

# Aspects of Challenges of Management of Enterprises

PETAR PENCHEV PENCHEV

Department of Economics  
Ruse University "Angel Kanchev"  
Ruse, 7017, Studentska Str. 8  
BULGARIA  
[ppenchev@uni-ruse.bg](mailto:ppenchev@uni-ruse.bg),

*Abstract:* The current financial and economic conditions, and post-crisis reality, prove the need for additional research and promoting new ways of managing the enterprises. The turbulent external environment, the global competition, the fragile demand, and the growing demand for potential customers place a big challenge on global enterprises. Enterprises seek ways to survival, to adequate management, but also for development in this highly turbulent economic reality. They try to anticipate the new global economic trends and make use of crucial moments as new opportunities for development. The enterprises could use internal and external change in the environment to increase their competitiveness and improve management and thus to ensure stable and profitable existence. Possible solutions of the problems are given in this work, including the application of agile enterprise and internal branding.

*Key words:* agile, agility, enterprise, management, internal branding

## 1 Introduction

The increase in information flow, the possibilities for imports and exports, the relatively low prices for transport make the selection of suppliers relatively easy. The new business realities give enterprises the chance to enter new markets virtually all over the world. The European Union, for example, allows the states themselves to exchange goods with each other duty-free and ensures free movement of labour. The open market, however, contributes greatly to the emergence of new and unexpected competitors. This is a serious challenge for manufacturers in these states, but also a unique opportunity to improve the competitiveness of European enterprises. Another aspect of the issue is the management of enterprises in a world, which offers a lot of employment opportunities in the European Union and beyond. These global processes are observed by a number of scientists. Research is done both in analysing the business environment as well as in proposing new ways of overcoming the challenges of the contemporary business environment.

## 2 The Origin of the Enterprise

Raymond Bar describes the enterprise as a totally new achievement of mankind. It contrasts sharply with previous historical ways of forming economic

activity, combining the three main factors of production. "The enterprise emerges as a separate complex of the production factors - labour, land and capital, which is opposed to individual production. The enterprises combine a complex of the following features: 1) the machinery system; 2) the co-operation of labour; 3) management" [1].

Public needs encourage the existence of the enterprise as a product of the development of the market process and its emergence is a necessity. It is the product of the development of the market processes and arises at a certain stage of the development of the economic system, namely, during capitalism. The enterprise combines the three main factors of production and entrepreneurship.

The scientific achievements of the Industrial Revolution are the basis for the creation of capital (i.e. everything that is the fruit of human labour and is used to create wealth). This capital, together with the human work that manages it, and the entrepreneurial spirit (with the desire to create products from whose sale to make a profit) naturally form the need to create a new living organism - the enterprise. The idea that the enterprise is a necessity is advocated by Raymond Barr: "We see the unification of the main factors of production at a certain point in the development of human society, namely at the stage of increasing the need for capital. According to Francois Peru (quoted by Raymond Barr), the enterprise is the primary institution of

capitalism. It is a production form in which the prices of the various factors of production combined by entities other than the owner of the enterprise are combined within the same property in order to sell a product on the market and obtain a monetary income, which results from the difference between the two types of prices. " [2]

### 3 Models of Management [3]

The idea of separation of management from ownership was developed in the 30s of the 20th century. Leading scientists analysing this issue are A. Berle and J. Meenes [4]. It is considered that managers' behaviour is not confined to purely managerial functions, but they are also guided by their own interests. At the same time, the goal of enterprises to maximize their profit remains in force. William Baumol [5] believes that managers are trying to maximize sales volume under constraints implying a certain minimum profit. Robin Merris [6] defines the purpose of the enterprise as maximizing growth under the limiting condition of the profit rate. Robert Solow [7] further develops these ideas by considering that growth-oriented and profit-oriented enterprises react identically to changes in parameters such as cost factors of production and level of indirect taxes.

#### 3.1. Behavioural Models

The theoretical basis for the development of these models is the scientific work of Richard Sawyer and James March [8]. These models no longer use the thesis to maximize one or other parameters. The subject of the study is the very decision-making process within the enterprise. An enterprise is supposed to work at a certain level of performance. A basic concept of this theory is the demand, which is local, research and strategic. Local search is a reaction to non-performance within the enterprise. Research demand is related to the emergence of new opportunities in the interaction of enterprises with the outside world. Strategic demand is linked to the effort of businesses to use these new strategic opportunities. Behavioural theory widely uses computer models.

Richard Nelson and Sidney Winter [9] explore evolutionary models in which the focus is on demand and choice. The results obtained fully correspond to those from the neoclassical theory.

#### 3.2. Neo-institutional Analysis [10]

Neo-institutional analysis complements the development of enterprise theory, highlighting the

importance of non-production costs and the role of capital ownership.

#### 3.2.1. Non-production costs

These are costs that arise from transactions. Ronald Coase [11] defines the following types of non-production costs:

- For market research;
- Negotiating;
- Expenditure related to the execution of contracts and taking appropriate action in case of breach of contract terms.

