

## GLOBAL FINANCIAL RECESSION AND IDENTIFICATION OF ITS SYMPTOMS IN LOCAL TRANSBORDER ECONOMIES

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### ABSTRACT

The article addresses the problem of identification of economic recession symptoms on the global market, occurring in the local economies. It discusses the utility of the official statistical information resources for the description of the social and economic phenomena, in crisis conditions and indicating the necessity of differentiation of these resources in many internal factors in the company (e.g. dependent on its own factors) and the external factors, which create the same environment of its functioning. The author discusses the key character of the synergy effect, available as the event of the information complementary system, and points out the subject complementary system with condition of ability to identify the global symptoms of the crisis phenomena, infiltrating the local economies, including the border areas. The presented topic is illustrated by some examples of Opole region phenomena statistical data, and against the background of economic phenomena proper for the country scale affecting the regions' economy of determined character. The author draws the attention to differences in the capabilities of transborder areas and affecting subject capacities of economic cooperation, on the other hand the economic usage of subject diversification, indicates its source for regional, individual chances for effective economical operation in conditions of national and global crisis.

**Key words:** crisis, recession, global economy, identifiers of crisis, public statistics, synergy, statistical data, statistical information, knowledge management, statistical information complementarities, potential and potential differences.

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## 1. Introduction

A change is the basic certainty in the market economy which constitutes the process of permanent management, as its standard of business, and management operation in this economic system.

Social aspects of enterprise economy, of regions and of a country arouse some interest, agitation and even public discussion if they refer to bigger population independently of their character. In each case managers, businessmen and direct beneficiaries of the results of these changes start processes of finding out their reasons.

Management of economic subjects and management of economic and regional development by public administrative services in conditions of global financial crisis constitute the current subject.

Various character of matters and their significance for practitioners of management and economy in terms of globalization of markets, economic integration of European countries and systems creating chains of market value and also crisis difficulties in running the companies in a perspective of local economic situation and individual opportunities of functioning make us consider management problems in crisis circumstances. Extensive matters and their limited publishing formula determines the focus of herein consideration on matters connected with identification of aspects of the global crisis in our regional economy, which is the subject of bigger interest and investigation of local governments. The interested are looking for information which would illustrate the matter. It would enable them to monitor regional situation and activate protecting mechanisms for local economies from painful recession effects.

Therefore, regional search for the source of effective management in conditions of crisis situations is illustrated by the objective need for specific features of identification of subject regions and the consideration of the features as the foundation of individual capacities for autonomous management of the regions. The problem discussed is well illustrated by the case of transborder areas, which are already equipped by their location with economic capacities, unavailable for non-transborder areas.

## 2. Crisis in the mirror of the subject literature

“Crisis” from a Greek criterion is a recognizable sign, from Latin a *criterion*, is a kind of measure (Co wolno wojewodzie?, 2009). The literature of the subject defines the matter of crisis in various ways. Kopaliński explains crisis as a period of a breakthrough recession, a decisive turn (Co wolno wojewodzie?, 2009). The other source describes crisis as a turning-point for better or worse changes (Co ugryzło banki?, 2009), and the other understands this economic category as a period of a turning-point and a potential change in functioning ([http.](http://)), which

means that the breakthrough in functioning can be an intensive development, overproduction or even lowering of economic activity, which means that all the aspects of the phenomenon can be located within the meaning of the considered notion.

Professional literature differentiates macro-economic scale of a crisis from a company crisis. A macro-scale crisis in the literature is presented as a phase of some favourable circumstances of a cycle and treats it as a result of some changes in the pace of industrial growth. The company crisis is described as *“a moment or a phase of some development processes where its resources or potentials of growth have been finished, badly allocated which endangers its longer existence is the result of some unexpected and unintended disturbances in functioning of organizations distracting it from the state of relative internal balance evoked by the conflicts of interests, evaluation and assessment of a company as a whole by the internal and external groups of interests, first of all by owners shareholders or capital donors”*, who expect a certain growth rate from their investments (Leksykon Zarządzania, 2004).

The literature reference to some definitions of crisis and the quoted differentiation become crucial for the public discussion which is open in Poland in connection with some information about the global financial crisis and some attempts to identify the manifestations of global crisis in country economy and its individual regions.

