

ENTERPRISE IN HARDNESS AND THE ERRORS LEADING TO THE BANKRUPTCY

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Abstract: *The concept of the enterprise in hardness was defined also in juridical, economical, socio-political as well as in financial sense. From the juridical point of view the enterprise is in hardness when it is in the state to cease the payments. Statistically, at least 50 % of the new enterprises strand in the first 5 years of activity, and especially the small enterprises with poor management.*

Rezumat: *Conceptul de întreprindere în dificultate a fost definit atât sub aspectul juridic, economic, social-politic și financiar. Din punct de vedere juridic întreprinderea este în dificultate atunci când se află în stare de încetare de plăți. Statistic, cel puțin 50% din noile întreprinderi eșuează în primii cinci ani de activitate și asta în special la întreprinderile mici care sunt slab gestionate.*

The concept of the *enterprise in hardness* was defined also in juridical, economical, socio-political as well as in financial sense. From the point of view of the economical theory, the hardness state was defined as being a permanent situation of financial crisis through the activity restriction, credits' decreasing, lack of cash, etc.

From the juridical point of view the enterprise is in hardness when it is in the state to cease the payments, that is when is not able to get through its exigible debts with the available amounts of money. The development of the juridical procedure¹ starts on the basis of an asking of a debtor toward the court, of the creditors or of the Territorial Chamber of Commerce and Industry. The debtor asking is accompanied by:

- the balance sheet and copies of the running accounting register;
- the profit and loss account from the year previous to the handing in the asking;
- the state of the enterprise debts;
- the declaration of the debtor containing the intention of the reorganization of the activity.

The court will decide if the enterprise is in the state of the payments' cessation as well as on the procedure through the notification of the credits, the debtors and the Office of the Commerce Register. The court will appoint a judge who would conduct, through the length of the procedure, the actions aiming the juridical reorganization or liquidation, as well as an administrator who would supervise the management of the activity throughout the procedure. The procedure foresees the proposal of a plan for reorganization and carrying on the debtor activity or for the selling of the debtor goods and liquidation, respectively.

The plan for the reorganization compulsory might include:

- the financial perspectives, especially the modalities to adjust the passive;
- the economical perspectives on the new enterprise structures and activities;
- the social objectives- the perspective of the work places, social conditions, professional reorientation, etc.

Statistically, at least 50 % of the new enterprises strand in the first 5 years of activity, and especially the small enterprises with poor management. On activity domains the smallest rate of surviving is found in the domain of textiles and ready-made clothes, commercial intermediaries and of en-detail commerce.

The most frequent errors leading to the bankruptcy are represented by:

- the wrong evaluation of the market;
- the carelessness of the legislation in force;
- the underestimation of the financial necessities;
- the impossibility of the prices' increase. The price increase of the raw materials might bring to the bankruptcy if the private enterprising could not raise the price for the own products;
- the wrong price policy;
- the inadequate location (in commerce, the success is dependent in proportion of 80 % on location)².

The main cause of an enterprise bankruptcy is represented by the cash lack in a critical moment. This situation is due, as a rule, to the defective financial management on short term and also on the impossibility to finance the investments on long term.

Sometimes, the bankruptcy might be determined artificially as a result of the action of some factors less distinguishable:

- the extent of financial blocking toward the viable enterprises which are not able to cash up the debts;
- the removal of the competition by the buyers, especially foreign, in the case of some enterprises which are not legally protected against closing;
- the setting up of the bankruptcy procedure, without the resorting to financial rehabilitation measurements and temporary financial relaxation³.

One main objective of financial administration is that of the assurance of a level of cash able to cover every moment the payment of enterprise debts⁴. The manager is motivated by three aspects: the risk planning, the organizing and control of the bankruptcy risk. These aspects are based on the anticipation of financial fluxes on short and long terms, so that might be possible to action just in time to their adjustment, before the banking capital mobilization. Thus, it appears the systematic organization of prevision under the form of financial programs. This program is named budget in Romanian economy, through which are traced out the trajectories in the view of touching the proposed aims.

