

Improvement of the strategy of insolvent organisations crisis recovery

Zhanna R. Ashimova

ORIGINAL ARTICLE

Candidate of Economics, Senior lecturer
Almaty Technological University, Almaty, Kazakhstan
E-mail: zhanna_5@bk.ru

Svetlana E. Epanchintseva

PhD, Associate Professor
Almaty Technological University, Almaty, Kazakhstan
E-mail: g_sakhanova@mail.ru

Zhanay J. Abitov

Master Student, Software Engineer, Kcell,
Almaty, Kazakhstan

Diana Z. Abitova

Software Engineer, Amazon
Berlin, Germany

Abstract. The article presents the research results aimed at strategic management of an insolvent organisation to overcome the financial and economic crisis. Nowadays enterprises in Kazakhstan often have challenges with ensuring financial stability and solvency. As a result, many organisations become uncompetitive. It can cause a business bankruptcy. The article highlights modern issues of ensuring domestic commercial organisations financial stability. The paper proposes solutions available to improve an economic efficiency mechanism for managing the financial condition of insolvent organisations. Therefore, an integrated approach to the development and implementation of strategies to recover insolvent organisations from crisis includes financial recovery, optimisation of operational processes, management reorganisation, reorientation to new markets and products, strengthening marketing activities, and improving corporate culture. Each of these strategies is aimed at stabilising the financial condition, increasing efficiency, and competitiveness. The implementation of these strategies requires all organisation departments coordinated actions and adaptation to current economic conditions.

Keywords: solvency; insolvent organisation; crisis of the organisation; anti-crisis management and strategy

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Introduction

Nowadays, the main trend is a decrease in demand. It cause decreasing in organisation sales and revenue. The economic instability of the external environment has a negative impact on macroeconomic and microeconomic processes. One of the consequences is a decrease in the financial stability and solvency of organisations. The modern period of economic development can be described as post-crisis. It is due to the negative impact of COVID-19, economic and political processes on the business activities. The main directions of economic development are the transition of business to effective anti-crisis management, reorientation to new sales markets, search for ways to optimize production, containing costs and expenses [1-9].

For instance, according to Lipatova Yu.M. and Pochekaeva O.V., «to increase solvency and profitability, the following measures are recommended:

- sales revenue increasing from the sale of products, works, and services;

- outsourcing of non-core activities (for example, repair and communications);
- sale of fixed assets;
- leasing of fixed assets» [1].

According to Vasilyeva N.K., Takhumova O.V., Tretyakova V.V., and Karpenko I.S. «as theoretical and practical directions, the following ways can be proposed to improve the efficiency of financial and economic activities of the company:

1. preliminary analysis of the partner solvency (verification the financial statements of the prospective partner);
2. implementation of settlements regular monitoring in terms of debtors and their obligations (analysis of accounts receivable);
3. partners rating according to degree of their reliability (assessment of the maturity of their obligations, the presence of overdue debts, etc.);
4. development of a system for the supply of goods and products after individual prepayment (for example, for new partners and debtors with overdue debts);
5. purchase of a program for access services allowing to assess partner's financial condition (ISPARK Risks; Seldon.Basis; Casebook.ru; Sberbank verification service, etc.);
6. providing discounts, delays in case of full payment or advance payment» [2].

However, we agree with V.S. Martyanov's «main measures to increase organisation liquidity. They are as follows:

- the maximum possible reduction in the value of accounts receivable;
- increased profits;
- optimisation of the company's capital structure;
- reduction of tangible assets value» [3].

Indeed, Bannova S.E. and Vizgalina A.A. highlight the following: «the main purpose of anti-crisis management of construction organisations is to develop and implement a program of measures aimed at preventing the practical implementation of negative situations, ensuring company financial stability, and a competitive position in the market with changes in the external and internal environment. The basis for the organisation's crisis recovery consists in the systematic, organized, and coordinated teamwork in accordance with the developed anti-crisis management documents – the stages of the anti-crisis program» [4].

Moreover, we also agree with Asaliev A.M. considering the periodical significance «to mitigate state tax control measures and expand bank lending programs on loyal terms for businesses; form favorable conditions in the regions for small and medium-sized businesses aimed at property rental benefits, high-quality information and analytical support in the most significant areas of activity and problems» [5].