These costs determine long-term staffing (i.e. not just a one-time service) in order to save on recruitment costs whenever an enterprise needs some products. Controlling employees on compliance with their job description is much easier and cheaper than controlling subcontracting and using the court system for breach of contract. The problem "owner - agent" (principal - agent problem) is fundamental. In a joint stock company, executives are managers and shareholders are the owners of the capital. Shareholders expect to make maximum profits, believing that managers are required to secure it. The way to optimize "owner-performer" relationship is to pay managers as a share of the enterprise's profit. [12]. This is particularly true (according to the author of this work) for Bulgaria because of systematic weaknesses in the administration of justice, which is often not able to guarantee a fair trial [13] (especially in litigation with a high degree of interest). R. Coase explains quite logically why companies choose to hire workers instead of using recruitment agencies and why businesses prefer to integrate (vertically and / or horizontally) with their suppliers and / or distributors.

The question that arises is why, once businesses are so effective, they do not grow unlimitedly (including through mergers). The reason is that internal control of own resources also raises costs. Here is the law of diminishing returns.

Under the *neo-institutional approach*, the primary objective of an enterprise is to minimize its costs. This approach does not perpetuate the anti-monopoly legislation of universal virtue, since it is capable of causing a reduction in the cooperation of the individual units within the enterprise. An enterprise grows only as long as the internal exchange costs of individual units are lower than

those with a network of multiple smaller subcontractors (vendors). When merging a small enterprise with a greater one, effective asset utilization is reduced due to general management involvement in enterprise-wide management.

### 3.2.2. Property rights

Lack of control over a resource would result in its use by anyone without taking into account the negative effects of these actions. The right of ownership encourages its user, on the one hand, to use the available resources as efficiently as possible and, on the other, to maximize the profit corresponding to the percentage of ownership he has in the enterprise. Consequently, public enterprises are an inefficient form of organization due to the lack of ownership. The manager's motivation in such an enterprise is absent because his remuneration is not a function of the results obtained from his work.

Basically people differ in their qualities. Some have greater capabilities to exercise effective control over others, as well as ability to decision-making. Uncertainty predisposes people with the abovementioned qualities to take initiative in business (demonstrating readiness to bear the consequences of it and exercise control over those who tend to avoid risk. For latter this situation is acceptable because in exchange to their consent to be controlled by the entrepreneur and manager, they get the opportunity to produce in one comparatively secure environment [14].

There are ways to motivate managers and employees without being directly related to additional remuneration [15]. An example of this is the so-called "software of labour" - a set of values, attitudes and aspirations inherent in each individual. In Bulgarian psychology, the idea that the parent should take care of his child is deeply underpinned. This model is transposed into the relationship manager (parent) and employee (child), i.e. managers should care for their subordinates and motivate them to create high production results. It is undoubtedly a trap that managers should avoid. Such an outcome could lie in a change in the manager-employee relationship, namely by introducing shared responsibility, where motivation is in the hands of every employee. Employees could find their own presence in the company system by themselves. Sharing responsibilities between managers and employees would be as follows:

- Employees should take the initiative for their own development and success in the enterprise.

- Employees could accept the inevitable frustrations of working life. Not always the manager is able to control the impact of the outside world on the enterprise and therefore solve every problem.

- Employees could themselves contribute to improving the business by sharing their views with managers. The aphorism "Take care of yourself so I would be able to care for you" is a message equalizing the responsibility of a manager and employee and describing the effective interaction in professional and hierarchical relationships.

Meanwhile, managers could break the stereotype (I can and I should do everything - I have the power to do this - I have no right to make mistakes - it all depends on me) in the leadership position they occupy. If thinking is not directed at "how to be a good father," but in the direction of "not being the father of your subordinates," it is much more likely that he will establish effective and resultant relationships with employees.

### 3.3. Innovative Approaches to Overcoming the Challenges to Enterprise Management:

#### 3.3.1. Agile enterprise

The agility of an enterprise is a state in which it responds quickly and adequately to the turmoil of the external, increasingly turbulent business environment [16]. Such an enterprise is able to predict new global business trends. It uses crisis moments as new opportunities for its development. It is able to overcome its sudden internal problems without any disruption of the production process. The agile enterprise uses any external and internal change in the environment to enhance its competitiveness, thus ensuring the company's sustainable existence. Other approaches to enhance the agility of the enterprise are given by lean production, the dynamic enterprise [17] etc.

#### 3.3.2. Internal branding

Nowadays, there are numerous challenges in brand management. Internal branding is a major challenge in many companies. Most of the employees (not just those of marketing departments) understand and appreciate branding [18]. It is important for the organization to organize the events and surveys within the organization to make it clear that each employee has the necessary quality support for the brand. Brand management is most successful when everyone in the organization has a clear

understanding of what the brand is, how its actions help or harm the existence of this brand and, accordingly, evaluate how to work harmoniously [19]. The employees of the brand owner play an increasing role in presenting individual and corporate brands in the interface with current and potential customers [20]. As a result, domestic branding has recently emerged as an important issue for the success of the market brand. Internal branding is perceived as an approach that offers mechanisms with insufficient potential to motivate staff to synchronize their work values and behaviour with those of the brand [21]. Internal branding acts in two directions on the attitude of the brand-related staff. On one hand, it motivates them by providing work satisfaction and creating an inspiring working environment. On the other hand, through internal communications, employees get to know the brand of the company, as well as their role and responsibilities in implementing brand strategies [22].

