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Укладач: Федишин І.Б. – к.е.н., асистент.

Рецензенти: Андрушків Б.М. – д.е.н., професор
Кирич Н.Б. – д.е.н., професор

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Supporting lecture notes for students of direction "Management" of all forms of education from the discipline “Problems of theory and practice of management” reveals knowledge on how enterprise functions and which problems may face during it`s lifetime. Thus new techniques for problem-solving and decision-making are presented in this supporting lecture notes.

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INTRODUCTION

The theory of management has grown over the past one-hundred years evolving from the time and motion studies of engineers to contributions from social scientists, the Hawthorne studies and a behavioral approach to more quantitative approaches that look for the "best" or optimum functioning of an organization or "total quality management (TQM)" (Gabor 1990). The selection of emergency medical and law-enforcement units in response to 911 communication calls and the most recent traffic hurricane evacuation planning suggest that scientific management is applicable to problems today. The ongoing assessment of disaster response programs using quantitative measurement criteria demonstrates that TQM can be used in emergency management.

The behavior scientists have also been involved suggesting the necessity of involving community organizations in planning and mitigation strategies. Finally, management has been influenced by those who stress the need for quality management and the efficient use of resources, even in a disaster.

The development of principles and concepts of management encouraged the formalization of schools of business during the Twentieth Century. We currently see the establishment of academic programs in management from concentrations, minors, certificates, and even majors from the associate to the advanced doctoral degree programs. The key is that the development of professionals in emergency management requires a formal educational process and an intentional exposure to management theory and concepts.

The contribution of organizational culture theory and the impact of environmental constraints is an important part of the growth of management theory over the past fifty years.

Finally, management has stressed the need to be aware of managing in a global environment.

TOPIC 1. THE DEVELOPMENT OF MANAGEMENT THEORY AND PRACTICE

1.1. ***History of management theory and practice.***

1.2. ***Definitions of terms.***

1.3. ***Contributions of management to management theory.***

1.1. *History of management theory and practice*

The field of management grew in its formalization during the latter part of the Nineteenth Century and throughout the Twentieth Century along with the rise of the industrial revolution. The growth of management concepts was needed to guide the growth of industrial manufacturing in the United States and Europe. A similar growth in a management theory also evolved in response to the need for theory, concepts and proven practices in response to the devastating impacts of hurricanes, floods, earthquakes, and chemical spills. Our current focus on homeland security is also driving the development of even more concepts in this area.

Management theory provides a sound basis for supporting the management process from planning, organizing, leading and controlling. Taylor (1911) considered management a process that "if approached scientifically" would lead to success. His principles of scientific management initiated a revolution in how we viewed both the process and position of the manager. Many of the early writers in management contended that there was a right way of organizing work and accomplishing tasks (Gilbreth 1911). Others built on the engineering approaches to acknowledge the impacts of bureaucracies (Weber 1947). Mintzbert explained the role of the "manager" in directing the organization to achieving goals in a rational manner (1971). The interpersonal, informational, and decisional roles he characterized are mutually applicable to the emergency manager in the public, private and non-profit organizational setting.

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Finally, management has stressed the need to be aware of managing in a global environment. Today, we see management emerging from a local approach to one that examines on a regional basis and with the notion of national and international linkages.

The need to monitor the external environment not only locally but on an international scale is becoming a more critical element of the management literature.

1.2. ***Definition of terms.***

Managing is one of the most important human activities. From the time people began forming organizations to accomplish aims and objectives they could not accomplish as individuals, managing has been essential to ensure the coordination of individual efforts. As society continuously relied on group effort, and as many organized groups have become large, the task of managers has been increasing in importance and complexity. Henceforth, managerial theory has become crucial in the way managers manage complex organizations. Some managers in different parts of the world could have achieved managerial success without having basic theoretical knowledge in management, it has to be unequivocally emphasized that those managers who have mixed management theory in their day-to-day practice, have had better chances of managing their organizations more efficiently and effectively to achieve both individual and organizational objectives. Therefore, managers of contemporary organizations ought to appreciate the important role they play in their respective organizations if they are to achieve set goals. Secondly, there is need to promote excellence among all persons in organizations, especially among managers themselves.

Management is the art, or science, of achieving goals through people. Since managers also supervise, management can be interpreted to mean literally "looking over" – i.e., making sure people do what they are supposed to do. Managers are, therefore, expected to ensure greater productivity or 'continuous improvement'.

More broadly, management is the process of designing and maintaining an environment in which individuals, working together in groups, efficiently accomplish selected aims. In its expanded form, this basic definition means several things. First, as

managers, people carry out the managerial functions of planning, organizing, staffing, leading, and controlling. Second, management applies to any kind of organization. Third, management applies to managers at all organizational levels. Fourth, the aim of all managers is the same – to create surplus. Finally, managing is concerned with productivity – this implies effectiveness and efficiency.

Thus, management refers to the development of bureaucracy that derives its importance from the need for strategic planning, co-ordination, directing and controlling of large and complex decision-making process. Essentially, therefore, management entails the acquisition of managerial competence, and effectiveness in the following key areas: problem solving, administration, human resource management, and organizational leadership.

First and foremost, management is about solving problems that keep emerging all the time in the course of an organization struggling to achieve its goals and objectives. Problem solving should be accompanied by problem identification, analysis and the implementation of remedies to managerial problems. Second, administration involves following laid down procedures (although procedures or rules should not be seen as ends in themselves) for the execution, control, communication, delegation and crisis management. Third, human resource management should be based on strategic integration of human resource, assessment of workers, and exchange of ideas between shareholders and workers. Finally, organizational leadership should be developed along lines of interpersonal relationship, teamwork, self-motivation to perform, emotional strength and maturity to handle situations, personal integrity, and general management skills.

Management theory is a collection of ideas which set forth general rules on how to manage a business or organization. Management theory addresses how managers and supervisors relate to their organizations in the knowledge of its goals, the implementation of effective means to get the goals accomplished and how to motivate employees to perform to the highest standard.

Practice management is a growing business strategy intended to help companies overcome the challenges of fluctuating markets and adapt to the ever-evolving needs of consumers. Though the term originally referred to medical practices, other types of businesses, such as lawyers and financial advisers, are adopting practice management strategies.

Practice management covers a wide array of topics, both operational and strategic, to do with running a successful accounting practice. Topics include marketing, networking, pricing, human resource management, practice development, merging or purchasing a practice, succession planning, compensation strategies, recruiting and retention, billing and collection, administration, leadership, and more. Not surprisingly, the theories, techniques, approaches, and tools of practice management share much in common with those in managing a business. Practice management will likely get more sophisticated as the practice grows.

The foundational principle of practice management lies in effectiveness. The rate at which a business functions each day must be fast, though it remains important to be flexible in order to properly react to changes in the market and any challenges faced by the business. Being able to accomplish this means having access to the right practice management tools to address each of these areas:

Key aspects of practice management include the following:

- *Strategy and planning* **-** Practices need to build a strong foundation to ensure their success. A strong foundation starts with a clear strategy and a plan to execute it.
- *Practice models* **-** Practices will need to consider the best structure and model to use as well as determine profit sharing and decision making within the firm.
- *Business development* **-** As practices grow, they will increasingly need to consider issues like developing a growth strategy, coping with increased regulation and competition, pricing, marketing and client relationship management, what services to offer

and which clients to serve, and building a firm culture. Professional services range from the more traditional offerings of audit, assurance, accounting, and tax to emerging areas of advisory and reporting such as sustainability and integrated reporting. Successful firms can be highly specialized or general; they can focus on traditional accounting services or value-added advisory services. Advisory services is one of the fastest growing service areas as organizations, especially smaller ones, increasingly look to accounting firms for advice ranging from regulatory compliance to doing business overseas and adopting sustainable business practices.

- *Networking and networks* - In order to gain new clients and access expertise, many practices use different forms of networking, from traditional face to face through to electronic social media, as well as joining networks, associations and alliances of practices as a means of obtaining client referrals, providing clients access to other experts and gaining access to resources and tools.

- *Marketing* - Attracting and retaining clients is a primary challenge facing practices, and securing new clients is one of the main drivers of future profits. This makes marketing and client relations one of the keys to success. Effective marketing and client relationship management demands communicating your value and services as well as knowing your clients, existing and potential - their challenges, aspirations, needs, and preferences. Practices need to understand how best to develop and maintain client relationships, including strategies to improve and cement client relationships.

- *Human resource management* - Staff and the firm's leadership are arguably the most important assets of any firm and, as such, crucial to the provision of high-quality services and the ultimate success of the firm. Key issues to address include how to attract, retain, motivate, and train staff.

- *Information technology* - It is critical for firms to adopt best practice in respect to emerging technologies, such as social media, smartphones, and computing, as these technologies can help marketing and talent recruitment, reduce costs, and offer new

client service opportunities. Cloud computing presents both opportunities - lower cost, wider geographical reach, and new services - and threats, such as the ability of SMEs to perform certain basic accounting functions themselves resulting in a reduction in the demand for such services from practices. Effective selection, implementation, and management of technologies, as well as training employees to use them, are fundamental to the success of any firm.

- *Risk management* **-** Risk management is important to practices especially those in more litigious jurisdictions where the number and size of legal claims have increased over the years. There are frameworks and standards for identifying, evaluating, and acting on risks within a firm. Risk management includes ethical issues and safeguards that can be used to deal with ethical threats, the role of quality control systems, and additional risk mitigation, such as insurance.

1.3. ***Contributions of Management to Management Theory***

Strategic Planning and the Changing Nature of the Organizational Environment: A major contribution of the strategic planning process to management is the need to monitor the nature and changing character of external forces and how they impact the operations of an organization. Environmental scanning clarifies how technology, the law, the press, elected officials, citizens, and the natural environment impact internal operations. Hurricane Andrew provides an excellent illustration of how the external environment changed management theory and practice.

Disasters reveal not only the structural strengths and limitations of the physical environment of a community but also how local, state and national response organizations function effectively and ineffectively. Hurricane Andrew also reminded managers that organizational change is often the result of external forces for change. Other external forces for change such as new technologies, laws and regulations as well as community

and business needs were major factors pushing for changes in management response and recovery programs, planning tools and approaches to mitigation.

The Role of the Manager: The view of the organization as a system suggests a very special role for managers in the management system. For many years, management theory has suggested a rational or economic technical basis for organizational performance. This is a closed system view and appropriate for the technical level but not for the organizational or institutional level. The view of the open system creates a more difficult role for management. It must deal with uncertainties and ambiguities and must be concerned with adapting the organization to new and changing requirements. Management is a process, which spans and links the various sub-systems.

The basic function of management is to align not only people, but also the institution itself including technology, processes, and structure. It attempts to reduce uncertainty at the same time searching for flexibility.

Management faces situations, which are dynamic, inherently uncertain, and frequently ambiguous. Management is placed in a network of mutually dependent relationships. Management endeavors to introduce regularity in a world that will never allow that to happen.

Management Systems Theory and Management: Systems theory evolved from the basic sciences but is utilized in the social sciences including management theory. A system composed of interrelated and interdependent parts arranged in a manner that produces a unified whole is critical in understanding all parts of the management process.

Some critical concepts that are applicable to management include some of the following: open system, subsystems, synergy, interface, holism, strategic constituencies, boundaries, functionalism, interface, strategic constituencies, feedback and a moving equilibrium. Management is composed of many parts including: local, state and national public, private and non-profit units. These units interact in many independent ways and each has their own constituencies, boundaries, function, and sub-units. The units may

interrelate in management activities in an open environment with few organizational barriers or collaborative and cooperative efforts limited by specific organizational policies, rules and procedures. Managers acknowledge that effective response and recovery efforts require the cooperation of the entire community; emergency managers do not operate in isolation but as a part of a large open system.

Effective response and recovery is dependent on cooperation between local public agencies, business enterprises, and sometimes community groups. Traffic control and security is a collaborative effort between numerous local law enforcement jurisdictions. Coordination is critical in linking multiple organizational efforts in a seamless response and recovery effort.

An *open system* involves the dynamic interaction of the system with its environment. This theory is fundamental to understanding hazards and management for it maintains that everything is related to everything else. Management has a dynamic relationship with the environment and receives various inputs, transforms these inputs in some way, and exports outputs. These systems are open not only in relation to their environment but also in relation to themselves; the interactions between components affect the system as a whole. The open system adapts to its environment by changing the structure and processes of the internal components.

Systems are composed of *sub-systems.* That is, the parts that form the system may themselves be a system. The combined and coordinated actions of the parts of the system achieve more than all of the parts acting independently. This concept known as "synergy" is critical to the field of management. The performance of an enterprise is a product of the interaction rather than sum of its parts, but it is entirely possible for the action of two or more parts to achieve an effect of which either is individually incapable. Synergy is characterized by the whole being greater than the sum of its parts. It explains why the performance of a system as a whole depends more on how its parts relate than on how well

each part operates. Indeed, the inter-dependence of the parts is such that even if each part independently performs as efficiently as possible, the system as a whole may not.

Often management, as with the field of management is dependent on conceptual frameworks or models. As an example, management theory suggests that social organizations are contrived and constantly evolving and not static mechanical systems. They have structure which cannot be separated from the processes of the system.

A systems approach does not provide a means for solving all problems. It is however, useful for viewing the relationships between interdependent parts in terms of how these relationships affect the performance of the overall system. Systems theory provides managers with a critical perspective to view and understand how to prepare for and respond to hazards and mitigate their adverse impacts.

The systems perspective to management integrates the diverse interdependent factors including individuals, groups, formal or informal organizations, attitudes, motives, interactions, goals, status, authority. The job of the manager is to ensure that all parts of the organization are coordinated internally and with external organization that are involved in management activities. The management thus is leading and directing many activities so as to achieve established organizational and community goals. A systems view of management suggests that all parts of the organization are interdependent. For example, if a service unit functions well, but the personnel section does not replace retired staff in a timely manner, the system malfunctions.

The open systems approach recognizes that organizations are not self-contained. They rely on their environment (including the social, political, technological, and economic forces) for life sustaining inputs and as sources to absorb their outputs. No organization can survive for long if it ignores government regulations, the courts, outside interest groups, private service providers, or elected officials. An organization should be judged on its ability to acquire inputs, process these inputs, channel the outputs, and maintain stability and balance. Outputs are the ends, where acquisition of inputs and

processing efficiencies are means. If an organization is to survive over the long term, it must remain adaptive. System concepts such as subsystems or units within units; synergy or that the group has greater outputs than each single unit, boundaries, holism or viewing the larger context rather than a narrow view, interface, and adaptive organizational mechanisms. The importance of leadership and adaptive behavior are stressed by many writers (Lewin 2000; Toffler 1985; Garvin 1993; and Sugarman 2001) who stated that today's leaders including managers must discover ways of creating order in a chaotic world.

Finally, chaos theory suggests that even in general management systems theory, organizations must adapt to complex change and institutionalize learning through feedback systems. Chaos theory states that just a small change in the initial conditions may have significant change in the long-term behavior of the system.

Contingency Theory and Approach: Contingency theory suggests that management principles and practices are dependent on situational appropriateness. Luthans (1976) notes that "The traditional approaches to management were not necessarily wrong, but today they are no longer adequate. The needed breakthrough for management theory and practice can be found in a contingency approach." Different situations are unique and require a managerial response that is based on specific considerations and variables. The appropriate use of a management concept or theory is thus contingent or dependent on a set of variables that allow the user to fit the theory to the situation and particular problems. It also allows for management theory to be applied to an intercultural context where customs and culture must be taken into consideration.

For management and everyday (practical) management alike, the successful application of any theory or concept is greatly influenced by the situation. For example, a functional organization structure with many layers of management functions best in stable environmental conditions and routine operations. For practical management, the operating environment is ever changing and must be flexible to accommodate many different

hazards that a community or business faces. Managers must build an organizational culture and structure that improvises and acknowledges that each disaster is unique. As a result, a more dynamic organizational structure could be structured based on the nature of the problem (hazard) and who needs to be involved and the actions taken. Utilizing an organizational design that is rigidly structured regardless of the situation might not provide the appropriate basis for quick and comprehensive decision making in a crisis.

TOPIC 2. MANAGEMENT THEORIES

2.1. Management theories.

2.2. Recent developments in management theory.

2.3. Management as practice.

2.1. Management theories

Contemporary theories of management tend to account for and help interpret the rapidly changing nature of today's organizational environments. This paper will deal with several important management theories which are broadly classified as follows: The Scientific Management School comprising the works of Frederick W. Taylor and Lillian Gilbreth's motion study, among others; the Classical Organizational Theory School comprising the works of Henri Fayol's views on administration, and Max Weber's idealized bureaucracy, among others; Behavioral School comprising the work of Elton Mayo and his associates; the Management Science School; and Recent Developments in Management Theory comprising works such as Systems Approach, Situational or Contingency theory, Chaos theory, and Team Building approach.

Scientific Management School

The first management theory is what is popularly referred to as Frederick Taylor's Scientific Management. Frederick Taylor started the era of modern management. In the

late nineteenth and early twentieth centuries, he was decrying the "awkward, inefficient, or ill-directed movements of men" as national loss. Taylor consistently sought to overthrow management "by rule of thumb" and replace it with actual timed observations leading to "the one best" practice. He also advocated the systematic training of workers in "the one best practice" rather than allowing them personal discretion in their tasks. He further believed that the workload would be evenly shared between the workers and management with management performing the science and instruction and the workers performing the labor, each group doing "the work for which it was best suited".

Taylor's strongest positive legacy was the concept of breaking a complex task down into a number of subtasks, and optimizing the performance of the subtasks; hence, his stop-watch measured time trials. However, many critics, both historical and contemporary, have pointed out that Taylor's theories tend to "dehumanize" the workers.

Nevertheless, Taylor's postulations were strongly influenced by his social/historical period (1856-1917) during the Industrial Revolution; it was a period of autocratic management that saw Taylor turning to "science"(hence, his principles of scientific management) as a solution to the inefficiencies and injustices of the period. It has to be stated that scientific management met with significant success among which included: the science of cutting metal, coal shovel design that he produced at Bethlehem Steel Works (reducing the workers needed to shovel from 500 to 140), worker incentive schemes, a piece rate system for shop management, and organizational influences in the development of the fields of industrial engineering, personnel, and quality control.

It has to be acknowledged that from an economic standpoint, Taylorism was an extreme success. Application of his methods yielded significant improvements in productivity. Henceforth, Taylor proposed four great underlying principles of management. First, there is a need to develop a 'science of work' to replace old rule-of-thumb methods: pay and other rewards linked to achievement of 'optimum goals' – measures of work performance and output; failure to achieve these would in contrast result

in loss of earnings. Second, workers to be ‘scientifically’ selected and developed: training each to be ‘first-class’ at some specific task. Three, the ‘science of work’ to be brought together with scientifically selected and trained people to achieve the best results. Finally, work and responsibility to be divided equally between workers and management cooperating together in close interdependence.

