

Operative methods for crisis management in public organizations

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Abstract: *This research is based on the operative methods for crisis management in public organizations. Crisis is a necessary evil, a sine quo non. In the process to satisfy needs, people and organizations engage in different activities and as a result, crisis emerges. These crises that emerged posed a lot of problems to the society. The objective of this research was to investigate the cause of crises and examine the ways in which crises can be avoided. This paper encourages the use of a macroeconomic approach while analyzing the conditions that can generate a crisis. The management within the public sector has a determinant role. This role relates to increasing the efficiency in which the public funds are being used as well as increasing the performance within the public sector. The article will therefore present the importance of the objective methods that a public organization can use when a crisis management situation occurs. This paper aims to conclude that there are several ways in which the management within the public sector can be improved, in case a crisis occurs. The decision to overcome the crisis can be used either together or separate and the final decision is left with the manager. The research recommends that these crises should be carried out through public relations enlightenment programs, using the operative methods, which will be discussed*

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1. Introduction

Crisis management is a critical organizational function. Failure in understanding the crisis management can result in serious harm to stakeholders, losses for an organization,

or end to its very existence. This paper will outline the importance that the intervention of the state and of the entire society has on ensuring the protection against the influence of conditions generating a crisis. The research

will discuss the different operative methods that can be used when trying to avoid a management crisis. The management based on budgets will focus on planning as well as controlling the financial execution; the management by objectives is going to discuss the defined steps used in the planning system; the management by alternatives will be used to discuss the importance of improving the quality of the decisions; the management by exception is going to rely on the efficiency of managers' time budget; the management based on projects will focus on organizations in periods of crisis and will describe the necessary stages; and the plan management is going to outline the key subsystems components, in terms of economic efficiency.

The purpose of this paper is to increase the efficiency of public funds and to improve the performance within the operative methods a public institution can use during a management crisis.

The hypothesis identified is "The current budgets substantiation method, "plus over last year", is reliable in a time of crisis".

2. Literature Review

Both practitioners and researchers have written volumes about crisis management from many different disciplines making it a challenge to synthesize what we know about crisis management and public relations' place in that knowledge base. The best place to start this effort is by defining critical concepts. A crisis is defined as a significant threat to operations that can have negative consequences if not handled properly. In crisis management, the threat is the potential damage a crisis can inflict on an organization, its stakeholders, and an industry.

A crisis can create three related threats: (1) public safety, (2) financial loss, and (3) reputation loss. As Dilenschneider (2000) noted in *The Corporate Communications Bible*, all crises threaten to tarnish an organization's reputation. A crisis reflects poorly on an organization and will damage a reputation to some degree. Therefore, every public organization need to focus on methods to prevent the opportunity of a crisis occurring.

Effective crisis management handles the threats sequentially. The primary concern in a crisis has to be public safety. A failure to address public safety intensifies the damage from a crisis. Reputation and financial concerns are considered after public safety has been remedied. Ultimately, crisis management is designed to protect an organization and its stakeholders from threats and/or reduce the impact felt by threats.

Crisis management is a process designed to prevent or lessen the damage a crisis can inflict on an organization and its stakeholders. As a process, crisis management is not just one thing. Crisis management can be divided into three phases: (1) pre-crisis, (2) crisis response, and (3) post-crisis. The pre-crisis phase is concerned with prevention and preparation. The crisis response phase is when management must actually respond to a crisis. The post-crisis phase looks for ways to better prepare for the next crisis and fulfills commitments made during the crisis phase including follow-up information.

During the research undertaken for the research thesis, a number of Romanian and foreign publications about cost management in public sector units have been studied and listed in the bibliography. Among them were the management and the methods used in certain periods of time, in some organizations.

