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Crisis Diagnosis in Anti-Crisis Management Process in a Company

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**Crisis Diagnosis in Anti-Crisis Management Process
in a Company**

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Crisis Diagnosis in Anti-Crisis Management Process in a Company

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Abstract: Crisis concept links up to its appearance area. Some different kinds and levels of crises have been found: we face with global, mainly nature cataclysm crises, state economic crises, corporate crises and individual or psychological crises. The research area of this paper is micro level, i.e. corporate crises or crisis in a company. However, it is emphasized that company is a sociotechnical system, performing in a complex environment, therefore crisis in a company is closely related to global and state crises, e.g. economic crises, which often cause the corporate crises, and to individual crises what can appear as crisis reason as well as crisis consequence.

The relevance of the crisis situation diagnosis is confirmed by the diagnosis decisions designed and applied in the business practice, audit reports, bank assessment methods and company's own concernment. The aim of the research is to define crisis development stages and possible preventive means and to design the crisis diagnosis system in the anti-crisis management process in a company.

The paper deals with four stages of crisis development: prodromal crisis (CP), acute crisis (CA), and chronic crisis (CC). Crisis resolution (CR) is the final goal of any crisis management. When crisis is overcome, its performance stabilizes and a company starts to grow. Therefore the main point in company's management process is to notice barrier when company's performance starts going down in order to foresee the result which can cause crisis situation in a company.

Introduction

Crisis concept links up to its appearance area. We face with global, mainly nature cataclysm crises, state economic crises, corporate crises and individual or psychological crises. The research area of this paper is micro-level, i.e. corporate crises or crisis in a company. However, it is emphasized that company is a sociotechnical system, performing in a complex environment, therefore crisis in a company is closely related to global and state crises, e.g. economic crises, which often cause the corporate crises, and to individual crises what can appear as crisis reason as well as crisis consequence.

Crisis is often considered as a negative phenomenon (Rosenblatt, 1989), however it is noticed that there is a strong link between crisis and changes, which reflects a positive crisis impulse for successful company's development. Solutions of crisis situation mostly depend on the efficiency of crisis diagnosis mechanism. *In this context the crisis diagnosis conceptualisation problem and analysis of this phenomenon highly remains topical in social, economic as well as management aspect.*

The relevance of the crisis situation diagnosis is confirmed by the diagnosis decisions designed and applied in the business practice, audit reports, bank assessment methods and company's own concernment. In order to prevent, anticipate, and respond to crises quickly once they occur, anti-crisis management is necessary (Starosta, 2014). However, if it is impossible to prevent a crisis, then it is necessary to apply appropriate measures in order to minimize its negative effects. **The aim of the research** is to define crisis development stages and possible preventive means and to design the crisis diagnosis system in the anti-crisis management process in a company.

Methodology of the research

Theoretical analysis: selection and discussion of theoretical material and descriptive material.

Crisis Prevention in Different Crisis Development Stages

There are some different interpretations about diagnosis in the scientific literature. It is revelation of nature and causes of a particular phenomenon (Darling, Kash, 1998); identification of some features (Oxford Dictionary, 2015); identification of some signals (Gouillart, Kelle, 1995); problem identification (Darling, Kash, 1998); identification of the symptoms, which determine the problem (Smith, 1995), etc.

It is seldom happens that the same symptoms appear in some companies. Therefore it is claimed that crisis diagnosis is a complex process, which defines some different symptoms which determine difficulties in the company performance. Crisis diagnosis process helps assess the company state and determine factors influencing on it.

In this work **crisis diagnosis** is the application of some different, usually financial, means to evaluate the state of a company and to notice the features of a crisis. Crisis diagnosis is very important because it enables to evaluate the real state of a company and to make decisions for further company performance.

Crisis diagnosis appeared as the researcher goal and research object since 1932, when FitzPatrick (Murphy, 2006) analysed and compared 20 going companies with 20 failed ones. He published the research results in the journal *The Certified Public Accountant*. He did not carry out the statistical analysis, but he analysed financial rates and their changes. This interpretation was the first ever published complex rate analysis.

To do crisis diagnosis and to prevent company from a critical development it is very important to define the causes of a crisis as well as the stage of crisis development, which will help choose anti-crisis means for situation stabilization.

