

ECONOMIC CRISIS AND SOCIAL RESPONSIBILITY

Petr Nemecek, Alena Kocmanova

Brno University of Technology, Czech Republic
¹nemecek@fbm.vutbr.cz, ²kocmanova@fbm.vutbr.cz

Abstract

Real estate crisis, financial crisis and economic crisis will necessarily bring about also a lifestyle crisis. It will be essential to adapt. Conception of sustainable progression was frequently understood (and still is understood) as permanently sustainable growth. Practically speaking it is impossible, limitations will necessarily come. The perception of a sustainable growth and a sustainable lifestyle level and wealth increase is not only philosophically unattainable. Financial crisis, followed by real estate and economic ones have effect on all economies and have a bold economical impact. The expected crisis consequences for the Czech Republic are stated in the number of fundamental area. Exercise of a crisis management is the way that can help. Actual today's problems, represented by the economic crisis which leaked through the United States of America virtually to all countries, and without any doubts to European Union countries too, Effects and consequences in the Czech Republic are analyzed in the article

Keywords: economy depression, social responsibility, changes of individual attitude.

Crisis management concept

Within the management theory the crisis management has so far been perceived as a specialisation which processed and used in theory and practice. However, so far it has been perceived more in a military, natural relation and in the economic area rather at the enterprise level. A new fact shows, that its use will be necessary also in the area of national economics, European union and world.

The crisis management includes a system and methods for extraordinary events – extraordinary / crisis situations management by specialised experts who forms a group collectively called "the crisis management".

The crisis management performs its function in preparation and during the proper solution of an extraordinary / crisis event incurred as a consequence of extraordinary event, which can be:

- natural disaster
- social crisis
- extraordinary event with increased ecological impact.

Activity of the crisis management is focused especially to:

- risk analysis,
- preparation for solution of extraordinary / crisis situation (especially activity planning, preparation of active components for solutions and information of public),
- organisation of precautions for extraordinary event – extraordinary / crisis situation diversion or its impacts reduction,
- control of solution of the extraordinary / crisis situation (especially MU investigation, notification and warning, activation of components for extraordinary / crisis situation suppression and realisation of protective measures)
- provision of tasks to implementing units,
- realisation of tasks management, through activity of subordinates,
- coordination of all unit's activity for fulfilment of assigned tasks in relation to goals, place and time of performance,
- searching of differences between planned and actual status of the matter,
- broad provision of realisation units and all subjects participating in extraordinary situation solution.

The crisis management forms conditions (eventually ensures fundamental activity) for restoration of subjects affected by negative consequences after extraordinary / crisis situation.

Economic crisis and its consequences in the Czech Republic

Nowadays we are in a situation, when the crisis has affected the whole world. It started as real estate crisis, financial crisis and subsequently it has developed into economic and social crisis. Real estate crisis, financial crisis and economic crisis will necessarily bring about also a lifestyle crisis.

The Western Europe, which has trembled already at the beginning of the financial crisis, finally ended up in numbers ahead of the Czech Republic. The Czech Statistical Office has stated that the Czech Republic's industrial production has decreased in November by 17.4 percent compared with November year before. Even worse is a value of new orders, which has decreased by 30.2 percent, while in the last autumn the Czech Republic fell within the countries most resistant against global financial crisis shocks. But the hard hit to domestic automotive industry changed everything. Right in November the production of new vehicles and equipments decreased by 30.3 percent.

Table 1. Industrial production decrease in selected countries in November 2008

Country	Decrease, %
Czech Republic	17.4
Belgium	5.3
Germany	6.3
France	9.0
Great Britain	6.9
Italy	9.7
Sweden	10.84

Bad numbers surprised analysts as well as the Czech National Bank. Member of its bank counsel, Rober Holman, responded thereupon by claiming this year will be really demanding for domestic economy. Therefore the Central Bank counts with the most discouraging option of its economic forecast for this year. The economics shall increase by a half percent only.

Social situation

There is nowadays difficult social situation in the Czech Republic, as besides crisis consequences also financial measures and reforms are being exercised: offer of free working places almost disappears, three sick days are without payment and rent prices increase. Slow down of economics growth rate takes place already from the autumn, number of companies reduced their staff, unemployment increases (estimate for the year 2009 is up to 8.5 %), number of free working places fell by 40 thousand, number of job applicants increased by 20 thousands. The unemployment allowance shorten from 6 to 5 months. According to research almost two thirds of people assume that their financial situation will deteriorate in the year 2009.

Increase of rent in 2009 will be record breaking, for some flats categories it will be increased by up to 60 %, in the year 2010 deregulation will be ended and annual rent should reach amount of 5 % of the real estate's market price. A water supply and drainage will be also an increasing item, mostly, depending on the region diversity by 7 up to 10 %, Prague pays CZK 53 for cubic meter of water. Also prices for postal services will increase and parcel sending will increase by up to CZK 10. Price of electricity will increase by 10 up to 16 %, the EON company will increase the price by 16.4 %. Also the heat produced from coal will increase by 10 %.

