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European enterprises in crisis time

1. Introduction

The economic crisis is a rapid economic downturn. It is accompanied by a sharp drop in production, the decline in real income, a slowdown in consumer spending and a decline in capital expenditures as well as an increase in unemployment [5, 26–27]. The origins of the recent crisis date back to mid-2007 in the United States. However, in 2009 it was perceived as a global economic crisis. The crisis of the U.S. financial system quickly transmitted the negative effects to the European countries. Falling demand in the wealthy economies associated by declining level of investments resulted in a significant decline in international trade and in foreign direct investments. The sharp decline in confidence in the financial markets resulted in further reduction of access to private capital. As a result, some countries were facing the risk of bankruptcy and had to be helped with emergency loans offered by international institutions [19, 40].

National economies are increasingly intertwined through trade and capital. So now the transmission of the crisis to other countries happens much faster than it did during previous crises. These negative phenomena spread by reducing the volume of international trade and the level of direct investment, the instability of national financial markets resulting from excessive dependence on foreign capital inflows and excessive indebtedness of companies and households, as well as by the deterioration of the macroeconomic situation as a result of weakening rates, rising unemployment, the problems of the financial sector, fiscal deterioration and worsening business sentiment and consumer [16, 25].

Crisis phenomena do not necessarily occur simultaneously and uniformly in all countries of the world [5, 26]. They spill with different intensity and have different impact on the functioning of national economies. The crisis results mainly

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in the rapid decline in demand, what entails a drop in prices of consumer goods and a reduction in production, and consequently the deteriorating financial situation of enterprises. Unfortunately, a phenomenon of business bankruptcies intensifies in industry, construction and services. As a result of these negative phenomena in the sphere of enterprises is an increase in unemployment, which contributes to a further deterioration in consumer confidence and reducing purchases. At the same time the crisis was reflected in the financial markets, including most of all recorded declines in the stock markets, which had a negative effect on the valuation of the assets held by firms and households [19, 40].

Under such an unstable macroeconomic environment functioned European companies, which were forced to review their strategies and maintain a high flexibility for the reactions to changes in the environment. The promotion of competitiveness of European enterprises has become the priority of public regional, national and supranational (EU institutions). Any initiative outside support had and still have a great role in building a sustainable and permanent competitive position of the European companies.

The purpose of the undertaken analysis is to present the influence of the last economic crisis on company activities and an indication of the EU support to combat the negative effects of the crisis and to enhance the competitiveness of European businesses.

2. Enterprises in the time of crisis

2.1. Business and the consequences of the economic crisis

The economy has a great impact on conditions of companies. Changes in the economy due to the crisis generally lead to the transformation of the business environment for most companies. This is reflected in [2, 28–29]:

- change in the availability of loans – there is a shift towards greater usage of own equity as a main capital source;
- transformation of the labour market – a change in the relationship between employers and employees;
- increased competition between companies operating in the same branch.

The crisis is reflected in the emergence of a number of negative effects for enterprises (especially SMEs). Due to problems with keeping regularity in the processes of production, a decline in sales while increase in costs, there is the problem of maintaining an adequate level of turnover for an adequate profit to survive in the long term. In addition, the deterioration of the financial situation of enterprises and at the same time limiting access to external sources of capital results in

a decrease of the scale of investments and make enterprises to focus on current operations. Negative effects also strengthen the social cost. High costs and the forced reduction in prices of goods and services are the factors that lead companies to reduce the level of remuneration and to dismissal of employees (Fig.1).

