

**Peter TREBUŇA, Jozef MIHOK**

## **EXPERIMENTAL SOLUTIONS OF CORPORATE CRISIS**

*Current developments suggest that crises are unknown, unstructured, unplanned and unexpected which requires application of systems approach to management to fathom their complexity and ambiguity. Companies are trying to adapt to internal and external changes when the speed, size and frequency of different types of changes is increasing. This article describes functions of management in crisis.*

**Keywords:** process of restructuring, crisis, management.

### **Introduction**

Companies are trying to adapt to internal and external changes when the speed, size and frequency of different types of changes is increasing. Generally, the causes of crisis in enterprises may be divided into two basic groups:

- external causes,
- internal causes.

Most businesses still operate a combination of all possible internal and external causes and it corresponds to their current status. Enterprises do not give sufficient attention to primary symptoms of a crisis such as decrease in profitability, productivity and other problems and so the crisis gradually deepens [Magul'áková 2004].

### **The role of crisis management**

The tasks of crisis management differ in nature, scope and importance at various levels of management. The tasks of crisis management can be divided by periods in which they are performed [Mihok, Vidová 2006]:

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Peter TREBUŇA, Technical University, Košice, Slovakia

e-mail:peter.trebuna@tuke.sk

Józef MIHOK, Technical University, Košice, Slovakia

e-mail:jozef.mihok@tuke.sk

1. Tasks of crisis management before a crisis occurs:
  - processing and adoption of a comprehensive crisis management strategy in terms of business development,
  - creation of a crisis management system and its ongoing adjustment in accordance with changing external and internal conditions,
  - pre-selection of potential crises and their anticipated negative effects,
  - preparation for the crisis, development of processing methodology and plans of action,
  - reduction of risks in response to the evaluation of possible emergency events,
  - implementation of effective control activities in the subordinate parts of crisis management,
  - continuous monitoring of risk events, assessment of their level and taking action (elimination of negative factors).
2. Tasks of crisis management in crisis:
  - activation of crisis management actions based on the initial information on the crisis,
  - collection of additional information on the crisis,
  - adjustment of measures and performance to tackle the crisis on getting detailed information,
  - suspension of all activities which do not help solve the situation and perform only works rescuing organisation, localisation and connected with liquidation,
  - prevention of the spread of panic providing regular and sufficient information,
  - taking preventive measures against escalation of the crisis,
  - declaration of the state of emergency and introducing special arrangements in the company depending on the extent and nature of the crisis,
  - regular reporting of information on crisis management within the enterprise,
  - restoration of normal mode after completion of work connected with tackling the crisis.
3. Tasks of crisis management after crisis:
  - analyse of the course of crisis tackling process, assessment of achieved results and proposal of further relief actions to return to the pre-crisis situation,
  - assessment of prepared documentation compliance with the actual way the crisis was tackled and suggestions of possible changes and adjustments,
  - assurance of broader and more detailed monitoring of risk factors,
  - restoration of routine activities.

Those tasks are performed at various stages of crisis by managers, whose work is specific and full of particularities. All those tasks require different skills from corporate managers.

## **Detection of corporate crisis**

Opinions about the difference between a well functioning business and enterprises having problems differ. The main reason is that the entities that carry out the assessment attach different weight to criteria that are used in the evaluation.

A healthy business is a business where there are doubts about its future. It is able to finance its activities, to meet its commitments and generate sufficient profit which is used to invest in the company and ultimately provide sufficient remuneration for the shareholders' investments.

A company which is unable to meet the criteria should take appropriate measures to restore its vitality. Problems that a company may indicate are termination of operation or at least the threat of extinction. All other factors affecting business performance cause only periodic fluctuations in the company's performance.

It is not easy to recognise when a company deals only with a periodic variation of results and when it actually falls into a crisis [Regester, Larkin 2002]. There are several areas of company activity in which symptoms of the crisis occur sooner and its effects are the most sensible and, at the same time, undesirable. Those areas are finance, information, communication, marketing, and logistics.

### **Financial crisis**

Causes of financial difficulties in companies may vary in terms of scale and intensity. According to their severity they are divided into three groups:

- lack of profitability which arises when the rate of return of capital tied in the company falls below the standard in the respective field of business,
- relative illiquidity or insolvency which means that the company is unable to pay its obligations on time,
- absolute illiquidity, insolvency which occur when the company's obligations are higher than the fair value of its assets. In practice, this means that the firm spent the entire equity and therefore owes more than it owns.

### **Information in crisis**

In crisis it is necessary to provide full information to all interested individuals and groups about what is happening in the business. It is necessary to adopt a common approach in dealing with the press and public, rather than confrontational attitudes.

Most businesses are now able to gather information and to process it, but few companies are able to efficiently sort and filter information so that everybody receives fast, regular, timely and necessary information.

It can be compulsory to collect and provide information. Such type of information includes:

- information necessary for compiling the accounts,
- statistical information required by law,
- registration information of different nature, whose absence may jeopardise the legal status of business or jeopardise the enterprise in another way.

