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THE REASONS FOR THE COLLAPSE OF ENTERPRISES IN POLAND

Businesses operating in a market economy cannot guarantee the continuity of their operations. In economic realities, in addition to developing companies that work well, there are also companies that go bankrupt.

The article aims to analyze the situation and indicate the reasons for the collapse of enterprises in Poland. To do this, an analysis of the number of newly created and liquidated enterprises was conducted on the basis of data from the Central Statistical Office and a synthesis of the causes of their collapse based on a review of the literature.

The division of reasons for bankruptcy of companies into microeconomic reasons (endogenous, internal) and macroeconomic reasons (exogenous, external) is the most common. Microeconomic reasons lie in the enterprise - that is in its organizational structure, in the management system and in the economic information system. Macroeconomic causes of bankruptcy are defined as factors that are outside the sphere of direct influence of the enterprise. However, they have a great influence on the functioning of the economic entity, because they are directly or indirectly in its environment.

External (exogenous) and internal (endogenous) causes of enterprise collapse differ in the ability to anticipate and prevent them, as well as the intensity of their consequences. It is difficult to unambiguously relate them to specific sectors, the size of the enterprise or place of business.

Internal causes have a significant impact on businesses, but they are easier to identify, control and correct. External causes (although the force of influence is similar to internal ones) are much more difficult to predict, and their consequences are very severe.

The paper presents a generalized list of endogenous and exogenous factors that cause bankruptcies.

Key words: *reasons for the collapse, bankruptcy, enterprises.*

Підприємства, що працюють в умовах ринкової економіки, не можуть гарантувати безперервність свого функціонування. В економічних реаліях, окрім компаній, що розвиваються, які добре працюють, є також компанії, які банкрутують.

Стаття має за мету проаналізувати стан та вказати причини краху підприємств у Польщі. Для цього було проведено аналіз кількості новостворених та ліквідованих підприємств на основі даних Центрального статистичного управління та синтезу причин їх краху на основі огляду літератури.

Поділ причин щодо банкрутства компаній на мікроекономічні причини (ендогенні, внутрішні) та макроекономічні причини (екзогенні, зовнішні) є найбільш частим. Мікроекономічні причини криються в підприємстві, тобто в його організаційній структурі, в системі управління та в економічній інформаційній системі. Макроекономічні причини банкрутства підприємств визначаються як такі фактори, що перебувають поза сферою безпосереднього впливу підприємства. Однак вони мають великий вплив на функціонування економічного суб'єкта, оскільки вони прямо чи опосередковано перебувають у його середовищі.

Зовнішні (екзогенні) та внутрішні (ендогенні) причини краху підприємств відрізняються здатністю їх передбачити та запобігати їм, а також інтенсивністю їх наслідків. Важко однозначно віднести їх до конкретних секторів, розміру підприємства або місця ведення бізнесу.

Внутрішні причини мають значний вплив на підприємства, але їх легше виявити, контролювати та виправляти. Зовнішні причини (хоча сила впливу схожа на внутрішні) передбачити набагато складніше, а їх наслідки дуже важкі.

У статті наведено узагальнений перелік ендогенних та екзогенних факторів, які спричиняють банкрутства підприємств.

Ключові слова: *причини краху, банкрутство, підприємства.*

Introduction

Each year thousands of new enterprises are registered in Poland. On the other hand, thousands of companies end their business activity. There are many reasons for this state of affairs. There are different groups of reasons in each enterprise and they may contribute to the collapse of a certain enterprise in a different extent.

Enterprises operating in the conditions of the market economy cannot guarantee the continuity of their functioning. In the economic realities apart from emerging companies that do well, there are also companies that collapse. In practice the phenomenon of bankruptcy is nothing unusual, and in periods of recession and various crises that favor the insolvency of enterprises, it is even more visible (Kucińska 2013).

When things go wrong, possibilities to improve the situation are exhausted or there is no knowledge of how to improve the situation, many companies close their activity. Some of them that delay these decisions finally go bankrupt or declare bankruptcy.