Thus, HL Tosi and S. Carroll have identified six advantages of programs on the management by objectives (MBO). Moreover, Florin Rau, in his "SMART objectives - Practical examples" made a scale of SMART objectives, used in analyzing the MBO: if individual goals are not aligned to the fundamental ones, the risk of starting a "collapse of the ladder" is becoming increasingly obvious. Each stage has its well-established role. Not fulfilling one of these, leads them to an unwanted direction, and therefore some of the objectives will remain untouched.

In an attempt to demonstrate that the MBO fails to lead to improved performance, J.N. Kondrasuk made a review of the research available in this field. He found that, out of 141 case studies, 123 were positive, 8 had uncertain results, and only 10 had negative results. Most studies were focused on three aspects of MBO: setting goals, feedback on performance and participation of subordinates in decision-making.

In terms of management on budgeting, Ch.T. Horngren, S.M. Datar, G. Foster, in the book entitled "Cost accounting, a managerial approach", budget is viewed as: "a) quantitative expression of a proposed action plan management for a specific period and b) support the coordination of actions needed to implement that plan. "

Former chief executive of General Electric, Jack Welch, describes the development of ambitious budgets as key energizing, motivating and rewarding for bringing managers and employees.

Budgeting involves setting budgets and forecasts of the organization to submit all the figures. Within that, autonomous subsystems are created, called "centres of expenses, to be concerned with optimizing resource use and

profit."

Centre budget is defined as "a segment of an entity to which control can be exercised and which can prepare a budget."

Another notion seen in Ch T. Horngren is the "responsibility accounting", which is "a system of measuring plans and results of each responsibility center." Following the same authors, there are four types of responsibility centers:

- Cost Center - manager is responsible for costs;
- Center of income - income manager is responsible;
- Profit center - the manager is responsible for revenue and costs;
- Investment Center - Manager is responsible for investments, revenues and costs.

The operative methods within the public institutions in terms of crisis management are of an extreme importance and the ways through which crisis can be avoided will be described below.

3. Paper body

The methods applied in the crisis management have no local or microeconomic character, and require a macroeconomic approach. This means that the intervention of the state and of the entire society can ensure the protection against the influence of conditions generating a crisis.

Operative methods may be grouped based on their characteristics and will be outlined below.

3.1 Management based on budgets

The budget is an essential tool for planning but also a control tool for the financial

execution, with such tools the manager can fundament and realizes the financial indicators and assumes the responsibility for the efficient use of resources.

No matter how many types of budgets exist in practice (continuous budget, periodic budget, project budget, responsibilities budget, operate budget, fixed or variable budget), the public organizations prepare periodic budgets per calendar year, broken down by trimester and months.

The drafting of a budget involves several logical steps. Initially, gathering information about what the organization should achieve, which are her limits and what internal and external influences will affect her. It is essential to focus on the types, volumes and terms of earnings and costs, for a better estimation of revenue and expenses. A special importance should be given to the types of costs and behaviour, by associating spending budgets of investment capital with incomes and expenses, top managers will have a clear picture of the feasibility of the budget.

By prognosis of the potential conflicts of interest, a realistic budget may be established. Planning a soliciting budget may lead to exaggerated figures, by annealing the motivation of staff and by attracting poor performance. Budgeting in general, especially in crisis situations, requires the application of corrective measures, without which the conflicts may become acute. The proposed budget can be a mean to achieve the objectives of the organization, to measure the performance and to evaluate the managers but also to motivate the staff.

The principle that should guide any manager is: "budgeting is the way to achieve the goal, and not goal itself." Thus, the final aim of the manager is to create a budget

system to support actively the organization, based on a clear, consistent strategy, where the real results lead to the ideal. In this case, the SWOT analysis (advantages, weaknesses, opportunities and threats) is the starting point for clarifying the objectives and for the budget planning.

The objectives of a public institution consider a whole entity and can only partially be quantified. Some objectives are general; others are associated with some interests of the organization, financial or political.

