CORPORATE CRISIS AND CRISIS STRATEGY IMPLEMENTATION

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Abstract

Crisis creates or can create undesirable outcome for corporations. Corporation's most often response to a crisis is implementation of a radical change, which represents management's reaction to a direct and for survival of the company dangerous threat. Management, that implements crisis strategies, must be able to manage change during crisis. Based on the estimation of the corporation's condition and desired outcome, strategies implemented during crisis can end up with two diametrically opposite effects – corporate survival or leaving the business. Business failure is not the only solution for a company in crisis. Successful turnaround and crisis solution are a possible option, but a possibility of an option doesn't guarantee that it is a most probable option. Successful turnaround and crisis solutions don't occur spontaneously; they are triggered by corporate management, its creativity and courage to implement radical change.

This research is based on investigating internal and external sources of corporate crisis and a role of major stakeholders in the process of corporate recovery. The research includes investigation of corporate response during crisis and this could broaden our basic understanding of strategy implementation role in the extremely delicate moment of company's life. Since corporate crisis negatively affects company's goals and can lead to corporate breakdown, this research is offering results of an empirical investigation that determines modes how companies in a crisis manage change and how managers choose and implement offensive and defensive strategies suitable to crisis conditions.

Key words: *corporate crisis, crisis management, radical change, crisis strategy, turnaround.*

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1. INTRODUCTION

Every company is developing under conditions of risk of crisis and during this process its environment is constantly creating new threats to its existence and its business operations. Only in very rare cases companies after long time period don't fall into crisis, which if it is not solved in time, can cause possible breakdown of the company. Every day we witness global big companies' bankruptcies and business failure for many other companies, especially those that didn't adjust their strategies to substantially different economic or political conditions fast enough.

There is no universally accepted definition of crisis, but majority of authors agree that a crisis in general is a very negative event that can damage or even destroy every organization (Mitroff, Pearson, Harrington, 1996). This leads to a conclusion that crises are events that have internal damage potential and disastrous effects (Crandall, Parnell, Spillan, 2010) and they result with negative public perception. Since corporate crisis is damaging corporate goals and can lead to its business breakdown, it is of great importance to determine ways how management leads change and how managers choose and implement strategies suitable to crisis conditions.

2. CORPORATE CRISIS AND CRISIS STRATEGIES IMPLEMENTATION

Corporate crisis represents unplanned and unwanted process that damages primary goals of a company and implies ambivalent outcome (Osmanagić-Bedenik, 2003). Crises are threats to

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company's business and they create or have potential to create negative and unwanted outcomes in terms of efficiency and effectiveness of the business. Increase in uncertainty and risk on a global level implies larger vulnerability of the companies. Regardless on different reasons causing business crises, they can be externally or internally generated.

Crisis is a decision in a state when corporate disease and corporate health are faced. Business crisis demands a radical change – the one that implies possibility of reaching highly desirable and positive outcome or the one that implies highly unwanted and negative outcome.

2.1 Corporate crisis - conceptual background

Majority of corporate crises occur due to incapability of management to anticipat changes in company's surrounding (Mitroff, Anagos, 2001). Companies in crisis face many different reasons for failure. Most common external reasons for corporate failure are changes in industry/market structure, decrease in market share and loss of main customers, loss or problems with main suppliers, problems with ensuring „fresh money“ due to the lack of creditor's confidence, changes in legislation etc. Internal reasons are usually connected to incapable and inefficient top management (DiNapoli, 1999). Most common mistakes of management of a corporation in crisis are bad decisions on credit loans (debt), overcapacity of production, low responsiveness to changes in business environment, loss of operational control – especcially over cash flow, costs and business performance – that leads to insolvency. Main symptoms of companies in crisis can be extracted from all of this – decrease in sales volume, decrease in capacity usage, decrease in profit margins, increase in costs, increase of indebtedness, impossibility of paying loans, impossibility of paying taxes, impossibility of paying suppliers, impossibility of paying employees, impossibility in setting new orders and taking future obligations (Sloma, 1999).

Crisis management is a relatively new field of management, which includes identification of the nature of a crisis, intervention to minimize damage and activities for crisis recovery, often with a strong focus on public relations to recover any damage to the company's public image and to assure stakeholders that recovery is underway. Critical fields of crisis management are identifying the crisis, isolating the crisis, crisis communication, controlling the damage, assembling a crisis management team, creating a crisis management plan, crisis intervention with crisis forecasting and taking responsibility for the outcome. When meeting previously listed tasks Mitroff (2004) makes an important distinction between crisis management and crisis leadership. Crisis management is mostly reactive and recognizes crisis after it happens, while crisis leadership is proactive and it is trying to identify the crisis and prepare the company for its consequences before the crisis actually happens.

