

VULNERABILITY OF COMPANIES

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Abstract

In present, the study of vulnerability of companies is increasing in every field due to the unstable economic environment influences. The object of this research is to define and identify vulnerabilities of companies and the establishment of evaluation methods at their level. This article emphasizes the importance and usefulness of one of the best known model in this way, from our point of view, namely Băileșteanu, Negrila Pattern. This pattern covers both external factors and internal ones, that increase vulnerabilities of companies, and fit the companies in which the state of vulnerability are (vitality, viability, vulnerability, high vulnerability, difficulty and high difficulty), with a matrix. The result of the research is that any company belonging to any field, can be analyzed using this model, and assigned to one of the conditions defined within.

Keywords: *vulnerability, risk, pattern, state, endogenous factors, exogenous factors*

JEL classification: *M40, M41*

1. Introduction

The objective of our research is to define and identify vulnerabilities of companies, and to present and define the utility of the Băileșteanu, Negrila Pattern within any company.

The term of „vulnerability” is sometimes used in risk analysis but more in security systems. Linguistically the most appropriate definition describes vulnerability as a characteristic of a system, object or activity that may be susceptible to a threat. Embedding vulnerability in the definition of risk, has the following consequences [3]:

- non-incorporation in identifying risk vulnerabilities implies that combining a risk asset that has value and circumstances in which it can be put in danger (risk);
- in a given risk-situation, a number of vulnerabilities exploited are involved, not just one.

2. Relationship between vulnerability of companies and risk

The word "risk" is used to describe both a resource, may become unavailable, and a random private event whose occurrence resulting in damage to a resource, or the consequences of both. Risk can have two connotations: negative and positive. The risk of adverse use the word "vulnerability" and for the positive effect, "opportunity". Every organization has a portfolio comprising both opportunities and vulnerabilities, which one can achieve the goals set by management with. [4]

We agree that the specific difference between risk, but only the negative effects, and vulnerability stems from the fact that "risk refers to threats (origins / causes), characterizing the consequences of their manifestation (losses, damages, suffering), perceptions showing the importance of consequences and likelihood of threat "and" vulnerability refers to the subject / subjects exposed to threats manifestation, characterizing the type and level of susceptibility to stress reaction of the subject to withstand exposure to manifestation of threats. "[6]

We believe that this distinction between the two concepts is the most relevant, risk is the objective and does not vary by subjects who suffer the effects of risk, and vulnerability is the subjective, being different in function, and being different in the way of reaction and its effects.

3. Vulnerability and risk in companies

The term vulnerability is viewed from multiple points of view in literature. Vulnerability is characterized by unfavorable impact often limited in assessing the financial losses caused by the realization of a random event affecting a resource of a company. Vulnerability can be identified by the following parameters [4]:

- an object or resource risk venture,
- danger,
- potential impact.

Vulnerabilities can be classified as [4]:

- on the resources axis: human, technical, computer, partner, financial, environment (physical, social and cultural);

• on the hazards axis: economic, natural, operational, involuntary human, volunteer human "cunning", human voluntary profitable (evil), human voluntary unprofitable (terrorism).

There are five factors that lead to vulnerability in a company: the complexity of managing activities, multiplication interactions and competition, technological reality, the crisis of legitimacy of the enterprise, financial dilemma investment to industrial investment. [5]

Risk is defined from various perspectives. A synthesis of the major views is as follows: theories where risk is defined only in terms of loss, specific to pure risk (natural) that can be provided (it can also be called insurable risk) and those that define the risk in terms of both, loss and win, specific to risk management, also called speculative risk. In our opinion, correct is to understand through the risk the loss and the possibility of obtaining favorable results. [1]

From the economics perspective, risk represents a status where the probability of any variation appearing is mirrored in the objective followed by the specific organisation. From the perspective of uncertainty, risk is when there is a probability of the event and can be quantified, and uncertainty when there is no measuring probability. From this point of view, risk can be defined as the measurable uncertainty characterized by chance, but with measurable probability. [1]

Risk is the situation that lies between certainty and uncertainty. The situation certainly is when the probability of the event is 1 and the uncertainty arises when the probability is unknown. So the state of risk is when the probability of the event is between 0 and 1. The extent of risk is given by the probability that an event that generates positive or negative effects occur, and the "magnitude" of this effect which is the result of confrontation between the impact of the contingency, vulnerability of the company and its counterattack force. [1]

4. The Băileșteanu, Negrilă Pattern

Vulnerability status of a company can be evaluate with Băileșteanu, Negrila Pattern [2].

Table no.1 Exogenous (environmental) factors that lead to increased vulnerabilities

Environment of business						
Microenvironment			Macroenvironment			
Supply market	Sales market	Financial market	Business climate	Legislative climate		
				fiscal	ecological	socio-economical
<ul style="list-style-type: none"> - Business cycle in respective branch - Instability of market - Bankruptcy of basic providers - Competitive market type - Increasing the supply price along with the impossibility of increased sales prices 	<ul style="list-style-type: none"> - Business cycle in respective branch - Instability of market - Bankruptcy of basic clients -Competitive market type - Decrease of demand - Increase competitive power of competition - Emergence of new products and technologies - Emergence of substitute products 	<ul style="list-style-type: none"> - Access to capital - Decreased rate of exchange on exogenous causes - Inflation - Devaluation of currency - Money – banking market instability - Worsening relationship with the bank - bankruptcy of the companies bank - Bankruptcy of insurance company 	<ul style="list-style-type: none"> - Economic macrocycle - Interest Group - Government policy to support the sector - Political instability - Legal instability - Ineffective administration - Infrastructure 	<ul style="list-style-type: none"> - Increasing direct taxation - Increasing indirect taxation - Increasing taxes - Evolution of duties - instability - Withholding of discounts, exemptions, rescheduling taxes 	<ul style="list-style-type: none"> - Increasing environmental standards - Application of standards - Increasing severity of sanctions 	<ul style="list-style-type: none"> - Reduce of potential subsidies - Increasing the minimum, average wage per economy - Social measures supported by company

