

Tihomir Spremo

Ekonomski fakultet Pale,
Univerzitet u Istočnom Sarajevu,
BiH

✉ tihomir.spremo@ekofis.org

Sanja Prodanović

Ekonomski fakultet Pale,
Univerzitet u Istočnom Sarajevu,
BiH

✉ sanja.prodanovic@ekofis.org

THE TURNAROUND STRATEGY AND COURSES OF ACTION OF COMPANIES IN THE CRISIS

СТРАТЕГИЈА ЗАОКРЕТА И ПРАВЦИ ДЈЕЛОВАЊА ПРЕДУЗЕЋА У УСЛОВИМА КРИЗЕ

Summary: *As the title of this paper indicates, this research is focused on the issue of recovery of companies in the crisis and a decline of business activity, with the possibility of applying the turnaround strategy. The paper is aimed to present and describe the approach to corporate management and strategic courses of action in terms of crisis, in order to improve the organization in a particular situation.*

In a concise way, authors are striving to provide an explanation to the managers about the importance of appropriate choice of corporate strategic courses of action for the concept of making the most acceptable model of business strategy in the crisis. Having in mind several aspects, it is tried to observe the turnaround strategy as companies' reaction to the decline in business performances caused by the negative effects of the recession.

Key words: *company, crisis, turnaround strategies, restructuring.*

JEL Classification: *M15, M21*

Резиме: *Као што је и самим насловом овог рада назначено, истраживање је фокусирано на проблематику опоравка предузећа у условима кризе и пада пословне активности, са могућности примјене стратегије заокрета. У раду се настоји описати и презентовати приступ управљања и корпоративни стратегијски правци дјеловања у условима кризе да би се унапредила организација у конкретним ситуацијама.*

На сажет начин аутори настоје пружити објашњење менаџерима о значају адекватног избора корпоративног стратегијског правца дјеловања за концепт доношења најприхватљивијег модела пословне стратегије предузећа у условима кризе. Покушава се сагледати са више аспеката стратегија заокрета, као реаговање предузећа на пад пословних перформанси узрокованих негативним ефектима рецесије.

Кључне ријечи: *предузеће, криза, стратегија заокрета, реструктурирање.*

JEL класификација: *M15, M21*

1. INTRODUCTION

This paper was made at a time when the national and international public notes with concern the wave of the economic crisis spreading to countries of the European Union, the impact on the global economy and measures to buffer the negative effects, as well. The crisis that has engulfed Europe and some countries around the world is different from the global (2007-2010), as it is now a public debt crisis, not a banking sector. While developed European countries such as Greece, Spain and Portugal experienced economic stagnation declaring state of recession, the slow wave of the crisis is spreading to other countries in the region and beyond. This issue has not bypassed either the economy of the Republic of Srpska or the economy of Bosnia and Herzegovina, as a whole.

Faced with all the bad influences of such a business environment, only the best companies managed to survive and ensure a successful business. Constant insecurity and unresolved issues that characterize modern business, represent a great enigma and hard-to-solve problem for many companies. In addition, approaches and preferences in business practice and literature underpinning the managing of business policies have remained poor. Previous preferences, attitudes and different concepts often do not provide an adequate answer to the question - how management decisions and the strategic corporative lines of action optimize the relationship with the environment to sustainable vitality (in period of crisis having in mind their own business strategy)? These moments and the complexity of modern businesses indicate that this issue has both aspects: research aspect and reflective aspect.

Since the company generates its activities in constellation of market, socio-political factors, economic factors and other factors, the management is expected to understand the power of changes in the environmental factors. During the crisis, when changes are not managed properly, it is supposed to have additional losses within the company. Nowadays, the transformation of any organization is represented as a prerequisite for company's strategy of growth and development as well as a precondition for its survival and recovery.

In a crisis situation, the management and the owners have at their disposal a number of possible models of transformation of the organization as a way out of the crisis. The theory of management has a clear position on each of them and tries to respond to new challenges of modern market operations. The type of model that a company will choose depends not only on its own resources, but also on the causes, nature and extent of the crisis itself. On the one hand, there are certain situations that require transformation methods that provide priorities and selective changes, while in other cases it is applied gradually without radical reorganization proceedings. Before making a decision on the implementation of an appropriate model for overcoming the crisis, management will first identify the situation and condition to diagnose and then analyze the production, marketing and financial characteristics of enterprise, and finally make decisions as the objectives of business strategy. More than ever before, the problems of modern market operations are the focus of interest of not just management of modern enterprises, but also of government institutions and academia. Well, continuous integration of the world economy, almost unimaginable technological changes and global political and economic developments, along with natural disasters, armed conflicts and social irresponsibility, represent only a framework that defines new requirements of modern business. Anyway, a modern company operates in very different conditions compared to its recent policy business ambience. In addition, external conditions and internal constraints are far more complex than they used to be during the previous decade.

