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The World Review of Entrepreneurship, Management and Sustainable Development has announced that it will be increasing issues from four to six from 2017 onwards.

Qualitative and quantitative components of a proposed model of effective recovery project for companies in crisis

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Abstract: An increased number of firms are affected by financial crisis and the crisis phenomenon is a very frequent occurrence in the lifecycle of a company. There are several objectives for this study. The first one is to identify the communicative and managerial role of qualitative and quantitative components of a proposed model of recovery project which Italian companies can adopt to overcome a crisis situation in a systematic manner. The second objective is to identify the company's behaviour to increase the firm's credibility with stakeholders during the recovery phase. Due to the absence of a model of recovery project in Italian literature and corporate regulation, a proposed model of recovery project may equip management and their advisors to deal with the delicate circumstances of financial crisis and increase their chances of returning to business as usual; this is also thanks to a distinction between qualitative and quantitative components and their communicative and managerial roles. The recovery project has to be an inclusive document, including both a qualitative and a quantitative component on the crisis phenomenon and recovery process. In addition, the recovery project has to generate commitment from all parties on the recovery strategy, even adopting different behaviours towards various types of stakeholders.

Keywords: recovery process; recovery project; effective communication policy; company's credibility; stakeholders.

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1 Introduction

The current climate in which companies operate is characterised by an increased number of firms affected by financial crisis. In addition, companies drops from a normal operational state into a crisis one in a reduced length of time. Situations now more often arise where a company is propelled into a state of crisis without chance to observe the usual warning signs.

Dealing with crisis in a systematic way requires the use of standardised tools and processes which would return the company to a state of development. The recovery project is one such instrument. A recovery project is a document which sets out the steps a company in financial crisis should follow in order to return to an economic and financial balance situation.

On studying the Italian regulations and literature, it yields neither the form nor content of a recovery project.

The objectives of this work are two-fold. The first one is to identify the communicative and managerial role of qualitative and quantitative components of a proposed model of recovery project which Italian companies may adopt to overcome a crisis situation in a systematic manner. This model of recovery project may be also applied by companies in other countries, due to the common goal of the recovery project in promoting the recovery of a company in crisis regardless of the country company. The second objective is to identify the company behaviour to increase the firm's credibility with stakeholders during the recovery phase.

The significance of the subject relates to the role of recovery project. In fact, it has a dual purpose. First, it is aimed at facilitating the recovery of a company in crisis to economic and financial stability. Secondly, it is a means of communication to disseminate economic and financial information to stakeholders, in order to overcome information asymmetries, which in the event of crisis are likely to turn into lack of confidence. An effective communication policy towards stakeholders may increase the company's credibility, which is deepen due to the crisis event.

The ability to effectively formulate and communicate the recovery project represents a necessary condition for the company's survival. The success of this communication process depends on the stakeholders reaching a consensus as a result of being informed of and in agreement with the policies and strategies proposed by the company. This consensus is a necessary condition in the recovery process, as it favours the provisioning of financial resources.

The motivation for the research is connected to the desire to move towards a normalisation of the crisis phenomenon for which the crisis may represent a normal phase of the business cycle of the company. Therefore, companies must possess a new mindset in preventing and managing the crisis situation, using a standardised method of problem solving. The recovery project may be considered as a standardised tool. Due to the absence of a model of recovery project in Italian literature and corporate regulation, a proposed model of recovery project may equip management and their advisors to deal with the delicate circumstances of financial crisis and increase their chances of returning to business as usual; this is also thanks to a distinction between qualitative and quantitative components and their communicative and managerial roles. An effective recovery project may promote both a new phase of development in the company's activities and an increase in its credibility with stakeholders.

This study builds on our previous research (Giacosa and Mazzoleni, 2012b), which focused on the crisis phenomenon and on the recovery process, but was in an early stage of development. We have drawn out incremental findings with regard to the communicative and managerial role of qualitative and quantitative components of a recovery project. In addition, this research analyses company behaviour in increasing the firm's credibility with stakeholders throughout the recovery process.

Our article proceeds as follows. The next session formulates a literature review concerning the definition, the prediction and the management of the crisis phenomenon. And other session illustrates the research method, including the sample, hypotheses and the research phases. Then, a session is focused on the results and discussion. Finally, we point to conclusions, implications and limitations of the research, that suggest avenues for further research.

2 Literature review

Literature on companies in crisis can be categorised by the key stages of the crisis phenomenon, such as defining the crisis phenomenon, its predictability and its management and resolution. This approach allows scholars to identify the essential moments in which the crisis phenomenon can be analysed and allows management to deal with the situation more effectively. As the recovery project is the object of our study and the recovery process is one of these phases, the analysis of the framework following this approach facilitates the development of the research.

Consequently, we created a framework on the topic, in terms of these key moments:

- definition of the crisis phenomenon
- prediction of the crisis phenomenon
- management and resolution of the crisis situation.

2.1 Definition of the crisis phenomenon

Management studies on the subject of company crises have been carried out since the 1970s, when crisis phenomena were ascribed to external turbulence in industrialised systems (Canziani, 1986; Connor, 1987). Initially, Anglophone studies were focused on company cases: this qualitative methodology allowed the causes of the crisis and the best resolution methods to be identified (Argenti, 1976; Brooks, 1964; Deeson, 1972). From the early 1990s, the literature has examined the crisis phenomenon in more depth, classifying the crisis causes as both external and internal (Gundel, 2005; Meyers, 1986; Pearson and Clair, 1998; Slatter, 1984).

For the studies that focused on the definition of the crisis phenomenon, crisis can be considered as an event that disturbs the lifecycle of the company, generating more or less intense negative effects (Danovi and Indizio, 2008; Giacosa and Mazzoleni, 2012a; Gundel, 2005; Mitroff, 2005; Norberg, 2011). Crisis happens when there's an economic and financial imbalance over time and it generates firstly a state of insolvency and then instability: in the absence of corrective action, the company is ill-fated (Sciarelli, 1995). Generally, the crisis is not an inevitable, sudden and unexpected event. Crisis is unlikely to only result from a sudden environmental change. The crisis comes both from a deterioration of company strategy and structure on the one hand, and from an economic and financial disequilibrium on the other which occur gradually over time and manifest themselves at a particular instant in the lifecycle of the company. It means that the crisis arises from the accumulation over time of operating losses (Rossi, 1988) and the deterioration of company's vitality (Mitroff and Zanzi, 1990). Crisis is a result of a connection between several factors, such as external events, the alteration of the company's attitudes and management inefficiency and ineffectiveness, all of which were not recognised and addressed in a timely manner (Sciarelli, 1995). Involving the whole company, the crisis generates a degenerative process that feeds on itself: without wide-ranging and structural corrective actions, the company's future comes into question (Danovi and Quagli, 2008). The strength of the company's business formula (Coda, 1988; Molteni, 1990) can affect the company's attitude in overcoming the crisis. The more flexible and effective the company's business formula, the greater the opportunities to resolve the problems.

Literature has changed the meaning of crisis during the last few decades; a change which has also occurred as a result of the radical change in the external context (Pollio, 2009; Slatter et al., 2008). The concept of crisis was once seen as an episodic event in the lifecycle of the company, but is now viewed as a normal and regular event (Alas et al., 2009; Bradley, 1978; Cazdyn, 2007; Lalonde, 2007; Rosenthal and Pijnenburg, 1991; Roux-Dufort, 2007; Sabovic et al., 2010), which must be covered in a risk management strategy (Coombs, 2006; Culasso, 2009; Huber and Scheytt, 2013; Green, 1992; Mitroff and Pearson, 1993).

Within the perspective towards the crisis phenomenon, researchers have analysed it from different approaches.

- The *classic approach* (Altman, 1968; 1983; Bibeault, 1982; Burns and Stalker, 1961; Schendel and Patton, 1976; Slatter, 1984): this approach considers the crisis as an inevitable but necessary event in the lifecycle of the company. A sort of natural selection of companies (Chisholm-Burns, 2010) provokes the exit of inefficient firms from the competitive context and redistributes resources among the most profitable companies. Crisis and recovery may be considered an inseparable pair: crisis is a qualifying event for companies that overcome the negative situation (Guatri, 1986; Piciocchi, 2003) and the recovery process is seen as a return path towards value and skills (Giacosa and Mazzoleni, 2012b).

- The *transitional approach*: the principles of this approach are at odds with the natural selection approach. It considers every company, whether the strongest or the weakest as perennially in crisis: albeit within a different timeframe, when the company was at the peak of its success, the foundations of a new crisis may arise, forcing a recovery process. Consequently, this approach views the future with nothing but uncertainty. To prevent the risk of crisis, the company has to make continual investments in research and development, making its product range more innovative and tailored to consumers' needs (Bastia, 1996; Danovi and Indizio, 2008): in other words, innovation plays the key role in maintaining or reaching company success (Peters and Waterman, 1982). The strategy plays a vital part in determining the success of the company, as it allows for a coming-together of marketing policy and market needs (Mintzberg, 1987; 1994). As every company may be in potential crisis, management teams should prepare an effective recovery process (Slatter and Lovett, 2004; Guatri, 1995). In addition, every company should consult and involve external actors (such as suppliers, customers and competitors) to ask them to make greater sacrifices that will be useful in overcoming the crisis situation. The limitations of the transitional approach, based on the changeable nature of the external context, lie in the reliance on intuition and creativity of the companies, useful to avoid and contrast a crisis situation (Slatter et al., 2005; Tichy and Ulrich, 1984).
- An *entity-based approach*: this approach adopts a wider definition of crisis. There is a crisis when the factors for which a company owes its success dissolve without the company making any attempt at avoiding such an outcome. The crisis is due not only to the radical change in the company's wider context, but also as the result of a deterioration of its vitality (Mitroff and Pearson, 1993). Typically, a crisis manifests itself by a provoking event, but if follows an accumulation of economic losses over time (Tichy and Ulrich, 1984). It is necessary to monitor the signals of crisis, even the most modest and protect the core competencies that have great importance for the future of the company. However, in this approach, the use of generalised models aimed at preventing and measuring the crisis is considered incorrect; understanding the economic and financial position of the company is deemed essential in determining its strengths and weaknesses. A recovery process is necessary if the company is to restore these critical successful dynamics to a satisfactory performance level.

