

THE BEHAVIOUR OF ENTERPRISES IN TIMES OF CRISIS

Brzeziński S.*

Abstract: The global financial crisis, which arose on Wall Street in mid-2008 undermined the standards applicable in the global economy. Capital inflows from banks and other financial entities to companies decreased dramatically, including those from investment funds, pension funds, etc., which was the first result of the crisis and redefined the standards previously helping the companies to achieve market goals. It is also the case with production units, banks, etc.

The crisis led to significant deterioration of economic order on a global scale. As a result of the crisis, cooperation between individual enterprises was also severely hit by the crisis on both micro- and macro-scale. Traditional markets for goods and services experienced some wavering as well. It made enterprises seek new measures for achieving market goals since the collapse of demand was the main effect of the sharp downturn faced by the global economy.

Keywords: Crisis, enterprises, economy, financial

Introduction

The crisis situation poses a considerable challenge to market participants and, at the same time, a serious threat to them to remain on the market. Still, the current situation is also an opportunity for some business entities to emerge or increase their market shares. However, it refers only to these companies which managed to foresee threats, define them and draw adequate conclusions. Key to the current economic situation is taking such marketing and other actions which allow one to maintain proper relations with the market. At the time of the global crisis, they need support of national and international institutions, such as: the World Bank and International Monetary Fund.

Both formal meetings of heads of states, i.e. G8 Group, G20 Group and OPEC, as well as informal meetings of heads of the most influential world powers are of immense significance. Decisions adopted during these meetings concerning, *inter alia*, monetary and customs policy, internal support plans for companies (exemptions etc.) are the engine of diminishing crisis phenomena and bringing the global economy back on the route towards development.

It is obvious that times of crisis observe a fall in demand for goods and services, generally, at a regional, local and global scale. Such a phenomenon was evident even at the end of 2008 i.e. in the first year of the current worldwide crisis.

In the wake of the crisis, which causes reductions in demand, companies – in order to fulfil their tasks – apart from the marketing activity, also implement other

*Prof. Univ. Stanisław Brzeziński PhD., Faculty of Management, Czestochowa University of Technology

✉ corresponding author: Stanislaw_Brzezinski@wp.pl

solutions which will allow them to emerge on the market, retain their position or even increase their shares in it.

As a rule, during global crises, companies resort to mergers and acquisitions of other companies in order to increase sale or their market shares.

Acquisitions and mergers as a response to crisis situations

Acquisitions and mergers are relatively tough decisions taken by business entities. They concern both capital and economy. In deciding on the acquisition or merger, all areas of company operation become almost automatically involved. The processes of acquisitions and mergers are often referred to as *Mergers & Acquisitions* (M&A) or using other terms, such as: *takeover, consolidation, buyout, or merger* [1].

Generally, a merger means a combination of two business entities (commercial law companies) by way of agreement in the form of a contract. By signing this document, the contracting parties set up a new business entity. *Ipsa facto*, they liquidate legal personality and an organisational structure and cannot be recognised as persons before the law any more.

Polish literature emphasises that the essential characteristic of a merger lies in a voluntary action of two or more entities which decide to merge. It is pointed out that the merger is most frequent when the entities involved are of similar business profile and size [6].

It has to be highlighted that, as a rule, shareholders of companies which are subject to a merger, obtain shares depending on the business profile of the new commercial law entity, in the proportions stipulated in the merger contract [3].

The term merger is in Polish described as *łączenie (amalgamation)* or *konsolidacja (consolidation)*. However, these words always denote voluntary formation of a new business entity out of two or more independent commercial law companies. Thus, as a result of this process, a new entity emerges.

Acquisitions are, apart from mergers, another form of “combining” companies. Distinguishing between acquisitions and mergers has, to a large extent, a contractual nature. It is often the case that decisions on combining two or more entities involve conflict-free negotiations of equal partners. Another situation may be a decision about hostile acquisition taken by one of the entities, which is stronger in financial, organisational, or other terms. Among the various definitions of an “acquisition” existing in Polish literature, one of them, in my opinion, best reflects the core of this phenomenon. An acquisition denotes a combination of business entities where one of the companies gains control over net assets and business operation of the other by means of transferring assets, giving rise to obligations or issuing new shares [3].