One of the important features of modern businesses is related to the process of effective strategic direction of an organization, which relates to the prevention of further decline of the organization. In terms of crisis, when the organization is facing problems with decline in performances, the particular kind of strategy is applied as a solution - strategy for the recovery. Consequently, every hasty and unprofessional approach to this complex business process leads to poor business performances which result in the deterioration of enterprise, insolvency and liquidation in the end, or it could lead to the disappearance of the company in general.

Assessment of motives and determinants of restructuring business systems are subject of technical and empirical studies. However, the last events (related to decision making in times of global crisis and the economic recession) are sufficient reasons for this phenomenon to pay special attention to its theoretical and practical point of view in order to assist management in making good business decisions as a model of strategic maneuvering. Naturally, delayed reactions and making rush moves to sudden and unpredictable effects of the crisis definitely represent threats resulting in the major consequences to the company.

2. MANAGING AND OPTIONS OF HARMONIZING THE BUSINESS ACTIVITIES IN TERMS OF THE CRISIS

In terms of the crisis, decisions made by managers and the corporate strategic activity directions are a complex management process. That process implies the existence of consecutive related activities whose final result is a series of business strategies that the organization implemented. Every strategic decision by management requires a systematic and comprehensive analysis of influential factors of market environment with a series of combination of business moves in the appropriate selection of the strategy (Marks and De Meuse 2005, 19-35). The special circumstances of the company, as well as the possible impact factors of opportunities and threats in planning methods as a response to the strategic options of the company management decisions, are one of three corporate based strategy lines of action: a) improving the operations of the organization, b) maintaining the current business organization and c) preventing the further decline of the organization (Coulter 2008, 247). In fact, there are two strategies: a growth strategy as an optimistic answer to the challenges for management in the region and a stability-oriented strategy focused to retain the business in the consolidation unfavorable internal and external factors that are described as a crisis situation. Therefore, the company has the option to use one of strategies to prevent further decline of the organization. Strategy for the recovery as the option for overcoming the crisis management makes well when the problems with performances in the organization fall deeper and are of serious nature, where the organization is forced to make a turnaround in the business because its survival may be at stake. In terms of the crisis, managing and directing operations to comply management of the company is a complex process. This process implies the existence of a range of related activities that lead to a particular outcome. In the process of strategic management the final result is a series of business strategies that can be implemented to the organization. Figure 1 presents the activities of strategic management as a model of corporate strategic course of action for preventing the further decline, the selection and implementation of an adequate approach strategy for the recovery of the organization (Coulter 2008, 267-275).

Since the mental map means the ability, education, wit, penchant, the impact of the environment and traditions, brilliance, culture, age and other personal characteristics of the people who make the management team, then it is logical that it will predominantly determine the profile of strategic behavior towards the environment as a significant component of the overall business strategy (Gobe 2003, 26-27). Mental map as such is between the environment and the internal capabilities of enterprises, business strategy and results as the basic management decision. Through the adoption and implementation of business decisions, the mental maps will depend on a proper understanding and attitude towards challenges, opportunities and constraints, as well as the business opportunities, risks, resources, and critical success factors.

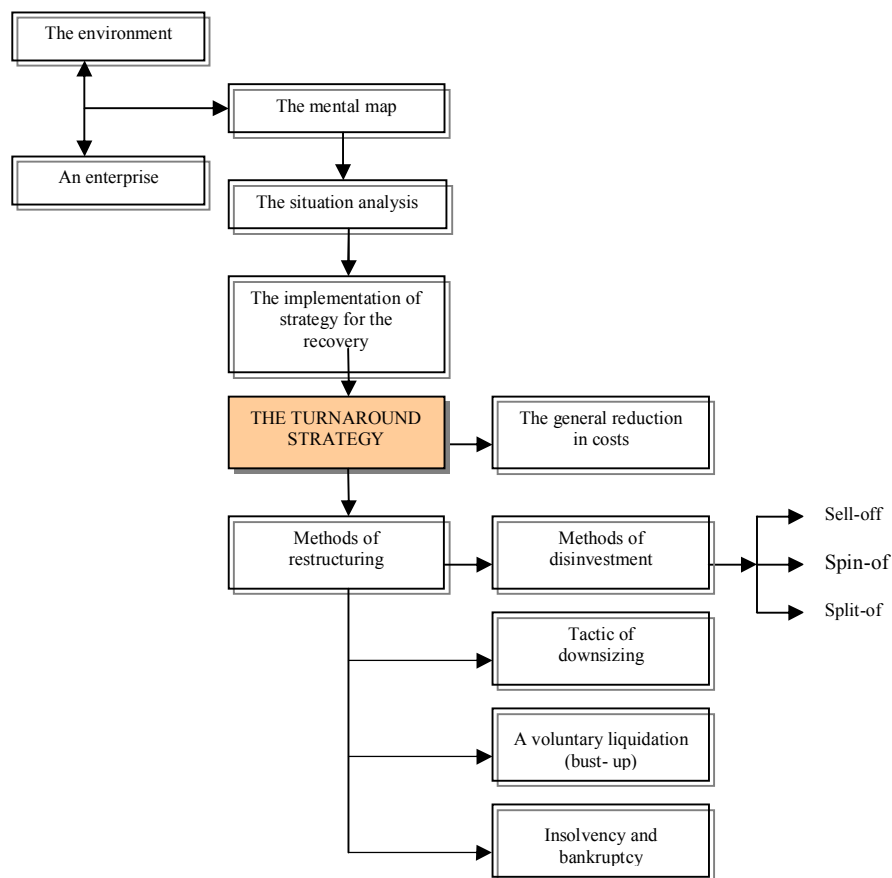
Specifically, as illustrated in the following diagram, the environment appropriation strategy is based on: a) the previous analyzing and predicting the development of environmental factors, identifying opportunities, risks and opportunities of an enterprise resource assessment¹ compared with strengths and weaknesses of the competition² and b) managerial insight and skill. After discovery of stagnation, business decision is made on preventing the further decline and strategic course of action for the implementation of strategies for the recovery of the organization.

