Algorithmic Approaches and Development Prospects of the Holding Process in the Georgian Medical Sector

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Abstract

The Georgian medical sector operates within a complex entrepreneurial framework where business structures, particularly holdings, play a dominant role. This paper examines the development and operational mechanisms of holdings in the medical field, analyzing their influence on market competition, pricing strategies, and state-business relations. The study highlights the monopolistic tendencies, cartel agreements, and elite lobbying practices that shape the sector. Additionally, it evaluates the state's regulatory inefficiencies and the economic and social consequences of medical business consolidation. Drawing comparisons with European regulatory practices, the paper advocates for a more structured and transparent approach to price regulation and market competition in Georgia's healthcare industry.

Keywords

Medical sector, holding companies, competition, monopolization, cartel agreements, price regulation, healthcare policy, Georgia, business regulation, market transparency.

In recent time, the processes taking place in the medical field have been actively discussed in order to protect the health of the population of the country and its further improvement. These issues are always noteworthy - here, success or failure is fully reflected in the daily life of each person, even on his (her) psychological mood, therefore every state, including Georgia, tries to make the medical field effective, and the policy implemented by it - to be transparent and purposeful.

The medical field of Georgia is the subject to the requirements of the entrepreneurial space of the country. Moreover, the existence of one or another form of business organization in this field is fully connected with the general rules of entrepreneurship. And this fact, willingly or unwillingly, forces everyone to have a conscious attitude towards the Holding.

In modern business, Holding is one of the form of organization and management of entrepreneurship. Historically, its origin stems from the need to form a cartel agreement, or a union of strategic partners in business. In particular, initially, a union of business partners was formed in the form of a cartel; then, as the cartel developed, it moved to the stage of a syndicate. Both types of organizational formations have played their role in the development of business, and at the same time, they have demonstrated the weakness and inflexibility of the entire process of integrating business entities. In order to overcome this situation, business has given rise to a higher-ranking entity for integrating business entities: Holding was formed an organizational formation different from all the other predecessors.

Holding is a group companies legally acting independently. This group has a common business, a common strategy for developing interaction in the medium and/or long term, prospect and plus proprietary or contact ties. In Holding , you find the kind of unity where the parent company fully or partially owns the capital of the other company. In the classical point of view, Holding is a kind of structural formation that combines a parent company, a subsidiary company, and a grandchild company. In addition, it should be noted that although Holding stands alongside the other types of integrated organizational forms of entrepreneurial entities: trust, concern, and conglomerate, it also has advantages. Namely, Holding is not a legal entity, therefore the question of its legal liability will never arise; thus, it is a “subject without a subject” (!). All of this is ultimately very attractive for business, and it also "conveniently" benefits from Holding.

There is an interesting fact about the functional place and role of Holding in the medical field of Georgia. In this field, the entire value of the holding is determined by the quality of relationship between the state and business. In particular, the relationship between the state and business is not very sophisticated and is characterized by a short-term history; business has a positional advantage in their relationship. This fact is a natural result of development, but the state has played its role either: its economic policy proposed for the medical field is not distinguished by its purposefulness and precise calculations, while social policy is largely “effective”. It is against this background that the state, whether intentionally or unintentionally, was unable to develop and implement business regulations of European level, etc. These and the other facts gave business operating in the medical field complete carte blanche: business began to follow the path more sharply and effectively that it had taken at the initial stage of the development of capitalism in the process of the initial accumulation of the so-called capital. It began to use the vicious signs of civil business in an “advanced” way: it suppressed competition, completely dismantled monopolism and cartel agreements, managed to introduce the desired regulations and/or decisions, etc. Thus, business operating in the medical field in a “civil” form managed to create a new reality for the country’s independence in the period of about thirty years. All this happened in such a way that business did not have either internal or external demand to create and develop civil market relations. This kind of reality created a desirable reality for business: it simply did not even need to make “extra” efforts: it easily finds its goal “legally”, without any effort, and effectively uses the system acceptable to it.

