CHALLENGES OF THE WORLD ECONOMIC CRISIS

BUSINESS PERFORMANCE MANAGEMENT
UNDER THE TERMS OF CRISIS

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Abstract: Existing global economic (financial) crisis actualizes the problems of business performance management. Although, performance management is important practical and theoretical research area, this has been a little bit neglected lately. So, this paper, postess in focus the relevant aspects of performance management under the terms of crisis. This paper deals with different approaches in management of crisis performances, in diagnosing of crisis performance and reasons of the same, including the problem of measurement and reporting about crisis performances, as well as determination of programme for improvement of critical performances.

Keywords: business performance, crisis, management.

Introduction

The enterprise as a business system tends towards to achieve continuity of business activities in order to grow, develop and to realize economic goals of shareholders – maximizing the profit and the value. Aspirations to continuity of operating which is reflected by 'so called' "going concern" principle, in the conditions of crisis is going to be at the question. The crisis in operating of business activities includes the processes which are no planned and no prefered, long-term or short-term, with different manifestations, volume or scope of effects. The business crisis must be treated as short-term disturbance in functioning and achivement the business goals, which could be overcome. So, this short-term crisis can become chronic – long-term crisis which jeopardize the enterprise existence. Serious difficulties in business activities arise because of dinamics some macro economic determinants (decrease the level of economic activities, increase of interest rate, etc.), as well technology changes or customers’ requirements. On the other side, the business crisis is the result of incompetence, mistakes or unexperienced management. Nevertheless, if the business crises is resulted by negative effect internal factors, external ones or combination of both, its necessary (a) to diagnose all the reasons and determinants of the crisis, (b) identifying and monitoring crisis situation by measurement activity, and (c)

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1. The Challenges and Approaches of Performance Management in the Business Crisis Conditions

Harsh competition at the market and negative dynamics of external factors of business activities, as well as problems of internal flexibility, innovativeness and organizing the business, the concept of performance management in the business crisis conditions have become actual. Even though, business crisis or enterprise crises marks "negative discontinuity in enterprise development" [1]. The performance management process in an enterprise under the terms of crisis, which may be of relative short or long-term, gains specific characteristics. Also, adequate performance management reinforces responsibility of management structure, as well as others structures in enterprise to force them to constantly discover "ways" and solutions in the direction of improvement business performance or restrain the trend of declining and stagnation business performance. Adequate business management under the terms of crisis has to enable to all management structures to identify all of those processes in operating business activities which may jeopardize or impede further survival of an enterprise.

Performance management in business crisis conditions has the function of effective management crisis, which is evident or it has already arisen. Besides, performance management has the role to help in well-timed warning of treats and risks which have consequences in enterprise functioning and its growth. In that sense, we point out that performance management has double function under the relative acceptable business success and the terms of poor or crisis business performance. On one side is function of "extinguish a fire", and on the second one is "well-timed informer". The system of performance management has to "identify good, satisfying and poor performance and connect them to critical success factors" [2, p. 44].

Key challenge of management performance system is to prevent the emerge the crisis by set of different managerial and control instruments. Namely, adequate performance planning and performance prediction for future, and right measurement performance system and its complex analysis, as well as the set of management reports about realized performance, can diagnose the business crisis at its very beginning or in its first phases. Adequate performance management in an enterprise should incorporate active (offensive) approach in order to prevent emerge of bad performance or directing against the crisis processes. Active approach can have two modalities – anticipative and preventive. Besides, at the moment when crisis tendencies and states in enterprise have been visible, essential challenge of the performance management system is adequate, well-timed, effective reactive (defensive) approach. The essence of performance management system is to identify factors and reasons of crisis, and to determine actions, programmes, strategies for improvement performance and to overcome the crisis situations, which jeopardizes functioning and progress of the business system. Reactive approach may have two variants – repulsive and liquidation [3, p. 430].
In performance management under the terms of crisis, management of an enterprise should be determined on time of manifestation the crisis process. The enterprise development has not always gone "rising way" and there are also occasional falls in the level of realized business performance, if they do not stopped than may result to serious problems in enterprise functioning. For that reason, the very important moment in performance management under the terms of business crisis is determination of different level 'so called' crisis (unsatisfying, bad, and threatening) performance:

