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Specific Counter-Crises Management Strategy for Private Sector Enterprises in Uzbekistan

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Abstract
In the last two decades, private sector developed and number of businesses increased progressively in Uzbekistan, and there has been a shortage of effectively managed business crises derived from different origins. This paper analyses the current profile and structure of private sector and business environment to discover the country-specific financial crisis prevention and recovery measures and long term strategies to help enterprises use crisis management more effectively.
Keywords: financial crisis management, business continuity, private sector, transition economy, Uzbekistan

1. Introduction

Businesses are increasingly faced with crises which may have a different course, derive from other reasons, or have a different impact scale (Starosta, 2014). Coping with crises and their long-term implications are always difficult to avoid and disastrous to recover if faced. External support (often public or corporate), borrowing or recapitalization are nearly unreachable if the company is on the threshold of bankruptcy. However, there is a considerable difference in economic profile and condition of the country in which the business is operating. Business climate in developed and developing economies has several distinguishing features in terms of business support, access and requirements. In developing and transition economies, especially in post-communist countries, business psychology is comparatively new and emerging. Private ownership and free economic activity are also comparatively novice terms which coined after national independence and introduced during structural economic reforms. Therefore, private sector enterprises often face systemic crises stemmed from improper counter-crisis measures in developing and transition economies.

Recent studies and performance results have proven that financial crises in a company bring the biggest and the most devastating effect with no hope for recovering without external support. As undergone in all three waves of global financial crisis, companies faced systemic vulnerabilities due to volatility in the market and entire economy. As the main taxpayer and employer, private sector entities lost their absolute sound profile which led to high unemployment rate, sudden deterioration of public services and goods, fiscal imbalances and sovereign debt crises in long run. Asian Crisis of late 1990s and global financial crisis of the next decade eyewitnessed the importance of counter-financial crisis strategies at the firm-level in order to respond to hazards in the economy.

As a post-communist and rapidly developing economy, Uzbek economy is structured around totally different model called "Uzbek model". Long-term economic development strategy based on deeply-rooted principles of the model has been implemented well since national independence despite several systemic downturns faced in transition process. Difficulties in creating a private sector with a favourable business environment, protected ownership rights and investment climate led to serious shortfalls of experience and prudence in business management and continuity. Government launched a large-scale privatization program and ensured support for private ownership and entrepreneurship. This paper examines and assesses the applicability of several counter-crises strategies used in business climate of advanced economies, and offers a tailored set for crises management in private sector enterprises in developing and transition economies in the exemplary of Uzbekistan which responds to both country group requirements.

2. Literature Review

Business crisis management is a common issue with different solutions depending on the drivers and factors. Interestingly, business crisis means any kind of disruptions in the enterprise which lead to the collapse no matter how it derived or in what type it is: natural, financial, social or technological etc. As Shaw (2005) explained many inconsistencies in terminology found in the contemporary literature of the business community the hybrid term business crisis management has been coined and introduced as a title for an organization wide strategic program and process. However, Mitroff and Pauchant (1992) and Fink (1986) emphasize business crisis management as the unifying structure and term for strategic business protection, response and recovery and include business continuity as one of many supporting functions. But in the context of Uzbek private sector, business crises are derived from long term financial problems and sudden economic shock in enterprises. Therefore, focusing on economic roots and solutions of business crises meets the objectives of the study. As Smith (2012) found, despite their best endeavours no organisation can have complete control over its business environment especially its financial stability and supply chain, and therefore, having an effective and appropriate business continuity management (BCM), economic crisis management capability. Smith's research findings can be of universalistic approach to business crises.

3. Business crisis and its behaviour

Business crises are often created by mismanagement of the company – injudicious expansion or diversification, fraudulent behavior has led to the demise of some major businesses in recent years. Increasingly, business crises are the result of the failure to have in place an issues management system which enables companies to spot greater forces at work such as the underlying economic tides of the 1980s boom and the early 1990s recession (Regester and Larkin, 2005). Because of the many inconsistencies in terminology, found in the contemporary literature of the business community, the hybrid term business crisis and continuity management has been coined and introduced as a title for an organization-wide strategic program and process.

Table 1. Factors of financial crisis in enterprises of market economy

Factors	Emergence of crisis factors	Possible consequences
Condition of domestic economy	Government tries to mitigate implications of deterioration in economic policy regulation through taxes, monetary supply and interest rates	Tighter taxation procedures; Higher interest rates; Longer financial constraints;
Political factors	Attitude of government towards businesses gets prohibitive or restrictive; the instability of the government; Uncertainty in legal and regulatory tools of government;	Deterioration of business and investment climate; Outflow of capital from economy
Legal factors	Inadequate antimonopoly regulation; Limited regulation of foreign trade activities; Backwardness of legislative framework;	Increase in revenues of monopolists enterprises due to higher prices for goods and services; Decline in gross production; Inadequacy in strength of legal framework; Limited access to foreign markets;
Social factors	Traditions, customs and distinguishing cultural values; Lack of financial management skills; Insufficient level of business conduct and psychology	Inappropriate decision making and management; De jure decentralization in administrative body of an enterprise
Technological factors	Limited public spending on science and technology; Low level of technological transfer	Lower quality and higher production costs; Low productivity and low competitiveness;
Relationship with consumers and suppliers	Slower revenue growth; Delays in input supply;	Growth in arrears; Decline in production and quality;

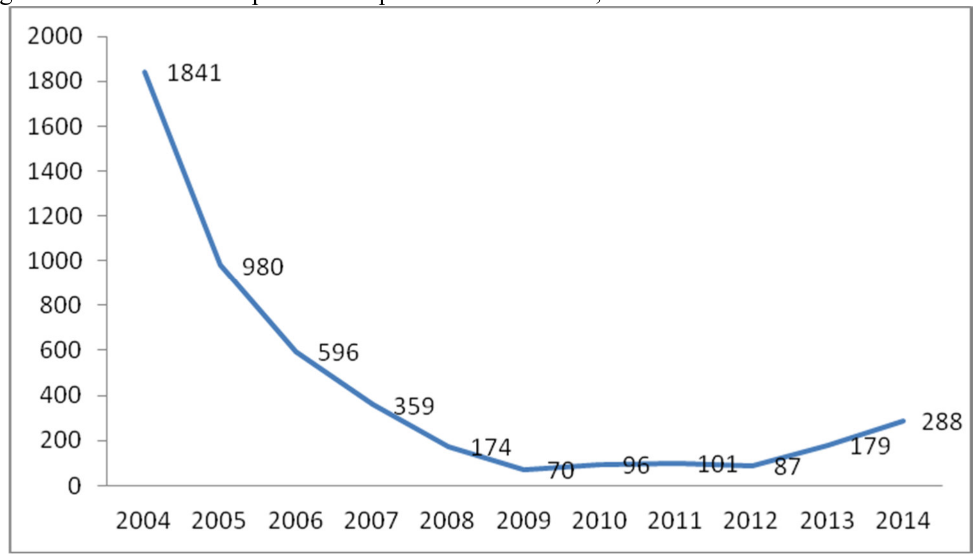
Korotkova, 2007

International experience proves that businesses often undergo crises due to mismanagement or high level of awareness of existing business risks from different origins and impact areas. Accumulation of potential risks in risk portfolio leads to sudden explosion whch may goes under hidden and clear implications with different span and impact scale. In most cases, business entities in highly competitive markets or in countries with unstable economy and external shocks face crises due to low possibilities of recovery and complexities in access to market. Nearly all enterprises, ranging from SMEs to large corporations, in advanced and emerging economies have launched economy-wide, market-wide and company-specific crisis management frameworks. Developing and transition economies have been introducing this practice into their business sector at different paces depending on economic structure and business environment. However, business rounds and academia have been debating on a common definition and general-recognized solution for business crises and continuity owing to the gap between practical and theoretical approaches, and specific differences in business structure and economic profile.

3.1 Business climate favorability and financial crisis management environment in private sector of Uzbekistan

A vibrant business sector is a vital ingredient for a smooth transition to market economy with large contributions to value added and employment (EBRD, 2014). As a progressive transition economy, Uzbek economy possesses an expanding private sector with regular governmental support in legislative and financial terms. Large scale gradual privatization policy and business support schemes removed the Soviet legacy of public assets from economy and public sector enterprises decentralized under different types of ownership. Introduction of business psychology and ethics, new management skills and strategies, business structures and operating services restructured the domestic economy.

Figure 1. Privatization of public enterprises in Uzbekistan, 2004-2014



Source: Author's compilations from releases of the State Committee of Uzbekistan on Privatization, Demonopolization and Development of Competition, 2015

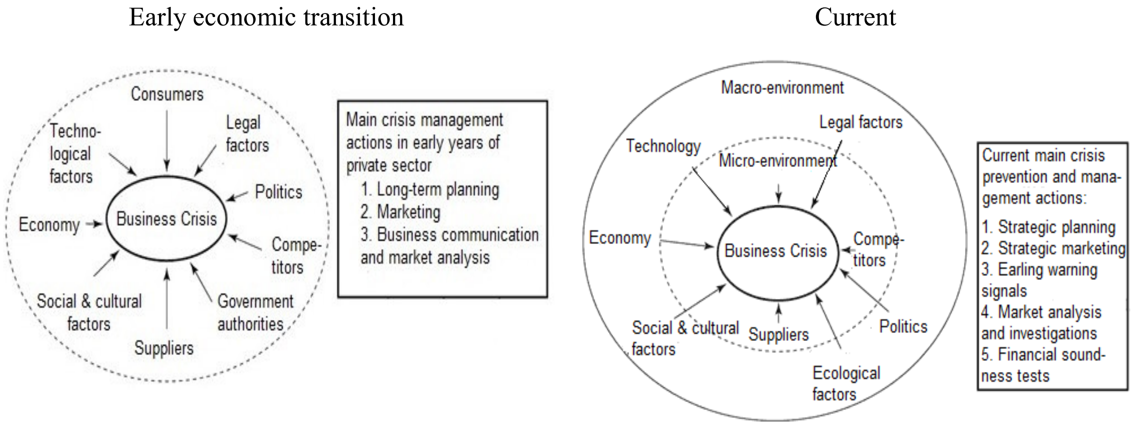
Multistage privatization policy facilitated the smooth transformation of ownership from public to private form. In consistent with socially oriented market economy principles, Uzbekistan decentralized absolute public ownership system on gradual basis considering the potential socio-economic effects (Figure 1). At the first stage of privatization accommodations were transferred to their dwellers, which were under the ownership of the government. The second stage was the most crucial step towards the adoption of principles of market economy. At this stage the government transferred public utility service providers to private hands. The last stage is remarked with large-scale effect in formation of business environment, multiple ownership statuses and organizational structures: privatization of large entities of goods and services. Along with public asset privatization, Uzbekistan removed the residuals of former planned economy through multisectoral economic system with sector specific reforms.