Acquisition may occur as a result of purchasing a company or part of its assets, purchasing its shares, participating in increase of its capital, in order to acquire and subscribe for new shares, which leads to gaining control over another company, purchasing obligations of another entity, a joint venture consisting in that a new

company is formed from assets separated by both partners, however, one of the partners holds more shares than the other and becomes a majority partner [6].

It must be noted that the essence of all types of acquisition, as opposed to mergers, is the fact that the acquired enterprise is still recognised as a person before the law. Although it must be added that each form of acquisition may be the first or, to put it differently, preliminary phase of full amalgamation of two entities by means of a merger or absorption [10].

In the initial phase of free market development, mergers and acquisitions occurred locally, regionally and nationally. Globalisation process of national economies occurring since the mid-50s of the previous century. This process speeded up in the early 90s of the 20th century. In this period, mergers and acquisitions were definitely more frequent on national and international markets. This phenomenon was a consequence of political changes which took place in the world after 1989, that is, after the collapse of the socialist system in Central and Eastern Europe. When introducing capitalism, countries in this region adopted the principles of free market. Therefore, economies of this region opened their markets to foreign investors. As a result, mergers and acquisitions which took place in these countries were the major mechanism of entering the global market by the economies.

It needs emphasising that within the last 10 years of the 21st century, it turned out that some mergers and acquisitions as part of huge global corporations were completely unsuccessful. An alliance of the US FORD concern and FIAT – an Italian car giant, or a merger of German concern Daimler and US Chrysler, may serve as examples. Due to cultural and mentality differences between the Americans, the Germans, and the Italian, FORD and FIAT severed the merger contract. The same applies to Daimler and Chrysler.

At the beginning of the 21st century, thanks to new technologies, the role of small and large enterprises which operate in the state-of-the-art sectors has increased; the following sectors are involved: IT, biotechnology, Internet services, etc. It turns out that small and medium-sized enterprises with a simplified organisational structure and management policy are able to adapt to dynamically changing market needs faster than large international corporations.

Entry of Santander Bank to the Polish market

Companies and institutions which are financially sound are in the best position during times of global crisis. A classical example is Spanish Santander Bank, which in September this year purchased from Irish AIB bank Polish Bank Zachodni Wielkopolski Bank Kredytowy (BZ WBK).

The Spanish bank was set up in 1857 in the town of Santander, in northern Spain. Until the first World War, it mainly dealt with financing import of US and UK goods to the Spanish market.

In the 20th century, it switched to retail activity. In mid-20th century, it expanded its activity into whole Spain and began opening representation offices abroad. In 1994 and 1999, the bank acquired Espanol de Credito bank and Banko Central Hispano,

respectively, and became the largest bank in Spain. Within the same period of time, Santander acquired branches and banks in Latin America and developed into the largest bank on the continent.

During the present crisis, Santander has acquired banks in the USA, the UK, Germany, Belgium, and Poland. At the end of 2009, assets of this giant amounted to USD 1.5 trillion, i.e. more than GDP of Spain [More 16].

At present, Santander provides services to 90 million clients in 13 thousand branches and its profits for the year 2009 amounted to USD 11.6 billion.

When acquiring Polish BZ WBK from Irish AIB bank, Santander, like in the case of acquiring other banks within the last 20 years, plans to start its activity by launching a profound restructuring process. The new owner assumes that the ratio of costs to revenue should decrease in the next three years from 50% to 41%, whereas profits should increase from 886 million to 1.56 billion zlotys. It also plans to implement state-of-the-art banking technologies and to radically reduce costs. This aims at saving more than 220 million zlotys [16]. The BZ WBK brand is going to be replaced with the Santander brand. Moreover, the colour of the bank will be changed from green to red – the symbol of the Spanish giant. The bank have plans to make further purchases on the Polish market.

The strategy developed by the Santander headquarters for the Polish branch involves increasing the share of this branch on the market of private loans and mortgages. In the long run, the Spanish want the Polish branch to focus on providing retail services. At this stage, dynamic marketing activity will be undertaken with an aim of taking over by the branch a position of the leader in retail banking.

When analysing the actions of the Spanish bank undertaken in Spain, South America, the USA, the UK, Germany, and Belgium, it should be presumed that, taking into account a relatively passive behaviour of banks operating in Poland as they have been so far, the Spanish are very likely to take centre stage in the retail banking in Poland within the next decade.

