidity. Mature companies provide investors with constant profits and the directors with stable salary. Companies are in the maturity stage until they record decline which may result from shrinking of market or changes in the external environment of the company. It is in this phase that the company should start planning its disappearance from the market (similarly to man who has to take care of his future retirement before he retires)\textsuperscript{26}.

Decline: a significant reduction in production and sales, reduced market share, inability to compete, lack of opportunity to fight against negative phenomena in the market. At some point in every company the growth rate begins to slow down. Revenues begin to decrease and there are problems with financial liquidity. This happens because there is no demand for particular product or service. Consumer’s preferences change or new technology is developed and demand for other products is created. Company, that notice these changes, may save itself from the decline through careful adaptation to the changes and offering new products or services. However, new competing companies will be created one day and they will overtake some customers\textsuperscript{27}.

If the company does not plan or act strategically it may not even be aware of the fact that it is in the decline phase. This kind of company may be at this stage for many years (at least until it has financial means) and it may wonder why revenues are decreasing and the financial liquidity is threatened. Other companies put themselves up for sale as they are aware that they still have robust resources that may prove to be attractive to new businesses. Others decide to expand their activities and find new ways of investment\textsuperscript{28}.

Greiner identifies five phases of business development: development through creativity, formalization, delegation of authority, coordination and cooperation. In a dynamic system L. Greiner distinguishes the following types of crises: the crisis of leadership, the crisis of autonomy, the crisis of decentralization, the crisis of bureaucracy.

Development through creativity: focusing on creating product, market signals, business activity. Expanding the scale of activity, more difficult management, co-

\textsuperscript{25} W. Małecki, op. cit., p. 142.
\textsuperscript{26} http://www.przepisnabiznes.pl/dzialanosc-gospodarcza/cykl-zycia-firmy-2.html.
\textsuperscript{27} http://www.drewno.pl/?pid=info_article_details&aid=5448&pname=Kiedy+umrze+Twoja+firma%3F.
\textsuperscript{28} W. Małecki, op. cit., p. 146.
ordination, communication and control cause the crisis of leadership. There is need to employ professionals to manage the business.

Development through formalization: formalization of structures and procedure, introduction of standards, centralization of management. The crisis of autonomy occurs which can be solved by the decentralization of management.

Development through delegation of authority: chief executives focus on the coordination and supervision of lower-level managers who have the right to make decisions in the decentralized organisation. The crisis of control (decentralization) occurs since the managers of lower levels fulfil their own objectives.

Development through coordination: in order to deal with crisis of control, managers introduce formalized coordination systems (procedures for planning, evaluation systems) and the cells of the organisations are expanded. The crisis of bureaucracy occurs.

Development through cooperation: one way to overcome the crisis of bureaucracy is to organise and manage teams in which social control and self-control have the main role. The crisis is associated with the lack of ideas for further development.

The life cycle of the company may be reflected in the strategy of the owner. Such a strategy may also assume the liquidation of the company. In this case, the owner should conduct all business activities in a way which would allow him to pay off any potential debts. In many cases the liquidation of the company is an unintended consequence of bad management of the business and the loss of liquidity. In this case, the bankruptcy is a possible scenario.

Construction and wholesale trade, in which downward trend is observed, are industries in which the greatest number of companies going bankrupt is recorded. High risk of insolvency of subjects in wholesale trade is associated with very risky funding structure of wholesale based on bank or merchant credit. Small capital at relatively high turnover achieved by this kind of companies can lead to problems with getting their debts back or may cause the loss of liquidity.

In the Polish economic practice bankruptcy of companies is usually declared in connection with the debt constraining the liquidity of enterprise. In many cases, the potential liquidation of the company is an unintended consequence of mismanagement and loss of liquidity.

7. The strategies used in the enterprise during a crisis

From a practical point of view, the crisis is a specific situation for the enterprise. Creation of the system of actions aimed at resolving the crisis is an attempt to so-

29 W. Małecki, op. cit., p. 145.
30 Ibidem, p. 146.
31 Ibidem, p. 147.
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olve the problem of the organisation in crisis. An entrepreneur has a choice of three strategies to overcome the crisis: withdrawal, survival and development. It should be emphasized that not all of them can be used in every enterprise due to the fact that the company may not have tools necessary to apply a particular strategy.

