

THE CRISIS AND THE FINANCIAL DIFFICULTY WITHIN THE ENTERPRISE FRAMEWORK – AN OVERALL VIEW OF ROMANIA

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Abstract

Financial difficulty creates many inconveniences within a company, from blockages in making payments to jeopardizing the company's survival. The purpose of this research paper is to survey the representatives of 120 companies in Romania in order to present the situation regarding the financial difficulty within them, but also the most representative symptoms in the emergence of a crisis within the analyzed companies. The first objective considers the review of specialized literature on the topic of financial difficulty, implicitly presenting the evolution of the number of scientific publications on this topic, and the second objective is focused on the analysis of the companies in the research sample. The results consist in providing an overview of Romanian companies in terms of financial difficulty, as well as highlighting the three most representative symptoms of the existence of a crisis within the company, according to the analysis carried out on the basis of the selected sample.

Keywords: financial difficulty; crisis; Romania; enterprises.

JEL Classification: M10, M41

INTRODUCTION

Financial difficulty can occur unexpectedly in any business. The current financial crises are real challenges for businesses, as companies are forced to identify and access different sources of financing to save themselves and avoid insolvency or bankruptcy (Apetri, 2023). It can be said that in the last 5 years or so we have experienced several crises of high gravity and despite the fact that the nature of the crises was different, they affected the operation of companies (Melega et al., 2022; Bukalska & Maziarczyk, 2023). At the same time, globalization and the accelerated evolution of the capital market has led to an increase in the number of companies experiencing financial difficulties (Durica et al., 2019). Thus, based on "an inconsistent economic environment, entrepreneurs are required to consider securing market positions and future development possibilities" (Mavlutova et al., 2014). Identifying the probability of financial difficulty or bankruptcy one of the most essential tasks of management (Ștefko et al., 2020).

The purpose of this research work is to survey the representatives of 120 companies in Romania in order to present the situation regarding the financial difficulty within them, but also the most representative symptoms in the emergence of a crisis within the analyzed companies. The first objective considers the review of specialized literature on the topic of financial difficulty, implicitly presenting the evolution of the number of scientific publications on this topic, and the second objective is focused on the analysis of the companies in the research sample. The results consist in providing an overview of Romanian companies in terms of financial difficulty, as well as highlighting the three most representative symptoms of the existence of a crisis within the company, according to the analysis carried out on the basis of the selected sample.

I. LITERATURE REVIEW

Financial difficulty is characterized by a company's low ability to pay its contractual debts to debtors (Stef, 2021). SMEs can be vulnerable for various financial reasons, but different perceptions of failure can arise (Majláth et al., 2019). Thus, there are many characteristic terms for this subject, among which, in the specialized literature, one finds: crisis within the company, financial stress, insolvency, bankruptcy, etc.

Every company may experience a crisis at some point that could jeopardize its operations and reputation. A weak competitive position, a higher risk of bankruptcy, or financial instability are characteristics of the crisis

situation. Increased volatility and uncertainty are therefore associated with crises, which are defined by marked instability. A crisis can also be described as a stage in a system's or firm's development when a significant number of challenges and conflictual tensions arise, making it impossible for the system or firm to function normally and creating intense pressure for change. The company is in a crisis due to the potential for bankruptcy (Grosu et al., 2023). A crisis is characterized by unforeseen events that have a detrimental effect on the business; it can destroy the business, lay off employees, and eliminate its products, services, and financial situation. As a result, the crisis may cause long-term harm to a company's financial image, as well as a loss of public trust and consumer confidence, which could lower the morale of the company's crisis-affected employees and increase the severity of the issue (Hertati et al., 2020).

As for insolvency, it arises as a result of a high degree of indebtedness and a relatively low degree of solvency, which depend on a multitude of factors specific to the activity sector and the economic environment. These factors can bring the enterprise into a state of difficulty from a financial, economic, legal and socio-political point of view. Insolvency risk expresses the possibility to not be able to honor all due obligations as a consequence of a negative and uncovered financial result from previous management periods that have fully exhausted the company's equity (Amarfii-Railean, 2017). The uncovered part remains exclusively the responsibility of the creditors and affects the property of the owners by diminishing the net situation to negative values, which constitutes the assumed insolvency risk.

