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Management Mistakes as Causes of Corporate Crises: Countries in Transition

Drago Dubrovski

A corporate crisis can be defined as a short-term, undesired, unfavourable and critical state in a company which has derived from both internal and external causes and which directly endangers the further existence and growth of the company. Although the state of crisis in the company can be affected by various interrelated external and internal causes, which as to intensity and appearance vary by company, the essence of the causes surely lies in the management of the company. During the period of transition all types of explained management mistakes could be found in Slovene corporate systems. Despite the fact that the hypothesis of an existing pattern of management mistakes which follows the changes in political and economic environment cannot be completely reliably confirmed, some outlines of such a pattern are in spite of all to be seen. If there is really a more or less valid pattern of management mistakes in corporate crises, and these mistakes appear differently with regard to changes in the political and economical environment in countries in transition, this could help decision makers to form a more grounded choice in the process of appointing new crisis or restructuring managers, every time according to their most appropriate competencies.

Key Words: crisis, internal causes, management mistakes, restructuring, transition, Slovenia
JEL *Classification:* M10

Introduction

From business practice and academic literature it is well known that management mistakes can be a prevailing internal cause of corporate crisis. However, the management mistakes are usually treated as a homogeneous group, neglecting that they are actually deriving from different bases, circumstances and periods. A classification of management mistakes is sometimes recommended, especially when crisis solving or radical changes are needed in a company in order to improve the chances for further existence and faster development.

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In this empirical and comparative article we tried to find and form a pattern of management mistakes characteristic for a country in transition. Based on several empirical researches and the author's own strategic management and restructuring consultancy practice in 55 companies from various branches in Slovenia from 1994–2006, working also as crisis management, some managerial implications are formed as a conclusion to the paper. Despite the fact that the hypothesis of an existing pattern of management mistakes which follows the changes in the political and economic environment cannot be completely reliably confirmed, some outlines of such a pattern are in spite of all to be seen.

This article starts with an explanation of definitions of some individual categories needed, which follows in the empirical part. A connection between management mistakes and corporate crisis is explained. On the basis of theoretical background and summaries from empirical findings, the concluding remarks are formed, together with applicable recommendations for business practice and further theoretical researches by using the case of Slovenia, which could also be applied in many related countries in transition.

Crisis and its Characteristics

In everyday reports, various professional studies, entrepreneurial and corporate papers one can often encounter quotes about natural disasters, various conflicts, business difficulties of larger and smaller proportions affecting companies, particular industries and even countries, which are, in one way or another, linked to crises. A crisis is an often used term for difficult, dangerous and future decisive situations and refers to an extremely wide area of natural, social, economic and mental processes (e. g., political crisis, economic crisis, financial crisis, oil crisis, environmental crisis, moral crisis, crisis of art, crisis of values, health crisis, middle-age crisis, etc.). In colloquial language the term crisis most often has a predominantly negative connotation, since it is connected to most varied unpleasant situations, and difficulties.

In regard to our debate we are interested in a company crisis (i. e. corporate or organisational crisis), referring to business or non-profitable and manufacturing or service organisations.

A crisis is inseparably connected to contemporary companies (organisations). With the rise of complexity of companies, which is interactively connected to various social spheres, the possibilities for the emergence of a crisis rise again, while the range of causes that can lead to a crisis also rises. If all other crises are added to this domain, we may consent that a crisis is as 'inevitable as death and taxes' (Fink 1986, 67) in today's business. 'Sooner or later, every business will be confronted with a crisis of some type. Its ability to manage the crisis successfully can mean the difference between survival and disaster.' (Spillan 2003).

When talking about a company crisis, a crisis can be defined as a short-term, undesired, unfavourable and critical state in the company which has derived from both internal and external causes and which directly endangers the further existence and growth of the company (Dubrovski 2004b; cf. Barnett and Pratt 2000; Barton 1993, 2; Buchalik 2004, 30; Fink 1986, 15; Heath 1998, 13; Kraus and Becker-Kolle 2004; Lerbinger 1997, 4; Mitroff, Pauchant, and Shrivastava 2006, 51; Moore and Seymour 2005, 31; Neubauer 1999, 8; Roux-Dufort 2003, 51; Slatter 1987, 61; Smith 2006, 7).