Withdrawal strategy, as the name suggests, involves the company’s withdrawal from the market for the time of the crisis and coming back in more favourable time. Reliable cost analysis is an essential part of this strategy. It means that the company should make a reliable calculation of costs of activities such as entering and leaving the market. Depending on the type of the company, its size, location, etc., these costs may be radically different. Hence, this strategy may be characterised by enormous losses and thus, completely unprofitable for some companies. Then, it may be profitable for other companies as characterised by small losses which can be covered by investment. This strategy is in deep contradiction with the principle of accountability in business operations to the environment (workplace, impact of GDP, etc.). At the same time it should be noted that in many cases the ‘withdrawal’ has more positive effect than the ‘survival’ at all costs. The latter option often brings more disadvantages than advantages. Taking such a strategy should be preceded by a thorough examination of the situation in order to check if another strategy cannot be applied. In times of the crisis, every company can find itself in a situation of most difficult choice between the social and economic considerations.

Survival strategy involves preparing the company for ‘survival’ of time of the crisis with the least ‘ailments’, both in economic, as well as social sphere. Applying this strategy should also be preceded by a sound analysis which would determine whether the company has a chance to survive. This strategy relies on restructuring, resulting in the protection of business from the crisis. Restructuring is a complex process of economic, technical, organisational and social character which refers to the consciousness of individuals, groups and elites. It involves a change of business strategy and transformation of rules of its functioning in a way to ensures competitiveness in the market.\footnote{W. Małecki, op. cit., p. 149.}

Development strategy is expressed by developmental restructuring and it is the most optimal and most advantageous for the company. Unfortunately, not every company can afford to apply this strategy. Implementation of this strategy is characterised by investments and increased spending, not savings. However, companies which have sufficient resources (accumulated in the ‘fat’ years) to implement such a strategy, or in other words they can afford to carry out the developmental restructuring, can benefit on many levels.\footnote{Ibidem, p. 152.}

During the crisis, the decrease of money purchasing power with the increase in unemployment impoverishes society that focuses on satisfying basic ne-
The slowdown in the economy stops the development of entrepreneurship and the influx of foreign companies that stimulate the development of the market. This strategy requires quick and determined actions. In order to maintain, and ultimately strengthen the position in the market and increase competitiveness, a decision should be made to modernize the company.

8. Results of the crisis

The global financial crisis has not only disturbed the functioning of the interbank, insurance and securities market, but also has had a negative impact on households and businesses.

Problems that households had to face during the crisis somewhat derive from problems that financial institutions and securities markets faced. The first and most tangible consequence for households is limited loans from the bank and the increased price of new loans. The outbreak of the global financial crisis had cut off many households from credit financing, both intended for property, as well as for consumption purposes. The crisis had also reduced the prospects for use of this form of financing for many households in the next months or even years.

While difficulties with access to bank loans are associate with the impact of financial crisis on the banking market, the other consequence experienced by households should be associated with its impact on the securities market and its institutions, particularly investments funds. The outbreak of the global financial crisis destabilized the securities market and limited its ability to generate adequate return rate on capital investments. The rapid collapse of shares and corporate bonds market resulted in great losses for investors, especially those who began their investments relatively late, in the final phase of ‘bubble’. Households constitute an active group of individual investors and they are participants in the investment funds. Investments of households in the securities market are made with their savings. As a result of the collapse of securities market, part of savings of households dwindled since it was used in the securities market directly or through investment funds.

The outbreak of the global financial crisis among all participants of financial market, including households, was followed by increased aversion to investment risk. The excessive fear of incurring losses on the securities market cause the situation in which households could only get low-interest bank deposits or low profitable investments in treasury bonds. Both forms are insufficiently profitable if we take into account the risk associate with these forms of saving, i.e. the risk of insolvency of banks during the crisis and a rapidly growing public debt and foreign debt—an increase in credit risk of the state.

