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EFFECTS OF FINANCIAL CRISIS ON THE ACTIVITY OF ECONOMIC ENTITIES AND ON RELATIONS WITH STAKEHOLDERS

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Abstract
In a market economy, the normal situation of participants is one of risk and insecurity, generated by competition that can ensure national progress and prosperity, but also by disruptive factors that can bring major financial imbalances. Financial crises have now become a topic of research with increasing theoretical value, especially if we look at the significant problems that recent crises have caused to participants in trade and financial exchanges. The current health crisis has led us to address this contemporary issue, however, whether it is health or economic, a crisis can spread easily, and its impact can be felt worldwide if coordinated and firm action is not taken from the start. In this context, the purpose of this article is to present the effects of financial crises on the activity of economic entities and stakeholder relations. In order to achieve the proposed goal, the concept of crisis was delimited and the main types of crisis that can affect the activity of economic entities were described, the phase of recognition of the enterprise crisis was identified and the insolvency procedure was briefly presented, then finally the main stakeholders affected by the bankruptcy crisis of an economic entity were presented.

Key words: *crisis; economic entity; stakeholders; enterprise crisis; insolvency proceedings*

JEL Classification: *M41*

I. INTRODUCTION

According to the Explanatory Dictionary of the Romanian Language, the crisis represents a phase in the evolution of a society marked by great difficulties (economic, political, social, etc.). The crisis coincides with a period of tension, turmoil, trials (often decisive) that manifests itself in society in the form of an acute shortage of money, goods, time or labor (see https://dexonline.ro/ definition / crisis).

Crises characterize financial markets, both in periods of economic integration and in those of economic disintegration. Crises also create inequalities through financial transfers between different social groups. Thus, the privileged participants of the financial sector can obtain important capital gains, and the small participants can bear real losses.

The concept of crisis is a phrase that appears more and more in the debates of economic and political analysts in most countries of the world, especially where its consequences make their presence felt. Thus, the problem of the economic crisis is one that can be discussed a lot, but it is certain that its consequences cannot always be foreseen, which leads to the worsening of the economic situation in most countries of the world (Suciu, Stan, Picioruş & Imbrişcă, 2012).

Crises that have affected various economies, mostly emerging, over the previous two decades, have led to the emergence of various models, some of which try to capture the causes of crises ex post, without having a high degree of efficiency in preventing future crises. However, they are a starting point in building approaches aimed at anticipating crises. Crises do not have the same effect on all categories of people and on all companies, despite the negative global impact. Crises especially affect disadvantaged groups through negative shocks to incomes and employment, rising inflation, changes in relative prices and reduced public spending (Burghelea, 2011).

Other opinions (Totir & Dragotă, 2011) consider the crisis as a set of various dysfunctions, but whose interdependence explicitly illustrates the degree of financial and economic globalization in today's human society.

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Thus, one of the causes is the saturation of the three engines of world economic growth in the period after the collapse of the socialist bloc: relocation, credit and consumption.

II. THE MAIN TYPES OF CRISIS THAT CAN AFFECT THE ACTIVITY OF ECONOMIC ENTITIES

Social, environmental, economic and financial crises are external factors in triggering and creating financial imbalances within companies. The concept of economic crisis is broader than that of financial crisis, the economic crisis having as its source - financial crisis.

The social crisis

The social crisis manifested at the level of a state leaves its mark on society, implicitly on companies. The social crisis is in itself a significant factor influencing the financial imbalance of economic bodies. The emergence of this crisis may be conditioned by the outbreak of other crises, such as the economic or financial one. The emotional states that the individual experiences during a crisis, namely stress, depression, panic, fear, are generators of social problems, which manifested collectively can lead to very serious social crises (Balan & Pascari, 2014). Also, the malfunctioning of the educational, health, socio-cultural system against the background of a financial crisis, leads to the outbreak of the social crisis.