### 3. Statistical data in identification of the global crisis

One of the essential sources of information, providing the social-economic condition “is” in regions, is the results of statistical surveys, which are in public and local government administration management practice the area of international crisis searches. Communicates of regional (province) Statistical Office Reports concerning the social and economic situation of our provinces, report the data concerning – *the average employment rate in the companies sector, the number of registered unemployed people and the unemployment rate, the average gross salary in industry, the number of new flats built or the level of production sold, the level of construction industry production or the level of retail sale, the wholesale rate or purchasing prices.*

Official statistical data published in subject statements are the information illustrating the level of the dimensions of a certain economic category in a given time. They state an example of this kind of information the **individual** consideration of which is not reliable for assessing of complex phenomena, especially for assessing of social and economic situation in the regions as direct effect of global financial crisis. We can illustrate the truthfulness of this statement with an example of some statistical information taken from the official statement about social and economic situation of Opole province concerning November

2008, where *the average employment in the company sector, this year, was 99.7% thousand people and was 2.2% higher in comparison with November, last year and 0.3% lower in comparison with last month* (Komunikat o sytuacji społeczno-gospodarczej..., 2008).

On the basis of the employment growth of 2.2% in comparison with the analogical month of the previous year, as we can read in the quoted information, it is difficult to decide if Opole province does not suffer from any consequences of the global financial crisis and we cannot state as well if the first symptoms of the crisis appear only because, there was a decrease of 0.3% in comparison with the previous month, which was published in the official statement for the previous month (in comparison with October 2008).

We cannot conclude that any companies in Opole province go bankrupt or crash on the basis of the given decrease in employment. Analogically to the information above, we cannot say that because in November 2008 employment in the hotels of our region dropped, our Opole hotel sector was hurt by the influence of the global crisis. Similarly we cannot disregard the information searching for some symptoms of the global recession in our province. Correctness of the above reasoning confirms the clash of the information with the information describing a category given for salaries.

The statistics for Opole region for November 2008 state that gross salaries in the company sector of this province increased by 7.7% in comparison with November 2007 and by 1.9% in comparison with October 2008. Confrontation of information about the employment and the salaries that in spite of the fact that the employment dropped in November 2008 in comparison with October 2008 by 0.3, the salaries increased by 1.9%. Therefore, an analyst cannot state if the considered categories demonstrate lack of symptoms of the global crisis in Opole province and he cannot also suggest that the symptoms of the crisis appear. He should, however, for the final conclusion, consider the reasons of periodical differences occurrence in social-economic situation and conditions of citizens' life, which are reflected by statistics, which means to check to what extent the changes of the statistical data are caused by:

- a) the crisis of a company evoked according to the professional literature, by the factors which have their source inside the company restructuring or from introduction of systems of effective organization of work, which lowers the employment, and increase the efficiency of the lower number of the staff, who give the enterprise the income on the level that enables the owner to increase the salaries of the employed. A keen analyst will investigate if at that time there was no automation introduced in the production processes or, for example, an integrated computerization in their information systems, which in a natural way:
  - supports person at work,

- helps the opportunities of gradual growth of quality of produced goods and a decrease in (*reduction of*) costs, and also effectiveness of managers' decisions, etc.
- b) regional policy management crisis, shaping, according to the literature the external environment of region subject operation. Cognitive character of such type of agreements, remains very essential for final analyst decisions, because the factors identification, causing such type of crisis, illustrates the level of competence for region economy management, including usage of special economic predispositions by subject region and capacities of region economy protection against external effects of recession mediums, which result from them.

Independently of the above, we can enlarge our reasoning by subject analysis with information following from REGON register, which gives the number of new or closed economic subjects in the region. If the number of these subjects increased, we may deduce, among the other things, that the number of places of employment also increased. It means that the new companies noticed somewhere on the local market an opportunity to start running a business, an area, a niche of a low barrier for entering the market. If the number of subjects stayed at the same level for the last few months, the reasoning about lack of the global crisis influence on the considered region would be reinforced. The existence of the subject crisis cannot be proved by the possible drop in the number of economic subjects if we do not clash the state with the size of events more or less connected with the considered category of the phenomenon.