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Households are also participants in pension funds and funds accumulated in them are their pension programs. The global financial crisis, which occurred after the collapse of Lehman Brothers, has proven to be the most tragic for people who are approaching retirement age – apart from investment funds, pension funds were the most significant group of ‘injured’ institutions.

Companies faced restrictions, similar to those met by households, in obtaining external funding. After the collapse of Lehman Brothers followed by a sharp decrease in credit supply, companies were either totally disconnected from this source of funding or had very limited access. What is more, companies were also cut off from funding from the securities market. One way of financing current and investment businesses of the company is bank credit and other forms include the increase in capital by issuing shares and the issue of securities.

Increasing aversion to risk in the banking and securities market also led to the increase in the cost of gaining capital from all available sources, both ownership capital (share issue), as well as foreign capital (bank loans, bond issue). Cost of ownership capital is one of the most important factors taken into account when making decisions about investment in the company since the profitability of investment projects realised by the company depends on this cost. Therefore, it can be concluded that the increase in costs of financing may limit the investment activities of the company and consequently reduce the potential to generate profits in the future.

The financial crisis left its mark on the budget of households and their consumption and investment opportunities. On the other hand, concerns about the deterioration of economic prospects, including opportunities for households to earn, meant that they became less inclined to spend. The reduction of household expenditure had a direct influence on the decline in sales of enterprise, prices of their goods and services, and consequently the decrease in the value of the revenues from sales. Sharply decreasing sales cause the increase in cost per unit of sold goods and services since fixed costs cannot be significantly reduced. Very alarming data indicating a decline in sales of goods and services in the third quarter of 2008 were announced in many countries, including mainly the United States, Britain and countries of the euro area. Recent statistics indicate a declining trend in profitability of companies.

With the escalation of the crisis in the financial market the first signs of economic slowdown occurred in most countries. In the developed countries, there was negative economic growth in two quarters in a row. According to the generally accepted rule, negative GDP growth occurring two quarters in a row indicates the entry of the economy into recession.


Ibidem, p. 110-112.

Ibidem, p. 112.
GDP is one of the key measures of national income used in national accounting. GDP describes the aggregated value of final goods and services produced within the country in a given period of time – usually within a year; recession – macroeconomic phenomenon involving a slowdown of economic growth, resulting in decrease in gross domestic product. In the technical sense recession is defined as a decrease in GDP over at least two quarters.

The economies that after the outbreak of the global financial crisis were in recession include: Ireland, Germany, Japan, Sweden, Italy, and the list of countries threatened by recession includes: the United Kingdom, the United States and France.

The first country in the EU, which entered into a phase of recession was Ireland. The country’s GDP in the second quarter of 2008 decreased by 0.5% k/k and it was second consecutive quarter of declining. After the third quarter of 2008 Germany was also affected by the recession. Second and third quarters were also difficult for the economy of Japan and the United States, where GDP fell by 0.3% k/k. Sweden also recorded a second consecutive quarter of negative GDP growth. Technically, the euro zone entered recession for the first time since its creation. Its GDP in the third quarter of 2008 fell by 0.2%, after a fall of 0.2% in the second quarter of 2008.

The global financial crisis negatively affects on GDP through its individual components: consumption, investment, government spending and net export. The U.S. GDP growth is generated mainly by the growth in consumption, whereas in the Euro Area and Japan it is divided between consumption and investment. Both the Euro Area and Japan are net exporters, while there is trade deficit in the U.S.

Deteriorating results of enterprises and fading prospects for their improvement in the near future have direct impact on the labour market, especially in the countries where this market is more flexible, including the U.S. and the UK. The unemployment rate increased in many countries in autumn of 2008. Deteriorating economic conditions, including the prospect of rising unemployment contributed to worsening of moods among customers, which influence the propensity of households to consume.  

According to A. Duliniec, ‘the company may find itself in the crisis at any stage of the life cycle’. It results from company’s own financial problems, poor decisions or changes in its environment. Results of the crisis include:  

- decline in sales revenue,  
- decline in operating profitability due to the decline in sales revenue and increase of operating costs,  
- lack of payments from customers, the need for extending the periods of payment,

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38 W. Nawrot, op. cit., p. 112-115.  
lack of opportunity to deal with commitments on time (too high payments, the need to make payments earlier than the financial capacity of the company allows it).

