

# Imbalances System Enterprise: Reflections from Italian Doctrine

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## **Abstract**

*The dramatic international crisis affects, for some years, almost all States and entire economic areas traditionally very rich.*

*Is therefore very timely theme of enterprise disruptions.*

*There are a lot of causes that can generate the enterprise crisis. It is necessary to analyze all phases of the management of an enterprise to understand where causes are sparked.*

*This paper, with reference to the best Italian doctrine, presents a concise but comprehensive analysis of causes of corporate crises that do not have a specific origin due to particular external situation or internal dysfunction: the entire business system can indeed be unbalanced.*

*Several theories explain the different series even if the origin of any disruption can always attributable to the lack of managerial skills and/or ethical values.*

**Keywords:** *Causes of enterprise crises, Mismanagement, Crisis enterprise system, Imbalances system enterprise, Poor management skills, Lack of ethical values.*

**JEL classification:** H12, M19.

## **1. Introduction**

### *1.1 Motivation*

The dramatic international crisis that affects, for some years, the largest economic areas made again present the issue of business failures. In many countries registering the closure of many companies or downsizing as a result of a systemic crisis that has vast international dimensions.

This is the effect of globalization that quickly transfers economic phenomena first confined in limited areas.

It is therefore useful to analyze the best Italian academic teaching on a topic increasingly rich specialist contributions.

It is not the first time in history that through times of severe economic crisis. The causes can be different in different historical moments. However all corporate crises can be traced back to interpretative parameters only.

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### *1.2. Aims, research approach and structure of the paper*

The causes of the crisis are many: it is therefore necessary to investigate all the management to understand where is the main reason of instability.

The causes can be divided into external and internal.

Among the first ones arising from environmental and sectoral situations.

Among the internal causes: the possible problems of each business function and especially the information system that did not show malfunctions promptly.

In this article, however, it does not propose a detailed analysis of the errors of each corporate department. We focus instead only theories considering the crisis caused by imbalances of the entire company system.

The methodological approach employed in this article, consisting in a “literature” review: having critically important theories specifying especially those that can still be used.

Finally, it outlines a unifying theory that believes that the corporate crisis always arises from a lack of professional skills and ethical values. This case is typical of all companies, regardless of industry, size and their location.

This case was the main cause in the past and is also the dominant cause in the current economy.

### *1.3 Literature review (note)*

The references of the most important Italian scientific doctrine are mentioned in the following paragraphs and in the final bibliography<sup>2</sup>.

## **2. Imbalances System Enterprise**

### *2.1 Insufficient adaptation to the environment*

A first theory (Riparbelli A., 1950) attributes the crisis to insufficient adaptation of the company to the economic and social, that leads to the alteration of internal co-ordinations and external relations. This may be due to errors in the perspective of future phenomena, and / or the low elasticity of the company.

In other words: the environment changes, the company can not change at the same time because it included several changes, or because he can not change its internal structure. The offer, therefore, does not adapt to the demand and therefore the company loses market: the first imbalances arise.

There are several reasons why errors in predictions or a rigid structure causing an inadequate adaptation of the enterprise to the environment.

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<sup>2</sup> This article summarizes, develops and updates topics already proposed, more broadly, in Migliaccio, 2012, p. 111 and ss. In the book you can find more interesting considerations and other references.

- a) First, the differences in perspectives and achievements. The ability to apply management prospects depend on the environment and by the economic-technical enterprise:
  - economies relatively static or slowly becoming, make easier the anticipation of future events, contrary to complex dynamic systems, which are absolutely prevailing;
  - large corporate structures require complex management and cause a more difficult forecasting.
- b) The rigidity of enterprise, then, does not allow continuous variations of internal structures to adapt to the constant mutability of the environment, for inertia of management, or even because they are constrained by technology, staff recruited etc.

The low elasticity often depends on economic and technical structure and thus the type of investment if the investment assets are prevalent it is logical that they can easily adapt to new requirements. The stiffness can also result from excessive specialization of the technical business.