It is exactly from the indicated characteristics of critical circumstances, in which the management might find itself, that particularities of managing a company in crisis differ from the 'classical' strategic management. Crisis management is of short-term nature, by all means, when the survival of the company must be given priority in comparison to developmental objectives. Crisis management, therefore, is a particular part of the contemporary strategic management, characteristic of a company in serious difficulties, when the afore – mentioned characteristics of emergency circumstances are to be accounted for. Due to ever rising turbulences in the internal and external environment, the 'classical' management actually acquires a rising number of characteristics of crisis management.

Hart, Heyse, and Boin (2001) point out that the practice of crisis management has significantly changed during the recent period, which is indicated by the following characteristics (cf. Boin and Lagadec 2000): the society has transitioned from the industrial into a more risky one, globalisation enables a more rapid and simplified movement of products, services, technology, people and information, therefore, in the environment of such a complex network of links the level of risk increases; if the level of safety in the society increases, the people and institutions become more vulnerable when something unpleasant, dangerous happens; instead of a heroic answer to a crisis, multi-domain and cross-border measures are required (a crisis affects both the local and the regional as well as the national level, occasionally the multinational as well); instead of episodic measures during a crisis, a continuous crisis management is to be developed (preventive and curative treatment and learning from the crisis).

A crisis, therefore, is an initiator and orienteer of rebuilding a company. Most often, a prior solution of an acute crisis, which could lead a company not only backwards but even into a downfall, is a precondition for the achievement of renewal of a company. Successful renewal of a company is often a consequence of a previous severe crisis, since reconstructing the corporate processes and structures that enable efficient and successful operation would not have taken place if the company had not been forced to change the (less successful) methods of operation and strategic orientations.

Here, referring to the supplied and stated definition of a crisis, a crisis usually emerges due to an intertwined impact of external and internal causes, and an analysis of these and of their connectivity is of key significance for healing, i. e. for overcoming crisis.

Symptoms are to be Detected and Causes of Crisis Resolved

SYMPTOMS OF CRISIS

Symptoms are signals which point to or predict a crisis. Their timely detection and response by the company, with proper actions and activities, can abate consequences the of an already present crisis or even prevent it. It is, therefore, of extreme importance not to overlook, disregard or underestimate these signals, although they are not to be substituted with the actual causes of the crisis. Symptoms of the crisis, one may say, simultaneously permit various causes of the crisis; they signal – at the same time – the crisis, yet without being the cause of its origin.

Symptoms occur in different areas and often appear to be combined and linked together. It is very important to take into account that there is a time gap between their emergence and occurrence (process, appearance) towards which these signals point. Due to this, it is all the more more dangerous if the company does not perceive these warning signals or disregards them. When the signals are perceived, they are to be analyzed and interpreted in order to determine causes for the emergence of the events which indicate them, and to do away with or abate the causes by using proper measures and approaches.

In real life situations, many unsuccessful attempts are made to solve a crisis due to an inappropriate approach at the very beginning (Augustine 2000, 3; Platt 1998, 133). Numerous assessments of crisis presence and the measures required to solve it are based solely on various analyses of accounting reports (balance sheet, statement of condition, statement of financial flows and consequently derived indicators), while overlooking the fact that the accounting reports be a solely recorded consequences of past decisions and it is not necessary that the accounting reports are trustworthy reflection of the present state of conditions in the company. The accounting reports are absolutely necessary for the analysis of the present position of the company, however, they are not sufficient to reach the decisions for solving a potential state of crisis.

Perception of clear and underscored symptoms of a crisis cannot, in principle, represent a problematic task in case of a thorough and sufficiently well skilled management (Roux-Dufort (2003, 23) indicates the following equation of a crisis: 'crisis = accumulation of ruined equilibriums + ignorance of management', pointing out the insufficient 'vigilance' of management). Most often, even continuous and direct communication with personnel and with the representatives of organisations from the environment and repeated presence in the key locations of the corporate process (visits to consumers and suppliers, warehouse inspections, inspections of the manufacturing process, etc.) should be sufficient and can have a beneficial impact, among other factors, on the motivation of the employees (the so called management by walking-around). An accurate interpretation of the causes for the emergence of a crisis and possibilities for its removal is, indeed, a more complex task.

In the period of emergence of a crisis the management plays a vital significant role in regard to timely and sufficiently watchful perception of the symptoms indicating a potential crisis. If the management does not react to these symptoms or reacts incorrectly, the crisis is almost inevitable.

CAUSES OF CRISIS

In comparison with symptoms, on the other hand, which only point to the state of crisis, the causes are actually 'responsible' for the present position. When talking about crisis solving, one must consequently analyze and do away with its causes without focusing on its symptoms. The analysis of proper causes of occurrence of a certain state is of extreme importance since it identifies those areas (processes, appearances, events) the effects of which must be restrained and reduced. Addressing the wrong causes means further useless waste of time, money and effort, which only intensifies the state of crisis.

In spite of the fact that the literature states various classifications of the causes of crises (some sources are e. g. Bellinger (1962, 58), Buth and Hermanns (2004), Kraus and Becker-Kolle (2004, 15–16), Mitroff, Pauchant, and Shrivastava (2006, 51), Müller (1986), Pate (1999, 55), Richardson (1994), Slatter (1987, 25–55), Turner and Pidgeon (1997), Wildemann (2004, 193)), it is nevertheless possible to say that the definitions of the causes are, more or less, similar but differ in their terminology, time when they were drafted, the domain that they refer to and the type of business which is predominant.

The causes of emergence of crises may be divided into: external, and internal.

The external causes of crises are usually those that have emerged in the environment of a company, while the latter had no significant influence on their emergence. Therefore, they are frequently denominated as objective or exogenous. The internal causes, on the other hand, are those that have emerged within a company and, hence, are denominated as subjective and endogenous.

The external causes, therefore, are certain changes in the environment of a company that have not been timely recognised by the latter and have not been timely and appropriately reacted to. The same change in the environment can have an unfavourable and retarding symbol for one company, while having a favourable and accelerative indication for another. Since the change is the only constant in today's life and business, crises actually continuously emerge.

Even state aids can be classified among the external causes, in spite of the fact that the budgetary funds were particularly intended for resolving or preventing crises, if the management of a company does not prepare or accept appropriate measures due to the external funds received, but seems satisfied with cosmetic corrections, which can only postpone the emergence of a crisis (more on this in the last section).

Examples of the internal causes can be found in the following domains (Dubrovski 2004a, 37–38):

- improper competences of the management,
- retarding organisation,
- uncompetitive market position,
- problems in the personnel management domain,
- over-expensive production,
- neglected financial function,
- inefficient informational system, etc.

The listed causes are to be treated as a helping-tool in analysing the position of a company, since it must accounted for that each company, along with its processes, products, history and the involved participants, represents a peculiar corporate system and, therefore, must also be studied as such.

For the emergence of a crisis the management frequently 'blames' a particular individual, i. e. the last event (actually the trigger) that is merely the last drop over the brim; the reasons for the crisis are to be sought in all other drops that have filled the glass to the top. The motive is the direct effective cause, while the crisis actually emerges on its basis. The motive can be lesser, in principle a less significant event that triggers a chain reaction of all other impacts, whereas their roots (causes) might extend for many years back into the past. As well as in regard to symptoms, it must be pointed out that the motive is not the fundamental cause for the crisis but the cause is still to be discovered. Resolving the crisis, therefore, must not be orientated exclusively towards the motives, since these would not have been fatal if the factual causes that had brought about the culmination of problems, i. e. the crisis itself, had not been previously present.

An analysis of the true causes for the emergence of a certain state is of extreme significance, since those domains (processes, phenomena, events), regarding which the effects are to be limited or done away with, are identified by utilising the analysis. Dealing with erroneous causes represents a further useless loss of time, money and efforts, which only makes the critical situation even more acute.

Although the external causes play the key role for the emergence of a corporate crisis in many cases, those that emerge within a company itself nevertheless predominate. The external environment, in principle, represents the aggregate of uncontrollable variables that have to be adjusted to by the company, along with its internal processes, structures, strategies and the marketing mix, which represent the aggregate of controllable variables. If a company does not adjust to the external variables, then it may be possible that the internal causes exist for this reason. Or to put it differently: potential external causes of a crisis can be successfully eliminated by internal changes (adjustments) in the company.

It was already pointed out in defining a crisis that, in principle, both internal as well as external causes, when intertwined, brought about a critical situation (the so called multi-causability of a crisis or also 'polymorphous phenomenon' according to Hensen, Desouza, and Kraft

(2003)). Mellahi and Wilkinson (2004) state that the organizational failure is connectively influenced by environmental factors (technological uncertainty, regulatory changes, economic changes), ecological factors (density, size, age, industry life-cycle), organizational factors (management tenure, homogeneity and successions, past performance) and psychological factors (managerial perceptions). According to Hamilton and Micklethwait (2006, 1) the main causes of failure can be grouped into six categories: poor strategic decisions; overexpansion and ill-judged acquisitions; dominant CEOs; greed, hubris and the desire for power; failure of internal controls at all levels from the top downwards; and ineffectual or ineffective boards.