Alongside Taylor’s postulates is Gilbreth’s motion study. The ultimate result of this study led to the centrality of efficiency in organizations. Gilbreth was particularly interested in how he could reduce the unnecessary motions resulting from bricklaying at a construction site; he succeeded in reducing the motions from 18 to 4. He then proposed that each worker should be involved in doing his or her own work, prepare for the next higher level, and training their successors.

Classical Organizational Theory School

In this category of management theory are the works of Max Weber’s bureaucratic theory and Henri Fayol’s administrative theory. Weber postulated that western civilization was shifting from “wertrational” (or value oriented) thinking, affective action (action derived from emotions), and traditional action (action derived from past precedent) to technocratic thinking. He believed that civilization was changing to seek technically optimal results at the expense of emotional or humanistic content.

Weber then developed a set of principles for an “ideal” bureaucracy as follows: fixed and official jurisdictional areas, a firmly ordered hierarchy of super and subordination, management based on written records, thorough and expert training, official activity taking priority over other activities and that management of a given organization follows stable, knowable rules. The bureaucracy was envisioned as a large machine for attaining its goals in the most efficient manner possible.

Henri Fayol’s administrative theory mainly focuses on the personal duties of management at a much more granular level. In other words, his work is more directed at the management layer. Fayol believed that management had five principle roles: to

forecast and plan, to organize, to command, to co-ordinate, and to control. Forecasting and planning was the act of anticipating the future and acting accordingly.

Fayol developed fourteen principles of administration to go along with management's five primary roles. These principles are: specialization/division of labor, authority with responsibility, discipline, unity of command, unity of direction, subordination of individual interest to the general interest, remuneration of staff, centralization, scalar chain/line of authority, order, equity, stability of tenure, initiative, and esprit de corps. Fayol clearly believed personal effort and team dynamics were part of an "ideal" organization. Fayol's five principle roles (Plan, Organize, Command, Co-ordinate, and Control) of management are still actively practiced today. The concept of giving appropriate authority with responsibility is also widely commented on and is well practiced. Unfortunately, his principles of "unity of command" and "unity of direction" are consistently violated in "matrix management", the structure of choice for many of today's companies.

Behavioral School

The key scholar under this category is Elton Mayo. The origin of behavioralism is the human relations movement that was a result of the Hawthorne Works Experiment carried out at the Western Electric Company, in the United States of America that started in the early 1920s (1927-32). Elton Mayo and his associates' experiments disproved Taylor's beliefs that science dictated that the highest productivity was found in 'the one best way' and that way could be obtained by controlled experiment. It cannot be denied that management has a systematic body of knowledge but it is not as exact as that of other physical sciences like biology, physics, and chemistry etc.

The Hawthorne studies attempted to determine the effects of lighting on worker productivity. When these experiments showed no clear correlation between light level and productivity the experiments then started looking at other factors. These factors that were considered when Mayo was working with a group of women included rest breaks, no rest

breaks, no free meals, more hours in the work-day/work-week or fewer hours in the workday/work-week. With each of these changes, productivity went up. When the women were put back to their original hours and conditions, they set a productivity record.

These experiments proved five things. First, work satisfaction and hence performance is basically not economic – depends more on working conditions and attitudes - communications, positive management response and encouragement, working environment. Second, it rejected Taylorism and its emphasis on employee self-interest and the claimed over-riding incentive of monetary rewards. Third, large-scale experiments involving over 20,000 employees showed highly positive responses to, for example, improvements in working environments (e.g., new welfare/rest facilities), and expressions of thanks and encouragement as opposed to coercion from managers and supervisors. Fourth, the influence of the peer group is very high – hence, the importance of informal groups within the workplace. Finally, it denounced 'rabble hypotheses' that society is a horde of unorganized individuals acting in a manner to secure his or her self-preservation or self-interest.

2.2. Recent Developments in Management Theory

Under this category of theory are the Systems Approach, Situational or Contingency theory, Chaos theory, and Team Building theory. The systems theory has had a significant effect on management science and understanding organizations. A system is a collection of part unified to accomplish an overall goal. If one part of the system is removed, the nature of the system is changed as well. A system can be looked at as having inputs (e.g., resources such as raw materials, money, technologies, people), processes (e.g., planning, organizing, motivating, and controlling), outputs (products or services) and outcomes (e.g., enhanced quality of life or productivity for customers/clients, productivity). Systems share feedback among each of these four aspects of the system.

The Systems Theory may seem quite basic. Yet, decades of management training and practices in the workplace have not followed this theory. Only recently, with tremendous changes facing organizations and how they operate, have educators and managers come to face this new way of looking at things. The effect of systems theory in management is that it helps managers to look at the organization more broadly. It has also enabled managers to interpret patterns and events in the workplace – i.e., by enabling managers to recognize the various parts of the organization, and, in particular, the interrelations of the parts. The situational or contingency theory asserts that when managers make a decision, they must take into account all aspects of the current situation and act on those aspects that are key to the situation at hand. Basically, it is the approach that “it depends”.

The Chaos theory is advocated by Tom Peters (1942). As chaotic and random as global events seem today, they are equally chaotic in organizations. Yet for many decades, managers have acted on the basis that organizational events can always be controlled. Thus, a new theory, known as a chaos theory, has emerged to recognize that events are rarely controlled. Chaos theorists suggest that systems naturally go to more complexity, and as they do so, they become more volatile and must, therefore, expend more energy to maintain that complexity. As they expend more energy, they seek more structure to maintain stability. This trend continues until the system splits, combines with another complex system or falls apart entirely. It will need an effective manager for the latter worst scenario not to happen.

The last management theory is the Team Building approach or theory. This theory emphasizes quality circles, best practices, and continuous improvement. It is a theory that mainly hinges on reliance on teamwork. It also emphasizes flattening of management pyramid, and reducing the levels of hierarchy. Finally, it is all about consensus management – i.e., involving more people at all levels in decision-making.

Other Management Theories

In this category are the works of Edward W. Deming and Douglas McGregor. Edward Deming is the founder of modern quality management and is regarded by the Japanese as the key influence in their postwar economic miracle. He postulated several assumptions: create constancy of purpose for continual improvement of products and service; adopt the new philosophy created in Japan; cease dependence on mass inspection; build quality along with price; improve constantly and forever every process planning, production, and service; institute modern methods of training on-the-job including management; adopt and institute leadership aimed at helping people to do a better job; drive out fear, encourage effective two-way communication; breakdown barriers between departments and staff areas; eliminate exhortations for the workforce – they only create adversarial relationships; eliminate quotas and numerical targets; remove barriers to pride of workmanship, including annual appraisals and Management by Objectives; encourage education and self-improvement for everyone; and define top management's permanent commitment to everimproving quality and productivity and their obligation to implement all these principles.

Douglas McGregor (1906-1964) postulated management ideas as contained in "Theory X" and "Theory Y". Using human behavior research, he noted that the way an organization runs depends on the beliefs of its managers. "Theory X" gives a negative view of human behavior and management that he considered to have dominated management theory from Fayol onwards – especially Taylorism. It also assumes that most people are basically immature, need direction and control, and are incapable of taking responsibility. They are viewed as lazy, dislike work and need a mixture of financial inducements and threat of loss of their job to make them work ('carrot and stick' mentality).

There is, however, one theory or approach, the quantitative approach that is hardly used and known by managers. It emerges from operations research and management

science. It is a mathematical and statistical solution to problems using optimization models, and computer simulations. It is most effective management decision-making rather than managerial behavior. The management theories that have been discussed, important as they are, have to be translated in practice by managers.

2.3. Management as Practice. Uncertinity, risks and crisis.

Managing, like all other practices – whether medicine, music composition, engineering, accountancy, or even baseball – is an art; it is know-how. It is doing things in the light of the realities of a situation.

Yet managers can work better by using the organized knowledge about management. It is this knowledge that constitutes science. However, the science underlying managing is fairly crude and inexact. This is true because the many variables with which managers deal are extremely complex. Nevertheless, such management knowledge can certainly improve managerial practice. Managers who attempt to manage without management science must put their trust to luck, intuition, or what they did in the past.

In managing, as in any other field, unless practitioners are to learn by trial and error, there is no place they can turn for meaningful guidance other than the accumulated knowledge underlying their practice; this accumulated knowledge is theory.

For practical purposes, all managers must develop three sets of skills, namely; conceptual, technical, and human (see Fleet and Perterson 1994, p. 25). Conceptual skills allow the manager to develop relationships between factors that other people may not see. Managers who have well-developed conceptual skills are able to apply different management theories to the same situation. For a manager to be technical, it implies that he or she should act professionally. Professionalism demands that the manager performs his or her duties within established procedures, rules and regulations. Any behavior that compromises the manager's professional etiquette is certainly bound to interfere adversely

with the organization's productivity. Lastly, a manager should be able to see members of the organization as human beings who have needs and psychological feelings and emotions. These needs and feelings must be positively harnessed for the good of the organization; motivation of the employees, therefore, becomes a critical factor in increasing productivity.

It has to be restated that management is the process of designing and maintaining an environment for the purpose of efficiently accomplishing selected aims. Managers carry out the functions of planning, organizing, staffing, leading, and controlling. Managing is an essential activity at all organizational levels.

However, the managerial skills required vary with organizational levels. The goal of all managers is to create a surplus and to be productive by achieving a favorable output-input ration within a specific time period with due consideration for quality. Productivity implies effectiveness (achieving of objectives) and efficiency (using the least amount of resources).

Managing as practice is art; organized knowledge about management is science. The development of management theory involves the development of concepts, principles, and techniques. There are many theories about management, and each contributes something to our knowledge of what managers do. Each approach or theory has its own characteristics and advantages as well as limitations. The operational, or management process, approach draws on each "school" and systematically integrates them.

Finally, the organization is an open system that operates within and interacts with the environment. The systems approach to management includes inputs from the external environment and from claimants, the transformation process, the communication system, external factors, outputs, and a way to reenergize the system. No doubt, a manager who makes serious attempts to translate theory into reality is bound to increase productivity more than a manager who chooses to use the 'fire brigade' or trial and error approach.

Regarding this topic we should distinquish such terms in the theory and practice of management as uncertainity, risk and crisis.

Uncertainty is a lack of complete certainty. In uncertainty, the outcome of any event is completely unknown, and it cannot be measured or guessed. Here you don't have any background information on the event.

Now you may argue that uncertainty is the same as unknown risks, however, uncertainty is not an unknown risk.

In uncertainty, you completely lack the background information of an event even though it is identified. In the case of an unknown risk, although you have the background information, you simply miss it during the identify risks process. The following are a few differences between risk and uncertainty:

- In risk you can predict the possibility of a future outcome while in uncertainty you cannot predict the possibility of a future outcome.
- Risk can be managed while uncertainty is uncontrollable.
- Risks can be measured and quantified while uncertainty cannot.
- You can assign a probability to risks events, while with uncertainty you can't.

Risk is the potential of gaining or losing something of value. Values (such as physical health, social status, emotional well-being, or financial wealth) can be gained or lost when taking risk resulting from a given action or inaction, foreseen or unforeseen (planned or not planned). Risk can also be defined as the intentional interaction with uncertainty. Uncertainty is a potential, unpredictable, and uncontrollable outcome; risk is a consequence of action taken in spite of uncertainty.

Risk management focuses on identifying and assessing the risks and managing those risks to minimize their impact.

Category of knowable risks is neither controllable nor easily detectable. We know they can occur because they have occurred previously, but they are not predictable. Sub-categories here include internal risks, such as employee risks, emanating from poor

judgment, criminal intent, reckless behaviors, negligence, incompetence, and so on. In addition, there are external risks, such as customer risks, where the chain of evidence for audit begins outside of the organization.

Then there are risks that are unknowable due to uncertainty. These usually have an impact on an organizations' survival objectives. Such risks may lead to the physical cessation of business. Risks in this category include solvency-related risk events that occur when decisions taken inside or outside of the organization have a domino effect and impact on a firm's ability to trade. Such risk events may originate in, for example, a decision to delay payment to creditors, a breach of trust, or reputational damage with stakeholders, and so on. Responses to such risks depend on operational resilience, or reality antifragility.

Risks at all levels in an enterprise should be linked to the achievement of related organizational objectives. However, there is little guidance in the academic or practitioner literatures on how to achieve this. There are certainly a wealth of complex standards, frameworks, and methodologies that help practitioners to manage risk.

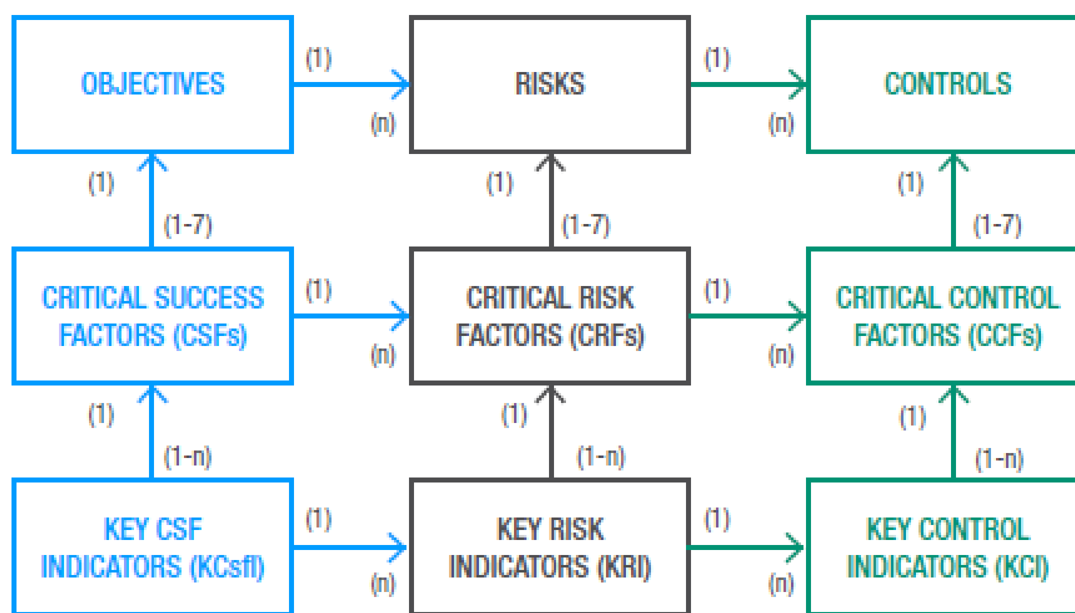

Figure 2.1. A CSF-based model on linking business objectives, risks, and controls

A **crisis** is any event that is going (or is expected) to lead to an unstable and dangerous situation affecting an individual, group, community, or whole society. Crises are deemed to be negative changes in the security, economic, political, societal, or environmental affairs, especially when they occur abruptly, with little or no warning. More loosely, it is a term meaning "a testing time" or an "emergency event".

Crisis management is the identification of threats to an organization and its stakeholders, and the methods used by the organization to deal with these threats. Due to the unpredictability of global events, organizations must be able to cope with the potential for drastic changes in the way they conduct business. Crisis management often requires decisions to be made within a short time frame, and often after an event has already taken place. In order to reduce uncertainty in the event of a crisis, organizations often create a crisis management plan.

Any business, large or small, may run into problems that may negatively impact its normal course of operations. Crises can lead to tangible and intangible costs to a company in terms of lost sales, customers, and a decrease in the firm's net income. Businesses that effectively put a business continuity plan in place in case of unforeseen contingencies can mitigate the effects of any negative event that occurs. The process of having a continuity plan in place in the event of a crisis is known as crisis management.

In order to have a business continuity plan in the aftermath of a crisis, most firms start by conducting risk analysis on their operations. Risk analysis is the process of identifying any adverse events that may occur and the likelihood of the events occurring. By running simulations and random variables with risk models, such as scenario tables, a risk manager can assess the probability of a risk occurring in the future, the best- and worst-case outcome of any negative event, and the damage that the company would incur should the risk actually happen. For example, a risk manager may estimate that the probability of a flood occurring within a company's area of operation is very high. The

worst-case scenario of a flood will be destroying the company's computer systems and hard drives, thereby, losing pertinent data on customers, suppliers, and ongoing projects.

Crisis management is not necessarily the same thing as risk management. Unlike risk management, which involves planning for events that might occur in the future, crisis management involves reacting to negative events during and after they have occurred. An oil company for example, may have a plan in place to deal with the possibility of an oil spill, but if such a disaster actually occurs, the magnitude of the spill, the backlash of public opinion, and the cost of cleanup can vary greatly and may exceed expectations.

Crisis can either be self-inflicted or caused by external forces. Examples of external forces that could affect an organization's operations include natural disasters, security breaches, or false information about a company that hurts its reputation. Internal crisis can be managed, mitigated, or avoided if a company enforces strict compliance guidelines and protocols regarding ethics, policies, rules, and regulations among employees.

TOPIC 3. BASIC MANAGEMENT PRINCIPLES. CRISIS MANAGEMENT.

3.1. Management objectives, functions, goals, and essentiality.

3.2. Managerial skills and the organizational hierarchy.

3.3. Sustainable economic development and crisis management.

3.1. Management Objectives, Functions, Goals, and Essentiality

Management Objectives

There are basically three management objectives. One objective is ensuring organizational goals and targets are met – with least cost and minimum waste. The second objective is looking after health and welfare, and safety of staff. The third objective is protecting the machinery and resources of the organization, including the human resources.

Management Functions

To understand management, it is imperative that we break it down into five managerial functions, namely; ***planning, organizing, staffing, leading, and controlling***.

Planning involves selecting missions and objectives and the actions to achieve them. It requires decision-making – i.e., choosing future courses of action among alternatives. Plans range from overall purposes and objectives to the most detailed actions to be taken. No real plan exists until a decision – a commitment of human and material resources – has been made. In other words, before a decision is made, all that exists is planning study, analysis, or a proposal; there is no real plan.

People working together in groups to achieve some goal must have roles to play. Generally, these roles have to be defined and structured by someone who wants to make sure that people contribute in a specific way to group effort. ***Organizing***, therefore, is that part of management that involves establishing an intentional structure of roles for people to fill in an organization. Intentional in that all tasks necessary to accomplish goals are assigned and assigned to people who can do them best. Indeed, the purpose of an organizational structure is to help in creating an environment for human performance. However, designing an organizational structure is not an easy managerial task because many problems are encountered in making structures fit situations, including both defining the kind of jobs that must be done and finding the people to do them.

