

## Ways of Financial Recovery and Prevent Bankruptcy

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**Abstract:** The study deals with the main approaches to find ways of financial recovery and prevent bankruptcy. In particular, consider: strategic orientation of financial recovery; the causes of the bankruptcy and the crisis situation in the world; implementing and crisis management; factors that not only have a direct impact on the financial position and financial stability and destroy the enterprise; diagnostic activities of the company; the necessity for a financial analysis using a specific set of indicators; choice of tactics out of the crisis; additional search path to prevent bankruptcy and restore solvency of enterprises. Developed measures of crisis prevention and bankruptcy at every stage of crisis management. It is recommended to introduce, develop and continuously improve the practices of crisis management which is widely used abroad. A procedure for the diagnosis of bankruptcy and proved that such a financial crisis prevention measure in the enterprise requires, first of all, to establish a mutual commitment and trust between management and stakeholders (customers, suppliers, creditors, shareholders, investors, government control and regulation). Also, as a scientific novelty, the researcher developed the formula for calculating the coefficient of efficiency of financial recovery, the practical application of which will help not only to choose effective methods and tools out of the current crisis, to determine the feasibility of their implementation and cost of the process of financial recovery.

**Key words:** Financial restructuring, bankruptcy, crisis management, diagnostics, strategy, risk factor, analysis, financial-economic activity, finances, marketing, financial problems, economic growth, efficiency

### INTRODUCTION

**Lead in:** In any society as in the whole system as well as in its individual fields during the crisis which threaten the existence of the system occur from time to time. The most significant importance is the search for the prevention of and overcoming the crisis in the enterprises which in turn are the priority tasks of the state of the economy.

The deterioration of financial performance of the enterprise and not the ability to make a profit and the payment of payables are signs of a crisis and can lead to bankruptcy. The main way of survival of the business in such circumstances is to find effective ways of financial recovery and crisis management which should be based on the development of a set of measures aimed at the exit from bankruptcy and insolvency overcome.

Modern state the economy is in a deep crisis which is caused by negative trends in social and political life. The influence of internal and external risks quite often ends with a profound crisis of the enterprise, its bankruptcy and liquidation. Today, therefore, the development of new approaches to the instruments of financial recovery and prevention of crises is the prerequisite for the development and improvement of the growth rate as the

state of the economy as a whole and individual segments. The results obtained from the study of this area are versatile and are particularly valuable not only for the domestic economy but also for the world. This is due to the fact that in the world as there are some gaps in the study of finding ways of financial recovery and prevent bankruptcy.

### MATERIALS AND METHODS

During the research on search of ways of financial recovery and prevent the bankruptcy of the following methods were used: induction (in deriving the principles, laws and analysis of the facts on the basis of existing approaches of scientists who investigated this problem before). This method is applied in identifying the causes of the bankruptcy and the necessity for financial recovery; deduction which is used in the investigation of the effectiveness and the practical application of existing theoretical conclusions regarding the financial recovery ways of the crisis of government and financial analysis; abstraction, applied during the formation of his own opinion, based on the analysis of existing approaches on indicators of financial analysis and the formula for calculating the coefficient of efficiency of financial

recovery. Analysis which is used in the separation of the general problem of finding ways of financial recovery on the components of crisis management and improve the company's solvency, synthesis during the generalization of existing views on the prevention of bankruptcy in the company by disclosing the essence of this concept; Mathematics, used in the processing and systematization of factual material, tracing the relationship between the different economic processes and defining the relationship between them.

Measurements applied in determining the numerical value using the units of such economic indicators as the effectiveness of the financial recovery and the total amount of financial restructuring costs; qualitatively quantitative content analysis of the aggregate data arrays. Finding and allocation in the text of certain semantic concepts, units of analysis that are of interest of this study; direct analysis and synthesis during superficial acquaintance with the problem of finding effective methods and ways of financial recovery with subsequent isolation of the individual parts of the research problem.