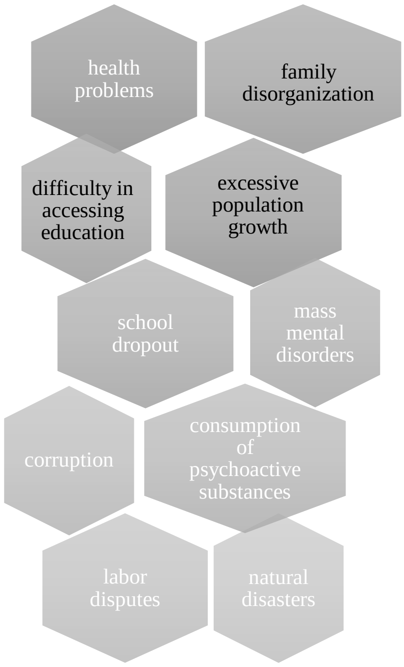

Figure 1 – Problems specific to a social crisis

Source: Adaptation after Viziru-Stegarescu, 2018

Figure 1 shows the problems that may arise in a social crisis. In addition, the following manifestations may occur: youth deviance, interethnic tensions, mass divorces, abandoned children, housing crisis, social problems caused by the presence of the army and police in everyday life, community disorganization, urban traffic, pollution, large international migrations , economic and social inequality between major regions of the globe, food, energy and new forms of violence (civil or organized).

In general, a social problem is “a social process, a characteristic, a situation that society or a subsystem of it considers needs to change. It exists if it meets two elements: a real object that is the source of difficulties: it can be a negative aspect (elimination, reduction) or positive (something to be achieved); and the second element is the awareness of the difficulty: the aspect is put as a problem, accepted by the members of the system as having to be changed (a problem becomes a problem only through awareness). A problem can be qualified as social if it is largely seen as undesirable or as a source of difficulty; it is caused by the action or inaction of people or society; affects or is supposed to affect a large number of people” (Viziru-Stegarescu, 2018).

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Environmental crisis

The last decade has brought to the forefront of public debates the issue of the environment more and more frequently. For Romania, this is, first of all, the consequence of belonging to the EU as a member state, but also the consequence of the measures for the effective implementation of the provisions of the community policy in the field. These complex processes affect not only the public sector, i.e. the level of central and local public authorities with specific competencies and responsibilities in this field, but also everything that means industrial activity, production processes, commercial activity, services. In other words, all economic actors are affected, regardless of the nature of the activity they carry out. Based on environmental norms, public authorities are increasingly involved in the regulation and functioning of the market. Therefore, they are affected in most significant activities, both the public and the private sector, and finally fi each of us, as subjects and beneficiaries of this protection regime (Velişcu, 2008).

Threats that pose to health and are caused by the irrational use of Earth resources by humans may seem less worrying at first glance: slight climate change, pollution, urbanization and unsustainable consumption, but which in reality lead to major environmental disturbances and to the loss of biodiversity.

Currently, in the present crisis, it can be tempting to develop urgent solutions to the pandemic, such as the use of disposable materials, reducing the use of public transport and subsidizing highly polluting industries. Such responses could bring apparent short-term benefits, but would give up the necessary long-term improvements in terms of the environment, human health and sustainability. In fact, neither climate change nor other environmental stressors and their impact on human health and ecosystems have receded.

Economic crisis

The situation of the national economy can influence the functioning in itself, as well as the development possibilities of the enterprise. This is mainly conditioned by the fact that the government can try to improve the state of the economy: by regulating taxes, money supply, interest rates, etc.

The economic crisis is “a situation in which a country's economy is going through a sudden decline, generated by a financial crisis. An economy facing an economic crisis will most likely experience a decline in GDP, a decrease in liquidity and an increase / decrease in prices due to inflation / deflation. An economic crisis can take the form of a recession or a depression. It is also called the crisis of the real economy” (Ionașcu, 2013).

In times of economic crisis, on the one hand, negative financial effects are generated on the economy, and on the other hand, scientists often express concern about the potential negative effects that can occur on people's health. Two of the major consequences of the economic crisis are declining incomes and rising unemployment. In addition to these harmful consequences, specialists also talk about consequences that involve affecting people's health. In this condition we include mixed symptoms of suffering, depression, anxiety, psychosomatic symptoms, decreased self-esteem and well-being. Studies show a significant difference between the mental state of the unemployed and employees, so the average number of people with psychological problems among the unemployed in the studies was 34%, compared to 16% among employed people (Uutela, 2010).