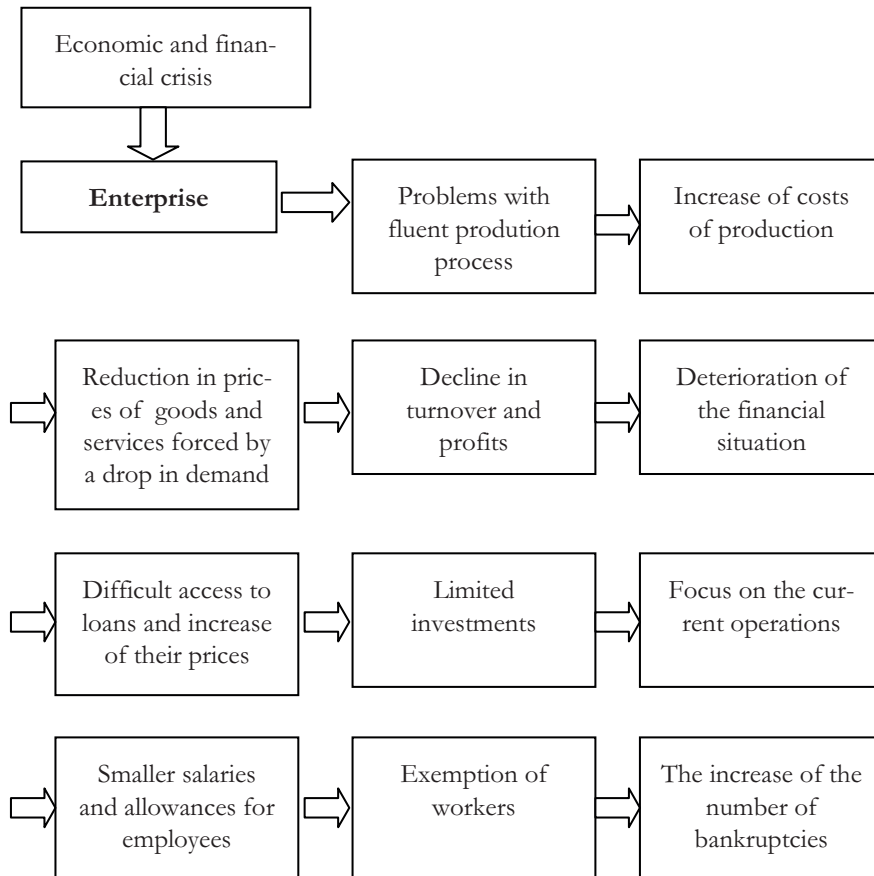


Figure 1. Effects of the economic crisis on enterprises

Source: Own analysis based on [3, 20–21; 19, 40; 5, 29–30]

There are also negative practices that contribute to the deterioration of the economic and financial situation of companies. These include: significant delays in payments, exerting downward pressure on prices and favourable conditions of supply, lowering prices below the cost of production, reduction of working time, conclusion of illegal collusion cartels, creating oligopolies, hostile takeovers,

forcing conclusions unfavourable to contractors, failing to provide loans by banks [3, 21; 5, 29].

The economic and financial crisis of 2007–2010 affected enterprises significantly. The economic environment where a company operated so far has been deteriorated, especially there was a great slump in demand for many types of goods and services. In a situation of economic collapse, shock reduction in demand often occurs and, consequently, a real decline in production, trade and international exchange of goods and services occur. This is especially true for goods and services which are luxury ones, so those ones which are dropped in the first place when a significant loss of revenue occur. In this economic environment to maintain companies on the market specific skills are required from their management, especially those which can help to anticipate changes in the economy and to adapt business operation strategy to changing conditions.

European companies, as well as companies in most regions of the world, had to adapt their behaviour (strategies) to changing market conditions. Strategies in time of crisis can be either passive (passive isolation, a reactive attitude) or active (proactive adaptation, a proactive attitude) [12, 68; 18, 232]. In the first case, companies are focused only on the survival during recession time and no major changes are made in the way the company operates. In strategies aimed primarily at survival recession focuses mainly on reduction of costs of material resources (such as cheaper substitutes, worse quality) and human capital (staff cuts) as well as on the reduction or suspension of investments.

In the second case, companies respond to external stimuli and implement new strategies to stay on the market, but also make efforts to extrude the most out of this situation for the further development of the company. The proactive measures may include [16, 45; 18, 239]:

- development of new markets, and an increase in advertising;
- investing in new technologies;
- restructuring;
- usage of market knowledge and the ability to read the general macroeconomic situation and use this knowledge for the more effective management of the firm.

Given the time horizon as a criteria, those strategies aimed at the struggle for survival in the market are focused on short-term goals, including above all maintenance of the level of revenue and profits. On the other hand, strategies aimed at long-term measures, in addition to activities that enable a smooth running operation, focus on the development of the company in spite of the unfavourable macroeconomic situation, creating a better market offer and building lasting relationships with customers, partners, employees and business and the social environment [16, 45].

2.2. Proposed activities of enterprises in order to weaken the negative effects of the crisis

Managers in times of crisis should pay attention to those elements that enable the company to both: stay in business and further develop. The main factors influencing the company's resistance to the crisis are risk dispersion and increase in flexibility of the company [17, 12–13]. In order to spread the risk, efforts to diversify activities, geographic business operations, suppliers, buyers, and investment sources should be undertaken. Increasing the flexibility of the company means to prepare it to act in good and bad environmental conditions, including the implementation of anticipatory mechanisms for rapid response to changes.