Assignment of the symptoms of the global financial crisis on national and local level based only on some statistical data, appears to be insufficient, but also in circumstances of decreasing statistics reliability illustrated with examples in public writing, where we read: ... "*Eurostat reports that we have 57.5 % of indebtedness* and we don't have the carpet to sweep it below,... you have heard the deputies (,,) who said that they have not changes the GUS President to have more than 54.9%... and they will have as in supermarket such ... 54.99%, because from 55% the threshold for improvement starts and then constitutional scissors are cutting everything" (Rzeczpospolita, 2011).

Statistics reliability is also denied by politicians – authority representatives, publically questioning data, e.g. about the number of malnourished children in the country.

Subject circumstances are stressing the essence of real situations mapping the problems within the society and economy, but simultaneously they reinforce the necessity to use deepened analysis in the scope of factors, which broaden the spectrum of its final conclusion. Mainly it concerns:

- a) **External factors** – which equally, in a harmful way, affect the level of results of economic subjects independently of their country location, its size or

business, for example the policy of banks (Co ugryzło banki?, 2009), channels of crisis transmission (Kryzys nie straszny, 2009) or the prices of electricity, which have gone up in 2008 and again in January 2009 (Prąd kopnął firmy, 2009). *"Companies calculated in their business plans 15% of increase in electricity while its real level went up 40%, creating a steep increase in production costs and a decrease in competitiveness of Polish companies on the United Europe market because, for example in Germany, Czech Republic and in Slovak Republic prices of electricity went down"*(Co wolno wojewodzie?, 2009). Information about a drastic increase in electricity prices in Poland due to a 50% increase in coal prices (Górnictwo nie chce renegocjacji..., 2009), and the fact that an excise for electricity in Poland is one of the highest in Europe (Co wolno wojewodzie?, 2009), can be crucial for conclusions considering the global financial crisis in Poland and its individual regions. In conditions of the internal country increase of energy prices we can consider the problems of Polish companies caused by the influence of the global financial crisis, as very controversial.

- b) **Internal factors** – dependent on a company and determining the effectiveness of its performance where we can enumerate: efficiency of the organization management, its resources, competences and methods of work and others. This scale of an analysis enables us to identify the errors made in operation of the company. In consequence it enables us to identify the factors, which evoke problems in functioning of a company and not related to the global financial crisis. They cannot be attributed to the crisis even when the problems of the company existence at the same time are correlated with the crisis around the world.

In analogy to the above, it is not possible to subscribe to international crisis, the economic difficulties of the region, caused by incompetence for region's economy management.

#### **4. Sources of transborder economies protection capacities against international recession factors**

Current market economy is specified by local potential diversity. Its level is significantly higher on the connection points of separate economic systems. The example of such phenomena are the border areas, where subject diversity results mainly from the fact of administrative separation of the country with a border line. Administratively demarcated border simultaneously outlines any law application border, which regulates the rules of operation in a given area of social-economic life on the area of each country. Different approach to the essence, aims, priorities of management are found in the approach of each country towards created legal regulations. It effects with diversity in rules, conditions and possibilities of



management, scale and scope of severity, limitations, prohibitions, but also in access to infrastructure, resources and measures as alleviations, preferences, subventions, loans, etc. It affects also diversity in living conditions of citizens of subject areas and diversity of capacities to satisfy various citizen needs.

Therefore, administratively demarcated border in artificial way divides the areas and together with the above, also the cultural, religious, custom, infrastructure, technical, economic and economy environments in the scope of characteristic properties and features occur, which because of its peculiarity become economically attractive for representatives of other, administratively separated economic systems. Especially, they become attractive for the citizens of transborder areas.

Distinctness in rules, ways, methods and capacities of operation: resources structure and technical infrastructure and its construction and representative level of modernity: access to know-how, existing on both sides of the border, are creating the areas of increased economic capacities, especially for subjects operating in the close distance to the border. Such locations foster external cooperation pickup, mainly because of the small distance to alternative categories. Entrepreneurs from one side of the border may very closely, in the vicinity, just next to, on the other side of the border, obtain at all or just on better conditions, required with own interest categories such as, resources, which because of cost, financial, legal, technical, procedural and other reasons, remain not available for them or unavailable on their side of border. Because of the access to neighbouring, border resources, it becomes possible to use them by engagement for own needs the external resources or transfer onto a second side of the border or specified immanent processes parts, related with own economic process. In such way, the access to more favourable management conditions is the feature, predisposition, specific feature of transborder areas.

