

## **STRATEGIC ENVIROMENT AND GLOBAL FINANCIAL CRISIS\***

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Terms of reference which make the core of information technology paradigm present the material foundation of information society. One of the most significant terms of reference refers to the logic of linking any group of relations used by information technology. The structure of global economy is created by the dynamics of competition between economic subjects and domains (nations, regions, economic sectors) which their in. Global networked economy concurrence depends on the capability of national and supranational institutions to govern the development strategy in states and regions which are under their jurisdiction, including generating advantages on the global market for companies which are considered to serve the interest of the local population by employing more people and generating profit.

The global economic crisis has begun its manifestation in the financial sphere, by not being able to pay off credit, especially to the people. The chain has been disrupted due to the downfall of employment and reduction of salaries. Nations have reacted by saving the financial sector and partially the real sector, but the main problem, stimulating the solvency demand, remains.

Key words: networked economy, globalization, technological change, financial capital, recession, crisis of demand

### **INTRODUCTION**

Seeing the future is conditioned by understanding the past, which effected shaping the present. So, it is necessary to understand the context in which the changes took and are taking place so that we as individuals, state or the world in general can adjust, or proactively shape our behavior in the future. We are talking about a general context in

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\* Rad saopšten na IX Simpozijumu "Savremene tehnologije i privredni razvoj", Leskovac, 21. i 22. oktobar 2011. godine  
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which the entire global industry and the industry of some countries is shaped, and not about the conduct of certain economic entity. We want to point out the effect that global movements have on the position of economic entities, without pretensions to point out the directions of action so that these entities can individually increase their effects. So, when we talk about any industry we refer to it as a whole, by this we mean its position in general context. Pointing out the techniques and methods that would lead to better managing of some individual industrial subject is not the object of our interest.

Describing the way for more successful individual managing will not result in any changes in the big picture within borders of existing limiting factors. In the end it can only show the rearranging of the effects of managing within the borders of a specific industry or between different industries.

Globalization and new technologies are changing the world. New sets of events keep coming which bring new sets of changes. There is only a question of reaction: 'Ex post or ex ante!?' To live with the surprises or to control the coming future?

However, most of the thinking about the implication of these changes is wrong. World economy, economy in transition especially, are going through “tectonic movements“ and “flood of transformation“ or that is just something that is wanted by economists so that they can believe in that. Under the influence of futuristic literature in the field of economics, there is more and more concernment in rich industrial nations about unemployment and stagnating salaries. Reported causes for that are globalization and astonishingly fast technological changes. However, that is not a human answer to a human question. The question that is being asked here could be defined: “Does technological revolution require economic revolution?“ [1].

## **GLOBAL ECONOMICS AND FINANCIAL CRISIS**

Guidelines that make the core of paradigm of information technology represent material foundation of information society. The first guideline of new paradigm is the fact that the information is its feedstock in the sense that not only information affects technology but technology affects information. The second gridline refers to the broader effects of new technologies. As information is a part of everyday human activities, new technological medium directly shape all processes of our individual and collective existence. The third refers to the logic of linking any composition or congregation of relationships which use new information technologies. Morphology of the network can, it seems, adjust very well to the increasing complexity of interactions and unpredictable patterns which are the product of the creating force of that interaction [2]. That topological configuration can, with help from information technologies, be applied in every process and organization. The fourth guideline refers to linking as a clearly specified characteristic-paradigm of information technology is founded on flexibility.