Staffing involves filling, and keeping filled, the positions in the organization structure. This is done by identifying work-force requirements; inventorying the people available; and recruiting, selecting, placing, promoting, appraising, planning the careers of, compensating, and training or otherwise developing both candidates and current jobholders to accomplish their tasks effectively and efficiently.

Leading is the influencing of people so that they will contribute to organization and group goals; it has to do predominantly with the interpersonal aspect of managing. Most important problems to managers arise from people – their desires and attitudes, their

behavior as individuals and in groups. Hence, effective managers need to be effective leaders. Leading involves motivation, leadership styles and approaches and communication.

Controlling, for example, budget for expense, is the measuring and correcting of activities of subordinates to ensure that events conform to plans. It measures performance against goals and plans, shows where negative deviations exist, and, by putting in motion actions to correct deviations, helps ensure accomplishment of plans. Although planning must precede controlling, plans are not self-achieving. Plans guide managers in the use of resources to accomplish specific goals; then activities are checked to determine whether they conform to the plans. Compelling events to conform to plans means locating the persons who are responsible for results that differ from planned action and then taking the necessary steps to improve performance. Thus, controlling what people do controls organizational outcomes.

Finally, coordination is the essence of manager-ship for achieving harmony among individual efforts toward the accomplishment of group goals. Each of the managerial functions discussed earlier on is an exercise contributing to coordination. Because individuals often interpret similar interests in different ways, and their efforts toward mutual goals do not automatically mesh with the efforts of others, it, thus, becomes the central task of the manager to reconcile differences in approach, timing, effort, or interest, and to harmonize individual goals to contribute to organizational goals.

Although these management functions concern the internal environment for performance within an organization, managers must operate in the external environment of an organization as well. Clearly, managers cannot perform their tasks well unless they have an understanding of, and are responsive to, the many elements of the external environment – economic, technological, social, political, and ethical factors – that affect their areas of operation.

Goals of All Managers

First and foremost, the logical and publicly desirable aim of all managers in all kinds of organizations, whether business or non-business, should be a surplus. Thus, managers must establish an environment in which people can accomplish group goals with the least amount of time, money, materials, and personal dissatisfaction or in which they can achieve as much as possible of a desired goal with available resources. In a non-business enterprise such as units of a business (such as an accounting department) that are not responsible for total business profits, managers still have goals and should strive to accomplish them with the minimum of resources or to accomplish as much as possible with available resources. A manager who achieves such aim is said to be a strategic manager.

The second goal or aim of all managers is that they must be productive. Indeed, government, and the private sector recognize the urgent need for productivity improvement. Productivity improvement is about effectively performing the basic managerial and non-managerial activities. Simply defined, productivity is about the output-input ratio within a time period with due consideration for equality.

Lastly, productivity implies effectiveness and efficiency in individual and organizational performance. Effectiveness is the achievement of objectives. Efficiency is the achievement of the ends with the least amount of resources. Managers cannot know whether they are productive unless they first know their goals and those of the organization.

Essentiality of Management in Any Organization

Managers are charged with the responsibility of taking actions that will make it possible for individuals to make their best contributions to group objectives. Thus, management applies to small and large organizations, to profit and not for-profit enterprises, to manufacturing as well as service industries. However, a given situation may differ considerably among various levels in an organization or various types of enterprises.

The scope of authority held may vary and the types of problems dealt with may be considerably different. All managers obtain results by establishing an environment for effective group endeavor.

In addition, all managers carry out managerial functions. However, the time spent for each function may differ. Thus, top-level managers spend more time on planning and organizing than do lower-level managers. Leading, on the other hand, takes a great deal of time for first-line supervisors. The difference in the amount of time spent on controlling varies only slightly for managers at various levels.

The manager is, therefore, the dynamic, life-giving element in every business. Without the leadership of the manager, resources of production remain mere resources and never become production. In a competitive economy, the quality and performance of the managers determine the success of a business; indeed, they determine its survival.

Furthermore, today, we no longer talk of “capital” and “labor”, but we talk of “management” and “labor”. While the “responsibilities of capital” and the “rights of capital” have disappeared from our vocabulary, today we hear of the “responsibilities of management” or “prerogatives of management”. Thus, the emergence of management as an essential, a distinct and a leading institution is a pivotal event in social history. Management is likely to remain a basic and dominant institution as long as human civilization itself survives. Management, which is the organ of society specifically charged with making resources productive, that is, with the responsibility for organized economic advance, reflects the basic spirit of the modern age. In fact, because management is indispensable, this explains why it grew so fast and with so little opposition. Hence, the developed and developing worlds have an immense stake in the competence, skill and responsibility of management.

3.2. Managerial Skills and the Organizational Hierarchy

Mangers require four main kinds of skills, namely: technical, human, conceptual and design. What do each of these skills mean?

Technical skill is knowledge of and proficiency in activities involving methods, processes, and procedures. Thus, it involves working with tools and specific techniques.

Human skill is the ability to work with people; it is cooperative effort; it is teamwork; it is the creation of an environment in which people feel secure and free to express their opinions.

Conceptual skill is the ability to serve the "big picture". It is also about recognizing significant elements in a situation, and to understand the relationships among the elements.

Design skill is the ability to solve problems in ways that will benefit the enterprise. To be effective, particularly at upper organizational levels, managers must be able to do more than see a problem. In addition, they must have the skill of a good design engineer in working out a practical solution to a problem. Managers must also have that valuable skill of being able to design a workable solution to the problem in the light of the realities they face. It has, however, got to be mentioned that the relative importance of these skills may differ at various levels in the organization hierarchy.

For purposes of elaboration, technical skills are of greatest importance at the supervisory level and less at the middle-management level, human skills in the frequent interactions with subordinates at all levels, conceptual skills not critical for lower-level supervisors but gain in importance at the middle-management level. At the top management level, conceptual and design abilities and human skills are especially valuable, but there is relatively little need for technical abilities. The assumption, especially in large companies, that chief executives can utilize the technical abilities of their subordinates. In smaller firms, however, technical experience may still be quite important.

Why Study Management Theory?

Theories are perspectives with which people make sense of their world experiences. Theory is a systematic grouping of interdependent concepts (mental images of anything formed by generalization from particulars) and principles (are generalizations or hypotheses that are tested for accuracy and appear to be true to reflect or explain reality) that give a framework to, or tie together, a significant area of knowledge. Scattered data are not information unless the observer has knowledge of the theory that will explain relationships. Theory is "in its lowest form a classification, a set of pigeon holes, a filing cabinet in which fact can accumulate. Nothing is more lost than a loose fact"(Homans 1958, p. 5).

However, the variety of approaches to management analysis, the welter of research, and the number of differing views have resulted in much confusion as to what management is, what management theory and science is, and how managerial events should be analyzed. This is why some scholars have called this situation "the management theory jungle"(Koontz 1961, pp. 174-188; 1962, p. 24; 1980, pp. 175-187). Since that time, the vegetation in this jungle has changed somewhat, new approaches have developed, and older approaches have taken some new meanings with some new words attached to them, but the developments of management science and theory still have the characteristics of a jungle.

There is a body of opinion that says that management theory evolved during and after Second World War; it has only been studied in-depth since then. The industrial revolution that brought in mass production, specialization, seeing people as critical resource, all intensified management as a critical area of discourse.

Principles in management are fundamental truths, explaining relationships between two or more sets of variables, usually an independent variable and a dependent variable. Principles may be descriptive or predictive, and not prescriptive. That is, they describe how one variable relates to another – what will happen when these variables interact.

Managers who apply theory to managing must usually blend principles with realities. Once managers know about theory, they will have the capacity to forestall future problems that may occur in the enterprise.

At this point it is worth distinguishing management theory from management techniques. Contrary to the theory we have discussed above, techniques are essentially ways of doing things; methods of accomplishing a given result. In all fields of practice, including management, they are important. Techniques normally reflect theory and are a means of helping managers undertake activities most effectively.

In the field of management, then, the role of theory is to provide a means of classifying significant and pertinent management knowledge. For example, in the area of designing an effective organization structure, there are several principles that are interrelated and that have a predictive value for managers. The theory of management is grouped into the five functions of management. In sum, there are basically three main reasons why we have to study management theory. First, theories provide a stable focus for understanding what we experience. A theory provides criteria for what is relevant. Second, theories enable us to communicate efficiently and thus move into more and more complex relationships with other people. Third, theories make it possible – indeed, challenge us – to keep learning about our world. By definition, theories have boundaries.

3.3. *Sustainable economic development and crisis management*

A major goal of management is to minimize the adverse impact of a disaster on a business, community or large geographic area. The efforts of many organizations to build a more sustainable community, business or country are consistent with emergency management goals of hazard mitigation.

Sustainable development is more of a compromise between the traditional standards of conservation and preservation. Conservation suggests that we should use the earth's

natural resources while at the same time replacing them for future use. It focuses more on the renewable resources while for the most part ignoring exhaustible resources such as oil and natural gas. At the other extreme is preservation, which suggests that we leave nature alone. These two viewpoints are at opposite ends of the spectrum, which lends itself to small numbers of supporters from the general public. Sustainable development is a kind of middle ground between these two ideologies that is more likely to be accepted by a larger group of people. It is based upon a logical viewpoint that people will not want to diminish their quality of life or standard of living to preserve the environment. It takes into account that the economy will continue to grow and develop but also encourages ways to do this that will have as little negative impact on the environment as possible.

For many years society, the economy, and the environment were all seen as separate entities. The key to understanding sustainability is understanding the way in which these three issues link together. Sustainability deals with quality of life issues as well as achieving balance between the three. In order to be sustainable we must learn to manage economy and society in a way that doesn't harm the environment while at the same time learning to live within our limits and divide resources equitably.

Making rational choices concerning land use, development, and economic development has tremendous implications for dealing effectively with hazards and disasters.

Management theory has embraced as a part of the planning process the preparation of contingency plans and crisis management to address threats and hazards. The development of a crisis audit including "What if" questions and contingency plans when things go wrong are critical elements of business planning and analysis. The management literature reflects an appreciation for the need for business to grow more aware of the need to provide some level of protection against an unplanned disaster. Management needs to know how to structure strategic planning to include plans to minimize disruptions in operations in times of crisis and disasters. The Harvard Business Review published a crisis

management series on the best articles relating to disasters and business interruption. Laye's assessment of how to keep business going when catastrophe strikes is a reflection of the attention that hazards and disasters have had on the literature since 2001.

Values Diversity and the Legal Environment: A critical element in management is the development of an understanding of potential impacts of a disaster. Vulnerability analysis focuses on physical, political, economic and social vulnerability. Mileti (1999) states that disasters can do more than impose deaths, injuries and economic losses, they can redirect the character of social institutions, alter ecosystems and impact the stability of political structures. Blaikie et al (1994) note that some groups in society are much more vulnerable to disaster losses and suffer differently. Vulnerability is the susceptibility to hazard, disasters, or risk. And, it can also be a measure of resilience.

In management, there needs to be a balance in examining vulnerability and understand the social, economic and environmental impacts from disasters. Too often we see the damage to structures rather than the immediate and long term impacts of disaster to our environment or social systems. Our organizations must be inclusive and offer balanced perspectives rather than just a single perspective. It is not enough to just examine the economic impacts of flooding or earthquakes on local communities but examine other impacts such as social or environmental. We need to encourage faculty to seek out alternative views in the forms of books, journals, and research reports and expose students to these perspectives.

Management theory shares this view and encourages diversity and non-discrimination in employment and contracting. An appreciation of organizational values and potential conflicts in international operations must be acknowledged and addressed. In the traditional sense, equal opportunity in organizational performance can be applied both internally and externally in business affairs.

A fundamental element of the practice of management that is also present in the field of management is its evolution from many disciplines from engineering, business,

sociology, psychology, political structures, and urban planning to name only a few. Management also grew from many disciplines, especially from engineering (scientific management), psychology, sociology, and quantitative methods. Emergency management draws from many disciplines and suggests that emergency management is an interdisciplinary process. An appreciation of organizational and group dynamics, individual motivation, leadership, program and organizational assessment, and planning are all elements of both the emergency management and the management process.

Management and Disaster-Related Issues and Concerns

The unintended consequences of human action are described by Chiles (2001). He documents many examples of our failure to adequately manage technology. He shows that chain reaction catastrophes have occurred as the world has grown more technologically complex and our machines have become more difficult to control. He suggests that we may have a false value of technology and do not adequately place limits on its use. Emergency management should also share his suggestion that we acknowledge the potential adverse impacts technology and the need to ensure human assessment of technology.

The terrorist attacks of 2001 have made the business community increasingly sensitive to the impacts of disasters and especially terrorism on domestic and international operations. Risk management is now a part of any large operation and a dependence on insuring risk is no longer the only contingency. Businesses are increasingly looking at avoiding disasters and identifying methods to mitigate disasters.

The insurance industry has adapted to this changing environment by excluding coverage for terrorism in business policies or calculating the potential costs associated with insuring this risk in their plans. Most organizations can no longer afford to insure for this risk. Insurance companies have also reassessed coverage for many natural hazards and taken steps to adequately cover their potential vulnerabilities. The increased costs to public

and private organizations for insuring against hazards has increased to the point that it may impact business plans and future strategies.

The field of management has stressed the need for the development of positive organizational culture and organizational learning. The management environment today and in the future will provide new challenges and organizational responses. The management literature has been sensitive to this need and been quite responsive. Emergency management must also acknowledge the need for organizational learning and the importance of a positive organizational climate to effective operations. Possibly more executive education would support the increasing interdependence between the Department of Homeland Security, the business community, as well as state and local operations.

During the past thirty years, the business community has focused on the importance of quality control and service. Emergency management operations must share this emphasis and adopt methods of organizational assessment and quality control to enhance all elements of the emergency management process.

The management literature has for many years stressed the importance of strategic planning (Drucker 2002). A greater awareness of the value of environmental scanning and the broader impacts of international affairs on internal operations will be increasingly important to the management community. Business may call on management for help in identifying strategies to cope with a dramatically changing environment.

Few business schools have embraced the contribution that management theory and practice can make to the success of business operations. As a result, attention to hazards and disaster impacts are limited to crisis management and contingency planning. Interdisciplinary courses that expose students from throughout the campus to the nature of management theory and practices impacts are needed. Including students from business programs will expose other hazard oriented coursework to the vulnerability of business operations and impacts well beyond financial considerations. An integrated approach to

college and university curriculums will prepare students to understanding the changing nature of hazards in an increasingly interdependent world.

TOPIC 4. THE PECULIARITIES OF CRISIS PHENOMENA AT ENTERPRISES AND THE MECHANISM OF THEIR FLOW

4.1. The essence and importance of crisis management in the general problem of production systems. Crisis as an opportunity.

4.2. Types of crisis in enterprise.

4.3 An integrative approach to managing business objectives and risks. Examples of successful and unsuccesful crisis management.

4.1. The essence and importance of crisis management in the general problem of production systems. Crisis as an opportunity.

Crisis management is the process by which an organization deals with a disruptive and unexpected event that threatens to harm the organization, its stakeholders, or the general public. The study of crisis management originated with the large-scale industrial and environmental disasters in the 1980s. It is considered to be the most important process in public relations.

Three elements are common to a crisis:

- a threat to organization
- unpredictability
- a short decision time.

There are statements that "crisis is a process of transformation where the old system can no longer be maintained". Hilburg proffers that every crisis is an opportunity to showcase an institution's character, its commitment to its brand promise and its institutional values. To address such shareholder impact, management must move from a

mindset that manages crisis to one that generates crisis leadership. Research shows that organizational contributory factors affect the tendency of executives to adopt an effective "crisis as opportunity" mindset. Since pressure is both a precipitator and consequence of crisis, leaders who perform well under pressure can effectively guide the organization through such crisis.

Most executives focus on communications and public relations as a reactive strategy. While the company's reputation with shareholders, financial well-being, and survival are all at stake, potential damage to reputation can result from the actual management of the crisis issue. Additionally, companies may stagnate as their risk management group identifies whether a crisis is sufficiently "statistically significant". Crisis leadership, on the other hand, immediately addresses both the damage and implications for the company's present and future conditions, as well as opportunities for improvement.

In contrast to risk management, which involves assessing potential threats and finding the best ways to avoid those threats, crisis management involves dealing with threats before, during, and after they have occurred. Problems of theory and practice of management is a discipline within the broader context of management consisting of skills and techniques required to identify, assess, understand, and cope with a serious situation, especially from the moment it first occurs to the point that recovery procedures start.

While the leadership of the crisis is mainly related to political crises, the crisis management as notion is related with undertaking of activities the public and private sphere. Initially term management of the crisis has been attributed to political terminology. There is evidence that the American president John F. Kennedy was the first to use this expression during the Cuban crisis. In this way he wanted to describe the efforts of the American administration in the leadership of an extraordinary serious situation. To prevent or overcome the negative effects of the crisis have not sought the difference between leadership concepts of crisis or crisis management but your report towards it.

With the emergence of crises in different stages, as well as crisis management has earned its place in the management of companies in crisis situations. Successful protective measure against crises is the enterprise business analysis through independent auditing control. The dynamic analysis of the company's business success with comparative analysis of the balance sheet and balance of success which uses revision, shows at which stage of development the company is located at the time of analysis and did it entered at a vortex of crisis

The causes of the crisis may be a consequence of the organization but may be imposed by external causes. In external causes of the crisis in which the company cannot influence, are:

a) General changes in market

b) Changes in branch

c) Global economic crises

d) Political changes

e) Legal changes

f) Natural disasters.

Often the causes of the crisis are in the enterprise itself, some of its causes are:

a) Inadequate training of management and non-professionalism of management

b) Inefficient impact of management functions

c) Weak organizational culture

d) The dissatisfaction of employees

e) Poor work organization, etc.

Crisis management is a process designed to prevent or lessen the damage a crisis can inflict on an organization and its stakeholders. As a process, crisis management is not just one thing. Crisis management can be divided into three phases:

1. pre-crisis,

2. crisis response,

3. post-crisis.

The pre-crisis phase is concerned with prevention and preparation. The crisis response phase is when management must actually respond to a crisis. The post-crisis phase looks for ways to better prepare for the next crisis and fulfills commitments made during the crisis phase including follow-up information.

Prevention is designed to reduce known risks that could lead to a crisis. This is part of an organization's risk management program. Preparation involves creating the crisis management plan, selecting and training the crisis management team, and conducting exercises to test the crisis management plan and crisis management team. Both Barton (2001) and Coombs (2006) document that organizations are better able to handle crises when they (1) have a crisis management plan that is updated at least annually, (2) have a designated crisis management team, (3) conduct exercises to test the plans and teams at least annually, and (4) pre-draft some crisis messages. Table 4.1 lists the Crisis Preparation Best Practices. The planning and preparation allow crisis teams to react faster and to make more effective decisions.

