Transformation of Strategic Management of the Enterprise at the Bifurcation Point in Terms of the Emergence of Business Conflicts

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Abstract. In the article it is substantiated the need of realization and it is reviewed the essence of transformation of strategic management of the enterprise at the time of bifurcation point. Besides it is analysed in terms of the recommended key change of structure of financial resources in conditions of the identified business conflicts that allows effective influence on the reorganization of manufacture. Therefore overcoming a point of uncertainty it is possible to stabilize the financial and economic state of an economic entity by means of implementation of effective diagnostic techniques of its current level of economic protectability in order to monitor further changes in business.

Introduction

The current financial instability in the world primarily affects the results of activity of individual industrial enterprises. It leads to the fact that most of them in unjustifiably accelerated pace are approaching to bankruptcy. The main cause of their decline is the fact that they do not only can choose the optimal right decisions of way out from the crisis situation but faced with the identified point of bifurcation in their business activity. In an attempt to stabilize in the nearest future the current situation, they do not aim to change strategic management in order to overcome the corresponding uncertainty with the minimal financial losses. First step is to check strategy of operational, financial, investment and innovation activity. Then it should be an effective approach to updated financial and economic results. This aspect is particularly relevant in the circumstances of unforeseen business conflicts.

Any conflict particularly in business activity with multi-faceted nature of origin and with the individual nature of impact on the development of a separate economic entity will be based primarily on the noncompliance of interests of business partners. This discrepancy of interests can occur either immediately or after a period of time from the beginning of concluding of business contracts. It will be characterized by partial or complete loss of a certain level of interaction of partners in the market, including loss of economic confidence between them. In the future in most cases this can lead to serious economic problems. Having misbalancing the equilibrium of established relations, that is especially dangerous in the bifurcation point of business activity. However, having the desire to regulate and to control the business-conflicts later complete avoidance and safe overcome of uncertain condition arises an undeniable need for the transformation of strategic management of business within the further process of development of economic transactions in the range of maximum elimination of their negative consequences.

Analysis of Recent Researches and Publications

At the present stage of economic development for any company the stabilization and integrated protection of its activities are of paramount importance. Today this can be interpreted as achieving by a industrial structure of stable financial condition through a number of financial and economic indicators in terms of protection from various unfavourable both internal and external factors. These indicators through which the basic properties of enterprise are evaluated constantly fluctuate owing to diverse structure of financial resources. In this situation it is important to prevent their long-term
decrease to values which are smaller than maximum allowable value owing to timely transformation of strategic management of business, particularly financial and investment management. Research indicates that if the unfavourable situation in the companies still develops, it can be neutralized by implementing an updated management strategy and rational methods of system control. These methods in the short term would strengthen protective functions of industrial and economic structures contrary to the processes of outflow of financial assets from them that requires maintaining of optimal receivable policy. If at the enterprise prevails use of external borrowings, then they should be transferred to finance long-term investment programs, the level of profitability of which would allow to carry out external liabilities according to the principles of sustainability [1]. This will provide additional protection and full and timely payment of debts with less risk. Conducted analysis of recent research and publications asserts that a significant number of researchers are engaged in the study both financial relations and the issue of possible transformation of a strategic management as well as the structure of financial resources particularly at enterprises for its more effective use. They are Blank O.I., Hryshova I. Yu., Korneyev V.V., Krupka M.I., Kuzmin O. Ye., Melnyk O. H., Mizyuk B.M., Filippova S.V. and many others. They found that at the weak financial condition and under suboptimal structure of financial resources or under insufficient level of economic protection at enterprises it is always observed decrease of liquidity and other economic features of an economic entity. Moreover there are several indicators of this process, namely the increase in accounts payables and current accounts receivables which are compared with the previous period in parallel with a decrease in the value of own capital. However, outside of the study remains the methodological aspect of the justification of conduct of the transformation of strategic business management at the bifurcation point in terms of the emergence of the business conflicts.

The Purpose of the Research

The aim of the article is to substantiate and to construct the essence of transformation of strategic business management in the identified point of bifurcation in the conditions of emergence of foreseen or unforeseen business conflicts. It is to establish the possible relationship between the possible effective change of structure of production, financing resources and stabilization of the financial and economic situation in accordance with the implemented methodology of diagnosis of the current level of economic protection of business entity in order to control and to achieve positive change in business activity.

The Presentation of the Main Research Material

Recently the imbalance between accounts payables and accounts receivables, unpredictability of financial risks and the downward trend of the main effective indicators toward to the turnover of working capital can clearly be seen according to data of structure of the balance of significant number of businesses entities in the sphere of industry, namely by sections: current assets, long-term liabilities and current liabilities. In addition, long-term accounts receivables as a part of fixed assets in such a situation can be significantly reduced.