Offer (1996), Mitroff (1996), MacKenzie (1994), Fink (2002), Paraskev (2006) define four stages of crisis development: prodromal crisis (C_p), acute crisis (C_A), and chronic crisis (C_C) (see Figure1). Crisis resolution (C_R) is the final goal of any crisis management. When crisis is overcome, its performance stabilizes and a company starts to grow.

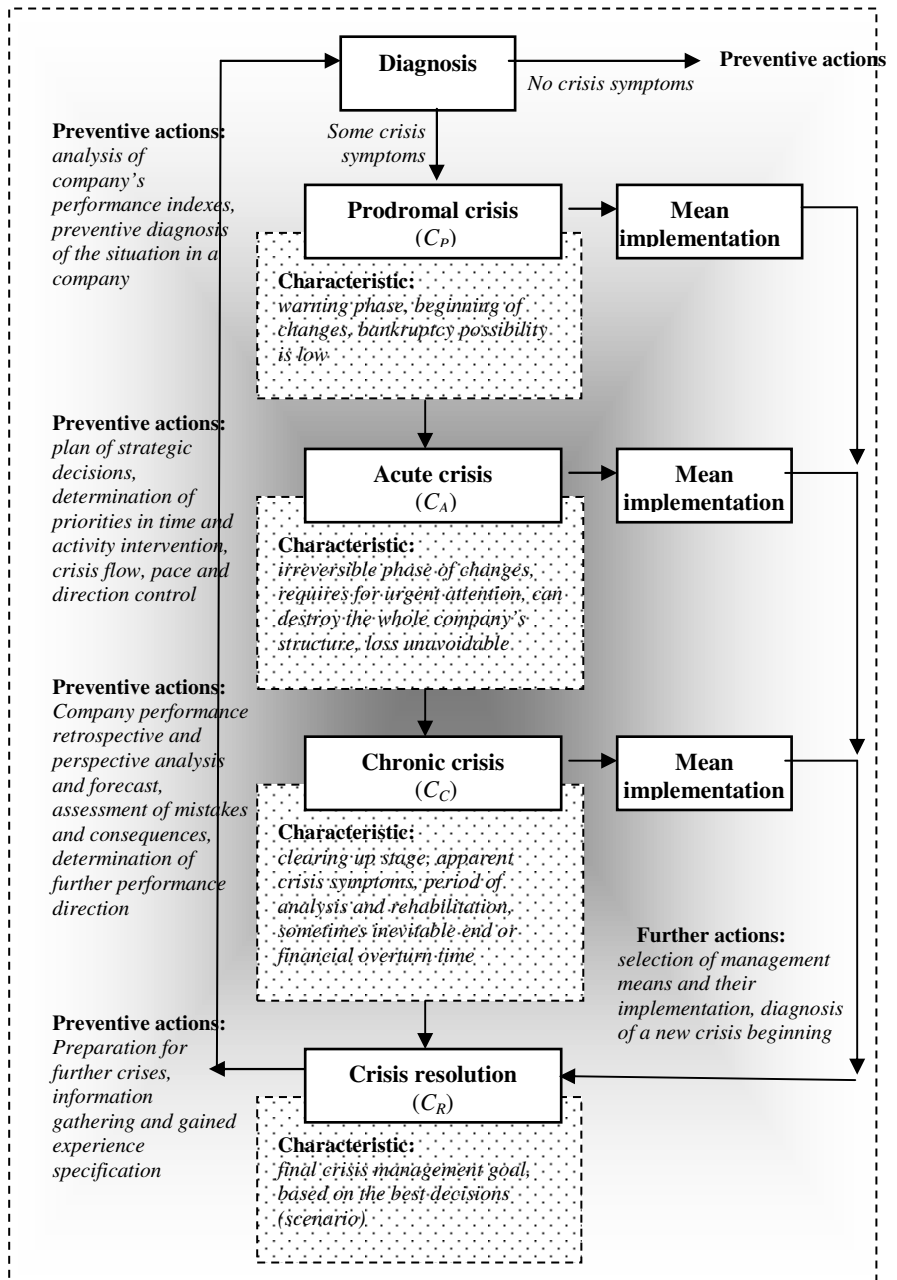
Prodromal crisis (C_p) stage is related to the preventive phase. In business some warning signals are always flashing. It does not matter what kind of organization, profitable or not, there are many factors what can touch business if the necessary means were not applied in time. In prodromal crisis phase the threat appearance and bankruptcy possibility is not very high, because having made a preventative rate diagnosis of the company performance it is possible to notice and to recognize the first crisis signals and to prepare the action plan to prevent it.