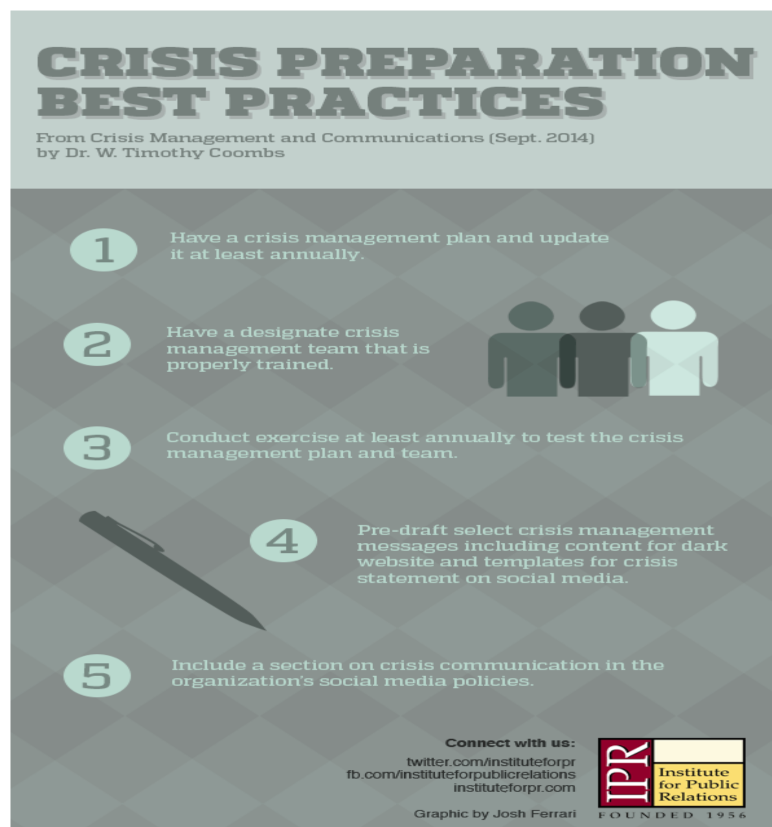

Table 4.1 Crisis Preparation Best Practices

Crisis management is a situation-based management system that includes clear roles and responsibilities and process related organisational requirements company-wide. The response shall include action in the following areas: crisis prevention, crisis assessment, crisis handling and crisis termination. The aim of crisis management is to be well prepared for crisis, ensure a rapid and adequate response to the crisis, maintaining clear lines of reporting and communication in the event of crisis and agreeing rules for crisis termination.

The techniques of crisis management include a number of consequent steps from the understanding of the influence of the crisis on the corporation to preventing, alleviating, and overcoming the different types of crisis. Crisis management consists of different aspects including:

- Methods used to respond to both the reality and perception of crisis.
- Establishing metrics to define what scenarios constitute a crisis and should consequently trigger the necessary response mechanisms.
- Communication that occurs within the response phase of emergency-management scenarios.

Crisis-management methods of a business or an organization are called a crisis-management plan.

A **crises mindset** requires the ability to think of the worst-case scenario while simultaneously suggesting numerous solutions. Trial and error is an accepted discipline, as the first line of defense might not work. It is necessary to maintain a list of contingency plans and to be always on alert. Organizations and individuals should always be prepared with a rapid response plan to emergencies which would require analysis, drills and exercises.

The credibility and reputation of organizations is heavily influenced by the perception of their responses during crisis situations. The organization and communication involved in responding to a crisis in a timely fashion makes for a challenge in businesses. There

must be open and consistent communication throughout the hierarchy to contribute to a successful crisis-communication process.

4.2. Types of crisis in enterprize

During the crisis management process, it is important to identify types of crises in that different crises necessitate the use of different crisis management strategies. Potential crises are enormous, but crises can be clustered.

Crisis are of different types and nature and imply different responses and thereby different means of its management. The following are the major types of Crisis:

Financial Crisis

Financial Crisis occurs when the business is hit with the crisis financially. An example of a financial crisis is a business not having funds to pay its dues such as paying dividends, interests, making repayments of loans etc. Such crisis arises when the business incurs losses over considerable periods of time or when due to lack of accountability loses consumers' trust among other situations. This crisis is handled by mobilizing requisite funds as a short term solution and in taking major financial decisions such as restructuring, changing business operations etc as long term solutions.

Technological Crisis

Technological crisis occurs as a result of break downs in the common scientific and technological tools and appliances that we use in a business. If the servers of Facebook gets overloaded and all the user accounts and details are thereby deleted then such a crisis will be a technological crisis.

Common technological crisis includes software failure, industrial accidents etc. The usual means of management would include primarily mitigating the losses and stopping the effects of the failure from affecting more people or elements. The next step would

include trying to gain back what was corrupted or lost with the help of experts in the field and would also involve finding the source and reason of the crisis.

Crisis of Malevolence

All businesses compete with each other. But some competitors take such extreme steps that they in fact try to go below the belt and ruin the other business for their own success. Crisis that happens as a result of the extreme tactics employed by a competitor or a miscreant to ruin the business is known as a crisis of malevolence.

These crisis include those which are created by hacking into a company's server, tampering with their products etc. The measures includes finding the source and minimizing the damage as soon as possible with identifying who perpetrated the crisis.

Natural Crisis

Natural Crisis refers to those that are created as a direct result of a natural event such as volcano or earthquake etc. These crisis are completely out of a management's hands and cannot be prevented unlike the other crisis. The crisis management steps include evacuating the area and taking mitigating actions as precautions such as building Earthquake resistant building, preparing evacuation plans etc before hand.

Crisis of Organisational Misdeeds

Crisis of Organisational Misdeeds includes ***Crisis of Deception, Crisis of Skewed Management Values*** *and* ***Crisis of Management Misconduct***.

Crisis of deception is the result of concealment of material information from the management or the consumers by the management. This is done so as to achieve illicit gains out of the business and earn undue wealth. Such concealment often causes huge amounts of losses to parties from whom such facts are concealed. The steps of crisis management includes relaying the information to the relevant parties, understanding how much has gone wrong and commencing activities to mitigate the losses etc.

Crisis of Skewed management values are created when short term economic gains are sought by neglecting social values, stake holders and investors. It arises when the business

gives more importance to revenue over its functioning and its commitment to customers or employees or to the world. These can be resolved by changing the policies of the business and by embracing what it really should.

Crisis of Management misconduct is a result of illegal activities taken by the management for achieving its ends or achieving the personal ends of those in power.

These are the different types of crisis that a business could under normal circumstances encounter. All these crisis have different approaches for containing and tackling them and it is imperative that such measures are taken without a moment's hesitation to ensure the continued existence and survival of the business. Crisis management is a skill and requires personal qualities to be carried out efficiently.

Sudden crisis

Sudden crises are circumstances that occur without warning and beyond an institution's control. Consequently, sudden crises are most often situations for which the institution and its leadership are not blamed.

Smoldering crisis

Smoldering crises differ from sudden crises in that they begin as minor internal issues that, due to manager's negligence, develop to crisis status. These are situations when leaders are blamed for the crisis and its subsequent effect on the institution in question.

There are five phases of crisis that require specific crisis leadership competencies. Each phase contains an obstacle that a leader must overcome to improve the structure and operations of an organization:

1. Signal detection is the stage in a crisis in which leaders should, but do not always, sense early warning signals (red flags) that suggest the possibility of a crisis. The detection stages of a crisis include:
    - sense-making: represents an attempt to create order and make sense, retrospectively, of what occurs.

- perspective-taking: the ability to consider another person's or group's point of view.

2. Preparation and prevention. It is during this stage that crisis handlers begin preparing for or averting the crisis that had been foreshadowed in the signal detection stage. Hilburg has demonstrated that using an impact/probability model allows organizations to fairly accurately predict crisis scenarios. He's recognized the greatest organizational challenge is 'speaking truth to power' to predict truly worst-case scenarios. *Organizations such as the Red Cross's primary mission is to prepare for and prevent the escalation of crisis events. Walmart has been described as an emergency-relief standard bearer after having witnessed the incredibly speedy and well-coordinated effort to get supplies to the Gulf Coast of the United States in anticipation of Hurricane Katrina.*
3. Containment and damage control. Usually the most vivid stage, the goal of crisis containment and damage control is to limit the reputational, financial, safety, and other threats to firm survival. Crisis handlers work diligently during this stage to bring the crisis to an end as quickly as possible to limit the negative publicity to the organization, and move into the business recovery phase.
4. Business recovery. When crisis hits, organizations must be able to carry on with their business in the midst of the crisis while simultaneously planning for how they will recover from the damage the crisis caused. Crisis handlers not only engage in continuity planning (determining the people, financial, and technology resources needed to keep the organization running), but will also actively pursue organizational resilience.
5. Learning. In the wake of a crisis, organizational decision makers adopt a learning orientation and use prior experience to develop new routines and behaviors that ultimately change the way the organization operates. The best leaders recognize

this and are purposeful and skillful in finding the learning opportunities inherent in every crisis situation.

6. ***Crisis communication.*** The effort taken by an organization to communicate with the public and stakeholders when an unexpected event occurs that could have a negative impact on the organization's reputation. This can also refer to the efforts to inform employees or the public of a potential hazard which could have a catastrophic impact. There are 3 essential steps that an organization can take to prepare for and withstand a communications crisis: 1) Define your philosophy; 2) Assess your vulnerabilities; 3) Develop a protocol.

4.3 An integrative approach to managing business objectives and risks. Examples of successful and unsuccesful crisis management.

Crisis management strategy (CMS) is corporate development strategy designed primarily to prevent crisis for follow-up company advancement. Thus, CMS is synthesis of strategic management. It includes projection of the future based on ongoing monitoring of business internal and external environment, as well as selection and implementation of crisis prevention strategy and operating management. This is including current status control based on ongoing monitoring of the internal and external environment, as well as crisis-coping strategy selection and implementation.

Crisis Management Model

Successfully managing a crisis requires an understanding of how to handle a crisis – beginning with before they occur.

There are 3 phases in any Crisis Management as shown below.

1. The diagnosis of the impending trouble or the danger signals.
2. Choosing appropriate Turnaround Strategy.
3. Implementation of the change process and its monitoring

4. *Crisis Management Planning*

No corporation looks forward to facing a situation that causes a significant disruption to their business, especially one that stimulates extensive media coverage. Public scrutiny can result in a negative financial, political, legal and government impact. Crisis management planning deals with providing the best response to a crisis.

Crisis Management Plan A crisis management plan (CMP) is a reference tool, not a blueprint. A CMP provides lists of key contact information, reminders of what typically should be done in a crisis, and forms to be used to document the crisis response. A CMP is not a step-by-step guide to how to manage a crisis. A CMP saves time during a crisis by pre-assigning some tasks, pre-collecting some information, and serving as a reference source. Pre-assigning tasks presumes there is a designated crisis team. The team members should know what tasks and responsibilities they have during a crisis.

Crisis Management Team identifies the common members of the crisis team as public relations, legal, security, operations, finance, and human resources. We should now amend the list of common members to include the social media manager. Social media are used to deliver crisis messages, thus, the social media managers should be part of the crisis team. Organizations are criticized if their social media messages seem to ignore a crisis because there is an inconsistency in the messaging appearing in the different communication channels the organization is using. However, the composition of the crisis team will vary based on the nature of the crisis. For instance, information technology would be required if the crisis involved the computer system but not if involved product harm. Time can be saved when the team has already decided on who will do the basic tasks required in a crisis. Bernstein (2011) notes that plans are an “exercise in futility” if there is no crisis team training (p. 31). Management does not know if or how well an untested crisis management plan with work or if the crisis team can perform to expectations. Mitroff, Harrington, and Gia (1996) emphasize that training is needed so that team members can practice making decisions in a crisis situation. Research by Low et al.

(2012) reinforces this claim by establishing how training improves the effectiveness of crisis team decision making. As noted earlier, a CMP serves only as a rough guide. Each crisis is unique demanding that crisis teams make decisions.

Examples of successful crisis management

Tylenol (Johnson and Johnson)

In the fall of 1982, a murderer added 65 milligrams of cyanide to some Tylenol capsules on store shelves, killing seven people, including three in one family. Johnson & Johnson recalled and destroyed 31 million capsules at a cost of $100 million. The affable CEO, James Burke, appeared in television ads and at news conferences informing consumers of the company's actions. Tamper-resistant packaging was rapidly introduced, and Tylenol sales swiftly bounced back to near pre-crisis levels.

When another bottle of tainted Tylenol was discovered in a store, it took only a matter of minutes for the manufacturer to issue a nationwide warning that people should not use the medication in its capsule form.

Odwalla Foods

When Odwalla's apple juice was thought to be the cause of an outbreak of E. coli infection, the company lost a third of its market value. In October 1996, an outbreak of E. coli bacteria in Washington state, California, Colorado and British Columbia was traced to unpasteurized apple juice manufactured by natural juice maker Odwalla Inc. Forty-nine cases were reported, including the death of a small child. Within 24 hours, Odwalla conferred with the FDA and Washington state health officials; established a schedule of daily press briefings; sent out press releases which announced the recall; expressed remorse, concern and apology, and took responsibility for anyone harmed by their products; detailed symptoms of E. coli poisoning; and explained what consumers should do with any affected products. Odwalla then developed - through the help of consultants - effective thermal processes that would not harm the products' flavors when production

resumed. All of these steps were communicated through close relations with the media and through full-page newspaper ads.

Mattel

Mattel Inc., the toy maker, has been plagued with more than 28 product recalls and in Summer of 2007, among problems with exports from China, faced two product recalls in two weeks. The company "did everything it could to get its message out, earning high marks from consumers and retailers. Though upset by the situation, they were appreciative of the company's response. At Mattel, just after the 7 a.m. recall announcement by federal officials, a public relations staff of 16 was set to call reporters at the 40 biggest media outlets. They told each to check their e-mail for a news release outlining the recalls, invited them to a teleconference call with executives and scheduled TV appearances or phone conversations with Mattel's chief executive. The Mattel CEO Robert Eckert did 14 TV interviews on a Tuesday in August and about 20 calls with individual reporters. By the week's end, Mattel had responded to more than 300 media inquiries in the U.S. alone."

Pepsi

The Pepsi Corporation faced a crisis in 1993 which started with claims of syringes being found in cans of diet Pepsi. Pepsi urged stores not to remove the product from shelves while it had the cans and the situation investigated. This led to an arrest, which Pepsi made public and then followed with their first video news release, showing the production process to demonstrate that such tampering was impossible within their factories. A second video news release displayed the man arrested. A third video showed surveillance from a convenience store where a woman was caught inserting a syringe into a can. The company simultaneously publicly worked with the FDA during the crisis. This made public communications effective throughout the crisis. After the crisis had been resolved, the corporation ran a series of special campaigns designed to thank the public for standing by the corporation, along with coupons for further compensation. This case served as a design for how to handle other crisis situations.

Examples of unsuccessful crisis management

Bhopal

The Bhopal disaster in which poor communication before, during, and after the crisis cost thousands of lives, illustrates the importance of incorporating cross-cultural communication in crisis management plans. According to American University's Trade Environmental Database Case Studies (1997), local residents were not sure how to react to warnings of potential threats from the Union Carbide plant. Operating manuals printed only in English is an extreme example of mismanagement but indicative of systemic barriers to information diffusion. According to Union Carbide's own chronology of the incident (2006), a day after the crisis Union Carbide's upper management arrived in India but was unable to assist in the relief efforts because they were placed under house arrest by the Indian government. Symbolic intervention can be counter productive; a crisis management strategy can help upper management make more calculated decisions in how they should respond to disaster scenarios. The Bhopal incident illustrates the difficulty in consistently applying management standards to multi-national operations and the blame shifting that often results from the lack of a clear management plan.

Ford and Firestone Tire and Rubber Company

The Ford-Firestone Tire and Rubber Company dispute transpired in August 2000. In response to claims that their 15-inch Wilderness AT, radial ATX and ATX II tire treads were separating from the tire core—leading to crashes—Bridgestone/Firestone recalled 6.5 million tires. These tires were mostly used on the Ford Explorer, the world's top-selling sport utility vehicle (SUV).

The two companies committed three major blunders early on, say crisis experts. First, they blamed consumers for not inflating their tires properly. Then they blamed each other for faulty tires and faulty vehicle design. Then they said very little about what they were doing to solve a problem that had caused more than 100 deaths - until they got called to Washington to testify before Congress.

Exxon

On March 24, 1989, a tanker belonging to the Exxon Corporation ran aground in the Prince William Sound in Alaska. The Exxon Valdez spilled millions of gallons of crude oil into the waters off Valdez, killing thousands of fish, fowl, and sea otters. Hundreds of miles of coastline were polluted and salmon spawning runs disrupted; numerous fishermen, especially Native Americans, lost their livelihoods. Exxon, by contrast, did not react quickly in terms of dealing with the media and the public; the CEO, Lawrence Rawl, did not become an active part of the public relations effort and actually shunned public involvement; the company had neither a communication plan nor a communication team in place to handle the event - in fact, the company did not appoint a public relations manager to its management team until 1993, 4 years after the incident; Exxon established its media center in Valdez, a location too small and too remote to handle the onslaught of media attention; and the company acted defensively in its response to its publics, even laying blame, at times, on other groups such as the Coast Guard. These responses also happened within days of the incident.

TOPIC 5. PROBLEMS OF LOGISTICS - THE CRISIS OF SALES AND SUPPLY CHAIN MANAGEMENT

5.1. Supply chain risk management.

5.2. Logistics management challenges and constrains. Logistics automation.

5.1. Supply chain risk management.

Supply-chain risk management (SCRM) is "the implementation of strategies to manage both everyday and exceptional risks along the supply chain based on continuous risk assessment with the objective of reducing vulnerability and ensuring continuity".

In other words, SCRM is to collaboratively work with partners in a supply chain or on your own, apply risk management process tools to deal with risks and uncertainties caused by, or impacting on, logistics related activities or resources in the supply chain.

SCRM attempts to reduce supply-chain vulnerability via a coordinated holistic approach, involving all supply-chain stakeholders, which identifies and analyzes the risk of failure points within the supply chain. Risks of the supply chain range from unpredictable natural threats to counterfeit products, and reach across quality, security, to resiliency and product integrity. Mitigation plans to manage these risks can involve logistics, cybersecurity, finance and risk management disciplines; the ultimate goal being to ensure supply chain continuity in the event of a scenario which otherwise would have interrupted normal business and so profitability.

Sometimes, it's possible for supply chain logistics techniques such as supply-chain optimization to prejudice contingency planning which would otherwise reduce the overall risk level for that particular supply chain. It is also becoming more common among businesses especially manufacturers to employ a supplier quality management software, which integrates all phases of the supply-chain cycle. This approach is shown to increase transparency, reduce overhead costs, and improve operational efficiency.

