

CAUSES AND SOLUTION OF IMBALANCED CONDITION IN THE ENTERPRISE ENVIRONMENT

Ing. Stanislav Filip, PhD.¹
Ing. Marián Kováč¹

Abstract: The article in theory explains the causes of imbalanced conditions in the enterprise environment. It identifies determinants of the enterprise crises and divides them into basic groups in accordance to the fundamental causes. The core of the paper is laid on the presentation of the enterprise management measures addressed to critical phenomena.

1. INTRODUCTION

The School of Economics and Management in Public Administration in Bratislava (hereinafter SEMPA) provides a higher education in the study program "Management of Small and Medium Enterprises". One of its compulsory subjects is "Risk theory". The students are acquainted with the risk basis and evaluation, with general procedures and methods of risk management in the economic specifically aimed at the business environment. They gain knowledge about causes and solutions of imbalances in business environment. The SEMPA staff is engaged in teaching of risk management issue as well as in researching of theory application in business environment in chosen regions of Slovakia. The presented paper is a result of the first - the theoretical part of the research. It presents a partial output of a broader project task Grant Agency of SEMPA entitled "*Regional disparities in small and medium enterprises*". The issue of risk management in business environment is designed as a specific research task No. 6 entitled "*Resolving of imbalances of business entities in specific environment.*"

2. BUSINESS CRISIS AS A RESULT OF BALANCES' DISRUPTION

The business crisis is a situation when the business integrity or its external interdependence was breached and this turn causes changes in the balance of business objectives and functions. It is therefore a disruption of business balance, which threatens the fulfilment of its objectives. A business crisis can be induced intentionally in order to obtain benefits and advantages for own business, or to impair competition and on the other hand it can be induced non-intentionally influenced by external and internal determinants.

¹ Filip, S. Vysoká škola ekonómie a manažmentu verejnej správy v Bratislave (School of Economics and Management in Public Administration in Bratislava) Železničná 14, 821 07 Bratislava, Slovak Republic, e-mail: stanislav.filip@vsemvs.sk

¹ Kováč, M., SEMPA Bratislava, Železničná 14, Bratislava, Slovak Republic, e-mail: marian.kovac@vsemvs.sk

Some examples of balance's disruption are:

- disproportion between the society goals and business goals,
- disproportion between the economic results and social requirements,
- disproportion among manufacturers, sellers and consumers ...

Determinants of business crises:

- external determinants:
 - international-political environment – e.g. a war conflict,
 - natural environment - natural disasters,
 - market environment - market protection - purchasing power of people,
 - economic and financial environment - solvency of undertakings,
 - legal, ethical and social environment - business supports,
- internal determinants: management's strategies and tactics,
 - qualification of staff,
 - labour and technology discipline,
 - labour productivity,...

The business crisis may affect various activities and economic of the enterprises. They may also have complex character and affect all aspects of the business. The main business crises are:

- economic crisis,
- financial crisis,
- sale crisis,
- personnel crisis,
- social crisis and many others.

It is possible to divide the causes of business crisis into two basic groups - internal and external causes. The reason for them may be specific one or may consist of number of reasons:

- internal:
 - lack of own capital,
 - no clear future view after privatization,
 - low proportion of final manufacture and market production program,
 - business mistakes (e.g. sale for insolvent or unknown customers),
 - deliberate mistakes and enrichment of top managers,
 - loss of key employees,
 - credibility loss (objective reasons, as a result of competitor's activity),
 - high risk rate of business,
 - failure of top management to respond to the changing environment,
 - low flexibility in anticipating and responding to market and prices changes,
 - outstanding property relationships,
 - high business debts,
 - poorly endowed reserve fund,
- external:
 - problems associated with industrial restructuring,
 - formal revitalization of industry,
 - legislation shortcomings,
 - interest rates rise, wage growth.

3. PLACE AND ROLE OF RISK MANAGEMENT IN BUSINESS ENVIRONMENT

Risk management is a logical and systematic method of determining the context in any activities, functions or processes, of identifying risks, their analysis, evaluations, reductions and continuous monitoring, which allows to minimize losses and maximize opportunities.

The process of risk management can be applied in a wide range of activities of institutions, management teams, legal as well as individuals doing business, including:

- public administration authorities (central, regional, local),
- commercial organizations (manufacturing and service organizations),
- interest associations (with mandatory or voluntary membership).

Risk management is culture, processes and structures aimed to effectively manage potential opportunities and possible undesirable consequences. It is an interactive process consisting of steps, which, while maintaining the planned order, enable a sustainable improvement of decisions, and consequently an improvement of results of processes performed, too. Risk management must be an integral part of any managerial experience, whatever level of governance (from strategic to operational) may be.

Risk management can be characterized by the following facts:

- it is a part of the crisis management science,
- the management theory is its theoretical basis,
- its heart is guiding of creative processes, resulting in risk detection of risks, their purposeful reduction and minimizing of crisis probability,
- it enables a real evaluation of strengths and weaknesses of management activities and creative processes, a technology and work processes improvement as well as improvement of systems functioning.