In the next table we will state basic areas of changes between outgoing, existing and incoming linked economy:

Table 1. Areas of changes between industry and network economy [1]

Area of changes	Industrial economics	Network economics
1. Limits	country, capital (money)	time
2. Search for strategy	on paper based, man or phone	on web based
3. Transactions	face to face, By phone, by post, paper money, credit cards, cheques	e-mail, web, other electronic ways for using Methods of electronic payment
4. Calculations	one with one and one with many	many with many
5. Storage of information	analogue	digital

When demand became unpredictable both in quantity and quality, when markets all over the worlds changed, which made it difficult to control them, and when the pace of technological innovations made specialized equipment obsolete, the structure of mass production became too stiff and too expensive for new characteristics of the economy. The answer was, according to Piore and Sabel, in flexible specialization like in case of Northern Italy, when 'production is adapted to constant changes, without trying to control it.' [3]

Analysts also point out the trend of the crisis in big corporations and recovery of small- and medium-size enterprises as a factor of innovation and source of new jobs[4]. For some, the crisis of corporations is the necessary consequence of the crisis of standardized mass production, while for the others, like Bennett Harrison [5] that is not the case. He claims, based on the data from USA, Western Europe and Japan, that small- and medium-size enterprises remain completely under financial, trading and technological control of large corporations. He also claims that small businesses are less technologically advanced, and even less capable for technological innovations and product and process than larger corporations. All this is further supported on the example of the prototype of flexible specialization of Italian corporations in the industrial area of Emila Romagn during 1990's. Businesses have either fell under control of large corporations, or became large corporations themselves, like Benetton, or were unable to keep up with the competition if thy remained small, like what happened in Prato county.

Piore and Sabel [3] have foreseen the possibility of survival of the corporate model through what they called 'multi-national Keynesianism'. That is expansion and takeover of world markets by corporate conglomerates, relying on the growing needs of the rapidly industrialised world. But, for that to happen, corporations have had to change

their organisational structures. Some of the changes consider greater change of deals with small and medium businesses, whose vitality and flexibility allowed profit for large corporations. It can also be concluded that SMEs in information economy appear as forms of organisation well adapted to flexible production, but also that large corporations combine their work and remain in the middle of the structure of economic power in the new economy.

Global economy is not world economy. It is an economy which has the capability to function as a unit in real time on a planetary level. Therefore, global economy does not include all territories and all people with their jobs.

The structure of global economy is created by the dynamic of competition between economic factors and places (nations, regions, industrial sectors) where they are situated.

Four main processes define the form and outcome of competition.

The first factor is the technological capacity which includes: the scientific basis of production and the process of management; research and development; human resources; application of new technologies and the level of their expansion throughout the entire network of economic interaction. That is, in fact, a property of the system.

The second factor which influences competition is access to a large, integrated, wealthy market, such as the EU, USA and Japan.

The third factor is the difference between the cost of production in the area of production and the cost on the designated market.

Finally, it seems that competition in the new global economy largely depends of the political capability of national and supranational institutions to manage the strategy of growth in nations and regions under their jurisdiction, including creating competitive advantage on the world market for companies which are considered to serve the interest of the local population by opening new job opportunities and making profit.

In accordance with the sources of competition, it is necessary to observe the new international division of labour, which is based on four different positions in the frame of global economy:

- High value producers, based on information work;

- Large scale producers, based on cheap labor force;

- Raw material producers, based on natural resources;

- Redundant producers, reduced to revalorized labor force.

The logic of network economy includes people who are and people who are not integrated in the network, but can look for opportunities in business networks in other places (territories). This creates the possibility of large scale migrations from smaller EU countries to larger ones, disturbing their national interests. Such danger, although on a much smaller scale, exists in EU countries with large populations. The logic of networked economy requires favoring large scale producers, based on cheap labour, which leads to dislocation of industrial production to non-EU countries. This causes reduction of employment and overall buying power of these EU countries, which has a negative impact on the social dimension and creates a potential aspiration for migration. All this produces a question: 'Is the logic of networked economy functional and the only possibility?' The answer shall, we hope, soon produce itself.

The results of economic changes in the early 80's are three ways:

- decline of production industry and, therefore, employment in production, meaning deindustrialisation,
- transfer of ownership from national to private, privatization,
- significant increase of global markets, including 'Europeanization' processes, industrialisation of Third world countries, and domination of multinational corporations.

There were other changes as well, such as rapid development and adoption of new technologies within an array of production and service organisations. This means increased computer usage, information systems and directing systems by business decision experts. These macroeconomic changes influence the level of individual businesses and business sector, and the crucial side effect is the inevitable reduction of work force. The technological system of today derives from the 70's, and is based on important discoveries in information technology.

