

UDC 005.334.658
JEL: E3, H12, G32

BUSINESS ENTITY'S PREVENTIVE-ANTI-CRISIS STRATEGY MODEL AND POSSIBILITIES OF ITS IMPLEMENTATION IN GEORGIA

Giorgi Katamadze

Doctor of Business Administration,
Senior Teacher,
Batumi Shota Rustaveli State
University,
Batumi, Georgia
E-Mail: Katamadze.g@gmail.com
orcid.org/0000-0002-2602-6861

Introduction. In terms of modern hyperactive business processes, the stability and sustainable development of businesses are much at risk for managers and founders if they do not have an anti-crisis strategy; without an anti-crisis strategy, the business is sometimes completely destroyed by any unexpected negative event, or at best, has to deal with the consequences for a long time.

Aim and tasks. The aim and objectives of the present paper are to determine the presence of anti-crisis mechanisms in the management methods of business companies operating in Georgia, the possibility of their implementation, the types of anti-crisis measures, the composition of the anti-crisis group, and the analysis of the skills of the group/members of anti-crisis management and their grouping/systematization/categorization.

Results. The article presents the results of the research, based on the study of small and medium-sized business entities in Georgia, aiming at determining whether business entities use preventive-anti-crisis plans and strategies or not, how such strategies are formed, and in general, to what extent business entities are able to implement anti-crisis strategies. In the process of preparing the present research paper, both quantitative and qualitative methodologies were involved. In particular, cases were selected based on the following criteria: a) business entities which started and terminated their activities in the last 10 years; b) selection of business entities from different cities in Georgia; c) variety of business entities' activities; statistical analysis; comparative method; component analysis; analysis of the official documentation.

Conclusions. The types of strategies of economic entities in general have been studied and their general overview has been given. The stages and specific measures necessary for the development of individual preventive anti-crisis strategies for business entities, taking into account Georgian realities, are determined. The obtained results are analyzed and relevant recommendations are prepared on the basis of an integrated system approach.

Keywords: business management, anti-crisis strategy, anti-crisis methodology, strategy implementation.

Received: April 23, 2022

Accepted: June 10, 2022

DOI:10.31520/2616-7107/2020.6.2-4

© Economics. Ecology. Socium, 2022
CC BY-NC 4.0 license

1. Introduction.

In terms of an intensively changing economic and political environment in Georgia, local companies are often exposed to critical situations, while entrepreneurial activities and their results form an important part of the state budget revenues. Therefore, the paramount role of companies' activities precludes the rising importance of business development and its protection against the crisis. All the abovementioned points focus on the importance of the smooth and successful functioning of business entities.

Anti-crisis management of business entities is a set of methods applied by the company's management or any other third party to overcome a crisis or unexpected situation of a specific business entity. It is rare for companies to have pre-planned or defined activities to overcome any risks to their successful activity.

In order for the company not to face any challenges in developing a strategy, first of all, it should constantly monitor the market and current general problems, together with the identification of expected and less expected risks. It should also periodically analyze the company's financial situation according to each component and continuously monitor the exchange rate fluctuations. This is only a short list of important and crucial measures in the process of development of the anti-crisis strategy. The foreign political orientation of the state and certain internal political decisions impact the economic development of the country. Similarly, economic changes have direct effects on the political processes of the country (Filipishyna, Bessonova, Venckeviciute, 2018). This interrelation creates a regulated space in the country where the business entities/companies operate.

Business, as an important part of the economy, is especially affected by the political and economic processes. The state has a crucial role in the process of development of business entities; the role of business entities, in its turn, is also of great importance for the process and results of economic development of the country.

The aim and objectives of the present paper are to determine the presence of anti-crisis mechanisms in the management methods of

business companies operating in Georgia, the possibility of their implementation, the types of anti-crisis measures, the composition of the anti-crisis group, and the analysis of the skills of the group/members of anti-crisis management and their grouping/systematization/categorization.

2. Literature review.

Researchers have devoted their studies to crisis management, including Altman (1968), who focused on bankruptcy issues; Keynes (2018); Samuelson (1975), Hayek (1979), and Parsons (1996), who focused on the role of the state in crisis management; Broome (2010), Freixas (2003), and Wang (2008), who primarily focused on crisis management through credit interventions.