We also support the point of view by Moshin A.Yu. He defines anti-crisis management «as a system of management measures and solutions for the diagnosis, prevention, neutralization, and overcoming of crisis phenomena and their causes at all levels of the economy» [6].

Shcherbakova E.V. considers «anti-crisis management as a strategy allows us to establish how an enterprise can withstand changes in the external environment (which occur frequently, irregularly, and almost unpredictably); preliminary measures to maintain its viability and achieve the intended goals» [7].

However, Dolganova N.A. and Taganova N.M. form three stages to prevent bankruptcy of an enterprise. They are as follows:

1. Analytical and prognostic stage: analysis of crisis phenomena prerequisites, assessment of crisis probability, crisis identification.
2. Crisis prevention.
3. The formation of a crisis management strategy, development of measures to overcome the crisis, mechanisms for their implementation and implementation itself. Therefore, anti-crisis management is a system of tools for external and internal influences on an enterprise. It highlights the weak signs of a crisis state [8].

Researchers Vorobey A.B. and Markina Yu.V. note «the main causes of crises. They may be an external

factors, manifested by imbalances in monetary policy, unsatisfactory structures of expenses and incomes, instability in the functioning of institutional systems. The internal factors related to violations in production, financial, and marketing strategies, poor management quality, and low level of corporate culture. The information crisis is caused by a discrepancy between information and real behaviour. Corporate crisis management includes continuous monitoring of economic and financial conditions, and development of protocols to ensure the integrity of incoming information» [9].

The purpose of the study is to develop and improve strategies for the withdrawal of insolvent organisations from the financial and economic crisis. It will ensure their recovery and stability in the market. In the context of the unstable economic conditions of Kazakhstan, this research is aimed at finding management solutions to prevent bankruptcy and increase the competitiveness of organisations.

The objectives of the research are as follows:

1. Analysis of the financial stability of enterprises in Kazakhstan. Identification of the main factors affecting the solvency of organisations, identification of the causes leading to financial crises, and a decrease in competitiveness.

2. Assessment of existing crisis management techniques. The study of the strategies and methods of anti-crisis management applied in practice.

3. Development of criteria for assessing the financial condition of enterprises. Identification of indicators allowing to diagnose the crisis conditions and monitoring progress of crisis overcoming.

4. Developing strategic solutions to withdraw organisations from crisis. The formation of measures aimed at restoring solvency, optimising business processes, reducing costs, and improving management efficiency.

5. Implementation of mechanisms for managing organisations financial condition. Development of recommendations for developed strategies and management mechanisms implementation.

6. Assessment of proposed strategies effectiveness. Conducting a quantitative and qualitative analysis of implemented solutions effectiveness, their impact on organisations financial condition and their ability to ensure long-term sustainability and competitiveness.

Their implementation allows ones to establish an anti-crisis management system adapted to the specifics of economy in Kazakhstan. It contributes to increasing economic stability and improving organisations insolvency.

Methods

We used the following quantitative and qualitative methods of analysis: generalisation, systematisation, comparison, abstraction, formalisation, horizontal and vertical analysis, measurement of quantitative indicators, plotting. The Microsoft Excel program was used to process statistical data. The information base was statistical data by the National Bank of the Republic of Kazakhstan and the Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan, expert assessments, proceedings of scientific and practical conferences, periodicals, and Internet resources.

Results

Currently, due to the aggravation of insolvent organisations crisis, the importance of the Law of the Republic of Kazakhstan «On Rehabilitation and Bankruptcy» and scientific works in this field are increasing¹. The Law regulates relations arising from the debtor's inability to satisfy creditors' claims, establishes the base for applying debt restructuring and rehabilitation procedures, declaring the debtor bankrupt, liquidation of the debtor without initiating bankruptcy proceedings, etc.

Nowadays, Kazakhstan requires professionals to work in public administration, public and private commercial sector in the following areas: settlement and economic; analytical and research; organisational and managerial; pedagogical and entrepreneurial ones.