The new economy, which emerged in the last 20 years of the previous century, is information-based and global. Production and competition of this economy depend on their capability to produce, process, and apply information based on knowledge. It is global because the core of the activity of production, consummation and circulation, as well as their components (capital, work force, raw materials, management, information, technology, markets) is organized on global level, directly or through the web of connections between economic factors.

New economy is distinguished by export of capital and constant search for new markets. 'The opening' of the countries of the Far East by the end of 1980's has significantly influenced the course of immediate future. In the beginning it had very positive effects on the countries that exported that capital (USA, EU) because of the cheap labour, but it created prerequisites of the future negative consequences for those countries. The moving of the production to the countries of Far East lead to the loss of working places in the countries from which the production was moved. In the beginning the solution was found in employing people in the service sector, financial service first of all, and in dissent social payments, paid from the tax money made from high profits, which were the result of the difference between the prices of the products on the home market and cheap labor that makes those products in the countries of the Far East. This state made the model appear successful.

However, by the end of 1990's companies of the Far East countries, especially China, began to be serious competition to companies from so called countries with developed market industries. This competition meant stagnation or drop of real earnings followed by inevitable firing of people. That is when the escalation of the problem of real demand. Solution is found in stimulating through the 'explosion' of bank credits which were often approved without any thorough analysis. Banking system is put in service of instigating the demand for products, mostly from large companies (often creators of those banks). Industrial system continues with seemingly successful functioning.

General context conditioned by the use of new computer technologies, a system mostly oriented towards big companies, had certain ways of management. Instead of

participative, authoritarian concept of management was promoted. Economy in general is reduced to economizing with the expenses of work force.

In the mid 2006., and especially 2007. and 2008., there is a mortgage crisis which is conditioned by credits defaults (cars and real estate). Capital and stock markets react in the form of major decrease in value of stocks. The expansion of credit (as an incentive for unreal demand, because of the low level of earnings and high prices of real estate conditioned by unreal demand) without adequate credit analysis, now like a boomerang returning to the citizens as well as banks. Mortgages are activated, citizens lose their real estate, and banks' working capital is left deeply immersed in real estate that no one can afford. Banks' credit potential is blocked and they can not approve any new credits. The chain of unreal demand is then cut, prices of stocks drop and a financial crisis begins. Needs for credit are now appearing in real sector (car industry, construction business) because there is no new demand, and obligations keep coming, which pushes these industries and the industries that rely on them into deeper recession. General industrial activity drastically drops, and companies declare bankruptcy.

Theoretical debate if the future lies in large companies or in SMEs gets an answer. SMEs are perhaps more adjustable when it comes to organisation, reorienting production, but, in fact, they are financially reliant to big companies (their liquidity depends on charging of demands towards big companies), for which they usually work. Their 'survival' is, therefore, tied to the destiny of large companies. We conclude that we should develop large companies, as well as SMEs, as they are the part of a linked entity. On this analysis we base our understanding (used terms 'unreal demand', 'drop of demand') that here we talk about a crisis of unreal demand conditioned by certain aspects of globalization and technological changes.

Without pretension to be understood as antiglobalists or even neoluddites, we will try to systemize these aspects, by this we mean the way that globalization and rapid technological changes influenced the demand.

Globalization is, mostly, shown via multinational and larger regional companies. Laws (technical standards) are adjusted to their work and development, which, in the end, leads to the inevitable closing of small and medium businesses, which can not keep up with the competition. Result of that is the disappearing of strong family businesses. Members of those families became cheap labour which looks for jobs in large companies and 'luck' of finding it have only a few. You fall into a trap: today was the opening of the new shopping mall which employed 200 people, but there is no mention of the number of family businesses that had to be shut down because of that mall. The sum of earnings of new employees is smaller than the sum of earnings of those who had to close their businesses. Dispersion of real demand is constantly decreasing. That process is specially affected by inadequate distribution of salary fund on managers and workers.