When the management merely analyzes the causes it, almost without exception, overestimates the external causes while underestimating the internal ones, which is reasonable since the latter are a direct criticism of the same management up to the point in time in question. Therefore, in the case of a detailed analysis of the causes, an objective and neutral, – with regard to the implementer –, overview of the causes must be certainly prepared, which may be most effectively carried out by skilled consultants, owners, debtors, industrial experts and others, and not be left to the existing management.

Researches also show that people tend to overestimate their own influence on successes while they blame failure on external uncontrollable factors (Mellahi and Wilkinson 2004).

The key cognition in this part of the debate is that the analysis of the causes of a crisis must not be left solely to the views of the (existing) management, since its selection of causes can lead to a wrongful resolution of the crisis, which only deepens the latter.

Management Behaviour in the Crisis Evolution Process

In regard to a company, the consequences of a crisis are visible both internally as externally. Generally they can be classified into two groups:

- worsening of the indicators of the business performance (profitability),
- altered behaviour of the involved participants.

Decline causes managers to dislike and avoid one another, conceal information, and deny responsibility. Secrecy, blame, isolation, avoidance, lack of respect, and feelings of helplessness create a culture that makes an already bad situation even worse. Once a company is caught in this spiral, it is hard to simply stop and reverse direction (Kanter 2003). In a stressful situation managerial inflexibility usually increases (Slatter 1987, 67) and shortens the time horizon (short-term values become more important).

When a company faces a critical state, in most cases the behaviour of internal (employees, the management, unions) and external participants (owners, debtors, suppliers, competitors, consumers, state institutions) alters, representing different reactions (even serious conflicts) to such a state of the company.

Even in a normally operational company natural contradictions in expressed interests (e. g. employees and owners, insured and uninsured creditors) exist and are balanced (counter-weighted) in normal circumstances. Thus the company actualises the interests of all participants. In an acute crisis the balances are lost, since each participant attempts to secure its own interests that can only be achieved by the way of violating the interest domain of another participant. Contradictions, therefore, extremely strengthen during an acute crisis, and the divergence of interests is more intensified. Regarding their role and position, not all participants of a company have the same interest nor the same power or influence. Since individual participants attempt to achieve different benefits, their interest behaviour is also different, both inside the company as well as outside it, or generally in regard to it.

This cognition is of key importance for crisis healing projects and must not be neglected nor underestimated by the crisis management in any case. The emphasised divergence of interest, which is characteristic of the period when a severe (acute) crisis emerges, even further complicates the already demanding internal and external relations of the company. Besides this, it must be accounted for that each interest group has its own indicators, criteria and time frames for judging the successfulness of the crisis healing project, which is particulary significant in the crisis healing phase.

Since the management cannot be directly blamed for the emergence of a crisis, in connection to the mentioned guidelines for operating in critical circumstances, the focus must be two key problems that are directly connected to the level of successfulness, both of preventing crises as well as healing crises:

- measures are starting to be carried out too late when the possibilities of a favourable outcome are very limited;

TABLE 1 A pattern of management contribution in different phases of crisis development

Phases of crisis development	Contribution of management	
	Positive	Negative
Crisis emergence	Successful leadership	Unsuccessful leadership
Crisis identification	Facing real causes of serious problems and taking actions to suppress these causes	Overlooked or neglected symptoms, self-deception
Crisis healing	Immediate, deep and radical use of the right combination of crisis management measures	Lack of realism, passiveness, dealing with inappropriate causes or failure to take right measures
Crisis resolution	Performing revolutionary methods of changes to reach a company renewal (restructuring, reengineering)	Erroneous, untimely or insufficiently integral or radical measures

- measures are begun to be carried out insufficiently generally and radically, thus not relieving an acute crisis which even indicates the down-fall of a company.

If the new management is successful at healing the crisis, the prior management – which personally often experiences this success as a failure – attempts to devaluate the latter, so that the prior state of affairs is represented as non-problematic or the possible achievement of the company as a consequence of its efforts in the previous period.

The management, therefore, may actually aggravate to the development of crisis in:

- the phase of emergence (unsuccessful leadership),
- the phase of crisis identification (overlooked or neglected symptoms, erroneous causes),
- the phase of stopping the negative trends (lack of realism, passiveness, dealing with inappropriate causes or failure to take measures),
- the phase of crisis resolution (erroneous, untimely or insufficiently integral or radical measures).

