Financial Crisis and Changes in Firm Governance and Boundaries

Rena Polat
School of Management
University of Southampton
Highfield, Southampton SO17 1BJ UK
rp5g10@soton.ac.uk

Tahir M Nisar
School of Management
University of Southampton
Highfield, Southampton SO17 1BJ UK
t.m.nisar@soton.ac.uk
Financial Crisis and Changes in Firm Governance and Boundaries

Abstract

This study researches the effects of the 2008 financial crisis on various measures of firm governance, including the impacts on firm boundaries such as buyer-supplier relationships, capital structures and employment effects. Using a unique panel data set of 1,686 firms in six countries in Eastern Europe and Central Asia, we examine how the crisis affected the financial and employment decisions of different industrial and service sector firms. As the firms included in our sample faced a steep decline in sales and capacity utilization, as well as credit constrain, they were forced to make fundamental and far reaching changes in various aspects of their governance. We find that firms in the majority of the countries used more internal funds to finance their working capital than previously, replacing bank financing as their major source of funding. In addition, fewer firms applied for loans and those who applied received smaller amounts than requested. The high magnitude of financial distress faced by these firms meant that there were delayed payments to suppliers and tax authorities. Accompanied by these changes in capital structure was a significant drop in employment, especially in small and medium sized firms. Furthermore, permanent employees were more affected by the financial crisis than temporary workers. These stresses resulted in major restructuring attempts by the affected firms, some opting to restructure their debts with state aid, while others resorting to insolvency. These developments also resulted in many firms to restructure their relationships with the outside bodies such as suppliers, financiers and/or major customers. For example, there was more reliance on internal funds for meeting their R&D outlays. On the other hand, there was increased emphasis on closer buyer-supplier relationships and concluding long-term distribution agreements to soften the negative effects of credit crunch. In some instances, these relationships were used to further enhance their product offerings. We discuss the implications of these changes for the design and management of different governance regimes and what impacts they might have on firm boundaries.

Introduction

This study investigates how managers of firms have changed their strategies with regards to staffing levels, relationships with suppliers and changes in capital structures, due to the effects of the current recession. The study uses World Bank dataset of ?? firms in six east european and central Asian countries. The study finds that in the current recession firms have been forced, as in previous recessions, to cut costs. They have tried to avoid losing their skilled workers (in whom they have invested) by employing more temporray staff. The reasons for a financial crisis have been discussed widely in the literature. The latest financial crisis was triggered in the US and then rapidly spread to all around the world, causing macro economic imbalances, financial system weaknesses and inflated asset prices (Venkatesvaran, 2011).
However, there is evidence that it had been reducing real global activity, trade and inflation since 2006 (Terzi, 2010). After rapid employment growth in 2007, employment rate slowed down in all regions of OECD countries by 2008 (Eichhorst et al., 2010). The impact of the recession since 2008 and the continuing economic uncertainty and consequential impact on consumer expenditure have the potential to affect businesses in different parts of the economy. Significant cuts in public spending have already been made and, in some instances, there are increases in taxes that will have an impact on levels of consumer discretionary spend. Further changes to the inflation and cost environment will remain an ongoing risk to the business. Businesses are inevitably affected by this current economic climate, leading to the risk of defaults and failures.

The study aims to find out how the current trough in the business cycle affect firms’ employment and governance decisions. In order for this question to be addressed, three research questions have been considered:

1. Have firms changed staffing levels due to the current recession?

2. Have firms made changes to their practice of supplier relations due to the current recession?

3. Has the recession affected firms’ strategies regarding performance?

We proceed as follows: The first section looks at theory regarding business cycles and the causes of the current recession. This section also discusses previous literature in the area, focusing on how companies have formerly reviewed their employment practices during recession. Information about research design is provided in the next section which includes the methodology, definition of variables and summary statistics. The results are then discussed and compared with other studies. Conclusions are presented in the final section. This section also outlines further work that can be carried out in this area.

**Financial Crisis 2008**

The year 2008 marked the onset of the negative evolutions on the international level of the capital markets. The crisis triggered in the U.S. was also rapidly propagated in Europe, Asia
and Australia, affecting both national economies and particularly the capital markets. The U.S. financial markets were and are among the largest and most liquid in the world; in the moment when colossi such as Lehman Brothers, Bear Stearns, Merrill Lynch, Fanny May or AIG were on the verge of bankruptcy and the public perception is that of financial panic, it was impossible for banks in various parts of the world not to be affected sooner or later. In the post-2000 world, real estate prices began to rise gradually, supported by the increasing demand for houses and by the economic growth linked to the technological boom of those years. As if these purely financial effects had not been enough, the real estate bubble seemed to have been propagated throughout the world, thus many other countries faced problems of speculative growth of prices for real estate (and then sudden collapse or blockage). As the crisis struck in 2008, the main stock indices of the representative markets recorded significant decreases: DJ Industrial index fell from 12,474 points on January 3, 2007 to only 8,579 points on December 19, 2008. NASDAQ (a decrease of its value of 37.7%) and S&P 500 (a decrease of 38.3%) also suffered the same fate. The European market did not fare better: FTSE 100 fell by 30.5%, while DAX fell by 28.8%. In the Asian market, the decreases of 49.5% for NIKKEI 225 and 19.03% for Hang Seng suggest that they were not immune to the effects of this spreading global crisis.

Stepek (2009) highlights the major difference with the current recession, saying that formerly recessions have usually been confined to one district, this meant that “the affected area can simply devalue its currency and export its way out of trouble”. This strategy is not a viable solution in the current recession due to globalization of economies. Another problem Stepek (2009) highlights is that, as Austrian economists suggest, the availability of “cheap money” (Percy & Greaves, 2009) led to "malinvestment"(Percy & Greaves, 2009), this is where a bad investment is made because the investor cannot see the “future pattern of consumer demand” (Percy & Greaves, 2009). Stepek (2009) says that easy credit has led most countries “down an unsustainable path of economic development”- this will all have to be rectified before the economy can start to recover.

**Perspectives on Financial Crisis**

Economics literature usually cultivates extensive theories of business cycles, and looks into why they occur, studying trends and the effects they have on the economy. Economic activity experiences repeated yet irregular fluctuations in its growth that is commonly known as the business cycle. Burns et al. (1946) describes how a business cycle occurs when different parts
of the economy expand at similar times; this is followed by an economic slump and then by recovery. As a result of lack in demand in crisis period, the firm output often decreases so that it does not use its whole capacity. Therefore, this leads to firms changing their policy of employment from permanent to temporary contract. They prefer to employ less workers or workers for short term temporary duration.