### *2.2 Lack of cohesion between inputs, operations badly systematized and/or disharmony between internal and external forces*

A second approach (Prosperi S., 2003) completes the previous theory, with further considerations.

It states that the fundamental basis of economy is the order between the various components of the company that it can effectively and efficiently achieve the planned objectives.

There are three aspects of the order total, in relation to the structure, dynamics and relations with the environment:

- a) the first is the “combined” order between the production factors that must be consistent and adequate processes;
- b) the second is the “systematic” order, connected to the constant search for an optimal coordination between operations;
- c) the third is the order of “composition” refers to harmony between internal and external forces, for and against.

In summary: the business purposes are achieved more easily if you get an optimum degree of order dynamic internal and external, closely related, favouring financial and economic balance sheet.

Dysfunctions, which are often in preparation for the crisis, are the effects of a disorder caused by lack of cohesion between inputs, by operations badly systematized or by disharmony between internal and external forces.

Dysfunctions can be classified into two interrelated groups: from inappropriate operation or stiffness. Disruption from inappropriate operation are produced within the company and affect the productive combination; the dysfunction of stiffness are generated by inadequate adaptation to the environment, especially to market.

### *2.3 Failure of the balance of relations between objectives, choices and actions; failure of structures, procedures and institutionalized relationships, processes and flows*

A third hypothesis (Vergara C., 1987, p. 10 and ss.) starts from an interpretation of the system company-according to which it can be identified two groups of factors: the first consists of goals, decisions and actions; the second, however, structures, procedures and institutionalized relationships, processes and flows.

This system interacts with the surrounding environment.

The crisis could arise from failure of the balances in these reports.

In particular, if focuses the first group of variables, you could assist in breakages of the internal balance between objectives, choices and actions, and in that case there would be a “dysfunctional” crisis. Or, you might have a breakdown in the balance between the external components (individually and as a whole), generating a crisis “of rigidity”.

Similarly, if focuses the second set of variables, there may be breakage of the internal balance between them, and therefore a crisis “dysfunctional”, or between them and the environment by generating crisis “of rigidity”.

Starting, then, from two different groups of variables leads to similar final remarks: the crisis is breaking of internal and/or external balances.

The primary cause of this failure should be attributed to the decision-making process and / or control of its implementation. Any type of crisis, therefore, would be detectable in errors of management which has failed to make appropriate choices or provide timely and correct. The responsibilities of the manager there are even when there were insurmountable external constraints, because the manager was wrong not to have stopped in time corporate life.

### *2.4 Taking too much risk*

Another hypothesis (Canziani A., 1986, p. 22 and ss.) to study the origins of the crisis leads the main causes of damage of the companies taking of excessive global profile of risk than management skills.

This thesis distinguishes the risks borne by the business in two categories:

- a) dynamic or involuntary risks, deriving from the need that the enterprise has to operate within an economic (general and sector) space-time and of a physical space. The company, therefore, suffers the risk environment in which they are standing. The dynamic risks are:
  - necessary because each company must be placed in a physical and economic environment;

- involuntary because, excepting the time of the initial choice of a field to which belong, are derived from exogenous factors that are external to its policy making<sup>3</sup>.

The dynamic risks are higher when the change of the areas in which the company operates is quick.

Finally, it is noted that the risks can have different dynamic, because businesses can be placed differently in the environment, or because the same risks may occur with different entities from area to area, and from sector to sector;

- b) static or volunteers risks, which are those that flow from operations, and are therefore a direct result of his choices. They originate, therefore, by decision errors caused by wrong interpretations of reports enterprise-environment or the internal dynamics. Sometimes (in the case of speculation), these choices are assumed consciously, knowing that they are characterized by high risks<sup>4</sup>.

Risks volunteers, therefore, they come from all the strategic management and organizational dysfunctionality whose responsibility can be attributed to the company.

All businesses suffer, therefore, dynamic and static risks interacting with each other, and that can exalt and expand mutually.

The thicken and the overlap of the two types of risk can generate crisis, especially when the company does not have adequate capacity to measure, predict them and face them.