The legislation also has a contribution to the creation of the financial blockage and the appearance of the economic crisis. For example, in Romania this is a very flexible one (Dobrescu, 2010). We believe that severe measures should be taken not only with regard to companies, but also with associates or owners of the company who, at the moment they have a major problem in the company and can no longer solve it at will, resort to the same tricks, reaching to the point that they overestimate their assets in the company and then sell their own business to strangers.

These factors listed above are often at the root of crisis situations in domestic enterprises, the main ones being: falling demand, permanent changes in the state's economic policy, inflation, underdeveloped financial markets, political instability, etc. (Mihalachi, 2012). We can say that external factors are almost the same for all companies. However, some companies are able to adapt to these conditions, others are not. On the one hand, not all domestic enterprises are able to compete successfully in market economy conditions. Even the availability of competitive products does not allow many of them to successfully avoid or overcome crises.

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The financial crisis

The financial crisis is defined as “a situation in which the supply of money is exceeded by the demand for money. This means that liquidity evaporates quickly because the available currency is withdrawn from banks, forcing banks either to sell other investments to cover their deficit, or to collapse” (Ionașcu, 2013).

The effects of the financial crisis are usually felt through a deep economic recession, affecting financial markets and increasing business risks. In terms of increasing risks, they have the negative effect of disrupting the proper functioning of the company. This increase can be translated into an increase in uncertainty about its ability to continue operating. According to the legislation in force and good practices, the existence of such a situation must be presented in the financial statements and in the audit report (Xu, Jiang, Fargher & Carson, 2011). In this context, the mission of the professional accountant is essential, as the accuracy of financial reporting depends on him.

Therefore, we conclude that, often, the causes of crises in domestic enterprises are largely hidden within them, often it is the internal factors that differentiate between those who will manage to overcome the crisis and those who will stop their activity.

III. The Effects Of Economic And Financial Crises Felt At The Level Of Economic Entities

Economic and financial crises are affecting companies so much that many of them are forced to apply for additional monetary aid, either through lines of credit, or government subsidies to survive. In times of crisis, many businesses are in danger, others even face the threat of bankruptcy.

Among the effects of crises on economic entities can be listed: major difficulties in providing the necessary financing, liquidity and blocking the lending; lack of labor due to pay cuts or massive layoffs; drastic decrease in demand for products and services from customers; reduction of domestic sales; lack of raw materials or the existence of raw materials at very high costs; recording high costs due to the very large increase in utility prices; the impossibility of financing through external funds due to the restriction of the offers of the credit lines; large exchange rate fluctuations and inflation; late payments leading to financial blockage within the company; cumbersome and costly legal proceedings for the settlement of commercial disputes; unstable legislative framework; bureaucracy and numerous administrative barriers to the activity of SMEs; very low degree of absorption of Community funds; insufficient measures to support companies during the crisis; insufficient state aid and difficult access to it; closure of economic units; increasing taxes and duties, such as VAT (Popa, 2013). Schematically some of the effects described can be seen in Figure 2.

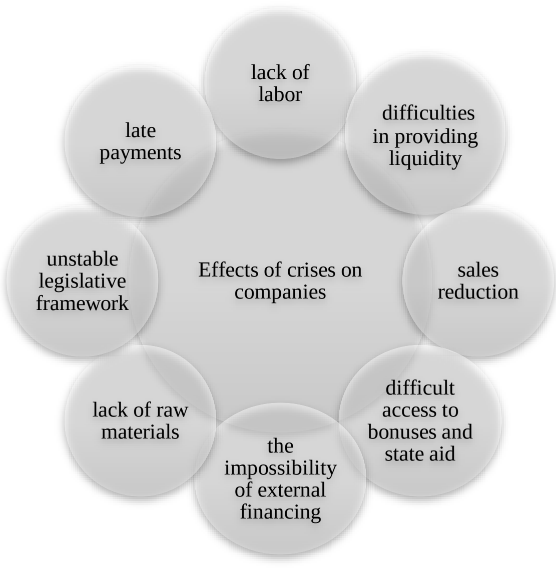

Figure 2 – Effects of economic and financial crises on economic entities

Source: Adapted from Popa, 2013

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In these conditions of affliction, companies must give priority to liquidity management and their actions must be modeled in accordance with the objective of overcoming the financial difficulties they face. Saving strategies can be a solution, being one of the financial management strategies better understood and applied in times of crisis, among other actions. The order of saving strategies starts logically from the farthest link to the nearest.