Crucial concept on which effective top management can base corporate recovery is break-even analysis that gives information about is it possible to start with saving a corporation in a crisis. Profit, positive cash flow (that ensures solvency) and EBITDA are three goals based on which corporate recovery should be managed – if the assumption is that none of the goals can be met, company will not be able to survive (Platt, 1998). The EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) of a company gives an indication on the operational profitability of the business. A negative EBITDA indicates that a business has fundamental problems. A positive EBITDA, on the other hand, does not necessarily mean that the business generates cash. This is because EBITDA ignores changes in working capital, capital expenditures taxes and interest. Decrease (deficiency) in working capital is one of the consequences of financial breakdown of the company, increased level of indebtedness, impossibility of acquiring of bridge capital and all of this is pushing company toward insolvency and illiquidity. If a company is reports loss in business, especially if the loss is higher than the initial capital/ equity increased for undistributed profit and reserves, then the company reports losses that exceed equity (reported in the balance sheet assets) and this in combination with insolvency is creates a legal obligation for crisis management to submit proposal for starting the bankruptcy procedure at the court of competent jurisdiction. The reasons for bankruptcy are inability in payment and over indebtedness. Based on this, for a company in crisis it is essential that its management effectively recognizes signals of the crisis, creates crisis plan, implements one or (usually) more crisis strategies, maintains positive

cash-flow, avoids longer blockades of companies account and prevents legal conditions for bankruptcy to occur (Kružić, Glamuzina, Lovrinčević, 2013).

Some of the significant problems manifested during the crisis are exerted and limited financial resources (usually accompanied with insolvency threats), loss of operational control (over budget, costs, performance, cash flow), demoralized management, employees worried for their working positions, unsatisfied suppliers and bankers (due to the delay in payment) and scared owners of the companies. All these issues must be resolved to create a turnover in company's performance towards stable and re-established growth. This is crisis management's main goal during corporate turnaround (crisis management is very often "new" management that replaced "old" top management on the incentive of shareholders/owners).

2.2 Radical change – corporate response to a crisis

When corporate crisis lasts for a longer period, the chances for a successful recovery and survival diminish – poor crisis management can, based on the research results conducted by Ucelly (2002), destroy company's reputation and bring to legal consequences, usually leading to bankruptcy. Goldman and Traverso (1997) offered analysis which implies a conclusion, that in a case of early detection of crisis and under assumption that a company has a good and successful management, improvement is possible and solving the crisis is relatively probable without serious consequences for the business.

Main goal of the company's management during crisis is to minimize threats and ensure successful renewal and recovery, while the factors of complexity and intensity from the surrounding are implying different reactions (Table 1) from the crisis managers.

Table 1: Actions taken in corporate renewal

Management's actions	Turnaround – focus: loss elimination	Crisis solution – focus: survival
Product review and expiration	X	
Right size the workforce	X	
Determine full products costs	X	
Reprising products	X	X
Establish new wage and benefits levels	X	X
Downsize operations	X	X
Restructure debt	X	X
Lay off employees	X	X
Improve working capital management	X	X
Extend or compose debts	X	X
Negotiate partial settlements with creditors		X
Liquidate		X
File for bankruptcy protection		X

Source: Platt, 1998, p. 5.

During crisis companies are reaching a point from which they cannot return and suffered losses and damages are significant and measurable. Speed and intensity of changes are demanding from crisis managers to manage process of the crisis effectively. During beginning phase of the crisis company is experiencing problems, but is has enough time and resources to find operational solution for recovery – it is constantly showing loss in business, but they are not interpreted as a possible threat to the existence of the company. But if the losses continue to occur, company will relatively fast face threats to its existence. To avoid the danger of breakdown and a possible bankruptcy company must in the shortest possible time start creating profit (previously diminished) and positive cash flow that ensures solvency. If this doesn't occur company will come close to its business end and its existence is threatened. In this situation possibility of company's survival is in question and a threat of bankruptcy increases unless drastic radical actions toward recovery and survival are conducted.

