FINANCIAL MANAGEMENT IN CRISIS SITUATION, PILOT STUDY REGARDING ROMANIAN PRACTICE

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Abstract: In this article, the authors propose to approach the main levels of company financial management in a systemic financial crisis situation outside the enterprise and not those related to the effects of the internal management.

To give a dimension of the concern existing at the level of Romanian companies regarding the management of financial situation crisis, a pilot study was initiate. The purpose of the pilot study is to allow the evaluation of the plan for the management of the crisis situation of the organizations of which the questioned persons were part of.

Key words: financial crisis, crisis response plan, pilot study

General frame

In financial terms, globalization meant the free and unobstructed movement of capital flows to high output areas, the easy access to financing resources where the cost is lower or the easy balancing, by way of arbitration, of exchange rates and interest or of the price of shares among different markets once strongly nationally regulated and protected.

Globalization also meant the increase of the probability of occurrence and spread of economic and financial crises over national boundaries, at a regional and world level.

In front of strong distortions at a national, regional or global level (strong depreciation of the currency used in business, quick increase of credit costs, collapse of stock exchange quotations, with devastating consequences on the company's performances, the managers have to be prepared to take the most efficient measures. Most of financial management books present and debate the best practices for the company's financial management in an economic increase and macroeconomic balance situation. Even if the company has modern products and technologies, a qualified and dedicated personnel, an entrepreneurial culture based on ethics and social responsibility, the financial crisis outside it may deeply affect it in terms of performances and the management has to be permanently ready to cope with such situations which are not episodic or low frequency events. In the 80s-90s there were more than 65 financial crises. [2]

The main dimensions of the management in a financial crisis situation which company managers must take into account are: monitoring of the economic environment and the signals warning the financial crisis, the maximization of liquidities, the restructuring of debts, the minimization of operation risk, the use of hedging financial instruments. At the same time, the companies must prepare in advance crisis scenarios, develop and implement explicit management plans in a crisis situation. The better a company is prepared for these events, the better it shall cope with shock waives triggered by the financial crisis. Well-prepared companies can often even increase their profit in such situation of big entropy. The negative part is also worth mentioning: ex-post analyses proved that the companies which coped with crisis situations, in strong economic development periods, were the companies which showed lower performances on a short-term basis (in trans-quarterly evolutions) and had a balance sheet structure often criticized as being too conservatory [1].

Monitoring of the Economic Environment and of the Signals Warning the Financial Crisis

In detecting the signals warning the crisis situations, the most important seem to be the position, the comments and estimations expressed by the companies which usually monitor the national, regional or world macroeconomic balances. Those are the rating agencies, the multinational banks or the IMF. The empirical research demonstrated that managers must not generalize such „prophecies" but develop their own system for the detection of alarm signals.[182] Most of the analysts substantiate their assessment on fundamental macroeconomic variables (the current account deficit, the commercial deficit, the fiscal deficit, the exchange rate, the inflation) Those variables are in fact the last to capture the crisis signals in the aggregate. In reality the crisis's roots develop in the real economy and in the banking system where the first warning signals appear.

Maximization of Liquidities, Restructuring of Debts

Under financial system crisis conditions, the liquidity flows block: the collections from the clients decrease, the credit lines and ceilings are reduced and the credit interest considerably increases. The companies without an adequate liquidity management or with a low solvability shall be the first to face cash problems and even the risk of bankruptcy.

In order to protect themselves from such shocks, the companies must proactively apply those financial management methods reinforcing the operating cash-flow and the capacity to cope with outstanding debts. The main action levels are: strict control of direct costs and the re-analysis of fixed costs; optimization of the working capital by efforts to timely collect the receivables and full use of the terms agreed upon with the suppliers; reduction of the indebtedness level, particularly on a short term basis; credits refinancing through a fair arbitration, costs for refinancing – reducing the pressure on liquidities by a relaxation of maturities; disinvestment in the liquidity consuming business lines; In case of operational activities in multiple geographic areas, the reduction in the number of creditors to increase the negotiation power in credits refinancing; monitoring of the health condition of creditors and clients; diversification and consolidation of financing sources: during economic increase periods, the observance of financing rules according to *pecking order theory [5].*

Minimization of the Operating Risk

In the context of identification of financing crisis signals, the management must initiate measures for minimizing operating risks by limiting the exposure to suppliers, distributors, clients and transporters. Under financing crisis conditions, the suppliers may, in their turn, be affected by the absence of liquidities and interrupt chain deliveries. The management must timely identify the most important suppliers before the manifestation of crisis effects. For them there may be a permanent analysis of their financial health condition and replacement alternatives must be identified. Equal attention must be paid to the distributors' and clients' profitability and financial stability. In crisis periods, stocks restriction in distribution channels and their delivery in lower quantities according to the distributors' solvability condition reduce the risk in losing liquidities from the failure to collect receivables.

Use of Financial Hedging Instruments

In a financial crisis situation, the companies must think more about foreign currency exposure hedging and interest risk limitation methods. In this context, the knowledge of the main derived products existent on the market, their cost and liquidity are recommended. When natural hedging may not be used or when price update clauses may not be used, the protection alternatives offered by forward, futures, options contracts and by swap operations and term contracts (forward-forward, FRA, etc.) may be considered.

Development and Implementation of Management Plans in Crisis Situations.

The minimization of financial and operational risks considerably improves the company's ability to cope with the financial crisis situation. However, the development and implementation of the plans for the management of crisis situation positions the company on a higher safety level in the process of passing through this entropic context. Post-crisis planning, organization and analysis are the main phases in the successful implementation of the management plan in a financial crisis situation.