1. Crisis (critical) performance which don’t mean jeopardizing the existence of an enterprise, and there is ineffectiveness in achieving the organization goals and slightly decreasing trend of key financial measures, as well as non-financial indicators;
2. Crisis (critical) performance which mean jeopardizing the existence of an enterprise, which resulting by operating business activities with big losses and decrease the sustenance of equity;
3. Crisis (critical) performance which mean the end of enterprise existence, resulting by its insolvency.

Based on determined crisis (critical) performance, the situation of an enterprise can be characterized such as: a) hopeless (irredeemable), b) short-timed mendable, c) poor survival, and d) with prospect for successful recover and business stabilization. Hopeless situation means unavoidable liquidation procedure, because the enterprise has a minimal level of business activities, high fixed costs, decline of market demand for products. But, in that case, assets isn’t divisible and by selling these assets added cash inflow can’t be provided. Short-term mendable situation means that enterprise can be consolidated (improve its profitability), but it hasn’t got any conditions to achieve better position on the market and competitive advantage. Poor survival of an enterprise is situation where it has limited resources, as well as special characteristics of industry where enterprise operates. It is a kind of state where the enterprise is sustained owing to contemporary payoff shareholders, debtors and others stakeholders, too. In the case when crisis has been well-
timed diagnosed, enterprise could find itself in the situation of stable (successful) recovery. It means that enterprise has business performance above the industry average.

2. Diagnosing Symptoms and Reasons of Crisis and Critical Business Performance

An explanation how usually the crisis appears in the business activities starts from its management. The concept and using of an effective management information system cannot be provided by incompetent, unobjective, uncritical management team. Management information system is based on adequate performance measurement and reporting system. Therefore, there is not valuable information base for deciding about actions and a lot of management failures, mistakes and wrong business activities have been appeared. They are reflected in non readiness and poor adjustment at the market, technological and others changes, rashly expansionistic activities in respect of capacity of enterprise, realizing wrong projects (investment and strategic ones) or delaying of realizing adequate projects or impossibility to stop the decline of business activities and debt dependance. All of those mentioned above can result to aggravation financial structure, financial position and profitability.

The crisis can be reflected as the crisis of liquidity, the crisis of business success and the strategic crisis of the enterprise [4]. Symptoms and reasons of the crisis in the enterprise have to be taken into consideration all together because it is difficult to make difference between them. Symptoms are indications with determined characteristics, which are the base for recognizing the crises in the enterprise. Reasons are concrete factors, which affect the crisis process in the enterprise.

There are different symptoms of enterprise crisis, which could be visible particularly or in combination with others symptoms of different intensity, but they reliably indicate that the enterprise has serious problems, which can jeopardize its existence. Symptoms of liquidity crisis are visible in the constant lack of free cash flow for paying off obligations, the increase of cash, and the need for increasing debt dependence with financial institutions, the growth current obligation for paying off, etc. Symptoms of business success crises are visible by declining of profitability, which usually monitored by decreasing of revenue, the growth of expenditure, unsatisfied, top and middle management, prediction of leaving off managers, etc. Symptoms of strategic crises are actually symptoms of business success crisis with stronger intensity, but they are followed by others symptoms such as excessive indebtedness, the loss of the market, declining of the sales volume, weaken of competitive positions at the market, reduce of the product quality, global decreasing business activities, old-fashioned technology, etc.