#### 4 Conclusion

Public needs encourage the existence of the enterprise as a product of the development of the market process and its emergence is a necessity. It is a product of the development of the market process and arises at a certain stage of the development of the economic system, namely during capitalism. The enterprise combines the three main factors of production and entrepreneurship. The enterprise is a product of the development of the market process and is the subject of an analysis of various economic theories that explore it in its evolution. It was found that the plant was a living organism that could respond fully to the environment in which it was placed. In order to ensure the sustainability of management, it is necessary to revise the relations between managers and workers and to reconsider the responsibilities that both parties have. Enterprise management could further take advantage of the opportunities of the agility concept and internal branding if they are used to better motivate managers and workers.

#### Acknowledgement

The study was supported by contract of University of Ruse "Angel Kanchev", № BG05M2OP001- 2.009-0011-C01, "Support for the development of human resources for research and innovation" at the University of Ruse "Angel Kanchev". The project is funded with support from the Operational Program "Science and Education for Smart Growth 2014 - 2020" financed by the European Social Fund of the

European Union.

#### References:

- [1] E. Trifonov, *The Market: Microeconomic Issues*, Ruse: Ruse University Press, 2003.
- [2] F. Raymond B., *Political Economy*, vol. 1, Press Universitaires de France, 2002, p. 313.
- [3] S. Weintraub, *Contemporary Economic Thought*, Moscow: Progresses Moscow, 1981.
- [4] A. M. G. Berle, *The Modern Corporation and Private Property*, New York: Commerce Clearing House, 1932.
- [5] W. Baumol, "The Theory of Expansion of the Firm," *American Economic Review*, vol. 52, 1962.
- [6] R. Marris, *Economic Theory of Managerial Capitalism*, London: Macmillan & Co., 1964.
- [7] R. M. Solow, *Some Implications of Alternative Criteria for the Firm*, London: Macmillan, 1971.
- [8] R. M. J. Cyert, *A Behavioral Theory of the Firm*, University of Illinois, 1992.
- [9] R. W. S. Nelson, "Towards an Evolutionary Theory of Economic Capabilities," *American Economic Review*, vol. 63, pp. 440-449, 1973.
- [10] P. Tanova, *Market Structures*, Sofia: University Press at the University of National and World Economy, 2008.
- [11] R. H. Coase, "The Institutional Structure of Production," *The American Economic Review*, vol. 82, p. 713, Se1992.
- [12] S. H. O. Grossman, "An Analysis of the Principal-Agent Problem," *Econometrica*, vol. 51, no. 1, pp. 7-46, 1983.
- [13] C. t. W. E. C. Forum. [Online]. Available: [http://www3.weforum.org/docs/GAC14/WEF\\_GAC14\\_OutlookGlobalAgenda\\_Report.pdf](http://www3.weforum.org/docs/GAC14/WEF_GAC14_OutlookGlobalAgenda_Report.pdf).
- [14] A. Kosuliev, "Why Does the Company Exist - an Attempt for an Integrated Approach," in *Aspects of Uncertainty in the Economic Life*, Ruse, Primax, 2015, pp. 43-71.
- [15] I. Pavlova, "Motivate Me if You Can," *Capital Daily*, 2014.
- [16] P. Penchev, "Emergence and Evolution of the Concept of the Agile Enterprise," in *University Publishing House "Science and Economics"*, Varna, 2015.
- [17] A. Marichova, *Dynamic Capabilities of the Enterprise*, Sofia: Avangard Prima, 2015.

- [18] Kenarova-Pencheva, I. & Antonova, D., "The role of internal branding to increase the engagement and motivation of human resources," *Annals of Eftimie Murgu*, vol. XXV, pp. 102-108, 2018.
- [19] Antonova, D., Kunev, S., Hristov, T., Marinov M., "Concept of Online Distance Learning System on Sustainable Development in the Cross-border Region," *TEM Journal*, 7(4), pp. 915-923,, 2018.
- [20] Kenarova-Pencheva, I., Penchev, P., "The Role of Human Resources and the Impact of Internal Branding on Employee Engagement," Ruse, 2017.
- [21] Kenarova-Pencheva, I., Penchev, P., "The Impact of Internal Branding on Employee Engagement in the Tourism Sector of Bulgaria," in *Tourism: Trends, Prospects and Implications for Enterprises and Destinations*, Santorini, 2017.
- [22] Stoycheva, B. & D. Antonova, "Investigating Factor Interactions in Formalising the Process of Developing New Products," *Serbian Journal of Management*, vol 13, No1 , pp. 173-184, 2018.