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**Article**

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Economic Review: Journal of Economics and Business

**Provided in Cooperation with:**

Faculty of Economics, University of Tuzla

*Suggested Citation:* Mihailovic, Branko; Cvijanovic, Drago (2014) : Urgent Measures in Overcoming a Crisis in a Company, Economic Review: Journal of Economics and Business, ISSN 1512-8962, University of Tuzla, Faculty of Economics, Tuzla, Vol. 12, Iss. 1, pp. 55-62

This Version is available at:

<https://hdl.handle.net/10419/193834>

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**URGENT MEASURES IN OVERCOMING A CRISIS IN A COMPANY \*1**

Branko Mihailović \*\*, Drago Cvijanović \*\*\*

**ABSTRACT**

*In many organizations in Serbia a crisis can be seen, which manifests through decrease of market share and profitability, increased indebtedness, inadequate investment and multiplication of new business projects at the expense of a primary business. The crisis symptoms are characterized by mainly ex post pointing at the situation in a company. Consequentially, the aim of the paper is to define adequate urgent measures, which would lead to improvement of company's business performances. In the realization of a research task, a desk research was used of the data, which refer to indicators of company performances in Serbia. Such research implies using data from the official resources: international organizations' resources; data from domestic and foreign literature; and internal data base of the Institute of Agricultural Economics, Belgrade. For years, companies in Serbia have functioned on non-market principles. It led to increased lagging behind of domestic economy in regard to the market principles. It turned out that the partial changes, without an encroachment on the proprietary structure and prevailing ownership relation, do not lead to increase in business efficiency. But, increasing competition and claims for business success have motivated the companies in Serbia to apply market business principles. Transforming the ex-socialist economies into the market ones represents a process of transition, which creates a new business environment and new institutional infrastructure. Adjusting to the new business*

*environment is realized through a restructuring process, which aims to improve company's business performances.*

**Keywords:** crisis, urgent measures, restructuring, crisis management.

**JEL:** M21

**1. INTRODUCTION**

In many organizations in Serbia a crisis can be seen, which manifests through decrease of market share and profitability, increased indebtedness, inadequate investment and multiplication of new business projects at the expense of a primary business. The crisis symptoms are characterized by mainly ex post pointing at the situation in a company. Of great significance is accounting information, based on which indicators can be obtained on a situation in the company. A consultant can get valuable signals and indicators in a practical way – from the experience and knowledge of employees. Those are just symptoms, but causes can be different. Fundamental problems are normally caused by transformation in the branch in which the company does its business. That is to say, the problems are related to new distribution channels, new technologies or competitors with strategies or value chains, which provide them realization of a superior supply for buyers. The mentioned changes in distribution channels and new competitors require the strategies of the companies, which had been the leading ones in the branch. Knowing the most important characteristics of

\* Paper is published in *Proceedings from the Third International Scientific Conference – Economy of Integration (ICEI)*, entitled "Using knowledge to move from recession to prosperity", held in Tuzla in December 2013.

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the crisis helps the consultant to identify company's development. The crisis is expressed through three characteristics: focus, type and stage (Senić, 1996, p. 33). The *crisis focus* shows where the crisis comes from. Hence, one can differentiate between: endogenous crisis, i.e. the crisis which appears in the company, and exogenous crisis, i.e. the crisis which acts from outside the company. *The crisis type* indicates the following types: the strategic crisis, where the success potentials have been disturbed or destroyed; the success crisis, in which a loss appears; and a liquidity crisis, in which paying capacity of the company is jeopardized. *The crisis stage* shows whether the crisis jeopardizes or destroys the existence, i.e. the crisis which is indispensable for abandoning the existing form of the company.

Time relation, i.e. a chronology of appearance is such that the strategic crisis appears first, following by the success crisis and, at the end, the liquidity crisis. However, the chronology of their revealing is reversed. In the first phase, banks refuse credit authorization, and then notice a dramatic decrease of equity. Finally, it is realized that it was omitted to place the production inheritors on the market timely and thereby to prevent sale reduction. The basic resources of financing expenses for technical-technological and market restructuring are investments by foreign and local partners. The local companies use the least resources for covering restructuring expenses from business banks. At the same time, many companies require the previous restructuring as a condition for successful privatization. In order to fight the crisis the company looks for consulting services, which are very expensive, and the companies have no assets to buy them.