Unemployment has been the most distinctive item during the recent crisis, which means production factors are not used enough in the economy (Terzi, 2010). The financial and economic crisis has rapidly turned into a job crisis. The ILO (2009) reports an increase in global unemployment rate from 5.7 percent in 2007 to 6.0 percent in 2008 which means eleven million people joining the rank of unemployed since the biggest increase in unemployment in 1998.

In order for a company’s employment and human resource (HR) strategy to be successful it must fit with both the external environment and the company’s long-term strategy. However, the consistency of companies’ HR strategies is affected by the business cycle. The number of staff a company needs to run a successful business is affected greatly by the external environment. In times of recession a company typically has less business, this means that it needs to employ fewer workers and has less money to spend on labor. Baron and Kreps (1999, p.437) also highlight the problem of age discrimination claims when laying off older workers. Companies with many long-term employees benefit from, among other things, increased loyalty of staff, lower “recruitment costs” (Baron & Kreps, 1999, p.83) and lower spend on training. However, companies with long-term employees can also have a less flexible labor force.

Japan is known for its “job for life” culture, giving workers high level of job security and long-term employment. Dedoussis (2001, p.1) studied how businesses in Japan could “no longer remain insulated from market forces” during recession and managers were forced to change their strategies. Dedoussis (2001, p.5) found that Japanese managers took measures “such as employee “loaning”, “voluntary” early retirement, and re-hiring of employees” to keep costs down. Dedoussis (2001, p.5) argues that the changes made were “an ad hoc reshuffle”. Schmidt (1997, p.72) evaluated the changes made in Japanese businesses differently, he claimed that some of the ways in which the managers cut costs were using “forced early retirement” and employing “more temporary staff”- a very dramatic move for Japanese managers. The number of staff working part time hours in Japan rose by “more than 80 percent between 1982 and 1992” (Houseman & Osawa, 1995, p.1); this fact also suggests
that the changes made in Japan were more than “an ad hoc reshuffle” as Dedoussis (2001, p.5) suggests. However, Selmer (2001) found that the changes were made slowly suggesting managers were not keen to change their policies. These examples from Japan show how recession forces managers to change staffing policies, even in the face of strong barriers (in this case the job for life culture). During the early 1990’s Finland was plunged into a deep recession. Ilmakunnas and Maliranta (2003, pp.216-246) found that in factories in Finland managers reduced staff numbers “decreasing the inflow rate rather than by increasing the outflow rate”. The study’s reliability should be questioned as it was limited by the fact that the data for the outflow could not be split into those employees who quit and those who were asked to leave. This means that the figures for outflow do not give sufficient information to examine whether managers increased the number of people they were firing at this time. However Akerlof et al. (1988) found that, in accordance with Ilmakunnas and Maliranta (2003) results, if you look at unemployment rates alone, the relationship between layoffs and the cycle is not strong. However Akerlof et al (1988) explains the weak relationship by suggesting that, in times when the economy is on an upturn, there are more jobs, meaning that people have more choice of where to work. This leads to workers leaving jobs as they move to new ones, making a chain of free positions. In Finland in the 1990’s many companies went bankrupt leading to “job destruction” (Vainiomaki & Laaksonen, 1999), when a company is failing, decisions regarding firing are often out of managers’ hands. Maltby, (2004: p.67) found that companies in Finland generally tried to reduce workforce numbers by asking workers to take early retirement. It must be pointed out that Finland’s population has a high proportion of elderly citizens so these results may not be applicable to other countries. Britton and Ball (1994, pp.24-29) looked into the role of French recruitment consultancies and found that during recession these businesses were forced to move into other areas. They suggest that this is due to companies hiring fewer people. However, this may be unreliable, the role of recruitment consultants may be reduced or lost due to companies cutting costs in hard times and recruiting themselves. Redman & Mathews (1995, pp.10-16) stress that in recent recessions companies are focusing increasingly on employing the best managers, they argue that good managers are always needed so competition for the best staff should be expected even during recession. Burkholder et al (2004, p.132) described the 2001 – 2002 recession as a “new kind of recession”, they claimed that 73% of “companies hired new talent while simultaneously conducting lay-offs”. They also say that out of the companies that were reducing their workforce, 42% put in place measures to keep the best staff. However, these findings may not be relevant to today’s recession, as most economists affirm that the current
recession is worse than that of 2001-2002. This may mean that managers will not be looking to hire more staff.

**Country Comparisons**

The countries included in the survey have some similarities and some differences in terms of their responses to the current crisis; these will be discussed in this section along with the implications of the findings for firm practices. Although the reasons and circumstances of economic crisis can be different in different countries, we can find some common denominators. The global financial crisis has significantly affected the European Union, especially the new members such as Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Slovenia, Slovakia, Romania and Bulgaria. Reasons and circumstances of economic crisis in different countries in different periods are different. For example, Latvia, Hungary and Romania encountered serious financing problems and had to turn to the IMF for support. These countries have seen contracting revenues in real terms, but also managed to lower real expenditures during this period (Koyam, 2010).

Baltic states have had a common weakness in terms of their development relying heavily on foreign capital. However the fact that foreign-owned banks overwhelmingly dominate the banking sector has benefited Estonia and Lithuania, as the parent banks dealt with the difficulties and thus both countries were able to avoid the worst of the crisis. Financial authorities in Sweden have been responding properly to the difficulties the domestic banking system has been facing. The least probable scenario seems to be that the financial crisis in Latvia will cause disorder in the EU economy due to the collapse of Swedish bank(s).

**ROMANIA**

Romania is the second largest consumer market in Central and Eastern Europe. In the last quarter of 2008, financial crisis reached Romanian economy, after witnessing years of steady economic growth. It firstly affected the country’s export. According to the technical definition of a recession, namely a decline in GDP for two consecutive quarters, Romania entered
recession in 2009. During the first quarter of 2009 the gross domestic product of Romania fell by 2.6 percent compared to fourth quarter of 2008 and 6.4 percent compared to first quarter 2008. The fourth quarter of 2008 witnessed a reduction of gross domestic product by 3.4 percent over the third quarter. The second quarter of 2009 saw another decline of GDP, by 1.1 percent compared with the previous quarter and by 8.8 percent compared with the same period of 2008 (Zaman and Georgescu, 2009).

