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## **PROBLEMS OF EVALUATING THE QUALITY OF MANAGEMENT AT ENTERPRISES**

**Zahynailo Vladlena<sup>1</sup>, Hviniashvili Tetiana<sup>2</sup>**

<sup>1</sup>*Student, Oles Honchar Dnipro National University, Dnipro, Ukraine*

<sup>2</sup>*Associate Professor, Department of Entrepreneurship, Economics and Enterprise Management, Oles Honchar Dnipro National University, Dnipro, Ukraine*

### **Abstract**

The relevance of the study lies in the importance of effective management for achieving success and sustainability in the modern business environment. This article examines the concept of "ineffectiveness" in the context of organizational management and its impact on company performance. The main objectives of the research are to identify factors influencing management effectiveness and to study examples of corporate mismanagement.

The research methodology includes an analysis of the findings from the consulting company Proudfoot and the use of Ukrainian sources on organizational management.

The conclusion of the study emphasizes the significance of effective management for achieving success and sustainability in organizations. It also highlights the necessity of a balanced approach to both aspects - the quality of management and performance. Further research in this direction can help develop strategies for improving management in organizations.

### **Keywords**

Management effectiveness, Ineffectiveness, Organizational effectiveness, Corporate management, Performance, Entrepreneurship, Leadership, Management activities

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### **Problem statement**

In today's world, the issue of management quality in enterprises is recognized as one of the key components of organizational success, regardless of their size or industry. The problem of assessing management quality has become particularly relevant and has been a subject of discussion for many researchers and practitioners in the field of management. In this paper, we will attempt to address this issue, highlighting its relevance in the modern business environment. We will conduct an analysis of recent research and publications in this area and formulate the purpose and objectives of our study.

The question of management quality becomes increasingly important in modern conditions when organizations face growing internal and external challenges. Management becomes more complex, requiring leaders not only to possess strategic planning and process optimization skills but also the ability to evaluate the performance and effectiveness of their activities.

The problem lies in the fact that there are many approaches to defining and assessing management quality, and they may vary depending on the industry, organization size, and other factors. This necessitates the development of universal methods and tools for evaluating management quality.

### **Relevance of the chosen topic**

The relevance of management quality assessment cannot be overstated, as it directly affects the competitiveness of organizations and their ability to adapt to changes in the modern world. Management quality determines how effectively an organization can achieve its strategic and operational goals and how it responds to market challenges and regulatory changes.

Understanding and assessing management quality is also crucial for investors who invest their funds in organizations. They are interested not only in financial results but also in how an organization manages its resources and the quality of its corporate governance.

### **Analysis of recent research and publications**

Today, numerous studies and publications have been dedicated to the issues of management quality assessment. Some of them explore approaches to defining performance and management effectiveness indicators, while others investigate methodologies for measuring and comparing different organizations.

Recent research also emphasizes the importance of considering various factors, such as corporate social responsibility, customer satisfaction, leadership effectiveness, and their correlation with performance in the assessment of management quality.

### **Purpose of the article**

In this article, we will explore the significance of effective management in the modern business environment and its impact on the success of organizations. We will examine examples of successful and unsuccessful management cases to provide readers with insights into key aspects that determine organizational performance. Achieving the set goal made it necessary to solve the following tasks:

1. Analyze the importance of effective management in organizations and its impact on their results.
2. Present examples of successful companies that have achieved high performance through quality management.
3. Examine the negative effects of poor management on organizations, including examples of companies that have faced failures due to strategic mistakes.
4. Emphasize the importance of ethical aspects in management and their relationship with performance.
5. Investigate how organizations can improve the quality of their management and achieve better results in a dynamic business environment.
6. Provide readers with recommendations for a balanced approach to management that takes into account both management quality and performance to achieve successful organizational activities.

These objectives will help create an informative and valuable article that underscores the importance of effective management in the modern business environment and helps readers understand how it can impact their organizations and activities.

### **Presentation of the main research material and results obtained**

The question of assessing management quality in enterprises is highly relevant and crucial in today's business environment. Achieving positive outcomes in management can be defined as the effect that represents the final result of utilizing various resources, such as money, time, labor, and other assets. This effect can be measured in various ways, including overall revenue, profit, the number of trained employees, or emissions reduction.

In the context of management assessment, it is important to distinguish between the concepts of "performance" and "effectiveness." Performance relates to the degree of achieving planned activities and goals. It can be measured using various indicators such as profitability, productivity, and asset turnover. On the other hand, effectiveness evaluates the relationship between the achieved result (effect) and the resources used. Thus, it measures how efficiently resources were utilized to achieve a result.

It should be noted that in certain cases, the result can be an effect, while in others, it can be a performance indicator. Such an approach may introduce some distinction in terminology, but it is crucial to consider that both of these metrics are important for assessing management.