Therefore in this stage it is relevant to perform crisis situation diagnosis. If the right moment is missed and situation is not assessed properly, crisis can struck a company and its performance and management cannot avoid big losses.

The other crisis stage is acute crisis (C_A). Having diagnosed crisis situation in a company and having determined the symptoms of the acute crisis the urgent attention is needed. In this stage it is impossible to recover all loss. The loss size depends on the opportunity to manage it. This crisis stage can destroy the whole company's structure. If in a prodromal crisis stage a crisis can be noticed out, so in the acute crisis stage it can break out suddenly. Therefore it is relevant to apply diagnosis actions and notice the first crisis signals in the prodromal crisis stage yet, before it turns into acute crisis (Darling et al., 1996).

In the acute crisis stage the management actions can only control the loss. Suitable reaction and strictly planned actions allow mitigate its effects and avoid bankruptcy. Appropriate action intervention creates preconditions for preparation and allows controlling the flow of the crisis, speed, direction and its duration. In this stage it is necessary to control the crisis in so far as conditions allow. If this is not possible, it is possible to reduce the impact of the crisis by providing intervention time, setting out the priorities for actions on the effects of certain objects.

Figure 1. Crisis Prevention in Different Crisis Development Stages

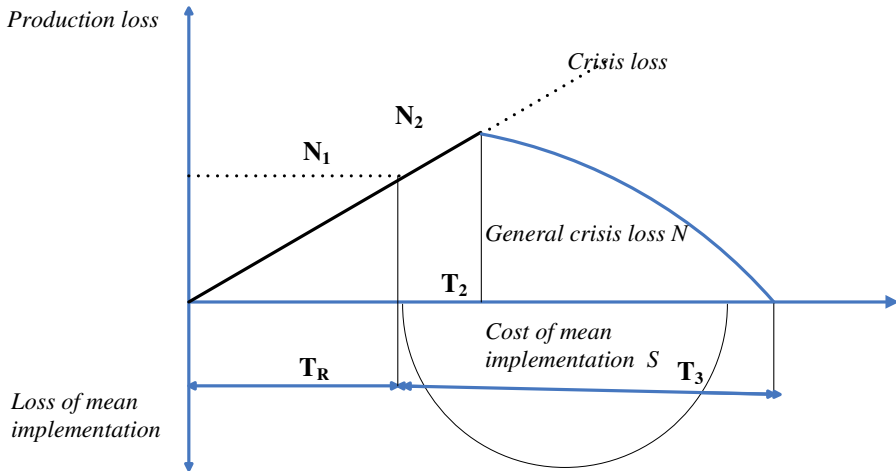


Source: Offer, 1996; Mitroff, 1996; MacKenzie, 1994; Fink, 2002, Paraskev, 2006

The fundamental difficulty in controlling an acute crisis, even ready for it, the latter is the speed and intensity, which occurs precisely at this stage. Speed depends on the type of crisis, and the intensity is determined by its possible result. If it is possible to provide the speed and intensity of the crisis in the prodromal crisis stage, the better conditions can be created to prepare for crisis management and control, when it reaches the stage of the apparent dynamics. Length of time in terms of acute crisis often takes the least time, but its effects are felt the most.

The third crisis stage – is chronic crisis (C_C). If the company has not carried out a detailed investigation and crisis diagnosis, delayed negative phenomenon becomes ingrained in the company and can have the inevitable end of company's performance. Effective crisis management, diagnostic measures, and competent leaders with due solutions help the company survive, although the losses are inevitable. This period is important for emergency preparedness for future analysis of failures, decision making and so on. It can also be a financial coup time, company management turmoil, company merger or bankruptcy of time. Longstanding crisis phase can take unlimited time, and it can reduce the company's solution fit. For some companies this could be the beginning of a recovery, the other - the collapse.

Crisis resolution (C_R) is the final goal of crisis management. When a company faces a crisis, its management plan must be drawn up based on the best estimates of the decision scenario. At this stage, the best performance of resolution scenario is designed in the estimated trajectory. Once the crisis is overcome, the company growth starts, its activity stabilizes and planned results can be achieved.