A powerful constellation of market, technological, economic, institutional, political, cultural, social, environmental and economic factors, more or less, directly or indirectly, conveniently or undesirably has effect on performance of the company. The forceful effects of these factors contain chances and risks for the business activity of the company. Interaction of firm and its environment is essentially a ratio of internal capabilities and skills as well as skills of forecasting environment. This implies confronting the insight into the quality of the environment with the characteristics of the company through the prism of management skills.

¹ Most often: human resources, finance and technology

² By applying a SWOT analysis and benchmarking

Figure 1: The corporate strategic course of action for the implementation of strategy for the recovery of the organization (a modified idea of Couleter M.)



Source: Adapted according to Couleter 2008, 247

Strength and creativity of mental map of the management structure is the basic concept of the presented model, which is the first step aimed primarily to determine the position of the company, having in mind the type and intensity of opportunities and threats. Actually, it is a situational analysis tool of the company in terms of the implications of what happens in the environment to its present and future operations. It is assumed that the best way for the company is to identify, based on the analysis and environment prediction, the opportunities and threats to power and influence and to ultimately determine the objectives of outlined directions for harmonizing maneuvering business activities to implement the chosen strategy.

The situation analysis of the symptoms and causes of business performances gives answers for making a decision whether to use one of a strategy for the recovery or go bankrupt and timely liquidation of the company. Most authors agree that apart from poor management there are numerous factors that cause more or less decrease of corporative performances.

Out of eleven factors which have been identified as the most common causes of poor performance, Slater distinguishes weak management and inadequate financial control as the two most important factors by far (Stuart 1984:25). An inadequate support provided to business enterprise essence by the poor management often results in a new entry, a lot of risky business ventures, whereas inadequate financial controls means the inability of management to determine which business operations can make a loss for the company, and which can make a profit. The most common causes of decline in performance of the organization are: inadequate financial control, high costs, new competitors, unforeseen changes in the structure of consumer demand, slow or no commuting reaction to the significant changes in the external and internal environment and overexpansion, while poor management is the main cause of falling of corporative performances (Ivancevich et al 2005:111-117).

In order to answer these and many other questions, managers must constantly analyze the environment in order to avoid the appearance of significant trends and be aware of developments in its external environment. It is clear that in such situations, the organization is in the crisis, and the

management decision-making is expected to overcome this situation. It is important that strategic decisions are directed toward preventing the further decline in business performance and that the organization seeks to restore the position to be able to continue with the implementation of its strategic aims. However, although there is a capable management, the organizations performances can decrease, which requires urgent implementation of strategy for the recovery of companies.

The decline in business performances is a condition where companies are coming into a situation that they often can not meet the targets stated or that their business is declined. This is a serious sign so that management must initiate appropriate action to stop the identified problems. Managers need to implement strategies which address organizational weaknesses that lead to the decline of business results. Some authors call these simply- strategies for the recovery (having in mind a seriousness of the situation and defining: a strategy limits and a turnaround strategy, as two main types of recovery strategies (Robbins and Coulter 2005, 189). Once an organization is faced with a smaller decline in operating results, the strategy aims to limit the operations, to stabilize and revitalize the organizational resources. However, when the organizational problems are becoming more serious e.g. if profit organization not only decreases but does not even exist, which affects the increase of losses, then that situation requires a radical strategy. This strategy is known as a turnaround strategy and applies to situations where the organization's problems are far more complex. So in the case of applying both strategies, managers reduce recovery costs and organizational restructuring exercise activity, with a turnaround strategy that involves more radical measures than restrictions strategy.