In terms of the scope of change from management perspective, reactions to the crisis which threatens the survival are necessarily radical – management response to crisis must be fundamental change (Nadler, 1998). Radical change is usually very intense – it extracts a lot of energy from the organization, it is very stressful and highly risky (with high probability of failure). Focus of change is on entire organization, main initiators of strategic decisions of critical importance are crisis managers and they should create new requirements for the process and new vision – usually survival and recovery of the company together with optimism and radical reduction of resistance to change. Radical changes in crisis are characterized with high level of intensity and complexity; they demand direct action from top management in formulating and implementing anti-crisis strategies. Managing company in this very sensitive period is not only priority, but very often only and most important job of crisis management.

All companies need a way to manage a crisis and assure the continuity of their operations. For a corporation in crisis to sustain it, there are certain preconditions. It must be economically viable. At least at its core, it must have a sound economic *raison d'être.* It must have the human, financial and physical resources that can be deployed to meet a challenge or take advantage of an opportunity. Most importantly, it must have a management that is sensitive to internal as well as external challenges (Bibeault, 1999). In other words, core business, resources and management represent *conditio sine qua non* for a potentially successful business. Problems occur when previously set assumptions for continuing business activities are not met – case when company is losing the purpose of its existence, when resources of the company are collapsing, when returns on production are starting to diminish and cause loss in business, when advantage over competition is lost and when management is not reacting to changes and challenges. When insolvency and illiquidity are added to all of this (which are always present when a company in a situation of business crisis) then the most common crisis symptom occurs – company's inability to pay in time its financial obligations. This symptom is manifested as cash shortfall on the company's account or in worst case as complete blockade of the company's account (frozen account).

Majority of managers, specialists for "saving" companies in crisis, consider as the ultimate indicator of effectiveness, ability to generate and ensure continuity of cash flow or to generate money from new, fresh, most often credit sources. Priority in crisis condition is to ensure enough money for everyday business operation and to provide solvency for the company, which is confirmed by the correct attitude (Sučević, 2010) by which *company's income represents vanity, its profit represents virtue, but the money is the king!*

2.3 Choice and implementation of crisis strategies

Management as an initiator of implementation of crisis strategies must know how to manage change during crisis – it is expected that it acts as a change agent and that it leads the battle for survival. Under symptoms of crisis (indebtedness, reduced growth potential, ignoring losses, not optimal production capacity usage and lagging behind competition) crisis management must make decisions concerning the direction and intensity of crisis actions and create and apply one or more of crisis strategies. Crisis management's main focus during the crisis is survival of the company. Company must be oriented towards different possibilities of short-term recovery and leave development strategic orientations temporarily aside. But in a case when there is no profitability if the company manages to survive, it is necessary to consider one of the exit strategies.

Corporative turnaround, based on the nature of actions that it includes, can occur in a form of operative turnaround or strategic turnaround (Hofer, 1980). Main goal of operative turnaround in short run is to increase company's performance and this is a basic assumption for survival. Activities conducted when company's goal is operative turnaround are done in a case when a company is "gliding" toward crisis or is in a phase when business crisis is obvious and company's existence is threatened due to decrease in profitability, decrease in sale and deterioration of relative business performance indicators. The goals are to turnaround negative trends and return the

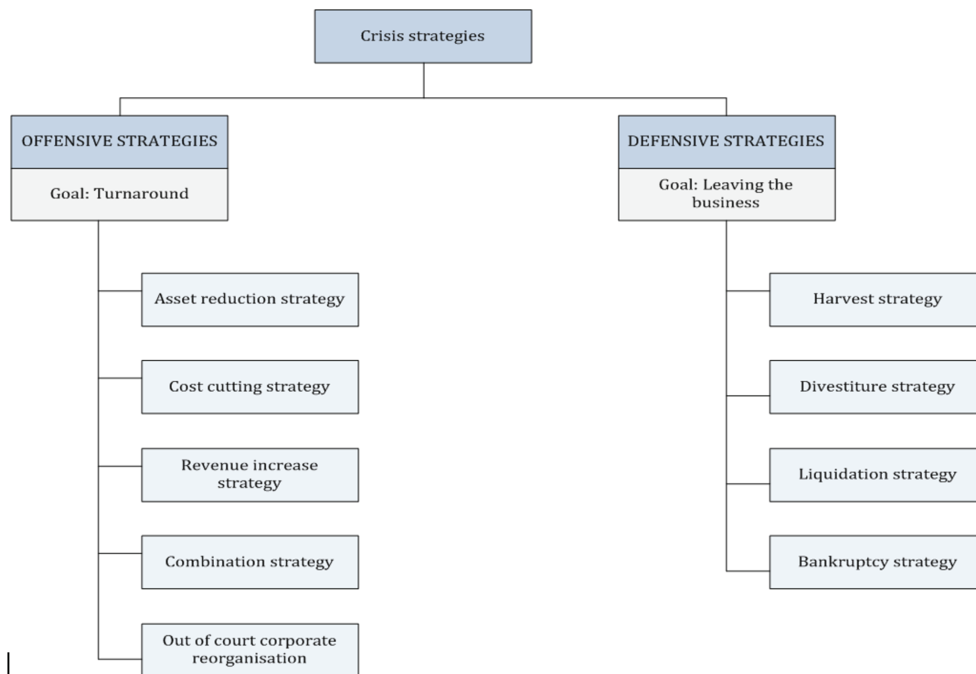
company to a position that ensures success. Operative turnaround is focused on radical change and elimination of the cause for financial and/or competitive weaknesses.