Neither banks with services fees will stay behind. Newcomer is also an ecological fee for cars, when for a registration of an old car whose engine does not fulfil emission standard, up to CZK 10,000 will be paid.

Outlook for the year 2009

The analysts and chairmen of professionals unions agree that the year 2009 will bring another discharging, According to the most pessimistic estimates, the unemployment might climb up to eight and half percent, which corresponds to the level at spring 2006. In comparison with today these are three percentage points more. So, all in all over 480 thousand people might become unemployed.

The situation will be critical especially in the automotive industry and at consequential suppliers, further in textile industry and glass industry.

According to estimates of the Automotive Industry Association, 13,552 workers should leave this industry by June 2009. First in order will be agency employers, where efflux of nearly 5,800 people is expected. Staff reduction will continue in Tatra Koprivnice, where in total 1,400 people will loose their job.

This year, the discharging will not miss other areas, for example services. According to CSOB economist Jan Bures, people working in transport area will experience the crisis.

„It is a sector, which is connected to production and export areas, which have the ultimate problems“, he explains. The demand for services of consultancy companies will fall. “The education budgets are being shortened, what influences education and training companies as well as language schools and the weaker will always fall. Conferences and congresses will be limited, budgets for marketing and advertisement are being shortened“, says Libor Maly from LMC.

According to him also companies providing hotel and accommodation services will have problems, namely due to expected reduction of travel trade.

Banking should be affected by the economic crisis less than in America or Western Europe. CSOB recently announced a planned reduction of up to several hundred employees. Saving will affect even the managerial posts. On the contrary Ceska sporitelna hires employees, especially for counters.

Decrease of the amount of orders will force working spaces reduction in agriculture. Among sectors, which according to the experts, should be relatively safe belong food industry, tobacco industry and pharmaceutical industry.

The companies economise on all fronts and above all on wage expenses. On the labour market the trend of employees' overpayment has ended. "The price of people discharged from the middle management of some companies, where the wages were held high, has fallen to one third of their original wage“, Alena Chlumska from personal agency Billanc Partners sets an example. “If someone leaves a higher position, the company gives a chance to its own person, before it would hire from outside“ she explains.

According to her, wages of some professions grew in the last years disproportionately to the growth of the Czech economy as a whole and also disproportionately to other professions, telecommunications were a typical example.

“For the companies to acquire the right people, they have begun offering more money than to date and the spiral has started spin,“ says Alena Chlumska. According to her wages „overheated“ also in banking, developers, producers and sellers of consumer electronics.

Also the behaviour of employees have changed as consequence of the crisis. “Fluctuation has rapidly decreased. People much more appreciate their occupation and more than ever realise that in case of staff reduction the company is trying to keep loyal employees, who works at the firm for longer time,“ says Jiří Halbrstat, head of marketing at the personal agency Manpower.

According to experts the crisis will more influence the less qualified, but in every profession.

Personal agencies expect interest in IT professionals in the future. Also people with any technical education won't loose themselves, whether university graduates, especially machine engineers or high school graduates. According to the Manpower personal agency there is the interest for example for tool engineers, tool makers, locksmiths, welders. The security agency G4S is looking for tens of people. Dairy works Kunin takes qualified milkmen and tool engineers.

All who speaks languages and are professionals will be at the top. In addition to IT also experts in telecommunications and specialised technical professions generally will be in. There will be also the interest in specialised economic professions, for example accountants, economists or financial managers. Due to bigger market share the companies will also invest in high quality businessmen. Problems finding the job will have neither doctor nor people from pharmaceutical companies.

Options for crisis solutions

More than 70 % of the Czech companies see a solution of the crisis in social payments reduction. The same percentage is afraid that their turnover will decrease. It results from the representative survey among 2660 Czech companies. As fundamental impacts of the crisis on management and operation the companies mention minor sale, necessary costs cuts, reduction of production or discharging. Almost half of the companies admitted, that in this year they intend further discharge.

The Czech companies have clarity in recipes for the crisis. From the exclusive survey of the Economic Chamber for periodical “Ekonom“, in which participated 2,660 companies from number of areas, results, more than 70 % of the companies see the solution in social payment reduction.

Table 2. Recommend Crisis solutions to the government

Which crisis solution would you recommend to the government?	(percentage)
Social payments reduction	70.3
Lower company income taxes	52.6
Cheaper costs for labour force	51.9
Acceleration of depreciation for entrepreneurs	47.7
Decrease of VAT rate	34.4
Easier dismissal and hiring of people (more flexible labour market)	31.6
Easier access to loans	31.2
Easier access to European grants	28.6
Freeze of energy prices to the price level as at the end of the year 2008	27.8
Determination of down payment for the taxes according to actual HV	24.8
Export support	21.6
More state orders	17.9
State guarantees for credits for entrepreneurs	13.2
Freeze increase of wages	11.3
Investment incentives for enterprises	10.0
Acceleration of insolvency and donation of new cars	9.2
Introduction of 4 days working week	4.5

Except this more than half of questioned companies are calling for lower corporate taxes and cheaper costs of labour force and almost half want acceleration of depreciation. The year 2009 will be a survival test for domestic companies. From the survey also results that almost 70 % of the companies expect this year lower yields from domestic sales, more than half expects decrease also in export sales. Almost 70 % of the companies forecast their turnover lower; subsequently over seventy percent of companies expect also lower volume of investments. More than 62 % of companies stated that general development of the company will be unfavourable this year.

