

REACTION OF CORPORATE MANAGEMENT TO THE UNFAVOURABLE ECONOMIC CONDITIONS

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Abstract

This study analyses trends in the economic development and measures and decisions adopted by companies' management in order to deal with unfavourable external factors caused by the economic recession. Subject of research are trends in the economic development in the period from 60s to 80s in the past century. Study looks into their impact on managerial decision-making; compares their results with current trends in the economic development; compares reactions of management; evaluates relations and strategies within managerial reactions to the external influences and in adequate decisions made by companies' management. Moreover, this study analyses the results of an empirical research, conducted in order to identify strategies of behaviour of companies in unfavourable economic situation, reactions and implemented decisions of companies' management

Key words: economic development, economic recession, management of companies, behavioural strategies of companies, economic measure.

JEL Classification: M11, M12, M21.

Introduction

Global financial crisis, recession and following stagnation of economic production and current problems with public finances inevitably change outer business environment. Therefore businesses adequately adapt their behavioural strategies to the changing economic, social, legislative, and political conditions in order to stabilize their position on the market in the environment which becomes more and more competitive. Above mentioned changes lower demand for goods and services, which forces companies to reduce their production or cut back prices of their products. Lower production leads predominantly to layoffs of employees. On the other hand reduced selling prices can be achieved by more ways. In the short term the company can sell its products for the price derived from costs. But in the long term the only solution of this problem is to reduce production costs. There are many methods to do so – lower the prices of all input factors, implement organizational changes, rationalize all business activities, innovate production technologies, increase labour efficiency or even already mentioned layoffs. This means that layoffs are only one of many possibilities which business can carry out in order to stabilize its position on the market in the conditions of economic recession. But the experience gained during economic recession caused by the global financial crisis proves that management mostly implements this strategy of layoffs. This happens within economic systems with various levels of advancement and results in general increase of unemployment in society. In this context the question arises why management decides to lay off their employees, when there is a variety of other possible solutions. Is it really the only way how to survive on the market in the unfavourable economic situation? Or is it merely the most available (traditionally) and least complicated method? Or perhaps are other instruments, which could be implemented in these economic conditions, ineffective and failing?

Therefore the main goal of this study is to find out, how management reacts to present changes in the economic environment, which behavioural strategies it implements in order to solve problems it faces, and which approaches and instruments it chooses. Following tasks were defined to achieve this goal:

Determine which behavioural strategies are implemented on the market with the intention to prevent negative changes in the outer economic environment. Find out which economic measures and approaches are considered to be relevant for decreasing of production costs in the conditions of economic recession, and which are really implemented within the production activities of companies.

Define motives and thoughts of management, which matter in the process of decision making, choosing behavioural strategies and specific economic measures, and their realization in the unfavourable economic conditions caused by the outer factors.

Research methods used in this study involve:

- Analysis of macroeconomic statistic indicators of economic development and their correlation with indicators of businesses' economic production.
- Correlation analysis of trends of economic production and the level of employment within companies.

- Conducting of empiric research within management of middle sized companies through the method of structured interview, with the intention to determine relevant factors, when choosing behavioural strategies and specific economic precautions in the negative outer economic conditions.

Scientific originality of the article is:

- To define the scheme of economic organizational and personnel measures, which management considers to be relevant in the conditions of unfavourable outer economic environment.
- To determine priorities in the above mentioned scheme, which are actually implemented within the real business activities.
- To define incentives of management while choosing behavioural strategies and specific economic measures (and also while the implementation of these measures) in the negative economic conditions.

Practical significance of the article is:

- Scientific results of this study bear significance for elaboration of adequate methodological approaches in the further study of behavioural strategies in the conditions of negative outer economic situation.
- Results of this research form basis for creating and implementing of specific principles and measures of state economic policy.
- Determined patterns are a starting point for planning and implementing of effective measures of the employment policy on the labour market.

Changes in the economic development and their impact on managerial decision-making

Most representatives of economic science (Gianella, 2008; Jung, 2008; Paetta, 2008; Skidelsky, 2008; Stiglitz, 2009) only solidified their opinions about inability of current economic model to solve incurred economic problems, when reacting to global changes in the sphere of economic production and to the global financial crisis (Markovic, 2008; McCann, 1998; Melnikas, 2008; Pekarskiene, Susniene, 2011). They have reacted so not only when these changes occurred, but predominantly after some time passed. Just as Joseph E. Stiglitz has emphasized, that the Great economic depression had damaged our belief in macroeconomics – the ability to preserve full employment, price stability and sustainable growth. And current economic crisis managed to strike a blow to our belief in microeconomics – the ability of markets and companies to efficiently allocate labour force and capital. As a result “we have experienced so many catastrophic cases of incorrect allocation of financial resources and inability to deal with risk factors, that private sector was forced to beg for help from government in order to restrain the whole system from collapsing” (Stiglitz, 2008).