## 2. PREVIOUS RESEARCH

The consulting company *Deloitte & Touché* has developed a turn methodology in business, which consists of three integrated steps

(Deloitte and Touché, 1994, p. 2): 1. State diagnosis of financial and production possibilities of the company, 2. Crisis management, 3. Turn management. The first step means the analysis of financial possibilities of the client-company and provides an insight into the current financial position and projection of earning power, if the existing trends continue. The diagnosis of production possibilities comprises: the analysis of supply and demand market, the analysis of production process and production program, prices strategy, competitive advantage resources, etc. A proposal of the strategic alternatives for the client-company is based on diagnosis of the financial state and production possibilities. The next step is the crisis management, which, according to the *Deloitte & Touche* approach, comprises five activity groups: financial restructuring, sale of unnecessary assets, products realization, regular determination of employees' number and the market review. The third step in overcoming the crisis is the turn management, which covers the financial restructuring and the production restructuring. The aim of this step is to introduce the company to a profitability zone. The strategic turn provides the company with the possibility to make adequate position on the market.

Implementation of the strategic turn requires a research of key relations between: buyers, competition, partners in business and internal relations between workers and managers, as creators and implementers of business processes (Piercy, 1997, p. 235). For introduction of competitive position of a client uses the analysis of its strategic position. That is to say, knowing the existing and potential competition represents one of the basic assumptions of successful market restructuring. The strategic position and action evaluation process analysis expand cogitation on the environment to: branch power and its connection with the competitive advantage and financial strength of the

company (Hooley and Saunders, 1993, pp. 75-77).

The Strategic Position and Action Evaluation Analysis (*SPACE analysis*) determines a strategic position of the company in regard to the branch. A relative size of opposed dimensions enables determination of company's strategic position on the market. A *competitive position* is typical for the companies which have the competitive advantage in an attractive branch. Such companies need additional financial resources to keep the competitive position on the market. In the long-term, it can be achieved by more significant efficiency and productivity, but the company needs to increase capital or to team with a large capital company. In this case consulting support is necessary in the sphere of production, primarily in the field of operative production planning and operative work preparation, in order to improve productivity. Also, if the cooperation with the large capital company is necessary, consultants advise the client regarding selection of an adequate strategic partner. At the same time, consultants engage in negotiations with potential candidates. *The aggressive position* of the company on the market means facing the significant advantages as well as the risks of new competitors. Consultants advise the client regarding the performance on the market and relation toward the competition. A *conservative position* is typical for those companies on mature markets, where the lack of need for investments makes a financial surplus. Consultants explore new market possibilities, in order for the client to place the surplus profitably. A *defensive position* is registered for the companies which have a poor power in overcoming the competition, so they should improve the resources by more efficient production or be ready to retreat from the competitive market in order to concentrate in areas where they can be protected. Consultants explore the

possibilities of applying new techniques and technologies. The research goal is to improve client's technological system, in order for their products to fulfil the market requirements.

The market research provides perceiving dimensions and activities of some market segments and niches. Through this analysis, the market research provides an identification of promising areas and market niches, as well as definition of global directions of company's market restructuring. In such research project, consultants must plan and structure the research (Stošić and Milovanović, 1992, p. 269). According to know-how and information given by the market, the market risk, which has been continuously present, is decreased. The information on market trends helps companies to redefine the current market, perceive the possibilities of coming back to the lost markets, as well as evaluate the attractiveness of winning the new ones. The market research enables companies to solve their business problems efficiently. When the management of the company is acquainted with the market needs and its competitive position, they can approach the production program, i.e. a portfolio planning. It is necessary to identify different sources and growth potential from the aspect of company's business portfolio. This results in a need for concepts which help the evaluation of different businesses, within certain portfolio business, as well as in regard to the competitors' businesses. One of the first attempts in operationalization of these variables is represented in a study by the Boston Consulting Group – BCG. Meanwhile, this model has been modified and a series of different models have been developed for some aspects of the strategic management (Todorović et al., 1998, p. 221). Many world famous consulting houses have developed new models which have, basically, been based on the BCG models. Consultants use the portfolio concept for determination of the best combination of businesses, aiming to achieve

long-term client profitability. Synergetic effects realize in a way that the current accumulative products fund potentially attractive products.

By application of the BCG approach the businesses or the products are categorized by whether they have low or relatively high market share on the market with high or low growth rate. The businesses with high market share are generators of financial resources. According to the BCG model, it is possible to identify four types of businesses: market leaders ("star" products), perspective products (products under "a question mark"), mature products ("milking cows"), and stagnant products ("dogs"). In determination of some business goals and support character which can be assigned to it, the basic strategic options are suggested (Kotler, 1984, pp. 77-78):

- *To build.* This strategy has been directed to improvement of the market position, with readiness not to realize income in short-term. The strategy is suitable for the promising products, which can become "stars" only with an increase of the market share.
- *To keep.* In this case, a company tries to keep the market share of some business, which is favourable for the mature products of greater power, while it provides significant financial resources.
- *To reap.* By the strategy a company should preserve a market share in short-term, independently from long-term possibilities. This strategy is favourable for "milking cows", which do not have enough power and are with unclear future, and which can provide financial resources fast.
- *To divest.* Here a company tends to sell or liquidate the business, because the resources can be better used in other

purposes. This strategy is favourable for the "dogs" and the "question marks".

