The life of corporations and the economic-financial modern context. By the decline to the business crisis.

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Abstract

The paper aims to analyze the topic of corporate performance in a context as the present one, characterized by a deep economic and financial crisis affecting the international economy. To this end, the hypothesis of research is focused on determining which are the causes that undermine corporate survival, representing a threat to the balance of the company, leading it to decline or crisis. To this research it has been applied a desk methodology of study, or a research of the literature of reference, based on the theoretical support about the enterprise economic and financial analysis, companies crisis and the managerial behavior aimed at recovery. The study highlights the role of flexibility, as a lever leading the company to create value, allowing it to effectively respond to contingencies and to establish its competitive advantages again. As practical implications, therefore, it is emphasized the importance and the need for the company to own a strategic control system able to continuously and promptly monitoring, capturing, evaluating and addressing possible threats. The work limits lie in the research approach, or in the absence of a case study that, in support to the literature, can be used to confirm the findings. Therefore, in the future research authors intend to fill this limit as well as to deepen what may be the most appropriate corporate restructuring processes for the company's reorganization.

Keywords: Decline, crisis, flexibility.

I. INTRODUCTION

The serious economic and financial crisis that currently afflicts the international economy, showed that even the most solid business balances are under test. Therefore, it becomes essential to realize that external and/or endogenous events may be the origin of the deterioration of firms performance, which, if not timely received and appropriately interpreted by government, may be the real incubation and their symptoms of decline and at the times of crisis.

Starting from the analysis of the "warning signs" that may evolve into a state of disequilibrium and lead the company towards the stage of decline, the work examines the causes that undermine the survival of the company, whenever this stage degenerates into a state of acute crisis, ascertained and visible outside with serious consequences for stakeholders.

We will focus, therefore, on the issue of flexibility, which is considered an essential lever to bring the company back on track to create value. It allows, in fact, systemic entity to respond effectively to "contingencies" caused by both endogenous and/or exogenous sources, subjective and/or objective, and not to lose the competitive advantages, rather to recuperate any gap with competitors.

II. CRISIS ANTICIPATORY FACTORS: DECLINE AND DISEQUILIBRIUM

Corporate crises, considered a "permanent component of modern production system," especially in the downturn, may occur periodically, according to a certain cyclicality (Guatri, 1995).

The negative phases of the evolutionary dynamics, caused by several factors that also have an impact on stakeholders, following positive phases provided that the companies, in order to survive, are able to adapt to changes in the environment due to the increased complexity of the environment, both in terms of variety that variability (Golinelli, 2005), and/or to detect certain internal processes of deterioration. This justifies the tendency to pursue continued restructuring. However, the causes that characterize the negative phases of a firm life, long latent also because of the reluctance or inability by management about their acknowledgment and adoption of timely strategies to address the "warning signs" even in terms of "profound alteration of the mechanisms of functioning of the enterprise, of states of serious inefficiency and ineffectiveness of the management" (Sciarelli, 1995, p. 10) exploding very often so sudden and unexpected (Sciarelli, 1995).

In the latter case we speak about negative phases of structural kind, that can evolve in situations of decline or crisis (Guatri, 1995).

The "warning signs" reasons for "propensity (Slatter, 1984) to decline and crisis", can be qualitative, in which case we talk about decadence, or quantitative, expressed by the term disequilibrium.

The symptoms of decay, typically affecting mature sectors, for Guatri (1995), can manifest themselves in terms of loss of profitability, negative cash flows, loss of market share, declining sales or worsening of the product mix, loss of managers and highly qualified resources, deterioration of the financial structure, significant increase of debt reduction and strong liquidity, worsening of relations with the financial community, with customers and suppliers, higher credit losses, lack of strategic capabilities, bad relationships in general, worsening productivity in absolute and relative level of competition.

Disequilibrium, which may affect the different stages of the life cycle of a sector, are measured, according to the business management discipline (Guatri, 1995), primarily through static indexes and flows of values.

From the view point of the external observer they can be deduced through: analysis of budget compared to the one of the same enterprise in previous years and with the one of competitors, from other information disseminated to the public, or from information submitted by entities outside the firm.
From the viewpoint of the internal observer such a determination is favored by timely access to accounting and non-accounting information on operations, from the knowledge of the policies adopted in budgeting, the ability to update and/or correct data. The static indexes based on the ratio or difference of stock sizes, refer to a given year, derived from values reflected in the Balance Sheet reclassified. That is: the capital ratios and liquidity ratios. The first analyzes the capital structure of the company as a whole with the aim of verifying the solvability required to face the dynamic market in which it operates. Typical examples, relevant for the purposes of this paper, are:
- Debt/Equity Capital (Leverage). This index, which highlights the financial structure of the firm, measures the ratio between invested capital and equity. Its value increases proportionally with increasing of financial dependence on third-party capital. For the purposes of a correct interpretation, it must be examined in the specific context of company operations; activities need to be expressed at current values. In a peculiar way, moreover, it must be analyzed for family businesses, especially small ones, characterized by the interaction between family assets and the company one;
- total assets/equity;
- net working capital/equity.