Nevertheless (and in contrast to theoretical musings of representatives of world economic science) most economists, entrepreneurs and politicians base their opinions on classical microeconomic relations between results of economic growth and input production factors, when evaluating the course of present economic recession. Even though quite realistic view on the course of economic recession and its impact on economic situation of companies prevails, the management of these companies usually prefers simple and sometimes even constructive solutions and decisions, when it comes to solution of the occurred problems. And that applies not only for the present economic development, but for past periods as well.

This study does not offer enough space to analyse economic problems, caused by the global economic crisis in the 30s and its impact on the behaviour of companies' management. The biggest economic problems since the times of the Great economic depression started to occur during 60s and predominantly 70s during so called oil crisis. Rise of production costs, caused by rendering main energetic source – oil and gas – more expensive, influenced the final price of production and therefore the drop in the sales. These events became reason for further development of new technologies and production facilities with reduced energy consumption and, as a result, with considerably lower operating costs. But the implementation of more effective technologies had its meaning only in the long term view, whereas companies had to solve their economic problems promptly. What possibility to escape this conflict of interests had management during these hard times; what was its reaction to the occurred problems; and what economic, financial or organizational measures were the results of its decisions?

In these conditions labour organization and rationalization could not be an effective instrument of solving acute economic problems caused by the rise of energetic sources prices and therefore also rise of production costs and following drop in sales of production. Looking for other effective instrument, like for instance, in organizational culture (Ubius, Alas, 2009) or incorporating into cluster initiatives (Malakauskaite, Navickas, 2011) can also bring its effect only in long term perspective. Of course, in these

conditions reduction of production and reduction of input production factors (including labour force) is needed. That meant that the reduction of economic production logically had to lead to redundant labour force. But in the conditions of socially oriented western economies (with relatively high scope of institutionalized social securities for employed) it was not possible to massively let employees off, not only from the legal point of view but from the economic one as well. So called flexible forms of employing are becoming one of the forms of management's reaction to these changes in external environment. That is why precisely in this period companies start to implement these forms of employing into already existing employment legislative. Simultaneously they ask legislative organs and unions to create more acceptable legal and organizational conditions for realization of flexible forms of employment. These flexible forms of employment are being presented to the companies' management as an instrument to overcome certain economic problems, which are currently usual phenomenon, and which are caused by the swiftly changing economic situation and conditions on the labour market (Martinkus, Stoskus, Berzinskiene, 2009; Simanaviciene, Uzkuryte, L. 2009). Implementing flexible factors into labour relations is at the same time seen as an instrument of solving the unemployment problems, which are growing to be particularly actual in this period especially for countries of Western Europe.

Reduction of working time is implemented as first and most widespread form of these flexible forms of employment (not only for one working day, but also for working week, month or year). But most often it is the capacity of working tome for one week which is limited. After negotiations with unions about tariff norms companies apply their requirements on flexibility in the forms of so called time quotas. Their implementation quickly spreads predominantly in 70s. For example, since 1975 to 1991 the implementation of flexible working relations rose from 3 % to 26 % in the economic units in European Communities. For example, in 1991 every fifth company in countries like Netherlands, Great Britain and Denmark applied time labour quotas or reduced working time in its labour relations with employees. It is somewhat less in Germany – 15 % of companies (Günter, 2002, p. 85-89).

The beginning of the new millennium marked a significant change in the approaches to the labour organization and the realization of labour relations in the countries with developed economy. Certain organizational changes in work and forms of employment in this period cast a shadow of a doubt on the efficiency of flexible forms of employing when it comes to the solution of financial and operating problems of companies (Krajnáková, 2004. p.46). Experience of German automobile producer Volkswagen (VW) poses as a proof. This company has decided to solve its economic problems without mass layoffs. In 1994 the company found itself facing serious financial and economic troubles as a result of drop in sales and subsequent reduction of revenues. Traditional approach to solution of such situation would be unable to avoid mass layoffs of reduction of production. But in this case management of the company choose a different path to solve its problems. Basic decision of the management was to avoid mass layoff of their employees. The deal with unions was negotiated and a proposal to the employees was made, which shortened weekly working time from 35 to 28.8 hours. Measures connected with the reduction of working time and wages influenced 35 thousand of company's employees. Despite somewhat sceptical expectations of representatives of business and expert public, most of the employees accepted the management's proposal to shorten working week. Agreement with this measure showed 49 % of VW employees and only 16 % disagreed (Hartz, 1996, pp. 49-50).