### 3. RESEARCH METHODOLOGY

The basic research task of the paper is in defining the adequate urgent measures, which would lead to improvement of business performances of the company. In the research task realization the desk data research was used, which refers to indicators of company's performances in Serbia. Such research implies using the data from the official resources: international organization data; the data from domestic and foreign literature; internal data base of the Institute of Agricultural Economics, Belgrade. Since the focus in this paper is on urgent measures under the crisis conditions of the company, it is natural that the research will pay attention to urgent measures, the area that has not been sufficiently processed, investigated or has been just partially analyzed, so prevailing opinions, as it seems, should be subjected to rigorous, on a reliable scientific basis based check. In that way, we hope, many dilemmas will be cleared and directions will be given, which lead to more important stabilization of company's business, and further development.

### 4. DISCUSSION

In Serbian economy, the subjects competitively "snooze", technically lag behind and do not think in marketing sense (Pejanović et al., 2003, pp. 3-24). That is to say, there are various gaps in business in Serbia, which can be eliminated by a new approach which implies major changes, focused on new relations toward the business environment establishment. Macro-economic indicators of investment trends in Serbia point out positive investment trends, but also a still insufficient total investment level. Many factors affect weak investments, first of all, high commercial and uncommercial risks, slow economic transition and under developed institutions, which, in practice,



Table 4.1. Level (rank) of risk in selected countries in 2009

Country/Total rank	Political stability - risk	Government efficiency- risk	Macro-economy - risk	Finances - risk	Infrastructure - risk
Countries in the phase 2 of economic development (efficiency led economy)					
Albania/ C - 52	C - 60	D - 64	B - 40	C - 58	D - 62
Bosnia and Herzegovina/ C - 52	C - 55	D - 71	B - 40	D - 62	D - 62
Bulgaria / B - 39	B - 30	D - 61	C - 45	C - 46	C - 44
Macedonia/ C - 50	C - 60	D - 64	B - 30	D - 63	C - 56
Serbia / C - 57	C - 60	D - 64	D - 80	E - 83	C - 44
Countries in the transition phase in innovations efficiency - oriented economy					
Croatia/ C - 41	C - 45	C - 54	C - 45	C - 42	B - 38
Hungary / B - 32	B - 30	B - 36	D - 70	C - 42	B - 28
Poland/ B - 29	B - 25	B - 39	C - 45	B - 29	B - 31
Romania / C - 43	B - 40	D - 68	C - 45	C - 58	C - 41
Countries in the phase of innovations led economy					
Slovakia. / B - 32	A - 20	C - 43	C - 45	B - 38	C - 44
Slovenia / B - 24	A - 20	B - 39	B - 40	B - 25	A - 19

Source: Risk Briefing, The Economist Intelligence Unit, 2009,

Internet: <http://viewswire.eiu.com/index.asp?layout=homePubTypeRK>

Remark: Rank expresses by descriptive grades from A to E, where A shows the lowest risk, and E - the highest risk

guarantee the rights which result from private property and contracts (Mihailović et al., 2011, pp. 311-323).

Serbia must engird itself in territorial, status and economic sense, as well as to finish the privatization. The business environment in Serbia is characterized by many economic paradoxes, conflicts and illogicality of law, which cannot lead the country toward sustainable development and European integrations. Serbian economy is characterized by high public spending, as well as difficulties in the government debt servicing. However, the competitiveness barriers are, primarily, in the field of institutions and infrastructure. Successful solving of accumulated problems in the final phase of economic transition in Serbia is possible if the business environment is created, which instigates transformation processes of the economic and social system in Serbia. The market way of doing business will not happen on its own. That is to say, besides the factors, such as the state, which should be a catalyst of transformation processes, interventions are also necessary in

different spheres of company's business, which bring to the market system establishment.

As we can see from the risk rank, published by The Economist Intelligence Unit (the leading research and consulting firm which provides constant analyses and prognoses for more than 200 countries and six key industries), the countries which realize high competitiveness and high rates of economic growth (innovations - oriented economy) - are, at the same time, the countries which are characterized by low risk rates. High risk rates are present in low competitiveness countries with high risk of the government efficiency, financial and infrastructural risk. Serbia, Bosnia and Herzegovina, Macedonia and Albania (Table 4.1) are the countries of higher risk for investments and business.