The analysis of liquidity is used to control the risk of illiquidity, for example the risk for not being able to meet regularly indebtedness of commercial and/or financial support for non-correlation between income and expenditure. This situation occurs if sales volumes and revenues are reduced, if the timing of collection of receivables dilate in a remarkable way, if any significant credit loss for customer insolvency verifies, in case of "return" immediately requested by institutions credit. The main liquidity ratios that show the company's ability to meet its commitments under the facility internally generated are:
- current assets/current liabilities;
- short-term assets/debt;
- liquidity/total liabilities.

To traditional indexes, in recent years it has added the Z-Score (Altman, 1968; Bottani, Cipriani, Serao, 2004)\(^1\) considered a reliable predictor of the crisis, characterized by a high degree of accuracy. Especially if calculated over several years it is able to check the trend, in terms of improvement or deterioration, of the probability of default of the company in two years. In formula:

\[ Z = \lambda_1 x_1 + \lambda_2 x_2 + \ldots + \lambda_n x_n \]

Where \( \lambda_i \) are the different coefficients of discrimination (weights) and \( x_i \) are indexes considered significant for the prediction of the crisis.

Depending on the type of company examined, the coefficients and their indexes change (Caouette, Altman, Narayanan, 1998; Altman, 2005). The formula adapted to not-quoted companies is based on:
- Index of business flexibility = working capital/investment \( \Rightarrow X_i \)
- Index of self-financing = retained earnings/capital invested \( \Rightarrow X_2 \)

This index will present lower values in companies operating since few years than others. This shows that start-up firms have a higher probability of failure in the early years of life.
- ROI = operating income/capital employed \( \Rightarrow X_3 \)

Denoting profitability from operations is especially appropriate in the definition of the probability of default.
- Capitalization index or independence from third = Market value/total liabilities \( \Rightarrow X_4 \)

Indicates of how much the company's activities can be reduced before the total liabilities exceed the assets and create the conditions for failure.
- Turnover revenue = total assets/capital employed \( \Rightarrow X_5 \)

Expressing ability to generate revenues with a given value of assets, it measures the entrepreneurial ability of relating to the competitiveness of the target market.

If the result is greater than the threshold value of 1.81, the company's risk profile is relatively low. Instead, companies with a value of less than 1.81 Z presents a high risk of default. It is worth to point out that the threshold value is calculated as the average between the average value of Z for "healthy" business and the average value of Z of the insolvent company.

To measure the firm non-balances starting or in place, in addition to the static indexes, it is essential to apply the analysis of other quantities. Firstly, attention must be focused on the indexes based on income and financial flows, to be meaningful, they must be compared over time to assess trends and with those of firms operating in the same context and in the same industry. In the latter case, the level of profitability achieved is important to assess the ability of the company to compete in the future.

Indices of financial non-balance:
- D/EBITDA excess of debt compared to equity;
- D/current asset \( \Rightarrow D/CCN \) excess of short term debt compared to current assets;
- Debts at MT/Free Cash Flow to Debts/Equity excess of demand compared to self-financing.

The indexes based on income flows, considered "the true markers the decline and crisis are close to", are:
- net profit/equity \( \Rightarrow ROE \). Expressing the return on equity, it indicates that the company creates value only if it is greater than return on alternative investments with the same risk. Otherwise the company destroys value;
- net income/turnover;
- EBITDA/sales;
- EBITDA/total assets;
- fixed costs/revenues;
- financial expenses/revenues.

Indices based on cash flow:
- cash flow periodic/Net capital;
- cash flow periodic/invested capital;
- cash flow from regular/turnover.

To understand the health status of the company it is actually useful to analyze other indicators, such as the market share held, the speed of movement of inventories, receivables, the

\(^1\) It is a model of discriminant analysis developed by Altman in 1968 analyzing the data of some US quoted companies. With discriminant analysis some independent variables (usually financial ratios) are identified which, with statistical analysis, attributed the "weights" to get a result that is considered expressive of the company's ability to survive over time.
total working capital, the use of social welfare (layoffs), investments in research and development.

It has been recognized as the determining factors that generate non-balances undermining the financial strength, liquidity and profitability in the short term, derives from the fast pace of business growth or even convulsive or when this is accomplished in a unusual and not rationally planned way. These non-balances lead to the so-called "growth traps" (Guatri, 1995). Additional requirements are necessary to prevent disequilibrium and ensure that companies reach the best performance. Businesses have to be, in fact, flexible, dynamic, viable, informal, creative vitality, must accept the slight error and a certain amount of entropy, must be able to empower, inspire confidence, be horizontal, entrust the resolution of the problems in those who care for them operationally every day, pay attention to the needs of customers and employees, apply in everyday life the values they believe in (Peters, Waterman, 1982).