As the difficult situation continues, it increasingly affects internal management, so in times of crisis companies need to pursue a variety of reductions and savings strategies to maintain their existence. Such a perspective „could be useful for understanding the behavior of companies that perceive the crisis as a threat to their economic activities and are concerned to seek precautions, but at the same time continue their activities naturally, report the financial situation, some of the also concerned with social activities in philanthropy without interruption in times of crisis" (Yelkikalan & Köse, 2012).

IV. The Crisis Recognition Phase Of The Enterprise And The Isolvency Procedure

The notion of enterprise crisis or financial difficulty is not defined by law (Haţegan, Imbrescu & Pavel, 2010). Instead, the specialized literature defines the state of difficulty of an enterprise "as not achieving the objectives of profitability and liquidity" (Işfănescu & Țuțui, 1997); but also as the financial imbalance between the sources of financing and the economic means to be covered or the inability of the company to pay its debts, which may result in the perpetuation of the financial crisis which can quickly become dramatic by restricting activity, reducing external financing, massive layoffs (Negrilă, 2003), finally insolvency and, as the case may be, bankruptcy.

A company (or organization) is insolvent when it cannot pay its debts. This could mean (Insolvency Guidance, 2020):

- cannot pay invoices when they become due;
- has more debt (including contingent and potential debt) than assets.

In the past, in the application of the bankruptcy regulation, provided by the Commercial Code or of the reorganization and judicial liquidation procedure from Law no. 64/1995 (in the initial forms), in order to reflect the insolvency of the debtor, the legislator initially used formulations such as "can no longer cope with debts", "cessation of payments", "inability to pay", which became, in within the evolution from a legal institutional point of view, the notion of "insolvency" (Avram, 2010).

The state of insolvency expresses the financial imbalance of the debtor's patrimony, characterized by the preponderance of liabilities over assets, and the inability to pay (called jurisprudence and insolvency) represents the absence of funds necessary to pay the due obligation. Therefore, the debtor's assets may have an asset predominant over the liabilities, but in the absence of cash available to pay the trade obligation at maturity, there is inability to pay, although there is no insolvency. Conversely, the liability being superior in value to the assets of its patrimony, the debtor is virtually insolvent, but is not unable to pay, because it benefits from the support of the bank loan (Turcu, 2006).

People who work together as part of the insolvency proceedings to achieve their goal are called participants. To this end, the participants shall include the parties, the judiciary and other participants. The bodies designated to apply the procedure are courts, bankruptcy judges, bankruptcy administrators and liquidators. Given its collective nature, other actors participate in the insolvency proceedings: the general meeting of creditors, the creditors' committee and the special administrator.

According to art. 5, para. 26 of Law 85/2014 on insolvency prevention and insolvency proceedings, the debtor means the natural or legal person who may be the subject of an insolvency proceedings; and by the creditor a natural or legal entity which has a creditors' right over the debtor's property and which has expressly requested the court to register its claims in the final table of claims or in the consolidated table of claims and which can duly prove its claims against the debtor's assets (Puiu-Nan, 2012). In general, the debtor's assets may include the goods entered into the debtor's property until the opening of the proceedings, as well as the goods purchased by the debtor after the opening date. If the existing assets are insufficient not only to pay the debts but also to cover the costs involved in the procedure, the regulation must provide for the abandonment of these assets and the termination of the proceedings since the legal purpose cannot be achieved.