Under the conditions of high systematic and financial risk, the project is one of the ways to solve the problems which the companies meet. Consequentially, a concept of project management can be applied, since one or more project teams can be formed, which will

deal especially with the crisis overcoming. The crisis management has no permanent character, but has been time-limited until resolving the set tasks. Organizational forms of the crisis management depend on the size of the company in crisis, as well as from the ability of company's managers. Three organizational forms of the crisis management are considered: 1) project team, 2) "management in the shade", 3) "individual fighter" (Luthy 1988, p. 130). In the first organizational form, solving personnel issues and internal structuring of the crisis team is of great significance. The members of the crisis project can be: a representative of a steering committee and management, representatives of the most important banks and a consulting company. A working team should stay narrowly limited. The experience shows that the optimal number is 3-5 persons. Thereby, there are very important, so called, task forces, which participate in solving the specific problems in the project activity. A model of the project team has the biggest application in big companies. The other organizational form, especially in small and medium companies, is represented by the special crisis manager, which is actually "the manager in the shade", since he was appointed next to the existing management. In this case, as the Picture 4.1 shows, instead of engaging the bank representatives and consultants in formal crisis body of the company, a contact with the consulting company by periodical coordination meeting is cherished. "The manager in the shade" takes over a role of the crisis manager. The activities of the crisis manager are, in the first instance, planning and implementation of restructuring, and less operational problems of the current business. Successful application of this model implies readiness of the existing management to cooperate with the crisis management, as well as the ability and will to implement the restructuring concept, done by the manager in the shade. A model of the "individual fighter" is applicable if it turns out that, in small and

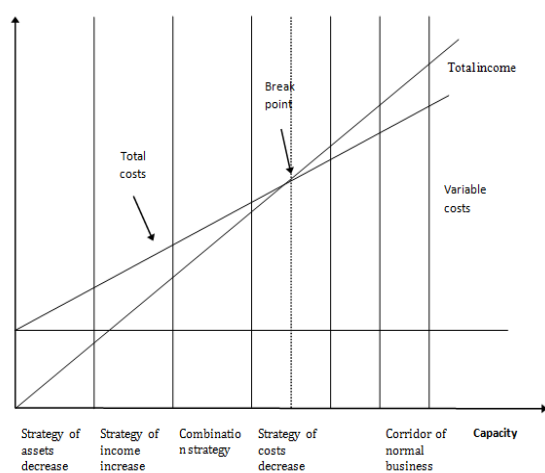
medium companies, the existing management is not capable to implement necessary measures for overcoming the crisis. They can formally select the crisis manager with a full line competence.

The analyzed models can be combined, since in different hierarchical levels different concepts are applied. In forming urgent measures and the revitalization measures a careful balance must be established between short-term benefits and long-term losses, in order not to jeopardize the main strategy of the company. That is to say, a manager of the company must find a healthy compromise, since the best long-term concepts are worthless, if the company bankrupts in short-term. In this situation, the consultant does not have enough time for the situation evaluation in detail. The initial rough estimate of the situation is sufficient. In prosperity phases, the company buys a property which is not directly related with company's basic activity or is only partially necessary for fulfilling company's purpose. Sale of such property can mobilize significant liquidity reserves. Urgent measures (income increase, decrease of assets, decrease of costs and their combination) have been mostly determined by company's resources and the degree of company's business distance from the breakpoint, which can be seen in Picture 4.1.

In the crisis situation it is necessary to evaluate all possibilities systematically and objectively, taking into consideration tax and balance consequences, as well as the expected liquidity effect. If the business is very far from the breakpoint, then the only good option is decrease in assets. Then, it is important to decide which assets should be sold and which should be kept. The selection depends on the current and future strategy of the company, as well as on the possibility to sell the assets. At all levels in the company must be economized. Experienced consultants suggest savings in costs, first, at top management scale, which has an important psychological significance to

employees in accepting other measures of costs reduction. If employees are motivated and, thereby, realize short-term improvements in the business, the overcoming of the crisis situation can be expected with great assurance. Also, the adequate value analysis is needed, which represents a process of identification and elimination of unnecessary costs, especially products or services.

Picture 4.1. Decision-making on type of operative strategy which will follow



Source: Hofer, W. C. (1980): "Turnaround Strategies", u W. F. Glueck, *Strategic Management and Business Policy*, McGraw – Hill Book Company, New York, p. 276.

## 5. CONCLUSION

All employees in the company should be informed on the measures which are implemented. That is to say, it is necessary for company's management to carefully compose the informing plan. Content, form, selection or information announcing and a chronology of announcing should unconditionally be determined. In regard to the plan of informing preparation, first should be tested a right moment to inform. Various interest groups expect to be informed on company's difficulties, as early and as comprehensively as possible. Previously mentioned measures in overcoming the crisis represent a phase of consolidation within the business turn, which leads to the business stabilization of the

company in crisis. The business consolidation is a necessary condition for company's transformation.

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<sup>1</sup> The paper represents a part of the research within the project III - 46006 – *Sustainable agriculture and rural development in terms of the Republic of Serbia strategic goals' realization within the Danube region*, funded by the Ministry of Education, Science and Technological Development.