Methods of crisis management, views of various economic schools on bankruptcy, rehabilitation of enterprises and the degree of their applicability in current socio-economic conditions are of great relevance

¹ The Law of the Republic of Kazakhstan On Rehabilitation and Bankruptcy (with amendments and additions on 03.09.2023)

for the Republic of Kazakhstan.

Kazakhstan requires professionals competent in:

- the current state of the country’s economy and its evolution, objective conditions for economic crises formation, possibility to influence their development, social consequences of economic crises;
- bankruptcy procedures;
- methods of solving debt problems in a market economy;
- anti-crisis programs and their implementation;
- methods of control.

Therefore, authors of this research:

- conducted an analysis of the business activity index and the dynamics of changes in enterprises financial condition;
- formed some theoretical provisions in terms of the crisis management;
- determined the nature and types of enterprises bankruptcy causes;
- made analytical conclusions on escaping the financial crisis;
- investigated enterprises condition based on signs of bankruptcy;
- provided procedures in the implementation of crisis management.

In the article, the authors applied:

- economic style of thinking;
- scientific methods of studying the problem, phenomenon, process, data inherent in the relations of production;
- methods of statistical data analysis reflecting the current state of the economy;
- knowledge of developing an argumentative basis for the positions advanced at participation in discussions on the degree of crisis management procedures and managerial decision-making efficiency.

Effective withdrawal of insolvent organisations from the financial and economic crisis requires the development and implementation of comprehensive strategies aimed at restoring solvency and ensuring long-term sustainability. In terms of economy of Kazakhstan modern conditions, these strategies should consider specific factors affecting the financial condition of enterprises. Figure 1 shows the key strategies for overcoming the crisis of insolvent organisations.

Moreover, effective crisis management requires the integration of the strategies, their adaptation to the specifics of a particular organisation, and current economic conditions. This integrated and flexible approach allows Kazakhstan’s insolvent enterprises to establish the sustainable development and long-term competitiveness.

However, there are authors [1-9] do not considering the complex nature of this particular issue. Indeed, we believe, those strategies should be comprehensive, covering financial, operational, managerial, and marketing aspects of the business.

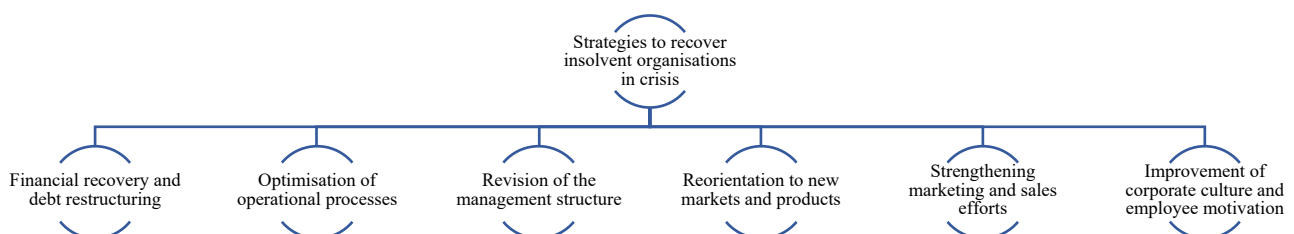


Figure 1. Key strategies for overcoming the crisis of insolvent organisations

Source: composed by the authors

Details of key strategies.

1. Financial recovery and debt restructuring.

Financial recovery involves the following actions:

- Negotiations with creditors. The organisation should actively work with creditors to change the terms of debt obligations. It may include debt restructuring, extending repayment periods, lowering interest rates,

or partially writing off debts, etc. Successful negotiations will help reduce financial pressure and improve liquidity.

- Raising additional capital. There are several ways to raise the capital, i.e., issuing new shares, attracting strategic investors, government subsidies, etc. It is important to attract long-term investments to stabilise the financial situation.

- Optimisation of asset management. The sale of non-core assets and effective working capital management can provide additional resources to support operational activities.

2. Optimisation of operational processes.

To increase operational efficiency, it is necessary to provide:

- Analysis and optimisation of business processes. The organisation should conduct a comprehensive analysis of its processes to identify and eliminate inefficient operations. For instance, it may include automation, lean manufacturing, and improved logistics.