Today, the Georgian medical business is easily “freed” from competition, monopolism successfully “lives” in it, and cartel deals are an “internal” rule. Against this background, lobbying and elite corruption have completely engulfed the business operating in the medical field. In this situation, business “conveniently” uses the state budgeting process in the direction of protecting the health of the population. At this time, each state healthcare program is a kind of order for business, and their implementation becomes the main source of existence for medical business entities.

Business is facing this entire process with very comfortable conditions. In particular, business has “fully” mastered both tax benefits, as well as rather simplified desirable accounting and reporting regulations, etc. plus the “gaffes” or “hidden” instruments of the legislative space. Against this background, business has subordinated this specific service area to its fundamental goal - the interest of making a profit. For this purpose, it has focused on price, and even ensured the creation of the desired demand-supply system for medical drugs and medical service products.

Price is one of the most essential components of marketing mix, and for businesses it is the main tool in the process of making a profit (benefit). Through price, businesses enter into a direct relationship with a very specific customer - the patient. Although patient satisfaction is limited to the ultimate goal of medical service - ensuring the patient's health, in this process the price of a

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medicinal product or medical service carries not only an economic burden, but also a socio-psychological burden.

The price of a medicinal product and/or a medical service product and the process of pricing itself are always in the spotlight - it is of vital interest to the consumer, that is, the patient, and for business it is a practical tool for achieving its goals. In addition, the price is an essential mechanism for maintaining social and political stability in the country.

The issue of the price of a medicinal product and/or a medical service product is very acute in Georgia. This issue becomes even more convincing when we analyze the size of the country's GDP and the amount of GDP per capita: in particular, in 2022, the GDP per capita in Georgia (at current prices) amounted to 19,626 GEL, and in 2023 it was approx. 22,000 GEL. In the conditions of this economic opportunity, the current prices for medical services and/or medicines are perceived as painful. The modern consumer is informed - he or she conducts a comparative analysis of prices and protests the price of a medicine and/or medical service, and tries to obtain medicine and medical services in other countries (for example, Turkey) to the detriment of the state's prestige.

The Georgian government is trying to overcome this type of state social and economic problem in various ways. One of these ways is considered by the state to be an universal healthcare program, plus more than a dozen specific state medical programs. But it is one thing to draw up programs, another to solve the problems in the medical field in practice.

Each state medical program is a sphere of interest for business, and it is strictly oriented towards it. Business participation in these programs is perceived as an action corresponding to the fulfillment of state order. Thus, if each program is an inevitable necessity for the state, then it is financially acceptable for business. It is true that when presenting this or that type of program, some level of dissatisfaction arises from the side of business, but later the “misunderstandings” disappear - business successfully makes a new switch, somewhere it even gives up its position, and a “systemic” harmony is formed between the state and business.

In the medical field, the harmony between the state and business operates successfully up to a certain stage, but as soon as problems accumulate in this field and more or less reasoned demands arise in society, then the harmony begins to break down. At this time, each side tries to shift the created “burden” onto the other, accordingly, it tries to rehabilitate itself in the eyes of the patient (consumer).

A similar situation develops in the country with a certain periodicity, and a critical point is reached. In particular, when the state allocates funds from its budget for the medical field, it presents this process as its own merit; from another point of view, it presents this entire process as a process that contributes to the development of the medical business. At this time, the nature of business is not satisfied with what has been achieved - its insatiable desire for profit is increasingly directed towards the search for a new path and instrument.

The issue of price is very sensitive for Georgian business - it is an easily controllable and, most importantly, effective tool on the way to making a profit. Today, business in Georgia has a complete carte blanche in terms of prices - the "harmonious" synthesis of the immaturity of market relations, the complete unpredictability and arbitrariness of prices, the "harmonious" synthesis of the factor of cartel transactions and monopolism presents the price regulation mechanism as the most desirable given for business. Thus, as soon as the state begins to look into the mechanism of price formation, or even analyze prices, business begins to react sharply and tries to cover up reality in every way. This is exactly the situation we encounter in the medical field: as soon as the state body - the Consumer Rights Protection and Competition Agency - becomes interested in the prices of a medicinal product or medical service, the entire "harmony" of the relationship between business and the state is shattered. At this time, the state takes the position of an "innocent lamb" and, with its structure, acts as a shield for the user of the medical sector, i.e. To appear from the position of a defender of the patient's interests. In particular, the state accuses business of cartel transactions in the medical field, the holding of this field, and associates business with the root of all evil. At this time, in our opinion, the state is only taking a populist step and is not approaching the problem in depth, and it is only focusing on the "visible" part of the iceberg of events.