Depending on the approach and context, effectiveness can be determined in various ways. For example,

Peter Drucker and John Maciarello identify key components of effectiveness, including customer satisfaction, corporate social responsibility, employee satisfaction, performance, labor productivity, leadership effectiveness, management training, operational costs, and innovation. Other authors, such as Peters and Waterman, outline eight criteria for effectiveness, including customer orientation, continuous improvement, environmental adaptation, management level, optimal management team size, employee productivity, optimal organizational structure, and entrepreneurship.

E. Helfert's approach considers seven primary factors of organizational effectiveness, taking into account the interests of various business stakeholders, such as owners, managers, and creditors. This is a well-grounded approach as it considers a broad spectrum of effectiveness indicators that can impact all aspects of organizational activities. Therefore, in the assessment of management quality, it is crucial to understand the difference between performance and effectiveness and to utilize various approaches to define them. Regardless of terminological nuances, both of these concepts remain essential for evaluating the success of management in any business or organization.

Let's consider that performance, in a broad sense, includes the concept of effectiveness in its narrow interpretation. This approach aligns with the Balanced Scorecard (BSC) system, which encompasses not only profit and profitability but also process efficiency. Performance can be seen as a vector that includes indicators of the alignment of all metrics with target values.

It is worth noting that in the field of management, the issue of effectiveness was historically the first to be considered, followed by a focus on reliability in management. Later on, most researchers shifted their attention towards analyzing the quality of management.

The term "efficiency" was initially mentioned in the works of classical political economists such as Adam Smith and David Ricardo. In its early use, this term was applied to characterize the activities of government agencies as management subjects, which contributed to understanding the government as an entity that manages. Approaches for evaluating government performance emerged, involving measuring the outcome of its activities compared to defined goals. The growth in scale and complexity of industrial production led to the emergence of new management subjects - managers - whose activities required assessment. David Ricardo was among the first to apply the term "efficiency" to assess the relationship between results and costs, which is of great importance for evaluating specific activities.

Under the influence of ideas from the American Society of Mechanical Engineers, managers recognized the need to address economic and organizational challenges and develop new rational methods and techniques for work. The term "efficiency" began to be used not only in an economic context but also as a characteristic of managerial efforts in achieving planned results in production. Over time, understanding efficiency as the ratio of results to costs expanded, including not only labor and material costs but also non-renewable resource costs, environmental pollution, accelerated aging of the human body, and more. Consequently, socio-economic efficiency became an important characteristic of public production. The primary criterion for a manager's success is achieving the set goal, and this success is more precisely characterized by the concept of "efficiency."

In the modern world, the issue of management quality becomes extremely important for enterprises and organizations. T. Peters and R. Waterman emphasize several key aspects of management quality that remain relevant today.

1. **Flawlessness and reliability:** One of the most crucial aspects is the flawless operation and absence of defects at all stages of activity. This flawlessness is an important component of reliability. If an organization's processes are defect-free, it contributes to creating a reliable system.
2. **Participative management style:** T. Peters and R. Waterman highlight the importance of a participative management style, which involves mutual responsibility in the relationship between managers and subordinates. This style fosters the involvement of all team members in problem-solving and decision-making.
3. **Shifting from "quality costs money" to "quality pays":** Another important aspect is changing perceptions of quality-related expenses. Instead of considering investments in quality improvement as costs, it should be viewed as investments. Enhancing quality can lead to increased sales and market dominance.
4. **Control and accountability:** Quality management is also related to monitoring the activities of all management participants. However, it is important to avoid excessive control, which can lead to shifting the entire management process into the sphere of control and restrict creativity.
5. **Enhancing management quality within the system:** It is important to note that improving the quality of management in individual elements of a system does not always lead to an overall improvement in management quality. It is crucial to consider the system as a whole, where changes in one element may affect others.

In summary, the concept of management quality plays a significant role in modern business. The aspects highlighted by T. Peters and R. Waterman help organizations improve their efficiency and achieve success in a rapidly changing world.

Performance in management is one of the most critical aspects of successful operations for businesses and organizations. It encompasses the concept of efficiency, which becomes a key factor in achieving set goals and objectives. Equally important is the ability to measure and analyze inefficiency as a tool for identifying ways to improve operations.

The Balanced Scorecard (BSC) is an effective tool for measuring performance in a broad sense. It takes into account not only financial indicators like profit and profitability but also process efficiency, which can be crucial for achieving success within an organization.

The concept of "inefficiency" becomes pivotal in the analysis of performance results. It indicates the failure to reach the full potential and opportunities, highlighting the gap between actual results and potential achievements. To achieve high performance, it is essential to identify the sources of inefficiency and take measures to overcome them.