III. THE FLEXIBILITY AS A LEVER FOR THE CREATION OF VALUE

For the purposes of this paper it is seems appropriate to focus on the concept of flexibility (Sciarelli, 1987; Lanzara, 1995)\(^2\), for which there is an extensive and articulated literature. It is conceived as the ability of the governing body to change its evolutionary dynamics and to drive the resulting operating procedures in order to meet the expectations and pressures of supra-relevant systems (Golinelli, 2005). As argued by Golinelli, it is due to the "capacity of the system response to the complexity of the enterprise". It allows systemic entity, therefore, to respond quickly and effectively to the "contingencies" (Golinelli, 2005), caused by endogenous and/or exogenous sources, not to lose the competitive advantages (Anderson, 1985) acquired or to recover any gaps with respect to competitors. For Fazzi (1982) “firms must move, assess the extent of the factors of change today manifesting more and more in the form of turbulence and then seek new conditions that may open up more secure horizons for the company”. On the basis of the distinction provided by Ansoff and Brandenburg (1971) it is possible to identify the different components of the overall flexibility in the type of change that the company intends to implement, such as: systemic, organizational, operational, functional, competitive, strategic and innovative institutional flexibility.

It is talked about functional flexibility when a worker within the enterprise, can play a wide range of tasks and production operations possibly in different workplaces. This requires not only the absence of constraints, but also high professional versatility and availability of human resources to accept rehabilitation processes. This type of flexibility involves productive modifications in terms of quality and quantity, without incurring excessive cost increases.

The flexibility, primary competitive goal of strategic management, is generated when companies are able to react very quickly to opportunities or threats that occur as a result of changing attitudes of direct competitors. This occurs when a company is able to transform considerably its position in the market, for example by changing its product-market combination (Polese, 2004). Strategic flexibility is intended to Lau (1996) as "a firm's ability to respond to uncertainties". It is the ability of the governing body to change strategic ineffective decisions (Hitt, Shimizu, 2004). It derives from some conditions that impose itself as: uncertainty about the political, economic and social environment; environmental turbulence; resource scarcity and rising costs. A company that owns this capacity is able to develop alternative strategies (Sanchez, 1995) promptly varying the mix of products/services, developing new strategic business or withdrawing from those of the sector, to change the target market, to transform entire organization, and so on. To do this, it is necessary to involve the entire organization. So "a company is as much more flexible strategically as rapid may be adaptations of the objectives and the current strategy to the evolution of external environment and as more economic reveal the processes of change of the resources" (Sciarelli, 1987). This is very important especially in sectors characterized by very short life cycles (Guatri, 1995).

Strategic flexibility cannot ignore the organizational flexibility, and the latter from the operational one. Organizational flexibility, defined as "the ability of an organization to recombine in time and space, its components and to redefine its features in order to maintain and increase their level of performance" (Costa, 2001), is considered a strategic lever that fostering creativity and innovation strengthens the processes of value creation. Closely related to the development policies of professionalism, it can be examined in terms of technology, in terms of micro specific structures organization, work and operational mechanisms organization, external markets organization (supply chain, outsourcing, offshoring and globalization) (Albertini, Marelly, 2003).

We talk about operational flexibility (Carlsson, 1989), when the company, as a result of fluctuations in demand or particular behavior of competitors (Polese, 2004), is able to implement timely changes (making a growing use of time to market) (Merli, Biboli, 1996), usually temporary, in terms of production volumes, product mix, human resources. In the latter case, the flexibility can be pursued mainly by varying the number of employees, wages and working hours. This type of flexibility that is numerical, covers three aspects: the rules governing layoffs and assumptions, the possibility of using fixed-term employment relationships and to entrust functions or phases of the production cycle subcontracted to other companies or contracts with employees.

It falls under the operational flexibility, financial flexibility resulting by the attitude of the financial structure to adapt to the needs of management (Donaldson, 1987). Institutional flexibility is the ability of the company to establish and maintain working relationships and trust with all stakeholders, both internal and external (Guatri, 1995). However the systemic approach emphasizes pre-ordained and innovative flexibility (Golinelli, 2005). The former is realized through the attitude of the business system to evolve, depending on the dynamics of context in terms of invariance of the extended structure, in order to create value (Golinelli, 2002). It is typical of those businesses increasingly tending to develop resources and expertise, in some cases strategic relationship by exploiting the synergies with suppliers and/or customers (Massaroni, Ricotta, 2009).

\(^2\) Up to P. J. Buckley e M. Casson, “flexibility may be defined as the ability to reallocate resources quickly and smoothly in response to change”, in Models of the multinational enterprise, in Journal of International Business Studies, Vol. 29, n 1, 1998, p. 21-44.

http://www.ijmsbr.com
Facing an increasing intersystemic complexity, a farsighted governing body, will tend to modify and/or extend the variety of internal components and external relations, especially leveraging innovative flexibility. The latter can be interpreted as the ability to generate new specific structures, affecting the extended structure (Golinelli, 2002) by exogenous and endogenous organizational changes, technological innovation and enhancement of labor as a factor of development (Antonioli, Delsoldato, Mazzanti, Pines, 2007). This is feasible only if it is possible to increase and/or modify relationships with external entities. Innovative flexibility (Killick, 1995) generates, then, an active attitude by companies in terms of improving product quality, increasing productivity and competitiveness through technical and organizational changes as well as growth of the skills possessed by human resources, in cases of high complexity that the system is unable to govern, able to influence survival (Cruel, Guidetti, Mazzanti, 2004).

In a context, as it is the current one, characterized by a deep economic and financial crisis, requirements of flexibility to perform a function are very relevant in terms of the viability of businesses.

IV. THE ENTERPRISE “CRISIS CULTURE”

The company in the systemic view is configured as an open system interacting with the external environment, which pursues as survival that is realized through the creation of value for relevant over-systems by building, sustaining and defending competitive advantage (Grant, 2011). It possesses the ability to self-homeostasis and is characterized by a life cycle similar to that of living organisms (Golinelli., 2005).

Thus it is born, grows, and reaches the stage of maturity and decline. In this last phase following the possible revival (turnaround) and/or the extinction, although with significant discontinuities and contradictions in the evolutionary dynamics (Cafferata, 2010).

These stages, more or less extensive in time, include the decline that can take on the characteristics of crisis pathological and/or physiological, with risks to the survival of the company, if it enters into an acute phase (Guatri, 1995) which have implications for stakeholders. In some cases, however, the crisis does not occur if “reactive forces that lead, after some time, the arrest of the decline and the recovery up to the normalization and the recovery momentum of progress and creation of new value are put into place” (Guatri, 1995, p. 16).

The term “value”, interpreted as the “driver for business and its creation is the very reason of their existence” (Vicari, 1995)3, expresses, therefore, the wealth of the company, owned and distributed (Calabrese, Bologna, Landolo, Bilotta, 2012) in the medium to long term view4. This implies that, by itself, to achieve profitability in the short term may not generate value creation. Where value creation (Guatri, 1991; 1992; James, 2010) indicates the increase in the economic capital of the company (W)5, for the benefit of holders of venture capital (Rappaport, 1986), the ratio between the average expected returns (R), and the capitalization rate (i) 6

\[ W = \frac{R}{i} \]

Normally the governing body has more control over (R) rather than (i) because the flows are determined with some precision; in the quantification of (i), however, is not always easy to calculate the cost of equity while it is easier to determine debt for which the rate of interest paid can be used as a valid proxy. It follows that if it is easy to detect a reduction in the value of the company in the presence of a reduction of flows, does not apply equally in the event of an increased risk (Danovi, 2011; Proietti, 2008) typical of a context characterized by increasing complex (Beck, 2000; Beck, Holzer, 2007) environment.

According to the theory of Value Based Management (VBM) (Amigono, 2002; Arnold, 2000; Bini, 1997; Condón, Goldstein, 1998; Donna, 1992; Guatri, 1991; Knight, McGraw Hill, 1998; KPMG Consulting, 1999; McTaggart, Kontes, Mankins, 1994; Parazzini, 1999; Pellicelli, 2007; Rappaport, 1986; Stewart, 1991), value creation is the goal that management should pursue not only to maximize the usefulness of the shareholders, both in terms of dividends and capital gains, but also to preserve the life of the business efficiently and effectively.

To Arnold (2000) “is a managerial approach in which the primary purpose is long-term shareholder wealth maximization”.

Businesses over time, however, have expanded this view by switching to an approach based on sustainability and on creating value for all stakeholders. In this concept all categories of stakeholders at different levels are included, which must establish consonance. Not only holders of venture capital and managers but also customers, suppliers, employees and the reference context.

In this view, if the performance in a given span of medium-long term, in terms of income flows, are systematically and irreversibly negative or non-existent, the enterprise rather than creating destroys value, undermining its possibility of survival. It follows the concept of decline (Guatri, 1995; Cameron, Whetten, Kim, 1987; Cameron, Whetten, Kim, 1987) company. If such a concept can be perceived as a physiological stage of the business life, its degeneration, with severe and growing impact on cash flows in terms of insolvency, reduces credit capacity, weakens reputation and corporate image, leading to the state of the crisis whose solution requires an incisive process to rehabilitate the business by over-reference systems, with "sacrifices" for the various stakeholders, to avoid, ultimately the death of the company with bankruptcy. The state of crisis, when it comes conception leads to choose the "shortcuts" that increase the cash flow in the short term but in the long destroy business value because they reduce the company's competitiveness and the quality of customer service”. G. VIANI, Introduzione, in CORPELAND T., KOLLER T., MURRIN J. (Eds.), Il valore dell'impresa. Strategie di valutazione e gestione, Il Sole 24 Ore, Milano, 1994, p. 12.

3 To increase the value of the economic capital of the company, we must act on (R), increasing profits or streams, or reducing the risk (i).

4 Given by the sum of the rate of risk-free investments (r) and the risk premium specific to the sector and the enterprise (s): i = r + s.
to a pathologic stage, is representative of negative equity as the value of loans is insufficient to ensure the repayment of the related funding sources (Bertoli, 2000).

The decline and subsequent crises are anticipated by warning signs, in respect of which there is generally some resistance or inability by entrepreneur or manager to interpret them correctly, take immediate corrective measures and especially monitor threats to prevent them. This requires a widespread "culture of crisis" integrated in the strategic planning, able to know in depth the causes that originated it and that are intend to fight.

In the economic literature, the Italian term restructuring is usually associated with difficult situations in the life of the enterprise, and corporate restructurings are commonly interpreted as a set of choices and solutions, at its disposal, to overcome a state of crisis.

The behavior of the company in relation to the different attitudes that can take against the external environment, can be classified as follows:

- passive behavior: the company does not deepen the knowledge of the environment and its changes, which often lead to situations of instability. The restructuring process is therefore aimed at survival, because the company does not have the potential to take the path of growth back;

- active behavior: the company chooses to follow, interiorising, environmental changes, anticipating the necessary adjustments in strategy and structure to avoid being caught unprepared;

- proactive behavior (or anticipatory). The firm searching in a systematic way new opportunities for value creation is not only able to anticipate, but also to influence the changes in the environment, being able to manage the risk arising from uncertainty.

Such attitudes represent business behaviors adoptable by an entrepreneur or corporate management against the external environment: in other words management style.

The corporate restructuring of companies in crisis situations are the result of a managerial passive behavior. The company has pursued strategies that have gone along with market trends, but resulted unsuitable and harmful for the company, which has put in place risky strategies. It is therefore in a state of decline/crisis, forced to make suboptimal decisions and subject to other parties conditions. In the corporate reorganization aimed at the growth, that is- "corporate restructuring" in the proper sense, the situation of the company is not compromised, there are indeed quite large room for maneuver.

Interventions are designed to strengthen the company's competitive position, and then to catch the opportunities for greater business value that arise when there is a gap between the maximum potential and the current value of a business unit. Basically it comes to "restructure when things are going well" (Tato, 1995).

The first type of operation is representative of a reactive behavior, while the anticipatory and proactive behaviors are present only in the last category. From this distinction it derives a ranking of intensity alarm. While in the last type of transaction does not exist at the present, a real problem, but it is only the foresight of those who manage the company outlining a strategy to change the rules of the game in the market, in the other two there is an increasing degree of alarm and concern.

To the anticipation of a state of decline or crisis for the company are interested, to guarantee its interests, particularly the current and potential financiers, suppliers, employees, shareholders, etc .. These categories of stakeholders use, for the analysis, methods based on intuition and on rough estimates, or again on the evaluation of the economic capital (Guatri, 1995). The first ones are based on the symptoms of decline and imbalance recognizable outside, also measured through benchmark analysis; they are cited, as an example, the belonging to sectors in crisis, the loss of market share, production and market-level inefficiencies, managerial and organizational problems, lack of planning, low or no levels of innovation, income and financial disequilibrium measured by the ratios of the budget (Caramiello, 1968; Scott, 1981; Invernizzi, Molteni, 1991; Moliterri, 1999).

The criteria used for the evaluation of the economic capital are attributable to direct methods (in the strict sense, and based on the multiplier), the indirect methods based on stock sizes (simple and complex equity capital), flow (income and financial) and the mixed methods (EVA, mean value and limited duration of goodwill).

The methods based on models, regarded as the most sophisticated and articulated criteria for predicting the crisis, are primarily focused on the already mentioned Zeta-Score by Altman (1968), the Skandia Navigator by Edvission and Malone (1993), on case-based reasoning formalized by Kolodner (1993), on the Monte Carlo Simulation (Brugger, 1987), on the Sensitivity Analysis (Saltelli, Chan, Scott, 2000), the Scenario Analysis, the Value Chain Scoreboard elaborated by Lev (2001) and the Balanced Scorecard by Kaplan e Norton (1992). The state of firm crisis can be predicted, also through additional univariate and multivariate statistical methods developed by Beaver (1966), Alberici (1975), Appetiti (1984), Cascioli and Provasoli (1984), Forestieri (1986), Kranowsky (1988), Bijnen and Wijn (1994), Beaver (1966). Other scholars have based this prediction on qualitative aspects (such as environmental dynamics, strategic situations and compositions of business) (Coda, 1975, 1977, 1984; Cattaneo, 1976; Guatri, 1986; Brunetti, Coda and Favotto, 1990) and on those relating to the management of the financial system (assessment of creditworthiness) (Basel Committee of Banking Supervision, 2001).

V. FROM ENTERPRISE DECLINE TO CRISIS

The phenomena of decline and crisis are not easily distinguishable especially in situations of ongoing evolutionary process. It is, above all, in the early stages that this border is absolutely unstable, when crisis situations are perceived as mere forms of decline.

The decline is regarded as the state of businesses when "they fail to anticipate, recognize, avoid, neutralize, or adapt to

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7 Guatri: writes: “This happens for example when the cash flow, because of little or no investment in tangible or intangible, or of decrease in volumes of activity with consequent reduction in working capital, allows you to postpone over time (often long) the explosion of financial difficulties; or when entrepreneurs and managers involved are particularly skilled in concealing the state of progressing decline, or even provide information contrived to contain and delay the loss of credibility. But apart from these particular situations, appears conceptually arbitrary set a limit to the erosion produced by the losses (in terms of income and value) to determine when to begin the "crisis"."
internal or external pressures that threaten the survival of the organization in the long run” (Weitzel, Jonsson, 1989). The manifestation of this phenomenon characterized by a negative trajectory, the intensity of which is measured according to the extent of the destruction of value measured in a certain period of time, for Guatri (1995, p. 107), occurs when:

- there is a significant reduction in income flows and not only in the case of loss of income;
- a decrease in income flows must be systematic and irreversible unless action healers or restructuring;
- the reduction of income flows is related to the decrease in profitability both on historical and, above all, on a prospective basis;
- the risks assumed by the company, latent and undetectable by the accounting measures of results, result in a reduction of its total value.

