

## **INTERCONNECTION BETWEEN ANTI-CRISIS MANAGEMENT AND RISK MANAGEMENT**

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**Key words:** anti-crisis management, risk-management, bankruptcy management, enterprise.

### **Abstract**

The article deals with the definitions of the notions: “anti-crisis management”, “crisis-management”, “bankruptcy management” and “risk-management”. The determination of interconnection between those notions is the original point of author’s view. The attention is focused on the realization of anti-crisis management and risk management. The interconnection between all those notions is presented, including the example of the Ukrainian economic situation.

## **WZAJEMNE POWIĄZANIA MIĘDZY ZARZĄDZANIEM ANTYKRYZYSOWYM A ZARZĄDZANIEM RYZYKIEM**

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**Słowa kluczowe:** zarządzanie antykryzysowe, zarządzanie ryzykiem, zarządzanie upadłością, przedsiębiorstwo.

### **Abstrakt**

W artykule określono pojęcia „zarządzanie antykryzysowe”, „zarządzanie kryzysowe”, „zarządzanie upadłością” i „zarządzanie ryzykiem”. Ustalenie wzajemnych powiązań między tymi pojęciami stanowi oryginalną interpretację autora. Uwagę skupiono na realizacji zarządzania antykryzysowego oraz zarządzania ryzykiem. Przedstawiono wzajemne powiązania między wszystkimi tymi pojęciami wraz z odniesieniem do sytuacji gospodarczej na Ukrainie.

## Introduction

Anti-crisis management deals with due consideration for the probable risks that can appear during implementation of the specific enterprise management practice. From the quantitative point of view, risk is understood as the probability of losses of a part of resources, profit deficiency or appearance of additional expenses as a result of performance of a certain economic activity. Validity of this statement is based on the assumption that one can hardly find specialists in the contemporary economic practice, who can take the decision without having proper and sufficient information, on the one hand and without preliminary calculation of the unforeseen (accidental) events on the other hand.

The search for effective approaches to the risk management became one of the most important directions in the development of modern economic science. In the global practice the process of risk management is examined as the key sphere of management. So, attention is paid to learning risky spheres, searching for the effective methods of control, assessment and monitoring of the risks and creation of the appropriate systems of management. The theoretic investigations by Ukrainian scientists concerning the problems of uncertainty and risk are mostly dedicated to the analysis of the sources of origin, classification and methods of quantitative assessment of risks. Less attention is given to the search for such effective ways of management, which could be adequate to the real possibilities of Ukrainian entrepreneurs and would have the anti-crisis aspect.

It is noteworthy, that the theoretic investigation of the interconnection between anti-crisis management, bankruptcy management and risk-management can be possible by applying the methods of economics research such as the:

- composite method (examining the investigated objects as a system of determination of the deep interconnections by means of viewing the whole theoretic picture inside every mentioned category and also taking into account the adjacent scientific categories and directions: crises theory, management theory, economic analysis, economic law, enterprises restructuring, etc.);
- comparative method (allowing definition of the general and special in congruous categories as well as characterization of certain similar and distinctive features on the scientific basis).

## Correlation between anti-crisis management and related categories

The latest economic theories connect the anti-crisis management with the concepts of social-ethic management and stabilizing management.

Social-ethic management foresees taking of well thought decisions only. These decisions cannot lead the negative consequences for any contractors or workers of the enterprise. However, in case of appearance of such negative aftereffects taking significant compensatory measures is required. The correlation between anti-crisis management and this kind of management manifests in the extreme importance of decision-making and taking into account the consequences for employees and owners of the enterprise. If social-ethic management is not considered, the enterprise will come to an uncontrolled state, as the interests of staff are not satisfied.

It is a weighty argument that anti-crisis management uses the concept of stabilizing management to avoid the deepening of crisis phenomena in the enterprise (PROSVETOV 2009). Given that the basic position in this direction is the duration of management cycle, that is why the faster the right stabilizing decision will be accepted the better the results will be (KOVALYOV 2008, IVANYUTA 2007).

It is quite common, however, to treat the following notions: “crisis-management”, “bankruptcy management”, “risk-management” and “anti-crisis management” as equivalents. These notions are not identical, however.