Reviewing strategies for the recovery of companies by M. Coulter and a number of strategic management theorists, we can notice that they also present two main strategies as routes for recovery the companies, such as: the regrouping strategy and the turnaround strategy. Their primary aim is to prevent further degradation of performance and return the organization to a state before the occurrence of a crisis. Decisions that influence managers to use one of these strategies are related to the seriousness of the situation and extent of the problems the organization is facing. The turnaround strategy is applied when an organization is in larger problems and difficult situations that may endanger its very survival. (Coulter 2008, 269-270).

3. THE IMPLEMENTATION OF A TOURAROUND STRATEGY AS CORPORATE STRATEGIC DIRECTION OF FURTHER ACTION

The turnaround strategy is the strategic direction of recovery focused on solving observed deeper weaknesses that have caused a serious decline in performance of the organization, while regrouping³ as strategy for the recovery is applied even if the organization does not have negative financial results. Since the business results in a crisis usually have a declining trend, the objectives are not achieved, and then the organization has to make turnaround using the strategies for the recovery in an attempt to stop the negative trend that would come in a very difficult situation with accumulated financial problems resulting in threatening its survival. The main objective of strategic management is focused on stabilization of operations by creating the conditions for the restoration of resources in order to enable them for a new market competition.

The application of strategies for the recovery is implemented through the organizational activities to reduce costs and restructure regardless of whether the problems are more or less of serious character based on a turnaround strategy or the regrouping strategy. Thereby, the turnaround strategy, due to serious business problems, usually involves radical application of these measures. The seriousness of the crisis in which one can find an enterprise dictates the intention of management to make strategic decisions about access to cost-cutting. An insufficient recovery business requires a radical approach to reduce costs while considering the elimination of less efficient operating activities. In an effort to prevent a further decline in operating performances that could endanger the survival of the company in the market, management tries to implement the strategy for the recovery presented by

³ Explained by how Coulter M. concept of regrouping is a military term used in the military and serves to describe the situation when a military formation "pulls in the trenches" with the aim to stabilize, regain strength and prepare for the re-match.

some theorists of management science as the turnaround strategy, which consists of two steps: cost reduction and restructuring (Coulter 2010, 270-271).

Cost reduction is the first step in a turnaround strategy that is comprehensive and can be applied across all organizational functions, which means that the application of a turnaround strategy requires greater cost savings. Reducing costs as a response to declining business performance can not be related to the development of competitive advantage, but to the way that a company's performances generated align with the previously anticipated business results. In an effort to reduce operating expenses, the main goal of management is the revitalization of performances of the company.

Strategic management tries to avoid a radical reduction in costs in those activities that are considered necessary for the organization to maintain or achieve competitive advantage. For a turnaround strategy, management activities related to reducing costs and revitalization existing condition are more extensive and comprehensive in order to save the organization from collapse. Before the strategic management made a decision on how to approach cost reduction, they first estimate the situation which determines if there are redundant, inefficient and unused capacities that could be eliminated within the current operating activities. Bearing this in mind, there are attempts to reduce the cost of operation, to reduce the number of employees, to close the old and unprofitable plants, to reduce inventories and etc. In addition, the business units which had poor performances are being eliminated from portfolio of companies. In this way, a company enhances the performance and its position at the market (Hitt et al 2009, 214-216).

It could happen that in this way, in order to reduce costs, some companies do not succeed to provide sufficient savings, so it could provoke a further decline in performance. In that case, management is considering the possibility of reducing or doing away certain business activities or even individual plants as separate business units in order to implement a strategy for the recovery.

The reduction and narrowing of affairs can be regarded as a short-term defensive strategy or as response to the economic recession, a set of money, credit recession, as well as other restrictive measures of the economic policy. There are frequent attitudes of experts on issues that highlight the difference between the actions taken to reduce jobs and narrowing operations. A decrease of business operations is being alleged with lower number of employees and smaller number of business units of the company, while narrowing the business operations aims to achieve reduction of the scope of business, resulting in the elimination of the business units that do not fit into what management defined a core of business. The reduction of the company includes a set of activities in order to improve its efficiency, productivity and / or competitiveness undertaken by its management. It is a business strategy that is applied to generate the planned impact on the number of employees and the processes used (Milsavljević 2002, 266-267). There is no dispute that the financial resources of a company received by selling its parts can be used for its own investments. A successful business transaction, as a type of business strategy of disinvestment, gains the funds that are invested in planned restoration of perspective parts of the company in order to maintain the existing position or business growth. All of this provides sufficient arguments for the conclusion that the strategy of disinvestment in the function of consolidation and repositioning of the company in the economic structure is an important strategic process to overcome the negative effects of the recession for any company.

