

BUSINESS CRISES AND THEIR IMPACT ON ENTREPRENEURSHIP IN BULGARIA

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Abstract: Every business organization faces a crisis at a certain point in its development. Crisis phenomena for overcoming preventive measures can lead to serious economic and social problems for the organization or its bankruptcy. The crisis is a widely held view and its indications affect different aspects of the financial, social, spirit life of the nation. It's important to accent not only to the consequences of its manifestation but also to the opportunities for overcoming. This study focuses to analyze the factors for creating conditions for business entrepreneurship in order to draw attention to the opportunities for achieving lasting success for the Bulgarian society. This report aims to systematize key factors for the emergence of crises and their impact on innovation and entrepreneurial mindset. A questionnaire was used to collect data from a sample of 215 enterprises which were selected through stratified random sampling method. Collected data were analyzed using descriptive and inferential statistics with the aid of Statistical Package for Social Sciences (SPSS). The study revealed that innovativeness, creativity, business alertness and risk taking were significant for successful implementation of innovations and affecting performance of Bulgarian enterprises. The results show that crises are somewhat the driving force behind the creation of innovation and are a prerequisite for the emergence of modern forms of entrepreneurship so necessary to stabilize the economic system.

Keywords: BUSINESS CRISIS, ENTREPRENEURSHIP, INNOVATION, BUSINESS ALERTNESS

1. Introduction

Crisis phenomena for overcoming preventive measures can lead to serious economic and social problems for the organization or its bankruptcy. Business crises occur at different intervals, provoked by a number of factors, characterized by different scales and forms of manifestation, and have the ability to repeat, i.e. have a cyclical character.

Every business organization faces a crisis at a certain point in its development. The etymology of the term "crisis" is of Greek origin. It is associated with a phenomenon or a set of phenomena, both personal and social, bearing negative changes. Personally, the concept of crisis is identifiable as a stressful state due to health, financial or other reasons. In the public context, the concept is associated with an unstable and dangerous situation caused by economic, political or international problems. The crisis, according to the glossary of foreign words [1], means "acute change, turning, decisive moment, verdict, decision on a question in a questionable situation. "In ancient times, the Greek philosopher Hippocrates considers the crisis limited only to the human organism [2]. In the field of international relations, the "crisis" is related to the emergence and development of conflicts characterized by a threat to basic social values (independence, freedom, etc.). In the economy, as a common feature of economic crises, "there is a shortage of resources for the effective realization of the assigned functions of enterprises, corporations, economic systems, the national economy of the country or the world as a whole" [3].

From the point of view of the company, the concept of crisis has been studied by different authors, who can generally be grouped into three groups:

- According to the *first group* of authors, the company's crisis

is predetermined by the environment in which businesses operate, under the influence of a specific combination of multiple external and internal factors. This group includes: according to Andreeva A. "An enterprise is in a critical situation when it does not meet the influences of the external and internal environment that bring it out of balance." [4]. According to her, "the crisis of the individual company (as a stage in the company's life cycle) may not coincide with a wider economic crisis - regional, national, global. It may be a consequence of a company's cycle of development, subjective mistakes, or natural disasters. The coincidence of the corporate crisis with each of the above-mentioned economic crises leads to deepening of the negative consequences in the company but also creates prerequisites for its faster overcoming" [5].

- The *second group* of authors saw the corporate crisis as a state in which the economic sustainability and equilibrium of the enterprise was violated. This group includes: Popov R. who defines the crisis as "a state of instability characterized by a sharp exacerbation of the contradictions in the organization, threatening to

preserve its effectiveness"; volatility is a feature of the economic performance indicators of the crisis enterprise [6]. On this basis Velchev K. argues that the sustainability of the indicators and their fluctuations characterize the progressive, respectively the crisis development of the enterprise [7].

