INTERNAL CAUSES OF ECONOMIC DIFFICULTIES FOR THE COMPANIES

Dan LUPU
Alexandru Ioan Cuza University of Iasi, Romania,
Faculty of Economics and Business Administration
Iasi, Romania
danlupu20052000@yahoo.com

Abstract: *The difficulties for businesses have not, necessarily, a financial component, though, regardless of origin, in the end, they become a financial expression. Most often, poor performance is partly as a source of financial problems itself, it is the consequence of economic imbalances, technical, commercial and human at the company level or a tightening economic, legal, social or competitive environment in which it evolves. Each of these factors has a different importance on the normal activity of the enterprise, which may not continue in the future unless they act meaning fully to remove difficulties. With the first signs of the worsening situation of the enterprise, there is a risk of not being able to be redressed, developing a cumulative process of damage by propagating and amplifying the difficulties, which lead to its disappearance.*
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INTRODUCTION

The causes leading to the decline of a firm can be either from the outside, in the external environment of the company (Hillegeist, 2004) or from interior, within the firm (Francis & Pett, 2004; Altman, 2007). Internal decline relates to shrinking organizational resources that occurs when firms operate in environments stable or increasing (Chowdhury, 2002). Some authors have investigated the causes of difficulties only internally, considering external sources of decline, as the wrong management of potential environmental threats (Lupulescu, 2012).

Internal causes of the decline include any challenges to the proper functioning of an organization (Paul, 2005; Weitzel & Jonsson, 1989). In a general mode, internal causes of the difficulties can be classified into: poor management; mismanagement of strategic projects; improper purchases; high cost; insufficient financial control; inadequate or misdirected marketing; poor financial policy, autocratic leadership and excessive psychological behaviors (Jas & Skelcher, 2005; Probst & Raisch, 2005; Whetten, 2008).

Each case of bankruptcy for a company has its own specific causes. Yet between these seemingly individual determinants in the bankruptcy of companies may show more similarities than differences, leading to the opportunity to outline certain specific cases (McInerny, 2007; Moyer, 2004; Vance, 2009). Internal causes that lead to deterioration of the business, and ultimately to bankruptcy, can be of three types: financial, strategic issues and organizational (Ooghe& Prijcker, 2006). From another perspective, internal causes can be classified as follows:

a. Objective Causes. Here, first, can be assigned a financial and strategic reasons listed above, but others, such as issues related to the entity, lowering the quality of products / services / works provided by the entity, lowering the share of the market.
b. Subjective Causes. In this category, we fit organizational causes to which we can add others of a similar nature, such as: labor migration, malfunction of information networks, forced or voluntary absence of the manager, wrong decisions, and inadequate leadership.

These two categories of factors may exert a convergent influence on business activity, so that a firm, whose internal organization and management system are faulty, may have also reduced capacity to adapt to the conditions imposed by its external environment. But, even an individual action of one of the two categories of factors can cause vulnerabilities in the activity of an organization.

CAUSES OF INTERNAL FAILURE

Literature considers that the internal difficulties of businesses generally derive from failures or errors at the organizational level which, if correctly identified, can suggest the right solutions to facilitate recovery. These can be summarized as follows: poor management; excessive specialization; ownership; inadequate financial structure; mergers and acquisitions strategies insufficiently prepared or wrong transpose in practice; high costs of the company.

Mismanagement is the first cause of bankruptcy of enterprises. Incompetence, along with behavior and peculiarities of managers has a major role in the businesses difficulties. The company leaders can apply obsolete and conservatives strategies, based mainly on tradition and their outdated ideas, instead of a rational analysis, which ultimately lead to a decrease in performance in the company. In these cases, managers are extremely attached to strategies promoted and put into practice by them and then it is extremely difficult for them to recognize that they are outdated. The leaders of firms in difficulty maintain old strategies which now are no longer appropriate and do not want transformation, denying or minimizing the seriousness of the problems arising (D'Aveni & MacMillan, 1990).

Hesitations of managers and long periods needed to promote important decisions can generate a decline in performance and subsequently the emergence of difficulties for the company, because the opportunities are changing rapidly, and the company may find themselves in a disadvantageous position compared to competition since losing opportunities and the ability to use them to his advantage. Also, serious mistakes can be caused by decisions taken by managers' impulsive moment. Enterprises in which decision-making power is concentrated and managed extremely strong managers who are risk lovers can find themselves faced with difficult problems. If decision-making power is divided unequally, top managers do not have time to take an interest in the decisions made, relying more on intuition than on rational analysis, so it can be difficult to get to the emergence of firm (Back, 2005).

And organizations where decision power is highly concentrated, led by very potent managers with a great tendency to take risks, may face difficulties. Thus, when the power of decision is insufficiently distributed, top managers do not have time to give sufficient attention to the decisions they take, relying more on intuition than on reasoning, which can cause problems in the organization (Thain & Goldthorpe, 1990). Decisions taken by them are complex and often dangerous assumption diversification strategy by entering new markets, developing new products and geographic expansion but by neglecting some very important issues or insufficiently prepared. Amid the increasing complexity of projects adopted leaders remain firm to implement new projects, and more complicated and risky, which ultimately determines the emergence of major difficulties for the enterprise.

Mistakes of the company management are the most frequent cause of its difficulties, the reason why almost all successful reorganizations led to the change of management. This is because the company must, by new managers, to have a new perspective for partners and shareholders again have confidence in its recovery possibilities (Vance, 2009).

Managers of investment bank Lehman Brothers used accounting tricks to hide the extreme financial situation, leading to the handling balance. The bank bankruptcy, the largest in history, became inevitable, and it produced in 2008, losses were 684 billion $. In 2003, Parmalat, the largest European food manufacturer went bankrupt, former CEO, Calisto Tanzi, was subsequently convicted for fraud 14 billion Euro. Enron leaders have inflated balance sheets to mislead investors, thus diverting 66 billion dollars; subsequently entering into bankruptcy in 2001; the company is the 5th largest bankruptcy case in US.

Excessive specialization, focus on a product or activity, considered successful, at the expense of all others, is another cause of bankruptcy. Changes in demand, on the requirements, preferences, changes, purchasing opportunities of customer, rise to vulnerable for very specialized situations, based on a small group of products. In sectors where there is a fierce competition, the situation becomes even more difficult if the company does not differentiate strongly the products before the changes in demand (Allaire & Fârşirotu, 1992). Also, some companies focus only on a single object or activity considered critical to success, failing to exclude other objectives. The adaptability of the enterprise by enhancing and expanding to a single activity, and the company cannot function properly, leading to a decline in the performance (Hall, 1992).

During 2005-2008, on the Romanian market, Volksbank recorded strong developments, starting 14th and ending up in 3rd place, by excessive specialization, namely loans with mortgage guarantees. When the housing market collapsed, the bank began the decline, having the largest volume of bad loans, valued at over 600 million Euro, the Bank recorded losses in the order of 140 million Euro.

Ownership depicts another factor which generates bankruptcy. Strategy, activity and results of an enterprise owned or partly by the state will be determined by political factors than by market conditions. Romanian state-owned companies have been faced with some serious difficulties proving viable market, so most were privatized in order to refocus on the market, customers and competition and entered in bankruptcy process. Appointment of directors in post-revolution period with severe managerial weaknesses and especially politically, has made that the state enterprises to be carried into bankruptcy (Barbulescu, 2004).

RAFO Onesti is a typical example of state-owned Romanian company, made bankrupt by a politically appointed management; it robbed that company through bogus investments, but paid exorbitant prices. Company entered into judicial reorganization in April 2004, being the largest debtor to the state budget and the other providers with over 440 million. Subsequently, under the command of foreign owners, until November 2007, the company has paid all debts to the general budget, approximately 250 million Euros. In turn, SIDEX's, largest steel factory, is another example for the situation described above. Under the successive incompetent management, who parasite sale of products by creating ''shadow'' companies, the plant came in 2001 with the loss of 300 million Euros. The year

2001 brings the privatization to ISPAT, and subsequent obtaining notable economic performance, with over 500 million annual profits.

Inadequate financial structure leads to the development of the company's vulnerability and its dependence to creditors. Insufficient financial resources to finance their activity may compel the company to turn to inadequate funding sources by assuming onerous loan conditions, with obvious difficulties with their subsequent reimbursement (Brezeanu, 2008).

The high rate of debt will occur in the future by a decline in the performance of the firm. This is due to the fact that in case of business opportunity, a company that is indebted to a lower level, has one additional debt capacity, which translates into increased security and flexibility. The financial autonomy of the enterprise, which is on a downward spiral because of their high debt and lack of own resources, can be seriously affected in the event of other factors: paying bills with delays to customers, the bankruptcy of a major customer or fluctuations in its work with serious consequences in the subsequent conduct of the business (Hillegeist, 2004). The opposite situation, applying a conservative financial policy, defined by the lack of reinvestment of profits, a high rate of dividends paid to shareholders and increased liquidity, at the expense of some investment to get a higher return in the long term, will generate into the future a reduction in company performance.

Leonardo, the largest footwear retailer on the Romanian market, developed an inappropriate financial structure, entering into insolvency in October 2008. With a turnover of over 130 million Euros, the company had debts of 100 million Euros to suppliers, banks and employees at the time of the reorganization, with payment terms more than 90 days.

The high costs of the company with main competitors generate significant commercial inconvenience, finally being able to reach even bankruptcy. Factors that cause high costs can be:

- inefficient operation of output growth to benefit from economies of scale effects
- high costs of labor
- high dependence on a few suppliers
- wrong positioning to suppliers and customers
- much diversification of products, which can produce a cost disadvantage due to the increased complexity and size, unaccompanied by adequacy of coordination and control systems
- operational inefficiency, consequence of poor management

The most important reasons for the crisis at GM were inability to promote new vehicles to match customer needs, wrong business strategies and high costs due to health care benefits for employees and pensions paid to former workers. These problems, together with the global financial crisis and recession in the economy have negatively affected revenues by GM, the company became bankrupt in 2009, the fourth in USA, worth 82 billion $. Delta Airlines problems were generated by inflated cost structure, extremely high cost of labor, reaching company bankrupt in 2005 with debts of $ 25.8 billion.

Mergers and acquisitions strategies, insufficiently prepared or wrong transposed into practice, may reflect another cause of the difficulties for businesses. In an attempt to diversify production and to obtain a bigger market shares, acquisitions and mergers play an important role in the strategy of enterprises, found work and the growing number of such operations lately (Astebro & Winter, 2001).

However, if they are incorrectly prepared, designed and implemented, acquisitions and mergers are resounding failures. Causes of such failures are the payment of unreasonably high prices for businesses purchased the inability to integrate acquired businesses, the socio-political and cultural insurmountable differences of the firms involved.

In late 2005, Flamingo purchased the electro-retailer Flanco International for $ 37 million Euro. Due to lack of experience and professionalism, the procurement process would be extremely painful and expensive, however, barely ending in August 2009; in 2006-2008, the company recorded high losses, in the value being included and costs of the merger with Flanco. Company entertainment Time Warner and Internet giant AOL merged in 2000, realizing the largest transaction: 164 billion dollars. Partnership not proved profitable; new company in 2002 with losses of 99 billion dollars; subsequently transformed into one of the most disastrous mergers in history, and after eight years of torment, firms parted away.

Inefficient marketing and sales activities is another factor generating the business difficulties. Faced with managerial issues across firms, firms in economic difficulty present a critical situation for marketing and sales. In these areas, the problems are generally caused by the following factors (Lupulescu, 2004):

- ineffective promotion of products or services
- unfocused marketing efforts on key products and customers
- mediocre quality of products and the lack of associated services
- insufficient knowledge of customer needs and preferences
- dependence on a small number of customers
- loss of access to distribution channels

Residential ensemble Green City in Bucharest, worthing 100 million Euros, went into insolvency in 2010; the main cause has been selling at a insufficient rate of homes (only 60%) to cover costs and further work, combined with the collapse of the housing market.

Failure of major strategic projects can be a cause of difficulties for the company. Underestimation or overestimation of the background activity results, the companies can promote inappropriate investment programs. Uncontrolled growth of production capacity of an enterprise may result at branch overproduction, causing a price war and loss when each competitor tries to maximize the use of production capacity. Failure analysis of the implications of the possible entry barriers or costs to launch and market penetration by a firm for new products can lead to failures powerful (Maksimovic & Phillips, 1998).

Wanting to expand rapidly in the North American market, Vivendi Universal, went nearly bankrupt, mainly due to the multitude of acquisitions made during 2000 and 2001: American television channel NBC Universal; music distributor MP3.com; publisher Houghton Mifflin. Later, faced with the largest loss of 23.3 billion Euros, the company abandoned the previous projects, shifting company towards its traditional European market. City Mall shopping centers (Bucharest) and Tiago (Oradea) and residential Blue Tower and Residence Cortina went bankrupt when carrying out construction activities, these firms failed to even complete buildings.

CONCLUSIONS

The need to know the many facets of firms in difficulty, which have tried to present through this typology of enterprise in difficulty consists, on the one hand, in the interests of managers and business owners to continue and even provide development of their business, and on the other, in the interest of analysts to address the best way of understanding the state company or its diagnosis, and take appropriate measures to rescue and restructure the company.

Beginning with a simple predicament until the occurrence of bankruptcy, the notion of a firm in difficulty is extremely complex. Despite numerous definitions in the literature, it is worth noting, however, some essential concepts defining enterprise risk: economic failure or company, insolvency or bankruptcy technique. Regarding the causes of the difficulties for the enterprise, we believe that they can take many forms that frequently, a negative impact on performance to both internal and external forms.

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