

## Chapter 8

# Methodology of Monitoring the Financial Situation of Enterprise

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### ABSTRACT

*A complex evaluation of the activity of the enterprise is based on research of the results at the actual moment; this is why many managers use accountancy appreciation records such as: profit from invested capital or income at an asset. The indicators of income and profit are not objectives and depend on the method chosen by the record. Besides, the accountancy methods used today for analysis are short-time, being oriented towards the research, in a long period of the added value of the company. The objective of this chapter consists in developing the theoretical-methodological and substantiation mechanisms of perfecting the management enterprises. The results show that the methodological indications suggested may be used at the organization of the monitoring system in a stable-functioning enterprise, at the activities of re-establishment of the payment capacity of the debtor enterprises, and at the procedures of external management.*

### INTRODUCTION

The dynamic economic systems of different enterprises intensively compete among them (Parveen, & Noor Ismawati, 2015). Today all the events are so focused and the processes are so interdependent that the slightest delay in this competition would mean defeat, moreover in the loss will not only the economy in the abstract meaning of the word, but also the standard of living of each human being (Bloodgood, & Morrow, 2000). That is why all the countries, regardless the level of developing must look at each other

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permanently and to take over the best accomplishments of competitors, as well as the way of developing of questions regarding the insolvability (Brown, & Harvey, 2006).

The implementation of market economy in Romania could not help generating a series of new problems, one of the most important being the problem of insolvability (Bolman, & Deal, 1999). Many enterprises could not adapt to the new economic conditions, which were in favor for the general political instability, the inconsistency of the implementation of the market reform, unfavorable investment climate, inefficient fiscal policy and other macro-economic factors (Pfeffer, 2012).

The analysis of the activity of enterprise where the arbitrary management is implemented shows that only a single type of insolvability may be present, which is due to many causes (Pettigrew, Woodman & Cameron, 2001). Some real measures of drawing the enterprises out of insolvability are different based on the initial causes and the conditions of insolvability (Kets de Vries, & Miller, 1984; Munro, 2014). It is important to be taken into account the previous situation. Insolvability develops step by step (Frahm, & Brown, 2007). If today the enterprise could not pay its liabilities it is possible to be happening due to external macro-economic reasons but other causes may exist as the wrong choice of the type of activity, errors in the evaluation of the volume of the market, irrational organization of management, investment policy.

The strict delimitation of the internal and external causes is almost impossible, the emphasis and analysis of previous errors contributing to the financial stability in the presence of unfavorable external factors (Levy, & Merry, 1986).

Insolvability appears under the form of misunderstanding of cash flows, when in the presence of entries cash flows of financial resources, the enterprise is insolvable and passes from the stage of falling in the curve of cycle of life to the disappearance (Pfeffer, 2012). The fact that shows that the enterprise passes to the stage of disappearance is the stagnation of production in the enterprise and the cause of stagnation is the non-payment (Peters, 1998). Thus, it appears the necessity of starting the procedure of bankruptcy.

Bankruptcy is an economic problem that is solved at certain legal levels (Day, 1999; Wong, 2013). The most important in the contemporary regulation of the process of bankruptcy is the emphasis of the balance between the creditors' interests and the tendency to keep the business (Witherspoon, & Wohler, 1996).

In this chapter it is presented the theoretical-methodological and the substantiation mechanisms for perfecting the management enterprises. The novelty, originality and the main scientific results are determined by the purpose and the task of the research, by the problems that are formulated and the solving methods, by the results obtained further to the complex analysis of organization and applying the technologies of management within the autonomous stage directions, by the conclusions and results of the research made.

## **BACKGROUND**

One of the major tasks of insolvability management in the industrial enterprises is the maintenance of balance for satisfying the investors' interests (shareholders) and workers (personnel). The decisive condition of the improving of insolvability situation is the finding of reasons and resources for the consolidation of the common actions of opponent subjects of the enterprise.

For determining the signals of appearance of the phenomenon of insolvency situation in the enterprise it is necessary the monitoring of its finances, which means a permanent surveillance of business and financial indicators and not just the work with accountancy reports. The analysis of these indica-

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