Comparing the above three approaches, the classic approach considers crisis as a phenomenon that involves only inefficient companies. Conversely, for the transitional approach, a crisis can affect every company, whether the strongest or the weakest and the company has to operate with a constant awareness of the crisis risk. For the entity-based approach, crisis can affect any company, due to a deterioration of the firm's vitality. More recent studies have developed a new approach of normalisation of the crisis phenomenon in the lifecycle of the company, on which this research is based. Crisis may be considered as a normal event in the lifecycle of the company due to the deterioration of the company's vitality (Alas and Gao, 2010; Giacosa and Mazzoleni, 2012b). In this view, negative phases alternate with positive ones (Cazdyn, 2007; Habermas, 1973), with the manifestation of warning signs, which are weak at first and then gain strength (Heath, 1998; Sloma, 2000). The company's survival may be compromised as a result of an intense negative phase (Slatter and Lovett, 2004). In the transition from a positive to a negative situation, the company is in a phase of decline (Guatri, 1995) when the company's value is destroyed over time.

In classifying the causes of the crisis, some studies use the following different approaches.

- A *subjective setting*: according to this approach, crisis is due to the behaviour and inefficiencies of the individuals that operate in the company (Guatri, 1985). Firstly, bad management (Bibeault, 1999) or poor management (Slatter and Lovett, 1999) is considered the main cause of all companies' crises (Bradley, 1978; Coda, 1983; Zuckerman, 1979). Management choices may cause several problems, such as bad management of resources, an inadequate management structure, an inefficient control of financial problems or an ill-advised investment policy. Secondly, the owner may give poor guidance to the management team, without creating a new direction in the company's strategy (Bastia, 1996). Thirdly, some blame may be apportioned to the employees, operating in different areas and at different levels: owners and management have to prepare, train and motivate them (Mitroff, 2005). Also other stakeholders may be blamed, when they are reluctant to pool efforts to save the company: when banks, providers and others creditors are not in agreement with the recovery project, they are not likely to accept the terms on which the company may be rescued. According to this subjective approach, crisis has an internal origin, relating to the behaviour and inefficiencies of the individuals that operate in the company, whose removal may solve the situation (Sciarelli, 1995).
- An *objective setting*: this approach regards events outside the company's control as being the cause of crisis. In general, they are due to the variability of the company context, in terms of macroeconomic environment or sector, relating each sub-environment in which the company operates (Ferrero, 1987): the natural-physical and technological environment; the cultural environment; the social environment; the economic environment; the political and legislative environment. According to this objective approach, crisis has an external origin, relating to external factors outside the control of the company which dominate the internal ones.

2.2 Predicting a crisis

The ability to predict a crisis phenomenon and corporate insolvency has been the object of an intense literature over the last 50 years.

The first studies to focus on forecasting began in the 1930s by Anglo-Saxon researchers: they wanted to demonstrate the role of financial indicators in predicting a crisis. It emerged that some financial ratios were useful in identifying the symptoms of future insolvency (Fitz Patrik, 1931; Merwin, 1942), using a sample of homogeneous companies – in terms of size and sector – affected by a crisis and often characterised by bankruptcy. These studies have been criticised, due to the fact that the indicators were considered individually, without considering the company's complexity. Nevertheless, these studies have stimulated further research aimed at applying financial indicators in more complex models.

Starting in the 1960s, Anglo-Saxon scholars developed some detailed insolvency prediction models. Of these studies, one produced a composite indicator establishing the probability of each company failing, which has been applied both to a sample of healthy companies and to a sample of insolvent companies (Tamari, 1966). Using a univariate approach to predict a company's insolvency, some studies focused on financial ratios as the predictors of failure (Beaver, 1966) and a combination of market prices and financial ratios in failure forecasting (Beaver, 1968). Beaver's 1966 study may be considered as the forerunner of the modern insolvency prediction literature, based on a univariate model.

Subsequently, some scholars used a multivariate approach in insolvency forecasting, making some multivariate discriminant analyses (MDA) models. Among them, Altman created a new model called Altman's model (Altman, 1968) to predict, with a certain margin of error, any failure within the year or within the next year. He combined financial analysis with statistical practice: five factors were weighted and summed, leading to a score that was assigned to each company, to indicate whether they were healthy, potentially insolvent or insolvent. Subsequently, Altman improved his model, predicting any failure within five years, with a certain margin of error (Altman and Haldeman, 1977). In addition, Altman made some financial applications of discriminant analysis to provide more details for application (Altman and Eisenbeis, 1978). Due to their limited sample and the lack of adequate underlying literature, Altman's models have been criticised. Nevertheless, they have inspired later scholars. Some of them made a discriminant analysis of predictors of business failure, demonstrating the validity of Altman's model from work conducted on a sample of small companies (Deakin, 1972), also identifying the limitations in the application of discriminant analysis in business, finance and economics (Eisenbeis, 1977). Also, the margin for errors contained in Altman's model has been reduced (Blum, 1969; 1974). Other scholars made an empirical test of financial ratio analysis of failure forecasting in a sample of small companies (Edmister, 1972); others identified the main factors for prediction (Taffler and Tisshaw, 1977). Furthermore, other studies in the 1970s focused on a multivariate model, using MDA models, evidencing some behaviours in accounting ratios in the prediction of failure (Libby, 1975) and re-examining the forecasting of financial failure (Moyer, 1977). Other studies focused on the financial applications of discriminant analysis (Joy and Tollefson, 1975; 1978) and through investigation of corporate failure identified a pattern (Diamond, 1976). Taffler's first study focused on finding those companies in danger (Taffler, 1976).

To overcome the criticisms relating to the MDA models, in the 1980s, a new model based on conditional probability came about; among them is the Logit model (Hamer, 1983; Ohlson, 1980; Zavgren, 1985), alongside the identification of alternative statistical methods and variable sets (Hamer, 1983). Among these studies, a prediction of failure was made in a sample of small UK companies (Keasey and Watson, 1986). Thanks to several studies focused on the framework of the prediction of corporate failure (Argenti, 1983; Zavgren, 1983), a logistic analysis was made assessing the vulnerability to failure of US industrial firms (Zavgren, 1985). Some methodological issues were also identified relating to the estimation of financial distress prediction models (Zmijewski, 1984). Also, a forecast of company failure was made using discriminant analysis and financial ratio data (Taffler, 1982), and an assessment of solvency and performance of a company was made using a statistical model (Taffler, 1983).

During the 1990s, Altman's and Ohlson's models were still applied with the purpose of identifying the more common bankruptcy classification errors made in the 1980s (Begley et al., 1996). In addition, thanks to advanced technological tools to handle databases and artificially intelligent systems (Jackson and Wood, 2013), scholars adopted a broader set of models, such as neural networks (Boritz et al., 1995; Coats and Fant, 1993; Odom and Sharda, 1990; Rojas, 1996), genetic algorithms, case-based reasoning and recursive partitioning (Charitou et al., 2004). The above literature has been severely criticised, due to a lack of fundamental framework in these works, in particular concerning the definition of the company failure, the definition of the variables considered in the model and the definition of the sample.

The literature also includes some studies comparing the findings of contingent claims models to that of traditional accounting number-based models. Some studies compared accounting number-based methods – in particular Altman's model (1968) and Ohlson's Logit model (1980) – to a contingent claims model, assessing the probability of bankruptcy: it emerged that the contingent claims model outperform than the others due to the fact that accounting models are based on data from financial statements, containing historic activity without high prediction skills (Hillegeist et al., 2004). Balcaen and Ooghe (2006) made an overview of the classic statistical methodologies, also considering the application problems. Aziz and Dar (2006) made a framework for predicting corporate bankruptcy, categorising these models as theoretical models, statistical frameworks and artificially intelligent expert systems, observing that academic scholars prefer MDA and Logit. Some researchers made a market-based framework for bankruptcy prediction affirming that Altman's model outperforms contingent claims discriminant analysis models (Reisz and Purlich, 2007), while attesting that Taffler (1983) Z-score outperformed contingent claims models based on European call option (EC). Regarding Hillegeist's study (2004), it emerged that the superiority of the contingent claims model is due not to their good performance but rather to the deficiency of accounting models in their predictive powers (Agarwal and Taffler, 2008). Another study assessed the effectiveness of 13 main models (accounting number models and contingent claims models), observing that the model's effectiveness was less successful than the literature had claimed; moreover the contingent claims models outperform accounting number models. In the end, a new model of insolvency prediction was developed and tested based on a simple formulation, which are more accurate than more detailed contingent claims models (Jackson and Wood, 2013). In addition, in the same work, it emerged that accounting number-based models underperform compared with contingent claims models; it was also found that a combination of the contingent claims model and the accounting model elicited only slighted improved results.