However, the most of its economic growth before 2008 was mainly based on the consumption of imported goods, financed by foreign money (Daniela L. Constantin, Zizi Goschin and Aniela R. Danci, 2011.) An important cause of the macroeconomic imbalances was Romania's expansionary, procyclical budgetary policy based on unrealistic estimates of revenues and unsustainable public spending which led in 2008 to a current account deficit of twice the target, unacceptable considering the 7.9% economic growth achieved. Despite robust economic growth for eight consecutive years (2000-2008), the budget deficit continuously increased, reaching 5.2 % of GDP in 2008 and 7.4 % in 2009. Only 2010 marked a decrease to 6.5%. Faced with a considerable external debt, Romania had no choice but to borrow large amounts of money. In April 2009 Romania concluded a stand-by agreement with IMF for 20 bn. euro serving mainly as a macroeconomic stabiliser, instead of a stimulus package to stop the economic decline. This is a syndicated loan, led by IMF (which gave 12.95 bn. euro) alongside the European Commission (5 bn. euro), the World Bank (1 bn) and other international financial supporters.

LATVIAN

The Latvian industrial structure can be outlined as follows: about 5% of the GDP is produced by agriculture, forestry, and fishery and about 25% by manufacturing. The main items of export are products of so-called low technology and middle - high technology, including wood products such as timber and furniture and cast iron and steel (see Table 5). Nearly 70% of the GDP comes from the service sector, which includes the wholesale and retail trade, transport, shipping, storage, real estate, and information technology, etc. (Docalavich, 2006, pp.32-33).
After EU accession the unemployed, low-skilled workers, and construction workers migrated to EU member countries, mainly the UK and Ireland, on a scale. (It is officially estimated at 5% of the total labour force). For two years until early 2006 the unemployment rate decreased by 2.5% to 7.75%, and the labour market became tight. As a result, combined with de facto wage indexation, nominal incomes increased in an accelerative way for two years and recorded an increase of more than 19% y-o-y in Q1 2006 (IMF, 2006a, pp. 9-11). This increase substantially surpassed the growth in productivity (Koyam, 2010).

The 2008–2009 Latvian financial crises, is a major ongoing economic and political crisis in Latvia. In 2008, after years of booming economic success, the Latvian economy took one of the sharpest downturns in the world, picking up pace in the last quarter which saw GDP contract by 10.5%. The success of the business activities of Latvian companies was significantly affected by the world financial crisis. According to the "Lursoft" data, in 2009 there were 2,786 insolvency proceedings initiated. In comparison with the number of insolvency proceedings started in 2008, there was an increase of 70.2%. In 2008 the rise in the number of insolvency proceedings comprised 59.2% (Yansone, 2009). In Lithuania 115 companies out of every 10,000 became insolvent, in Estonia – 108, in Latvia – 99. It should be noted that the insolvency of commercial organizations has an impact on the country’s economy in general and adds to the crisis. In 2009 the debt of Latvian taxpayers against whom insolvency proceedings were brought, comprised Ls 17,487 millions, which is a significant part of the state budget (Latvian ratings, 2009). In Latvia there was a continuing boom in the mid-2000s and the economy already showed signs of overheating in 2005, but the government responded to it too late. Only in spring 2007 did the government turn to restrictive policies, causing depression at the end of 2007. In addition the Lehman shock dealt the Latvian economy a final blow. EU membership has both positive and negative aspects. Thanks to the EU single market workers were able to migrate to advanced EU countries, especially the UK, decreasing the unemployment rate and at the same time causing a sharp increase in wages due to a tightened labor market. Latvia, which is reconstructing its economy with support from the EU and the IMF, set the introduction of the Euro in 2013 as an exit strategy (Frenkel & Rapetti, 2009). From the beginning of 2007 the amount of the real estate deals started to reduce in average by 60% every quarter (Arco Real Estate, 2006; Arco Real Estate, 2007) – it becomes the main reason for the sharp fall of the average level of profitability of sales in the service industry sphere.
BULGARIA

The global crisis has certainly had its effect on retail performance in Bulgaria and sales volumes have generally fallen. As a result of this the rate of growth of new retail developments has also significantly slowed as retailers slow down on their expansion plans (Bulgaria Market Report 2010). In November 2008, industrial production dropped by 8.8% yoy and industrial sales slipped by 11.5% yoy. In manufacturing, where production and sales decreased by 10.9% and 13.2% respectively, only food and printing industries showed positive growth. In November, goods exports also shrank by 15% yoy (€190 million). Goods imports decreased as well, by 11.8% yoy (€244 million). As a result, in November the trade balance improved by 6.7% yoy (€54 million), though remained negative. However, the Current Account worsened by 11.4% yoy (€86 million) because of a drop in net income and transfers. Since the beginning of the year, credit growth has been decelerating, though from very high values. At the end of October, the credit stock to enterprises and households was larger by 36.7% than that at the same period of the previous year. The risks of a sharp deterioration in economic performance in 2009 are high, mainly due to high level of openness of the economy and significant external imbalances, which mounted during the last several years.

Unlike similar other East and South eastern European countries, Bulgaria adopted a sound economic framework, which was reflected in good Growth Performance. From an average annual GDP growth of 5.5% in 2002-2007, GDP growth accelerated to 7.5% in Jan-Sept 2008 (with investments increasing by 22.5%). Since 2004, Bulgarian authorities have managed to achieve fiscal surpluses, which in 2007 constituted 3.5% of full-year GDP. In January-November 2008, fiscal surplus was 7.5% of projected full-year GDP and is projected to be not less than 4.0% of GDP by the end of the year. Since 1999 (except for 2007, when CPI accelerated to 12.5%) inflation was always at a one digit level. In 2008, inflation reached 7.8%. In 2009 and thereafter, a substantial part of CPI growth will be due to price increases in utilities sector and bringing excise taxes to EU requirements. The current account (CA) deficit has been the main risk for the Bulgarian economy over the last few years. Starting from 2.4% of GDP in 2002, the CA deficit widened to 21.8% of GDP in 2007 and is expected to be not less than 24% of GDP in 2008. On a positive note, the existing gap in trade deficit is largely
due to surge in imports of investment goods, whose share in total imports was 28.5% during 10M 2008 (Policy Brief No. 28, April 2011).

The recent financial and economic crisis affected the real economy of European countries, in terms of both GDP and employment. According to the World Bank (2010), the drop in “average permanent employment” was greatest in Bulgaria. During the third quarter of 2010, the share of employed persons (15 years and over) out of the population (of the same age group) was 47.5%. Compared to the same period in 2009, the number of employed persons dropped by 175.8 thousand and the correspondent drop in the employment ratio was 2.3 percentage points. During the same quarter of 2010, the share of unemployed persons was 9.5% of the economically active population, an increase of 2.8 percentage points from the third quarter in the previous year. The latter translates into an addition of over 92 thousand unemployed individuals in the third quarter of 2010, compared to the same period in 2009.

