The International Financial Crisis and the Management of Romanian Enterprises

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Abstract: - The paper refers to the of causes that led to the international financial crisis and some of its consequences on the Romanian business environment, starting with measures of reducing the labor force up to cost cutting. The paper also shows the economic and social difficulties that led to a high unemployment rate with dramatic consequences in all sectors of life. The last part is underlining the fact that only new ways of approaching the present situation can lead to the diminishing of the effects of the financial and economic crisis and this requires a real implication of the political parties and of both organization and bank leaders in order to get results.

Key-Words: - Financial crisis, requirements, labour force, unemployment, work conversion

1 Introduction - Causes and Manifestations of the International Financial Crisis

The international financial crisis has its roots in the United States of America and it has spread all over the world leading to numerous debates up to now. It is very hard to explain who can be held responsible for the actual state of the international financial system. Joseph Stieglitz, winner of the Nobel Prize for economy, is the first to identify five moments in the recent past of the United States, stating the reasons that led to the international financial crisis in an article published in “Vanity Fair”[1]

* The author points out that the first manifestations of the financial crisis that the world is confronting at the moment have become obvious ever since 1987 when the Reagan administration replaced the president of the Federal Reserve at that time, Paul Volker, for Alan Greenspan who put into practice the new directions of the monetary policy forgetting the basic mission of the Federal Reserve, that is “being the guardian of the American banking system”.

* The second fact to flatten the path to the financial crisis was the abrogation of a law from 1993, law that limited the investment banks from the commercial ones, in order to avoid bank excesses as well as to eliminate conflicts of interest between the active players of the same segment.

* A third aspect that led to nowadays international financial crisis manifested during Bush administration, when, in 2001, under the motivation of economy stimulation, there was a reduction in taxes for rich people and corporations. The Federal Reserve had the ability to intervene with cash wherever necessary. Since then, credits have become a way of life and of business in the United States and the concepts of credit risk management and real economy stimulation have been left aside.

* Enron and World Com. have contributed to the economic crisis, the enquiries in these scandals revealing accountancy mistakes made by control forums and some American banks.

* Joseph Stieglitz believes that in 2008 the American financial system suffered a real collapse when the plan for 7 billion dollars help to be used for Americans would not have a positive impact on the American economy. According to some estimative studies of the Centre for Economics and business Research the United States of America will keep their position as world largest economy, their G.D.P. being in 2009, of approximately 14.571 billion dollars. However, the economist chief of CEBR, Richard Snook has shown that in 2010 China will become the second largest economy of the world[2].

2 Problem Formulation Romanian Enterprises and the International financial crisis.

The media all over the world are constantly showing the increasing number of people loosing their work places. Despite the fact that in Romania several companies announced in 2008 increasing figures in people loosing their work places, the Romanian political parties and even the civil society did not pay much attention to it at that time.
In 2009 at least 15,000 people from the state system lost their jobs; The National Agency for Work Force Occupation presented the requests of the WMF that the Romanian authorities minimize the expenses, fact that was to have serious consequences on the standard of living, that would increase fiscality, block finances and lead to more job losses [3]. 42 % of the Romanian managers said at that moment, that they would continue cutting jobs, 25% declared they would not fire people but would cut costs, and 14 % said they would both fire people and cut costs.

The labor market lost 110 000 work places in the six months of 2009. In February and the beginning of March 2010 many Romanian companies have come to replace the personnel over a certain age and took steps to drastically cut costs, while employers are willing to negotiate with firms a temporary cut in salaries in order to keep their work places. Romanian employers are worried especially that 2010 appears to be a pessimist year for businesses and this will lead to a higher rate of unemployment.

Lack of specialized labor force continues to be one of the major problems on the Romanian labor market. The future of businesses looks dark for the players on the financial markets. The only certainty is the decrease of consumption in the year 2010. In Romania the firms and companies managers will be confronted with difficult moments not only because of increased financing costs and raw material prices, but also because of sales decreasing and of the salaries pressure. At the international level, the economic activity has been slowed down and Romania has been affected first of all because Romania exports almost 70% of its production to Europe and exports are decreasing. Secondly, competition does not allow price increases on the market and under such conditions Romanian managers have to take into account serious cost reduction through increasing productivity. Thirdly, investors do not appear eager to risk and withdraw their capital.

In Romanian the financial crisis is the result of a long range of problems that have been ignored either due to the incompetency of bankers and managers, or because of political interests. It was impossible for Romania not to be faced with major delays regarding the population salaries or firm loans and that fact led to financial vulnerability.

The risks are higher because of the fluctuations of the Romanian currency Leu. This causes banks to be faced with problems, especially when they need loans from larger international banks.

At the beginning of 2010 businesses in Romanian are faced with:

- increased prices for raw materials and for the firms financial and economic activity;
- increased bank interests for the existing credits leading to pressure on financial expenses of firms and companies;
- the top management has to be cautious about decisions due to the markets complexity.

3 The role of Romanian managers in the financial and economic crisis

The managers of Romanian firms and companies are faced with serious problems during this period of crisis. Among the acute situations there is the decision of cutting costs but at the same time they have to form the consequences. Most of the Romanian firms and companies seem to have taken over only the name of “cutting costs” from the west, but not the most adequate methods of doing this. Their managers have started to look were to cut budgets: salaries, publicity, training. Specialists agree this is not the most suitable way. So thinks Kurt Weber general manager of Horvath & Partners Ro [4], the local subsidiary of an international firm of management consultancy.

The specialist states that such steps are not always inspired, are not economically logical and do not lead to an increase in productivity on the contrary they mostly lead to employees’ lack of motivation.

There is a paradox with which The Romanian economy is faced: the management of many organizations appears reluctant when it comes to applying cost cutting programs fearing an operational obstruction due to lack of human resources that have been fired is order to reduce costs. Business organizations seldom view cost management as active change, although reality shows that recent innovation in the business field such as process standardization, supply from cheap markets, or on-line development, require expenses that can easily be covered.

We would expect the business environment, which is yet competitive and globalized, and the competitive advantage that could be the result of cost reduction, to support innovation as a method of cost reduction.

Managerial teams should develop correctly policies of cost cutting and it is necessary that they possess a clear image of all organizational processes and identify the causes leading to losses.

4 Conclusion

The implications of the financial and economic crisis are very deep at the level of the entire Romanian economy. The expectations of our society are changing, government leaders and managers directly implied in the good run of Romanian economy must monitor these expectations. The population’s disbelief that leaders can
solve the serious social and economic consequences of this crisis has caused tensions that disturb the functioning of our society. So far the managers of Romanian firms and companies have chosen to reduce the number of employees as a possible way of diminishing the effects of the financial and economic crisis. This fact has only led to more social and economic problems for the population because without firm programs that help the unemployed to find steady workplaces, the problem of unemployment cannot be solved.

This means that the government and companies should reorganize their activity and managers should think of strategies that allow them to keep the number of employees even if that involves reducing costs. Large companies choose easy ways to cut costs but this does not guarantee results in order to increase their performances.

The management must define the fields where there are serious problems regarding expenses and look for steps that can create real competitive advantages. The Romanian government, the business managers as well as the bankers have to concentrate their efforts to reduce the massive loss of work places, to offer opportunities of work conversion to those who have lost their jobs and try to diminish the effects of the financial and economic crisis.

Only by taking firm steps will the Romanian government be able to prevent the worsening of the crisis that is affecting Romania’s population whose income can barely fulfill the basic needs.

References: