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INSTITUTIONAL AND BEHAVIORAL BASIS OF THE CRISIS AND BANKRUPTCY

It is indicated that the problems related to the financial and economic crisis are multifaceted. By focusing on the institutional and behavioral basis of the crisis and bankruptcy another one of its features is revealed – the one of the human factor behavior and the psychological reasons for the emerging of the crisis situations. It is underlined that the behavior of the market subjects during a crisis has no less significance both for going out of it, as well as for establishing market stability. The consideration of the elastic network of crisis as a last barrier before bankruptcy is enough reason to search new forms of market behavior that are in conformity with the established conditions.

JEL: J24; L16; G33

Behavioral Basis of the Crisis

Human activity is based on needs. Throughout his whole life man, by his behavior, strives to satisfy needs different in content, starting with the physiological ones connected with his material life and reaching the spiritual ones related to his social realization and cultural activities. The needs can be classified by different criteria such as individual and collective, objective and subjective, material and spiritual, etc. Regardless of what the needs are, psychologists agree unanimously that among people they are associated with the feeling of dissatisfaction which they strive to overcome. In this sense, they have a connection with the self-consciousness of the individual, i.e. one to think and reflect for his own behavior in satisfying the various needs, as well as to make an assessment as to what is the attitude of the others around him when showing activity to satisfy the specific needs.

If one looks from purely market positions, the economic growth, the development of the human culture and the progress are stimulated by the growth of the needs and their diversity. But it is simply impossible to satisfy all the needs of everyone. The reasons are different, but summarized perhaps is the one which is related to the human potential – knowledge, professional skills and concrete actions. Therefore a general harmony of interests could not exist. Thus every person can achieve a certain level of satisfaction of some needs over others. Their limitation is associated with certain moral motives, i.e. not every individual ought to pursue his interests

at any price and without limits. This means that needs as a form of personality's relationship to the outside world can be disciplined. Their transformation into an object of discipline allows them to be directed, i.e. managed.

All needs, as a kind of goods, have a price. Since man has a value only as a social-productive unit, with his active behavior he should cover the price of goods he consumes. Obviously this is not a matter of specific population groups (children, pensioners, disabled persons, etc) for which the society is obliged to secure the satisfaction of their needs by means of relevant economic and legal mechanisms connected with the subsequent distribution of income. The satisfaction of needs within the society should correspond to the income that is created, i.e. every discrepancy means breaking the stability in the social and economic system. In other words, wages, profit, rents and the entrepreneurial income for the individuals, team, company and society need to cover at least the needs that are formed in the public system. Taking into consideration the necessity of the economic growth, the need of creating more investment opportunities is understandable.

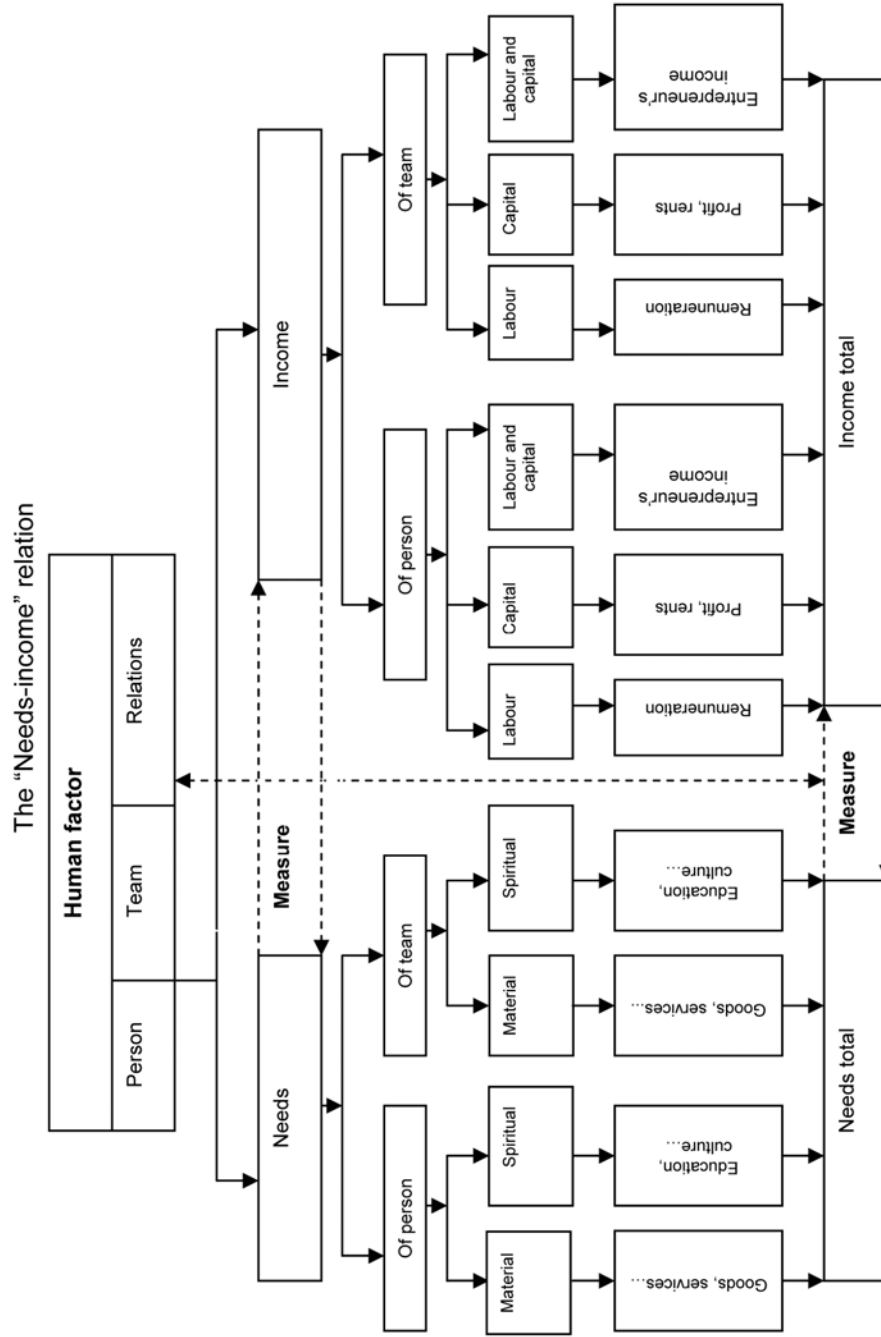
Man is directed towards the active impact over the external environment in order to be able to satisfy his needs. This, by essence, is an economic activity that is historically developed and thus satisfies the growing human needs. In this case, of course, all goods given by nature should be excluded, like sun, air, natural water, etc. although in certain circumstances they may also become grounds for the formation of income in case specific needs are to be met. Such as mountain and sea resorts, mineral springs, etc.