Supply chain risk management typically involves four processes: identification, assessment, controlling, and monitoring of supply-chain risks. However, due to the complexity of many supply chains, these processes might not be sufficient to ensure that all eventualities are prepared for.

Supply-chain risk is a function of likelihood of an event's occurrence and its impact. Generally this is the most popular methodology for quantifying risk. The drawback of using this to compute supply-chain risk, is that it requires assessing likelihood or probability of many different event types for a number of supply-chain locations (which can be hundreds of thousands of locations). Thus, the range of different possibilities is very wide. This methodology is generally more appropriate for a smaller subset of site(s).

Most companies look at measuring risk using risk scores. Many different metrics are available. For example, financial risk score, operational risk score, resiliency score, etc. are easily acquired, easily analyzed and can be used effectively and understood easily.

The supply chain risk management is described in the figure 5.1. It is a systematic process that has been implemented with owners.

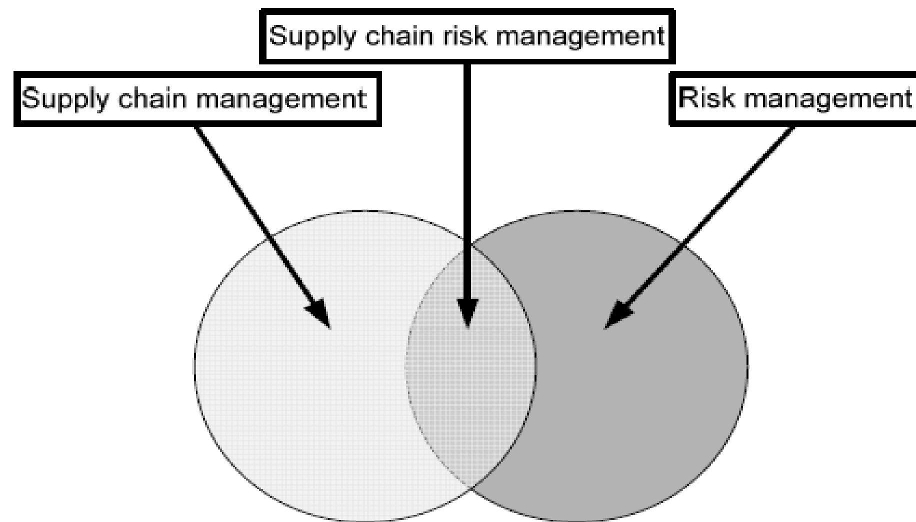

Figure 5.1 Supply chain risk management

Supply chain management is fraught with challenges especially in today's business landscape. The core factors which may cause a problem in SCM are:

Globalization. Globalization presents several critical supply chain management challenges to enterprises and organizations:

First, to reduce costs across the supply chain, enterprises are moving manufacturing operations to countries which offer lower labor costs, lower taxes, and/or lower costs of transport for raw materials. For some companies, outsourcing production involves not only a single country, but several countries for different parts of their products.

However, outsourcing not only extends the production process globally, but also the company's procurement network. Having suppliers in different geographic locations complicates the supply chain. Companies will have to deal with, coordinate, and collaborate with parties across borders regarding manufacturing, storage, and logistics.

Furthermore, they have to extend or maintain fast delivery lead times to customers who want to receive their products on schedule despite the increased complexity in the manufacturer's supply chains. Finally, they also have to maintain real-time visibility into their production cycle — from raw materials to finished goods — to ensure the efficiency of their manufacturing processes.

Second, as companies expand sales into global markets, localization of existing products requires a significant change in the supply chain as companies adapt their products to different cultures and preferences. There is an inherent risk of losing control, visibility, and proper management over inventory, especially if enterprise applications are not integrated. This requires managing diverse structures of data across geographies effectively.

For example: many manufacturers in Asia still handle trading partner communications via fax and email while suppliers in North America and Europe have utilized EDI (*Electronic Data Interchange)* for decades. As technology matures, suppliers in emerging markets may skip EDI altogether and move to a more modern API ***(****Application Programming Interface****)*** driven approach to communication just as developing countries have skipped land lines in favor cell phones.

Supply chain practitioners need to ask if their enterprise technology is prepared to handle these diverse forms of communication that arise from globalization, and build a business case to stay prepared.

Fast-changing Markets. Consumer behavior is affected by cultural, social, personal, and psychological factors that are quickly being changed by technology and globalization. Social media is creating new pressures for consumers to conform while putting pressure on enterprises to utilize these sources of information to respond to changing preferences in order to stay interesting and relevant.

Like globalization, the fast-changing consumer market also brings with it supply chain management challenges:

First, products have shorter life cycles due to rapidly changing market demands. Enterprises are under pressure to keep up with the latest trends and innovate by introducing new products, while keeping their total manufacturing costs low because they understand that trends will not last for a long time. This also demands a flexible supply chain that can be utilized for manufacturing other products and for future projects.

Second, aside from new products, companies also need to constantly update product features. Enhancing product features requires enterprises have to redesign their supply chain to accommodate product changes.

Finally, innovation presents a challenge in forecasting demand for new products. The constant innovation necessitated by fast-changing markets also means enterprises will constantly have to anticipate demand for new products. Enterprises need to create and maintain an agile supply chain that can respond well to spikes and dips in demand and production needs.

Companies should be asking if they have all the data needed to make planning decisions to address challenges created by fast-changing markets. For example, if stated lead times from suppliers are longer than actual times, this will lead to higher inventory levels than are actually required and affect costly decisions around network planning and optimization.

Quality and Compliance. Aside from influencing consumer behavior, social media highlights the importance of having high-quality products. According to research conducted by eMarketer, reading reviews, comments, and feedback is the top social media activity that influences online shopping behavior. Furthermore, social media has not only raised consumers' expectations of product quality, but has also amplified the damages caused by product recalls. Thus, enterprises are under increasing pressure to create high-quality products and to create them consistently. They can do so by addressing quality at every level of the supply chain, such as raw materials procurement, manufacturing, packaging, logistics, and product handling.

Product quality often goes hand-in-hand with compliance. Enterprises need to ensure that they meet local and international regulatory standards in manufacturing, packaging, handling, and shipping of their products. Aside from passing quality control and safety tests, enterprises are also required to prepare compliance documents such as permits, licenses, and certification which can overwhelm them and their supply chain management systems.

5.2. Logistics management challenges and constrains. Logistics automation.

Poor financial performance of a business can be attributed to a variety of possible reasons within sales and marketing, including failures of proper product development, ineffective promotion, and misidentified target markets.

Sales is activity related to selling or the amount of goods or services sold in a given time period.

The marketing and sales functions are principally responsible for revenue generation for the firm. In particular, marketing considers competitive pressures and customer preferences when establishing the revenue per unit for a company's products and services through the pricing strategies. Similarly, the sales function determines the forecasts for overall sales revenue and is accountable for achieving these goals. Hence, an organization's pricing strategy has a direct relationship with the creation and implementation of an organization's advertising and sales strategies.

Logistics is generally the detailed organization and implementation of a complex operation. In a general business sense, logistics is the management of the flow of things between the point of origin and the point of consumption in order to meet requirements of customers or corporations. The resources managed in logistics can include physical items such as food, materials, animals, equipment, and liquids; as well as abstract items, such as time and information. The logistics of physical items usually involves the integration of

information flow, materials handling, production, packaging, inventory, transportation, warehousing, and often security.

Logistics management is the part of supply chain management that plans, implements, and controls the efficient, effective forward, and reverse flow and storage of goods, services, and related information between the point of origin and the point of consumption in order to meet customer's requirements. The complexity of logistics can be modeled, analyzed, visualized, and optimized by dedicated simulation software. The minimization of the use of resources is a common motivation in all logistics fields. A professional working in the field of logistics management is called a logistician.

One definition of business logistics speaks of "having the right item in the right quantity at the right time at the right place for the right price in the right condition to the right customer". Business logistics incorporates all industry sectors and aims to manage the fruition of project life cycles, supply chains, and resultant efficiencies.

The term "business logistics" has evolved since the 1960s due to the increasing complexity of supplying businesses with materials and shipping out products in an increasingly globalized supply chain, leading to a call for professionals called "supply chain logisticians".

In business, logistics may have either an internal focus (inbound logistics) or an external focus (outbound logistics), covering the flow and storage of materials from point of origin to point of consumption (see supply-chain management). The main functions of a qualified logistician include inventory management, purchasing, transportation, warehousing, consultation, and the organizing and planning of these activities. Logisticians combine a professional knowledge of each of these functions to coordinate resources in an organization.

There are two fundamentally different forms of logistics: one optimizes a steady flow of material through a network of transport links and storage nodes, while the other

coordinates a sequence of resources to carry out some project (e.g., restructuring a warehouse).

In today's global economies, logistics is a key facilitator of trade, and hence an important factor in rising prosperity and welfare. Natural resources are scarce and not evenly distributed in terms of type and geographical location in the world. Logistic chains enable the distribution of materials, food and products from the locations where they are extracted, harvested or produced to people's homes and nearby stores. At the same time, current logistics systems are fundamentally unsustainable, due to the emission of hazardous materials (CO2, NOx, particulate matter), congestion, stench, noise and the high price that has to be paid in terms of infrastructural load.

Logistics management is not only consists the physical movement of goods but it has to be efficient in the facilitation of the movement through documents processing, coordination, monitoring and financing activities. Thus, logistics management covers the whole of infrastructure and systems competency (Abdul et al., 2012).

Similarly to production systems, logistic systems need to be properly configured and managed. Actually a number of methodologies have been directly borrowed from operations management such as using Economic Order Quantity models for managing inventory in the nodes of the network. Distribution resource planning (DRP) is similar to MRP, except that it doesn't concern activities inside the nodes of the network but planning distribution when moving goods through the links of the network.

Traditionally in logistics **configuration** may be at the level of the warehouse (node) or at level of the distribution system (network).

Regarding a single warehouse, besides the issue of designing and building the warehouse, configuration means solving a number of interrelated technical-economic problems: dimensioning rack cells, choosing a palletizing method (manual or through robots), rack dimensioning and design, number of racks, number and typology of retrieval systems (e.g. stacker cranes). Some important constraints have to be satisfied: fork and

load beams resistance to bending and proper placement of sprinklers. Although picking is more of a tactical planning decision than a configuration problem, it is important to take it into account when deciding the racks layout inside the warehouse and buying tools such as handlers and motorized carts since once those decisions are taken they will work as constraints when managing the warehouse, same reasoning for sorting when designing the conveyor system or installing automatic dispensers.

Configuration at the level of the distribution system concerns primarily the problem of location of the nodes in a geographic space and distribution of capacity among the nodes. The first may be referred to as facility location (with the special case of site selection) while the latter to as capacity allocation. The problem of outsourcing typically arises at this level: the nodes of a supply chain are very rarely owned by a single enterprise. Distribution networks can be characterized by numbers of levels, namely the number of intermediary nodes between supplier and consumer:

- Direct store delivery, i.e. zero levels
- One level network: central warehouse
- Two level network: central and peripheral warehouses

This distinction is more useful for modeling purposes, but it relates also to a tactical decision regarding safety stocks: considering a two level network, if safety inventory is kept only in peripheral warehouses then it is called a dependent system (from suppliers), if safety inventory is distributed among central and peripheral warehouses it is called an independent system (from suppliers). Transportation from producer to the second level is called primary transportation, from the second level to consumer is called secondary transportation.

Although configuring a distribution network from zero is possible, logisticians usually have to deal with restructuring existing networks due to presence of an array of factors: changing demand, product or process innovation, opportunities for outsourcing, change of government policy toward trade barriers, innovation in transportation means

(both vehicles or thoroughfares), introduction of regulations (notably those regarding pollution) and availability of ICT supporting systems (e.g. ERP or e-commerce).

Once a logistic system is configured, management, meaning tactical decisions, takes place, once again, at the level of the warehouse and of the distribution network. Decisions have to be made under a set of constraints: internal, such as using the available infrastructure, or external, such as complying with given product shelf lifesand expiration dates.

At the warehouse level, the logistician must decide how to distribute merchandise over the racks. Three basic situations are traditionally considered: shared storage, dedicated storage (rack space reserved for specific merchandise) and class based storage (class meaning merchandise organized in different areas according to their access index). Logistics outsourcing involves a relationship between a company and an LSP (logistic service provider), which, compared with basic logistics services, has more customized offerings, encompasses a broad number of service activities, is characterized by a long-term orientation, and thus has a strategic nature.

Outsourcing does not have to be complete externalization to a LSP, but can also be partial:

- A single contract for supplying a specific service on occasion
- Creation of a spin-off
- Creation of a joint venture

Without well-developed transportation systems, logistics could not bring its advantages into full play. A good transport system in logistics activities could provide better logistics efficiency, reduce operation cost, and promote service quality. The improvement of transportation systems needs the effort from both public and private sectors. A well-operated logistics system could increase both the competitiveness of the government and enterprises.

A study by McKinsey and Company (2011) highlighted unclear communication between logistics services providers and users lead to business interruption is one of the challenges. Before that, logistic service providers' management is the outsourcing of logistics operations to a third party. Companies, or clients, use these third parties known as logistics service providers to provide logistics services. Logistics service providers may provide logistic services to one or more clients at any given time. Clients may choose to outsource a portion, or all of their logistics services to one or more logistics service providers. When sending information to logistics service providers, the client communicates the receipts or shipment to the logistics service providers, which then runs the transaction on behalf of the client.

Therefore, the client may be a buyer or seller for a transaction. A client typically outsources the following services to logistics service provider; warehousing, inventory management, cross docking and transportation and freight forwarding (Lambert et al., 1998). Therefore, both logistics service providers and shipper have to form the partnership to create more value for both parties. This is because both parties have their own objective to resolve the problem whereby logistics service providers are now experiencing unstable growth and shippers are facing pressure to lower their cost and increase efficiency and effectiveness.

Constraints in logistics management:

- lack of management techniques among the supply chain companies,
- problems in information technology (IT) system
- pricing and charges due to in transparent marks-up by freight forwarders and overall performance and functionality of the system,
- lack of skilled and trained manpower,
- no single established source of logistics data and information including lack of information of the industry players, facilities, services and capabilities of the sectors,
- lack of regulatory forms to facilitate the management,

- lack of dissemination of information with regard to the development and expansion of the logistics management.

In term of logistics service provider the main problem is the inability to participate at the international logistics level as a result of limited IT linkage, overseas corporate network and capital investment.

Next, other major logistics management barriers include the lack of responsiveness and dependability of local suppliers, inadequate communications infrastructure, complicated and time-consuming customs procedures and the unavailability of logistics consulting services. Enterprises may face some constraints in term of high cost of operations (especially land rental and wedges), small geographic space and domestic market, industry can be fragmented and lacks scale with very few global players with global aspirations, instances of lack of logistics clusters, lack of responsiveness of customers need, shortage of skilled, experienced and entrepreneurial logistics professionals and inadequate technological capabilities to carry out wide range of logistics and supply chain management. Therefore, lack of responsiveness or lack of awareness among employees about new competitiveness business in the rapid progress of the technology and lack of sharing knowledge gives negative impact on logistics management for customers, suppliers and partners business.

There are two major groups of obstacles for effective logistics: internal barriers and external barriers in logistics management. The internal barriers are employee attitude, top management support, communication, resources, wrong perceptions, culture, strategic capabilities, financial, performance metrics, and uncertainty of results, technology, risk issues, and infrastructure. External barriers consist of economics, competitive pressure, regulations, technical information, institutional weaknesses, support and guidance, and market barriers.

Logistics automation

Logistics automation is the application of computer software or automated machinery to improve the efficiency of logistics operations. Typically this refers to operations within a warehouse or distribution center with broader tasks undertaken by supply chain management systems and enterprise resource planning systems.

Logistics automation systems comprise a variety of hardware and software components:

Fixed machinery. Automated storage and retrieval systems, including:

– cranes serve a rack of locations, allowing many levels of stock to be stacked vertically, and allowing far high storage densities and better space utilization than alternatives.

– automated guided vehicle move items to a human picker in systems produced by Amazon Robotics

Conveyors: automated conveyors allow the input of containers in one area of the warehouse, and either through hard coded rules or data input allow destination selection. The container will later appear at the selected destination.

– vertical carousels based on the paternoster system or with space optimization, these can be thought of as large scale vending machines.

Sortation, or sorting systems: similar to conveyors but typically have higher capacity and can divert containers more quickly. Typically used to distribute high volumes of small cartons to a large set of locations.

Industrial robots: four to six axis industrial robots, e.g. palleting robots, are used for palleting, depalleting, packaging, commissioning and order picking.

Motion check weighers may be used to reject cases or individual products by checking them for underweight conditions and rejecting the item. They are often used in kitting conveyor lines to ensure all pieces belonging in the kit are present. Large wholesalers and retail club stores insist on receiving the exact amount of product in each package as specified.

Mobile technology: Radio data terminals: these are hand held or truck mounted terminals which connect by wireless to logistics automation software and provide instructions to operators moving throughout the warehouse. Many also have in-built bar code scanners to allow identification of containers. Bar codes allow the automatic capture of data without use of the computer keyboard, which is slow and error prone.

Software

– integration software: this provides overall control of the automation machinery and for instance allows cranes to be connected to conveyors for seamless stock movements.
– operational control software: provides low-level decision making, such as where to store incoming containers, and where to retrieve them when requested.
– business Control software: provides higher level functionality, such as identification of incoming deliveries / stock and scheduling order fulfillment, assignment of stock to outgoing trailers.

TOPIC 6. PROBLEM IN THE FIELD OF FINANCE - THE FINANCIAL CRISIS

6.1. The essence and place of the financial crisis in a number of crisis phenomena of the enterprise.

6.2. Financial security of the firm and analysis of the financial condition of the company as a tool for preventing a company from the crisis.

6.3. A crisis program.

6.1. The essence and place of the financial crisis in a crisis phenomena of the enterprise.

The crisis situation poses a considerable challenge to market participants and, at the same time, a serious threat to them to remain on the market. Still, the current situation is also an opportunity for some business entities to emerge or increase their market shares. However, it refers only to these companies which managed to foresee threats, define them and draw adequate conclusions.

Financial risk can be defined in broad and narrow sense. Broadly speaking, financial risk refers to financial system deviate from the expected objectives, causing economic losses as a result of the opportunity or possibility during financial activities in the enterprise, due to the internal and external environment and a variety of unpredictable or uncontrollable factors. Here the results of the financial activities include two aspects, one is the result of financial activities that is income; Second, financial situation of debt service, business, profitability.

