

MECHANISMS FOR ELIMINATING RISK FACTORS IN THE MANAGEMENT OF PUBLIC ORGANIZATIONS

ABSTRACT

„Approaches to Management Performance Assessment and Mechanisms of Performance in public organizations of Georgia“ deals with the most important issues such as the role of management in economic development. Determining management efficiency factors, approaches to assessment of management efficiency; Based on the analyses of several public organisations of Georgia, relevant conclusions are made, which in practice will facilitate the development of the country's economy. The topic has its actuality and practical significance of the research topic. The results of the study and their judgment, basic aspects of management as the origin and development of the economic category itself are composed from different subdivisions. A composite economic category of management provides general definition of explanation, its characteristic features; Explains the essence, importance and objectives of management in the market economy; Basics of management historical process of development - is the historical process of management development from the earliest period to the current period.

Increasing efficiency of the organization is the main task of management performance. Management criteria and the achievement of the main goal to improve the effectiveness of the implementation have the main directions of this task, such as personnel and properly designed. Specifically, to manage the impact of the economic unit and its social management, properly use the time factor. The management decision is reviewed as a result of analysing, predicting, optimizing and alternatives in the enhancement of management efficiency from many options for achieving a main goal. The essence and meaning of operative, tactical and strategic decisions in terms of management levels are discussed. It also discusses the intuitive reasoning and the



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essence of rational decisions. The issues also discussed in the importance of system management, which should be evaluated by two criteria, productivity and efficiency. It is also possible to achieve efficient management with situational management processes. The role of strategic management in competitive advantage discusses the essence of strategic management and its role and importance in ensuring competitive advantage. The importance of strategic management in general is considered to achieve a competitive advantage, efficiency improvement.

At the end of the work, conclusions and recommendations are based on the findings to ensure correct management performance and enhance its level.

Keywords: Business failure; efficiency; strategic management; risk factors; agenda; entrepreneurial learning; costs of failure.

საჯარო ორგანიზაციების მენეჯმენტში რისკ-ფაქტორების აღმოფხვრის მექანიზმები

ქრისტინა ავალიანი

სსუ ბიზნესის ადმინისტრირების დოქტორანტი

ანოტაცია

საქართველოს საჯარო ორგანიზაციებში მენეჯმენტის შეფასების მიდგომა და საქმიანობის მექანიზმები ეხება ისეთ მნიშვნელოვან საკითხებს, როგორიცაა: მენეჯმენტის როლი ეკონომიკურ განვითარებაში, მენეჯმენტის ეფექტურობის ფაქტორების დადგენა, მენეჯმენტის ეფექტურობის შეფასების მიდგომები საქართველოს რამდენიმე საზოგადოებრივი ორგანიზაციის ანალიზის საფუძველზე, რაც პრაქტიკაში ხელს შეუწყობს ქვეყნის ეკონომიკის განვითარებას. კვლევის შედეგები და მენეჯმენტის ძირითადი ასპექტები, როგორც ეკონომიკური კატეგორიის წარმოშობა და განვითარება, შედგება სხვადასხვა ქვედანაყოფებისაგან. მართვის კომპინირებული ეკონომიკური კატეგორია უზრუნველყოფს ზოგად დახასიათებას, მისთვის და-

მახასიათებელი ნიშნები კი განმარტავს საბაზრო ეკონომიკაში მენეჯმენტის არსს, მნიშვნელობასა და მიზნებს.

კერძოდ, ეკონომიკური ერთეულის გავლენისა და მისი სოციალური მენეჯმენტის სამართავად უნდა გავითვალისწინოთ დროის ფაქტორი. მენეჯმენტის გადანაცვლები განიხილება, როგორც ძირითადი მიზნის მისაღწევად, მრავალი ვარიანტიდან მენეჯმენტის ეფექტურობის ამაღლების, ანალიზის, პროგნოზირების, ოპტიმიზაციისა და ალტერნატივების შედეგად. ასევე განხილულ იქნება სისტემის მართვის მნიშვნელობის საკითხები, რომლებიც უნდა შეფასდეს ორი კრიტერიუმით, პროდუქტიულობითა და ეფექტურობით.

საბოლოოდ, დასკვნები და რეკომენდაციები ემყარება შედეგებს მენეჯმენტის სწორი მუშაობის უზრუნველსაყოფად და მისი დონის ასამაღლებლად.

საკვანძო სიტყვები: ბიზნესის ჩავარდნა; ეფექტურობა; სტრატეგიული მენეჯმენტი; რისკ ფაქტორები; ჩავარდნის მაჩვენებლები.

INTRODUCTION

In a market economy, a firm's business requires a style of work that is based on constant search for new opportunities, attracting resources from different sources for solving tasks, and utilizing the knowledge gained, thereby enhancing production efficiency. In these conditions, there is a growing demand for mechanisms for the organization's management to properly evaluate the effectiveness of management's work. The manager should ensure that the organization's activities meet market demand, characterized by a constant drive to increase production efficiency, concentrate and optimize decisions and develop control mechanisms. The term "management" is interpreted not as "management" (In the broadest sense), but as leadership, administration and case management.

Research papers on business failures are conceptual, so it was necessary to add new criteria in the process of problem solving, in order to focus more on the factors that underlie business projects those have a particular problem.

In addition, the practical value of the work is that startups or qualified managers and entrepreneurs will have the opportunity to learn about modern progressive management models, management effectiveness criteria and the introduction of competitive ways to help them to improve the production process.

An organisational assessment is a systematic process for obtaining valid information about the performance of an organisation and the factors that affect performance. It differs from other types of evaluations because the assessment focuses on the organisation as the primary unit of analysis.

Also, the extension of modern economic processes has also increased the importance of our involvement in globalization. Especially when during the communist rule the economic situation was particularly influenced by the upper echelons. Today's reality, business success and economic development are very important to the country's interests. Accordingly, the role of public organizations should also increase the production process and business-oriented management.

HISTORY

The origins of management as a science began in the late nineteenth century in the United States. This was conditioned by the objective processes that took place in the economy of this country. Concentration of production, capital and exacerbate of the competition have put on the agenda of a new concept of farm management.¹

There are cases where business research mainly focuses on successes, which ignores the high rate of failures in emerging enterprises and eliminates a holistic view of the entrepreneurial process.² There are not highlighted the problems and outcomes that business-oriented organizations should use in their future.

A business case study highlighting failure and factors includes two major failure studies:

1 (Giorgi Shubladze; Babulia Mgebrishvili; Fikria Tsotskoulauri 2008, 21.2 შრომითი რესურსების განვითარება; pg. 174)

2 (Astan 2016, 3. Entrepreneurial Learning; pg.437)

1. The first was a 20 year study of 250 technology-based business ventures begun in the 1960s in Silicon Valley, California. These scholars (Bruno ET al.1992) examined failure as well as success. Findings indicated that by 1988, 50% of the firms in the sample had failed (discontinued), 32% had merged or had been acquired and only 18% continued to survive as independent businesses. Results further showed the reasons entrepreneurs gave for the discontinuance of their businesses. Reasons included product or market problems, financial difficulties, and managerial or key employee problems. To further clarify, the lead up to financial difficulties often involved the deterioration of relationships with venture capitalists and managerial problems. Specifically, the problem of an ineffective management team was cited as a cause of failure by 90% of the respondents.

2. The second study was done by Zacharakis et al. (1999) and examined entrepreneurial failure only. These researchers were interested in comparing the explanations for failure given by entrepreneurs and venture capitalists. They defined entrepreneurial venture failure as bankruptcy, and examined eight case studies of failed, high technology manufacturing firms. In six cases failure had already occurred and the other two cases involved companies that were on the verge of failure. Two key findings were reported. First, entrepreneurs and venture capitalists had different perceptions about why the entrepreneurs' ventures failed. Fifty eight percent of entrepreneurs attributed the failure of their company to internal factors such as poor management strategy and lack of capitalization. In fact, the most common internal factor cited by entrepreneurs was poor management strategy. However, the venture capitalists (75%) attributed failure of the same companies to external factors, factors outside the control of entrepreneurs. For example, venture capitalists tended to see strong competition, slow market growth, and small market size as causes of failure.³

Progress in business failures research is emerging today as new interests, approaches and new areas of using them.

