

## STRATEGIC ASPECTS OF ANTI-CRISIS MANAGEMENT OF AN INDUSTRIAL ENTERPRISE

**Borislava Galabova, Emil Dimov, Nikola Stratiev**

University of Mining and Geology “St. Ivan Rilski”, 1700 Sofia; E-mail: borislava\_galabova@mgu.bg

**Abstract.** The paper focuses on the anti-crisis management of industrial enterprises in the current complicated business context. An analysis is conducted of the applicable strategies in the conditions of crises of a heterogeneous nature, affecting various aspects of an enterprise's activity. The potential of each strategy to be used to overcome the negative crisis effects and impacts is examined and outlined, based on a critical review of the theory and on a synthesis of the good practices in Bulgarian enterprises. Some recommendations are proposed for the effective implementation of the different strategies, their combining, and the creation of a strategic plan in the context of strong dynamics, instability of the environment, and unpredictability of future events and trends.

**Key words:** industrial management, industrial enterprise, strategy, anti-crisis management, crisis

### СТРАТЕГИЧЕСКИ АСПЕКТИ НА АНТИКРИЗИСНОТО УПРАВЛЕНИЕ НА ИНДУСТРИАЛНИТЕ ПРЕДПРИЯТИЯ

**Борислава Гълъбова, Емил Димов, Никола Стратиев**

Минно-геоложки университет „Св. Иван Рилски“, 1700 София

**РЕЗЮМЕ.** Изследването е посветено на антикризисното управление на индустриалните предприятия в настоящия сложен бизнес контекст. Направен е анализ на приложимите в кризисни условия стратегии, които засягат различни аспекти от дейността на предприятието. Въз основа на критичен преглед на теорията и обобщение на добрите практики на българските предприятия, потенциалът на всяка от стратегиите за преодоляване на негативното влияние и ефекти от кризата е разгледан и очертан. Изведени са препоръки за ефективното прилагане на различните стратегии, тяхното комбиниране и създаването на стратегически план в условията на силна динамика, непредсказуемост на средата и трудна предвидимост на бъдещите събития и тенденции.

**Ключови думи:** индустриален мениджмънт, индустриално предприятие, стратегия, антикризисно управление, криза

### Introduction

Modern economic theory and practice both demonstrate that crises are an inescapable component of the life cycle of any industrial enterprise. Crises either serve as a catalyst for development and subsequent growth, or as a catalyst for activity cessation and enterprise liquidation. They represent a turning point at which the behaviour and attitudes toward economic activity in the past, as well as its future development, are put to the test. When an industrial enterprise is faced with a crisis or has already been impacted by one, it is critical to conduct a situational and systematic analysis and select a potential strategy. As a result, anti-crisis management must become a required and permanent component of overall governance, regardless of whether a crisis has occurred or is imminent. Periodic crises occur and destabilise the enterprise. As a result, the subject of strategic analysis and the formulation of a strategy for mitigating or overcoming crisis situations and trends is a timely and significant area of research.

On this theoretical and methodological basis, the aim of the present report is to clarify the nature and role of crisis management for the existence, survival, and development of industrial enterprises and to present a critical review and

analysis of the possible strategies applicable as prevention for current or upcoming crises. The relevance of the study grows as we witness an accumulation of crisis impacts of various origins and nature in today's economic, social, health, and political conditions. Concurrently, the factors that contribute to the crisis often have a parallel and complementary effect.

Therefore, it is critical to explore all potential opportunities and to choose the optimal strategy or combination of strategies according to the current situation of the company and its set goals in a medium and long term. The main thesis is that anti-crisis management and rational strategy selection or combinations of strategies are key factors in resisting and overcoming the crisis with all of its manifestations and consequences. Without anti-crisis management, reactions and activities will be chaotic, unplanned, and lacking in specific objectives and outcomes. This would imply that there would be no or very few policies, and reciprocal actions, to assist managers in navigating the acute phase of a crisis and mitigating its effects.