Shortening of the weekly working time from 35 to 28.8 hours was only one of many measures needed for the company to recover. Improvement in organization and labour management increased the intensity of its performance, and got rid of redundant work positions. No measures to reduce or limit the production were implemented. That meant that lower number of employees (as a matter of fact the same number of employees with reduced working time) performed the original scope of work. Success of measures adopted by management was unquestionable. Expert and business public called these measures as "VW-model", "four day week", "thorough, market rhythms oriented, business personal planning" and "first effective instrument for crisis management" (Hartz, 1996, p. 99).

The time has showed that these effective flexible work relations, which worked so well in case of VW does not automatically mean success in different conditions and in different time period. Just one year later this company faced yet another crisis connected with unfavourable economic situation in German economy and universal conjuncture in the car producing industry. This time its management did not utilize its own experience. In order to preserve revenues at least on the level from 2003, new saving plan "ForMotion" was created. Within this plan the concern counts with simplifying of production processes, fostering of sales and above all with laying 5000 employees off. These measures should mean savings in the height of

approximately 2 billion euro. Another 600 million should be saved by the natural decline in employees and also the departure of employees who leave prematurely for pension (Strunz, 2010, p. 52).

That means that the main starting point to escape these newly occurred problems was predominantly reduction of labour costs (or at least that is the way how the management saw it). This fact allows a following assumption to be made. It is probable that flexible work relations did not stand in the centre of financial sources saving or in the reduction of overall operational costs even in the former phase of economic problems solving. And therefore in these new conditions layoffs are perceived by management as a main path out encountered economic problems. More liberal view and approach of state and unions to the strict rules of employee dismissals also helped. That is why one can state that implementation of such measures and their economic expediency still remain open questions as far as organizational system and labour management (and especially work relations in factories) is concerned.

But the practical experience with implementation of flexible work relations in present conditions of economic development shows following: their role and significance as a solution of economic problems (and unemployment problems as well) in the 60s and 80s was considerably exaggerated and inadequately evaluated. Variability of their tasks and significance differs in various economic, historical and cultural conditions. And that is why flexible forms of employment still remain a complex phenomenon in the employment praxis and in the labour organization under the circumstances of current economic development.

Measures taken by management during economic recession

Since the origin of the financial crisis itself and events connected with debt crisis in Europe one could observe their negative influence predominantly in the form of decline of economic production and subsequent layoffs of employees. Companies inevitably lay off their employees in the times of economic problems accompanied by decreased demand after their products. And that is exactly what happened during economic recession. Decrease in demand after goods and products forced companies to reduce production costs even when the price for doing so was laying redundant labour force off. That is what happens every time, when company faces some economic problems. In another phase (once the reduction of production and input costs secures at least stabilization of production) companies' management starts to look for another ways how to reduce costs and raise the efficiency of production – through rationalization and organization of labour, organizational structure, implementation of flexible forms of employment, motivation, and so on.

This model of management's behaviour was confirmed by the data of our empirical research, which was conducted in October and November in both 2010 and 2011. In 2010 we questioned directors (or their delegates) of 57 randomly chosen companies mostly from automobile, machinery, electrotechnical and chemical industry through the method of structured interview. In 2011 we used same method and based on almost identical structured interview we approached management of 85 companies. In both cases the questions focused on how management of these companies behaved and acted during the time of economic recession. Therefore we analyse these two researches, conducted in two different terms but using the same method, as one researched selection. In both selections we questioned 142 companies: 17 % (7+18) out of them employs from 50 to 100 employees, 56 % (34+45) from 100 to 500, and 25 % (14+22) more than 500. Aside from questions about measures implemented by companies during economic recession, we also inquired about measures taken immediately after the crisis had arisen and about those taken after one or two years passed. There was only one difference in the structured interview from 2011 as far as methodology is concerned. We also used questions, which should help us to determine to what extent the debt crisis (which for instance played significant role in the fall of Slovak government) influenced economic situation and affected companies (see Table 1).

Vast majority of addressed companies experienced decrease in the sales of their production or decrease in the already agreed on orders during the time of economic recession. As a result of this development the majority (69 %) was forced to reduce production and employees as well. All approached companies reduced their production predominantly in 2008 and 2009. Only 31 % from the interviewed companies did not have to reduce their production, and only 13 % did not lay off their workers. That means that the management of 18 % companies decided to solve encountered problems only through layoffs without reducing the production. In this context it is necessary to emphasize the shutdown of production and employee dismissals were the main measures adopted by the management when it came to solution of their economic problems during economic recession. This script partially repeated itself in 2011.