The model of the preventive-anti-crisis strategy of an economic subject was studied by Hilorme et al. (2019), which made it possible to consider the features of choosing a model depending on the classification of responsibility centers as well as the stages of anti-crisis management of an enterprise (Garkait-Milvydien, 2014).

Different definitions and characterizations of strategies can be found in the scientific literature. For example, in the study of Porter (1996), the definition of strategy is given as "the creation of a unique and valuable position that includes different activities."

According to Henderson (1984), strategy is the deliberate pursuit of a plan of action that will develop and strengthen a business's competitive advantage.

According to Ulwik (1999), a strategy is a simple plan. It is an action plan that describes how a person or organization will achieve its stated mission. Strategy combines the articulation of human goals with the organization of human activity to achieve those goals (White, 2004).

The main characteristic that distinguishes strategies is the levels of organizational management: corporate strategy, business strategy, functional strategy, and operational strategy. The authors who built the pyramid with these criteria are Thompson and Strickland (2003), and their approach earned the name "Strategy Pyramid".

3. Results.

In international practice, there is a general methodology of anti-crisis management, which is general and basically includes cost reduction, accelerated collection of receivables, restructuring of credit obligations, and reorganization of the company.

However, various consulting companies and crisis managers sometimes offer companies an anti-crisis plan broken down to the micro level of the company, which is based on individual approaches and solutions (Keynes, 2018). The scientific literature on anti-crisis management puts its emphasis on control and neutralization of internal factors (Gechbaia et al., 2019). Before switching to the anti-crisis management system, both internal and external factors, including the consequences of fiscal and monetary policy, should be analyzed equally.

In general, the essence of anti-crisis management lies in the following:

- Crisis can be defined and avoided.
- The crisis can be accelerated or postponed.
- The negative consequences of the crisis can be reduced to a minimum.

The modern world market economy has to exist in conditions of severe competition. Free market primarily implies competition and non-interference in business by the state. However, it must be said that large business entities themselves exert a great influence on the free market, and in some cases their activities are aimed at removing other business entities, "destroying" their activities. Herewith, it should be mentioned that considering all the above-mentioned reasons, unhealthy competition is also one of the bases to the crisis. An accurate, complex and timely diagnosis of the company's condition is the first stage for planning and developing an anti-crisis strategy.

The research carried out, in the framework of which interviews with the managers and founders of the companies (business entities) were conducted (in the research process, the companies were asked the question: did they have any action plan or an indicative list of preventive measures for the prevention of a crisis situation?), showed that the companies started anti-crisis management only after facing the threat of real crisis.

In the process of research, the case-study method has been applied; the study of each specific case of business entity crisis represents not only an evaluative record or description of a certain crisis but is a complete informational material, providing an opportunity to conduct a thorough analysis of the situation. The process of selection of cases was based on the following criteria: a) business entities that started and terminated their activities in the last 10 years; b) a selection of business entities from different cities in Georgia; c) a variety of segments of business entities' activities.

During the interview, most of the companies had similar reasons for not thinking about development of an anti-crisis strategy. Most of them included lack of resources in need, inability to identify the needed scenarios for various crises, lack of time, preference to act post factum rather than get prepared a priori.

In fact, most small and medium-sized businesses operate mainly on short-term, oral, founder-specified plans and strategies for sales and production. Another important point revealed by the research was related to the management itself, particularly most of businesses are headed by the founders, who lead daily processes themselves.

In other words, functional diversification (founder and director) was observed in very few cases. It should be mentioned that, in our opinion, the lack of human resources and, in this case, the concentration of full power on one person, significantly increases the risks of a company crisis, and this crisis can be caused by a monopoly of decision-making authority.

The anti-crisis management plan should be preventive in nature, it should be an important part of the strategic development plan of each company, and should be periodically updated in line with the actual (short or long term) challenges. Each amendment to the legislation and adoption of a new regulation necessitates adaptation of particular directions of the business to these normative acts, that, in its own way, is connected to the change of business strategies and extra expenses (Katamadze, 2020).

Data on the business sector of Georgia is presented in Figure 1.