The author’s original vision of their interdependence is shown the Figure 1.

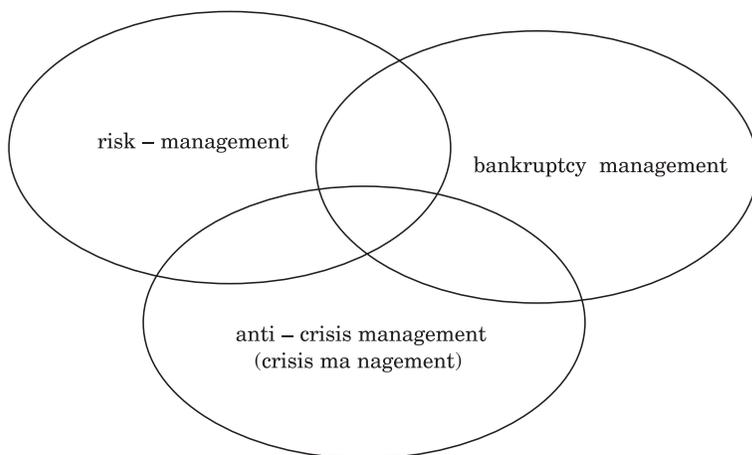


Fig. 1. Interconnection of notions related to anti-crisis management

So, crisis-management involves examining the negative and positive aspects of manifestation of a crisis. The aim of crisis-management is to manage the financial insolvency of the enterprises and the process of their financial recovery (DOVGAN, KARAKAY, ARTEMENKO 2009). However, crisis-management investigates critical moments mostly in theoretical way. Anti-crisis management combines strategic and operative measures, which have determined time frameworks (KORETSKIY, DIHTYAR, DATSIY 2007). In the authors' vision represents more practical understanding of the process by Ukrainian specialists, which can prevent, overcome or forecast the crises. But in common understanding the sense of these notions has close resemblance. We think these categories can be apprehended as close synonyms.

Bankruptcy management concentrates on the formal management of judicial and voluntary liquidation of enterprise only (MISCHENKO 2004).

Risk-management describes the issues of how to manage the risks with the goal of minimizing the losses from negative situations while conducting the business activity, as opposed to this the system of crisis management is characterized by the strained depth of crises' manifestations.

### **Risk management and anti-crisis management: cross-point**

Let's consider in detail the notions of risk, risk management and their correlation with anti-crisis management.

In Ch. K. Webster dictionary, the risk is defined as danger, the possibility of losses or damages; but in S. Ozhegov dictionary it is the possibility of danger or act for the successful results. All these words have several notional meanings. Firstly, the possibility of a certain disagreeable event is foreseen, and secondly, the ambiguity as the essential characteristic of risk is present.

A clear definition of risk is given in Propositions of the ISO working group on the development of terminology in the sphere of risk-management: "Risk – is a combination of the probability of an event and its consequences". The logic of this definition is that it encompasses the combination of all three facets of the risk: event (the factor of the risk), its probability and consequences.

The practice of applying risk-management is barely adopted for a wide application in different Ukrainian enterprises. It is used as an active instrument of modern management. The desire to avoid or minimize the risks is natural, but solving the problem is complicated by the fact that the direct dependence between risk and profit exists. The higher level of risk gives the potential possibilities for generation of higher profit, but it does not exclude the possibilities of additional losses in case of the risk materializing. The minimization of risk level enables generating high, but stable profit. That is

why a balance between profitability and risk in search for its optimal ratio is conducted as one of the important and complex tasks of every business enterprise.

The classification of risks is given in table 1 (NOSOVA 2009).

There are several characteristics of risk-management in Ukraine:

1) in our society the risk culture formation process, particularly the entire range of fixed norms, values and actions concerning the behaviour of people and company under risks is only beginning;

2) in Ukraine it is not a popular practice to use such instruments as commodity, currency and stock markets, where entrepreneurs can hedge their risks by using various financial instruments familiar for most risk management bodies. This leads to inadequate risk and inadequate cautiousness of entrepreneurs.

