ŠKODA AUTO VYSOKÁ ŠKOLA, O.P.S.

Study programme: B6208 Economics and Management
Field of study: 6208R163 Business Administration and Financial Management

Financial analysis of the company in crisis and practical approaches to prevent its insolvency

Evgenii OKISHEV

Thesis Supervisor: Ing. Josef Horák, Ph.D.

ŠKODA AUTO VYSOKÁ ŠKOLA o.p.s.
Katedra financí a účetnictví

ŠKODA AUTO VYSOKÁ ŠKOLA o.p.s.

ZADÁNÍ BAKALÁŘSKÉ PRÁCE

Autor práce:	Evgenii Okishev
Studijní program:	Ekonomika a management
Obor:	Podniková ekonomika a finanční management
Vedoucí práce:	Ing. Josef Horák, Ph.D.
Název práce:	**Financial analysis of the company in crisis and practical approaches to prevent its insolvency**
Cíl:	The main aim of this thesis is the analysis of the efficiency and importance of financial analysis for real company which is already in crisis and on its basis suggest some practical approaches and ways how to avoid the insolvency.

Rámcový obsah:

1. Description of the crisis and explanation of types and signs of crisis in the company
2. Definition of insolvency
3. Definition of the problems connected with financial analysis
4. Preparation of financial analysis of the selected company
5. Creation of plan how to recover the selected company

Rozsah práce: 25 - 30 stran

Literatura:

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Datum zadání: březen 2016

Datum odevzdání: prosinec 2016

Ing. Josef Horák, Ph.D.
Vedoucí práce

doc. Ing. Jiřina Bokšová, Ph.D.
Vedoucí katedry

Mgr. Petr Šulc
Prorektor ŠAVŠ

Evgenii Okishev
Autor práce

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In Mladá Boleslav on ....

I would like to thank Ing. Josef Horák, Ph.D., for his professional guidance for my Bachelor Thesis, provided advice and information.

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Abstract

The thesis analyzes the essence of corporate crisis, roots of this economic process, possible signs and types. The author gives a detailed description of the crisis management mechanism and the process of the development of managerial decisions in times of recession. As the next point, the phenomenon of insolvency is going to be overviewed as well as ways of financial recovery. Based on the information from the theoretical research, the author makes a financial analysis of the chosen company in crisis and develops own strategy for stabilization and further recovery. In the final part of the work the overall conclusion is made.

Introduction

Nowadays the emergence of crisis situations is an inevitable fact in the business world. Each of these situations is unique and requires the original management decisions, so a single universal recipe for effective crisis management does not exist. However, some general management principles can be applied. This will reduce the time to solve the problem and the consequences of the crisis.

In these circumstances the ability of a professional manager to calculate potential crises, to resolve a crisis situation and to use new managerial and marketing techniques come to the foreground. However, if the signs of recession are not discovered in time or the developed recovery strategy is inefficient the company can face liquidation or bankruptcy. In order to avoid this undesirable end of existence the proper mechanism of crisis management should be developed. Decisions should be based on the standard analyses of the company performance. Financial analysis is the most crucial tool for the definition of the overall situation inside the firm, weak points and drawbacks of management. It is used as a main pillar for the decision making process especially in time of crisis.

This work provides the information about the corporate crisis as an economic process and its influence on the company. The practical use of financial analysis as a tool for a deep inside view of the whole company's structure is going to be presented in practice. Thus, the main purpose of this thesis is going to be accomplished – to understand the essence of crisis and bankruptcy, to review the basics of crisis management and apply this knowledge on the example of real company.

The whole work is divided into two major parts – theoretical and practical. In the theoretical part there is a stepwise description of corporate crisis, mechanism of crisis management, definition of insolvency and its legal procedure in the Czech Republic. The practical part includes the basic overview of a chosen Czech company which is in the phase of crisis, financial analysis of this firm and personal solutions of the author for the recovery based on the analysis and standardized managerial techniques.

The chosen framework and content are considered by the author as the optimal structure for understanding of the essence of crisis and one of its possible negative outcomes; crisis management and methods of avoiding insolvency and finally examination of acquired knowledge in practice on the analysis of the real company and the development of own anticrisis plan.

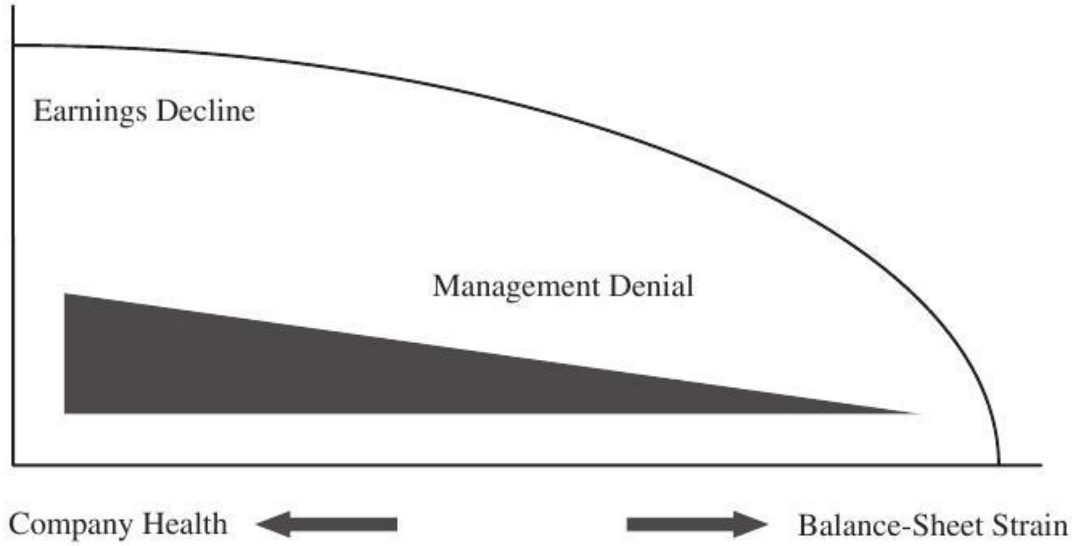
1 Corporate crisis as an economic process and its management

1.1 Definition of the crisis, signs and roots

This chapter presents the description of the company's life-cycle with a deep focus on decline stage. Also, the basic definition of the corporate crisis is going to be characterized as one of the unfavorable ways of the disruption development. In addition types and signs of this economical process would be touched.

Every company has its own potential of the development, conditions of business environment, strategy and vision of future, but at the same time all companies follows the cyclic development of socio-economic system. "Companies can have four stages in their life cycle: the start-up or development phase, the growth phase, the maturity or stabilization phase, and in many cases, the disruption or decline phase" (Ian Ratner, 2009).

During the first stage young firms are trying to penetrate the market with their products or services in order to occupy some niches, attract first customers and test the potential. "In many cases commercialization of the companies' products or services is not fully established. During this early stage of development, proof of concept is the goal" (Ian Ratner, 2009). If the enterprise survives during this phase and there is an opportunity for the subsequent development the growth stage is followed. The main challenge for the managers now is to attract more experienced and qualified staff and balance the capital structure. If these objectives are achieved successfully and key performance indicators are maintained stable the firm reaches the stability phase and is called mature. "Mature companies have an established customer base, vendor network, business process, and products or services. Mature companies often expand to new regions or attempt to grow in a horizontal or vertical manner both organically and through mergers and acquisitions" (Ian Ratner, 2009). If the whole process described is followed, the state economy shows a stable growth rate and there are no shocks in the business environment business will be less complicated. But despite the size and the strength of the firm, sector of the economy and markets where the activity takes place "there is usually a disruption or period of decline either at some stage of a company’s development, or as part of general economic cycle that affects in the same industry or region” (Ian Ratner, 2009).



Source: Ian Ratner, Grant T.Stein, John C. Weitnauer “Business valuation and bankruptcy” 2009

Pic. 1 Business-Decline period

The business-decline curve shows graphically the process of disruption faced by the troubled company. When this happens it is vitally necessary for the management of the firm to recognize the recession in time, properly analyse the situation and operatively develop an effective strategy for recovery and stabilization. But often it happens that risks are not estimated correctly and measures were implemented too late and unsuccessfully, in this case the challenge of restructurization or even liquidation will be faced by the company, as the downfall will only get worse. This situation is called a crisis.

The crisis in the management system of the enterprise is characterized by sudden and unexpected events, a high level of threat to the vital interests of companies and the lack of time for the implementation of relevant activities. “A crisis is defined as a significant threat to operations that can have negative consequences if not handled properly. In crisis management, the threat is the potential damage a crisis can inflict on an organization, its stakeholders, and an industry” (Coombs, 2007).

The nature of every crisis is absolutely different, but in general they can be divided into several groups according to the reasons of causation and signs related to them. So, an enterprise can face following types of crises:

- A product issue – "this type of crisis occurs when a manufacturer of a product finds that there are questions regarding the product's effectiveness, credibility, or satisfaction" (Devlin, 2006). Or in other words, the product of the firm does not work as supposed
- Negative public perception – this situation happens when some incidents or the whole activity of the company cause a counteraction and negative reaction of the society
- Financial problems – "This type of crisis occurs when an organization experiences a cash problem, a difficulty meeting its obligations, or an accusation of fuzzy accounting" (Devlin, 2006).
- Industrial relations problems – employees of the company are not satisfied with the working conditions and environment, and because of these there are tough relations between management of the firm and workers which result in strikes and employee lawsuits
- Adverse international events – "This type of crisis occurs when an organization is disrupted by an international incident" (Devlin, 2006). For example new rules and regulation of international trade, bans and embargoes, sanctions and other restrictions on interstate level.
- Workplace violence – bullying and other examples of aggressive relations among employees inside the company or external attacks from competitors or other parties.
- Executive succession problem – happens in case of CEO death, serious health problems or unpredicted retirement
- Natural or manmade disasters at one of organization's locations

At the same time each organization has its own combination of causes and conditions of crisis development. But it is very important to recognize the signs of a crisis, in order to use a program of anti-crisis management in time.

The sign is the initial outward manifestation of crisis phenomena, which do not always characterize the true causes of the crisis, but thanks to which the reasons of the crisis can be identified. It is rather difficult to unite key signs of a crisis in several groups as every company is unique and that is why has an absolutely different situation, but in general nine major and most common symptoms can be named:

1. Losing of company's main clients – if the company gradually starts to loose major customers and this trend continues to have a negative development
2. Key staff is leaving the company – "losing key staff is a bigger ominous warning sign, particularly when the departing employee takes some of clients with them" (Rehwinkel, 2015).
3. New business is waning – "Sales growth is nonexistent. Worse still, company may be losing more existing clients than it's bringing in new ones" (Rehwinkel, 2015). Inadequate sales may result in an increase of suppliers' debts and lowering of profits.
4. Ineffective internal communications – includes unproductive and senseless meetings, poor inter-departmental coordination, or insufficient management of information.
5. Cash problems – "The checkbook and company savings account (if there is one) are decreasing every month" (Pepper, 2014).
6. Suppliers of the company are limited – the whole business activity too much depends on few suppliers and it is difficult to find new ones. This situation causes a dangerous limitation in the production capacity.
7. Income is generated from very few clients or a limited number of products – this situation happens when the activity of the company is starting to be focused only on several customers or a production is presented only by a limited range which is very dependent on the various unstable factors
8. Busy yet not profitable – company is being busy with the normal level of production but the return on sales is decreasing and because od this the firm is not generating enough profit for normal activity and development
9. High employee turnover – "Employees understand that when there are inherent problems in a company, the good ones will exit early" (Rehwinkel, 2015).