Figure 2. Model of Crisis Loss

Source: made in reference with Ansof, 1989

In Figure 2 see the importance of the crisis diagnosis. If the crisis phase is clarified in the prodromal crisis stage the potential loss is smaller. If the crisis is clarified later, then it becomes ingrained and its resolution requires substantial cost increase (see Figure 2).

In order to secure successful and permanent company's activity, it is important to rationally value its financial condition constantly. Scientists tried to find integral method, which credibly allows predicting companies financial problems in time. Applying bankruptcy prediction models is one of the most simple as well as accurate ways for predicting bankruptcy of enterprises. With the help of these models, the threat of bankruptcy could be noticed several years before bankruptcy actually starts. In this paper after the analysis of bankruptcy prediction importance and bankruptcy dynamics in Lithuania, bankruptcy prediction models commonly used in scientific literature are given in a systematic way. If all suggested methodologies are analysed, every enterprise can find the most appropriate methodology to value the stability of its activity (Rugenytė, Dagilienė, Menciūnienė, 2010).

Crisis situation causes loss N . The earlier crisis is clarified and the best measures are taken to eliminate it, the lower the total loss of the crisis is and lower disposal costs are. Furthermore, the failure process can be very different from one company to another, i.e. different sequences of failure factors are possible. Based on the findings, owners of a company can have a clearer view of time dimension

inherent in corporate failure and the impact of their own actions on bankruptcy (Burkšaitienė, Mažintienė, 2011).

Crisis Diagnosis System in Anti-Crisis Management Process in a Company

The anti-crisis management essence is highlighted: the means to avoid crisis have to be accepted until entering into the crisis „bottom“. When dropping trend arises, it is necessary to adjust strategy, evaluating that soon critical events will appear. The financial resources must be used to cover losses, which arise from critical situation in order to avoid bankruptcy.

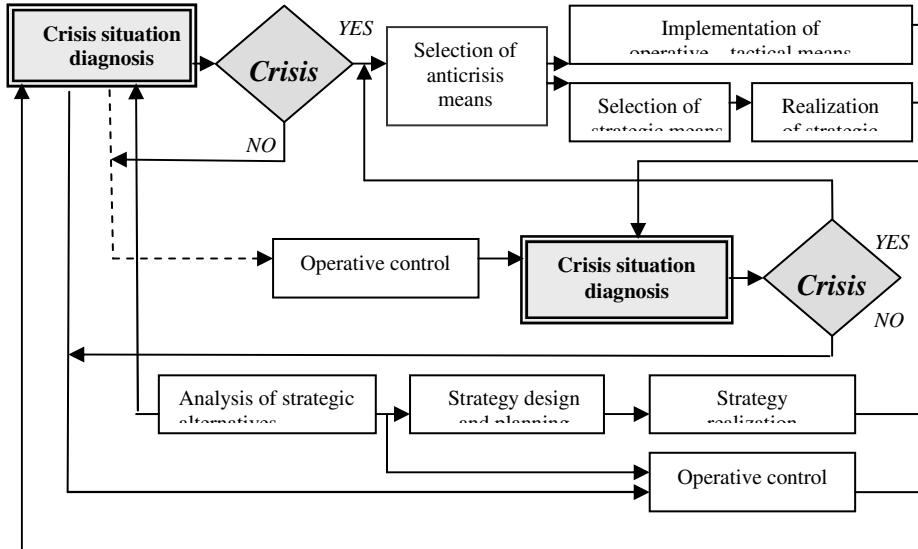
Anti-crisis management is a system that includes the application of methods diagnosing enterprise bankruptcy threat and the implementation of measures overcoming the crisis (Garškaitė-Milvydienė, 2014). Anti-crisis management success depends not from that, how authority is prepared. The aim should be that the crisis would not last very long and the most importantly, it would not reach the high amplitude. A particular threat in the company performance has deep crises, after which lack of resources to reach the pre-crisis level. Therefore diagnosing a crisis is essential to identify its level of depth, what will lead to further decisions in selecting means and resources on crisis liquidation and restoring the company performance or starting the bankruptcy process or event liquidation (Sakalas, Virbickaitė, 2011).

Having analysed the crisis characteristics it can be claimed that crisis situation observation model is necessary to apply in any company. Crisis diagnosis can help foresee what strategy to apply: defensive or offensive. So three main requirements are indicated in the diagnosis system:

- novelty of the crisis phenomenon recognition;
- reliability of the results;
- diagnosing process continuity.