**Literature review:** In the scientific literature of the economic problem of finding effective tools and ways of financial recovery and bankruptcy prevention and impact of risks on business operations is not considered for the first time. General trends of published works can be divided into several groups:

- Study of the problems of the crisis and the bankruptcy by Moniz and Melo (2015), Ioannis and Stagars (2015), Stephen and Bayer (2015), Benjamin and Lawrence (2015), Michael (2015) and Ampleeva (2011)
- Finding ways to prevent bankruptcy and financial recovery (Robert, 2015; Taleb, 2012; Suetin, 2009)
- Events and crisis management tools (Simon, 2015; Kalyuzhny, 2014; Sitnik, 2000)

Today, our scientists are turning to the experience of foreign colleagues in order to develop effective ways to deal with the crisis and the bankruptcy of enterprises. So, Fainshmidt (2008) note the use of new types of crisis management and the definition of tactics out of the crisis. An interesting new research of American scientists and economists Taleb "Antikrihikist" (Fainshmidt, 2008) in which he proposes to consider the risks as new opportunities for enterprises, turning points without which it is impossible to achieve economic growth. It should be noted that regardless of the general agreement concerning the crisis management and found contradictions in the scientific sources. So, Karpunina

(2015) justifying the priority measures to overcome the crisis negates the need for measures to prevent it. While Kaljuzhnaja sees the highest probability of bankruptcy is on the diagnostic stage. All this allows us to explore even deeper crisis and to seek ways of financial recovery and bankruptcy warning. Systematization and generalization of domestic and international experience needed to develop new approaches to study the problem.

## RESULTS AND DISCUSSION

The economic activities of industrial enterprises all over the world suggests the occurrence of certain risks, crisis, instability, activities, etc. Since, any government is interested in the maximum preservation of businesses both large and medium-sized (small) business, there is a particular need to find ways of financial recovery of economic activity and to prevent bankruptcy.

It is a study of existing approaches and proposals in the world regarding the search for effective tools and measures for financial recovery and bankruptcy prevention is the main objective of this study.

Accordingly, to achieve the goal of research is necessary to achieve the following objectives: to analyze existing approaches to finding ways of financial recovery, to explore the causes of the crisis and the main directions of their diagnosis, review the effectiveness of the practical application of the proposed instruments to identify the factors most influence on the activity of the enterprise, to generalize the results and to make their own proposals.

Under the financial rehabilitation of enterprises in the scientific community is commonly understood as a system of successive institutional, industrial, financial and socio-economic measures to address the insolvency of enterprises as well as the restoration of profitability, profitability and viability in the long term.

Experience shows that the success of the company, including financial-economic, depends on the strategic orientation (70%) the effectiveness of operational management (20%) and the quality of the implementation of the current set of tasks (10%). Strategic focus, in turn, includes issues such as:

- Selection of the best options for the development of the enterprise
- Optimization of the investment policy
- Achieving long-term competitive advantage
- Improving the quality of strategic analysis
- The reality of strategic planning
- Improving the implementation of the strategic objectives

It should be noted that it is properly chosen strategy of the enterprise entails inefficiency of administrative decisions when performing certain tasks with the result that over time the company loses its capital and become insolvent the creditors.

**The bankruptcy of enterprises:** This is a consequence of the onset of a deep financial crisis which in turn is a crucial stage of functioning of any enterprise. At this stage the company's activity is vulnerable, less stable and is influenced by a plurality of both internal and external factors. In this situation, a lot depends on the speed and quality of response as the main feature of the crisis is the occurrence of system failure risks in general.

Bankruptcy can catch both small businesses as well as global giants. According to statistics, over the past 10 year, filed for bankruptcy such major companies as: lehman brothers holdings inc (which owned >\$600 bln. of assets); the bank washington mutual (>\$327 bln. of assets); general motors company (\$91 bln. of assets); CIT group, Inc (\$71 bln. of assets); Chryslerg group LLC (\$39 bln. of assets); Thornburg mortgage. Inc (>\$36 bln. in assets); Refco (>\$33 bln. in assets); «Indy Mac» (>\$32 bln. in assets); general growth properties (>\$29 bln. in assets); Lyondell Basell Industries (LBI) (>\$29 bln. in assets); new century financial corporation (>\$26 bln. in assets); Delta air lines, Inc. (>\$21 bln. in assets).

Due to the steady increase in business, victims bankruptcy, increasing distribution receives such a thing as crisis management which is characterized by its own specific objectives and functions. Today, the concept of crisis management are considering a lot of both domestic and foreign academics and specialists. Thus, the definition proposed in the literature can be grouped as follows:

- Management of the enterprise in the conditions of the general economic crisis of the country
- Enterprise management which fell into crisis as a result of poor management
- Management of the enterprise on the verge of bankruptcy
- Management of the enterprise in bankruptcy period
- Business management, aimed at financial recovery of economic activity
- A system of measures aimed at identifying the danger of the crisis, analyze its symptoms, search for measures to reduce the negative effects of the crisis and the use of factors for the positive development in the future

Regardless of theoretical views on the concept of crisis management is a particularly important practical

applications for the process of the company. Achieving the goals of crisis management is significantly dependent on the timely identification of the crisis which in turn is connected with the correct choice of bankruptcy diagnostic tools, early warning and response. It is necessary to pay special attention to a cause-and-effect analysis of the financial crisis which is first and foremost, should be aimed at identifying the internal and external factors for its occurrence, then the determination of the type and stage of the crisis at a time.

Servicing is one of the first ways to not only launch the company from the crisis and a financial recovery as a whole. The term "diagnosis" is widely known (from the Greek Diagnostikos Can recognize). In the works of prominent economists term diagnosis is used in the following context "identification and study of signs that characterize the state of the object in order to prevent possible deviations and violations of normal operation (activity).

The purpose of the diagnosis-a diagnosis of the research object to draw certain conclusions about his condition at the date of completion of the study and in the future. In order to achieve the stated goal of diagnostics at her assigned tasks such as the definition of measures aimed at the adjustment of all the constituent elements of the system as well as forecasting methods for their implementation. There are the following types of diagnostics:

- Internal (carried out on the initiative of the company's management and its owners)
- Outside (the initiator of the enterprise may be a creditor in order to determine its position on the most appropriate type of behavior as well as potential investors who decide to invest in the development of the enterprise)

Servicing of the financial condition of the company contributes to the speed and quality of response to the impact of exogenous and endogenous factors in relation to the enterprise. Exogenous factors are a system of external variables for which the company as a rule, almost can not influence. In this case, to achieve stable financial state is possible only if the flexible adaptation. According to the American scientist-economist Benjamin and Lawrence (2015) «...a problem that before the company puts the external environment, determining the optimal model the behavior of the company".

**Endogenous factors:** The internal components which are under the management of the company and are subject to direct influence. International scientists have placed 30% of the blame for the failure to exogenous factors and 70% on endogenous. However, current realities of the domestic political and economic instability, inflation and

so on. To be among the most significant factors that deplete the financial stability of enterprises. Thus, the diagnosis and early detection of the degree of influence of exogenous and endogenous factors has the following theoretical and practical importance:

- A systematic picture of the influence of factors on the financial stability of the enterprise
- The possibility of factor analysis and modeling of financial condition
- The possibility of moving to successive decisions of higher-level problems
- A short-term action plan, aimed at the financial recovery and forecasting of bankruptcy in domestic enterprises

Since, the crisis the company covers all sectors of activity in our opinion, the diagnosis should be carried out in the following areas.

**Finance:** It involves financial analysis solvency on the basis of the control and management of financial flows; the use of financial leverage to improve the stability of the enterprise; selection of adequate and effective financial strategy; evaluation and management of process of formation of enterprise value in accordance with the concept of cost management; adjustment of internal economic mechanism.

**Marketing:** It assumes evaluation system of marketing research; analysis and evaluation of marketing strategy and enterprise business planning; estimate sales system profitability, product mix, pricing, logistics.

**Organization management:** Determination of the adequacy of the organizational structure and enterprise management systems in terms of flexibility and manageability.

**Staff:** Evaluation methods of regulation of labor relations within the enterprise, personnel policy, personnel management, analysis of the need for a change in leadership and the formation of a new team.

**Production:** Assessment of the operational management of production processes of the enterprise, the degree of improvement of technical means, the rational use of equipment and materials needed in the production process.

**Investments:** Determination of the profitability of the investment policy, investment projects, the evaluation of the investment strategy of the enterprise.

**The market and competition:** Characteristics of the industry and prospects of its development; segments of the business market, the buyers, the list of key competitors and their competitive advantages; a survival strategy in the market; trends and expected changes in key markets.