In general it can be said that the seriousness of the crisis depends on the overall global entity assumed the risk and the effectiveness of the responses of the management of the company.

### *2.5 Downward motion of the company*

Another theory (Vergara C., 1988, p. 50 and ss.) is developed by identifying the first business purposes: they can not be limited only to economic, but must extend to the competitive and social dimensions that are distinct, even if they are closely related to the first.

In other words, the “motion” of the company can be represented by a spiral (table 1) symbolically linking the economic to the competitiveness of the company and the satisfaction of all stakeholders: when the dynamic is increasingly setting up a positive synergy tending to balance business development. The profits fuel the competitiveness that can be transformed into more positive economic results

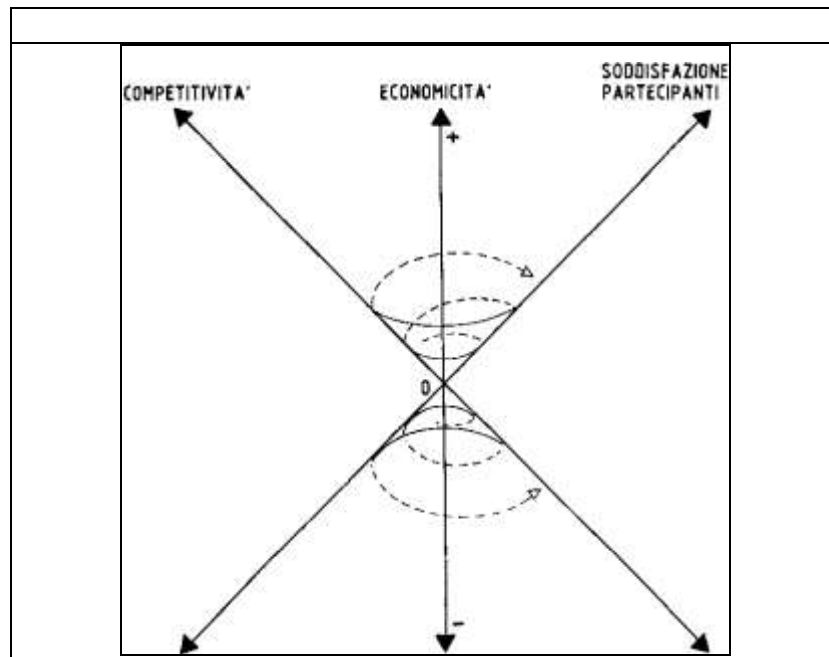
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<sup>3</sup> Typical examples of dynamic risks are those arising from changes in the economic area in which the company operates: changes in demand, technological or commercial, new dynamics of world trade and international flows, political and social changes, changes in the monetary-financial etc.

<sup>4</sup> Examples of such risks may be: a place in sectors characterized by excessive instability competitive from dependencies on third economies (excessively bound to a single supply of goods or a few lenders), choosing a single production by binding, so the question of a only product, risks of high exchange, organizational structures incompatible with the degree of development and so on.

which, moreover, can fully meet the expectations of individuals inside and outside the company. They, in a positive and confident climate, work with alacrity to promote energy around the team, and hence its profitability and competitiveness.

**Table 1 The company's motion**



**Source:** Vergara C., 1988, p. 53

The synergies between the objectives may, however, operate in the opposite direction, starting a motion company representing the descending imbalances, decline, crisis and instability.

Thus, the economic losses reduce the competitiveness and the actions of stakeholders, factors that result in further reductions in economic performance, according to a cascade process that should stop with management interventions different from the usual.

This approach to the study of the crisis has the merit of enhancing the company's competitive position in the markets where it operates and their social value.

### *2.6 Responsibility of the entrepreneur*

You must also consider the argument (Sorci C., 1987, p. 59 and ss.; Viganò E., 1996, p. 204 and ss.; Confalonieri M., 1995, p. 35; Poddighe F., 2006, p. XVII and ss.) that the origin of every crisis there is man's responsibility and, therefore above all, the responsibility of the entrepreneur.