- Cost reduction. To reduce the costs it is necessary to reduce the costs of raw materials, energy resources, and services. It is necessary to review contracts with suppliers and implement a strict cost control policy.

- Investments in technology. The introduction of modern technologies and innovations will help to increase productivity and reduce operating costs.

3. Reorganisation of the management structure.

Effective crisis management includes:

- Establishment of an anti-crisis committee. The establishment of a special committee responsible for the development and implementation of anti-crisis measures will help to respond promptly to changes and coordinate the actions of all departments.

- Revision of the management structure. Simplifying and improving the management structure to make it flexible and adaptive will allow you to make decisions faster and adapt to new conditions.

- Risk management system. The implementation of a risk management system allows ones to identify and minimise the business threats.

4. Reorientation to new markets and products.

The diversification of activities includes:

- Market analysis. Research current and new markets to identify business expansion opportunities. It includes entering international markets and finding new segments.

- Development of new products. Development of new products or services meeting current market needs will help attract additional customers and increase revenue.

- Strategic partnerships. Collaboration with other companies can help accelerate entry into new markets and optimise marketing and sales costs.

5. Strengthening marketing and sales efforts.

To increase sales and improve customer relationships, it is important:

- To reform the marketing strategy. Development of new marketing activities based on digital channels and social networks. It helps to improve brand awareness and attract more customers.

- To improve the customer service. Creating loyalty programs and personalized customer service will help strengthen ties with existing customers and attract new ones.

- To optimise the pricing policy. Adapting the pricing strategy to the current market conditions will increase competitiveness and attract more customers.

6. Improving corporate culture and employee motivation.

To increase employee engagement and productivity, there is an advisable:

- To create the motivation programs. The development and implementation of motivation programs, including bonuses, and career growth, will help to increase productivity.

- To implement a corporate culture. The formation of a positive and innovative corporate culture contributes to employee engagement and maintaining a high level of morality.

- To conduct staff training and development. Investing in employee training and development will help them adapt to changes and improve their skills.

However, there are authors [2-9] do not considering individual strategies and their elements for the recovery of insolvent organisations from the crisis. Indeed, we believe a comprehensive approach is required to develop and implement strategies for the recovery of insolvent organisations from the crisis. Therefore, we developed an integrated approach including financial recovery, optimisation of operational processes, management reorganisation, reorientation to new markets and products, strengthening marketing activities, and improving corporate culture. Each of these strategies is aimed at stabilising the financial condition, increasing efficiency and competitiveness. The implementation of these strategies requires departments coordinated actions and adaptation to current economic conditions. As a result of an integrated approach, organisations will be able to overcome the crisis, and lay the foundation for their further sustainable development.

Discussion

However, the dynamics of Purchasing Managers Index (PMI) confirms the crisis conditions. This index decreased in January 2020 to March 2021 significantly. It also accompanied by a decrease in the interest of entrepreneurs to increase production².

In Kazakhstan, Purchasing Managers Index (PMI) increased from 50 (February) to 51.7 (March 2023). There are problems with supplies. Enterprises, except for the mining sector, note an increase in the volume of orders and inventories. Purchasing Managers Index (PMI) characterises the economy state, reflects the actual changes in enterprises economic indicators, and expects their changes in the future. In March 2023, the National Bank conducted a survey of 517 large, small, and medium-sized companies.

In general, Purchasing Managers Index (PMI) in the sectors of Kazakhstan economy increased (except the mining industry). PMI in the mining industry increased slightly from 46.7 to 48.6. However, the indicator remains negative one. Market participants associate it with prolonged deliveries, lower employment rates and reduced volume of new products.

PMI in manufacturing transited from negative values (2020 and 2022) to positive ones. PMI increased by 3.3 points compared to February 2022 and amounted to 53.1. PMI in the construction and services sectors increase to 53.6 and 51.6, respectively, in February 2023. PMI in the construction and services sectors in February 2022 were 51.9 and 50.7, respectively³.

The expectations of market participants regarding business conditions have improved. The Business Climate Index is an average assessment of current and future business conditions has improved, too. The Business Climate Index increased from 12.8 in February to 16.5 in March 2023. In the future enterprises in Kazakhstan expect more favorable business conditions.

The business activity index of Kazakhstan's manufacturing industries, against the background of rising demand and an increase in the number of new orders, increased from 51.2 points in February to 51.6 points in March 2023. The growth rate continues throughout the first half of 2023⁴.

Figure 3 shows data on the number of debtors at the stage of rehabilitation or bankruptcy in 2015-2020, the Republic of Kazakhstan

Figure 4 shows the gross profit from the sale of agricultural products in the Republic of Kazakhstan. Indeed, it indicates low gross profit from the sale of agricultural products in the Republic of Kazakhstan in 2001-2008, and in 2014-2015.

Figure 5 shows the level of profitability (loss-making) of agricultural production in the Republic of Kazakhstan. It decreased in 2011-2021.

Figure 6 shows the income from transport activities in the Republic of Kazakhstan. It decreased significantly in 2020.

Figure 7 shows the gross output of goods and services in the tourism sectors of the Republic of Kazakhstan. Its value is quite low in 2008-2020.

² Bank of the Republic of Kazakhstan. URL: <https://www.nationalbank.kz/ru> (Accessed 10.05.2024).

³ Bank of the Republic of Kazakhstan. URL: <https://www.nationalbank.kz/ru> (Accessed 10.05.2024).

⁴ Bank of the Republic of Kazakhstan. URL: <https://www.nationalbank.kz/ru> (Accessed 10.05.2024).