It is noteworthy that domestic entrepreneurs have to deal with other types of risk than entrepreneurs in more developed countries. Accordingly, they cannot use typical patterns for development in the field of risk management, which were developed by foreign experts. Instead, they resort, for example, in the process of financial risk management services to the so-called conversion centres, which are a widely developed network, offering services on the transfer of funds in the UAH currency. This can be referred to as using a distorted form of risk management.

Table 1

The classification of risks

The criteria of classification	Types of risk
Market factor	<ul style="list-style-type: none"> <li>- competitive;</li> <li>- price;</li> <li>- opportunistic;</li> <li>- communicative.</li> </ul>
Substance	<ul style="list-style-type: none"> <li>- economic;</li> <li>- organizational;</li> <li>- social;</li> <li>- psychologic;</li> <li>- branding.</li> </ul>
Nature of process	<ul style="list-style-type: none"> <li>- subjective;</li> <li>- objective;</li> <li>- lawful;</li> <li>- reasonable;</li> <li>- wrongful;</li> <li>- unjustified;</li> <li>- criminogenic.</li> </ul>
Functional peculiarities of the process	<ul style="list-style-type: none"> <li>- marketing;</li> <li>- financial;</li> <li>- manufacturing;</li> <li>- insurance;</li> <li>- innovative;</li> <li>- investing.</li> </ul>

Anti-crisis management focuses on risk minimization on the basis of the highest risk level of anti-crisis transformations (BIRYUKOVA 2011). Uncontrollable risk factors inherent to anti-crisis management, cannot always be reduced by the available measures for risk limitation (in particular, raising expectations of crisis or the rising of economy as a whole, the movement of bank interest, war, etc.). So it is difficult to prevent them. The method of avoiding the risk is considered both the most effective way of prevention and radical. Anti-crisis management cannot use this method because the risk is always inherent in this type of management.

In global practice there are many different and highly original ways and methods of risk prevention, the most popular among them: insurance, diversification, hedging, risk transfer, limiting, collection of additional information, ensuring the quality of processed products, verification of business partners, business planning, business recruitment, and organization of the business enterprise's activity protection.

Diversification is a very common way of limiting the risk in risk management and anti-crisis management. Diversification is the process of distribution of the invested funds among different objects that are not directly linked (POPOV 2009). In case one type of activity is unprofitable because of unforeseen events, the second one will bring a profit anyway. Entrepreneurial firm will be saved from bankruptcy and it will continue operating. There are two main types of business activity diversification: industrial diversification and financial diversification (BANNOK, BAXTER, DAVIS 2003). Industrial diversification means increasing the range of products (services) that are produced. There are two basic ways related to financial diversification: buying stocks and shares or other securities of a company (simple transfer of capital into another sector), and the purchase of stocks or shares in banks or other financial institutions (pension, investment funds, etc.), and opening deposit accounts. In practice, diversification can not only reduce but also increase the risk. Increased risk occurs if the entrepreneur invests in that field of activities, in which his knowledge and management skills are limited.

Methods of limiting the risk such as diversification, insurance, transfer of risk are appropriate for the higher risk, critical financial situation and when the company may suffer large losses, i.e. during the anti-crisis management, because then the costs of these measures will be justified by obtaining additional profits.

Anti-crisis management is not focused on emergency funds and limiting the consequences (let us note that limiting concentrations of risk has a set limit, or a limit of expenses, sales, etc.) and is implemented by means of establishing the enterprises' internal standards in the policy development process and may include: a limit on the use of loan funds in working capital, the minimum

amount of current assets in highly liquid form, the maximum deposit that is placed in one bank, etc.).

Entrepreneurs in their daily activities should regularly use such methods risk limitation as the manufactured products quality assurance, verification of business partners, business planning, business recruitment, protection of all trade secrets, which are not included in the subject area of anti-crisis management.

## Conclusion

Hence, crisis management operates not only with current assets (funds, securities), but also with material values (current and non-current assets), which suggests the willingness, if necessary, to use the full balance sheet assets and the willingness to accept a higher risk.

Development of methods for risk limiting, which allow reducing significantly not only the risk in a specific situation, especially in a crisis, but also minimizing the costs of their implementation should be an important step for every enterprise.

Translated by JERZY GOZDEK

Accepted for print 2011

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