Under normal circumstances, financial risk refers to the financial results reduced the possibility of deterioration of the financial situation. Although every business wants to improve financial results as much as possible and optimize the financial situation, financial risk is unavoidable. Business executives and corporate financial officers' responsibility is to fully familiar and able to identify the financial risks arising, take appropriate measures to be prevented and control as far as possible to avoid the loss of financial results and financial deterioration.

Financial risk is one of the high-priority risk types for every business. Financial risk is caused due to market movements and market movements can include host of factors. Based on this, financial risk can be classified into various types such credit risk, liquidity risk, asset backed risk, foreign investment risk, equity risk and currency risk.

Credit risk is also referred to as default risk. This type of risk is associated with people who borrowed money and who are unable to pay for the money they borrowed. As

such, these people go into default. Investors affected by credit risk suffer from decreased income and lost principal and interest, or they deal with a rise in costs for collection.

Liquidity risk involves securities and assets that cannot be purchased or sold fast enough to cut losses in a volatile market. Asset-backed risk is the risk that asset-backed securities may become volatile if the underlying securities also change in value. The risks under asset-backed risk include prepayment risk and interest rate risk.

Changes in prices because of market differences, political changes, natural calamities, diplomatic changes or economic conflicts may cause volatile foreign investment conditions that may expose businesses and individuals to foreign investment risk. Equity risk covers the risk involved in the volatile price changes of shares of stock.

Investors holding foreign currencies are exposed to currency risk because different factors, such as interest rate changes and monetary policy changes, can alter the value of the asset that investors are holding.

In practice entrepreneurial businesses state of financial difficulty can often be recorded. This can be caused by incorrect spectrum decisions and actions of the leadership, related to organization of exercise and have a major impact on the volume of funds, which may entail difficulties in financing activity and sometimes even bankruptcy enterprise. Very rarely, the company's financial problems are the result of a single incorrect decision. Often this is caused by a set of errors, the consequences of which are emerging not immediately, but over a period of time.

6.2. Financial security of the firm and analysis of the financial condition of the company as a tool for preventing a company from the crisis

Financial security of business entities is a part of state’s financial security, because company creates added value which forms the gross domestic product at the level of State. In addition, companies are the major taxpayers, which influence on the formation of the

revenue of the state and local budgets. Consequently, the level of the companies' financial security will ensure that State can perform its functions and provide economic development, make improvements to social standards.

Assessment of financial security will allow the company to minimize threats of financial instability and increase the safety of its existence.

The key features of companies' financial security are:

- Ensuring the optimal quantity of enterprise's financial resources needed for expanded reproduction and preserve achieved market position;

- Equilibrium in size and timing of cash flows;

- Ensure equilibrium and stable financial position;

- The possibility to identify problem areas of the enterprise at early stage;

- Monitoring the internal and external risks;

- The ability to neutralize or prevent a financial crisis of the company and to avoid bankruptcy.

Evaluation system of the company's financial security has to perform the following tasks:

- Identification of opportunities and threats for the company, its strengths and weaknesses;

- Assessment of the risks related to internal and external threats;

- Identification of the company's financial security indicators;

- Implementation of financial security diagnostic and monitoring system;

- Control and assessment of effectiveness of the financial security system;

- Create conditions for sustainable company's financial position;

- Minimizing financial risk of a company;

- Timely implementation in enterprise's financial activity of modern management techniques and tools for their support.

Objects of impact to conduct these tasks are: income; cash flows; equity; commitment; investment in current and non-current assets; financial and economic risks and so on.

Construction of the company's financial security management system includes the following components as:

- Assessment of the financial position;

- Financial forecasting and planning;

- Financial management (formation and distribution of financial resources, profit generation and cash flow management), which carried out in process of financial relations;

- Assessment of risks and risk management;

- Financial monitoring and controlling.

The monitoring of the financial condition is permanent phase of tracking the financial health of the company. At this stage the collection of data required for rapid diagnosis of the financial condition is performed and the information got through the «weak signals» coming from the internal and external environment is obtained.

Exploring the concept of "the company's financial security" we should emphasize its main aspects: - company's financial security is a component of its economic security; - it is a process that ensures the protection of financial interests of the company; - it is one of the factors of company's growth and its stability; - it can be characterized by a combination of quantitative and qualitative indicators that should have the appropriate threshold to determine the level of security.

Rapid diagnosis of the financial condition of the company is a preliminary stage of the detection of the company's financial disease, the assessment of the severity of the disease and its kind. Basic research of the company's financial condition – is the stage of deep analysis of the financial health of the company, of clarifying the severity and type of disease, identifying its reasons. The final step in diagnosis is the stage that generalizes the previous two and provides the final diagnosis of financial disease and its reasons.

The general analysis of the company:

– analysis of the output and sales;

– analysis of the structure of fixed assets, depreciation and the effectiveness of their use;

– analysis of the number and costs of personnel by different categories;

– analysis of the cost of production and sales;

– analysis of financial results, etc.

Analysis of financial performance:

– analysis of the structure of financial statements (analysis of assets, liabilities, the structure of income statement);

– analysis of liquidity and financial sustainability (on the basis of generalizing and partial indicators);

– analysis of the effectiveness of the company's performance (the turnover of current assets and liabilities, return on sales, the duration of the operational and financial cycles).

At this stage of diagnosis the following objectives are achieved:

– express preliminary quantitative and qualitative assessment of circulation of capital in the enterprise is carried out both at a fixed point of time (static) and for a certain period of time (dynamic) using the «weak signals» coming to the company;

– the change of direction of financial disease of the enterprise is assessed;

All these steps are interrelated and can affect each other. As an enterprise activity is cyclic, the implementation of the last phase requires repeating the whole procedure from the beginning. These elements have to be connected and combined into a single system which will be permanently in action.

The financial mechanism that ensures the appropriate level of financial security, consist of:

- Financial methods;
- Financial instruments;

- Financial leverage;
- Legal support;
- Information support.

These components are used to influence on financial relationships to ensure sustainable development of enterprises. The achievement of tactical and strategic financial goals will be possible only if we use all elements of the financial mechanism properly.

The financial methods include:

- Financial accounting which is used to form the value indicators of the enterprise through a systematic account of property, capital, liabilities, business activity, and to identify external relationships with suppliers, customers, banks, investors, shareholders and other partners;
- Financial analysis, which aimed to diagnose the company's financial position by using quantitative and qualitative methods;
- Financial forecasting and planning. Financial forecasting is used to determine the short and long term indicators that characterize the activity of the company and its financial position. Peculiarity of forecasts, in contrast to the plans, is their alternativeness, because financial indicators, mentioned in forecasts depend on the initial conditions of forecasting and can provide several scenarios of actions. Plans are based on forecasts with considering of company's financial capabilities and strategies, and provide necessity for indicators achievement in the future;
- Financial regulation, which is used to influence the management object to achieve planned results and to eliminate deviations if they occur;
- Financial stimulation covers use of incentives or penalties to maximize the interest of all company's departments, including financial in achieving the best possible result and to fulfill plans. This method holds a key position in the system of financial security, because the results of company's activity depend on efficiency of the staff work;

• Operational and current cash management, management of accounts receivable and payable, financial results, financial resources;

• Evaluation of financial risks, control and minimization of them, including formation of provisions and insurance;

• Monitoring the implementation of plans for timely detection of deviations, determination of their causes and use of adequate measures to eliminate them, which enabling the company to achieve its goals.

• All financial instruments can be divided into two groups in terms of the impact on enterprise's activity:

• Tools used by companies: investment, credit, insurance, hedging, pricing, taxation;

• Tools used by the State: public investments; State loans, including concessional lending; State order; special purpose funding; taxation, including preferential taxation; protectionism; sanctions.

The mentioned instruments can be implemented through the following leverages: income, expenses, profit, credit, capital, investments, stocks, bonds, insurance payments, rates, prices, wages, depreciation, taxes, incentives, sanctions, dividends, security rules and standards, limits and reserves, derivatives etc.

The relationship between the components of financial security is shown in Fig. 6.1.

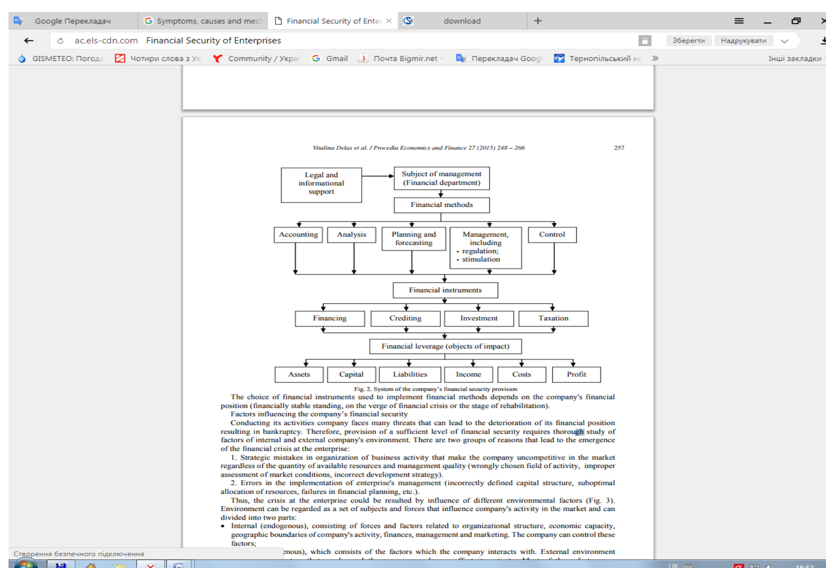

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Fig. 2. System of the company's financial security provision

The choice of financial instruments used to implement financial methods depends on the company's financial position (financially stable standing, on the verge of financial crisis or the stage of rehabilitation).

Factors influencing the company's financial security

Conducting its activities company faces many threats that can lead to the deterioration of its financial position resulting in bankruptcy. Therefore, provision of a sufficient level of financial security requires thorough study of factors of internal and external company's environment. There are two groups of reasons that lead to the emergence of the financial crisis at the enterprise:

1. Strategic mistakes in organization of business activity that make the company uncompetitive in the market regardless of the quantity of available resources and management quality (wrongly chosen field of activity, improper assessment of market conditions, incorrect development strategy).

2. Errors in the implementation of enterprise's management (incorrectly defined capital structure, suboptimal allocation of resources, failures in financial planning, etc.).

Thus, the crisis at the enterprise could be resulted by influence of different environmental factors (Fig. 3). Environment can be regarded as a set of subjects and forces that influence company's activity in the market and can divided into two parts:

- Internal (endogenous), consisting of forces and factors related to organizational structure, economic capacity, geographic boundaries of company's activity, finances, management and marketing. The company can control these factors;

Figure 6.1. System of the company's financial security provision

6.3. A crisis program

After determining the area of crisis measures, a crisis program (the fourth stage) is formed, based on the use of economic instruments and methods of crisis management. Such a program should be aimed at preparing and predicting the crisis, preventing its spread, limiting its consequences, eliminating damage and restoring the enterprise operation.

First of all, it must be noted that economic imbalance and deterioration of financial and economic state can be caused by such threats as unjustified entry of the enterprise into new markets, unfavorable conditions for concluding deals, deterioration of relations with business partners, suppliers, creditors, banks and consumers, frequent changes in the enterprise strategy, changes in the management structure, growth of conflicts, revocation of licenses, etc. An enterprise must implement a preventive crisis program in order to prepare and predict the crisis in case of a satisfactory financial and economic state and a low degree of threats.

		Financial and economic state		
		1. Satisfactory	2. Pre-crisis	3. Crisis
	1. High	Program of risk protection	Program of recovery and development	Program of overcoming crisis phenomena
	2. Average	Program of risk protection	Program of recovery and development	Program of overcoming crisis phenomena
	3. Low	Preventive crisis program	Program of recovery and development	Program of overcoming crisis phenomena

No crisis
Low probability of crisis occurrence
High probability of crisis occurrence
High probability of crisis deepening

Figure 6.2. Choosing the enterprise crisis program, depending on the level of the existing threats and the financial and economic state of the enterprise

Preventive measures should be aimed at increasing flexibility within the enterprise, developing preparatory plans for avoiding crisis situations and preventive measures to implement these plans. Such measures primarily include strategic controlling, formation of insurance funds, strategic reserves of funds, technical means, etc.

If the financial situation in general is assessed as satisfactory, while the level of threat occurrence is high, the enterprise management should focus on implementing the program of risk protection, which consists in preventing the emergence of a crisis, creating all necessary conditions to prevent its slightest manifestation and further spread. The main measures aimed at neutralizing the threats of the financial crisis are insurance of the corporate financial risks, sale of excess or unused assets, taking measures to recover accounts receivable, saving investment resources, saving current expenses, solving strategic tasks, expansion of export activities, etc.

If the financial state of an enterprise is described as pre-crisis, then the program of recovery and development should be implemented in order to prevent the crisis deepening and further bankruptcy, aimed at eliminating insolvency and restoring financial stability. The enterprise management should pay special attention to establishing relationships with suppliers and buyers, evaluating their own competitive advantages, studying the strengths and weaknesses of competitors, etc. in the pre-crisis state.

Crisis areas of the enterprise operation in this case should include diversification aimed at increasing sales, acceleration of the enterprise working capital turnover, strengthening control over receivables and payables, relief of overdue debts, optimization of cash flows, capital structure, assets and investments, search for ways to reduce the cost of production, modernization of obsolete equipment, etc. If the enterprise has already found itself in a crisis state, the executives should implement a program to overcome the crisis, immediately respond to the crisis situation, promptly organize the work of specialists to solve tasks, take risky and out-of-the-box decisions, coordinate the actions of all participants, constantly monitor the implementation of crisis measures and their results.

It is necessary to make the decisions that will allow to ensure cash receipts to restore solvency in the shortest possible time.

Urgent measures to accelerate the receipt of funds include raising additional capital, creating the most favorable conditions and highly specialized proposals for loyal and "profitable" clients, release of costly employees, maintenance of the customer base, any ways to encourage clients (exhibitions, presentations, websites, branded stores), development of a number of proposals simultaneously.

At the next, fifth stage, the crisis program is evaluated on the basis of indicators of the level of the production and financial state of the enterprise, which must take a number of certain factors of influence on the enterprise into account, and act more as indicators of production and financial activity.

It is advisable to choose indicators that will most fully describe the state and capabilities of the enterprise depending on the crisis stage and have a deterministic dependence. One of the main aspects is the unidirectional nature of indicators. It means that the growth in the value of each of the coefficients indicates an increase in the enterprise resilience to crisis situations and in the efficiency of crisis measures taken.

The crisis state often reveals due to inefficient use of the capacity of enterprises, which results in lost solvency and a negative financial result (loss) for the enterprise. Other important indicators, the deterioration of which leads to bankruptcy are indicators of financial sustainability, as they underlie the analysis of the crisis occurrence probability. Proceeding from this, the key ratios were determined, which in their essence are expedient to systematize and divide into 3 groups: profitability and business activity indicators of the enterprise, indicators of the financial state of the enterprise, and indicators of the enterprise production capabilities (Figure 6.3).

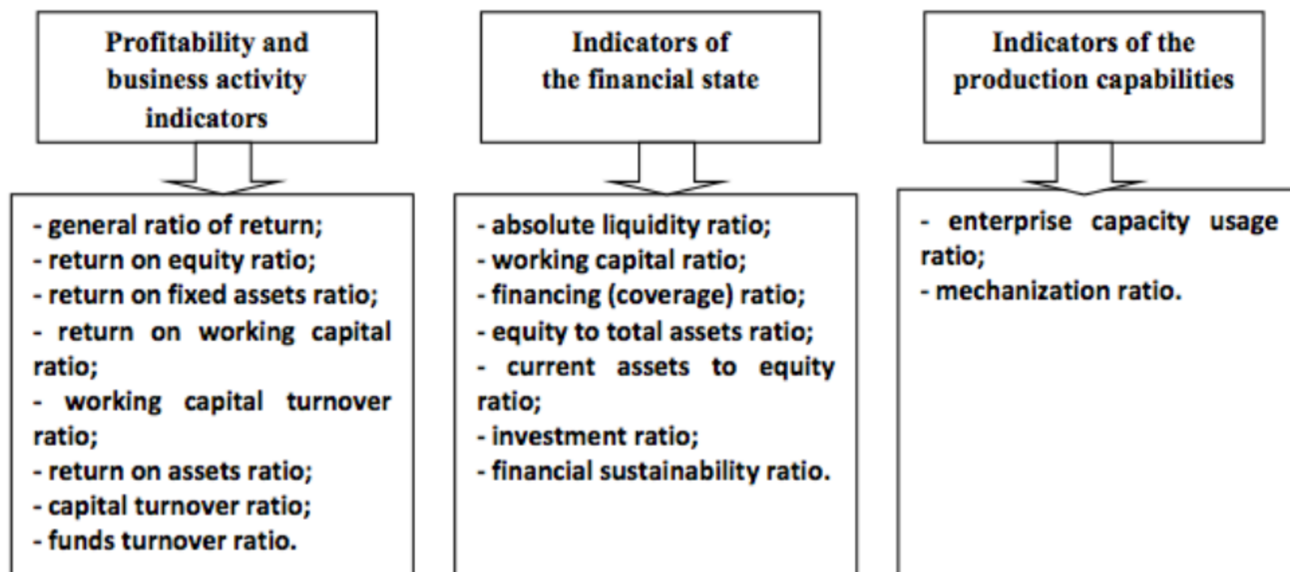

Figure 6.3. Indicators of the level of production and financial state of the enterprise

Processing of the source data results in normalized values of the model indicators, after which the actual and predicted value of the indicators under study can be found. If the actual value is more than the predicted one, it is necessary to adjust the crisis measures and re-evaluate the crisis program. If efficient measures are chosen, the actual value will be less than the predicted one, which indicates the expediency of implementing the crisis program (sixth stage).

The seventh stage is to define the life cycle phase, taking the efficiency of the crisis management implemented by determining the impact of crisis measures on the change in the forecasted development trend of the enterprise into consideration.

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TOPIC 7. PROBLEMS WITHIN A HUMAN RESOURCE MANAGEMENT

7.1. Human capital and Human Resource Management (HRM). The evolution and development of Human Resource Management.

7.2. Challenges of Human Resource Management.

7.1. Human capital and Human Resource Management (HRM). The evolution and development of Human Resource Management.

Human resource management as a practice happens wherever there is more than one person. It starts at the family level where family members take different roles and responsibilities for the accomplishment of family objectives. The head of the household would harness all available resources including people to find the best in them in order to achieve whatever may be needed or desired. Indeed, the division of labour depends on the philosophies, values and expectations of family members and which are rooted in the wider society, be it a clan, a tribe or religion.