As for the Georgian business sector, they often fail to correctly predict the expected failures and often re-invent the bicycle, while the world business community and scientists are actively working with practitioners to develop new ways and then introduce them. According to papers by Andy Lockett, a professor at the University Of Warwick School Of Business, there are several types of causes of business failure:

1. Discontinuity of Ownership - A broad definition of business failure focuses on the entrepreneur's exit from his or her business. Discontinuity of ownership not only includes businesses that closed but also businesses sold because the owner wished to retire for age or health reasons, those sold for a profit, and those sold because the owner merely wished to move on to another venture;

2. Bankruptcy - The advantage of using bankruptcy as a definition is that it relies on an observable, recorded event. Further, while recovery from one form of bankruptcy is

3 (Smita Singh; Patricia Doyle Corner; Kathryn Pavlovich 2007, Empirical Findings; pg. 333)

possible, the chances of doing so are slim. Thus, bankruptcy represents a clear indication of a failing firm and a major step toward death;

3. Discontinuity of Ownership Due to Insolvency - Business failure occurs when a fall in revenues and/or a rise in expenses are of such a magnitude that the firm becomes insolvent and is unable to attract new debt or equity funding; consequently, it cannot continue to operate under the current ownership and management;

4. Discontinuity of Ownership Due to Performance below Threshold - Rather than there being a universal notion of poor economic performance sufficient for business failure and/or resource providers, some studies have emphasized that entrepreneurs' expectations represent an important threshold consideration for defining business failure;

5. Social Costs of Failure - Failure can lead to social costs in relation to its impact on personal and professional relationships. The quality of relationships after a failure can be diminished as a result of the stigma associated with failure;

6. Financial Costs of Failure - At a minimum, failure is likely to impose a financial cost on the entrepreneur in the form of a loss of or reduction in personal income. While a degree of financial cost is to be expected following failure, an interesting issue relates to how entrepreneurs manage and/or absorb these costs. For some entrepreneurs, financial costs may take the form of personal debt that takes years to clear (Cope, 2011). In contrast, based on the theoretical notion of risk diversification, an entrepreneur with a portfolio of wealth or ventures may more easily absorb the financial costs associated with a single business' failure. Contributing to behavioural economics theories, Arora and Nandkumar (2011) report that entrepreneurs with high opportunity costs are likely to be more impatient for success and invest more aggressively in their ventures, thereby increasing the chances of large financial gains or large financial losses. As such, in the case of business failure, the entrepreneurs may incur considerable financial costs. Nevertheless, given the availability of alternatives, they may also absorb these costs more readily;

7. Psychological Costs of Failure - A number of negative emotions have been associated with business failure, including pain, remorse, shame, humiliation, anger, guilt, and blame as well as the fear of the unknown. Common across these studies is the notion that business failure has parallels with the loss of something important. Theories of entrepreneurial grief have also deepened our understanding of motivation. The motivational effects of failure can be twofold. First, experiencing failure can have adverse motivational effects by generating a sense of "helplessness," thus diminishing individuals' beliefs in their ability to undertake specific tasks successfully in the future and leading to rumination that hinders task performance;

8. Cohesion between Financial, Social, and Psychological Costs - Although we classified the costs of business failure to the entrepreneur in terms of financial, social, and psychological costs, these categories are often inter-related, and research has begun to look at these intersections. Financial costs may have a psychological dimension. Business failure

typically generates a financial cost, and delaying business failure due to cognitive biases can increase those costs. The social costs of failure can have financial implications. Theory-building research using a case study design has produced evidence that even when the direct financial costs of failure are not particularly high, indirect financial costs of failure may accrue due to the social costs of failure. Social costs can have a psychological impact. The psychological costs of failure may have a social impact.¹

And also the role of moderators in the analysis of each.

This paper will discuss management effectiveness issues, performance criteria and approaches, based on the features of management functioning in Georgian public organizations. Evaluating the effectiveness of organizations, increasing the efficiency of production is a topical issue for the economy of Georgia as a whole.