### Anti-crisis management: theoretical and methodological aspects

Each crisis is unique in terms of the factors and prerequisites for its occurrence, the mechanism of action and impact on the company, the prospects for the development of the crisis, and the expected duration and extent of impact. The crisis is a key moment in the development of industrial enterprises because it creates a volatile environment that threatens their processes with a sharp or decisive transition. (Milcheva, Kurteva, 2010). Crises threaten priority goals, challenge the traditional models of organisational behaviour and values, and put pressure on businesses, which is essential in the absence of time for decision-makers (Mobarek, 2002). Crises can affect a single aspect of an activity or a single function, but they are more likely to affect at least several aspects and functions. Finances, manufacturing, marketing, sales, logistics, human resource management, communications management, and stakeholders may be affected as a result. The range of crises also differs, with local and smaller crises covering one enterprise or sector of the economy and global crises including many sectors or the whole economic system. Therefore, each crisis has its own unique profile and characteristics. Regardless of these particulars, a crisis situation in an enterprise implies that it is no longer as sustainable, stable, viable, normal, and promising as would be expected in the absence of the crisis situation and its prospects. Adverse external influences and shocks are registered, requiring managerial decision-making and reaction. Managers seeking to protect and preserve the integrity, business sustainability, and viability of the enterprise have two options: prevent it if possible, or overcome it with the fewest possible losses and long-term negative effects on the business.

Before deciding on an anti-crisis strategy, it is crucial to identify and research the factors that contribute to the onset and progression of crises. Internal and external factors can both be present.

The following internal factors can be systematised:

- incorrect product-market strategic decisions;
- incorrect investment strategic decisions;
- wrong policy in employee selection and distribution;
- inadequate operational management (Milcheva, Kurteva, 2010).

External factors that can be identified include:

- macroeconomic instability;
- technological factors;
- political factors;
- socio-cultural factors;
- international factors (*ibid.*).

Regardless of the reasons for the occurrence and development of a crisis, a company in crisis has difficulties achieving its goals, and its stability is put at risk that can lead to bankruptcy (Kurteva, 2009). The balance in such an enterprise is shaken, the normal flow of processes is disrupted, and business sustainability is put to the test. As a result, in order to ensure an adequate response - crisis resolution - a thoughtful management decision must be made quickly. The speed with which the company responds is also important because the shorter the period during which the company is exposed to negative crisis effects, the more likely it is to overcome them before they worsen.

In the face of the accumulation of various types of crises, fierce rivalry conflict, and turbulent conditions caused by the influence of external environment factors, industrial enterprises must focus on more than just their state, activity, results, and

prospects for development. It becomes necessary for them to develop and implement a long-term behavioural strategy that allows them to account for and comply with these changes, as well as to find an appropriate response to the complex environment in a timely manner.

Crisis management planning is an essential component of ensuring stability at all stages of the enterprise life cycle. This necessitates research, analysis, and selection of an appropriate strategy to ensure such stability, security, and predictability under any circumstances. If possible and feasible, the anti-crisis strategy should also provide opportunities for growth and development that are not unrealistic business goals following the acute phase of the crisis. Given that every crisis exposes organisational flaws, it "highlights" which of them must be addressed.

Strategy (strategic approach) is a wide range of opportunities to address certain challenges and objectives (Zsigmond et al., 2021). Strategy is made up of decisions, reactions, and activities that increase the probability of success while reducing the probability of failure to meet the goals. The principles and processes of strategic management must evolve and adapt to the changing global economic environment (*ibid.*). Strategic management is a set of decisions and actions for developing and implementing a proper strategy that will provide the company with the best possible current competitive position in relation to the external environment and the achievement of set strategic goals. Given the significant dynamics of the environment, strategic management must provide opportunities for sufficient activity flexibility, adaptability, for overcoming uncertainty and unpredictability to the greatest extent possible.

Six interrelated and interdependent stages of the strategic management process are distinguished in the context of anti-crisis management. They are as follows:

- defining the mission and goals of the organisation in light of its current state and future prospects;
- defining the mission and goals of the organisation according to the state and prospects for development;
- analysis of the external environment and assessment of the influencing external factors;
- analysis of the internal environment and assessment of the influencing internal factors;
- formulation and formal acceptance of the anti-crisis strategy;
- undertaking the envisaged activities and measures for the implementation of the accepted strategy;
- monitoring, control, and evaluation of the results of the strategy implementation.