This phase can stop and be reversible if the governing body, as mentioned above, implements timely actions to diagnose endogenous and exogenous threats, stopping the causes and repair the enterprise. This is possible if there is an effective and efficient system of management control, an adequate reporting system, an effective strategy and an efficient and flexible operating structure.

The decline and crisis (Coda, 1983; Brugger, 1984; Vergara, 1988; Sicca, 1993; Zanda and Lacchini, 1995; Sciarelli, 1995) may occur through a structured path in four stages that have peculiar ways of manifestation (Guatri, 1995, p. 111):

1. incubation which is revealed through signals of decline and economic-financial imbalance;
2. maturation of decline when are generated income losses and declines in the value of the economic capital;
3. impact of losses on cash flow that first fade and then become negative; this results in less chance of borrowing due to a lower reliability of the company;
4. explosion of the crisis which generates a situation of insolvency, that is, of inability of the company to fulfill its obligations on time, or even collapse, was typical of a company that has spent its life cycle, where it occurs a serious imbalance in assets that would result in negative equity. In this phase, in which they are generated serious damage to the image of the company, are necessary interventions as well as sacrifices by all stakeholders. In this phase, in which the control, in terms of taking business decisions, is maintained by the shareholders even if the true “owners” of the company become creditors, the interests of the company and the financial counterparty diverge widely.

The bank, though awareness of the situation of their client (usually there is an information gap), the interest has to retract their claims, while the entrepreneur, having nothing to lose, play all out increasing investments more risky. If the investments are successful, the company is able to repay some of the debt, otherwise enters into a situation of no return and the contractor ceases to play its role.

The tendency of management to take on more risk when the company is in a state of crisis or financial distress is validity in studies conducted by Jensen and Meckling, in the mid-seventies on conflicts of interest between shareholders and creditors (agency costs). In particular, it was noted that management is encouraged, as noted above, to carry out projects more and more daring in situations of risk of growing instability. In contrast to the agency costs are also benefits: think of the greater accountability of management in companies that have suffered an LBO (leveraged buyout). The leaders, in this specific case, become pure by executives in management-shareholders, with a beneficial impact on the conflicts of interest between the two parties (Altman, Smith, 1991). In addition to costs highlighted by the analysis of Jensen and Meckling there are other costs attributable to corporate crises. Specifically, there are the direct costs and indirect costs.

Direct costs are tangible costs arising directly from crisis management to implement the process of liquidation and rescue the company. Fall into this type legal fees, consulting, administrative, as well as costs related to "lost opportunities". They account for 0.3% of the total value of the assets of the company at the beginning of the intervention of restoring.

Indirect costs are costs consist of lost revenues and lower profits due to the perception by the market, the state of crisis of the enterprise (loss of reputation / image) and its reluctance to purchase products or services from a company from the future uncertain. The estimated value of these costs is particularly complex.

According to Altman the value of direct and indirect costs for industrial companies is equal to 15% compared to the market value of the company calculated the year preceding the incurring of the crisis.

It is believed, also, that there are also a number of costs not attributable to the groupings mentioned above, such as the probability of defections by key staff. The costs associated with the collapse depend, therefore, by the probability of occurrence of the event and the amount of expenses that will be incurred in the event that happens. The probability, which is the risk of collapse, is subject to the ability to comply with the commitments existing at a given time.

Both the first two stages that are related to the decline both the other two extrapolated to the crisis, may originate from a set of causes resulting from subjective factors and objective ones (Slatter, 1984; Tail, 1987; Guatri, 1995; Boccia, 2002). The first factor identified in the government body (Sciarelli, 1995; Starbuck, Greve, Hedberg, 1978; Hambrick, Mason, 1984; Slatter, Lovett, 1999), mainly responsible for corporate failure, whose replacement is necessary to "remove the state of difficulty", while not ignoring the responsibility of those involved at various levels of the company and the behavior of other external stakeholders such as the financial system, suppliers, etc.. In this category enter acquisitions strategies/ target choice/wrong time. These include the acquisition of troubled companies in mature industries.

The underlying reasons are found in the search, continuous and exasperated, significant synergies, in the desire to become great at all costs, without a structured financial planning and verification of the ability of the strategic plan to generate cash sufficient to service the debt.

The mistakes in the diversification, concern cases where companies are acquired while valid in terms of diversification, without the buyer possesses the knowledge and competencies of management. In this case, only strategy

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4 The main criticism moved by Sciarelli to this factor, concerns the lack of capacity and errors in the formulation of strategies, in the choice of organizational structures, inability to manage the company's resources, etc.
of refocusing may enable the company to return to the path of success, without excessive economic damage.

The objective factors (Guatri, 1986, 1995; Faccincani, 2007, Coda, 1983; Brugger, 1984) which determine situations of decline or crisis depend on causes that are beyond the sphere of influence and control of management as:

- inefficiency;
- overcapacity/stiffness;
- decay of the products;
- shortages of competitive positioning;
- lack of programming/innovation;
- financial imbalance.