The goal of strategic turnaround is to change existing, or introduce new corporative strategy. While operative turnaround is focused on revenues, costs, assets, equity and cash flow, strategic turnaround is focused on marketing, production and development. Strategic turnaround ensures long run results and it is not desirable in early stages of the fight for survival in crisis. Based on the situation in the company and desired outcome, strategies applied during crisis can achieve two diametrically opposite effects – survival of the company, as a result of successful turnaround or leaving the business – by selling a part or a whole company, as a result of liquidation or business failure and bankruptcy. Different strategies can be applied in crisis conditions (Tipurić, Kružić, Lovrinčević; 2013) and all of them, based on the goals which should be met by their implementation, can be grouped in two basic categories:

- *Offensive crisis strategies* – their main goal is turnaround and they include: asset reduction/asset retrenchment strategy, cost cutting/cost reducing strategy, revenue increasing/revenue generating strategy, combination strategy and out of court corporate reorganization strategy and
- *Defensive crisis strategies* – their main goal is leaving the business, and they include: harvest strategy, divestiture strategy, liquidation strategy and bankruptcy strategy.

Choice of crisis strategies (Figure 1) is based on the identification of healthy business activities that must be preserved, business activities that must be rejected and activities that should be developed.

Figure 1: Crisis strategies



Source: Tipurić, Kružić, Lovrinčević, Strateški menadžment, op. cit., p. 169

The purpose of offensive crisis strategies is company's survival and recovery in its core business areas by increasing its competitive advantage. Company's position during crisis conditions is not stable and it is necessary to quickly carry out exigent, radical actions with the purpose of changing the current state. In order to consolidate its business a company can focus on strategies that are aimed at generating increased revenue, reduced/cut cost, and reduced assets or on a combination of them, all with the goal to increase money inflows in short run.

Asset reduction/asset retrenchment strategy is essential for a company in crisis when it cannot ensure free (non-interrupted) cash flow (most often due to impossibility to borrow money and/or to get „bridge capital“ which is essential to continue with business process). In this situation companies sell their assets, usually the assets that is not required for performing core business activities and they use the money from sale to help company's effort and fight for consolidation and turnaround in core business activities. The most common reason for selling the assets is saving and empowering the remaining business activities with the money earned by selling of the assets. Integral part of this strategy is reduction of potential investment in assets, which leads to elimination of expenditure on this basis and increase in financial stability of the company, when measured in cash flow.

Cost cutting/cost reducing strategy is implemented with the goal of improving the business result (caused by decrease in costs) and empowering cash flow of the company in conditions when company's cost structure shows high costs and some of them can be decreased or fully avoided. This strategy is usually implemented through decreasing salaries, decreasing number of employees, decreasing marketing costs, decreasing volume of orders with goal of decreasing stocks, substituting supplier by cheaper ones, eliminating non-profitable activities and activities which generate low added value. In other words, basis of this strategy is cutting every possible cost. Cost cutting strategy is usually used when the company is relatively close to its break-even point.

Revenue increasing/revenue generating strategy is orientated toward creating increased sales volume and increased company's revenue. There are many options available in achieving higher revenue: introducing new products, improving features of existing products, action sales without decrease in price but by offering additional offers to customers, decrease in prices, additional services for customers, introducing additional services and guarantees etc. with the goal of increasing money inflows in short run (cash flow empowerment).

