

ECONOMIC CRISIS IN COMPANY'S MANAGEMENT AND POSSIBILITIES OF THEIR SOLVING

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Abstract

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The scientific paper shows results formulated in researches MSM 6215648904 Brno, 2012) and EP focused in analysis of managerial, financial and economic risks and methods of their solving in strategic decision making of business TOP management in a new entrepreneurial environment with influences caused by integration processes, development of information technology and factors of globalization. There is analyzed the situation in Bioveta, Ltd. Ivanovice na Hané in detail.

crisis management, algorithm, information technology, life cycle of the company, crisis matrix, business management

The changes taking place in Europe as well as in the world have a significant impact on all economies, i.e. including the economy of the Czech Republic. Other major factors include the globalization of the market environment permeating virtually all spheres of society.

Hron (2001) states that the basic constant in the management of the development of business entities is change the proper control over which is the basic criterion for assessing the managerial work of all company managers.

The economic situation characterized by the development of the crisis gradually arose in the developed economies of the world. Švejnar (2008) states that the United States of America were the first initiator of the crisis, namely due to implementing a much less tight monetary policy in 2000, the other factors being the boom in the real estate market, complicated financial instruments, the ensuing panic and some other problems, banks and insurance companies going bankrupt, high prices of oil and foodstuffs, etc.

Heide and Simonsson (2013) state that in the traditional crisis management and crisis communication literature organizational errors are seen as something entirely negative, even though error-free organizations should be

considered as a chimera. Attention to errors is an important characteristic of so called high reliability organizations (HRO). These organizations have a safety culture that functions proactively and errors are understood as vital sources for resilience, learning and improvement.

New developments in information technologies also strongly influence the behaviour of business entities. Gates (1999) states that the flow of digital information makes it possible to transform all kinds and types of information into a uniform digital form and save the information in any computer, and subsequently process and forward the information. This fact is extremely important especially for all levels of management as all management processes are actually decision-making processes and subsequently influencing and checking processes, which means that all the above processes are in fact taking place through information processes. The company information system should satisfy the needs of all company functions by providing the necessary quantity, structure and quality of information. The individual functions ensure the operation of the company, i.e. the function means a specific activity.

The quality of managerial decision-making depends on many crucial factors undergoing

dramatic changes and it is the principal task of quality managers to make these changes beneficial with respect to correctly established objectives. An inappropriate response to any of the important factors of external or internal entrepreneurial environment can bring about local or more complex crisis situations.

METHODS AND RESOURCES

The objective of this scientific paper is to publish the results of the research conducted by the author of MSM 6215648904 (Brno 2011–2012); the subject-matter of the analysis is the decision-making process of the management of selected companies during their life cycle and the specification of circumstances which can lead to the creation of crisis situations. One of the aims of the analyses performed is the timely response of the business management that can alleviate the impacts of crises or possibly avert an impending crisis. The published results have a methodological character and formulate the algorithm of monitoring the causes of the crisis and possible solution of the crisis by the management. The analysis is carried out in accordance with an approach developed by Svoboda (2006), the use of which concerns virtually all life cycles of the business during which crises can arise. The paper describes the causes of economic crises and their possible solutions¹.

In order to accomplish the purpose, the authors have adopted a methodology thanks to which they could gradually achieve the purpose. The methods of strategic decision-making, controlled interview, management environment analysis and especially crisis management have been employed. The companies analysed are medium-sized business entities the object of business of which includes a wider range of activities and which use state-of-the-art technical equipment for managing the company necessary for performing individual financial, economic and accounting analyses in connection with the analyses of the management and marketing. The data amassed concern especially Bioveta, a.s. Ivanovice na Hané.

The analyses by means of the SPACE analysis, correlation tables, factor decomposition analysis, evaluation of changes by means of the aggregate price index, simulation models and Ishikawa diagram of causes and consequences have been used in the research. In this paper are presented especially the results received by carrying out the SPACE analysis and using the correlation table.

RESULTS

Below is given a brief summary of the management process in Bioveta, a.s. Ivanovice na Hané that is engaged in manufacturing and marketing veterinary medicinal products and biopreparations for livestock farming. Currently the company offers 29 groups of products in more than 65 countries of the world including several products intended for human medicine. The above broad and complex object of business requires the analysed company to be able to adapt to the market requirements readily and creatively, i.e. to the requirements of a significant element of the external entrepreneurial environment. The other company systems are connected with the object of business, e.g. the organization system, company and internal management system, economic and financial system, human resources management system and the information system displaying and integrating all previous systems and therefore deciding about the approaches to the management of individual fields of activity of the company.