Symptoms or signs do not always reflect the causes of the crisis. That is why it is necessary by the symptoms to find the true roots of the crisis. The root of the crisis is an event or phenomena, due to which the signs of crisis appear. "Typically, troubled companies have roots in either operational stress or financial stress and most of the time some combination of both" (Ian Ratner, 2009).

"Operational stress may occur for a number of reasons, including competition from other companies, competition from replacement products and services, the departure of key employees or management, rapid changes in raw material quality or availability, changes in cost structure that cannot be passed on to customers, or a change in the demand for the company's products or services" (Ian Ratner, 2009). The possible outcomes of these reasons are the decreasing of revenues, market share and operating margins, worsening of the liquidity level, increase of costs.

"Financial stress is likely to occur when the company's existing leverage is excessive, and the company finds it hard or impossible to make scheduled debt or principal payments" (Ian Ratner, 2009). This is usually the case when the management overestimates financial opportunities and production capacities of the firm. "Financial stress is also evident in companies whose capitalization ultimately does not support its operations going forward" (Ian Ratner, 2009). This situation may occur when the firm for example has invested money in long-term assets through short-term financing, thus the working capital will be dramatically decreased as it will be fully employed.

"Operational and financial stresses are not mutually exclusive, meaning that a company with a strong financial position may be struggling operationally, and a company with strong operating activity may be struggling financially" (Ian Ratner, 2009). If the company experiencing troubles is unable to discover and fix operational and financial stresses, the business soon will face deep recession. But it does not mean that liquidation is the only possible end of existence.

"Troubled companies do not immediately file for bankruptcy. Instead, once the operational or financial distress is recognized, the troubled company can take corrective steps" (Ian Ratner, 2009). Since this time the crisis management takes place in the company. It is an extremely important period for the firm as from the efficiency and correctness of decisions depends its survival. That is why the mechanism of crisis management is going to be described in the next chapter.

1.2 Mechanism of crisis management

In this chapter the essence of corporate management in crisis, its crucial features and points are going to be described. Additionally, the organization of this process would be analyzed.

When the company is facing a crisis, the continuation of normal and usual business activity without serious changes and restructuring is almost impossible, otherwise the stage of bankruptcy would be inevitable. It also means that the current model and way of company management is not successful anymore and can't handle the situation within the firm as well as manage new realities of the market. That is why the new model is implemented – Crisis Management.

Crisis management is the management aimed at preventing possible serious complications in the market activities of enterprises caused by the crisis and ensuring its sustainable management. Or, simply, this term can be defined as "special measures taken to solve problems caused by a crisis" (Devlin, 2006).

The purpose of crisis management is the development and implementation of measures aimed at neutralizing the most dangerous factors that can lead to a bankruptcy. But, nowadays, even more is required and the scope of its aims is becoming larger as: "good crisis management should involve more than simply trying to minimize danger to an organization; it should also seek to maximize every possible opportunity" (Devlin, 2006).

The implementation of crisis management has a strong support basis which explains the relevance of its choice during the company recession:

- crises can be foreseen, expected and managed,
- crises to a certain extent, can be accelerated or postponed,
- it is possible to be prepared for crises,
- consequences of recession can be mitigated,
- management of the company in a crisis requires new unique methods, more experience and skills, special knowledge,
- crises can be managed.

Correctly developed and consistently realized crisis management can help to achieve these points and stimulate the recovery of the firm. That is why it is necessary to describe deeply the mechanism of its implementation for the better understanding of the essence of company management in recession.

There are different approaches and techniques of crisis management oriented on specific targets, but in general it is possible to determine common steps of the implementation of such kind of administration:

1. "The first step of strategic crisis management is the establishment of a crisis management team" (Lockwood, 2005). It may consist of personnel of the organization and of the specially invited employees only for the time of a possible or actual crisis situation. Selected team of professionals "is formed to respond immediately to warning signals of crisis and execute relevant plans to overcome emergency situations" (Crisis Management Team, 2008). As the recession can harmfully affect all the departments and areas of company activities, "team should be represented by the specialists of different spheres and levels, including: team leaders, security director, finance director, legal counsels, HR director and other relevant professionals" (Robinson, 2005).
2. The second step includes the initial data collection of the current status of the firm, and situation inside the departments and other divisions. Also, it is important to identify the causes and consequences of the crisis, make structural analysis of the situation, identify necessary resources and possible ways of withdrawal of the organization from the crisis. "The team members must understand where things went wrong and how current processes can be improved and made better for smooth functioning of the organization" (Crisis Management Team, 2008).
3. Based on the collected data and preliminary analysis the expediency and the opportuneness of the possible implementation of the crisis management are verified.

   Appropriateness or inappropriateness of the anti-crisis measures and how it is possible to withdraw the organization from the recession depend on how much the crisis has affected the whole activity of the firm.

   If the crisis had a strong negative impact on the organization and its further recovery and existence is impossible, the model of company's liquidation is developed, the termination of its activities is prepared and finally bankruptcy is announced.

In the case of not fatal or weak negative impact of the crisis on the economic activity of the firm, availability of necessary resources and time for recovery, the model of the reorganization can be developed. So, it means that the next 4^{th} stage can be implemented.

4. On this stage crisis management team should determine goals of anti-crisis program and identify set and amount of resources necessary for achieving these goals.
5. During the 5^{th} step the development of crisis management plan takes place. This plan includes the creation of the program of sequential actions for the anti-crisis team, which are targeted on the achieving of the set goals.
6. Practical implementation of anti-crisis management decisions is the following step. These specific organizational and practical activities are realized in a clearly defined sequence according to the agreed anti-crisis plan of actions.
7. After each block of anti-crisis measures it is necessary to assess and analyze the quality of the execution of management decisions. If these measures meet the criteria of efficiency (positive dynamic of development, appearance of the recovery signs, reduction of the crisis consequences) the feasibility of further is verified and next stages of anti-crisis program are determined. At the same time, if there is no positive effect and the situation in the company continues to deteriorate then it is necessary to come back to the initial stage of the original situation – check the appropriateness and timeliness of the implementation of crisis management, define new goals, correct the action plan.
8. If all measures for company recovery were executed successfully, everything is going according to plan and the acute phase of the crisis is over, comes the last stage of this technological scheme – the development of activities designed to anticipate future crisis situations and minimize their negative consequences. “The organization needs to develop a strategy on how it will handle the crisis, or each of the crises if there is more than one. Every organization should perform a risk analysis that will identify the most likely types of crises that could occur to their organization. This allows them to concentrate initially on building a plan to respond to the more probable crises” (Devlin, 2006).

Crisis prevention strategy should start with the gathering of all possible information about the company itself, market, competitors and all other spheres which are somehow connected with the activity of the firm. “The first step in developing this plan is to conduct a SWOT analysis. Conducting a SWOT analysis is a good way to determine which possible crises are both plausible and would pose a serious threat” (Taylor, 2016). Additionally “by utilizing a risk reporting process such as SWOT (an analysis that identifies strengths, weaknesses, opportunities and threats), organizations can begin to make better informed decisions, improve communication of risk and build greater management consensus” (Lockwood, 2005). This information will help managers to create an action plan for future actions in case of a crisis, which “provides lists of key contact information, reminders of what typically should be done in a crisis, and forms to be used to document the crisis response” (Coombs, 2007). And finally, team of responsible people should be chosen – those, who will take first roles in time of the potential crisis. “Time is saved because the team has already decided on who will do the basic tasks required in a crisis” (Coombs, 2007).

This short guideline through the crucial steps of the crisis management can significantly vary as every crisis situation is unique and have different causes and consequences, but in general some steps from this chain more or less are used during the every recovery process. Complete fulfillment of this process does not guarantee the successful recovery of the firm from the crisis as there are too many factors and forces which can influence this process, but this guideline can increase chances and efficiency of taken measures.

If management of the firm is not able to manage the crisis, all possibilities to recover are tested and “the troubled company cannot correct its operational or financial distress it may have no choice but to surrender its assets to its secured creditors (or be subject to foreclosure by the secured creditors) and/or cease operations, liquidate its remaining assets, and satisfy its debts to the extent possible” (Ian Ratner, 2009), or in other words to announce bankruptcy and start the liquidation procedure.

This crucial step is going to be analyzed in more detail in the next chapter of this diploma work.

2 Corporate bankruptcy

2.1 Common features and procedures before the final decision

Nowadays corporate bankruptcy is not a rarity, only in the USA during the first quarter of 2016 this legal status has been assigned to 24797 companies and other legal entities.[1] This procedure has become an integral part of the business and the whole economy, but not everyone can explain the meaning of this term and the procedure itself. For the better understanding of the main subject and problematic of this work the author is considering this topic very crucial and that is why the whole chapter is dedicated for the detailed description of this legal procedure.

Bankruptcy is the process when “the company stops all operations and goes completely out of business. A trustee is appointed to liquidate (sell) the company's assets, and the money is used to pay off debt”.[2] In other words this is the situation when the firm “reaches a stage where the debts of the corporation are no longer being paid on the terms agreed upon with the suppliers of the goods or services” (Corporate Bankruptcy , 2015).

Before the implementation of this extreme measure, it is relevant to estimate possible consequences of this procedure. Depending from the particular case and conditions following outcomes of bankruptcy may appear:

- Personal claims to the management of the company and their disqualification – it means that directors should put the interests of creditors above all other interests. “If they continue to trade the company's business beyond the point when insolvent liquidation becomes unavoidable they risk serious personal and professional consequences” (Masons, 2011).
- Loss of customers and suppliers trust – if these parties receive the information about the insolvency procedure they start immediately to take special protective measures like termination of the current contracts and freezing of business relationship
- More difficult obtaining of banking facilities – insolvency itself or even some signs of it are very strong negative signals for every financial institution. As

[1] Quarterly reports of the Administrative Office of the U.S. Courts http://www.tradingeconomics.com/united-states/bankruptcies

[2] Chapter 7 of U.S. Bankruptcy Code

their incomes and existence fully depend on the creditworthiness and solvency of their clients, these financial organizations precisely track debtor's performance and economic indicators in order to be secured. So, in case of any risk all conditions and requirements for new as well as for already existing contracts will be revised and tightened.

If the formal procedure of the bankruptcy is started, then subject of this legal process can face several restrictions concerning the activity of this firm:

- Tracking of transactions by the state organ – "any transactions the company entered into for a period of up to two years before the insolvency procedure began can be reviewed on application by the appointed insolvency practitioner, and reversed if the company was insolvent at the time and the transaction took place for either less than the market value or gave certain creditors priority over others. Fraudulent transactions are also reviewable without time limit" (Masons, 2011).
- Prohibition of free disposal of corporate assets – "If a company wishes to sell goods or make payments for supplies while a winding-up petition is in progress, it must first obtain authorization from the court" (Masons, 2011).

When it is clear for the management that the company can no longer function and carry on business, bankruptcy announcement and liquidation process are one of the most common options to be considered. If this way is chosen then meeting with shareholders/directors and the trustee in bankruptcy is organized. During this briefing all relevant information and documents are reviewed and analyzed, including:

- All financial statements available in the recent period (these documents can be prepared by external agencies or internally)
- "A list of all assets of the corporation showing the book value of the assets but also showing the cash value or current liquidation value of each asset" (Corporate Bankruptcy , 2015).
- Complete list of all company liabilities which fall into following categories:
    1. Debts which are confirmed and authenticated by the state, or liabilities to the state

2. “Those liabilities that are secured on the assets of the corporation” (Corporate Bankruptcy , 2015).
3. Unsecured trade debts
4. “Debts owing to shareholders and other non-arms length parties (which are considered deferred creditors)” (Corporate Bankruptcy, 2015).
5. Debts which were issued under the personal responsibility of director or CEO

Besides, this meeting is focused on the analysis of the current cash flow and results of operating activity of the company in order to understand if it is possible to meet current obligations and expenses or not. Also, some relevant questions can be discussed: “as an alternative to continuing in business, what cash would be raised if the business ceased and the assets were liquidated? Will there be sufficient cash raised in order to discharge all legal obligations of the business?” (Corporate Bankruptcy, 2015). At the same time, before the final decision of liquidation is done, some other possibilities of company transformation other than insolvency procedure can be touched and considered, like some proposal of debt restructuring to creditors, transformation of debt to equity, procedure of refinancing and other solutions depend from the concrete case.