The entrepreneur is responsible in large and small companies, even if the property is distributed among a large number of members.

The entrepreneur has the overall coordination and should take fundamental decisions regarding the relations with customers, employees, etc.

The entrepreneur is thus the main cause of any imbalance.

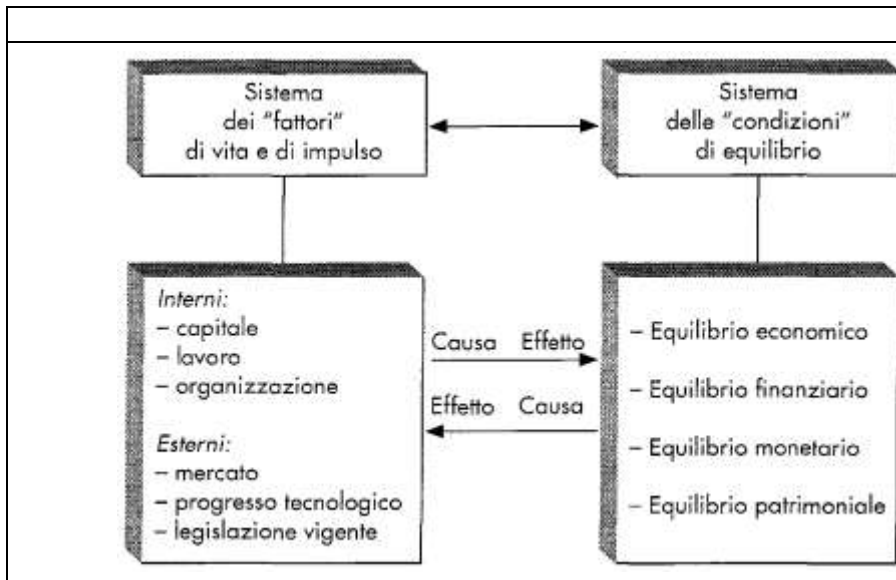
*2.7 Alteration of the relationships between categories of business dynamism*

The crisis can be generated by the alteration of the relationship between the logical categories in constant osmosis that characterize the dynamic business (Paolone G., 2008, p. 19 and ss.):

- the system of conditions of economic and financial balance which underpins the convenience to make the initiative sustainable over the years;
- the system of the factors of life and development, which affects the balance keeping, improving it or restoring it.

Internal and external factors affecting the company balances and affecting results which feed new ideas to the factors, in a continuous circuit cause and effect (table 2).

**Table 2 Categories logic of business life**



Source: Paolone G., 2008, p. 19.

The crisis originated in the possible discrepancies that jeopardize the beneficial relationship transforming, in severe cases, in a vicious circle. Limitations

in the availability of inputs and / or dysfunction in the relations supply / demand, an unfavourable legislative framework, the unavailability of necessary technologies, could cause operational difficulties upsetting the balance, up to break.

You should always therefore identify critical “factors” that could cause disruption, avoiding, however, to limit the investigation only quantitative values obtained from the information system that could hide latent imbalances.

The survival of the company could be better monitored even considering its *profiles* that are qualitative elements that identify it, focusing its origins, its transformations, his technical and/or organizational relations with the environment, the skills professional, creativity and dedication of the organs volitional and management, the capacity for self investment, skills learning and its multifaceted manifestations. They identify the strengths and weaknesses of the company.

The understandable difficulty of complex qualitative analyzes requiring them to be classified, and then coordinate them in a unified system with quantitative data.

The profiles thus identified would signage capacity trend of each company sub-system that can contribute to the required updating, activating beneficial symbiotic processes.

If possible, the profiles should be transformed into quantitative indicators more easily interpretable.

Quantitative data and qualitative profiles still contribute to value judgments more complete and updated, also necessary to check the validity of objectives and strategies, enabling the monitoring of the phenomena and identifying symptoms of crisis.

## 2.8 *Internal and external inconsistencies*

The company consists of three structures: the owner, the business summit and the operating system (Moliterni R., 1999; Passeri R., 2011, p. 85 and ss.).

