

# Theoretical and Methodological Foundations of Crisis Management in the Enterprise

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## ABSTRACT

Crisis management is defined by Western economists, as the activities necessary for overcoming the state that threatens the existence of the enterprise in which the main issue becomes survival. This activity is characterized by increases in the intensity of use of means and methods in the enterprise, necessary to overcome threatens the existence of the business situation. Thus, according to some researchers, people shift attention on the immediate, short-term problems at the same time associated with conducting rapid and decisive actions. Other authors define crisis management as the creation of tools that allow you to report approaching a tipping point and to develop a new course of development. The concept of crisis management includes temporal characteristics. First, this definition contains all aspects of the design and implementation of activities that lead to the weakening, elimination, etc. crisis, and second, is the prevention and treatment of crisis. This definition leads to the problem of leadership and describes the actions in the framework of acute crisis as a reactive crisis management and prevention of crises as a preventive (warning) crisis management or anticipatory (leading) crisis management.

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## 1. INTRODUCTION

Crisis management can be described as planning and implementation based on a small number of criteria measures, the purpose of which, as a rule, is the restoration of former, pre-crisis state.

In contrast, anticipatory crisis management deals with the overall objectives that can be formulated only at a higher level than a development task specific activities. Anticipatory relations are understood as long-term management objectives that can cover all areas of the enterprise (Abramov, 2004).

Under the concept of overcoming the crisis refers to the systematic representation of all management processes, which is subsequently planned and implemented activities for overcoming the crisis.

## **2. MATERIALS AND METHODS**

The basis of the study was the provision of alternative schools of economic theory, including the theory of behavioral Economics, property rights theory, contract theory, theory of institutions and institutional change.

The conclusions and recommendations obtained in the course of the study, formulated in accordance with methodological principles of dialectics, and with a systematic approach to the analysis of economic processes and phenomena.

In the process of planning as information sources were used monographs, collective works, published in the Federal peer-reviewed scientific journals, periodicals and other information resources the Internet and.

## **3. DISCUSSION**

Crisis management firm starts from the moment of selecting its mission, i.e. to answer the question: “What to do?” At all subsequent stages of development of the company attention of its leadership should be focused on timely “capture” signals, indicating a possible deterioration of the situation of the company, its competitive status. It is necessary to build a system that allows to combine quantitative and qualitative analysis of alarms about the threat of approaching the crisis state, i.e., a substantial reduction in the competitive status of the firm. As a basis of such system can be adopted the analysis of opportunities, resources and risks, the so-called SWOT-analysis (Strength – power; Weakness – weakness; Opportunity – opportunity; Threat – threat).

The purpose of this analysis is to identify the combined impact on the competitive status of the firms’ strengths and weaknesses of the firm relative to the external environment; the breadth of capabilities to accomplish the mission of the company, open the external environment; the degree and nature of threats to the mission of the firm from the external environment (Fatkhutdinov, 2008). Let’s call them factors of firm’s state.

In the process of analysis is necessary to determine the communication that occurs between the agents of external and internal environment, on the one hand, the factors of firm’s state and the moment of occurrence of the crisis state (insolvency, bankruptcy) of the company, on the other. It is for these channels receives signals about unfavorable trends in the external and internal environments of the firm. These signals, initially weak, the accumulation of information, gradually increase, allowing the company management to take measures in advance to prevent crisis conditions.

The expectation was the substance of the process of the emergence of the crisis, representing one of the varieties of the economic mechanism.

Under the economic mechanism adopted to understand the chain of interrelated economic phenomena. The mechanism of occurrence of the crisis state “started” subjects, the initiating underlying economic phenomena. Under the influence of these initial appearances starts the follow up process (no additional pulse) one by one in sequence of a chain of interrelated economic phenomena (effect of falling dominoes), the end of which comes final phenomenon – the crisis state.

As source are numerous and diverse in character and force of the initial momentum of economic phenomena that are initiated by agents both external and internal environment.

The depth of the crisis and the duration of the period during which it occurs, depends on:

- the ratio of the number and strength of the source of economic phenomena;
- the number and degree of influence of the agents of external and internal environment;
- intensity of the process of the emergence of intermediate economic phenomena;
- the ratio and strength of the intermediate phenomena for each factor of the condition of the company;
- the importance of each factor condition firm specifically for the firm and the industry of the national economy.

The essence of the mechanism of occurrence of the crisis state suggests that each succeeding economic phenomenon in the chain formed by one or another channel of communication, gives, as a rule, the signal of greater strength and the same direction as the previous one (Belokopytova, 2003). However, such a simple relationship is unlikely to reflect a much more complex and contradictory processes occurring in real life. Therefore, it is necessary permanent tracking of the chain initiated by one or another source of economic phenomenon that can detect the impact of the original phenomenon at the final.