The framework of successful managerial work is defined by factors establishing the company identity. They include especially the below synthetic indicators:

- corporate design consisting of visually and possibly auditorily harmonized attributes of corporate symbols,
- corporate culture, i.e. a system of standards of behaviour, social conventions, and rules governing the collective behaviour of people in the company,
- corporate behaviour, i.e. the response of the company to external stimuli, external interest groups and individuals as well as impulses sent by the company to its environment, namely of information character (marketing aspects), of material and energy character (e.g. quality of products) and of mixed character,
- corporate communication, i.e. making corporate information available to the external environment. The information is classified into two basic groups, the first containing information provided to all entities, the other group containing information provided to selected users, such as suppliers, etc.,
- corporate products characterized by their quality, structure, price, distribution, form of communication and design,
- all the above components participate in creating and promoting corporate image which is often a decisive factor in attracting new customers, suppliers and cooperating entities and therefore not only all managers but all employees should make every effort to enhance the corporate image.

1 The paper evolves results of author's researches published in scientific journals and in conferences, especially IAES (Paris, 2002), FŠI ŽU Žilina (2003–2011), PEF CAU Prague (2002–2011), FESRD SPU Nitra (2005), Agriculture economics IV/2001 and V/2003 and others.

I: Results of the SPACE analysis (points)

Year	Characteristics of:			
	the sector		the company	
	Attractiveness rate (1)	Stability (2)	Financial strength (3)	Competitive advantage (4)
1998	3.2	3.5	4.7	4.9
1999	3.7	3.6	4.9	5.1
2000	4.2	4.0	5.2	5.0
2001	3.9	4.0	5.2	4.9
2002	4.3	3.9	5.7	5.3
2003	4.4	4.0	6.0	5.4
2004	4.2	3.9	5.4	5.5
2005	4.4	3.7	5.2	5.2
2006	4.4	3.8	5.3	5.7
2007	4.2	3.9	5.5	5.6
2008	4.5	3.9	5.9	5.6
2009	4.9	4.2	6.0	5.8
2010	4.8	4.1	5.9	5.9
2011	4.7	4.0	6.0	5.8

Source: Svoboda Emil (2012)

Obtained results can be presented by means of the correlation table and the SPACE method in this paper.

The correlation table consists of four quadrants:

- I. showing profitable products completely satisfying current customer requirements,
- II. showing profitable products, however, failing to fully comply with current customer requirements,
- III. showing products at the break-even point, however, the company management correctly responds to customer requirements,
- IV. showing unprofitable products which fail to satisfy current customer requirements.

In compliance with the above analysis, 59.2% of marketable products of Bioveta have been classified into the first quadrant and 14.5% into the second quadrant. Products in quadrants I and II have been manufactured with cost effectiveness exceeding 10.1%, i.e. they bring considerable economic benefit.

The cost effectiveness of products in the third and fourth quadrants is up to 10.0%. 21.5% of products have been classified into the third quadrant and 4.8% into the fourth quadrant.

The analysis clearly shows that products in the first quadrant satisfy the market requirements both from the point of view of economic benefits for the company and economic benefits for the customers. Products in the second quadrant are profitable but they face intense competition. This situation can be improved by responding to customer requirements more flexibly, putting the products on another market, or gradually withdrawing them from the market and stopping their production. The products in the third quadrant are still profitable but their economic benefit for the company is small. It

reflects either high production costs or putting the products on unsuitable markets. The products in the fourth quadrant require a detailed assessment and either radical improvement or withdrawal from the market.

The SPACE analysis complements the above conclusions and its summary results indicate that the veterinary bio preparations and medicinal products sales sector is comparatively stable, however, the dynamics of change in sales of individual products is high. Tab. I shows the results in the monitored temporal series.

Tab. I clearly shows that the financial strength of the company has significantly increased in comparison with the baseline, if evaluated by using a points scale, namely from 4.7 points to 6.0 points. The highest levels were achieved in 2003 and 2011, i.e. 6.0. The decrease in 2004 was due to initial problems following getting into new markets. The competitive advantage of the company has also improved as the input value was 4.9 p. and the current value is 4.0 p. Business in the sector of medicinal products and bio preparations production can be assessed as stable with the input value of 3.5 p. and current 4.0 p. The attractiveness rate also offers a good business opportunity for the company. The input value was 3.2 p. and the current value is 4.7 p. The given values are characteristic for selected markets and they are average.

DISCUSSION

Crisis in business management means a situation when the company is failing to achieve any of its long-term objectives, i.e. a partial crisis, or when the company is failing to achieve more long-term

		I		
	P		Big	Small
Threats	1			
	2			
	3	High	I.	II.
	.			
	.			
Weaknesses	.			
	.	Low	III.	IV.
	.			
	m			

I: Crisis matrix

P – probability of occurrence, H – high probability, L – low probability, C – effects on organization

Source: own processing according to Winterling (1992)

objectives, i.e. a major or complex crisis. The crisis can therefore be characterized as partial or complex.