- A) The *ownership structure* consists of shareholders who hold venture capital. They take the main decisions and perform functions guidance and control.
- B) The *entrepreneurial attitude*, however, centralized decision-making power, choosing the formula management and strategies to implement it. The entrepreneurial attitude must also organize and govern the operating system.
- C) The *operating system*, finally, held concretely productive activities in different forms and content in relation to the technical aspects, by product, industry, etc. Basically it is the protagonist of three processes:
  - “material”, that is, the productive activity characteristic that is expressed in the early stages of supply factors, combined to transform physical and / or economic, marketing and sale of products;



- “Energy”, related to the cash flows derived directly or indirectly from the process of transformation;
- “Information” relating to internal flow of information and arising from multiple external relations.

Each of the three described structure is a complex system in which are relevant three connected elements:

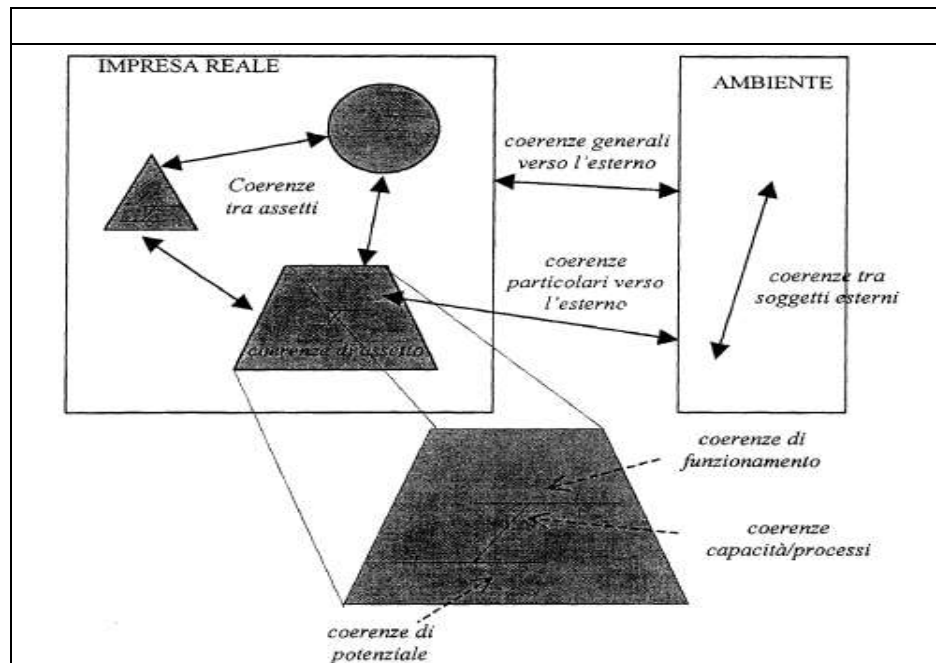
- a) the ability to trim, which defines the operation reached and its potential;
- b) processes/behaviours, a set of operations related to the existing capacity and the acquired input, distinguishing the processes of self-structuring and functioning;
- c) results / objectives, outcome of processes/behaviours, synthesis of each structure.

In order for the enterprise, complex system, can last it is necessary that the interdependence between its different elements are coherent to achieve the goals.

The complex system of coherence therefore qualifies balance company. We distinguish internal and external consistency, that is, between the elements of the enterprise or the subject of its relations with the environment (table 3).

Balanced operation of business management is characterized by the coexistence of internal and external consistency that ensures survival harmonious, despite the dynamism of events.

**Table 3: System Consistencies**



Source: Moliterni R., 2011, p. 15.

However it can happen that some mutations, especially if unexpected, can generate situations of inconsistency, physiological (if temporary and solvable); pathological (if sustained). Because of inconsistencies the crisis begins. (Moliterni R., 1999, p. 55 and ss.).

The permanent inconsistencies denote the inability of the company to adapt to the new situation: the company is stiffened on previous consistencies that are inadequate to deal with the current situation, or it is crystallized on new consistencies unsuitable changing situation.