In a crisis, but not limited to, companies should first of all be actively carry out market-oriented activities [11, 6]. In this regard, information should be intensively collected and disseminated, especially in large enterprises, enabling them to rapidly respond to market changes. Moreover, the key element for maintaining and improving the efficiency of a well-functioning internal communication allows you to respond in a timely manner to the situation in the company environment, which may be critical to its operation, especially under adverse market conditions. Another element to survive in economic recession times is searching for niche markets and diversification of goods and services offered.

The greatest problem faced by the company during the crisis is a decline in demand. Normally, financial problems are associated with it as the reduction in demand affects the amount of revenue. On top of that there are also often difficulties in obtaining payments from existing customers for transactions already carried out. Hence the importance of access to external sources of financing might be crucial to insure the survival of some companies [4, 390]. Obtaining external funding during the economic recession might be a great problem, as companies struggling with the effects of the crisis reduce their creditworthiness, which greatly limits their ability to raise capital from external sources.

One of the key elements to reduce the negative effects of the crisis on a company is innovation. This was pointed out in studies by Vikash Naidoo [14] and Angela Hausman and Wesley Johnston [8]. Managers should look for innovation in products and processes. The simultaneous introduction of both types of innovation can bring benefits to companies in all aspects of the business. As results of their implementation production costs might be reduced or the level of sales increased and changes in the functioning of the company realized.

In addition, in order to survive the period of economic slowdown and continue effective business, a set of activities should be undertaken aimed at usage of the economic situation in order to remodel the strategy of the company, improve its financial standing. It is also important to make an analysis of leadership by

managers, introduce new organizational and sales techniques (e.g., loyalty systems, strategies challenge), search for strategic partners and to analyse consumer behaviour [1, 15–20; 15, 21].

The regulatory environment in which businesses operate is also important. State actions aimed at supporting businesses through the development of appropriate regulations and safeguards against improper competition or negative behaviour on the part of the principals may be critical to the survival of many businesses [10, 3]. Relevant regulations in this area and support from the state could prevent many unfavourable phenomena in the market. Of course, these activities should be carried out in the extend that it is allowed by the Community legislation. Also, very beneficial for entrepreneurs, and definitely needed for the SME sector, support by the state and the business environment in the form of strategic consulting and expansion of educational programs [16, 109].

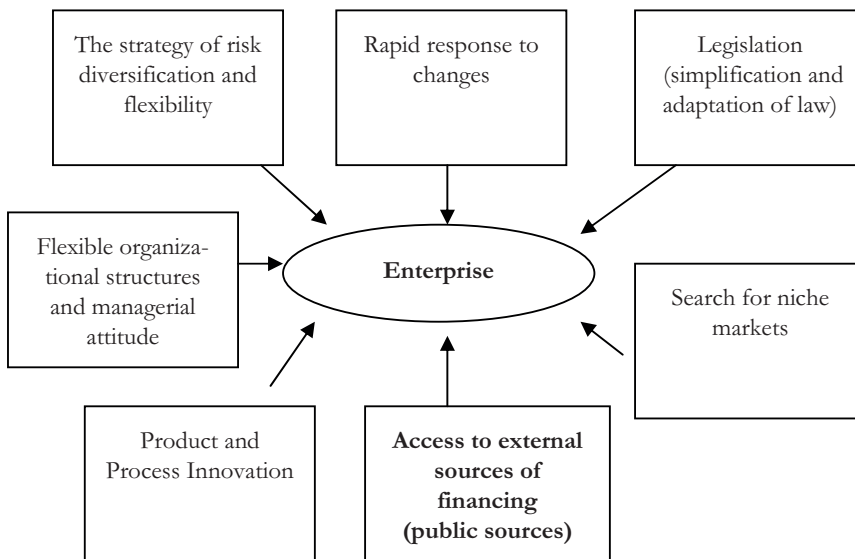


Figure 2. Activities of enterprises and their business and social partners to combat negative effects of crisis

Source: own study

Enterprises in order to fight the negative effects of the crisis are forced to rapid and flexible response to changing conditions and turbulent macro-environment. However, their efforts should be reinforced by external partners, especially

by public institutions: European, national and regional. Their role is the creation of a favourable business environment as well as to provide additional financial support (Fig. 2).