Information availability improves the position of the company in the market and increases its competitiveness. This category includes:

- information on the evolution of demand,
- information on competitive activities,
- information forming a database of customers,
- information on sales and financial performance of individual products,
- information on the range of breakdown and turnaround of stocks,
- information on claims and payments,
- information providing a detailed analysis of variable costs by product,
- information providing a detailed analysis of fixed costs.

Those categories of information may be considered essential and a priority for successful business management. Other details are mostly minor in nature, nevertheless may be interesting and beneficial for the company.

### Communication in crisis

Communication is important part of business management. Without it managers could not influence individuals and groups to achieve performance targets. Studies suggest that oral communication takes up to 80% of the manager's time. [Mihok, Trebuňa 2006].

To achieve a long-term success in communication managers have to:

- communicate openly and participate in public relations,
- keep competent communication advisers,
- integrate strategic communications and public relations in policy-making,
- maintain two-way communication with internal and external audiences,
- co-ordinate what they do and what they say,
- clearly define goals and objectives.

The most common communication problems and causes of inefficient communication in crisis management are:

- different views, attitudes, knowledge and experience as a result of misunderstanding or incorrect understanding of the content information,
- underestimation of the information needs of subordinates and underestimation of their ability to participate in solving problems of emergency planning,
- selective perception, focus on another source of information, substantially undervalued information,
- inability of leaders to listen to the views of subordinates,
- errors in the evaluation report,
- filtering messages for a folder or a senior media,
- lack of preparation time and correct response to information.

The aforementioned communication problems may be as well:

- disruption of the communication system, deformation of interactions within the entity and with external environment,
- lack of satisfaction of information needs, distrust of management, disruption of social relationships, disturbance in motivation, negative emotions, aggression, but also feeling of helplessness, insecurity, fear, and panic.

In a crisis situation it is important that the manager performs his communications role actively implementing various communications functions to prevent communication of negative effects such as:

- emergence of communication barriers,
- emergence of communication holes, which may be wholly or partially extinguished by information and incentive function of communication, which is important in managing crisis situations.

When a crisis emerges first of all formal and informal internal communication flows have to be separated and during the crisis control has to be not only comprehensive but also appropriately informative. When the first signals of a crisis appear informal communication flows, which give priority to employees, have to be deactivated in the enterprise in the first place. Even in normal conditions employees tend to mix reality with rumour. If this happens in crisis then the crisis is escalating even more. When these signals are ignored, they can become risky for the management. The quantity of information that is uncontrolled, misrepresented and motivated by emotions and speculations, may give rise to panic or mob psychosis and become an obstacle to rational management of crisis situations.

In crisis situations many phenomena of the communication process are involved. In a crisis application of specific rules based on flexibility and speed of response in daily contact with customers and the media become a crucial factor

of success. An enterprise that fails to quickly and effectively communicate in a crisis, end up in a situation where there is a talk about it without it. This may deepen the crisis.

### Marketing

Integration of marketing activities and organisations within the enterprise, but also the thinking of workers, is a key to achieve a responsible company and provide lasting business ahead of competition. A corporate strategy has to embrace not only marketing strategy, but also innovation and technology strategies, which result in products that fulfil customer needs, and financial strategy, which provides advance funding. Future product development requires close interaction of marketing, development, production and financial management. Change in product parameters is a very effective tool of marketing strategy. Its deployment would require a major advance.

### Logistics

A result of errors in management and decline in sales may be a situation where the inventory of raw material, semi-finished or finished products is too high compared to turnover. Often the key issue does not consist in very large stocks but in the fact that some items are not available and other are available in surplus.

In normal conditions it is possible to achieve a reduction in stocks of up to 20% by improving leadership [Jaksee 2007], change shopping process, and control stores, planning and production.

## Conclusions

If there are symptoms of impending crisis or the company is even in the state of crisis, then the crisis management measures may be formulated as follows:

- seeking rescue for the company,
- liquidation of the company.

The intensity of interventions and actions taken by the company to resolve the crisis must correspond to the seriousness of the company's problems. In principle those interventions and actions can be divided into two groups:

- informal measures taken by the enterprise itself, usually in co-operation with creditors or with the assistance of advisory organisations,
- measures implemented under the supervision of the court and in accordance with applicable legal regulations.

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## EKSPERYMENTALNE ROZWIĄZANIA W PRZYPADKU KRYZYSU W PRZEDSIĘBIORSTWIE

### Streszczenie

Obecne wydarzenia wskazują, że kryzysy są nieznanne, nieustrukturyzowane, niezaplanowane i nieoczekiwane, co wymaga zastosowania systemowego podejścia do zarządzania, aby ogarnąć ich złożoność i niejasność. Przedsiębiorstwa próbują przystosować się do wewnętrznych i zewnętrznych zmian w sytuacji, kiedy wzrasta tempo, rozmiar oraz ich częstość. Niniejszy artykuł opisuje funkcje zarządzania w warunkach kryzysu.

**Słowa kluczowe:** proces restrukturyzacji, kryzys, zarządzanie