Risk management is one of the tools that can be used to increase the safety level of various processes and specific activities. As a tool for identifying, evaluating, as well as risks reducing can be applied in:

- social processes (diplomatic measures, political systems, legislative processes, social security,...),
- economic activities (investments, construction activities, organization of business activities, financial operations, marketing and sales, supply of materials and resources, design processes, image problems,...),
- technological processes (machinery and production equipment, computer security, operations and maintenance activities,...),
- transport processes (air, water, rail, road transport),
- protection of human, material values and environment (protection against fire, protection during emergencies, protection of material goods against damage or destruction, reducing the consequences of natural disasters, ...),
- health care and safety at work place.

Risk management is applied gradually in public administration, business subjects as well as in various design activities. In the process of further development of risk management principles into practice it is *essential to respect the principles and successive steps*:

- *Top management must support the process of applying the principles of risk management in terms of organization:*
 - at top management level it is essential to develop a philosophy of fighting with the risk ,
 - active continuous promotion of statutory representative of organizations is needed,
 - the board of the organization must come to consensus, and all executives must fully support this action,
 - financial resources must be allocated to conduct these activities,
 - the executives must be trained and well instructed.
- *The organization must develop a risk management policy to create basic preconditions for risk management in the organizations and across all its activities. Such a policy should include details of:*

- the policy objectives and justifications of risk management importance in the organization,
 - the links between policy and strategic plan of the organization,
 - the extent of the problems which this policy is intended to,
 - defining acceptable risk in the particular circumstances of the organization and setting procedures,
 - setting personal responsibility for risk management,
 - support and assistance from top to bottom in the process of risk management,
 - the structure and content of necessary documentation,
 - the control mechanisms for reviewing the organization's activities in implementing policies in the field of risk management.
- *All managers and executives must be briefed on the policy.* This is the first assumption that risk management becomes an integral part of planning, management performance processes, as well as of general culture of the organization. In addition, it is necessary to develop, define and implement the elements of infrastructure to support the crisis management measures. Within these activities it is necessary:
 - to create a team with top management representative responsible for internal communication on the implementation of risk management policies,
 - to raise awareness of the need to manage risk,
 - to create conditions for communication on risk management and organization policy in this field across the organization,
 - to acquire skills in risk management (consultants and skills training for staff)
 - to ensure appropriate motivation tools (possibility of recognition, various types of awards, but also sanctions),
 - to establish principles and processes for performance assessing of organizations following the effectiveness of risk management.
- *Risk management of the organization must be integrated with strategic planning and managerial processes in the organization.* Under these procedures it is necessary to determine the risk management program in the organization through the application of risk management and to set:
 - links between the organization and risk management,
 - actual risks for the organization,
 - analysis and assessments of these risks,
 - strategies dealing with risks,
 - mechanisms for program reviewing,
 - strategies raising awareness, gaining skills, trainings and education at all levels of organization management.
- *Risk management at the level of program, project and team* aims to create conditions for development and determination of risk management program for each activity section of the organization, each program, project or team action applying risk management. In addition, it is necessary:
 - to integrate risk management process with other planning and managerial activities,
 - to document executed process, decisions and planned activities.
- *Creation of effective tools* for monitoring and reviewing of risks in order to continuously assess the effectiveness of risk management process in the organization. With those mechanisms it is possible:
 - to ensure permanent review of the risks,
 - to ensure that policy implementation and management of risk remained current, although the circumstances are constantly changing and prior decisions should be reviewed,

- to monitor effectively and to review risk management processes, because the risks are not static.

Recommendations for successful managers in the field of risk reduction:

- to use appropriate communication tools and to create conditions for the regular exchange of information,
- to pay regularly visits to other departments,
- to respect the current management hierarchy
- to evaluate two to three times a year all components of enterprise (manufacturing operations administration, ...),
- to manage production technology and characteristics of business,
- to deepen continually knowledge,
- to come up with new solutions,
- to know legal environment in the field of risk reduction and prevention of crisis phenomena,
- to control technologies for risk reducing.

Risk management in any environment clearly shows that the level of security in processes, activities, or environment security (natural, environmental, technological ...), as well as that of buildings or equipment is directly associated with the values of the criteria, i.e., it raises a need to implement the economic analysis. Obligations of the responsible persons working in an environment where emergencies may arise (government staff, representatives of statutory entities, natural persons operating in dangerous activities) must also carry out activities that are part of risk management (See Figure 1):

- to determine the context in processes,
- to identify risks,
- to analyze risks,
- to assess risks,
- to minimize (reducing or eliminating) risks,
- to inform about the residual risk,
- to keep checking (monitoring) the level of risk.

First four activities are part of risk assessment and the last three are part of the risk management process. The role of risk assessment is to determine the degree of risk, its size and structure, while on the other hand, risk management aims to minimize and continually monitor their progress in specific internal and external conditions.