- According to the *third group* of authors, the notion of crisis is associated with a decisive moment in the development of the enterprise, where the unsustainable situation threatens its economic, financial and resource condition. Crises threaten the priority goals, challenge the traditional patterns of behavior and the values of the organization and put pressure in the form of a shortage of time for decision-makers [8]. This group includes Marinov P. [9], which defines the concept of crisis as a "phenomenon accompanying the development not only of various economic structures, the crisis is a spiritual, human, technological and natural phenomenon, where there is a collapse in the adaptation capabilities of a certain system (an organism, an individual, a group, a community) with two possible outcomes: the first is a fatal one leading to death and death of the system, and the second is a positive, successful, relevant response to the challenges share of behavior. "Similar is the opinion of Jarni V. which defines the business crisis as "a period of instability, a situation in which serious changes are coming [10]. However, the outcome of the changes can be both extremely unfavorable and positive, but it is unambiguous that every crisis poses a threat to the organization. "This group also includes Luke R. [11], who defines the crisis as: " ... change - sudden or gradual, giving rise to an urgent problem requiring immediate intervention to resolve it. "

For business, the crisis is "any situation that has the potential to cause sudden and serious adverse effects on employees, reputation, or which may ruin it as a whole" [12]. In other words, a company in a crisis situation is struggling to achieve its goals, its stability is disturbed, and this may lead to its bankruptcy. According to Christov Ch. "The first signs of a crisis situation show that a moment has come solutions to emerging problems in the company may cause a development to turn into improvement or deterioration" [13].

2. Exploration

In summary, the crisis of the business organization is such a condition that there is a danger to its existence [14]. The analysis of the above definitions shows that the notion of "crisis" can't be unified. This gives reason to propose the following work definition necessary for the purposes of the survey: A crisis in an enterprise is a condition caused by the factors that have the potential to cause urgent problems in the economic, social and financial development of the enterprise requiring immediate intervention to solve them. The analysis of the above definitions shows that the notion of

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In its development, the crisis, as a phenomenon in the enterprise, passes through several stages [15]:

- *Latent (hidden) period.* At this stage, the prerequisites for the emergence of a crisis mature, but are not yet manifested externally.
- *Crash period.* During this period, all contradictions quickly exacerbated, resulting in a sharp deterioration of the dynamics. The firm's resilience is impaired.
- *Crisis mitigation period.* At this stage, prerequisites are created to overcome the crisis, providing a temporary equilibrium in the enterprise.
- *Period of exit from the crisis.* Every company crisis is over.

The concept of crisis can be studied not only as a process of disruption of the economic condition of an enterprise but also as an opportunity for transition to a qualitatively new state. Possible consequences are its destruction or renewal, exacerbation or smoothing of contradictions, rescue or deepening of the crisis. The timing of anticipation of the crisis and its adequate governance depends on the prospect of mitigating its negative impact, overcoming the crisis and even using it as a stimulus for development.

Business crises can be provoked by the impact of various causes and factors or by their cyclical development. In order to be governed, they must be determined by the various features and characteristics that give rise to or limit them. It is also important to distinguish the causes of a crisis from the symptoms of the crisis.

Causes of crisis are specific events or phenomena, resulting in the factors of crisis development, ie they are the sources for the development of the crisis and the growth and bankruptcy. General and specific reasons are distinguished [16].

General reasons - they relate to the cyclical development of the socio-economic system. For example, a common cause of insolvency and crisis in an enterprise is the "narrowing" of the market, which leads to a fall in demand for goods and services and a reduction in sales revenue, ie the solvency of firms is directly proportional to sales revenue. If, for a certain period of time, the growth rate of the company's liabilities exceeds the rate of increase in sales revenue, the entity will normally default into insolvency and crisis. A slowdown in sales revenue growth rates is observed when:

- reducing demand as a result of unsatisfactory quality, high price or reduced need for goods and services;
- increasing indebtedness in the period of cyclical crisis and recession, when firms fail massively or with unfair debtors;
- artificially restricting the market through customs barriers, quotas or other non-tariff restrictions, etc.
- an overwhelming rate of growth in companies' liabilities to the revenue growth trend is observed in the following cases:
- in the implementation of inefficient long-term capital investments with a long repurchase term;
- in the case of stocks that do not increase the volume of production;
- in the case of increases in non-production costs and not recouped through the sale of output;
- in dealing with other loss-making activities in the enterprise.