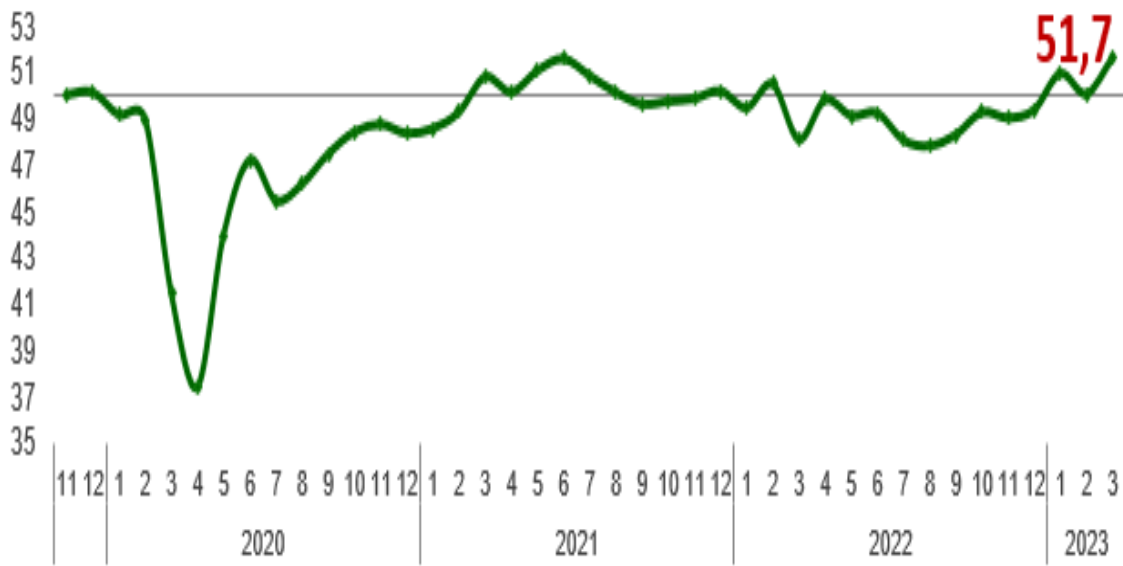


Figure 2. Purchasing Managers Index (PMI) in Kazakhstan / The National Bank

Source: Bank of the Republic of Kazakhstan

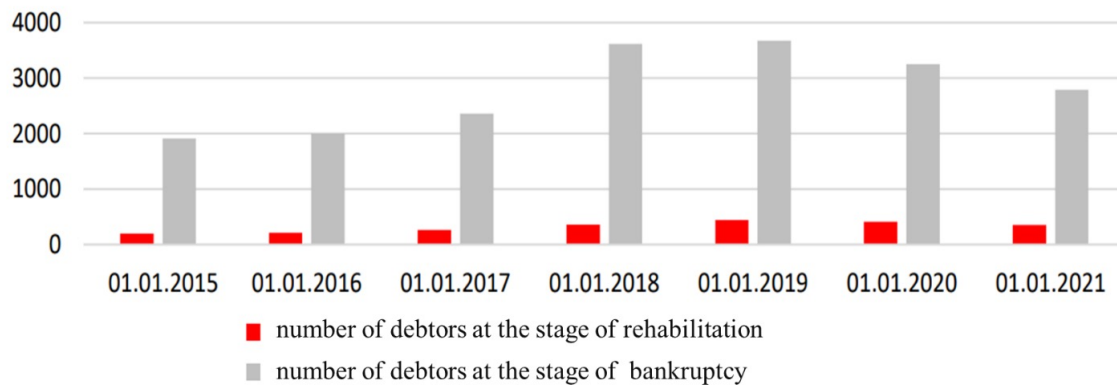


Figure 3. Data on the number of debtors at the stage of rehabilitation or bankruptcy in 2015-2020, the Republic of Kazakhstan

Source: Bank of the Republic of Kazakhstan

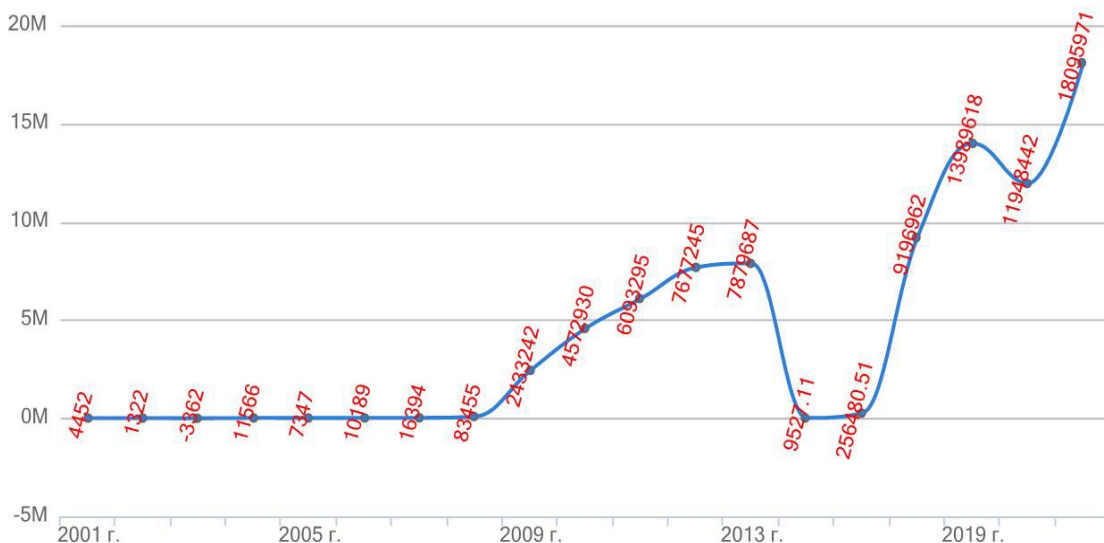


Figure 4. Gross profit from the sale of agricultural products in the Republic of Kazakhstan