From the human factor point of view and its behavior, the maintenance of stability in the social and economic system is determined largely by the measure between needs and income, i.e. in order to consume one should create. The link "needs –income" can be traced on Scheme 1.

Every income is associated with the labor or control of capital or a combination of both, and money is the universal equivalent of all income towards the needs. The latter, as a kind of goods, have a price which is expressed in money.

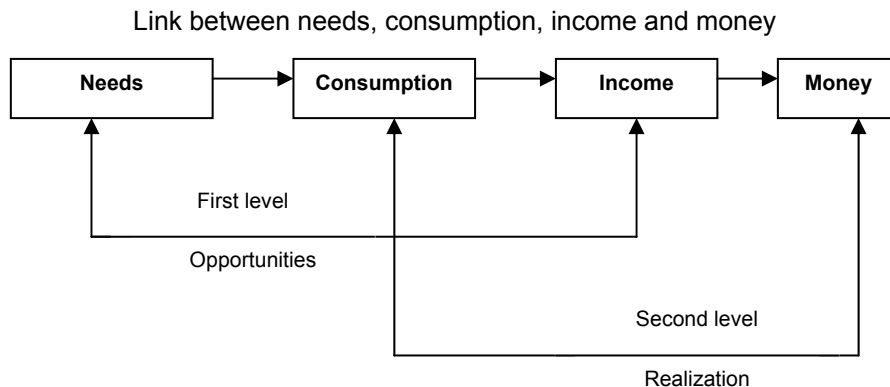
Income, respectively money, is necessary in order to transform needs into consumption. But needs are those that provoke the demand, respectively the supply on the market. The income and money even stimulate the consumption. Thus, two reasons – needs and income (money) are at the basis of provoking the demand and supply on the one hand and the consumption on the other. Of course, in this case, the possibility to form a behavior of search in the human factor to satisfy specific needs by offering a given product or service is not excluded, but they are on another level and do not relate to the general case.

Scheme 1



The link between needs and consumption on the one hand and income and money on the other is shown on Scheme 2.

Scheme 2



The following combinations are possible from the scheme:

A. Correspondences on first level “needs – income”

- a) the needs and the income are correspondent – so satisfaction is present;
- b) greater needs – smaller income – an active behavior to satisfy the needs;
- c) smaller needs – higher income – awaiting for changes on the market and postponing the satisfaction of needs over time.

B. Correspondences on second level – “consumption - money”:

- a) the consumption corresponds to the available money – an equilibrium on the market between demand, which is secured by money, and supply of goods and services;
- b) greater consumption – less money – the breach of correspondence is compensated either with more credits or with the development of the “grey” sector;
- c) less consumption – more money – the consumption is postponed over time.

The link between the first level – opportunities, and the second level – realization, from Scheme 2, is important for securing the market stability. The correspondence between needs and income is an essential condition for the smooth transition to the second stage – consumption – money. In order to ensure a balance between the needs and the income, a high level of self-awareness is needed in the society, as well as the application of regulatory mechanisms of the institutions. Every individual in a democratic society should not pursue his selfish interests freely and boundlessly. Two types of regulatory mechanisms can be used in order to limit these strives:

The first one is related to the moral standards that are embedded as values in the human factor. So certain self-restraints in the needs can be voluntarily realized. In this respect there are already many non-governmental organizations that strive for creating values for reasonable and balanced needs in the individual by various initiatives and mainly through conviction methods.

The second mechanism is mainly of an institutional nature and is based on the relevant normative base. Unlike the first one, this case relies on the forced approach for securing the necessary correspondence between needs and income. The instruments that are most often applied include those of the tax system, fees, custom duties and others.

As it was already mentioned, all needs, as kinds of goods, have a price which is expressed in money. Thus the consumption, as a form of realized necessities, is related to the amount of money. Problems along these lines arise when there is a strive towards higher consumption in relation to the available money. In this case it is resorted most often to crediting. The credit as a ceded right for satisfying certain needs ousts payments ahead in time. But the consumption is taking place now. Thus the mass orientation towards credits means real consumption now with deferred payment over time. By this the logic of the market is shifting from focusing over production of goods to acquisition of money as a universal equivalent for their consumption. Precisely the breach of the market behavior's measure is at the basis of the crisis. The contours of a financial and economic crisis are clearly outlined with the addition of the exclusive greediness of some market participants to accumulate large profits by taking uncalculated risks, combined with the inadequate regulations and supervision of the institutions on the financial markets. Or the non-correspondent institutional behavior of the rising market situations leads to the crisis. The extent of it will be determined by the inadequate managerial decisions taken by the managing subjects on the basis of the institutional behavior which is inadequate to the market conditions. The banking institutions are only an element of such behavioral chain, shown by many institutions, before they reach the financial markets' regulation and supervision problem. Creating an unstable economic growth with a lot of money is a behavior of the business and the entrepreneurs, secured in such a type by the behavior of various institutions, stimulating similar processes, including those creating the normative base.