Public relations and human resources within the enterprise and beyond its borders. Analysis of the concept of social responsibility and customer orientation in accordance with the internal culture of the company, setting up relations with stakeholders and contact audiences that have a direct impact on the activities of the company.

**Information flows:** Analysis of the data communications system in domestic enterprises and the information flows to the external environment. The research capabilities of the enterprise to use the latest information technology. Analysis of the financial condition of the company plays a decisive role in the choice of further ways of financial recovery. The main purpose of the financial analysis of the enterprise is to assess the ratio of costs and revenues for a certain period of time. The aggregate results of the assessment in turn creates a certain framework necessary for the analysis of financial results, performance pay. In the course of the financial analysis of the company identified a number of milestones:

- The financial analysis in the conditions of stability and solvency of the state of prior periods (retrospective planning and analytical analysis)
- An analysis of the individual segments of financial activity as well as projects with high risks (financial analysis by segment)
- Financial analysis of future periods based on emergency conditions (prospective analysis of conditions in the worst state of financial and economic activity)

The above steps of financial analysis allow to evaluate the efficiency of a given period, identify weaknesses and the factors that influenced the occurrence of certain risks and prepare for instant response to emergency conditions.

According to the scientists and economists the most effective tool to prevent the bankruptcy of the enterprise is a systematic financial analysis. This analysis is a set of specific indicators, the calculation and assessment of which will see the most accurate picture of the results of financial and economic activity.

**Table 1: The system of indicators on the financial condition of the enterprise valuation**

Number/p	Conv.	Title factor	Calculation formula	Norm. value
<b>Indicators of financial leverage</b>				
1	K <sub>1</sub>	Coefficient of autonomy	Equity/Assets	>0.5
2	K <sub>2</sub>	Mobility ratio of funds	Mobile assets are immobile/Assets	>0.7
3	K <sub>3</sub>	Property security factor, current assets	Sobstv.istochniki non-current assets/Current assets	>0.5
<b>Profitability indicators</b>				
4	K <sub>4</sub>	Return on revenue from sales for the reporting period profit	Profit/Revenues from sales	>0.0
5	By <sub>5</sub>	Total revenue profitability rate	Retained earnings (uncovered loss)/Revenues from sales	>0.0
6	By <sub>6</sub>	The total return on equity ratio	Profit assets	>0.0
<b>Liquidity indicators</b>				
7	By <sub>7</sub>	Current ratio	Actives/Short-term liabilities	>2.0
8	By <sub>8</sub>	Interim liquidity ratio	Active sssets-TMTS/Short-term liabilities	--
9	By <sub>9</sub>	Absolute liquidity ratio	Cash and short-term fin. attachments/Short-term liabilities	>0.2
10	By <sub>10</sub>	The ratio of receivables and payables	Accounts receivable of <12 month/Short-term liabilities	>1.0

To evaluate the entity's financial position at the balance sheet date using a certain system of the set parameters (Sitnik, 2000; Tyutyunnik, 2009). Consider the more common ones (Table 1).

- Indicators of financial leverage; characterized by the ratio of debt to equity
- Profitability; characterize efficiency (profitability) using its own funds
- Liquidity indicators; characterized by the ability of the enterprise to pay off creditors in the shortest possible time

The results of the financial analysis of the company is: a comparison of figures of the current period with previous similar indicators (defining the dynamics of change) analysis of the consistency of the results indicators of normative values; identification of the causes of deterioration.

After the diagnosis of all spheres of activity of the enterprise on the basis of the results of research and identified the causes of a possible deterioration of financial and economic situation, the leadership task is to select the tools for solving the problems.

The results of this study show that at the moment there is no consensus about the search of financial recovery paths. Some researchers consider only crisis management, others-financial analysis and ways to overcome bankruptcy. An analysis of the main approaches makes it possible to consolidate existing, highlight the fundamental and form their own view of the solution to prevent the financial crisis at an early stage and that is the reliability of this study.

Research experience of domestic and foreign enterprises shows that the effectiveness of financial recovery procedures depends on the correctness of the chosen action tactics. In world practice, there are 2 kinds of tactics: defensive and offensive (Benjamin and Lawrence, 2015; Simon, 2015).