There are many reasons of the crisis of business activities in enterprise, but generally, they are going to be treated as internal and external, and among them, there is connection and causality. External factors affect according to changes in environment (technological changes, changes in structure of market, the changes of competition, business failure on exchange market, the world economic crisis) and they can be manifested in 'so called' external unflexibility of enterprise. External reasons of the crisis result to the state of recession (aggravation of conditions of the whole economy) or the industry (branch) crisis in which enterprise operates (caused by deverb of industry market, by increasing of demand, by appearance of new technologies, etc.). Internal factors can be
manifested as mistakes of enterprise management, poor financial structure of capital, inadequate system for performance management (non-implementation of the strategy; weak financial control; inadequate performance measurement, reporting and information system for making decisions). Internal factors are directly connected to enterprise management, so it can be concluded that generated crisis has been result that „management has missed the target – target is management itself” [5, p. 119].

For diagnosing symptoms and reasons of the crisis and managing an enterprise in direction of the its recovering process, management can use financial-accounting reports, as well as financial and non-financial performance measures. Financial-accounting reports may be used by all management levels (top, operative i financial management), which can be different in form, content, special-purpose and time allowed for presentation [4]. Reports can appear from different segments of accounting information system in an enterprise – financial accounting, management accounting, and responsibility accounting.

Financial accounting presents the set of financial reports (balance sheet, income statement, cash flow statement, notes with financial reports and report about changes of the capital), all these mentioned above are set aside for internal and external users. Management accounting presents a lot of others accounting reports which are intend to management of an enterprise, such as: special sheets, special strategic accounting reports, internal balance sheet and profit and loss statement, cost accounting, etc. Responsibility accounting mainly presents reports for particular segments of enterprise, such as performance reports for organizational segments, and special reports for enterprise segments, activities and business aspects, etc.

**Figure 2- Hierarchy, enterprise crisis and accounting support to drivers of crisis management [adapted according to 6, p. 150]**

<table>
<thead>
<tr>
<th>Drivers of crisis management</th>
<th>Kinds of enterprise crises</th>
<th>Segment of accounting and crisis management</th>
<th>Accounting reports and crisis management</th>
<th>Accounting reports as managerial tools</th>
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<tr>
<td>Top management</td>
<td>1) Strategic enterprise crisis</td>
<td>1) Financial accounting</td>
<td>1) Basic reports</td>
<td>control-dispositive</td>
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<td>2) Special strategic reports</td>
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<td>3) Special reports</td>
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<td>2) Crisis of business success</td>
<td>2) Management accounting</td>
<td>1) Income statement</td>
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<td>2) Internal income statements</td>
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<td>3) Performance reports</td>
<td>control-dispositive</td>
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<td>Operative management</td>
<td>1) Crisis of business success</td>
<td>1) Management accounting</td>
<td>1) Income statement</td>
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<td>2) Internal income statements</td>
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<td>3) Price calculation</td>
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<td>1) Special reports</td>
<td>control-dispositive</td>
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<tr>
<td>Financial management</td>
<td>1) Crisis of liquidity</td>
<td>1) Financial accounting</td>
<td>1) Basic reports</td>
<td>control-dispositive</td>
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<td>2) Management accounting</td>
<td>2) Internal statements/reports</td>
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<td>3) Responsibility accounting</td>
<td>3) Performance reports</td>
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<td>2) Crisis of solvency</td>
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<td>1) Special reports</td>
<td>control-dispositive</td>
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Financial reports have arisen from real business events that are recorded in financial accounting, and used for valuation of achievement the business goals and comparing to real performance level. These reports have a control role for management structures in enterprise. Planned financial-accounting reports have directing role for
enterprise management. These are reports, which mainly come from management accounting and responsibility accounting. They can also have control and dispositive role and they are usually used in the diagnosing phase of crisis symptoms and reasons. However, they may be used as information support for surpassing the crisis. Financial reports which are given from financial accounting (usually have the control role), serve as a base for identifying symptoms crisis and by added information they could be researched at the aim of determination enterprise crisis.

Figure 2, presents that financial reports have a vital role in revealing symptoms and reasons of crisis and surpassing problems from the aspects of different management levels.