The effects of the financial crisis also include:
- difficulties to access sources of financing,
- increase in the costs of capital, which is the result of increasing the cost of access to these sources and increased business risk,
- limitation on the scope and scale of investment, which will limit future growth and development.

Companies should not only diagnose the symptoms and results of internal and external financial crisis, but also carry out any changes that would enable the ‘treatment’ of symptoms or would increase resistance to the threats associated with it. C. Suszyński confirms this opinion: ‘the essence of modern business management moves from the active ‘reading’ of the expected changes in the environment to ability to prepare the company to new conditions in advance.’

Individual companies differ in terms of development. From the point of view of the company it is the most important aspect. Therefore, it may happen that the company will develop in a shrinking industry. In the crisis, there are large shifts in market positions. Redistribution of market shares is not made in good, but in hard times. If everything goes well, we all do fine and market shares do not change. When it gets too crowded on the market, the weaker companies must fight for survival. This gives an opportunity to the stronger ones to further strengthen their position.

9. Sources of companies financing

General view functioning in financial management says in times of crisis, companies should modify the structure of funding sources – increasing the share of capital that is less risky and limiting less secure capital. A more secure capital includes own funds of the company, and the more risky is the foreign capital.

Each company has fixed and working capital, which is necessary to conduct business. Funding of individual assets may come from two sources:
- equity (own capital)
- foreign capital

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41 S. Hermann, op. cit., p. 23.
42 W. Małecki, op. cit., p. 215.
The main difference between them is that equities come from the same company or its shareholders, and foreign capital are derived from external sources – from the environment in which the enterprise operates\(^{43}\).

**Equity (own capital).** Funding is usually understood as all operations and projects aimed at increasing capital, both short and long-term\(^{44}\). This capital is differently understood in the literature. In terms of balance sheets it is defined as the passive part of balance, in other words the abstract sum of assets of business or its source.\(^{45}\) Therefore, capital is a source of funding necessary to achieve the target. The analysis of the structure and sources of capital should answer the following question: who and under what conditions and for what period financed physical and financial assets of the enterprise? This question stems from the fact that capital, as a source of financing assets, determines the ownership of the assets of the company.

Own capital is understood as funding contributed and made available to the company in course of leading business by its owners (shareholders, co-owners). In a broad sense it is defined as the equivalent of capital assets contributed by owners and generated by the company during its existence, as a result of keeping part of the profit in the company. Equity can be divided into:

- capital entrusted (external contribution), contribution by owners,
- capital generated (internal supply), which exists in the companies functioning for some period of time and generating financial surpluses remaining in the enterprise.
- One source of financing companies with equity is internal funding, which includes net income, depreciation, assets transformation, capital transformation and reserves.
- **Net income** – financial surplus should be the main source of financing in profitable company. It consists of net profit of the financial year and depreciation. Net income is considered the primary source of financing for companies. The organisations that generate high profits increase their economic independence and solvency. Those organisations are perceived by others as reliable and stable institutions. Then, it is easier to find additional external source of financing as credit institutions are not afraid of difficulties in recovering the capital and investors expect a high return on invested capital.

Second internal source of funding, along with net profit, is depreciation. Size of depreciation depends mainly on the size of fixed assets and methods of its calculation. By measuring the degree of decline of fixed assets, depreciation informs about its consumption and is important for investment decisions. It also takes part


in the transfer of value of consumption of fixed assets to total company costs. It has a major impact on financial results of the company. Including the depreciation in the costs of revenues reduces the tax base, and thus, the level of income tax. Depreciation is a tool used to create funds of financial measures, known as depreciation funds that are used for investments of replacing assets spent. The rules of depreciation are regulated by the law. However, there is a certain freedom to choose method of depreciation and management should choose the ones that are the most effective for their business. Under certain conditions it is possible to apply the increased depreciation rates. This is particularly profitable for companies that do not benefit from investment incentives. In every enterprise, regardless of legal form, depreciation fund remains at the disposal of the company.