Throughout their life, companies can "experience a deterioration in their financial performance for many reasons: economic crises, increasing competition, bad management strategies, etc."(Campa, 2019). However, Krylov (2018) identifies two more significant reasons why an enterprise may have financial difficulties, these can be seen in Figure 1.

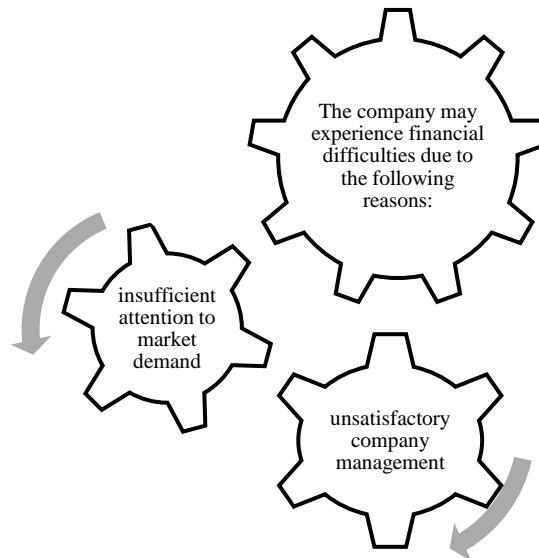


Figure 1. Reasons for the existence of financial difficulties within the company

Source: Own adaptation after Krylov (2018)

Regarding the subject addressed in this paper as a parameter for the search we used the keywords "financial difficulty"; on the Web of Science Core Collection for the period 1990 – October 2024, the search revealed 2,960 results; on Scopus for the period 1908-October 2024, the search revealed 4,361 results, as can be seen in Table 1.

Table 1. WoS and SCOPUS search protocol

Database	Web of Science Core Colletion	Scopus
Topic	„Financial difficulty”	„Financial difficulty”
Analysis period	1990 - October 8, 2024	1908 - October 8, 2024

Inclusion criteria	Research areas: Economics, Business Finance, Management, Business, Statistic Probability. Types of documents: articles, research paper, proceedings paper, early access, review articles, book, book chapters, data papers, news items, conference paper, review, conference review. Language: English	Research areas: Business, Management, Accounting; Economics, Econometrics and Finance. Types of documents: articles, research paper, proceedings paper, early access, review articles, book, book chapters, data papers, news items, conference paper, review, conference review Language: English
Exclusion criteria	Research Areas: All other areas not mentioned above. Types of documents: editorial materials, meeting abstracts, notes and erratum	Research Areas: All other areas not mentioned above. Types of documents: editorial materials, meeting abstracts, notes and erratum
Final result	2,960	4,361

Source: Author's own elaboration

In Figure 2 it can be seen that there is a significant increase in scientific and research publications on the topic of interest "financial difficulty" on WoS, in the period 2004-2020, the number of publications increased significantly during this period reaching from a number of 151 publications in 2009 to 203 in 2019, and in October 2024, which corresponds to the period of our inquiry, a number of 133 research publications have already been published and indexed. Compared to the previous period, nowadays this interest is more increased, because the academic environment and the practitioners are increasingly interested in promoting new policies, tools and methods that support the increase in the performance of companies that carry out economic activities and not only.