Human resource management is distinctive approach to employment management which seeks to obtain competitive advantage through the strategic deployment of a highly committed and skilled workforce using an array of culture, structural and personal techniques. Human resource management is core in all the functions in an organization without involvement of which an organization cannot perform its financial as well as operational functions properly.

The idea that organizations "compete through people" highlights the fact that achieving success increasingly depends on an organization's ability to manage talent, or human capital The term human capital describes the economic value of employees' knowledge, skills, and capabilities. Although the value of these assets might not show up directly on a company's balance sheet, it nevertheless has tremendous impact on organization's performance.

Human capital is intangible and cannot be managed the way organizations manage jobs, products, and technologies. One reason why is because employees, not the organization, own their own human capital. If valued employees leave a company, they take their human capital with them, and any investment the company has made in training and developing these people is lost.

To build human capital in organizations, managers must continue to develop superior knowledge, skills, and experience within their workforces and retain and promote top performers.

Managing people in an organisational setting is well documented throughout the history of mankind. Organisational structures evolved, leadership emerged or was formed, roles and responsibilities were assigned to people, accountability systems were laid down, and rewards and punishments were also provided. In this regard, division of labour, specialisation and accountability were systematically organised to achieve a specific purpose.

However, the documentation of the evolution and development of human resource management practices can be traced back to the booming European economy of the 1900s. This economy created the necessary environment for more serious thought on the role of effective people management in the emerging labour market of the time. The economies were preparing for the First World War and its aftermath where industrial production required a mass of skilled, well organised and disciplined labour force. The challenges revolved around mobilisation of resources including people, which led to the evolution and development of four stages in managing labour. The stages were mainly identified by looking at the changing titles of officers responsible for managing the workforce and different roles that were emerging over time. Therefore, although personnel management literature often states particular dates or decades of transformation from one phase to another, as a matter of principle, such dates or decades are more for convenience and reference purposes than being actual historical events. The same recognition is used to

provide a picture of the chronology of the evolution and development of human resource management as we see it today.

However we should make a distinction between Human Resource Management and Personnel Management. The main difference between Personnel Management and Human Resource Management lies in their scope and orientation. While the scope of *personnel management* is limited and has an inverted approach, wherein workers are viewed as tool. Here the behavior of the worker can be manipulated as per the core competencies of the organization and are replaced when they are worn-out.

On the other hand, *human resource management* has a wider scope and considers employees as the asset to the organization. It promotes mutuality in terms of goals, responsibility, reward etc. that will help in enhancing the economic performance and high level of human resource development.

In early centuries, when HRM was not prevalent, then the staffing and payroll of the employees were taken care of, by the Personnel Management. HRM have emerged as an extension over the Traditional Personnel Management.

Personnel Management is a part of management that deals with the recruitment, hiring, staffing, development, and compensation of the workforce and their relation with the organization to achieve the organizational objectives. The primary functions of the personnel management are divided into two categories:

- *Operative Functions:* The activities that are concerned with procurement, development, compensation, job evaluation, employee welfare, utilization, maintenance and collective bargaining.
- *Managerial Function:* Planning, Organizing, Directing, Motivation, Control, and Coordination are the basic managerial activities performed by Personnel Management.

Over the past twenty years it is known that the management of people that constitute the organizations has noticed a tremendous change, which can be divided into two major transformations. One of them is the transformation from the field of personal management

to the field of human resources management. The other is the transformation from the field of human resources management to the field of strategic human resource management.

BASIS FOR COMPARISON	PERSONNEL MANAGEMENT	HUMAN RESOURCE MANAGEMENT
Meaning	The aspect of management that is concerned with the work force and their relationship with the entity is known as Personnel Management.	The branch of management that focuses on the most effective use of the manpower of an entity, to achieve the organizational goals is known as Human Resource Management.
Approach	Traditional	Modern
Treatment of manpower	Machines or Tools	Asset
Type of function	Routine function	Strategic function
Basis of Pay	Job Evaluation	Performance Evaluation
Management Role	Transactional	Transformational
Communication	Indirect	Direct
Labor Management	Collective Bargaining Contracts	Individual Contracts
Initiatives	Piecemeal	Integrated
Management Actions	Procedure	Business needs
Decision Making	Slow	Fast
Job Design	Division of Labor	Groups/Teams
Focus	Primarily on mundane activities like employee hiring, remunerating, training, and harmony.	Treat manpower of the organization as valued assets, to be valued, used and preserved.

Definition of Personnel Management

Figure 7.1. Comparison chart between HRM and PM

HRM is that specialized and organized branch of management which is concerned with the acquisition, maintenance, development, utilization and coordination of people at work, in such a manner that they will give their best to the enterprise. It refers to a

systematic function of planning for the human resource needs and demands, selection, training, compensation, and performance appraisal, to meet those requirements.

7.2. Human Resource Management challenges.

HRM faces many complex challenges in their daily working lives. Because they are dealing with a workforce, they have to deal with any conflicts that may occur, either between different members of staff, or with management. Resolutions to conflicts may entail having to deal with outside agencies such as trade union officials, or Health and Safety executives.

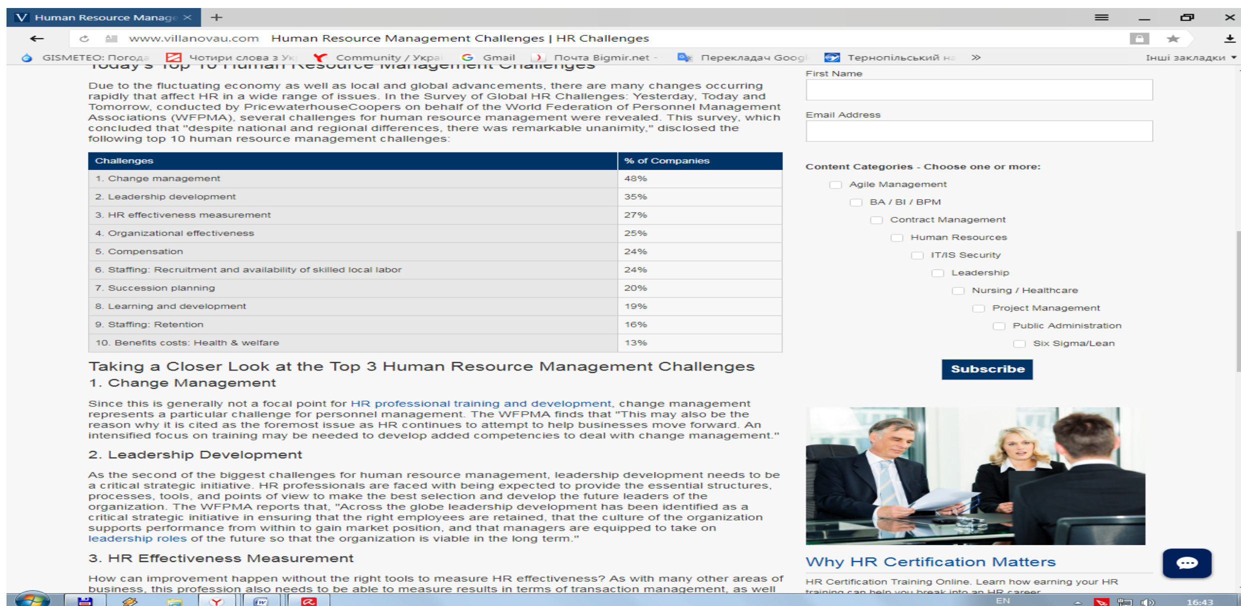
Another challenge that has to be faced is that of analyzing the statistics that face all businesses, including employee absences and the market forces that impact upon the business so that outcomes can be predicted and catered for. This also includes being aware of how successful, or otherwise the current market is so that strategies can be put into place to ensure the smooth running of the business. This can mean that necessary skills are recognized and exploited within the workforce in an efficient manner.

Changes in technology are a major challenge that needs to be addressed. Personnel management need to keep on top of recent innovations so that the business does not get left behind by more forward thinking businesses, and that appropriate training is given to the staff that is best suited to implement it.

All businesses have to deal with certain restrictions, either because of budget constraints or not having appropriate skills within the workforce, for example. Personnel management has to be adept at finding the possible resolutions to deal with these restrictions in order to maximize what is available for the best possible result.

Sometimes practical problems can get in the way of the smooth running of a business, such as breakdowns in machinery and equipment. Personnel management have to deal

with the logistics of ensuring that any staff are not idle throughout this time and their talents can be used in a productive manner.



Due to the fluctuating economy as well as local and global advancements, there are many changes occurring rapidly that affect HR in a wide range of issues. In the Survey of Global HR Challenges: Yesterday, Today and Tomorrow, conducted by PricewaterhouseCoopers on behalf of the World Federation of Personnel Management Associations (WFPMA), several challenges for human resource management were revealed. This survey, which concluded that "despite national and regional differences, there was remarkable unanimity," disclosed the following top 10 human resource management challenges:

Challenges	% of Companies
1. Change management	48%
2. Leadership development	35%
3. HR effectiveness measurement	27%
4. Organizational effectiveness	25%
5. Compensation	24%
6. Staffing: Recruitment and availability of skilled local labor	24%
7. Succession planning	20%
8. Learning and development	19%
9. Staffing: Retention	16%
10. Benefits costs: Health & welfare	13%

Taking a Closer Look at the Top 3 Human Resource Management Challenges

1. Change Management

Since this is generally not a focal point for HR professional training and development, change management represents a particular challenge for personnel management. The WFPMA finds that "This may also be the reason why it is cited as the foremost issue as HR continues to attempt to help businesses move forward. An intensified focus on training may be needed to develop added competencies to deal with change management."

2. Leadership Development

As the second of the biggest challenges for human resource management, leadership development needs to be a critical strategic initiative. HR professionals are faced with being expected to provide the essential structures, processes, tools, and points of view to make the best selection and develop the future leaders of the organization. The WFPMA reports that, "Across the globe leadership development has been identified as a critical strategic initiative in ensuring that the right employees are retained, that the culture of the organization supports performance from within to gain market position, and that managers are equipped to take on leadership roles of the future so that the organization is viable in the long term."

3. HR Effectiveness Measurement

How can improvement happen without the right tools to measure HR effectiveness? As with many other areas of business, this profession also needs to be able to measure results in terms of transaction management, as well

Top 10 human resource management challenges:

Most common human resource challenges:

Globalization. One of the serious issue that today's organizations are facing is the issue of globalization. Despite their clear benefits and growing importance, managing remote, cross-border teams presents management challenges that the corporate world is still learning to tackle. There are some obvious practical obstacles in running a virtual team. For example, all the members must feel comfortable using all the various communication technologies. Time differences can also complicate organization and co-ordination.

Human interaction may be less smooth without face-to-face communication. Natural social bonds are more difficult to develop when people only meet virtually. This makes building an environment of trust and cooperation more problematic, resulting in regular misunderstandings. When disagreements do arise, the less frequent contact makes them harder to resolve.

The world is converting into global business and severe competition is started between domestic and foreign companies. Such competition results in the laying off the effective workforce of the organization.

Compliance with Laws and Regulation. There are certain labor laws that are declared by the government for the benefits of the working employees. Some of these laws are disadvantageous to the interests of the organizations so it is a one of the big challenges for the HRM to implement all those labor laws within the organizations. If any of such law is violated, serious actions are taken by the relevant government authority that may result into serious penalty for the management of the organization.

Management Changes. As a business grows, its strategies, structure, and internal processes grow with it. Some employees have a hard time coping with these changes. A lot of companies experience decreased productivity and morale during periods of change. Leadership Development. A recent study showed more than a third of companies are doing an average job, at best, at implementing leadership development programs.

Workforce Training and Development. Investing in the training and development of lower-level employees is another common HR problem. Some businesses have trouble finding the resources to do so. Employees on the front lines are some of your hardest workers, and may not have the time to take a training course.

Hiring and retaining talent while lowering labor costs. Large labor-productivity gains over the past few decades have not been matched by comparable wage gains. While both increased technology adoption and globalization contribute to this phenomenon, companies' increased focus on maximizing shareholders' value has also been a substantial factor. Furthermore, looser labor laws and decreased union rates have decreased workers' bargaining power. While this trend has been in existence for a while, pressure across corporations to curb labor costs has only become more acute with the latest global financial crisis.

Retention of talent will prove challenging, as employees feel that stellar performances are not being rewarded appropriately. While their employers continue to have higher work expectations, employees' efforts are not necessarily translating into compensation they deem to be satisfactory. This is creating a challenge for HR as turnover rates increase. Finding and hiring talent will not prove any easier, as firms continue to decrease their labor investment. On a day-to-day basis, workers may not be as motivated and engaged. HR will have to continue to explore retention strategies and benefits models that focus on factors beyond financial compensation.

Adapting to Innovation. Technology is constantly changing. Businesses must be quick to adapt, or risk being left in the dust by their competitors. The challenge for small business owners is getting employees to embrace innovation and learn new technology.

Technology's evolving role in redefining what work means will require firms to come up with new and innovative strategies to manage their increasingly mobile workforce. These strategies will need to help mobile workers remain engaged and connected to the wider organization they serve. An improved ICT infrastructure and increased usage in developing nations will certainly continue to expand the availability of local talent for recruiters and HR managers. However, challenges will persist, as many potential labor-market participants will lack access or adequate technological literacy. HR departments within major global firms will need to engage with local governments, universities, community colleges and vocational schools to offer ongoing training for all existing and new employees as technologies change.

Compensation. Many companies are struggling with how best to structure employee compensation. Small businesses have to compete not only with businesses of a similar size, but also with corporations with big payroll budgets. Plus, you have to factor in the cost of benefits, training, taxes, and other expenses, which can range from 1.5 to 3 times the employee's salary.

Recruiting Talented Employees. Attracting talent is a huge investment of time and money. It's difficult for entrepreneurs to balance between keeping a business running, and hiring the right people at the right time. In addition, it's impossible to know whether a candidate will actually be a good fit until they've worked for you for a period of time.

As for the system of labour recruitment and choice, there exist several problems and ways of their solution, and this deserves a closer attention.

A free labour shortage observed in requested professions is a great problem, whether it relates to workmen trained in certain specializations or to employees with the secondary-school education.

The insufficient utilization and choice of applicants for job, i.e. secondary school-leavers and university graduates, encompasses the other scope of problems associated with a lack of the practical experience in labour facilities. In this sphere, the well-organized co-operation with secondary schools and universities in gaining the economic practice can help ensure the practical experience of school-leavers and graduates by providing temporary jobs, industrial practice, study stays, etc. It is known that just these young employees are more adaptable to working conditions, often by bringing the new theoretical knowledge and new approaches.

When the employment is provided to highly-qualified persons such as managers, technologists, designers, etc., excessive funds are usually spent and only the time will often show whether the choice of applicants was suitable. Therefore it is important to draw attention to a better utilization of the personnel services, consulting and to employment agencies having many professional workers with the expert knowledge in various scientific fields and disciplines. Due to this fact, they can choose the suitable candidates for their jobs using the time-tested methods. The higher costs necessary for this way of staffing are compensated by the time-saving, high-quality services, guaranty of convenient employees, and by their future contribution to the organization.

Serious problems are caused by a lack of the certain kind of information in recruiting the employees from among students, school-leavers and graduates. The missing information is observed in the knowledge of foreign languages, in the school results from certain disciplines, in the results from intelligence tests, etc. In this sphere, some assistance should be offered by secondary schools and universities which could participate in this way in placing their students and gaining their jobs.

Next problems refer to a lack of the conception work or inadequate personnel research. Entrepreneurial subjects do not often have the sources for a recruitment of the new employees on files, nor do they have the sources "invested" into the respective methods of recruiting employees. It follows that they do not pursue whether the recruitment of employees was successful or they do not employ all potential ways to achieve the more effective performance results. This draw-back should be eliminated and the suitable personnel research should be realized as soon as possible.

In the contemporary economic practice some entrepreneurial subjects are confronted with a problem of the insufficient personnel information system which should incorporate the descriptions of job posts, working activities and requirements for employees. After the thorough processing of requirements a choice of the applicants for job will certainly improve because their demands will be specified more precisely. The training system of employees, particularly in the conditions of major business subjects needs the elimination of long-lasting deficiencies.

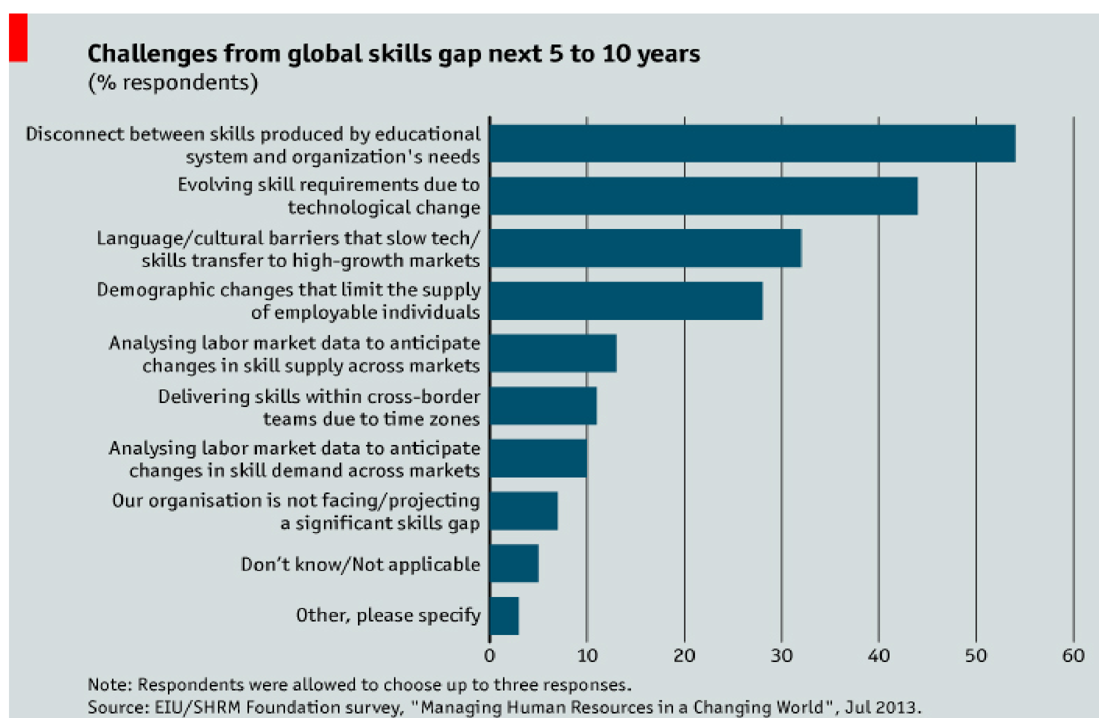
The problem is that some business subjects react to changeable conditions and demands for the new knowledge and skills inflexibly and late. Therefore the perfect reorganization of the lifelong educational system should be accomplished, taking into account the fact that qualified and educated employees represent the most important "capital."

