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# RESEARCH ARTICLE

## A STUDY ON A SWING TO FINANCIAL CRISES WITHIN ORGANIZATION

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**ABSTRACT**

Today, the increasing Organization can afford many types of losses but facing losses caused due to financial crises is costlier. Financial Crises leads to financial instability within the organization. the consequences of financial crises may cause disastrous results for the organization. Financial Crises is very common within any organization but this issue is rarely discussed. Taking a track record of occurrence of various financial crises that leads to winding up of organization our research work is based two major causes of financial crises. Keeping the cause in mind various drives were identified and questionnaire was prepared to analysis the level of effect of any drive that causes financial crises. The paper basically highlights the major and minor reason which leads to financial crises in organization.

## INTRODUCTION

Financial crises occur at slow pace but it has ample of elements attached to it. A financial crisis is a multidimensional concept and it's difficult to trace its real occurrence. Mistakes are never planned but it occurs gradually. Financial crises encompasses of multiple drives that cause sudden or gradual depreciation in valuation of assets. A financial crisis is a broad concept whose occurrence cannot be traced only through one or two drives but it occurs due to ample of factor that messed up the working of the organization at the same time .Generally financial crises is attributed with loss of business assets and repayment capabilities of the firm deteriorates. It also hinders its creditworthiness and goodwill internally and externally. Financial crises bears a potential risk for any organization that hinders public image and good relations with many of the stakeholders associated with a particular organization. Organization should be attentive regarding various drives that may cause financial loss in the organization because if it is not identified and rectified at correct point of time it may end up becoming turmoil for organization from where it will be difficult to retrieve. Financial crises is such a terminology or concept that cannot be neglected because every organization during its complete span of operation faces crises now and then, organization that performs continuous research and keep strict watch can minimize or suppress the crises as they arise. It is very important to know the stage of occurrence of crises within the organization, if the crises arising is short lived then precautionary measures can be easily taken.

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But if crises is sudden and serves long term then reason behind it should to identify internally and externally so that organization can come out from the mousetrap of financial crises. Thus knowing, learning and observing of all key elements that may lead to financial crises are vital.

Financial Crises-Types: Financial crises symbolize the disturbance within and around the surrounding of the organization that slows down its capacity to allocate capital to various activities. Financial crises eventually feed to low allotment of capital to various business operations and gradually lead to down fall of an organization. So we can elaborate by saying that financial crises may come in different shape and form, but can be categorized with two major types:

Internal Financial Crises: This are those types of financial crises where crises is short lived and can be immediately rectified by taking certain precautionary measures. These types of crises are within the control of organization. External Financial Crises: This are that types of crises where availability of fund in the market slows down, and if any source of raising fund is available then it consist of high repayment norms. Such financial crises are beyond the control of organization.

**Drives of Financial Crises:**

Drives are basically the reasons behind the cause or occurrence of financial crises in the organization. Keeping in view the above stated two major categories of financial crises few drives are identified and discussed:

**Drives for Internal Financial Crises:** Fraud and Manipulation: We know that each and every organization tries to manipulated accounts at a reasonable level so that they can cover up few of the loopholes existing within the organization. Generally Manipulation can be done in two ways either by showcasing high income for current year or by valuating low expenses. Sometimes this manipulation may lead to sever result that cause real financial crises in the organization if income are overestimated over period of years. Thus manipulation may bring in rapid financial crises within the organization.

- Loopholes in JIT Cycle: JIT cycle basically facilities identification and correctness of various hindrances that arises in production process. JIT is implemented in the organization to check in availability of inventory, and to maintain continuous flow of inventory so that production process is not interpreted. In order to maintain JIT cycle organization tries to dump too much of inventory which blocks the finances of the organization thus if JIT cycle is not properly tackled than it may cause financial crises.
- Unplanned Expenditure: Organization always believes in planned expenses but sometime due to certain circumstance organization has to bear some expenditure that is not planned. Apart from this organization utilize too many resources from the society so in return it has pay back society in term of charity, donation, scholarships etc which incurs expenses to the organization that is not going to fetch them any return. So it becomes important for any organization to even plan these unplanned expenses so they do not end up in financial crises.
- High Outstanding Income: Organization always has a keen eye on its income because income is the major phenomena through which company's present profit and future growth is evaluated. It is very important for organization to keep a continuous track record to check that income get converted into liquid cash as soon as possible so the actual profit can be estimated. In short organization has to observe its credit policy and revise it as and when required. In case organization fails to maintain and track it credit policy then are chances of financial crises where too much of income will be stucked up in the market in short income will be seen but not actual only in figures.