The lack of available amounts of money necessary to pay the commercial debts of the enterprise induces the bankruptcy risk. The general aspects linked to risk are evident at the level of management, of dynamic conduction through the identification and operative control of bankruptcy risk.

The keeping of equilibrium between the maximization of profitability and the minimization of risk is an important condition of enterprise financial management. The actions leading to high gain are generally risky ones, done under the aspect of bankruptcy⁵; the highest gain presumes the most risky actions and, thus, if the risk is increasing the probability of failures, loss and bankruptcy of the enterprise is increasing.

THE RISK PLANNING

The pertinent planning of the payment impossibility risk is realized on the basis of global diagnostic. The global diagnostic presumes:

- A presume on treasury (budget treasury or cash-flow), since each aspect of an enterprise conduction has bearings on cash flow;
- The verifying of the health state of the financial structure.

The *presume* of the treasury evolution of one enterprise constitutes a very important aspect of financial state, since the insufficiency of funds might generate difficulties in its activity with critical effects, the finality being represented by the bankruptcy.

The enterprise might arrive to a lack of financial equilibrium in the case of the increase of raw materials stocks over the necessary, as well as in the case of the increase of unfinished production. From the analysis of current or presumed cash flow during a budgetary year it appears an indicator that is the *cash-flow of the interval*. To be able to presume the payment incapability for a given moment it is not sufficiently relevant the level of reserves, might being analyzed the general resources on short time from the active of the enterprise (with high level of liquidity).

The treasury budget allows the formulation of some conclusions on the financial state and the adjustment of cash flows and of the factors which generate them in the view of the assurance of the existent debts payment capacity.

RISK ORGANIZATION

The realizing of this function take into account the clear definition of the elements with determine the organizational statement in the view of applying the taken financing decision: the involved compartments, informational system, the delegation of authority on different hierarchical levels of the enterprise and the decentralization of its activity.

RISK CONTROL

In the specialized literature there is a distinction between the managers who avoid, those who assume and those who rule the risks. To control the risk is very difficult and it presumes to permanently and completely verify the manner in which the activities are running, comparatively to the standards and programs.

Thus, the control presumes either the permanently and completely verifying of the manner in which the activities are running, comparatively to the standards and programs, as well as the manner in which there are measured the deviations

from these standards and programs and the mentioning of the causes and corrective measures.

The events which are not expressed through numerals but might announce the bankruptcy are represented by:

- the incapacity to draw up in time financial reports and the situation of accounts;
- the accountant standards and practices, other than the standard ones, comparative to those of competition and to the existent ones in that domain;
- the rapid extension of the selling volumes, of the engaged capital;
- the combination of the functions of president and executive director, especially when they have associated a large parcel of own shares;
- the frequent resignations from the leading council;
- the share selling, belonging to the director of the enterprise, especially just before the "closing" (6 weeks before the announcement of the financial results of the firm);
- the passing from the acquisition of the actives to leasing;
- the inexplicable transactions between the branches of one firm;
- the quality of financial expertise.

The classical investigation of the risk of bankruptcy through functional analysis, the instalment method, the dynamic analysis and the analysis of liquidity-exigibility allow to render evident the past performances of the enterprise, its capacity to presume being limited.

The risk of bankruptcy existed and exists into the attention of fund owners and managers. The lasts are interested in the well going of production cycle and the investors into the recover of credits and associated interest. Many researchers and financial organisms were preoccupied on the elaboration of presuming methods of bankruptcy risk. The used procedure is represented by the statistical analysis of financial features of the enterprises with normal functioning and of those with difficulties in economical and financial administration.

All the analysis models of the bankruptcy risk are based on a score function which approximately determines if the enterprise will enter the bankruptcy or will have notable economical results in the nearest future of the analysis.

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