The emergence and development of a crisis can be significantly influenced by the management, regardless of whether the critical period had been strated predominantly by the internal or external causes (table 1).

Types of Management Mistakes

The emergence of a crisis is influenced jointly, i. e. parallel and in an intertwined manner by both the internal and external causes (events, phenomena and processes). Very few critical circumstances exist that are an exclusive consequence of the first or the second type of causes.

Although the state of crisis in the company can be affected by various interrelated external and internal causes, which as to intensity and appearance vary by company, the essence of the causes surely lies in the management of the company (Clarke, Dean, and Oliver 2003; DiNapoli and Fuhr 1999, 6; Hamilton and Micklethwait 2006, 1; Kraus and Gless 2004, 116; Müller 1986, 376; Platt 1998, 16–17).

The above assertion is confirmed by various researches and even more by empirical data deriving from analyses of individual cases. According to Bibeault's studies (1982, 35), in 70% of cases the problems can be attributed to internal causes and, among the latter, the management predominates. Platt (1998, 16–17) mentions the analysis of causes of 1,335 companies, based on opinions of crisis managers, official receivers, bankers and other creditors, according to which 87% of causes for the failure of companies are attributed to internal causes, with 'inefficient management' in the first place (lack of capital and over-extensive indebtedness follow). Such a cause was also indicated in the first place by the research of the consulting house PriceWaterhouseCoopers (DiNapoli and Fuhr 1999, 6). Similar findings are mentioned by Müller (1986, 367) and the Australian study (Clarke, Dean, and Oliver 2003), which hold that a corporate crisis is actually a 'crisis of the management', since, according to them, the management is the most significant cause for the crisis. Müller even quotes the German banker Hermann J. Abs that bad sectors do not exist, but poorly led companies (Müller 1986, 617). In the context of the same findings can be placed the analysis from 30 years ago by Argenti (1976, 123), which stresses that the very 'bad management' is the point of departure for all other causes that could have even been prevented by a 'good management'. Otherwise, Argenti cites 12 different causes of crises, while, as already mentioned, the inappropriate management occupies the first position. Kraus and Gless (2004, 116) point out that at least 2/3 of corporate crises originate from mistakes of the management both at the operative level (internally) as well as in strategic guidance (externally).

Management mistakes can be divided into three groups:

- different acting of the management which proves to be inadequate or less appropriate, regarding the perceived problem (wrong or bad business decisions, mismanagement),
- omission of the correct and timely acting when any decision is made, despite the fact that actions are necessary (stoppage or redirection of negative flows, lost opportunities, etc.),
- immoral behaviour (unethical decisions, abuses, deceptions, accounting scandals, criminal offences).

While the erroneous managerial decisions (e. g. unelaborated investments into new technologies, a takeover of a company), which can be influenced by external causes, are visible, ascertainable and provable, the omission to act, on the other hand – which was necessary in a particular moment – is less ascertainable, although this very group can be considered as the most dangerous causer of crises. Hartley (2005, 2) divides management mistakes into two main groups: mistakes of omission (no action was taken) and mistakes of commission (bad decision, wrong actions taken, etc.). Evaluation of the successfulness of the management will often be possible in a longer period by a comparison with the competition or with the average of the industry, while actually one can never ascertain whether a hypothetically different management would have been more successful in the same circumstances. What does e. g. an overlooked business opportunity taken by the competition mean? What does developmental (technological and programme) passiveness mean? What does unpreparedness for carrying out fundamental interventions into inefficient structures and processes mean? All these cases are not about erroneous business decisions, but about a lack of whatsoever decisions and practices that can trigger a severe crisis as a consequence of their adoption of an erroneous decision.

Sheppard and Chowdhury (2005) pointed out that there are four essential points one needs to know in order to understand organizational failure:

- failure is not typically the fault of either the environment or the organization, but rather it must be attributed to both of these forces, as failure is the misalignment of the organization to the environment's realities;
- because failure involves the alignment – or misalignment – of the organization and its environment; it is, by definition, about strategy;

- because failure deals with strategy, we can make choices to accelerate it or avoid falling into its clutches;
- because organizational failure can be avoided even after a decline – rapid or prolonged – the ultimate failure of the organization really stems from a failure to successfully execute a turnaround.