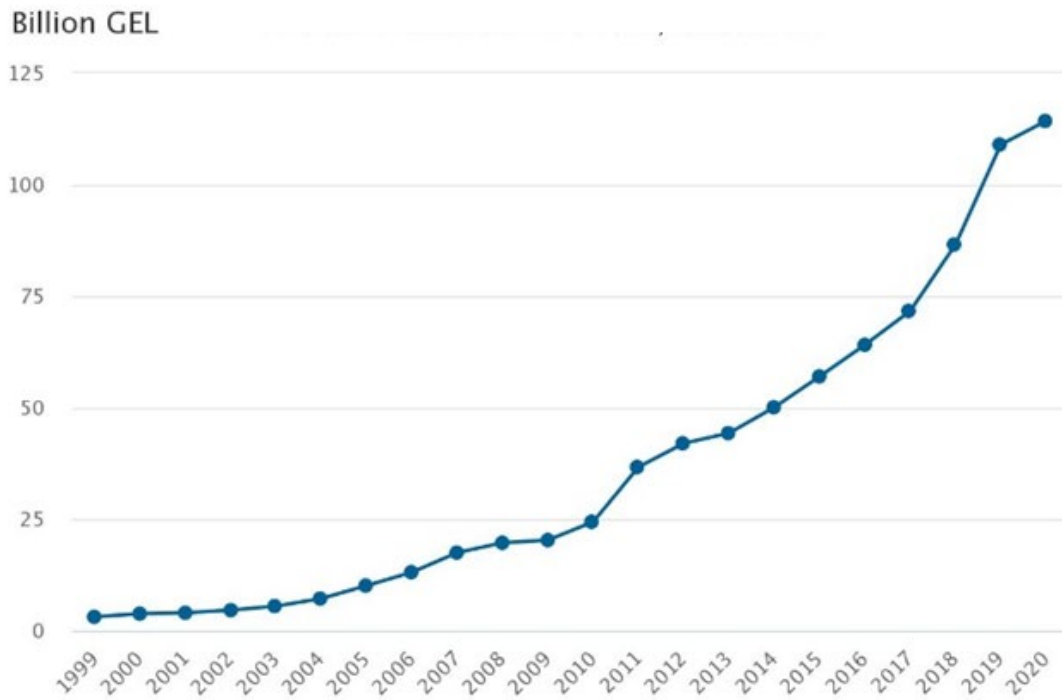


Figure 1. Turnover in the Georgian business sector.

Source: National Statistics Office of Georgia (2022).

Information about business registration, number of active organizations, number of registered business entities by years is also

important for presenting a complete picture of the business sector in Georgia, that is represented in the Table 1:

Table 1. Number of registered Georgian business entities by years.

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Number of registered organizations by year - total cumulative, thousand	496.6	532.2	569.3	594.5	632.1	677.6	721.4	764.7	801.8	847.4
of which: number of active organizations, thousand	127.6	131.0	134.9	164.5	167.6	165.3	165.6	174.4	172.3	208.3
Number of registered business entities by year - total cumulative, thousand	472.0	505.9	541.3	564.8	599.6	642.6	685.2	727.2	763.0	807.4
of which: number of active business entities, thousand	121.8	125.0	128.6	158.1	161.0	158.8	159.0	167.9	166.0	201.4
Number of newly registered organizations by year, thousand	41.9	46.4	46.8	45.6	48.1	52.5	51.6	50.7	41.5	52.6
of which: Number of newly registered business entities, thousand	40.6	44.5	45.2	43.8	45.2	49.9	50.2	49.4	40.2	51.3

Source: National Statistics Office of Georgia (2022).

Taking into account the Georgian reality, in order to develop of an individual preventive-anti-crisis strategy by the company, it is necessary to process the following information:

- Analysis of skills of anti-crisis management team/team members and their grouping, systematization, categorization;
- SWOT and financial analysis of the company (both vertical and horizontal), identifying weak markers and identifying a group close to the minimum margin of financial ratios (e.g., liquidity, ROA of return on assets, ROE of return on capital, etc.);

- Comparative analysis of the company's development plans and current trends with the business environment in the state;

- Analysis of the possibility of company transformation (transformation, merger with another entity, separation, change of activity direction, rebranding, etc.);

With the factors identified as a result of the analysis of crises of business entities, our model of creating the preventive anti-crisis strategy includes the following stages and measures (Table 2).

Table 2. The model of creating the preventive anti-crisis strategy.