Following after that decision legal procedures differ from country to country within the EU. As the author of this diploma is studying in the Czech Republic and the bachelor’s thesis defense will take place in the Czech university it is reasonable to describe the bankruptcy process regulations in this country.

2.2 Corporate insolvency in the Czech Republic

This chapter provides the basic information about the bankruptcy procedure on the territory of Czech Republic and description of the most crucial steps of this process. It contains only general information as this thesis is focused more on the recovery phase, rather then on the legal procedure of insolvency announcement. But still, the author considers this chapter relevant for the better understanding of the main subject of this work.

The Czech Insolvency Act says that legal entity "is insolvent if it has

a) more creditors and
b) the financial obligations for more than 30 days overdue
c) those obligations is unable to fulfill" (Act No. 182/2006 Coll. Bankruptcy and Settlement (Insolvency Act), 2006).

Also, as follows from the law, debtor is not able to satisfy his liabilities to the creditor if:

a) the debtor has stopped payments of a significant part of financial obligations
b) the overdue of payments is more than three months
c) "it is not possible to obtain satisfaction of any outstanding monetary claims against the debtor" (Act No. 182/2006 Coll. Bankruptcy and Settlement (Insolvency Act), 2006).

Generally, according to the Czech Insolvency Act when the time comes to the final solution of the way how to deal with the crisis "there are two main types of proceedings available to corporate debtors: liquidation (konkurs), i.e. a sale of the estate (piecemeal or as a going-concern) with satisfaction of creditors through distribution of the proceeds, and reorganization (reorganizace), i.e. a non-liquidation reorganization measure, typically a re-capitalization, based on a reorganization plan approved by creditors and the court" (Petrus, 2010). Besides these two main methods of dealing with bankruptcy economists and lawyers distinguish one more way, which can also be effective - debt relief –"the reorganization of debt in any shape or form, so as to provide the indebted party with a measure of relief, either fully or partially, from a huge debt burden. Debt relief can take a number of forms: reducing the outstanding principal amount (either partly or fully), lowering the interest rate on loans due, extending the term of the loan and so on" (Gross, 2016). Of course, there are some specific ways of dealing with insolvency, but they are allowed only for certain types of cases and with particular conditions, so it is not relevant to describe them in this thesis.

Based on the analysis of the situation described in the previous chapter, the decision regarding the most effective approach of crisis management is made. At the same time this decision is not always initiated voluntarily by the management of the firm, sometimes creditors start this procedure via petition to the Court. If liquidation is chosen as the final solution, then trustee (court-appinted) or management of the firm collect all relevant documents the list of which is presented in the previous chapter and bring them to the Court. This legal institution decides then if all the conditions and requirements for bankruptcy confirmation are fulfilled, and if it is so, then the Court announce start of the liquidation phase. Specifically for this process state organ appoint a responsible person – trustee. This specialist prepares all necessary documents, including so called "Statement of Affairs (consisting primarily of a summary of the assets and liabilities of the corporation), an assignment for the general benefit of creditors (being the broad admission of the insolvency by the company), a resolution of the Board of Directors authorizing one person to sign all of the documentation necessary to place the corporation into bankruptcy and any other appropriate documents as required by law" (Corporate Bankruptcy, 2015). In other words, trustee makes a complete and precise inventory of property and its valuation. When this procedure is completed, all the materials are then presented to the Court which in its turn determine the order of payments to the creditors, concrete sums and time of payments. When all formal procedures are fulfilled, then all assets of an insolvent legal entity is converted "into cash through a sale (piecemeal or going concern) and cash is distributed to creditors in an order of priorities that follows, subject to certain exemptions, the ranking of claims under non-insolvency law" (Petrus, 2010). After the satisfaction of creditor's claims the legal entity can be officially liquidated and this status is assigned to this company in the register.

At the same time, in some cases reorganization is the better solution for a company in a deep crisis. "It is a process designed to revive a financially troubled or bankrupt firm. A reorganization involves the restatement of assets and liabilities, as well as holding talks with creditors in order to make arrangements for maintaining repayments" (Chauhan, 2015).

Reorganization itself can be divided into two basic forms: formal and informal. The informal procedure is implemented voluntarily by the management of the firm if following negative trends and problems are discovered:

- Dramatic "change of the trends in the business sector" (Fedorková, 2014),
- reduction of the market share,
- decrease of profitability,
- secondary insolvency,
- increase of debt

"The appropriate time for formal restructuring is if a company failed to eliminate its stagnation in the market by the restoration measures, it no longer makes profit and its financial problems are getting more serious" (Katarína Fedorková, August 2014). This is a radical solution, so the reasons of its implementation are rather serious and dramatic for the company:

- enterprise is not able to adapt to new trends and realities in the business sector,
- market share is reduced to a minimum,
- decreasing of income to a minimum, high risks of big losses,
- initial insolvency,
- extremely high debt,
- prolongation,
- claims from creditors.

According to the Czech law during the formal reorganization phase management of the debtor company continues to control the operating activity of the firm, but their decisions are fully controlled and monitored by a trustee and a committee of creditors "upon the court allowing a reorganization attempt through an initial ruling, propose and negotiate a plan, while the company's business continues" (Petrus, 2010). What is more, shareholders loose their voting control during the reorganization phase, with one significant exception – they still have a right to choose and elect the management. But the possibility of corporate reorganization depends on the decision of creditors, only they can allow this procedure or prohibit it and start the liquidation of the troubled legal entity. In order to persuade creditors, management of the company in crisis prepares a special reorganization plan “describing the process of how an insolvent company will change structurally to help it pay its debts and stay in business” (Farlex Financial Dictionary, 2012). The development of this plan starts after the Court’s announcement of company’s insolvent status, and the final version of the plan should be presented within 120 days after the Court’s decision. Finished document is then verified by the court according to legal norms and good faith, if there are no remarks committee of creditors organize a meeting and vote on the plan. If all the formal proceedings are successfully fulfilled the so-called “performance” phase starts, “in which management will remain in control but will still be monitored by the trustee and the creditors’ committee. If the plan is performed as confirmed, the court will close the proceedings” (Petrus, 2010). And vise versa, if management of the firm is not able to successfully implement the program for recovery, then “court will convert the proceedings into liquidation where creditor’s claims are at the level previously agreed in the plan” (Petrus, 2010).

As the basic situations which management of the firm faces in time of company insolvency and ways how to handle with the acute phase of the downfall were described, it is reasonable to focus on the stabilization phase. This topic is overviewed in more detail in the next chapter.

3 Stabilization phase

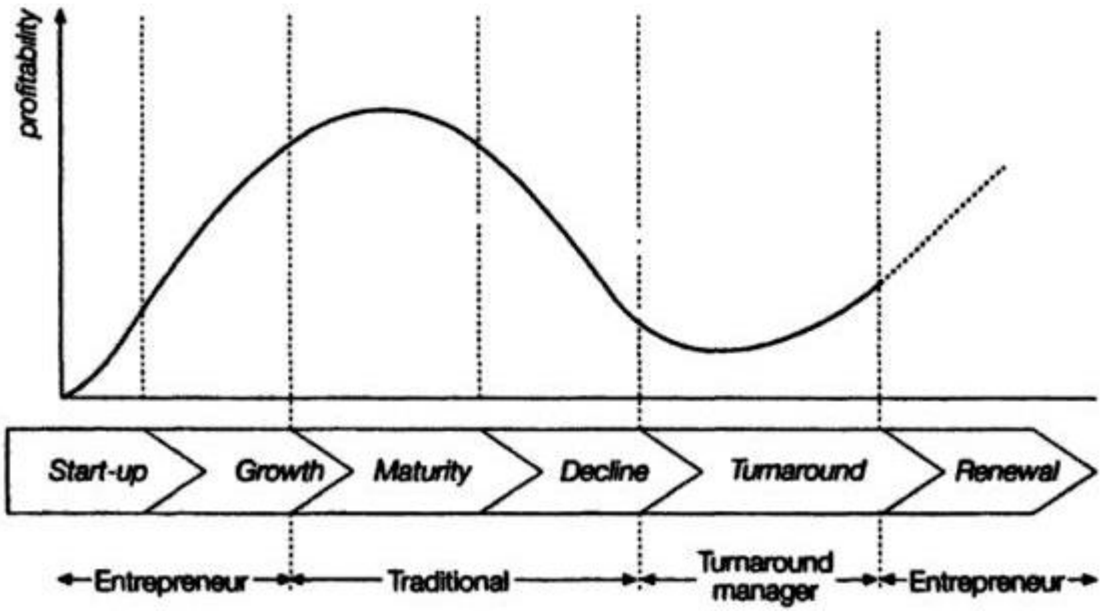
The aim of this chapter is to analyze the corrective actions and procedures which should be implemented by the management of the firm in order to achieve recovery and stabilize the situation within a company. Moreover, nowadays modern business world requires not only a short-term reorganization, but a sustainable recovery, which “involves achieving a viable and defensible business strategy, supported by an adequate organization and control structure. It means that the firm has fully recovered, is making ‘good’ profits and is unlikely to face another crisis in the foreseeable future” (Stuart St. P. Slatter, 2004).

The first step on the road to sustainable recovery is stabilization of the crisis. The key components of this process are:

- appointment of the new managing team,
- short-term management of cash,
- new management and control of financial situation,
- first stage reduction of costs,
- full adherence of legal norms and regulations.

Change of management – “the people who got the company in trouble are not the right people to get it out of trouble” (Stuart St. P. Slatter, 2004). In most cases change of managers is a necessary step on the way to recovery, but at the same time it does not mean that all specialists should be fired, as some of them did not have an involvement in crisis and have an invaluable experience. “The whole question of leadership in a turnaround situation is a very complex area and there is no easy formula to be applied” (Stuart St. P. Slatter, 2004). There is no doubt that key drivers of stabilization and subsequent recovery phase are management team and their leader, because from this step depends the whole survival of the company.

Choosing the right team to lead the stabilization and recovery phases is the responsibility of the board of directors, however in time of crisis and reorganization phase creditors can put pressure on decision makers. Management team can consist of internal employees as well as of external specialists of high level. “In owner-managed businesses, creditors may introduce a turnaround manager to work alongside the owner, and insist than no cheques will be honoured unless approved by the turnaround manager" (Stuart St. P. Slatter, 2004).



Source: Stuart St. P. Slatter, David Lovett "Corporate Recovery: Managing Companies in Distress" 2004

Pic. 2 Appropriate Management: The right people at the right time

Most businesses that faces crisis and subsequent recovery phase go through so-called life cycle. The main stages of this process were already overviewed in the first chapter of this diploma thesis. However, additionally, three basic types of management can be added to this scheme. "An enterprise will have the best prospect of success where there is a clear alignment between the type of management and the stage through which the enterprise is passing" (Stuart St. P. Slatter, 2004).