Lithuania

Nowadays Lithuania's economy is facing its deepest recession since the independence was regained. When the economy is slowing down, the sales and production in majority of economic sectors decline, and unemployment increases simultaneously. Depression involved all three markets: goods and services, resources and finances. (Racickas and Vasiliauskaite, 2010) The main economic cause of the crisis originated in Lithuania – is the external force and the rapid expansion of lending volume during the pre-crisis period, which allowed the emergence of real estate and stock market bubble. Lithuania seeks to integrate into the Euro zone, so there is a need to maintain a stable exchange rate. Meanwhile the state could expect the European Community institutional support, if the crisis was a long process and did significantly affect the country's economy. On the other hand, due to the fixed exchange rate one of the ways to raise the competitiveness of export markets is lost and to attract funds from financial markets is very expensive way. One of the few solutions Lithuanian government now has is saving. Undoubtedly, one of the theoretical methods of implementing government's commitment is to devalue country’s national currency. Unfortunately, this is only a last resort and under-effective tool because it would improve state of exporters only for a short period of time (Evaldas Račickas Asta Vasiliauskaitė, 2010)
The main economic cause of the crisis originated in Lithuania – is the external force and the rapid expansion of lending volume during the pre-crisis period, which allowed the emergence of real estate and stock market bubble. The economic downturn has precipitated Lithuanian economy to the moment almost four years ago. This is also reflected on the forecasted macroeconomic indicators. In just a few quarters Lithuania's economy has suffered a severe and sudden downturn and projected economic slowdown became a sharp decline. However, if Lithuania is able to overcome the challenges of the crisis and to carry out painful but necessary structural reforms that will create a strong foundation for long-term competitiveness. In particular, they and sustained high growth of Lithuanian purchasing power should lead to the bright potential of our country's economic prospects in the long term (Lakšturienė, 2008; Sabonienė, 2009).

**Hungary**

The Hungarian forint rapidly lost its value since the autumn of 2008 and, therefore, it is becoming harder and harder for Hungarians to service mortgages that were set in Swiss francs. On top of that, since interest rates on Swiss credits were low, many Hungarians also borrowed francs for private consumption. Hence Hungary is facing hard times, which manifests itself in a substantial negative growth of GDP (26.5 % in 2009) and declining creditworthiness (European Bank Report, 2009). Hungary’s financial system is market-based and about 80 percent is owned by foreign banks (mainly from other EU countries). During the last decade, this ownership structure was considered to be a factor in reducing external vulnerability and increasing domestic (and international) competitiveness. The banking sector was mainly owned by strategic foreign investors mostly from selected EU member countries (e.g., Austria, Belgium, Italy, Netherlands, to a lesser extent Germany and France). National ownership was limited to the National Bank of Hungary, the Hungarian Development Bank (100% state ownership) and OTP, the largest Hungarian bank undergoing substantial regional expansion, which has a mixed ownership structure but is clearly under Hungarian control and management.

The main reasons for Hungary’s financial crisis were its sustained huge budget deficit and its high level of external indebtedness, which the private sector mainly generated through consumer and enterprise credits in foreign currencies. Since domestic savings could not cover
the deficit, Hungary’s external vulnerability rapidly increased. With the National Bank’s foreign exchange reserves being the only option should the government fail to refinance national debt (due mainly to expiring government bonds and other credits), a weak reserve position was considered too risky. It was precisely this reserve position that the massive IMF-ECB-WB credit in the autumn of 2008 targeted. The Hungarian economy has been seriously hit by the crisis. Overall and substantial decline is the outcome of three principle factors: (a) the stabilization of the budget irrespective of the financial crisis, (b) the consequences of the financial crisis, (c) the dramatic decline of foreign trade due to the high level of openness (which was a big advantage in the last years) and the collapse of international trade. GDP growth turned to negative already in the last quarter of 2008. Exports (and imports) also started to decline in the same period. For 2009, six to 6.5 percent decline of GDP is predicted. In the period between January and August of 2009, industrial production decreased by more than 20 percent, mainly due to the sharp decline of exports (by 24.5%) and the less dramatic but substantial decline of domestic consumption (by 12.7%). Leading production and export sectors were hit more severely and employment rates began to gradually sink. During the same time period, official unemployment increased from 7.5 to above 10 percent, adding about 100,000 people to the stock of unemployed from a year ago (317,000). At the same time, the activity rate, already one of the lowest among the EU member countries in the last decade, declined further from 57 percent to 55.7 percent.

**Turkey**

Since the Great Depression of the 1930s, the global economy has experienced several downturns and drop (Terzi, 2010). Financial crisis causes both economic and social problems that are difficult to overcome. Labour markets have responded to the economic crisis in different ways. Using data from the World Bank Financial Crisis Survey, the number in permanent and temporary employment has shown greater changes in Turkey (World Bank, 2009). The related literatures suggest that, as a developing country, Turkey has not been successful enough in handling the crisis. Moreover, the use of astringent precautions to deal with the situation, have resulted in a decrease in long term permanent contract employment and an increase in short term temporary contract employment. Despite the rapid growth and increase in export, the Turkish economy has not manage to provide adequate jobs after the
2000(s) crisis. Following the 2001 crisis, the unemployment rate jumped from 6.5 % to 10.3 % (Yeldan, 2009). In many sectors, production increased although labour participation was sustained below the observed levels in 1990s.

Survey Data

The World Bank Financial Crisis Survey was developed to measure the effects of the financial crisis on firms in Turkey and included a direct question on how establishment are affected by the financial crisis. Thus, the data provide a snapshot of the economic outlook of Turkish firms. Firms have experienced the effects of the financial crisis in different amount. Establishments were asked whether the financial crisis had affected them or not. The overall, calculated results in analysis section show that more than half of the participants were affected by the financial crisis. Firms were asked if their sales had decreased, increased or remained the same during the crisis and if so by how much. Firms in Turkey experienced a decrease in their sales on average, which is the most important indicator of the crisis effect.

Small, medium size and large firms which participated in the survey indicated that they were affected by financial crisis. Regarding all regions – Marmara, Aegean, Central Anatolia, South and Black Sea- Eastern – more than half of the firms indicated that they were affected by the financial crisis. Similarly, a very high percentage of firms from all sample sectors – manufacturing, retail and other services- indicated that the financial crisis affected their establishments.

Financial Crisis Trends

In this section, we examine the effects of the 2008 financial crisis on different aspects of firm behavior. We first investigate whether the firms’ situations worsened compared to 6 months ago. The results are presented in Figure 1:
According to the survey responses on average more than 39% of participants from all different size companies indicated that their situation worsened on comparison with 6 months ago. 40.89% (n=265) of participants who were affected were small size out of 648 establishments. 33.48% (n=217) of participants who were affected were medium sized out of 648 establishments. 21.14% (n=137) of participants who were affected were large sized out of 648 establishments.