Table no.2 Endogenous (internal) factors that are leading to increased vulnerabilities

Strategic orientation	Quality of top-management	Management of human resources	Management of financial resources	Research and development activities	Commercial activity	Production activity
<ul style="list-style-type: none"> - Lack of strategic vision - Mistakes in fundamentation of strategy - Errors in application of the strategy - Hardness of strategic vision - Diversity exaggerated - Dependence on exogenous factors 	<ul style="list-style-type: none"> - Preparation of management team - Over dimensioning the team - Lack of management team cohesion - Lack of consistency - Weaknesses in management methodologies, adopting and transmitting decisions - Deficiencies in the information system - Poor organizational structure - Accidents, deaths of member of management team - Lack of training and involvement echelon immediately below - Fail in proper control 	<ul style="list-style-type: none"> - Inadequate remuneration policy - Poor relations with the syndicate - The occurrence and management of labor disputes - Over dimensioning staff - Poor selection - Lack of training and preparing - Lack of motivation and involvement 	<ul style="list-style-type: none"> - Managing poor credit customer, vendor, inventory, liabilities - Deficiencies in substantiating the feasibility of investment programs - Lack of training in finding and harnessing the resources to finance the operation and investment - Deficiencies in the policy of granting trade discounts with financial nature - Weaknesses in financial control 	<ul style="list-style-type: none"> - Lack of concern for the introduction and launch of new products - Lack of concern for the introduction and implementation of new technologies - Deficiencies in training and the team experience - Deficiencies in collaboration with other services - Poor management of projects 	<ul style="list-style-type: none"> - Lack of information and market studies - Deficiencies in the distribution system - Lack of appreciation of market information - Mismatch between supply volume output and market demand - Inefficiency in promotional effort - Rigid price policy - Lack of concern for finding new sources of supply and disposal 	<ul style="list-style-type: none"> - Mismatch volume and structure of production with market demand - Lack of organization and control - Deficiencies in maintenance activity - Weaknesses in internal storage and transport activity - Increasing the specific consumption - Decreased productivity - Non-compliance with labor - Failure to technology - Frequent misbehavior

All these factors make their influence as the result (operating and financial) and the financial stability of the company. At this point one follows the overall assessment of the enterprise which, can be made using two criteria [2]:

- current results that reflect the efficiency of the production and finance (where the index of current results is I_{RE});
- variation of the company treasury ($TZ=FR-NFR$, where FR is floating capital and NFR is floating capital requirements).

In defining our company status we rely on the matrix approach of these two criteria, the following model [2]:

			BALANCE OF FINANCIAL FLOWS			STATE OF COMPANY
			$\Delta TZ > 0$	$\Delta TZ \approx 0$	$\Delta TZ < 0$	
			$(\Delta NFR < 0)$	$(\Delta NFR \approx 0)$	$(\Delta NFR < 0)$	
			$(FR > 0)$	$(FR \approx 0)$	$(FR < 0)$	
THE CURRENT RESULT	$RC > 0$	$I_{RE} > 100$	VITALITY Quadrant 1	VIABILITY Quadrant 2	VULNERABILITY Quadrant 3	STATE OF COMPANY
	$RC < 0$	$I_{RE} < 100$	HIGH VULNERABILITY (in the broadly sense) Quadrant 4	DIFFICULT SITUATION (in the narrow sense) Quadrant 5	DIFICULTATE RIDICATĂ (in the juridical sense) Quadrant 6	
STATE OF COMPANY						

Figure no.1 States of companies

So, states of a company can be [2]:

- state of vitality "specific condition characterized by force and dynamic businesses, synergistically integrated in full development phase (companies located in quadrant 1)"
- viability status "feature state enterprises presenting conditions and potential to maintain and develop over time (enterprises located in quadrant 2)";
- vulnerability status (difficulty broadly) "feature state enterprises face difficulties in production and management level, to adapt quickly to business turbulence" (companies located in quadrant 3 and 4);
- difficult situation (in the narrow sense): "state characteristic functional blockage firms in event time due to internal weaknesses and the inability to adapt to the business environment" (enterprises located in Frame 5 and 6).

Notions of difficulty and vulnerability are relative and dynamic concepts and are measured by a detailed analysis to determine the horizon, scale and scope of restructuring, and these states are informative for classification of companies in those states requiring a detailed analysis of vulnerabilities in the integrator of company and activities within each component's business portfolio. In reality, a company may seem viable, but some business from its portfolio could be vulnerable or in difficulty, and the effects on the overall condition of the company, without a detailed analysis may be unknown or hidden but dangerous for the future state of the company. So, a static approach and without taking account of the specific business activity can lead to erroneous classifications. The concept of undertaking in difficulty should not be seen only in legal terms but also in terms of economic-financial, social, political. In economic theory a difficult situation is defined as entrench the financial crisis can quickly become dramatic. When a company is in difficulty in the narrow sense of the term, of legally, provided the opening of reorganization and liquidation of the company. [2]

5. Conclusions

In companies, the study of vulnerability is very important in any field, due to unstable environmental influences, and the best way to identify and analyze the status of a company in terms of its vulnerabilities, from our point of view, is the Băileșteanu, Negrila pattern, because it takes into account a number of factors, both of endogenous and exogenous.

View that any company belonging to any field, can be analyzed using this pattern, and assigned to one of the states presented with features of each state in part, in order to identify its causes and dangers in order to improve the situation authors recommended using.

6. Bibliography

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