4. CONCLUSION

The aim of the presented paper was to focus and to arrange the issue of imbalances in the business environment into a logical unit and thus to create conditions for the second (implementing) phase of the research, i.e. to identify determinants affecting the establishment and progress of crises in business of small and medium enterprises, to analyze their effects on social and economic development and regional differentiation, and to suggest starting points for the business sector to achieve sustainable regional development and mitigation of disparities.

Based on own experiences and official statistics on the differences in economic and social development of Slovak regions, we can assume that one reason for existing disparities is the destruction of business due to underestimation or undervaluation of risk management importance in the business environment. The current state of principles and practices implementation in business risk management does not meet the needs or opportunities of small and medium enterprises. In this regard, we express the basic hypothesis that businesses insufficiently apply the theoretical principles of risk management apart from those applying this by law.²

² Act No. 216/2002 Coll. on prevention of serious industrial accidents, Act No. 124/2006 on safety and health protection at work etc.

REFERENCES

- [1] Gozora, V. 2000. Krízový manažment. 1. vyd. Nitra, SPU. 2000. s. 171. ISBN 80-7137-802-X.
- [2] Míka, T., V. a kol. 2009. Manažment a krízový manažment. 1. vyd. Žilina: EDIS, 2009. s. 216. ISBN 978-80-554-0079-2.
- [3] Mikolaj, J. a kol. 2000. Krízový manažment ako spoločensko-vedný problém. 1. vyd. Žilina, ŽU. 2000. s. 139, ISBN 80-88829-54-2.
- [4] Smejkal, V.-Rais, K. 2006. Řízení rizík ve firmách a jiných organizacích. 2. vyd. Grada. 2006. s. 296. ISBN 80-247-1667-4.
- [5] Šimák, L. 2001. Krízový manažment vo verejnej správe. 2. vyd. Žilina, ŽU. 2001. s. 243. ISBN 80-88829-13-5.
- [6] Šimák, L.-Filip, S. 2006. Manažerstvo rizík a krízových situácií vo verejnej správe. 1. vyd. Bratislava, VŠEM vs. 2006. s. 208. ISBN 978-80-89143-43-6.
- [7] Tichý, M. 2006. Ovládání rizika. Analýza a management. 1. vyd. Praha: C.H. Beck, 2006. s. 396. ISBN 80-7179-415-5.
- [8] Varcholová, T. - Dubovická, L. 2008. Nový manažment rizika. 1. vyd. Bratislava: EKONÓMIA, 2008. s. 193. ISBN 978-80-8078-191-0.

STN 010 380 Manažerstvo rizika, 2003

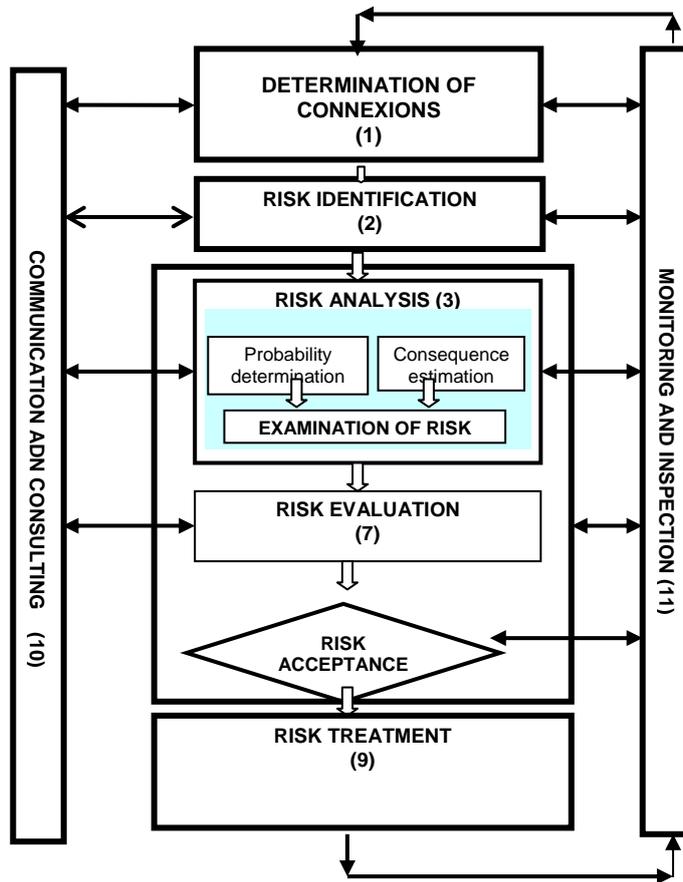


Figure 1
Resource:

010 380 Risk management

Overview of risk management
Slovak Technical Standard

This paper was prepared with the support of SEMPA research project No. IGP-06/09-GA „Regional disparities of small and medium enterprises“.