We now examine the relationships of the firms with their suppliers during the survey period. The question was asked whether the establishment delayed payments to suppliers. The results are presented in Figure 2.
According to the survey responses on average more than 36.53% of participants from all different size companies delayed payments to their suppliers. 34.81% (n=211) of participants who incurred these delays were small size out of 606 establishments. 33.33% (n=222) of participants who incurred these delays were medium sized out of 606 establishments. 26.40% (n=160) of participants who incurred these delays were large sized out of 606 establishments.

Finally, we examine the question of the extent to which establishments restructured their financial liabilities without going to court. Figure 3 presents the results.
According to the survey responses on average more than 12.30% of participants from all different size companies restructured their financial liabilities following the crisis. 30.39% (n=62) of participants who carried out these restructurings were small size out of 204 establishments. 39.21% (n=80) of participants who carried out these restructurings were medium sized out of 204 establishments. 29.90% (n=61) of participants who carried out these restructurings were large sized out of 204 establishments.

**Variables Definitions**

SIZE: The variable SIZE is defined in terms of the following three categories:

- Small $\geq 5$ and $\leq 19$
- Medium $\geq 20$ and $\leq 99$
- Large $\geq 100$

Sales Decrease: percentage decrease in sales when compared the establishment’s sales for the last completed month in 2010 with the same month in 2009.
Exports: the percentage of the establishment’s sales that were exported in the last completed month.

Capacity utilization: the establishment’s output in the last completed month in comparison with the maximum output possible using all resources available.

Sales Decrease: If there was a decrease in the establishment’s sales for the fiscal year 2009 in comparison with fiscal year 2008.

Sales Decrease: percentage decrease in the establishment’s sales for the fiscal year 2009 in comparison with fiscal year 2008.

Permanent: the number of permanent, full-time employees, including all employees and managers, the establishment employed at the end of the last completed month, how many?

Permanent1: the expected percentage decrease in the next 6 months to the number of permanent full-time employees.

Temporary: the number of full-time seasonal/temporary employees worked in this establishment in the last 6 months.

Temporary1: the expected percentage decrease in the next 6 months to the number of full-time seasonal/temporary employees.

Supplier: If the establishment delayed payments to suppliers for more than one week in the last completed month.

InternalFunds: The proportion of working capital that was financed from internal funds or retained earnings in the last completed month.

Banks: The proportion of this establishment’s working capital that was financed from banks in the last completed month.
AnnualInternalFund: The proportion of the establishment’s working capital financed from internal funds or retained earnings at the end of fiscal year 2009.

Debt: the establishment’s total current level of liabilities.

Foreign Debt: the percentage of the establishment’s total current level of liabilities denominated in foreign currency.

Short-term Debt: the percentage of the establishment’s total current level of liabilities that has a term to maturity of less than one year.

FinancialInst: If the establishment has been overdue on its obligations to any financial institution in the last 6 months.

FinancialInst1: If the establishment has been overdue (to any financial institution) for 90 days or more in the last 6 months.

Restructuring: If the establishment has restructured in the last 12 months without going to courts any of its outstanding liabilities to financial institutions.

FallinArrears: If the establishment is expected to fall in arrears in any of its outstanding liabilities in the next 6 months.

Outstanding: If the establishment is expected to not be able to repay its outstanding liabilities that will be due in the the next 6 months.

LoanApplication: If the establishment applied for any loans or lines of credit over the last 12 months.

Loan Approval: Loan obtained as a proportion of the amount requested

Crisis: If the establishment’s overall situation has worsened during the last 6 months.

Crisis1: the establishment’s situation worsened due to increased level of debt.
Crisis2: the establishment’s situation worsened due to increased input cost.

Crisis3: the establishment’s situation worsened due to reduced access to credit.

Crisis4: the establishment’s situation worsened due to drop in demand for its products or services.

State Aid: If the establishment applied for direct state aid in the last 12 months.

State Aid1: If the establishment received state aid.

Log Sales: the establishment’s total annual sales for fiscal year 2009.

R&D: If the establishment’s research and development spending decreased compared to 2008.

R&D1: If the establishment’s expects to decrease research and development spending in the next 6 months.

Industries: Industries dummies are included.

Sample Statistics

The Financial Crisis Survey (FCS) measures the effects of the financial crisis on private firms in six East European countries. The survey covers 1,892 firms both from manufacturing and service sectors and obtains measures on the effects of the crisis on key elements of the private economy, including sales, finances, employment, and expectations of the future. The survey was conducted in February and March 2010 in six countries: Bulgaria, Hungary, Latvia, Lithuania, Romania, and Turkey (table 1).
Table 1: Sample description

<table>
<thead>
<tr>
<th>Sample composition by size (%)</th>
<th>Sample composition by industry (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>Small (&lt;20)</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>152</td>
</tr>
<tr>
<td>Hungary</td>
<td>152</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>233</td>
</tr>
<tr>
<td>Latvia</td>
<td>221</td>
</tr>
<tr>
<td>Lithuania</td>
<td>224</td>
</tr>
<tr>
<td>Romania</td>
<td>304</td>
</tr>
<tr>
<td>Turkey</td>
<td>606</td>
</tr>
</tbody>
</table>

**Note:** Percentages may not add up to 100 due to rounding error.

There was a decrease in sales in the twelve months between February/March 2010 and February/March 2009 in all countries surveyed (WB). The deepest reductions occurred in Lithuania, Latvia and Bulgaria measured as the average percentage change in sales per country. Average permanent employment increased in Turkey and Romania in February 2010 to June 2009; however, Bulgaria, Lithuania and Hungary experienced a decline in permanent employment of around 5, 3.3 and 3.2 percent, respectively.
Employment Results

