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Crisis Management in Small Business

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ABSTRACT: This paper discusses the issues of improving the financial literacy of crisis managers. In a market economy, small and medium-sized enterprises are faced with constant changes that can lead enterprises to liquidation. Companies use crisis management to solve immediate problems in a crisis period. The formation of the financial literacy of a crisis manager will contribute to the growth of the effectiveness of its activities. The relevance of the topic of crisis management in small business is due to the presence of problems with profit-making by small entrepreneurs due to the opening of large store chains, even in small towns. Our state needs to take into account all segments of the population, those who can buy products in large chain stores, as well as those who can only come to a store that is nearby and buy the most necessary things for the near future. That is why small business should exist along with big business and also successfully extract the maximum profit from its activities. The purpose of this work is to study the development of crisis management in small businesses, in particular, its application in practice in Russia.

Keywords: Crisis Management; Financial Literacy; Entrepreneurial Activity; Crisis; Management System; Demand; Consumer Demands; Business Failure.

I. INTRODUCTION

Entrepreneurial activity in a market economy is associated with the uncertainty of achieving the final results and, accordingly, with the risk of loss. Enterprises are often in crisis situations due to the cumulative impact of external and internal factors of uncertainty and business risk. The nature and forms of the impact of these factors may be different, but the result of their actions is an imbalance of the company [1, 3].

Small and medium-sized businesses have been and remain one of the most important sectors of our economy, the development of which affects the pace and quality of economic growth. The deepening economic crisis in the Russian Federation had a particularly negative impact on the efficiency of small and medium-sized businesses. It is well known that the deepening of the crisis state of the country's economy has a negative effect on the functioning of the investment process as a whole. The relevance of the research topic is that the current economic situation in the Russian Federation has led to the insolvency of some business entities or the state of their temporary insolvency. In the United States, for example, about 50% of newly created small and medium-sized enterprises cease to operate within one year. However, bankrupts recognized by law in the USA constitute only about 1% of the total number of enterprises [4, 5].

The emergence of crisis management is dictated by the need for financial rehabilitation of numerous enterprises operating in a condition of chronic insolvency. Crisis management involves sanitizing measures for insolvent enterprises.

II. MATERIALS AND METHODS

Diagnosis of crises in a company is a set of measures which purpose is to identify problems, "bottlenecks" and weak points in the management system. They serve as the causes of poor financial condition and other negative indicators of any company. Diagnostics can be equated to the assessment of the company [6].

Methods of diagnosing a crisis in an organization include: monitoring the external environment and system analysis of signals about possible changes in the state and competitive status of a company, auditing the financial condition, analysing the credit policy and debt of the company, identifying risks, assessing the current state of the company and forecasting its possible future conditions [8].

In this paper, the results of the study are methodologically substantiated by statistical data, secondary data analysis results, as well as high-quality content analysis of analytical references and recommendations.

The normative base of the paper consists of the Constitution of the Russian Federation, Decrees of the President, and Decisions of the Government of the Russian Federation, legislative and regulatory acts of state authorities of the Russian Federation. Also in our study, we relied on foreign methods for calculating the probability of bankruptcy by Beaver, Altaman, Taffler, and Leese [9].

III. RESULTS AND DISCUSSION

Entrepreneurial activity is an integral element of a market economy since it largely determines the rate of economic growth, the structure and quality of the gross national product [10].

When domestic experts study Western practice with regard to small business, they come to the conclusion that small business in these countries has existed for many years, sometimes even for generations, and is the engine of their economy.
Therefore, if small businesses can have such a strong influence on the economy of a country as a whole, then, of course, these issues are of great interest for the formation of public policy, applied scientific research and, accordingly, the business itself. In advanced economies, small business is a very valuable means to correct the imbalance in the development of territories, in order to fight poverty and to develop innovation.
The implementation by small businesses of their functions is directly related to how effectively the government of these countries provides support to small companies.
As a result, small businesses in these countries today represent the middle class of society, which is the platform for the sustainability of the economy as a whole. From the very beginning of the development of a market economy in Russia, the issues of what role small business takes in the economy of our country, and what support should be given to this subject of the competitive economic environment, what problems and prospects to consider are very actively discussed. These issues are covered in many scientific studies and publications, thematic conferences and forums.
In the current economic situation in the Russian Federation, small businesses have in the literal sense of the word to survive on the market for finished products.
The most important task for modern enterprises is the need to “stay afloat”, to ensure relatively stable development until better times, while trying to maintain their investment attractiveness [2].
In our opinion, the susceptibility to financial insolvency is one of the causes of the current situation, and the factors of a precarious financial situation must be identified for internal and external reasons (Table 1).

Table 1: The reasons for the precarious financial situation of a company.