The difficulty is also in mutual dependence of intermediate economic phenomena belonging not only the chain from this source phenomena to the final, but the chains initiated by other source effects.

The purpose of crisis management is the development and priority implementation of measures aimed at neutralizing the most dangerous (most intensely affecting the final phenomenon) pathways leading to crisis state.

#### **4. COMBINATION OF STRATEGY AND TACTICS OF CRISIS MANAGEMENT**

The complexity of the problem is that, on the one hand, strategic decisions, aimed at crisis prevention should be adopted and implemented in the early stages of management when the process of moving to the crisis have not yet acquired a cumulative nature and, therefore, has not yet become irreversible. On the other hand, decisions made at early stages, are based, as a rule, very weak and not always reliable signals about occurrence of unfavorable trends. Therefore, one of the most important principles of the strategy of crisis management is the constant monitoring of the external and internal environment of the firm with the aim of early detection of the imminent threat of the crisis (Voronov, 2003).

Tactical decisions, in contrast to the strategic, are made on the basis of a more complete and accurate information, reflecting current (as of now) as the production system. However, the time for a radical restructuring of the firm’s activities to prevent crisis, or very little, or not at all. Speech in this case goes

either on emergency measures to prevent the crisis, which is still possible to implement in a short period, or about the measures to overcome the crisis, which has already begun.

In the system of crisis management is particularly important subsystem of the monitoring and early detection of signs of the forthcoming crisis.

Early signs of bankruptcy, which are detected directly:

1. A serious warning of the coming tribulation of the company is negative, the reaction of business partners, suppliers, creditors, banks, consumers on particular company activities and their proposals. In this sense, are all kinds of reorganization (organizational, structural, open or close offices, branches, subsidiaries, merging), frequent and unjustified change of suppliers, entering new markets, risky purchase of raw materials and materials and other changes in enterprise strategy. Another essential feature is also controlled by the creditors, is a change in the management structure and the atmosphere in the upper layers of management. The collapse of enterprises, as a rule, begins with the conflicts in the top management of the enterprise.
2. Another block of early signs of bankruptcy involves the character of the changes in financial performance of the company, the timeliness and quality of financial reporting and auditing. The subject of careful observations here are:
  - the delay in reporting and its quality, which may indicate either conscious action, or a low level of staff qualifications. In any case, both can talk to the technician about the ineffectiveness of financial management;
  - abrupt changes in the structure of balance sheet and income statement.

Undesirable are any sudden changes in the balance sheet in any direction. However, a special concern should call:

- sharp reduction of money in the accounts (by the way, the increase in money may indicate the impossibility of further investment);
- increase in accounts receivable (a sharp decline also indicates the difficulties with the sale, if accompanied by an increase in finished goods inventory);
- aging accounts receivables;
- imbalance receivables and payables (Gutnikova & Matskovskaya, 2007);
- increase or decrease in inventories that may indicate either interest or the possible inability of the company to perform its obligations to supply;
- the increase in accounts payable (sharp decline in the availability of money in the accounts also indicates a decline in volumes of activity);
- decrease in sales volumes (unfavorable it may be a sharp increase in sales, as in this case, bankruptcy can occur as a result of subsequent deregulation of the debt, if they follow the ill-conceived increase in purchases of capital expenditures;
- in addition, the growth in sales may indicate that relief production over the liquidation of the company (Fischbacher-Smith & Fischbacher-Smith, 2016);

- the decrease of revenues of the company and a decline in the profitability of the company, the impairment of the shares, the establishment now unrealistic (high or low) prices for their products, etc.

Warning signs are also extraordinary inspections of enterprises, the restriction of commercial activity of the company authorities, the abolition and withdrawal of licenses, etc. Bankruptcy is three separable from each other stage.

The first stage is hidden (especially if we do not have special managerial accounting) reduction in the price of the enterprise. At this stage the user often resorts to cosmetic measures (Eremeeva, 2006). For example, continues to pay to shareholders' high dividends, increasing debt capital, selling part of the assets, in order to remove suspicion of depositors and banks.

In the second stage, the difficulties begin with cash. Leaders tend already to adventurous ways of making money, and sometimes to fraud.

If no measures are taken, the bankruptcy becomes legally obvious. The company is unable to pay debts.

There are some typical techniques which work in most cases.

Accepted, first, emergency, emergency measures:

- change management if the bankruptcy occurred for internal reasons;
- changing the organizational structure of the enterprise, reduction of administration, centralization of control and planning functions;
- strict cost control;
- culture change (training, psychological reorientation);
- reduction in the range of products and services;
- enhanced marketing.

At the same time developing a strategic response. In most cases, this consistent refusal from the previous profile of the company (Paliy, 2006).