Financial indicators (ratios) and non-financial measures are used for diagnosing the state in which enterprise is. There are a lot of crisis performance which show problematical business and financial situation of an enterprise:

1. declining sales, market share and weaken of market position towards to competitors;
2. non useable capacity, decline the volume of business activity under „breakeven point“ (turning point) and increase of cost;
3. decrease of product profitability, flow lines and customers;
4. decreasing the income, profit margin and return on investment in business projects;
5. aggravation of cash flow performance, decreasing of liquidity and restriction in paying of dividends to shareholders;
6. disbalance in financial structure and debt dependance;
7. insolvency and loss of net assets.

Besides set of financial ratios which serve to diagnose the crisis are followed by aggravation of financial position and profit making ability, we may point out to different approaches which combine some financial measures with the statistic techniques. In that sense, Altman’s model has been recommended and it gives combination of five financial performance measures. For all five indicators in Z-score model, some ponders have been determined. They are actually determined by empirical information for the sector (production, for example), which are treated by suitable statistic multivariable methodology. Relative importance of each partial indicators has been determined by ponders. Calculated value of all five performance measures multiply with determined ponder, after that these values add to each other and, in this way we finally gain Z-score performance [7, p. 266]:

\[ Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 1.0X_5 \]

where are:

\[ X_1 = \frac{Current\ assets - current\ liabilites}{Total\ assets} \]

\[ X_2 = \frac{Retained\ earning}{Total\ assets} \]

\[ X_3 = \frac{Earning\ before\ interest\ and\ tax}{Total\ assets} \]

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\[ X_1 = \frac{\text{Market value of preferred and common equity}}{\text{Book value of total liabilities}} \]
\[ X_2 = \frac{\text{Sales}}{\text{Total assets}} \]

Z-score model should serve as a measure of business success or business failure, for valuation the possibility of an enterprise bankruptcy. According to Altman’s study in 1968, which was incorporated the USA product companies, the critical Z-score performance was determined in value of 1.8. Enterprises which have used Altman’s model to calculate their Z-score performance and after that, they compare gained results to value of 1.8. Enterprises, which have had smaller Z-score performance from 1.8, are real candidates for bankruptcy in near future. As Z-score performance lower, there is greater possibility for enterprise bankruptcy. Range of minimal acceptable Z-score performance is from 1.8 to 2.99, which indicates that serious check of business activities must be taken into consideration by management, as well as a prompt reaction. Good Z-score performance of an enterprise is one, which exceeds value of 2.99 and it shows that enterprise has a good business perspective. One of the relevant limitation of this Altman’s model is impossibility of using given ponders, which are determined on empirical sample of some enterprise in the time. Implementation of this model requires adjusting ponders and they must be calculated again in order to reflect actual situation in the sector (branch, industry), as well as in the country.

Also, very remarkable is Taffler’s model of Z-score performance [8, p. 545], which has been used in the UK since 1977, when it has been made. Taffler’s equation for gaining Z-score performance looks like just this:

\[ Z = c_0 + 0.53X_1 + 0.13X_2 + 0.18X_3 + 0.16X_4 \]

Where is \( c_0 \) constant, which is calculated as a half of difference of factor Z of solvent and bankrupted enterprises [9, p. 223], while the relations for calculating of partial indicators the following ones:

\[ X_1 = \frac{\text{Profit before tax}}{\text{Current assets}} \]
\[ X_2 = \frac{\text{Current assets}}{\text{Current liabilities}} \]
\[ X_3 = \frac{\text{Current liabilities}}{\text{Total assets}} \]
\[ X_4 = \frac{\text{Cash and short dated securities} - \text{Current liabilities}}{\text{Project current expenditure}} \]

Namely, \( X_4 \) presents “no credit interval” or time when the enterprise can finance its current business activities without any others funds at all. According to Taffler’s model, critical point for Z-score performance is 1.95, which shows serious crisis and great possibility for enterprise liquidation.

Models constructed on old data are not necessarily useless. The Altman and Taffler models, in the USA and UK, are seen by some as remaining relatively robust and still of
considerable use almost 40 years on, with reliable, long-term evidence of their discriminatory ability [7, p. 265].