French literature on crisis prediction dates back to the second half of the 1970s. The most representative studies combined financial analysis and traditional statistical techniques, creating a model that can classify companies as healthy or susceptible to insolvency, following the application of Altman's model (Altman and La Fleur, 1981; Bontemps, 1981; Collongues, 1977).

In Italian literature, scholars first of all demonstrated the possibility of failure forecasting within the five years, with a certain margin of error, applying the financial analysis to the traditional statistical techniques in a sample of Italian manufacturing firms (Alberici, 1975). Subsequently, another study improved the margin of error of the

Alberici's model, always using financial indicators (Appetiti, 1984). In addition, Italian literature contains several studies determining the degree of credibility of the results produced by each famous model (Cascioli and Provasoli, 1986; Castiello d'Antonio et al., 2008; Danovi and Quagli, 2008; Forestieri, 1986; Moliterni, 1999; Nunzio, 1998; Rossi, 1988; 1995; Vergara, 1988,). In addition, some scholars analysed more in depth the structure of the earlier models (Cattaneo et al., 1986; Teodori, 1989). Even if the literature focused on the warning signs of failure, the forecasting of crises is considered to be a complex activity and not so easily identifiable; indeed, such warning signs may at first appear insignificant but once they become more intense they can irreversibly tip the balance of the company's fortunes and compromise the company's long-term survival (Giacosa and Mazzoleni, 2011).

Considering other European recent scholarly works, it emerged that, focusing on the use of neural networks (for which the success rate was below 85%) in the literature on the prediction of insolvency, some studies identified some new financial ratios to identify solvent and insolvent companies, improving the predictive findings of neural networks models and reaching an effectiveness of around 92.5% to 92.1% of the estimates (Callejón et al., 2013).

2.3 Recovery process

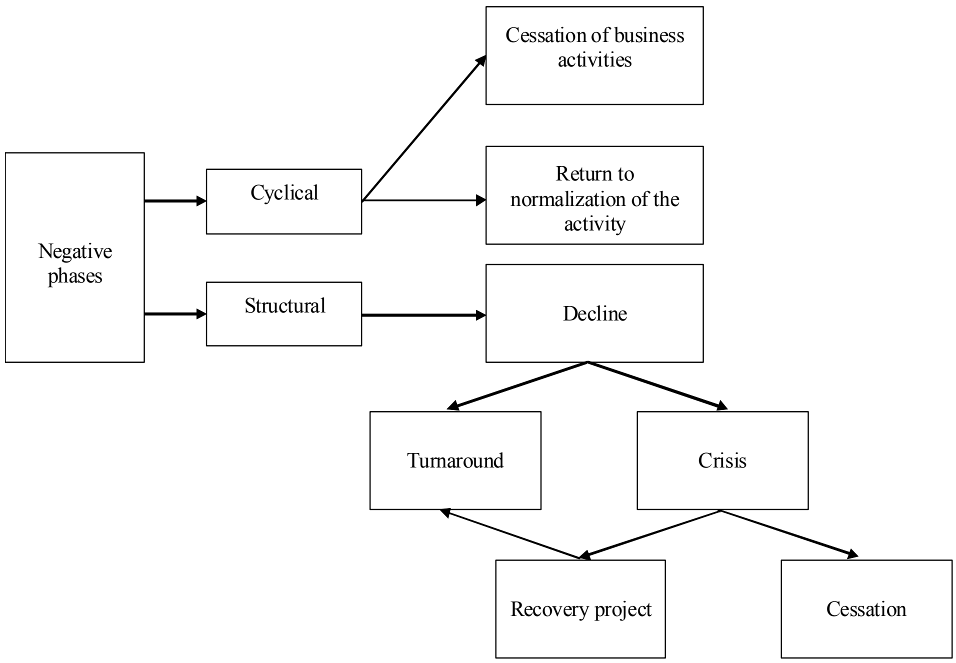
We said that the lifecycle of a company can be characterised by an alternation between positive and negative phases. These negative stages can manifest themselves in different ways (Giacosa and Mazzoleni, 2011; Guatri, 1995) as explained below.

- A *cyclical modality*: positive phases are followed by negative ones in a sort of periodic rhythm. A company that fails to respond to the negative phase is likely to exit the market. This cyclic alternation is a frequent phenomenon, but the company has to be prepared in order to overcome a negative phase. Negative cyclical phases are not usually dangerous for those companies that use forecasting tools, but may be a problem for those other companies. After a cyclical negative phase, a company may have to suspend business activity or be able to return to business as usual.
- A *structural modality*: due to a profound and radical change in the company context, the causes of the negative phase remain hidden for a long time and appear suddenly and unexpectedly. This type of crisis is the most dangerous for any type of business and has been prevalent in recent times. There is not an automatic return to a positive phase; otherwise, the company is entering a phase of decline. The company has to avoid going under during a negative phase. Importantly, companies must learn from a crisis, in order to avoid such a decline in the future (Roux-Dufort, 2000). This decline could lead to a turnaround process, put in place during the decline phase (turnaround from a decline) but before entering a crisis situation (Bibeault, 1982; Lenahan, 2006; Schrager, 2003; Shuchman and White, 1995; Slatter and Lovett, 2004; Sloma, 2000; Whitney, 1999). When the decline has reached a certain level of intensity and the company's interventions are poorly devised, ineffective or untimely (Heath, 1998), a crisis situation may occur. After the recognition of the crisis, the company can either cease operations or return to health via a recovery process. In turn, this recovery process may make a turnaround (turnaround from a crisis), when basic economic-financial conditions have been re-established. It means that the

turnaround strategy can be put in place at two different moments: in response to a decline (turnaround from a decline) or as a means for recovery (turnaround from a crisis). Given the differences in the initial circumstances, the difference between the two turnaround processes revolves around the negotiation with stakeholders and the possibility of a successful transaction (Guatri, 1995).

According to structural negative phases and in particular to the recovery process, the literature considers the recovery as a means to reconstitute the financial and economic equilibrium of a company and the effectiveness of the actions of senior management in the long-term (Giacosa and Mazzoleni, 2011). Generally, a recovery process is considered as a traumatic event for a company, due to the fact that past attitudes, goals and values are replaced by new ones (Arendt, 1977; Bastia, 1996; Chisholm-Burns, 2010; Sutton, 2002).

Figure 1 The development of negative phases



Source: Giacosa and Mazzoleni (2011)

Scholars carefully compare the recovery process to the liquidation procedure in terms of costs and benefits: regarding costs, it is necessary to not only consider the preventive analysis and the formulation of the recovery project and the cost of modifying production but also the risk of the recovery strategy not achieving the expected result, both in the short and medium-to-long term (Passeri, 2009; Sciarelli, 1995). In addition, a wide literature focused on alternative methods for making a recovery process (Deeson, 1972; Ross and Kami, 1973; Schendel and Patton, 1976; Slatter, 1984; Taylor, 1982), analysing advantages and disadvantages for each recovery method (Booth, 1993; Mitroff, 2001). Choosing the most suitable recovery plan for the company is quite a difficult decision, because it impacts on the economic and financial situation and on the chance of survival

(Sciarelli, 1995). In addition, every decision may negatively impact on the stakeholders, including banks, providers, employees and in general, the business environment. Furthermore, the involvement of the owner, often the creator of the company, may cause a lack of objectivity when decision-making (Passeri, 2009). The recent literature on the recovery process is quite rich. It illustrates the effects of recovery process on the probability of business continuity (Chisholm-Burns, 2010; Danovi and Quagli, 2008; Giacosa and Mazzoleni, 2011; Slatter and Lovett, 2004; Smith et al., 2005; Smith and Elliott, 2006) and compares research studies in crisis management (Coleman, 2004). A rich literature has focused on the turnaround as a means of recovery strategy (Bibeault, 1982; 1999; Lenahan, 2006; Schrager, 2003; Shuchman and White, 1995; Slatter, 1984; Sloma, 2000; Whitney, 1999), also distinguishing turnaround strategy from the recovery process (Amadio and Paparelli, 2009; Fazzini and Abriani, 2011; Guatri, 1995; Sciarelli, 1995).

The recovery project may be considered as a standardised tool through which the company must be able to deal with crisis situations in a systematic way (Pearson and Clair, 1998; Slatter and Lovett, 2004). What is more, the recovery project is considered as a means of communication with stakeholders (Pajardi, 2008; Whitney, 1999) to increase the company's credibility (Argenti and Barnes, 2009; Graham et al., 2005; Netten and van Someren, 2011; Reilly and di Angelo, 1990). The studies focusing on the recovery process have defined a series of stages during which the recovery may be dealt with (Bastia, 2001; Giacosa and Mazzoleni, 2012b; Passeri, 2009; Sciarelli, 1995; Vergara, 1988):

a Identification of symptoms and causes which generated the crisis situation (Slatter and Lovett, 2004). It allows the situation to be assessed, causes to be identified, mistakes to be made and reasons for the mistakes to be found. Only by eliminating these causes is it possible to overcome the crisis situation.

b Identification of the urgent measures needed to oppose the crisis situation: they are not planned, but they are necessary and very urgent. Typically, it involves weighing the risk of insolvency against the suppliers, to reduce the production rate and to limit the use of staff taking advantage of the holidays and work permits.

c Choice of intervention solutions: the company might judge most convenient the recovery of the company, if considering the costs, risks, difficulties and benefits of the recovery process in comparison with the consequences of other alternatives. To overcome a crisis situation, a company must frequently renew, refocus, revitalise and restructure its strategy: such changes have to be timely to prevent the precipitation of negative events. The alternative recovery possibilities are: a restructuring process, by improving the efficiency of production factors and modifying fixed costs (Pate and Platt, 2002); an innovative approach involving reinventing the business through a partial or total abandonment of the existing business goals with the purpose of creating new product/market combinations; changing the size of the company, usually downsizing; or a reorganisation, focused on organisational issues. However, typically, a recovery plan is based on several of these methods, one of which will dominate (Cescon, 1988; Guatri, 1986; Slatter and Lovett, 2004; Whitney, 1999). Only when the crisis comes to light, followed by the consequent necessary breakthrough does a company change its strategic behaviour (Ansoff, 1979).

d Execution of all of the above operational options: the recovery process may be considered as a combination of various interventions, interconnected and aimed at achieving the fixed objectives.

In managing the crisis situation, time plays a key role (Cascioli and Provasoli, 1986; Chisholm-Burns, 2010; Heath, 1998; Meyers, 1988); indeed, the crisis may generate an irreversible situation due to a delayed recognition of symptoms, or unwillingness to recognise the state of crisis or minimise its impact, creating a pauperisation of company resources and upsetting the financial and economic equilibrium (Giacosa and Mazzoleni, 2012b).

As the previous literature affirms (Argenti and Barnes, 2009; Coda, 1991; Graham et al., 2005; Netten and van Someren, 2011; Reilly and di Angelo, 1990), an effective communication to the stakeholders could increase the company's credibility, influencing the provisioning of resources and the levels of trust towards the company. The above communication process also includes the recovery project, as it concerns a delicate circumstance involving stakeholders' interests (Foster, 1986; Ingram et al., 2002; Meigs et al., 2001). Due to the fact that every kind of stakeholders has involved in the recovery process, the company has to adopt a transparency and shared communicational approach towards stakeholders.

Italian business literature and regulations about recovery studies do not consider the form and content of a recovery project. The Italian literature has carried out some in-depth analyses of companies' business plans, with reference to the development phase (AIFI, 2002; Borsa Italiana, 2003; Mazzola, 2003). However, it has not indicated the necessary adjustments that the business plans must undergo in the event of crisis in order to sustain the restructuring process of the company in question. Only recently have some guidelines been proposed for the preparation of a recovery plan (Assonime et al., 2010), by suggesting the framework of a business plan be used to manage and overcome a company crisis. Despite the importance of the subject of the recovery project, it has not been analysed even by the Italian Accountants Associations. On the other hand, a rich Italian literature focused on the different modalities of company restructuring. Scholars have considered several topics about the recovery process, such as its objectives (Guatri, 1986) and the conditions for effectiveness and feasibility of a recovery project (Guatri, 1983). The role of owner and management during the recovery process is analysed, as the owner has to be hugely motivated to see the recovery of the company through and the management must be hugely capable and motivated in dealing with the negative situation (Coda, 1983). In addition, the role of management control is observed, as it is an important tool if the company operates in a distressed environment (Brunetti, 2000).

Given the absence of a model of recovery project in the Italian literature and corporate regulation, we make the following main contributions to the literature. First of all, this article aims to enrich the existing literature, focusing on the communicative and managerial role of qualitative and quantitative components of a proposed recovery project model that a company may adopt in order to deal with a crisis in a systematic way. In addition, this research analyses company behaviour in increasing the firm's credibility with stakeholders throughout the recovery project. Our study answers the recent calls for research with relevance for practice: due to an increased number of firms affected by financial crisis, an effective model of recovery project with communicational and managerial role may help the actors of the recovery process to interact with stakeholders in communicating the company strategy and finding a means to uphold business continuity.

3 Methodology

3.1 The sample

The sample is composed of 98 recovery projects developed in Italy between 2009 and 2010, comprising the largest restructurings developed over a period in Italy during which the banking sector intervened as a creditor. The sample has been provided by one of the most important Italian banks which adopted the role of creditor and is the first Italian bank to have internally instituted a division focused on debt restructuring for its customers.

The main characteristics of the sample are as follows:

- the majority of the sample were unlisted companies on the Italian Stock Exchange (86%); all of the companies are private ones
- the sample is representative of different economic sectors: financial holding sector (11.6%), industrial products and services sector (11.2%), real estate (9.2%), household goods (8.2%), telecommunications (7.1%), constructions (7.1%), fashion (5%), distribution (5%) and others minor sectors
- more than half the sample (54.1%) had restructured debt of between €100 million and €500 million, a quarter of the sample (25.5%) had less than €100 million euro, while for about 14% of sample companies the debt was from €500 to €1,500 million
- the sample contained both small to medium-sized firms and large ones: in this stage of the research, we did not differentiate the recovery project and firm's behaviour in accordance with the size of the company.

Data concerning the number of Italian companies involved in a recovery process in 2009 and 2010 does not exist. Nevertheless, the sample has been considered by the banking sector as sufficiently representative in terms of number of projects, project complexity and amount of restructured debt. Indeed, the sample comprises the largest particularly well-known restructurings over a period during which the Italian banking system has evolved as a creditor.

Using the same sample as our previous research (omitted), we have drawn out incremental findings with regard to the communicative and managerial role of qualitative and quantitative components of a recovery projects on the sample. In addition, the findings of the sample allows for the analysis the company behaviour in increasing the firm's credibility with stakeholders throughout the recovery process.

3.2 Hypotheses and research phases

In order to meet the objective of the research, the following core research questions have been defined:

RQ1 What is the communicative and managerial role of qualitative and quantitative components of a proposed model of recovery project, which Italian companies may adopt to overcome the crisis situation in a systematic manner?

RQ2 What is the company behaviour to increase the firm's credibility over the recovery phase towards stakeholders?

With reference to the above research questions, the following hypotheses have been developed:

H1 the recovery project has to explain to the stakeholder the state the company in crisis was in prior to the recovery process, the characteristics of the crisis phenomenon and the influences of the recovery project on the economic and financial condition of the company. To reach these purposes, the recovery project has to be a detailed and comprehensive document, including both qualitative and quantitative data and information on the crisis phenomenon and the recovery strategy. Only an effective combination of qualitative and quantitative information about the recovery project may bring about an open and effective communicative process with stakeholders, likely to generate a sense of loyalty and belief in the company.

H2 during the recovery process, the company has to adopt different behaviour depending on the type of stakeholder. This strategy towards stakeholders is intended to increase the company's credibility, also influencing the provisioning of resources.

The methodological approach applied is structured into three phases.

Phase 1 An analysis of the national and international literature and professional practices according to the crisis phenomenon and the process of recovery has been doing. This phase permits to identify some elements that would form the basis of a model of recovery project. A *theoretical draft* of the recovery model was therefore prepared, distinguishing qualitative and quantitative components and identifying their communicative and managerial role.

Phase 2 The above *theoretical draft* of the recovery model was compared to the sample to identify some common and effective peculiarities of the recovery projects, distinguishing qualitative and quantitative components in order to build a recovery project model. For each analysed case, we acquired from the banking system the recovery project presentations offered to the various stakeholders: for each qualitative and quantitative part of the recovery projects from the sample, we found their communicative and managerial role. In addition, in almost all of the cases the drafts of the asseverations or the definite asseverations of the recovery projects have been analysed. The empirical observations derived from the analysis of the sample were used to integrate the *theoretical draft* of the model recovery project developed over the first phase in which there was both a distinction between qualitative and quantitative components and the identification of their communicative and managerial role. In particular, recovery projects from the sample were analysed with reference to the following aspects, with qualitative and quantitative information included, such as:

- the composition of the recovery project
- the causes of the crisis
- the recovery strategy
- the redefinition of the strategic and operational aspects of the company
- the modification or integration of corporate governance
- the interaction and the agreements towards stakeholders.

The research methodology did not include interviews with companies from the sample because the dossiers provided by the banks were sufficient to reach the purpose of the research.

Based on both the empirical evidence arising from the sample and the *theoretical draft* of the model, we obtained an *advanced draft* of the model, in which there is both a distinction between qualitative and quantitative components and the identification of their communicative and managerial role.

Phase 3 This *advanced draft* was tested through surveys. We need a comparison with some actors involved in the recovery process. We chose financial advisors: this choice was dictated by their greater availability to participate to the research. In particular, the interviews have been carried out with the managers of the restructuring departments of four of the major financial advisors operating in Italy from 2009 in debt restructuring. The interviewees have taken the role of financial advisor in 41% of the recovery projects of the sample (the other financial advisors were not available for interview within the period of research). The surveys carried out in the questionnaire were semi-structured; the applied questionnaire was composed of 28 questions, of which 13 were closed, 11 open and four gleaned mixed answers.

The data becoming from these interviews are both qualitative and quantitative, due to the fact that our proposed model of recovery project has to distinguish between qualitative and quantitative components of recovery project: in particular, quantitative information concern some general aspects such as the number of interventions made, the reference sector involved, the amount of the debts restructured, the duration of the project, the composition of the recovery project and so on; qualitative information are about the financial advisor's experience in the preparation of the recovery projects.

At the end of this phase, the exercise served to provide a *proposal of a recovery project* which takes into account both the literature, the empirical evidence from the sample and the results of the interviews.

The common approach in the survey takes inspiration from the basic principles of Grounded Theory (Corbetta, 2005; Glaser and Strauss, 1967), which was very useful in light of the lack of previous literature on the topic.