Stage	Particular Measure	Participants involved
The analysis of the skills of the group/members of the group of anti-crisis management and their grouping / systematization / categorization	The company should create an anti-crisis management group; the number of members of such a group should be proportional to the volume and direction of the organization; the members of the group should be selected among the staff members of the company (as many as possible) with the appropriate qualifications. When the company faces a crisis situation, it should maximally avoid unneeded expenses and use its own resources. The group should include at least one financial expert, a lawyer, a marketing specialist, and a purchasing manager or operational manager.	Management of the company
SWOT and the financial analysis of the company, both the vertical and the horizontal, highlighting the weak markers and identification of those groups close to the lowest level.	A SWOT study is needed for the identification of the internal strengths and weaknesses, as well as the external opportunities and threats of the company. In terms of the financial study, the vertical and horizontal financial analysis and the coefficient analysis of financial data (ROE and ROA) will be carried out.	Management of the company, accounting department, audit, invited financial organization
The comparative analysis of the development plans of the company, ongoing tendencies and the existing business environment in the country;	The group shall discuss the real position of the company in the market, its share in the gross production and sales, and shall analyze the agreements with the suppliers and the buyers, market demands, and ongoing tendencies if there are any changes in demands and conditions of realization.	Management of the company and anti-crisis management group
The analysis of possibilities of company transformation.	The analysis of the opportunities to change the direction, or to transform into the allied spheres or radically change the type of activity, includes the study of challenges the company might face. What might be the difference between the risks expected if the company transforms and continues its activities and the risks related to overcoming the existing force majeure situation without changing the sphere	Management of the company and anti-crisis management group

The failure of any business entity to take specific measures during a crisis leads to its aggravation and, ultimately, to the liquidation of the company. And the anti-crisis measures organized by the economic entity stabilize the crisis and its final elimination. In the process of implementing anti-crisis measures, the influence of environmental factors also begins to act, which often neutralizes a number of negative factors over time (for example: exchange rate fluctuations, inflation, political situation, etc.).

The need to have a preventive anti-crisis strategy for business entities, due to the changing business environment, will be on the agenda after a few years, and that's when a large number of companies will start analyzing the factors that can hinder business development. This will be a belated action because if companies analyze their activities according to the criteria we have proposed, they will be able to set a development strategy in the right direction in time (Wang, 2008)..

Moreover, we believe that every business should develop an anti-crisis strategy at the beginning of its activity, so that it can be more sustainable and prepared for the current and expected challenges. We think that the high interest of the state should be expressed in relation to this issue, since sustainable and stable business entities provide economic development in the country, which includes employment, a strong social layer, developed infrastructure and a strong, independent state.

Only the financial analysis of business entities is not enough for identification of company crisis, in order to get the clear results, it is necessary to study the monetary, fiscal and monetary-credit policy of the country; to compare the ratings of business environment of the country by their components, as well as to analyze those formal and informal institutions having direct or indirect impact on factors causing crisis or crisis development in the business entities.

The financial analysis of the company should include not only the comparison of financial and coefficient data, but also the complex of balance data of such company, the information on sales, purchases, credit and

debt management, ongoing economic trends in the country, the dynamics of separate indicators and the dynamics of the financial data of the company.

The results of the survey, conducted within the research frames, showed that a great number of business entities in Georgia don't consult with any professional financial consultants – crisis managers – and usually follow the advice given by the accountants and internal managers of the company. It might be said that the culture of cooperation with consultants is still new for Georgia. On the other hand, only a few companies work on crisis management in Georgia with hardly affordable service fees.

The business entities don't have any strategy oriented on overcoming the force-majeure situations that erupted in the process of their operation; therefore, any of these similar events leads the company management to the mode of spontaneous decisions. The spontaneous decisions double the risk of strengthening the factors triggering the crisis. The only way to avoid crisis situations is to create a prevention anti-crisis strategy considering all the anticipated factors that might cause the crisis.

4. Conclusions.

In a crisis, the company's management should focus not only on the daily financial analysis of the company, but also on the main everyday problems and ongoing challenges, as well as the strategic directions, such as competition, currency rate, and other micro- and macroeconomic factors. The management of those business entities that wait for the stabilization of the crisis and avoid taking some significant actions, subjectively prepares the ground for the winding-up of the company.

If the business entities that are in crisis don't take any measures against the crisis, it usually deepens and finally leads the company to liquidation. On the contrary, the business entities that take certain steps against the crisis manage to stabilize the situation and lead the company out of crisis.