So the breach of the measure between needs and income as an opportunity on the one hand, and between income and money as a realization on the other, combined with the institutional behavior inadequate to the market situations, are at the basis of the crisis.

Needs are the reason that provokes the demand, respectively the supply, and income and money stimulate consumption (see Table 1).

Table 1

Correspondences in the chain “needs – consumption - income – money”

N	Needs - consumption	Income-money	Needs - income	Consumption - money	Result and possible behavior of the market subjects and institutions
	Interests and measures	Interests and measures	Opportunities	Realization	
			Demand and supply		
1	Presence of measure				Market stability (equilibrium)
2	Breach of measure due to selfish interests				Inadequate regulations and market instability
3		Presence of measure			Market stability (equilibrium)
4		Breach of measure			Inadequate regulations and market instability
5			Correspondence		Establishing a relevant level (low, middle, high) by certain criteria
6			Greater needs – less income		Demand for credit and other sources of finance
7			Less consumption – higher income		Deferred satisfaction of needs over time
8				Correspondence	Establishing a relevant level (low, middle, high) by certain criteria
9				Greater consumption – less money	Unregulated crediting and conditions for development of “gray” economy
10				Less consumption – more money	Consumption postponement over-time (unsuitable market, changes expectations, etc.)

The creation of preconditions for emergence of crisis situations of various nature and in different scales is largely dependent on the correspondence between the political goals and the institutions. The possible options are as follows:¹

- Correctly set political goals but non-corresponding institutions. In this case there is an institutional blockade, i.e. the political goals are limited by institutions outdated in structural and functional aspect;
- Incorrectly set goals, and non-corresponding institutions. Here, because of errors or insufficient professionalism of the subject in power, a mistake is likely to be made in the goal setting itself. The outcome of this situation is correction of the political goals, which may be preceded by changes of the subject in power;
- Correctly set goals and corresponding institutions. This is the most favorable option which creates conditions for accelerated changes and economic growth;
- Incorrectly set goals and non-corresponding institutions. This option is associated with the crisis in politics and economy. The peculiar thing here is that due to professional and other weakness of the subject in power, the goal setting

¹ Kamenov, K. The Managerial Process. Veliko Tarnovo: “Abagar”, 2003, p. 18.

itself can not enter into the role of landmark for possible institutional changes. Usually in such cases the processes of change are slow and painful and may result in the formation of an active body of the subject in power. The acceleration of the change process is possible by external forces, but such situations do not always emerge.

The examined options are shown on Table 2.

Table 2

The link “political goals – institutions – crisis”

N	Political goals	Institutions	Results (expected)
1	Correctly set	Non-corresponding	Institutional blockade
2	Incorrectly set	Corresponding	Correction of political goals
3	Correctly set	Corresponding	Accelerated changes, development and economic growth
4	Incorrectly set	Non-corresponding	Crisis in politics and economy

From Tables 1 and 2 can be concluded that the crisis as a form of market instability has a behavioral and institutional character. It is a matter of breaching the measure in the “needs – consumption – income – money” chain in the first case and the correspondence between the political goals and the institutions in the second. The latter give powers to the managing subject, while their usage depends on the human factor qualities. In this sense and when the institutions correspond to the political goals, if the managing subject takes determined decisions incorrectly or they are properly taken but incorrectly executed, the risk of emerging of crisis situations is great.

The conclusion which is imposed is that if the institutional structure corresponds to the political goals, the human factor behavior in its capacity as a manager and executor is at the basis of the crisis situations.

In the field of personal, social and economic life, the human factor behavior is regulated by the relevant normative base. In this sense every institution is also associated with a normative base. It is at the basis of the institution’s behavior. On its part it predetermines the political goals realization. In the shown chain of links and interdependencies, the normative base has a leading role, which is predetermined and is a result of of the legislative power. The correspondence of “goals – institutions – normative base” has an important significance for the stability of the managerial process, as well as for the crisis situations’ exclusion or prevention.

The possible options are as follows.²

- breach of correspondence between goals and institutions, but a modern normative base. Changes in the goals and institutions are possible here in order to achieve the desired correspondences;

² Kamenov, K. Op. cit., p. 19 and 20.

- breach of correspondence between the goals and institutions and an outdated normative base. This option is a reason for a crisis situation. Essential changes are imperative in the institutional structure, followed by updating of the normative base. The initiatives for such changes can be both internal and external;
- presence of correspondence between goals and institutions, but an outdated normative base. Usually at such combination, initiatives of political character for changes in the normative base are primarily expected;
- presence of correspondence between goals and institutions and a modern normative base. This is the most favorable combination. At this option a political and economic stability is present which gives opportunity for an accelerated development in the public and economic sector.

The above mentioned options are shown systematized in Table 3.

Table 3

Correspondence between goals and institutions
and normative base

N	Goals and institutions	Normative base	Results (expected)
1	Breach of correspondence	Modern normative base	Possible changes in goals and institutions
2	Breach of correspondence	Outdated normative base	Political and economic crisis
3	Presence of correspondence	Outdated normative base	Initiatives on political base for changes in the normative base
4	Presence of correspondence	Modern normative base	Development of the public sector and economic growth

The achievement of perfect match between goals and institutions on the one hand, and the normative base on the other, is not an easy task. The usual case is when the normative base falls behind possibly affecting various institutions at separate stages. This is one of the main reasons for the appearance of inter-institutional conflicts, resulting in violation of the managerial process stability and at the same time in the creation of preconditions for the emergence of crisis situations. The goal setting has an important significance in this direction. Naturally, the institutions contact with the human factor behavior upon their direct functioning. In an incorrect goal setting the attitude of the latter to such goals may be different; the reasons are also different - ranging from political discrimination to insufficient professionalism. At such a situation the wrong political goals find support at political assignments and the professionalism turns into opposition. This is a reason for serious violations of the managerial process stability in two ways - first, there is a senseless spending of resources (human, material, financial) if the incorrectly set of goals is executed and secondly – if there is an attempt to change goals, then a significant delay in changes may be outlined due to the different attitude towards the new goals and eventual conflicts. The occurrence of similar

situations in the social and economic life is a serious prerequisite for creating conditions for crisis situations. The onset of the political and economic crisis on institutional base is accelerated by attempts of outside intervention in the institutions' activity prompted by political and economic interests.

The causes for the crisis may be just formal and may be related to the political goal setting correctness, the method of institutions' functioning, the normative base, the managerial decisions taken and the process of administration. Equally important however, are the subjective reasons related to the personality and its behavior, such as fear, expectation, talk of crisis, etc. It is no accident that in regard to this matter, the father of the German economic miracle, Ludwig Erhard posits that psychological factors are fundamental to the development of the economy. Thus, the negative prognoses accompanying any crisis play the part of the stress-factor. And if there are a number of formal reasons for the emergence of the crisis, then the human factor behavior in order to satisfy its daily needs can play an important role both for deepening of the crisis and for its prolongation in time. Talking about crisis makes the ordinary man restrict himself in the actual consumption, although there are certain opportunities. So the market gets a peculiar psychological attack from the strongly limited consumer's behavior of the human factor, which reflects upon the production of goods and services.

If the formal preconditions for the crisis are connected to certain imperfections in the way the power is used and in particular the political goal setting and the way of functioning and organizing of the institutions, then those related to the human factor behavior are mainly on a psychological basis. The most important preconditions of a formal and subjective nature are shown systematized in Table. 4.

Table 4

Most important preconditions for the beginning and deepening of the crisis situations

Preconditions of formal character	Preconditions related to personality's behavior
<ol style="list-style-type: none"> 1. Errors in the political goal setting 2. Improperly constructed or malfunctioning institutions. 3. Outdated normative base or a base not corresponding with the market requirements. 4. Wrong managerial decisions. 5. Highly bureaucratic and improperly structured administrative process. 	<ol style="list-style-type: none"> 1. Fear of the uncertainty of the environment in which man lives and works. 2. Speaking of crisis and statement of views and qualifications (often not covered by reality). This suggests a behavior. 3. Media overexposure and addressing all emerging problems to the crisis. 4. Limiting the consumption of daily necessary goods and services in anticipation of better times. 5. Anticipation of better times for the realization of personal, family and company projects.

An important significance has the expectation³ of the individual, group or team from a psychological point of view. It can be used as a tool to activate the

³ See more details in: *Kamenov, K.* Behavior in management. Veliko Tarnovo: Abagar, 2002, p. 155 and 156.

personnel in times of crisis situations. The important thing here is the manager, respectively the management team, to hold him responsible for satisfaction over time. The unrealized expectation is more dangerous than the lack thereof.

In order to turn into a tool for managerial impact, the expectation is associated primarily with the active behavior of the human factor. Logically, such behavior would be realized with concrete results in time. In this sense, the expectation seems to identify itself with the need, which is true insofar as the need of changes to satisfy certain material and spiritual needs is genetically set in man. The expectation, however, goes beyond them and affects the emotional life of the individual. In other words, it may be related to the satisfaction of an event beyond the personal "I" – for instance, fair political changes or sanctions against guilty persons for financial and economic offenses. From this aspect, the expectation motivates activity, without affecting directly the personal "I". In practice this is a specific form of need, which can be used in terms of crisis when experiencing major difficulties for the activation of the human factor behavior, because in this case a deep moral sense in a human is touched - the sense of justice.

Both standpoints on the crisis - the institutional and the behavioral ones, guide us to the conclusion that the discussions about whether it is of the demand or the supply is true insofar as these two market positions come to the surface of the business relationships and the human everyday life. But this is only a result of some very complicated and often difficult foreseeable processes associated with the use of power and the political goal setting. They are approved or denied by the corresponding institutional behaviour. And what is demanded and offered is only a consequence of the preceding causal and investigatory relationships of the human behaviour. And if it is dressed in power and institutionalized with not so clear goals and transparent motives, the preconditions for the crisis do not only increase, but often the paid price is quite high and affects everyone in the society.

Elastic Network of the Crisis and Bankruptcy

The crisis as a result of the institutional and personal behavior is a condition – a possibility from which there are various directions for development – passing through all its phases and survival; transformation of structures, functions and activities; limiting the inefficient economic activities or their final termination; reduction of the financial institutions and bankruptcy for certain companies and organizations that have not been able to adapt themselves to the changes that have occurred. All these options are different forms of failure in a crisis.

Failure is something natural with the freely competing market subjects. For the most part, scientific research is oriented towards developing strategies for success, or more generally speaking, they are dealing with the stable development. Failure as an objective phenomenon should be examined with no less thoroughness, because in practice there is no absolute guarantee or fully reliable prognosis against it. The philosophy of failure is of no less significance than that of the stable development.