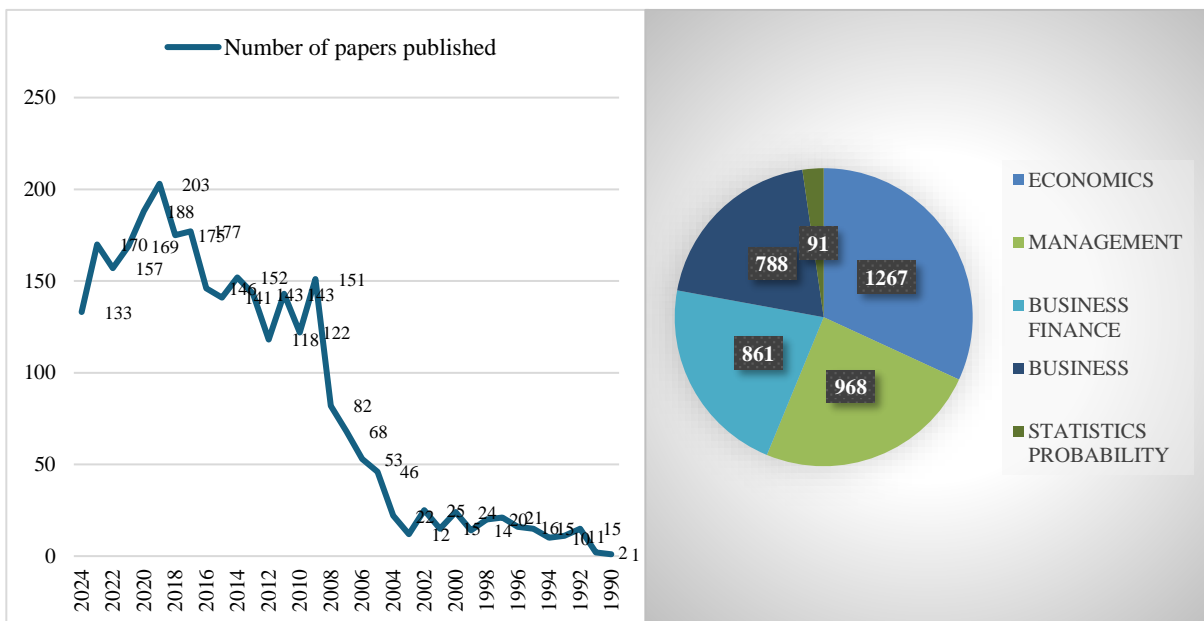
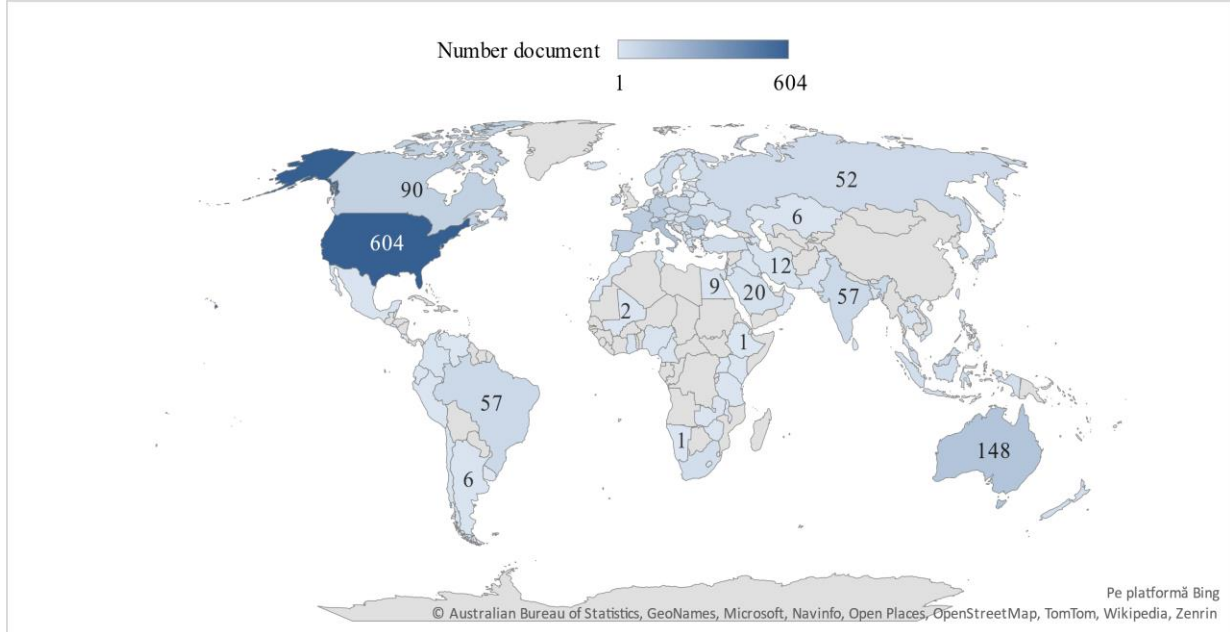