Each type of management has its own functions and characteristics, as it is presented in the table below. But in general, it can be concluded that Entepreneurial managers are innovators and pioneers as they are responsible for start-up development or modernization. Traditional managers are responsible for stability and prosperity of the firm, and try to eliminate downfalls and shocks. And finally, turnaround or crisis managers are those specialists whose main aim is to reduce destructive effects of the crisis, stabilize the situation and start the recovery process.

Entrepreneurial Manager	Traditional Manager	Turnaround Manager
Innovator 'Scatter-gun' strategy Associate thinker Focus: new product Hires others to implement Does not recognize need for change	Shareholder value Linear thinker Focus: market share/ growth Hires similar personalities Resists change	Aim – survival and recovery Downside planner Defensive strategist Tireless seeker of cash Strong leader and communicator Drives change

Source: Stuart St. P. Slatter, David Lovett "Corporate Recovery: Managing Companies in Distress" 2004

Pic. 3 Characteristics of Management Types

Cash management usually becomes the most important factor for successful stabilization and that is why takes precedence over other components, as without cash, company is not able to survive long enough. Additional attention to the cash flow is a matter of survival for any company in crisis, and there are four basic tasks the management of the company should undertake in order to stabilize cash problems:

- Estimate and analyze immediate requirements of cash for maintaining business activity. "Assessing the immediate cash needs of the company requires the preparation of detailed short-term cash forecasts. The forecasts need to be driven from an opening balance sheet that has been critically reviewed as part of the process of establishing the real financial position of the company" (Stuart St. P. Slatter, 2004). These cash needs should be analyzed and revised every month and the forecast itself should be done for a minimum of six weeks and additionally, more attention needs to be focused on working capital. Finally, "the cash flows should be prepared on a strict receipts-and-payments basis because these documents will form the heart of the control mechanisms" (Stuart St. P. Slatter, 2004).

  Moreover, it is also relevant to prepare a short-term sales forecasting as it allows making the cash forecast more realistic and prudent. But at this stage, management of the firm should not base this analysis on sales targets, as in time of crisis these plans make forecasts over-optimistic. It means that the approach should be maximally impartial.

- Develop cash-generating initiatives. “This requires the preparation of a formal plan indicating the steps that can be taken to improve the cash requirements initially indicated for the business” (Stuart St. P. Slatter, 2004). Basically, management of the firm should identify appropriate cash-flow initiatives according to potential benefits and costs connected with them. When the list of these measures is finished, it is necessary to prioritize them and analyze separately within the cash-flow table “so that the cash effects of normal trading and the effects of the new initiatives are clear to any reader” (Stuart St. P. Slatter, 2004).
- Implement emergency control of cash management. The aim of this measure is to “ensure that the business is managed in such a way that the actual out-turn is at least equal to, and hopefully better than the short-term cash-flow forecast” (Stuart St. P. Slatter, 2004). First of all, there is a strong need to organize a strong team of specialists to provide overall control of the cash flow. This team then should firstly make a complete review of all banking arrangements in order to make all connections with these financial institutions more efficient and simplify the control of accounts. At the same time “automatic payment runs also need to be reviewed and authorization systems reconsidered, to ensure that cash control is in accordance with the short-term cash forecast” (Stuart St. P. Slatter, 2004).

  The control is also spread on financing of all projects and tasks. The efficient exploitation of financial resources should be achieved and tracked within the operating activity of the company.

  Finally, special reporting system needs to be developed and implemented, which is prepared every week and compared to the forecast.
- Implement cash rationing. “It provides a method of central control where pragmatism has decreed that decentralization is required” (Stuart St. P. Slatter, 2004). In other words every division of the company develops own short-term cash-flow forecast, special control system, initiatives and analysis of needs which are then integrated into the general system of the company. All these processes are tracked by the central controller which

distribute the resources according to the plans and forecasts and track the realization of all measures.

The serious problem which can occur during the short-term forecast is a possible gap between currently available resources and facilities, and the future cash requirement. In order to reduce this difference it is necessary to generate cash in a very short time. Cash-generating initiatives include:

- Reduction of debtors – a specific person should be established to identify a list of old debts (more than ninety days) and debtors in dispute. The analysis of causes of bad debts should be done. If delays of payments have objective reasons and customers are ready to cooperate the problem can be solved by a mutually beneficial compromise – debt restructuring and splitting of the principal amount of debt on several tranches. In other cases there is no way but to start a trial, but it is the most extreme and undesirable case, as it will put an end to the business relations with these partners.

  At the same time, on this step, it is necessary to revise an approach to the customers in general. Firstly, it is useful "to assess customers' creditworthiness and set appropriate credit limits" (10 ways to avoid bad debts, 2012). This method is more personalized, and based on this analysis company will decide for whom it is possible to offer high credit limit or low. Secondly, it is necessary to agree on clear terms and conditions of payments. On this step responsible person should create a special reporting system for regular analysis of all debts, thus it will be easier to track dates, tranches and delays. Also, every client should assign a special contact person who will be responsible for communication regarding the payments and to whom the company can send invoices. And finally, the efficiency of debt's payments can be increased by special reward and penalty system. Reward system basically means the "designing of discount structure for debtors who pay earlier than the credit period sanctioned. The discounts can be designed keeping in mind the business' return on investment or cost of short-term liability" (How to analyze and improve debtors turnover ratio/Collection period, 2015). These benefits will motivate customers to pay faster. At the same time "charging interest to debtors who make payments beyond sanctioned credit period can limit the number of debtors paying late.

A stricter action could be to reduce/prohibit further sales to debtors who have a history of delay in payments” (How to analyze and improve debtors turnover ratio/Collection period, 2015).

- Extension of creditors – is the another alternative which can be used for financing of the cash deficit. This method involves the purchasing of necessary assets on credit as well as all services provided for the company. “This will enable the company to finance its operation even though it does not involve the one on one handling of cash” (Shim, 2000). “It is a form of financing because the company’s activities will be going as normal, that is the same way as if the company was spending on the expenses at the current times” (Pearman, 1993). But this initiative is fully depends on the relationship with potential creditors.
- Reduction of stocks – basically is the releasing of cash through the better and more efficient management of inventories, during which the main focus falls on the realization of outdated and slow-moving stock. Responsible person should “install a system for identifying and clearing of old, obsolete or slow-moving stock lines of both raw materials and finished goods” (Stuart St. P. Slatter, 2004). At the same time, stock-realization program should be organized. “It may be possible to incorporate or redesign surplus raw materials into current products since this provides greater recovery than the alternative of distressed disposal or scrapping” (Stuart St. P. Slatter, 2004). Moreover, sometimes it can be possible to return irrelevant surplus of goods to suppliers for cash or credit. “Alternatively, the raw material can be sold through third parties, either through clearance companies or at auction” (Stuart St. P. Slatter, 2004). The realization of finished goods is more difficult and that is why it is better to develop a viable plan, as uncontrolled and ill-conceived sale can damage the brand image and existing product range. That is why, it is wiser to sell products in markets where the company is not operating yet.
- Stop of planned expenditures – in order to limit the cash outflow it is necessary to review all capital expenditures within the company. Firstly, the review of all already existed and only planned projects should be done. Those which are not relevant at the time of stabilization can be frozen. “Secondly, discretionary expenditure such as advertising campaigns, trade

exhibitions and training will usually go on hold on – in fact any spending not directly related to the operation of the business" (Stuart St. P. Slatter, 2004). Finally, there might an opportunity to save additional cash by negotiating reductions in items like raw materials and wages costs.

- Short-term financial support – if all the options of cash-generation inside the company are implemented and there is still a shortage of financial resources, management of the firm can use injections of outside funds. In the beginning, it is actual to try to extend the overdraft facilities in partner banks. "While the banks are the obvious source of additional short-term financing, equity shareholders might be approached for an emergency rights issue, joint venture parties may provide an equity injection or a supplier may provide a loan or equity money" (Stuart St. P. Slatter, 2004).

New Management Decisions – for the successful and effective stabilization and subsequent recovery it is necessary to implement new management control. Basic elements of this approach include:

1) Freeze hiring of all staff – "an immediate stop on issuing offers of employment to new staff – and rescinding offers already made to new staff" (Stuart St. P. Slatter, 2004). If there is a strong need of concrete specialists it is possible to make point hiring.
2) Stop of any planned promotions and salary increase – the main aim is to assess current situation within a company and people
3) Ban all capital expenditure
4) Strict purchasing control – in most cases it is the largest cost item, that is why management of the firm should get an immediate control of this area. "Any purchase orders above a certain size, or fixed purchase contracts for longer than a few weeks, should need the approval of the manager. Any price increases from suppliers should be automatically rejected" (Stuart St. P. Slatter, 2004).
5) Contract and order controls – tracking and precise "review of recent contracts or orders may give the manager an opportunity to reject some recently accepted new business before its too late" (Stuart St. P. Slatter, 2004).

6) Pricing controls – manager should approve by himself all price changes and discounts as these are the crucial decisions for the firm. “Any price increase or decreases planned but nor yet implemented should be frozen pending review by the manager” (Stuart St. P. Slatter, 2004).
7) Control of communication with stakeholders – management of the company should keep all key and interested parties as much confident in the business as possible. There should be implemented a centralized communication with suppliers, customers, employees as well as with press and financial stakeholders, controlled directly by manager.
8) Financial control – this step includes not only cash-management system described before, but deep and accurate assessment of the current financial situation inside the company. This type of control includes several basic tasks for the management:
    - Ensure that all accounting procedures are captured accurately according to accounting data
    - Check compliance with accounting policies
    - Ensure that monthly financial accounts depict a true picture of the financial situation within a company
    - “Ensure that ledger account definitions are clear and that items are posted to the right account” (Stuart St. P. Slatter, 2004).

Cost reduction – during the stabilization phase in most cases it is vital to safe as much resources as it is possible, in order to reallocate them and use more rationally. The target areas for this procedure include over manning, purchasing and overheads.

- Obvious over manning – experienced managers can quickly understand if the firm is overstaffed. “Where volume, or in the case of a service business, revenues, have declined sharply it may be clear that there are just too many people employed and the company needs to downsize” (Stuart St. P. Slatter, 2004). Besides, some indicators like turnover per employee can be used as a guide for recognition of over manning. The main task for management is to identify which department and divisions of the firm are overstaffed and how to deal with this problem. Sometimes, if the company is experiencing crisis it is almost impossible to downsize and reduce staff by means of direct dismissal of employees from work because of the shortage of necessary financial resources for redundancy payments. In this case there might be used other ways for labor force optimization. One of the possibilities is to cut employees work hours or to use part-time shifts instead of full-time working day. Another way is “moving existing personnel to new projects which can effectively reduce overstaffing in certain departments, while helping an organization increase its productivity” (DeBenedetti, 2013).

- Purchasing – the manager should “take a quick look at the larger suppliers and assess if there is any scope for negotiating lower prices and/or changing suppliers” (Stuart St. P. Slatter, 2004). If there are good business relationship between the firm and suppliers, the second party can take into consideration tough situation within the partner company and reduce purchase costs on key components and raw materials.
- Overhead costs – “travel, conferences, trade exhibitions, subscriptions, mobile phones, consultants, entertaining, external training and advertising are all examples of costs that can be cut quickly with little or no short-term penalty” (Stuart St. P. Slatter, 2004). In many cases this type of cost reduction is the easiest and most effective one.

Legal and regulatory compliance – once a company faces a crisis and becomes a subject of a bankruptcy procedure, management of the firm starts to follow new regulatory framework – “which has been designed to protect those who deal with companies that are unable to meet their liabilities” (Stuart St. P. Slatter, 2004). As it was described in the previous chapter, management of the firm should follow and respect the recovery plan approved by the creditors and court. If these regulations and plan are not fulfilled correctly and professionally, then the court can stop the recovery process and start force liquidation.