Adopting a differentiated and aggressive marketing activity policy, similar to the one carried out in Spain and other countries, is a prerequisite of success. I believe that a demonstrated ability to carry out a marketing campaign, double checked on various markets, will bring the Spanish success on the Polish market as well. In particular when taking into consideration the bank's perfect financial standing and the fact that it is currently the second largest bank in Europe, just after HSBC, not only has it not seen its losses increase due to the present financial crisis, but it even achieved great results in the previous years. It should be stressed that the bank has been well managed for 23 years by Emilio Botina, who holds the chair of the President of the bank and the head of the Supervisory Board at the same time, and is the major shareholder. Such a position encourages him to take up aggressive and expensive marketing activity, which allows him to take control over a given market sector set in the strategy.

This short description of Santander Bank shows that acquisitions and mergers are main tools applied in order to achieve market goals, i.e. increasing shares in it and hindering or eliminating competition. This example illustrates that the bank, in the first place, achieves its strategic goal, which involves entering a new market by means of mergers or purchase of another bank or branch, and then, in the second step, implements various marketing activities targeted at attracting as many clients as possible. Upon acquisition, the bank reduces the costs and applies state-of-the-art technologies of client service which translates into the possibility to allocate more financial means to marketing activity and facilitates achieving the assumed goals without investing its capital. The cost reduction and restructuring conducted by the bank immediately after acquisition of another bank expedite the low-price strategy. This enhances the impact on potential clients and thus, creates opportunities to increase its market shares.

The above-presented example involving actions of Santander Bank on markets based on acquisitions and mergers is the first step towards market expansion. The next step involves marketing activity enabling the bank to maintain its present clients, handled by the previous bank, and attract new ones.

The analysis of the bank's activity within the last two decades points to a significant synchronisation of mergers and acquisitions as well as marketing activity in the process of conquering successive markets.

Efficient harmonisation of these elements leading to the bank's increased effectiveness in the area of achieving its goals results from several principal causes.

These are:

- bank's transparent and clearly defined goal unchanging for years, i.e. taking control over retail banking in Spain, South America, Europe and in the world to the largest possible extent,
- clear and transparent strategy, namely, acquisitions and mergers first and then aggressive marketing campaign,
- having large financial means sufficient to achieve defined goals,
- competent bank management which consistently implements proven strategies on successive markets.

This example shows that in times of crisis, huge and well-managed corporations are able to effectively attain defined goals and achieve impressive results at the same time.

Situation of small and medium-sized enterprises

Crisis-based phenomena mostly disorganise the activity of small and medium-sized enterprises (SMEs- are defined as independent companies which are not representatives of other entities and employ fewer people than a threshold established in a given country in order to distinguish small and medium-sized enterprises from large ones. A limit which is most frequently applied by countries defining SMEs, Poland included, determines the maximum number of the employed which equals 250 people – standards set in the European Union as well. In some OECD Member States, the limit amounts to 200

employees while in the United States, a small or medium-sized enterprise refers to a company with employment below 500 people. As far as small companies are concerned, they are often referred to as those which employ less than 50 workers, whereas micro-enterprises are entities employing 10 people at most. In some countries, the limit for micro-enterprises amounts to maximum 5 employees). The enterprises do not have, above all, financial resources and marketing departments which operate efficiently within the company's structures in order to systematically take actions aimed at coping with negative consequences of the crisis.

Reports drawn up on the US market provide interesting data concerning small and medium-sized companies which would like to be competitive on international markets. The Office of Trade and Industry Information at the International Trade Administration (ITA) carried out a research on the basis of the exporters' data base of the Department of Commerce which involves 223,013 enterprises conducting export business activity and constituting 85% of the total value of all goods exported from the United States [9].

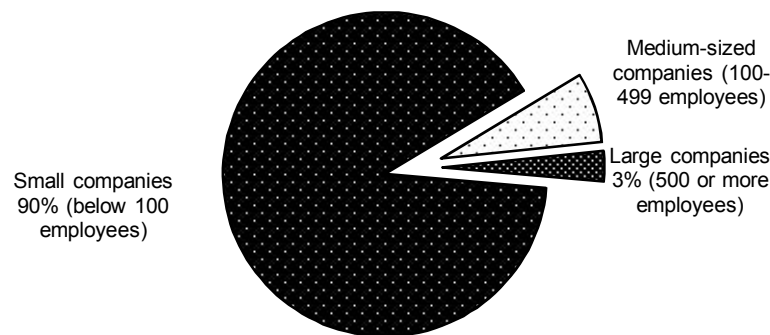


Figure 1. American exporters broken down by the size of an enterprise /research involved 223 thousand enterprises which exported goods from the USA in 2002/

Source: [9,p.5]

The majority of US exporters are very small companies. More than two-thirds of all exporting companies (69%) employ fewer than 20 people [9]. What is more, the research covered only exporters of products, which means that enterprises which export services were omitted, and among them the dominating position was taken by companies which were relatively smaller than those specialising in exporting goods.