These stages necessitate the execution of three major types of activity: 1) strategic planning; 2) execution of the activities and measures under the strategy; 3) monitoring, evaluation, and control.

Considering the presented crisis characteristics as a phenomenon and an inevitable element of any enterprise life cycle, it can be confirmed that despite its harm, the crisis has a positive impact on the development of an enterprise (Velchev, 2012).

Its primary functions for the development of the enterprise are as follows:

- a crisis mediates the removal of obsolete system elements that have lost their potential and, as a

result, delays the evolutionary development of the enterprise;

- a crisis creates the conditions for replacing obsolete system elements with new ones that have potential, thereby stimulating enterprise development;
- a crisis creates opportunities for the accumulation of elements with proven and sustainable quality characteristics, which are a transition from the past to the future and equate the enterprise potential (Spasova, 2009).

These conditional benefits of the crisis should be considered when evaluating potential anti-crisis strategies, their benefits and disadvantages, and their relevance to the specific crisis situation, profile, activity, and goals of the enterprise.

## The use of strategies in crisis management

The current realities force industrial managers to make strategic decisions in an environment of uncertainty, increased risks, challenges, insecurity, and unpredictability. This necessitates the search for new methods and tools in the context of planning and implementing the chosen strategy. Within the framework of crisis management, two types of strategy can be distinguished: defensive (protective) and offensive (expansionary) (Kehayov, 2014). The application of anti-crisis management is a mandatory modern management element, as well as seeking for non-traditional and alternative strategies through which the company can adapt to the crisis. Therefore, different approaches are possible and applicable when selecting a strategy - those that aim at shrinking, limiting or not taking an active position; and those that aim at expansion, activity and progressive actions of the company in response to the crisis. The approaches are different, but the goal is the same: to find working solutions to successfully overcome adapt or prevent a crisis situation, if possible.

It is not necessary to accumulate and spend a lot of financial resources for the development and implementation of defensive strategies because these strategies are feasible and realistic with limited financial resources. Since their costs are low, they are frequently preferred as an option in times of crisis, when financial resources are even more limited and the company's financial and economic condition is shaken.

Overcoming the crisis with these strategies is a function of consciously chosen restrictions, restrictive steps, deliberate stagnation, and business shrinkage in one or more directions. The following defence strategies are applicable: separation strategy, hibernation strategy, shrinkage strategy, release strategy, accession strategy, and exemption strategy (Kehayov, 2014).

### *Separation strategy*

The main emphasis in this strategy is on the separation of the enterprise into independent and autonomous individual divisions and units, the goal being decentralisation while keeping in mind the need to survive and overcome the effects and shocks of a crisis. Following the acute crisis phase, some divisions and units may no longer be viable or even survive (*ibid.*). Others may have been preserved, consolidated, and stabilised precisely because of the increased autonomy they have gained in relation to the applied strategy. The separation strategy is primarily applicable to large enterprise-

conglomerates or international companies that have the ability to divide and restructure certain units as they gain autonomy.

### *Hibernation strategy*

The term “hibernation strategy” comes from the classical Latin “hibernare”, which is derived from the Castilian adjective “hibernal”, or “winter-related”. In strategic management, hibernation is associated with freezing, stagnation, a waiting state, and retreat. When such a strategy is implemented, the economic activities are stalled wholly or partially, and the enterprise is placed on hold until adverse factors cease to affect it, or until sufficient financial resources are accumulated to allow the enterprise to implement specific crisis-response measures (*ibid.*). The purpose of this lockdown is to provide enough time for analysis and planning of an adequate response, as well as for monitoring and assessing the impact of environmental factors, so that there is a better opportunity for orientation and action in a crisis situation. The ability to limit losses and postpone managerial decisions until there is more clarity and predictability is a key advantage of this strategy. The main disadvantage of the strategy is that it cannot be used in the long run because such hibernation has a negative impact on a business if it lasts too long.