The survival and success in a setting that is characterized by risk, sudden and radical changes, are achieved only by those organizations that have successfully and timely adapted the new conditions through various forms of business restructuring. In transition countries, the restructuring of companies and identification of routes of restructuring are focused in a slightly different direction. The most common problem of the crisis and the threat to the survival which a significant number of companies have encountered, and the need not only to create new, but the destruction the outdated way of function of economic activities, made this issue complex and difficult to solve.

The restructuring is the specific mechanism that a corporation can use to add value to a business unit. It belongs to the strategic actions undertaken when organizations decide to implement the turnaround strategy (Porter and Hambrick 1985, 10-32). The restructuring may include a change in management, capital structure and the resources (Dess et al 2007:213). The term usually implies refocusing the business on its core activities, such as (Markides 1995, 101-118): sales of non-profit organizational units, separation of individual organizational units to standalone economic and legal entities and voluntary liquidation or reduction in scope of work. Refocusing on its core business proved to be the most profitable form of restructuring of such an organization.

Since the market economies have enjoyed a constant process of dynamic changes that definitely contribute to the continuous processes of adapting to these changes for the company through

various forms of business restructuring. Having in mind transition countries, the restructuring of companies and identification of routes of restructuring are focused in a slightly different direction. The most common problem of the crisis and the threat to the survival which a significant number of companies have encountered, and the need not only to create new, but the destruct the outdated ways of functioning of economic activities, made this issue complex and difficult to solve.

In order to have a successful restructuring strategy, management must be fully aware of the situation and discover all the chances and risks in order to bring the best possible decision on reforming. Otherwise, price of reform will be quite high with obvious consequences (Casico 2005, 4). Furthermore, it is essential that managers possess certain skills in order to successfully complete a turn in the direction of necessary changes to the company despite the potential risks, which is possible under the unknown activity.

The company or companies that are on the verge of significant changes accept a strategy for the recovery. The first steps are the decisions of the authorities to change the existing management of those poor business results. To make the process of restructuring strategy function, it is necessary to organize a management team that is able to detect the most suitable model for the transformation. The solution is required in the model of disinvestment that should be transparent and which also requires greater courage and dedication of the management. It is an activity that needs to be analyzed and considered in detail when a company runs its business activity out of the crisis. It is very important to do the analysis, planning and implementation of the disinvestment regarded as beneficial activities and as such they should be an integral part of the strategies for the recovery by firms rather than "ad-hoc" activity in crisis management (Schmidt 1987, 26-31).

Disinvesting process requires a systematic approach, with the determination of the need for disinvestment to be considered as the beginning of activities. Further, the activities that are most suitable for disinvestment in the context of all needs are identified. Each business that needs disinvesting actions should necessarily be evaluated in terms of its market and competitive environment. Finally, strategies of sales and tactics are formulated. No matter if the decisions on business strategy for disinvesting may be taken in a period of general financial crisis and recession, and when some models are currently not the most acceptable in the financial markets, access to the process itself has to be studious with all aspects in order to avoid the error.

A strategy of disinvesting is chosen by management when it is noticed that narrowing strategy does not give the intended results and when organizational units of individual companies need more money than those they can obtain at the level of the enterprise. The reason for the urgency of ensuring a certain amount of resources and the impact of antimonopoly legislative, affect the course of disinvestment as unpopular strategy of restructuring (David 1986, 66). Divestiture is a contraction model of transformation of strategy for restructuring the company in which they can distinguish three common types of disinvestment (Gaughan 1999, 558-559): a) the sale of the company or parts of companies (sell-off), separate - become independent parts of companies (spin-offs) and the separation of the company (split-off).

The first type (off sell) is a transformation of the company that includes a permanent part of the sale of assets or the entire company in exchange for the estimated value which is usually given in cash. It is a way by which it tries to find the company which will be as a part of the business successfully integrated into its own portfolio. Most commonly, it refers to the less profitable units of the company.

The second type (spin-off) is a transformation of the company when it becomes independent and smaller part of the business and ownership are separated, so that separate business unit is lower compared with the parent company, which remains as a separate parent entity. The separation of parts of the parent company is often motivated by government policies that favor small businesses.

The third type (split-off) is a transformation of the company when the separated companies become separate legal entities with separate owners. As opposed to the separation (spin-off), once separated from the parent company, which became independent, the separation is a division of two equal parts which become separate legal entities.

When the model of disinvestent is applied through some of the more common types (sell off, spin off, split off) and it can not provide the desired results in the next course of its attempt to reduce costs and restructure its business, then the company may resort to one tactic so- called downsizing. Particular forms of restructuring of companies are related to the reduction of costs and workforce. Great economic recession of the 90s, which affected a number of developed economies, had a strong

reflection of the reduced corporation (corporate downsizing) as the cause of costs and workforce reduction (Gaughan 1999, 32).

