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Crisis Diagnosis in Anti-Crisis Management Process in a Company

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Keywords: crisis; diagnosis; anti-crisis management process

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

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

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Introduction

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

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

Crisis Prevention in Different Crisis Development Stages

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

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

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

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

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

Offer (1996), Mitroff (1996), MacKenzie (1994), Fink (2002), Paraskev (2006) define four stages of crisis development: prodromal crisis (C_p), acute crisis (C_a), and chronic crisis (C_c) (see Figure 1). Crisis resolution (C_r) is the final goal of any crisis management. When a crisis is overcome, its performance stabilizes and a company starts to grow.

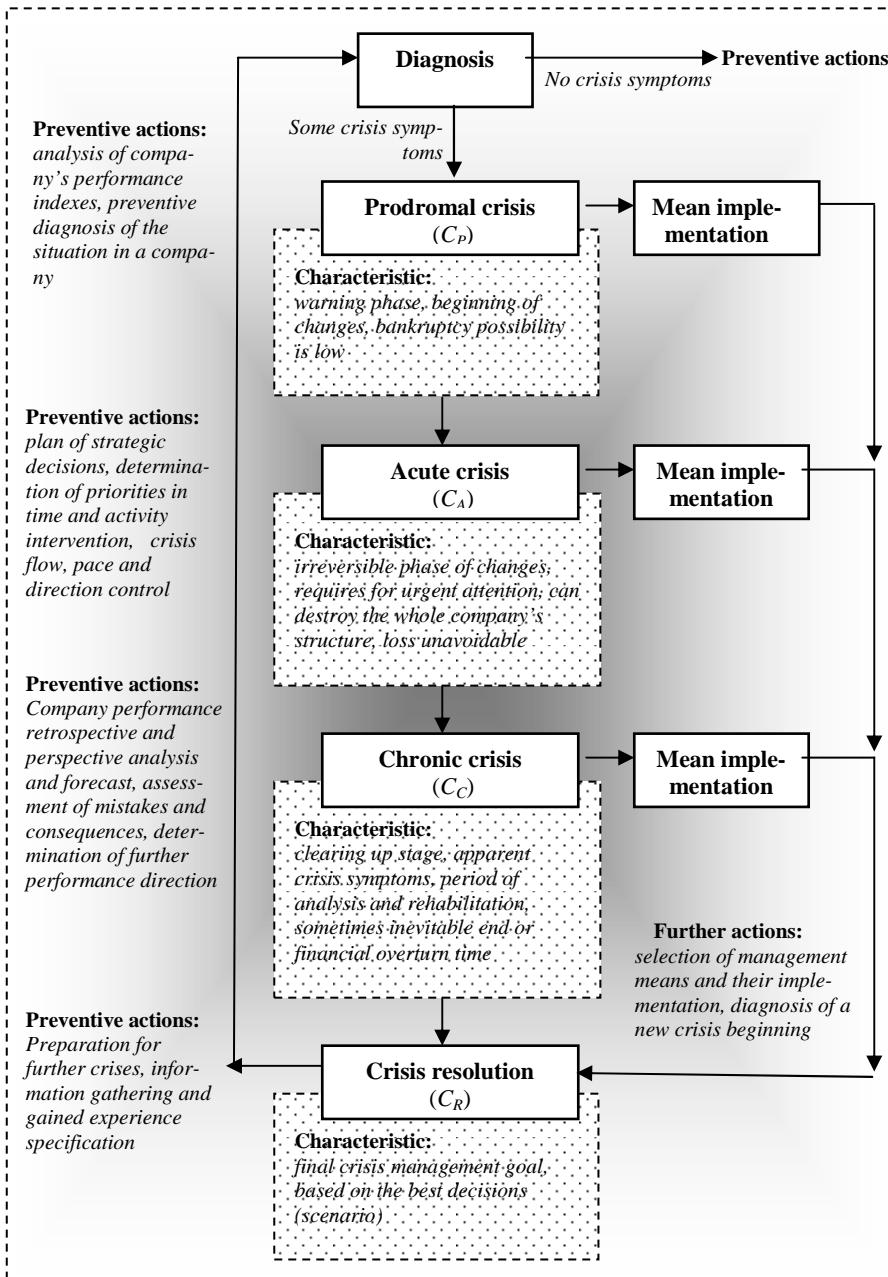
Prodromal crisis (C_p) stage is related to the preventive phase. In business, some warning signals are always flashing. It does not matter what kind of organization, profitable or not, there are many factors that can touch business if the necessary means were not applied in time. In the prodromal crisis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

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

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

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

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

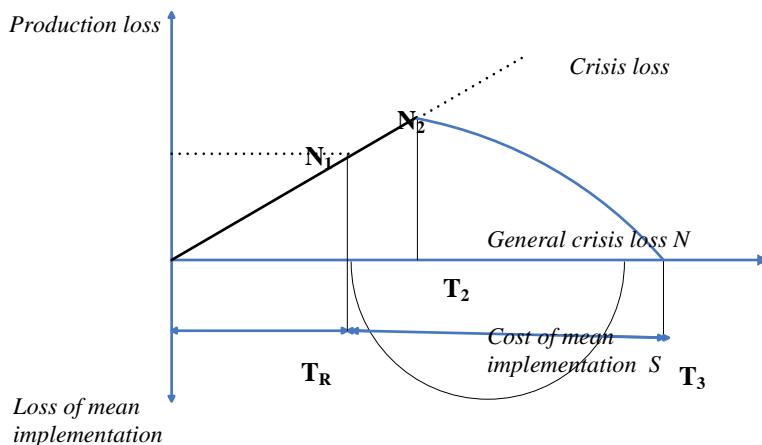
Figure 1. Crisis Prevention in Different Crisis Development Stages

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

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

Crisis resolution (C_R) is the final goal of crisis management. When a company faces a crisis, its management plan must be drawn up basing on the best estimates of the decision scenario. At this stage, the best performance of resolution scenario is designed in the estimated trajectory. Once the crisis is overcome, the company growth starts, its activity stabilizes and planned results can be achieved (see Figure 1).