As all significant steps for company stabilization are overviewed, it is relevant to focus on the recovery phase. This topic is overviewed in more detail in the next chapter of this diploma work.

4 Corporate recovery

“Corporate recovery is a process that focuses on helping a business that has gone through a financial downturn to survive and eventually regain a profitable status” (What is Corporate Recovery, 2015). This stage is a logical continuation of stabilization process, aimed on achieving growth of performance, renovation and reduction of negative effects of the survived crisis. This procedure includes several key points which are described in this chapter. Some of the steps were already touched in the chapter about Crisis management, but it was only an overview, and focus on details is paid in this section of diploma work.

4.1 Business plan

When the stabilization of the firm is achieved, the following step is the development of new business plan with taking into account recent crisis and dramatic changes in all spheres. “Although it may seem an unaffordable luxury to spend time developing and documenting a detailed plan, particularly if the business is in severe difficulties, it is a critical part of the turnaround process” (Stuart St. P. Slatter, 2004). The plan itself is focused on all future short and medium term activities connected with the organization. Moreover, it provides clear roles and tasks for almost all employees and managers. Besides, the strategy of equal rescue for equity and debt providers is developed. In general, “it is a summary of the business’s current state; its strategic, operational and financial plans for the future; and a road map for achieving these plans” (Stuart St. P. Slatter, 2004).

The development of the business plan starts with the basic analysis of internal processes and external environment which have an impact on company’s performance and business activity. “A central coordination team, typically comprising the CEO and senior management, will manage the activities of cross-functional sub-groups, each focusing on a specific area of the business. The sub-groups are responsible for identifying key improvement opportunities and specify the appropriate turnaround initiatives within their areas, subject to overall parameters set by the coordination group” (Stuart St. P. Slatter, 2004). Thus, strategic frameworks of the recovery plan will be determined.

The business plan itself has several functions:

- Focus – it helps the management to summarize key strategies and tactics, crystallize strategic direction of the company and develop a new focus for log-term viability.
- Process – "developing the plan will force the firm to analyze its corporate goals, business focus, product lines, choice of customers, functional strategies, capital needs and the capabilities of its management team" (Stuart St. P. Slatter, 2004).
- Structure – the plan itself provides a structure of steps and management activities that should be taken within a short time.
- Performance measure – during the identification and quantification of specific business objectives, business plan provides a measurement of financial and non-financial performance of the company
- Finance – "a plan provides a persuasive vehicle for attracting capital to help finance or restructure the business during the turnaround process" (Stuart St. P. Slatter, 2004).

Also, this fundamental document basically includes following parts:

- An executive summary – an overview of the most important facts and details of the company. "The summary should cover the purpose the plan; a brief description of the company, its history and market place; highlights of financial of financial projections for the period covered by the plan (at least three years); and a summary of any proposed financial restructuring or funding requirements" (Stuart St. P. Slatter, 2004).
- History of the business – this information can be used as the basis for future development, and that is why should include best practice from the past, for example products, marketing techniques, technologies and other experience which can underpin future of the company.
- Deep analysis of the external business environment – description of the market and industry, analysis of competitors (their strengths and weaknesses), overview of particular products and services, summary information about key suppliers and customers, assessment of opportunities and threats which can occur during the new market penetration.

- Presentation of the company's turnaround strategies – "principal products or services it will sell, the distinctive competitiveness it will develop, the markets it will serve and their current and projected size, and the customers it will target" (Stuart St. P. Slatter, 2004). In this part can be also described downsizing operations, cost cutting and other generic strategies.
- Operational analysis – for each core business process and function management should provide a complete SWOT analysis
- Operational action plan – based on the operational SWOT analysis management team can "operationalize the turnaround strategies, breaking them down into a series of actionable, measurable and quantifiable steps" (Stuart St. P. Slatter, 2004).
- Financial projection – is a basis of financial restructuring, refinancing and negotiations for possible financial support from stakeholders. "They set out the financial implications of the turnaround strategies and detailed operational action plans, which in narrative form provide the core of the plan" (Stuart St. P. Slatter, 2004).
- Implementation process – includes key milestones, performance indicators and measures, reporting system, internal communication program which all together will form a road map for successful roll-out.
- Risk assessment – "for all stakeholders, an assessment of risk will be critical in deciding whether to support the business" (Stuart St. P. Slatter, 2004).

4.2 Operational plan

More focus should be paid on the development of operational plan, as it will enable the business step by step reach the desired end-state. The key components of this plan include: human and other capacity requirements ("the human capacity and skills required to implement all projects, and current and potential sources of these resources" (Will Beale, 2007); financial requirements (resources required to implement all projects, current and potential sources for financing, most critical kinds of resources and funding gaps); risk assessment (existing risks and how they can be avoided) and finally, projects lifespan, sustainability and exit strategy ("how long projects will last, when and how the firm will exit projects (if feasible to do so), and how to ensure sustainability of project's achievements" (Will Beale, 2007).

4.3 Business unit strategy

Besides, it is relevant to implement a Business unit strategy as it will help in a short time to increase the efficiency of production. During the time of recovery the choice of business focus for the firm is limited by its financial resources. The survival is a key target, that is why correct and thoughtful product-market decisions are extremely important. Because of this, it is necessary to assess core business activities by analyzing performance indicators like level of profitability and return on capital employed. If results of some product lines and divisions are very poor, it is better to cut these lines or even close. If inefficient areas are identified and closed, it is possible to reinvest freed production capacities, resources, and marketing efforts in "selected products or customer groups where the short-term profit potential is greatest" (Stuart St. P. Slatter, 2004). Criteria for selecting these products are following:

- Sales volume – "bigger-selling products are more attractive due to the grater opportunity they provide for leverage" (Stuart St. P. Slatter, 2004).
- Growth rate – in time of recovery it is very wasteful to concentrate capital on declining products as they have a very weak competitive position and a generally unattractive, so it is better to count on more perspective projects. But at the same time the management team should be careful in this situation as some products with low or even negative growth rate may have a very strong brand loyalty and can be milked for cash
- Gross margin and contribution – high gross margin means that products are more attractive and may bring stable income
- Speed of buyer response – "consumer goods are usually more susceptible to a rapid sales increase through increased marketing effort than are industrial goods" (Stuart St. P. Slatter, 2004).
- Seasonality – this indicator will help to understand which kinds of products can be emphasized at what time of the year
- Length of manufacturing cycle – "the shorter the cycle, the quicker sales action translates into profit and cash flow" (Stuart St. P. Slatter, 2004).

Of course, there is no need to strictly follow these criteria's, as there are many other factors which can influence the final result of production, but in general these items can help managers to make right restructuring and reinvestment for increasing efficiency of operating activity and profits.

4.4 Customer selection

Selecting customers is more or less the same process, and almost all of the same criteria's apply. "The key difference with customers, however, is the need to determine customer profitability – something which is usually missing in most management accounting systems and almost never fund in a turnaround situation" (Stuart St. P. Slatter, 2004). The root of this problem is that the largest customers are not usually the most profitable. The main aim of this customer analysis is to assess "the contribution provided by each customer after deducting the overhead costs (usually technical and marketing costs) associated with that customer (e.g., distribution costs, selling, after-sales and servicing costs) and interest charges on the working capital tied up in debtors and inventories for that customer" (Stuart St. P. Slatter, 2004).

4.5 Competitive strategy

When the firm has chosen the products and customers to focus on, it is necessary to shift all available resources and capacities on these areas. At the same time, there should be prepared and implemented special targeting marketing, promotional and selling efforts, as it will help the company to protect itself against the forces that stimulate and drive competition in an industry. In general it means that the firm should select "a narrow product-market segment in which it competes on the basis of cost leadership and/or product differentiation" (Stuart St. P. Slatter, 2004). In most cases for improving a short-term market position a more aggressive marketing strategy can be used, but at the same time this technique will not lead to life-long customers and brand loyalty.

4.6 Financial restructuring

"Once the business pan and its financing requirements have been agreed, any financial restructuring plan can de finalized" (Stuart St. P. Slatter, 2004). Basically, financial restructuring "is any substantial change in a company's financial structure, or ownership, or control, of business portfolio, designed to increase the value of the firm" (What is Financial Restructuring, 2015), or in other words it is the reorganization of company's assets and liabilities. The firm has two areas for financial reorganization – fixing the business itself (operating cash flows) or fixing the financing (debt + equity).

Operational restructuring is needed to eliminate wastes and increase efficiency of employed capital. "For example, two divisions or departments of a company may perform related functions and in some cases duplicate efforts. Rather than continue to use financial resources to fund the operation of both departments, their efforts are combined" (What is Financial Restructuring, 2015). This financial reorganization is based on the analysis used during the preparation of Operational plan. This process includes a review and analysis of the costs associated with each division and sector of the business and assessment of ways how to cut costs and increase net profit. After the deep analysis the management team can make decisions regarding possible solutions: downsizing, unification of several departments, freezing of some production capacities or "suspension of obsolete facilities that produce goods that are not selling well and are scheduled to be phased out" (What is Financial Restructuring, 2015).

The firm can also fix debt and equity structure. During the debt restructuring management of the company can try to renegotiate with its main creditors to decrease or eliminate some of debts. "Faced with the possibility that the distressed company may default on a loan, creditors will often work to adjust the terms of repayment, including lowering interest rates and/or extending the repayment schedule" (What is Financial Restructuring, 2015). Moreover, some debts can be forgiven, fully or partially, in exchange for the creditor receiving some equity – part ownership in the firm.

"Companies that have little debt in comparison to their equity – that is, they are underleveraged or have a low debt-to-equity ratio – may use some of their equity to buy back stock" (What is Financial Restructuring, 2015). This procedure will help management of the firm to return more control, but at the same time this change requires free capital, which is not available in such amounts in time of crisis. However, if the company has lack of extra cash, it can sell off some assets that are not generating profits. Besides, this type of restructuring involves writing down overvalued assets. “This change in value appears on a company’s income statement as an expense, which lowers the company’s income and, therefore, the amount of tax it owes” (What is Financial Restructuring, 2015). As it is considered as “paper loss” the company actually is not losing any money, this procedure will have an impact on income statement. “This method of restructuring can help reduce how much money a company owes without it needing to spend cash on repurchases” (What is Financial Restructuring, 2015).

In the first part of this diploma thesis a detailed description of the crisis management mechanism and the process of the development of managerial decisions in times of recession were overviewed. Besides, for achieving a bigger insight into the problem the phenomenon of insolvency was described as well as ways of financial recovery. Now, based on the theoretical research, it is possible to start a practical part, in which the author makes a financial analysis of the chosen company in crisis and develops own strategy for stabilization and further recovery.

5 Financial analysis of the selected company

This part presents the practical implementation of acquired knowledge described in the theoretical part of this diploma thesis. It includes the basic overview of a chosen Czech company connected with automotive industry, which is experiencing a crisis, financial analysis of this firm, and personal solutions of the author for the recovery based on the analysis and standardized managerial techniques.

The main aim of this chapter is to analyze financial situation within the “Automotive Components Czech a.s.”, identify the problem areas and assess potential ways for recovery. For the initial analysis were used Balance sheets for 9 years of business activity and profit and loss statement for the same period of time.