A downsizing is a model of reorganization of the company and it is one of the earliest and most common actions for which the management reaches out. In fact, it is the reduction of business activities and in accordance with that staff reduction, too. Application of the downsizing is a form of restructuring in which the employees are dismissed from their jobs in accordance with the reduction of business activities of the company. It is planned jobs- cut of the company, weather the reasons are reducing costs, declining market share or too aggressive growth and employment in the previous period. A remarkable number of scientific meetings organized in the past few years aimed to try to give the right response and management guidelines in order to efficiently and effectively manage the company in terms of sudden crisis caused by global disturbances. Discussions and conclusions based on the analysis of models and procedures did not give the expected results. With most experts on these issues there exists a prevailing opinion that there is no solution as a model which can be applied to any company with the prospect of ultimate success. The explanation is quite simple, there is no a single company identical with another one and it can not be equivalent under the influence of factors of the business environment. It is difficult to explain the reason why the hasty implementation of downsizing management of many companies when they meet under the negative impact of the economic crisis before detailed analysis of their own resources, opportunities and threats which are not searching for a solution using a single model of the process of restructuring. For this reason, the present opinion that it is necessary in one way (professional discussion, written brochures and manuals) further explain the management structures of all levels the dynamics of the business activities that should contribute to resolving that complex issue. By omission of a systematic and professional analysis of company resources and opportunities and dangers that come from the business environment using some of the famous models of reorganization, management runs the risk of making the wrong decision which could lead the company in a worse position than the existing one, or even make it disappear from the business scene. This approach is based on basic principles of unprofessional management that maintains that employees should represent its highest value. Since the downsizing of companies can quickly reduce operating costs, the hasty job-cuts and layoff is very risky without a previous strategic analysis with clearly defined access to efficiency (Bruton et al 1996, 38-45). Considering that regrouping strategy management seeks to absorb negative global shocks and overcome the crisis period restoring their competitiveness, the reduction may be justified to be accepted. Once management in panic tries to quickly reduce the operating expenses by reaching for the random elimination of jobs and by adhering to the previous strategic analysis, they pull quite risky moves. This could lead to the loss of a number of skilled workforce to which it would be difficult to find a replacement once the company is back into balance and continue to grow (Maher 2008, 13-14).

Such a step is usually decided by the management that considers its employees as a cost to be reduced, rather than as a kind of resource that should be developed. In the first case, employees are observed as goods, while in the second case, they are seen as a source of innovation. Reducing the number of employees is not the same as reducing organizational one. The intended reduction of business is an active management strategy, while reducing organization is phenomenon that occurs without the influence of the will and causes a reduction of the company. Cascio indicates that humanity is the most important thing in achieving economic goals. When asked whether the company, which releases their workers is more profitable than those that do not, his answer was - NO! (Cascio 2003:49). Therefore, it is logical to ask whether the release is truly effective approach to business restructuring and explore alternative approaches, especially if access to the process by management is unsystematic, hasty and panicked by the upcoming business problems.

A good example of a successful restructuring company's approach to the theory known as organizational restructuring has been seen in the company of General Electric (GE) in the 80s of the last century, when the obvious bad business results pushed one of the most powerful companies in the world in crisis. Jack Welch took over running of the company and promoted the concept of downsizing by implementing a restructuring strategy (DeWitt 1998, 59-79). Welch's restructuring process was carried out in a planned reduction in the number of employees (downsizing), through mechanisms such as fluctuations, an early retirement, voluntary redundancy and dismissal, which proved to be successful, because the value of the company each year grew by 23%. Unlike the crisis in which the company can be found under the influence of negative recessionary effects that are sudden and unpredictable, with a strong negative effects of shock, the crisis of business in which the company found itself in GE is likely to create long-term management which does not recognize it or does not

pay enough attention. As the causes differ, the process of overcoming the crisis is not identical. Situations where the obvious negative effects of the recession require a transformation methods with strategic decisions aimed to amortize the first negative impact (cost reductions), after which comes the analysis of the interaction with the environment and the selection of the final model for the reorganization, while in a stable business environment this goes by applying a systematic reorganization- "step by step" - as a response to the crisis. The application of downsizing, along with the process of organizational restructuring as a reorganization of the concept in national and global environment for the company GE is acceptable for the crisis due to favorable economic factors impact protection, while the application of the global crisis was far more severe and prolonged.