From the economic point of view, a bankrupt is an enterprise, which (in the long run) is not able to pay its liabilities on time and the value of its assets is not enough to cover them (Boratyńska 2009). On the other hand, the bankruptcy means a situation connected with the state of insolvency of an economic entity, confirmed by a legally valid court judgment (Czajka 1999). Therefore, not every bankruptcy must mean the bankruptcy from a legal point of view. Bankruptcy can also be defined as the condition of an enterprise, which causes that it is not able to continue its business activity on its own in such a way to restore its ability to compete on the market without external assistance (Prusak 2011).

The article attempts to analyze the status and indicate the reasons for the collapse of enterprises in Poland. For this purpose, an analysis of the number of newly established and liquidated enterprises was carried out – on the basis of the Central Statistical Office’s data and syntheses of the reasons of their collapse based on a literature review.

The number of newly established and liquidated enterprises in Poland

In the period from 2008 to 2019, the number of newly established enterprises showed an upward trend (Fig. 1). In 2008, 318 thousand new enterprises were established, and in 2019 – 61 thousand more. In the examined period, the number of newly established enterprises was higher than the liquidated ones - with the exception of 2009 (8 thousand more liquidated enterprises) and 2011 (38 thousand more liquidated enterprises) (Tabl. 1).

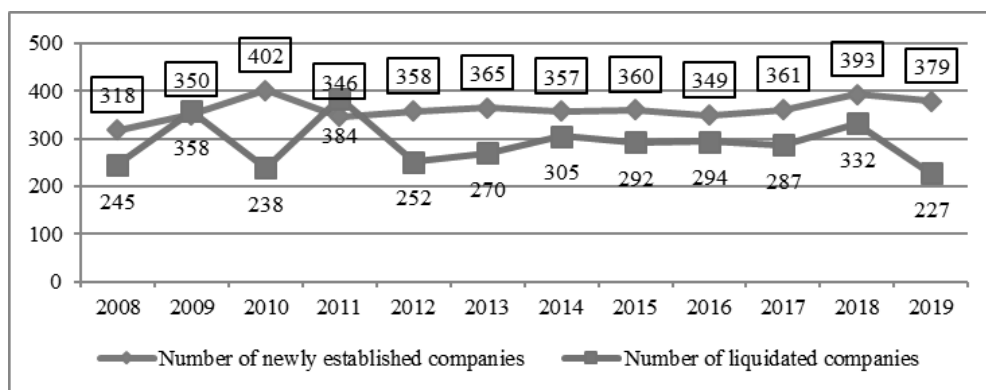


Fig. 1. The number of newly established and liquidated enterprises in Poland in the period from 2008 to 2019 (in thousands)

Source: Report on the condition of the sector of small and medium-sized enterprises in Poland 2020, PAED, Warsaw, 2020.

The number of liquidated enterprises shows large fluctuations from year to year in the period from 2008 to 2012. From 2012, the changes in the number of liquidated enterprises were much smaller. In 2019, only 227 thousand enterprises were liquidated – with a large number of newly established ones (379 thousand). The largest difference in the number of newly established enterprises to liquidated ones occurred in 2010 (by 164 thousand) – i.e. almost 69% and in 2019 (by 152 thousand) – i.e. 67%.

Among newly established enterprises, the largest number of companies was created in the following economic sectors: Construction, Trade – repair of motor vehicles, as well as professional, scientific and technical activity. Simultaneously, the same sectors are characterized by the largest number of entities removed from the register (Non-financial enterprises ... CSO 2019, Report ... PAED 2020).

Table 1

**The number of newly established and liquidated enterprises
in Poland in the years from 2008 to 2019 (in thousands)**

Years	Number of newly established companies	Number of liquidated companies	The difference (newly established to liquidated enterprises)	Index of newly established to liquidated enterprises [%]
2008	318	245	73	29,8
2009	350	358	-8	-2,2
2010	402	238	164	68,9
2011	346	384	-38	-9,9
2012	358	252	106	42,1
2013	365	270	95	35,2
2014	357	305	52	17,0
2015	360	292	68	23,3
2016	349	294	55	18,7
2017	361	287	74	25,8
2018	393	332	61	18,4
2019	379	227	152	67,0
Sum	4338	3484	854	24,5

Source: own study – based on the publication of the Central Statistical Office, Structural changes in groups of national economy entities in the REGON register for the years 2009-2020, Report on the condition of the sector of small and medium-sized enterprises in Poland 2020, PAED, Warsaw, 2020.