The change of assets and the transformation of capital – they involve the sale of corporate assets that are used inefficiently, releasing capital by accelerating the rotation of current assets through activating the sale of inventories or the use of special reserves. Assets that are used ineffectively can be ballast for the company and reduce its effectiveness. That is why chief executives should have permanent control over the size of the asset and the degree of its use. This will allow the rationalization of activities in this area and maximize the effectiveness of the company. Faster rotation of working capital can be achieved by activating the sale of stocks, minimizing time of regulating claims and logistics strategies aimed at reducing costs of transport, storage, etc.

The unused resources may also be the source of funding. It is created because of the risk of the current regulation of the commitments and occurrence of extraordinary phenomena. Resources (reserves) give the company assurance of liquidity in the event of the occurrence of extraordinary events. If they are not used in given year, they may be treated as additional income that can be used for investing. Another type of reserves are deposits of profits. They are treated as an instrument for stabilizing the current financial balance of the company.

Among the long-term reserves pension fund is of great importance to the company’s financial management. It brings double profit to the company. First of all, contributions to this fund are treated as expenses of getting income which affect the reduction of the tax base. Second of all, they remain in the company for a period of employment of the employee. Money accumulated in the funds are the liability of the company to an employee. The company may treat it as an additional source of funding.

**Foreign capital.** Foreign capitals, which are an essential element of financing of company, may come from different sources. However, choosing the right one is not an easy decision because not all of them are available at particular stages of the company’s development. The choice of how and where to get foreign funds

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depends largely on the phase of development of the company. If the company is at the initial stage of development, there is not many resources available. At the conceptual stage, the company can only rely on venture capital, which is also know as ‘risk capital’ and occurs in every economy. It is particularly applicable in the case of innovative or initial activity. Companies which are at the stage of beginning their own business have more opportunities to obtain foreign capital. They can apply for a loan, but it is not always available, or lease contracts, which are more popular in this phase. The situation is the clearest in the case of particular small or medium company. The latter can rely on a wider range of offers and it is easier for them to get foreign capital. They have greater creditworthiness by which banks understand the ability to repay the loan with interest in fixed amounts and time. But in both cases, the company can finance its assets with four main sources: loans, lease, factoring or venture capital. Loans are the most popular foreign capital, but their multitude can create the mood of ambiguity and uncertainty as to the requirements posed by the bank. Therefore, four basic criteria for their division can be enumerated: the period of the loan, means of loan, purpose and currency of the loan. Leasing is another external source of financing business preferred by small and medium enterprises. The definition of this agreement appeared for the first time in the Polish law on 26th of July 2000. it is a way of financing investment based on acquiring the right to used the leased object without the need to purchase it. A lease agreement is close to rental or tenancy agreement. There are different kinds of leasing: direct, indirect, operating (current), financial (capital) and repayable. Lease agreements are particularly beneficial for small companies that begin their business and do not have creditworthiness yet. In principle they require only one security which is blank promissory note. It should be mentioned that it is much easier to sign the lease contract than credit agreement. Much smaller number of documents is required and the object of lease is available after paying the first installment. The great advantage of one type of lease, namely operating lease, is the possibility of including the total amount of purchased object in the costs of revenue which lowers the tax base. The high popularity of this kind of leasing confirms this fact. Operating lease makes up 95% of all lease contracts. Another very popular form of eternal financing is franchising, which makes it easy to start the business. Franchising can reduce the investment costs, advertising costs and other costs associated with starting your own business. Franchising, as foreign capital for enterprises, is a long-term agreement between the franchisee and franchisor, who gives permission for using his advertising sign, name, trademark. However, he requires adaptation to his rules. For example, he may demand that the interiors of the premises, staff uniforms, work culture and all rules are consistent with all of his institutions. This form is very popular among large corporations, such as McDonalds, Pizza Hut, Burger King and others. By choosing this type of funding the company has better opportunity to start its business. Franchi-
sing gives the possibility to get loans or reduce investment costs by participation of franchisor. It allows the company to lease the equipment purchased by the franchisor and also provides equipment for the premise. The franchisee uses the reputation of the franchisor and his position in the market. The franchisor improves creditworthiness of the franchisee and introduces him to business partners. While choosing this form of financing, the company should also recognize its flaws as the decision to choose sources of foreign capital must be rational and carefully considered. The main disadvantage of franchising is the fact that it limits the independence of the entrepreneur, which is also associated with a disproportionate distribution of ‘forces’. The franchisor will always be at the winning position. Although this type of funding significantly reduces the investment costs it does not mean that it minimizes them totally. When signing franchise agreement the company incurs high initial costs as it has to pay for license fees, which are around 10 to 60 thousand dollars. Such an agreement also means agreeing to incur fees to the franchisor, which reduces profitability.47