The decline and crisis are determined by inefficiency, which may adversely affect the competitive position on the market, when one or more areas of the company operate with yields not "in line" with those of competitors. This situation even if you particularly evident in the production area also affects the area of administration, finance, organization, sales network, etc.. Among the reasons that may determine a level of costs higher than the industry average or better competitors may be those relating to technical obsolescence or the age of all or part of the instruments of production, low skills, ability or commitment of workers, redundant or insufficient staff, limited productivity of human resources, use of inadequate facilities, obsolescence information systems, inadequate investment in technological innovation, inability organizational functions production and supply, administrative and commercial inadequate, high bureaucratization of the administrative area, dysfunctions in plant maintenance, excessive scraps.

The decline and crisis for overcapacity/stiffness can result from:

- A persistent reduction in demand caused by overcapacity in the industry due to changes in consumer tastes, barriers to export, import fierce, managerial policies aimed at growth, adverse changes of legislation on the sector, etc.. This outlines a hypothesis as typical situation of crisis burden on businesses that, with a production capacity in excess of the demand, fail to adapt quickly the incidence of structure costs for new sales volumes. In rigid and inflexible companies these costs have a relevant impact on the unit cost and thus the price generating considerable problematic in the case of negative changes in demand caused by reduced consumption, product innovations by competitors, changes in consumer tastes etc.;
- lasting reduction in orders caused by the loss of market share, which affects only the company affected by the phenomenon but the entire sector. To avoid the occurrence of a state of decline or worse crisis it is necessary to timely adjust costs;
- increase in revenue lower than expected, compared with a production capacity oversized compared to the actual use. The crisis of overcapacity is detectable, for example, through the analysis of the indices of stock turnover when they show a slowdown and a consequential expansion of the cycle of working capital, liquidity index (acid test) and increasing short-term debt.

A special case of crisis by rigidity, not connected to situations of over-capacity, is increases in costs not offset by corresponding changes in prices, subject to public control. The decline and crisis decay resulting from the contraction of the contribution margin to a level necessary to allow coverage of overhead costs do not generate surplus thus dragging the company towards a situation of imbalance before and subsequently causing contractions in cash flows. Among the causes that kind of critical successes may include the unwillingness of the enterprise innovation, differentiation and diversification, the market presence of substitutes, inefficient marketing activities, with a high creativity and innovative capacity from the part of competitors.

Decline and crisis in competitive positioning result from a choice not realized by the strategic business but markets or segments to be served, loss of brand reputation, excessive charges absorbed from the distribution.

The lack of planning has to be understood as the inability of the governing body to adapt quickly to changes on the business management, in terms of market, product, resources and expertise, namely, to prevent the change. This criticality, which is exacerbated if there is no involvement of the management and human resources in the performance of management, highlights how the organization is focusing on the achievement of short term at the expense of medium-long term jeopardizing its very survival. Among the many strategic mistakes that can lead to the destruction of corporate value can be ascribed: maintaining business areas that generate persistent negative results for which are not expected a reasonable chance of recovery; diversification strategy that determines the input in strategic business areas as a result of acquisitions that do not have the character of synergy with the core business; daring stages of development that are not supported by adequate material, assets, financial and managerial resources; disproportionate investment for entry into new markets for which there is uncertainty of economic return, image, etc.; excessive investment in research and development. The reluctance to innovation by the entrepreneur to 'break' the stationary equilibrium by introducing new combinations of factors of production, new markets, new methods of presentation and dissemination of products, new systems to procure the means to invest, etc., as an essential condition for the maintenance of competitive advantage and value creation.

The decline and crisis financial imbalance are very often determined by one or more of the causes described above.

The criticality of a financial nature are determined by: an excessive leverage, significant short-term debt than other forms of borrowing, temporal imbalance between sources and uses, insufficient / nonexistent cash reserves, missed payments on the agreed dates with suppliers, with banks to the rate of fixed-term loans such as mortgages or leasing, with social welfare and assistance, up to the limiting case of salaries to employees. This type of imbalance affects both the profitability of the company, as it generates high financial results in marked economic losses, and the possibility of acquiring the capital market as well as debt and negotiate credit conditions. The financial imbalance is amplified when the company has insufficient capital strength that does not allow it to cover any operating losses and take corrective action, thus accelerating the transition from decline to the crisis.

In reality, the manifestations of these phenomena are determined by a combination of causes according to a certain time sequence. The most frequent first factors of decline and crisis are inefficiencies, the decay products, policy errors and shortcomings of programming/innovation. Only later, the crisis, by multiplying the consequences,
affect other phenomena mentioned: the stiffness and financial imbalances.
Following a different profile analysis, to these factors may have other presenting an array of endogenous or exogenous to the company.

The external contingencies, not controllable by the governing derive (Scirelli, 1995) essentially by the sectorial crisis, determined by ecological and economic causes or accidental (catastrophic events), involving whole sectors of the economy or particular sectors and activities to therefrom.

The critical internal errors springing from strategic and organizational governance body, are more easily managed by the same company and need to be addressed periodically regardless of what happens in the competitive outdoor⁹. They can be distinguished: strategic crisis, positioning, size, and inefficiency. The crisis in internal matrix can be further distinguished from investments, innovation and lack of strategic, structural and operational flexibility. The crisis of sector strategies require production conversion, the market repositioning strategies of the range, the structural restructuring strategies, the inefficiency of strategies corporate reorganization (Scirelli, 1995).