This complex of common causes is characteristic of all enterprises and is manifest in the development of the macroeconomic environment of the national economy.

Specific reasons are observed in particular periods of development of the socio-economic system, for example in transition periods. The macroeconomic framework of the Bulgarian economy in the post-1990 period is characterized by sharply decreasing production, rising inflation, devaluation of the national currency, devaluation of the basic and working capital of the companies, and the shortening of the national and international

markets of the Bulgarian producers. The peculiarities in the cyclical development of the Bulgarian economy during the period 1990-2003 revealed some specific reasons, which generated the massive bankruptcies of the enterprises, especially those from the public sector.

The reasons for the occurrence of crises in enterprises can also be seen as: [17]

- objective, addressing the cyclical needs of modernization and reconstruction of the enterprise;
- subjective, error-prone and conflicting management, choice, and follow-up of a high-risk strategy;
- natural, climate-related, natural disasters, etc.

Symptoms of crisis development and its growth in bankruptcy are manifested in various indicators, such as changes in sales and profits, capital turnover, efficiency, profitability, etc., and especially in the trends of their changes. Early detection of symptoms is the most important condition for establishing the crisis development and establishing the magnitude of the crisis that has begun. The slow deterioration of results leads to a number of compromise solutions. In the positive case, an enterprise is still able to undertake remediation through job losses, claims, and liquidity, but in the short period of time the typical symptoms of the crisis need to be identified in order to identify adequate measures to neutralize it.

The *distinctive symptoms* of the crisis [18] that can be noticed in relations with business partners and can be categorized as important external factors in the following way (see Table 1).

Table 1: The symptoms of the crisis in terms of external relations

<i>External relations</i>	<i>Distinctive symptoms</i>
1. Clients	<ul style="list-style-type: none"> ✓ offering high discounts; ✓ often offering goods for advertising purposes; ✓ easy price negotiations; ✓ diversity in the assortment becomes unsystematic; ✓ special discounts are accepted without any overcharge; ✓ quality problems and deadlines; ✓ the average volume of orders decreases; ✓ permanent customers are counted "on fingers".
2. Providers	<ul style="list-style-type: none"> ✓ leverage of the company to suppliers due to a decrease in liquidity; ✓ cancellation of orders; ✓ orders of small quantities; ✓ wish to pay installments; ✓ change of suppliers.
3. Credit institutions	<ul style="list-style-type: none"> ✓ the provision of the annual balance sheet, plans and monthly statements of business activity is delayed; ✓ exceeding the credit limits; ✓ searching for new credit institutions; ✓ cancellation of bills of exchange; ✓ return checks.
4. Auditors/ tax advisers	<ul style="list-style-type: none"> ✓ stocks (stocks of raw materials are too high); ✓ determining too high value of unfinished and finished products; ✓ lower turnover of inventories; ✓ tax depreciation options that are not fully utilized; ✓ not using the legal possibilities for creating reserves; ✓ late preparation of the balance sheet; ✓ suspicious inventories to cover up the real financial results.
5. Business consultants	<ul style="list-style-type: none"> ✓ leaving managerial staff; ✓ lack of information, critical remarks; ✓ worse capacity load; ✓ worse labor productivity; ✓ reduction of cost coverage; ✓ neglecting accounting records; ✓ neglect of the equipment; ✓ stagnation in investment and repair activities.