SMEs in the United States cover almost 30% of total export value [14]. However, as large enterprises constitute merely 3% of all US exporters, their contribution to promoting export, which exceeds 70% of its global value, clearly points to the domination of larger entities over smaller ones.

The role of the Polish sector of small and medium-sized enterprises has been gradually increasing in the national economy within the last 20 years, that is, from

the very beginning of the transformation process. In 2008, the contribution of this sector in producing GDP amounted to 47% [15].

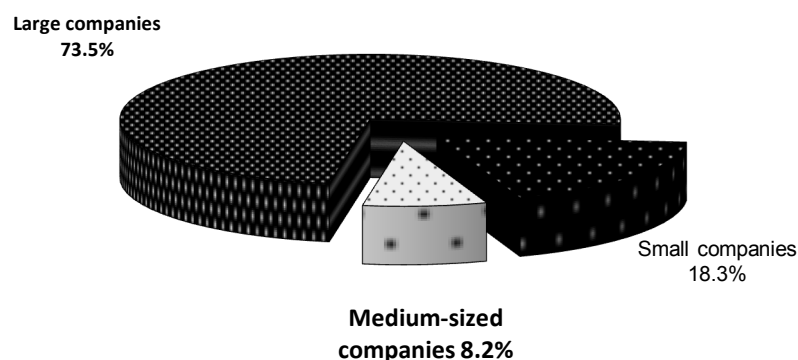


Figure 2. Shares of small, medium-sized and large enterprises in the export of products from the United States /global value of export of products from the USA in 2002 amounted to 600 billion USD/

Source: [9,p.9]

According to data as of the end of 2006, Poland had over 3.6 million of business entities registered, while it was estimated that c. 1.7 million were actually conducting their activity. From among the registered companies, about 95% were micro-enterprises, small enterprises – 4.1%, and medium-sized enterprises – 0.8%. The share of the SMEs sector in producing GDP amounts to nearly 50%, of which: small enterprises account for 40% and medium-sized enterprises – 9%. These enterprises constitute 99.8% of all active enterprises in Poland. About 68% of people employed in the private sector work in a small or medium-sized enterprise (Data taken from the Operational Programme Innovative Economy).

Therefore, if strategic importance of small and medium-sized enterprises for the national economy is considered (half of domestic product and over two-thirds of all jobs), the share of SMEs in the value of Polish export amounts to only 31.8% [15]. This situation highlights the problems of small and medium-sized companies related to competing with large enterprises, that is those which employ more than 250 people (in the USA, the number of employees in the case of large enterprises equals 500 workers).

Summary

In view of the above, further research should be focused on the policy carried out in order to support SMEs by national governments, and be accompanied with an analysis of coordination of this policy between institutions responsible for it. Only

after conducting the research and the analysis will it be possible to respond to the question why, for instance, in the United States, there exists one central agency which deals with supporting small and medium-sized companies (US Small Business Administration is the largest institution of this type worldwide), while in Poland, there is no governmental unit which would coordinate the state policy towards the SMEs sector.

References:

- [1]. Bannock G., Baxter R., Davis E., *The Penquin Dictionary of Economics*, Penquin Books 1992.
- [2]. Brigham EF., *Podstawy zarządzania finansami (Rudiments of finance management)*, PWE, Warsaw 1997.
- [3]. Buk H. , *Nowoczesne zarządzanie finansami. Planowanie i kontrola (Modern finance management. Planning and control)*, C.H.Beck 2006 p.242-243.
- [4]. *Code of Commercial Companies*. Ośrodek Doradztwa i Szkolenia "TUR", Warsaw – Jaktorów 2001.
- [5]. *Encyklopedia rachunkowości (Encyclopaedia of accounting)*. Collective work ed. by Gmytrasiewicz H., LexisNexis, Warsaw 2005.
- [6]. Frąckowiak W. *Strategie przedsiębiorstwa w gospodarce nadmiaru i niedoboru (Strategies of an enterprise in an excess and deficiency economy)*, University of Economics, Issue no. 116, Poznań 1992 p.24,27.
- [7]. Gierszewska G., Romanowska M. *Analiza strategiczna przedsiębiorstwa (Strategic analysis of an enterprise)*, PWE, Warsaw 2003.
- [8]. Helin A. *Ustawa o rachunkowości. Komentarz (Accounting Act. Comments)*, C.H.Beck 2005.
- [9]. International Trade Administration, *Small and Medium-sized Exporting Companies: A Statistical Handbook*, Office of Trade and Industry Information, Washington 2005 p.5-6.
- [10]. Kiziukiewicz T (Ed.). *Komentarz do ustawy o rachunkowości (Comments on the Accounting Act)*. Collective work, LexisNexis, Warsaw 2006 p.403-405.
- [11]. Kufel M. *Metody wyceny przedsiębiorstw (Methods of appraisal of enterprises)*, Park, Bielsko-Biała 1992.
- [12]. Lewandowski M. (ed.) *Fuzje i przejęcia w Polsce na tle tendencji światowych (Mergers and acquisitions in Poland in the light of global tendencies)*. Collective work, WIG-PRESS, Warsaw 2001.
- [13]. Liberska B. (ed.) *Globalizacja Mechanizmy i wyzwania (Globalisation Mechanisms and challenges)*. Collective work, PWE, Warsaw 2002.
- [14]. Pietrasieński P., *Rola państwa w procesach internacjonalizacji działalności małych i średnich przedsiębiorstw (Role of the state in the processes of internationalisation of activity of small and medium-sized enterprises)*, research work drawn up as part of own research in Warsaw School of Economics, Warsaw 2010 p.8-9.

- [15]. Polish Agency for Enterprise Development, *Raport o stanie małych i średnich przedsiębiorstw w Polsce w latach 2005-2006 (Report on the condition of small and medium-sized enterprises in Poland in 2005-2006)*, Warsaw 2007 p.25.
- [16]. *Polityka* no. 40/2776 of 02.10.2010 p.49-50.
- [17]. Romanowska M. *Alianse strategiczne przedsiębiorstwa (Strategic alliances of an enterprise)*, PWE, Warsaw 1997.
- [18]. *World Investment Report*, UNCTAD, New York 2000.
- [19]. Wrzesiński M. Fuzje i przejęcia. *Wykup lewarowany (LBO) i menedżerski (MBO). Uwarunkowania rozwoju w Polsce (Leveraged Buy-out and Management Buy-out. Circumstances of development in Poland)*, K.E. Liber, Warsaw 2000.

ZACHOWANIE PRZEDSIĘBIORSTWA W CZASACH KRYZYSU

Streszczenie: Światowy kryzys finansowy, który powstał na Wall Street w połowie 2008 roku podważył standardy stosowane w gospodarce światowej. Napływ kapitału z banków i innych instytucji finansowych do spółek, w tym z funduszy inwestycyjnych, funduszy emerytalnych, itp. znacznie spadła, było to pierwszy efekt kryzysu a zdefiniowane uprzednio standardy pomogły firmom osiągać cele rynkowe. Miało to również miejsce w przypadku przedsiębiorstw produkcyjnych, banków itp. Kryzys doprowadził do znacznego pogorszenia ładu gospodarczego w skali globalnej. W wyniku kryzysu, także poważnie ucierpiała współpraca pomiędzy poszczególnymi przedsiębiorstwami w skali mikro i makro. Na tradycyjnych rynkach towarów i usług, również wystąpiły pewne wahania. Spowodowało to że przedsiębiorstwa zaczęły poszukiwania nowych środków dla osiągnięcia celów rynkowych, od kiedy zmniejszenie popytu było głównym skutkiem gwałtownego spadku z którymi boryka się gospodarka światowa.

金融危机时期企业行为

摘要: 在2008年中期华尔街出现的全球金融危机破坏了已经成熟的全球金融体系。银行及其他金融机构的资本流入急剧下降, 包括投资基金, 养老基金等。金融危机的首先结果是重新定义了企业实现市场目标的规则。这也是生产单元, 银行等案例。

这场危机导致了全球规模经济秩序的严重恶化。由于受危机影响, 在微观和宏观规模上, 个别企业之间的合作也受到了严重的打击。传统的商品和服务市场, 也经历了一些动摇。由于全球经济面临急剧下滑导致市场需求崩溃, 这使企业寻求实现目标的新措施。