The presented data internally requires a theoretical understanding of a number of issues (problems) of business situation in the medical field of Georgia and taking of adequate practical steps. For this purpose, in our opinion, we must first understand the rules of establishment/formalization of the main players in medical market in the entrepreneurial space, the parameters of the transparency

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of the medical market, the degree of competition and monopolization in the entire market, the issues of the pricing system for medical products or medical service products.

Today, business in the medical field of Georgia is represented in the form of entrepreneurial entities established by the current legislation. On current stage of development, these entities, due to the interest in so-called accumulation of capital, very profitably adopt and “civilly” use the characteristics of the early stage of capitalism - competition, monopoly, cartel, etc. This reference refers to issues of medical market monopolization, market competition, the process of market pricing, and even business opacity.

Today, medical business of Georgia is in a very desirable environment - it is not bothered by the "fierceness" of competition or the threat of monopolization, the danger of state monitoring of prices or values, and just like two centuries ago, now, as one great scholar pointed out, it is even willing to "go to the gallows" in order to make a profit. However, over the past 10 years, the state has allocated approximately 7 billion GEL for universal healthcare programs, and during the Covid pandemic, more than 1 billion GEL was allocated for funding. In this regard, state procurement of pharmaceutical products and medical devices should be considered. In 2022, according to the volume of the contractual value of state procurement, tenders for pharmaceutical products with a value of 89.7 million GEL, and medical devices with a value of 62.1 million GEL, were included in the "Top 10" CPV category. (State Procurement Agency 2022 Activity Report. Tbilisi. 2023 p.16. http://procurement.gov.ge.).

Taking the economic potential of Georgia into the account, the holding company is the consumer of huge amounts of money allocated from the budget for the medical sector. And all this is happening in the context that the country's entrepreneurial space does not recognize the Holding at all, and the law "Regarding the Entrepreneurs" does not even refer to it. All this would not be so noteworthy if we did not have such a reality: Holding and holding relationships provoke the political and economic strengthening of business groups and their formation into so-called monsters. Then these groups actively participate in the entire system of the medical sector, create a financially powerful lobbying space and enter into bargaining relations with the bureaucracy, while directly managing the medical sector according to the rules of monism. Thus, it is precisely because of their "merit" that we encounter not only cartel deals or even corruption in the medical field, but the logistics chain of the medical field is controlled by the interests of certain groups, which, along with other factors, ultimately provokes signs of a shadow economy.

Business groups operating in the medical field of Georgia have created an interesting virtual system; they have managed to organize a legislative “muddle” and obtain the desired greenhouse conditions with entrepreneurial and tax benefits. They have become financial “monsters” and have managed to organize demand in the country that meets their interests, and have even formed a corresponding type of socio-economic space. Therefore, they are directly or indirectly able to determine both the action of objective laws operating in the medical space (for example, the economic law of demand and supply, the law of determining and forming value and price, etc.), and the economic order of the “subjective” level (for example, the level of profitability, the calculation of profit and its use, the rules of financial accounting, etc.). Thus, the medical business was able to manage completely political and economic risks under the umbrella of Holding .

Thus, business groups operating in the medical field of Georgia are the “de facto” rulers of this field. At the same time, they appear in the medical space organizationally either as a “pure” type of medical holding or as a “mixed” type of non-medical Holding.

