

# Impact of the global financial crisis on businesses



How and why the financial crisis was transmitted to business? To what extent can the new regulatory framework prevent the same errors from occurring twice?

Financial crisis, the word most mentioned during the last seven years, people may asking about why it take so long time to recover and how many businesses were been affected. There is no exactly number about how many business went to bankrupt, but at least we know that in comparison with seven years ago, the business methods have been changed in order to be more prepared and to survive in the financial crisis.

The new financial laws come out in different countries in order to improve their economic growth, because nobody wants to live again the difficult moment as seven years ago. Remembering how the financial crisis started, and how it affected our live style, beside of to know how to prevent it we have also started to learn about the mistakes that we have made in order to not repeat it again in the future. Backing in this case, because we are the main actor who create the financial crisis, and nowadays we are taking the bad consequences about it.

Focusing on the business, in the context of economic globalization that we are living nowadays, the impact of the spread of the financial crisis has apparent in different business affecting directly to their business activities as well as investing activities and financing activities.

Faced with the financial crisis, companies in the business activities have to reduce inventory, lower their labor costs, strengthen management of accounts receivable, in the investment activities, they have to reduce

investment spending to improve capital efficiency, to seize the investment opportunities in order to improve equity investments, and in financing activities, they have to increase the proportion of loans and take advantage of payable accounts.

As the Wall Street investment bank giant Lehman Brothers bankruptcy, the US subprime mortgage crisis evolved “rare way” in the global financial crisis, the world economy has had a major impact. In the context of economic globalization, the companies of different countries have not been spared, the impact of the financial crisis to those companies has become more evident.

I will explain in below how the financial crisis has affected in different activities in the companies. In this case we can focus on the following factors in order to have a clear analysis.

The impact on operating income.

There were many uncertainties and potential risks of financial crisis, so that people fear the rise in the degree of risk of future employment status and income expectation. When there is poor earnings expectations, people will reduce unnecessary consumption. The consequences will be that people stop consuming because their future prospects of the financial crisis environment was pessimist, and at same time which caused directly the revenue decline in different business. All those factor contributed the economic decline worldwide.

The impact on inventory.

From a global market perspective, under the influence of subordinated debt, the developed regions hardest hit, the demand of goods in the business is declining.

First half of 2008, affected by global inflation, corporate purchase of raw material prices, freight increase (global petrol prices), leading to increased cost of raw materials companies, resulting in the production of goods and manufacturing costs increase accordingly. If not compensated for the price, corporate profits will be compressed. Enterprises are in a transition process of inflation and financial crisis, the orders from the raw materials were often low because the increase of the price which cause directly the production and the pricing.

The value will shrink a lot. The more business preparation, may afford to lose more. If the turnover rate of raw materials business is slow, and the expensive products are difficult to compete with low-cost products, it will make companies get in trouble. In addition, different inventory valuation methods will result in product backlog. For example, according to the FIFO method, the business inventories have to be included in the purchase of raw materials, the product cost, cost to be digested by the high price, and during the financial crisis, people do not want to spend a higher price to the consumption, resulting in product sales is not formed out of the backlog.

Impact on accounts receivable.

Affected by the financial crisis, overseas corporate default rates began to rise, further deterioration of the business of external credit. According to statistics, in May 2008, the local enterprises overseas bad debt rate have

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grew by about 268 %. Recovery of the purchase price is the full life line, set up a business in the future, according to the sources of funding, which are basically by loan recovery, expand the market, but there is no corresponding mechanism for the recovery of money, and ultimately to bring liquidity shortage, companies eventually will operate difficultly in this process. Increased bad debts or bad debts, taking up excessive liquidity in the enterprises, SMEs, if financing difficulties will inevitably result in cash flow difficulties of enterprises, companies lose the “ capital”, just as humans lose the “ blood”, many enterprises may walk on the edge of life and death, the company today hey, tomorrow may collapse.

The impact on operating expenses.

Weaken existing market demand, so companies have to rethink new markets, including international markets and domestic markets. In order to expanding domestic demand, so that export-oriented enterprises to offensive domestic market. In order to place in this market, it is necessary to find a way to open it. And the main action is increase the domestic market share, considering that the best way to open the domestic market is to increase ad spending. Since the original domestic market enterprises in the market accounted for a leading position, export-oriented enterprises will offensive fierce competition with domestic enterprises. Intense competition in the market forcing companies to increase the cost of sales and profit margin compression. Of course, open up new international markets also have to pay more of the cost of sales.

Impact on labor cost.

Because the financial crisis, it is become more expensive to fire the employers, which makes companies stop hire new employers in order to reduce their labor cost. This action has affected directly to the labor market, because there are still a lot of people looking for a job, as the result, people start looking the better job opportunities in other countries and caused as we know the “ brain drain”.

Effect of equity investments.

Influenced by investor expectations of the future, surrounding the stock market crash, 2008 in the secondary market for some stock investment companies is a “ disaster “ of the year. Not to mention the investment income, many have now lost even the principal. For some enterprises, investment entities, due to the poor performance by investment companies, investment companies are allocated to dividends invested enterprises naturally reduced, or even no bonus. Therefore, some companies are considering the sale of subsidiaries, equity investments decrease. But for some small and medium-sized enterprises affected by the financial crisis, the danger lies opportunity. Now new opportunities for enterprise restructuring and supply chain strategic acquisitions.

For example, the Big Three US automakers Chrysler go bankrupt if it originally to Chrysler as the leading supply chain will be interrupted immediately, those who do contract work for Chrysler, spare parts supply, logistics transit, channel, terminal services, and the same for those providers secondary product supply, services and raw materials Distance sub-suppliers, distributors who will completely lose the basis of survival.