Table 2: Effects of Financial Crisis on Employment

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>arears</td>
<td>-21.60345</td>
<td>29.73299</td>
<td>-.1486893</td>
<td>2.841748</td>
<td>3.98539</td>
<td>3.760784</td>
</tr>
<tr>
<td>bankrup</td>
<td>-59.81765</td>
<td>110.3584</td>
<td>-7.490847</td>
<td>10.53956</td>
<td>43.26187</td>
<td>9.436102</td>
</tr>
<tr>
<td>oblig90</td>
<td>-20.89468</td>
<td>43.93968</td>
<td>-1.907032</td>
<td>4.205824</td>
<td>23.38709</td>
<td>5.82109</td>
</tr>
<tr>
<td>worsened</td>
<td>-39.6867</td>
<td>35.29725</td>
<td>.4250293</td>
<td>3.378128</td>
<td>2.587411</td>
<td>5.311801</td>
</tr>
<tr>
<td>worsdemand</td>
<td>10.49343</td>
<td>37.21151</td>
<td>-3.816821</td>
<td>3.561696</td>
<td>.8832589</td>
<td>4.632796</td>
</tr>
<tr>
<td>aidreceiv</td>
<td>-23.81362</td>
<td>45.85701</td>
<td>-4.247862</td>
<td>4.389092</td>
<td>-13.25891</td>
<td>10.2512</td>
</tr>
<tr>
<td>reorg</td>
<td>-4.136407</td>
<td>35.38492</td>
<td>11.3338</td>
<td>3.385293</td>
<td>-7.975176</td>
<td>5.205585</td>
</tr>
<tr>
<td>restfin</td>
<td>-24.8675</td>
<td>34.14807</td>
<td>2.276216</td>
<td>3.267901</td>
<td>-2.761568</td>
<td>4.469614</td>
</tr>
<tr>
<td>small</td>
<td>1.437186</td>
<td>71.08943</td>
<td>-.4531217</td>
<td>6.801646</td>
<td>-28.28662</td>
<td>14.22526</td>
</tr>
<tr>
<td>medium</td>
<td>27.72011</td>
<td>71.38915</td>
<td>.3480491</td>
<td>6.82497</td>
<td>-34.13758</td>
<td>14.256</td>
</tr>
<tr>
<td>_cons</td>
<td>39.79137</td>
<td>70.50938</td>
<td>3.095379</td>
<td>6.747018</td>
<td>48.8724</td>
<td>14.35868</td>
</tr>
</tbody>
</table>

Number of obs = 1659

R-squared  = 0.1038    R-squared  = 0.0298    R-squared  = 0.3275
Adj R-squared = 0.0967  Adj R-squared = 0.0221  Adj R-squared = 0.2883

We first examine the question of the effect of the financial crisis on the number of permanent, full-time employees of an establishment (Column 1). To capture the essence of financial crisis, we employ a number of variables as our independent variables. These include
proportion of working capital financed with internal funds or retained earnings at the end of fiscal year 2009; If the establishment delayed payments to suppliers for more than one week in the last completed month; If the establishment is expected to fall in arrears in any of its outstanding liabilities in the next 6 months; bankruptcy; rddec; oblig90; worsedebt; and worsedemand. The relationships suggest that the various indicators of firm distress due to financial crisis are negatively related to the establishment’s number of permanent, full-time employees. For instance, the coefficient on proportion of working capital financed with internal funds or retained earnings is negative; similarly, the coefficient on if the establishment delayed payments to suppliers for more than one week is also negative. The bankruptcy of the firm has a negative relationship with the establishment’s permanent staff and a decrease in the establishment’s research & development expenditures has also a negative relationship with the establishment’s permanent staff. If the establishment was overdue (to any financial institution) for 90 days or more in the last 6 months also has a negative relationship with the establishment’s staff. These variables suggest that the various indicators of financial crisis are negatively related to the employee health of the firms.

We then investigate the effects the various indicators of financial crisis on the establishment’s total number of full-time seasonal/temporary employees (Column 3). The results are very similar to the ones presented above in relation to the effects of the financial crisis on the total number of establishment’s employees. For example, if the establishment was expected to fall in arrears in any of its outstanding liabilities in the next 6 months has a negative relationship with its total number of seasonal/temporary employees. Similarly, if the establishment was overdue on its obligations to any financial institution in the last 6 months also has a negative relationship with its seasonal/temporary employees. Proportion of working capital financed with internal funds or retained earnings at the end of fiscal year, share of debt in foreign currency, and share of short term liabilities also have a negative relationship with the establishment’s seasonal/temporary employees.

We now examine the effects of the financial crisis on the expected percentage decrease of the number of permanent full-time employees in the next 6 months (Column 5). We find that different effects of the financial crisis has a negative impact on the percentage decrease of the number of permanent full-time employees expected in the next 6 months. If the establishment was overdue on its obligations to any financial institution in the last 6 months has a negative relationship with the expected percentage decrease in the establishment’s permanent full-time employees. Similarly, if the establishment was overdue (to any financial institution) for 90 days or more in the last 6 months has a negative
relationship with the establishment’s permanent full-time employees. If the establishment was expected to fall in arrears in any of its outstanding liabilities in the next 6 months or if the establishment was expected to not be able to repay its outstanding liabilities that were due in the next 6 months also have a negative relationship with the establishment’s permanent full-time employees. Similarly, worsening debt and demand conditions also affected the establishment’s expected decrease in its permanent employees.

Organizational Restructuring Results

Table 3: Effects of Financial Crisis on Organizational Restructuring

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>arears</td>
<td>.4216618</td>
<td>.0349363</td>
<td>-.256183</td>
<td>.0614155</td>
<td>.1630214</td>
<td>.0253041</td>
</tr>
<tr>
<td>bankrup</td>
<td>.1241182</td>
<td>.0267317</td>
<td>-.3545398</td>
<td>.2034125</td>
<td>.2171847</td>
<td>.0838089</td>
</tr>
<tr>
<td>rddec</td>
<td>.1530188</td>
<td>.0288535</td>
<td>-.1292049</td>
<td>.0507225</td>
<td>.097932</td>
<td>.0208984</td>
</tr>
<tr>
<td>outstand</td>
<td>-.0122163</td>
<td>.0497827</td>
<td>.0799031</td>
<td>.0875144</td>
<td>.0260779</td>
<td>.0360572</td>
</tr>
<tr>
<td>worsdebt</td>
<td>.1626975</td>
<td>.0799136</td>
<td>-.0762927</td>
<td>.1404824</td>
<td>.0098996</td>
<td>.0578808</td>
</tr>
<tr>
<td>worscredit</td>
<td>.2535463</td>
<td>.1178833</td>
<td>-.2692884</td>
<td>.2072305</td>
<td>.1193199</td>
<td>.085382</td>
</tr>
<tr>
<td>worsdemand</td>
<td>.088409</td>
<td>.0252347</td>
<td>-.0141078</td>
<td>.0443609</td>
<td>.0085084</td>
<td>.0182773</td>
</tr>
<tr>
<td>small</td>
<td>.1398953</td>
<td>.0727476</td>
<td>.2684689</td>
<td>.127885</td>
<td>.1173667</td>
<td>.0526905</td>
</tr>
<tr>
<td>medium</td>
<td>.1675035</td>
<td>.072853</td>
<td>.3398648</td>
<td>.1280704</td>
<td>.1550694</td>
<td>.0527669</td>
</tr>
<tr>
<td>large</td>
<td>.1264564</td>
<td>.0735578</td>
<td>.2783484</td>
<td>.1293094</td>
<td>.1442515</td>
<td>.0532773</td>
</tr>
<tr>
<td>_cons</td>
<td>.0828535</td>
<td>.0719708</td>
<td>1.559608</td>
<td>.1265197</td>
<td>-.0698996</td>
<td>.0521279</td>
</tr>
</tbody>
</table>

Number of obs = 1659

R-squared = 0.1846  R-squared = 0.0325  R-squared = 0.0804

Adj R-squared = 0.1796  Adj R-squared = 0.0267  Adj R-squared = 0.0748
In this section, we examine if the firm’s organization and boundaries changed during the financial crisis. We first look at the relationship between the firms and their supplier during the course of the financial crisis (Column 1). We find that the establishments delayed payments to suppliers for more than one week due to the financial crisis related factors. For example, the worsening situation of the establishments due to increased level of debt, reduced access to credit, reduced demand for its products or services resulted in establishments’ being unable to make payments on time. The relationship is positive with the establishment expectedly falling in arrears in any of its outstanding liabilities in the next 6 months.