Combination strategy is usually used in crisis situation in which management must act fast because the survival of the company is endangered. Under these conditions management (usually new crisis management) doesn't have time to wait for the effects of one of the previously used strategies (assets reduction, cost cutting, revenue increasing) to become visible. The more the situation is difficult for the company, the more probable is that the combination of previously listed strategies will be successful in terms of profit and loss account, decrease in assets, decrease in obligations and especially empowerment of company's cash flow.

Out of court corporate reorganisation should ensure creditors and company in crisis to make an agreement based on both sides backing down with the purpose of financial, proprietary and operative restructuring and bankruptcy avoiding.

If strategic analysis shows that one of the company's activities or the company as whole doesn't have a promising future, then this activity should be left and the business should be reoriented into another industry, either by selling off the company, liquidation or in the end, bankruptcy. Defensive strategies (harvest strategy, divestiture strategy and liquidation strategy) main purpose is to generate maximum quantity of money with fast or gradually leaving the business. Main goal of bankruptcy defensive strategy is paying out creditors by selling the assets of the bankrupted company. From all said up to now, it can be concluded that defensive crisis strategies represent *end game strategies/exit strategies.*

Harvest strategy is defensive strategy that is consisted from controlled disinvestments from a company with the goal of improving the cash flow in the period when company is exiting the industry. Company is decreasing its capital investments, far less is spent on maintenance, marketing, research, distribution channels, number of products in assortment is decreased, and smaller buyers are eliminated with the goal of decreasing costs and increasing money inflows in short run. Harvest strategy is implemented in a situation when exiting the industry is wanted option for a company.

Leaving the business by using *divestiture strategy*, by selling a part or a whole company, is used in case when there is no competitive advantage for the company, when there is significant change in mission and vision of the company or when special financial reasons of the owner of

the company exist. Usage of divestiture strategy can ensure substantial revenues for the company and then they can be used for development and empowerment of core segments of the business.

Liquidation strategy represents a strategic choice used in situations when selling of the company is not an option and its main goal is minimization of the damage created towards all stakeholders in long run. Liquidation strategy is least preferred defensive strategy (together with bankruptcy strategy) that results in the end of business - it is end game strategy and it is used only in a situation when no other strategy can succeed. Liquidation means that the company will stop existing by selling its assets and bringing its business operations to an end.

Bankruptcy strategy is together with liquidation strategy end game exit strategy. Bankruptcy is a legal procedure led by court with the aim of satisfying creditors of the company in crisis by selling it assets and dividing the resources among them. Bankruptcy strategy is not implemented by company's crisis management, but by the decision of the court, it is led by bankruptcy trustee with the assistance of the creditors.

During a crisis a company comes very close to its business end and its existence is endangered. Ability of survival is questionable and the threat of bankruptcy exists unless drastic actions toward survival of the company are not undertaken. Condition of crisis demands extremely fast and rational action from the crisis management as well as application of offensive and defensive crisis strategies, where the amount of "painful and drastic" actions is larger when the level of the problem that must be solved is higher.

The outcome of the crisis doesn't have to be business failure. Successful turnaround and positive solution of the crisis is a possible option, but a possibility of this option doesn't mean that it is the most probable option. Successful turnaround is not spontaneous - it is triggered by successful crisis management, its creativity and courage to implement radical change.

3. SAMPLE, METHODOLOGY AND EMPIRICAL RESEARCH RESULTS

3.1. Sample and methodology

The aim of this research was to investigate corporate response during crisis in Croatian business setting - to diagnose major causes of business crisis, both external and internal, as well as to determine crisis strategies implementation in order to enable corporate turnaround and resolve business crisis or to enable possible application of end game strategy for leaving the business.

In that sense, a pilot study was conducted on the random sample of 200 Croatian companies. Questionnaire was specially designed in accordance with previously defined types of offensive and defensive crisis strategies and used as a main research instrument, consisting of 16 closed type questions. Out of 200 questionnaires addressed to the Presidents of Management Board, 39 questioners were collected during January and February 2013, so that overall response rate was 19.5%. Considering the delicacy of the issue of crisis and general economic conditions in the Republic of Croatia (more than 20% of the companies are facing insolvency and have frozen accounts) response rate is considered to be highly acceptable.

SPSS 18.0 for Windows was used for statistical data analysis.

3.2 Empirical research results

As it can be seen from Table 2, by legal form, 20.5% of the corporations in the sample are joint stock companies while 79.5% of the companies are limited liability companies. By employment size, 69.2% of the companies in the sample employ up to 50 employees. There is almost equal distribution of medium sized companies (12.8%) and large scaled companies (17.9%).