Holdings operating in the medical field of the country - sectorial, or “pure” and inter-sectorial, or “mixed” Holdings - have one common feature: their operating rules go beyond the classical understanding of Holding, and the entrepreneurial side of both of their activities is the subject of legislative regulations, since they do not exist canonically as entrepreneurial entities; at the same time, all types of holding relationships conducted by them are well “packaged”, and cartel transactions are very successful, etc. In addition, both holdings are characterized by negative sides. In particular, the interdisciplinary medical holding is characterized by a low quality of management, the managers of the parent company directly treat their subsidiaries included in this holding with the same standard, they do not and/or cannot understand the specifics of the medical field (the quality standard of the medical service or product, and most importantly - the behavior of the user (patient) of the medical field product, etc.). As for the difficulties of a non-profile nature, the demand for corporate management in the interdisciplinary holding increases, and accordingly, non-operating costs increase, and the value of the holding also decreases. The disadvantage of the sectorial medical holding is relatively different: there is no competition between the firms integrated into this type of Holding, and the issue of constantly improving the quality of medical services is not considered, it is quite difficult for formally independent entrepreneurial entities to make the decisions - the corporate arrangement of management creates certain difficulties, etc. And finally, we must definitely note that both types of Holdings have one rather strange but interesting drawback: the holding is a "secretly" operating economic entity, it operates without any obstacles, but as soon as unpopular symptoms appear in the medical space of the country for the entire society, in particular, when the price of medicines or medical services becomes an area of interest for everyone, then the source of the violation comes from the holding. This kind of opinion is clearly expressed by state structures; in particular, the Competition Agency sees the source of all violations in the holding and holding relations. However, the problem is deeper and requires adequate research.

Holding is a consolidated entity and is highly motivated by business transactions, while being free from any obligations and responsibilities. Accordingly, the medical holding (holdings) successfully uses the so-called loopholes in the legislative space. For example, business entities united in the holding have the opportunity to conclude the transactions of an interested nature between each other easily. At this time, it is quite possible even cause unrealistic pricing of medical products, etc. Due to such circumstances, the National Competition Agency of the country is demanding the establishment of restrictive norms for the virtual structure of the medical market, i.e. the holding structure.

A medical holding is a sectorial holding, but with a horizontal type of organization. The legally independent firms united here are subject to a single management, and, accordingly, none of them controls the other (!). Although they operate according to a common policy, the relationships here are not legally regulated, that is, their management arises from the "de facto" reality (!). Thus, in the medical field there is a de facto holding, while there is no contractual holding.

In Georgia, the success of a sectorial holding is achieved through a horizontal type of holding. Here, in the medical field, firms of one direction - a pharmacy, a clinic and medical insurance - operate according to the general policy of the holding. Despite this, the medical business conducted through the holding is managed in accordance with the legislation. The state creates this general situation with its inflexible economic policy, while business is flexible with its strategy and "creative" actions (!).

Within the scope of the Georgian medical sphere, we should single out sectorial medical holdings. This type of holding is "PSP Group", which unites 260 pharmacies of "PSP Pharma", the clinic "New Hospital" and plus "PSP Insurance"; in a similar form, there is "Aversi Group" holding. It is represented in the form of a pharmaceutical enterprise - "Aversi-Rational", plus 274 pharmacies, medical clinics and an insurance company - "Alpha". In both of them, the formalized structure of holding is imperfect, i.e., they cannot meet the requirements of a classical holding. In particular, they do not have the full systemic structure of Holding: mother-company, child-company and grandchild-company. But in these holdings, a horizontal system of business management is working successfully.

The conditions of inter-industry holding are relatively different. Here, a vertical management system is found against the background of the use of signs of a horizontal rule. Thus, the structure of the holding's entrepreneurial activity is clearly established, and the business relations taking place in it are well packaged.

Thus, the structure of a medical inter-industry holding more or less fully represents all the signs of a classical holding. In particular, here the mother company, the child company and the grandchild company are tangible, but another condition is also noteworthy: in this triad, the interests of the consumer of the medical product are in the background, and the interests of the business are a priority. Against the background of the desire to make a profit, the inter-industry holding to some extent drags the intra-industry holding into the so-called cartel transactions, and their monopoly is strengthened even more.

A successful example of a medical interdisciplinary holding is JSC Georgian Healthcare Group. This monster includes the medical corporation "Evex" and the insurance company "Imedi L", plus the pharmaceutical company JSC "GPS", JSC "Gefa". Corporation "Evex" is the largest network of clinics in the country - it unites 34 clinics, among them 15 are polyclinics, and 19 are small clinics. As for the insurance company "Imedi L", it covers 19% of the insurance market in the medical insurance market according to the data for the first 6 months of 2023.