During the global financial crisis and a decrease in confidence in the financial market the Polish enterprises reduces the demand for any type of capital.

10. The financial strategies applied in the crisis

Financial management of the company can be defined as a combination of strategies decisions on financing and investment and operational decisions related to the management of revenues, costs, profit and liquidity. The reflection of quality achieved by the company financial management, which may be direct or indirect, or immediate or delayed, is the size and balance achieved by the economic operator of money flows.

In accordance to the standards of financial reports money flows are divided into operational, investment and financial. This division is closely linked to the three areas of financial management of the company:

- the operational area, which is manufacturing and selling products, gaining revenues and profits, incurring costs and expenses and management of current assets and net capital, the potential of liquidity,
- the investment are linked to allocation of capital in order to ensure business survival, or the strategy for growth and development,
- the financial area associate with the formation of the size and structure of capital used by the company.

Measurements of the financial management of the company include its financial liquidity, both short and long-term, and profitability of sales and the efficiency of development activities and the use of capital resources.48

48  W. Małecki, op. cit., p. 210-211.
The crisis in the enterprise is a phenomenon of accumulated economic difficulties of the company. It stimulates broad and deep range of changes which in turn not only allows companies to adapt to new conditions, but also cause the radical change in the processes and strategies. In this respect it seems that companies should realise one of two, or both at the same time strategies to deal with the crisis (except the third one which seems to be the least rational, i.e. waiting for the crisis to end), i.e.:

1. Strategy for managing the profit and cash flows.
2. Strategy for investment and becoming competitive.

The first strategy relies on economical financial policy, reduction of costs and expenses, protection of financial liquidity, reduction of the scale of domestic and foreign investments (direct and indirect), internal and external growth (mergers and acquisitions), reduction of assets, restructuring sources of financing and keeping profits for the internal needs of the company. It is a safe strategy allowing the company to react quickly to the effects of the crisis, but at the same time weakening the company, limiting the pace of its development, particularly in the early periods of its completion.

The second strategy is characterised by the fact that the scale and scope of investment is maintained or even increased in the anticipation of achieving significant benefits from it shortly after the crisis. Mergers and acquisitions are of the particular interest due to the decline in the value of many companies. This strengthens the strong company that is ‘immune’ to the crisis and secured by capital. This strategy seems to be more risky and it is not generally used.

Polish companies during the global financial crisis implement the first of these strategies. It is confirmed by the results of research conducted by Polska Konfederacja Pracodawców Prywatnych ‘Lewiatan’ (Polish Confederation of Private Employers ‘Lewiatan’) and the consulting firm Deloitte in the period from 20.01.2009 to 06.03.2009 on a representative group of 251 large companies. Polish companies find ways to protect themselves against the harmful effects of the global financial crisis in:

- reducing costs and expenses, especially on promotion and advertising, and research and development (36.9% indications),
- reducing production and sale of products on the domestic market (33.9%),
- reducing employment (33%),
- reducing the scale and scope of investments (23.6%),
- reducing production and sale on the foreign markets (21.1%),
- limiting access to capital (20.6%).

Polish companies applied similar strategies in the period of the previous crisis of the early twenty first century associated with the speculative bubble in the market

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of new technologies. It is confirmed by research of B. Cegłowski i P. Szczepankowski conducted in 2001, which concluded that the survival and development of Polish companies is achieved mainly through a strategy of minimizing costs and expenses.