Figure 2. Model of Crisis Loss



Source: made in reference with Ansoff (1989).

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

In order to secure successful and permanent company's activity, it is important to rationally value its financial condition constantly. Scientists have tried to find an

integral method which would credibly allow for predicting companies financial problems in time. Applying bankruptcy prediction models is one of the simplest, as well as the most accurate ways for predicting bankruptcy of enterprises. With the help of these models, the threat of bankruptcy could be noticed several years before bankruptcy actually starts. In this paper, after the analysis of bankruptcy prediction importance and bankruptcy dynamics in Lithuania, bankruptcy prediction models commonly used in scientific literature are given in a systematic way. If all suggested methodologies are analysed, every enterprise can find the most appropriate methodology to value the stability of its activity (Rugenytė *et al.*, 2010).

Crisis situation causes loss N. The earlier a crisis is clarified and the better measures are taken to eliminate it, the lower the total loss of the crisis and disposal costs are. Furthermore, the failure process can be very different from one company to another, i.e. different sequences of failure factors are possible. Based on the findings, owners of a company can have a clearer view of time dimension inherent in corporate failure and the impact of their own actions on bankruptcy (Burksaitiene & Mazintiene, 2011).

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

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

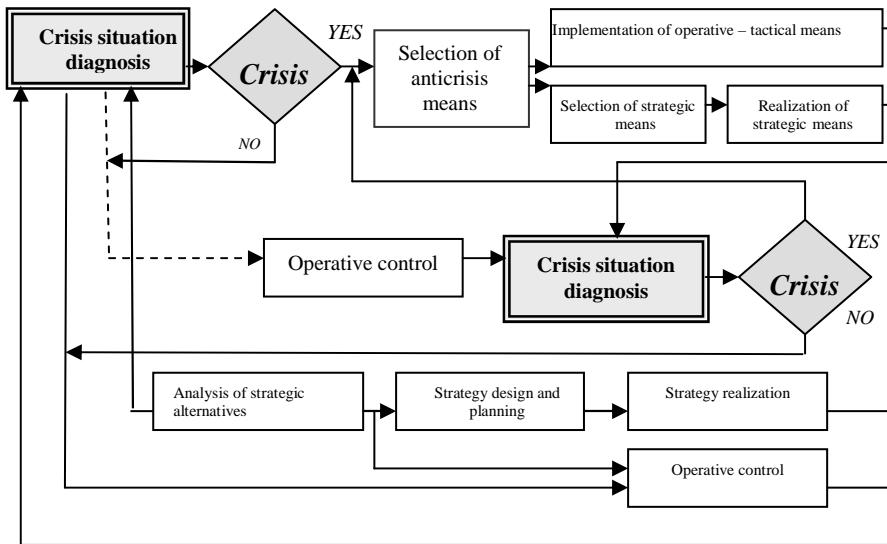
Anti-crisis management is a system that includes the application of methods diagnosing the threat of enterprise bankruptcy and the implementation of measures overcoming the crisis (Garskaite-Milvydiene, 2014). Anti-crisis management success does not depend on how the authority is prepared. The aim should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

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

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

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

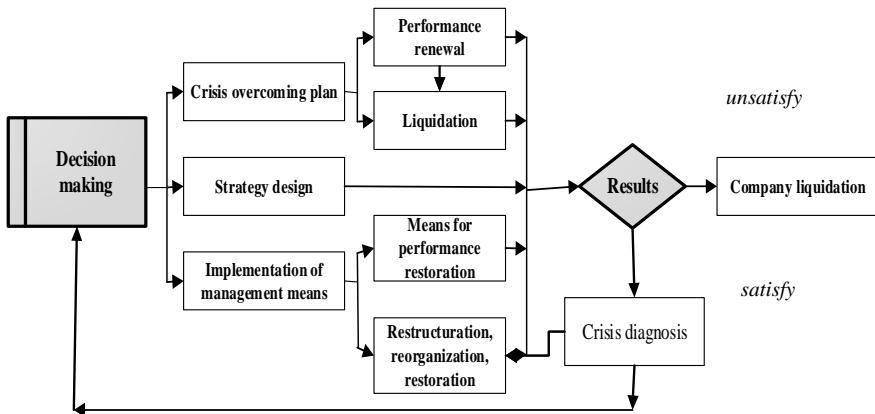
Figure 3. Model of Diagnosis Watchout System of Crisis Situation in a Company



Source: Fomin (2003).

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

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

Figure 4. Crisis Overcoming Programme

Source: own work.

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

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

Conclusions

Having generalized the analysis of company's management capabilities in a crisis situation, it can be said that the system of crisis diagnosis in a company is the company's management information system in decision-making process, as it determines the company's internal investigation of the state task, employing many indi-

cators, facilitating the work of the head analysing a large amounts of information, and when deciding on further action plan. This confirms that the head of a company has to get the necessary and reliable information on the crisis situation in the enterprise, the depth of the crisis in time. It is therefore essential for the management of the company to capture the threshold which is responsible for a certain combination of company performance, in terms of joint unfavourable outcome, and that the crisis will determine crisis situation in a company.

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