In business literature regarding mistakes of the management various theoretical debates can be found on the question of how such mistakes came about. On the one hand, classical industrial organization and organization ecology scholars have typically assumed a deterministic role of the environment and argued that managers are constrained by exogenous industrial and environmental constraints leaving them with little real strategic choice, and hence the managers' role should be ignored. Sometimes a change is hard to predict and it heightens uncertainty for key organizational members. Criticism is related with the question of why it is that firms in the same industry facing the same industry-level constraints fail while others succeed. In addition, studies have demonstrated that performance is determined by the firm strategy more than by the industry.

On the other hand, the organization studies and organizational psychology literature take a more voluntaristic perspective and argue that managers are the principal decision makers of the firm and, consequently, their actions and perceptions are the fundamental cause of organizational failure. Critical remarks of the latter are connected with over-reliance on internal factors (Mellahi and Wilkinson 2004).

Mistakes are a constitutive element of the process of strategic management and, due to an unpredictable and turbulent environment, will always exist. There is no 'right' or 'wrong' in making business decisions – decision-making is not like mathematics where you can prove that something is 'right'. Business decision-making is far more situational – the right decision today is really just the 'best decision' based on the current situation, what is known, and what the options are' (Kow 2004). Omissions of the correct and timely acting are of key importance for further development of a company, when measures, activities, developmental programmes and so on are not being carried out, which represents a loss of opportunities that would enable further existence, i. e. a more rapid growth, while simultaneously the competition is taking advantage of the same opportunities and increasing its power at the cost of the inactive company. 'Even the most successful organizations make mistakes but survive as long as they maintain a good 'batting average' of satisfactory decisions' (Hartley 2005, 333).

Empirical Findings

THE CASE OF TRANSITION PERIOD IN SLOVENIA

The period of transition has caused similar macro-economic consequences in all transitional countries. At the beginning of the transitional period the countries lost markets in Eastern Europe and in the Balkans, which initially led to a decline in GDP and a higher unemployment rate. Such circumstances led to a decreased aggregate demand and supply, i. e. to stagnating economies. The companies from transitional countries, sometimes facing deep crises, were forced to refocus their operations towards the markets of the EU, which required integral and drastic restructurings. A rapid and expansive privatisation of companies, in state ownership, was the primary objective of all socialist countries, since it was expected that the privatisation and autonomy of companies would trigger an increased interest both on the part of the labour force and on the part of the management for improvements in efficiency and successfulness of ventures.

Slovenia, according to numerous indicators, is completing the transitional period that began in 1991 with the formal emancipation from the prior federal country of Yugoslavia and was followed by the formal transition from the socialistic social order, by the transition from the one-party party system to the pluralistic parliamentary system and the transformation of the state (social, public) ownership into the private (the process of privatisation).

The political changes had profound economic impacts, particularly for those industries and companies that were entirely or predominantly oriented to the relatively favourable Yugoslav market, which was practically completely closed in that period due to the events that followed the disintegration of Yugoslavia. Therefore, the managements, which were not accustomed to highly competitive environments typical of global markets, were forced to seek substitutive markets actually 'over-night', whereas superior quality, attractive prices and an appropriate marketing approach had to be provided. It can be concluded from the stated excursus that the position of an individual company within an industry must be monitored from the perspective of the circumstances in the industry, which can be identical to the economic conditions in the region or the country; it may also be better or even much worse.

Profound revolutionary changes both on the domestic as well on the world scale (globalisation) had brought tremendous pressures on the existing management. At that time, extensive manufacturing orientation dominated, typical of all socialistic economies, a spontaneous (ad-hoc) approach prevailed in comparison to a planned and systematic one. There was a deficit in knowledge in other domains (primary marketing) and a poor acquaintance with the international trade (varied among industries), since most of the transactions were carried out in the internal (ex-Yugoslav) market.

Consequently, the first stage of the transition (1991–1996) was characterised not so much by erroneous (bad) management decisions but predominantly by omissions to act, i. e. preparations for and carrying out measures for an integral strategic restructuring (programme-market, developmental-technological, manufacturing, financial, personnel, organisational, informational, etc.). A lack of experience and knowledge in the field, sometimes also a lack of political will, prevented a more successful restructuring of numerous Slovene companies that either ceased operating or underwent a perspectiveless agony with the help of state aids.

