

Methods for Overcoming the Financial Crisis of Enterprises

Inga ZUGRAV

Trade Co-operative University of Moldova, Chisinau,

REPUBLIC OF MOLDOVA

ingulea.z@vandex.ru

Abstract: *From the standpoint of financial management, bankruptcy characterizes implementation of catastrophic risks of the enterprise in the course of its financial activities, so it can not satisfy in established deadline, the creditor's requirements and fulfil obligations to the budget. Although the bankruptcy of the enterprise is a legal fact, it is based on mainly financial reasons. The principal of these reasons include a serious breach of financial stability, preventing the normal conduct of its business activities, a significant imbalance in the framework of a relatively long period of time, the volume of its cash flows, and as prolonged insolvency of the company, due to low liquidity of its assets. The sequence of reasons shows that the financial failure of the enterprise, which defines the legal fact of its bankruptcy, is largely a consequence of inefficient financial management. Overcoming the financial crisis, diagnosed as "the threat of bankruptcy", requires the development and implementation of special methods of financial management. Anti-crisis policy of financial management is a part of the sheathe financial strategy of the company, also it is the development of methods of initial diagnosis the threat of bankruptcy and "turn on" the mechanisms of financial improvement of the enterprise, ensuring its way out of the crisis.*

Keywords: *insolvency, bankruptcy, financial crisis, financial stability, capital, liquidation*

Introduction

Only by making the most of each unit of money to create means for restoring production factors consummated and debt payments to owners and lenders in the obligations, because as mentioned by M. Levasseur - "There is never an enterprise free resource, be it large or small, quoted in the stock exchange or family owned. The problem is to find an explicit measure of the cost of each source of funding." [2]

Therefore, the size of the company capital, in terms of economic essence, characterized image of the company. At the same time performs the function of regulatory capital that reflects the possibilities of the future.

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.

It is well known that, conceptually, the concept of insolvency can be interpreted on the basis of two extremes, that in practice the company, finds expression in different variations. In case, at the moment, it is not able to meet their current payment situation can be seen as a problem easily solved, and the enterprise has negative equity, property owners are faced with the danger of loss of capital, then its management involves the implementation of the restructuring process of the subject business, which is performed by the insolvency administrator.

In order to ensure financial stability and avoid a situation of insolvency or bankruptcy, it is necessary for the operator to use a wide range of methods by which it can record the projected results. In selecting these methods the company must take into account the actual conditions of the company's financial activity. Meanwhile, in the case of bankruptcy, the most appropriate solution, as the case may be restructuring or liquidation business.

1. Considerations on the Particularities of the Situation of Insolvency

In an unstable economy that we face today, declining growth, slower turnover, lack of skill and professionalism of managers received a fairly wide spread institution of insolvency. This is the mechanism of regulation by the state, aimed at reducing the negative effects of insolvent companies on the national economy as a whole.

In this context, we note that the negative effects are characterized by the following:

- undertaking of financial insolvency situation creates serious financial risks for business partners who operate successfully, causing significant economic losses in their activities, reducing the potential for economic development of a country;
- insolvent company complicates the formation of public resources of the state budget and extra budgetary funds, stop economic and social objectives;
- inefficient use of credits in monetary form and material, influence insolvent businesses on reducing the level of financial return;
- undertakings unstable financial situation, being forced to reduce the volume of economic activity due to financial difficulties are forced to reduce the number of jobs increased by this social tensions.

Based on the above mechanism of bankruptcy of enterprises should be considered as an effective form of redistribution of capital to make effective use.

Conceptual approach to bankruptcy is characterized by different aspects. The legal and financial bankruptcy differs following businesses:

1. The real failure is characterized by the complete inability of the company to regain stability and solvency in the near future because of capital losses. The high level of capital losses that do not allow companies to execute effective economic activity in the next period, therefore the legally declared bankrupt.
2. Technical Bankruptcy. The term given to describe the state of insolvency of the company due to debt borrowers. It follows that the amount of the claims exceeds the amount of debt and the value of its assets exceeds its financial obligations. Technical bankruptcy in parallel with crisis management, including its reorganization, does not lead to bankruptcy.
3. Intentional bankruptcy. It characterizes the deliberate creation of the owner of the company's insolvency; application of economic damage company to satisfy personal interests or interests of other persons; incompetent financial management. These facts lead after intentional self bankruptcy proceedings.
4. Fictitious bankruptcy. It characterizes knowingly false ads now its insolvency in order to mislead creditors to obtain their deferral (instalment) performs their credit obligations or rebates on the amount of credit debt. Such actions are also subject to criminal prosecution.