The process of responding to a crisis usually involves the activation of environmental factors, which often neutralize a number of negative factors such as changes in currency rate, inflation, political situation.

Business entities should be adapted to the business environment, which is subject to many changes caused by various factors. That's why the companies and their management should take this into consideration: 1) the ongoing processes in the country; 2) adequate reflection or adaptation of any changes to the company's activity. Taking into consideration the changeable business conditions, businesses will feel the necessity of a preventive anti-crisis strategy in the near future after having faced the crisis.

But it will be too late for business sustainability. On the contrary, if the companies apply our suggested methodology of crisis analysis, we strongly believe they will be able to overcome anticipated challenges. Moreover, in our opinion, every business entity should have an anti-crisis strategy prior to starting its activities in order to be stable during the existing and expected difficulties.

The government should be highly interested in the issue, as sustainable and stable business entities ensure the economic development of the country. In its own way, it means high employment, a strong social layer, developed infrastructure, and a powerful, independent state.

REFERENCES

- Altman, E. (1968). Financial Ratios, Discriminant Analysis and The Prediction of Corporate Bankruptcy. *The Journal of Finance*, XXIII(4), 589-609.
- Alvin, A. (1939). Economic Progress and Declining Population Growth. *The American Economic Review*, 29(1), 1-15.
- Broome, A. (2010). The International Monetary Fund, crisis management and the credit crunch. *Australian Journal of International Affairs*, 64(1), 37-54.
- Filipishyna, L., Bessonova, S., & Venckeviciute, G. (2018). Integral assessment of developmental stability: cases of Lithuania and Ukraine. *Entrepreneurship and Sustainability Issues*, 6(1), 87-99.
- Freixas, X. (2003). Crisis Management in Europe. In J. Kremers, D. Schoenmaker & P. Wierts (eds). *Financial Supervision in Europe*. Cheltenham: Edward Elgar, 102-119.
- Garškaitė-Milvydienė, K. (2014). Anti-crisis management of enterprises as precondition of sustainable entrepreneurship. *Entrepreneurship and Sustainability Issues*, 1(4), 187.
- Gechbaia, B., Kharashvili, E., Mamuladze, G., & Goletiani, K. (2019). Current challenges of grocery market and key directions of development of agriculture in Georgia. *Economic Science for Rural Development*, 50, 52-60.
- Hayek, F. (1979). *Unemployment and Monetary Policy: Government as Generator of the Business Cycle*.
- Henderson, B. D. (1984). *The Logic of Business Strategy*. HarperCollins Publishers.
- Hilorme, T., Perevozova, I., Shpak, L., Mokhnenko, A., & Korovchuk, Y. (2019). Human capital cost accounting in the company management system. *Academy of Accounting and Financial Studies Journal*, 23, 1-6.
- Katamadze, G. (2020). The Analysis of Influence of the Monetary Policy carried out by the National Bank of Georgia on the Local Business Entities (Based on the Cases of Development Business). *Journal of Economic, Business and Management*, 8(2), 129-132.
- Keynes, J. M. (2018). *The General Theory of Employment, Interest, and Money*. Reading Essentials.
- National Statistics Office of Georgia (2022). <https://www.geostat.ge/en/modules/categories/64/business-register>

Parsons, W. (1996), "Crisis management", *Career Development International*, Vol. 1 No. 5, pp. 26-28. <https://doi.org/10.1108/13620439610130614>

Porter, M. (1996). What is strategy? *Harvard Business Review*, 74(6), 61-78.

Samuelson, P. (1975, August). Maximum principles in analytical economics. *Synthese* (31), 323–344.

Schumpeter, J. A. (1934). *The Theory of Economic Development*. Harvard: Harvard Economic Press.

Taffler, R. (1995). The use of the Z-score in practice. Working paper 95/1, A Centre for Empirical Research in Finance and Accounting, City Business School. London.

Thompson, A. A., & Strickland III, A. J. (2003). *Strategic Management: Concepts and Cases* (13th Edition ed.). McGraw-Hill.

Ulwick, A. W. (1999). *Business Strategy Formulation: Theory, Process, and the Intellectual Revolution*. London: QUORUM BOOKS.

Wang, J. (2008). Developing organizational learning capacity in crisis management. *Advances in developing human resources*, 10(3), 425-445.

White, C. (2004). *Strategic Management*. NY: Palgrave Macmillan.