Figure 2. Evolution of papers by year of publication and WoS research areas

Source: Own processing based on data provided by WoS

Regarding the country analysis based on the WoS database, it can be seen in Figure 3 that the USA ranks 1st with 604 papers, then the 2nd place is occupied by China with 443 papers, followed by the 3rd and 4th places occupied by England (with 288 scientific papers) and by Italy (with 163 scientific papers). It should be noted that Romania is in 7th place with 132 papers, which proves that our country shows an increased interest in this subject.

Figure 3. Evolution of published papers by geographical distribution in the WoS database



Source: Own processing based on data provided by WOS

In Figure 4 it can be seen that there is a significant increase in scientific and research publications on "financial difficulty" topic on SCOPUS, in 1991-2024 period, the number of publications increased significantly during this period, reaching a number of 314 publications in 2023. The 2024 year, until October, there have been 293 scientific works already registered, which indicates a rather significant number. Regarding the research areas, a much more significant number is found for the Business, Management and Accounting areas.

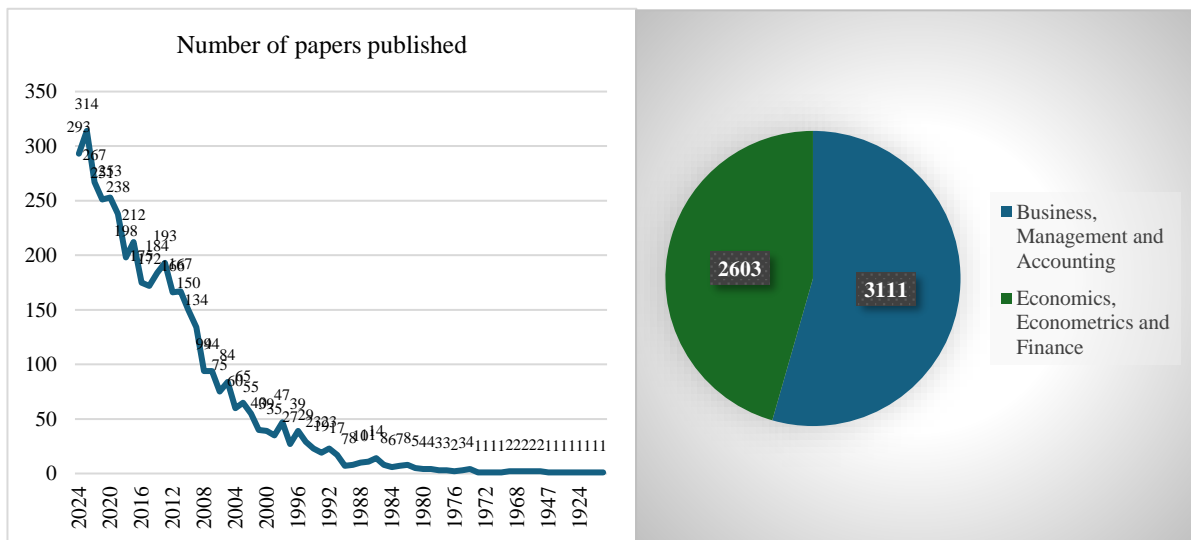


Figure 4. Evolution of papers by year of publication and SCOPUS research areas

Source: Own processing based on data provided by SCOPUS

Regarding the analysis by country based on the SCOPUS database, it can be seen in Figure 5 that the USA also occupies the 1st place as on the WoS database, but with 1012 papers, then the 2nd place is occupied by England with 539 papers, followed by the 3rd and 4th place, occupied by China (with 295 scientific papers) and Australia (with 214 scientific papers). On the SCOPUS database, Romania ranks 16th with 70 scientific papers, the interest of Romanian research being lower on this database, compared to WoS.