With respect to equity, 50% of the joint stock companies have reported equity ranging from 20 to 300 HRK million, while 37.5% of the joint stock companies have reported equity that exceeds 300 HRK million. Only 1 joint stock company has equity lesser than 20 HRK million (according to the Companies Act in Croatia, the minimum capital requirement for the joint stock company is HRK 200.000). On the other hand, nearly 50% of the limited liability companies have reported equity ranging from HRK 20.000 to 200.000 (minimum capital requirement for the limi-

ted liability company is HRK 20.000), while significant proportion of limited liability companies (38.7%) have reported equity ranging from HRK 200.000 to HRK 20 million. Just fewer than 13% of the limited liability companies have reported equity that exceeds HRK 20 million.

Table 2: Legal form and employment size of companies (research results)

Legal form/Employment size	Frequency	%	Valid Percent	Cumulative %
Legal form				
Joint stock company	8	20,5	20,5	20,5
Limited liability company	31	79,5	79,5	100,0
Total	39	100,0	100,0	
Employment size				
Micro and small companies (up to 50 employees)	27	69,2	69,2	69,2
Medium sized companies (51 to 250 employees)	5	12,8	12,8	82,1
Large companies (more than 251 employees)	7	17,9	17,9	100,0
Total	39	100,0	100,0	

We asked respondents to estimate the proportion of accumulated losses (if any) in equity. As it can be seen from the Table 3, respectable proportion of companies in the sample (65.8%) has no accumulated losses, but 15.8% of the companies in the sample have accumulated losses that cover overall equity. Moreover, 23.7% of the companies in the sample have accumulated substantial losses that exceed 40% of equity. Additionally, companies that have reported the proportion of accumulated losses in equity that equals 100%, in fact have accumulated losses that exceed overall equity.

Table 3: The proportion of accumulated losses in equity (%) - research results

Accumulated losses in % of equity		Frequency	%	Valid %	Cumulative %
Valid	0	25	64,1	65,8	65,8
	1 -20	1	2,6	2,6	68,4
	20-25	2	5,1	5,3	73,7
	25-40	1	2,6	2,6	76,3
	40-60	1	2,6	2,6	78,9
	60-100	2	5,1	5,3	84,2
	more than 100	6	15,4	15,8	100,0
	Total	38	97,4	100,0	
Missing	System	1	2,6		
Total		39	100,0		

Since corporate crisis is undesired, unfavourable and critical phase in the life of a company, which is driven by both external and internal causes, we analyzed main causes that, from the perspective of Presidents of Management Boards of the companies in the sample, have endangered the further existence and growth of their companies. The results are summarized as follows.

Nearly three quarters of respondents (71.8%) have reported changes in industry or market structure as an external cause that, in the long run, has the potential to jeopardize company's future growth and survival. Loss of market or major customers is another important external cause that potentially generates crisis from the perspective of Presidents of Management Boards of the companies in the sample (64.1%). Loss of creditors or problems with ensuring "fresh money" has been reported by 61.5% of the respondents, while 23.1% of the respondents recognize chan-

ges in Government legislation as an external cause of crisis. Loss of major suppliers has been reported by 5.1% of the respondents.

With respect to internal causes that have potential to generate crisis, low responsiveness to changes in business environment (manifesting through opportunity losses) have been reported by 66.7% of respondents. Another important internally generated factor is inadequacy in control systems (especially0 regarding cash-flow and costs) which are reported by nearly half of respondents (46.2%). Bad credit loans decisions have been reported by third of the respondents as an internal factor that has the potential to endanger company's survival and growth, while management mistakes have been reported by 30.8% of the respondents. None of the respondents has reported conflicts between major governing bodies (Management and Supervisory board) as a cause of crisis.

Table 4: External and internal causes of corporate crisis (research results)

External causes	Number of companies	Percent
Changes in industry/market structure	28	71,8
Loss of market/major customers	25	64,1
Loss of major suppliers	2	5,1
Loss of creditors-problems with ensuring “fresh money”	24	61,5
Changes in legislation	9	23,1
Internal causes	**Number of companies**	**Percent**
Management mistakes	12	30,8
Low responsiveness to changes in business environment/opportunity losses	26	66,7
Conflicts between Management and Supervisory Board	0	0
Bad credit loans (debt) decisions	13	33,3
Inadequate control systems	18	46,2