The influence of technology on dispersion, and then also on overall real demand is determined by wrong understanding that effects of using technology belong only, or mostly, to the owners of capital. By firing workers because of computerisation and robotisation real demand is reduced as well as its dispersion. Computers and robots

show effects on the side of offer but they do not encourage real demand for themselves (they do not drink, eat, go on holidays...).

To overcome the crisis, in our opinion, it is necessary to:

- encourage the development of medium and especially small family businesses,
- accept technology as a good thing in general,
- look at the state as being complementary to market, so it can adequately run certain processes.

It seems that English economists Hobson and Keynes understood a long time ago that for a sustainable development you need to harmonize the mass of profit and the mass of earnings, or harmonize real demand with work funds and demand for their outputs, i.e. expendable goods.

## CONCLUSION

The context of economic development as a part of the economy, is made up of principles upon which the configuration of the, so called, network economy was built. It is defined by a large concentration of financial funds in nodes and their distribution to regions and industries where greater profit rate would be achieved. Modern economy is characterized by achievements in highly developed and sophisticated technology, above all, computer technology, which, to great extent, makes work force obsolete. The principles of network economy permanently shift the capital-labour balance in favor of capital, leading to irrational division of national product in favour of capital owners. This has a profound impact on real demand and its reduction. Furthermore, technological changes are not taken the right way. Neglecting the fact that technology is a common good, allows only the capital owners to benefit from its advantages. Its direct users in business process have no visible benefits, such as, for instance, reduction of working hours. The previously mentioned factors have contributed to declining of real salaries of a large percentage of the population and, therefore, declining of real demand in developed markets, above all EU and USA. On the other hand, in relation to already reduced dispersion of demand, the dispersion is also reduced through inadequate distribution of salaries between managers and workers.

Even though there are many possibilities, we mention the most effective alternatives for stimulating demand:

- 1) to increase of wages, while maintaining the general price level and
- 2) to reduce the general price level, while maintaining the level of wages, reducing working hours and/or employing more workers.

The second alternative seems more real, because of preserving, or even increasing, the buying power of capital owners.

As the cause for the crisis we, therefore, mark the inadequate balance between profit and wages, as a prerequisite for sustainable development; the cause that was first recognized by Hobson and later accepted by Keynes.

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## IZVOD

### STRATEGIJSKO OKRUŽENJE I GLOBALNA FINANSIJSKA KRIZA

(Stručni rad)

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Odrednice koje čine jezgro paradigme informacione tehnologije predstavljaju materijalnu osnovu informacijskog društva. Jedna od najznačajnijih odrednica odnosi se na logiku umrežavanja bilo kog sistema, ili skupa odnosa, koji upotrebljavaju informatičke tehnologije. Strukturu globalne ekonomije stvara dinamika konkurencije između privrednih činilaca i između lokaliteta (regija, privrednih područja) u kojima se nalaze. Konkurentnost u globalnoj umreženoj ekonomiji zavisi od sposobnosti nacionalnih i nadnacionalnih institucija da upravljaju strategijom rasta u onim državnim regijama koje su pod njihovom nadležnošću uključujući stvaranje konkurentne prednosti na svetskom tržištu za one kompanije za koje se smatra da služe interesima stanovništva na njihovoj teritoriji otvaranjem novih radnih mesta i ostvarivanjem prihoda.

Globalna ekonomska kriza je svoju manifestaciju započela u finansijskoj sferi, nemogućnošću vraćanja kredita privrede, a pre svega stanovništva. Lanac tražnje je prekinut što je uslovljeno padom stvarne zaposlenosti i smanjenjem zarada. Države su reagovale spasavanjem finansijskog sektora i delimično realnog, ali glavni problem, pospešenje platežne tražnje, ostaje.

Ključne reči: umrežena ekonomija, globalizacija, tehnološke promene, finansijski kapital, kriza tražnje

Primljen / Received: 17. maj 2011. godine

Prihvaćen / Accepted: 12. jun 2011. godine