METHODOLOGY

One of the most comprehensive frameworks for organisational performance assessment (OPA) is the Institutional and Organisational Assessment Model elaborated by Universalia and the International Development Resource Centre (IDRC) (see Figure 1). This model views the performance of an organisation as a multidimensional idea, as the balance between the effectiveness, relevance, efficiency and financial viability of the organisation. The framework also posits that organisational performance should be examined in relation to the organisation's motivation, capacity and external environment. Indeed, a review of the literature conducted as a preliminary step for developing the framework showed that organisations change: in response to factors in their external environment, because of changes in their internal resources and as a result of fundamental shifts in values within the organisation, which in turn affect the organisational climate, culture and ways of operating.²

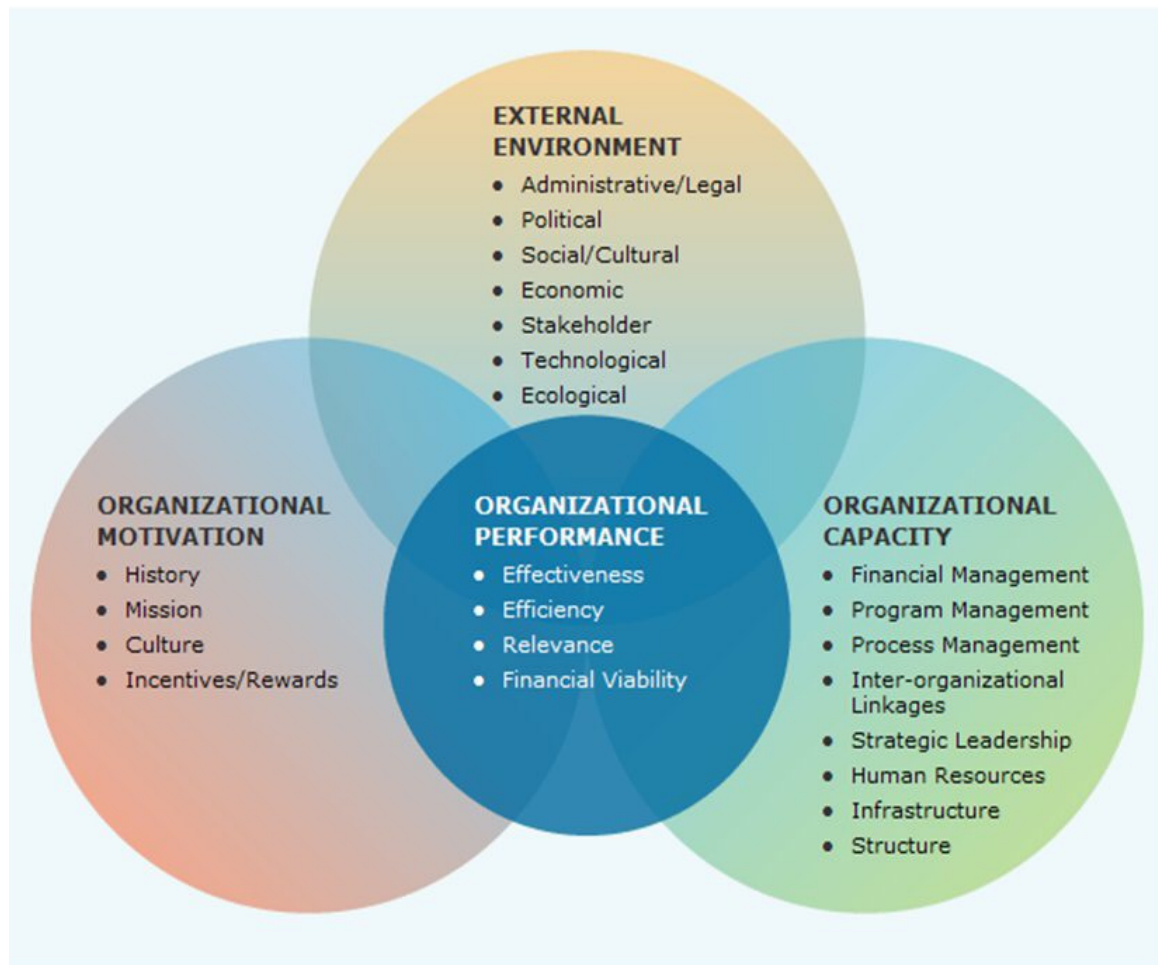
In this review, we have addressed the following question: what happens to entrepreneurs when their businesses fail? Drawing on research relating to the immediate and longer-term consequences of business failure for the entrepreneur and the associated underlying processes that shape them, we have synthesized findings into a schematic model (see Figure 2). Specifically, we highlight the costs of business failure, the social psychological processes of sense making and learning, and the outcomes of business failure. Building on insights from the schematic model, we have developed a research agenda for each of these areas. Our aim, through providing a clear research agenda, is not to constrain future research on business failures but simply to offer some suggestions to encourage more research on this important topic and, in doing so, further unravel some of the mystery surrounding the effect of business failure on the entrepreneurs involved.³