A-scores performance, which concentrates on non-financial signs of crisis in fact business failure, should be especially paid attention to. The basis of the analysis is that financial difficulties are the direct result of management defects and errors, which have existed in the company for many years. A-scores assume that many company failures can be explained by similar factors. Company failure can be broken down into a three-stage sequence of events:

- Defects. – Specific defects exist in company top management. Typically, these defects centre on management structure, decision making and ability, accounting systems, and failure to respond to change.
- Mistakes. – Management will make mistakes that can be attributed to the company defects. The three mistakes that lead to company failure are very high leverage; overtrading, and the failure of the company’s main project.
- Symptoms. – Finally, symptoms of failure will start to arise. These are directly attributable to preceding management mistakes. Typical symptoms are financial signs (e.g. poor rations, poor Z scores); creative accounting (management might attempt to “disguise signs” of failure in the accounts); non-financial signs (e.g. investment decisions delayed, market share drops); and terminal signs (when the financial collapse of the company is imminent).

To calculate a company A-scores, different scores are allocated to each defect, mistake and symptom according to their importance. Then this score is compared to the benchmark values. If companies achieve an overall score of over 25, or a defect score of over 10, or a mistakes score of over 15, then the company is demonstrating typical signs which are at risk will score well over 25 [8, p. 547].

Besides models mentioned above to diagnose symptoms and reasons of crisis there are H-scores and PAS-scores models, which are developed in market economies [8, p. 545-546]. H-scores present improvement of Z-scores technique, which forces information from financial reports - balance sheet, income statement, cash flow statement and, at first it is based on financial performance. H-scores model incorporates seven factors: profit, current asset cover, stock and debtor management, liquidity, equity base, debt dependence and current funding. PAS-score model (Performance Analysis Score) is also a form of developed Z-scores model, which is based on relation with others companies in economy and incorporates changes in economy. It presents trend of relative business performance comparing to others enterprises in determined period.

Even though, we should point out that the same approach cannot be equally applied in all enterprises (big, medium and small) in the process of diagnosing, monitoring and managing in crisis situation. The medium and small enterprises have limited information base comparing to big ones, and because of that, they usually have financial-accounting review in the process of identifying crisis and its overcoming. Big companies have better information base and more possibilities for their crisis management to use financial, as well as non-financial performance measures in the process of identifying and monitoring the crisis. These companies have better opportunities for successful using of these models in revealing and overhauling the process of business crisis.
3. Identifying and Monitoring the Crisis Situation by Measuring and Reporting

The adequate performance measurement and management reporting system may contribute to well-timed diagnosing of crisis business activities where the enterprise is. A lot of firms which have not succeeded to overcome the crisis, show weaknesses in different activities in the management performance process. In this situation, we have to especially point out the weaknesses connected to planning (predicting) of performance as the starting phase of the performance management process. Namely, weaknesses have been especially visible in process of strategic (long-term) planning in the prospect of preciseness of predicting future cash flow. Besides, the problems in operational planning for a shorter time periods or weaker financial planning (budgeting) have been especially recognizable.

These weaknesses are connected to financial (accounting) performance measurement system. In a lot of companies the inadequate measurement of real costs and weak cost accounting system have been recognized. Narrow system of performance measures in the enterprise can be the limited factor for adequate decision making, because adequate information or real ‘picture’ of business activities cannot be gained by a few number of measures. On the other side, the performance measurement system which consists of huge number of indicators may be inappropriate in the process of identifying and monitoring business situation in an enterprise. Performance measurement system which produces a lot of information, which have been presented to the management level, may create problem of non-effective focusing of management, its overload and impossibility of recognizing key business tendencies.