4 Findings

The results gleaned from the study can be formulated as follows:

- the communicative and managerial role of qualitative and quantitative components of a proposed model of recovery project
- the company's actions in increasing its credibility with the stakeholder during the recovery phase.

4.1 What is the communicative and managerial role of qualitative and quantitative components of a proposed model of recovery project, which companies may adopt to overcome the crisis situation in a systematic manner?

To answer *RQ1*, the recovery project was considered an important means by which to explain to the stakeholders the characteristics of the crisis phenomenon, the starting situation of the company before the recovery process, the recovery strategy and the influences of the recovery process on the economic and financial condition of the company. The recovery project is an important economic and financial communication tool aimed at overcoming information asymmetries between the company and stakeholders. In the event of a crisis, these information asymmetries increase: on the one hand, suspicion and mistrust of the shareholders towards the company's attitudes and abilities increase; on the other, the company's dependency on some categories of stakeholders (such as banks and providers) increase. In reducing information asymmetries, it emerges that the role of the recovery project is a means of reaching a new state of financial and economic equilibrium to ensure the survival of the company.

Due to its qualitative and quantitative components, the recovery project can be used in two ways:

- In a formal sense, it aims to renegotiate the agreements with the stakeholders (in particular the bank system) in order to recover the relationship of trust with them; when the recovery project is used only in a formal sense, the company assumption is that it would lead to rapid macro-economic development in the future (but this assumption is largely unconfirmed, creating problems in the success of the recovery process). An effective combination of qualitative and quantitative components of the recovery project represents a necessary condition to reach a consensus among stakeholders on the recovery strategy proposed by the company and consequently, a new provision of necessary resources.
- In a substantive way, it can promote the redefinition of its strategic and organisational structure. The recovery project may be considered an instrument to support a profound change on the variables that influence the success of the company (product strategy, organisation, management control, etc.). It means that the crisis phenomenon can be treated as an opportunity to analyse the company's weaknesses, in order to remedy them. Also in a substantive way, the recovery project has to be an effective communicative instrument for stakeholders, convincing them of the company's ability to redefine its strategic and organisational structure and to remedy the company's weaknesses. An effective mixture of qualitative and quantitative information about the recovery strategy may favour the company in an effective communication process with stakeholders, increasing their belief in the company's ability to recover from the crisis.

The timetable perspective has to consider a forecast in a certain period of time. It is useful to refer to the Anglo-American approach, for which a reasonable time horizon for the achievement of an economic and financial stability is about three to five years (American Institute of Certified Public Accountants, 2009; Giacosa and Mazzoleni, 2012b).

We hypothesised that the recovery project has to be comprehensive document, contained qualitative and quantitative information about the company, the crisis phenomenon and the recovery strategy. According to the sample, we first distinguished the parts of the recovery project and secondly the qualitative and quantitative components of each part, showing their communicative and managerial role. The recovery project is generally composed of two parts (in 86.7% of cases):

1 the recovery plan

2 the economic-financial plan.

The remaining cases (13.3%) did not make a distinction between a recovery plan and an economic-financial plan (see Table 1).

Table 1 The distinction into the recovery project in two parts

	No.	*%*
Yes	85	86.7
No	13	13.3
Total	*98*	*100.0*

Source: Personal elaboration

By following, we analysed each part of the recovery project and their informational content, distinguishing qualitative and quantitative information and identifying their communicative and managerial role.

4.1.1 The recovery plan

The recovery plan explains the crisis phenomenon, making a general presentation of the company and illustrating the causes of the crisis and the economic and financial situation of the company before the recovery process. In addition, it analyses the chosen strategy by the company to solve the crisis situation, the proposal and the negotiation with the stakeholders and the guarantees provided for the successful conclusion of the recovery. It means that the recovery part contains several fundamental qualitative and quantitative aspects, as will be discussed, to help ensure the success of the recovery process. An effective combination of qualitative and quantitative information could bring about a greater degree of transparency between the company and the stakeholders, decreasing informational asymmetries, improving the stakeholders' loyalty and belief in the company and consequently the provision of resources.

In order to be a detailed and comprehensive document, the recovery plan should be composed of the following parts.

4.1.1.1 General introduction of the company

A deep knowledge of the company is necessary if information asymmetry is to be reduced (Eccles et al., 2001; Singhivi and Desai, 1971; Stigler, 1994) and company credibility with stakeholders is to be improved.

This part is prevalently qualitative. This qualitative part has to contain a company's presentation with company's history and activities, its market and the relations with its competitors, a description on past and future performances and the degree of commitment with the main stakeholders. Illuminating the corporate structure and shareholders is also important, especially in the case of complex groups. In addition, information about a substantial past reorganisation of the company have been provided at least in a brief summary. This qualitative part permits an in-depth knowledge of these issues, increasing the chance of a successful recovery.

If this part is primarily qualitative, it is also *quantitative*. The quantitative part is useful to illustrate the qualitative one; it quantified the activity results, the market share and the competitors' ones and in addition, an in-depth quantification of corporate structure and shareholders and past reorganisation are contained.

The need to establish a trusting relationship with the stakeholders presumes an extreme transparency about a general introduction of the company. A general introduction of the company was found in all of the recovery projects from the sample (100.0%) (see Table 2).

Table 2 Presence in the sample recovery plans of a general introduction of the company

	No.	*%*
Yes	98	100.0
No	0	0.0
Total	*98*	*100.0*

Source: Personal elaboration

We said that this part is primarily qualitative, but also quantitative. According to the first part of the recovery project – the general description of the company – H1 is confirmed.

4.1.1.2 Crisis phenomenon description

This relevant part has to identify both the characteristics and the factors that originated the crisis phenomenon. All of the cases of the sample contain a paragraph in the recovery plan which sets out the description of the crisis phenomenon (see Table 3).

Table 3 Presence in the sample recovery plans of the crisis phenomenon description

	No.	*%*
Yes	98	100.0
No	0	0.0
Total	*98*	*100.0*

Source: Personal elaboration

This part is prevalently qualitative, but also quantitative.

The *qualitative* part describes the crisis causes and distinguishing them in external and internal ones. Even if the revelation of the crisis is generally financial, the purpose is to clarify some hidden factors of the crisis, both financial and strategic; indeed a crisis may also be due to the inability of the core business to generate results consistent with the company's needs. In addition, these causes could be due to some critical and hidden factors which go unnoticed until their manifestation (Morin, 1976). By describing the crisis phenomenon, the recovery project has to contain qualitative information to understand the reasons of the crisis situation and also focus on their impact on the financial, economic, structural, commercial and productive position of the company.

The ability to take effective action for overcoming the crisis situation depends on the ability to identify the crisis causes in a clear and timely way, showing all qualitative elements that could describe the crisis phenomenon to management and to stakeholders. An untimely acknowledgement of the symptoms or taking ineffective actions in minimising them and incorrect identification of the crisis event may bring about a loss of company resources. Moreover, identifying the causes and sharing all qualitative information about them with stakeholders carries much importance for the effectiveness of the recovery project. Knowing and understanding the real causes of a crisis is essential if everyone involved is to understand and accept the terms on which the recovery will be attempted. The company has to demonstrate to the shareholders that the crisis is reversible and that the sacrifice asked of them will be temporary, the only acceptable outcome being company survival. Consequently, it is necessary to effectively define the crisis phenomenon, conferring a great importance to all qualitative information that could reduce informational asymmetries between the company and the stakeholders. Without a clear identification of them, the chance to an effective recovery and to overcome the crisis situation is reduced. In the majority of the cases, the recovery project sets out the causes of the crisis (see Table 4).

Table 4 Presence in the sample recovery plans of the causes of the crisis

	No.	*%*
Yes	90	91.8
No	8	8.2
Total	*98*	*100.0*

Source: Personal elaboration

The qualitative part is also focused on the distinction between external and internal causes.

External causes: by illustrating external causes, the recovery project has to contain both qualitative (and quantitative) information to describe the crisis phenomenon to management and to stakeholders, in terms of the impact on the financial, economic, structural, commercial and productive situation of the company. They are highlighted in 73 of the cases (74.5%) (for example, market crisis, drop in demand and so on). In these cases, the recovery project is understood as an instrument for resolving only external problems (without dealing with the issue of internal strategic reorganisation/restructuring). Market analysis observed the general field of reference or macro-economic aggregates, without immediate impact on the company crisis. Only in a few cases, external causes of the crisis have been described drawing the attention directly to the competitive context of the company. In some of the cases, the cause attributable to external factors is reasonable insofar as it is supported by reductions in turnover by up to 50% during one year. In the majority of cases, the companies have believed the cause of each crisis to stem from external factors: this means that the recovery project is not perceived as a tool to make a strong recovery strategy and increase the possibilities for future development. Only in some cases have the external causes of the crisis been described, focusing on the competitive environments that have a direct influence on the company. In these cases, an external cause is correctly identified, due to the fact the company's sales figures dropped by up to 50% from year to year. In the majority of cases, the companies have perceived the crisis as external due to a market analysis which was based on activity unrelated to the company's own operations and was generally focusing on the sector or macro-economic context, the dynamics of which have only an indirect influence on the company's business.