Symptoms are signals which point to or predict a crisis. Their timely detection and adequate response by company with proper actions and activities can reduce negative consequences of an already present crisis or even prevent it. Almost every company in our research sample (94.9%) has problems with getting claims timely paid and 87.2% of the companies in the sample have recorded decrease in profit-margins. Just over three quarters of respondents (76.9%) have reported decrease in sales volume as a signal of potential crisis, while increase in the level of debt has been recognized as a symptom by 74.4% of respondents. There is almost equal distribution of companies in the sample that have recorded inability to meet obligations and reduced ability for new contracting (56.4% and 51.3% respectively). Suboptimal production capacity has been reported as a crisis symptom by 41% of the respondents and 33.3% of the companies in the sample has recorded inability to get significant proportion of claims paid. Finally, 23.1% of the companies in the sample have frozen/blocked giro accounts.

We asked respondents if corporate survival is, from their point of view, challenged or jeopardized. Just over half of the respondents (53.8%) think that their company's survival is endangered. Offensive strategies, as seen from Table 5, are more often implemented than defensive strategies. Namely, cost cutting strategy is the most used crisis strategy (92.3% of the companies in the sample) followed by revenue increasing strategy (61.5%) and combination strategy (59%).

Asset reduction strategy has been used in 46.2% of the cases, while 2 companies have reported out of court corporate reorganisation (5.1%) plan. Out of defensive strategies, divestiture strategy is the most often implemented crisis strategy (15.4% of the companies in the sample), followed by harvest strategy (7.7%) and liquidation strategy (2.6%).

Also, our research results demonstrate that all of the crisis strategies are to a greater extent present in companies where top management believes that firm's survival is endangered, with exception of divestiture strategy which is underrepresented.

On the other hand, all of the strategies are to a lesser extent implemented in companies whose survival isn't endangered (compared to overall sample, and specially compared to jeopardized companies). Moreover, we applied the two-proportion z-test and results show that in companies where top management believes that company's survival is being threatened asset reduction strategy is significantly more implemented (Z=1.947, p=0.051) as well as the combination strategy (Z=2.360, p=0.018).

Table 5: Implementation of crisis strategies (research results)

Crisis strategy	Overall sample		Survival is jeopardized		Survival isn't jeopardized	
	Number of companies	Percent	Number of companies	Percent	Number of companies	Percent
Offensive strategies						
Asset reduction strategy	18	46,2	14	66,7	4	22,2
Cost cutting strategy	36	92,3	21	100	15	83,3
Revenue increasing strategy	24	61,5	14	66,7	10	55,6
Combination strategy	23	59,0	16	76,2	7	38,9
Out of court corporate reorganisation	2	5,1	2	9,5	0	0,0
Defensive strategies						
Harvest strategy	3	7,7	2	9,5	1	5,6
Divestiture strategy	6	15,4	2	9,5	4	22,2
Liquidation strategy	1	2,6	1	4,8	0	0,0

In order to determine efficiency of selected crisis strategies, a Likert type scale was developed to capture respondents' perception of strategy efficiency (scale ranges from „1"–not at all efficient to „5"–very much efficient). Research results demonstrated in Table 6 show that liquidation strategy is the most efficient crisis exit strategy (even though only 1 company has implemented liquidation strategy). It is followed by cost cutting strategy (mean score 4.86) which is implemented in nearly every company in our research sample.

Table 6: Implementation of crisis strategies and corporate effectiveness (research results)

Crisis strategy/Corporate effectiveness	Overall sample		Survival is jeopardized		Survival isn't jeopardized	
	N	Mean	N	Mean	N	Mean
Asset reduction strategy	17	4,12	13	4,08	4	4,25
Cost cutting strategy	36	4,86	21	4,81	15	4,93
Revenue increasing strategy	24	4,33	14	4,36	10	4,30
Combination strategy	24	4,58	16	4,50	8	4,75
Out of court corporate reorganisation	3	4,00	3	4,00	0	0,0
Harvest strategy	3	4,33	2	4,00	1	5,0
Divestiture strategy	6	4,33	2	4,00	4	4,5
Liquidation strategy	1	5,00	1	5,00	0	0,0

Among the most efficient crisis strategies is combination strategy (mean score 4.58) and it is followed by two defensive strategies: harvest strategy and liquidation strategy (for both strategies mean score recorded is 4.33). Asset reduction strategy is implemented in nearly half of the companies in the sample and it is perceived to be efficient (mean score 4.12). Only 3 companies in the sample have started the procedure of out of court corporate reorganisation plan and it is, from the perspective of Presidents of Management Boards, efficient (mean score 4.0).