Entrepreneurs located in the bordering areas have the possibility to evaluate their business operations level of rationalization through much wider perspective of elementary features. Subject extension of analysis and evaluation criteria for the profitability level of operation, are the reference points existing under various figures on the other side of border. Their active participation in monitoring of operation participation causes that the scope of alternative possibilities of individual business processes execution variants or the components of such processes is extended. The scope of such type of extended capacities is decreasing, although together with the growing distance of companies' location from the border area. It means that the intensification of special business capacities and real, additional economic advantages to obtain, concentrates in the near surrounding and on the connection points of separate, individual economic systems. In subject locations differences in potential occur, and together with them, special conditions, which foster the effectiveness of management.

Thus, law regulations in the scope of ecology, more liberal in the Ukraine than in Poland, make the companies, operating on this side of the border, where the restrictive ecological law is in force, to locate subject part of their business on the other side of the border, which in their location is a subject of cost consuming law in subject scope. The other example, which illustrates special potential and conditions for economic cooperation of border subjects development, may be the access to specified type of technical infrastructure, e.g. to logistic centres, communication junctions, waste burning facilities or water sewage treatment plants. Objects of randomly chosen infrastructure, belonging to subject located on the other side of the border, may, in the confines of cooperation, take over the service over specified part of the process or the main business process of the company, operating on the other side of the border and therefore eliminate the necessity of construction financing or modernization of listed infrastructure. Border subjects cooperation may have influence on decrease in operation costs of such infrastructure, which the enterprise had to bear on its side of the border.

The same is with road infrastructure, car service stations, storehouses, office backup facilities, etc. Not without a reason for foreign subjects cooperation decision, located next to the national borders, is the access to specified type of homogenous resources: raw materials, geological layers or qualifications, cheaper or generally available in a given perimeter of the area. The strong argument for such type of economic cooperation of the subjects around the border area may be the differences in remunerations, products and services prices, in availability of technology and infrastructure as well as government pro-financial approach, which very often presents very specific tax gestures towards foreign money, e.g. few year release of foreign companies form tax obligation. Social factors and social attitudes are also of high importance for undertaking the cooperation of the subjects located on both sides of border, e.g. level of trade unions activity or level of citizens' trust to national financial and other institutions.

The other reason for undertaking the economic cooperation by border area subjects may be the usage of differences in tax percentage, e.g. of VAT tax, which for babies products on one side of the border is 23%, and on the other the level of such tax for subject group of products is "0".

Therefore, the peculiarity of economic capacities of transborder areas emanate the ability of higher effectiveness, which results from real ability to benefit from potential differences, favourable for costs decrease: remunerations, payments, raw materials, materials, infrastructure operation, etc. Such aspect, remains above the all the most important, not only for development of transborder economies, but for protection of such economies against destructive influence of recession, activating their influence in the circumstances created by international, global financial crisis.



The usage of specific capabilities of management, proper for transborder areas, remains in relation with permanent observation and monitoring of changes, which take place in the scope of considered capacities. It is conditioned by current analysis of social-economic situation, social needs and capacity to satisfy the local needs. Thus, without an access to reliable statistics, it is difficult to illustrate reliably the reality and initiate effective management processes, replying to challenges of such reality. Simultaneously, transborder economies reveal increased tendency to create immunization mechanisms of those economies for the influence of global crisis.

## 5. Conclusions

The global financial crisis is not a statistical category, so the above considerations prove the fact that statistical information does not explain the causes of occurrence of a certain social and economic state but it only brings us nearer to the recognition (knowledge) of some social and economic phenomena, and to the setting of their trends or tendencies, under the condition that it represents a high level of reliability.

The information supports the process of recognition (of reasoning) but it does not give us ready and plain answers. It also supports the process of decision-making and the management knowledge of people who run the process and only in such a case it may support effective management decisions and management knowledge of decision-makers for the aim of protection of national economies as well as local economies, including the transborder ones.

The wider the spectrum of factors for analysis and the economic categories described by statistical data, the higher the probability of the accuracy of diagnosis and economic decisions being its consequence. The statistical data providing aggregated information, a resultant of certain individual data, even in an extended number or variety, will state an inadequate measure to point out the reasons of the occurrence of certain global crisis in local economies, unless they remain in the status of low reliability, and if they will be the only basis the practitioners make their decisions on.

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