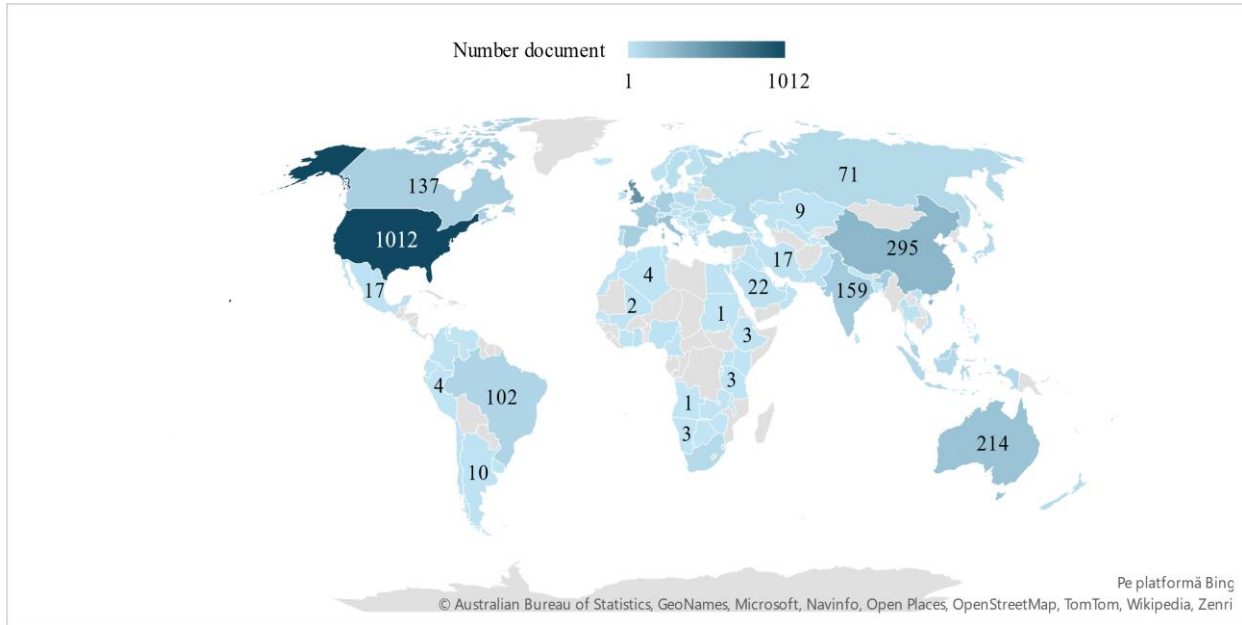


Figure 5. Evolution of published papers by geographical distribution in the SCOPUS database

Source: Own processing based on data provided by SCOPUS

By comparing the two search bases, a considerably larger number of researches published on this topic on the SCOPUS platform are noticeable, compared to those published on WoS.

II. RESEARCH METHODOLOGY

In this paper, the quantitative research method was used by developing a questionnaire applied to 120 enterprises in Romania. The data collection period was between November 2022 and February 2023 (inclusive). The enterprises fields of activities are as follows: services, trade and production. The firms in this sample are micro, small, medium and large enterprises. The programs used to create the questionnaire and centralize the data were Google Forms and Microsoft Excel.