In general, the failure can be regarded as a loss of market positions and a delay in the overall development of the company against the competitors. The reasons may differ, but their action show one thing - a delay in the marked paces of development, which reflects directly on the evaluation indicators (profits, investments, employment, etc.). Failure as an opportunity to fail in a crisis can be broadly characterized as an inability to ensure a market stability for companies and organizations by the methods, approaches and management techniques that are used. This means an impossibility to proceed with their functioning further by observing the current principles of the market behaviour.

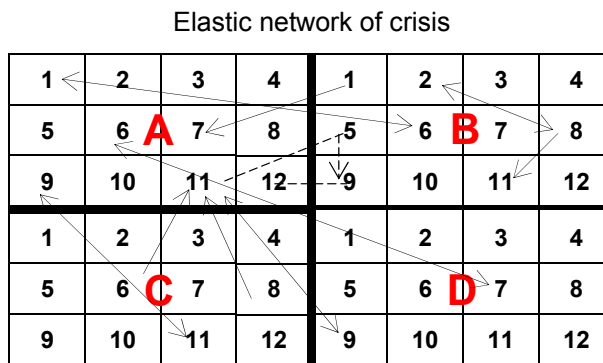
From a managerial point of view, the philosophy of failure has its roots in two moments:

First, the management (respectively, the management team) is unable to exploit the potential of the managed object.

Second, this potential has been improperly used in order to achieve the incorrectly set goals, forming the strategy for the development of the company, the organization.

As mentioned above, the failure during a crisis not always leads to bankruptcy. The latter is its final state. To be able to seek a logical explanation for this condition, we shall connect it with the behavior of the market subjects and the elastic network of the crisis (ENC). The latter is associated with the ability of the companies and organizations to survive in conditions of crisis and market competition. Figuratively speaking, all who stay on the network survive. The elastic network let the market subjects pass, those that violate the measure - of needs, of consumption, of income and money. A general idea of the ENC can be obtained by Scheme 3.

Scheme 3



Four sectors are shown in the network, each having 12 cells (conditionally these may be companies, banking institutions and financial organizations, etc.). Assuming that sector A includes banking institutions, sector B – construction,

C - tourism and D - the clothing industry, the most intensive are the relations of the three sectors B, C and D with sector A – the banking institutions. The separate cells in the sectors can be interconnected, as well as each cell with such from the other sectors. This means an extreme complexity and diversity of links. Only the inter-sector links for each sector are 132 – by the formula M (maximum number of connections) = $N(N-1)$, where N is the number of elements (cells in the sector). Each of these links can be oriented to cells from the other sectors, which for the whole ENC in the case with 4 sectors can mean thousands of links; moreover in the real economy each one of them is a form of certain relations – both inter-sector, and most of all between the separate cells (firms, banks, organizations, etc.).

The example shows that an extremely large number of connections is possible only between the four sectors with 12 cells each. If this is transferred to the regional, national or the world economy, the diversity of economic and financial relations would be difficult to describe and control. The regulation of these relations becomes extremely complicated taking into account that they are freely competing market subjects.

Each one of the model sectors may fall into a crisis situation for various reasons – building - due to increased supply, tourism - due to purely local problems related to the infrastructure (roads, water supply, etc.), clothing industry- due to poor realization of the outsourced orders, etc. Of course the reasons can be of another nature and affect only the respective sector, but the occurrence/onset of crisis in sector A – banking institutions, affects all other sectors. Not accidentally the current world crisis started as a mortgage crisis, related to the uncontrolled granting of credits for construction, and then it transferred on the overall economy to a different extent. In fact, the reason here is also the disturbed measure of banks in granting credits for construction and purchase of properties in order to get a higher profit through accumulating interest on credits. Thus money, as a universal equivalent and measure of all goods, hit the world economy in a domino effect because of its connectivity. Or the advantages of globalization reduced by the effect of the crisis. Conquering the banking sector (sector A in the scheme), the crisis reflected over all sectors of the economy due to several main reasons:

- a) their dependence on the credit policy of the banks (in this case sector B – building, proved to be the most dependent);
- b) the market stability and the internal debt in each sector (in this respect tourism was strongly affected in our country);
- c) the dependence of companies and organizations from foreign markets (in relation to this the clothing industry in Bulgaria was substantially affected).

From the ENC point of view, the crisis may affect only a particular sector and its individual cells and then it has a vertical character. Depending on the intensity of the links in the sector, it can spread over a greater part or the whole sector, and depending on the intensity of the inter-sector links, respectively their

cells (companies, organizations, banks) - in less or more sectors and can influence them in varying degrees. In the first case within the sector, the crisis has a vertical behavior, and in the second - horizontal. Thus, the dependence that the more and the deeper "the falls" of companies and organizations are, this much it is affected deeper by the crisis is outlined, and in the same time the more it is linked to other sectors, respectively their structural units, the more it is spread horizontally. Moreover this depth will be in direct dependence on the crisis key sector and in particular on the intensity of the links of the others to it. The present world financial and economic crisis that started from the banking sector can be addressed to such picture and dependencies.

Usually only the best "market players" stay on the ENC but often quite a few compromises are made for this. Figuratively speaking, it is imperative that every market subject seeks ways and means to reduce its "weight" so not "to fall through the network openings". The approach is different for the separate companies and organizations, but among the most commonly used means are the reduction of wages, the limitation or bringing the investments to naught, reducing the personnel employment time or shedding a part of it, minimizing the costs not having direct relation to the main activity, etc.