### *Shrinkage strategy*

In this strategy, the company reduces staff and/or wages, working hours, temporarily halts production of certain goods, limits the product range, and focuses on essential industries and structural units. This strategy aims to reduce production costs, reduce the impact of the crisis, and minimise the impact of the crisis on various aspects of the business, resulting in greater economic efficiency and efficacy (*ibid.*). Shrinkage offers some protection to working and efficient industries, functions, and activities, as opposed to those that are morally and/or physically obsolete, as well as loss-making and inefficient. Following a systematic and situational analysis, the redundant are eliminated: unprofitable production is closed or sold; loss-making activities are discontinued; and inefficient units and subdivisions are liquidated.

The shrinkage strategy has the advantage of being a type of protection strategy that can be used to implement the reorganisation and restructuring of all or part of the activity while keeping the current or upcoming crisis in mind. The goal is to keep the company core solid — the leading and profitable activities that will help it overcome the crisis. This strategy aims to strengthen the structure, maintain key market positions, recover the financial situation, and achieve greater efficiency, cost optimisation, and resource reorganisation. It does not require significant financial resources to implement, but careful analysis is required to determine which units are effective and efficient and which are loss-making, outdated, and inefficient.

### *Exemption strategy*

Following a systematic and situational analysis, the company is freed from the unnecessary in the short-term resources, activities, and functions, so that they do not put pressure on the structure and activity during a crisis. The goal is to free up financial resources that can be used for other activities and functions.

Exempt financial resources may be used to purchase other tangible and intangible resources required for activity restructuring, rehabilitation of necessary units, and implementation of strategic functions (*ibid.*). Specific behaviour examples in the exemption strategy include ceasing production of loss-making products, optimising the number of employees, selling obsolete machinery and equipment, and replacing old

technological models with modern ones. The advantage of the strategy is that financial resources can be found and redirected to priority areas and spheres through the exemption strategy, and this reorientation can contribute to overcoming the crisis or adapting to crisis conditions.

#### *Accession strategy*

This strategy is based on finding a way out of the crisis by partnering with a larger, more powerful ally — a larger company or group of companies (*ibid.*). The goal is to help overcome the negative effects and prospects of the crisis by increasing capacity and potential, sharing resources, and achieving goals.

#### *Liquidation strategy*

This is the most extreme defensive strategy, and it is used only in extreme cases. It is used when there are no other available or viable options for resolving the unfavourable crisis situation (*ibid.*). If such a strategy is adopted, the company's assets are sold in part or entirely. This strategy is used when the other defence strategies within the enterprise have failed or when the situation is extremely concerning and requires the use of extreme measures in a timely manner. The biggest disadvantage of the liquidation strategy is that the company will most likely cease to exist if such a strategy is chosen and implemented. Its primary benefit is that the company will limit losses and will not take any new risks.

Several main strategies can be mentioned as offensive strategies. They are distinguished by the fact that they necessitate additional investment and the provision of previously accumulated resources in order to be used. Simultaneously, a careful systematic analysis is required to determine whether the respective strategy is within the capabilities of the enterprise and if it is in line with its potential. In this regard, resource security should be investigated, as it is an important criterion in the selection and evaluation of whether a strategy should be chosen and implemented.

#### *Resourcing strategy*

As the company focuses on eliminating outsourcing and subcontracting, this strategy is related to concentration and decentralisation processes (*ibid.*). In contrast to outsourcing, resourcing provides opportunities to consolidate resources and build organisational capacity. Units, activities, and functions that were previously outsourced are reintegrated into the organisational structure in order to become more distinct, reduce costs, achieve greater organisational capacity, and stabilise positions.

Adapting to the negative consequences of various kinds of crises frequently necessitates an approach of insourced inclusion. The goal of insourcing is to achieve integration and consolidation, cost optimisation, resource savings, risk minimisation, and increased internal control of processes and results. Turning inward during a crisis is a logical strategy for strengthening organisational structure, risk management, and change.