Taking into account the specific risks of the medical business, business entities operating in this field have low-risk and high-risk ways of making a profit. In our opinion, the hint of the existence of such ways is a tentative assumption, but the opinion presented here is supported by the reality in the medical field. In particular, when the country's medical market is small and the capitalization process in it is low, the market itself is not very attractive for investment, and plus there is a high level of competition across the region, etc. "forces" the business to choose a low-risk way of making a profit.

We should recognize the pharmaceutical business as such a direction. This type of business is characterized by a unique situation for Georgia - it originates from the not-so-distant past, that is, from the period of gaining independence of the country, and is quoted at a high level today. In particular, the formation of today's operating holdings, their capitalization and establishment in the market begins with the pharmaceutical sector. The process itself began with the demand created as a result of the collapse of the post-Soviet medical system, then it was qualitatively improved and today it is represented by a very serious business-metallurgy. Another interesting issue is also here: in particular, if initially in the pharmaceutical sector of an independent country, demand regulated supply, today supply regulates demand. All this data is directly formed by the price mechanism and all processes are "corrected" through it. Although we have a completely different reality here, the rules of relations between the supplier and the consumer are determined by the level of economic development, the size of the gross domestic product per capita, etc. factors.

The pharmaceutical sector is one of the most sensitive areas in modern society. Here, the budget of the consumer of medicine, or patients, and the prices of medicines revolve around a system of correlation coefficients, and if any “imbalance” is formed between them, then a sharp public reaction is inevitable.

The process of pricing medicines in Georgia has always been and still is in the spotlight. Thanks to the greater informational capacity of both parties - the patient and the state, and especially the diligence of the latter, the process of pricing medicines and, accordingly, the current prices have become the subject of heated discussion. The state has become very active here, and even secret information has become public. In particular, it was revealed that in 2023, pharmaceutical companies, and the medical holdings behind them, through mutually agreed actions, set incredibly high prices for the civilized market. They were selling medicines at a price markup of 1000%, 2000% and 3000% compared to the import price. It was established that the state, within the framework of the state program, was guilty of an incredible scale of price fixing on oncological medicines. The business entities of the medical sector “PSP Pharma”, “Aversi”, “Pharmadepo”, “GPS” and “Mermis”, that is, representatives of one or another medical holding, set identical prices for oncological medicines with an accuracy of one tetri.

As is usually the case in countries with a civilized market economy, as a result of this fact, medical holdings should have found themselves in an awkward situation - their reputation was shaken, in the short term this fact may even end with undesirable results for them, etc. But to counterbalance everything, pharmaceutical companies, with the consent of their "protecting" holding, resorted to a very unconventional method: the companies tried to create an "artificial" shortage of medicines, and ultimately tried to blackmail the state. ((www.interpressnews.ge/ka/artikle/787178).

Thus, the current situation in the medical sphere of Georgia fully reflects the characteristics of the country's market space. The vicious sides of this space are completely transferred to the medical sphere and destroy the system; therefore, they must be prevented. One circumstance is also noteworthy here - the viciousness of the medical sphere is not alien to modern Europe, but it is being fought in a complex way. In particular, today the European Union operates in accordance with the requirements of Council Directive 89/105/EEC of December 21, 1988. According to this directive, the countries of the Union are obliged to ensure the transparency of measures regulating the prices of medicines, and for this purpose, the European Union, in coordination with the European Parliament, offers the countries a whole complex of measures. At the same time, the leaders of the medical sphere of Georgia do not take into account the values of this European directive, moreover, they do nothing to even approach the requirements of the directive. However, Directive 89/105/EEC requires the state to set reasonable prices for medicines, to directly and indirectly control prices in the absence of competition in the drug market or in the event of an insufficient level of competition, to maintain the periodicity and flexibility of controls, etc.

This kind of reality demands strict state regulations. And the regulations must be reasonably calculated, in-depth, completely transparent and, of course, written in time. Any other kind of reservation will simply change the image of the medical field, and the result will be ineffective for everyone. Although such measures will cause a certain level of dissatisfaction in medical business circles, the country, its medical field, simply has no other choice.

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