The link between the crisis for separate companies and organizations in a given sector and its horizontal spread can be traced on Fig. 1.

Figure 1

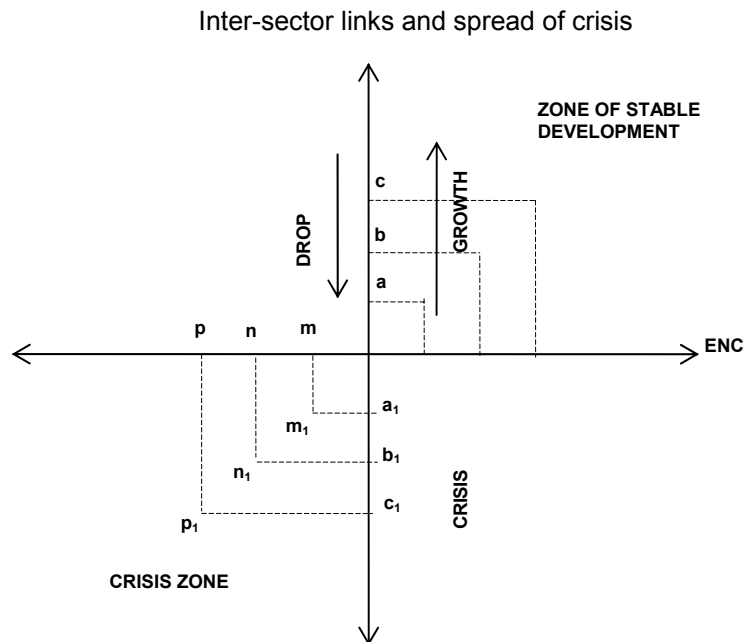


Figure 1 shows the conditions of growth, drop and crisis, where two zones are specified – of stable development and of a crisis. As the most deeply affected by the crisis company (organization) c_1 will have the strongest influence over these companies and organizations from its sector or from other sectors that have the most intensive relations to it. With less influence for the spread of the crisis is the position of the company (organization) a_1 , although the effects of the crisis are also present, because as a market subject it has fallen out of the ENC (conditionally it is the abscissa on the figure).

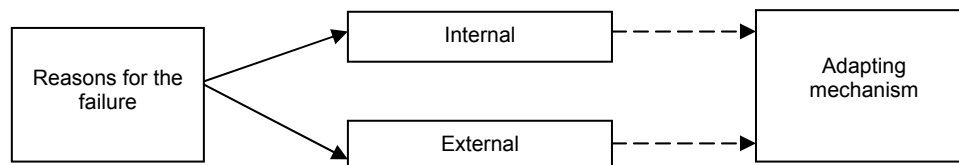
In practice ENC omits the market subjects when violating the measure (consumption, crediting, etc.) of stable market behavior and they fall into various states of crisis, which in time may have different direction of change:

- some disappear from the market horizon;
- others try to cope with the crisis situation themselves, with a lot of restrictions and changes to adapt to the facts;
- others yet return to the market with the state's intervention (this is done for companies and organizations of strategic importance, as the banking sector is approached in the present crisis).

The crisis is a result of a certain market behavior, meaning different opportunities to get out of it. Bankruptcy is a state of a given company or organization. The behavior of the market subjects in time of crisis has to change in order to avoid bankruptcy.

Assuming that the failure for any company, organization is a situation, originating from the impact of internal and external factors, then the first two important components of the adapting mechanism to the new changes can be outlined. They are related exactly to the changes dictated by the action of these factors (Scheme 4).⁴

Scheme 4



The adapting mechanism is an opportunity for the company, organization to stay on the ENC, i.e. not to fall into bankruptcy. What does this mean?

- First, that a crisis point has come in the relevant area of company, organization life and it is a real fact. Therefore, its exact definition and causal and effect determining will allow the correct diagnosing of the problem.

- Secondly, that the specific internal and external reasons for the obtained drop (failure) in the respective area have to be analyzed. This may orientate the management to redirect some of the external links towards other more reliable companies, and as for the internal organization of work, a merger of separate units

⁴ See for more details. *Kamenov, K. Management. V. Tarnovo: "Abagar", 1999, p. 359, 360.*

is possible, closure of others and optimizing the links so that the main activity of the company is facilitated to the greatest extent.

- Thirdly, the unsuccessful activity has to combine with the others, although with a negative result, unless the prospects for it are clearly outlined, and if estimated that it would keep the functioning of the company in time, then opportunities for its reduction have to be searched, combining with other activities and only then closing down. All these actions should be taken by the management team in short terms, because such actions over time may turn out to be a catalyst of the problems in the company, the organization, which may lead to bankruptcy. Besides, any hasty, unreasonable or delayed decision may be decisive for the outcome of the crisis situation. So keeping the ENC becomes a matter of behavior and a specific reaction of the manager, respectively the management team over time. Any delay or overtake in the implementation of certain changes can turn into a reason for bankruptcy.

The changes for adapting to failure can be differentiated into two groups:

1. *Problems caused by internal reasons.* They are easily manageable to implementation and most often they are as a result of the diagnostic analysis of the company, the organization in structural, technological or behavioral respect. Specific transformations for the company can be realized in each of the three directions in order to stabilize its market positions and to provide a certain level of stability.