Both external and internal causes: by illustrating external and internal causes, the recovery project has to contain qualitative (and quantitative) information to understand the reasons of the crisis phenomenon, also focusing on their impact on the financial, economic, productive and commercial situation of the company. In 25 of the cases (25.5%). The frequent internal causes are the following: the reduction of the operational profitability, consequently to a decline in the company's own products for which no significant changes were made; the inability of the original management team to manage the business activity; a great investment in capital goods and inventories disproportionate to the current market situation; an excessive internal and external growth of the company, both via internal channels (through the development of sales) and external channels (with mergers and acquisitions); the actions of disloyal managers or managers who implement ill-advised operations with company assets.

Crisis causes in the sample have been described as follow (see Table 5).

Table 5 Causes of the crisis

	No.	*%*
External causes	73	74.5
Internal and external causes	25	25.5
Total	*98*	*100.0*

Source: Personal elaboration

The quantitative part of the crisis phenomenon description is referred to data and information about the content of the qualitative part. In particular, it quantified the crisis causes, such as the reduction of the operational profitability, a great investment in capital goods and inventories and a great and uncontrolled external growth of the company.

This part is prevalently qualitative, but also quantitative. The qualitative part describes the crisis causes and distinguishing them in external and internal ones. The quantitative part is referred to data and information about the content of the qualitative part. In particular, it quantified the crisis causes. According to the second part of the recovery project – crisis phenomenon description – *H1* is confirmed.

4.1.1.3 Company's economic and financial situation before the recovery process

The recovery plan has to indicate the economic and financial status of the company before the recovery process, treating the company's business activities as a going concern. The recovery process has to contain every piece of qualitative information concerning the company's economic and financial situation before the recovery process, with the purpose of analysing in depth the real situation with stakeholders and to reduce the informational asymmetries between the company and the stakeholders.

In its quantitative part, the recovery project has to highlight the ways in which income flows and how financial perspective will return the company's capital to acceptable and adequate levels (emerging from the balance sheet). All useful information concerning active assets, debt position and equity on the one hand and revenues and costs on the other have to be included to permit a clear and reliable presentation of the company's situation. In addition, where relevant, the recovery project has to include information about legal proceedings stakeholders are taking out against the company and the presence of non-performing loans to banks (i.e., when a bank believes that the company is no longer in a position of business continuity), which proves to be an important indicator of the company's inability to undertake or continue through a recovery process. It must also include some information to highlight the severity of the crisis situation, such as the presence of any covenants on assets (mortgages and litigation, embargoes, foreclosures, etc.) and within the liabilities, the positions most at risk such as those with suppliers, banks and employees who have started legal proceedings. With particular reference to the economic situation before the recovery process, it must highlight the economic performance of different management areas: it allows the impact of core business of the company to be identified, which is an important element for the success of the recovery process. The company's economic and financial situation must be reliable, because it influences the negotiation with stakeholders. In addition, during a crisis situation, there is often a degree of deterioration in the reliability of company financial statements.

Details of the initial economic and financial situation was found in the majority of the cases from the sample (91.8%) (see Table 6).

Table 6 Presence in the sample recovery plans of the initial economic and financial situation

	No.	*%*
Yes	90	91.8
No	8	8.2
Total	*98*	*100.0*

Source: Personal elaboration

In addition, the quantitative part has to illustrate the degree of the stakeholders' commitment. In the sample, it emerged that the recovery project has been used in time, thanks to a constructive discourse with the stakeholders. It follows that at the formalisation of the recovery project, the companies did not have any disputes with their creditors in 68 of the cases (69.4%), even if past due trade payables are present. In a great number of the cases, suppliers have not stopped the provision of goods and services needed but demanded terms of payment at rates no less than those in the past: it demonstrated a high degree of commitment to the recovery project from providers. In the remaining cases, companies are involved in legal proceedings: 14 cases (14.3%) involved suppliers of goods and services; 16 cases involved banking system (16.3%) (see Table 7). The presence of legal disputes with creditors is a common occurrence in crisis situations. They produce two effects, which could combine with each other: on the one hand, they produce an emulation effect among other creditors, aimed at obtaining preferential payments or positions of privilege before others; on the other hand, the existence of such actions decreases or stops the ability of the company to source the necessary different inputs to conduct its business.

Table 7 Existence of legal disputes implemented by the creditors

	No.	*%*
Lack of legal disputes	68	69.4
Legal disputes towards suppliers of goods and services.	14	14.3
Legal disputes towards banks	16	16.3
Total	*98*	*100.0*

Source: Personal elaboration

It is important that banks know of the existence of legal disputes, due to the negative effects that the proceedings could generate. Indeed, banks tend to monitor the company's situation when the company is involved in a crisis, in order to verify the possibility of successful recovery. When the company is involved by a revocation of another bank credit, by the communication from another bank of non-performing loans or by subsequent court action (including protective and preventive actions) the other banks tend to consider this information as a clear sign that the company cannot carry out its activities. It may create an emulation effect. On the other hand, legal disputes between the company and its suppliers are less dangerous: due to greater information asymmetries between the firm and its suppliers, it is possible that relationships with some suppliers turn to conflict while with other suppliers relationships remain agreeable, helping to sustain business continuity.

The recovery project contains a *qualitative* part which analyses in-depth the previous economic and financial information illustrated in the quantitative part.

The third part of the recovery project is both quantitative and qualitative (mainly quantitative). It is quantitative, when indicating the economic and financial situation of the company before the recovery strategy. All information concerning financial situation are related to active assets, debt position and equity; about economic situation, it contains revenues and costs. In addition, all legal proceedings stakeholders have to be included. According to the third part of the recovery project – the company's economic and financial situation before the recovery process – *H1* is confirmed.

4.1.1.4 Recovery process strategy

After the identification of both the causes of the crisis and company's economic and financial situation before the recovery process, the recovery plan should identify the strategic and operational strategies the company will put in place with the purpose of overcoming the crisis.

This part of the recovery project is mainly *qualitative*, due to its strategic content concerning the strategic map (Brusa, 2011). It is necessary to fully explain the recovery interventions, which are useful in making accurate economic and financial forecasts. The reasonableness and sustainability of these interventions are necessary to increase the potential degrees of success of the recovery process. The recovery plan has to elucidate the strategy in place for the following key stages:

- an emergency strategy, to ensure the company's financial balance
- a stabilisation strategy, to guarantee the company will return to profitability

- a development strategy, with the purpose of ensuring business growth and development.

In all cases there was a paragraph in the recovery plan which detailed qualitative information about the recovery strategy: in the majority of cases (67.3%), the past plan regarding product strategy, organisation, management control, etc. is approved because the crisis is considered an exceptional event in the lifecycle of the company. The main purpose of the strategy is to renegotiate the company's debt position conditions. In the remaining cases, there was a change in the strategy (see Table 8).

Table 8 The confirmation of the past recovery strategy

	No.	*%*
Yes	66	67.3
No	32	32.7
Total	*98*	*100.0*

Source: Personal elaboration

The qualitative part has to show the major recovery strategy followed by the company. In the sample, it emerged that the renegotiation of the contracts with suppliers of goods or services is the major strategy (86.7%); alternatively, the solution is based both on debt rescheduling and reorganisation of the company (13.3%) (see Table 9). It means that in the majority of cases, companies based on an assumption, then rejected, by a rapid return of the economy to pre-crisis level: the emphasis is focused on the extended request from stakeholders to await the return of a healthier economic situation, while the company is not intended to make significant interventions on the corporate structure and activities.

Table 9 The measures to overcome the crisis

	No.	*%*
Renegotiation of the trade payables	85	86.7
Debt rescheduling and company's reorganisation	13	13.3
Total	*98*	*100.0*

Source: Personal elaboration

The qualitative part has to also show the presence of new contributions in stock capital from the current shareholders. In 40 cases (40.8%) the current stakeholders increased the stock capital (see Table 10).

Table 10 New contribution in stock capital by the current shareholders

	No.	*%*
Yes	40	40.8
No	58	59.2
Total	*98*	*100.0*

Source: Personal elaboration

The qualitative part of the recovery strategy has then verified whether or not there has been a redefinition of the strategic and/or operative structures. Indeed, the crisis could involve a review of the past strategy, as well as the consequent processes of strategic planning and management control. In most of the cases (85.7%), the strategic and operational structures of the companies have not been redefined due to the fact that crisis is frequently considered an exceptional and external event in the lifecycle of the company. In 14 of the cases (14.3%) that showed willingness on the companies to undergo reorganisation in the light of the crisis, they did not provide any detail of what interventions were taken or their effectiveness. Out of the 14 cases, ten (71.4%) projected a relative reduction of the business costs, primarily in terms of labour costs and four (28.6%) redefined some of the strategic elements of the firm considered, such as products and markets (see Table 11).

Table 11 Redefinition of the strategic and/or operational elements of the company

	No.	*%*
No	84	85.7
Yes	14	14.3
Of which:		
Reduction of the business costs	10	71.4
Redefinition of some strategic elements of the company	4	28.6
Total	*98*	*100.0*

Source: Personal elaboration

In addition, the qualitative part of the recovery strategy has then verified the modification or integration of the corporate governance. This strategy has been chosen in 31 cases (31.6%). Some 25 of these 31 cases (80.6%) chose modification or integration of the controlling body, while six of the cases (19.4%) chose modification or integration of the managing board. All these requests derive from the banking system (see Table 12).

Table 12 Modification and/or integration of corporate governance

	No.	*%*
No	67	68.4
Yes	31	31.6
Of which:		
Modification/integration of the controlling body	25	80.6
Modification/integration of the managing board	6	19.4
Total	*98*	*100.0*

Source: Personal elaboration

Even if the forth part of the recovery project is mainly qualitative, due to its strategic content, this part contains a quantitative part, which illustrates all information about the above strategy in a quantitative terms. According to the forth part of the recovery project – the recovery process strategy – H1 is confirmed.