Source: Bank of the Republic of Kazakhstan

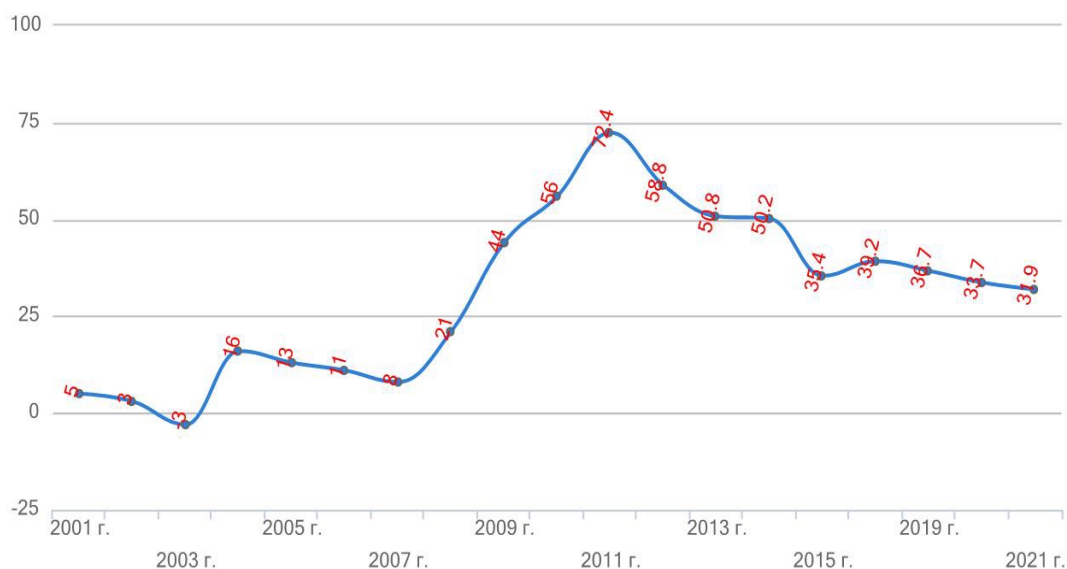


Figure 5. The level of profitability (loss-making) of agricultural production in the Republic of Kazakhstan
 Source: Bank of the Republic of Kazakhstan



Figure 6. Income from transport activities in the Republic of Kazakhstan
 Source: Bank of the Republic of Kazakhstan

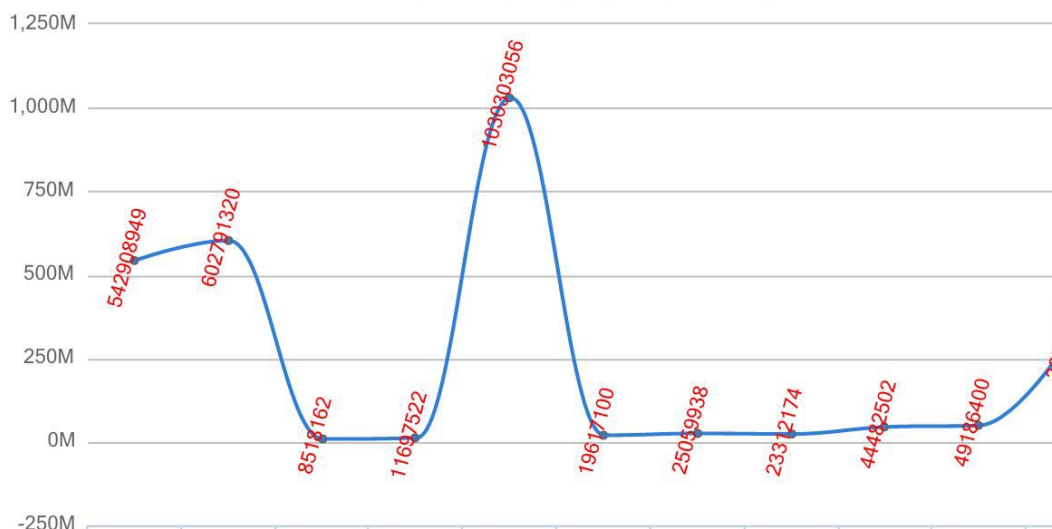


Figure 7. Gross output of goods and services in tourism industries of the Republic of Kazakhstan
 Source: Bank of the Republic of Kazakhstan

Nevertheless, modern issues of ensuring domestic commercial organisations financial stability are as follows:

1. A decrease in business investment attractiveness. It significantly reduced the inflow of foreign financial capital, including foreign direct investment.
2. Instability of domestic currency exchange rate in the international market. It complicates the process of financial planning, forecasting, and budgeting.
3. Disruption of supply chains in international transport logistics. It makes it difficult to conduct foreign trade activities for the export/import of products, equipment, and raw materials.
4. Decrease in business and investment activity of business entities. Those wait for the recovery of economic growth.