#### *Absorption strategy*

The takeover strategy entails taking an active role in a crisis. Other companies, usually competitors, are potential targets for absorption. The goal is to increase market share and market power, as well as organisational capacity and resources. Historically, economic entities of various types and sizes have been acquired based on the undertaken strategy and the primary goal of such an operation. Acquisitions should increase security and stability, provide competitive advantages, lower production costs, increase profits, and create conditions

for economies of scale due to larger amounts, vertical integration, and synergy.

#### *Exhaustion strategy*

The goal of such a strategy is to fight competitors more successfully. The emphasis is usually on a single competitor or group of competitors, with specific pricing strategies used to exhaust them. This strategy seeks to eliminate or limit the influence or market share of a relevant competitor. It is appropriate in certain circumstances, such as when the implementing company can afford a specific pricing policy and strategy and has sufficient market power. The main disadvantage of the strategy is the possibility of the opposite effect, i.e., the company's exhaustion, as it implements the strategy in conjunction with the enforced pricing policy and strategy, rather than exhausting its competitors.

#### *Cooperation strategy*

The strategy of cooperation is related to cooperation at different levels: technical, technological, economic (sales), production, innovation, and cooperation in the field of research and development. Every crisis essentially requires a certain amount of cooperation, integration of efforts, knowledge, experience, and capacity to overcome it. On its own, it is difficult to be overcome by a company alone. Having realised this, companies often focus on consolidating and sharing resources. Therefore, establishing relations, strengthening them, and developing them into beneficial cooperation and mutual assistance, all those seem to be necessary conditions for overcoming the crisis and improving the trends and prospects. With this strategy, it is possible to create strategic alliances in order to achieve a certain strategic goal, while maintaining the legal independence and autonomy of the subjects. Such a goal, around which several companies can unite, could be to overcome the acute phase of any crisis and its consequences.

#### *Diversification strategy*

As a strategy, diversification aims to gain a competitive advantage, to grow, to develop, and to effectively manage risk and change. Diversification can be implemented in a variety of ways, including expanding the product range, reorienting to new product groups and consumers, entering new areas of activity and searching for new market niches, or supplementing the main activity with new goods and/or services designed for new users using available resources, technological foundation, and marketing channels. Diversification can also be associated with the incorporation of new partners, customers, contractors, and suppliers into existing networks in order to reduce risks and costs, which is a fundamental principle in risk management. Given that a variety of risks become more acute during a crisis, diversification as a strategy has the potential to aid in risk reduction.

#### *Expansion strategy*

The expansion strategy refers to the efforts of a company to enter new markets, gain a competitive advantage, gain market share, and improve its market position. The goal is to enter new markets by seeking new customers in existing ones, to enter foreign markets based on domestic market consolidated positions, or to maintain current market positions. The expansion strategy is linked to the commercial and marketing activities of a company because it is based on good market and strategic positions and is expected to ensure stability and business sustainability in times of crisis (*ibid.*). The main disadvantage should be the risky nature of expanding a business or taking an active role. This increases

the risk and necessitates careful management, especially in times of crisis.

## Conclusion

Four main conclusions arise from the study:

First, every crisis, regardless of its type, nature, or causes, has a cost that the business must bear. Adapting to the impact of a crisis necessitates a shift in behaviour, focus, and strategic thinking. Adapting to a crisis situation entails analysing the situation and selecting an appropriate strategy or combination of strategies. As a result, the models for production organisation, processes, and product positioning, as well as the management models, must be changed and adjusted in a timely manner. It is dependent on whether or not the company will survive the crisis and how quickly it will stabilise.

Second, enterprise behaviour can be proactive and anticipatory or reactive and catching up. In the first case, certain negative events are anticipated and, before they occur, changes in strategy and appropriate measures are implemented. Taking an active stance aims to provide greater protection against the effects of a crisis, as well as greater potential for future reactions, risk management, and stability. In the second scenario, most of the time for proactive behaviour and reaction is lost, as are some of the opportunities for this. As a result, it relies on defensive strategies to reduce losses and soften the blows of the crisis. A combination of strategies is also possible in order to benefit from more than one strategy while minimising the disadvantages of each. Since a crisis also provides opportunities for identifying deficits, overcoming them, and developing their potential, it has the potential to act as a catalyst for growth and necessary changes that have not yet been implemented. These changes should have an impact on strategy changes and the selection of appropriate ones based on the type and development of the crisis situation, current factors, the company itself, and managerial attitudes and goals for organisational development. In the event of a crisis, the strategic vision which must guide managers when making action decisions is even more crucial.