Closer attention should be paid to the actual necessity of employees proceeding from the identified discrepancies among the requirements for job posts and characteristics of the

newly employed workers, and other specific characteristics which demand an appropriate employee rating. An example can be the before-said problem related to the information on job analyses and to the description of job posts.

As the definition of work continues to evolve, the range of skills that employees need have not necessarily been provided by traditional educational systems. In the EIU/SHRM Foundation survey, executives reported that the current disconnect between the skills fostered by education and those they actually need will represent a very considerable obstacle in the coming years.

This makes it difficult for HR to assess applicants' qualifications properly. To complicate matters further, there is lack of standardization in education, especially in a global context. As businesses expand and hire beyond borders, the need for HR to scrutinize job qualifications carefully becomes ever more important. Major disparities exist between various regions and institutions in individual countries, as well as between countries. The ability to understand these differences will enable HR to make more informed hiring decisions. Through collaboration with other functions of the organization, HR can increase its understanding of qualifications and skill sets to ensure that hired employees are capable of executing their functions.



Population decline, due to lower birth rates, along with stagnant educational reform, have prompted many organizations to fear future skills shortages, particularly in certain roles.

Strategic vision and the ability to handle complexity were cited to be the most difficult skills to find among senior executives, presumably also the reason why strategic roles are deemed so problematic to fill. Companies are clearly struggling to recruit those with the apparently rare ability to guide them through an unpredictable and competitive external environment.

TOPIC 8. ANTICRISIS MANAGEMENT. BANKRUPTCY AS A FORM OF THE ENTERPRISE`S SYSTEMIC CRISIS ELIMINATION.

8.1. Anticrisis response and anticrisis management.

8.2. Bankruptcy as a form of liquidation of the systemic crisis of the enterprise.

8.1. Anticrisis response and anticrisis management.

The Essence of Anti-crisis management focuses on the measures applied before, during and after a crisis. It is "a process, which anticipates the danger of crisis, carries out an analysis of its symptoms, measures limiting the negative consequences of the crisis and uses its factors to continue the development process" (Krzakiewicz 2008, p. 32). Anti-crisis management is a process consisting of four successive phases: crisis prevention, crisis preparation, crisis response from the business, and reconstruction (and evaluation of the applied anti-crisis measures).

Crisis prevention refers to measures applied to prevent a crisis. A manager must read the signals that warn against the possibility of an emerging crisis and take actions to mitigate its fi rst symptoms. The next step in the process of anti-crisis management is preparation for the crisis. This activity is manifested in the preparation of anti-crisis plans,

patterns of anti-crisis measures, and the diagnosis of anti-crisis measures. The next step in anti-crisis management is to implement anti-crisis actions. At this stage, it is important to coordinate and control the applied measures taken in preparation for the crisis. The last activity is to assess the organization's reaction to the crisis. At this stage, the organization assesses the applied measures, verifi es them, draws conclusions, learns from its mistakes, and collects acquired knowledge.

Types of Anti-crisis Strategies During preparation for crises businesses can develop crisis action plans and strategies that underpin the base of the ongoing measures implemented at the anti-crisis measurement stage. The current literature proposes a number of types of the anti-crisis measures. The most typical anti-crisis solutions are:

• planning activities, including redefining the mission, vision, and goals of the company, adopting a new orientation about market opportunity, reorientating the product, introducing new management concepts, introducing formalized strategic planning,

• proposing activities related to the organization, including cost reduction, delaying repayment of liabilities, acquiring additional capital (e.g. securities, increasing initial capital, loans), renting assets, concluding amicable settlement proceedings with creditors, merging with a strategic partner, reducing the size of the business (e.g. liquidation or merger), diversifying activities, changing managerial positions, changing product investments, purchasing new technologies, implementing quality management systems, implementing integrated information systems, changing price policy, changing organizational structure, outsourcing, changing organizational culture,

• changing motivational measures, including salary reduction, teamwork stimulation, creation of new motivational systems, change of work organization, employment reduction,

• controlling measures, including implementing additional financial control, and systematic controlling.

The proposed measures become the starting point for identifying the main types of anti-crisis strategy. To choose an appropriate strategy, one must properly determine the extent and causes of the crisis, time and intensity of its duration, methods of the organizational adaptation to the environment or employee involvement, and their commitment to overcoming the crisis.

Taking into account the duration and intensity of the crisis restructuring, one can distinguish between appropriate liquidation, growth, and bankruptcy strategies. The restructuring strategy focuses on crisis stabilization seeking to gain a competitive advantage. It is used to control crises. The liquidation strategy is a strategy that allows the bankruptcy of an enterprise by selling it or the implementation of the strategy maintaining solvency (the so-called voluntary liquidation). The growth strategy consists in taking aggressive measures to improve or strengthen the enterprise's competitive position, which is to be refl ected in an increase in the market value of the organization. The last strategy is bankruptcy, which involves liquidating the enterprise without maintaining solvency.

Investment strategy involves the development of the organization and search for opportunities in its environment. Next, the consolidation strategy focuses on the main activity of the enterprise and its strengths. Third, the reactive strategy focuses on reducing the costs and size of the business. The last strategy, the withdrawal strategy, concerns itself with the resignation of certain activities, leaving the markets and non-investment.

Another group of strategies shows various possible responses in view of the managerial approach to the crisis. The organization may not notice the danger and may not make the necessary changes; it can also minimize signs and treat them as a natural departure from the norm. Another reaction is solving problems immediately as they arise, which involves the identifi cation of possible procedures and selection of the anti-crisis measures. The last possible strategy implemented by the enterprise is crisis prevention, where the emphasis is on detecting signals of the crisis, preparing appropriate anti-crisis measures, and preventing any negative consequences of the crisis.

The last group of strategies relates approaches to making anti-crisis changes in the organization. Here the prescriptive anti-crisis strategies are distinguished between those based on negotiations, analysis, and action-oriented strategies. The prescriptive strategies introduce changes in accordance with the plan, which should be carried out in the short term. This requires management authority, task orientation, and the ability and skills of overcoming resistance to changes. The strategy based on negotiations emphasizes the necessity for talks with members of the organization about the implementation of the anti-crisis plans. The normative strategies seek to build in the employees a sense of responsibility and commitment to make changes. Another strategy is the analytical strategy, which aims at making the optimal from the technical point of view of anticrisis decisions. To achieve this goal it is necessary to involve teams consisting of internal specialists as well as external consultants. In the action-oriented strategy the employees, who are to make the change, prepare the process of its inducing and use different approaches to solving problems. Table 1 shows the detailed characteristics of the presented strategies.

Table 8.1. Types of Anti-crisis Strategies

Classification	Name of the Strategy	Characteristics of the Strategy
In view of the approach and ways of making changes, in view of the participation of employees in the process of introducing changes	Prescriptive	• taking actions in accordance with a previously fixed plan • making changes in the short term • the necessity for the large management authority and trust in the management • the necessity for the managers to have broad powers and resources • the strategy used in the case of acute crises

	Negotiation	• manager is the change initiator • admitting the participation of the members of the organization as to how the anti-crisis measures implement • longer than in the prescriptive strategy time of this strategy realization
	Normative	• a mental change of the members of the organization – the members of the organization should have a sense of responsibility for the company, the introducing changes and for achieving the objectives • use a professional help when modifying the behavior of individuals and / or groups of the employees
	Analytical	• building management teams consisting of specialists and consultants • making decisions based on the knowledge and available information • focusing only on the technical aspects of the decision
	Action-orientated	• bigger than in other strategies the discretion of the members of the organization • lack of noticeable pressure from executives • active employee participation in the implementation of the strategy (for example, by delegating making changes to selected employees)
In view of the reasons and adaptation to the environment	Organizing	• reactive adaptation to the environment • involves the reaction to the crisis causes related to the management • expresses itself through cost and employment reductions, sale of assets, finance restructuring, changing the organizational structure
	Investment	• proactive adaptation to the environment • involves the reaction to the crisis causes related to the management • activities related to the investment in new products or market segments, in human resources, • the introduction of new management concepts • activities related to other market actors: a fusion with another company, strategic alliances, takeovers, mergers,
	Withdrawal	• reactive adaptation to the environment • reaction of the company as a response to the causes of the crisis related to the scope and type of activity • limiting the scale of the business, employment reduction: the abandonment of certain departments, leaving specific markets, limiting the range of products

	Consolidation	• proactive adaptation to the environment • the enterprise's activities directed at reducing the causes of the crisis associated with the scope and type of activity • redefining business activity • concentration only on selected markets • the introduction of the cost strategy • disclosing quality problems
In view of the duration and intensity of the crisis	Restructuring option	• stabilization of the crisis and in the long term achieving lasting improvement of the situation in the enterprise • enterprise activities are directed mainly at restructuring aimed at removing the causes of the crisis
	Liquidation option	• the main objective is to generate maximum liquidation capital • he enterprise sale and liquidation strategies
	Growth option	• proactive measures designed to strengthen the enterprise through investments or integration • a prerequisite for the implementation of this type of the strategy is to have by the enterprise capital • examples of measures are strategic alliances, mergers and takeovers
	Bankruptcy option	• liquidation of the enterprise without maintaining solvency • this strategy is the result of poor economic condition
In view of the managerial approach to crisis	Unnoticing	• receiving signals as non-essential, not requiring action
	Underestimation	• perception of signals as a natural departure from the norm, in which the current modifications of the activities are introduced
	Solving problems in a crisis situation	• in a crisis situation the necessary amendments are made to identify weakness, identify possible ways of action and their assessment
	Constant prevention of crisis situations	• crisis seen as a stage of development of the organization • enterprises must take action within the framework of the preparation, prevention, response to the crisis and evaluation of measures

A very large role in the creation and implementation of the specifi c anti-crisis strategy managers play (their skills, attitudes, behaviour), who provides a point of reference for both the members of the organization, its shareholders and the public opinion. The responsibility of dealing with crisis rests on him. As a result of the

complexity of the measures taken at this stage of the anti-crisis management, managers should:

- explain the anti-crisis strategy, objectives and overlapping dependencies in a clear and well-defined way,
- spread the ideas of the new anti-crisis strategy among employees,
- obtain adequate resources for its implementation,
- take decisions aimed at matching the organizational structure to the new strategy.

8.2. Bankruptcy as a form of liquidation of the systemic crisis of the enterprise

Bankruptcy has become an extremely wide-spread and overwhelming phenomenon around the world nowadays. It threatens the existence of millions companies in each country. A crisis most often lowers the value of the relationships with customers and suppliers as well as the value of financial assets and fixed assets. Profit-oriented businesses unwillingly accept losses, and failure is the least wanted solution for any problems. The worries and threats result in the willingness to predict forthcoming entrepreneurial crisis, as well as bankruptcy.

The risk of bankruptcy as a possibility of corporate failure (clear risk – when only the loss is taken into consideration) or both failure and opportunities (dynamic risk – when we also bear in mind the chance of profit or benefit occurrence). In conditions of unstable and volatile environment it is hardly possible to predict the future of a company. Till the very day, we can detect crisis in three years prior with certainty of around 70-95%.

Attempts towards insolvency prediction date back to the seventies of the twenty century with the first extensive research made by Beaver. Since then, numerous methods and techniques have been developed in order to facilitate the problem in question's solution. Bankruptcy prediction was initiated by means of so called univariate discriminant analysis based on ratio analysis from financial statements. Nowadays, on the other hand,

there are several, modern prediction models applied in businesses taking advantage of computer technology.

The ability to foresee the probability of bankruptcy serves as a support for the decision making process in managerial activity.

Bankruptcy is a legal proceeding involving a person or business that is unable to repay outstanding debts. The bankruptcy process begins with a petition filed by the debtor, which is most common, or on behalf of creditors, which is less common. All of the debtor's assets are measured and evaluated, and the assets may be used to repay a portion of outstanding debt.

It is necessary to distinguish between the terms of "insolvency" and "bankruptcy", since the latter is the consequence of the first. According to the current legislation of Ukraine, insolvency is understood as “the failure of the subject of entrepreneurial activity to fulfill, after the established line of their payment, monetary obligations to creditors, including on wages, as well as to fulfill obligations to pay taxes and duties (mandatory payments), not otherwise than through restoring solvency.”

The fact of bankruptcy of an enterprise does not mean that losses will be borne only by its owners; other groups may include: creditors, partners, consumers, etc. In addition, bankruptcy is one of the factors of macroeconomic instability, as tax payments are reduced, and the number of unemployed is increasing, as a whole it can be stated that a negative chain effect is formed.

The classification of bankruptcy can be carried out according to the following criteria:

- intentional actions of certain persons to bring the company before the bankruptcy procedure (intentional and unintentional bankruptcy)

- nonconformity of the state of assets of the enterprise to their actual content (real, fictitious and latent bankruptcy).

In the first case, bankruptcy can occur as a result of deliberate actions of management and owners, which is related to obtaining certain benefits. Also, bankruptcy arises as a result of unintentional actions, as a result of inefficient economic activity. In the second case, distinguish:

- real bankruptcy - the assets of an enterprise correspond to their real negative state. Real bankruptcy can occur as a result of intentional and unintentional actions.

- fictitious bankruptcy - the assets of an enterprise do not correspond to their actual state. Fictitious bankruptcy is the consequence of deliberate actions of a group of persons having the purpose of bankruptcy of an enterprise by means of withdrawal or concealment of assets. However, fictitious bankruptcy can be an attempt to fully or partially save invested capital.

- hidden bankruptcy - the assets of an enterprise do not correspond to their actual state. This kind of bankruptcy is the opposite kind of fictitious bankruptcy, since its purpose is not to terminate the activity of the enterprise, but on the contrary concealment of information about the real financial condition in order to continue its activity.

The fictitious, hidden and intentional bankruptcy is a criminal crime. Thus qualification of such actions and responsibility for them are regulated by the criminal law of the country.

Anticrisis management of an enterprise differs significantly depending on the type of bankruptcy. In case of real bankruptcy, the company takes all possible measures to get out of the crisis. In this case, the anti-crisis management has a public character. If the bankruptcy is hidden, fictitious and intentional, the managers of the enterprise act in their own interests in order to obtain economic benefits. Then the anti-crisis management has a nominal character.

In the case when the profitability crisis has not been prevented, a liquidity crisis arises at the enterprise - the enterprise becomes insolvent, or the enterprise is on the verge

of bankruptcy or declared bankrupt, then a restructuring and / or financial sanation procedure is applied.

By its economic essence, financial sanation is a system of financial, economic, production, technical, organizational, legal and social measures aimed at achieving or restoring the solvency of the enterprise in the long run. The goal of the sanation is to cover current losses and eliminate the causes of their occurrence, maintain or restore the liquidity and solvency of the enterprise, reduce all types of debt, improve the working capital structure of the funds for the formation of financial resources necessary for carrying out sanitary measures of production significance.

Restructuring is a system of organizational - economic, legal, production and technical measures aimed at changing the structure of the enterprise, its system of governance, forms of ownership, organizational and legal forms that can restore profitability, competitiveness and production efficiency. Mainly restructuring of the company is aimed at overcoming the causes of the strategic crisis and profitability crisis.

In the case when during the analysis of the financial condition of the enterprise a decision is made on the inexpediency of sanitation measures implementation (lost production potential, unsatisfactory balance structure, etc.) - they say about an acute insurmountable crisis. At this stage, when the crisis situation is incompatible with the further existence of the enterprise, a decision is made to liquidate a firm. According to the current legislation, there are two types of liquidation:

- voluntary liquidation - is a procedure for liquidation of an insolvent enterprise, which is carried out without the involvement of judicial authorities on the basis of the decision of the owners or an agreement concluded between owners of the enterprise and creditors and under the control of creditors;

- compulsory liquidation is a procedure for the liquidation of an insolvent enterprise, which is carried out by the decision of the arbitral tribunal (as a rule, in the process of implementation of the bankruptcy case).

For example in the UK being bankrupt is limited to applying to individuals but in the US and some other countries it can be applied to companies as well.

The word itself is derived from the Italian phrase banca rotta meaning "broken bank".

In the modern world it normally involves a restructuring of debts in an attempt to rehabilitate those who owe the money and sometimes continue with their business.

In most jurisdictions people or companies are declared bankrupt by a court order.

The number of bankruptcy filings in the United States has steadily increased over the last century, and especially so from 1980 to 2005.

Bankruptcy filings hit an all-time high in 2005, when more than 2 million cases were started. In that year, one out of every 55 households filed for bankruptcy.

The following year, bankruptcy filings dipped to about 600,000, the lowest point in 20 years. The vast majority of bankruptcies are now filed by consumers and not by businesses. In 1980, businesses accounted for 13 percent of bankruptcies. Today, they account for about 3 percent. The number of annual bankruptcies varies widely by state. This is in part because bankruptcy policies are different in each state – and because some states are more populous than others. Additionally, studies have found that bankruptcy occurs more often in states with more lenient wage-garnishment laws.

The state with the most bankruptcies in 2011 was California, with more than 240,000. This accounted for 17 percent of all bankruptcies nationwide. At the other end of the spectrum, Alaska had fewer than 1,000 bankruptcies in the same year.

The five states with the most bankruptcy petitions in 2011 accounted for a disproportionate 38 percent of the year's filings nationwide.

It should be noted that the development of the institution of bankruptcy in a market economy is strategically important, the denial of the fact of bankruptcy as a negative crisis only complicates economic situation, because bankruptcy is an inevitable phenomenon in a market economy and fulfills a number of important functions. These include:

- regulation of market development. With the help of bankruptcy, the market gets rid of enterprises, their inefficient and non-competitive activities. This provides the opportunity to protect other companies from "unscrupulous" partners, because cooperation with them leads to significant financial losses and sometimes endangers their continued existence. In addition, the elimination of such enterprises simplifies competition in the search for sources of funding for ongoing activities;

- encouragement of the enterprise to effectively manage its business, to make optimal decisions, to improve forms and methods of management;

- ensuring equal rights and responsibilities of economic entities, regardless of their organizational and legal form, size and ownership. In addition, the main thing during the implementation of this function should be the fairness of the rights of both the debtor and the creditor. This also applies to the equitable distribution of funds received from the sale of the debtor's property, the establishment of priority payment obligations. The priority of payments is established by law, based on the principle of the protection of the rights of individual creditors (state, employees, creditors, claims protected by mortgage obligations);

- creating the necessary conditions for the preservation and restoration of the activity of the enterprise in the event of expediency. The implementation of this function should be carried out not only at the state level, but also at the level of those enterprises that provide support in implementing reorganization measures (financial assistance, deferral of payments, debt cancellation, etc.).

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