The conditions and procedure for recognition of insolvent company focuses on some legal proceedings. The main functions of financial management in the process of liquidation in case of insolvency:

1. The property valuation bankrupt enterprises to their carrying amount
2. Determine the amount and parts of the mass to liquidation
3. Evaluation of the property included in the table for liquidation at market value
4. Determination of the insolvent company's actual financial debt
5. Selection of the most effective forms of property sale
6. To ensure debt repayment to creditors from the sale of goods company insolvent
7. The balance sheet for liquidation of bankrupt enterprises

Restructuring means restoring financial stability of insolvent enterprises by changing production structures, financial and administrative and organizational status - legal. In Moldova, as the right to propose legislative base plan restructuring procedure we have the debtor, the insolvency administrator, central or local government authorities. At the restructuring plan development process may contribute to cumulative insolvency administrator, the creditors, the creditors' committee, if it is formed, employee representatives and the debtor.

Restructuring is an insolvency procedure applicable to the debtor for payment of his debt, which requires preparation, approval, implementation and adherence to a plan of reorganization proceedings, including, together or separately:

- a) operational restructuring and / or financial debtor;
- b) corporate restructuring by changing the capital structure;
- c) restricting activity by liquidating some assets from the debtor's assets;
- d) any other actions prohibited by law.

If the debtor did not apply the procedure of restructuring, and bankruptcy proceedings were found essential circumstances, based mainly on data from the financial analysis that the debtor's solvency can be restored, the liquidator may convene, ex officio or at the request of the representative of the creditors or the debtor, the creditors, within one month from the occurrence of these circumstances, to examine the cessation of the debtor's bankruptcy and restructuring procedure passage.

Decision of the creditors regarding the termination of the debtor's bankruptcy and the transition to restructuring procedure shall be adopted by a simple majority of voting creditors present at the meeting, provided they have at least 50% of the total voting claims validated they represent and not off the calling of the meeting. With the confirmation of the decision of the creditors, the insolvency court decides to terminate bankruptcy and restructuring of the debtor initiates proceedings.

Participants in the insolvency proceedings are provisional administrator, insolvency administrator, liquidator, creditors, the creditors, the creditors' committee, the debtor or, where applicable, the debtor, other bodies and persons established in law. [1]

2. Principles of Crisis Management

Crisis management involves developing a program in advance to avoid critical situations, insurance against risks and liquidation of consequences of disasters. There is an essential difference between stable planning that is based on the use of certain resources and between normal activity of the company restructuring plan, because before you run unpredictable and unpleasant phenomena allows the company as a short term to restore solvency and il respect, to the extent possible commitment to customers, partners and our employees.

The system of anti-crisis finance management based on certain principles:

1. Always ready for a possible violation of the financial equilibrium of the enterprise. The theory of crisis financial management comes from the fact that achieved by effective financial management financial equilibrium of the enterprise is very variable over time. There can be changes at any stage of economic development of the enterprise is determined by the natural response to changes in external and internal conditions of its economic activity. Some of these conditions increase the competitive position and market value of the company. Others - on the contrary, cause a crisis in its financial development. Objective manifestations of these conditions in the dynamics determine the need for constant readiness of financial managers for a possible violation of the financial equilibrium of the company at any stage of its economic development.
2. Early diagnosis of the crisis in the financial activity. Given that the threat of bankruptcy implements the highest level of catastrophic risk inherent in financial activity, and is associated with the most tangible capital loss of its owners, it should be diagnosed at an early stage to provide timely opportunities to neutralize it.
3. Differentiation of indicators of the crisis on their degree of risk for the financial development of the enterprise. Financial management uses in the diagnostic process of bankruptcy of its vast arsenal of indicators of crisis development. These indicators focus on the various aspects of the financial activities of the enterprise, the nature of which from the point of generating the threat of bankruptcy is ambiguous. In this connection, in the process of crisis management company must be properly grouped indicators crisis in their degree of risk for the financial development of the enterprise.