For Slatter and Lovett (1999), they are derived from the endogenous causes: inadequate management for incompetence and lack of interest in the business, inadequate control of financial management, inability to manage the company's resources, management costs too high, that put the firm in a competitive disadvantage compared to its main competitors, inadequate marketing policies, excessive loads of activities, expensive policies acquisitions, unreasonable investment strategy, organizational inertia and confusion. Among the external factors were identified negative changes in demand, competitive dynamics aggressive, unfavorable trends in the prices of goods or services offered.

The determining factors of internal corporate crises, for Masciochi (2007), are:
• The lack of ethics as personal ambitions for greater power and wealth by the top management also pursued through unfair behaviours;
• Inadequacy by top management as dominant and autocratic, who takes personal decisions and does not accept dissent;
• The top government functions will be exercised by a single person;
• Incompetent, inadequate, not responsible management. Especially in large companies which are characterized by decentralized decision-making it has been paid attention to the collective responsibility in case of:
  • the top management operates on the status quo in place rather than as an agent of change, when it is passive or inert towards the organization surrounding it, rejecting a critical judgment about potentially risky decisions without making the necessary adjustments in their area of responsibility;
  • Lack of control of management/financial systems;
• Policies of excessive internal and external expansion. The internal projects can be critical when they underestimate the capital investments required, the difficulty of start-up of the new initiative for technical and organizational reasons, not economic saturation of new capacity, excessive costs for entry into new markets with new products, major contracts to penalizing conditions in the formulation of the price and/or cost estimates. The policies implemented external expansion through acquisitions may result in a devastating impact on the business if the acquisitions involving “losers” companies, excessive purchasing price, poor management post-acquisition;
• Excessive costs that determine the non-competitiveness. Competitive disadvantages can be caused by missing economies of scale, cost disadvantages, cost disadvantages to operating inefficiencies, cost disadvantages determined by the style of management and complexity of the organization, disadvantages due to a standard of living level;
• Erroneous financial policies;
• Inadequate management of working capital, due to serious deficiencies in the management of the flow of trade receivables, inventories and trade payables;
• External factors when the company is already "sick" because of internal factors. Based on several empirical studies, those that affect the decline and crisis of enterprises are: structural changes in market demand; strong discontinuity in competitive products/selling prices; structural changes in technologies; social/political changes.

Falini (2011), based on the analysis of the business management literature summarized the basic factors to consider in five macro-variables, each of which includes a number of specific elements, separated according to the origin through a line of demarcation, they have been placed at the top of the "diamond model" represented by a pentagon.

To this must be added errors in marketing and commercial policies in terms of insufficient or incorrect product mix, excessive charge distribution apparatus, errors in the choice of markets and target customers, loss of business reputation, inability programming (Sottoriva, 2012).

Additional causes of the crisis are attributable to extraordinary events:
• insolvency of a key customer;
• disputes between members, with the tax authorities, customers, employees;
• events not covered by insurance;
• protests and strikes by employees;
• the generational shift;
• the withdrawal and the consequential liquidation of a partner;
• legislative changes such as to impact on the quantities produced.

Depending on the time when crisis can be originated, it distinguishes between from "birth" or "management" (Scirelli, 1995). It is considered of birth when it derived from errors by the government, in the implementation of new business, in terms of structural dearth and inadequate market positioning. The crisis of "management" sets in the lifetime of the company when it does not adapt quickly to the changing context.

⁹"A company periodically needs to shake itself up, regardless of the competitive landscape. Even if the external environment is not changing in ways the demand a response, the internal environment probably is. The human dynamics within an organization are constantly shifting-and require the organization to change along with them", in Vermeulen F., Puranam P., Gulati R., Change for change’s sake, Harvard Business Review, June, vol. 88 n. 6, 2010, p.71.
In both cases it assumes, in particular, an important role the funding of the company for the investment plans (Dell’Atti, 2012). An analysis of the factors that determine the decline and crisis, seen as negative elements, it appears that they impose on the system enterprise a loss of competitiveness and consonance with stakeholders, considered essential for achieving the goal of survival and then the creation of value. Therefore, it is necessary a thorough evaluation of the causes that determine the degenerative process in order to proceed promptly to the identification of the nature, size and timing necessary to restore balance in the state of health of the enterprise, limiting as much as possible “costs” for stakeholders.

VI. CONCLUSIONS, MANAGERIAL IMPLICATIONS AND FUTURE RESEARCH.

From the analysis carried out the state of crisis experienced by the company is the culmination of a situation of overall decline, which is derived from a number of causes long latent because of the reluctance or inability of governing body to evaluate and address them timely through a suitable modification of the evolutionary dynamics of the enterprise. Therefore, to afford such a situation by preserving the value of companies, ensuring continuity and avoiding the bankruptcy it becomes critical to implement a strategic control system which, through continuous monitoring, evaluate and promptly address the threats coming from endogenous and exogenous factors, and to exploit the opportunities, especially for SMEs which are more exposed to the risk that skepticism or excessive optimism of the government will lead to “neglect a proper analysis of symptoms” (Guatri, 1995).

Such the conclusions of the present research, which aims to deepen further in future research, which are the corporate restructuring processes necessary to translate difficulties into opportunities and even growth.

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