According to the German model (Treuhandanstalt), the Fund for Development was established in Slovenia that became the owner of 98 companies, employing 56,000 people, i. e. 10% of all employees. The aggregate loss of these companies, which was defined as irresolvable without state aids, amounted to approximately 1 billion EUR. Until the end of 1993 new management replaced the prior ones in 70% of the cases. Since the new temporary 'state' managers were insufficiently skilled, a series of numerous *erroneous strategic managerial decisions* were taken in these companies, while in certain instances even *immoral deeds* were not a rarity. In the companies, which had been in one way or another taken under the state umbrella, *omissions of acting* did not dominate, since the temporary managers were forced to carry out any measures available; however an abundance of wrong or bad decisions followed as a consequence of insufficient skilfulness and unorganised operation that could have been avoided in many cases. Mistakes of the management were 'covered' by the additional state aid.

After a relatively short period of independence many companies faced a new shock when Slovenia became a member of the European Union in 2004 (rules of the EU were actually effective even before, as of the Stabilisation-Associational Agreement), once again differently experienced among industries and individual companies. Likewise, the story from the beginning of the transition was repeated once more when many companies did not adjust their operations to the new circumstances (omissions of management to act), although, due to the bitter experiences from the past, there were considerably fewer such failures (the reason can also be found in the private ownership of the companies). Those industries which had been in a more or less healthy state due to the protectionisms – again having various origins regarding both the Slovene as well as the former Yugoslav market space where these companies were dominant (e. g. food-processing industry) – reacted worst. By the accession to the EU, Slovene companies lost their competitive advantages in those markets in comparison to other EU countries.

Types of Mistakes – Is there a Distinctive Pattern?

During the period of transition all types of management mistakes could be found in Slovene corporate systems, which is not surprising, or contradictory to the other economic environments. The influence (extent)of these errors differed during individual periods and with regard to the characteristics of the external and the internal environment, where individual companies operated, thus, fundamental typical patterns evolved.

One can ascertain that the omissions of the correct and timely acting played the key role during the period of transition and erroneous decisions; on the other hand they continued, to a lesser extent, while such decisions predominated in cases when the company was receiving significant state aids. The mistakes, are, indubitably, a constitutive part of the management process. Where the environment is more turbulent, as was true for Slovenia, there were greater possibilities for mistakes that, in regard to the dramatic changes in the environment, were generally not 'too extensive' . If a company operates in an industry which is characterised by a high, above average, growth rate, then the mistakes or troubles that would represent a severe critical situation in a poorly positioned industry would not have lethal impact. This means that the subjective decision (the internal cause) was directly connected to the events in the environment (the external cause). Simplified, it is still true that a company, operating in a stagnating industry, must make more key decisions in a short time period and often without an appropriate support, which, all together, only increases the possibilities for mistakes.

In the second period of the economic part of the transition the objective for Slovene companies was to increase primarily their competitiveness, i. e. the value productivity and to catch-up with the developed countries. According to the value-added per-employee indicator (27,000 EUR), the Slovene processing industry is lagging behind the average of the EU-25 40% (2005), although this varies among industries. Regarding the fact that Slovenia was the most developed accession country, according to most indicators at the point of accession, a comparison with the 'older' members (the EU-15) would show a lag of 2 to 4 times.

Slovene companies, therefore, will have to boost the development of products incorporating a higher value added, which, once more, demands complete commitment and skilfulness of the management. On the average, an insufficient part of the developmental, innovative component in products and services of producers is one of the key problems of the Slovene economy.

International comparisons indicate that the intensity of restructuring in the processing industry in Slovenia in the second half of the 1990s was higher than in the eleven out of thirteen countries of the EU (for Ireland and Spain the data are missing) and slower compared to the three transitional countries, for which the data (UMAR 2002, 24) are available (Hungary, the Czech Republic, Slovakia). Although the value added per employee has increased in real terms, the contribution deriving from factual successful restructuring of companies is far lower, since quite a few large unsuccessful companies have disappeared in this period and their absence from statistics had a significant influence on calculation of the average. Since the value added in real terms is also rising in the EU, Slovenia's lagging according to this indicator is not decreasing, taking into account the afore – mentioned influence of the 'failed' companies. This practically means that it cannot achieve the EU-25 average by an evolutionary change. The solution, therefore, can be sought in a revolutionary change of the economic structure that is ever more being characterised by sophisticated services. Simultaneously this solution is to be sought in abandoning and outsourcing the unprofitable mass non-sophisticated production in individual industries, as well as in individual companies, where transition into narrower market segments and market niches represents a real opportunity, likewise in a revolutionary manner. Exactly at this point a danger lurks again that the restructurings are not sufficiently rapid, integral and radical, i. e. *the danger of omission of the correct and timely acting* appropriate and timely reactions by management, which, due to a required compensation of the lagging regarding the developed countries, is actually necessary.