Similarly, if the establishment is expected to be not able to repay its outstanding liabilities that are due in the next 6 months. If the establishment had filed for bankruptcy during the last 12 months and if the establishment’s research and development spending decreased compared to 2008 also have a positive relationship with this variable. Column 3 examines the impact of financial crisis on the variable: if the establishment has been overdue on its obligations to any financial institution in the last 6 months. We find that the following variables had the positive impact: If the establishment is expected to fall in arrears in any of its outstanding liabilities in the next 6 months; if the establishment is expected to not be able to repay its outstanding liabilities that will be due in the next 6 months; the establishment’s situation worsened due to increased level of debt; the establishment’s situation worsened due to increased input cost; the establishment’s situation worsened due to reduced access to credit; the establishment’s situation worsened due to drop in demand for its products or services; if the establishment filed for bankruptcy during the last 12 months; and if the establishment’s research and development spending decreased compared to 2008. Column 5 examine if the establishment restructured without going to courts any of its outstanding liabilities to financial institutions in the last 12 months. Variables as above are included in the analysis and like the variable about if the establishment was overdue on its obligations to any financial institution we find a positive relationship between them.
Performance Results

Table 4: Effects of Financial Crisis on Firm Performance

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>arears</td>
<td>.6698001</td>
<td>3.564451</td>
<td>.1214994</td>
<td>.0225239</td>
</tr>
<tr>
<td>bankrup</td>
<td>-13.06835</td>
<td>11.2627</td>
<td>-.0026018</td>
<td>.0711693</td>
</tr>
<tr>
<td>rddec</td>
<td>-3.502051</td>
<td>2.839392</td>
<td>.0514144</td>
<td>.0179422</td>
</tr>
<tr>
<td>outstand</td>
<td>-5.127149</td>
<td>4.834771</td>
<td>-.0120968</td>
<td>.030551</td>
</tr>
<tr>
<td>FinInst</td>
<td>.6084946</td>
<td>1.376618</td>
<td>-.0086398</td>
<td>.0086989</td>
</tr>
<tr>
<td>supplier</td>
<td>-4.315864</td>
<td>2.429979</td>
<td>-.0171612</td>
<td>.0153551</td>
</tr>
<tr>
<td>restfin</td>
<td>-8.15743</td>
<td>3.368492</td>
<td>-.0246174</td>
<td>.0212856</td>
</tr>
<tr>
<td>worsdebt</td>
<td>-9.322004</td>
<td>7.767266</td>
<td>.8125006</td>
<td>.0490815</td>
</tr>
<tr>
<td>worscredit</td>
<td>-11.13207</td>
<td>11.46611</td>
<td>.8311569</td>
<td>.0724546</td>
</tr>
<tr>
<td>worsdemand</td>
<td>6.494626</td>
<td>2.458628</td>
<td>.8433842</td>
<td>.0155361</td>
</tr>
<tr>
<td>small</td>
<td>-4.866172</td>
<td>7.091429</td>
<td>-.0146364</td>
<td>.0448109</td>
</tr>
<tr>
<td>medium</td>
<td>-5.107671</td>
<td>7.119852</td>
<td>-.0525843</td>
<td>.0449905</td>
</tr>
<tr>
<td>large</td>
<td>-7.493117</td>
<td>7.174824</td>
<td>-.0765677</td>
<td>.0453379</td>
</tr>
<tr>
<td>_cons</td>
<td>66.28678</td>
<td>7.312574</td>
<td>.171717</td>
<td>.0462083</td>
</tr>
</tbody>
</table>

Number of obs = 1659
R-squared = 0.0225 R-squared = 0.7017
Adj R-squared = 0.0147 Adj R-squared = 0.6994

We first examine the factors that might affect the establishments’ capacity utilization (Column 1). The percentage decrease in the establishment’s sales for the last completed month in 2010 with the same month in 2009 has a negative impact on the establishment’s capacity utilization. Similarly, we find that the coefficient is negative for the percentage decrease in the establishment’s sales one year from now. Establishments’ capacity utilization has a negative relationship with the proportion of working capital that was financed from internal funds or retained earnings in the last completed month. Similarly, the proportion of the establishment’s working capital financed from internal funds or retained earnings at the end of fiscal year 2009 also has a negative relationship. When the establishment was expected
to fall in arrears in any of its outstanding liabilities in the next 6 months also has a negative relationship with capacity utilization. If the establishment had applied for any loans or lines of credit over the last 12 months also has a negative relationship with the establishment’s capacity utilization. Both the current levels of the establishment’s liabilities and if the establishment was expected to not be able to repay its outstanding liabilities that were due in the next 6 months also had a negative relationship. We also include control variables, including size, employee numbers and industry dummies. Size has a negative relationship with the capacity utilization of the establishment’s surveyed, while employee numbers and industry dummies do not have such an impact.

We first examine “if the establishment’s overall situation has worsened during the last 6 months”, and what factors might have caused such worsening of the situation. We find that factors such as increased level of debt, increased input cost, and reduced access to credit do not have any significant influence on the worsening of the establishment’s situation. However, we find a positive relationship between the establishment’s worsening situation and drop in demand for its products or services. This suggests that a major cause to the establishment’s current problems is related to the more general economic environment, rather than the unavailability of credit. This result is further strengthened by the positive association between the establishment’s worsening situation and the percentage of the establishment’s all three sales categories (national sales, sale indirectly exported and sales that were exported).