3. The EU actions towards enterprises

Companies operating in the European Union are in a unique situation, as national regulations forming the regulatory environment of enterprises must comply with rules imposed by the whole community. However, functioning within the larger integrated group may have a positive effect, because actions can be taken at the Community level in order to mitigate the impact of the crisis on the European entities and create the conditions for a faster exit from the economic recession.

In the European Union we can talk about the activities at Community level, which indirectly affect functioning of business (eg through legislation or policy) and direct support for business and entrepreneurship generally understood.

3.1. Legislative Framework

For enterprises operating in the EU it is important the smooth and effective functioning of the internal market providing the opportunity to exercise fundamental freedoms: free movement of goods, persons, services and capital. The concept of full implementation of the internal market freedoms became more important during the crisis and has been included as one of strategic objectives of “The policy guidelines for the European Commission” in 2009. There was a report published in 2010 in which the following recommendations have been presented to improve the efficiency of the internal market in order to provide direct, positive effects for companies [9] :

- free circulation of documents and the mutual recognition of their official functions;
- mutual recognition of civil law transactions and the adoption of common legislation on collective redress;
- ensuring an effective debt collection process (European Small Claims Procedure);
- increasing the transparency of bank fees, standardization and comparability of information on financial products;
- speeding up adaptation measures for small businesses (Small Business Act);
- the adoption of the Statute of the European Private Company;

- evaluation of the implementation of the Goods Package 2008 – certification and standardization of goods, promotion of new approaches;
- further review of certification and standardization;
- the adoption of a single EU patent and patent litigation as a matter of urgency;
- full legal regulation of areas not covered by the Services Directive;
- coordination of taxes with respect to the sovereignty of Member States taxes;
- amendments to the law on public procurement.

In response to the proposals of the report, the European Commission presented two documents: “Action for the Single Market I” in 2011 and “Action for the Single Market II” in 2012. The twelve priority actions were set there, the so-called “Leverages of the Internal Market”. Five of them directly concerns enterprises and their environment, i.e.:

- Access to finance for SMEs – legislation designed to make it easier for venture capital funds to invest freely in any other Member State, without obstacles or additional requirements; boost long-term investment in the real economy by facilitating access to long-term investment funds;
 - Intellectual property rights– unitary patent protection and a unified patent litigation system; combating piracy and counterfeiting more effectively (cost European businesses EUR 250 billion each year) and the European trademark system;
 - Taxation – common consolidated corporate tax base for businesses (CCCTB)
 - harmonising the methods for computing the tax base, so that the businesses so choosing can be subject to the same set of rules, irrespective of the Member State in which they are taxed;
 - Business environment – Simplification of the Accounting Directives as regards to financial information obligations and reduction of the administrative burden, particularly for SMEs; adoption of a Small Business Act to facilitate the activities of SMEs – Think Small First rule; adoption of a European Private Company Statute (EPC); optional European contract law instrument
 - simplification of the cross-border recovery of debt, modernization of bankruptcy legislation – the so-called the right to a second chance;
 - Public procurement – Revised and modernised public procurement legislative framework;
- and two indirectly:
- Social entrepreneurship – legislation setting up a European framework facilitating the development of social investment funds;
 - Social cohesion – improving and reinforcing the transposition, implementation and enforcement in the practice of the Posting of Workers Directive; legislation aimed at clarifying the exercise of freedom of establishment and the freedom to provide services alongside fundamental social rights.

In the European Union there is also enterprises policy conducted. The aim of this policy is to create adequate conditions for investment in sectors of strategic importance, as well as in traditional industries. The focus is also put on small and medium enterprises, which account for 92% of all enterprises in the EU [7]. In this regard, policy for enterprises aims at promoting entrepreneurship and skills, improving SMEs' access to markets and to enable them to develop the capacity for research and innovation.

3.2. Business support

The EU actively supports businesses directly. It takes the form of free, personalised assistance through a series of pan-European networks and services, as well as a financial support [6]. The main aim of networks and services is to offer information about different issues concerning enterprises or to provide advisory help. Enterprises through participation in certain of the proposed action or European societies can also give advice and opinions to the policy makers.

Individual help is offered by The Enterprise Europe Network. It offers a one-stop shop to meet the needs of businesses in the EU and provides information and assistance on a wide range of issues, including cross-border activities, innovation and technology, access to finance and programmes and business cooperation as well as helping companies understand the EU laws directly related to their activities. The network also provides information through awareness-raising activities (trade fairs, seminars, lectures and workshops) and a range of publications in local languages (guides, newsletters, and websites).