Former experiences have confirmed that application of the model of downsizing as a business strategy of maneuvering to neutralize the cost-effectiveness and sudden negative effects on companies with no previous systematic analysis, does not give the expected results, while the company seemingly reduced costs and (parallel) business efficiency and effectiveness stagnate and become socially irresponsible, ignoring the interests of employees, community and the society as a whole. Frantically trying to cut costs, management usually decides to reduce business activities in the parts of company that are starting to show inferior business results, bringing the decision to lay off workers. The labor market has increased the number of unemployed, and the state board fails to adequately provide the necessary level of social benefits on that basis. The previous systematic and professional analysis of the causes of the crisis by applying appropriate business models of restriction usually gives larger effects in the process of leaving the company out of the crisis, with the decision on the planned reduction of employees through downsizing as a restricting model that should be later adopted.

A voluntary liquidation (bust-up) is a form of corporate restructuring as ultimate resort. The term most often involves the liquidation of the winding up of any company activities by selling assets or liquidation of individual businesses. It is the last option and the course of action for management that is applied when the turnaround strategy has not given the desired results. The company can be liquidated in bankruptcy when all stakeholders confirm that the company will not justify the cost of reorganization (Gaughan 1999, 592). In some cases, liquidation is a better position than the option of bankruptcy of enterprises and that is why choosing the timing of liquidation seems a strategic step. For companies or large diversified businesses, it does not have to significantly affect their strategic position by running the liquidation, while for companies with only one business area the end is the final result of the termination and deletion from the register.

With the start of the liquidation process, the company can not take any new jobs, but only the activities related to the implementation of the liquidation proceedings, such as selling assets, paying creditors, debt collection and other activities necessary for the liquidation of the Company. In the liquidation business, the business is lead by people who had the same powers as prior to liquidation, if another person is not elected, yet. The person or persons who have authority in the liquidation process are called liquidation administrators. (Službeni glasnik RS 2008, No.127, Article 343 and 344). If the liquidation administrator determines that the company's assets are not sufficient for it to settle all claims of creditors, he shall immediately suspend liquidation and initiate bankruptcy proceedings.

Insolvency and bankruptcy is the least popular option as inevitable and final approach (type) strategy-driven management. The bankruptcy proceedings is carried out in order to satisfy the bankruptcy debtor, the liquidation of its assets and partly raise funds to creditors (Službeni glasnik RS 2010, No.26, Article 2).

The reason for the opening bankruptcy proceedings (Službeni glasnik RS 2010, No.26, Article 6) could be:

- ⇒ insolvency of the debtor
- ⇒ a situation when debtor is unable to meet his accrued and outstanding payment liabilities
- ⇒ a situation when debtor is insolvent; if within 60 consecutive days, he does not have money to pay its outstanding obligations;
- ⇒ insolvency proceedings can be opened and the impending insolvency.⁴

Bankruptcy is the last resort option for the management in the process of restructuring the sale of all assets of the bankruptcy debtor. It implies decay of the company, where the company is being liquidated or reorganized in bankruptcy stipulated by the relevant legislation. Bankruptcy is the result

⁴ It exists if the debtor is predicted at the time of maturity will not be able to meet existing commitments.

of significant and continuing decline in performance and occurs because other forms of cost-cutting and restructuring directions have not given the expected results (Coulter 2010, 274). The strategic action of bankruptcy and insolvency is applied when the problems (inside the company) are huge and it can be considered as the preferred option that the organization has at its disposal.

4. CONCLUSION

Based on current information and analysis presented in this paper, it is evident that there is no pre-defined model, as well as a unique approach to the concept of behavior in the mutual interaction of the company and the environment that would be valid and could be specifically applied for all companies aimed to the most successful use of opportunities and overcoming the threats to exit the crisis. However, they can provide guidelines and principles as the possible courses of action and harmonization of business processes in the crisis.

The decision on the implementation of strategy for the recovery a company can be implemented in two phases. First, when management reduces costs in order to revitalize the performance of a company or companies to save it from further deterioration.

When the first approach does not accomplish the desired results, there is the second phase which is based on a detailed and systematic analysis of past activities on which management makes the final decision to start with a process of restructuring as radical method refocused on the company's business in order to prevent further decline in performance. Then management considers making a decision on selecting the most restructuring model (sell off, spin off, split off). When individualized model is not efficient enough in its attempt to cut costs and restructure its business, the company may resort to the tactics of downsizing. Finally, the last option is the most extreme form of restructuring of the organization which in extreme cases resort to the liquidation of the company which is usually related to insolvency and bankruptcy.

There is no guarantee that a turnaround strategy will shift the organization to bring desired outcomes, or that it will once again be a strong competitor, but it is only safe that if management does not implement this strategy the chances for recovery are almost non-existent. The application of strategy for recovery of an organization is justified if the strategic actions in most cases do not apply individually or separately, but instead, it is necessary to use a combination of the possible alternatives presented in the diagram, so that the organization failed again to achieve or maintain the competitive advantage required previously.