2. *Changes caused by external causes.* They are more important because they affect the company's interaction with the external environment and can not always be achieved by a predefined scenario. The following more important reasons of external nature for the failure of companies, organizations can be pointed out:⁵

- the activity of competitors – the lack of information about the specific strategies can put/place any company, organization into an unstable market situation. Thus, following the market innovations, and not the overtaking, may lead to loss of significant market positions;

- changes in the normative base – although they affect all market subjects, the companies and organizations have different readiness for them. Those ones which adapt with difficulty register a temporary or lasting failure;

- provoking new market needs a unfair competition – this means the competitors have to imitate new products and services that are not actually secured. Thus by using the concept of the strategic fraud,⁶ the investments of other companies and organizations can be oriented to wrong direction which in time may lead them to lasting market instability;

- errors in investigating the market needs – they can be in two directions – either the production above or the production below the actual market needs. But there will be significant losses in both cases. The investments made in the field of tourism in our country proved in practice that many companies have ignored the requirement to comply with the needs and found themselves punished by the market;

⁵ Kamenov, K. Management..., p. 365, 366.

⁶ See in details: Kamenov, K. and A. Azenov. Man and organization, Veliko Tarnovo: "Abagar", 2001, p. 46.

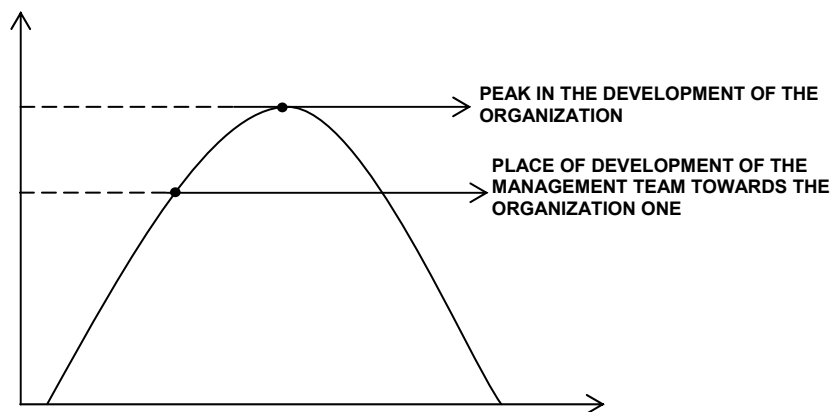
- occurrence of occasional unforeseen events for which an insurance protection is not provided (natural disasters, ecological catastrophes, etc.);
- political decisions that are not in line with the economic reality. Such decisions can worsen the functioning of companies and organizations with high potential by stimulating some which have weaker market presence. Thus, the lack of political stability can lead companies, organizations and whole sectors to crisis, which after that to become the "epicenter" of its horizontal distribution over the entire economy. Reasons of similar nature are at the basis of the present world financial and economic crisis.

The failure of any company, organization is a state in which it can stay for a different period of time. Moreover, it is relative, because it may have other dimensions. The slowdown in growth or the stagnation can be shown as an example of failure. However, the tendency towards a drop (a recession) and the approach to ENC is definitely a failure. From this point of view, failure is a condition of a company, organization, which has been missed by the ENC (conditionally it is the abscissa in Figure 1). In that sense, it is considered to be the final form of company failure. As already have been stated, the philosophy of failure from a managerial point of view is associated with the inability of the management team to use the potential of the managed object or wrong goal setting in connection with the company strategy.⁷

One of the reasons for the impossibility to fully utilize the potential of the managed object is that the peak of the own development of the management team and the one of the company or of the organization do not always coincide. Non-usage of a large part of the potential is present in similar situation in practice (see Fig. 2).

Figure 2

Discrepancy in the development of the management team and the organization



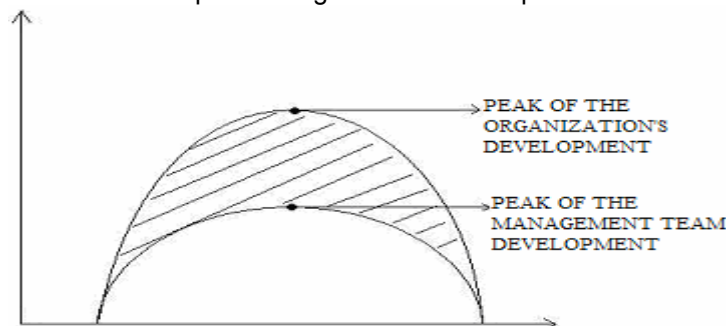
⁷ Kamenov, K. Management..., p. 382, 383.

When the zone of discrepancy reaches its critical size (a critical drop in the growth of operations, a market failure, a financial indebtedness), the ENC practically misses the market subject and that way a factual bankruptcy occurs.

Another possibility for the incomplete use of the managed object potential is when there is a correspondence in the development of the capabilities of the management team and the organization, but the peak of the own development is below that of the latter. Illustration of this connection can be made by Fig. 3.

Figure 3

Discrepancy in the peak of management team development and the peak of organization development



The capability of the management team does not correspond to the potential of management object in the case presented on Fig.3. The ENC does not treat such market subjects, because in terms of free competition they are superseded by others, where a better management team is present in terms of the same potential of the company or other organization.

The second point in the philosophy of failure from a managerial point of view has an attitude towards the wrong goal setting, determining the strategy for the development of the company or organization. In particular, this concerns:

- the goal setting as a function of the management team, developing the strategy of the company or other organization;
- the information about the external environment in which it operates.

The ability to develop and implement a successful strategy for development of the company is limited by the capabilities of the management team (cases when by purely subjective reasons and interests a company or other organization is led to bankruptcy are excluded). In other words, this means that its strategy as an instruction for a market competition and survival can not exceed the capabilities of its creators and performers.