In this case, under the strengthened control on the state of economic protectability of companies can expose such groups of calculation indexes as profitability of assets, profitability of own capital, profitability of implemented products, assets turnover, turnover of commodity and material stocks. Besides there are such indicators as the average term of payment of accounts receivables by customers of enterprise, the average term of payment of accounts payables by suppliers, autonomy coefficient, the coefficient of providence of debts and some liquidity coefficient, including total liquidity coefficient, of immediate liquidity and absolute liquidity [2]. This list can be supplemented by a coefficient of the profitability from operational activity. In practice an analytical evaluation of the state of economic protection of business entity on the basis of the above mentioned indicators is not always straightforward, as the decline of the share of debt in total capital strengthens the financial independence of the company, but at the same time it narrows the funding sources and opportunities to increase the efficiency of its activity. Indicators of the average term of payment of accounts
receivables and payment of accounts payables characterize the activity of enterprises in sphere of settlements with partners. However unjustified tendency to its increase could rapidly weaken the economic protectability and destabilize the current structure of sources of financing in the company that is connected either with the degree of profitability and capital turnover, or with the degree of increased financial risk [3].

Therefore, achieving and economic protection of business entities, it is aimed to ensure their sustainable economic and financial development under the condition of constant influence of internal and external threats that continually arise in the condition of market instability and should be quickly eliminated by more effective ways. This can be achieved only under condition of the rational management of its own financial resources, ensuring maximum competitive advantages on the market and sufficient sales volumes of finished products or with the help of transformation of the existing structure of financial resources. For advanced planning of economic protectability at the enterprise and insurance of its long-term impact on business entities there are needed: rational financial policy with clearly defined financial and economic strategy of a company, particularly with stable formed financial relations and the optimal structure of financial resources. It is needed accurate prediction of variations of basic financial and economic indicators for a defined period of time, control over results of the analysis of financial statements over the last few years and entering them into a database for information processing; predicted estimation of the conjuncture of the market that manage the objectives of company on the basis of its key financial-economic processes, namely the process of lending, emission of securities, of currency settlement, sales of finished products must be performed within the target production function - to maximize profits with minimal or at least reduced cost, particularly in terms of innovation activity [4, 5].

The current world economic situation is characterized by significant financial instability that primarily affects the results of activity of separate units of economy of the real sector of economy. Usually they constantly fluctuate, having significant range of values that eventually unbalances sustainable financial mechanism of above mentioned entities. This leads to the fact that some businesses successfully pass its life cycle of stage of growth of output, while others, having exhausted the possibilities to resist the trends of stagnation and depression, mutual non-payments crisis, are moving close to bankruptcy or are potential bankrupts [6].

The main reason for non-payment of financially unstable companies is their chosen path of irrational management of its financial and investment activity, which is primarily due to the inefficient use of borrowings and the associated with this unpredictable financial growth and investment risk. The prolonged insolvency of these companies initially limits, and then completely blocks their activity.

In recent years, for instance in Ukraine, catastrophically has reduced the amount of real GDP due to the fact that a large number of enterprises of material production sector have found themselves on the verge of bankruptcy due to lack of provision of financial resources. Although generally in business structures are concentrated considerable assets of funds, but at the individual enterprises and in industries they can be placed unevenly, so the possibilities of their expansion and development are not the same [7]. This means that it is not possible to protect automatically all enterprises from bankruptcy at the same time. The unevenness of financial provision of certain business entities, primarily due to its own resources, can be simultaneously connected with the internal and external factors. Internal factors that directly affect the deterioration of their financial condition are associated with the imbalance between the level of the organization production, high cost of production and its quality. External factors include taxation, licensing, saturation of the market by certain group of goods, solvency of customers.

The state using financial techniques can stabilize an integrated level of economic security regulating rates and proportions of development of specific industries and of individual companies, especially companies that become bankruptcy. For this purpose should be used especially optimal taxation mechanism.
The greatest opportunities toward financial resources for enterprises for economic development are based on improvement of the organization and on management of the financial processes directly at enterprise’s structures, because the management of financial resources directly at enterprises with unstable condition has quite weak methodological and organizational security. In Ukraine there is still a little experience of financial flows at the enterprise level in connection with the transformed structure of strategic management by enterprise, which appeared at the point of bifurcation in business activity and in conditions of unresolved business conflicts.

As it is known the point of bifurcation is a critical state of any system in which a proper system becomes unstable with respect to all emerging periodic changes. In addition, at the bifurcation point appears uncertainty towards further development of the system, including individual industrial enterprises where the state of the system is characterized by chaotic features and by absolute unpredictability [8, 9]. Therefore it is important at this point to make subsequent reassessment of further management strategy of economic entity.

At the bifurcation point as a consequence of multi vectors of possibly made decisions, they may be wrong and totally unjustified by expected further aspirations, and their implementation will not allow in a limited period of time to reach a single optimal result. Therefore transformed management strategy must solve the problem of prevention at least the inefficient financial decisions in time of overcoming of bifurcation point where parallel some business conflicts are still unsettled.

Due to the fact that all business conflicts are dynamic with its inherent different traits in each period time, they are united by the presence of potential simultaneous impact on the current state of economic protection of company. Any economic conflict should be considered as formed conflict from the point when there are violated or deliberately are not fulfilled the conditions of business transactions. That is, according to [10], "conflict is a situation in which the participants of relations that are united by the same object recognize the incompatibility of their interests toward it and act on the basis of this understanding." Unpredictable and uncontrollable events precede the origin of a business conflict. However, their course is a subject to the rules of rationality, having the beginning and the end. At the same time a stage of completion should maximally consistent with overcoming of bifurcation point in business activity. In an economic environment any conflict should be understood as a contradiction at least of two parties with the application of at least one of them of significant losses namely financial losses which destabilize the subsequent normal business activities. It is recommended such list of factors of management of business conflicts, namely:

1) avoidance in the company of law of conflicts from the moment of the conclusion of business agreements or from the initial emergence of business conflicts between the parties of entrepreneurship in order to achieve effectiveness; 2) the performance of commutative property (achieving of full coherence and equality of interests of parties of entrepreneurial activity); 3) submission of business deals to the principle of generalization of business relationships that allows dissipate commercial risk and reduce it to the minimum possible value; 4) the use of multi-objective optimization of business interests of the parties of the conflict. Moreover the last factor can be considered as the main one, which can be represented by the following mathematical equalities [11,12]:

\[
F(x^*) = \max_{x \in Z_i} \min_{i} z_i(x) ; F(x^*) = \min_{x \in Z_i} \max_{i} z_i(x), \tag{1}
\]

where \(F(x^*)\) - the criterion or principle of equable optimization of management decisions regarding the neutralization of business conflicts; \(z_i(x)\) - business decisions which during the neutralization of the conflict situations change financial and economic result of business activity; \(i = 1, n\) ; \(x\) - characteristic variable value which during the process of optimization transforms into a value \(x^*\); \(Z_1\) - the set of "compromises" during the settlement of business conflicts.

Most methods of resolving of business conflicts are individual as they have various causes of emergence. However, having offered above mentioned four factors of management of business conflicts, in particular the first three of them with the participation of theory of fuzzy sets which allow
by symbol to identify their timely appearance or complying some of them to prevent future deterioration of conflict situations. The process of management of them can be summarized and can be made more effective and obligatory at the moment of overcoming of bifurcation point in business activity.

On the other hand bifurcation point shows possible qualitative restructuring of the system as a whole and of the various objects in the system through the parameters on which they depend. This point gives rise to the changes in the established regime of work of the system. During the planned transformation of strategic management of the enterprise priority must be given firstly to transformation of one strategy in order to enhance a control of its results. Knowing that the consequences of most unresolved conflicts are unpredictable additional financial losses so the priority should be given to the transformation of strategy of financial management of enterprise.

Under the strategy of financial management often understand strategy of finance and investment management of enterprise. Financial and investment strategy is a set of decisions, including selection of sources of funds; it is set priority of their target use in the process of management [13].

While forming the revised financial strategy at the bifurcation point it should be reviewed all possible sources of financing and the advantage should be given only to those of them which are maximum important at a time flow of relevant life cycle of the enterprise in which there was uncertainty.

Transformed structure of financial management can contain a forced restructuring of the financial system of enterprises that will relate to forced modification of its assets. During this transformation also it is recommended necessarily to write off or to postpone the payment of debts of the entity. Particular attention should be paid to compromise approach toward the change and rational management by doubtful accounts receivable, if any exists.

Positive changes in structure of assets of business entities, attraction of additional financial resources on favourable conditions through credit lines and organization of efficient financial flows involving financial intermediaries give a possibility to improve the situation at bankrupt enterprises in terms of the emergence of a bifurcation point.

To restructure the financial system of business structures it is necessary to allow them to operate on condition of full or partial financial restructuring. Partial restructuring may relate only to accounts receivables and accounts payables of enterprises, particularly to mutual settlements of incomplete payment of debts or its write off or refinancing [5,14].

Mutual settlements should be made only through the consistent implementation of obligations by participants of settlements on the basis of an agreement between them, in which it is supposed to use to pay of arrears of own and borrowed funds of these participants. If the audit showed poor state of liabilities of the company, it is possible to convert short-term arrears into long-term loans or mortgages under the supervision of creditors or application of mechanism of securitization of debt, namely the replacement of bank loans by additional emission of securities, that in any case, affect the process of control on stabilization of financial and economic situation of the business entity.

It is believed that the restructuring of assets of an enterprise is the most effective instrument because business entity makes this by itself. It can provide a set of operations with certain assets, namely the sale of certain main funds and not yet installed equipment, if it can be done temporarily without it. Restructuring also includes convolution of risk investment projects, presence of which at enterprises is large, sale of excessive inventory, search of radical forms of refinancing of accounts receivables or through the compulsory enforcement of it through arbitration court or through factoring, when the business entity gives to factoring company the right to receive cash according to the payment documents in exchange for the immediate receipt of fixed amounts of accounts receivables, or through accounting of bills on the stock market and through the conversion of a commercial loan to a bank in the form of endorsement of bill of exchange in favour of the bank.

Moreover every company in overcoming a bifurcation point in terms of the emergence of a business conflicts will require different amounts of financial resources. In general, it should be kept in mind that they can come both from internal and external sources. Therefore the main task of the
business entity is to provide in full amount the conditions of sufficient formation or transformation of the structure of financial resources at the stage of preventing of financial and economic crisis, using a rational approach to the correlation of different funds according to the type of property. Great importance during the change of strategy should be given to the management of formation of financial resources when industrial and economic structure by itself selects terms of measures of financial planning—namely, long-term or short-term planning. Long-term financial planning involves determining the total need in resource (capital), the long-term formation of investment plan and long-term planning of liquidity of balance of entity [5,15]. Short-term planning of financial resources within one year after overcoming a bifurcation point needs the most specific determination of the amount and terms of payments and its high detailing. In case of deficit or surplus of liquidity of resources at the enterprise this problem is solves only by financial means.

In practice, an analytical evaluation of the financial condition of the business entity on the basis of certain financial and economic indicators is not always straightforward, as the decline in the share of debt in total capital strengthens the financial independence of the company, but at the same time narrows funding sources and opportunities to increase the efficiency of its activity. Thus, overcoming the point of bifurcation in business activity firstly it should be reached an acceptable level of economic protection with correction coefficient concerning the presence of outstanding business conflicts in order to ensure further sustainable economic and financial development in terms of the impact of constant internal and external threats that continually arise in market instability. It should be noted that with the growth of internal imbalances, in particular during long term business conflict, the business system will always approach to the bifurcation point, and its direction of development will branch out and choice of a particular direction at this point will depend, in most cases, on factor of randomness. Identification of a bifurcation point already states the fact of the specific overcoming of chaos and requires an immediate exit from this state by selecting a concrete decision [9].

The most difficult part in practical activity of flow of business is determining the coordinates of a bifurcation point or precise definition of the moment of the onset of this point. Most scholars consider the impact of macroeconomic factors in determining the moment of bifurcation, according to researches of Kadyrova A.S. concerning the analysis for instance of the automotive industry [8] it is taken into account the rate of reaction of delay of offers concerning proposed field of industry (λ); speed of reaction of delay of the actual capital investment from the moment of decision making about induced investments (k); Accelerator power in macroeconomic cyclical fluctuations of output of goods (ν), value which is inversely proportional to multiplier; savings coefficient (s); the elasticity of release on work (β); Okun’s parameter (γ). So the point of bifurcation (B) can be presented as a solution of the characteristic equation, where its final form will be represented by the expression:

$$B = \frac{1}{\lambda \kappa} \left[ \lambda + k - \lambda (1-s) \frac{\beta}{\gamma} \right].$$

Although in this calculation the time factor is not taken into account and it should be take into consideration that not all options are always constant. This applies, for example, to change of the speed of reaction of delay of proposal according to the relevant sphere of industry, which in another time period may correspond to the changed value (λ ± Δλ), similarly this applies to the value of speed of reaction of delay of the actual capital investment from the moment of the decision making on induced investment, which can also change in dynamics and will correspond to the value (k ± Δk). So at least during the change leastwise of two sizes the bifurcation point also changes its position (B^Δ), so in fact it will have a different moment of beginning, so then formula (2) will have another look:

$$B^\Delta = \frac{1}{(\lambda \pm \Delta \lambda)(k \pm \Delta k)} \left[ (\lambda \pm \Delta \lambda) + (k \pm \Delta k) - (\lambda \pm \Delta \lambda)(1-s) \frac{\beta}{\gamma} \right].$$

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In addition, under the influence of the negative consequences of unregulated business conflicts in business activity the moment of arising of bifurcation \( B_\delta^2 \) may come even earlier, then it should be considered an amendment \( \delta \), as an indicator of the presence of outstanding business conflicts, and therefore formula (3) is transformed into the form (4):

\[
B_\delta^2 = \frac{1}{(\lambda \pm \Delta_\lambda)(k \pm \Delta_\kappa)} \left[ (\lambda \pm \Delta_\lambda) + (k \pm \Delta_\kappa) - (\lambda \pm \Delta_\lambda)(1 - s)\frac{\beta}{\gamma} \right] - \delta
\]  

(4)

No later than at the time of the bifurcation it should be taken the only correct decision regarding the transformation of strategic management of business, including changes in financial strategy. Moreover a range of local control over the final financial and economic results of transformational actions in this situation should be sufficient in order to verify the accuracy of applied measures. The next step is to involve all the anti-crisis measures and in the nearest future to implement diagnostics of the integrated level of economic protectability of the enterprise as a control of the result of implementation of transformation of the strategic management in order to test the dynamics of major financial and economic results in various areas of activity of the business entity.

In this situation an integrated level of economic protectability of enterprise \( L_{EP} \) which is affected by the level of innovation, financial-credit and investment protection [16] and besides by the value of additional destabilizing influence \( \varepsilon \), which may occur if in the company any economic crimes are brought and disclosed as a result of misconduct, and by corrective coefficient \( \psi \). It is used to clarify the quantitative measurement of economic protectability within all components of economic protection that will equal to the value of the annual average possibility of appearance of business conflicts with certain negative consequences including the bifurcation nodal points that could be represented by mathematical dependence:

\[
L_{EP} = \prod_{j=1}^{n} \left( L^V_j - \sum_{j=1}^{z} \left| \Delta^i_{j} \right| - \varepsilon_i \right) - \psi \pm \Delta,
\]

(5)

where \( L^V_j \) - localized, \( r \) - dimensional scale for measuring the levels of constituents and the general level of economic protection of enterprise \( L^V = 10 \); \( \left| \Delta^i_{j} \right| \) - absolute deviation of calculated indices-indicators from standard values; -normative values of indices-indicators; \( n \) - number of diagnosed components of protectability \( n = 3 \); \( z \) - optimal number of selected indices-indicators; \( \pm \Delta \) - acceptable error that does not change the state of protectability within the fixing of low, medium or high level.

**Summary**

Thus, the mechanism of transformation of strategic management of business at the bifurcation point in terms of emergence of business conflicts in order to restore the economic development of business entity can be made more effective if to structure it according to the elements. When providing the benefit to transformation of the structure of financial resources at the enterprise in order to stabilize its full economic protection it must be based on the performance of the following principles: 1) after overcoming of a bifurcation point it should be subjected to aims of ensuring of sustainable financial economic growth of business entity for further control of its functioning with obligatory settlement of business conflicts; 2) to meet the minimum need in investment capital, using preliminary estimates of volumes of investments that would ensure the implementation of a corporate strategy of industrial and economic structure as well as of its functional minor strategies; 3) to provide financial equilibrium in the process of renewed strategic development of the company (usually it is achieved under condition of optimally matched structure of financial sources); 4) to minimize the cost of attracting of financial resources for every source of its formation, as this helps to reduce the average cost of capital of
company, and, correspondingly, to increase its level of financial profitability; 5) periodically to
diagnose the level of economic protectability of business entity and to check its value according to a
scale of allowable values due to the implemented methodology with adjustment coefficient of
availability of unsettled business conflicts.

In particular, each company must have effective individual programs of way out of the crisis. Some
of them have to be restructured and to reorient their production to production of competitive products,
to increase export potential and to reduce import.

There should be such prospects for further researches as to develop improved method of calculating
of coordinates of the bifurcation point or of moment of its arising in business activity on the
individual example of an industrial enterprise. It should be taken into account the impact on it of
maximum number of threats that can come both from internal and from the external environment,
particularly under the influence of unsettled business conflicts and various micro and macro factors.
Besides it should be determined a limited period of time when it is the most effective point to
implement transformation of strategic management of enterprise in order to overcome timely the
critical point and to reach rapidly in the future positive financial and economic results.

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