There are three types of inconsistencies, all harbingers of crisis:

- arrangements between the company, due to ineffective relationships between the structure owner, entrepreneurial and operational<sup>5</sup>;
- between internal elements in each set, especially to the operating system<sup>6</sup>;
- relations firm-environment <sup>7</sup>.

### *2.9 Decreased vitality to low efficiency and effectiveness of government (systemic crisis) and/or operational structure (structural crisis)*

The theory of Vitale Systemic Approach (SVA) (Golinelli G. M., 2002, 2006, 2010) delivers the business crisis in a different light (Piciocchi, 2005): it interprets reality with a business model of the anatomy (as is done) and physiology (how it works). The main purpose of the company would survive, that can generate value for the “over systems” to which it is connected, improving the competitive advantages.

Survival depends on the ability of the governing body to be in consonance with the over- and sub systems, meeting their expectations. Only in this way the company can ensure the flow of resources and create harmony within the operational structure, governing it in an evolutionary sense.

The crisis would then be due to the decrease in the time of the vitality of the enterprise as a result of low efficiency and effectiveness of government (systemic crisis) and/or operational structure (structural crisis).

In a crisis you need to prepare a consolidation path different if the crisis has structural or systemic origin.

### **3. The need for professional skills and ethical values**

The different hypotheses about the causes of the crisis can be reunited into one: the crisis has a single origin in the lack of adequate skills and/or ethical values. This hypothesis can be traced back to the characteristics of the decision-

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<sup>5</sup> Examples: political incapacity of the summit; inopportune interference of the property in the choices of the entrepreneur; inability to perceive the property and meet the needs, especially financial, operating system, etc.

<sup>6</sup> Inconsistencies process operation.

<sup>7</sup> For example: a modest social consensus.

making process being, in any case, the crisis derived from the absence, incorrect or untimely decisions.

The decision is based on available information and on the ability to intuit the consequences of each choice. Wrong decisions, therefore, may result from lack of information, and then by an ineffective information system.

Ineffective decisions also may arise from the inability of offices in charge of assessing the information with the necessary powers, or underestimate the importance of the data with respect to possible consequences on the dynamic management.

From the above it is clear that the economic-business professional competence is a necessary condition for a balanced management that minimizes the risk of crisis.

But professionalism is not enough!

Despite the capable and prepared individuals, there are, in fact, a crisis whose origin is due to their insufficient supply in the activities of company. Be competent people does not automatically have the desire to always put their knowledge and skills in the exclusive service of the company in which they operate.

It is possible to record some anomalous situations that may lead to crisis:

- disaffection company or work in general;
- the contemporary of other interests that leads to save energy
- a hostile environment for the competent and hard-working people
- inadequate economic remuneration
- the lack of psychological gratification;
- deleterious attitudes against his company for political purposes or for retaliation because of atavistic resentment, etc.

All these situations can be addressed in the opposite direction of the brightest minds with valuable skills, which in different circumstances would surely herald very different results.

In these, as in other situations, the ethical values of a person are found especially valuable. People that inspire its actions to ethical principles, in fact, can not behave operating in conflict with the objectives of corporate survival and, therefore, crisis prevention. Individuals with a precious heritage of ethics should therefore provide more guarantees of hard work, transparency and cooperation with the company. Their valuable human qualities, however, would certainly not be sufficient by themselves for a productive contribution, if they were not accompanied by the necessary expertise, which is why professionalism and ethical values are both necessary requirements to reduce the risk of crises.

#### 4. Conclusions

Despite the limited physical size, Italy has always stood for entrepreneurial initiative and for rich scientific production about management.

The brief overview of the main theories on the possible reasons for the crisis of a company offers to all scholars, of all nations, valid and useful insights. The considerations summarized, in fact, are quite independent of the particular Italian economic situation.

Only by comparing the managerial studies of each state, also with regard to the crisis of business, you can encourage the circulation of ideas and develop new theories, to the benefit of companies and therefore the general economic welfare.

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