Factors ensure rapid response to demand growth:

1. Supply of relevant intangible assets — patents, licenses, rights to own and use.
2. The availability of staff with appropriate qualifications and experience.
3. Accumulated data Bank on the market, competitors and new technologies.
4. The presence and possession of new technologies of decision-making, etc.

The effectiveness of crisis management depends largely on radically directed actions of the liquidator appointed by the arbitral Tribunal and which transferred functions of external management of property of the debtor. The basis for the appointment of external management of property of the debtor is presence of real possibility to restore solvency of the debtor company to continue its activities through the sale of part of its property and realization of other organizational and economic actions.

Crisis management can and should be effective. It is important to engage the various parties to the process. Need to use:

- assets (liabilities) of the company;
- stages: sales, production, logistics, accounting;
- programs to protect the property and safety of business;
- frames (including questions of formation of personnel policy, social issues, relations with trade unions);
- programs relationship-building with shareholders, partners, public authorities;
- programs information support (including informing the labor collective of information on plans, methods and principles of management, as well as bringing socially significant aspects of activities to the General public).

Activities on crisis management of large industrial facilities in its various modifications, will contribute to the preservation and development of the industrial potential of the country.

## **5. FACTORS OF OCCURRENCE OF CRISIS SITUATIONS AT THE ENTERPRISE**

The diverse background of bankruptcy is the result of interplay of many factors, both external and internal nature. They can be classified as follows.

### **External Factors of Occurrence of Crisis Situations at the Enterprise**

Economic: crisis state of the economy, the General decline in production, inflation, instability of the financial system, rising prices for resources, changing market conditions, insolvency and bankruptcy partners. One of the reasons for the insolvency of business entities may be incorrect fiscal policy. The high level of taxation can be overwhelming for the company.

1. Political: political instability of society, foreign policy of the state, the gap of economic ties, loss of markets, change of conditions of export and import, the imperfect legislation in the field of commercial law, Antimonopoly policy, business and other manifestations of regulatory functions of the state (Savitskaya, 2002; Pesic, Santoboni, & Zenobi, 2016).
2. Increased international competition in connection with the development of scientific and technological progress.
3. Demographic: population size, population structure, the level of welfare of the people, the culture of the society that determine the size and structure of needs and effective demand of the population to those or other goods and services.

### **Internal Factors of Occurrence of Crisis Situations at the Enterprise**

1. The deficit in working capital as a result of inefficient production and commercial activities or inefficient investment policies.
2. The low level of equipment, technology and organization of production.

3. The decrease in the efficiency of use of production resources of the enterprise, its production capacity and as a result of high level of costs, damages, “eating away” of capital.
4. The establishment of excess balance of work in progress, inventory, finished products, in connection with which there is a glut, slowing down the turnover of capital and formed its deficit. This causes the company to fall into debt and may be the cause of its bankruptcy (Hyndman & Lapsley, 2016).
5. Bad clientele of the enterprise, which is paying late or not paying at all due to bankruptcy, forcing the company to go into debt. Thus, begins a chain bankruptcy.
6. The lack of sales due to the low level of organization of marketing activity for the study of markets, formation of portfolio of orders, improve the quality and competitiveness of products, development of pricing policies.
7. Attraction of borrowed funds in the company on unfavorable terms, which leads to an increase in financial costs reduced profitability of economic activity and ability to self-financing.
8. Rapid and uncontrolled expansion of economic activities, resulting in inventory costs and accounts receivable grow faster than sales (Shkurkin, Novikov, Kobersy, Kobersy, & Borisova, 2015). Hence there is a need to attract short-term borrowings, which may exceed net current assets (net working capital). As a result, the company falls under the control of the banks and other creditors and may face the threat of bankruptcy.

Bankruptcy is the result of joint action of internal and external factors. According to market economies, sustainable economic and political system, the destruction of business entities 1/3 is due to external factors and by 2/3 from the inside.

## **6. CAUSES OF INSOLVENCY AND BANKRUPTCY**

In a planned economy, when everything belonged to one owner - the state, the term “bankrupt” was something very abstract. The government in case of financial insolvency of an enterprise just redistributed financial resources from one economic entity to another.

The situation is completely changed when started the construction of a civilized market. The problem of the inability of the company to pay its obligations was very important. Mass mutual non-payments, debts on a salary - all is realities of today.

The market economy has proved its viability for a long time because it:

- initially focused on the effective demand of consumers;
- based on the private initiative of entrepreneurs who are forced to maximize their income to focus on consumers (the market) and to reduce its own costs. Hence the incentives for technical progress, production efficiency, etc.;
- assumes competition of entrepreneurs and sifting, or the bankruptcy of those who are behind the growing market demands for quality and range of the goods, works, services; as well as the level of own costs.