5.1 Basic overview of the company

For the analytical part, the author chose Czech company “Automotive Components Czech a.s.” This firm was founded in year 2006 in the city of Rapotin. The initial invested capital was 2,000,000 CZK. This enterprise was organized as a joint-stock company with ten blocks of shares with a nominal value of 200,000 CZK. Management is provided by one CEO and is controlled by supervisory committee consisted of three people. The main business activity of the company is focused on production of components and parts for cars and trucks, machining of details, and wholesale of manufactured products.

5.2 Analysis of the balance sheet

Firstly, it is relevant to assess items that have significant change or deviation from the average and make a conclusion regarding the effect on the company’s performance. This includes horizontal and vertical analyses.

The first thing that attracts one’s attention is a dramatic change in fixed assets. From the year 2007 till the year 2013 this item decreased on 52% (from 43,727,000 CZK to 20,956,000 CZK). Moreover, in the two following years this item was reduced by 3.5 times. Basically, it means that company is not investing in fixed assets and vise versa sells them. By this, management of the firm is destroying the assets base, as it is necessary to invest money in order to maintain the growth and even the level of sales. Besides, it indicates that the company does not extend activities and economic potential.

Also, it is possible to track a negative tendency in the development of current assets. From the year 2007 to the year 2015 this item was reduced on 78% (from 37,385,000 CZK. to 8,264,000 CZK.) This result was achieved by the significant reduction of stock and dramatic change in short-term receivables. For a long period of time, the company had a very big amount of short-term receivables, in the years 2009-2012 the overall sum was around 31 mln. of CZK. Then, in 2013 there was a fall to 4,487,000 of CZK. With the Balance sheet, it is possible to conclude that these receivables were written off partly as loss and partly deducted from the general amount of short-term liabilities. This mutual deduction can happen when two companies have close business relations and provide commodity credits to each other. In the two subsequent years the firm increased amount of short-term receivables by 2,4 mln. CZK, despite the big loss in the previous year.

Short-term financial assets fluctuated during the whole period of business activity, but in general, this process was not significant, and does not signal an unhealthy development.

Through the vertical analysis of assets, the ratios of different items in the structure of the asset base can be calculated. Firstly, ratio of long-term assets and current assets is going to be overviewed. During the starting period, the long-term assets constituted around 50% of the whole amount of assets; the share of currents assets was also the same. This balance maintained till 2012. For a company that deals with production and wholesales this ratio is acceptable. However, starting from the year 2013, this balance started to change dramatically. Thus, in the year 2013 this ratio was: 71% of the long-term assets and 29% of the current assets, which is still satisfactory for this kind of business, but, considering the abruptness of this change and the negative vector of the development, this process is not a positive sign. Moreover, in the subsequent two years the company destroyed the assets base – the share of current assets increased to almost 100% and the long-term assets were abolished.

Upon moving the focus point to the analysis of the current assets structure, there were identified several tendencies. From the first year of business activity until the last reporting year, the share of stock decreased constantly from 14% of the whole amount of current assets in 2007 to its absolute elimination in 2015. This trend indicates a complete fading of production and business activity. On the contrary, the share of the short-term financial assets increased from 7% in 2007 to 19% in 2015. This development was not linear, thus in 2013 this ratio increased to almost 46%, but this rise was caused by significant change in the structure of the whole assets. The major share of current assets for the whole reported period belonged to short-term receivables. Despite some fluctuations and considerable fall to 53%, in 2013 this item was keeping the ratio of 76%-89% during all 9 years. This share is very high, that is why it is necessary to analyze reasons of this process and quality of receivables.

The analysis of equity and liabilities is the second crucial step. Shareholders equity shows severe problems of the firm. This item was positive only in the first year of business activity. Starting from 2007 and till the last reporting year, the share capital had been decreasing steadily from 2,2 mln. CZK to almost -69 mln. CZK in 2015 or in other words it decreased by 2917%. It means that the company management had been transferring liabilities occurred from the big losses to the next periods throughout all the 9 years of activity. The profit and loss item is another indicator of downward development of the studied enterprise. There were only two profitable years, in 2007 this item was equal to 0,5 mln. CZK and in 2011 the profit was 1,6 mln. CZK. In all other years the company reported big losses with maximum downfalls in 2008 of about 39,5 mln. CZK and in 2013 of about 30,3 mln. CZK. It means that the main function of any commercial company is not working and there is no purpose for a firm to exist.

In these conditions, the only source of business financing is borrowed capital or liabilities. In its first year the company financed its activity mostly by long-term loan which was about 60 mln. CZK and by short-term liability of 20 mln. CZK. In the next year, the long-term debt was completely paid and this financial product was not used anymore. At the same time, the company management started to work more actively with short-term liabilities, which share in the whole amount of liabilities since 2008 was 100%. Throughout the whole reported period, this item had a wavy development. The maximum was achieved in 2010, comparing to the first year the increase was about 652%, but starting from that year until 2015, this kind of liability decreased gradually on 41%. Considering all these facts, it is possible to make a general conclusion that “Automotive Components Czech a.s.” had been financing all business activities by borrowed capital and other liabilities, and at the same time management of this company was unable to control the growth of this item during first four years. Moreover, the extremely big losses did not allow rectifying the situation. In the very beginning, this balance of equity and liabilities was highly critical, and this situation could not last for long without any negative consequences. The downfall of the whole company was only a matter of time, and the first bankruptcy issue was started in 2009.

5.3 Analysis of the Profitability and Structure of the Income Statement

After the determination of balance sheet quality and identification of debt obligations and other important items, it is relevant to analyze income statement. The first indicator for assessment is Return on Assets (ROA). It shows the amount of profit generated by a company per one monetary unit of its assets. “ROA gives an idea as to how efficient management is at using its assets to generate earnings” (Bragg, 2010).

$$ROA = \frac{Net\ Income}{Total\ Assets} \tag{1}$$

In case of “Automotive Components Czech a.s.”, this indicator has a wide fluctuation with mostly negative values and waveform development without clear trend. Only two years showed positive results: in 2007 return on assets was 0,6% and 2,12% in 2011 – see (1). But in the rest of the time, assets were used inefficiently, particularly in 2008 and 2013 — when these ratios were equal to -46% and -103% respectively. A negative ROA shows that the company is managed with low efficiency and there is a vital need for changes in the whole structure of the firm.

The second indicator for analysis is Return on Equity (ROE). This ratio “measures a corporation’s profitability by revealing how much profit a company generates with the money shareholders have invested” (European Champions Strategy, 2006). However, in this particular firm this ratio is useless as its equity starting from 2008 is negative and at the same time firm did not generate profits.

$$ROE = \frac{Net\ Income}{Shareholde\,r's\ Equity} \tag{2}$$

Return on Sales is another indicator of company's operational efficiency. "This measure provides insight into how much profit is being produced per dollar of sales" (Ian Ratner, 2009).

$$ROS = \frac{Net\ Income\ (Before\ Interest\ and\ Tax)}{Sales} \tag{3}$$

The analyzed company experienced huge problems with sales, only in the two first years the production and sales were on high level: 123 mln. CZK in 2007 and 156,8 mln. CZK in 2008, in the subsequent years this figure falls down to the minimum: since 2009 revenue from sales had not been exceeding 1,2 mln. CZK and finally in 2015 there was no activity at all – see (3). That is why ROS was positive only in 2007 and 2011, in the other years this ratio was negative. It means that the product which the firm is offering to the market does not bring profits. Also, considering that since 2008 the company had been selling fixed assets and it was one of the main sources of revenue, the situation with profits from sales becomes even worse. This ratio is also can be influenced by share of depreciation and costs.

5.4 Analysis of activity – the turnover of individual types of stock

"Activity ratios measure how effectively the company is using its assets to generate revenue and can help identify inefficiencies in various parts of the operating process" (Danilov, 2014). Firstly, it is relevant to analyze the inventory turnover. "It is a ratio showing how many times a company's inventory is sold and replaced over a period of time" (Ian Ratner, 2009). Or, in other words, it is an assessment of how efficient a firm is turning its inventory into sales.

$$Inventory\ turnover = \frac{Sales}{Inventory} \tag{4}$$

In the case of "Automotive Components Czech a.s" this indicator varied greatly. In the beginning, when the level of sales and the stock of inventories were high, this ratio was equal to 23,7 in 2007 and 46 in 2008 – see (4). This high level of turnover indicates rough business activity. But then in the subsequent years this indicator fell down to almost zero. Thus, since 2009 and till 2012 inventory turnover had not been exceeding one turn. It happened because of a significant drop in sales and gradual reduction of inventories. There was an attenuation of operating activity in the firm. During the last three years of reporting, the stock of inventories was completely abolished. So, there was no turnover of this asset at that time. It means that management of the firm decided to freeze the production activity.

As inventory consists of three components: raw materials, unfinished products and finished goods, it is worth analyzing the rate of turnover of all items. Raw materials are the main inputs to works in progress and finished products, so this turnover ratio is going to be assessed first. The structure of inventories of the analyzed company had a considerable variety only in the first year of activity, thus, in 2007, this item consisted of materials on 37%, unfinished products on 24,6% and finished goods 37,6%. In the subsequent years the share of the last two items was reduced to almost zero value, and at the same time the company management invested considerable resources in the materials. Therefore, it is more reasonable to pay attention only on materials turnover.

$$Material\ turnover = \frac{Sales}{Materials} \qquad (5)$$

During first years, the circulation of this asset with the company was highly active, in 2007 the ratio was equal to 63 and in 2008 to 48 times per year – see (5). This high business activity was then dropped down to almost zero as the production was significantly reduced. The value of only one turnover remained until 2013, when it increased to 15 times, but, in reality, it was caused by a complete destruction of production function of the company and assets base.

Thirdly, the receivable turnover ratio is going to be analyzed. “It is a number of times per year that a business collects its average accounts receivable. The ratio is intended to evaluate the ability of a company to efficiently issue credit to its customers and collect funds from them in a timely manner” (Bragg, 2010).

$$Receivables\ turnover = \frac{Trade\ receivables}{Sales} * 365 \qquad (6)$$

From the beginning of its business activity, “Automotive Components Czech a.s” had a large number of trade receivables while starting from 2009 it maintained a low level of production. Because of this, the ratio had a reasonable value only in 2007 – 68.5 days and in 2008 – 88.6 days; but then this indicator increased dramatically to unbelievable numbers. In other words, the company, starting from 2009 was not able to get receivables back- see (6). This situation indicates that credit worthiness of the customers is very low, or the company had problems with credit and collections staff.

In order to have a complete picture of company's activity, it is relevant to analyze the last indicator – payables turnover. "Accounts payable turnover is a ratio that measures the speed with which a company pays its suppliers" (Bragg, 2010).

$$Payables\ turnover = \frac{Trade\ receivables}{Sales} * 365 \quad (7)$$

The development of this indicator has the same trend as it is with receivables turnover. The values of two first years are within a norm; thus, in 2007 firm paid its liabilities in 29 days – see (7). In 2008, this period was equal to 60 days. And then, starting from 2009, the company management lost control over the settlement of payables as the enterprise was not able to meet trade obligations. It indicates extreme worsening of the financial state of a company. Also, we will conclude that, from its very beginning, "Automotive Components Czech a.s." did not have to have a trade credit, but should have been paying to the suppliers before the money from the customers came. It had a negative impact on liquidity.

In general, based on the calculated values and ratios, the author can say that the activity of the company had an indication of any development only in 2007 and 2008, in the subsequent years the stock was reduced to its minimum and the production function of the company was almost destroyed. Besides, the policy of receivables provision was not correct while, because of the low operational activity, liabilities were not paid on time.