In the study of management efficiency, two types of inefficiency are often distinguished: technical and economic. Technical inefficiency points to the failure to achieve maximum productivity with available resources. In other words, it represents losses stemming from poorly optimized processes and inefficient resource utilization.

Economic inefficiency reflects the gap between potential economic benefits and actual results in an organization's activities. This means that an organization may miss opportunities for increased profits and growth due to improper resource allocation.

The concept of "X-inefficiency," introduced by Herbert Leibenstein, underscores the fact that many organizations have the potential to achieve significantly better results than they actually do. This can pertain to the efficiency of resource utilization, process management, optimization of strategies, and many other aspects of an organization's operations.

Detecting and eliminating "X-inefficiency" is a crucial task for organizations as it can lead to a substantial increase in productivity and income. This implies that a company can achieve better results while using the same resources or achieve the same results with lower expenditures.

It is essential to consider that achieving maximum efficiency does not always equate to maximum profit. Sometimes, it is more advantageous to allocate resources to other areas or projects where they can lead to greater economic benefits. Therefore, effective management also entails the prudent allocation of resources in line with strategic goals and potential opportunities. For example, if an organization has limited resources and can invest them in two projects: one that can bring stable but not very high profits and another with the potential for significant profit but with substantial risk, effective management in this case means balancing the risk and potential income while taking into account the available resources.

Therefore, the concept of "X-inefficiency" emphasizes the importance of continuous analysis and improvement of management results to achieve success and stability for the organization. Companies and organizations capable of identifying and addressing "X-inefficiency" have a competitive advantage in the market and can achieve better financial results.

All of this underscores the importance of analyzing and improving management results to achieve success and stability in today's business environment. Emphasizing the reduction of inefficiency helps organizations identify potential opportunities for improvement and achieve better results.

A business management system is a set of tools for planning and implementing policies, practices, manuals, processes and procedures that are used during the development, deployment and execution of business plans and strategies, as well as all related management activities (University of Applied Sciences Mittweida, 2022). The model of the business management system is shown in Figure 1.

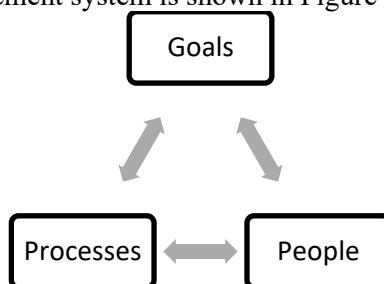


Fig. 1: Business management system model

Source: compiled by the author based on materials (University of Applied Sciences Mittweida, 2022)

The international consulting company Proudfoot conducted a study aimed at identifying factors affecting labor productivity in European and American companies (Proudfoot, 2021). The study analyzed 2,614 projects in hundreds of companies across 13 industries in 12 countries. Additionally, 816 senior executives in 11 countries were surveyed.

The results of this study point to the existence of six main productivity barriers or inefficiency factors:

1. Inadequate management planning and control systems (46% of companies).
2. Short-sighted leadership (31% of companies), which manifests in difficulties in estimating the time required for various tasks.
3. Ineffective communication.
4. Poor team atmosphere.
5. Information technology issues.

These inefficiency factors were identified in practically all industries and on all continents. For example, American researchers L. Bossidy and R. Charan have noted that many efforts aimed at setting goals at the top management level often fail to achieve these goals due to inefficient execution.

The main barrier identified was the inadequacy of operational management systems. In half of the companies, planning and control systems did not align with the company's goals (for example, planning was based on past results rather than real capabilities). This can lead to individuals trying to work as slowly as possible to avoid excessive workloads.

Overall, inefficiency is viewed as the inability to approach the potentially achievable limit of an organization's productivity. Management should always focus its efforts on minimizing this "reserve" of inefficiency and moving closer to the maximum possible level of productivity.

Therefore, the key task is continuous analysis and improvement of management results to achieve success and stability for the organization. Companies and organizations that can identify and eliminate inefficiency can achieve better financial results and gain a competitive advantage in the market.

"Nokia is one of those historical examples that remind us how important effective management is for the viability of any business. Let's try to examine how relaxed leadership and strategic management mistakes led to the downfall of the company.

In the early 2000s, Nokia experienced a sort of "golden age." The company was at the peak of success, and its products were popular worldwide. However, this success became a source of complacency for the top management. They believed that nothing could threaten their market leadership.

Of course, such an approach was a significant mistake. The company did not consider changes in the industry, failed to strategically adapt to new market conditions, and did not invest in research and development. The result was a rapid decline in the popularity of their products and a loss of competitive advantages.

Furthermore, Nokia lacked an effective management system, especially concerning strategic decision-making. The top management did not always understand how efficiently their resources were being used and did not track management pathologies within the company.

This situation vividly illustrates the importance of effective management in modern business. Any company, even a market leader, must remain flexible, think strategically, and constantly improve its operations.