At this moment, under completely unfavourable conditions the budgets of public institutions already approved by laws, suffer undergo changes from one day to the other, especially related to personal costs and investments. In such circumstances, the principles and methods of calculation which were at the basis of planning in the precedent year of the budget for this year have proven to be inaccurate, irrespective of the influences of external factors.

As such, in such crisis situations planning the expenses is crucial for a correct forecast of cash flow. The financial department has an important burden, along with the procurement department in gradation of payments to the suppliers against opening the credit established by the Ministry of Public Finance. Thus, the hierarchy of the specific current costs, of the common and of the unique costs must be conducted with the highest seriousness and professionalism in order not to jeopardize the trust of people in that organization.

Within the public institutions, planning the budgets is made by the method "plus over the past year" by adding or subtracting of a percentage of the expenses in the budget of last year. This method, easily to apply,

does not take into consideration some changes that may arise in the approach of costs, and especially the future economic forecast. That is why the budget of public institutions has many changes during the application year, which disturbs all calculations and estimations of the previous period. The role of the top managers is very important by planning and approving a realistic budget.

3.2 Management by objectives

Like any planning system, the management based on objectives used in public institutions is based on running series of clearly defined steps: setting up the objectives (including their definition), planning to achieve them, using self control and periodical review, and performance evaluation, steps that can be structured using the Scoreboard.

But any manager should pay attention and time for analysis of the rapport between costs and effort involved and potential benefits before taking a strategic decision. The efficiency of this process is given by the objectives identified on three organizational levels: high level, operational level and individual level. This last step is the core of the programs and represents establishing the objectives through collaboration between departments.

The Scoreboard has a different content from a managerial level to another, being filled and transmitted sequentially "bottom up", starting from the basics, where the primary models are made. In "2nd Floor" – the operational level – the information have a higher degree of aggregation, allowing substantiation and taking the strategic and tactical decision. The top manager, at the last level, receives summary information, with

a high managerial and economical load, designed to plan and to take a strategic decision with direct impact directly on the future of the ministry.

Planning, which is an activity oriented towards the future, is the main tool that managers can use to face the frequent changes in the organization he leads.

At the level of a ministry, the implementation but and especially the attainment of objectives requires a considerable period of time, given that the targets set by the government through the government programs, through the public political documents and through the budget programs changed the attitude of managers involved. It was reconsidered the time dimension of the work of managers at all levels, by according a special attention to the diagnosis as a source of information regarding the strengths, weaknesses and the causes that generate them. Individual tasks and goals, specific to the post, were reviewed, by regarding in a new way the related information needs.

Top managers of the public organization have as responsibility to set up specific goals, measurable, accessible, relevant and time according. They must be properly defined for each level of the organization.

The advantages of using management-based objectives, as a modern management tool in the public institutions, such as:

- Increase of the responsibility of managers at every level, for their activity;
- Ensuring a high quality and efficiency of reporting to different agencies;
- Taking management information at a high level in a complex view, systemic, facilitating the function of the organization with efficiency and effectiveness;

- Use of assessment criteria for objective and ensuring fairness in the process of evaluation by using a set of performance indicators specific for each position;
- Elimination of redundancies, the stable control and the easy communication in real time, at all levels of decision-making in the institution and with all categories of public;
- Achieve the “general interest”, which implies interdependence of actions depending on the political interest, of the allocation level of resources, of social relations;
- Increased management and economic decentralization within the organization;
- Professionalizing the management to the lower levels of it.

As a result, the public management seeks to improve the quality of his actions, by exploiting new management tools, to alleviate some rigidity in the organization and to improve the communication system with the outside. Compared to private organizations, the public administration must use as well as possible the affected methods. The effectiveness is evaluated, first of all, by reporting the degree of achievement of objectives set by the elected and not by the simple financial “productivity”.

3.3 Management by alternatives

Management by alternatives is closely tied to the management by objectives, since choosing the best alternative is based on a specific objective.