The worsening situation of the firms is also reflected in their ability to meet their obligations to outside parties (Column 3). For example, we find that when the establishments delayed payments to suppliers for more than one week it also worsened the situation. Similarly, when the establishment was expected to not be able to repay its outstanding liabilities that were due in the next 6 months also increased the burden on these establishments. We also examined the impacts of a number of factors related to the establishments’ finance and corporate structure on the worsening situation of the establishments. If the establishment applied for any loans or lines of credit over the last 12 months also resulted in the worsening situation of the establishments; similarly, if the establishment was expected to fall in arrears in any of its outstanding liabilities in the next 6 months also made the situation worse for the establishments. In terms of control variables, we included establishment’s staff, establishment size and industry dummies. The results show that the number of permanent, full-time employees, including all employees and managers, the establishment employed at the end of the last completed month had a positive relationship with the worsening situation of the establishments. Similarly, the expected percentage
decrease in the next 6 months to the number of permanent full-time employees also has a positive relationship with the establishment’s worsening situation. Moreover, the number of full-time seasonal/temporary employees worked in this establishment in the last 6 months, and the expected percentage decrease in the next 6 months to the number of full-time seasonal/temporary employees have a positive relationship with the establishment’s worsening situation. Our results show that the size of the establishments do not have any bearing on the establishments’ worsening situation. Similar results were found for the industry dummies.

**Discussion**

Previous studies tend to focus on the effect of the financial crisis on general aspects of the economic behavior, however this study provides findings that the crisis in Turkey had negative consequences on short time and long time employment. Economies generally encourage temporary contract employments during crisis. Thus, the negative impacts of the financial crisis force firms to offer short term temporary jobs rather than permanent jobs to new employees (Peacock, 2008). Although this led to fast growth in employment, temporary contracts are still the negative sign of labour markets which causes a large number of employment losses (Moghadam, 2010; Polavieja, 2006).

According to research findings, firms participating in the survey had changed their employment policies due to the financial crisis. There have been significant changes in the number of full time permanent and temporary employees. Due to the uncertainty of the economy and decreases in demand, firms are not able to use all their capacity. This causes less production and therefore less human capital. Hence, firms preferred not to guarantee employment renewal for one or more fiscal years in Turkey. Since late 2008, due to the financial crisis, permanent employment decreased in all countries all around the world. Regarding the participants, more than half of the firms decreased their level of permanent employment in Turkey.

To measure the full effect of financial crisis from the employers’ perspective on employment, it is important to analyse the changes in temporary employment, because firms can replace permanent employees with temporary employees. They may prefer to employ temporary workers without employment renewal guarantee in the short term. Temporary employment saw a small decrease in comparison to permanent employment, which could
result in the firm’s perception of the situation changing the day to day business, with dramatic consequences. Moghadam (2010) rightly points out that labour market outcomes are affected by financial crisis; particularly the number of total employment drops and the share of temporary employment become relatively higher than permanent employment. Firms tend to have temporary contract employees rather than permanent contracts (Chung and Oorschot, 2010). Hence, data showed that firms have substituted the permanent employment with temporary employment. Regarding the firm size findings, replacement impact between permanent and temporary employment was experienced. As most of the participants were manufacturing firms, the data showed a decrease in the average number in permanent employment in all firms where they did not use their full capacity in production. Overall, due to the financial crisis, the decrease in number of permanent workers was accompanied by an increase in number of temporary employees in Turkey.

The research also tested the relationship between financial crisis and the firms’ plan to change their number of temporary and permanent workers. Results showed that firms affected by the financial crisis, showed the impact of this by reducing the number of permanent full time in the next six months. Most of the firms which said they were affected by financial crisis also said they were planning to reduce the number of full time permanent employees. These chosen two variables showed a positive correlation. Similarly, according to the result there is a positive relationship between firms’ being affected by crisis and their plan to change the number of temporary workers they employ in the next six months. Most of the firms which said they were affected by financial crisis also said they planned to increase the number of temporary workers. Finally, the study confirms the hypothesis that firms in Turkey tend to replace the number of full time permanent workers with short time temporary contract workers because of the financial crisis.

Conclusions

The current recession has affected companies in three ways which are different to most previous recessions;

1. Globalisation has led to companies being unable to export their “way out of trouble” (Stepek, 2009) meaning that those businesses that usually rely on exports to survive recession
will have to find new ways to make money. Similarly, “malinvestment” (Stepek, 2009) meant that some managers made bad business decisions prior to the recession, particularly overleveraging and relying on spiralling property values, leaving some companies in a bad position entering the recession.

2. Due to the banking sector being at the root of this crisis, banks are less prepared to lend money than in previous recent recessions. Less availability of credit has caused problems for businesses with short-term cash flow issues. These factors have helped to make the current recession more severe than previous recessions. This means that firms have had to make more changes to the way they organize staff in terms of staffing levels, supplier relationships and corporate restructuring than they would have in previous recessions. Consequently managers need to have the skills to manage change within their company. During recession managers could conduct a forcefield to help ensure that change is managed successfully.

3. In the current recession, managers seem to have learnt from previous recession and avoided losing permanent staff by cutting the inflow of workers into the workplace. However, small companies often cannot afford to pay workers they do not currently require, so more extreme strategies have had to be implemented and “job destruction” Ilmakunnas & Maliranta (2003) occurs. The current recession is ongoing and likely to get worse and the changes currently made to companies’ employment and corporate strategies due to the recession will evolve further.

Companies should be aware of the fluctuations in the economy and acknowledge that these are becoming more globalized. Keeping this in mind managers should look at the structure of the workplace. Are internal labor markets and long-term employees the best strategy for this kind of environment? If companies do have these structures the managers should make changes to save the jobs of the employees in whom they have invested. Managers should look at the external environment and assess how badly they believe the recession will affect the company. If the manager believes the recession will affect the company badly it is best to execute the majority of redundancies quickly fast so other employees are not worried and the cost reflects the lower revenues. When formulating strategies in recession, managers need to consider all stakeholders (including suppliers), stakeholder mapping could be an important tool for managers during recession. Managers need to find the correct balance between saving employee jobs and shareholder return. There are also implications from these conclusions for the government. Recession leads to
unemployment. The government should provide assistance for companies to cut hours rather than jobs and to assist companies to retain staff they have invested heavily in.

An implication of these findings for the Government is to consider helping small businesses who are forced by recession to lose staff they have invested in because they are unable to afford to pay staff they do not require as larger companies can. Managers should look closely at the flexibility of their company’s labour markets, retain highly skilled staff but where unavoidable carefully select staff for redundancy and maintain low cost internal training. The government should assist companies to reduce staff working hours rather than jobs and invest in training to ensure sufficient skills when the economy improves. A new business model is needed in this situation, based on Significant company reconstruction will become necessary.

Future research could study larger companies’ reactions to recession. It seems larger companies may have more money to spend during recession. Future research could look at the advantages recession offers larger companies over smaller ones in terms of poaching the best employees and their ability to continue to afford incentives and training which will be of advantage in the upturn. Further research could be conducted looking into the differences of the current recession to those previously experienced, more needs to be known about the effects of more global recessions and the implications of these for businesses.

References