Other networks are SOLVIT and EURES. SOLVIT helps businesses solve concrete cross-border problems arising from the misapplication of EU rules by public authorities, including market access for products, provision of services, going self-employed, public contracts, tax or VAT reimbursements and border controls. While European Employment Services (EURES) offer employers and jobseekers information and support on recruitment and job opportunities throughout the EU. In border regions, EURES provides information on cross-border commuting and helps workers and employers with any problems they may encounter.

In cases of in business-to-consumer problems, an entity or a client can use the assistance of the European Consumer Centres Network (ECC-Net), which was set up jointly by the European Union and its Member States, to provide assistance when consumers make cross-border purchases in person or through distance selling (especially online shopping). This network also provides information on EU and national legislation on consumer protection.

Moreover, enterprises can lodge complaints with the European Ombudsman about maladministration by EU institutions and bodies, such as late payments,

contractual disputes, problems with calls for tender or refusal of access to documents. Companies often have dealings with EU institutions when taking part in EU-backed projects and may therefore come across problems that the Ombudsman can solve.

Companies can express their opinions, needs and expectations through a system of Interactive Policy Making (IPM). By using interactive online questionnaires companies can participate in the consultation process and to assist in the development of European policies. The EU institutions ensure companies can access all information relevant to their activities. They also hold ongoing dialogue with businesses and involve them in the decision-making process – both through associations and individually. For that purpose, the following networking sites were established:

- The European Small Business Portal – it is a single portal packed with links to information on EU policies, programmes, projects, tools and services aimed at small companies, and is provided by the European Commission;
- The Communication and Information Resource Centre for Administrations, Businesses and Citizens (CIRCABC) – it is an open-source, web-based application used to create collaborative workspaces. It makes public administration documents more accessible and harmonised for businesses and private associations.
- European Business Test Panel (EBTP) – a panel of individual companies regularly consulted on European Commission policy initiatives. It enables companies registered in the panel to influence EU policies that could affect day-to-day business.

Companies can also receive support through participation in European associations such as EUROCHAMBRES, BUSINESSEUROPE and the European Association of Craft, Small and Medium-sized Enterprises (UEAPME). The first of them it is the Association of European Chambers of Commerce and Industry – EUROCHAMBRES. It represents national chambers of commerce and industry from across Europe and its mission is to give them a stronger voice and position on all major economic issues, ensuring their involvement in projects of value to business, delivering services to its members, and developing a European support network for enterprises. The activity of BUSINESSEUROPE focuses on the support of enterprises in order to strengthen their competitiveness, and at the same time the competitiveness of the whole European economy. Finally, The European Association of Craft, Small and Medium-sized Enterprises (UEAPME) represents the interests of European crafts, trades and small businesses in the EU institutions and provides its members with support and information on EU policy. It is also directly involved in all EU legislation affecting small businesses. It is an employers' organisation recognised as a European social partner.

An important area of business support offered by the European Union is the financial support. Companies may seek this type of support through participation in programs organized at the Community level (The Framework Programmes) or at the national/regional level by obtaining financial support from the European Structural Funds. However, managers need to be aware that the financial support offered from the European sources, in principle, cannot be used for the current operations of the enterprise and help maintain the company in the market during the economic recession. Financial support according to the adopted by the Union and the Member States priorities are focused on improving competitiveness, enhancing innovation, usage of new technologies, usage of renewable energy or implementing in the company other forms of natural environment protection.

4. Conclusions

In mid-2013, the global economy is still in the shadow of the economic crisis of 2007–2009, which had an impact on the economic condition of companies. This situation requires to redefine management styles. The crisis forces to take on challenges, reorganization, and to find new markets and new customers. It also results in forcing focus on activities that increase company efficiency and competitiveness. Determining the specific context of the environment in which enterprises operate, the crisis brings to some companies a threat to their existence, while for others it can become an opportunity for development [13, 176].

The companies of the Member States of the European Union are offered a wide range of support. This help is either of the informative or consultative nature, as well as promoting cooperation between European companies by facilitating the establishment of new business contacts. Companies can also receive financial support. However, the sourcing and use of funds from Community sources is a subject to particular conditions defining the objectives and principles of this support.

Time of economic recession and the period immediately thereafter provide a test for each company. Companies can prepare for the possibility of economic slowdown, but they are unable to protect themselves completely from the effects of economic fluctuations. Therefore, it is important to use the appropriate proactive attitude in business management and to use the available forms of support offered at the Community level, which both in combination create opportunities for the effective functioning of the company and the improvement of its competitiveness in a difficult period of economic crisis and beyond.

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