III. RESULTS AND DISCUSSION

Financial distress can occur in both large and small companies (Andayani & Daud, 2020). "Annually, a significant proportion of small and medium-sized enterprises (SMEs) face the precarious state of financial difficulties" (Achbah et al., 2024). However, according to the results of this paper, only 42 companies out of 120 have faced financial difficulties in the last 5 years (see Figure 6), and 70 companies have not faced financial difficulties. This is also due to the fact that, in Romania, there were extensive and rapid interventions through support schemes that maintained the level of liquidity in the market, so that insolvencies in 2020 (the year the Covid-19 pandemic started) fell to the minimum of the last decade, and the financial losses of insolvent companies have decreased substantially (see <https://www.sfin.ro/>). Contrary to this result, in the opinion of Siedlecki (2014) "regardless of how good the financial situation is in an enterprise, sooner or later some difficulties will arise." For this reason, Romanian companies must always be cautious and invest in innovative strategies to ensure their continuity.

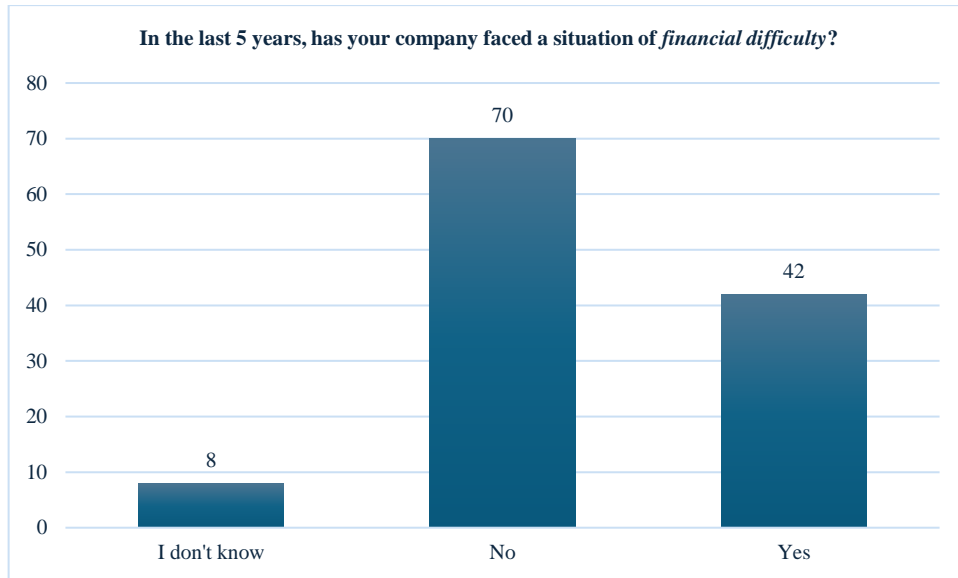


Figure 6. The situation regarding the financial difficulty of the enterprises in Romania included in the sample

Source: own processing in Microsoft Excel 2024

The topic of preventing the company's financial stability is always current, especially in times of crisis, and past experience (provided by historical data, etc.) is the basis for every decision in the future (Vale & Zenzerović, 2016). Thus, for the companies analyzed in this paper, "loss of financial stability" is the first most representative symptom of the existence of a crisis within the company (55 responses - Totally representative), as can be seen in Figure 7.