The method is used primarily to improve the quality of the decision. Before

taking the decision, the manager studies the optional variants, choosing the best, which meets the requirements.

3.4 Management by exception

Management by exception is a simplified management system, based on the ascendant transmission of information which represents deviations from the preset limits of tolerance in order to simplify the management processes and for a better exploitation of resources.

This can be approached as a way of rationalizing of the information system but also as an important way to efficient use time budget of the managers.

Each manager “has” tasks, responsibilities and competences precisely delimited, regarding solving positive and negative deviations (exceptions). Application of this type of management in the public sector involves the application of management measures like:

The information system should be focused on creating and maintaining the functioning of its components – information, flows and circuits, procedures, etc. – which shall permit the achievement of the fundamental objectives of the organization;

The most important structural components of the public institution must be “equipped” with appropriate personnel, both quantitatively and, in particular, qualitatively;

Information that “feeds” upward the flows and circuits must be exceptions, deviations from the so-called tolerance limits. They run on the vertical of the management system selectively, by providing a full correlation between the degree of aggregation of

the information and the hierarchical position of the beneficiaries thereof (managers on different hierarchical levels);

The objectives, rules, regulations etc. depending on which deviations are determined must be realistic.

Using the management by exceptions in the public institutions may be a solution in the application of the management by objectives while pursuing the degree of achievement of goals and deviations from the budget of them. In order that this management system is functional it is necessary first of all to set up the objectives and the other aspects of the characterization of the public institution.

The intervention of the managers is concretised – when appropriate – in the decision of correction or updates, focused on the causes generating exceptions.

3.5 Management based on projects

The management based on projects is specific to organizations in periods of crisis, and is applied, generally, within complex activities, requiring a broad and interdisciplinary collaboration. Applying this type of management involves crossing stages as follows:

First of all is settled up the team for analysis, corresponding to the specialties needed to develop the project. For the purposes of the activity, the research team prepares a working plan, which is submitted to the approval of the general manager.

In phase II is established the form of the organizational structure in which the project will be written, by drawing a catalogue of responsibilities.

In phase III – the realisation of the project, there are performed tests, experimentation,

allocation of resources, it is followed that each activity is fulfilled.

The last phase – the delivery of the project – is characterized by drawing the financial protocol, by comparing the effective costs of achieving and with the planned ones and preparing the evaluation sheets of the personnel.

3.6 Plan Management

This management method can be defined as all processes through which are determined the indicators of the organization and the key subsystems components, but also the resources allocated for their realization, in terms of economic efficiency.

The need to reduce the budget expenses, and implicit the production costs for the public services determined the public managers to use a system of performance indicators. This is used for the evaluation of activities and to express the result of policies used in various forms: the volume and quality of the services, the efficiency and economic profitability, the efficacy.

The determination of the performance indicators is complex, due to the fact that the public services are, in the opinion of specialists, somewhere “on the border between competition logic and social logic, between which is necessary to obtain a balance.”

The quality indicators measure the opportunity and accessibility of public services; they depend in the most part on the extent to which the quality of the service meets the client expectations.

The plan management is based on the forecast institution – environment. Quantitative and qualitative indicators, expressing in a systemic approach, the purpose

for which the organization operates, indicate the objectives of the public institutions.

4. Conclusions

Conclusions from the study of literature demonstrate that economic and financial analysis based on these methods allow the development of reasoning which makes assessments on efficiency and effectiveness within the public institutions. The public organizations only manages public funds, so normally is required to direct those resources into their system so that the results

of taking them to return to the environment from where the resources were derived.

The “plus over the past year” method is considered to be the closest to reality when compared to the different methods. Even though it does not ensure a real dimension in terms of indicators, it is the best option in this context. Therefore, the paper managed to prove the theory of the hypothesis, through which the current budgets substantiation method, “plus over last year”, is reliable in a time of crisis and should be used by the managers employed in public organizations.

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