4. The urgency of responding to individual crises in the financial development of the company. According to the theory of crisis management financial crisis appeared every phenomenon not only tends to expand with each new cycle of economic enterprise, but also creates new accompanying financial crisis phenomena. Therefore, the earlier crisis management mechanisms will be included for each diagnosed crisis phenomena, the more opportunities to restore the impaired financial balance will be available to the company.
5. The adequacy of the response on a degree of a real threat to the financial equilibrium. The system used mechanisms to neutralize the threat of bankruptcy in the overwhelming part of its associated financial costs or losses caused by the reduction in the volume of operations, the suspension of the implementation of investment projects, etc. The level of these costs and losses are directly dependent on the focus of such neutralization mechanisms and scope of their use. Therefore, the "inclusion" of certain mechanisms to neutralize the threat of bankruptcy should be based on the actual level of the threat and be adequate to this level. Otherwise, or not achieved the expected effect (if the action mechanisms of failure), or enterprise will be unreasonably high costs (if the mechanism redundant for a given level of the threat of bankruptcy).
6. Full implementation of the internal capabilities of the enterprise out of the crisis financial condition. In the fight against the threat of bankruptcy, especially in the early stages of diagnosis, the company must rely solely on domestic financial opportunities. Experience shows that under normal position of the company marketing the threat of bankruptcy can be completely neutralized by the internal mechanisms of crisis and financial management within the financial capacity of the enterprise. Only in this case the company can avoid painful for him reorganization proceedings.
7. Use, if necessary, appropriate forms of sanitation enterprise to prevent its bankruptcy. If the threat of bankruptcy only diagnosed at a late stage and it is catastrophic, as the internal mechanisms to neutralize do not achieve the desired effect in restoring financial equilibrium of the enterprise, it must initiate its sanitation, choosing for this most efficient of its shape. Such a measure is taken as an extreme in the event of crisis financial management company in order to prevent its actual bankruptcy.

The principles are the basis for the organization of the anti-crisis financial management now under the threat of bankruptcy.

The main purpose of the anti-crisis financial management is the development and implementation of measures aimed at the rapid resumption of solvency and restores an adequate level of financial stability, ensuring its way out of the crisis financial condition.

With this goal in mind the company developed a special anti-crisis policy of financial management under the threat of bankruptcy.

Anti-crisis policy of financial management is a part of the sheathe financial strategy of the company is the development of methods of initial diagnosis the threat of bankruptcy and "turn on" the mechanisms of financial improvement of the enterprise, ensuring its way out of the crisis.

Stages of policy development and implementation crisis in financial management now threat of bankruptcy:

1. Implementation of a permanent monitoring of the financial condition of the company for the purpose of early detection of signs of its crisis development. To this and, in the general monitoring of the financial condition of the company is allocated a special group of objects of observation, forming a possible "crisis the" realizing the threat of bankruptcy. In the process of observation are used both traditional and special performance - "a crisis of development indicators".