As for the information about the external environment, there are two important features available here:

- the first one is related to the development of the strategy and means that a good strategy can not be created without sufficient information about the external environment;

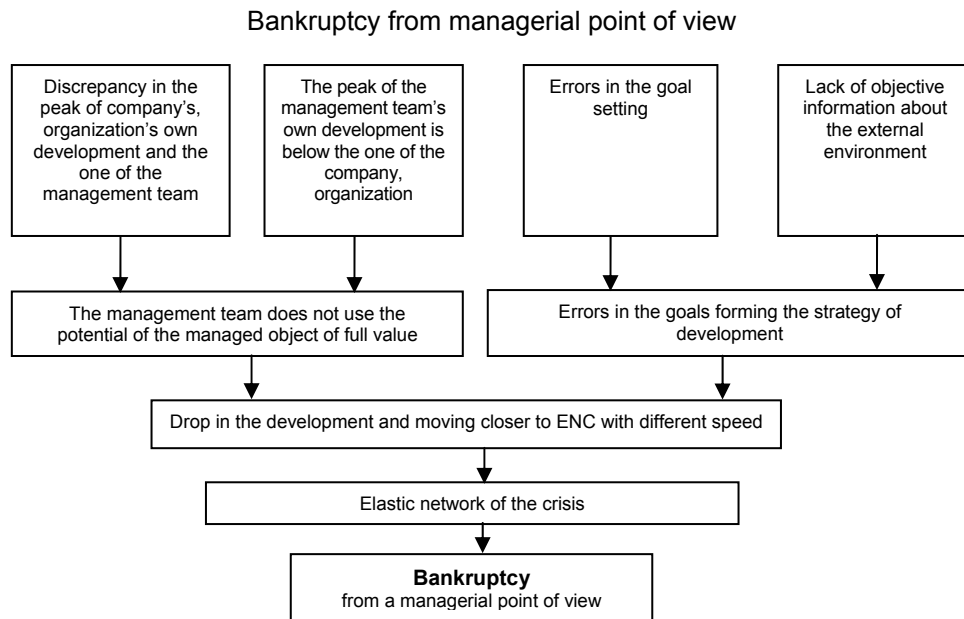
- the second one is related to the fact that the lack of reinsurance of actions and decisions may lead to a condition which strongly limits the management capabilities.

The inability of the management team to fully utilize the potential of the managed object and the improper definition of the goals when working out the development strategies are at the basis of bankruptcy of every company or organization from a managerial point of view and also in practice. With what speed they will move closer to the ENC depends on the scale of the mistakes made when taking important decisions for the company behavior at the market competition, as well as of the competitors' behavior. Reaching the ENC still does not mean bankruptcy, but the likelihood the company's failure to develop and the ENC to miss the company or organization with such behavior is great.

In practice, the ENC is the last barrier before bankruptcy. But which of the market subjects will stay on it, depends both on the speed of failure's development and from the specific behavior in reaching the ENC. Any groundless and unmeasured "market movement" can lead to falling through the ENC.

The general framework of bankruptcy from a managerial point of view is shown on Scheme 5.

Scheme 5



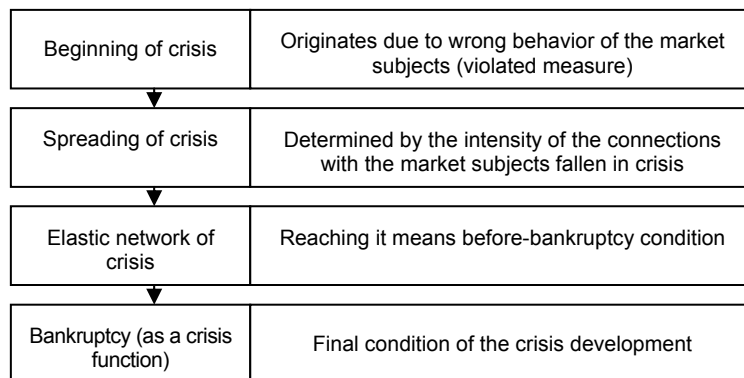
Every crisis begins with the wrong market behavior of certain subjects. The violation of the measure in their market actions essentially involves them in the crisis situation. The spread of the crisis will depend on how significant these subjects are for the market and what is the intensity of the links to other units from different sectors. In

this sense, it shows itself in different forms and covers the individual sectors of the economy. Even when the crisis covers the world economy, not all sectors will be affected equally. In other words, separate companies and organizations from a given sector may be in a different crisis situation. This is determined by various internal and external factors, but the intensity of the connections with the sector, where the crisis started and where its strongest manifestation is, has a primary meaning. From this point of view, bankruptcy can be regarded as a final state of the crisis development for a given company, or organization, which could not have been held back from the ENC. In fact, reaching the latter means that the market subject is only a step away from bankruptcy, but positive changes from this condition are also possible. They are determined mainly by the market behavior of the company, organization, expressed in the ability to perform rapid structural, technological and behavioral changes.

Bankruptcy as a final state of the crisis development is presented on Scheme 6.

Scheme 6

Bankruptcy as a function of the crisis



The consideration of the crisis as a function of the market subjects' behavior leads us to the conclusion that a change in the behavior is necessary in order not to come to bankruptcy as its final status. To what extent the changes will correspond to the created market situations will depend both on the quality of the management teams, and on the expedience of the changes themselves. In this sense, the crisis can be examined as an opportunity that stimulates competition and brings the quality in the foreground. This means that only the best will survive, which is a promotion of the competitive struggle on a higher level.

And at last it can be summarized that the crisis has an educational side and significance. Where, when and how much to invest, as well as that income is a function of the abilities and skills of the individual and teams and that is imposed as a conclusion and a behavior for every market subject, who has experienced the impact of the crisis.

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