The anti-crisis management scheme including the diagnosis system is shown in Figure 3.

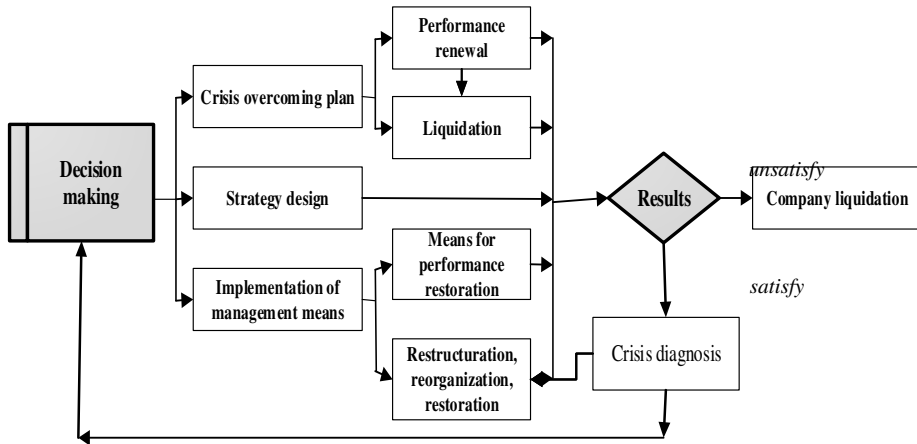
Figure 3. Model of Diagnosis Watchout System of Crisis Situation in a Company



Source: Fomin, 2003

Having determined a crisis in a company, the main reasons must be defined what caused it, then crisis stage and crisis complexity must be assessed. Having formed a plan to overcome crisis and decided to renew or liquidate the performance of a company, a new strategy development begins with the selection of the management means and their implementation in a company's performance (see Figure 4).

Mistakes and issues arising from the analysis of the situation within the company (if they are not noticed in time) intertwined with the mistakes in assessing future environmental conditions and human behaviour. Any organization must be able to capture and correct their mistakes in time to the moment when they begin to undermine to reach the organization goals. In other words, the situation is determined by the choice of the appropriate strategy selection. In accordance with the above mentioned authors theory (Ansof 1989; Fomin, 2003), it can be said that the company management may recognize a wide variety of methods, but specific company management methods in the competitive fight can strongly vary, and the differences appear in the particular circumstances, at some point in time.

Figure 4. Crisis Overcoming Programme

If the signs of a crisis situation are noticed, the company must take certain actions and steps to stop it and restore the company's activities. In the scientific literature (Kovalev, Patrov, 2007; Mackevičius, 2005; Kurosheva, 2002) two groups of measures are found: operational and strategic. Operational measures are applied to eliminate the deviations from planned and reached level, i.e. to remove the negative changes in the company's activity (Lalonde, 2004; Milesi-ferrites, Razin, 1998; Practice in Tamošiūnas, 2003). Strategic measures include staff training, competitive market research, demand and supply analysis (Peters, 1995), the provision of resources, introduction of new technologies (Perrow, 2003), the country's economic situation in the study (Perrow, 2003) and others.

Four types of the company failure process are observed: fundamentals of failure, detecting failure, exit of failing company and bankruptcy or recovery. Between these four types of company failure process, there exist major distinctions in terms of the presence and the importance of specific causes of bankruptcy, i.e. incorrect steps made by management, incorrect steps in the corporate policy and the importance of external factors. The interest for the analysis and for the understanding of business failure can notably be explained by the fact that a large number of stakeholders are concerned with the firm's activity and with its evolution over time (Burkšaitienė, D.; Mažintienė, A. 2011).

Conclusions

Having generalized the analysis of company's management capabilities in a crisis situation, it can be said that the system of crisis diagnosis in a company is the company's management information system in decision-making process, as it decides the company's internal investigation of the state task employing many indicators, facilitating the work of the head analysing a large amounts of information and when deciding on further action plan. This confirms that the head

of a company has to get the necessary and reliable information on the crisis situation in the enterprise, the depth of the crisis in time. It is therefore essential for the management of the company to capture threshold, which is responsible for a certain combination of company performance, in terms of joint unfavourable outcome, and that the crisis will determine crisis situation in a company.

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