In parallel with the above mentioned symptoms, the symptoms of a possible crisis from the point of view of the internal relations of the company can be identified and suggestions and recommendations for overcoming it can be made (see Table 2)

From the studies of the symptoms of crisis in enterprises, it can be concluded that often before an enterprise experiences a crisis, typical symptoms are noticed prematurely by outsiders, such as clients, suppliers, credit institutions, auditors and consultants, and etc., as well as by the entrepreneurs and managers themselves. The quicker the response, the lower the intensity of the on-going crisis.

The reasons for the crisis in enterprises are the result of **the impact of various factors**. The first attempts to assess and predict

the change in the factors and their impact on the crisis situation of the companies date back to the 1920s and are grouped in two directions:

- *the first* is realized within the framework of the retrospective analysis, when the factors for the already existing crisis are revealed and evaluated;
- *the second* is realized through forecasting when these factors, which have the most significant impact on the development of the crisis in the future, are revealed and evaluated.

In real diagnostic practice, these two strands are most often intertwined and used together to assess the current, regular recurring activity of an enterprise when the process of generating the performance indicators continues in the future. Investigating the location and the capabilities of factor analysis in economic forecasting, Kovalev V. points out that this analysis is "important not only for itself, it is done for itself but only when it is active" [19].

Table 2. The symptoms of the crisis in terms of internal relations

Internal relations	Distinctive symptoms
1. Management	<ul style="list-style-type: none"> ✓ adherence to old concepts; ✓ omission of the delegation; ✓ deficiencies in decision making; ✓ lack of control; ✓ patriarchy in the management style; ✓ lack of collective behavior; ✓ increasing the number and duration of conferences; ✓ interruption of communication; ✓ heterogeneous management circle.
2. Human Resources	<ul style="list-style-type: none"> ✓ insufficient motivation (termination of employment contracts); ✓ inadequate qualification of staff; ✓ the remuneration system generates criticism in the company; ✓ the level of aggression among workers rises; ✓ fear of losing jobs.
3. Placement	<ul style="list-style-type: none"> ✓ the characteristics of the products do not meet the requirements of the market; ✓ wrong pricing policy; ✓ unsatisfactory service; ✓ inconsistency of distribution channels; ✓ decrease in the volume of orders; ✓ the sales agents leave.
4. Production	<ul style="list-style-type: none"> ✓ focusing on a single product group; ✓ obsolete / untested technology; ✓ unused production capacities, production in stock; ✓ stagnation in investment and repair activities; ✓ disorder in the organization; ✓ quality problems and sales times; ✓ replacing expensive products with cheap ones; ✓ obsolete production in stock.
5. Organization	<ul style="list-style-type: none"> ✓ unclear tasks / rules; ✓ lack of adaptive organizational behavior; ✓ deficiencies in the organization of production; ✓ lack of planning of the activity and control; ✓ duplication of work; ✓ fear in decision-making in middle management.
6. Investments	<ul style="list-style-type: none"> ✓ too early investment; ✓ lack of investment; ✓ incorrect assessment of the capital investments; ✓ implementation gaps; ✓ funding errors; ✓ missing the reduction of the capital investments.
7. Research activity	<ul style="list-style-type: none"> ✓ lack of research; ✓ research without: main purpose, planning and design, control, return of capital investments isolation in the company.
8. Supply/ Logistics	<ul style="list-style-type: none"> ✓ strong dependence on suppliers; ✓ too high capacity and too high costs of the fleet; ✓ accumulation of performance warnings; ✓ suppliers reduce the deferred payment terms.
9. Finance/ Controlling	<ul style="list-style-type: none"> ✓ gaps in the cost and calculation report; ✓ lack of financial planning; ✓ lack of early warning systems; ✓ high interest costs; ✓ limiting creditors; ✓ request security collateral.