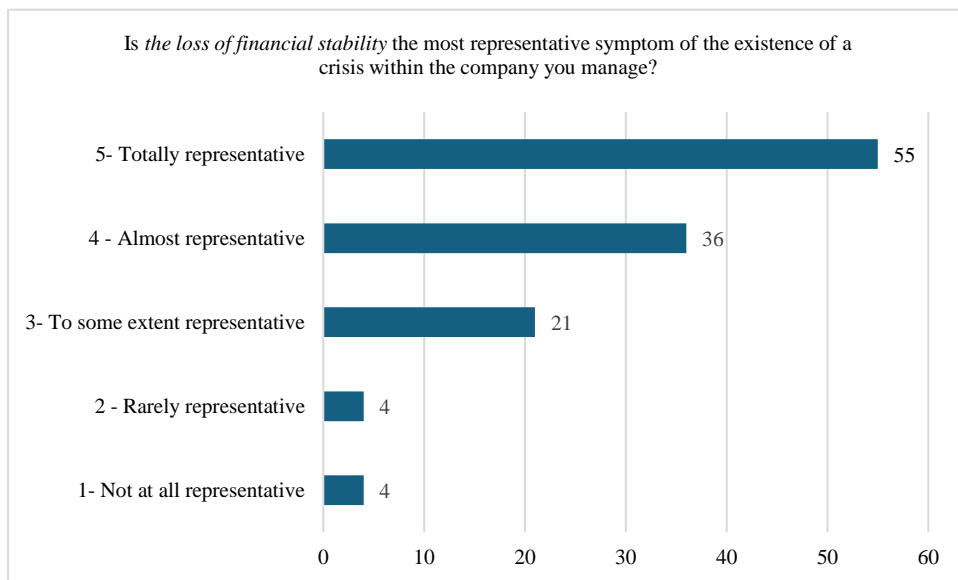


Figure 7. Representative symptoms of the existence of a crisis within the Romanian enterprises included in the sample

Source: own processing in Microsoft Excel 2024

In crisis conditions, the company can carry out a reasonable cost reduction (not at the expense of strategic goals and loss of image in the future), an increase in staff motivation and team cohesion in a difficult situation, attract and retain qualified staff, eliminate competitors through operational and financial advantages (Beşliu, 2017). Therefore, "increasing costs" represents the second most representative symptom of the existence of a crisis

within the company based on the answers received from the respondents (48 answers - Fully representative), as can be seen in Figure 8.

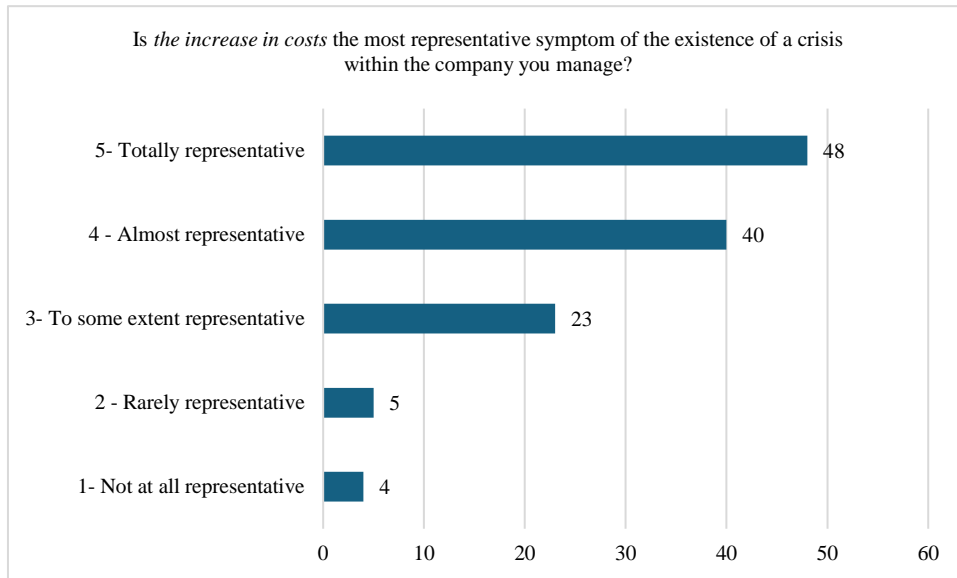


Figure 8. Representative symptoms of the existence of a crisis within the Romanian enterprises included in the sample

Source: own processing in Microsoft Excel vs 2024

As the last symptom of the existence of a crisis within the company, but still, the third most representative (46 responses - Totally representative) is "loss of market niche and competitive ability" (see Figure 9). In this situation, the loss of competitive capacity can also affect investment opportunities. However, López-Gutiérrez et al. (2015) show that "the influence of financial distress on investment is different depending on the investment opportunities available to companies. So, distressed companies with fewer opportunities have the greatest tendency to underinvest, while distressed firms with better opportunities do not show a different investment behavior than healthy companies."