Government measures

The government of the Czech Republic has adopted number of measures to resolve the crisis. The priority is to moderate the growth of unemployment and preservation of public finance's stability. The measures should preferentially help companies, to people only implicitly. Long-term goals are infrastructure investments, science and research investments and decrease of companies' tax load. 14 measures have been adopted:

1. Relief of social insurance
2. Decrease of social insurance rate
3. Accelerated asset depreciation
4. Reduction of energy need for the buildings
5. Agricultural undertaking support
6. Guarantees and credits support
7. VAT deduction for company cars
8. Support for transport services
9. Exemption from down payment for taxes on income tax for sole traders
10. Support of export
11. Insolvency act adjustment
12. Decrease of fees on railways
13. Acceleration of VAT returns to entrepreneurs
14. Reimbursement of wages to employees in outage

Social responsibility

Social responsibility has also its psychological dimension. The famous Czech psychiatrist and publicist Cyril Höschl writes about financial crisis. Nearly nobody doubt about a psychological essence of

the economical behaviour. Economists or financiers are aware of this connection and more or less intuitively act accordingly.

The economics meets not only a psychology, but also a socio-biology, evolution theory and even neurosciences. The behaviour of neurons in our brain reminds behaviour of other complex and interacting systems – from the ecological one to economical one. Simple causes have in them complex, often paradox effects (for example condemnable behaviour means scandal, scandal means advertisement and advertisement means success). A Darwinism, survival of more successful, therefore more resistant, capable to some reproduction, adaption and managing of the demands is applied in them. But in such environment also originate cooperation, altruism, self-sacrifice – all from the very complex, but quite understandable reasons.

Another important example of a psychological essence of crises is influence of people's thinking on financial system's functioning. A trivial illustration of this is an imagination what would have happen, if people would fall into panic (it is not so difficult to arrange) and all at once went to a bank to withdraw their savings. The economy would probably collapse. This potential crisis does not doze so much in the economics as in people's souls – they have them in considerably on the hip, without knowing it.

During the existential jeopardy there happens a temporary increase of other malfunctions including depression, anxiety, sleeplessness and other implications of dragging stress.

Conclusions

The crisis brings about wide social implications, call for change of life attitude at limited external financial sources and change of their accessibility conditions, unemployment increase and implications resulting from it, jeopardy by poverty with increase of living costs. Important is active application of crisis management, costs cutting, correction of product's portfolio and increase in innovation. Change of attitude, reinforcement of active role of individuals and with respect to crisis limited scope of society and companies becomes part of social responsibility.

References

1. Bělohávek, F. (2001). Management. 1. vyd. Olomouc: Vydavatel'stvo Rubico. 629 s. ISBN 80-85839-45-8.
2. Crisis management. (2004). [Online] Lexicon communications corp., 2004. [cit. 2004-11-03]. Dostupný z www: <http://www.crisismanagement.com/crisis.html>.
3. Donnelly, J.H., Gibson, J.L. Ivancevič, J.M. (1997). Management. Grada Publishing.
4. Hofreiter, L. (2002). Bezpečnostný manažment. Žilina. ISBN 80-7100-953-9.
5. Kocmanová, A.; Němeček, P.; Šimberová, I. (2006). MANAGEMENT AND SUSTAINABLE DEVELOPMENT. In 4th International Scientific Conference Business and Management. Vilnius. Vilnius Gediminas Technical University Faculty of Business Mangement: Vilnius, Litva. s. 278-283. ISBN: 9955-28-033-6.
6. Koontz, H.; Weihrich, H. (1998). Management. 10 vyd. Praha: East Publisching. 659 s. ISBN 80-7219-014-8.
7. Němeček, P.; Kocmanová, A. (2007). Soudobé přístupy managementu. TRENDY EKONOMIKY A MANAGEMENTU, roč. 1, č. 1, s. 78-214. ISSN: 1802-8527.
8. Němeček, P.; Kocmanová, A. (2007). VÝVOJ MANAGEMENTU. In MANAGEMENT, ECONOMICS AND BUSINESS DEVELOPMENT IN THE NEW EUROPEAN CONDITIONS. Brno: Akademické nakladatelství CERM. s. 74-81. ISBN: 978-80-7204-532-7.
9. UNIDO: CORPORATE SOCIAL RESPONSIBILITY (2002). Implications for Small and Medium Enterprises in Developing Countries.
10. Veber, J. A Kol. (2001). Management. 1.vyd. Praha: Management Press. ISBN 80-7261-029-5. 704 s.
11. World business Council for Sustainable Development (2005). Creating business value and accountability, June.
12. Zuzák, R. (2005). Krize podniku a její kreativní řešení. Praha. ISBN 80-213-1393-5.