Table 1. Measures adopted by management in the conditions of economic recession (in %, N=142)

Measures	N	%	Rank
Reduction of production	98	69	5
Layoffs	124	87	2
Work rationalization	123	87	3
Cost reduction (materials, energy)	34	24	10
Labour organization	93	66	6
Flexible forms of employment	72	51	8
Production management and organization	102	72	4
Restructuring of production	5	3	12
Motivation	76	54	7
Social care	41	29	9
Corporate culture	126	89	1
Investments into production (innovations)	21	15	11

This is determined by the fact that cutting down the production combined with layoffs or the decrease in the number of employees only by itself has an immediate economic and financial effect. It protects financial costs from the risk of them being frozen in the form of unrealized goods; eventually it saves financial means when dismissing employees; and it creates reserve for reducing selling price on the market. More than 89 % of addressed companies' managers emphasized particularly this fact when answering the question, why production reducing, layoffs or the combination of both had been the dominant measure taken in order to solve incurred problems. All other above mentioned measures are simply unable to bring similarly swift financial effect.

Another argument in favour of preferring reductions in the scope of production and number of employees is the fact that while they bring immediate and relevant economic effect, other measures bring only less significant effect, which can be gained only in the long term perspective. Implementation of exclusively production cutdown and layoffs does not create diversity among companies, since these two measures have been adopted almost by all of them. Only once they decide to realize other measures as well, one can talk about diversity of their approaches toward the economic recession. Only 18 % of them tried to take different approach to the problem of costs reduction. In most cases they were applying organizational measures, work rationalization etc. However, these arrangements alone proved to be less efficient than expected and therefore also these companies had to make more radical decisions – employee dismissal.

Simultaneously with staff reduction was also often implemented work rationalization. And exactly this precaution was according to 87 % of respondents considered decisive in cost reduction and creation of certain reserve for production enhancement. Organizational changes aiming to reduce production costs were executed by 66 % of the companies, production standards and directions were revised by 89 %, information flows and processing were improved by 72 %, the system of motivation and rewarding was made more effective by 54 %, 15 % invested into new technologies, 15 % made use of their own innovations and 51 % used overtime work.

These actions were rewarded in the case of 3 % of companies already by the end of 2009, when they obtained commissions which led to extended production. The biggest part of interviewed companies (74 %) started to raise their production in 2010 but 9 % of them have not managed to solve their problems. 79 % from the overall number of companies, which succeeded in implementing of necessary precautions and managed to increase the production, reaches the pre-crisis level of production in 2010 (68 % of all respondents).

Similar measures were taken by companies' managers also in 2011 – 47 % out of 85 questioned companies were forced to at least partially reduce their production and dismiss their employees. In 2010 it was expected that economic growth was stabilized and that at least moderate growth of economic production would follow. Implementation of measures in 2011 was influenced by the financial turbulences caused by the debt crisis in European Union. But, as a whole, the impact of the debt crisis and the economic development in Slovakia (and therefore also layoffs of employees) was considerably milder than during the times of global financial crisis. (See Table 2).

Table 2. GDP development and unemployment rate

Indicator	Confirmed data		Prognosis	
	2009	2010	2011	2012
GDP	-4,7	4,0	3,2	3,3
Unemployment rate	12,0	14,4	13,4	12,3

Source: IMF

Smaller amount of companies had to reduce their economic production and lay off their employees in 2011. On the other hand, production reduction and layoffs played a primary role among the taken measures just as the year before. Other measures were perceived as secondary. They are expected to have some economic effect only when combined with the two mentioned above. Despite decrease of economic production in 2011 lower number of companies (only 13 %) decided to lay off their employees without cutdown of production. Therefore the diversity of these two most important measures in combination with other measures remains almost identical when compared to the previous year.

Conclusion

The biggest economic problems the companies had encountered since the Great economic depression were the ones they faced in 60s and in particular in 70s in the past century. Already during this period reduction of labour was perceived by the companies' management as the solution of their economic problems. Economic situation in this period demanded reduction of production costs (and not the reduction of production). Therefore managers of these companies came up with another acceptable form of labour reduction – implementation of flexible forms of employment. Organizational, rational, motivational, and other measures served only as a supplement to the labour reduction. But the significance of flexible forms of employment as an instrument of solution of economic problems recorded decline at the end of last century. Management of companies starts to perceive layoffs (as a separate measure or combined with reduction of production) as a much more effective way how to tackle the crisis.

This strategy manifests itself even more dominantly in the behaviour of management in the conditions of present economic recession caused by the global financial crisis. Reduction of production and layoffs are two most distinctive measures taken in order to solve financial and cost-related problems the companies are facing during economic recession. When the companies do not feel the need to reduce their production or lay off their employees and implement other measures instead – than it means that they do not have unsolved acute financial or other economic problems. Quite to the contrary, they are merely aware of the danger and difficulty of the problems caused by the economic recession or debt crisis. Therefore, as a rule, they implement other measures (which they perceive as important), like for instance rationalization, labour organization, management of the processes within the company, communication flow, social care and so on. All these measures have their importance and can become competitive advantage in the future. That means that management of these companies sees reduction of production and layoffs as an instrument, which should solve acute economic problems. Other economic and organizational measures have meaning and are capable of solving economic problems only in the long term perspective.

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