Protective strategy envisages measures aimed at improving business enterprise activity, the reduction of

production, the maximum use of internal resources, changes in personnel, reduction of accounts payable to suppliers. Typically, protective tactics used when external factors have a more adverse effect than domestic. It should be noted that the use of such tactics by the majority of financial improvement of enterprises can make the situation worse as will cause an even deeper economic crisis in the state.

The world practice shows that the more effective is the offensive strategy as provided not so much surgery as strategic. In this case, it changes the strategy of the company which is achieved due to such events as: access to new markets for products; overpricing; modernization of production; renewal of fixed assets; the introduction of advanced technologies; updated product range. All these developments are changing the strategy of the enterprise which could improve the financial situation at any given time and to further strengthen economic growth. Additional search paths to prevent bankruptcy and restore solvency of the enterprise as well as options for solving financial problems are:

- Public financial support to enterprises
- Financial support from other companies (partner companies, enterprises, owning a controlling stake, creditors, etc)
- Sale of subsidiaries, branches, construction in progress, shares in the capital of other companies, etc
- Debt restructuring, transfer of short-term loans into long-term loans and mortgages
- Inventory of assets
- Optimization of accounts receivable and reduction of production costs
- Sale of surplus equipment and inventory of finished products
- Improving the organization of labor

In any case, when choosing the tactics of financial improvement of the economic activity of the enterprise should take into account certain risks that always arise when making any changes.

In order to determine the level of exposure of selected instruments and financial recovery measures as well as reducing the risk of losses in excess of the alleged researcher developed the formula for calculating the coefficient of efficiency of financial recovery:

$$By_{EFO} = OP - P_{Society} \quad (1)$$

Where:

$K_{EFO}$  = Coefficient of efficiency of financial recovery

OP = Expected profit

$P_{total}$  = Total expenditure

$$P_{total} = BP + FP + H \quad (2)$$

Where:

$P_{total}$  = The total cost

BP = Internal reserve

W = The costs of implementing the financial recovery measures

Search perspective study ways of financial recovery of enterprises and bankruptcy prevention both in domestic practice as well as in the world has shown that focuses on situations of crisis has already arrived and almost never looks at ways to prevent it with minimal losses. Presented the formula for calculating the effectiveness of financial recovery and bankruptcy prevention are an absolute scientific novelty because until now had its reflection in scientific works and publications. Practical application of these indicators in the company will not only choose effective methods of exit from the current situation and to determine the feasibility of their application.

The formulas for calculating the coefficient of efficiency of financial recovery are universal and are suitable for use on all companies both large and small both domestic and foreign.

## CONCLUSION

In our country at present has created an environment objectively violation of enterprises. The state of crisis is manifested in the fact that the deteriorating financial results of their operations, they are not able to make a profit, the consequence could be bankruptcy. The main cause of bankruptcy is a crisis in the company. To resolve the crisis at the plant is necessary to pursue a policy of crisis management. Conducting crisis management policies will enable the company to respond quickly to negative effects of internal and external environment.

The researcher of the study the ways of financial recovery and prevent the bankruptcy of enterprises both in the domestic and in the world, on the basis of which offer their own recommendations. Based on the processed data by the researcher proposed to use the coefficient of efficiency of financial recovery which is a scientific novelty both in domestic and in foreign science.

Also, according to the results of the study proved that the most effective approach to financial recovery is to carry out diagnostics of financial and economic status throughout the enterprise across the board which will allow time to identify the problems and fix them with the least losses.

During the study, using the experience of foreign scientists, improved crisis prevention measures and the bankruptcy at every stage of crisis management. It is proved that it is carrying out a causal analysis of the financial crisis, aimed at the identification of internal and external factors for its occurrence as well as determining the type and stage of the crisis at a time allows you to choose the most effective tools for increasing the company's financial stability.

It analyzed the appropriateness of the financial analysis of economic activities in the diagnostic stage and systematized the main indicators of the financial condition of valuation.

We studied the experience to overcome the crisis situation of domestic and foreign enterprises on the basis of which it is proved that the effectiveness of financial recovery procedures depends on the correctness of the chosen action tactics. The world practice the researchers identified and considered these types of tactics both offensive and defensive.

The problem of financial improvement of the enterprises and further remains unresolved until the end, so the researcher intends to study more deeply the problems of crisis situations and therefore offer a new, more sophisticated and effective, ways of financial recovery and bankruptcy warning.

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