Poor business outcomes of companies in economies that are adversely affected by the global recessionary pressures are independent of labor costs, which exclude the application of "ad-hoc" model of downsizing, before accessing business maneuver by applying the situational analysis. Former experiences in overcoming the negative impact of cyclical crises that occur with stronger and weaker intensity indicate that companies are unprepared and have panic reactions in attempt to overcome all that, so it brings them often to make mistakes in decision-making.

Before the companies in the Republic of Srpska and Bosnia and Herzegovina become threatened by economic recession, and define the principles and guidelines as a possible course of action and harmonization of business processes in a crisis, it is necessary to closely follow and analyze the specific measures and activities undertaken in the developed market economies and strategic decisions of companies that have successfully resisted pressure from the recession. All that experience and findings are very important for decision making and action towards the harmonization of business processes in the crisis.

REFERENCES

- Bruton, Garry D.; Kay J. Keels and Cristpher L. Shook.** 1996. „Downsizing the firm: Answering the strategic questions“, *Academy of Management Executive*. 10. May.
- Cascio, Wayne.** 2005. „Strategies for responsible restructuring“. *Academy of Management Executive*, 19(4).
- Cascio, Waxne.** 2003. *Responsible restructuring creative and profitable alternatives to layoffs*, Denver, Berett-Koehler Publisher Inc.
- Certo, Samuel. and Certo Trevis.** 2006. *Modern Management*, New Jersey: Prentice Hall, Inc.
- Couleter, Mary.** 2008, *Strategic management in action*, New Jersey: Prentice Hall, Inc.
- David, Fred.** 1986. *Fundamentals of Strategic Management*, Columbus, Ohio: Merrill Publishing Company.
- Dess, Gregory; Thomas Lumpkin and Alan Eisner.** 2007. *Strategic management: text and cases*, New York: The McGraw-Hill Companies, Inc.
- De Witt, Rocki-Lee.** 1998. „Firm, industry, and strategy influences on choice of downsizing approach“. *Strategic Management Journal*, 19.
- Gaughan, Patrick.** 1999. *Mergers, acquisitions, and corporate restructurings*, New York: John Wiley&Sons, Inc.
- Gobe, Marc.** 2003. „Emotional Identity“ *Global Cosmetic Industry* 171.
- Hitt, Michael A.; Duane R. Ireland and Robert E. Hoskisson.** 2009. *Strategic Management*, New York: West Publishing Company.
- Ivancevich, John; Thomas Duening and Williem Lidwell.** 2005. „Bridging the manager-organizational scientist collaboration gap“. *Organizational Dynamic*. may.
- Lorange, Peter and Robert Nelson.** 1987. „How to recognize and avoid organizational decline“. *Sloan Management Review*.
- Maher, Kris.** 2008. „Hiring freezes cushion new layoffs“ *The Wall Street Journal*, 24.
- Markides, Constantinos.** 1995. „Diversification, restructuring, and economic performance“. *Strategic Management Journal*, february.
- Marks, Mitchell L. and Kenneth P. De Meuse.** 2005. „Resizing the organization: Maximizing the gain while minimizing the pain of layoffs, divestitures and closings.“ *Organizational Dynamics*, 34(1).
- McKinley, William and Andreas Scherer.** 2000. „Some Unanticipated Consequence of Organizational Restructuring“. *Academy of Management Review*, 4.
- Milsavljević, Momčilo.** 2002. *Savremeni strategijski menadžment*, Beograd: Institut ekonomskih nauka.
- Morris, James.; Wayne Cascio and Cliforde Young.** 1999. Downsizing after all these years: questions and answers about who did it, how many did it, and who benefited from it, *Organizational Dynamics*, 27, (3).
- Porter Michael and Donald Hambrick.** 1985. Turnaround strategies, In Guth , W.D. Handbook of business strategy, Boston : Waren, Gorgam & Lamont.
- Robbins, Stephan and Mary Couleter.** 2005. *Management*, New Jersey: Prentice Hall, Inc.
- Schmidt, Richard.** 1987. „Corporate Divesture: Pruning for Higher Profits.“ *Business Horizons* 30 (2).
- Slater, Stuart.** 1984. *Corporate Recovery. A Guide to Turnaround Management*. Harmondsworth: Penguin Books.
- Službeni glasnik Republike Srpske 2008-2009.**, Zakon o privrednim društvima. Br. 127/08 i Br. 58/09. Banjaluka.
- Službeni glasnik Republike Srpske. 2010.** Zakon o stečajnom postupku. Br. 26/10. Banjaluka
- Worrell, Dan; Wallace Davidson and Varinder Sharma.** 1991. „Layoff announcements and stockholder wealth“. *Academy of Management Journal, Management Journal*, 34.