Internal causes	External causes
Low level of economic education of top and middle managers	The lack of a system for training economic personnel focused on the features of the evolutionary development of the system
Low competitiveness level of the economic system and its components	Increased competition and lack of incentives and preferences for development
A high degree of dependence on external (primarily on accounts payable) sources of financing, caused a high level of financial leverage	Lack of incentives for the financial sector to cooperate with small businesses
Lack of a sound development strategy, focusing on tactical decisions, mainly on ensuring current solvency	Lack of a general system development strategy in the region and a separate municipality for the purpose of further detailing by a separate business entity
Weak business and capital diversification	Adverse general economic and industry conditions
Low level of financial discipline (growth, including overdue, receivables and payables)	The high degree of dependence of all participants of market relations on external sources of financing
Low level of financial management and management per se	Lack of instrumental and methodological instruments of financial management focused on small business
The inefficiency of the dividend policy (high share of consumed profit)	The instability of the general economic situation and Russian legislation
Low business efficiency (low profitability and some segments are characterized by unprofitable performance)	Lack of benefits and preferences in the resource and property support of small businesses

The first level (criteria and indicators indicating future financial difficulties, including bankruptcy) are proposed to include:
- A reduction in the turnover of capital (proceeds from sales) by more than 30% for 2–3 years or more;
- A high proportion of accounts payable and the presence of overdue loans with a share of more than 40% of its total amount;
- A slowdown in the turnover of accounts receivable and payable;
- raising borrowed capital for unfavourable terms (the effect of financial leverage is negative); a high degree of physical depreciation of fixed assets, reaching 85 per cents or more;
- The refusal of the main part of clients from further cooperation due to the non-fulfilment of the front contractual obligations (the proportion of clients who refused to cooperate in these circumstances exceeds 50%);
- Lack of working capital, including the lack of funds in the accounts and on hand, in an amount determined as three times the average daily turnover of capital;
- Consistently low level of the current liquidity ratio (below 1).

It is proposed to include to the second level (indicators that do not indicate a possible bankruptcy, but indicating a possible deterioration in financial condition):
- Rotation of the basic composition of managers more than twice a fiscal year;
- Weak diversification of production activities (no more than two directions);
- Forced production stops leaving employees on leave without pay (more than 50% of staff for a period of 30 days or more during the fiscal year);
- Availability of lost litigations (more than 2 in the fiscal year) and availability of unresolved proceedings with an unpredictable outcome (more than 3 at the end of the fiscal year).

Based on the results of studies to establish the possibility of restoring the solvency in a number of trade enterprises in Kazan, the authors propose to use the instruments of financial recovery of the enterprise, which should be divided into two groups (Fig. 1).

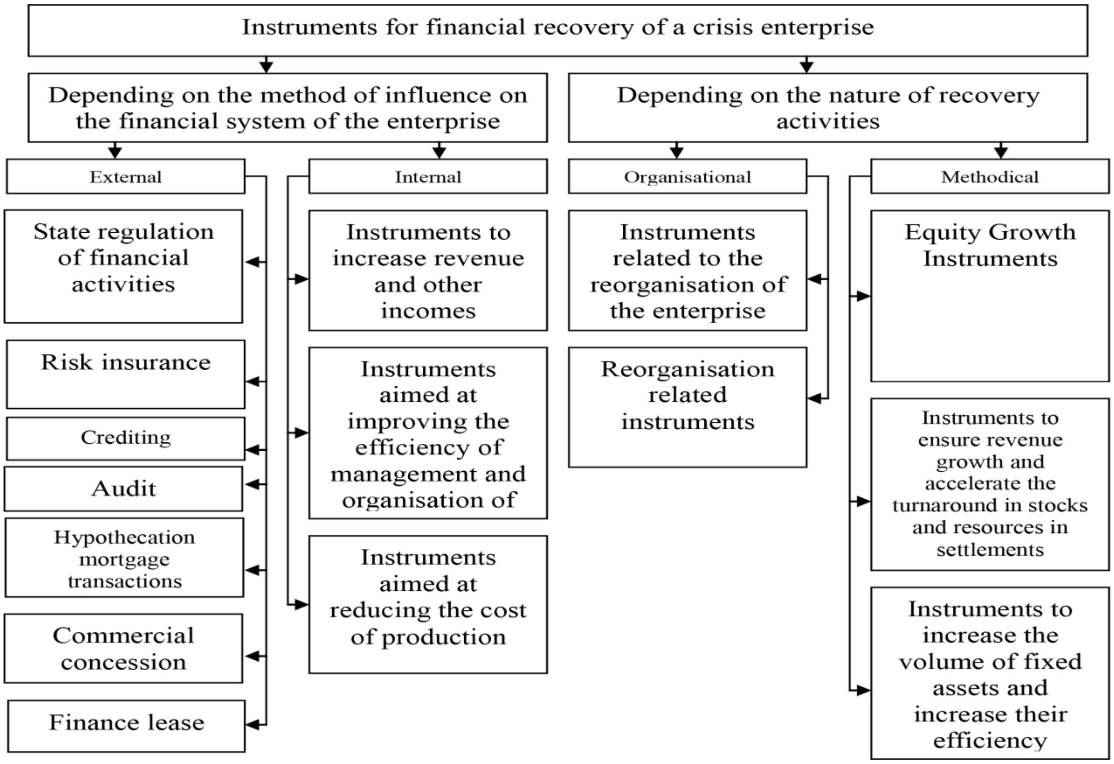

Fig. 1. Classification of financial crisis recovery instruments for an enterprise.