Therefore, the influence of the above trends provides the commercial organisations with a number of problems, including financial ones. Due to the influence of these problems and external factors, solvency decreases and the practical need for developing and making management decisions aimed at overcoming the crisis.

The measures to control the turnover of working capital by creating financial responsibility centers in the organisational structure of the company in order to improve the management system of its working capital. The control of individual components of working capital at the enterprise should include the development of a special verification program with a detailed list of monitoring activities, tasks, and performers responsible for their implementation.

Recommendations for improving the strategy for overcoming the crisis of insolvent organisations consist of 7 stages; each includes a number of actions.

The stages of recommendations for improving the strategy for overcoming the crisis of insolvent organisations are shown in Figure 8.



Figure 8. The stages of recommendations for improving the strategy for overcoming the crisis of insolvent organisations

Source: composed by the authors

Each stage of recommendations for improving the strategy for overcoming the crisis of insolvent organisations includes a number of actions. They are shown in Table 1.

Table 1 – Actions at 1-7 stages of recommendations for improving the strategy for overcoming the crisis of insolvent organisations

Stages	Recommendations for improving the strategy
1 Stage	1. Conducting of comprehensive financial analyses
	1.1 Regular audit of the organisation's financial position to identify problem areas and determine key factors affecting solvency
	1.2 Development of early warning system for crisis situations, including key financial indicators
2 Stage	2. Debt restructuring and capital raising
	2.1 Negotiations with creditors to renegotiate debt terms, extending maturities and reducing interest rates
	2.2 Attraction of strategic investors and issuing of new shares to increase the organisation's capital
	2.3 Government subsidies and grants
3 Stage	3. Optimisation of operational processes
	3.1 Analysing of business processes to identify and eliminate inefficient operations reducing operating costs
	3.2 Introduction of modern technologies and automation the processes to increase productivity and reduce costs
	3.3 Reducing of redundant staff and reallocation resources to improve efficiency
4 Stage	4. Improvement of management and organisational structure
	4.1 Establishment of an anti-crisis committee responsible for coordination of anti-crisis measures and operational decision-making
	4.2 Revising the management structure to increase flexibility and adaptability. It ensures faster response to changes in the market environment
	4.3 Introduction of risk management system for threats identification and minimisation
5 Stage	5. Diversification and innovations
	5.1 Conducting of market research to identify new opportunities and segments for business expansion
	5.2 Development and introduction of new products and services to meet current customer needs
	5.3 Strengthening of partnerships and strategic co-operation with other companies to jointly enter new markets
6 Stage	6. Marketing strategy and customer service
	6.1 Reforming of marketing strategy with a focus on digital channels and social media to improve brand promotion
	6.2 Development of loyalty and personalised service programmes to strengthen relationships with customers and attraction of new ones
	6.3 Adaptation of pricing policy to current market conditions for competitiveness improvement
7 Stage	7. Development of corporate culture and employee motivation
	7.1 Introduction of motivation programmes to increase productivity and employee engagement
	7.2 Establishment of positive and innovative corporate culture providing a high level of morality and commitment
	7.3 Investment in staff training and development to improve their competence and adaptability to change

Source: composed by the authors

Conclusion

Therefore, an integrated approach to the development and implementation of strategies to recover insolvent organisations from crisis includes financial recovery, optimisation of operational processes, management reorganisation, reorientation to new markets and products, strengthening marketing activities, and improving corporate culture. Each of these strategies is aimed at stabilising the financial condition, increasing efficiency, and competitiveness.

The implementation of these strategies requires all organisation departments coordinated actions and adaptation to current economic conditions. Hence, as a result of an integrated approach, organisations can overcome the crisis and provide their further sustainable development.

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CONFLICT OF INTEREST

The authors declare no conflict of interest.

AUTHORS' CONTRIBUTION

Zhanna R. Ashimova – conceptualization, project administration, writing – original draft.

Svetlana E. Epanchintseva – writing – review & editing.

Gaukhar B. Sakhanova – supervision.

Zhanay J. Abitov – investigation.

Diana Z. Abitova – formal analysis.

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