2. Determination of the extent of the crisis state of the enterprise. When detected in the monitoring of significant deviations from the normal course of financial activity, determines the direction of its financial strategy and planning system and regulatory financial indicators revealed the extent of the crisis state of the enterprise, i.e. its depth from the standpoint of the threat of bankruptcy. Such identification of the extent of the crisis state of the enterprise allows the appropriate selective approach to the choice of mechanisms for protection from possible bankruptcy.
3. Investigation of the main factors causing the crisis development of the enterprise. Development of anti-crisis policy of financial management determines the need for pre-grouping of such factors on the main defining characteristics; study of the degree of influence of individual factors on the form and extent of the crisis of financial development; forecasting of factors that have a negative impact.
4. Formation of the goals of the enterprise exit from the crisis, the adequacy of its scope. The objectives of anti-crisis financial management are specified in accordance with the scale of the crisis state of the enterprise. They should include a forecast of the main factors determining the threat of bankruptcy. With these conditions in financial management at this stage can be directed to the three principal goals of adequate scale of the crisis state of the enterprise:
 - elimination of insolvency;
 - restoration of financial stability (ensuring its financial equilibrium in the short term);
 - changes in the financial strategy to ensure sustainable economic growth of the enterprise (the achievement of its financial equilibrium in the long term).
5. Selection and use of effective internal mechanisms of financial stabilization of the enterprise with the scale of its critical financial situation. Internal financial stabilization mechanisms designed to ensure the implementation of urgent measures for the resumption of solvency and restore financial equilibrium of the enterprise at the expense of internal resources. These mechanisms are based on the sequential use of certain models of management decisions, selected in accordance with the specific business enterprise and the extent of its crisis development. The system of financial management of crisis now this policy direction is given high priority.
6. Selection of effective forms of company reorganization. If the scale of the crisis of the financial condition of the company is not allowed to go out of it due to the implementation of internal methods and financial reserves, the company has to resort to external assistance, which usually takes the form of his rehabilitation. Remediation of the enterprise may be carried out both before and during the production of the bankruptcy case. In the first case, the company it self can initiate its restoration and the choice of its forms. In the process of reorganization must justify the choice of the most efficient of its forms (including forms associated with the reorganization of the company) in order, that in the shortest possible time to achieve financial recovery and bankruptcy enterprise.
7. Monitoring the results of the activities developed by the company to withdraw from the financial crisis. Given the importance of the implementation of the activities to the subsequent viability of the company to such control is given high priority. He lies, as a rule, directly on the heads of the company. Most of these activities are controlled by a system of operational controlling, organized by the company. The results of monitoring are discussed periodically with a view to making the necessary adjustments to improve the effectiveness of anti-crisis policy.

Lenders, investors or owners obligations can take decisions on maintaining financial situation or correct the situation before undertaking to be called insolvent. In this case it is intended to develop or apply financial mechanism or a model that will be able to foresee difficult situations.

In literature are three areas of bankruptcy diagnostics company:

1. Recommendation methodical.
2. International Models.
3. National models.

In the economic field is widely available discriminate factor model to assess the risk of bankruptcy of enterprises. International methodology is presented by economists Altman, Beaver, Lis, Taffler, Tisho, Zaitseva, Saifullina, Kadykova and others.

Among the first of financial analytics that used statistical methods with financial ratios for forecasting future business insolvency was W. H. Beaver. Analytical study issues related businesses defaults on time. He uses a database later in his model for statistical testing and this consists of thirty financial ratios. The average result of these indicators enterprises had financial problems equal size enterprises indicators which later reached a state of financial insolvency. The best discriminate factor was the working capital/debt ratio, which correctly identified 90 percent of the firms one year prior to failure. The second best discriminate factor was the net income/total assets ratio, which had 88 percent accuracy.

It should be noted that the use of models requires caution. Testing different companies depending on models have shown that they are not fully adequate to assess the risk of insolvency of companies due to different levels of inflation registration, different financial structure and legal framework.

Recognition of default and still unsatisfactory balance sheet structure noted that the company is insolvent. This is only a state of financial instability of the company. Values criteria are set so as to ensure timely monitoring of the financial situation of the company and urgent measures are taken to prevent further insolvency and bankruptcy.

Conclusions

To avoid detection and preventive insolvency situations, it is necessary to define and establish conditions that can cause this condition and specify the paths to allow removal of the state of crisis and will entail ensuring sustainable economic growth

In turn, we note that financial stability remains a basic factor of an entity and is owned by the state financial resources, distribution and use, ensuring a continuous activity based on income and capital growth, while maintaining an appropriate level of liquidity and credibility in conditions of uncertainty.

In order to ensure financial stability and avoid insolvency situation, it is necessary for the company to use a wide range of methods by which it can record the results projected. In selecting these methods must take into account the actual conditions of the company's financial activity.

At the current stage of economic development to identify negative trends in enterprise development, forecasting the state of bankruptcy is placed in the first position. However, the methodology to accurately predict a negative result practically does not exist. Moreover, there is a single source which describes the majority of known methods. To make accurate predictions, we need a comprehensive study analyzed enterprise branch.

The future is always doubtful so any taken decision for the future implies a huge amount of risk or vice versa. The risk is like a balance between the possible results especially those of favourably use in a future action.

The fragile economical and layer finance is the result of some debentures payment-difficulties they can decrease the workers-input value as well as "storming" the manipulation and in some cases the crash of the economical agent.

References

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Supplementary recommended readings

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