In order to prevent all the impact that we have mentioned before, the following recommendations could be useful for companies which is operating during financial crisis. They may not going to be the perfect solutions, however, they will give us a clear idea about how to face and how to act in the difficult moment.

Reduce the inventory.

Product demand weakened, difficult to sell their products at once, in which case only a variety of promotional methods to reduce inventory to net realizable funds as quickly as possible. If there were some unmarketable products, we should act decisively, even if production is discontinued or partial pressure, do not let inventories continue to increase. Because the formation of product inventory, not only harder to sell slow-moving products, more important is the product price, likely to cause new losses. Primary Material inventory too, they do not affect the normal production, it should try to do short-term purchase, so raw material inventory to a minimum line to maximize the amount of funds used to shorten the inventory turnover.

Product sales to adhere to the “ cash is king” concept, the implementation of cash transactions, or a shorter period to promote the sale of credit receivables.

Reduce the labor costs.

During the Financial crisis, the companies had a hard time, enterprises are facing the risk of suspension or discontinued, dismissed or forced to dismiss employees. For businesses, they do not want this to occur, not to mention according to the “ Labor Contract Law” in different countries, the enterprises

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laid off or dismissed employee cost is not small. Therefore, the enterprise benefit drops or downtime, it can adopt flexible working hours, to arrange staff rotation or waiting list.

Choose Payment of wages to workers of all or part of their wages or even just send living expenses, both to reduce labor costs, but also to guarantee the basic livelihood of employees, so that employees feel the caring companies and work harder, but also reflects the company's social responsibility.

The financial crisis has brought to the enterprise not only dangerous, but also to business opportunities. For some of the less affected by the financial crisis and better management of the enterprise, then the introduction of senior professionals is a great opportunity, because when people lowest cost. There are always hands-on experience of senior personnel shortage, this time just to dig people abroad. In a sense, at a low price to buy the high-level talent, but also a reduction in labor costs of business performance. Use of personnel for the future development of enterprises to provide a guarantee.

Strengthen the management of accounts receivable.

Faced with the financial crisis, companies should be based on the idea of "cash is king," according to the market situation and make the appropriate changes, to minimize the amount of accounts receivable and credit terms. The larger the amount of accounts receivable, indicating funds purchase units occupy the unit more; the longer the period of credit receivables, indicating that the longer purchase units occupy the unit of time.



Therefore, to strengthen the management of accounts receivable. Existing accounts receivable has been formed, it can promote cash discount to attract each other early payments, such as payments within 30 days, give 2-3% cash discount or a higher cash discount, and more than 30 days is not to discount.

For possible bad debts or bad debts, should act as soon as possible, such as debt restructuring mode, can recover how much to recover the maximum extent possible to reduce the losses. For the existing products sold Sale, delivery or the month should do the knot and other payment methods.

Cannot pay the purchase price or the ability to pay poor business, under exceptional circumstances rather not accept the order. If the goods issue of money being paid, because the product is easy to form a substantial price dispute, but also easy because of the other closed, bankruptcy and other reasons cannot find the debtor and become " headless account", to the enterprise caused undue loss. How to speed up a reflux of funds? First, from starting their own businesses, while reducing inventory and strengthen the management of accounts receivable. In addition to increasing the recovery of accounts receivable, the use of the hands of the receivables in the bank financing is also an effective way to revitalize the capital.

Financial approach in investing activities.

Faced to the financial crisis, different companies have different investment strategies. For deeply affected by the crisis, and low interest, cash-strapped companies to cut costs, reduce investment spending; for some medium-sized enterprises affected by the financial risk has little effect, and effective, well-

funded, should seize the investment opportunities, improve equity investment.

To reduce the investments spending and improve the capital utilization.

Most of our business is driven by investment growth, and sources of funding such investment, in addition to the majority of enterprises have accumulated bank loans or equity financing. Own funds of enterprises invested substantially all operations. In the context of the financial crisis, the excessive dependence on bank loans and equity financing for investment, is not realistic. Because hit by the financial crisis, the bank "credit crunch", the stock market plummeted, and remains in the doldrums. For most companies, limited funds can only be used wisely, enterprises should take the initiative to stop the long investment cycle, large-scale investment projects, the limited funds use security production for survival, protection stamina up. A number of new investment projects should see more than move, blind investment companies into deeper causes.

All those advises that have mentioned before could be an effective solution to face the financial crisis, however, fix the actual economic system and more control in the sense of the investment and mortgage in order to prevent that the same error happened for twice.

In this case, we are not only talking about the banking or investment entities, but the government. From my point of view, the financial crisis happened not only because the bad management of those financial entities, but the government has also the major responsibilities, since they let the

companies follow the crisis trend which means, no one of them has thought about the consequences could be.

Of course, nowadays the government try their best in the sense of economic recovery, some of the countries saw the result very soon, but others are still suffering the financial crisis consequences, countries as Greece, Italy, Spain and so on, they are the most affected countries in Europe, people may ask about why there's some countries only take few years to recover the economic and other which still in the recession. And the only answer will be the government decision making, if they made a correct one, it may benefit to whole country, if not, as we have already see with some countries, cut in public funds, as education or health and so on.

So in order to make sure that it is not going to happened again, the main recommendation is to start to stablish some specific financial rules for financial entities as well as for countries, make sure everything are under control and once detect again the appeal of other financial crisis, at least they are ready to face it and make sure the economic damage is going to be as low as possible.

Even though we are still in the recession process, and there are still a lot of enterprises fighting for survive in this crucial moment, however we should have an optimistic vision about the future, since

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