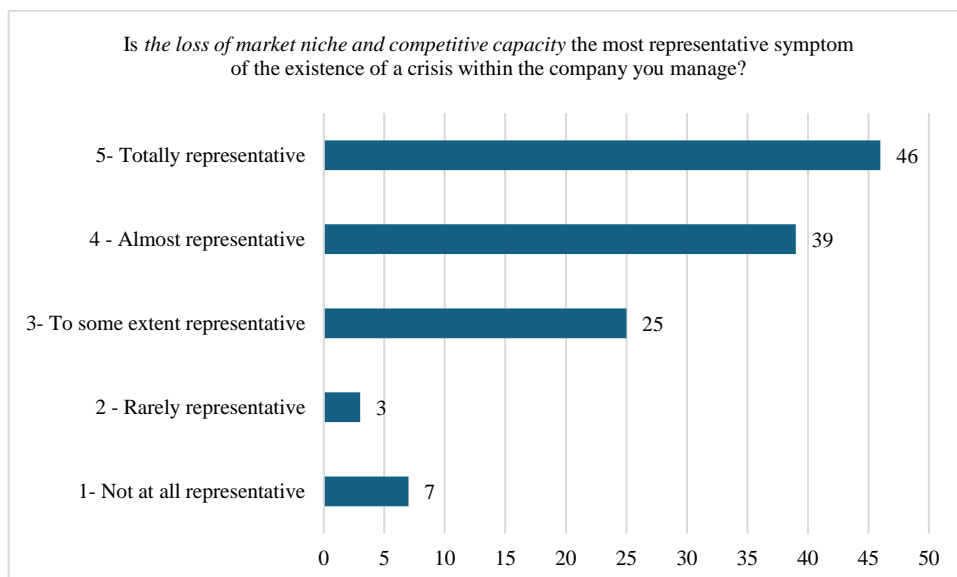


Figure 9. Representative symptoms of the existence of a crisis within the Romanian enterprises included in the sample

Source: own processing in Microsoft Excel vs 2024

Another important detail is the religiosity within the company, in the sense that religious businesses are much more ethical and do not compromise, they have an excellent reputation and a very good relationship with stakeholders. According to Gharbi et al. (2021) "lack of religiosity is a significant cause of financial hardship."

IV. CONCLUSION

In case of financial difficulties in the company, the most important aspect is to identify the representative symptoms of this situation and take corrective measures so that the company does not suffer in the short, medium or long term. In this paper it was demonstrated that from 120 enterprises in Romania which have been subjected to analysis, the vast majority do not face financial difficulties. However, the specialized literature draws attention to the fact that a business crisis can occur at any time, even when the financial situation is positive. In this sense, it was considered appropriate to identify the most representative symptoms of the existence of a crisis within the enterprise. These are: loss of financial stability, increased costs and loss of market niche and competitive ability. There may be other symptoms, among which we list: the existence of major difficulties in securing the necessary financing, in securing and maintaining liquidity, the lack of labor force due to wage cuts or massive layoffs, the existence of delayed payments that can lead to financial blockages within the company, the decrease in liquidity and profitability. Therefore, it is considered that these listed symptoms can be benchmarks for future research studies.

Regarding scientific production on the topic of financial difficulty, it was observed that it experienced an upward evolution after the years 2004 in the case of the WoS platform and after 1991 in the case of the SCOPUS platform, which shows that practitioners and researchers have shown an increased interest for identifying the crisis within the company and providing solutions to businesses worldwide. It should be noted that Romania ranks 7th in the list of countries on this topic on WoS, with 132 papers, a remarkable position considering that there are countries with only one scientific paper on this topic.

In conclusion, managers and company representatives must always be prepared for any difficulties encountered, be attentive to the symptoms that the company has and, last but not least, take early measures to restore less desirable situations.

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