The disclosure of factors means the opportunity to manage the development of the crisis process in the future. All the factors that influence the development of the business process in the enterprise also determine the results of its business activity. The disclosure and assessment of a larger number of significant and viable factors provides a better opportunity to determine and manage changes in

the enterprise's crisis situation. Depending on the direction of their action, factors can be defined as positively acting (constructive for the company) and negatively acting (destructive to the company). Every crisis has a strictly individual character because it carries a unique combination of internal ones and external factors. The identification of factors in anti-crisis management of companies begins with the establishment of their place in the internal or external environment of the enterprise. By this feature, the factors are subdivided into two groups:

- **exogenous (external)** or independent of the business.

External factors are those on which the firm cannot directly influence. For their part, according to the level of research, they can be divided into *international, national and sectoral*.

- **endogenous (internal)** or business-related.

Internal factors influencing the development of the company's crisis are the result of the business itself. They may be associated with the adoption of innovative and high-risk investment strategy imperfect management, poor organization of production, risky marketing strategy, production of uncompetitive production, high cost products, low profitability and others.

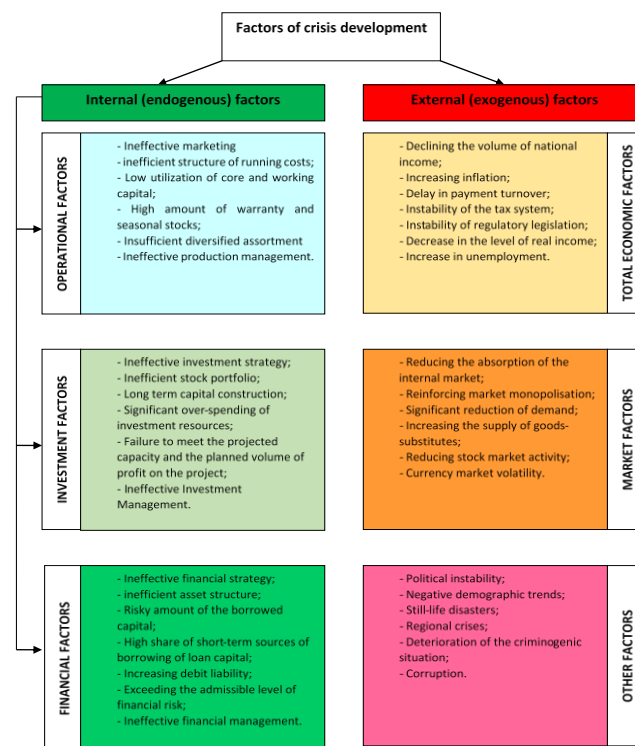


Fig.1. Factor's classification for crisis development

The research implies the summary that the external factors for a crisis in the company are related to the formation of the competitive environment and its ability to protect itself from the competitors, while the internal factors concern the company management, the management of the human resources, production, organization, finance, controlling. Both internal factors and external factors can be constructive or destructive. In both cases, the management of the company - management of human resources, sales, production, organization, finance, controlling - is affected.

3. Research methodology

A survey research design was used in this study. This enabled the researcher to collect responses of owners/managers of food industry' companies in South-Central Bulgaria, with regards to the study variables. The total population was 256 licensed companies established in Plovdiv and region. The population statistics was obtained from Bulgarian Chamber of Commerce and Confederation of the Employers and Industrialists in Bulgaria – CEIBG. Stratified sampling was used to select 215 companies from food industry. A stratified random sample was a useful blend of randomization and

categorization, which enabled both a quantitative and qualitative process of study to be undertaken. This study focuses to analyze the factors for creating conditions for business entrepreneurship in order to draw attention to the opportunities for achieving lasting success for the Bulgarian society. This report aims to systematize key factors for the emergence of crises and their impact on innovation and entrepreneurial mindset.

The study used a structured questionnaire in data collection. The questionnaire was carefully designed and administered to the respondents. The questionnaire was designed on a four point Likert-Scale which ranged from strongly agree (4 points), agree (3 points), disagree (2 points) and strongly disagree (1 point). The items were structured to capture information on the dependent variable (organizational performance) and the independent variables (innovativeness, creativity, business alertness and risk taking).