5.5 Analysis of Liquidity and Long-term Financial Equilibrium

"Liquidity ratios evaluate the firm's ability to meet current liabilities as they come due through the use of assets that are readily convertible into cash" (Danilov, 2014). The first indicator that is going to be analyzed is the current ratio. "The current ratio indicates a company's ability to meet short-term debt obligations. The current ratio measures whether or not a firm has enough resources to pay its debts over the next 12 months" (Bragg, 2010). This indicator is crucial to potential creditors — by analyzing this value they can determine the possibility to make short-term loans.

$$Current\ ratio = \frac{Current\ assets}{Current\ liabilities} \tag{8}$$

The analyzed company did not have problems with this indicator only in 2007 when it was equal to 1,8 – see (8). It means that in this year the firm had a comfortable financial position and was able to fully meet short-term obligations. However, in the subsequent years, the situation within the company considerably worsened, as the current liabilities exceeded current assets by three times from 2008 till 2012, and since 2013 the gap had been growing till the last reporting year, when the difference was already in ten times. This unhealthy development indicates hard financial situation of the company and extremely high risks of bankruptcy.

Besides, liquidity can be measured by acid test. “The acid-test ratio is a strong indicator of whether a firm has sufficient short-term assets to cover its immediate liabilities” (Bragg, 2010).

$$Acid\ test = \frac{Current\ assets - Inventories}{Current\ liabilities} \tag{9}$$

According to this ratio, only in 2007 the company was able to pay off its short-term debts and was rather stable, as the value was 1,6 – see (9). Unfortunately, it was the only year with positive result, as during the rest of the reporting period the indicator was less than 1, which means that the firm did not have “the liquid assets to pay current liabilities and should be treated with caution” (Bragg, 2010).

Another crucial indicator for liquidity assessment is cash ratio. “It is a liquidity ratio that measures a firm’s ability to pay off its current liabilities with only cash and cash equivalents” (Bragg, 2010).

$$Cash\ ratio = \frac{Cash + Cash\ equivalents}{Current\ liabilities} \tag{10}$$

“Automotive Components Czech a.s” had a problem with this indicator as it was always below the normal value for an enterprise. Only in 2007 this ratio was equal to 0,13 which is rather close to norm, but in other years there was not enough cash for comfortable business activity – see (10).

Taking all these results into account, it is possible to say that the analyzed enterprise had enough liquidity only in 2007, the first year of business activity. Starting from 2008 and till the last reporting year, all indicators had been gradually worsening. It means that the company did not have enough financial resources and capabilities to meet short-term obligations in time. “Automotive Components Czech a.s” had been accumulating overdue payments year by year; this destroyed the company’s investment attractiveness and credibility.

5.6 Financial Overview of the Company Based on the Analysis

In the beginning, it should be mentioned that in 2009 there was started a bankruptcy procedure against “Automotive Components Czech a.s”. It was the third year of business activity. The overall liabilities of the firm were equal to 126,6 mln. CZK and the loss was around 40 mln. CZK. Based on these facts only, the author can conclude that the business model was not operated correctly. There could have been various reasons why it did not work: unqualified management, a wrong business plan, dramatic changes in particular industry or even global economic problems, as in 2008 – 2009 there was a Global economic crisis, which affected almost all the business spheres. Nevertheless, based on financial analysis of this company, it is possible to make some conclusions and identify key problem areas.

The first thing that can be mentioned is that, in general, during the first two years the company was actively producing goods and there was a positive development of almost all the items. After 2008, the firm had never ever reached the same level of production, moreover, there was a recession and decrease in all the key performance indicators. Since 2009, the operating activity of the enterprise had dramatically fallen, and, in order to pay debts and other liabilities, the management started to sell fixed and current assets, but it was not enough, so “Automotive Components Czech a.s.” had accumulated debts on the sum of almost 78 mln. CZK by 2015. The total reduction of all items of the balance sheet destroyed the overall balance, and because of this all the ratios and indicators did not meet the standards. Besides, it is relevant to assess the structure of short-term receivables and payables as they have one of the biggest shares in structure of assets and liabilities. The trade receivables remained on the same level till 2013, when this item was decreased in 7 times. Based on the available information, it is possible to conclude that the customers were not able to meet their obligations and finally debt was written off. Changing the focus from one side of the balance sheet to the opposite one, it is possible to track the development of short-term liabilities. Starting from 2008, all the activities of the company were financed by this item. Initially, the share was so high and the performance so low, that the firm was not able to pay off these debts and that is why the overall short-term liabilities had been growing. The only way for the management was to sell off fixed assets and the remaining inventories.

Based on these facts and analysis, the author can conclude that in the beginning "Automotive Components Czech a.s." had a balanced structure and stable financial position. However, the company management was not able to effectively use available resources for the development of the company and to resolve the crisis. As a result, the company lost its creditworthiness, liquidity, profitability, production function and was obliged to sell property in order to fulfill obligations. However, these extreme measures did not help the enterprise to avoid the insolvency procedure.

As the thesis was focused on the development of anti-crisis plan and corporate recovery, the author would like to develop and propose his own measures which could help the analyzed company to prevent recession and downfall. This plan will be based on theoretical part and financial analysis provided in the beginning of practical part.

5.7 Measures for Improvement of the Financial Situation

The main aim of recovery measures is to regain the creditworthiness of the firm for the continuation of effective economic activity and fulfillment of creditors claims. In case of "Automotive Components Czech a.s.", this anti-crisis plan is relevant for the first two years, as in 2009 the bankruptcy procedure was started and the downfall was already uncontrolled. For this reason, the author decided to develop measures based on the first two years of business activity. The focus will be on the weak spots detected during the financial analysis.

Firstly, for an efficient utilization of company's assets and reduction of non-production costs, it is relevant to make the inventory of property and restructuring of the assets base, as it was detected that assets were used inefficiently and despite high level of production and sales the major share of revenues was absorbed by high level of costs. For example, in 2008, despite the highest level of sales, there was no margin because of the costs. Additionally, it is relevant to assess fixed assets and determine which capacities are necessary for business activity and what part can be sold or rented out. This step will allow the company to have additional revenue and reduce fixed costs. Besides, the surplus of inventories can be sold for allocation of additional financial resources for reinvestment in production.

Secondly, as it was discovered, “Automotive Components Czech a.s.” had a substantial amount of short-term receivables, and their larger part was written off. It means that customers were not able to pay off their trade debts. It was partly the fault of company as the assessment of creditworthiness of the clients was not provided correctly. In order to eliminate this kind of risk and increase payments in time, a special system of customer’s evaluation should be developed. This depersonalized rating system is based on objective factors for each of which the fixed amount of points is assigned. Following rating and factors can be used for the assessment:

1. Term of work with the company – 0.1 points per year
2. Absence of delay payments – 0.4 points
3. Trade credit period – 10 days – 0.3 points, 20 days – 0.2 points, 30 days – 0.1 points, more than one month – 0 points
4. The loan amount – up to 100,000 CZK – 0.3 points, 100,000 – 200,000 CZK – 0,2 points, more than 200,000 CZK – 0.1 points
5. The time of presence on the market – up to 1 year – 0 points, 1-3 years – 0.1 points, 3-5 years – 0.2 points, more than 5 years – 0.3 points
6. Existence of collateral – 0.3 points

The necessary amount of points for provision of trade debt is 1.2 and more. If after the analysis the customer has fewer points, then it means that a loan arrangement is risky. An implementation of such evaluation system can increase the quality of receivables and decrease risks of overdue payments. Also, in order to make all relations with customers asking for trade debt clearer, the company management should reorganize the whole system of cooperation with them. A special contact person should be assigned, whose responsibilities would be the organization of direct contacts with debtors, their assessment, establishment of fixed terms and conditions of payments. A special penalty and rewarding system must be implemented — it will stimulate customers to respect conditions of trade contracts and pay in time. As “Automotive Components Czech a.s.” from its starting point had a significant amount of receivables, and this item was only growing there is a sense to assess bad debtors, and try to come to mutually beneficial agreement.

Thirdly, according to the indicators, the liquidity of the company was not enough for stable business activity; that is why another measure should be aimed on the increase of short-term financial assets. The correct work with receivables described in the previous paragraph can bring additional cash, but it may not be enough and some additional measures should be implemented. This process includes elimination of premature payments to the suppliers and request for the increase of deferred payments, reduction of excessive purchase of materials and terms of payments for customers.

Fourthly, the most significant problem the company had is connected with financing of business. The share of equity was very small and the major part was covered by liabilities. This is an extremely risky situation, as the whole company depends on external funding. In 2007, the long-term loan was paid and the whole financing was switched to short-term debts, which were equal to 123 mln. CZK in 2008. This was the most serious risk factor for “Automotive Components Czech a.s.”, and this problem should be solved immediately. The measures which were described previously can bring additional revenues and increase cash-flow; it may be enough for debt-service, although, obviously, it would be impossible to pay off all short-term debts. In this hard situation, there can be several tough solutions which are connected with each other and can be combined:

1. Contact all creditors and try to restructure all debts with guarantees of payments of the remaining part. As the company has an impressive amount of fixed assets, this item can be used as a collateral. By this step, the business ties with partners will be destroyed, as the firms creditworthiness would not exist anymore. Moreover, not all creditors will agree to restructure the debt and may apply to the court for the full compensation. Nonetheless, this could help the company to survive and continue the business activity.

2. Even If the creditors applied to the court, there would still been a solution. According to the Czech law, an insolvent company can go through the formal reorganization, but the majority of the creditors should agree on this procedure. Therefore, the first solution could be helpful in these circumstances. In order to do this, the company management should have developed an action plan, which included steps for subsequent development of the firm and payments of debts. If creditors and the court approve this plan, then the enterprise will be allowed to continue the business activity but strictly according to the agreed plan. During this period the company will be protected by the court from claims of the creditors, however, the shareholders will lose the voting right and the managing team can be replaced. If the firm does not fulfill the action plan, the court will start the bankruptcy procedure.
3. The third solution can be used as an addition to the first one and assumes the taking of long-term loan. Of course, taking into account the financial situation of the firm, it is extremely difficult and risky. But again, fixed assets can be used as a collateral for such a loan, so theoretically such a loan can be received. Another problem will be connected with service of this debt and subsequent payment, that is why it is important to calculate the payment scheme and feasibility of this step.
4. Besides, there is one more solution which is standing apart. As “Automotive Components Czech a.s.” was the joint stock company it can attract external capital from investors by selling shares. But there are several severe problems which can make the implementation of this plan almost impossible. First of all, the company is very young and unknown. Secondly, the financial results are not very positive and the efficiency of production is not high. So, the company management should make a great effort in order to find investors.

So, basically these solutions can be used separately or in a combination depending on the development of the situation on the market and within a firm. But it is worth noting that these measures require high concentration and professionalism from the management.

The next big problem of the analyzed enterprise was inefficient production. According to P/L statement in 2007 and 2008, the level of production was high and had a positive development. However, the costs were also extremely high. Thus, in 2008, despite the considerable growth in production and sales compared to the previous year – almost 28 mln. CZK, the final margin was increased only by 400,000 CZK. Besides, it is possible to track the negative development: the growth of sales in 2008 was 22%, but at the same time cost of production increased on 28% and cost of labor on 22% which finally lead to a loss. It means that production was not efficient and cost effective, which is one of the most crucial moments. Therefore, the next suggestion for the company would be to make a complete revision of production for the subsequent technical improvement, cost cutting or change of the product line. Besides, the company management should decide based on the analysis of the production if there are reasons to continue the operational activity or it is better to change the type of business.

In order to implement all these measures it is vital to have a professional management team, as the final result will fully depend on their timely and effective decisions. If there is a lack of specialists some consulting companies may be involved in the development of the anti-crisis plan. External professionals can bring fresh ideas and viewpoint of the situation or even better practices from the industry and market in general.