The author cannot agree with some of the research results as it shows that 30% of the companies that took part in survey mention reducing production and sales to the domestic and foreign market as a way to protect themselves against harmful effects of the global crisis. Reduction of production is not a conscious choice of strategy, but a necessary response to the decline in demand.

**Conclusion**

Current economic crisis can be characterized as the most severe one for over 75 years and it has arisen due to many different factors. Stereotypical approach highlights the importance of the crash on the property market and mortgages as the main reason of the crisis. However, this explanation is not correct, since the above mentioned phenomena are the consequences of the real causes or sources of the crisis. The main reasons here are the low interest rates established by FED combined with unprecedented level of liquidity on the financial market (the global excess of economy) caused by financial surplus gained by some countries and either ineffective or insufficient regulations that concern functioning of those markets.

Issues presented in these paper together with the analysis of the economic crisis can prove that the crisis has a strong influence on the company management. The organizations at all regions and departments are touched by the crisis. Managers frequently tend to blame the crisis for the financial difficulties they have to face, whereas often it is bad management that should be blamed.

Data and analysis presented show that the economic crisis quickly affected the liquidity of Polish companies and timeliness of payment implementation. Timeliness of service implementation has considerably fallen and simultaneously the number of outdated outstanding have risen up. Considering the fact that nowadays it is difficult to obtain finance from the bank department, the companies should most of all take internal actions that would both lead to releasing financial means from assets owned and to decreasing of the acting capital demands through a strict control over the level of supplies and charges.

Polish companies believe that the global crisis in the financial sector has started to have more and more affect on their activity through the gradual limitation to the credit access. There are many unfavourable factors that influence Polish companies, such as: the increase in prices of materials and raw materials, the increase in capital costs and expenses associated with investments, salary pressure.

Interestingly, the crisis which is associated with ‘something wrong’ is not always perceived by entrepreneurs as the end of their business. It turns out that in the Polish economy prevails rather pessimistic mood. More than half of compa-
nies admit to experiencing negative effects of the crisis, there are also companies that do not see any change in the current situation. For me the most surprising fact is that there are entrepreneurs who find positive effects of the crisis. Speaking about the positive effects of the crisis we have in mind, e.g. opportunity to develop new forms of activity, lower prices from subcontractors/intermediates, increased sales, reduction of competition, increase in the scope of their business. The crisis forces companies to take on the challenges, reorganise the company and find new ways of reaching customers. In the current unstable economic crisis companies focus on increasing revenues. Their attention is mainly focused on reducing operating costs which is often manifested through dismissals, salary cuts, reductions in spending on marketing, advertising and training.

The question that arises is what to do in order to successfully deal with the crisis? Everyone highlights that the company must work hard, cut costs, change strategy, communicate and introduce innovations in products and management, but no one mentions the strong currency, improving demand and the favourable combination of circumstances.

Anti-crisis management is not easy, it requires skills and character. That is why the company should be managed by people who can make difficult decisions. The crisis should not be seen as series of problems affecting the company. It should also be considered as an opportunity – it is easier to make changes, reduce costs, exchange executives and introduce new products. There is a chance of finding new customers, considering contracts with suppliers. The company which manages to overcome the crisis is more conscious and strengthened in its effectiveness.

Abstract

Management during a crisis is characterised by actions aimed at minimising the objectives and costs, which in case of prolonged crisis stops the development of the company and leads to the lowering of its market value. Often in the market economy phenomena such as bankruptcy, liquidation, insolvency, redundancy are practised. More and more often the media shows the examples of collapsing companies and the resulting drama, but much less frequently informs us about managers who are able to fix them. Both phenomena are linked to crisis in the enterprise. The persistence of the crisis often leads to the collapse of the enterprise which results in the dismissal of employees. Then unemployment increases, which is considered to be one of the major social problems of the market economy. Both employees and the country should be interested in solving the crisis. At the head should also be the owners, managers of companies, banks and suppliers. Often customers constitute a group interested in eliminating or minimizing the phenomenon. Reform of the company can attract investors and increase in the
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market value of the company. Therefore, it is advisable to learn the principles of fixing the companies in crisis.

Key words: crisis, management, common market, bankruptcy, liquidation.
JEL Classification: F33, F53, F15

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