1 (Deniz Ucbasaran; Dean A. Shepherd; Andy Lockett; John Lyon 2013, *Interrelationships between Financial, Social, and Psychological Costs*; pg. 23)

2 (Rojas 2015, *Frameworks*; pg. 2)

3 (Deniz Ucbasaran; Dean A. Shepherd; Andy Lockett; John Lyon 2013, *CONCLUSION*; pg. 49)

(Figure 1). Institutional and Organisational Assessment Model (IOA Model)



Source: Universalia Institutional and Organisational Assessment Model (IOA Model)

PURPOSE OF THE RESEARCH

The main goal of the business is to maximize the benefits with minimal costs. In order to conduct these processes positively, it is necessary to study the problems and develop a recommendation plan for Georgian public organizations that will be based on the analysis.

In view of the above, it can be said that the thesis is highly relevant for the problems it presents and the ways of overcoming them determine to some extent: the effectiveness of management and the high quality of production.

One of the goals of this paper is to present and identify problems in public management processes in Georgian public organizations individually, develop a specific recommendation action plan that will help optimize managerial processes to maximize resource utilization in the organization.

MAIN TASKS

1. To portray the importance of management as an economic category in the management of a public organization;
2. To study the necessary conditions for effective management;

3. Investigate the approaches and views of Georgian and foreign scientists and demonstrate the benefits of effective management by representing and synthesizing them;

4. Demonstrate the effectiveness of management problems in Georgian public organizations as a result of research;

5. Develop recommendations for ensuring effective management based on both: classical management theories and new methods or forms of management used to achieve effective management at the modern stage.

EXPECTED RESULTS OF THE STUDY

It is well known that management is an economic category. In a market economy, management means organizing the firm's activities in line with market demand, continually striving to increase production efficiency, freedom of decision making, systematically adjusting goals and programs. Management can be seen as a system of knowledge of the organization, methods, techniques and technologies of production and services, and the regularities of human relations development.

The purpose of an organization management process is to create value for people through the use of market de-

(Figure 2). Summary of Research on the Processes and Consequences of Business Failure for Entrepreneurs