Performance measurement system based on financial indicators (‘so called’ financial ratios) presents the most applied techniques of measurement and analysis of financial current and expected (projected) business performance. Using financial indicators in the form of ratios, as well as quotient variables which are categorial and valuable result of accounting conventions (standards). These standards provide different treatment. Because of that mentioned above, the relative importance of the gained financial measures (for identifying and monitoring the state where the enterprise is) has been decreased. Namely, when we use these indicators we should be cautious, as well as when we analyse and interpretate results. This must be stressed because there are recorded cases when the financial indicators have been impetentuated to induce the crisis. In other words, crisis situation has not been well-timed pointed to (in some shorter period from six or more months), and companies have bankrupted for this short period.

There are also an opinion that accounting principles of recording business events create situation where the management recognizes the mistakes and oversights a little bit later. It is important for the time to pass between the moment when management makes the mistakes and the moment when failers can be visible through financial reports. This time discrepancy increasingly grows if management succeeds in suitable accounting technique ‘so called’ creative accounting to improve sheet or statement image and financial situation in an enterprise to present the financial state in enterprise better than it really is [9, p. 218].

It should be pointed out that in modern business conditions, and particularly under the terms of huge economic crisis, grows the importance of management accounting in the process of monitoring, measurement and reporting about non-financial performance, which are relevant for crisis perceiving and its overcoming. Management accounting has been
expected to possess: a) an important role in process of planning and controlling performance (especially non-financial), b) to offer cost-benefit analysis to crisis management as information support for management of cost, revenue, and others results of business activities, c) to develop approachable motivation system in order to stimulate employees to promote their innovative efforts, work results and develop strong internal communication channels, as well as the communication lines outside the enterprise [10, p. 304].

To be serious in business performance measurement, monitoring, and reporting is necessary if one wants to identify the state in enterprise on time and after that, to react promptly. In most cases in business practice, the problems in functioning of an enterprise do not appear suddenly, but they have been the result of mistakes, failures, bad decisions in many years before enterprise bankruptcy or profound crisis. It is very dangerous to react ex post when financial difficulties could be evident in already recorded financial reports. Then, the opportunities for correction action are too hard or too late. Considering the limits of information, which have been given by financial (accounting) measures to management and especially to external stakeholders, monitoring and control of non-financial measures has been recommended. Those measures mentioned before are not the result from financial reports, such as employment changes, relations of management towards the business environment, in supply of enterprise, and its image, etc.

4. Determining the Guidelines and Realizing Actions for Stopping Tendencies which Ruine Business Performance

Poor business performance are connected to unfavourable financial structure. When an enterprise operates under the terms of crisis and jeopardize its profit or run a loss, presents a state which has influence on financial structure. In fact there is mutual connection between financial structure and positive financial result - income [11, p. 37].

An enterprise can have influence on defining actions and programmes for improving financial structure in long-term and short-term period in order to improve income performance. In longer period financial structure can be improved by defining the following actions: 1. decreasing of fixed assets based on setting free from dispensable assets by selling or renting, as well as replacing old parts instead of buying new assets; 2. attachment of added long-term capital by emission of shares; 3. gaining added capital in form of loan in the case when financial leverage has positive influence when return on invested capital higher than average cost of debt.

As far as long-term has been concered it is necessary that one should take actions for improving financial result. These actions have been reflected in increasing business activity level, particularity with profitable product in product range and leaving off non-profitable products. It is important to improve product range in that way to produce with the same resources more profitable products, which are going to contribute increasing of financial result. Besides, programmes for improving the product quality can be realized according to market requirements, as well as to intensify activities of marketing. Activities of improving labor productivity, racionalization and cost reduction program for increasing economy, must be realised too. Finally, the growth of labor productivity and economy should be reflected on growth of profitability. In cases where an enterprise is in crisis and is profitable one, it is necessary that a part of income should be directed to accumulation (for
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resources development, investments), and dividends are automatically converted to stock dividend; without paying bonuses to managers and employees. All these mentioned above may affect on improvement of enterprise financial position and to decline reflecting the crisis in future.

Adjusting the financial structure in a short period is relevant owing to problems which, an enterprise can have in financing current business activities, in fact to stay liquid. In that respect, an enterprise can take added short-term loans, to prolong paying its financial obligation, to sell account receivables according to model of factoring and forfeiting, and to provide more effective management of circulating assets, etc.