Our research results suggest that, in general, perceived crisis strategy efficiency is slightly lower (managers are more pessimistic about results) when company's survival is being threatened. We applied Mann-Whitney test, but found no statistically significant differences in the strategy efficiency levels with respect to management's perception of company's survival being jeopardized (due to small sample size).

Next, as seen from Table 7, we analyzed the perceived importance of various stakeholder groups in the process of company's recovery from the perspective of Presidents of Management Boards of companies in the sample.

Table 7: Perceived importance of various stakeholder groups (research results)

Stakeholder groups	N	Minimum	Maximum	Mean	Std. Deviation
Top management	39	1	8	4,10	1,714
Shareholders/owners	39	1	8	5,51	1,652
Employees	39	2	6	3,72	1,213
Customers	39	1	6	1,54	1,253
Suppliers	39	2	9	5,44	1,832
Creditors	39	1	8	3,56	1,847
Government/local community	39	1	9	5,31	2,567
Media	39	2	8	6,95	1,589
Universities	39	7	9	8,87	,469
Valid N (listwise)	39				

We asked respondents to sort (rank) stakeholder groups by relevance and their active contribution to the recovery process importance, whereas "1" is attributed to most important stakeholder. As it is demonstrated in the Table 7, customers are perceived to be the most important stakeholder group for the process of company's recovery, while universities (including research institutes) are perceived to be the least important group.

This research investigates and evaluates a role of major stakeholders in the process of expected corporate recovery. Among important stakeholders, customers (mean score 1,54), creditors (mean score 3.56) and employees (mean score 3.72) can be identified as the most important stakeholders. It is interesting to point out that shareholders, commonly recognized as the most important stakeholder group, are being only at the ranking number 7 (mean score 5.51). This could mean that crisis has the potential to deeply and structurally affect company-stakeholder relations, whereas shareholders are becoming a stakeholder group with secondary importance (seventh of nine groups) and that firm's survival and crisis recovery process depend on other relevant stakeholder groups – especially customers, creditors and employees.

4. CONCLUSION

The aim of this paper was to investigate corporate response during crisis that could broaden our basic understanding of strategy implementation role in the extremely delicate moment of company's life. Since corporate crisis is damaging corporate goals and can lead to business breakdown, it is of great importance to determine ways how management of a company in crisis manages change and how they choose and implement strategies suitable to crisis conditions.

The results of our empirical research show that most common external sources of corporate crisis are changes in market structure of demand, loss of main customers and problems with providing „fresh money". With respect to internal causes that have potential to generate crisis, low responsiveness to changes in business environment (manifesting through opportunity losses), inadequacy in control systems (especially regarding cash-flow and costs) and bad credit loans decisions have been reported as most common internal factor that has the potential to endanger company's survival.

The results of our pilot-study show that offensive and defensive crisis strategies implementation during crisis is applicable on a wide range of companies. Using management's estimation about company's survival being threatened as a reference point, we found that almost all of the crisis symptoms are to a greater extent present in jeopardized companies. This finding suggests that managers are able to detect early signs of potential crisis. Also, our results point to a situation in which crisis strategies are to a greater extent implemented in jeopardized companies even though perceived crisis strategy efficiency is slightly lower. This means that managers are able to develop and implement crisis strategies, even though managers seem to be more pessimistic about results of action taken in jeopardized companies. It should be stressed that lower indicator scores of crisis strategies effectiveness don't necessarily reflect management's ineffectiveness but rather a stage of company's financial illness where symptoms can be so severe that management manoeuvre space is limited, in terms of strategies they implement and their consequential efficiency.

This research investigates and evaluates a role of major stakeholders in the process of expected corporate recovery. Customers, creditors and employees are identified as most important stakeholders. It is interesting to point out that shareholders, commonly recognized as the most important stakeholder group, are being almost at the end of the stakeholder importance ranking list. This could mean that crisis has the potential to deeply and structurally affect company-stakeholder relations, whereas shareholders are becoming a stakeholder group of secondary importance, and that firm's survival and crisis recovery process depends on other relevant stakeholder groups.

Of course, our study has limitations itself. Future studies in the field should include industry analysis on a larger sample of companies. Also, different corporate governance structures and different constellations of power relations between relevant stakeholder groups can shape different contexts for exploring strategy implementation effectiveness in a crisis surrounding.

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