Author(s) & year	Theme	Literature/Theory Base	Method	Key Findings
1. Harris & Sutton (1986)	Social costs, emotional costs, and their management	Affect and cognition	Qualitative. Interview and archival data from about 11 parties, picnics, and dinners from six dying organizations.	Parting ceremonies create settings in which people can exchange emotional support and can edit self, social system, and event schemata.
2. Sutton & Callahan (1987)	Social costs and impression management	Impression management and stigma	Qualitative. Interview, archival, and observational data from four computer firms	Bankruptcy is a discrediting label that creates negative perceptions (stigma) of a firm and its leadership. However, leaders may employ techniques to avert or reduce the stigma of bankruptcy, including concealing, defining, denying, or accepting responsibility as well as withdrawing.
3. Sitkin (1992)	Learning	Organizational learning theories	Conceptual.	Highlights the potential advantages of learning from failure relative to learning from success. Introduces the notion of "intelligent failures"; small and relatively harmless failure experiences. Argues that it may be difficult to learn from failures that deeply challenge core beliefs and assumptions.
4. Moulton & Thomas (1993)	Definitional issues and financial costs	Bankruptcy and strategic choice	Quantitative. Sample of 73 publicly traded firms that filed for bankruptcy under Chapter 11 from 1980 to 1996	Bankruptcy is a costly response to financial distress, and managerial choice in bankrupt firms is highly constrained.
5. Watson & Everett (1996)	Definitional issues	Definitional effects on failure rates	Quantitative. 5,196 small business startups from 51 managed shopping centers in Australia between 1961 & 1990.	Reports failure rates of small business startups vary greatly according to the definition of business failure employed with annual rates ranging from a high of 9% to a low of 1%.
6. Cardon & McGrath (1999)	Psychological costs and attribution	Attribution theory	Quantitative. Exploratory analysis on a sample of students with a high propensity for entrepreneurship	Two attribution styles: a helpless orientation whereby failure is attributed to ability and, therefore, leads to a propensity to give up and a mastery orientation whereby failure is attributed to lack of effort and generates motivation to exert additional effort. While there is a greater tendency within the sample towards a mastery orientation, there was some variation also.

Source: *Journal of Management*, January 2013

mands. The solution to any management problem is related to the time factor. Both the present and the future should be assessed, a program evaluation model (before-after) should be developed for both the short and long term decision making process to perform the tasks set should be taken. One of the most important criteria for management is administrative activity, which goal is to managing ongoing activities and their continuous improvement.

When it comes to enhancing production efficiency, rational and timely management decisions play a crucial role here. It enables organizations to achieve their goals, design and build flexible systems of operations and control systems.

The data obtained from the interviews will be analysed multiple frameworks of literature in business sector. The results will determine whether organizations are more likely to tackle and study the formulas of success in business, which relate mainly to social, psychological and physiological aspects. Because the consequences of failure are often caused by psychological, social and financial turmoil. Research shows the effects of doing business, including ways to recover, as well as cognitive and behavioural outcomes. A scheme will be developed to properly organize the issues to be addressed consistency, allocation of risk factors and

this will all be a platform for developing a future research agenda.¹

Organisational assessment results have a wide variety of uses. For instance, they can be used by an organisation to build its capacity, to validate its work, to promote dialogue with funders or partners and to help devise its strategies for the future. However, to ensure that results of the organisational assessment are used, their use must be planned for by the organisation from the onset of the assessment, as well as considered throughout the implementation phase and even once reports have been submitted and disseminated. Some conditions which enhance the utilisation of the results are when:

1. The purpose and benefits of the assessment are clear to the organisation's stakeholders.
2. The main focus of the assessment is on learning rather than on accountability.
3. Internal leadership is identified to champion the process and results of the assessment.
4. The organisational culture is one that supports use of

¹ (Deniz Ucbasaran; Dean A. Shepherd; Andy Lockett; John Lyon 2013, LIFE AFTER BUSINESS FAILURE: THE PROCESS AND CONSEQUENCES OF BUSINESS FAILURE FOR ENTREPRENEURS; pg. 5)



positive and negative feedback in planning and managing change

5. Stakeholders are involved in the assessment process (from the negotiation and planning stages).

6. Stakeholders see the assessment as relevant, credible, transparent, of high quality, and the findings have face validity.

7. The assessment team is able to communicate the intent of the assessment, their approach, and the results to senior staff and board members.

8. The report is timely (i.e., produced at an opportune time within the planning cycle of the organisation).

9. There is a process in place and resources allocated to implement and follow-up on the assessment's recommendations.

10. Recommendations are realistic and feasible (for example, financially).¹

Finally, the implementation process is bureaucratic: - when several institutions are involved in the process at the same time, as well as uncoordinated actions between internal units and external structures, which is one of the factors causing the issue to fall. For both the initiation and

implementation process, we can say that the big problem is the lack of qualified staff and low level of management. All of this leads to the failure or delay of important economic projects, spending the budget and causing consumer dissatisfaction.

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¹ (Rojas 2015, Factors that support the use of results of the assessment; pg. 6)