Planning of scenarios – the starting point in the construction of the crisis plan shall focus the company's financial model and simulate the manner in which the operating liquidities flow, the balance sheet and the income statement of the company may be affected by the change of key variables under financial crisis conditions. Among them, the most important are: the evolution of demand, the discontinuities in the supply and sale chain, changes in external financing conditions (credit cost, modification of the share price, modification of credit lines), evolution of the exchange rate, re-positioning of main competitors.

Crisis scenarios are supplemented with action alternatives in the context of the unexpected evolution of the financial crisis: identification of the assets that the company can sell the easiest way to obtain liquidities; identification of the factories and administrative activities which may be closed to determine the most dramatic cost decreases or the maintenance of the highest cash level; identification of products or services with the lowest contribution to profit whose production may be stopped; identification of the business lines to be maintained in any situation and of the clients with which relations must be maintained at any price.

Organization of the crisis plan supposes the indication of the persons involved in the management of the crisis situation and of the duties and activities for which each involved person is responsible. The crisis management team often includes the Chief Financial Officer and the Chief Executive Officer but also other members who shall know in advance that they shall be part of this management group, their responsibilities and the persons they shall report to.

The communication with the shareholders, clients and suppliers is crucial in the first stage of financial crisis commencement. Each company must be ready to issue press releases as frequently as possible informing of the operational activity and the situation of the main assets and the relevant information for investors, clients, creditors and suppliers corresponding to each stage made in the actual management of the crisis situation. The contradictory, ambiguous information or the partial disclosure of *de facto* conditions in the crisis situation management process is always negatively perceived by the business environment and the effects may be over-added to the impact of the crisis in the external financial system.

Post-crisis analysis is a stage of big impact at an organizational level and enterprise culture. Its correct passing shapes the future capacity of the company to cope with crisis situations in general and financial situations in particular. An investigation made at the level of 100 multinational companies in the European Union, published in March 2008, revealed that 10% of the questioned companies have no crisis plan or a specialized team to manage crisis situations.[183]

To give a dimension of the concern existing at the level of Romanian companies regarding the management of financial situation crisis, a **pilot study** was initiated through the application of a questionnaire to 47 managers who participated, for three consecutive years, in the Finances course for the managers-advanced program in EXEC-EDU within ASEBUSS (2007-9 managers; 2006-17 managers and 2005-21 managers). The purpose of the pilot study is to allow the evaluation of the plan for the management of the crisis situation of the organizations of which the questioned persons were part of. Most of the managers involved in the study were in charge with finances or had an extended experience in the company's financial management. The questionnaire used in the pilot study was used as an instrument for evaluating the degree of adequacy of the companies' plans for answering financial crisis situations.

The questionnaire allows the managers to evaluate from the perspective of individual experience in the companies where the main components of a plan for answering crisis situations activate. Three phases of the process for constructing a crisis plan are taken into account: the phase related to the planning of the crisis situation management process, the phase related to the organization of the crisis plan and the phase related to the post-crisis analysis of the manner and efficiency to apply the plan.[6] For each identified phase there was a quality scale estimated by the respondent for the evaluation of the plan in his/her enterprise for the management of the financial crisis situation structured per 3 levels from 1-weak, inexistent, 2-acceptable, satisfactory enough to 3-excellent.

	1	2	3
I. Planning of the process for the management of the crisis situation	**50%**	**20%**	**30%**
II. Organization of the crisis plan	**30%**	**70%**	**0%**
III. Post-crisis analysis	**60%**	**40%**	**0%**

The synthetic results of the pilot study

As to the planning of the crisis situation management process, most of the managers (50%) estimate that at the level of their company this phase is qualitatively weak or inexistent and 50% that it is acceptable or excellent. Please note that 30% of the managers estimate that this phase is excellent in their company. Qualitative estimations of this phase were made according to the existence and quality of prepared crisis scenarios, the flexibility of answer sets for each scenario, the use of signalizations both for activating the implementation of the crisis management plan and for returning to the normal operating activity.

The organization of the crisis plan was estimated by 70% of the managers as acceptable or quite satisfactory. Please note that none of those who previously estimated the process planning as excellent maintained the quality estimation for the organization of the crisis plan. At the same time, 20 % of those who evaluated the process planning as weak or inexistent estimated the organization of the crisis plan as acceptable or quite satisfactory. Qualitative estimations of this phase were made according to the existence of a clear order chain, the existence of efficient communication channels and the existence of adequate reserve resources.

Post-crisis analysis was evaluated by 60% of the interrogated managers as weak or inexistent and by only 40% as adequate, quite satisfactory. It is worth mentioning that no manager evaluated the post-crisis analysis as excellent. Qualitative estimations of this phase were made according to the frequent and systematic character of the post-crisis analysis process.

The results of the pilot study reveal that at the level of Romanian companies there is the concern of correctly managing financial crisis situations but the quality of phases related to the development and implementation of the plans for the management of the crisis situation is different. In the current phase there is a higher concern and ability for organizing the crisis plan and a lower concern for the phases related to the post-crisis planning and analysis. The business schools and the persons involved in the managerial education are in charge with developing the training subjects and methods expected to develop the managerial attention and abilities for increasing the level of quality in all the phases related to the development and implementation of financial crisis situations management chains.

The financial system crises became a frequent element in the globalized economy environment [7][3]. The companies ignoring this reality or adopting a defensive policy („it cannot happen to us, we are too good to be affected, we are a very solid company on the inside and we can operatively administrate any crisis situation…) and which shall have prospective scenarios prepared only for the operational activity in a stable economic environment shall be the most vulnerable in case of national, regional and global financial crises.

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