The socialist administrative-planned economy has also always claimed the highest efficiency. And she really was highly effective when focused on major political and economic goals (access to space, construction of large enterprises, creating the most efficient weapons, etc.). At the same time in the production of consumer goods for mass consumers planned economy has always offered a limited range of goods, as a rule, not of high quality, produced according to outdated technologies.

In fact, a planned economy is not so much focused on the market, but imposed his products slowly updated production facilities and technologies, leaving consumers with no other choice.

Russian economy on the eve of its reforms was called the economy of developed socialism. It was formed many decades and gained a number of specific characteristics, unknown to a market economy.

1. Unlike a market economy, where businesses are created and find their place on the map of the country as a product of the initiative of entrepreneurs interested in the revenues from emerging markets, the Russian economy was mainly built after 30 years on the basis of centralized plans based a single and relatively low energy and transport costs.

Companies were built very large and, therefore, inflexible. Each company is usually focused on their production functions. Duplication (and potential competition) is allowed very little.

Consequently, there is a network of very large, little flexible enterprises with a high degree of monopoly (Kobersy, Shkurkin, Zatonkiy, Volodina, & Safyanova, 2016; Terlizzi, Meirelles, & de Moraes, 2016), with high energy intensity and significant dependence on transport network. Many of them were totally uncompetitive, when the Russian market began to receive imports.

2. If some companies are excessively invested a lot of money, others due to the shortage of capital investment is barely developed. The result, accumulated a high proportion of frankly outdated enterprises.
3. Many factories were built as a universal production, for the production of single and small batch products. In those factories were not built in a pipeline or production stream. Such plants, which may be called the factories conglomerates, was a large well equipped workshop not able to produce a profit. In a market, such enterprises also proved uncompetitive.
4. The socialist economy was developed in the space of the socialist camp, regardless of its state and economic borders.
5. The socialist administrative-planned economy produced an economic environment and mentality, the consequences of which for many years will manifest itself in the economic decisions of managers. In 1930-1950 there was no concept of profit. The profits were withdrawn in full volume, even at the moment of shipping enterprise products. In the upper levels of management of the economy these revenues formed and redistributed. Partially they were returned to the company, but not as earned and received.

Businesses get capital investments, payroll and so on, until the sum of the travel costs, i.e., it was actually posed in terms of hard cost estimates, which are never linked to actual profitability of the enterprise.

Developed a mentality that focuses:

- to execute plans and estimates, but not trained in the skills of financial management;
- in any appropriate case, ask the state, considering it a natural right;
- to spend earned and received in the past, there is not particularly allowed or constrained (investment). Years of containment and forced austerity gave rise to the desire for extravagance, which expressed itself, as soon as he had the appropriate conditions.

The totality of specific properties determined the particular predisposition of many Russian enterprises to the crisis and the verge of the phenomena in the conditions of reforming of economy.

Immediate start market reforms in Russia was preceded by a short period of initial establishment of private commercial structures. The income of many of them was based on price scissors between the set of state prices for products and the actual market.

For some products prices, higher than the world level. This gave rise to a glut, or the shipment of goods without advance payment high risk that they will not be paid on time.

Widespread settlements on the so-called barter when parties exchange goods without cash payments, although there are tax liabilities and is not formed even in labor.

Under the domination of the monopolies of giant enterprises, did not have in the domestic market rivals, was provoked by the interest to growth of income of enterprises due to the growth of prices for products at low production volumes. This has led to a sharp rise in prices and a simultaneous reduction of production.

## **7. CONCLUSION**

In crisis management, we can distinguish two levels or stages: preventing a crisis situation or effectively combating an already existing crisis. Any employee who occupies a leadership position, must be able to deal with crises and to know what actions will help to overcome them. Crises can appear for different reasons and their level and power can be different, however, their appearance is always mistakes in the managerial work.

Today, there is a huge variety of different ways definitions of the condition of the company, to find out where and what its weak places and how to predict bankruptcy. Thanks to the methods of horizontal and vertical studies to determine the composition and basic characteristics of the company's balance sheet, and the method of indexes allows to identify weak areas. In order to analyze the condition of the company as a whole, you can use the method of coefficients, and the comparative method gives the opportunity to explore the activities of competitors in the market.

Crisis management, or rather its essence lies in the fact that using certain methods to determine the threat of the crisis, followed by a strengthening of the position of the organization and improve its finances to avoid bankruptcy or successfully overcome the crisis situation.

Strengthening the company as a whole involves three steps: the elimination of the threat of non-payment of bills; strengthening resilience to financial fluctuations; achievement of balance in the financial plan.

If we talk about the role of public authorities in managing crises, they have to preserve and to prevent the emergence of problems in various markets, as well as guarantee to creditors of bankrupt companies return money to the maximum extent. The procedures described in legislative acts aimed at maintaining the company and the termination of its activities.

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