1. Depending on the method of influencing the financial system of a crisis enterprise, one should distinguish between external and internal instruments of financial recovery. External instruments are a system of techniques and ways to improve the financial stability of an enterprise by optimizing the influence of factors of the external financial environment and making wide use of its capabilities in the financial activity of the enterprise. Internal instruments of financial recovery are aimed at the implementation of this process by optimizing the influence of internal factors of the crisis enterprise financial system development, identification of hidden opportunities and reserves.

2. Depending on the nature of the recovery activities carried out at the enterprise, it is advisable to classify the financial recovery instruments into methodological and organisational ones.

Methodical instruments of financial recovery represent various methods and ways of influencing the financial system of a crisis enterprise in order to restore its functions and eliminate the signs of a crisis state.

Table 2: The program of actions of an enterprise to overcome the crisis.

Stage	List of events	Responsible persons
1	Diagnose current status: - calculation of financial indicators, comparing them with standard values; - diagnosis of the current situation, identifying the causes of the deterioration of the situation; - search for reserves to improve the financial situation	The accounting department, economic planning service
2	Development of a complex of measures for overcoming the crisis by the enterprise: - optimization of the property value (write-off and other disposals of unused property, optimization of residual finished products in stock, rationing of inventories); - improvement of payment discipline (development of credit policy; - cost reduction (rationing costs, search for reserves to reduce costs based on the rental of personnel, the use of outsourcing services, etc.); - increase profits by improving the quality of products, conducting active sales activities	Joint efforts of all services of the enterprise
3	Introduction of financial strategy and control of its implementation	Chief Financial Officer

Organisational instruments of financial recovery is a set of actions aimed at improving the efficiency of the management process and improving the organisational structure of a crisis enterprise in order to carry out its financial recovery.
Below is the program of action developed by the authors to overcome the financial crisis of an enterprise (Table 2).

Ensuring the long-term financial sustainability of the enterprise by increasing profits creates good conditions for self-financing of the company's economic growth and reducing the attraction of credit resources.

IV. SUMMARY

Summing up the study outcomes, it should be noted that in Russia the crisis management practice is most often reduced to the bankruptcy of a company. Moreover, the bankruptcy procedure is carried out not quite right, often due to the illiteracy of the staff performing the procedure. For small businesses, this is generally very problematic, since the financial position of the entrepreneur does not allow hiring a team of competent specialists. That is why the leaders of such enterprises need to constantly improve themselves, undergo training in order to gain new knowledge and acquire professional skills.
The way out of the crisis can be carried out by such methods as:
- Cost-cutting as a necessary measure that optimizes company expenses. Examples include the dismissal of personnel; salary reduction; reduction of product range; workforce optimization; replacement of raw materials for cheaper analogues, etc.;
- Raising funds when any property at the disposal of the company can be sold or rented for additional income. The sale of securities, real estate, changes in credit policy and sales optimization can also bring money to the company;
- Debt restructuring which is a complex of negotiations with creditors in order to try to get a deferment, which will reduce official obligations;
- Drawing up a new strategic development plan, i.e. the company must adapt to the new conditions and maximally optimize its functionality;
- A reorganisation of the company with fundamental changes in the structure and activities of the company, which entail changes in all areas: sales, management and foreign policy [10].
In modern conditions it is very difficult for small firms to survive; this is feasible only thanks to government support. In order not to bring existing companies to bankruptcy, it is necessary to develop the head and managers in the field of crisis management, know the basics and improve in self-development.

V. CONCLUSION

Until now, the strategy and tactics of financial recovery of companies were considered as a set of actions of managers for the revival of the company, which can be carried out both at the pre-crisis stages or early stages of the crisis, and at a deeper stage when the external reorganisation process takes place. However, it is not necessary to lose sight of the fact that depending on how complex the crisis is in organizing restructuring, there are all chances to facilitate and destructuring measures: voluntary liquidation, bankruptcy.
In Russia, the legislative base and experience in solving bankruptcy problems are just beginning to form. And these processes are contradictory. It is necessary to take into account a large range of factors: social, economic, environmental, scientific and technical [7].
A bankruptcy of a debtor can also help rehabilitate its borrowers, who can get at least some of their own money through bankruptcy proceedings. But bankruptcy is an extraordinary form for a company to surmount the crisis, which is why it is more expedient to use a prevention strategy to deal with crises: we can use it to prevent them in advance. An important factor in simulating a crisis situation is the periodic checks of a firm's capital.

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