4.1.1.5 Guarantees

As the recovery project is subject to the risk of future events, it has to provide guarantees to the stakeholders. These guarantees are both related to the reasonableness and sustainability of the proposed recovery plan (which are difficult to evaluate as they are essentially attributable to the reputation of the actors involved in the recovery process) and due to the use of the legal instruments provided by the bankruptcy laws (which provides legal protection for entities that offer their support to the company during the recovery process).

Table 13 Provision of guarantees in favour of the recovery process

	No.	*%*
Absence of additional guarantees provided by the company	8	8.2
Additional guarantees by the company	68	69.4
Additional guarantees by parties other than company	22	22.4
Of which:		
Consortia	5	22.7
Third parties ascribable to shareholders/directors	12	54.6
Third parties formally disconnected by the company	5	22.7
Total	*98*	*100.0*

Source: Personal elaboration

The fifth part of the recovery project is mainly quantitative. In particular, it contains all information about the guarantee typologies, the issuer, the amount guarantee, every conditions concerning the guarantees. Considering the sample, it emerged that in eight cases (8.2%), the project has not foreseen additional guarantees compared to those originally granted to the banks (these cases are those which show larger bank exposures). In 68 of the cases (69.4%), additional guarantees are provided by the company compared to the guarantees initially issued. In 22 of the cases (22.4%), additional forms of guarantees are provided by parties other than the company/group of companies involved in the recovery. In these 22 cases, five of them (22.7%) are represented by intervention of consortia, 12 (54.6%) by intervention of third parties represented by shareholders/directors of the company in crisis, while five (22.7%) are third parties formally unconnected with the company (see Table 13).

4.1.2 The economic-financial plan

The economic-financial plan expands on the effects of the recovery plan on the economic and financial situation of the company.

This part is mainly *quantitative*, due to the content of the economic and financial plan. It has to include the effects of the recovery strategy on the balance sheets, income statements and cash flow statements to demonstrate how the company is overcoming the crisis situation thanks to the recovery strategy. Its purpose is to state the attitude of the company to reach a great level of economisation in its activity, during and after the recovery process. It contains some documents concerning the economic and financial situation of the company and including:

- a perspective balance sheets
- a perspective income statements
- a perspective cash flow statements.

These tables are present in almost all of the cases. All the economic-financial plan contains the perspective balance sheets and income statements, due to the relevance of the content and the habit of the company in drawing up them. The perspective cash flow statements are elaborated in the majority of the cases: some difficulties in the elaboration are experienced by smaller companies, due to the necessary high technical skills (see Table 14).

Table 14 Economic-financial plan content

	No.	*%*
Perspective balance sheets	98	100.0
Perspective income statements	98	100.0
Perspective cash flow statements	90	91.8
Total	*98*	*100.0*

Source: Personal elaboration

These tables are elaborated developing the assumptions upon which the forecasts for future business activity are based. Generally, assumptions are based on future operations different from those in the past. The economic-financial plan is elaborated respecting the method of plan development (AIFI, 2002; American Institute of Certified Public Accountants, 2009; Mazzola, 2003; Giacosa and Mazzoleni, 2012b). In addition, the plan has been formulated in respect of the literature guidelines, with particular reference to the prospective financial statements'. The prospective financial statements could be subdivided into the following (American Institute of Certified Public Accountants, 2009):

- financial forecast: it is based on assumptions existing at the moment of their conception which are reasonably expected to occur (for example, turnover developed on the basis of orders already contracted by the company)
- financial projection: it is based on hypothetical assumptions or the hypothesis that at the moment of preparation of the plan they were not yet verified (for example turnover developed on the basis of orders still under process of contracting).

Generally, the economic-financial plan in the recovery process contains a high level of uncertainty. Indeed, it is to a large extent determined on the basis of unverified assumptions at the moment of its preparation assuming significant discontinuity with the past. This is due to the fact that quite often the historical elements turn out to be inappropriate building blocks for recovery due to the causes of the crisis. To reduce this uncertainty factor, the more frequent techniques concerning:

- The duration of the economic-financial plan: generally, it may have a short-term horizon, increasing the reasonableness of the document. However, it often happens that the length of time necessary for a plan's successful implementation in returning the company to a normal state is not within a short term. Indeed, this duration is about more than 15 years in 41.8% of the cases; from 5 to 15 years in 37 cases (37.8%). In the remaining cases, it is about less than five years (20.4%) (see Table 15).
- The use of the sensitive analysis, allowing confirmation of how the starting situation can be modified with changes of one or more relevant variables. The sensitive

analysis permits to estimate the margin of certainty or the sustainability of the recovery plan: it identifies the minimum level that some relevant indicators must assume in order to ensure the achievement of the objectives negotiated with the stakeholders (turnover, gross operating margin, contribution margin, etc.). The sensitive analysis is employed by the majority of the recovery projects (78.6%). In these cases, 40 of them (51.9%) carry it out through a stress test on the principal variables upon which the project is based, while 37 (48.1%) use multiple scenarios (see Table 16).

Due to the content of the economic and financial plan, this part is mainly quantitative. Nevertheless, a qualitative part has the purpose to illustrate all economic and financial data and information included in this part. According to this part of the recovery project – the economic-financial plan – H1 is confirmed.

Table 15 Economic-financial plan duration

	No.	*%*
Less than five years	20	20.4
From five to 15 years	37	37.8
More than 15 years	41	41.8
Total	*98*	*100.0*

Source: Personal elaboration

Table 16 The use of sensitive analysis

	No.	*%*
No	21	21.4
Yes	77	78.6
Of which:		
Stress tests	40	51.9
Multiple scenarios	37	48.1
Total	*98*	*100.0*

Source: Personal elaboration

According to the composition of the recovery project (recovery plan and economic-financial plan), H1 is confirmed: the recovery project has to be an inclusive document, including both a qualitative and a quantitative component on the crisis phenomenon, which have both communicative and managerial roles. Only the combined effect of quantitative and qualitative aspects allows the project to demonstrate to the stakeholders the starting position of the company in crisis, the causes of the crisis, the recovery strategy and its effects on the economic and financial situation. In addition, only an inclusive document may explain the ability of the company to overcome the crisis situation. A clear and complete communication of the recovery strategy is a necessary condition of meeting the wishes of the third parties, generating consensus and attracting the necessary resources.

4.2 What is the company behaviour to increase the company's credibility over the recovery phase towards stakeholders?

To answer *RQ2*, we considered that during a crisis situation, a company struggles to meet its commitments with stakeholders; in addition, it needs new resources to ensure business continuity. In this context, stakeholders' loyalty and flexibility in how they deal with the recovery process is important in its chances of success (Shuchman and White, 1995; Whitney, 1999). Indeed, a company in crisis has a high dependence of third parties: banks, suppliers, employees, etc. Typically, a company will ask them not to interrupt the supply of goods or services and asks them to extend their payment terms or for a reduction of debts against them.

The recovery project is a means of communication with stakeholders, increasing the credibility of the company during and after the recovery process and developing the trust and the consensus of the stakeholders (Lindblom, 1994), as a result of being informed of and in agreement with, the policies and strategies proposed by the company (Owen, 2008). This consensus is a necessary condition in the recovery process, favouring the provisioning of financial resources (Deephouse and Carter, 2005).

To increase the possibility of overcoming the crisis situation over the recovery phase, the company usually interacts with several types of stakeholders in different ways. The characteristics of the recovery project proposed (in terms of deferred payment of overdue debts or cancellation of debts and in terms of differentiation of the recovery project proposed to the various stakeholder parties) and the reputation of advisors who assist the company at this time of crisis influence the stakeholders' opinions of the company and level of commitment to the recovery process. The probability of unanimous acceptance of the project is greater in the case where the proposal is not differentiated by various categories of stakeholders and involves the payment of all amounts payable even with a delay. In addition, the higher the reputation of advisors acting on the company's behalf, the higher the probability of getting stakeholders on board.

In the sample, the majority of the companies (73.5%) developed specific agreements for the different types of stakeholders, according to the deadlines and the conditions of the debt (see Table 17). Generally, companies require for an extension of the debt and a partial payment of the debt.

Table 17 Presence of differentiated agreements towards stakeholders

	No.	*%*
Yes	72	73.5
No	26	26.5
Total	*98*	*100.0*

Source: Personal elaboration

This evidence confirms H2: the companies of the sample adopted differentiated behaviour in relation to the different categories of the stakeholders and consequently the content of the proposal is different depending on the type of stakeholders. The recovery project has to analyse in detail the stakeholders' requests in order to facilitate recovery. Observing the sample, the stakeholders involved are as follow:

- banks, in all of the cases (100.0%)
- financial administration through fiscal transaction (86.7%)
- suppliers of goods and services (46.9%), to ensure continuity in the supply of goods and services necessary in guaranteeing business continuity
- employees (13.2%) with the aim of obtaining their support (Whitney, 1999; Pate and Platt, 2002; Sutton, 2002) (see Table 18).