**Drives for External Financial Crises**

- Economic Impact: These factors consist of various attributes like trade cycle, taste and preferences, demographic profile, demand and supply, circulation of money, etc. all these have great impact on smooth functioning of the organization. If any of the factor stated above is at disequilibrium than it cause difficult working situation for any organization. At this time if organization is not able to manage its operation well then definitely it gets hold up in situation of financial crises. This is because if operations are not moving in way it should be then it blocks the finances from moving further which leads to financial crises in the organization.
- Political and Government Impact: The ruling party and the opposition party are faces of same coin because it is seen that there is continuous intervention of these political parties in the organization. Apart from that the rules and regulation framed up by them plays vital role in the organization- if policies framed up are favorable for ones type of organization then its beneficial but if not it creates chaotic situation. Government even now and then brings in various reforms in tax policies which leaves a heavy impact on the organization. Thus these drive cause high impact on functioning of an organization and if functions are erupted it leads to financial loss ending up with financial crises.
- Technological Impact: In these world of high dynamics day in day out new technology are coming up. Organization has to match up with this upcoming technology instantly. If organization becomes reluctant to change then its method of production becomes obsolete, where in they will invest more and reap less. Thus technological changes are needed to be considered by organization. It is but obvious that implementation of new technology involves huge financing but this investment really fetches huge returns easily and at great speed.
- Natural Impact: Natural calamities like earthquake, drought, tsunami etc have very less impact on the organization but there are certain natural calamities which really can bring organization to shred. Currently covid 19 is one of the natural calamities that have led to complete shutdown where organizations are incurring huge financial losses every passing day. Thus it's important for an organization to analyze the impact of natural calamities on organization and plan accordingly to avoid financial loss that can cause financial crises in future.

**Analysis and Interpretation:** Financial crises is a broader concept to be discussed with, taking above of the few drives that becomes the reason for financial crises within the organization a short questionnaire was prepared to determine which of the following are the major determiners that leads to financial crises aptly as compared to other drives. Along with that we can also judge the different technique incorporated by the organization to create illusion of financial crises which really turns up to be crises in end. Following is the questionnaire:

**Analysis:** On the bases of above question asked and responses received below is its graphically representation:

Interpretation: From the above graphical representation we can interpret that there are several drives which individually or two or more together leads to situation of financial crises in the organization. From fig1 we can depict that Fraud and manipulation and Political and government impact are two major coins that drives organization towards financial crises more rapidly as compared to other factor. On the base of responses received it was also observed that these two drives are also the major reason which leads other drives to active automatically and when all the reasons come up in bundle cause severe financial crises in the organization. These drives are so impactful that it ends up with dissolution of an organization. From fig 2 we can summarize that External factors or drives encompasses of major forces that drags organization in trap of financial crises. As we know that external factor are beyond the control of management so it becomes even more difficult for an organization to overcome from various external causes of financial crises, ones captured in it.

Moreover it is seen that internal drives cause less impact on organization and if detected can be rectified easily.

**Conclusion**

We are living in the world full of innovations and growth, financial crises is one of the major loopholes in the organization but apart from several reasons for financial crises there are ample of opportunities in the market that helps to overcome from these situations. There are ample of levers of increasing profitability that are available in the economy thus it depends upon the organization to conduct research and development that keeps in mind the reason for financial crises and find out various paths that enhances profit so crises can be recovered.

Thus to conclude we can say that the word financial crises hold two important things within it opportunity and threat its upon organization to maintain balance between two and grab growth and success.

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