The managerial apparatus within Nokia became a sort of giant, which, unfortunately, did not always work in the company's favor. Instead of effective management, it turned into a bureaucratic structure that hindered decision-making and fostered disorder. The consistency and rationality of decision-making were replaced by uncertainty and a lack of accountability.

Over time, this managerial layer became too large and excessively bureaucratic, leading to inefficient management and numerous delays. Instead of decisiveness and strategic vision, endless bureaucracy emerged, where the same issues were discussed endlessly, and no real steps were taken to address them.

This situation led not only to resource wastage but also to a loss of effectiveness in decision-making. Every new decision required an excessive amount of consensus and approval, which stifled initiative and slowed down responses to market changes.

In this situation, there was an obvious degradation in the company's management. Instead of strategic vision and rapid responses to changes, there was bureaucracy and uncertainty. Such a pattern of managerial strata became a hindrance to effective management and led to the company's downfall.

Additionally, Nokia had issues with its system of financial incentives, which did not inspire employees to be productive. Unjustified expenses on projects and outsourcing that diluted the company's competence were also serious management strategy mistakes.

All of these factors contributed to Nokia's bankruptcy in 2011, and unfortunately, it no longer exists as a standalone company. Even such a giant can fail if it does not improve its management system and adapt to market

changes.

The example of Nokia provides a vivid insight into the world of corporate management, where decisions can sometimes contradict ethical norms and common sense. Mostly, such decisions arise from the intense competition in the market, but sometimes they are driven by the short-sighted desires of management to get rich quickly and uncontrollably."

Having examined this example, we can understand that adhering to principles of efficiency and ethics in company management is of utmost importance. Violations of these principles can lead to ineffective and inappropriate corporate governance, and despite outward appearances, a company may find itself on the brink of financial collapse and corporate scandal.

The consequences of poor management can be incredibly serious, and it is crucial to react promptly to subtle signals that indicate possible management problems. Improving the quality of management can help preserve a significant amount of resources and avoid future negative consequences for the company.

Therefore, it is always worth remembering that a company's success is not limited to external indicators but also encompasses the quality and effectiveness of its management.

This example underscores the importance of effective management for success in business and the organizational environment. Many researchers and experts confirm that the efficiency and performance of an organization directly depend on the quality of its management.

Enthusiasm about having competitive advantages, the use of administrative resources, and limited information availability can lead to violations of market economy principles and create an unhealthy situation within the organization. Such practices may lead to temporary success, but in the long run, they harm and undermine the foundations of the business.

Ineffective management can have serious consequences, such as the loss of competitive advantages, resource depletion, and obstacles to the dissemination of information. These consequences can be extremely challenging for the organization and its leadership.

High organizational performance indicates a high quality of its management, serving as the basis for its success. However, it is important to note that high performance does not always reflect high-quality management. To ensure the successful operation of an organization, a balanced approach that considers both the quality of management and performance is necessary.

Therefore, this analysis emphasizes the importance of effective management for the success of an organization, and the quality of management has a direct impact on its performance. However, it is essential to remember that achieving success in an organization requires a balanced approach to both aspects - management quality and performance.

## **Conclusions**

This article has explored the importance of effective management in the modern business environment and its impact on the success of organizations. Based on the research and analysis of various aspects of management, we can draw the following conclusions:

1. Effective management is a key driver of organizational success. Companies and organizations capable of managing their activities effectively have a better chance of achieving high performance and maintaining competitiveness in their respective markets.
2. The quality of management directly influences organizational performance. Excellent management can increase productivity, reduce costs, and promote innovation.
3. Successful companies like Proudfoot demonstrate that high-quality management leads to positive financial outcomes and the ability to adapt to market changes.
4. Mistakes and deficiencies in management can lead to the downfall of even major players like Nokia. Strategic errors, bureaucracy, and unethical practices can significantly harm an organization.
5. Ethical management and adherence to high moral standards are crucial for the successful functioning of an organization. The absence of ethical norms can impact reputation and lead to legal issues.
6. To improve the quality of management, organizations should focus on strategic thinking, effective communication, adaptation to new technologies, and the development of human resources.

Overall, successful organizations recognize the importance of effective management and can strike a balance between the quality of management and performance. Continuous analysis and improvement of management practices are key to achieving success and resilience in the modern business environment.

Regarding the prospects for further research in this direction, it is essential to investigate the impact of modern technologies, changing leadership roles, the implementation of green initiatives on management, and the development of new approaches to improving management practices in an environment of constant change.

Additionally, studying the impact of pandemics and crisis situations on management methods and organizational strategies is crucial.

In this dynamic era, management remains a critical factor in achieving success, and further research in this area can lead to new approaches and innovations in organizational management.

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