The banking system has a great evidence in drawing the recovery process to a successful conclusion. Certainly, the banking sector very often supports the recovery of the firm insofar as it is more resistant to the effects of delayed or written-off payments on its own borrowings. Companies of the sample often ask banks to accept a subsequent payment after the suppliers of goods and services – considered strategic for the continuance of the activity – and it is also frequent for banks to receive requests for more loans to repay suppliers. The interaction with the suppliers of goods and services is frequent when the trade payables are concentrated in a reduced number of significant unit amounts. Also employees are involved in the recovery process: this interaction is assisted by the intervention of trade unions on behalf of those most affected by the crisis stakeholders.

Table 18 Stakeholders involved in the recovery process

	No.	*%*
Banking system	98	100.0
Financial administration	85	86.7
Suppliers of goods and services	46	46.9
Employees	13	13.2
Total	*98*	*100.0*

Source: Personal elaboration

The sample shows the presence of a high number of banks involved in recovery projects. In 35 of the cases over ten credit institutions (35.7%) are identified; in 58 cases between five and ten institutions (59.2%); in five cases fewer than five institutions (5.1%) (see Table 19).

Table 19 Number of involved banks

	No.	*%*
Fewer than five banking institutions	5	5.1
Between five and ten banking institutions	58	59.2
Over ten banking institutions	35	35.7
Total	*98*	*100.0*

Source: Personal elaboration

The degree of complexity of the recovery project is influenced by the number of credit institutions involved: the projects which involve a limited number of banks are more straightforward compared to those in which a large number of banks are involved. For cases in which the number of the institutions involved was more than ten, the project is assisted by different agreements with different banks. In 78 of the cases (79.6%), a single agreement with the banking system has been formulated, while in 20 of the cases (20.4%) it was observed that different agreements were made with some banks: it happens that some banks do not accept the conditions proposed by the company and shared by other banks; they are able to negotiate different agreements with the company (usually cheaper than those negotiated by other banks). Of these last cases, 15 of them (25.0%) envisaged sharing the agreements with other institutions with regard to the rescheduling of debts with the commitment not to undertake banking actions of recovery; in five of the cases were foreseen ways for resolving the situation, differing from those agreed with the other banks (see Table 20).

Table 20 The agreements with the banking system

	No.	*%*
Single agreement with banks	78	79.6
Different agreements with banks	20	20.4
Of which:		
Commitment of non-taking recovery actions	15	75.0
Specific repayment plans	5	25.0
Total	*98*	*100.0*

Source: Personal elaboration

It means that according to the bank system, which represent the greater actor to give successful to the recovery project, the majority of the companies of the sample made a single agreement (79.6%): different agreements with banks would create tensions between companies and banks due to special conditions towards some financial institutions. Companies appear to have interacted with the banks before the recovery process began, also due to the substantial investments over the last few years in the creation of divisions to interact with companies in crisis. Through a plenary meeting, the company presents and negotiates to all the banks the conditions of the agreements. An inter-banking agreements-convention is negotiated between the company and the bank system.

With reference to other stakeholder categories, a company reserves more favourable treatment for providers than that proposed to the banks, because the company requires the provision of goods and services to ensure business continuity; in addition, banks have a higher degree of tolerance with respect to suppliers of goods or services to employees, especially when the providers are small companies. According to tax authorities and social security institutions, the company is obliged to repay debts; if necessary, it can make use of the tools provided by law to delay or reduce the debts. It emerged that the degree of interaction is quite small. According to the shareholders, the proposal is different if they have had a role in the management of the company; indeed, shareholders who hold management roles are generally more likely to give new financial resources. Companies usually ask them for an introduction of new financial resources (which is the best solution for increasing the effectiveness of the recovery project) and for the introducing new stakeholders.

New granting of financial resources is influenced by the communicational process between company and stakeholders. Indeed, one of the most delicate aspects of the analysed projects is the availability of agreements for new funding. In the sample, this provision is observed in 18 of the cases (18.4%). In the remaining cases, credit lines are confirmed by the banking system on the date of the formalisation of the recovery project (see Table 21).

Table 21 New granting financial resources

	No.	*%*
Yes	18	18.4
No	80	81.6
Total	*98*	*100.0*

Source: Personal elaboration

The fact that a reduced number of cases are characterised by the provision of financial resources is definitely influenced by the absence of a specific Italian law protecting banks or other lenders involved in the project, who have taken the decision to increase their exposure towards companies in crisis. Such a situation, at least from legal point of view, is prevented by the law n. 78/2010: art. 182-quarter Bankruptcy Law has made possible the pre-deducibility of the borrowings granted by the banks used by the company in the formalisation or the execution of the recovery project (made up in accordance with the agreement of debt settlement or the arrangement with creditors).

According to the company's behaviour to increase the company's credibility over the recovery phase towards stakeholders, the company has to adopt different behaviour depending on the type of stakeholders (banks, suppliers, employees). The probability of acceptance of the strategy recovery from stakeholders depends on the ability of the company and the experience and reputation of its advisors to prepare a reliable and reasonable recovery project and to communicate it in a comprehensible way. In valuating the proposed recovery project by the stakeholders, both objective (deferred payments of overdue debts or partial clearance write-off) and subjective (differentiation of the proposal according to the various stakeholders or proposition of the same offer to all parties) elements are considered. Therefore, *H2* is confirmed.

5 Conclusions, implications and limitations

The recovery project is the tool by which a company in financial crisis can return to a state of development in a systematic way. We identified the communicative and managerial role of qualitative and quantitative components of a proposed model of recovery project which Italian companies may adopt to overcome a crisis situation in a systematic manner. The recovery project is composed of two different parts in the majority of the cases (86.7%):

- The recovery plan: it is the most delicate part of the recovery plan, as it explains some important aspects influencing the success of the recovery process, such as the presentation of the company [which was found in all of the recovery projects from the sample (100.0%)], the causes of the crisis [which was found in all of the recovery projects from the sample (100.0%)], details of the initial economic and financial situation before recovery process [which was found in the majority of the cases from the sample (91.8%)], the recovery strategy (in all cases, there was a paragraph in the recovery plan which detailed the recovery strategy) and the policy of negotiation with stakeholders. The recovery plan contains both quantitative and qualitative information.

- The economic-financial plan: it permits the interlocutors to understand the effects of recovery strategy on the economic and financial situation of the company and its attitude to overcome the crisis situation. It contains both quantitative and qualitative information, even if it is mainly a quantitative part. In particular, it contains some documents concerning the economic and financial situation of the company and including: perspective balance sheets (100.0%); perspective income statements (100.0%); perspective cash flow statements (91.8%).

According to the composition of the recovery project (recovery plan and economic-financial plan), the recovery project has to be an inclusive document, including both a qualitative and a quantitative component on the crisis phenomenon, which have both communicative and managerial roles. Only the combined effect of quantitative and qualitative aspects allows to show to the stakeholders the starting position of the company in crisis, the causes of the crisis, the recovery strategy and its effects on the economic and financial situation. In addition, only an inclusive document may explain the ability of the company to overcome the crisis situation. Observing the qualitative and quantitative information from the sample, it emerged that the recovery project has been used in its formal sense: in fact, it has been employed to renegotiate the debt, mainly with banks. However, the significance of the substantive rehabilitation project has been frequently overlooked.

The company has to reach a consensus on the recovery project from stakeholders, which are also influenced by the agreements proposed by the company to different categories of stakeholders. In particular, it emerged that the companies of the sample proposed differentiated agreements towards stakeholders in the majority of the cases (73.5%). Banks represent a privileged stakeholder, for which companies of the sample created a single agreement for all banks involved (79.6%) in order not to create tension between banks. The success of the recovery process depends on the ability of the company and its advisors to define an agreement with the banks, without which the recovery cannot be completed. In addition, other creditors are involved to varying degrees, such as tax administrators, supplier of goods and services and employees. With the intention of increasing the company's credibility, the recovery project is an instrument of communication with stakeholders. Due to the strong dependence by third parties and the reduced stakeholder confidence towards the company and its need for business continuity, the company has to effectively communicate the recovery process in order to succeed. The purpose is to regain the respect of its stakeholders and generate commitment from all parties on the recovery strategy, even adopting different behaviours towards various types of stakeholders.

The implications of this research concern the above conclusions. All companies, whether the weakest or the strongest have to consider themselves as being open to potential crisis. Companies have to adopt a systematic approach to the problem, which makes use of standardised tools, such as the recovery project. As there is not a reference model for the preparation of the recovery plan, the absence of generally accepted principles can generate some difficulties in recovery planning for companies and its consultants. A model of recovery project, containing an effective combination between qualitative and quantitative information with communicative and managerial role, may help several actors of the recovery process to interact with stakeholders in communicating the company strategy to them with the purpose of finding a means to uphold business continuity.

A way of overcoming the limitations of the research would be to differentiate the companies' behaviour during the recovery process according to the listing or non-listing of the companies and to the amount of restructured debt involved. Indeed, these factors may generate several different attitudes in overcoming the crisis situation, thus developing different models of attitude worthy of study. First of all, it has been supposed that the crisis is affecting unlisted companies more intensely than those listed. Indeed, the culture of listed companies is more oriented towards the disclosure: usually, companies tend to communicate in advance the crisis phenomenon and its warning signs affected the firm, before reaching hard financial tensions. On the contrary, the unlisted companies tend to underestimate the effects of the crisis and postpone remedial action at the time of maximum financial stress. This aspect might merit further study. In addition, a further analysis may be conducted distinguishing the company's recovery behaviour in order to the amount of debt rescheduled. Our hypothesis, who will assume for the next stage of our research, is that this behaviour can manifest peculiarities in relation to the amount of the outstanding debt which also influencing the number of stakeholders involved.

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