Classification of the reasons for the collapse of enterprises

In the literature, the division of reasons regarding the bankruptcy of companies into microeconomic reasons (endogenous, internal) and macroeconomic reasons (exogenous, external) is the most frequent (Kuciński 2005, Boratyńska 2009).

The microeconomic reasons lie in the enterprise – i.e. in its organizational structure, in the management system and in the economic information system. The management has an impact on them – unlike the macroeconomic reasons, which are independent of the enterprise (Boratyńska 2009). Internal reasons have a very strong influence on the enterprise. However, it is easier to defect and fix them (Rogowski 2015, Świerk and Banach). Generally, the reasons occurring inside the enterprise may be connected with the inadequate allocation of resources (unsuccessful investments), assets, poor management of the organization, inappropriate financing structure leading to the loss of financial liquidity by the enterprises or profitability and earning capacity (Rogowski 2015). Wojtysiak-Kotlarski (2013) draws attention to the fact that many endogenous factors are independent of exogenous factors, because enterprises remain largely autonomous in making decision about their functioning.

Wiczerzyńska (2009) defines exogenous (external) reasons of bankruptcy as factors that are outside the sphere of direct influence of the enterprise. However,

they have a large impact on the functioning of an economic entity. They are directly or indirectly in its vicinity.

Exogenous (macroeconomic) reasons of bankruptcy among enterprises can be divided into three groups:

1) connected with the situation in the sector (e.g. strong competition in the industry);

2) resulting from the domestic environment of the enterprise (e.g. recession in the economy, large changes in exchange rates of interest rates, changes in economic law and tax system);

3) resulting from the situation in the world (e.g. economic and political changes in other countries) (Nowak 2008).

Exogenous reasons of bankruptcy among enterprises refer (directly) to the conditions, in which the enterprise operates. They refer to the global economic, political, cultural and climate conditions, the economic sphere of a certain country (e.g. a phase of the business cycle, economic, fiscal and monetary policy, legal regulations), as well as to the enterprise's closer environment (inter alia the rules of the market, in which the enterprise operates – the level of demand, competition, suppliers, recipients, clients, technological changes) and to random events (Rogowski 2015).

The works were reviewed and a synthetic list of reasons leading to the collapse of enterprises in Poland was created by Tabl. 2.

Table 2

The reasons for the collapse of enterprises in Poland

Microeconomic (endogenous, internal)	Macroeconomic (exogenous, external)
<ul style="list-style-type: none"> • Lack of financial liquidity Lack of qualification, low qualifications and skills of the management and the owner • Loss of market, no access to sales channels • Excessive debt • Lack of financial plans • Excessive operating costs • Lack of market research • Increase in bad debts • Improper financial control • Poor management of working capital • High costs • Insufficient marketing activities • Sales blockages • Bad localization of the company • Lack of proper know-how and the poor quality of products • Too small size of the business activity • Lack of adequate technology • Too large dependence on one supplier • Limited access to capital • Badly delegated competences • Failure to keep up with technological progress • Lack of employee development due to insufficient training expenditure 	<ul style="list-style-type: none"> • Bad economic situation in the country • Collapse or difficulties of a large company that affect small companies • Globalization of economic activity and the import threat • Economic growth slowdown • Increase in population income that limit the demand for common products • Disappearance of ineffective international exchange • Fluctuations of exchange rates • Globalization of markets that forces greater competition • No subsidization in the production of specific products • Changes in the structure of demand resulting from technological, cultural, political, social and or religious changes progress • Fiscal and economic policy of the country • Legal regulations, which regulate business activity • Level of interest rates • Cyclicity and fluctuations in the economy - recession