Factor analysis was used in this study to measure the validity of the instrument. **Exploratory Factor Analysis (EFA) and Confirmatory Factor Analysis (CFA)** were used to assess the construct validity of each variable in the study.

The Cronbach's coefficient alpha was applied on the results obtained to determine how items correlate among them in the same instrument. Cronbach's coefficient Alpha of more than 0.7 was taken as the cut off value for being acceptable which enhanced the identification of the dispensable variables and deleted variables. It is evident through the Cronbach's Alpha values that the reliability coefficients of all the study variables are high and suitable for the current study objectives.

Table 3. Reliability coefficients of the study variables

Variables	No of items	Reliability coefficients
Organizational performance	4	0,673
Alertness	4	0,872
Risk-taking	3	0,743
Creativity	3	0,754
Innovativeness	6	0,824
Overall Reliability		0,722

Source: Own field survey, 2017

All the above statistical tests were analyzed using the Statistical Package for Social Sciences (SPSS), version 19. All tests were two-tailed. Significant levels were measured at 95% confidence level with significant differences recorded at $p < 0.05$.

Table 4. Correlations statistic for relationship between variables

Variable	Organizational performance	Innovativeness	Creativity	Business Alertness	Risk-taking
Organizational performance	1				
Innovativeness	0,781	1			
Creativity	0,654	0,466	1		
Business Alertness	0,478	0,673	0,523	1	
Risk-taking	0,532	0,356	0,428	0,651	1

* Correlation is significant at the 0.01 level (2-tailed).

Pearson's measures the strength and direction of the linear relationship between variables. From the results, a significant relationship exists between the variables (table 2). *Innovativeness* was shown to contribute 78.1% of the change in organizational performance as indicated by the correlation coefficient value of 0.781 which is significant at $\alpha = 0.01$. *Creativity* was positively correlated to organizational performance as indicated by correlation coefficient value of 0.654 indicating that the creativity was a significant factor and contributed up to 65.4% of the change in organizational performance. *Business alertness* was also shown to contribute 47.8% of the change in organizational performance as indicated by the correlation coefficient value of 0.478 which is significant at $\alpha = 0.01$. The correlation for *risk taking* showed that 53.2% of the change in organizational performance was significantly accounted for by risk taking as shown by correlation coefficient value of 0.532 (significant at $\alpha = 0.01$). This paves way for multiple regression analysis.

Table 5. Multiple regression model

R	R ²	Adjusted R ²	Std. error of the estimate	Durbin Watson
0.834*	0.923	0.679	0.802	1.566

*Predictors: innovativeness, creativity, business alertness, risk taking

**Dependent variable: organizational performance

Conclusion

Innovativeness has significant effect on organizational performance in times of crisis in the companies from food industry in Plovdiv and Plovdiv region. *Creativity* has also significant effect on organizational performance in times of crisis in Plovdiv region. *Business alertness* has no significant effect on organizational performance in times of crisis in Plovdiv region. This indicates that for each unit increase in the positive effect of business alertness, there is 0.678 units increase in organizational performance. *Risk taking* has significant effect on organizational performance in crisis. This indicates that for each unit increase in the positive effect of risk taking, there is 0.782 units increase in organizational performance.

The purpose of this study was to explore the effect of entrepreneurial mindset in the organizational performance in the condition of crisis. Managers/owners with an entrepreneurial mindset see needs, problems and challenges as opportunities and develop innovative ways to deal with the challenges, and exploit and merge opportunities through implementing innovations. Acquiring an entrepreneurial mindset and process maturity requires re-learning how to motivate themselves, identify business opportunities, take risk, and become creative and innovative. The study revealed that innovativeness, creativity, business alertness and risk taking were significant for successful implementation of innovations and affecting performance of Bulgarian enterprises. The results show that crises are somewhat the driving force behind the creation of innovation and are a prerequisite for the emergence of modern forms of entrepreneurship so necessary to stabilize the economic system.

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