TABLE 2 A pattern of management contribution in the Slovene transition period

Period	1991–1996	1997–2003	2004–
Key features	Lost markets, stagnation, deep crises	Programme-market restructuring, state aid	EU integration, higher value added is needed
Prevailing management approach	Spontaneous, ad hoc approach, lack of strategic management	Introduction of planned approach with basic elements of strategic management	Planned, systematic approach, further development of strategic management
Prevailing management methods	Crisis management	Restructuring projects	'Classical' strategic management
Prevailing types of management mistakes	Omissions of the correct and timely acting	Wrong or bad decisions; immoral behaviour	Omissions of the correct and timely acting

When considering crisis management less critically, there are often opinions to be heard that the latter is typical only of periods of the so-called transition of the economy, when the weak companies that are allegedly in need of crisis management are presupposed to go bankrupt, while only the successful companies, not operating according to the principles of crisis management, are to survive, therefore, the significance of the latter will diminish. Unfortunately, both the international and the domestic experience indicate differently. If, presumably, Slovenia completed its 'period of transition' with the accession to the EU, then the period of severe crises in companies has not ended, on the contrary, for many the latter has just begun due to this very reason. A significant lagging of the Slovene processing industry behind the average of the EU-25 (even more of the EU-15) indicates that the Slovene management will be forced to make rapid and often radical and environmentally appropriate moves in the future, when there will be increasingly less space for management mistakes that could have been kept secret during the period of transition (table 2).

Because the environment for conducting business is becoming ever more complex and turbulent, crises become ever more complex, interrelated and interdependent as well (Boin and Lagadec 2000). Even small deviations from the initial guidelines may lead to a rapid escalation of the problems. Therefore, the measures for remedying the crises are becoming more demanding and extensive.

MANAGERIAL IMPLICATIONS

In the economic perspective of transition, the management in Slovenia played one of the key roles, since they had to operate in circumstances characterised by the domestic as well as the foreign environment, both rapidly and drastically changing (globalisation). Beside numerous successful restructurings of companies, all types of management mistakes occurred, which were characterised by certain peculiarities in the transitional period. While the extent of *immoral behaviour* can be suppressed on the longer run by a greater assertion of moral codes, on the one hand: 'one natural way to facilitate moral outcomes is through organizational cultures where certain principles, norms, and values are internalized and fully motivating' (Smith 2005), and by a more efficient control, better accounting standards and even penal policy on the other, the *erroneous behaviours (wrong or bad decisions)* by the management can be reduced by their greater skilfulness regarding the complex processes of restructuring and catching-up with the competition. *The omissions of the correct and timely acting* of the management, on the other hand, can be prevented by a decreased influence of the state.

The omissions of the management, as one of the groups of mistakes, are otherwise problematic for identification (whether a different management would have been more successful during the same period), therefore, strategic alternatives ought to be pointed out, where even the supervisory body (board) can have a significant consulting role. This body, however, needs to be properly qualified. If management mistakes take place during a period of emergence of a crisis, then the mistakes are not to be given opportunity during the period of crisis healing. The greater the political influence, the less frequently are management mistakes are less frequent visible, since a wider consensus of the participating sides is usually reached prior to making decisions, while the influence of omissions of the management is greater. The state aid, therefore, must not be an abetment to the management for the strategic decisions not to take place. The lesser the political influence, the more activities will be required, whereas the mistakes can be more frequent but still less fatal than the potential passiveness (the failure to act).

Thus, the hypothesis, that the omissions of the correct and timely acting of the management during the transitional period may be more dangerous for a company – since they are more vital for the existence and the development compared to the classical mistakes – is confirmed in basic outlines, taking into consideration the related categories as they are explained and understood in this article. The omissions are only more visible in the longer run and often scientifically not possible to confirm. The companies or industries, lagging behind the competition or the previously set developmental objectives, cannot afford omissions to act even for the potential cost in the form of mistakes. If there is really a more or less valid pattern of management mistakes in corporate crises, and if these mistakes appear differently with regard to changes in the political and economical environment in countries in transition, this could help decision makers to adopt a more grounded choice in the process of appointing new crisis or restructuring managers, every time according to their most appropriate competencies.

By taking into account many limitations of the mentioned confirmed hypothesis there remains a lot of space for further and deeper researche.

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