The request to open insolvency proceedings plays a double role in terms of the possibility of recovering claims through insolvency proceedings. Whether it is the determination of the debtor to pay his debts voluntarily (when this is possible), in order to avoid the harmful consequences generated by the opening of the procedure, or the insolvency procedure is started, the finality is the same, namely the insurance of receivables.

The insolvency proceedings can be opened either at the request of the debtor or at the request of the creditor. The submission by the company of the voluntary application to open insolvency proceedings may constitute an

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obstacle to the creditors' desire to recover their claims due to the suspensive and then interruptive effect of the opening of proceedings on judicial and extrajudicial actions, respectively on common law enforcement proceedings, directed against the debtor's patrimony.

The creditor entitled to request the opening of insolvency proceedings is the creditor whose claim on the debtor's assets is certain, liquid and exigible for more than 60 days. A certain receivable means that receivable whose existence results from the deed of claim itself or from other deeds, even inauthentic ones, issued by the debtor or recognized by him. The creditors will be able to request the opening of the insolvency procedure only in case, after the compensation of the mutual debts, of any nature, the amount due to them will exceed the amount of 40,000 RON, according to art. 5, para. 20 of Law 85/2014 on insolvency prevention and insolvency proceedings.

Equal rights of creditors are limited to the time of the request to initiate proceedings. Furthermore, equality will give way to priority, so it is possible that a creditor who has obtained the opening of insolvency proceedings will not receive anything when distributing the proceeds of liquidation of the debtor's assets (Turcu, 2006).

The simplified insolvency procedure applies to insolvent debtors. The general insolvency procedure, as opposed to the simplified procedure, applies to debtors operating a business [1], as well as to self-employed companies, with the exception of those exercising the liberal professions, as well as those for which special provisions are laid down regarding the insolvency regime.

From the moment the insolvency proceedings are opened, the legal regulation of insolvency must normally predict certain aspects (Avram, 2010):

- the transfer of control over the debtor's assets to a person having official status, but being independent;
- delimitation of these goods in the form of the so-called fortune of the debtor of the active mass (which goods actually fall into the debtor's fortune, under the control of the practitioner, in order to capitalize);
- the way in which the measures to be taken to protect the respective assets against the actions of the debtor, creditors or other persons are ensured;
- any other legal person under private law that also carries out economic activities.

The finding of the state of difficulty of the enterprise and the violation of the principle of continuity can be revealed only after a thorough research. The diagnosis aims at investigating the company as a whole, the procedural and structural components, but especially the financial-accounting data that indicate the health of the company.

V. THE MAIN STAKEHOLDERS AFFECTED BY THE BANKRUPTCY CRISIS OF THE COMPANY

The bankruptcy crisis of a company affects people both inside and outside. Typically, the stakeholders affected by a company's bankruptcy crisis are divided into the following ten groups: owners, manager, creditors, investors, employees, customers, suppliers, the state, auditors and professional accountants.

We can consider *the owner* as the person most affected by the crisis of a company, as his company is in danger of not being able to pay its debts. Owners are constantly interested in evaluating the performance of their business. They do not want their company to regress financially. With the help of data from the company's financial statements and internal accounting, they receive information about the profitability of the entire business, as well as about individual products and specific segments. Homeowners are also interested in knowing how risky their business is. Accounting information helps homeowners assess the level of business stability over the years and the extent to which changes in economic factors have affected the balance of their business. Such information also helps homeowners decide whether they should continue to invest in the business or whether they should use their financial resources elsewhere in more promising businesses.

Management is affected by this situation of the financial crisis through the internal imbalance produced within the company it manages. The effective managerial process should be based not on intuition, but on the in-depth study and understanding of an existing situation, on the analysis of threats and development possibilities of the enterprise and its environment (Tcaci, 2011). The manager needs financial-accounting information to plan, monitor and make business decisions and to allocate financial, human and capital resources to the current and future needs of the business. The preparation and monitoring of the business plan effectively requires reliable accounting data related to the various activities, processes, products, services, segments and departments of the company.