Nowadays private sector gains the dominant share in gross output and foreign trade in the economy. All sectors of domestic production have multilateral specialization and orientation to full market saturation and export facilitation. Small and medium-sized enterprises (SMEs) are the backbone of private sector of Uzbekistan. In order to ensure a favourable condition for SME development, the government has been taking series of measures in accordance with rapid reforms and transformations in transition process.

4. Specific counter-crisis management policy for Uzbek private sector

While smaller businesses tend to be more flexible and quick to change than larger corporates, they are much more vulnerable to deterioration in the business environment (EBRD, 2014). In the context of transition economy and dynamic economic growth, businesses, especially smaller ones, face great challenges in access to finance and market environment that they need to develop and grow. Following the patterns of companies from advanced economies, as proven by many enterprises, affect the enterprises of developing private sectors disproportionately, while they have less experience in financial management and risk avoidance, and often perceive themselves as riskier than the evidence shows them to be. Another edge of the case is that developing private sector needs smaller enterprises than giant corporations which may pose the issue systematic importance and becoming too big to fail. Therefore, Uzbekistan has been creating the necessary conditions for small businesses as a fundamental factor for economic growth. Alongside the restructuring of state-owned enterprises and promoting greater competition, Uzbekistan is ensuring economic balance in transition process through business support schemes by financial and legal tools. However, private sector enterprises are often responsible for their financial constraints and consequent crises due to their inappropriate decisions and taken measures in management and market policies. Lack of business conduct and management skills, absence of business analytical tools and prudent development strategies often bring risks from different roots. They may not understand the business continuity risk profile, business contracts, services and operations which have been extending the scope at an equal pace with economic development of Uzbekistan. As economy development transition to market principles root deeper, risk factors and their solutions in advanced economies emerges in domestic economy, as shown in Figure 2.

Figure 2. Comparative map of business environment, external factors and crisis management measures in early economic transition and present



Source: Hamdamov, 2014

Growth in number of suppliers and competitors poses different modes of financial risks which require the specific measures in consistent with economic condition and legal frontiers. As mentioned, absolute adoption of financial risk management practices in advanced market economies may led to default effect with high probability. In Uzbekistan's context, private sector enterprises prioritize the risk management strategies based on distinctive features, ongoing processes and prospective development target of national economy. Relevant modifications should be made for creating a country specific financial risk mitigation and financial crisis management policies and procedures (Figure 3).

Figure 3. Country specific financial risk mitigation procedure

Source: Author's modifications

In turn, insufficient experience and improper approach to business risks are common in all post-Soviet economies due to system-wide implications of planned economy still affecting the business mind and privatization policy prioritization which can be seen in business optimization and risk diversification practices. Steps in county specific financial risk mitigation procedure highlighted in Figure 4 shows main weaknesses and basic measures to be taken not only in condition of risk warnings but also on regular basis.

5. Conclusion and recommendations

Retrospective and case analysis of stability of private sector enterprises in Uzbekistan shows that significant weaknesses in financial risk management originated from unawareness or misunderstanding of legislative and systemic changes, and business support schemes. Deriving from the nucleus of the issue, following recommendations are proposed for private sector enterprises:

1. Timely monitoring and evaluation of market condition and enterprise's economic profile;
2. Setting specific early warning signals for risks in quantitative and qualitative measures
3. Setting financial risk management strategy for different scenarios;
4. Setting financial crisis recovery program and special roadmap for actions;

However, in order to stay sound and stabile in market, an enterprise is recommended to enhance its performance and avoid taking following measures even in tight financial conditions:

1. Minimize the production and stagnation of scientific, technical and economic potential;

2. Tighten the competition due to lower competitive status of the organization;
3. Deteriorate of the technical resources of the firm: depreciation of technological equipment, the use of obsolete service station; use of materials and semi-finished products, which reduce the competitiveness of products; use of legacy systems transformation, transmission and control of energy consumption, causing losses;
4. Weakening of human capacity: staff should not be focused on the use of command-administrative methods, performance of the traditional types of work due to a stable technology; providing technical, social and environmental security is not given high priority.

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