Of course, the successful implementation of all suggested measures does not guarantee the recovery of the company, as there are many other external and internal factors which can influence this process. But the author considers these proposals as extremely relevant in this particular situation, as all measures were based on the financial analysis of the particular company. Undoubtedly, it is only one narrow side of a big problem, however, the anti-crisis plan developed by the author can be used as a one part of the complete package of measures intended on the recovery of the “Automotive Components Czech a.s”.

Conclusion

In today’s fast moving and extremely competitive business world it is rather difficult to stay afloat for a business entity, not to mention to generate any profits. Despite the aggressive environment, more and more companies and firms are being opened, and the number of bankrupted and insolvent enterprises is also growing. In this situation the anti-crisis measures and programs for bankruptcy avoidance are becoming more and more relevant. The knowledge of effective management in times of corporate recession and instability are extremely valuable on the market and are vitally necessary for successful managers.

This bachelor thesis was focused on this very significant problematics. The theoretical part of the thesis delivered the information on the corporate crisis as an economic process, its influence on a company, standard approaches for the stabilization and recovery and the legal regulation of this process in Czech Republic. This part was used as the basis for the development of the author’s own anti-crisis plan.

In order to create a real and grounded recovery plan, a real Czech company was used – “Automotive Components Czech a.s”. This company was experiencing recession, so it perfectly fit into the frames of current work. For the understanding of the situation within a company and detection of weaknesses, the financial analysis was provided. Based on discovered facts, the author proposed a package of measures may be aimed at the stabilization of the financial situation and subsequent recovery. Thus all acquired theoretical knowledge were examined and used in practice.

The topic considered in this thesis is undeniably actual nowadays, but this work provided only small part of this issue. Moreover, every particular situation requires a unique approach, but the basis of this process remains the same. The author gained valuable knowledge during the studying of this problem and understood the essence of the corporate recovery process. This was the main aim of this diploma work.

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Appendix no. 1 Balance sheet of the Automotive Components Czech a.s.

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total Assets	**82936**	**86006**	**75741**	**80327**	**77942**	**71416**	**29544**	**8046**	**8264**
Long term assets	**43727**	**42914**	**39276**	**38652**	**37392**	**34942**	**20975**	**16**	**0**
Long-term intangible assets	29	19	19	19	19	19	**19**	**0**	**0**
Organisation costs	0	0	19	19	19	19	**19**	**0**	**0**
Software	29	19	0	0	0	0	**0**	**0**	**0**
Fixed assets	**43698**	**42895**	**39257**	**38633**	**37373**	**34923**	**20956**	**16**	**0**
Ground	1199	1199	1199	1199	1199	1199	354	16	0
Buildings	35281	34177	32983	32983	32983	32983	19861	0	0
Individual movable assets	7091	7470	5025	4401	3141	691	691	0	0
Unfinished long-term assets	128	50	50	50	50	50	50	0	0
Current assets	**37678**	**43075**	**36449**	**41664**	**40545**	**36474**	**8507**	**8030**	**8264**
Inventories	**5223**	**3404**	**3404**	**3404**	**1425**	**1201**	**79**	**0**	**0**
Material	1968	3260	3260	3260	1424	1201	79	0	0
Unfinished products	1290	16	15	15	0	0	0	0	0
Products	1964	128	128	128	0	0	0	0	0
Animals	1	1	1	1	1	0	0	0	0
Long -term recievables	**293**	**293**	**293**	**293**	**0**	**0**	**0**	**0**	**0**
Long-term trade receivables	0	0	0	0	0	0	0	0	0
Deferred tax payment	293	293	293	293	0	0	0	0	0
Short-term recievables	**29615**	**38312**	**31710**	**31769**	**31884**	**31624**	**4487**	**6845**	**6702**
Short-term trade receivables	23256	38085	31584	31768	31776	31441	4063	5555	4754
Tax receivables	397	125	125	0	0	0	0	0	0
Advances paid	237	59	1	1	108	183	424	1290	1948
Estimated liabilities	5725	40	0	0	0	0	0	0	0
Other receivables	0	3	0	0	0	0	0	0	0
Short-term financial assets	**2547**	**1065**	**1042**	**6198**	**7236**	**3649**	**3941**	**1185**	**1562**
Cash	182	24	27	5	86	38	3	66	57
Banking account	2365	1041	1015	6193	7150	3611	3938	1119	1505
Accruals and Defferals	**1531**	**17**	**16**	**11**	**5**	**0**	**62**	**0**	**0**
Accruals	1496	17	16	11	0	0	0	0	0
Deferred income	35	0	0	0	5	0	62	0	0

Appendix no. 2 Balance sheet of the Automotive Components Czech a.s.

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total Liabilities + Equity	**82936**	**86006**	**75741**	**80327**	**77942**	**71416**	**29544**	**8046**	**8264**
Equity	**2297**	**-37189**	**-50879**	**-51334**	**-49683**	**-49927**	**-66603**	**-68836**	**-68996**
Registered capital	**2000**	**2000**	**2000**	**2000**	**2000**	**2000**	**2000**	**2000**	**2000**
Capital funds	**0**	**0**	**0**	**0**	**0**	**0**	**13694**	**13694**	**13694**
Other capital funds	0	0	0	0	0	0	13694	13694	13694
Results of business activity	**-201**	**297**	**-39287**	**-52879**	**-53334**	**-51684**	**-51927**	**-82297**	**-84529**
Undistributed profit	-201	498	498	498	498	2148	2148	2148	2148
Undistributed loss	0	-201	-39785	-53377	-53832	-53832	-54075	-84445	-86677
Profit/Loss of current period	**498**	**-39486**	**-13592**	**-455**	**1651**	**-243**	**-30370**	**-2233**	**-161**
Liabilities	**80154**	**123194**	**126620**	**131661**	**127625**	**121341**	**96060**	**76882**	**77260**
Long-term liabilities	**59958**	**0**	**0**	**0**	**-293**	**-293**	**-293**	**-293**	**0**
Other liabilities	59958	0	0	0	0	0	0	0	0
Deferred tax liability	0	0	0	0	-293	-293	-293	-293	0
Short-term liabilities	**20196**	**123194**	**126620**	**131661**	**127918**	**121634**	**96353**	**77175**	**77260**
Short-term trade liabilities	9844	25902	29738	29930	30514	30786	24074	19852	19852
Liabilities to employees	1856	1703	6748	6786	6781	6834	6844	32	87
Social liabilities and insurance	867	694	2802	3374	3930	3986	3986	1835	1835
Liabilities from tax	702	636	2044	3262	5167	4876	5658	2279	2362
Advances paid	0	0	0	3021	2747	55	27	23	16
Estimated liabilities	3816	3427	-10	-10	-10	-10	-10	-10	0
Other liabilities	3111	90832	85298	85298	78789	75107	55774	53164	53108
Accrual and Deferrals	**485**	**1**	**0**	**0**	**0**	**2**	**87**	**0**	**0**
Accruals	485	1	0	0	0	0	87	0	0
Deferred income	0	0	0	0	0	2	0	0	0

Appendix no. 3 Profit and Loss Statement of the Automotive Components Czech a.s.

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues from sales of goods	203	0	0	0	0	0	0	0	0
Costs of goods sold	194	0	0	0	0	0	0	0	0
Trade margin	9	0	0	0	0	0	0	0	0
Sales	126121	154047	700	422	496	1083	1233	294	0
Revenues form sales of products	123842	156891	701	422	496	1083	1233	294	0
Change in inventory	2279	-2889	-1	0	0	0	0	0	0
Capitalization	0	45	0	0	0	0	0	0	0
Intermediate consumption	95914	123350	2294	1358	3251	1740	1560	1059	126
Consumption of materials and energy	82543	108431	1526	429	424	428	390	104	22
Services	13371	14919	768	929	2827	1312	1170	955	104
Value added	30217	30697	-1594	-936	-2755	-657	-327	-765	-126
Personnel costs	29715	36409	4259	1720	1656	192	3	7	0
Wage costs	22061	26859	3035	1284	1236	150	3	7	0
Payments to the members of the board	0	137	16	0	0	0	0	0	0
Securities and health insurance costs	7652	9276	1208	436	420	0	0	0	0
Social costs	2	137	0	0	0	42	0	0	0
Taxes and other payments	1177	209	89	129	127	70	208	70	70
Amortization and depreciation	3005	3735	3159	0	0	0	0	19	0
Revenues from the sales of long-term assets and ma	13830	21356	1326	2948	9334	1684	12	19846	340
Revenue from long-term assets sales	42	21356	1249	2223		1128	10	18256	340
Revenue from sales of material	13788	0	77	725	1771	556	2	1590	0
Residual price of sold materials and long-term asset	11602	18702	480	624	3238	2674	1122	34907	16
Residual price of long-term assets sold	0	80	480	624		2450	0	34907	16
Materials sold	11602	18622	0	0	1978	224	1122	0	0
Change of the reserves and provosions	0	0	0	0	0	0	13967	0	0
Other operational revenues	4309	2547	0	135	53	1943	322	47	28
Other operational expenses	339	30839	179	1	47	29	14792	319	25
Operating profit	2518	-35294	-8434	-327	1564	5	-30085	-16194	131
Revenues from long-term financial assets	0	0	0	0	0	0	0	0	0
Revenues from short-term financial assets	0	0	0	0	0	0	0	0	0
Interest income	10	1	7	13	86	69	26	29	1
Interest expense	984	2546	0	0	0	0	0	0	0
Other financial revenues	603	2457	388	0	0	0	5	0	0
Other financial expenses	1270	3821	511	90	2	0	289	0	0
Transfer of financial revenues	0	0	0	0	1	0	0	0	0
Results of financial activities	-1642	-3909	-116	-77	87	69	-258	29	1
Income tax	207	0	0	0	0	0	0	0	293
paid	500	0	0	0	0	0	0	0	0
deferred	-293	0	0	0	0	0	0	0	293
Profit (or loss) from continuing operations	669	-39203	-8550	-404	1651	74	-30343	-16165	-161
Extraordinary revenues	0	-195	0	1	0	0	0	13967	0
Extraordinary expenses	171	88	5042	52	0	317	27	35	0
Extraordinary profit (or loss)	-171	-283	-5042	-51	0	-317	-27	13932	0
Profit/Loss for the year	498	-39486	-13592	-455	1651	-243	-30370	-2233	-161

ANNOTATION

AUTHOR	Evgenii Okishev		
FIELD	6208R163 Business Administration and Financial Management		
THESIS TITLE	Financial analysis of the company in crisis and practical approaches to prevent its insolvency		
SUPERVISOR	Ing. Josef Horák, Ph.D.		
DEPARTMENT	KFMU - Department of Financial and Managerial Accounting	YEAR	2016

NUMBER OF PAGES	63
NUMBER OF PICTURES	3
NUMBER OF TABLES	
NUMBER OF APPENDICES	3

SUMMARY	The thesis analyzes the essence of corporate crisis, roots of this economic process, possible signs and types. The author gives a detailed description of the crisis management mechanism and the process of the development of managerial decisions in times of recession. As the next point, the phenomenon of insolvency is overviewed as well as ways of financial recovery. Based on the information from the theoretical research, the author makes a financial analysis of the company Automotive Components Czech a.s. in crisis and develops own strategy for stabilization and further recovery. In the final part of the work the overall conclusion is made.

KEY WORDS	**Corporate crisis, crisis management, bankruptcy, corporate recovery, financial analysis**
THESIS INCLUDES UNDISCLOSED PARTS: No	