Third, the insecurity and unpredictability that characterise any crisis necessitate quick but rational solutions based on objective analysis and forecasting. Exploring and understanding the potential and possibilities of one or more strategies, as well as the potential disadvantages of the chosen strategy, can provide a realistic picture of where the company is currently in its life cycle and where it intends to be in the future. To survive and maintain its viability, it must navigate the crisis by mitigating its negative effects, identifying opportunities, developing potential, and overcoming deficits. In practice, the crisis is a test of one's ability to change and adapt to unfamiliar circumstances. The faster and more comprehensive this adaptation, the less impact the crisis will have on the activity and results of an enterprise, and the shorter the exposure to the crisis will be. The importance of a response to a crisis is directly related to the importance of

strategic management, strategy selection, and strategy implementation. A crisis can act as a catalyst for positive change, hastening the transition to a new stage in organisational development. The accumulation of the effects of different types of crisis with uncertain duration necessitates flexibility and adaptability, as well as adaptable strategies that can be transformed, if necessary, and a combination of different approaches.

Fourth, strategy should be chosen based on a systematic and situational analysis of the specific crisis situation and the industrial enterprise in question. On this basis, management can objectively choose the type of strategy to implement or combine several strategies based on their positives, negatives, and implementation risks in order to improve crisis management effectiveness. Effective anti-crisis management is based on the use of appropriate and rationally chosen strategies, with a focus on both crisis prevention and mitigating negative consequences if a crisis has occurred. As a result, it is a required component of business management.

## References

- Couleter, M. 2008. *Strategic management in action*. Prentice Hall, New Jersey, 269-270.
- David, F. 2011. *Strategic management*. Upper Saddle River, Prentice Hall, New York
- Milcheva, G., G. Kurteva. 2010. ERP sistemite i upravlenieto na firmite v usloviqta na ikonomicheska nestabilnost. *International Conference of Burgas Free University 2010*, 272-280.
- Mobarek, S. 2002. *Krizisnoe upravlenie na predpriyatii. - Informacionnii tehnologii v biznese*. Pod redakcii Milana Jenelnii. Piter, Sankt-Peterburg
- Porter, M. 1980. *Competitive Strategy*. Free Press, New York
- Kehayov. A. 2014. *Upravlqvai drazko i madro*. Alfa Quality Bulgaria, Sofia (In Bulgarian)
- Kurteva, G. 2009. Effective management in the conditions of crisis. *ICSS "Industrial organization: Theory and Empirical Applications"*, Izmir, Turkey, September 2009, 2, 135-143.
- Spasova, E. 2009. Firmenata finansova kriza i vazmozhnostite za neinoto upravlenie – teoretichni aspekti. - *Journal „Izvestiya“*, Issue 2/2009, Varna, 46-57.
- Velchev. B. 2012. Kriza v predpriyatieto: fazi, faktori i podhodi za izsledvane. - *Ilizvestiq 2/2012, Spetzialno izdanie „Ikonomicheski, socialni i ekologichni predizvikatelstva pred regionalnata i natsionalna konkurentosposobnost*, Nauka i ikonomika, Varna, 89-101. (In Bulgarian)
- Yordanova, D. 2018. Strategii pri krizi v organizatsiite. - *Upravlenie i ustoychivo razvitie*, 1/2018 (68), University of Forestry, Sofia. (In Bulgarian)
- Zsigmond, T., R. Machova, A. Zsigmondová. 2021. Strategic Management from the Perspective of SMEs Operating Service Sector. - *Quality Innovation Prosperity/KVALITA INOVÁCIA PROSPERITA*, 25/2, 37-53, DOI: 10.12776/QIP.V25I2.1549