The procedure making it possible to predict and tackle a crisis can be divided into three phases: danger degree analysis (1), formulation of the crisis strategy defining the degree of danger or possibly elimination (2), and implementation of the crisis strategy, i.e. reduction or removal of the crisis causes (3). The danger degree analysis derives from the strategic decision-making process, namely the management environment analysis methods. On the basis of these methods individual factors are formulated including the probability of their occurrence in the internal and external management environment. By arranging the above factors according to the probability of their occurrence and from the highest to the lowest and simultaneously expressing the impacts of the crisis, the so called crisis matrix can be compiled. The crisis strategy is designed by analysing the crisis matrix, i.e. it is necessary to determine measures and procedures limiting or terminating the crisis. The above clearly shows that there are four basic combinations of the probability of crisis occurrence including the explanation of their impacts: high probability of threat occurrence with above-average to great economic impacts (I), high probability of threat occurrence with below-average to small impacts (II), medium to small probability of threat occurrence with big economic impacts (III), medium to small probability of threat occurrence with small economic impacts (IV). The above possibilities are shown in Fig. 1.

The compilation of the crisis matrix gives general instructions on how to solve possible crisis. Situations I and III require removal of the cause of the crisis either by not undertaking the activity or gradually stopping and terminating the activity, or possibly proposal of an alternative solution. The situation II requires either limitation of the given

activity or seeking an alternative solution of the given problem and the situation IV makes it possible to solve the crisis by an alternative or by taking common measures. After having formulated the crisis strategy, it is possible to devise a plan to limit or stop the crises if it arises. The data obtained from the crisis matrix can be used for a detailed map of risks containing all areas of activity of the company. The results of the research are to be used in practice by the business entities being subjects of the research.

The results received correspond with the results of research carried out by some other authors, especially Hron (2006), Gozora (2001), Šimo (2000), Švejnár (2008), Šulěř (1995), Tomšík (2004), Whitelay (1994) and Zuzák (2008). The above authors lay great emphasis on managerial work, efficient undertaking of business activities and effective application of marketing in business management. Boin and Lagadec (2002) place great emphasis on preparation of the company for the future – anticipation and resilience.

CONCLUSION

The analysis indicates that if the company wants to withstand the fiercely competitive pressures, it has to strive for obtaining valuable information about the management environment and other connections that the company can get on the basis of carrying out managerial, marketing, economic and financial analyses. It is possible to state that a healthy economy imposes new and exacting demands on strategic decision-making of the business management that should use crisis management methods. The below requirements should be given preference:

- putting into practice a system of recommendations concerning mitigation of the effects of financial and economic crises,
- giving an appropriate response to the changing environment, especially external environment,

- including the necessary scope for creativity and meeting customer requirements,
 - following modern methods of decision-making including a viable information system, state-of-the-art information technologies, detailed knowledge of strategic decision-making and implementation of suitable motivation systems for managers and all employees,
 - employing recommended and adopted methods of crisis management in time in case of problems with meeting fundamental objectives of the company.
- The analysis performed in Bioveta indicates that the company properly responds to external and internal factors of business management and successfully develops its profitable activities.

SUMMARY

The scientific contribution states the conclusions of the research of MSM 6215648904 (Brno, 2011, Brno 2012) with the emphasis on crisis management, which in the process of change management builds on the methodology of the creation, implementation and changes of business strategies formulated by the author as well as their needs for specification as a result of the effect of the turbulent environment of the management and other significant effects. The main causes are mentioned that lead to the occurrence of crisis situations and the methods of their analysis. Also, the strategies of dealing with crisis situations that have occurred are formulated. Subject Bioveta, a.s. in Ivanovice na Hané is analyzed in detail. The research proves the fact that companies managed in a modern way are in urgent need of a functional and properly executed crisis management system due to their complexity and risks. The objective of the present scientific contribution is to publish the results of the author's research, in which the subject of the analysis is the area of decision-making of the company management in selected companies during their life cycle while stating circumstances which can lead to crisis situations in the company management. One of the tasks of the performed analyses is the timely reaction of the company management, which makes it possible for it to reduce the impacts of possible crises significantly, or to prevent a coming crisis. The published results have a methodological character and they state the formulation of an algorithm of monitoring the causes of a crisis with possibilities of their solution by the company management. The analysis is carried out according to the approach formulated by Svoboda (2006 and 2008), the application of which relates to almost all phases of the company life cycle in which crises may occur. The contribution states the causes of the occurrence of crisis situations in analyzed business entities, in the area of economic, financial and accounting activities with possibilities for their solution using the principles of crisis management with application of the principles of knowledge management. Methods of strategic decision-making, controlled dialogue, methods of management environment analysis, economic and financial analyses and in particular, methods of crisis management application were used with the focus on the markets in the Czech Republic and the EU and on international markets. The analyzed companies represent medium-sized business entities with a more extensive scope of business and equipped with modern technical means of control that are necessary for carrying out individual kinds of financial and economic analyses, specifically in connection with analyses of management and marketing. Bioveta, a. s. in Ivanovice na Hané is analyzed in detail.

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