For recovering of enterprise which is in the crisis, crisis signals must be recognized, and the reasons of that state should be determined considering all developing factors. So, management of an enterprise must focus oneself on the right strategic option [12]. Dignam differentiates possible programmes of performance improvement and the main operative directions for overcoming the crisis comparing to breakeven point position [13, p. 248].

Program (strategy) of reduction assets is advisable, when enterprise is far below breakeven point. Therefore, it is not possible to reduce cost, and the right solution is reducing the assets, in fact the capacity (resources) of the enterprise. Program (strategy) of increasing of revenue must be considered when the enterprise has the level of business activity under breakeven point. In other words, the volume of production which can provide covering fixed costs and low variable cost (cost of direct labor, payment). Increasing revenue can be realized through grow of selling product price, which can be hardly realized in some crisis situations. This strategy is not effective in short period. Program (strategy) of expansive cost reduction which can be effective when the enterprise has the volume of production near breakeven point (crossing point of curve revenue and cost curve). In that situation there are high variable costs, as well as fix costs, reducing of both is necessary. Often, the result of these situations is dismissing personnel. Strategy of cost reduction means realization the programs of reduction the cost of research and development, propaganda cost, cost of personnel training and education, and cost of someone else's services.

Extensive cost reduction and decreasing assets are well solutions in cases when the enterprise has weak competition position in industry, and if it is unable to use external opportunities and internal strength, and if an enterprise cannot minimize external threats and remove internal resources and capabilities weaknesses. These actions and programmes have been considered as the last chance for the company to save itself and avoid the worst business scenario. Combined strategy (programm of combined activities and actions) have been implemented when the enterprise is also below the breakeven point, but it covers fixed costs. A lot enterprises which operate in the crisis situation have decided to use combination of actions, which are recommended in previous options, because these actions affect on two vital categories at the same time – revenue and costs. Four types of programmes and actions previously mentioned above, present "so called" turnaround in improvement critical business performance and overcoming the crisis.

In the recession period, when an enterprise has more intensive reduction of financial performance, management of enterprise more often choses strategies and programmes of restriction, which means reduction of business volume activities in the sense
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of decreasing a number of products in product range ("purefying" product portfolio),
closing the product and selling capacities, eliminating of non-basic activities which creates
losses or retreating of the enterprise from some market segments. Therefore, this option is
called retreat strategy. This defensive retreat strategy is connected to reducing assets
strategy. So, retreat strategy is actually complementary to reducing assets strategy in some
segments.

All mentioned strategies, except the strategy of increasing revenue, have in focus
following characteristics – contraction, reduction and rationalization. Usually after these
strategies, decision has been made about strategic turnaround or enterprise renewal. In that
phase, sometimes before it, the change of management has been taken, personnel changes in
management team. Strategic turnaround has been implemented when the enterprise is not
threatened by bankruptcy, and when it shows decreasing performance - revenue of sales and
market share. Strategic turnaround or offensive restructuring means involvement in new
segments product/market, so called refreshment product portfolio. This may be realized
by implementation of following strategies – diversification, cooperation, acquisition. If
assessment is that enterprises possess limited opportunities for business growth and
development, they must be focused on improvement of efficiency and to remain in the same
area of business activities (with existing product portfolio). The companies have been
directed to product quality improvement, cost reduction, actions for betterment penetration
at the market. This direction (way) of the strategic turnaround is called consolidation of
business activities.

If the turnaround strategies do not give desirable results, company management
implement the divestiture strategy. It means selling the great part of business - the strategic
business units (SBU) or divisions. This is very important option in the case of reducing or
eliminating debt in short period, when capital cannot be provided from others sources. In
the context of business crisis, non-profitable SBU has been sold. In that way, divestiture is
considered as approach of rational resource allocation. If the management team do not
realize its intentions to overcome the crisis situation, before enterprise bankruptcy; the last
opportunity is the liquidation strategy. This strategy can be realized by selling the whole
assets of the enterprise in order to increase its market value.