Microeconomic (endogenous, internal)	Macroeconomic (exogenous, external)
<ul style="list-style-type: none"> • Ineffective motivation system of employees • Negligence in keeping the required accounting • Lack of capital • Lack of long-term development strategy • Lack of recognition in the market • Failure to use early warning tools against threats and shortcomings of economic and financial analysis • Low effectiveness of internal control and supervision system • Limitation of costs on marketing and advertising in difficult times, ineffective marketing policy • Mistakes in investing activities (underinvestment or overinvestment) • Low level of innovation and ability to adapt to market changes • Ineffective mergers and acquisitions • Inconsistent and overly hierarchical organizational structure • Distribution of jobs • Inability to cooperate with cooperators and their inadequate control • Decline in demand for the enterprise's products • Failure to make changes in the manufacturing technology in order to reduce production costs • Excessive production base • Failure to reduce employment • Low work efficiency • Increase in liabilities (including overdue) • Bad strategy • Increased demand for credits and loans, as well as delays in their repayment • Aggressive (creative) accounting • Significant rotation of employees in key positions • Corruption and breaking the law 	<ul style="list-style-type: none"> • European integration, • Loss of sales market • Seasonality of sales • Rumors about the critical situation of the company • Court cases • Dysfunctions in the law-marking system and the enforcement system • Intensity of external competition • Changes in the labor markets and remunerations • Information asymmetry • Administrative helplessness • Crisis of ethics and trust • Low effectiveness of supervisory institutions • Strong foreign competition • Increase in the fiscal burden of the enterprise • Increase in the risk premium • Inflation processes

Source: own study on the basis of: Szczerbak M.: *Przyczyny upadłości przedsiębiorstw w Polsce*. W: B. Prusak: *Ekonomiczne i prawne aspekty upadłości przedsiębiorstw*. Difin, Warsaw 2007; Rogowski W. 2015. *Przyczyny upadłości polskich przedsiębiorstw – aspekt teoretyczny* [in] *Studia i Prace Kolegium Zarządzania i Finansów*, SGH in Warsaw, Warsaw 2015; Górka K., *Postępowanie upadłościowe w procesach restrukturyzacji finansowej przedsiębiorstw*, in: *Nierówności społeczne a wzrost gospodarczy*, ed. R. Fedan, Publishing House of the University of Rzeszów, Rzeszów 2011. Marciniak J. *Najczęstsze przyczyny upadku i porażek przedsiębiorstw*. 2016, <https://medium.com/restrukturyzacja/najcz%C4%99stsze-przyczyny-upadku-i-pora%C5%BCek-przedsi%C4%99biorstw-6b0a66614e8f> – access: 30.10.2020; Łukasz Zegar., <https://szkolenia.avenhansen.pl/artykuly/artykul-12-powodow-upadku-firm.html> - access: 30.10.2020; <https://spiralazadluzenia.pl/wnioski-porady/przyczyny-upadku-firm.html> 2020 - access: 30.10.2020; Kowalik M. <https://konstytucjabiznesu.biz/6-kluczowych-powodow-dla-ktorych-firmy-w-polsce-upadaja/> - access: 30.10.2020; Zakrzewska-Krzyż H. <https://mojafirma.infor.pl/raport-dnia/214720-Przyczyny-upadlosci-przedsiębiorstw.html> – access: 30.10.2020; <https://polskatimes.pl/glowne-powody-bankructwa-firm/ar/c3-10144548> - access: 30.10.2020

Summary

The number of liquidated enterprises is not worrying if trend remains at a similar level or it changes in a similar way to the number of newly established enterprises. It is beneficial for the economy if more enterprises are established – especially in relation to the liquidated ones. Situations of large fluctuations in the number of closed and opened entities and differences between them may be alarming. They may indicate the instability of the market or the economy.

There are many reasons, both external (exogenous) and internal (endogenous), of the collapse of enterprises. They differ in the ability to predict and prevent them, as well as intensity of their effects. It is hard to unambiguously assign them to specific sectors, size of enterprise or place of doing business. Moreover, the hierarchy of impact strength and the scale of impact effects is various in different enterprises.

The internal reasons have a great impact on enterprises, but they are easier to detect, control and fix. External reasons (although the power of influence is similar to internal ones) are much more difficult to predict, and their effects are very severe (Świerk, Banach 2013). They accumulate (like a spiral) other enterprises, as well as economic and social changes on a local scale.