Creditors are the parties that provide alternative sources of capital to organizations. While homeowners offer equity, lenders usually provide foreign capital to the organization and usually earn a return on interest. Examples of creditors may be bondholders in companies, banks and other financial institutions that provide loans

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(Musbau, 2015). Creditors are the most affected parties in a situation of insolvency on the part of companies, according to the owners, as they cannot recover their debts. For this reason, the most frequent insolvencies are made at the request of creditors in order to recover the amounts owed by the company, even partially. The need for real-time accounting information is also reflected in the need for creditors, as they need to know the economic performance and financial position of organizations on an ongoing basis to assess whether entities are profitable enough to pay interest on loans and whether organizations have the resources, sufficient to repay the principal amount when the amount becomes due.

Current or potential investors are interested in the risk-benefit relationship to make decisions about the purchase, sale or holding of shares or shares, as well as the entity's ability to pay dividends to estimate the return on investment. They are interested in the information related to the repayment capacity of the entity, the due dates, the financial obligations to decide to increase, decrease or maintain the constant level of investments and to conclude any relationship with that entity. If the entity loses its ability to grant dividends, the company risks losing the shares or social parts brought by the company by investors.

For *employees*, a crisis of the company where they work could mean not receiving a salary or in a situation of restricted activity could even be the loss of a job. Employees are interested in knowing how well a company is doing, as it could have implications for their security and revenue. Many employees examine the accounting information in the annual report just to better understand the company's business. In recent years, the increase in the number of shares and stock option schemes for employees, especially in startups, has fostered a higher level of interest in accounting information by employees. Moreover, potential employees are also interested in finding out about the financial health of the organization they aspire to join in the future.

Customers are the buyers of goods and services of companies and are, in fact, their economic drivers. If a company does not operate at normal parameters, customers have the power to decide that there is a possibility to stop using the services or products offered by that company, and the company itself suffers. Because customers rely on companies for products or services for personal consumption or resale, they use accounting information to assess the ability of firms to continue to supply their needs in the future. This measurement will be derived from the accounting statements of companies that indicate profits or losses, as well as the financial position of organizations and will be the platform for determining whether the entity is based on the principle of continuity.

As far as *the professional accountant and the auditor* are concerned, any approach and judgment is based on the principle of business continuity, as a basis for the valuation of assets and liabilities and the preparation of financial reports. Both the auditor and the professional accountant will always be interested in the financial situation of the company in order to appreciate its continuity in the near future (Anghel, 2002).

State institutions risk not receiving the taxes and fees that any economic entity constantly distributes, due to the extreme situation of the entities in financial crisis (Florin-Constantin, 2013). State institutions and other authorities need a wide range of information (generally - accounting information) to regulate the activities of entities, to determine taxation, to calculate national income and other macroeconomic indicators, to examine the impact of the entity's business performance on environment etc.

V. CONCLUSION

Social, environmental, economic and financial crises are external factors in triggering financial imbalances within companies. Referring strictly to the economic entity, it is important to point out that the crisis of a company does not mean insolvency, there is a major difference between the two concepts. The crisis of an enterprise may be the pre-insolvency phase, but the two states do not have an inter-conditioning relationship, with the possibility of overcoming the state of difficulty without reaching insolvency.

We consider that the aspects that provide details about the financial-accounting situation become the weapon and shield of investors who use them in investment decisions, because it creates a strategic advantage that leads them in a direction full of opportunities. Having an overview of the activity, the mission of the companies, but also in detail knowing through the analysis of financial-accounting information, the interested parties can make informed decisions, without having to take unpredictable risks. As stakeholders help sustain the economy by running, they need to be given the right framework to fulfill their mission.

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Finally, we should add that there are two tendencies to perceive the crisis: as an opportunity or as a threat. Unfortunately, in most situations, the crisis affects the financial stability, long-term profitability of the business and thus the survival of the company, so it is seen mainly as a threat. The most important in these conditions are the measures of awareness and prevention of the risks associated with any type of crisis.

End notes

[1] According to art. 3 para. (2) of the Civil Code, "operation of an enterprise" involves the systematic exercise, by one or more persons, of an organized activity consisting in the production, administration or alienation of goods or the provision of services, with or without a lucrative purpose.

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