Conclusion

In the 21st century, companies in our country, as well as world ones, have been
facing great economical crisis, which actualizes the question of crisis management. The
second world economic crisis has started at mortgage market in the USA and has resulted
that the influence of debt dependance, according to domino effect, spread out all over the
world. Nowadays, this crisis has been characterized as recession and two 'waves' are
results of the crisis in the global terms. The 'first wave' which has been manifested by
spreading of the crisis from financial to real sector of economy. The 'second wave' has
been already visible and reflects itself by overflowing the economical crisis from financial
to real economy area. A lot of external and internal factors cause the intensity of crisis
volume on the enterprises in our country. The fact is, that our companies are faced
decreasing of demand (which is the result of decreasing personal and investment
consumptions), slow down the growth service industry and unliquidity. It should be stressed,
that a crucial problems of crisis age are cash generation and liquidity, when liquidity
becomes more dominated than profitability.
Considering the impossibility of assessment the effect on financial and earning capacity, it is not advisable to make long-term decisions. The crucial fact is that time that passes from selling products (goods) to collecting payments (‘so called’ death spiral) is going to be increasingly changed.

It is advisable that enterprises which faced crisis must search to performance management techniques. Performance management should be in the function of diagnosing and monitoring the crisis by measurement and reviewing (revising) critical business performance, as well as to enable effective crisis management by determining recovery directions and realization of actions for blocking poor tendencies.

For diagnosing symptoms and reasons of the crisis, and enterprise management in recovery direction, management may use financial (accounting) reports, as well as financial and non-financial performance indicators. Financial or accounting reports may be used for monitoring the crisis as control and managing instrument, which is suitable for small and medium enterprises. Financial and non-financial performance indicators, and statistical models which incorporate a set of measures, can be used for detection the crisis and its overcoming. Traditional performance measures are notified in this paper belong to ratio analysis technique, as well as Z-scores, A-scores, H-scores i PAS-scores models. It has been concluded, that well developed accounting information system is needed for monitoring the crisis performance. In that information system, management accounting has become increasingly important. Management accounting especially stresses monitoring of non-financial performance measures. Only big companies with sound system of management accounting with developed information base, can provide monitoring of all relevant non-financial performance drivers.

For enterprises which have recognized the crisis on time, it is advisable to take into consideration all key success factors and to choose the most appropriate strategic option. The management can implement reducing assets strategy, increasing revenue strategy, cost reduction strategy, as well as combination of strategies. All of mentioned strategies can provide operational turnaround for overcoming the crisis. Even though, under the terms of general recession and unliquidity, enterprises often choose retreat (limitation) strategies or strategies for reducing the volume of production.

After adoption of the chosen strategy, the phase of enterprise renewall falls (strategic turnaround), which can be realized by diversification, cooperation, acquisition, etc. If desirable turnaround does not have the effects, than the enterprise must implement divesture strategy which means selling strategic business unit or division. If the crisis situation cannot be overcome by divesture, the only solution is enterprise liquidation, which can be realized by selling the enterprise assets.

References


UPRAVLJANJE POSLOVNYM PERFORMANSAMA U USLOVIMA KRIZE

Rezime: Trenutna globalna ekonomska (finansijska) kriza aktualizovala je problematičku upravljanja poslovnim performansama preduzeća. Lako je upravljanja performansama značajno prakticirano teorijsko pružanje istraživanja, ono je ipak u poslednje vreme malo zapostavljeno. Ovaj prilog, stoga, u fokusu su relevantne aspekte upravljanja poslovnim performansama u kriznim uslovima. U pitanju su različiti pristupi u upravljanju kriznim performansama, dijagnostikovanje kritičnih performansi i uzroka krize, problematika merenja i izveštavanja o kriznim performansama, kao i determinisanje programa za unapređenje kritičnih performansi.

Ključne reči: poslovne performanse, kriza, upravljanje.